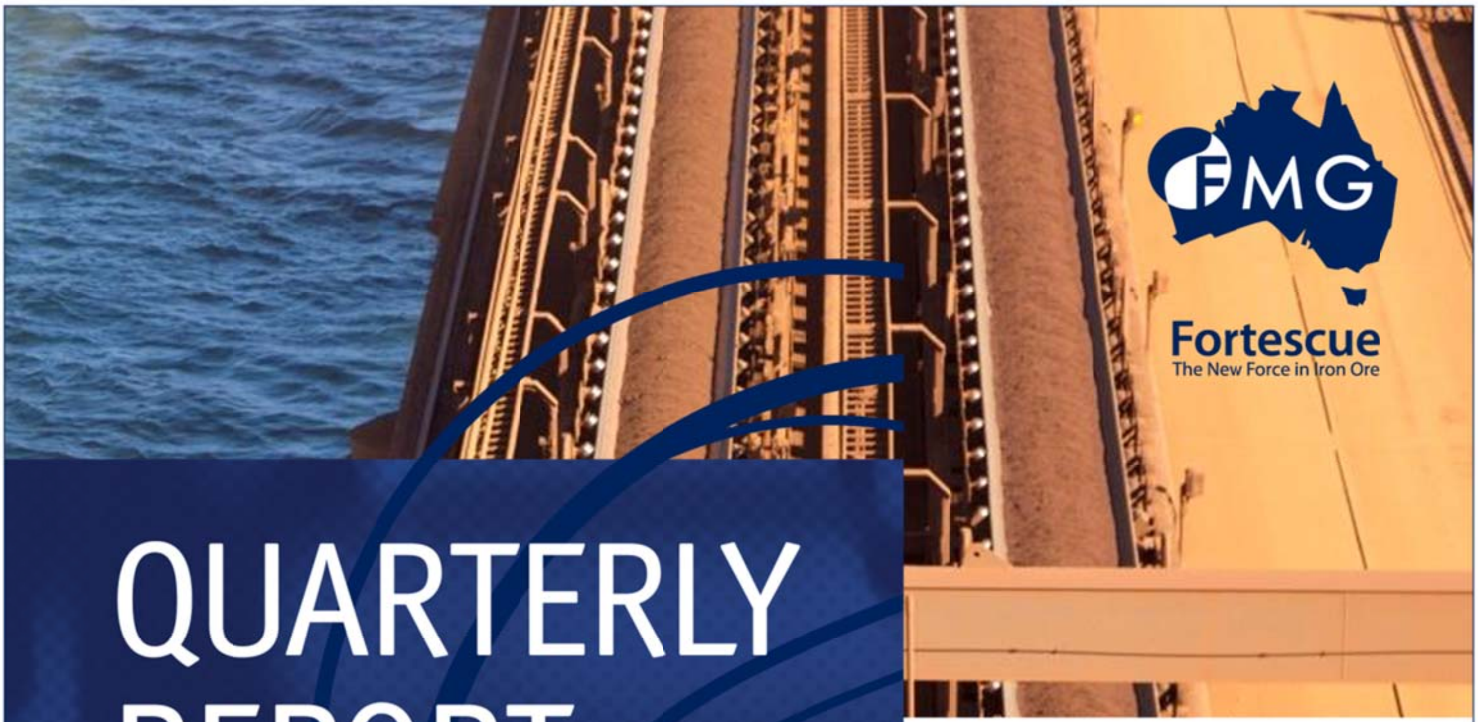

QUARTERLY REPORT

Highlights

- **100 million tonnes per annum (mtpa) run rate achieved for the month of December eclipsing the milestone target of 95mtpa by the end of 2012. Quarterly shipments of 19.6 million tonnes (mt), an increase of 22% on the prior quarter and 32% higher than the previous corresponding period;**
- **Opening of the 130km Fortescue Hamersley Line with the first train carrying ore from the Firetail deposit in December 2012;**
- **Development of the Firetail mine and processing facility continues in line with expectations and is scheduled to reach a capacity of 20mtpa by the end of the March 2013 quarter, lifting Fortescue's annualised production to 115mtpa;**
- **Resumption of the 40mtpa Kings development in January 2013 with completion scheduled for the December 2013 quarter;**
- **Completion of the third train unloader at Herb Elliott Port providing greater inload flexibility and supporting Fortescue's expansion to 155mtpa;**
- **Average realised CFR sales price of approximately US$111 per dry metric tonne (dmt), up from US$98/dmt in the prior quarter reflecting the recovery in global iron ore prices;**
- **Current quarter volume and cost benefits were offset by ramp up costs resulting in C1 costs of US$50.48. Full year guidance remains at US$45 to US$50/wmt reflecting volume and cost savings initiatives in the second half of FY13. Cost savings initiatives remain on target to deliver US$300m in FY13;**
- **Successful sale of 25% interest in the Nullagine Iron Ore Joint Venture (NJV) for A$190m;**
- **Commenced process for the potential sale of a minority interest in rail and port infrastructure assets; and**
- **Cash on hand of US$2.0bn at 31 December 2012.**

Operations

Production and shipments for the quarter on a wet metric tonne (wmt) basis are set out in the table below. Please note that Fortescue ships with approximately 9% of free moisture which needs to be taken into account when converting a wmt to a dmt equivalent.

(million tonnes)	December 2012 Quarter Tonnes(1)	September 2012 Quarter Tonnes(1)	Variance %	December 2011 Quarter Tonnes	Variance %
Ore Mined	16.7	18.3	-9%	16.0	4%
Overburden Removed	78.3	92.7	-16%	67.5	16%
Ore Processed	17.8	15.9	13%	13.9	30%
Total Ore Shipped (2)	19.6	16.1	22%	14.8	32%
Fortescue Ore Shipped	19.1	15.4	24%	14.4	32%

(1) Includes Solomon pre-production tonnes

(2) Inclusive of 3rd party tonnes

Safety

Safety performance continued to improve during the quarter with an improvement in the Total Recordable Injury Frequency Rate (TRIFR) of 8%.

Aboriginal engagement

Fortescue is committed to provide training, employment and business development opportunities to Aboriginal people. At the end of December, Aboriginal employees made up 11.1% (404 employees) of Fortescue's workforce with an additional 350 employed by its contracting partners, which is lower than the previous quarter, reflecting the completion of construction work by a number of contractors. Contracts totalling $586m have been awarded by the end of the December 2012 quarter with Fortescue maintaining its target of $1bn to be awarded to Aboriginal contractors.

Mining, processing and shipping

For the month of December 2012, Fortescue achieved an annualised shipping run rate of more than 100mtpa. Total tonnes shipped for the quarter were 19.6wmt, up 32% on the previous corresponding period, comprising 19.1wmt of Fortescue equity tonnes and 0.5wmt of third party tonnes.

Increased shipments were driven by the ramp up of the second ore processing facility (OPF) at Christmas Creek, a drawdown of ore stocks and the continuation of early ore mining at Solomon's Firetail deposit. The ramp up of operations and associated mine preparation and development increased the total material handled and cost of inventory sold. Once steady state production is reached at Christmas Creek, strip ratios are expected to stabilise to a life of mine average of 4.5x. In-pit crushing activity continued at the low cost, low strip ratio Firetail deposit, with stocks of direct ship ore established in readiness for the first train which departed the Solomon stockyards on 1 December 2012. Mining and processing at Cloudbreak continues to progress in line with expectations.

Fortescue's rail and port operations continued to perform strongly delivering 19.7wmt of ore to the port during the December 2012 quarter, an increase of 22% compared to the prior quarter. The third train unloader was commissioned during the quarter providing inload flexibility and capacity to handle the ramp up of Firetail to 20mtpa by March 2013 and Kings to 40mtpa by December 2013. Loading capacity at the port is currently 115mtpa and will increase to 155mtpa as the fourth berth (AP4) is completed as part of the Kings development.

Forecast production

Solomon's Firetail mine remains on schedule to deliver a 20mtpa run rate by the end of the March 2013 quarter, this will increase Fortescue's production capacity to 115mtpa. Fortescue's production guidance remains between 82wmt and 84wmt for FY13.

After careful consideration of market conditions, completion of non-core asset sales and restructuring activities, the Board approved the restart of Kings in January 2013. The timing of this decision has allowed for the smooth transition of the construction workforce from the Firetail deposit, minimising costs while maintaining the highly skilled workforce currently on site. The 40mtpa Kings development has been staged to allow for deferral of capital expenditure in the event of volatile market conditions. The current development program is expected to see the project completed in the December 2013 quarter, lifting Fortescue's annualised production to 155mtpa.

Production costs

Quarterly production costs on a wet tonne basis are split between operating costs inclusive of mine, rail and port charges and operating lease charges for equipment employed in the production and handling of iron ore.

Cash costs per tonne (C1)	Dec quarter 2012 US$	Sep quarter 2012 US$
Operating cost of sales	48.84	47.27
Operating leases	1.64	2.17
Total direct costs	50.48	49.44

Cost saving initiatives identified in September 2012 were realised in the quarter. This represents a 4.4% decrease in total operating and administrative cash costs, after restructuring costs, compared to the prior quarter. These cost saving initiatives are expected to deliver in excess of US$300 million of savings in FY13.

C1 costs were US$50.48/wmt (US$49.44/wmt in September 2012 quarter) as production ramped up and higher cost inventory flowed through from prior periods. The US dollar to Australian dollar exchange rate remained at US$1.04 : A$1.00 placing continued pressure on costs.

During the December 2012 quarter, strip ratios across the Chichester operations decreased to 4.9x from 5.1x in the September 2012 quarter. As steady state production is achieved across the Chichester Hub it is expected that the strip ratio will trend towards the life of mine ratio of 4.5x although this rate will fluctuate depending on the stage of mining and development of new pits.

Fortescue's C1 cost is expected to range between US$45 and US$50/wmt for the remainder of FY13. Once the Solomon Firetail and Kings mines are fully operational, C1 costs are expected to be in the range of US$25 to US$30/wmt at the Solomon mines, putting both deposits in the bottom quartile of the global cost curve. The scale benefits of adding these low cost tonnes is expected to significantly reduce Fortescue's overall cost of production.

Marketing

Fortescue's average realised Cost and Freight (CFR) sales price for the quarter was approximately US$111/dmt (September 2012 quarter US$98/dmt) which compares to an average Platts 62%Fe Index price of US$122/dmt for the same period (September 2012 quarter US$113/dmt).

Fortescue continued to strengthen offtake relationships with its long term customers throughout this period. High expectations from new and existing customers are being met as Fortescue rapidly ramps up its expansion to 155mtpa and becomes a major supplier of iron ore to the Chinese steel industry.

Fortescue expects market conditions in China will continue to stabilise in the near term. Steel mills are readjusting their raw material stocks to maintain more sustainable stock levels. With China's new leadership starting to rejuvenate programs of economic growth and urbanisation, steel demand is expected to increase and support iron ore prices.

Corporate

On 18 October 2012, Fortescue officially closed and fully drew the US$5.0bn Senior Secured Term Loan facility. Funds from this Term Loan were used to repay Leucadia Notes, refinance all existing bank facilities and provide Fortescue with additional liquidity. Support from the US capital markets was exceptional with the offering two times oversubscribed, allowing Fortescue to increase the size of the facility by US$500m.

During the December 2012 quarter, Fortescue commenced a process to consider the sale of a minority interest in its rail and port assets. Strong interest has been received from a number of strategic and financial parties leading to discussions with a small number of potential investors. Financial advisors have been appointed to assist with the process.

In December 2012 Fortescue agreed to sell 25% of the NJV to BC Iron Ltd for A$190m inclusive of a prepayment of rail and port usage. The agreement provides that the available port and rail capacity allocated to the NJV will increase from 5mtpa to 6mtpa commencing 1 January 2013 together with a price participation arrangement should the iron price exceed US$120/dmt from 1 April 2013 to 30 September 2014.

On 14 January 2013 David Woodall commenced as Director of Operations. David has an outstanding record in the mining industry and has held both senior operational and corporate roles including President and Chief Executive Officer of Altynalmas Gold Ltd, which owns and operates the Kyzyl Gold Project in Kazakhstan. David has more than 27 years experience in the resources industry and has held senior executive positions in operations, mine development, project evaluation and corporate management with internationally publically listed resources companies.

Cash on hand as at 31 December 2012 was US$2.0bn.

Capital guidance for FY13 has increased to US$6.3bn from US$4.6bn to reflect the increase in capital expenditure following the refinancing and announcement of the Kings restart. Overall 155 project expenditure of US$9.0bn excluding the mining fleet remains in line with prior guidance.

The following table sets out guidance for the FY13 capital expenditure.

Capital Expenditure (US$bn)	Prior guidance	Current FY13 guidance
155mtpa expansion	3.1	3.8*
Operational capital	0.4	0.9*
Other capital projects	0.2	0.2
Exploration	0.1	0.1
Fleet	0.8	1.3*
Total	**4.6**	**6.3**

(*) Reflecting expenditure required to resume the Kings project

Development

Resumption of Kings in January 2013 will allow completion of the infrastructure facilities by September 2013 with ramp up to full capacity by calendar year end enabling the overall project to be completed within the US$9.0bn budget.

Fortescue deferred the completion of the Kings deposit at the Solomon mine in September 2012 in response to the sharp fall in iron ore prices. The deferral of Kings was carefully planned to allow the development to resume when market conditions improved with minimal additional cost and disruption.

Work on all aspects of the revised scope progressed well during the December 2012 quarter with significant milestones achieved on schedule including the:

1. Commissioning of the new Christmas Creek 2 OPF in October 2012;
2. Commissioning of a third train unloader;
3. Opening of the Fortescue Hamersley Line to Solomon; and
4. Commencement of Solomon's Firetail production with first ore on train on schedule in December 2012.

Christmas Creek Phase 2 Expansion

US $1.0bn project budget

Committed Contracts US$0.9bn

Following first ore through the new OPF, rapid progress has been made with the commissioning and ramp up of the plant including the remote crushing hub, overland conveyor and coarse ore stockpile.

Production from the processing facilities continues to grow, with the two OPFs and additional associated infrastructure enabling Fortescue to increase capacity at Christmas Creek to 50mtpa.

All major infrastructure works are now complete, with remaining construction works for the Jig process plant and mining infrastructure on track for completion in June 2013 quarter.

A contract has now been awarded to Macmahon Holdings Ltd to deliver open cut mining services for the expanded Christmas Creek mine. Macmahon, through an early mobilisation, has delivered Run of Mine (ROM) feed to the new OPF as the site ramped up production while the delivery of heavy mobile equipment to support the ramp up has continued during the December 2012 quarter.

Solomon

US $3.2bn project budget

Committed Contracts US$2.9bn

First ore from Solomon's Firetail mine was achieved on target on 1 December 2012.

Work continues on the development of the Firetail circuit with the final OPF modules delivered before Christmas and assembly of the plant progressing well. The new Solomon Power Station is now connected to the Firetail substation and is providing power to most of the site infrastructure.

The stockyard is well advanced, with stackers and a reclaimer currently being commissioned. The building of a stockpile in preparation for the availability of the reclaimer is underway. The first overland conveyor is expected to be in operation and moving ore from the Firetail ROM by mid-January 2013.

Planning for the restart of Kings is underway and the remaining civil works and shipment of remaining Kings modules will commence in January 2013.

Port

US $2.4bn project budget

Committed contracts US$2.2bn

The third train unloader, third stacker and associated conveyor infrastructure were completed and commissioned ahead of schedule during the December 2012 quarter. All of the new equipment has operated reliably and now provides the business with the planned 155mt inloading capacity.

Excellent progress continued on AP4 which is now substantially complete with all wharf modules delivered and installed. Full mechanical completion is scheduled for the March 2013 quarter. The third shiploader has also been delivered and installed on the wharf.

The project is on schedule to complete the fourth berth and third shiploader by the end of the June 2013 quarter which includes the fully assembled third reclaimer and associated conveyor infrastructure.

Rail

US $2.4bn project budget

Committed Contracts US$2.2bn

The Rail project achieved first ore on train at the Solomon mine on 1 December 2012. Duplication on the existing mainline will provide rail capacity to 155mtpa capacity.

Under the mainline duplication program, all formation work has been completed with approximately 120km of rail laid to date. Of the 57 turnouts, 48 have been installed on the mainline with the outstanding turnouts scheduled within operational windows. All rail and sleepers have been delivered and ballast production continues to remain well ahead of the track laying contractor requirements.

The Fortescue Hamersley Line ran the first production train from the Solomon mine on 1 December 2012. Final punch listing of the rail and installation of wayside signalling has commenced and is scheduled for commissioning in the March 2013 quarter.

The extension of the existing rail yard is on schedule and the new 6m litre fuel facility has been constructed and is in final stages of commissioning.

Signalling works have continued along the mainline with additional sites commissioned in December 2012. Completion of the mainline wayside signalling is scheduled for the June 2013 quarter. Final commissioning of the Positive Train Control system will commence at the end the of June quarter 2013 with a controlled roll out throughout the September 2013 quarter.

Fortescue has taken delivery and commissioned eight locomotives, 1,478 ore wagons, 18 fuel tank cars, five pairs of compressor cars and 12 ballast cars. An additional 11 locomotives have been delivered and are currently being commissioned. A further two locomotives and 528 ore cars will be delivered during the March 2013 quarter.

Exploration and future studies

Fortescue continues to explore and develop options to assist the current operations as well as future developments beyond T155. During the December 2012 quarter drill testing was conducted on targets located immediately north of the Christmas Creek and Cloudbreak mining operations. While these targets are modest in size (10 to 30mt) they offer potential for hard ore with a low strip ratio. Mineralised intercepts have been obtained but assays are incomplete at this time.

Testing was also carried out at the Kutayi target in the Chichester Range about 25km east of the Christmas Creek mine. The area is considered to have a potential exploration target of between 50 and 100mt. At this time approximately half the assays have been received and indications are encouraging as shown in Table 1. All holes are vertical and the intercepts start within 10 metres from surface.

KUTAYI ASSAYS – HIGHLIGHTS TO DATE

Thickness (m)	Fe %	SiO2 %	Al2O3 %	P %	LOI %
19	60.8	2.64	1.82	0.073	7.77
6	60.5	6.73	1.11	0.034	5.31
17	61.1	3.05	2.02	0.036	6.74
13	59.8	4.53	2.78	0.049	6.47
7	62.3	6.48	1.48	0.054	2.63
11	63.3	5.04	1.59	0.035	2.17
15	62.8	2.78	1.94	0.058	3.80
15	59.7	5.64	2.24	0.047	5.64

Iron Bridge Magnetite Project

On 12 December 2012 Fortescue released an updated resource estimate for the Iron Bridge magnetite deposit located about 100km south of Port Hedland. The total resource now stands at more than 5.2bn tonnes averaging 30.4% Fe, including 720mt at indicated category. Further details can be found in the announcement released on 12 December 2012.

Fortescue's presence in the Pilbara.

Competent Persons Statement

The information in the report to which this statement is attached that relates to Mineral Resources is based on information compiled by Mr Stuart Robinson and Mr Lucas Tuckwell who are both Members of The Australasian Institute of Mining and Metallurgy. The information in the report to which this statement is attached that relates to Exploration Results is based on information compiled by Mr Stuart Robinson and Mr Nicholas Nitschke who are both Members of The Australasian Institute of Mining and Metallurgy. Mr Stuart Robinson, Mr Nicholas Nitschke and Mr Lucas Tuckwell 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 Nitschke and Mr Tuckwell, who are Members 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, Mr Nitschke and Mr Tuckwell consent to the inclusion in this report of the matters based on this 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

Herb Elliott Non-Executive Deputy Chairman

Nev Power Chief Executive Officer/Exec Director

Graeme Rowley Non-Executive Director

Geoff Brayshaw Non-Executive Director

Owen Hegarty Non-Executive Director

Cao Huiquan Non-Executive Director

Mark Barnaba Non-Executive Director

Geoff Raby Non-Executive Director

Herbert Scruggs Non-Executive Director

Company Secretary

Mark Thomas

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Share Details

As at 31 December 2012, there were 3,113,798,151 ordinary shares on issue and 1,400 preference shares.

Unlisted Employee Options

Option expiring Feb 2014 ex $2.50 600,000
Option expiring May 2015 ex $5.00 7,500,000
Option expiring Sept 2015 ex $5.69 400,000
Performance Rights FY12/FY13 5,037,822

Substantial Shareholders as at 31 December 2012:

The Metal Group Pty Ltd 32.78 per cent
Hunan Valin Iron and Steel Group 14.72 per cent

Reporting Calendar

Half Year Financial Report: 20 February 2013
March Quarterly Report: 18 April 2013
June Quarterly Report: 18 July 2013
Full Year Results: 22 August 2013
September Quarterly Report: 17 October 2013
AGM: 13 November 2013