



Fortescue
The New Force In Iron Ore

use only

QUARTERLY REPORT

For the period ending
30 September 2011

SUMMARY

- Total shipped tonnes of 12.36 million tonnes (mt) for the quarter;
- Eight day port shut completed in July as planned with the third berth tie-in achieved and the new wharf decking and new ship loader installed on the third berth by quarter end;
- 55 million tonne per annum (mtpa) run rate achieved through August and September across integrated mine, rail and port operations;
- Average C1 cost of US\$49.78/wmt and average CFR sales price of ~US\$160/dmt resulting in improved C1 margin from previous quarter;
- Committed contracts for expansion works rise by US\$1.5 billion to US\$4.3bn; and
- Cash at the end of September was US\$2.1b.

OPERATIONS

Production and shipments for the quarter were as follows on a wet metric tonne basis.

	Sept Quarter 2011 Tonnes	June Quarter 2011 Tonnes	Variance %	Sept Quarter 2010 Tonnes	Variance %
Ore Mined	15,836,553	12,383,724	+27.9%	11,058,711	+43.2%
Overburden Removed	68,481,297	56,186,278	+21.9%	33,636,936	+103.6%
Ore Processed	12,716,550	12,401,842	+2.5%	9,750,126	+30.4%
Third Party Ore Shipped*	201,214	107,574	+87.0%	175,998	+14.3%
Fortescue Ore Shipped	12,167,195	11,542,413	+5.4%	10,088,162	+20.6%

* Third party ore represents BC Iron's 50 per cent share of the Nullagine Iron Ore joint venture.

Safety

As reported last quarter, a serious injury to a port maintenance contractor occurred in early July. The injured worker is making good progress with his rehabilitation program. Notwithstanding this accident, Fortescue has achieved a minimum of 12 per cent improvement across all indicators in the September Quarter.

Mining, Processing and Shipping

Operating performance for the September Quarter was within guidance at 12.36mt of total product shipped. While a series of planned maintenance and construction activities impacted on production and shipping during the month of July, the well-planned, linear layout of Fortescue's port facility mitigated the disruption. August and September shipped tonnes both exceeded the 55mtpa run rate.

Production highlights for the quarter included the successful ramp-up of mining and ore processing at Christmas Creek.

Forecast Production

Despite continuing construction activities across the port, rail and mine sites, volumes are forecast to increase over the December Quarter. Fortescue plans to sustain the 55mtpa run rate for the entire quarter to achieve shipments in the range of 13.5 – 14mt.

Production Costs

The table below shows the quarterly production costs as split between operating costs inclusive of mine, rail and port charges and then separately finance costs related to operating leases for equipment employed in the production and handling of iron ore.

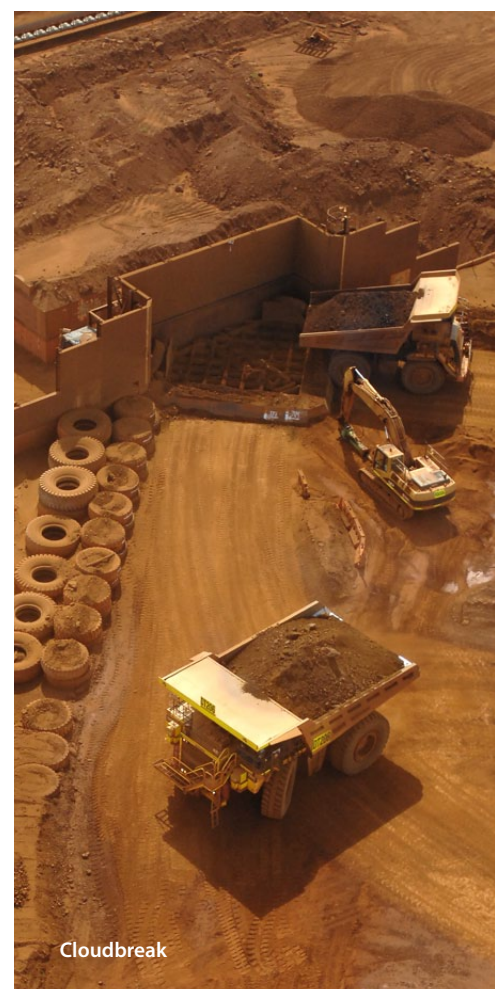
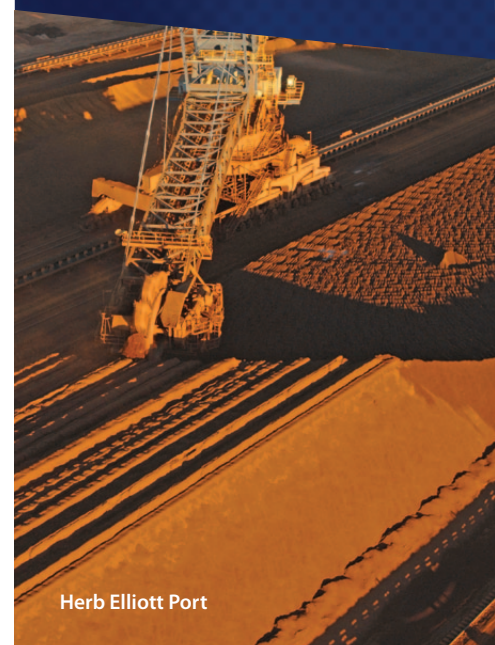
Cash costs per tonne (C1)	Sept Quarter 2011 US\$	June Quarter 2011 US\$
Operating cost of sales	46.95	49.82
Operating leases	2.83	3.41
Total Direct Costs	49.78	53.23

The average cash cost for the period was US\$49.78 per tonne which is a six and a half per cent reduction on the previous quarter. It is very pleasing to report this material reduction with the key areas of improvement being operating efficiencies of scale given an increase in Fortescue tonnes shipped and a slightly lower strip ratio. The average AUD/USD exchange rate for the period was \$1.05 which was marginally lower than the previous average at \$1.06.

MARKETING

The average CFR sales price for the quarter was approximately US\$160 per dry tonne which was marginally higher than the previous period. Price movements within the quarter were quite pronounced as the reference point for Fortescue's sales contracts, the PLATTS 62% Fe index, moved from a high of US\$183/tn to a low of US\$170/tn. Fortescue continues to experience strong demand for its products and while still at high levels, the recent price falls in the Platts index will flow through to lower average sales prices in the early part of this current quarter at least.

August and September shipped tonnes both exceeded the 55mtpa run rate.



CORPORATE

When considering expansion funding options, Fortescue continues to benefit from strong operating cash flow generation. Together with cash on hand of US\$2.1b, Fortescue continues to have the flexibility and time to consider as well as execute, multiple funding options.

DEVELOPMENT

New Projects 55-155mtpa

Christmas Creek Phase 2 Expansion

Chichester Hub 55 – 95mtpa

- **US\$1.1 billion project budget**
- **Committed Contracts US\$0.7b**

The Christmas Creek Phase 2 Expansion is on schedule targeting first production of ore from the expanded plant in September 2012. The budget has been revised down by US\$200 million to US\$1.1b following a scope change with the budget transferred to the Solomon project. The scope change reflects the ore processing facility award to Mineral Resources Ltd announced during the quarter, which has effectively reduced the cash requirement for Fortescue in the construction of the plant.

During the September Quarter, significant progress has been made with the bulk earthworks and bulk foundation works for the second ore processing facility (OPF) at Christmas Creek, as well as the remote crushing hub and overland conveyer system.

Additionally, earthworks and foundation works have been completed for the expansion of the power station. The team has also progressed construction of site with roads and other bulk earthworks for miscellaneous infrastructure. The first 200 rooms of the expansion at the Karntama operations village have been commissioned and the remaining 600 are on site in various stages of installation, taking the village capacity to 1,600 rooms by March 2012.

The mining contract for the second phase of Christmas Creek is currently being negotiated with award expected before year end. Extensive plans are in place for the delivery of heavy mobile equipment to meet the ramp up requirements.

Solomon 60mtpa

- **US\$2.7 billion project budget**
- **Committed contracts US\$1.4b**

As mentioned above, the Solomon budget has increased to US\$2.7b. Of this total US\$1.4b of contract commitments have been made to date with recent awards made for conveyors, stockyards, crushing hubs and airports. Notice of Award (NOA) have been issued for the Channel Iron Deposit (CID) and Bedded Iron Deposit (BID) OPFs with final contract awards nearing completion.

Earthworks at Solomon



A new transfer station being installed at Herb Elliott Port

Major earthworks are in progress across the Solomon Hub mine site. Milestones already achieved include the handover of prepared sites to contractors for the two Kings Valley crushing hubs and the stockyards. Work continues on preparation of the Firetail crushing hub, CID and BID OPF sites for handover in November.

Fabrication is progressing well with the first accommodation units for the permanent village due to arrive in the next few weeks and the first ship leaving Thailand with overland conveyor (modules) during October 2011.

A Request for Proposal was issued during the September Quarter for the Early Contractor Involvement (ECI) phase of the long term Operations and Maintenance Contract. The applicant companies will now participate in an ECI process from which selections will be made for the Operations and Maintenance contracts.

Work has progressed on finalising terms and conditions for the autonomous mining solution with Caterpillar and it is anticipated this will conclude soon. A series of workshops are planned throughout the December Quarter involving Caterpillar, the operating contractors and Fortescue to develop the operating process and organisational design for start-up.

Port 55 – 155mtpa

- **US\$2.4 billion project budget**
- **Committed contracts US\$1.4b**

The Port expansion remains on schedule, with the team ready to begin commissioning the second outload circuit during the December Quarter 2011, giving installed outload capacity of 95mt.

Contracts continue to be progressively awarded on a weekly basis with contractors mobilising to site. At the end of the September Quarter, more than US\$1.4 billion of contract work had been committed. The teams onsite and in Perth continue to ramp up with the workforce now in excess of 800 with safety performance remaining a key focus.

The special landing ramp was used successfully to land the second Reclaimer and a Transfer Station at the Herb Elliott Port facility. The preassembly and alignment of the conveyor components in the fabrication yards in the Perth area for quick installation on site has proved successful. Earthworks and the installation of concrete foundations are progressing well. Phase 1 switch rooms will be on site by the end of October. Conveyor footings and preparation of the stockyard area for the reclaimer have been completed. Work on the additional settlement area for dredge spoil is nearing completion.

The cutter suction dredge to complete South West Creek dredging works is expected to arrive and commence work during October 2011. A backactor dredge is working in the sheet pile wall area with work expected to be complete in October.

The second reclaimer and second shiploader have been placed on their respective rails onshore and on the wharf. Both machines are in the process of being assembled.

Pre-assembly of the majority of low level conveyors is complete and these pieces have been sent to site. Two transfer stations have been assembled in Henderson, south of Perth. The first has been installed on site and the second is due to arrive in Port Hedland in October, ready to be offloaded and installed.

Construction work on the train unloader is on schedule. Both the northern and southern feeder floors were poured during the quarter. A shutdown to install a new rail bridge was carried out on time and without incident.

The Port expansion remains on schedule, with the team ready to begin commissioning the second outload circuit during the December Quarter 2011, giving installed outload capacity of 95mt.

Construction of second and third train unloaders and rail loops at Port Hedland



A further significant increase in the resource definition of the Nyidinghu deposit to 2.01bt has delivered an opportunity for increased production volumes from this area in the eastern Pilbara.

Rail 55 – 155mtpa

- **US\$2.2 billion project budget**
- **Committed contracts US\$0.8b**

The rail expansion project is progressing to schedule and on budget with major milestones achieved within the past quarter. The duplication of Fortescue's existing main line is well underway with around a quarter of the bulk earthworks completed. Earthworks construction for the Solomon rail spur has commenced on two work fronts with completion of works on target to enable ore trains running from 2012.

On the mainline works schedule, Abigroup is progressing well with earthworks to triplicate the Port Hedland Train unloading loop and mainline duplication works out to chainage 30 kilometres. NRW has completed substantial duplication sections between chainages 90 to 130km, in areas to sub ballast capping level, drill and blasting through major cuts is progressing well and on schedule.

Mainline camps are all fully operational, with Camp 25 complete at 250 rooms, Camp 145 upgraded to 190 rooms and Camp 195 ungraded to 350 rooms.

Procurement of new rolling stock is well underway with contracts awarded for 19 new locomotives, three new ore car rakes of 240 wagons each. An additional four rakes of ore cars is currently out to tender. Fortescue is taking delivery of specialist track construction and maintenance machinery including tampers and regulators to assist in the new tracklaying and provide ongoing operational maintenance capability.

Procurement of Rail, sleepers and turnouts is well advanced with all supply contracts in place. Rail ballast production through Fortescue's in-house ballast quarry is on schedule with around 200,000 tonnes produced to stockpile. Flash butt welding contract has been let and welding has commenced, tracklaying tenders have closed and are currently under review with the intention to award in the very near future.

Future Studies Beyond 155mtpa

Feasibility study work has continued to confirm the best sequence of developments to follow the T155 Expansion projects currently under construction.

A further significant increase in the resource definition of the Nyidinghu deposit to 2.01 billion tonnes (bt) has delivered an opportunity for increased production volumes from this area in the eastern Pilbara.

Development plans for a new multi-user port facility at Anketell have progressed, together with plans for a new 250km rail from the Solomon Hub and the initial development of new mines around the rail head. Provision is being made to link Fortescue's two rail systems and to extend out to the proposed Western Hub.

Top and below: Rail earthworks for mainline duplication



EXPLORATION

A very active exploration drilling program continued through the September Quarter with over 15 drilling rigs in use. The activities were mainly focussed on Nyidinghu, Central Pilbara Project and the North Star magnetite project and drill testing commenced on a new target at Delphine northwest of Eliwana.

At Nyidinghu, an updated resource estimate was released on 12 October 2011, essentially doubling the estimate from 1 to 2 billion tonnes (bt). Furthermore, Fortescue's geological team expects to be able to add additional tonnes, possibly up to 400 to 500 million tonnes (mt), once planned drilling programs are complete. It is expected that a further resource update including some Indicated Resources will be available late in the March Quarter 2012.

Considerable exploration effort has been focused on the Central Pilbara Project and release of a further resource update for the Serenity and Sheila Valley areas is also envisaged for late in the March quarter of 2012.

Activity is continuing at the Western Hub with the first target area at the Delphine deposit having been worked on with approximately 6,000 meters drilled. No assay results are available at this time. Drilling re-commenced at Eliwana-Flying Fish at the beginning of October and it is planned to start a drilling program at Wyloo in the next few weeks to follow up on results obtained in 2010.

At the North Star Magnetite Project a program of just under 20,000 meters of RC drilling and seven diamond drill holes have been completed. A further 8,000 meters of RC drilling is planned to take place in November. An update of the resource estimate is anticipated in 2012.



Competent Persons Statement

The information in the report to which this statement is attached that relates to Mineral Resources and Exploration Results is based on information compiled by Mr Stuart Robinson and Mr Mark Glasscock who are Members of The Australasian Institute of Mining and Metallurgy.

Mr Stuart Robinson and Mr Mark Glasscock 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 who is a Member 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 and Mr Glasscock consent to the inclusion in this report of the matters based on his information in the form and context in which it appears.



CORPORATE PROFILE

Fortescue Metals Group Ltd

ACN 002 594 872

Directors

Andrew Forrest	Non-Executive Chairman	Owen Hegarty	Non-Executive Director
Herb Elliott	Non-Executive Deputy Chairman	Li Xiaowei	Non-Executive Director
Nev Power	Chief Executive Officer/Exec Director	Mark Barnaba	Non-Executive Director
Graeme Rowley	Non-Executive Director	Geoff Raby	Non-Executive Director
Ken Ambrecht	Non-Executive Director	Herbert Scruggs	Non-Executive Director
Geoff Brayshaw	Non-Executive Director		

Company Secretary

Mark Thomas
Rod Campbell

Registered Office and Principal Place of Business

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Share Details

As at 30 September 2011, there were 3,113,798,151 ordinary shares on issue and 1,400 preference shares.

Unlisted Employee Options:

Option expiring Feb 2014 ex \$2.50	900,000
Option expiring May 2015 ex \$5.00	7,500,000
Option expiring Sept 2015 ex \$5.69	400,000
Performance Rights	1,713,744

Substantial Shareholders as at 30 September 2011:

The Metal Group Pty Ltd	30.99 per cent
Hunan Valin Iron and Steel Group	15.05 per cent

Share Registry

Link Market Services Limited
Ground floor, 178 St Georges Terrace
PERTH, WESTERN AUSTRALIA 6000

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REPORTING CALENDAR

- December 2011 Quarterly Report: Mid January 2012
- Half Year Financial Report: Mid February 2012

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