

# Fortescue

## QUARTERLY REPORT

For the period ending  
31 March 2010

### SUMMARY

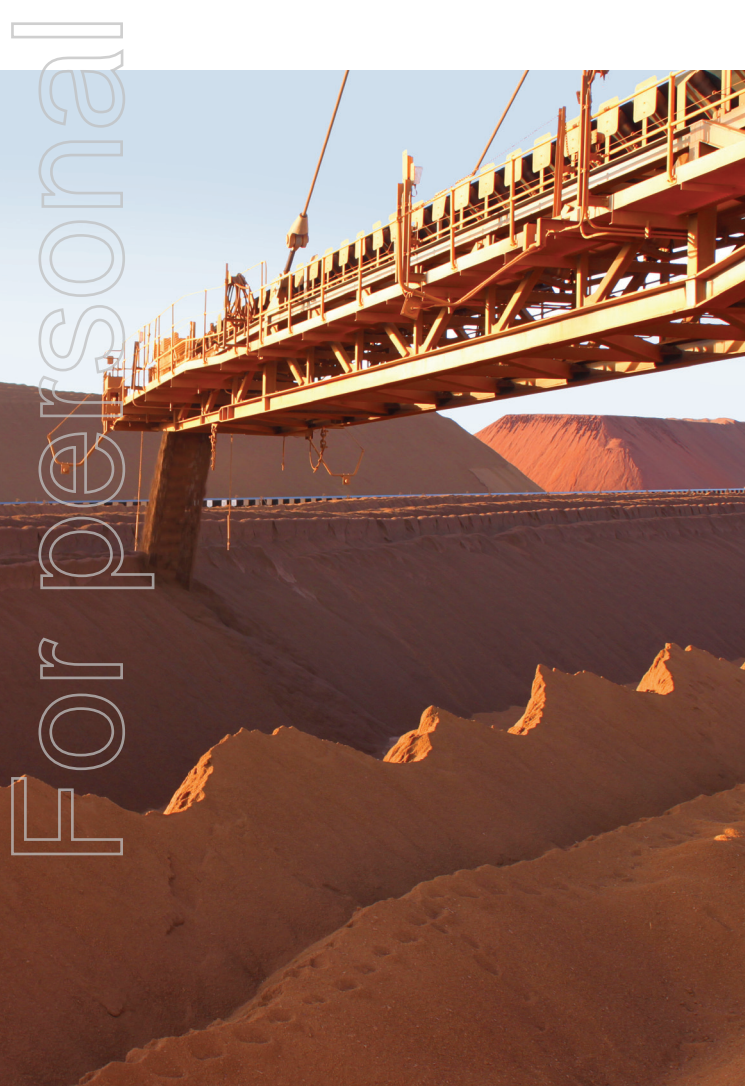
- Production remains steady around the 40 million tonnes per annum (Mtpa) rate;
- Margin improvement as average selling prices rise 19 per cent compared to cost increases of 7 per cent;
- Chichester Hub expansion in full swing with commissioning of the Christmas Creek plant scheduled for March quarter 2011;
- Solomon Hub detailed feasibility study (DFS) for the 60Mtpa Stage 1 development is well advanced and on track for delivery later this year, feasibility work for the 100Mtpa Solomon Stage 2 development is now well established;
- Major lift to Solomon Hub Resource estimate to 2.7 billion tonnes (Bt);
- Fortescue launches the "Three Hubs - Two Ports" strategy following the endorsement by the Western Australian Government of Anketell Point as the next port development in the Pilbara.

### OPERATIONS

Production and shipments for the quarter were as follows:

	March Quarter 10 Tonnes	December Quarter 09 Tonnes	Variance	March Quarter 09 Tonnes	Variance
Ore Mined	10,397,135	9,154,810	+ 14 %	6,545,026	+59%
Overburden Removed	28,808,459	26,279,761	+ 10 %	28,368,202	+2%
Ore Processed	8,990,770	9,353,219	- 4 %	6,455,367	+39%
Fortescue Ore Shipped	9,449,728	9,082,576	+ 4 %	6,167,117	+53%
3rd Party Ore Shipped	342,075	331,530	+ 3 %	213,418	+60%
Total Port Shipped	9,791,803	9,414,106	+4 %	6,380,535	+53%





## Mining and Processing

Mining operations across the Chichester Hub produced ore at an annualised rate of more than 41 million tonnes (Mt) per annum. At Cloudbreak, Fortescue's flagship mining and processing operation, ore mined was up 10 per cent from the previous quarter. Mining at Christmas Creek increased 31 per cent to 1.9Mt. Total overburden moved across both mining areas was up 10 per cent.

The second of the next generation 4200 surface miners was delivered to site in January and commissioning of this machine has recently been completed. An additional three machines will arrive on site over the next four months. These machines deliver a higher mining rate due to a larger cutting drum, which is 4.2 metres in width compared to the 2.5 metre drums of the first generation surface miners. The other advantage of the new machines is their ability to directly convey ore into larger 190 tonne trucks thereby increasing the efficiency of the transport system to the ROM pad, noting the 2500 surface miners are restricted to convey into the smaller 90 tonne trucks only. The trucking fleet is also progressively being upgraded with the replacement of the 90 tonne trucks with 190 tonne trucks commencing in the June 2010 quarter.

The ore processed was slightly below the previous quarter due to inpit occurrence of hard ore necessitating drill and blast. Short term small crushing units were mobilised to reduce the oversized drill and blast material prior to commissioning of the permanent crushing facilities.

## Rail

Fortescue's rail operations performed well during the quarter. The rail is now running at full 40 tonne axle loads with each train journey carrying a total net weight of 32,880 tonnes of iron ore.

## Shipments

Fortescue's port and shipping teams performed strongly during the period with the group operating at an annualised rate of just over 39 Mt per annum with total material shipped of 9.79Mt. The Company shipped 9.45Mt of its own product and 0.34Mt of third party product.

The company's shipped tonnes were broadly in line with previous guidance and during the period there were 55 ships loaded and dispatched from the Herb Elliott Port. A pleasing feature of the result was that gross loading rates in excess of 7,000 tonnes per hour (tph) are being achieved which is Australian best practice.



## Forecast Production

Planned production and shipping is forecast to be maintained around the 40Mtpa run rate over the next three quarters, taking the Cloudbreak production facility to its capacity. The new processing plant at Christmas Creek is scheduled to come online in the later part of the March 2011 quarter, enabling the step up to the planned 55Mtpa run rate.

## Production Costs

Cash costs per tonne	March Quarter US\$	December Quarter US\$
Mining and Processing	\$24.37	\$22.04
Rail and Port	\$5.06	\$5.39
<b>Total Direct Costs</b>	<b>\$29.43</b>	<b>\$27.43</b>

March quarter production costs are higher than the pervious quarter due to: **1)** Christmas Creek mining contractors returning to operational overburden works after being utilised on capitalised pre-strip works during the December 2009 quarter; **2)** a number of small crushers put into service to crush oversize material until the new permanent crusher is commissioned - expected in August; and **3)** an increasing proportion of Christmas Creek ore which has a higher unit cost than Cloudbreak as it includes 50 kilometres haulage to the Cloudbreak OPF.

Rail and Port costs were slightly lower due to the completion of substantial wet season preparatory rail maintenance works in the December quarter.

Fortescue expects operating costs will remain at a level of around US\$30/tonne with the expected increased costs of additional overburden removal to be partly offset by increased efficiencies as per the strategy outlined below. The business expects to achieve greater economies of scale when the optimal rate of 55Mt per annum is reached.

As previously advised the average strip ratio for the mining operation is going to increase over the forthcoming year with the March 2009 rate of around 2.8 : 1 moving to an expected average of 4.7 : 1 over the 2011 financial year. Fortescue's strategy to deal with the increase in overburden volumes is twofold being: **1)** to commission the in pit conveyor system; and **2)** re scale the truck and shovel and surface miner unit size to facilitate the use of bigger equipment with greater efficiencies. The Company expected to commence commissioning of the conveyor system during this quarter but technical difficulties prevented this happening. It is expected that commissioning will commence in the later part of the June quarter so any beneficial financial impact will not be forthcoming until the later part of this calendar year. The move to larger equipment will be a gradual process over the next 18 months.

The influence of exchange rate variance between the two periods was minimal as the average rate for the December 2009 quarter was \$0.8978 compared to \$0.9046 for the March 2010 quarter. Currency fluctuations can have a significant effect on comparisons as ~75 per cent of mining costs are in AUD and these get translated into higher USD numbers with the currency appreciation.



# MARKETING

Fortescue's average selling price (net of shipping expenses) over the period was US\$69 per tonne (DMT basis) which was a 19 per cent increase on the December 2009 quarter result.

With the expiry of Fortescue's China Price agreement as from 1 January 2010 and noting the 6 to 8 week

lead time in confirming future sales and shipments, the March quarter represented a transition period.

Going forward Fortescue's pricing arrangements will be consistent with the industry move to a market aligned system.

# EXPANSION

## Chichester Hub

The expansion of the Chichester Hub operation out to Christmas Creek is now in full swing. The extension of Fortescue's rail line from Cloudbreak through to Christmas Creek progressed strongly during the quarter with an estimated 50 per cent of the earthworks now complete. Track laying was recently initiated at Cloudbreak as the first stage of running the

scheduled for December 2010. Commissioning of the product load out system, which includes an automated train loading system similar to Cloudbreak, is scheduled for January 2011.

During the period a revised scope of works was approved by the Board and the cost of the related infrastructure spend has increased from the originally advised A\$360 million to A\$500 million. There have been modifications made to the development plan, most significantly a move to a stacker and reclaimer stockyard system rather than the vault load out as exists at Cloudbreak. Also the construction of a new and separate permanent 800 man operations village rather than a modification of the current construction camp. The new stockyard system results in a higher initial capex figure but with lower ongoing operating costs. The new village will enhance living conditions for employees and also provide a base for the efficient expansion of the complex when mining operations are expanded at Christmas Creek.

As reported earlier, mining at Christmas Creek is to be done under contract and the tender for this work has recently closed. It is expected that the contract award will be made by mid 2010 with overburden mining commencing in the September 2010 quarter and ore mining in the December 2010 quarter. The mine plan covers the opening of four separate pits with stockpiled ore available for the OPF commissioning in the March 2011 quarter. This will facilitate an accelerated ramp up schedule and Fortescue expects to hit the run rate of 55Mtpa from the Chichester Hub during the June 2011 quarter.

Fortescue will undertake some of the preliminary mining works pursuant to site preparation and ground clearing, pit dewatering infrastructure and grade control drilling. All works done prior to the commissioning of the plant will be capitalised with the budget for this work set at A\$130m.



Construction is well underway at Christmas Creek.

line east to Christmas Creek. The 50 kilometre line is scheduled for completion in the December quarter 2010.

Work has commenced on construction of the OPF with first concrete poured in early March. Wet commissioning is currently scheduled for February/March 2011. Fortescue is working with the contractor to try to improve on this date. Fabrication of the ThyssenKrupp stacker and reclaimer for the stockyard at Christmas Creek has commenced with commissioning of the stacker and inload circuit

# EXPLORATION “THREE HUBS - TWO PORTS”

With the endorsement of Anketell Point as the WA Government’s preferred next Pilbara Port development, Fortescue launched its exploration and development program under the “Three Hubs – Two Ports” strategy. The identification of three distinct areas being the Solomon Hub, the Chichester Hub and the Western Hub better defines the key geographic centres across Fortescue’s vast 72,000km<sup>2</sup> tenement footprint within the Pilbara region. These areas will feed two Fortescue export hubs - the established Herb Elliott port at Port Hedland and the proposed port at Anketell Point.

## Solomon Hub

In order to optimise the execution of the founding 60Mtpa operation, the Solomon Stage 1 DFS is rapidly advancing with a delivery date for end 2010. An important step in this study was the upgrading of the Firetail and Kings deposits - refer ASX release dated 19 March 2010. In summary, the upgrade increased the JORC resource at Solomon by 400Mt to a total of 2.7 Bt. Importantly, the volume of material estimated within both Measured and Indicated Resource categories increased to 786Mt and these are now part

of the reserve study that is being undertaken within the DFS. Going forward, the Company expects to keep moving Inferred tonnes up into Indicated and Measured categories for ongoing reserve studies. Fortescue’s experience is that as the Resource classification is upgraded to a higher JORC status, both tonnes and grades have remained at least the same or marginally improved.

It is expected that the infill drilling program will be completed by the end of April with the resultant Resource upgrade being announced in late June 2010. The focus will then move to increasing the total resource base by drill testing new targets defined over the past year. It is also expected that exploration activities in the proposed Western Hub area will commence during the current quarter.

Solomon Stage 2 studies are also now firmly established. This covers the new proposed port at Anketell Point and incorporates a 100Mtpa extension to the Solomon Hub. A combined operation of 160Mtpa from the two Solomon areas is based on targeted resources and reserves of up to 5Bt for the entire Solomon Hub region.

	Tonnes Mt	Fe%	SiO2%	Al2O3%	P%	LOI%
<b>KINGS</b>						
Measured	66	57.6	5.67	1.73	0.047	9.85
Indicated	600	56.0	7.24	3.12	0.062	9.00
Inferred	715	55.6	7.63	3.34	0.066	8.86
<b>Sub total</b>	<b>1,381</b>	<b>55.9</b>	<b>7.37</b>	<b>3.17</b>	<b>0.063</b>	<b>8.97</b>
<b>FIRETAIL</b>						
Indicated	120	59.4	5.62	2.76	0.118	6.16
Inferred	180	57.6	6.87	3.17	0.111	7.05
<b>Sub total</b>	<b>300</b>	<b>58.4</b>	<b>6.37</b>	<b>3.01</b>	<b>0.114</b>	<b>6.67</b>
<b>SERENITY</b>						
Inferred	1,014	56.0	7.32	3.84	0.08	8.06
<b>TOTAL</b>	<b>*2,700</b>	<b>56.2</b>	<b>7.24</b>	<b>3.4</b>	<b>0.08</b>	<b>8.37</b>

\* Rounding as contemplated under JORC.

## Chichester and Western Hubs

Drilling work in the Chichester Hub relates to grade control for mining. Drilling within the Western Hub will recommence shortly and, in preparation for this, an exploration camp is being constructed at a site 30kms west of Mt Brockman. Fortescue is soon to receive heritage clearance for a number of sites within the Western Hub which will allow for exploration drilling to commence within these new areas.

## Magnetite

The first identified magnetite area was Glacier Valley and on 29 July 2009, Fortescue announced a maiden resource estimate of 1.23Bt of Inferred Resources. More recently Fortescue has identified up to 17 potential magnetite sites. The main area of current interest is at a site near Glacier Valley known as North Star. In February 2010, a drilling program commenced to define over 1Bt of magnetite resources at North Star.

These resources are expected to be about half in the Indicated category with the remainder Inferred. The final hole of a 15,000 m RC program was completed in mid-April. Diamond drilling is expected to continue until June. Once all results are to hand a Resource estimate will be completed and used as the basis for a Preliminary Feasibility Study. Drilling at other potential sites will be undertaken in due course and consistent with the philosophy of partnering with interested parties as done with Baosteel at Glacier Valley.

The information in the report to which this statement is attached that relates to Mineral Resources is based on information compiled by Mr Stuart

Robinson, Mr Mark Glasscock and Mr Clayton Simpson who are all Members of The Australasian Institute of Mining and Metallurgy.

Mr Stuart Robinson, Mr Mark Glasscock and Mr Clayton Simpson are full time employees of Fortescue Metals Group Ltd and provided geological interpretations for Mineral Resource calculations and compiled the exploration results. Mr Robinson, who is a Fellow of The Australasian Institute of Mining and Metallurgy, and Mr Glasscock and Mr Simpson who are Members of The Australasian Institute of Mining and Metallurgy, have sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which they are undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Mr Robinson, Mr Glasscock and Mr Simpson consent to the inclusion in this report of the matters based on their information in the form and context in which it appears.

## CORPORATE PROFILE

Fortescue Metals Group Ltd  
ACN 002 594 872

### Directors

Herb Elliott	Chairman	Owen Hegarty	Non-Executive Director
Andrew Forrest	Chief Executive Officer	Ian Burston	Non-Executive Director
Russell Scrimshaw	Executive Director Commercial	Li Xiaowei	Non-Executive Director
Graeme Rowley	Non Executive Director	Ian Cumming	Non-Executive Director
Ken Ambrecht	Non-Executive Director	Mark Barnaba	Non Executive Director
Geoff Brayshaw	Non-Executive Director		

### Company Secretary

Rod Campbell

### Registered Office and Principal Place of Business

Level 2, 87 Adelaide Terrace  
EAST PERTH, WESTERN AUSTRALIA 6004  
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**WEB** www.fmgl.com.au

### Share Details

As at 29 March 2010, there were 3,104,096,941 ordinary shares on issue and 1,400 preference shares.

#### Unlisted Employee Options:

Option expiring Jan 2011 ex \$0.569	543,750
Option expiring June 2011 ex \$0.703	1,927,500
Option expiring Feb 2014 ex \$2.50	1,800,000

#### Substantial Shareholders as at 29 March 2010:

The Metal Group Pty Ltd	31.34 per cent
Hunan Valin Iron and Steel Group	17.24 per cent
Leucadia National Corporation	8.00 per cent

### Share Registry

Computershare Investor Services Pty Ltd  
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## REPORTING CALENDAR

- June 2009 Quarterly Report: July 2010