



Fortescue Metals Group Ltd
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21 September 2006

The Companies Officer
Australian Stock Exchange Ltd.
Exchange Plaza
2 The Esplanade
Perth WA 6000

Dear Sir,

Final Ratification of Mining State Agreement

Fortescue Metals Group Ltd ("Fortescue") advises that the State Agreement pursuant to its proposed mining operations at Cloud Break and Christmas Creek - known as The Iron Ore (FMG Chichester Pty Ltd) Agreement Bill 2006 - has now passed through the Upper House of the Parliament of Western Australia. The Bill will now proceed to be enacted into law.

The State Agreement was signed by the Premier of Western Australia on 1 December 2005 and has now been ratified through both houses of parliament.

To further update the status of Fortescue's Pilbara Iron Ore and Infrastructure Project, the Company is pleased to lodge its first monthly construction report. This document is being provided pursuant to the reporting requirements under the Senior Secured Note issue that was finalised during August 2006.

Yours sincerely
Fortescue Metals Group Ltd

Rod Campbell
Company Secretary



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PILBARA IRON ORE AND INFRASTRUCTURE PROJECT

MONTHLY CONSTRUCTION REPORT

August 2006

SUMMARY

- Project completion is currently forecast to be on time and on budget.
- Dredging progressing well – 22% complete with approximately 1 million of 4.5 million cubic metres of materials already moved to date of this report.
- Locomotive and Marine structures contracts signed.
- Fleet of Wirtgen Surface Miners ordered.
- Certain regulatory approvals have taken longer to obtain than originally planned which has delayed the commencement dates for certain construction activities – particularly the rail earthworks. Reprogramming work plans are underway to recover lost time.



Port – Aerial view of dredging activities

The New Force in Iron Ore

INFRASTRUCTURE

1.1 Progress

Whilst there have not been any major incidents, the project safety performance has not been up to the high standards required and actions are currently underway to improve the situation. The dredging activity in particular, will require improved management effort to reduce the number of hazards occurring with this contractor.

Progress to date is generally pleasing, with project completion forecast to remain on time and on budget. All major contracts awarded to date have been finalised at close to, or under budget.

A number of project challenges remain, mainly relating to the delays in obtaining regulatory approvals necessary to commence certain construction work. The most notable challenge that has the capacity to impact the overall schedule is the delay in obtaining approval to commence construction of the rail earthworks. Reprogramming of the effected work to accommodate approvals delay is now underway and the potential costs associated with accelerating the work are being assessed but are not considered to be significant. Government and the relevant authorities are very supportive of the project and the delays do not give rise to any concerns about the approvals being granted, rather the timeliness of receiving them. Management is focused on doing all it can to expedite the granting of all the approvals.

Industrial relations strategies and plans have been implemented for the Project and are being managed by personnel, whilst there have been no industrial relations events to date.

The project team is expanding as planned and currently comprises 239 personnel.

1.2 Schedule

The project remains on target to meet its Project Construction Plan. First Ore On Ship (FOOS) is expected to be in January 2008. The key milestones and comments are presented in the table below:

Milestone	Original Date	Forecast Date	Comment
PORT			
Initial bunding	Jun 06		Complete
Dredging start	July 06		Complete
Complete south end bulk earthworks	Feb 07	Feb 07	On schedule
Complete dredging	May 07	May 07	On schedule
Dry commissioning train unloader	Oct 07	Nov 07	On schedule
Wet commissioning train unloader / stacker / stockpiles	Jan 08	Jan 08	On schedule
FOOS	Jan 08	Jan 08	On schedule
RAIL			
Start rail earthworks	Sep 06	Nov 06	Delayed due to approvals
Marshalling yard	Oct 06	Oct 06	On schedule
Start tracklaying	May 07	May 07	On schedule
Complete bridges	Jul 07	Sep 07	Delayed due to approvals
Finish rail earthworks	Oct 07	Nov 07	Delayed due to approvals
Finish tracklaying	Nov 07	Nov 07	On schedule
Load first train	Dec 07	Dec 07	On schedule

MINE			
Start bulk earthworks	Aug 06	Sept 06	Delay due to approvals
Start concrete works	Nov 06	Nov 06	On schedule
Finish crusher deliveries	Sep 07	Sep 07	On schedule
Finish structural, mechanical, electrical installation and power supply	Oct 07	Oct 07	On schedule
Finish train loader	Dec 07	Dec 07	On schedule
Commissioning complete	Mar 08	Mar 08	On schedule

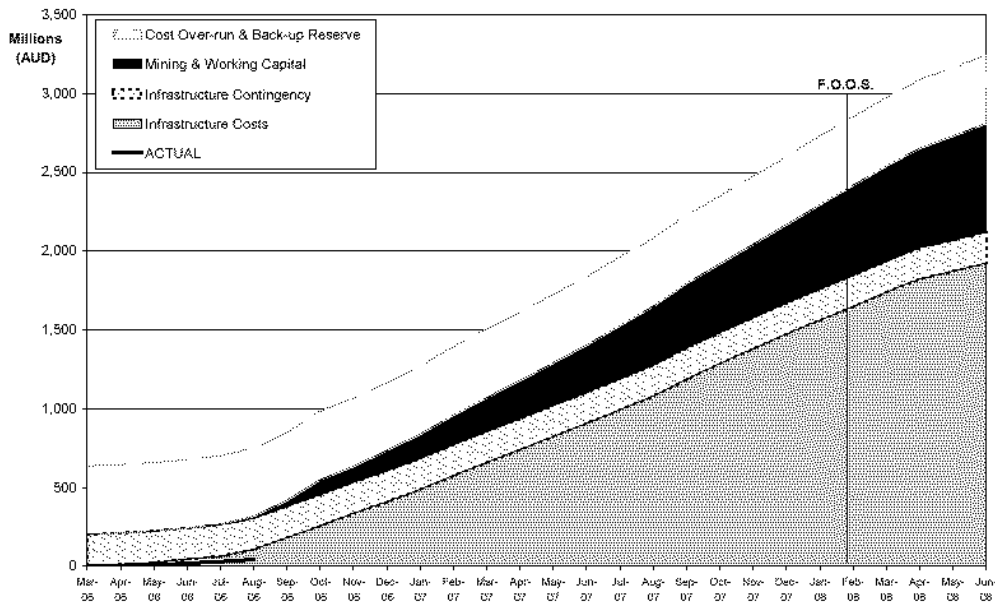
1.3 Cost

To date all contracts awarded have been close to or under budget. The net increase in the aggregate project contingency is due to acquiring the crushers for the mine processing facility below the budget cost.

Project Area	Control Budget (\$M)	August 2006 Forecast (\$M)	Variance (\$M)
Port Area	689.7	690.5	0.8
Rail Area	602.2	599.6	(2.6)
Mine Area	427.9	423.2	(4.7)
Common Distributables	110.8	113.9	3.1
EPCM Services	160.0	160.8	0.8
FMG Owners Costs	57.5	56.8	(0.7)
Contingency	198.6	201.9	3.3
Overall Project FFC	2246.7	2246.7	0.0

Cumulative commitments to August 2006 were A\$261 million below budget but following financial close the forecast increased rate of commitments are expected to bring the rate of expenditure back on track by December 2006.

Cashflow Summary



1.4 Material Delays

The Project remains on track with FOOS scheduled for January 2008. There are no material delays to report.

1.5 Contracts

During August, two minor construction contracts were signed. Detailed negotiations on a further twelve contracts were advanced.

A contract was signed with United Group Rail Services during September for the delivery of the locomotives for the project. McConnell Dowell was also awarded the contract to design and construct the marine structures.

Set out below is a summary of the latest status of the key construction contracts.

Contract Description	Contractor	Contract Type	% Total Costs	Control Estimate A\$000	Forecast	
					Award Price A\$000	Forecast Award Date
Rail Earthworks	BGC	Alliance	9%	189,251	190,784	SIGNED
Dredging	Jan de Nuls	Lump Sum	6%	125,000	125,000	SIGNED
Ore wagons	China Southern	Lump Sum	4%	83,092	83,000	SIGNED
Reclaimer, Stacker, Ship-Loader	Thyssen Krupp	Lump Sum	3%	61,988	62,500	SIGNED
Sleepers (Cross-ties)	Austrack	Lump Sum	2%	37,575	37,575	SIGNED
Crushers	FFE Minerals	Lump Sum	2%	33,305	28,000	SIGNED
Train unloader	Metso	Lump Sum	1%	25,760	27,800	SIGNED
Marine Structures	McConnell Dowell	Lump Sum	8%	173,692	185,000	AWARDED
Locomotives	United Group Rail Services	Lump Sum	3%	61,200	57,800	AWARDED
Tracklaying	Barclay Mowlem	Alliance	3%	66,810	66,000	Final Negotiations
Bridges	Barclay Mowlem	Alliance	2%	34,342	35,500	Final Negotiations
Mine Structural & Fab Package 1		Schedule of Rates	2%	50,705	50,705	Negotiations
Rail		Lump Sum	2%	43,014	40,000	Negotiations
Port Electrical & Instrumentation		Schedule of Rates	3%	52,593	52,593	*
Mine Deslime Plant		Multiple	2%	39,825	30,000	*
Mine Electrical & Instrumentation		Multiple	1%	30,000	30,000	*
Mine Structural Mechanical & Piping		Schedule of Rates	2%	39,673	39,673	*
Mine Stockpile Vault & Tunnel		Multiple	1%	27,006	27,006	*
Port Structural Mechanical & Piping		Schedule of Rates	1%	27,899	27,899	*
Liners		Lump Sum	1%	27,388	27,388	*
Sub Total			60%	1,230,117	1,224,224	
Other			40%	818,464	820,637	
Total Costs				2,048,582	2,044,861	
Contingency				198,145	201,866	
Control Estimate Total				2,246,727	2,246,727	

* Not on current critical path

1.6 Disputes

None

21 September 2006

2. MINING

Mr John Blanning will join Fortescue as Head of Mining in early October 2006. John was most recently the General Manager Mining at Blackwater coal mine, BHP Billiton's largest coal mine in Queensland and the largest black coal mine in Australia. There will be significant handover period with the current Head of Mining, Jim Williams who will be retiring.

Following the successful trial mining at Cloud Break an order has been placed with German company Wirtgen for ten 2500 Surface Miners. The first machines will arrive in the third quarter of 2007.

The Pilbara Mining Alliance (PMA) is currently finalising its long term equipment requirements and the evaluation of tenders and awarding of contracts is likely to be finalised within the next four weeks.

Following an extensive evaluation of various alternatives, PMA has selected and ordered the "Vulcan" geology, surveying and grade control information system for mine planning purposes.

PMA is actively developing and refining the detailed three year and ten year mine plans, which are also anticipated to be completed within the next four weeks.