



Fortescue Metals Group Ltd
ACN: 002 594 872
87 Adelaide Terrace East Perth
Western Australia 6004
PO Box 6915, East Perth, Western Australia 6892

Telephone: + 61 8 6218 8888
Facsimile: +61 8 6218 8880
Website: www.fmg1.com.au

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

Dear Sir,

Lodgement of Note Holder Monthly Report

Fortescue Metals Group Ltd ("Fortescue") advises that attached is the October 2006 Monthly Construction Report to be lodged on the Singapore Stock Exchange for the benefit of the Secured Note Holders.

Yours sincerely
Fortescue Metals Group Ltd

Rod Campbell
Company Secretary

PILBARA IRON ORE AND INFRASTRUCTURE PROJECT

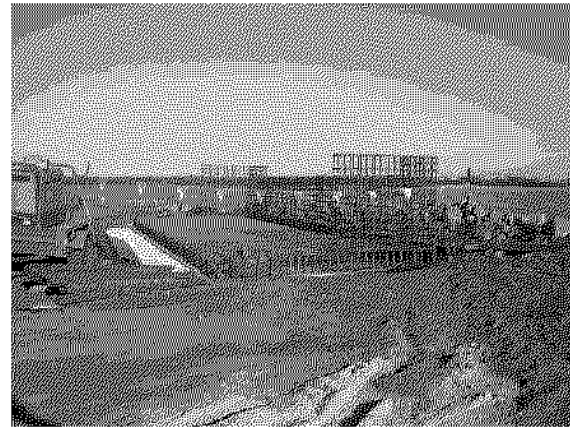
MONTHLY CONSTRUCTION REPORT

October 2006

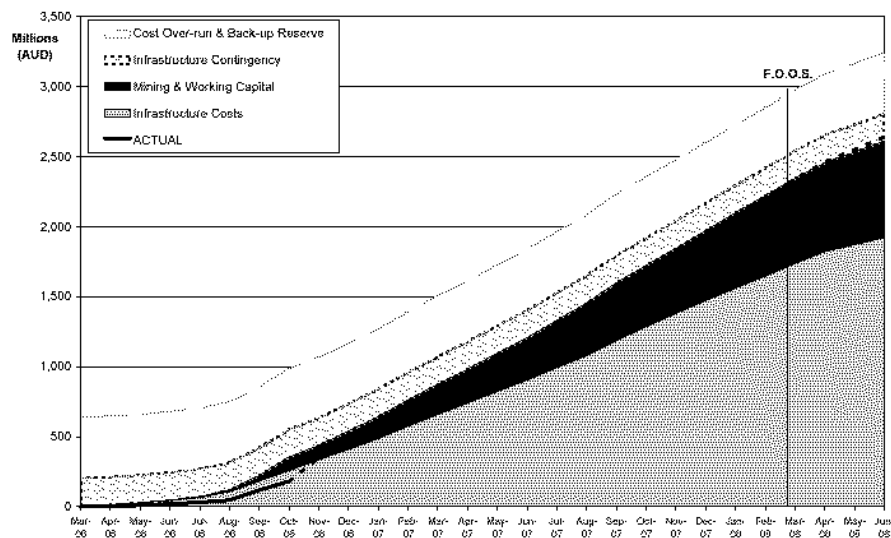
- Project completion remains on budget.
- First Ore On Ship (FOOS) remains on schedule for Q1 2008.
- Bulk earthworks commence at the Cloud Break mine site.
- Rail ballast, mine concrete works, mine structural fabrication contracts awarded, taking total contracts signed to 64% of infrastructure projects by value.
- Receipt of State Government approval of Fortescue's detailed plans under the Infrastructure State Agreement which now facilitates the Company's application for the issuance of the Special Railway Licence.
- Access Agreement signed with BHP Billiton giving Fortescue the ability to build a rail crossing over BHPB's Newman rail line and a conveyor crossing over BHPB's Goldsworthy rail line.



Rail Car Unloader – Metso Workshop



Abutment Foundation Works at Port



1. INFRASTRUCTURE

1.1 Progress

Following considerable effort from both Team 45 staff and contractors during the past six weeks, there has been a marked increase in safety awareness on both the dredge and onshore activities. The incidence of minor accidents and incidents has fallen.

The schedule stills provides for commissioning in first quarter 2008, however there has been a delay to the commencement of rail earthworks due to slower works approvals. First Ore On Ship ("FOOS") is scheduled for end February 2008.

In regards to the above, Fortescue is pleased to advise that late last week the WA Government approved Fortescue's detailed plans pursuant to Clause 11 (1) of the Infrastructure State Agreement. This approval along with the various access consents and agreements (eg BHP Billiton, pastoralists and other interested parties) enables the commencement of general rail and train unloader works. Fortescue will now apply for the issuing of the Special Rail License ("SRL") which formalises the tenure for the port and rail project.

With respect to costs, allowances have been made in the Forecast Final Cost ("FFC") for acceleration of construction in critical areas including increased accommodation and double shifting where necessary. Notwithstanding, the budget FFC of A\$2,247m is being maintained due to stringent cost control measures and deletion of non-essential items. Unallocated contingency within the FFC is now at A\$168m which is considered adequate to complete the works for this budget.

1.2 Schedule

As mentioned, the project forecast is still for commissioning in first quarter 2008 with FOOS scheduled for February 2008. Fortescue has now received approval for its detailed plans under the Infrastructure State Agreement, however the commencement of rail earthworks has been delayed from the original schedule. Accordingly, the schedule remains tight and the team continues to review ways to expedite the various parts of the project to recover lost time.

Milestone	Original Date	Current Date	Comment
PORT			
Bunds	Jun 06		Complete
Dredging start	July 06		Started
Complete Sth end bulk earthworks	Feb 07	Feb 07	On schedule
Complete dredging	May 07	May 07	On schedule
Train unloader	Oct 07	Feb 08	Delayed due to approvals
Shiploader/stacker/reclaimer	Jan 08	Jan 08	On schedule
FOOS	Jan 08	Feb 08	On schedule for Q1 2008
RAIL			
Start Rail earthworks	Sep 06	Nov 06	Delayed due to approvals
Start Marshalling yard	Oct 06	Nov 06	Delayed due to approvals
Start tracklaying	May 07	May 07	On schedule
Complete bridges	Jul 07	Sep 07	Delayed due to approvals
Finish rail EW	Oct 07	Nov 07	Delayed due to approvals
Finish tracklaying	Nov 07	Dec 07	On schedule
MINE			
Start bulk earthworks	Aug 06	Nov 06	Delayed due to approvals
Start concrete works	Nov 06	Dec 06	Delayed due to approvals
Finish crusher deliveries	Sep 07	Sep 07	On schedule
Finish S/M/E installation/power supply	Oct 07	Oct 07	On schedule
Finish train loader/First Ore On Train	Dec 07	Dec 07	On schedule
Commissioning complete	Mar 08	Apr 08	Delayed due to approvals

1.3 Cost

Remedial plans to cover for the slippage in regulatory approvals for the start of the rail earthworks, together with various minor scope changes, has resulted in a net decrease in available contingency from A\$187m to A\$168m. The primary use of this contingency is

increased costs of construction camps (due to higher peak manning levels because of tighter schedules) and higher than expected train unloader costs.

The FFC remains at A\$2,247m - inclusive of the A\$168m contingency. It is important to note that the A\$31m allocation from the original A\$198m contingency is not committed at this stage but rather it represents an allowance for expected final costs due primarily to schedule compression. At this stage, 64% of all contract packages are awarded and prices agreed.

Value engineering exercises are still being undertaken to optimise design and reduce capital cost with key focus areas being the unloader vault and the de-sand plant at the mine site together with the electrical distribution network at both sites.

Project Area	Control Budget (\$M)	Current Budget (\$M)	Current FFC (\$M)	Variance - FFC to Current Budget (\$M)
Port Area	689.7	689.7	699.7	10
Rail Area	602.2	602.2	606.7	5
Mine Area	427.9	427.9	425.6	(2)
Common Distributables	106.9	106.9	123.8	17
EPCM Services	160.0	163.8	165.1	1
FMG Owners Costs	61.4	57.5	57.5	0
Contingency	198.6	198.6	168.3	(30)
Overall Project FFC	2246.7	2246.7	2246.7	0

1.4 Contracts

There were numerous smaller contracts signed during the period with the largest being structural steel fabrication for the crushing and screening plant and the main concrete installation package for the minesite.

1.5 Disputes

No material disputes to report.

2. MINING

2.1 Personnel

The PMA organisation continues to be developed with several key people commencing in critical areas including project control, commercial, site operations and mining geology.

2.2 Project Schedule and Approval

- Mining operations are scheduled to commence in Q3 of 2007.
- The Department of Environment and Community ("DEC") approved all necessary management plans on 12 October 2006.
- Approval for the detailed plans under the Mining State Agreement are expected to be received from the Minister by early December.
- An overall schedule incorporating the start up of mining operations, construction activities being undertaken by the PMA and any interacting activities between the mining operations group and the Team 45 construction group commenced development during October.
- Initial mining operation approval on submission of Detailed Mine Plans envisaged to be early to mid December.
- Earthworks activities commenced at the Cloud Break site and licenses to access water from bores along length of the access road were granted in November.
- Negotiations are underway with a number of potential financiers and original equipment manufacturers to optimise the arrangements for purchasing major items of mobile equipment.

2.3 Equipment Procurement

Mobile equipment selection has been distilled down to three broad alternatives covering various combinations of ancillary equipment, shovels/excavators, trucks, conveyors and front end loaders.

Equipment is required at Cloud Break progressively from June 2007. All short-listed equipment suppliers have confirmed that the delivery times for the required equipment meets PMA's requirements.

The decision on the ancillary equipment, shovels and excavators is expected to be made in November, subject to final approvals.

Decisions for suppliers of trucks and loaders are ongoing with negotiations continuing.

All negotiations relating to equipment supply incorporates extensive after sales service and maintenance support from the original manufacturers and their local agents.

2.4 Mine Planning

Detailed mine planning is well advanced for the start up phase of ore mining towards the end of 2007. Longer term planning for the first three years is nearing completion in conjunction with Snowden Mineral Industry Consultants.

The initial mining schedule has been developed to optimise start-up stockpiles. The first mining panels will be opened in the north-centre of the Three Bears pit and in the northern section of the Pipeline pit. A stockpile of Super Value ore will be available from bulk earthworks at the Ore Processing Facility site. Mining of overburden is scheduled to commence in July 2007.

2.5 Budget

A detailed preliminary budget and schedule is being developed, which encompasses all PMA activities through to June 2008. These include initial mining activities up to First Ore On Train ("FOOT"), which is currently scheduled for December 2007 and the first six months of operations.