



PROJECT REPORT

Appendix 5B for June 2008 Quarter

The New Force in Iron Ore

Current Project Highlights:

- As at July 29 Fortescue has loaded 4,038,307 tonnes of product onto 25 ships from Fortescue's Herb Elliott port facility bound for China.
- At current record benchmark prices for the 2008/09 trading year, this translates to c.US\$310 million in gross revenue earned in the short 11 week operating life of the Company.
- Project Completion was reached on 18 July and marked an operational achievement of mining, raiiling and shipping a minimum of 2 million tonnes of product within a four week period.
- During the quarter the milestone of First Ore on Ship was achieved on 15 May, when the first commercial shipment of product was loaded onto the "Heng Shan" bound for Baosteel in China.
- Fortescue's tenement area now stands at c. 57,400 km² having increased by over 17,000 km² during the quarter as new areas were pegged.
- Fortescue set its benchmark lump and fines price for the 2008/09 year at the record high price of US\$2.0169 per Fe unit of lump and US\$1.4466 for Fe unit of fines ore which is a respective 95% and 78% increase over the previous year.



OPERATIONS:

Project is Formally Certified as Complete.

The June quarter has seen Fortescue graduate from project construction into operations. Recently this was marked by the achievement of Project Completion on 18 July 2008. This date is exactly five years from when Fortescue came into existence at an extraordinary general meeting in Perth on 18 July 2003.

The importance of reaching Project Completion is that certain covenants under Fortescue's debt facility fall away and the Company is able to proceed with its expansion objectives.

Major Project Milestones achieved during the Period

As released to the market, Fortescue has undertaken extensive planning to increase the production base of its Chichester deposits of Cloudbreak and Christmas Creek. The project has been named "Heng Shan" and the key components include:

- Extension of the rail line from Cloudbreak to Christmas Creek;
- Construction of additional passing loops on the rail line to accommodate an increase in the carrying capacity of the line;
- Procurement of additional stackers, reclaimers and ship loaders to facilitate increased throughput at the port;
- Dredging additional berths to expand berthing capacity;
- Installation of further train unloaders and conveyor systems to feed the port stockpile site.

Cash at the end of the June quarter was A\$192.2 million.

TENEMENT PORTFOLIO

Total Tenement Portfolio now at 57,400 km²

Fortescue significantly increased its Western Australia tenement footprint over the quarter with its total portfolio now at 57,400 km² (granted and pending applications). This area represents an increase of some 17,400 km² since the last quarterly report. Of this total, c.97% is owned by Fortescue alone with a small number of tenements held under joint venture agreement whereby Fortescue has rights to iron ore.

For those tenements held exclusively by Fortescue, under Western Australia law, it has rights to all minerals. Whilst Fortescue's main focus is iron ore, it is able to consider activities around other mineral types including manganese, copper, gold and, potentially, uranium.



West Australian Holdings:

Fortescue's Western Australia tenure footprint (including joint venture arrangements) is approximately 44,400 km², an increase of 4,400 km² from that last reported.

Fortescue's holding in the Pilbara can be geographically divided into three areas being the eastern tenements of the Chichester Ranges, the central tenements and the western tenements around the Solomon Group. During the quarter, Fortescue applied for a mining lease covering 3km² within the area known as Sheila Valley area in the central part of Solomon. This new application brings the number of mining leases applied for in the Solomon area to 7 applications covering almost 200 km².

Nine miscellaneous licences have also been applied for in the eastern part of the Solomon project over areas required for future infrastructure. The licences when granted will give Fortescue the rights to construct roads, powerlines pipelines, bores and where applicable, conveyors in three separate infrastructure corridors. Two potential permanent camp sites are also included in the applications.

An exploration opportunity was identified in the Western Officer Basin which adjoins the Pilbara Region to the south east. This area is considered prospective for manganese. Fortescue has applied for exploration licences covering an area of approximately 13,000 km² over these prospective areas.

New Zealand:

Fortescue has made a licence application over an area of approximately 4,000 km² of land in New Zealand. If granted, the licence will give Fortescue the opportunity to do limited testing for iron sands mineralisation. While noting the application process is likely to be long and widely consultative, Fortescue believes that if successful, it will provide for interesting prospective development opportunities over the longer term.



EXPLORATION AND GEOLOGY

Continuing Exploration at Solomon Tenements.

Solomon Project Area

The exploration effort across the Solomon deposits continued during the quarter with 4 RC drilling rigs and 2 diamond drilling rigs working on the site.

Infill drilling to a 200 x 50 m grid has been completed at the Valley of the Kings and Valley of the Queens sections of the CID deposit. It is expected that this spacing will be sufficient to support estimation of Indicated Resources. This will be confirmed when all assays are available and appropriate geostatistics completed. Part of the Valley of the Kings area is being drilled out to a spacing which is expected to support an estimation of Measured Resources.

During the quarter the Firetail prospect was drilled out on a nominal 200 x 100 m grid. This area contains Brockman Formation mineralisation. The drilling is expected to support an estimate of Inferred Resources which will likely be completed and announced in this coming quarter.

As the infill programs draw to a close the rigs are being re-allocated to testing of other targets in the Solomon area and targets further afield. Several targets for CID, DID and BID have been identified and are ready to be tested.

Other Project Areas:

A short program of infill drilling has been completed on the Marra Mamba target at Investigator where an Inferred Resource of 47 Mt has been previously announced. Results are not yet available. An initial drilling phase is expected to commence this week on outcropping Brockman mineralisation at the Farquahar prospect about 30 km west of Serenity.

It is planned to re-commence drilling in the Mt Lewin area in the Chichester Range east of Cloudbreak and Christmas Creek towards the end of the September quarter. An initial drilling program is planned in August for the Horatio prospect about 35 km north of Newman. It is also planned to return to the Flying Fish-Eliwana area west of the Brockman 2 mine site during this quarter.



Glacier Valley (Baosteel earning up to a 50% JV interest)

Phase One of the drill testing of this magnetite project was completed in late January. Drilling on the Darby prospect has intersected strongly magnetic BIF up to 400m thick and open at depths of greater than 300m. Davis Tube Testing has given very positive results producing a magnetite concentrate of 67 to 69% Fe comparable to or better than other major Australian magnetite projects.

The Phase Two more intensive drilling programme intended to lead to an estimate of Inferred Resources commenced in June and is proceeding in line with expectations. Diamond drilling is expected to commence early in August.

MINE OPERATIONS

As required under the Project Completion test the mining team had to extract and process a minimum of 2 million tonnes of product within a 4 week period. This was achieved with a total of 2.035 million tonnes of material being delivered to the rail team for transport to Port Hedland.

The mining team currently stands at 808 employees. The target for the team is to produce 22 million tonnes over the calendar year to end December 2008. At 2008/09 benchmark prices, this would translate into a gross sales revenue amount of c.US\$1.75 billion (before royalties).

**4.75 million
Tonnes of Run
of Mine "ROM"
Material Mined
to Date**

To date, the team has produced approximately 4.750 million tonnes of Run of Mine "ROM" material that is then processed through the ore processing facility "OPF" to crush and screen the ROM material into saleable product. To supplement the ramp up of the ore processing facility, there has also been the use of contract crushing and sizing to maintain product output.

**Five Active
Mining Pits at
Cloudbreak**

There are five active mining pits across the Cloudbreak site and these are all within a 2 kilometre radius of the ROM stockpile area. A total of 10 Wirtgen surface miners have been deployed across the mining areas and are operating on a double shift – around the clock basis. A further 2 machines are in the process of final assembly and are expected to be commissioned in the near future and the final 2 machines are en route to the Pilbara.



The target is to have each machine producing a minimum of 800 tonnes of ROM per hour and it is expected that at any point in time, 12 machines will be in operations and 2 will be under maintenance through a rotational regime.

RAIL OPERATIONS

218 Rail Journeys carrying 4.26 Million Tonnes of Product

Since the first ore on train was achieved on 29 April, there have been 218 rail journeys to Fortescue's port facility (figure as at 29/7/08). To date the rail team of 88 people have transported approximately 4.260 million tonnes of product.

As with any new rail line there is a gradual ramping up of volume carried and speed per train set. This is to allow for the wearing in and head hardening of the rail steel and the bedding down of sleepers and ballast.

From an initial train configuration of between 150 – 200 ore wagons, each carrying 80 tonnes of product, the current operations are for train sets of up to 240 wagons with a net load of up to 137 tonnes for each wagon.

The time taken for each round trip from the start of loading at the mine site through to unloading at the port and the journey back to the mine is progressively shortening as train speed increases. Initially, the trains were speed restricted to a maximum of 60kms per hour but with the laying of additional ballast and the hardening of the steel, this has been increased to 80kms / hr. Importantly, Fortescue is approaching its targeted full cycle time of 18 – 19 hours.

With each train carrying over 30,000 tonnes and completing the full cycle within two working shifts, Fortescue's rail operations will achieve its ambition of being at the low end of the operating cost curve. Using the world's heaviest haul ore wagons, which also incorporate an innovative continuous braking system along each rake of wagons, Fortescue has combined modern design and operational features to engineer a "world's best" operation.

Also given the computer aided design of the rail line, the proximity to port compared to other major Pilbara mine operations and the relatively train friendly terrain from the Chichester Range to Port Hedland, Fortescue's rail requires only 2 locomotives for the bulk of the journey which provides for fuel efficient transport.



PORT OPERATIONS

**4.038 Million
Tonnes loaded
onto Ships since
FOOS in mid
May**

Fortescue's port team of 62 people have shipped over 4.038 million tonnes since the first cargo was loaded onto a ship in the middle of May. At the current record price regime for 2008/09 sales, this equates to a gross revenue figure of c.US\$310 million.

As at 29/7/08, there have been a total of 25 vessels loaded at the Herb Elliott port ranging from Panamax ships to 110,000 tonnes of capacity and Cape ships of up to 200,000 tonnes of capacity.

Similar to rail, there has been a gradual ramping up of product handling speed as the new equipment is progressively run in. The inload circuit of train unloader and product stacker will operate at a capacity of up to 11,000 tonnes per hour. Each train is unloaded 2 wagons at a time with an unloading rate of some 180 tonnes per minute. This is then conveyed out to the stockpile area and stacked for future reclaiming.

The integrated out-load circuit of product reclaiming and ship loader is also being progressively ramped up. The speed at which product can be loaded onto a ship is determined by a number of factors including the rate at which the vessel can de-ballast. Fortescue's ship loader has an ultimate loading rate of up to 12,500 tonnes per hour (instantaneous flow rate) which makes it the highest rated ship loader in the Pilbara.

MARKETING:

**Record
Benchmark
Prices Set for
2008/09 Year**

As recently advised to the market, Fortescue has set its benchmark lump and fines prices for the 2008/09 year. They are US\$2.0169 per Fe unit of lump and US\$1.4466 for Fe unit of fines ore. This is a respective 95% and 78% increase over the previous year's benchmark prices.

In the five years that Fortescue has been planning and constructing its project, the US price of iron ore has increased by over 400%. This is reflective of the huge deficit in supply over demand. The incumbent producers have been unable to match the surge in demand coming from China – a demand profile that is forecast to continue for many years to come.



In the mid 1970's 100% of China imports were supplied by Australia. By 2007 this had fallen to only 38% of a total imported amount of 383 million tonnes. Major suppliers to China are now Brazil and India (largely spot market) which seems illogical given the enormous freight advantage that Australia has in shipping to China – particularly compared to the freight rates from Brazil. Clearly the issue for Australia is to significantly increase its production base to capitalize on the competitive advantage that it has to supply China.

An important focus of Fortescue's marketing team has been on its shipping activities in securing vessels to carry the ore to China. The majority of the Company's export sales for 2008 will be done under CFR terms, which means Fortescue sells at a delivered price to the port of discharge. While Fortescue still receives payment once the ship leaves its port facility in Port Hedland, the sales price includes a freight and insurance component.

The advantage of selling CFR is twofold; 1) better control of the shipping program means better control over the timing of ships arriving at Port Hedland and less potential demurrage. 2) the ability to earn a margin on the freight component of the sales price.

Fortescue has now developed a shipping division of 8 people and will continue to grow this business in line with its increasing export profile.

**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 June 2008

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A000	Year to date (12 months) \$A000
1.1 Receipts from product sales and related debtors	164,165	164,165
1.2 Payments for (a) exploration and evaluation	(1,825)	(11,299)
(b) development	(551,928)	(1,964, 740)
(c) production	(130,363)	(155,693)
(d) administration	(8,277)	(22,872)
(f) Other		
1.3 Dividends received		
1.4 Interest and other items of a similar nature received	1,865	63,373
1.5 Interest and other costs of finance paid	(4,678)	(241,558)
1.6 Income taxes paid		
1.7 Other		
Other Payments – Deposits Paid		
Net Operating Cash Flows	(531,041)	(2,168,624)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a) prospects		
(b) equity investments		
(c) other fixed assets	(83)	(523)
1.9 Proceeds from sale of: (a) prospects		
(b) equity investments		
(c) other fixed assets	52,112	177,578
1.10 Loans to other entities - (to associated JV company)		
1.11 Loan repaid by other entities		
1.12 Other		
Net investing cash flows	52,029	177,055
1.13 Total operating and investing cash flows (carried forward)	(479,012)	(1,991,569)

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(479,012)	(1,991,569)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc	424	506,736
1.15	Proceeds from sale of forfeited shares		
1.16	Proceeds from borrowings		
1.17	Repayment of borrowings		
1.18	Other: Transaction Costs	-	(10,220)
1.19	Other: Deposits Received	19,976	73,133
	Net financing cash flows	20,400	569,649
	Net increase (decrease) in cash held	(458,612)	(1,421,920)
1.20	Cash at beginning of quarter/year to date	653,616	1,682,201
1.21	Exchange rate adjustments to item 1.20	(2,767)	(68,044)
1.22	Cash at end of quarter	192,237	192,237

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	380
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	-	-

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	2,804,363,760	2,804,363,760	N/A	N/A
7.4 Changes during quarter (a) Increases Options exercised Options exercised Options exercised (b) Decreases through returns of capital, buy-backs	183,750 874,350 37,500 -	183,750 874,350 37,500 -	703 cents 267 cents 569 cents -	703 cents 267 cents 569 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	10,443,380 2,681,250 4,035,780	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	183,750 874,350 37,500	183,750 874,350 37,500	703 cents 267 cents 569 cents	703 cents 267 cents 569 cents
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: XX April 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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