



**Fortescue Metals Group Ltd**

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20 December 2006

The Companies Officer  
Australian Securities 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 November 2006 Monthly Construction Report to be lodged for the benefit of the Secured Note Holders.

Yours sincerely

**Fortescue Metals Group Ltd**

**Rod Campbell**

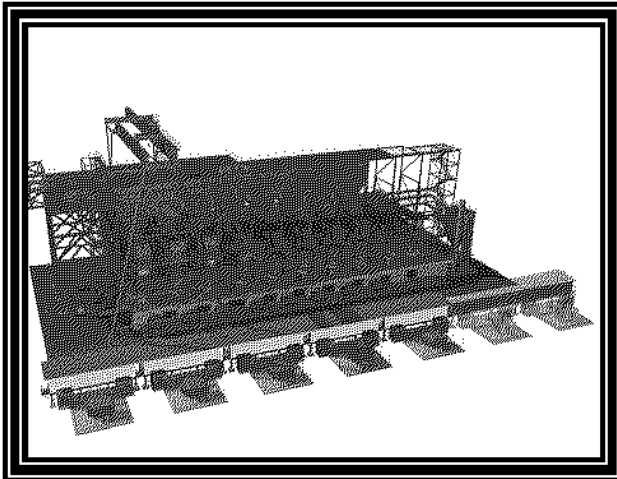
Company Secretary

The New Force in Iron Ore

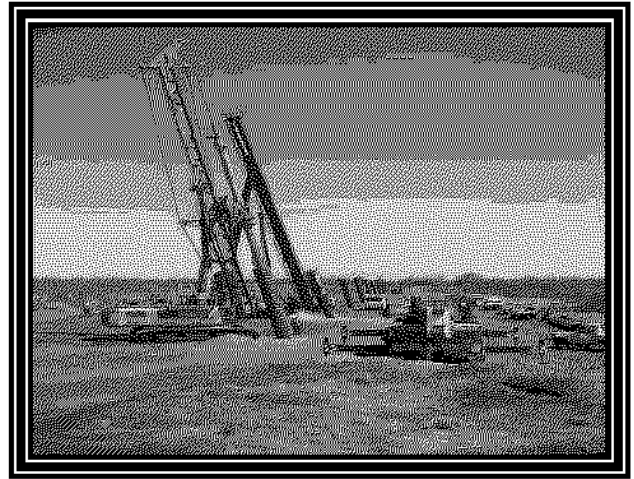
# PILBARA IRON ORE AND INFRASTRUCTURE PROJECT MONTHLY CONSTRUCTION REPORT

*November 2006*

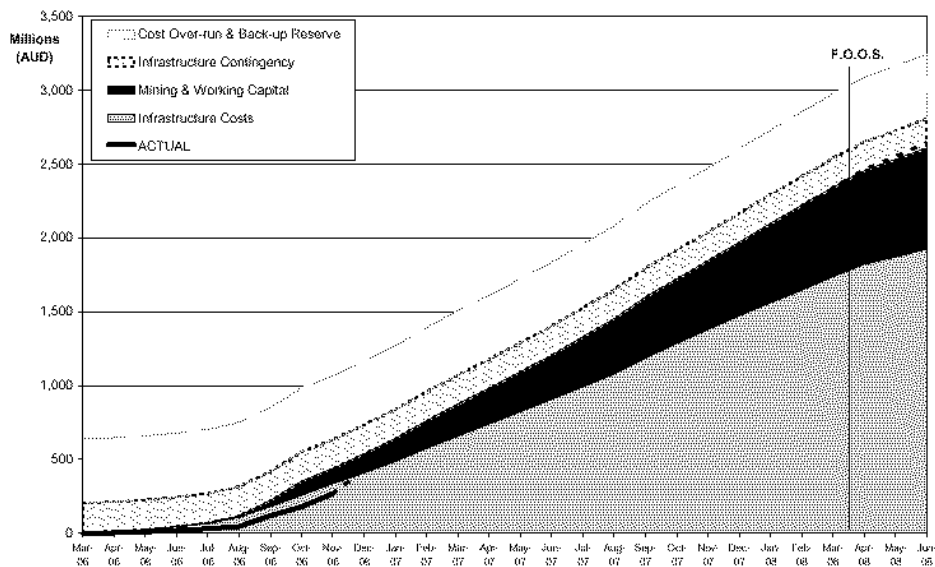
- Project completion remains forecast within budget.
- Special Railway Licence granted on 29 November enabling major field construction to commence on rail – works underway at train unloader, rail earthworks, marshalling yards and first bridges.
- Schedule has been re-baselined subsequent to issuance of Special Railway Licence (“SRL”) — First Ore On Ship (“FOOS”) expected at end of Q1 of 2008.
- Safety performance continuing to improve.
- First rooms available at construction camps at port, rail and mine. Motel for accommodation at port ready in Q1 of 2007.



Crushing plant design



Piling at East Turner Bridge



# **1. INFRASTRUCTURE**

## **1.1 Progress**

Work continued on strengthening the project safety team and improving safety awareness and performance on site. A site based Health Safety and Environment (HSE) Manager commenced on 22 November and a number of safety promotion and training initiatives were introduced. The total recordable injury frequency rate fell once again this month and there were no lost time injuries.

The most significant project event to occur during November was the approval by the Western Australian State Government of the project detailed proposals (clause 10) and the subsequent granting on 29 November of the Special Railway Licence. With the workforce already mobilised to site awaiting the granting of the SRL, work began immediately on the critical activities of the train unloader and the railway itself including the first of the required nine bridges.

The grant of the SRL has now enabled re-baselining the schedule to take account of the delay. FOOS is expected at end of Q1 of 2008.

At the port during the month, work within the Port Hedland Port Authority boundaries which was unaffected by the SRL approval continued on schedule. Dredging, foreshore protection and establishment of the main construction support infrastructure all made good progress. Works on the approach jetty to the wharf commenced and the contractor is now set up to commence piling activities. At the train unloader site, approval for pre-construction activities was obtained early in the month and commenced. The 96 bed construction camp at the airport site was completed and fully occupied and work on the motel to be used for construction accommodation remained on schedule to provide another 100 rooms within Q1 of 2007.

Progress on the rail was limited to approved pre-construction activities such as the establishment of water bores, access roads, offices and workshop facilities. Sleeper and rail manufacture remains on schedule. The second prototype ore wagons have been successfully tested by China Southern Rail.

At the mine, following works approvals in October, work on the new 700 man camp continued and first beds will be available by end of 2006. Work has commenced on clearing the plant site. The delay in receiving full mining approvals has resulted in bulk earthworks on the airport and on the plant site falling behind schedule and double shifting will be required in 2007 to regain lost time. The remaining mining approvals are expected in December. Fabrication of structural steel for the crushing and screening building has progressed well and the contract for the installation of concrete foundations and the train loading vaults has been let.

Overall project commitments for supply and installation contracts fell below that anticipated for the month due primarily to technical and commercial discussions with suppliers and construction

contractors taking longer than anticipated. A considerable jump in commitments is expected to occur in December with the finalisation of these agreements.

The Forecast Final Cost of infrastructure is still estimated at A\$2.246bn. A number of contracts and supply agreements are forecast to come in under budget which has enabled some forecast construction delay and acceleration costs to be accommodated. Unallocated contingency stands at \$164.7m, \$3.0m less than last month.

## **1.2 Schedule**

The granting of the SRL has enabled a definitive reprogramming of the schedule. The scheduled FOOS date is now expected to be at the end of Q1 of 2008.

<b>Milestone</b>	<b>Original Date</b>	<b>Current Date</b>	<b>Comment</b>
<b>PORT</b>			
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	Started*
Shiploader/stacker/stockpiles	Jan 08	Feb 08	Started*
FOOS	Jan 08	Mar 08	Rescheduled*
<b>RAIL</b>			
Start rail earthworks	Sep 06	Nov 06	Started*
Start marshalling yard	Oct 06	Nov 06	Started*
Start tracklaying	May 07	May 07	On schedule
Complete bridges	Jul 07	Sep 07	Started*
Finish rail EW	Oct 07	Nov 07	Started*
Finish tracklaying	Nov 07	Dec 07	Rescheduled*
First loaded train to port	Jan 08	Feb 08	Rescheduled*
<b>MINE</b>			
Start bulk earthworks	Aug 06	Nov 06	Started*
Start concrete works	Nov 06	Feb 07	Rescheduled*
Finish crusher deliveries	Sep 07	Sep 07	On schedule
Finish S/M/E installation/power supply	Oct 07	Nov 07	Rescheduled*
Commence wet commissioning	Nov 07	Dec 07	Rescheduled*
Commissioning complete	Mar 08	Apr 08	Delayed due to approvals

\* Rescheduled following granting the SRL and preliminary mine approvals

### 1.3 Cost

The award of several supply and construction contracts below budget has allowed the project to accommodate some of the additional costs of a tighter construction schedule. Non-allocated contingency currently stands at A\$165m. This means that A\$33m of the original A\$198m contingency has been allocated.

At this stage 68% of all contract packages are awarded and prices agreed.

<b>Project Area</b>	<b>Control Budget (\$M)</b>	<b>Current Budget (\$M)</b>	<b>Current FFC (\$M)</b>	<b>Variance - FFC to Current Budget (\$M)</b>
Port Area	743.7	743.7	757.2	14
Rail Area	634.9	634.9	662.8	28
Mine Area	448.1	448.1	440.1	(8)
EPCM Services	160.0	163.8	164.3	0
FMG Owners Costs	61.4	57.6	56.9	(1)
Contingency	198.6	198.6	164.7	(34)
<b>Overall Project FFC</b>	<b>2246.7</b>	<b>2246.7</b>	<b>2246.7</b>	<b>0.0</b>

### 1.4 Material Delays

The grant of the SRL has now enabled re-baselining the schedule to take account of the delay. FOOS is expected at end of Q1 of 2008.

### 1.5 Contracts

During November, multiple smaller contracts were negotiated with some contracts being executed. Negotiations on several larger contracts took longer than anticipated and are expected to be awarded in December.

### 1.6 Disputes

No material disputes to report.

## **2. MINING**

### **2.1 Progress**

Mine construction activities (access roads, permanent infrastructure and utilities) are proceeding satisfactorily with Roche Mining and Downer Works Infrastructure.

Procurement activities are continuing with the final negotiation of several key equipment supply contracts. During the month, 10 Wirtgen 2500 surface miners were ordered from the German equipment manufacturer. The award of the majority of the rest of the mobile mining fleet is expected in December.

The PMA organisation continues to be built up with several key people starting including a Procurement Manager, who will also assist Fortescue on long term supply contracts across all operations and a Health and Safety Manager will commence early in December. PMA's major priorities over the next several months are detailed mine planning and supporting Fortescue's procurement of key mining equipment.

### **2.2 Schedule**

Grade control drilling will be ramped up during November and will continue into December 2006 and the new year, to improve the accuracy of the geological model for mine planning and scheduling purposes. Overburden removal is expected to commence in Q3 of 2007 with ore mining commencing in Q4 of 2007. Lead times and equipment supply has been scheduled in accordance with these dates and suppliers are generally in a position to meet them. Importantly, Fortescue has ordered an amount of truck tyres some months ago in order to alleviate the tyre shortage facing the mining industry.

### **2.3 Cost**

Expected equipment and operating costs remain within the funding plan forecast in the Offering Memorandum.

A more aggressive mobile equipment supply and delivery budget has been developed, which will encompass the ability to ramp up production more quickly than was originally envisaged in the Offering Memorandum. This mine fleet will allow Fortescue to achieve the monthly rate of 45 million tonnes per annum before the end of 2008. This budget has been extended by approximately A\$200m from A\$225m up to A\$425m reflecting the bringing forward of these capital purchases. Nearly all of this mine fleet is expected to be leased and as such will not materially impact planned cash outlays during construction.

The Wirtgen surface miners awarded in November were made in line with budgeted costs.