



**Fortescue Metals Group Ltd**

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22 February 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 January 2007 Monthly Construction Report to be lodged on the Singapore Stock Exchange for the benefit of the Secured Note Holders.

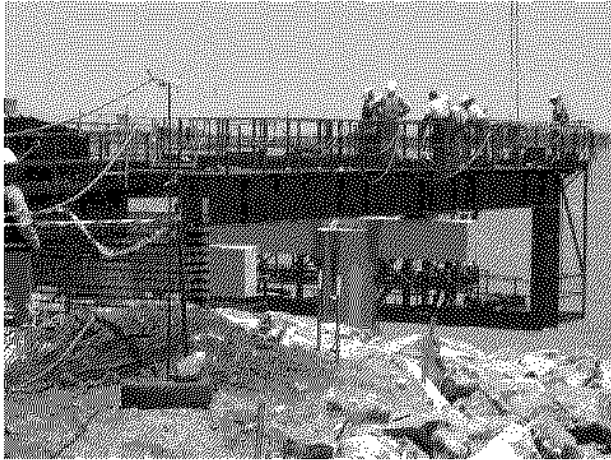
Yours sincerely  
**Fortescue Metals Group Ltd**

**Rod Campbell**  
Company Secretary

# PILBARA IRON ORE AND INFRASTRUCTURE PROJECT MONTHLY CONSTRUCTION REPORT

*January 2007*

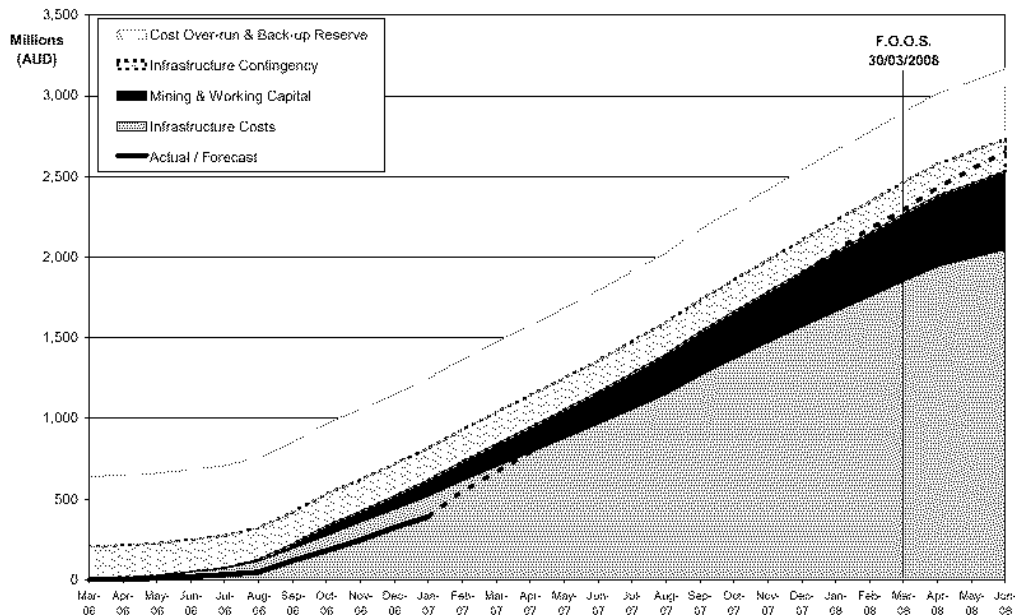
- Fortescue welcomes the Year of the Golden Pig.
- Project completion remains forecast within current budget.
- Rail earthworks continued on multiple fronts, three bridges commenced, marshalling yard construction commenced.
- Port dredging on schedule, marine structure piling continuing, port earthworks contract awarded, concrete laid in train unloader vault.
- Mine bulk earthworks for ore preparation facility, airport and access roads continuing.
- Schedule remains with first ore on ship (FOOS) expected at end of Q1 of 2008.
- Terex and Wirtgen mining equipment contracts signed, Caterpillar contract progressing.



Approach Jetty Construction



Marshalling Yard Earthworks



## **1. PROGRESS**

### **1.1 Infrastructure/construction**

Overall project progress achieved during January was slightly ahead of the current schedule and no change to milestone completion dates is forecast.

During January, the injury frequency rate increased. The most serious incident was a hairline fracture of the elbow. The recently appointed Team 45 Safety Manager visited all 3 sites during the month and has prepared an audit schedule commencing in early February.

Section 18 clearances of heritage sites along the railway and at the mine site continued during the month and allowing earthworks to proceed without heritage delay.

At the port, dredging continued to progress as scheduled. The tender for moving the dredged fill to the southern section of the stockpile areas was finalised and the contractor selected. The dredge fill will be used for the base earthworks for the stockpile area. It was decided to delay mobilisation of the contractor to reduce pressure on accommodation but this is not expected to impact the overall schedule for the installation of the stockpile machines. Piling work on the approach jetty continued and the first of McConnell Dowell's barges were mobilised from Asia. Offsite jetty, wharf concrete and steel works are underway, however the contractor must accelerate work on constructing piles in the coming months to avoid slippage against the critical path. Work on the train unloader dewatering and excavation progressed well during the month and it is expected concrete placement will commence slightly ahead of schedule.

With the rail area of the project, design work is now close to completion. Land fill quantities at the Port Hedland section have increased due to the final drainage arrangements, however overall quantities have reduced particularly in the rock cuttings across the Chichester Ranges. Mobilisation of plant and personnel continued, however a limitation of available accommodation at Port Hedland meant that additional crews had to be accommodated at Rail Camp 1 and transported to the marshalling yard – this issue will soon be alleviated as additional housing becomes available on the progressive opening of Fortescue's motel development in South Hedland. Acceptable quantities of water along the entire line have proved more difficult to locate than anticipated and additional drilling has been arranged to accommodate and reduce present haul distances. Work on embankment construction in the mid sections of the line has progressed well. Piling work on the East Turner River bridge continued and due to the hard ground conditions, a second and larger hammer is being mobilised to assist. Shorter than anticipated piles being required will compensate. Piling works on the second Turner River bridge also commenced. Concrete work at the non piled Chinnamon bridge also commenced ahead of schedule and is progressing well. Manufacture of sleepers continued to schedule, ore wagon manufacture is expected to commence on schedule and the first rail delivery arrived on schedule. Unloading of the first 8000t of rail has been slow due to the manner in which it was stacked on the ship and modified arrangements have been organised for the next shipment.

At the mine site, work on the new main access road, plant bulk earthworks and airstrip continued but fell behind schedule due to a number of reasons including wet weather, lack of construction water and lack of accommodation. Notwithstanding, these issues are not expected to impact the overall schedule and further accommodation is becoming available as the main mine village is being progressively opened. The batch plant construction is on target as is the mobilisation of the concrete placement contractor.

Modifications to blasting techniques may be required due to progress on the plant site bulk earthworks to allow concrete to be poured in the completed screening plant area. Offsite steel fabrication is continuing to schedule as is the manufacture of the crushers, screens and apron feeders. Engineering progress at the ore preparation facility is still behind schedule affecting some milestone dates for smaller mechanical items such as shuttles, sampling equipment and in the structural areas train load out and some conveyors. This issue is being addressed with the outsourcing of packages of design work to sub-consultants and WorleyParsons offices in the eastern states are being used to avoid delays in some areas.

## **1.2 Mining**

Grade control drilling has re-commenced at Cloud Break with 2 drill rigs delineating tighter grade definition at the initial mining area. The drill program is progressing more quickly than anticipated although the drill results must still pass through the assay labs which are at capacity. A monthly schedule of iron ore product required for 2008 has been developed in conjunction with infrastructure capacity. This work along with further metallurgical input has enabled mine planning to further progress. Mine production is now anticipated to occur at the Three Bears pit directly adjacent to the ore preparation facility and will move to adjacent pits within Cloud Break over the first 2-3 years of mining. Ground water monitoring activities continue to define dewatering requirements and available water supplies for the process plant.

Procurement has progressed very well with the Terex (shovels, excavators and haul trucks) and Wirtgen (10 SM2500 surface miners) contracts being completed. The Caterpillar contract is in final negotiation. Several other pieces of ancillary equipment are being purchased including cranes, low loaders and front end loaders.

Tyres have been secured through an allocation of 144 EURO 4000 - 57 68 ply and 76 ply bias tyres that has been ordered through Roche Mining.

Maintenance programs are being developed in conjunction with the planned configuration of mine fleet and maintenance facilities.

## **1.3 Schedule**

The scheduled FOOS date remains at the end of Q1 2008. There is no adjustment to this schedule this month.

<b>Milestone</b>	<b>Control Schedule*</b>	<b>Forecast</b>	<b>Actual</b>
<b>PORT</b>			
Bunds	Jun 06		Jun 06
Dredging start	July 06		May 06
Complete south end bulk earthworks	Feb 07	Apr 07	
Complete dredging	May 07	May 07	
Train unloader commissioning	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	Dec 07	Dec 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	
<b>MINING</b>			
Commence waste mining	Aug 07	Aug 07	
Commence ore mining	Sept 07	Sept 07	

\* Control schedule was rebaselined in December 2006 following the granting of the SRL and preliminary mine approvals.

## 1.4 Cost

This month we are reporting on costs on a whole of project basis. The paragraphs below describe construction/infrastructure and then mining capex status.

The Forecast Cost at Completion for infrastructure remains within the original budget amount of \$2.247bn (inclusive of the \$198m contingency). Allocation of the contingency has increased by a net \$3m to \$56m with \$142m remaining unallocated.

The initial mining capital budget has been separately reported at \$425m. Of this figure approx. \$305m is mobile mining equipment and the balance is plant and infrastructure services. The capital budget for the mine fleet is that level of equipment to be delivered prior to the end of June 2008 and required to enable the ramp up of production.

The \$120m mining infrastructure plus the \$305m budget (total of \$425m) compares to a capital estimate for the mining area of \$225m from the Master Control Budget (which was contained in the Bond Offering Memorandum). This increase of \$200m was signalled to bondholders in the November 2006 Monthly Construction Report.

Project Area	Control Budget (\$M)	Current Budget (\$M)	Current FFC (\$M)	Variance - FFC to Current Budget (\$M)
Port Area (wharf, stockpiles & train unloader)	743.7	743.7	751.3	8
Rail Area (track, rolling stock)	634.9	634.9	679.5	45
Mine Area (ore prep plant, rotary stockpiles & loading facilities)	448.1	448.1	447.9	(0)
EPCM Services	160.0	163.8	165.9	2
FMG Owners Costs	61.4	57.6	60	2
Contingency	198.6	198.6	142.4	(56)
<b>Overall Infrastructure FFC</b>	<b>2246.7</b>	<b>2246.7</b>	<b>2246.7</b>	<b>0</b>
Mining infrastructure Services	0.0	120.0	120	0
Mine fleet	225.0	305.0	305	0

## 1.5 Material Delays

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

## **1.6 Contracts**

Several contracts were awarded in January including port earthworks, conveyor idlers, screening belt feeders and dust collectors.

Infrastructure commitments increased by \$27m during the month which was ahead of that scheduled for January and the final major commitments of installation contracts at the port and mine are all close to finalisation. To date, 77% of the direct capital costs have been committed in contracts.

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.

To date, 75% of mine fleet capital has been committed.

For mining, major contracts concluded during the month included those with Terex and Wirtgen.

## **1.7 Disputes**

No material disputes to report.