



## QUARTERLY REPORT

December 2007

### The New Force in Iron Ore

#### Key Points:

- The Company announced a major new resource discovery at its Solomon Project with the estimation of an Inferred Resource of 1.014 billion tonnes (56% Fe) at Solomon's Serenity deposit and 700 million tonnes (56% Fe) at the Solomon East deposit.
- Project construction advanced well across all fronts of port, mine and rail with "first ore on ship" remaining on schedule for mid May 2008. As at 25 January 2008, all project sites were assessed as over 80% complete with the port the most advanced at 88%.
- The remedial works on the rail line continue to show positive results, with rail assessed at 82% complete (as at 25/1/08) and the automated SUM machine at the 115 km mark. The combination of automated and manual track laying teams have proven capable of laying in excess of 2kms per day.
- Mining commenced during the quarter and to date over 650,000 tonnes of ore has been mined and stockpiled at site. Four Wirtgen surface miners have been commissioned and the mining fleet is progressively building and now consists of 18 CAT 777 trucks, 14 Terex 190 tonne haul packs, 3 O&K shovels and a range of other ancillary equipment.
- The marketing team continues to prepare for the mid-May first shipment of ore by building numbers in the Shanghai office. The logistics team in Perth has also grown and is now comprised of 4 people, working to develop the 2008 shipping program.
- Fortescue's recruitment team continues to successfully source and place high-quality candidates across all teams and remains ahead of schedule. The number of directly employed Fortescue staff rose by more than 40% during the quarter.



## GENERAL CORPORATE

### ***10:1 Share split successfully implemented***

At a meeting of shareholders held on December 17, members unanimously voted to implement a 10:1 share split. As advised in the explanatory material provided for the meeting, the primary objective was to improve trading liquidity and make the shares more attractive to the retail investor base. As an indication of the success of this venture, the number of shareholders has risen from the 5,651 referenced in the annual report at end September 2007 to over 11,250 as at mid January 2008.

### ***Fortescue wins Development Funding Award***

In November, Fortescue won the prestigious Development Funding Award at the Mines & Money 2007 conference in London. The award was recognition of the A\$3.2 billion project funds raised in August 2006 that kicked-started full project construction.

The cash position as at end December 2007 was A\$923 million.

## CONSTRUCTION

### ***Project advances by 17% “value of work” during the quarter***

The period under review has seen major advances on all construction fronts. The project was assessed as 65% completed as at the end of September 2007, which had risen to 82% as at the end of December.

The key milestones achieved over the period were:

- The delivery of the stacker and reclaimer from China, which are being assembled on site;
- Completion of major earthworks at the port and mine sites;
- The decking of the loading berth in readiness for the installation of the ship loader in January.
- The completion of the rail bridge over BHPB’s line at chainage 142 and the installation of the conveyor bridge linking the train unloader to the port stockpile over BHPB’s rail line at port;
- The delivery and commissioning of all 15 GE Locomotives;
- The delivery of 520 ore wagons, noting that the final delivery of the remaining 296 wagons is scheduled for February

### ***Major project milestones achieved during the period***



The schedule remains on track for the first shipment of ore in mid-May 2008. The commissioning schedule for the various project areas will commence in the first calendar quarter of 2008 with the port and the mine sites to commence commissioning in March. The port is scheduled to be ready to accept ore in mid-March and at this point wet (loaded) commissioning begin. Prior to that time, dry (unloaded) commissioning will be undertaken.

The mine site is scheduled to be ready to deliver ore to train in March and the crushing and screening plants will be progressively commissioned prior to this date.

The rail is scheduled to be completed to Cloudbreak in April, at which point wet commissioning of both the mine load out facility and the full track and rolling stock will be undertaken. Unloaded commissioning of the rolling stock has already been undertaken.

Under the schedule for FOOS in mid-May, extensive commissioning of all project parts will occur prior to loading the first commercial shipment. Final wet commissioning of certain areas is planned to extend beyond FOOS, as is consistent with bringing an integrated system into production.

## EXPLORATION AND GEOLOGY

### Solomon

**1.7 Billion tonne  
inferred  
resource  
estimate for  
Solomon project  
area**

The Company's exploration focus during the past quarter continued to be on its Solomon Project, about 70 km north of Tom Price. During the period the Company announced an Inferred Resource estimate of 1.014 billion tonnes (56% Fe) for the Serenity Area of Solomon, along with a further 700 million tonnes (56% Fe) of Inferred Resource for the Solomon East Project area.

Some areas of the channel have not been included in the above estimates due to insufficient drilling density available at the time of the estimation. It is expected that this drill pattern will be completed during the March quarter and an updated estimate of resources will be released when available. The total resource estimate is expected to exceed 2 billion tonnes. Concurrently, the Company is embarking on a program of infill drilling in selected portions of the area with a view to estimating some zones of Indicated and Measured Resources by mid-year.



The Company has discovered several areas of bedded mineralisation in the Dales Gorge Member of the Brockman Iron Formation. Some of these zones carry high iron grades (+62% Fe). Further drilling is underway to increase drill density so an estimate of the resources present can be made by about April this year.

The Company expects to have six RC rigs and two diamond rigs operating in the Solomon area for at least the first half of the year.

### **Glacier Valley**

#### ***Baosteel exploration drilling***

The joint venture between Fortescue and Baosteel for this project area has completed its Phase 1 drilling program, which included 19 RC holes with an average depth of about 200 metres. Approximately two thirds of the holes have encountered thick sequences of magnetite rich material. Laboratory examination of the material has commenced with results expected in early March.

Under the JV terms, Baosteel pays for all exploration expenses and derives a progressive farm-in share of the JV up to a possible 50% interest, which would occur on the announcement of a resource of at least 1 billion tonnes and on completion of mining feasibility studies to determine an agreed mine plan.

## **MINING**

#### ***Ramp up to full- scale mining begins***

The December quarter saw the commencement of commercial mining at the first Cloudbreak pits known as Hayman and Daydream. Overburden was progressively removed in the early part of the quarter, exposing the ore body for surface mining in October. As at end December, three surface miners were operating in the pit and since then a fourth machine has been commissioned. A total of 14 Wirtgen miners will be operating when Cloudbreak mining hits full production.

By end December just over 650,000 tonnes of ore had been mined at Cloudbreak, comprising ore from the pits known as Hayman and Daydream (nb. Daydream incorporates the original trial pit area). The team also removed over 1 million bank cubic metres "BCM's" of overburden material in the process of exposing the ore body.

The mine plan includes the establishment of four pits for the first phase of mining. The mine scheduling team is currently planning for the integration of all four sites when operations hit full production.



***Mine team  
recruitment on  
schedule***

Part of the scheduling operation is an extensive grade control drilling program. During the quarter, over 25,000 metres of drilling was undertaken with the objective of supplying extensive grade data to the mine planners to ensure a steady flow of quality ore.

Ramp up of the mining team progressed strongly during the period and by end December there were 246 people in the direct mining team and a further 86 in support roles.

During the quarter, the new site administration building was handed over to the operations team, which has enabled them to settle into permanent accommodation. Also during the period, the heavy vehicle workshop was handed over from construction, which has facilitated the build up of the required vehicle maintenance team.

During November and part of December some of the mining team assisted the construction program by undertaking earthworks along the rail line. This involved some 40 people and 18 pieces of equipment ranging from a CAT D11 down to haul packs and light vehicles. The assistance of the mining team was greatly appreciated by the construction contractors and assisted in finishing a critical section of the rail line between chainage 120 through to 150.

***Fortescue as  
sole mining  
operator***

As advised in an earlier construction report the mining alliance with Roche Mining was dissolved in December based on mutual agreement between the parties. As mentioned previously, Fortescue is building its own team and accumulating its mining fleet to undertake operations on a sole basis.

***Safety focus***

Utmost attention to safety continues to be a primary focus of the mining team and during the quarter there were no lost time injuries "LTI's" and no medical treatment injuries "MTI's", within this team.

## **RESOURCE STRATEGY & METALLURICAL TEAM**

The principal focus of the resource strategy team over the quarter has been two-fold: being 1) the maintenance of technical information flows between Fortescue and its customers and 2) liaising with the construction team to ensure the processing equipment within the ore preparation facility is delivered within specification.

All of Fortescue's contracted customers have been visited by members of the technical marketing team over the last six months with 11 steel mills visited during the December quarter.



The purpose of the visits was to ensure the exchange of technical information on Fortescue's product range. Typically customers have specified product requirements for their blast furnace blends and will prepare their plants for the arrival of Fortescue's iron ore in 2008.

***Final testing on ore textural controls for high grade fines ROM blends completed***

The team has completed the final testing on ore textural controls for Fortescue's high grade fines ROM blends with excellent sinter quality and productivity test results being achieved. This work was done in association with Central South University in China. The testing has indicated the robustness of the high grade ROM blends and the allowable limits of ore texture variations in the ROM blend. This will ensure good quality control from mine start-up. Similar test work was commenced for the Rocket Fines blends.

As advised in the December ASX release pursuant to the Solomon resource estimate, the metallurgy team is also undertaking extensive research into the product qualities and characteristics of this material. An expansion study covering likely ROM and product tonnes from each potential mine site is being undertaken. The resource material contains a variety of mineralization types including CID and Brockman, which will result in different product types and processing requirements. Work covering geometallurgical characterisation for the expansion investigation was commenced on samples from Solomon and Glacier Valley as well as product and flow sheet designs for Christmas Creek and Solomon.

Detailed metallurgical test work for Solomon included:

- Assay by size analysis of CID and detrital mineralization;
- Initial test work on RC chips for CID Upper and Lower and detrital mineralisation;
- Geological logging and SG measurement of diamond drill core;
- Planning of comminution test work to commence in early 2008;
- Modeling of potential product types and their grades and impact on mine and port expansion.

The team is also involved in the Glacier Valley project with Baosteel. During the period the following work was undertaken:

- Set up of batch ball mill and Davis tube for testing of magnetite mineralization;
- Received, catalogued, dried and weighed RC chip samples  
Drilling commenced mid-December.



## MARKETING

### ***Shipping logistics fine-tuned***

Given that the marketing team has achieved all of its sales targets for the first stage production of up to 55 million tonnes per annum “mta” plus expansion tonnages for up to a total of 100mta, the main focus during the period has been on fine tuning the shipping logistics.

A focus of the team has been to review the sales terms with a balance now of FOB sales and CFR agreements. Over the next few weeks Fortescue’s shipping team will be booking vessels to meet the “First Ore On Ship” target. A current year preliminary shipping schedule will be sent out to all customers by the end of February. The shipping team is therefore in discussion with ship owners and customers in respect of the delivery of iron ore this current year, ensuring that deliveries are evenly spread throughout the term.

The focus has also been on enhancing our ship scheduling, with Fortescue’s newly appointed load port agents in discussion with our port people to continually review and manage the berthing and arrival of all our shipments at Port Hedland. The marketing team has been in discussion with their agents to develop the most efficient documentation process for our customers.

The shipping team has appointed Mr Lasse Sorensen as Operations Coordinator to understand the logistical needs of our customers. Lasse is currently based in Shanghai. The aim is to enhance the utilisation of the ports, and ultimately improve Fortescue’s returns.

The shipping team has recently installed the IMOS software system to allow Fortescue to manage all customer cargo commitments against fixed vessel contracts. The current focus will now be on finalising the shipping terms for our long term customers to ensure delivery of cargo for the next five to ten years.

### ***Expectations for significant benchmark price increase over 2008 - 09***

The industry price negotiations for determining the benchmark price from April 08 – March 09 continue. Given that Fortescue has priced its contracts against the benchmark pricing mechanism, the outcome of negotiations is directly relevant to the Company. While Fortescue is not involved in the process of negotiation, the general market view is for an increase of between +30% and +70% over the current regime.



## TENEMENT PORTFOLIO

***Pilbara tenement portfolio at approx. 40,000 km<sup>2</sup>***

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

During November and December, Fortescue applied for three new mining leases being tenement reference M47/1410 – M 47/1411 and M47/1413. These tenements are within the company's Solomon project area in the western Pilbara. The new leases cover 48.5 km<sup>2</sup> and contain Channel Iron Deposit and Brockman mineralisation as recently delineated by Fortescue.

## COMMUNITY, APPROVALS & VTEC

***Construction work commences on housing program***

Construction work has commenced on Fortescue's housing program at Port Hedland. The schedule provides for 10 homes to be constructed by mid-2008 and a further 137 by end 2008. In total Fortescue has 250 home sites planned for development over the next few years, catering for an increase in the number of permanent workers in line with production ramp up. To supplement the home building program, Fortescue is also leasing accommodation in Port Hedland. As part of the Housing Development Program, Fortescue is integrating sustainable design principles into the housing with the aim to create long term, sustainable and resource efficient housing for employees in the Hedland Community.

***Second intake of VTEC students occurs***

At Fortescue's VTEC facility in Port Hedland, the team welcomed the second intake of students. In total some 40 Indigenous students have commenced the VTEC program under which they are guaranteed a job after successful course completion. The program has been slightly modified from the first course which saw 20 students graduate in July 2007. The new structure has been tailored to offer specific training for the areas of rail, construction/maintenance and landscaping/horticulture, with a focus on employment in operations following project completion. The bulk of the first students were placed in employment within the construction teams, some of whom will migrate across to operations when construction is finished.

As an extension of the VTEC program, the Native Title Team has commenced work to establish 13 businesses to be owned and operation by Indigenous people. These will be established under Fortescue's Training to Employment to Business model.



The environmental and heritage teams continue their work in implementing management plans and monitoring of the construction process to ensure compliance with the various approvals received prior to construction. The heritage team comprises of people who are deployed across the project site monitoring the development and ensuring compliance with the heritage guidelines established for construction and operations.

The environment team consists of 16 people who are monitoring construction progress and developing programs for continued environmental performance into operations.

The community team consist of 7 people who are largely responsible for integrating the Fortescue team into Hedland. The team was established some years ago in anticipation of a large number of Fortescue people moving into the region and they have been responsible for many community events and public forums to ensure Fortescue makes a positive impact on the community within which it will operate and live.

The community team recently completed research into conditions in the economic, social and built environment of Port Hedland. The research will guide the development of community programs specific for the Port Hedland area. Preliminary community development activity has been implemented focused on economic activities. This work has included the establishment of a coalition with the Port Hedland Chamber of Commerce and Industry to introduce economic development experts and thinkers into the Port Hedland community. The first presentation and workshop will be conducted by Ernesto Sirolli of Sirolli Institute in Alberta, Canada.

The team has also implemented a staff relocation program that introduces staff and families to the community with the aim of supporting them to take advantage of the activities, events, sights and opportunities provided through their relocation to the Pilbara. The program includes a series of monthly social events, tours and introductions to local sporting, social and business networks.



## RECRUITMENT and HR

### ***Recruitment in front of schedule***

Fortescue's staff continued its rapid expansion over the quarter with expert commissioning crews built and on the ground. The recruitment team continues to source and hire the right people by leveraging the Company's strong brand, thus reducing expenditure for external recruitment agencies to a minimum.

### ***Approximately 3,000 people now deployed across the Project***

In a tight labour market, Fortescue is forging a reputation as an 'employer of choice' and is in the enviable position of being ahead of its recruitment schedule. Over 4,500 applications and expressions of interest were registered during the quarter.

Late last year the decision was made to internally source the team of commissioning locomotive drivers rather than follow the traditional method of outsourcing these roles. This course of action has proven to be extremely successful, saving the company from excessive commercial margins.

Fortescue's directly employed workforce has grown from 430 to over 600 staff in the quarter (c. 40% increase) with the project team including contractors and partners consisting of approximately 3,000.

**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

**31 December 2007**

### Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A000	Year to date (6 months) \$A000
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for (a) exploration and evaluation	(5,927)	(8,752)
(b) development	(545,594)	(1,161,201)
(c) production		
(d) administration	(2,708)	(7,086)
(f) Other		
1.3 Dividends received		
1.4 Interest and other items of a similar nature received	28,318	52,821
1.5 Interest and other costs of finance paid	(6,784)	(128,477)
1.6 Income taxes paid		
1.7 Other		
Other Payments – Deposits Paid		
<b>Net Operating Cash Flows</b>	<b>(532,695)</b>	<b>(1,252,695)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of: (a) prospects		
(b) equity investments		
(c) other fixed assets	(108)	(254)
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		
<b>Net investing cash flows</b>	<b>(108)</b>	<b>(254)</b>
1.13 Total operating and investing cash flows (carried forward)	<b>(532,803)</b>	<b>(1,252,949)</b>

**Appendix 5B**  
**Mining exploration entity quarterly report**

1.13	Total operating and investing cash flows (brought forward)	<b>(532,803)</b>	<b>(1,252,949)</b>
	<b>Cash flows related to financing activities</b>		
1.14	Proceeds from issues of shares, options, etc	6,745	505,497
1.15	Proceeds from sale of forfeited shares		
1.16	Proceeds from borrowings		
1.17	Repayment of borrowings		
1.18	Other: Transaction Costs	(6,873)	(6,873)
1.19	Other: Deposits Received	4,792	17,819
	<b>Net financing cash flows</b>	<b>4,664</b>	<b>516,443</b>
	<b>Net increase (decrease) in cash held</b>	<b>(528,139)</b>	<b>(736,506)</b>
1.20	Cash at beginning of quarter/year to date	<b>1,440,259</b>	<b>1,682,201</b>
1.21	Exchange rate adjustments to item 1.20	11,093	(22,482)
1.22	<b>Cash at end of quarter</b>	<b>923,213</b>	<b>923,213</b>

**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	<b>374</b>
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
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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
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**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	3,900
4.2	Development	307,000
<b>Total</b>		<b>310,900</b>

**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	<b>923,213</b>	<b>1,440,259</b>
5.2	Deposits at call	-	-
5.3	Bank overdraft	-	-
5.4	Bill	-	-
<b>Total: cash at end of quarter</b> (item 1.22)		<b>923,213</b>	<b>1,440,259</b>

**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			
	P 47/1398	Granted	Nil	100%
	P 47/1399	Granted	Nil	100%
	P 47/1400	Granted	Nil	100%
	P 47/1401	Granted	Nil	100%
	P 47/1402	Granted	Nil	100%
	P 47/1404	Granted	Nil	100%
	P 47/1405	Granted	Nil	100%
	P 47/1406	Granted	Nil	100%
	E 47/1763	Granted	Nil	100%
	E 47/1702	Granted	Nil	100%
	E 47/1761	Granted	Nil	100%
	E 47/1764	Granted	Nil	100%
	E 04/1534	Granted	Nil	100%
	E 04/1535	Granted	Nil	100%
	E 45/3084	Granted	Nil	100%
	E 08/1760	Granted	Nil	100%
	E 08/1761	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 <b>Preference</b> <sup>+</sup> <b>securities</b> <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 <b>+Ordinary securities</b>	2,801,550,890	2,801,550,890	N/A	N/A
7.4 Changes during quarter (a) Increases Share issues Options exercised Options exercised Options exercised Share split  (b) Decreases through returns of capital, buy-backs	33,000 21,796 226,250 6,250 2,521,395,801  -	- 21,796 226,250 6,250 -  -	5278 cents 703 cents 267 cents 569 cents -  -	5278 cents 703 cents 267 cents 569 cents -  -
7.5 <b>+Convertible debt securities</b>				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 <b>Options</b> <span style="float: right;">FMGAW</span>	12,255,000 3,343,750 4,344,530	Nil Nil Nil	<i>Exercise price</i> 26.7 cents 56.9 cents 70.3 cents	<i>Expiry date</i> 31 Dec 2009 25 Jan 2011 01 Jun 2011
7.8 Issued during quarter				
7.9 Exercised during quarter	21,796 226,250 6,250	21,796 226,250 6,250	703 cents 267 cents 569 cents	703 cents 267 cents 569 cents
7.10 Expired during quarter				
7.11 <b>Debentures</b> <i>(totals only)</i>	N/A	N/A		
7.12 <b>Unsecured notes</b> <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 January 2008  
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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