



**Fortescue Metals Group Ltd**

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24 January 2007

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 December 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

*December 2006*

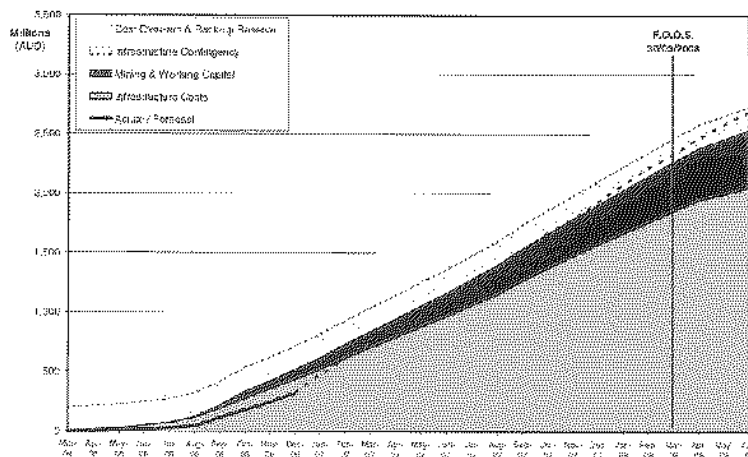
- Project completion remains forecast within current budget.
- Schedule remains with first ore on ship (FOOS) expected at end of Q1 of 2008.
- Special Railway Licence granted on 29 November 2006 enabling major field construction to commence on rail – works underway at train unloader, rail earthworks, marshalling yards and first bridges.
- Rail earthworks commenced on four fronts, bridgework commenced.
- Port dredging on schedule, marine structure piling commenced.
- Mine bulk earthworks for ore preparation facility, airport and access roads underway.
- Caterpillar and Terex selected as principal mine fleet suppliers.
- Benchmark hematite iron ore price for lump and fines to increase by +9.5% in 2007.



Unloading First Rail Shipment From China



Ore Prep Facility Bulk Earthworks



## **1. INFRASTRUCTURE**

### **1.1 Progress**

As noted in the November 2006 report, full project approvals were granted by the relevant government authorities for port and rail at the end of November. Final approvals for the mine were also received in early December.

During the month, the port dredging progressed to schedule and preparation for the main earthworks. Moving the dredged fill around the main stockpile areas commenced. The jetty and wharf contractor McConnell Dowell, continued its mobilisation and site establishment and commenced driving the first piles on the approach jetty.

At the train unloader site, all initial earthworks were completed together with the drilling and establishment of the main dewatering bores. All associated electrical work and water disposal pipework work was also completed and dewatering works commenced prior to the Christmas holiday period. Excavation will continue in early January when the water table is lowered sufficiently.

In Perth, planning for the commencement of train unloader concrete works continued with the chosen contractor, the contract for fabrication of the main bins was let and acceleration of the delivery of the main apron feeders was negotiated. The train unloader remains on the critical path of the project and progress is being monitored closely.

With approvals in place, work commenced on the permanent rail formation works and bridge sites. Mobilisation of the contractors personnel was somewhat restricted by the proximity to the Christmas break, however reasonable progress was made in all key areas with the exclusion of the marshalling yards where a lack of available construction water hindered rail and sleeper stockpile area construction. Construction of earthworks commenced on four fronts across the 260km rail corridor. Culvert rolling is almost complete for the northern third of the corridor. Construction of bridge works commenced with piling at East Turner River.

At the mine site, bulk excavation and fill was able to commence on the main plant site pads for the crushing and screening buildings and work continued on the airport, main access road and the lay-down area for the concrete batch plant. By months end, the batch plant pad was completed and the pad for the screening building around 90% completed. Demobilisation of contractor's personnel over the Christmas holiday period slowed progress, however a rapid start up to the works in January occurred.

Shop detailing and fabrication of structural steelwork for both the mine and the port continued on schedule in Perth. Steel will commence transport to site in early 2007.

The Forecast Cost at Completion remains within the original budget amount of \$2.247bn. A further \$20m of contingency was allocated during the month. This leaves the unallocated contingency amount at \$146m.

During December, the previous downward trend in injury frequency rate was not maintained with three recordable injuries being sustained at the port. Whilst the most serious of these was a twisted ankle.

## **1.2 Schedule**

The scheduled FOOS date remains at the end of Q1 2008.

Milestone	Control Schedule*	Forecast	Actual
<b>PORT</b>			
Bunds	Jun 06		Jun 06
Dredging start	July 06		May 06
Complete south end bulk earthworks	Feb 07	Feb 07	
Complete dredging	May 07	May 07	
Train unloader	Feb 08	Feb 08	
Shiploader/stacker/stockpiles	Feb 08	Feb 08	
FOOS	Mar 08	Mar 08	
<b>RAIL</b>			
Start rail earthworks	Nov 06		Nov 06
Start marshalling yard	Nov 06		Nov 06
Start tracklaying	May 07	May 07	
Complete bridges	Sep 07	Sep 07	
Finish rail earthworks	Dec 07	Dec 07	
Finish tracklaying (mainline)	Feb 08	Feb 08	
First loaded train to port	Feb 08	Feb 08	
<b>MINE</b>			
Start bulk earthworks	Nov 06		Nov 06
Start concrete works	Feb 07	Feb 07	
Finish crusher deliveries	Sep 07	Sep 07	
Finish S/M/E installation/power supply	Dec 07	Dec 07	
Commence wet commissioning	Jan 08	Jan 08	
Commissioning complete	Apr 08	Apr 08	

\* Control schedule has been rebaselined following the granting of the SRL and preliminary mine approvals.

### 1.3 Cost

The Forecast Cost at Completion remains within the original budget amount of \$2.247bn. A further \$20m of contingency was allocated during the month. This leaves the unallocated contingency amount at \$146m.

The \$20m allocation of contingency arises from three previously unbudgeted items (scope changes) accommodated for out of contingency, namely the rail workshop at \$10m, the mine fuel storage tanks \$5m and some switchyard transformers as a result of changes to the electrical system. Both the fuel tanks and rail workshop had previously expected to be Build-Own-Operate (BOO) style contracts where the capital cost would be recovered over a 5-10 year operating period during production. As a result of these two items, unallocated contingency was reduced to \$145.6m. Forecast Final Cost is still estimated at \$2.247m.

Total project commitments in December were \$91m bringing the total commitments to date to \$1.346m. At this stage 76% of all contract packages are awarded and prices agreed.

Project Area	Control Budget (\$M)	Current Budget (\$M)	Current FFC (\$M)	Variance - FFC to Current Budget (\$M)
Port Area	743.7	743.7	757.6	14
Rail Area	634.9	634.9	669.7	35
Mine Area	448.1	448.1	450.8	3
EPCM Services	160.0	163.8	165.9	2
FMG Owners Costs	61.4	57.6	57.1	(1)
Contingency	198.6	198.6	145.6	(53)
<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

There are no material delays to the project this month. The scheduled FOOS date remains at the end of Q1 2008.

## **1.5 Contracts**

Several contracts were awarded in December including train unloader concrete, port shuttle equipment, port conveyor pulleys, mine camp construction, mine conveyor pulleys, mine fuel storage and mine slewing stacker.

Major commitments pending award include port and mine structural, mechanical and electrical installation/erection contracts, all of which should be finalised over the next few months.

## **1.6 Disputes**

No material disputes to report.

## **2. MINING**

### **2.1 Progress**

Procurement of mining operations equipment progressed during December with contractual arrangements with Wirtgen surface miners being close to finalisation. Letters of Intent to purchase major mobile equipment were awarded to two main suppliers being Caterpillar and Terex. Terex will supply the large (190 tonne) overburden truck fleet and large (RH170 and RH340) excavation equipment while Caterpillar will supply the smaller (90 tonne) mining truck fleet and all the ancillary earthmoving equipment (graders, dozers, etc). The mobile equipment selection which remains outstanding includes the front end loader fleet and the long haul mining trucks.

Negotiations continued with suppliers of the ore mining conveyor systems and the overburden mobile cross pit conveyors and stackers. The work has been split with the engineering and design making up stage one and the supply and install being stage two.

Several key personnel commenced with our mining group, PMA, during December including the Health and Safety Manager and the Human Resources Superintendent. Both are working on the development of PMA policies and procedures in their respective areas to reduce risk, ensure best practice is adopted and that the operation is compliant with relevant legislation. Work continued on the detailed mine plan and schedule to support Fortescue's continued procurement of key mining equipment. The project continues to bring on board appropriate skills as and when required.

### **2.2 Schedule**

Grade control drilling was curtailed during the Christmas holiday period which allowed the Grade Control Geologists to catch up with sampling and logging of the drill holes. The data from grade control drilling will continue to improve the accuracy of the geological model for mine planning and scheduling purposes.

Overburden removal is still expected to commence in Q3 2007 with ore mining commencing in Q4 2007. This schedule affords time to conduct further trial mining activities to optimise the full-scale mining operations later in the year. Pit planning and scheduling during December focused predominantly on ensuring product quality is achieved.



### **2.3 Cost**

Equipment selection is being refined as better geotechnical information becomes available. As a result, it is now planned to utilise conventional excavators with cross pit conveyors for deeper overburden removal, rather than bucket wheel excavators.

The lack of availability of large PC 8000 shovels and the tyres for 240 tonne trucks which this shovel efficiently loads, has led to plans to utilise smaller equipment to maintain overall capacity.

As stated in the November 2006 construction report, \$200m of mining capital has been bought forward so as to achieve the 45mpa rate more quickly. Negotiations with potential lessors of mining and infrastructure capital items are continuing regarding leasing assets across the project to cover the value of the mining capital (\$425m).