Fortescue Metals Group Ltd
A.C.N. 002 594 872

QUARTERLY REPORT

September 2007

The New Force in Iron Ore

Key Points:

- **Project construction continues to advance well across all fronts of port, mine and rail with "first ore on ship" scheduled for May 2008. As at 26 October 2007 the port works were assessed at 78% complete, mine works at 71% and rail at 62%.**

- **Mining activities commenced with some 900,000 tonnes of overburden removed to date and three Wirtgen surface miners now on site preparing for full scale mining of the ore body at Cloudbreak.**

- **Marketing initiatives are now focused on working through the logistics of Fortescue's shipping program.**

- **Exploration drilling continues at Solomon tenements with results reinforcing the basis of Fortescue's target mineralisation tonnages for these areas of 800 million tonnes of CID and 150 million tonnes of Brockman.**

- **Fortescue's metallurgy team further enhanced its solid working relationship with China Central South University following the signing of a Co-operation Agreement in September.**

- **Fortescue's recruitment team held a roadshow attracting over 2,000 people to hear about the opportunities for working with the Company.**

- **Following the inaugural graduation of 20 aboriginal students from Fortescue's Vocational Training and Education Centre "VTEC" indigenous program a second intake of 40 students occurred in September.**

GENERAL CORPORATE

Milestone achievement with inclusion in S&P/ASX 100 index

In August Fortescue was included in the S&P/ASX 100 Index which followed an earlier inclusion (March 07) of the company in the MSCI Standard Index. The inclusion in the 100 Index was considered by Fortescue as representing a significant milestone for the Company given the relatively short history of the group which came into being in July 2003. Over this time the Company's market capitalisation has risen from around A$50 million to a peak of just over A$15 billion in September 2007.

"Deal of the Year Award" at the annual Diggers & Dealers Conference

In further recognition of the company's achievements Fortescue was awarded the "Deal of the Year" at the 2007 Diggers & Dealers Conference. The award was made in recognition of the successful raising of over A$3 billion dollars in 2006, through both debt and equity, which set the financial platform for the group to commence full scale construction of the project.

Work continued on the optimisation of Fortescue's project reviewing the scope change to the original project. This includes bringing forward of the construction of the lump circuit at the mine, the construction of a third de-sand plant and the commissioning of the second ship berth to a loading berth. An initial presentation of this scope change has been made to the Independent Engineer and Fortescue will deliver a more detailed package for review at the next monthly project review meeting.

Baosteel Exploration JV signed

The Joint Venture Agreement with Baosteel was signed in August. The agreement covers the exploration of a magnetite prospective tenement wherein Baosteel will finance the exploration program in return for earning equity within a joint venture company to be created. Separately, Baosteel has an off-take agreement to purchase up to 20 million tonnes of direct ship hematite product from Fortescue, of which 5mta is under the first stage 45mta and the balance is for expansion tonnes.

The Company's cash position as at end September 2007 was A$1.4 billion.

CONSTRUCTION

Construction has progressed steadily over the period across the three fronts of port, mine and rail. The most recent project scorecard up to 26/10/07 has the assessed value of work completed being 78% for the port, 71% for the mine, and 62% for the rail. Each month Fortescue produces a construction update report which provides detail around the project and is reviewed by the Independent Engineer.

These reports are released to the ASX and are also posted on Fortescue's web site www.fmgl.com.au

As we have previously advised the port and the mine programs are progressing well to schedule. The rail program is behind schedule however plans are in place to try and expedite the program and catch up on schedule.

A summary of the key achievements since the last report have been;

Port:

- Piling of the first ship loading wharf has been completed and the decking was set into place to create a complete berthing structure.
- The conveyor bridge over the BHPB rail line and Finucane Island access road has been fixed into place and the full conveyor system from the train unloader to the stock pile area is being completed.
- The train unloader rotating cells have been delivered to site from Perth and are being lifted into place within the next week.
- The erection of the ore stacker has commenced following its delivery from China during September.

Mine:

- Steel erection and bin installation at the crushing plant has been largely completed and electrical work is now well underway.
- Steel and equipment erection at the screening plant is now to 2,540 tonnes against a total requirement of 4,575 tonnes as this building now becomes a focus of management attention following completion of the crushing unit.
- Concrete and civil works are near schedule with almost 13,845 m3 completed out of a total project requirement of 18,351 m3.
- The fuel farm was recently commissioned and the power plant, housing 13 generation units, is nearing completion.
- The heavy vehicle workshop has been erected and clad and the various administration blocks are also close to completion.

Rail:

- The first ship load of 58 ore wagons was delivered to site and the next shipment from China is scheduled for next week.
- The 36 metre long x 7 metre wide steel girder that spans the BHBP overhead rail crossing was lifted into place.
- The first of the GE locomotives are to be delivered to Port Hedland by the end this current week.
- The overall earthworks program is progressing with a total of 4.76 million cubic meters of cut and fill now completed against a total requirement of some 6.43 million m3 which is approx. 74% completed.

- Approximately 41 kilometres of finished rail formation has been handed over for track laying rail track which is behind schedule but remedial plans have been activated.

EXPLORATION AND GEOLOGY

Solomon Project remains key exploration Target

The Company's exploration focus during the September quarter continued to be on its Solomon Project, about 70 km north of Tom Price. There are five RC drilling rigs and one diamond drilling rig in operation on this project. The tenements naturally divide into two main areas, known as Solomon East and Serenity (which is about 40 km west of Solomon East).

The Company has set a resource target of 800 million tonnes of Channel Iron Deposit "CID" and 150 million tonnes of Brockman from its Central Pilbara tenements. The ongoing results from the drilling program continue to give confidence toward achieving this target – however noting that a target by its very nature is hypothetical and may not be achieved.

Fortescue has commenced a JORC estimation study having completed sufficient drilling to generate data for the compilation of an Inferred Resource estimate. Once all assay results have been received the Company will finalise the study process and is hopeful of being able to release a resource upgrade within the next month.

Serenity

Two RC rigs have operated continuously here throughout the quarter defining about 15 kilometres of mineralised CID channels beneath cover. Mineralised thicknesses range up to over 25 metres but are more commonly about 10 metres. In some portions of the area the CID is overlain by mineralised detrital material which carries potentially economic grades.

There are also significant zones of mineralised Dales Gorge Member of the Brockman Iron Formation in the Serenity area. Mineralised thicknesses locally range up to 45 metres.

JORC estimate currently under preparation

An estimate of Inferred Resources for the Serenity area is now in progress and it is expected that an announcement of resources in this area will be released in the second half of November.

Solomon East

There have been 3 RC rigs and a diamond drill operating in this area during the quarter. There are five prospective sites within this area. Three of them are now sufficiently advanced to commence resource estimation and this work will follow on from the estimate at Serenity. One of the remaining two has had sufficient drilling completed for an Inferred Resource, but we are awaiting delivery of assay results. It is expected that the Company will make further announcements of Inferred Resources during December and possibly into January. The fifth prospect is less advanced.

In the Solomon East area approximately 25 to 30 kilometres of mineralised CID channel has been defined. While there are some mineralised detritals these are not as widespread as at Serenity. There are also several mineralised intersections of Dales Gorge Member.

Baosteel exploration drilling expected to commence soon.

Glacier Valley

This area is about 120 km south of Port Hedland and is being explored for magnetite resources in joint venture with Baosteel. A drilling program has been planned and approved by the joint venture and aboriginal heritage surveying has commenced. It is expected that drilling will commence during the present quarter.

MINING

Mining commences as overburden stripped

The commencement of mining at Cloud Break has been a major milestone achievement since the last quarterly report. The first stage of mining was to strip the overburden at the first of the mining areas. This has been done using conventional methods of drill and blast and to date some 900,000 tonnes of waste has been removed. The first mining bench has now been exposed for the commencement of ore mining.

There are currently some 120 mining personnel on site which will increase over the next few weeks as full scale mining commences and the site moves to double shift.

Mining personnel now at 120 people at site

Mining of the ore will be undertaken by the fleet of Wirtgen surface miners with three machines currently on site and a further three now landed in Australia and soon to be delivered to site. Following recent extensive commissioning trials of the first machines it is apparent that the production capacity of the machines when measured by volume mined per hour will be well above that achieved in the original 2005 trials.

Three surface miners now ready to start mining the ore body.

The most recent results suggest a capacity increase to a total of up to 1,500 tonnes per hour (dependent on the hardness of material being cut). This figure is based on a full operating hour conveying ore to a fleet of trucks noting that within an operating hour there will be periods when the machine is not cutting as it awaits the next truck for loading. Also the actual volume will vary depending on the friability of the ore noting that Fortescue has ore bands of hard, medium and soft material which will impact volume flow.

The other enhancement since the 2005 trials has been in the type of cutting pick that is used in the cutting drum. Extensive trialling of picks made from different material and of varying styles has demonstrated an ability to substantially extend the pick life over those used in the original trials.

METALLURGICAL TESTWORK

Product trials increase as mining proper commences.

The metallurgical team has continued its extensive test work program over the quarter as the date to delivery of first product approaches. The team is working very closely with the mine planners to ensure that the ore type being extracted fits within the product blends that are to be delivered under contract being the high grade lump and fines and the rocket fines. A large part of this testing is of the physical and chemical properties of the ore to determine grade as well as the lump to fines ratio.

Another key area of work has been liaising with the construction team to ensure that the crushing, screening and de-sanding plants are all delivered to specification to ensure the production targets for volume and quality are deliverable.

Further Agreement with CSU

In September Fortescue signed an addendum agreement to that previously executed with China Central South University "CSU" as the relationship continues to develop. CSU is one of China's pre-eminent metallurgical research institutions that has extensive influence across China's steel pursuant to its research capabilities. Under the new agreement Fortescue and CSU have agreed to jointly research methods of upgrading low grade material into a product form that could be acceptable to mills.

MARKETING

Head of Shipping Appointed

The focus for Fortescue's marketing team is increasingly about organising the logistics of the first shipments. To this end Fortescue has recently employed Mr Patrick Hodgins as Head of Shipping who has joined the marketing team to put in place the right team of people to manage what will become a major shipping operation.

There were no new off-take agreements signed during the period as the Company has sold out its initial production. As previously advised further commitments exist for expansion tonnes up to 100 mta as and when Fortescue increases its production beyond the initial base.

Expectations of large increase in 2008/09 long term contract prices

Of interest over the next few months will be the price negotiations for setting the long term contract price that will become effective from April 2008 for the following 12 months. This is relevant for Fortescue as all of its existing off-take agreements are priced against the long term contract benchmark price. Based on Fortescue's target of delivering product under contract as from May 2008, this means it may operate under the new long term contract price regime for up to 10 months before the new settlement date of April 2009.

The consensus of opinion from analysts is that the price to be set for 2008/09 will be an increase over current prices as the supply side is still struggling to meet increased world demand for iron ore. The spot price for selling iron ore into China (the world's largest import market) is currently running at levels well above the 2007/08 long term contract price and this is setting an expectation of a substantial price increase (ie. the spot price is reported to be more than 200% above the long term contract price). Forecasts for the new benchmark price range from a low of a 25% increase up to a high range increase of 70%. The actual price increase will probably not be known for some months however it is important to remember that the percentage rise will be relative to a price that has already increased by over 100% in the last 3 years.

To some extent the price increase is being moderated by the high AU$ / US$ exchange rate as traditionally product is sold in US dollars. Accordingly any net increase in the benchmark return for Australian exporters must also be reviewed in context of recent currency fluctuations where the AU$ has risen by some 15% over the last six months.

TENEMENT PORTFOLIO

Tenement Footprint:

Pilbara tenement portfolio at approx. 40,000 km^2

Fortescue's Pilbara tenement portfolio is relatively unchanged from the last report at approximately 40,000km^2. This tenement footprint includes granted and pending Exploration Licences and Mining Leases, some of which are subject to agreements or joint venture arrangements.

Mining Lease applications for Solomon Deposits

During September, Fortescue applied for three new mining leases being tenement reference M47/1407 – M 47/1409. These tenements are within the company's Solomon project area in the western Pilbara. The new leases cover 144 km2 and contain Channel Iron Deposit and Brockman mineralisation as recently delineated by Fortescue.

COMMUNITY, HOUSING AND APPROVALS

VTEC program on 2nd intake of 40 students

Following the July graduation of the first 20 Aboriginal students from Fortescue's VTEC (Vocational Training and Employment Centre) a second intake of 40 students occurred in September. These people have been drawn from many centres around the North West of Western Australia with the intake being a larger group than the first which is reflective of the increased profile the VTEC program now has.

The second course will follow a similar program to the earlier one given the success of the first with all graduated students now employed within the project. In total, the VTEC program has placed over 120 Aboriginals either in work or in training across the project. The maximising of opportunities for indigenous workers remains a very clear objective of Fortescue's executive management.

Fortescue Housing Program for 250 homes in Hedland is announced.

In August, Fortescue announced that it had signed an agreement to proceed with the construction of an initial 100 homes in Hedland to accommodate its workforce when operations start in earnest next year. The first housing lot is part of an overall plan for a total of 250 homes in Hedland which will form the basis for developing a permanent and sustainable environment for Fortescue's workforce. The homes are all being designed to advanced levels of environmental and energy efficient standards.

Fortescue continues to play an active part in Port Hedland community events

The Company has continued to seek opportunities to provide direct support to community activities. Our support of the arts continues with the provision of accommodation to a number of visiting artists including the RAW Dance Company, performers from Educating Rita, Opera Australia, Mental as Anything, Max Gillies. In addition accommodation has been provided for guest speakers associated with Breast Cancer Awareness Week and construction workers building facilities at the Port Hedland State Emergency Service campus.

Our strong working relationship with local environmental group "Care for Hedland" continues with Fortescue's recent sponsorship of Care for Hedland's Tidy Garden and Tidy Street awards.

Fortescue staff served as judges for the competition and sponsored ABC's Gardening Australia presenter Josh Byrne as a celebrity judge and award presenter. Josh also presented a "Gardening in the Pilbara" workshop to local residents. Fortescue staff donated time to the Award's Ceremony hosting a BBQ for attendees.

The Community Team are now focusing on Fortescue's strategy for its ongoing involvement in local community development activities. The team have begun research into local and regional trends and profiles beginning with an analysis of community engagement, profile and economic data collected through previous community engagement activities. This work includes a comparative analysis of the Port Hedland and Pilbara community against other Australian port, mining and company towns.

Fortescue's staff continue to serve on a number of committees and boards in the Pilbara community and the South Hedland Community Office continues to receive large numbers of enquiries.

RECRUITMENT and HR

Recruitment roadshow proves to be big attraction

Fortescue's recruitment team was very active during the period and held a major roadshow at the Hyatt Hotel on September 13. The forum was designed to educate people on the project and the job opportunities that exist within the project. Over 2,000 people attended the four-hour session during which executives Andrew Forrest, Graeme Rowley and Alan Watling spoke about Fortescue's values, culture and what it would mean to work at the Company. The event was judged a huge success, resulting in about 1,300 job applications being received. Future roadshows are planned for regional areas and the details of these will be provided when finalised.

The major focus of the team is to recruit the right people to fill the wide range of roles that will be required to meet production targets. Few people could have failed to notice the catchy full-page advertisements that have appeared locally, but also across newspapers and other media nationally. To date there have been over 6,000 job applications relative to the approximate 100 advertised positions.

Over 3,500 people now deployed across the Project

Fortescue now has a direct employee base of some 430 people which is an increase of some 201 over the quarter. Across the project there are some 3,200 contractors deployed as construction is in full swing.

As mentioned the mining team is already into operations with some 120 people now part of operations. The focus for port and rail employees is not quite as immediate but the numbers on these teams are building as the head positions are filled.

BHPB DECLARATION

During the period under review the Full Federal Court of Australia dismissed an appeal from BHPB against the earlier Federal Court decision that found that the use of BHPB's railway lines would not be the use of a production process and therefore that the railway lines were not exempt from coverage under Part IIIA of the Trade Practices Act.

Two out of the three judges dismissed the appeal outright, whilst the third judge expressed the opinion that there was insufficient information on which to make a decision and that the matter should be sent back for a rehearing. BHPB has subsequently sought special leave to appeal to the High Court against this Full Federal Court decision. This special leave application is not likely to be heard until early next year.

In the meantime the Full Federal Court decision has paved the way for Fortescue's appeal to the Australian Competition Tribunal ("Tribunal"), against the Treasurer's deemed decision not to adopt the recommendations of the National Competition Council ("NCC"), to proceed. The matter is not likely to come before the Tribunal before the second half of 2008. The Tribunal will consider afresh the matter of whether or not BHPB's Mt Newman railway meets the criteria required for an infrastructure asset to be declared. Fortescue remains confident that the Tribunal will reach the same conclusions as the NCC and will therefore overturn the Treasurer's decision. This would result in the relevant sections of the Mt Newman railway being declared; the Tribunal's decision will be final.

Rio Tinto ("Rio") has also launched legal action seeking to prevent the Tribunal from hearing Fortescue's appeal. Fortescue believes that Rio lacks the necessary standing to take such legal action and that the issue that gives rise to the appeal should be dealt with by the Tribunal (and is not a matter for the Federal Courts). Fortescue will vigorously defend against Rio's action.

FORTESCUE METALS GROUP LTD

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Rule 5.3

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	Quarter ended
57 002 594 872	**30 September 2007**

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	(7,628)	(7,628)
	(b) development	(610,804)	(610,804)
	(c) production		
	(d) administration	(4,378)	(4,378)
	(f) Other		
1.3	Dividends received		
1.4	Interest and other items of a similar nature received	24,503	24,503
1.5	Interest and other costs of finance paid	(130,452)	(130,452)
1.6	Income taxes paid		
1.7	Other		
	Other Payments – Deposits Paid		
	Net Operating Cash Flows	**(728,759)**	**(728,759)**
	Cash flows related to investing activities		
1.8	Payment for purchases of: (a) prospects		
	(b) equity investments		
	(c) other fixed assets	(146)	(146)
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	**(146)**	**(146)**
1.13	Total operating and investing cash flows (carried forward)	**(728,905)**	**(728,905)**

1.13	Total operating and investing cash flows (brought forward)	**(728,905)**	**(728,905)**
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc	498,752	498,752
1.15	Proceeds from sale of forfeited shares		
1.16	Proceeds from borrowings		
1.17	Repayment of borrowings		
1.18	Dividends paid		
1.19	Other: Deposits Received	13,027	13,027
	Net financing cash flows	**511,779**	**511,779**
	Net increase (decrease) in cash held	**(217,126)**	**(217,126)**
1.20	Cash at beginning of quarter/year to date	**1,682,201**	**1,682,201**
1.21	Exchange rate adjustments to item 1.20	(24,816)	(24,816)
1.22	**Cash at end of quarter**	**1,440,259**	**1,440,259**

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	**356**
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	6,000
4.2	Development	566,251
	Total	**572,251**

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	**1,440,259**	**1,682,201**
5.2	Deposits at call	**-**	**-**
5.3	Bank overdraft	**-**	**-**
5.4	Bill	**-**	**-**
	Total: cash at end of quarter (item 1.22)	**1,440,259**	**1,682,201**

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				
6.2	Interests in mining tenements acquired or increased	M46/401-409	Granted	Nil	100%
		M46/412-414	Granted	Nil	100%
		M46/423-424	Granted	Nil	100%
		L47/199	Granted	Nil	100%
		L45/158	Granted	Nil	100%
		L46/64	Granted	Nil	100%
		L47/194-196	Granted	Nil	100%
		E47/1333	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** *(description)*	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**	279,867,793	279,867,793	N/A	N/A
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	14,000,000	14,000,000	3600 cents	3600 cents
7.5	**+Convertible debt securities**				
7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7	**Options** FMGAW	1,443,750 340,625 456,250	Nil NIl Nil	***Exercise price*** 267 cents 569 cents 703 cents	***Expiry date*** 31 Dec 2009 25 Jan 2011 01 Jun 2011
7.8	Issued during quarter				
7.9	Exercised during quarter	138,800 Nil 41,250	Nil Nil Nil	267 cents 569 cents 703 cents	31 Dec 2009 25 Jan 2011 01 Jun 2011
7.10	Expired during quarter				
7.11	**Debentures** *(totals only)*	N/A	N/A		
7.12	**Unsecured notes** *(totals only)*	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 2007
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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