



QUARTERLY REPORT
FOR THE PERIOD ENDING 30 SEPTEMBER 2006
The New Force in Iron Ore

HIGHLIGHTS

- Financial Close achieved with A\$3.2 billion raised in debt and equity capital, providing an appropriate capital base to bring the project into operations.
- Fortescue awarded “Deal of the Year” at the Excellence in Mining and Exploration conference in recognition of the capital raising – Fortescue’s A\$2.7 billion debt issue is the largest “high yield” debt issue ever completed in the Asia Pacific region.
- US Investment Group Leucadia National Corporation, Inc. takes a US\$300 million placement to join the Company as a cornerstone equity partner and takes a board seat with Mr Joseph S Steinberg as director.
- Dredging and earthworks continue at the Port Hedland port site and the earth works program begins at the Cloud Break mine site.
- Forecast capital costs for the port and rail (A\$1.92 billion) together with the mine processing plant (A\$325m) remain within schedule with commissioning still forecast for Q1 2008.
- Pilbara Mining Alliance “PMA” with Roche Mining progressing well with the recent appointment of Mr John Blanning (ex BHPB General Manager) as Head of Mining together with a number of other key staff appointments.
- Fortescue’s Tenement Portfolio now at c.35,500 km² – the largest of any mining group within the Pilbara Region’s rich Hamersley Mineral Province.
- Economic forecasts predict a continuing period of economic growth for China which will underwrite the long term demand for bulk commodities like iron ore.



CORPORATE ACTIVITY

Financial Close confirms funding

A major milestone was achieved on August 18 when Fortescue raised the equivalent of A\$3.2 billion. The achievement of Financial Close which has established the capital base to construct and operate the Project, represented the culmination of several years of development and planning to be in a position to secure the requisite funding.

The source of funds was both equity and debt. The equity component of US\$300 million was provided by the US investment group Leucadia National Corporation Inc. On August 21 Fortescue placed 26,400,000 shares to Leucadia which represented a 9.99% shareholding in the Company. In addition Leucadia made a further A\$133m investment in an unsecured 13 year loan note that attracts an interest rate of 4% of the iron ore sales revenue from the Cloud Break and Christmas Creek deposits only.

"Deal of the Year" - award at recent mining conference

Concurrent with the receipt of the Leucadia funds, Fortescue received A\$2.6 billion from a capital raising through the issuance of secured senior notes with a maturity profile of between 7 and 10 years. This issue ranks as the largest high yield investment raising in the Asia Pacific region and is one of the largest ever project raisings of this type within the international market.

As testament to the extraordinary achievement of raising the required funding Fortescue received the "Deal of the Year" award at the *Excellence in Mining & Exploration conference* held in Sydney in early October.

Key Mining Executives Recruited

In other corporate news Fortescue has increased the ranks of its senior executive team with the recent appointment of Mr John Blanning as Head of Mining. John was previously general manager mining at BHP Billiton's Blackwater Coal which is the largest black coal mine in Australia. Since John's recruitment a number of other key mining personnel have joined Fortescue and collectively they bring broad experience across a number of key operational areas of mining.

Cash as at end September 2006 - A\$2.9billion

Fortescue's cash position as at end September 2006 was A\$2.934 billion which represents the proceeds of the financial close raising less project expenditure up to this date.

CONSTRUCTION

Port Facility Progressing Well

Initial work at the Port Hedland port site commenced on 8 February 2006 and the dredge ship commenced activities in July. Since then some 1.5 million cubic metres of dredge spoils have been deposited onto the 76 Ha port site. As mentioned in the last report, the ability to use the dredge spoil for land fill is an important feature of the port works program. It also solves the environmental concerns of disposing of large amounts of dredge material offshore.



**Site Works
Commence at
Cloud Break
Mine**

Procurement of equipment for the Port is well advanced with the awarding of key contracts covering the train unloader, stacker, reclaimer and ship loader.

Work at the mine site commenced in October with earth works programs to construct access roads, a new airstrip and a new accommodation village.

As previously advised, work on the rail line has been delayed as the Special Rail License "SRL" under the Infrastructure State Agreement has yet to be issued. Before it can be issued there are certain landholder consents that are outstanding and Fortescue is making every effort to expedite these. Importantly on October 17 approval for the lifting of the heritage order within an area of the rail route known as Woodstock & Abydos, passed through both houses of the Western Australia Parliament. Also on October 24 Fortescue was advised that the Native Title Claimant Groups within the rail footprint area have consented to the route of the rail line. This clears another hurdle within the consent process. Once all parties with interests along the rail line route have provided their consents the Minister for Infrastructure and Planning can agree the route of the rail line and this will trigger the SRL.

**Rail Works
Program
delayed but
Remedial
Plans in place**

To accommodate the delayed rail works start date, Fortescue has increased the number of work faces along the route of the line to expedite the program. Consistent with the nature of railway earth works programs, there can be multiple construction sites as they are not interdependent. Together with moving to double shifts in certain areas, the schedule still accommodates the Q1 2008 commissioning target. The extra cost of the revised program was estimated at A\$15 million which together with other project "unders and overs" resulted in a reduction in the available contingency of A\$11 million (as at end Sept 2006) against the original A\$198 million contingency.

In preparation for the commencement of rail construction, work on the rail accommodation villages has started with Village 1 currently being commissioned for occupation in November 2006 and Village 2 is under construction in readiness for occupation in December 2006.

A number of key contracts have been signed during the quarter and these are identified below together with a list of other contracts that have been previously announced;

New Contracts;

- Rail track laying and bridge construction contract with Laing O'Rourke Australia P/L (formerly Barclay Mowlam);
- Wylie & Skene P/L for mine site buildings including office building, fuel depot, equipment wash down area and workshop.
- BGC for rail ballast supply;
- Ore processing plant screens supply to Ludowici Limited;
- Electrical switch rooms for mine and port sites to Plummers Industries P/L;
- Cloud Break Mine Village to Nomad Building Solutions Ltd Industries Ltd.
- Supply of steel for rail track with Pangang Steel;
- Fabrication of screening house structural steel to the Ausclad Group.



Previous Contracts;

- EPCM alliance agreement with WorleyParsons;
- The dredge contract with Jan de Nul Group;
- Rail earthworks contract with BGC;
- Mine site crushing plant signed with FFE Minerals (Australia) Pty Ltd;
- Marine Structures with McConnell Dowell;
- Construction and commissioning of ore stackers and reclaimers signed with Thyssen Krupp;
- Construction and delivery of rail sleepers with Austrack;
- Design & construction of the train unloader with Metso Minerals (Australia) Ltd.

GEOLOGY

1.1 Billion Tonnes Reserve for Project Area

There has been no change to the Project's Reserve or Resource portfolio during the period. The objective under the initial reserve studies was to delineate a quantity and quality of iron ore that would underwrite the initial mine plan being a production level of 45 million tonnes per annum for a mine life of + 20 years.

This was achieved together with the objective of having the first three years of production confirmed under a Proved Reserve estimate of 121 million tonnes being the highest JORC classification.

The geology work conducted over the last quarter has been largely focused on grade control drilling over the Cloud Break areas that will supply the first few years of iron ore production. The information generated from this report will enable the development of a detailed mining schedule from which the mining team can optimise their operating programs.

Drilling at prospective site known as Flying Fish

Fortescue is also drilling out other prospective areas across its total Pilbara tenement portfolio. The geology team has identified two sites where drilling is justified at its Flying Fish prospect located west-northwest of Tom Price on E47/1373 and E47/1196. Geological mapping by Fortescue has defined outcropping mineralisation in the Marra Mamba Formation over a cumulative strike length of at least 25 kilometres. Limited wide-spaced drilling by a previous explorer has returned intercepts of potentially economic tenor in 10 out of 16 holes including an intercept of 16 m of 63.6% Fe.

The company expects to commence a drilling program to evaluate these two prospects within the next week. A target tonnage of between 50 and 100 Mt has been set for each prospect but this target is only an estimate based on the extrapolation of prior drilling results and Fortescue's desk top mapping. Accordingly this target tonnage may not be achieved.



MINING

***Fortescue
expanding its
Pilbara Mining
Alliance team
with Roche
Mining***

As previously announced Fortescue signed a mining alliance agreement with Roche Mining known as the Pilbara Mining Alliance ("PMA"). The alliance structure is designed to draw on the collective strengths of Roche and Fortescue to optimise performance levels.

Since its establishment in July 2006, the PMA team is now well established in developing its mining plans. There have been a number of recent appointments to the mining team and as announced in September, Mr John Blanning joined Fortescue as Head of Mining to replace Mr Jim Williams who at age 68 is to retire soon after an appropriate hand over period. John will be an important member of the PMA team and brings to the group a long history in large scale mining projects. Prior to joining the Company John was General Manager of BHP Billiton's Blackwater coal mine in Queensland which is the largest black coal mine in Australia. Fortescue is planning to adopt a number of bulk earth removal processes that have been successfully employed within coal mining.

Since John's appointment there have also been a number of other key appointments to Fortescue with Mr Jim Viero joining as Mine Operations Manager, Mr Shean Greene as Registered Mine Manager and Mr Milo Res as Head Mine Geologist.

METALLURGICAL TESTWORK

***Cloud Break
ores display
Favourable
Traits***

Examination of the primary metallurgical characteristics of Fortescue's iron ore reserves continued during the past quarter. This work is being done in preparation for mining with the emphasis being on determining the chemical and physical properties of ore types across the mining areas at Cloud Break.

***Continuing
Sinter Test
work with
Central South
University***

The key characteristics reviewed were the densities of the different size fractions from lump through to fines and the decrepitation index of the lump ores. Decrepitation is a physical property of lump ore and the index measures the extent to which the ore break downs as a result of the intense thermal shock that it is subjected to in the blast furnace. The results confirmed a consistency across the Cloud Break ores with the decrepitation index at 4% being at the lower end of typical Marra Mamba ores (average range c.7%) – a low index is a favorable trait.

***High Grade
ores perform
at upper end
of Marr Mamba
types***

The test work also covered key operational issues as part of a cross-checking exercise to confirm the detailed engineering designs for the ore processing centre. Some of the operational issues that received attention have been the testing of the various ore types and products for; 1) dust extinction moisture levels, 2) bulk solids flow properties, 3) crushing characteristics and 4) ease of screening at various moisture levels. The later activity has seen the introduction of a pilot scale "banana screen" set up to compliment the large scale testing amenities such as the drop tower and other state-of-the-art equipment already installed at Cloud Break. The test work confirmed the earlier work and detailed engineering design parameters. It also established operational guidelines for feed and product moisture levels.



**Super Value
ores perform
at mid range of
current market
Marra Mambas**

Further sinter test work was undertaken at Central South University (CSU) on an “ore-body average” super value (SV) fines sample from Cloud Break. The results demonstrated that the SV fines sinter product has both strength and productivity indices that lie between the two stand-alone Marra Mamba fines products currently on the market. This result and those achieved in simulated customer blends was anticipated given the grade and physical properties of the Fortescue SV fines is quite similar to the attractive properties of the Fortescue high grade fines which perform at the upper end of Marra Mamba products.

MARKETING

**Long term
sales at 88% of
target
production**

There have been no new sales contracts signed over last quarter. Fortescue currently sits at 39.5 million tonnes (88%) of its initial 45 million tonnes p.a. production under long term contract. The remainder of the production target will be contracted in due course as negotiations are finalised. Fortescue has targeted the top tier Asian steel mills for the outstanding balance and has supplemented its marketing effort with ongoing product testing both directly with the steel mills and indirectly through Fortescue’s partner in China Central South University.

**Early
Forecasts for
2006/07 prices
suggest
another
increase.**

As stated in prior releases covering Fortescue’s long term sales contracts, pricing for the fixed quantity sales is based on the industry standard of benchmark pricing. This benchmark price is set annually and normally comes into effect from April 1 for the proceeding 12 months (April – March is the fiscal year period for Japan). The price rises over the past 2 years have been 71.5% and 19% respectively. The forecasts for 2006/07 prices do vary but there is an increasing view that prices will again rise. Longer term the key variable is how quickly the iron ore supply side can ramp up to satisfy the demand emanating from Asia and in particular China. Independent long term forecasts by CRU suggest that China alone will consume 1.25 billion tonnes p.a. of iron ore by 2017 being an extra 571 million tonnes from 2005. Should this eventuate the market will require a supply side increase of the scale of Fortescue’s planned 45 million tonnes p.a. to occur each and every year for the next 12 years.

Rather than being seen as a traditional medium term cycle, the China phenomenon is increasingly seen as a structural shift in the demand curve – the so called super cycle. A consequence of this is that more recent forecasts are for commodity prices being “stronger for longer”. At a recent Australian China Business Forum in Beijing, the well regarded economist Mr Saul Estlake from ANZ Bank, suggested that Chinese demand will drive the global markets for the next decade as the economy was reaching a “level of income where metal consumption is likely to rise disproportionately”. Combined with the inability of the supply side to quickly match the sustained demand growth, commodity prices will likely remain high for longer than originally contemplated.



TENEMENT PORTFOLIO

***Tenement
holding at
c.35,500 Km²***

Fortescue now has a Pilbara tenement portfolio of some 35,500 km² which consists of granted and pending exploration and prospecting licenses (including joint venture tenements).

ENVIRONMENTAL APPROVAL

***Approval for
Construction
Managements
Plans under
PER
Approvals***

The public environmental review "PER" process covering Fortescue's total project area being the mine sites within the Chichester Ranges, the rail route and the port site at Port Hedland were recently concluded. As part of the approval process under both State and Federal Government agencies, there were a number of management plans that were required to abide by the public environmental review "PER" approval conditions. During the period Fortescue completed and had approved all of the outstanding plans that related to the construction program. This has now paved the way for the commencement of works at the mine site and along the rail route from an environmental approval perspective. It should be noted that plans for the port area had been completed some months ago to allow for the commencement of works within that area in February 2006.

OTHER SUBJECTS

Fortescue's application to declare the BHP Billiton ("BHPB") Mt Newman and Goldsworthy rail lines has been the subject of a hearing within the Federal Court in Melbourne during October. This application relates solely to Fortescue's 50 / 50 joint venture project with Consolidated Minerals Ltd, known as Mindy Mindy. The Mindy Mindy project is geographically separate to Fortescue's wholly owned deposits at Cloud Break and Christmas Creek for which dedicated rail and port facilities are being developed by Fortescue.

The Mindy Mindy deposit lies c.60 kilometres to the south of Fortescue's proposed line to Port Hedland and is on the other side of the Fortescue marshes. The project does however lie adjacent to the BHPB rail line from Newman to Port Hedland. Fortescue believes that the most economical way to develop this deposit is with access to the BHPB line for transportation to Fortescue's port at Port Hedland.

The Federal Court hearing has been reviewing the production process exemption claimed by BHPB as a defence of Fortescue's application. Fortescue's position is that the rail line is a service rather than part of a production process and therefore it should not be exempt from the application of Part IIIA of the Trade Practise Act. BHP Billiton is arguing that an earlier decision in 1999 established a precedent for the production process exemption and that as a consequence, BHPB is relieved from the ability for Fortescue to claim access to the BHPB rail system.



His Honour Justice Middleton, has advised that he will use his best efforts to provide a written decision within 30 days of closure of the case which occurred on 24 October 2006.

As previously stated the outcome of the case has no bearing over the Cloud Break and Christmas Creek developments that will be serviced by Fortescue's own rail line to Port Hedland. The outcome will however be important in the future for the development of other deposits that lie adjacent to the before mentioned rail lines.

FORTESCUE METALS GROUP LTD

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Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

FORTESCUE METALS GROUP LTD

ABN

57 002 594 872

Quarter ended

30 September 2006

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A000	Year to date (3 months) \$A000
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for (a) exploration and evaluation (b) development (c) production (d) administration (f) Other	(284,472)	(284,472)
1.3 Dividends received	(8,618)	(8,618)
1.4 Interest and other items of a similar nature received	14,809	14,809
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid		
1.7 Other Other Payments – Deposits Paid		
Net Operating Cash Flows	(278,281)	(278,281)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a) prospects (b) equity investments (c) other fixed assets	(1,479)	(1,479)
1.9 Proceeds from sale of: (a) prospects (b) equity investments (c) other fixed assets	-	-
1.10 Loans to other entities - (to associated JV company)		
1.11 Loan repaid by other entities		
1.12 Other		
Net investing cash flows	(1,479)	(1,479)
1.13 Total operating and investing cash flows (carried forward)	(279,760)	(279,760)

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(279,760)	(279,760)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc	394,590	394,590
1.15	Proceeds from sale of forfeited shares		
1.16	Proceeds from borrowings	2,964,044	2,964,044
1.17	Repayment of borrowings	(197,135)	(197,135)
1.18	Dividends paid		
1.19	Other: Issue of Convertible Notes		
	Net financing cash flows	3,161,499	3,161,499
	Net increase (decrease) in cash held	2,881,739	2,881,739
1.20	Cash at beginning of quarter/year to date	18,054	18,054
1.21	Exchange rate adjustments to item 1.20	35,179	35,179
1.22	Cash at end of quarter	2,934,972	2,934,972

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

		Current quarter \$A000
1.23	Aggregate amount of payments to the parties included in item 1.2	1,283
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

N/A

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

N/A

Financing facilities available

Add notes as necessary for an understanding of the position.

		Amount available \$A	Amount used \$A
3.1	Loan facilities	-	-
3.2	Credit standby arrangements	-	-

Estimated cash outflows for next quarter

		\$A000
4.1	Exploration and evaluation	3,441
4.2	Development	330.109
Total		333.550

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A000	Previous quarter \$A000
5.1 Cash on hand and at bank	2,934,972	18,054
5.2 Deposits at call	-	-
5.3 Bank overdraft	-	-
5.4 Bill	-	-
Total: cash at end of quarter (item 1.22)	2,934,972	18,054

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1 Interests in mining tenements relinquished, reduced or lapsed	Nil			
6.2 Interests in mining tenements acquired or increased	L46/51	Granted	Nil	100%
	L46/54	Granted	Nil	100%
	E47/1373	Granted	Nil	100%
	L46/47-49	Granted	Nil	100%
	M45/1086-1094	Granted	Nil	100%
	E45/2708	Granted	Nil	100%

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 Preference +securities <i>(description)</i>	N/A	N/A	N/A	N/A
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 +Ordinary securities	264,224,410	264,224,410	N/A	N/A
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	26,400,000	26,400,000	1500 cents	Fully Paid
7.5 +Convertible debt securities				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 Options FMGAW	1,865,050 430,000 500,000	Nil Nil Nil	<i>Exercise price</i> 267 cents 569 cents 703 cents	<i>Expiry date</i> 31 Dec 2009 25 Jan 2011 01 Jun 2011
7.8 Issued during quarter				
7.9 Exercised during quarter	134,950	Nil	267 cents	31 Dec 2009
7.10 Expired during quarter				
7.11 Debentures <i>(totals only)</i>	N/A	N/A		
7.12 Unsecured notes <i>(totals only)</i>	N/A	N/A		

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here: Date: 31 October 2006
Print name: **CHRISTOPHER J CATLOW**
(Chief Financial Officer)

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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