QUARTERLY REPORT

For the period ending 31 December 2014

Fortescue
The New Force in Iron Ore

Fortescue's strong operational performance continued in the December 2014 quarter with C1 costs decreasing by 11 per cent to US$28.48 per wet metric tonne (wmt). During the quarter shipments remained steady at 41.1 million tonnes (mt), an annualised rate of 164mt per annum.

Sustainable cost reductions result in C1 guidance for the second half of FY15 being revised down to US$25-26/wmt reflecting the improvement in operating performance, foreign exchange rate and fuel price. This operating performance continues to generate positive cash margins supporting a strong and secure balance sheet.

"Our operations have continued to deliver above expectations, underpinning Fortescue's standing as a low cost, high volume producer of quality products further strengthening our financial position."

Nev Power, Fortescue CEO

HIGHLIGHTS

(million tonnes)	Q2	Q1	VAR %	FY13 Q2	VAR %
Ore mined	43.6	42.9	+2%	32.0	+36%
Overburden removed	91.2	100.6	-9%	106.2	-14%
Ore processed	36.7	38.9	-6%	29.8	+23%
Total ore shipped including third party product	41.1	41.5	-1%	28.0	+47%
C1 (US$/wmt)	28.48	32.08	-11%	32.99	-14%
Tonnage references are based on wet metric tonnes (wmt). Fortescue ships with approximately 7 – 9 per cent free moisture.					

- **41.1mt shipped** for the December 2014 quarter, 164 million tonnes per annum (mtpa)
- **US$28.48/wmt C1 cost,** a further 11 per cent improvement from the prior quarter
- **US$25-26/wmt C1 cost guidance** for second half FY15
- **US$41/wmt** total delivered cost for the quarter reducing to **US$35/wmt** based on second half guidance (including C1, shipping, royalties and overhead costs)
- Realised price (CFR) **US$63/dry metric tonne** (dmt) from an average 62% Platts CFR index of US$74/dmt
- **Capital guidance halved to US$650 million** with a focus on working capital and cash management
- Cash on hand at 31 December 2014 was **US$1.6 billion**
- **US$500 million voluntary debt repayment** completed during the quarter reducing gross debt to US$9.1 billion

OPERATIONS

Safety

A continued focus on safety excellence remains the highest priority for all Fortescue people. The total recordable injury frequency rate per million hours worked was 5.6 at the end of the December 2014 quarter, a three per cent improvement over the previous quarter and 21 per cent lower than the prior comparable period.

Aboriginal Engagement

The Fortescue Vocational Training and Employment Centres (VTECs) in Port Hedland and Roebourne continue to train and facilitate employment for Aboriginal people. Fortescue and its contractors employ more than 1,200 Aboriginal people, equating to 12 per cent of the total workforce.

Aboriginal-owned businesses and joint ventures were awarded an additional 30 contracts and sub-contracts valued at A$50 million in the December 2014 quarter, taking the total number of contracts and sub-contracts to 196 and the total value awarded as part of the Billion Opportunities program to A$1.72 billion.

Mining, Processing and Shipping

(million tonnes)	Q2	Q1	VAR %	FY13 Q2	VAR %
Shipments – Fortescue mined ore	39.7	40.6	-2%	26.5	+50%
Shipments – Fortescue equity ore	39.9	40.9	-2%	26.7	+49%
Total ore shipped including third party product	41.1	41.5	-1%	28.0	+47%

The December 2014 quarter delivered a shipping performance in excess of FY15 guidance, with 41.1mt of ore shipped, 47 per cent higher than the prior comparable period. Shipments included 39.9 million Fortescue equity tonnes and 1.2 million third party tonnes.

During the quarter, Fortescue mined 43.6mt of ore, two per cent higher than the previous quarter and 36 per cent higher than the prior comparable period. An overall reduction in the total material mined during the quarter contributed to a reduction in mining costs. Managing mining activity and maximising Ore Processing Facility (OPF) performance remains a key priority to improve working capital and reduce ROM inventory levels over the remainder of FY15.

Mine strip ratios averaged 2.9 at the Chichester Hub and 0.9 at the Solomon Hub during the quarter. Work continues on reducing strip ratios through optimised scheduling and improving OPF metallurgical performance.

Total output from all processing facilities delivered 36.7mt in the quarter, 23 per cent higher than the prior comparable period. This was six per cent lower than the September quarter due to unplanned maintenance in the Chichesters and removal of ancillary crushing. With the deferral of the Solomon detritals plant the focus remains on maximising production from our existing OPFs.

Port and Rail maintained outload performance at an annualised run rate of 164mtpa during the December 2014 quarter.

Production Costs

C1 costs in the December 2014 quarter averaged US$28.48/wmt, an 11 per cent improvement over the prior quarter reflecting the continued focus on operational efficiencies across all sites, a lower Australian dollar and lower fuel prices. Importantly, Fortescue exited the quarter with a C1 cost of US$27.37/wmt for the month of December.

Fortescue's total delivered cost to customers has further decreased to US$41/wmt inclusive of C1 cost and shipping, royalty and administration costs, nine per cent lower than the prior quarter.

The Australian dollar and price of oil both fell significantly towards the end of the quarter positively impacting C1 cost. The full impact of these falls will flow into C1 during the March 2015 quarter assuming consistency in the markets.

The US to Australian dollar exchange rate averaged 0.86 (0.93 in the September 2014 quarter) and reduced C1 costs by approximately US$1.60/wmt during the quarter. C1 costs are impacted by US$0.20/wmt to US$0.25/wmt for every one cent movement in the US to Australian dollar exchange rate.

Fuel and energy costs make up approximately 12 per cent of total C1 costs. Lower oil prices reduced C1 costs by approximately US$0.26/wmt in the quarter. Fuel and energy costs also have a significant impact on the cost of shipping which averaged US$8.50/wmt in the December quarter.

Forecast Production and Costs

FY15 production and shipping guidance of between 155mt to 160mt is maintained and is supported by the strong first half performance leading into the wet season.

Costs guidance is revised to reflect second half C1 costs of between US$25-26/wmt based on an average exchange rate of 0.80 and continuing low oil prices. This second half C1 cost guidance incorporates an additional US$1.25/wmt of exchange rate benefit and US$0.50/wmt of fuel price benefit. This will result in C1 operating cost for the full year of US$28-29/wmt, compared to previous guidance of US$31-32/wmt.

Total delivered costs are forecast to be US$35/wmt by the end of FY15 based on second half C1 cost guidance and current shipping and royalty rates.

MARKETING

Fortescue continues to see strong demand for its products, averaging 72 shipments per month for the December 2014 quarter delivered to customers in China, Korea, Japan and India.

In 2014 China imported a total of 933mt of iron ore, an increase of 13.8 per cent over 2013, as the major Australian iron ore producers have significantly increased production. This increase in seaborne supply has largely been absorbed by the market as port inventories in China have declined from peak highs of 110mt down to 97mt and steel mill iron ore inventories have dropped to 22 days, well below historic averages. This implies ongoing displacement of higher cost suppliers in China and other countries.

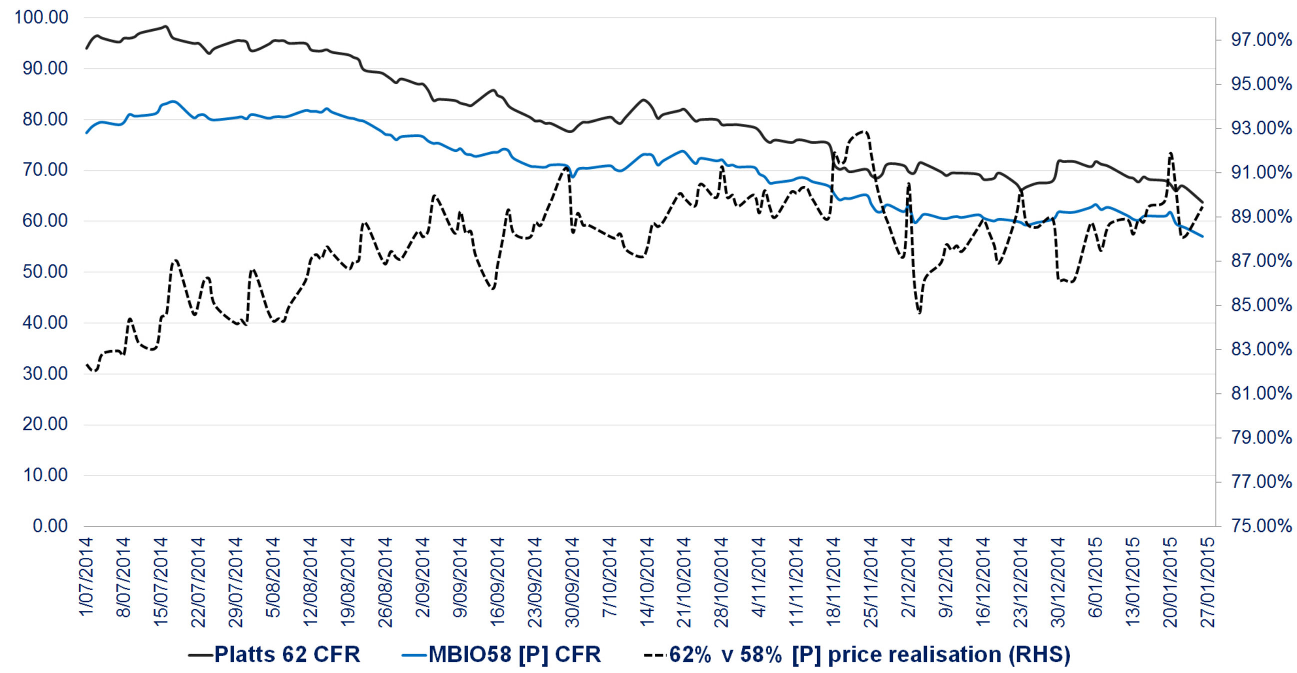
The 62% Platts CFR index averaged US$74/dmt during the December 2014 quarter compared to US$90/dmt in the September 2014 quarter. Despite the decline in the index, the price spread between the 62% Platts CFR index and the 58% MBIO (P) index improved on a quarter on quarter basis reflecting an 85-90 per cent realisation as illustrated in the graph below.

Fortescue's December 2014 quarter realised price was US$63/dmt or 84 per cent of the average 62% Platts CFR index of US$74/dmt. Provisional pricing adjustments for the quarter were minor, resulting in a net price realisation of 83 per cent.

The average 62% Platts price for the half year was US$82/dmt with Fortescue realising an average price of US$69/dmt. After the effect of provisional pricing, the half year net price realisation was 80 per cent.

Price realisation guidance of approximately 85-90 per cent of the Platts 62% CFR index prices is maintained.

FY15: MBIO 58% [P] spot price realisation to 62% Platts on $/DMT basis



CORPORATE

Balance Sheet

Net debt at 31 December 2014 was US$7.5 billion, including finance leases of US$0.3 billion and cash on hand of US$1.6 billion.

During the quarter, a voluntary early redemption of US$500 million of the 2018 senior unsecured notes was completed, bringing total debt repayments since November 2013 to US$3.6 billion. This has resulted in an interest saving of approximately US$330 million per annum.

Fortescue's flexible debt profile does not contain any maintenance convenants and allows for voluntary repayments, refinancing of debt prior to maturity and facilitates the debt repayment strategy to achieve the initial targeted gearing level of 40 per cent.

As illustrated in the debt maturity profile below, the earliest debt maturity is in 2017. Approximately 60 per cent of long term debt is available for voluntary repayment or refinance prior to final maturity dates and at Fortescue's sole option.

Capital Expenditure

As announced, capital expenditure guidance for the FY15 year was reduced to US$650 million from US$1.3 billion. This reduction has been achieved through re-engineering and deferral of operational and expansion capital projects.

Customer Prepayments

The balance of customer prepayments at the end of December was US$1.2 billion following the:

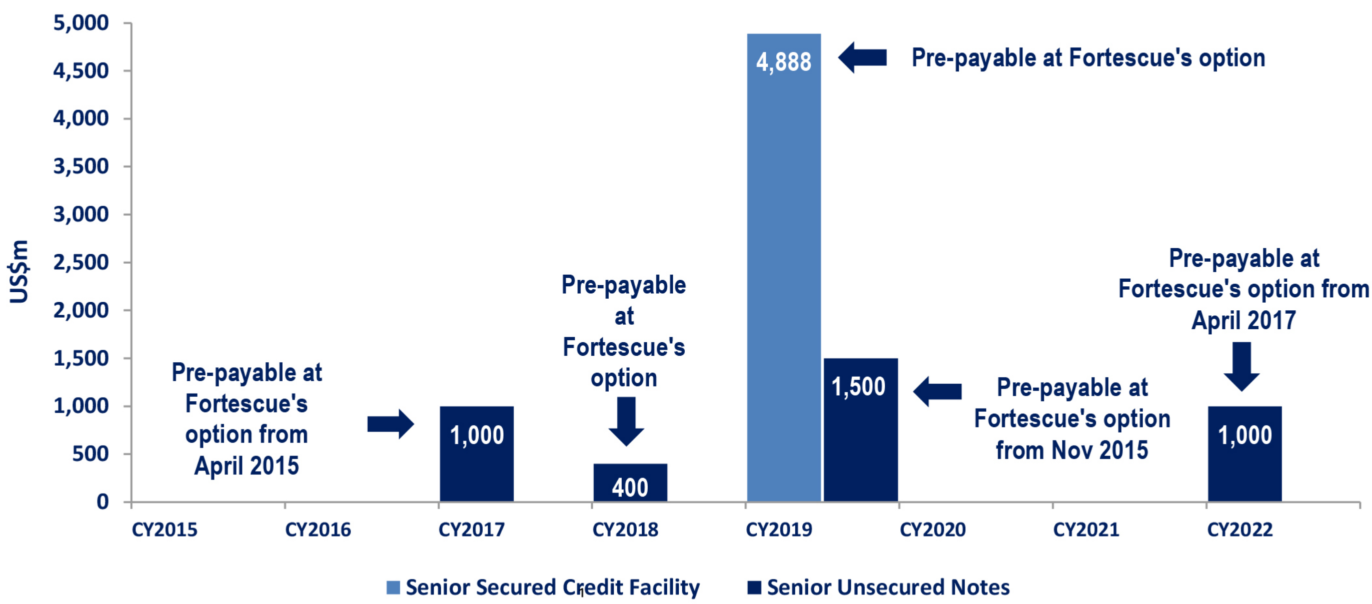
1. Roll over of US$300 million and an additional prepayment of US$500 million; and
2. Amortisation of US$310 million of prepayments through the delivery of ore

The balance of customer prepayments are scheduled to amortise in FY15 by US$400 million, FY16 by US$500 million and FY17 by US$300 million, subject to future roll-overs.

Asset Carrying Values

Fortescue has undertaken an impairment review at 31 December 2014 which confirmed recoverability of all of its assets at or above the underlying book values. This review remains subject to finalisation of the half year financial statements.

Debt Maturity Profile



DEVELOPMENT

Fortescue River Gas Pipeline

The Fortescue River Gas Pipeline connecting the Solomon Power Station to the Dampier to Bunbury Pipeline remains on schedule for completion in the March 2015 quarter with more than 200km of pipeline installed. Conversion of the Solomon Power Station will improve operational efficiencies.

AP5 Project

Construction of the AP5 berth at Port Hedland remains on schedule and budget for completion in the March 2015 quarter with the major wharf deck modules delivered and installed from two heavy lift vessels in December. AP5 will extend total port capacity by around 15-20mtpa.

Iron Bridge Project

Construction of the Iron Bridge Joint Venture project continues on schedule and on budget. The 1.5mtpa Stage 1 OPF is scheduled for completion in the March 2015 quarter with commissioning and testing planned for the June 2015 quarter. Stage 2 of the Iron Bridge Project remains subject to the successful operation of Stage 1 and joint venture approval.

EXPLORATION

December quarter drilling included testing of extensions to known mineralisation at operating hubs and at more than 30 targets within other Fortescue tenure.

COMPETENT PERSONS STATEMENT

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 full time employees of Fortescue Metals Group Ltd and provided geological interpretations and compiled the exploration results. Mr Robinson, who is a Fellow of The Australasian Institute of Mining and Metallurgy and Mr Nitschke, who is a Member 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 he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Mr Robinson and Mr Nitschke 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
Owen Hegarty	Vice Chairman
Mark Barnaba	Lead Independent Director
Nev Power	Chief Executive Officer/Executive Director
Jean Baderschneider	Non-Executive Director
Cao Huiquan	Non-Executive Director
Elizabeth Gaines	Non-Executive Director
Peter Meurs	Executive Director
Geoff Raby	Non-Executive Director
Sharon Warburton	Non-Executive Director

Company Secretary

Mark Thomas

Registered Office and Principal Place of Business

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Share Registry

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Locked Bag A14
Sydney South, New South Wales 1235

TEL: 1300 733 136 / +61 2 8280 7603
FAX: +61 2 9287 0303
WEB: www.linkmarketservices.com.au

Share Details

As at 31 December 2014, there were 3,113,798,151 ordinary shares on issue.

Unlisted Employee Options

Options expiring May 2015 ex A$5.00	7,500,000
FY13 Performance Rights	3,170,657
FY14 Performance Rights	5,660,559
FY15 Performance Rights	5,411,754

Substantial Shareholders as at 31 December 2014:

Minderoo Group Pty Ltd and John Andrew Henry Forrest	33.32 per cent
Hunan Valin Iron And Steel Group	14.72 per cent

Reporting Calendar

Half-year Results:	17 February 2015
March Quarterly Report:	16 April 2015
June Quarterly Report:	23 July 2015

Fortescue
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