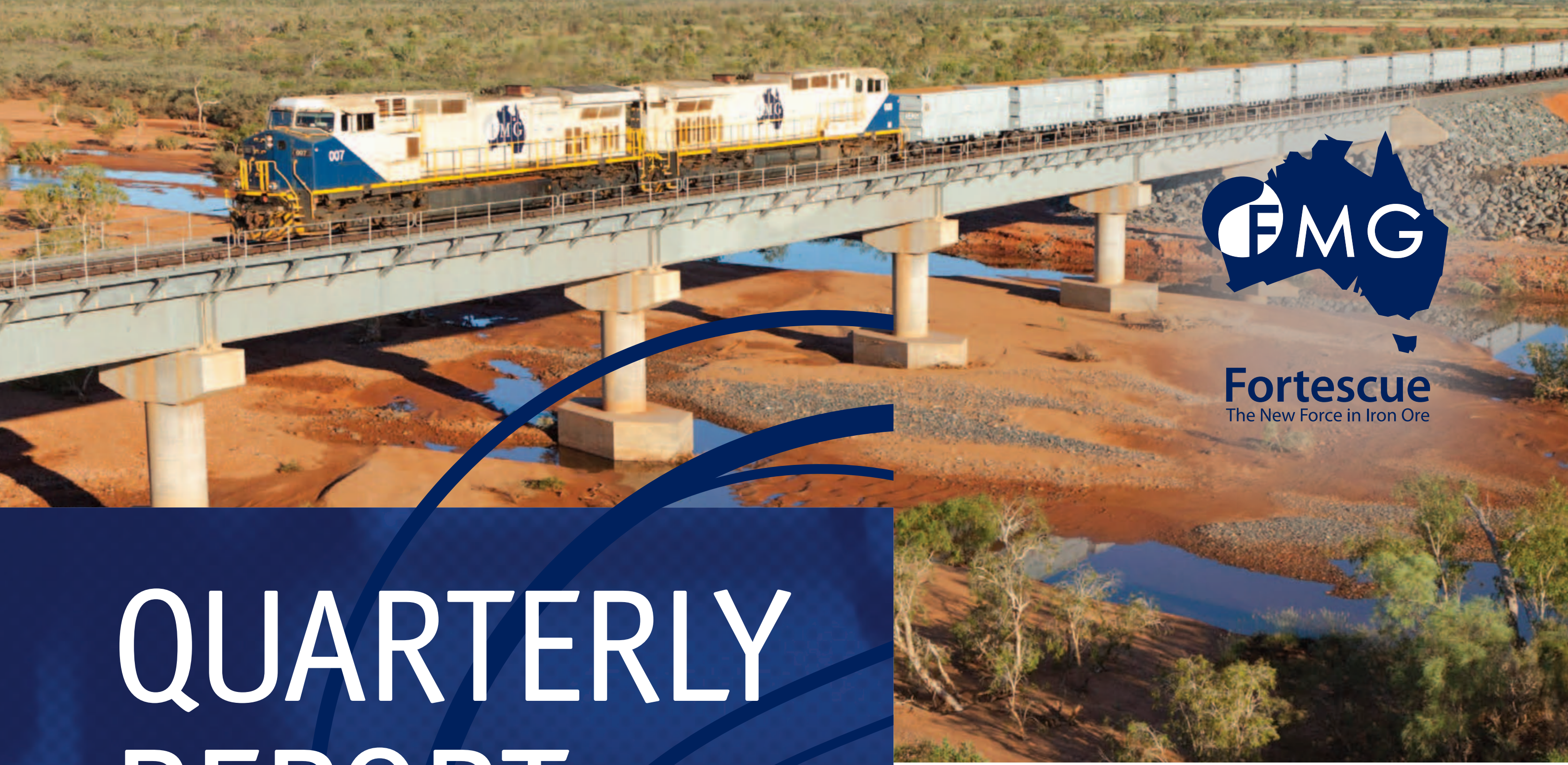

Fortescue
The New Force in Iron Ore

QUARTERLY REPORT

For the period ending
31 March 2012

SUMMARY

- **Tonnes shipped totalled 12.6 million wet metric tonnes (wmt) with export and mining volumes impacted by two cyclones and associated extensive localised flooding;**
- **Average CFR realised sales price of approximately US$126 per dry metric tonne (dmt);**
- **Average C1 cost of US$52.56 per wmt;**
- **Committed contracts for expansion works rose by US$1 billion (bn) to US$6.5bn; and**
- **A debt capital raising of US$2bn was successfully completed in March, with cash on hand at the end of the quarter of US$3.2bn.**

OPERATIONS

Production and shipments for the quarter were as follows on a wet metric tonne basis.

	Mar Quarter 2012 Tonnes	Dec Quarter 2011 Tonnes	Variance %	Mar Quarter 2011 Tonnes	Variance %
Ore Mined	13,612,473	16,011,391	-15%	9,677,813	+ 41 %
Overburden Removed	59,727,815	67,491,478	- 12%	32,975,585	+ 80 %
Ore Processed	11,706,171	13,778,654	-15%	8,874,980	+ 32 %
Total Ore Shipped Inclusive of 3rd party *	12,566,599	14,766,146	-15%	8,384,856	+ 50 %
Fortescue Ore Shipped	12,049,954	14,424,287	-16%	8,365,851	+ 44 %

* Third party ore for March 12 and March 11 represents BC Iron's 50 per cent share of the Nullagine Iron Ore joint venture.

Safety

The improving trend of safety performance has been sustained through the March quarter. Lag indicators have improved by at least 15% across the board with certain key ratios showing very strong improvement such as Lost Time Injury Frequency Rate (LTIFR) lower by 33 per cent and Total Recordable Injury Frequency Rate (TRIFR) by 22 per cent.

Mining, Processing and Shipping

Shipped tonnes in the March quarter of 12.6mt were below original guidance due to the impact of two cyclones that both resulted in the closure of Port Hedland port and collectively delayed ship loading for around eight days. This, combined with a scheduled four day maintenance shut at the end January, resulted in a total of 69 shipments for the period compared with 82 in the December 2011 quarter. It is expected that Fortescue will catch up on the delayed shipments through this current quarter as noted in Forecast Production below.

The performance of mining operations during the quarter was also impacted by excessive rain experienced in January 2012 from Cyclone Heidi. Over 470mm of rain was recorded at Cloudbreak within a two day period, which impaired operations at the Company's principal mine for around two weeks. A total of 13.6mt of ore was mined during the period, representing a 15% decline on the December 2011 quarter.

Forecast Production

Fortescue has a production schedule in place to deliver 15.8mt for the June 2012 quarter. Accordingly, the company maintains its full financial year guidance of 55mt, comprising 53.5mt of Fortescue-owned tonnes and 1.5mt of third party tonnes. With the ramp up of the second shiploader and reclaimer together with the third berth over the June quarter, along with the complete sixth train consist delivered in March 2012, Fortescue is well positioned from both an infrastructure and operational capability to achieve the targeted June 2012 quarter volumes.

Production Costs

The table below shows the quarterly production costs as split between operating costs inclusive of mine, rail and port charges and then separately finance costs related to operating leases for equipment employed in the production and handling of iron ore.

Cash costs per tonne (C1)	Mar Quarter 2012 US$	Dec Quarter 2011 US$
Operating cost of sales	49.53	44.08
Operating leases	3.03	2.35
Total Direct Costs	52.56	46.43

C1 costs for the quarter increased to US$52.56 per tonne as a result of lower shipped volumes caused by cyclones and flooding activity. Costs were also impacted by an increase in the AUD / USD exchange rate to an average of $1.06 for the period (compares to the December quarter of $1.01) and a strip ratio of 4.4x (marginally higher than the December quarter of 4.2x).

Given the significant increase in volumes scheduled for the June quarter, Fortescue expects C1 costs to fall back within the previous Chichester Hub guidance range of US$45 - US$50 per tonne. The expected strip ratio should be maintained within the life of mine ratio of around 4.3x.

MARKETING

The average CFR (cost and freight) realised sales price for the quarter was approximately US$126 per dry metric tonne (dmt). This is a slight increase on the Fortescue realised price for the December quarter of $122/dt and reflects the stablisation and then gradual upward trend in the 62% Fe Index price following a volatile December quarter. The average 62% Fe price over the March quarter was $143/dmt, which appears to reflect the cost curve support provided by the higher cost Chinese domestic iron ore producers that account for a substantial portion of iron ore volumes to Chinese steel makers. The index price finished the quarter at around $150/dmt reflecting strong supply/demand fundamentals.

CORPORATE

A highlight of the period was the successful completion of an unsecured bond capital raising of US$2bn in March 2012. The raising was launched as a $1bn offer, however this was increased to $2bn after extraordinary demand, leading to subscriptions of almost US$5bn. The raising was split into 2 tranches with US$1bn priced at 6% with a 5 year maturity in 2017 and another $1b tranche priced at 6.875% with a 10 year maturity in 2022. This has reduced Fortescue's overall average cost of funds to around 7 per cent.

The unsecured bond offering was completed on the same terms and conditions as the previous issues and brings the total unsecured bonds outstanding to US$7.04bn. The two recent bond tranches include early repayment provisions (2015 and 2017 respectively) which, when combined with the other bonds executed under similar arrangements, has enabled Fortescue to establish a debt maturity profile with early redemption and refinancing optionality.

DEVELOPMENT

Overall the T155 project to increase production to 155mtpa, remains on budget and schedule noting that in February 2012, Fortescue advised that the completion of the fourth berth that integrates with the third outload circuit, was rescheduled from end December 2012 out to end March 2013 quarter. A combination of cyclone damage and accommodation shortages in Port Hedland caused the three month deferral. The housing strategies designed to remedy these shortages have been successfully implemented.

Christmas Creek Phase 2 Expansion
Chichester Hub 55 - 95mtpa

- **US$1.1 billion project budget**
- **Committed Contracts US$0.7bn**

First ore through the new ore processing facility (OPF) is targeted in September 2012, with the ramp up to a combined Christmas Creek total run rate of 50mtpa planned for the December quarter 2012.

Key achievements during the period include the completion of foundation works for the second OPF with significant progress made in the assembly of steel and installation of equipment in the crushing and screening buildings. Concrete works for the remote crushing hub were substantially completed and formation of the ROM access ramps is on target, ready for delivery of the primary crusher in May 2012. Installation of the overland conveyer system is underway with modules expected to arrive early in the June 2012 quarter. Almost all of the major equipment has now been delivered and installed on site including the two scrubbers, cone crushers, wet and dry screens, clarifier and the first of the motor control centres.

The power station expansion remains on target and the new Christmas Creek airstrip is progressing to schedule. Major roads have been completed and good progress is being made with other bulk earthworks for miscellaneous infrastructure.

The mining contracts for the second phase of Christmas Creek are currently being negotiated in parallel to the start of early mining works in two areas in preparation for mine ramp up. Extensive plans are in place for the delivery of heavy mobile equipment to meet the ramp up requirements.

Solomon 60mtpa

- **US$2.7bn project budget**
- **Committed contracts US$2.5bn**

Construction

First ore through the new 20mtpa Firetail OPF is targeted for the December 2012 quarter with the 40mtpa Kings OPF targeted for the March 2013 quarter to align with the fourth berth completion.

Committed contracts are now in place for conveyors, stockyards, crushing hubs, airport, ore processing facilities, the power station and camp construction. Bulk earthworks are nearing completion (day and night shifts continue) for NRW and Thiess. This allows for planning of major concrete pours for the Firetail OPF (1800m^3) and King Valley OPF (2800m^3). These pours will commence at the end of April 2012 and will be some of the largest single pours in the Pilbara.

A key feature of the Solomon development is the extensive use of modules. Fabrication of all modules is progressing on schedule with continuous deliveries now in progress. Almost all of the conveyor modules are on site with some large transfer stations outstanding. Scheduled deliveries during April 2012 include the train loadout bins, cone crushers, primary sizer structures and drum scrubbers for Kings OPF.

Service infrastructure is also progressing well with work on the airfield now completed and CASA approval granted. The first charter flights operated by Qantas are scheduled to start flying into Solomon on Monday 23rd April 2012.

Excellent progress has also been achieved with the development of the permanent Kangi camp with some 2000 of the 3000 planned rooms now complete.

The power station foundations are progressing well with components for the GE LM6000 turbines starting to arrive. Construction of the main diesel tank has commenced and installation of the long conveyors that connect the OPF to the stockyard is underway.

Service infrastructure is also progressing well with work on the airfield now completed and CASA approval granted.

Operation Readiness

Final recommendation on selection of the Maintenance and Operating contractor is being concluded and will be presented to the Fortescue Board for approval in May 2012.

The Project Management Plan seeking approval for full mining operations, including the operation of autonomous trucks has been submitted to the Department of Mines and Petroleum with approval expected during the June 2012 quarter.

The first of the Caterpillar autonomous trucks have arrived in Perth and are being assembled at Westrac's facilities. These trucks will be ready for dispatch to site in May 2012. The first of the Liebherr excavators have arrived on site with assembly commencing in April 2012. Additional equipment will be delivered to site in the June quarter in preparation for pre-strip mining in the September 2012 quarter.

Top soil removal is underway in the tailings dam area to commence mining of the ore in this area in the June 2012 quarter. More than 12mt of ore will be mined from the tailings dam area prior to operations commencing.

Herb Elliott Port showing three berths and two shiploaders in operation.

Port 55 – 155mtpa

- **US$2.4 billion project budget**
- **Committed contracts US$1.9bn**

The port program covers three key phases. Phase One is the completion of the third berth (AP3) and the second outloading circuit. These have now been commissioned and are being ramped up through the June 2012 quarter.

Phase Two covers the second inload circuit, which includes the train unloader and stacker. The works program is on schedule for completion at the end of September 2012. All the Metso train unloader cells are on site, with the main focus now on the structural, mechanical, electrical and instrumentation work of the second inload circuit.

Phase Three covers the third unloader, the third stacker, reclaimer and shiploader and the fourth berth. The housing problems have been remedied with a 514 room camp has been built near the existing 400 room camp while Fortescue's motel, Hamilton Motel has been expanded to 720 rooms and will soon have 900 rooms available.

As a result of accommodation shortages and cyclone impacts, Phase Three works were reforecast to be completed within the March 2013 quarter and this schedule amendment was advised to the market in February 2012. Critical path activity includes the piling for the fourth berth which is approximately 10% complete. Options are being confirmed to expedite construction.

Through the quarter the Company continued discussions with the Port Hedland Port Authority regarding the approval to commence construction of a fifth berth (AP5). Fortescue remains confident of a positive outcome however the timing of this decision is still uncertain.

The Rail project remains on schedule with two major work fronts being the duplication of 120kms of existing mainline track together with the construction of a new rail spur from the mainline out to the Solomon Hub.

Rail 55 – 155mtpa

- **US$2.2 billion project budget**
- **Committed contracts US$1.5bn**

The Rail project remains on schedule with two major work fronts being the duplication of 120km of existing mainline track together with the construction of a new rail spur from the mainline out to the Solomon Hub.

Under the duplication program, a total of 63km of formation had been handed over to the track laying team with approximately 5km of rail laid to date. Also nine out of a total of 34 turnouts have been installed on the mainline. Rail and sleeper deliveries remain on schedule and ballast production is well ahead of the track laying schedule.

Solomon spur works continue to progress well with earthworks contractors working steadily towards the completion of their sections. Plans are underway to commence a second area of tracklaying from the middle of the Solomon spur.

The extension of the existing rail yard is also advancing well. This work includes a new fully automated ore car maintenance workshop, construction of new operations offices and significant expansion of marshalling yards. A major new fuel facility is under construction with earthworks almost complete.

Installation of optical fibre along the length of the mainline is almost complete. GE is progressing its train control upgrade and installation of signals and communications along the railway. During the quarter, the new train control system (RailEdge) was factory tested in Melbourne, Florida, and is expected to be installed within the June 2012 quarter.

Fortescue's sixth train consist comprising two locomotives and 240 ore wagons was fully delivered and commissioned within the March quarter. The remaining rolling stock to accommodate the full production target remains on schedule for delivery in several instalments between now and the end of 2012.

Fortescue's sixth train consist comprising two locomotives and 240 ore wagons was fully delivered and commissioned within the March quarter.

Future Studies Beyond 155mtpa

A review of Fortescue's updated Pilbara-wide iron ore resource base and potential development pathways is being undertaken to provide guidance on the sequence and timing of future developments together with targeted product ranges. This is consistent with our stated three hubs and two ports strategy and considers new port developments at Anketell and outer harbour opportunities at Port Hedland.

At Nyidinghu, the study team is considering options for the development of projects utilising the 2bt Nyidinghu resource to provide for increased production volumes that will blend well with the very low phosphorous tonnes at Cloudbreak and Christmas Creek. A part of the study is reviewing a schedule that could enable Fortescue to start mining at Nyidinghu in the first half of 2015. Work is focusing on a number of areas including the development of a mine plan, approvals and logistics, including a review of possible opportunities at the Port Hedland outer harbour. The project is currently on schedule for an August 2012 approvals submission as a precursor to any board decision.

While a large scale 30-45mtpa mine development at Nyidinghu is of key focus, an execution team is also working on Project IO which is a small direct ship ore (DSO) opportunity using above water table ore from the Nyidinghu deposit. Project IO's appeal includes operating costs that are comparable with the rest of Fortescue's business, good capital intensity numbers and the potential to fast track development for early ore delivery.

Fortescue's development work is primarily focused on the development of its hematite resources, however ongoing feasibility studies are also directed toward the combined North Star and Glacier Valley magnetite opportunity. As advised to the market in January 2012, there are a number of options being reviewed that result in Fortescue delivering value from its highly prospective magnetite deposit which would most likely be done outside the existing Fortescue corporate structure and also on a stand alone funding basis.

EXPLORATION

Fortescue continued to grow its vast resource portfolio during the quarter which included a significant upgrade to its magnetite resource base. On 16 January 2012 Fortescue announced a resource upgrade for the North Star (100% Fortescue) and Glacier Valley (65% Fortescue, 35% Baosteel) magnetite projects, 100 kilometres south of Port Hedland. The new resource comprises 2.12 bt averaging 31.6% Fe at North Star and 1.12 bt averaging 33.2% Fe at Glacier Valley, taking the total resource to 3.24bt at 32.2% Fe. Further work is planned during 2012.

While on ground work over the quarter was impaired by extensive cyclonic rain, there was significant infill drilling at Nyidinghu with the objective of upgrading parts of the resource to an indicated category. This work is continuing and an updated resource estimate will be prepared during the June 2012 quarter. Infill drilling confirmed the presence of good grade mineralisation within 15 metres of the surface in one part of the deposit. Fortescue is assessing its options in relation to development of this near surface ore. Exploration also continued within the Western Hub with drilling ongoing at Serenity, Sheila Valley, Delphine, Raven, Fig Tree and Eliwana.

Competent Persons Statement

The information in the report to which this statement is attached that relates to Mineral Resources and Exploration Results is based on information compiled by Mr Stuart Robinson and Mr Mark Glassock who are Members of The Australasian Institute of Mining and Metallurgy.

Mr Stuart Robinson is a full time employee of Fortescue Metals Group Ltd and Mr Glassock recently resigned from the company. Both people 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 Glassock 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 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 and Mr Glassock 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
Ken Ambrecht	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
Rod Campbell

Registered Office and Principal Place of Business

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FAX +61 8 6218 8880
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Share Details

As at 31 March 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	2,325,068

Substantial Shareholders as at 31 December 2011:

The Metal Group Pty Ltd	30.99 per cent
Hunan Valin Iron and Steel Group	14.72 per cent

Share Registry

Link Market Services Limited
Ground floor, 178 St Georges Terrace
PERTH, WESTERN AUSTRALIA 6000

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FAX +61 2 9287 0303
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REPORTING CALENDAR

- Full Year Financial Report: Mid August 2012
- June 2012 Quarterly Report: Mid July 2012

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