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## Iron ore price negotiations - CISA settles higher cut with FMG

Monday, 17 Aug, 2009

Fortescue Metals Group Ltd announced that it has achieved a landmark agreement with Baosteel Group Corporation and China Iron and Steel Association for an agreed China price for all Fortescue iron ore sold to Chinese mills for the period July 1 to December 31st 2009.

The agreement, signed by Baosteel and CISA, commits Chinese steel mills to acquire approximately 20 million wet metric tonnes from Fortescue for the period between 1 July and December 31st 2009.

The agreed price is USD 0.94 per dry metric tonne unit for Fortescue's Rocket Fines on FOB basis and is around 3% under the price agreed by other Australian producers with non Chinese Steel mills. This price equates to approximately USD 55.5 per dry tonne for Fortescue grade iron ore.

Fortescue has also agreed a lump price of USD 1.00 per dry metric tonne unit for high grade lump which is equivalent to approximately USD 61 per dry tonne FOB.

A condition subsequent to this agreement is the completion of finance by 30 September 2009, by Chinese financiers on terms acceptable to Fortescue. This is estimated by Fortescue to be an amount of USD 5.5 billion to USD 6 billion.

Under the Agreement, CISA has guaranteed that a priority will be given to FMG to negotiate iron ore prices for 2010 if the annual pricing negotiation is conducted.

Mr Andrew Forrest CEO of FMG said that the agreement breaks the market impasse which has enveloped the Chinese iron ore industry in uncertainty and added risk for the past 12 months.

Mr Forrest said that "This groundbreaking agreement cements the strength of the bilateral relationship between Australia and China in which mutual issues can be resolved and future opportunities identified. It also creates a realistic and agreed iron ore price that delivers value for all parties and provides strong support for Fortescue's continued growth."

He added that "The ongoing market speculation has promoted unprecedented iron ore and steel price volatility, which in turn has created extreme production uncertainties for Chinese steel mills and for suppliers setting individual contracts with those mills. This agreement eliminates that price uncertainty, sets a solid platform for Fortescue to deliver increased product into China and affirms our close working relationship with CISA and all Chinese steel mills."

Mr Forrest said that "This agreement highlights Fortescue's extraordinary achievement of becoming, in only our first year of production, a critical element in the Chinese steel market and guarantees our short to medium term tonnage volumes and underpins cash flows irrespective of market volatility."

Fortescue noted that while the price of steel in China has nearly doubled over the past three months, it has fallen by 20% over the past 10 days alone, reflecting the continued volatility in the industry.

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