



FORTESCUE METALS GROUP LTD

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QUARTERLY REPORT **FOR THE PERIOD ENDING 31 DECEMBER 2003**

HIGHLIGHTS

Finance

- FMG leadership injects a further \$1.6 million (total \$2.8 million) to fund Prefeasibility Study.
- \$20 million underwriting secured (subject to formal documentation) to complete Feasibility Study, commence procurement activities and detailed engineering.
- Underwriting and capital injections secure FMG's financial progress to full project finance.
- Due to equity demand from customers and desire for decentralised ownership from Government, FMG has resolved to reduce its ultimate ownership in the new rail and port "Pilbara Infrastructure Fund" (post financing and commissioning), to 40%.
- The Pilbara Infrastructure Fund will be listed on the Australian and an international Stock Exchange.

Acquisitions

- FMG's massive Pilbara footprint triples to over 8,500 square kilometres.
- Additional resources builds FMG's inventory, including;
 - 50 million tonnes of Channel Iron Deposits at 55% Fe
 - 420 million tonnes of Channel Iron Deposits at 50% Fe
 - 247 million tonnes of Brockman iron at 62.5% Fe (near Rio's Marandoo operations).
- All acquisitions have 100% FMG equity ownership.
- Acquisition programmes secure at least 30 new known Channel Iron, Brockman and Marra Mamba deposits and targets.

Rapid Progress for Operations and Infrastructure

- FMG forecast net production rising – now more than 40 million tonnes per annum.
- Infrastructure well advanced, first phase engineering discussions with major suppliers - many domestic and international interested parties.
- Customers significantly increase MOI support for FMG product.
- Project capital costs continue to fall.
- Increased resources enhance proposed independent port and rail system.
- Prefeasibility Study remains on track for February completion.
- New land holdings guarantee future growth and security for FMG and its customers.
- Three major drilling programmes underway (including diamond core) developing and defining the resource base.

China

- Offers substantial fast track establishment incentives to FMG's independent iron ore delivery system.
- Highly competitive cost and quality major procurement items offered.
- Major off-take support available.
- Numerous expressions of interest to participate in global project finance.
- Multiple project support initiatives.
- Chinese industry actively courting FMG on both the infrastructure and mining fronts.

IN BRIEF

FMG continues to make rapid progress towards its goal of becoming a new force in the supply of iron ore to the international market.

Iron ore demand continues to outstrip supply and this consistent growth is forcefully driven by the ongoing strength of China's steel production. This market imbalance has exceeded the predictions of all analysts and is best demonstrated in the recently announced ore price rise of 18.6% for 2004. This strengthening demand continues to reinforce the sound commercial foundation on which FMG's project is based.

Subject to formal documentation, FMG has entered into an agreement with a US investment bank to underwrite \$20 million of new equity which can be drawn upon at FMG's sole discretion at any stage over the next three (3) years. Combined with management's equity injections, this assures the Company of its required funding beyond finalisation of the bankable Feasibility Study for the Pilbara Iron Ore and Infrastructure Project.

The momentum has been maintained over the Christmas and New Year period with drilling campaigns running throughout the holiday period at the Company's wholly owned tenements at Mt. Nicholas and Mt. Lewin in the Pilbara.

In addition, FMG has been highly acquisitive. During the reporting period, FMG has extended its tenement area by a massive 300% now covering more than 8,500 square kilometers.

Marketing results have also been impressive with the signing of Memoranda of Intent with a number of prospective customers for 28Mtpa of ore sales in long dated agreements.

CORPORATE ACTIVITY

FMG has accepted an offer from an US investment firm to underwrite \$20 million of new equity, which can be drawn upon at FMG's sole discretion at any stage over the next three (3) years. Any new equity issued pursuant to the agreement will be at a six percent discount to the prevailing market price, but importantly leaves FMG free at all times to accept other capital as it deems fit. This assures the Company of its required funding beyond finalisation of the bankable Feasibility Study for the Pilbara Iron Ore and Infrastructure Project.

The transaction is subject to formal documentation and all requisite approvals pursuant to the Listing Rules of the Australian Stock Exchange Ltd or the Corporations Act.

Management also exercised options and injected a further \$1.6 million into the Company during January raising the total of management investment to \$2.8 million. The external offers and capital commitments received by the Company underscore management's unwavering confidence in FMG's project group.

The Company has resolved to develop its new rail and port infrastructure in a special purpose entity. This will ensure the integrity of its open access philosophy. FMG will ultimately dilute its equity ownership of this entity to 40%. It is also envisaged that post commissioning of the infrastructure in 2006, the entity will be floated on The Australian and an international Stock Exchange.

FMG moved offices during the period to Fortescue House, 50 Kings Park Road, West Perth. The open plan office layout provides an efficient and effective environment to continuing driving the project forward.

EXECUTIVE APPOINTMENTS

FMG has continued to build its team of capable experienced professionals across a wide range of disciplines.

Owner's Engineers

ProMet Engineers Pty Ltd ("ProMet") has been appointed as non exclusive Owner's Engineers for the Pilbara Iron Ore and Infrastructure Project. ProMet have an extensive track record of providing engineering services to the iron ore and broader bulk minerals mining and processing industries in Australia. Their client list includes the major iron ore industry participants.

The company's expertise in mineral processing will be fully employed as FMG develops its strategy for the economic utilisation of iron ore resources to produce lump and fine ore products attractive to its customers.

ProMet will be working in partnership with the FMG team to ensure that FMG's development is founded on world class, state of the art engineering concepts.

ProMet have worked on the Pilbara Iron Ore and Infrastructure Project for 3 years and as a gesture of their confidence in the project have agreed to take 25% of their remuneration for their role as Owner's Engineers in FMG shares at the greater of market price and \$1.00.

Executive Management Team

FMG's executive management team has been further strengthened by the appointment of several experienced names in the iron ore, engineering and mining disciplines.

The following appointments were recently made.

Mr. David Webster, project management.

David, previously a member of ProMet's senior management team and one of its most experienced project directors has joined FMG as Head of Project Development. He has a first class honors degree in Metallurgy from the University of Newcastle.

David had over 30 years experience with BHP in the steel and DRI industries in a range of executive management roles covering operations, technology and the development of international joint ventures and large scale industrial projects.

Prior to joining ProMet, David was a member of BHP Minerals global executive management team with the position of President Orinoco HBI and responsible for the development of BHP's US\$1 billion joint venture project in Venezuela.

Mr. Jim Williams, mining.

Jim is a Chartered Professional (Mining) with 40 years of experience. He is a Fellow of the Australasian Institute of Mining and Metallurgy and was chairman of the Perth branch for 3 years.

Jim has served as Chief Mining Engineer for Bechtel in Australasia, Principal Mining Consultant for Minproc Engineers Pty Ltd and CEO of Laverton Gold NL for three years.

Jim has also worked in Australia, Zambia, South Africa and South East Asia and has held positions from Shift Boss to CEO principally in bulk mining operations. He started his professional career on the Zambian Copper belt when it led the world in large open pit mining.

Mr. Ed Heyting, project management.

Ed brings broad, multi-discipline experience of project management and the execution of large, natural resource projects involving design, construction, procurement and construction.

Since a five year term of duty in the 1970's as a marine engineer with the Australian Navy, Ed undertook assignments involving a range of project and mechanical engineering responsibilities. Initially, Ed worked at the Robe River iron mining operation in the Pilbara, followed by periods with GHD and UC Engineers, where he was Engineering Manager responsible for the management of a number of major projects involving materials handling, coal mines and mineral processing plants.

Subsequently Ed has gained both project and operating experience associated with the existing Western Australian pressure acid leach lateritic nickel process plants. He was a Project Manager on Cawse and was seconded into Bulong Operations to manage the initial plant enhancement projects. Ed has also led alternative feasibility studies and project pre-engineering activities associated with next generation pressure acid leach plants for the Moneo Nickel Project in New Caledonia, Marlborough Nickel Project in Queensland and the Ravensthorpe Nickel Project, near Esperance, Western Australia.

PROJECT DEVELOPMENT

Process Plant and Testwork

A preliminary design of a crushing, screening and beneficiation plant has been completed. Ore from the mine will be crushed to -32mm material via two stages of crushing and fed to a number of beneficiation plants which are designed to upgrade the iron content, reduce impurities and produce saleable iron ore lump and fines products. The beneficiation plants will be of modular design to facilitate the production of the optimal grade and tonnage. Each module is capable of receiving 14 Mtpa ore feed and producing a combined lump and fines product of 7 Mtpa. The modules include various sizing and separation processes and equipment including wet screening, course and fine jigs, cyclones, hydrosizers, WHIMS, filtration, dewatering and thickening.

Over the last three months a metallurgical testwork program has been investigating Mt Nicholas ores in various cut off ranges in order to optimise the value of the resource. Gravimetric analysis testwork has been carried out to assess the likely grade and yield possibilities. Two larger samples have been subjected to mini pilot plant work with samples being tested in a laboratory-sized jig. The jig samples successfully reproduced the expected results from heavy liquid data and investigations are continuing in the finer size ranges using High Intensity Magnetic Separation.

In a second, more extensive, testwork program, samples from each Fe grade range, alumina range and pit area have been selected and are also being tested by gravimetric analysis to allow further refinement of mine plans and plant design.

Prefeasibility Study

Work on the Prefeasibility Study is well advanced and is expected to be completed in February 2004. The Study will allow for an immediate decision by the Board to commit (or otherwise) to the Bankable Feasibility Study.

The Prefeasibility Study will provide a comprehensive account of the overall status of project development and define a fast track implementation schedule.

Specific activity has been focused on:

- Drilling activity and resource definition at Mt Nicholas, Mt Lewin and Tongololo
- Development of a preliminary geological resource model
- Mine design and operational parameters
- Process plant design and operational parameters
- Rail corridor route selection
- Port and Port facilities design and operational parameters
- Progressing project approvals and land access
- Developing capital and operating costs

Work is also progressing on defining the optimal development strategy for the Mindy Mindy project

SUSTAINABLE DEVELOPMENT

FMG is proactively meeting and consulting with all stakeholders affected by the project. The clear objective is to discuss the Project, its potential impacts, regional benefits and any issues of concern.

Stakeholders include the local community, pastoralists, miners, Aboriginal communities and the wider public. Public meetings have taken place at Port Hedland and Newman.

The company is working closely with the Pilbara Native Title Service (PNTS), the representative Native Title body for the region, Aboriginal elders, lawmen and the wider Aboriginal community. FMG has agreed with these parties significant Native Title negotiation protocols and a trusting and supportive relationship continues to develop.

Aboriginal Heritage clearances have been secured through PNTS and the Aboriginal community for the Company's resources at Mt Nicholas, Mt Lewin and Tongololo Creek. In addition to on-ground heritage surveys, helicopter reconnaissance ethnographic surveys with native title claimant groups have been completed with no "show stoppers" encountered.

The area covered for these works included the Mt Nicholas, Mt Lewin and Tongololo Creek resources and the full extent of the 200km geological strike length across the Chichester ranges.

The joint venture resource at Mindy Mindy and the connecting rail alignments were also successfully surveyed.

In December, the Western Australian EPA set the environmental impact assessment for the proposed port at Port Hedland and the 350km north to south railway at a Public Environmental Review level. This corridor links the port with the southern-most resource at Mindy Mindy. Environmental referral of project resources and the Chichester west-east rail alignment will occur early in the first quarter of 2004.

It is anticipated that extensive mineral tenements will be granted to the Company in the first quarter of 2004. The Company also intends to commence applying to convert Exploration Licences to Mining Leases during the current quarter.

MARKETING

In December 2003 all of FMG's leadership were involved in a presentation to China's metallurgical industry in the Australian Iron Ore Exchange Seminar held in Maanshan. The seminar was organized by the China Iron and Steel Association with the cooperation of the Maanshan Iron & Steel Company.

FMG has secured Memoranda of Intent from potential customers for a total tonnage of 28 million tonnes per annum; accounting for 70% of FMG's planned production.

Customers are the principal focus for FMG. Considerable efforts are being made by all parts of the organization developing closer relationships. Interaction with the major markets for iron ore has revealed that customer support is strengthening and that concern about future supply of iron ore is increasing.

Senior management participation in the 3rd International Steel & Raw Materials Conference in Shanghai, during November 2003, facilitated high level discussions with China's largest steel makers and highlighted the concerns about increasing concentration in the iron ore industry.

RESOURCE DEVELOPMENT

Resource Definition - East Pilbara and Mindy Mindy

Continued reverse circulation drilling on all granted leases within the East Pilbara project area (Mt Nicholas, Mt Lewin, Tongololo) has continued with encouraging results, and is well advanced in defining mineable resources. Similarly drilling at the Mindy Mindy prospect has outlined a sizeable direct-ship iron ore resource.

Mt Nicholas (E46 / 467)

The main activity upon the East Pilbara project has focused on the Mt Nicholas iron ore deposit where reverse circulation drilling programs have outlined a pre-resource (non-JORC compliant) estimate of approximately 300 million tonnes (beneficiated ore) at a grade of 58% Fe. This large deposit extends for approximately 23 kilometres in defined strike length, outcropping at the surface, and extending beneath shallow valley alluvials. The deposit is hosted within the Nammuldi member of the Marra Mamba Iron Formation.

FMG reverse circulation drilling programs at Mt Nicholas to date totals 209 holes for 9,428 metres. Drilling was based on 800 metre line spacing with holes along lines at predominantly 100 metres apart. Consistent mineralisation has been identified along and between the drill sections.

Resource drilling continues to define detrital (transported) potentially ore-grade material overlaying the bedded ore horizon in the non-outcropping regions of the deposit. Metallurgical test work is in progress to evaluate the economic potential of this defined horizon. At this stage, the potential detrital resource has not been included in the reported resource tonnage. Clearly, this material has potential for adding mine life to the deposit and reducing the stripping ratio.

Ongoing metallurgical test work of the bedded material has demonstrated that the alumina and silica can be reduced to levels acceptable to the market with a corresponding elevation in iron. The proposed metallurgical process uses commonly practiced methods that produce reasonable recoveries.

Further evaluation work throughout the next quarter will focus on expanding the resource tonnage and progressing the deposit towards JORC compliance. Infill reverse circulation drilling program will include drill sites at 400 metre line spacing with 100 metre hole spacing. A small area will be drilled on a 100 metre by 100 metre grid for variography work. The infill drilling is expected to result in a JORC compliant resource.

A diamond core drilling is also planned to start early in February 2004 and is designed to better understand the geological and metallurgical properties of the ore body.

Mt Lewin (E46 / 518)

Research and mapping of the Mt Lewin lease by qualified geologists was carried out during the last quarter, this work identified three sizable regions being most prospective for reasonable tonnage iron mineralisation.

Reverse circulation drilling commenced on 30 December 2003, and a total of 2,483 meters of drilling from 59 holes has been completed to date. Reverse circulation drilling is continuing.

The ore horizons drilled have very similar characteristics to the Mt Nicholas deposit. The deposit is hosted within the same stratigraphic unit, namely the Nammuldi member of the Marra Mamba iron formation. Initial geological logging suggests the material is highly prospective and assay data is eagerly awaited.

A potential detrital resource has been identified from the first three holes and this material will be further investigated during the current drilling program.

Planned activities throughout the current quarter will focus on identifying and outlining any potential large resource tonnage in this prospective region. Once a definition of resource tonnage is made, metallurgical test-work similar to that being carried out at Mt Nicholas will be commenced. Further infill drilling will target the identified resource and is designed to add to the geological understanding of the deposit plus drive the project towards JORC compliance.

Tongololo (E46 / 516)

Experienced iron ore geologists carried out detailed mapping and research of the Tongololo lease during this last period. This exercise has identified many target regions within the licence area with potential to host significant iron ore resources. The three most prospective regions will be targeted for reverse circulation drilling in a forthcoming program to commence this quarter.

The geology of this region is similar to the Mt Nicholas deposit, with defined areas of outcropping mineralised Marra Mamba Iron Formation. Any defined resources will be treated in the same standard procedures that are in place for economic evaluation of iron ore deposits within the East Pilbara project region.

Mindy Mindy Joint Venture

A total of 61 holes and 2,491 metres of reverse circulation drilling were completed during the first two stages of exploration. These holes are centred at 100 metres spacing on lines 800 metres apart. This work has confirmed the presence of iron rich pisolite material within a more or less continuous palaeochannel system that extends over 12 km. The channel iron deposit varies to 370 metres in width and 16 metres in average vertical thickness.

Resource modelling is currently underway and a resource tonnage and grade estimate to JORC standards should be available during the March 2004 quarter.

Resource Expansion and Acquisitions

The Pilbara Iron Ore Project presently comprises 8,547 km² of tenements or tenement applications throughout the Hamersley Basin, of which 1,589 km² are Joint Venture agreements on tenements or applications. FMG holds 100% of the iron ore interests.

The eastern tenement group (Chichester, Eastern Pilbara, and Mindy Mindy) where FMG is presently conducting feasibility studies for mining, consists of 2,439 km² of tenements, applications, or JV agreements. Recently, FMG has concentrated on acquiring ground close to the existing holdings where potential exists for extensions of known iron mineralization.

In the Western Pilbara, FMG has undertaken an aggressive acquisition campaign designed to give the company a strategic foothold in the area. To date 6,108 km² of ground is held or under application by FMG through acquisition and joint venture, giving FMG access to previously documented iron occurrences comprising Channel Iron Deposit ("CID") resources of 470 Mt at 50.5% Fe and Brockman iron deposits of 247 Mt at 62.5% Fe. In addition to the known resources, FMG's tenements and joint ventures contain at least 30 CID, Brockman, and Mara Mamba iron deposits and targets with presently unknown resource potential.

Listed below are the main western Pilbara project areas:

Central Pilbara - A joint venture has recently been entered into giving FMG the right to obtain a tenement application (210 km²) in the Central Pilbara area containing previously documented Brockman iron resources of 247 Mt @ 62.5% Fe. FMG has secured an additional 1,947 km² of tenement applications in the Central Pilbara which contain CID and Brockman iron deposits.

Murladas Monster and Muluda-Yandicoogee - A total of 1,336 km² of tenement applications have been secured, giving FMG access to CID (known resources of 420 Mt @ 50% Fe) and Brockman and Mara Mamba iron deposits.

Western Pilbara JV - A joint venture has recently been secured giving FMG the right to explore for iron ore over 1,152 km² of tenements which contain known CID including previously documented resources of 50 Mt @55% Fe.

Hamersley Range – Some 974 km² of tenement applications contain at least ten known occurrences or targets of Brockman iron deposits.

Rocklea Dome and Jeerinah Anticline – Known CID's are located within 487 km² of tenement applications.

FMG intends to vigorously research and evaluate all potential iron ore deposits referred to above, to add to the present inventory of resources and provide the foundation for the Company to become a major iron ore producer in the Pilbara with planning extending beyond 50 years. In the meantime, FMG will continue to pursue all available acquisition and joint venture opportunities.

INFRASTRUCTURE DEVELOPMENT

China races to supply equipment to the FMG project.

Equipment suppliers in China have been seriously courting the FMG project team in a hope of gaining a strong representation in this project.

Some of China's most pre-eminent suppliers of rail and port equipment have actively shown off their companies' capacity to supply various items to the FMG project.

China's largest rail wagon manufacturing company at Mieshan which has just completed an order of 900 Heavy Haul rail wagons for Brazilian iron ore company CVRD spent several days with FMG representatives, who completed exhaustive investigations into the quality of the manufacturing processes, in situ at the Meishan factory. Other potential rail wagon manufactures as well as concrete sleeper suppliers were visited to gain first hand knowledge on China's capacity to supply FMG's project with quality products.

China rail has expressed a very high interest in supplying FMG's rail requirements. FMG will be running a Super Heavy Haul railway which if China Rail Manufacturers could make key equipment for, it would set China's rail manufacturing industry at "centre stage" in this global multi-billion dollar per annum industry, by using FMG as it's "magnum opus".

The Chinese Railway Ministry and its subsidiaries see FMG's infrastructure project in its own right as an outstanding project, which will additionally provide a win/win situation not only for FMG and China's manufacturing companies, but also for China's long-term raw material security to its steel mills.

FMG has also entered into detailed discussions with major rail equipment suppliers in Australia. The Australian suppliers are also understandably keen to provide equipment for this exciting and globally high-profile project.

FMG and its potential suppliers can see the real potential to build a new heavy haul railway using all the knowledge gained in over 40 years of heavy haul experience by the industry to make this supplier the most effective and lowest cost producer possible, by using well proven equipment, but by also combining the best of all the current suppliers' methods and technologies.

Progress Continues in the Pilbara

Rail alignment options based on 1:50,000 and 10m contours have been compiled to establish coverage the extent of aerial survey required to obtain 1m to 2m contours for better assessment of the options. Aerial surveys are also assisting with the environmental and heritage areas to ensure that the FMG footprint in the Pilbara is the smallest practically possible on route evaluation.

Sourcing and availability of railway raw materials and magnitudes of cut and fill are being estimated and secured and will be finalised by the end of February 2004.

Modeling of the Port Hedland shipping capacity by FMG has shown that some bottlenecking issues with the current methodology of the areas ship movements will impact on throughput. FMG through this pro-active approach due largely to its intimate knowledge of the industry and area has been able to design its own facilities so it will not be adversely affected by this bottlenecking.

Options for the FMG layout of Port facilities at Port Hedland have been completed. Discussions are underway with the Port Hedland Port Authority; their approval to use Anderson Point and adjoining areas for an export shipping facility is essential to FMG's business plan.

Discussions continue with Hope Downs Project Management concerning the potential to share facilities at Harriet Point, but to-date these have not resulted in any useful outcomes for FMG.

Proposals for offshore and onshore geotechnical investigations at the port facilities have been obtained. Proposals for the design and construction of the berth facility and dredging are being obtained.

Initial assessment of the Newman to the Mount Nicholas mining area access road requirements have commenced.

The infrastructure section of the Prefeasibility Study is being compiled, and is on time and under budget for the February target.

Many of the Infrastructure Team are now advancing to the work required for the Definitive Feasibility Study in line with FMG's philosophy of continually moving forward to reach a 2006 ore shipment date.

MINING

Exploration work continued to extend the potentially mineable material at Mt Nicholas. This covers areas both at the northern and southern extremities of the leases. Assay results are currently be received that identify potential extensions to this project area. Exploratory drilling has also commenced at Mt Lewin and

visual inspection of recovered material and early assay results indicate that another mining area is very likely to exist here.

Prefeasibility Study

SRK Consultants have been appointed to produce a mining Prefeasibility Study based around the previously planned mining arrangement of opening up a series of down dip slots and then advancing the exposed faces in a north and south direction.

Considerable thought was given to removing ore material from pits and transporting to the process plant. 'In pit' crushing was determined as a very viable concept whereby iron ore would be tipped into an 'in pit' crusher, crushed and conveyed out of the pit via a high wall conveyor system.

To further this approach and link it in with an overland conveyor transport system meetings were held between FMG management, Thyssen-Krupp and SRK. (Thyssen Krupp is a world leader of crusher, conveyor and stacker design and manufacture). As a result it was considered that the Prefeasibility Study would adopt the approach of locating up to three process plants near operating mines. Ore is to be mined, tipped into a bin, crushed and conveyed to the adjoining process plant. Processed ore is then conveyed to the rail load out area.

Snowden Mining Consultants have been appointed to produce the mineral resource estimate for the project and commenced its task during the month by visiting the exploration teams and ensuring that all logging and sampling operations are being conducted in a manner that ensures acceptability by international mineral resource codes.

The Hydro geological Consultant and the Geotechnical Consultant will be appointed shortly. These experts will provide essential information to both the mining team and the process engineers as well as to the engineers planning the proposed rail route.

FORTESCUE METALS GROUP LTD

Graeme Rowley
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