



**Fortescue Metals Group Ltd**

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

Please note that the information contained within the attached report relates to the project status as of end February 2007. Accordingly it does not take account of the affects of Cyclone George which occurred on 9 March 2007. The impact of this will be reviewed within the March Construction report to be lodged in April.

Yours sincerely  
**Fortescue Metals Group Ltd**

**Rod Campbell**  
Company Secretary

# PILBARA IRON ORE AND INFRASTRUCTURE PROJECT MONTHLY CONSTRUCTION REPORT

February 2007

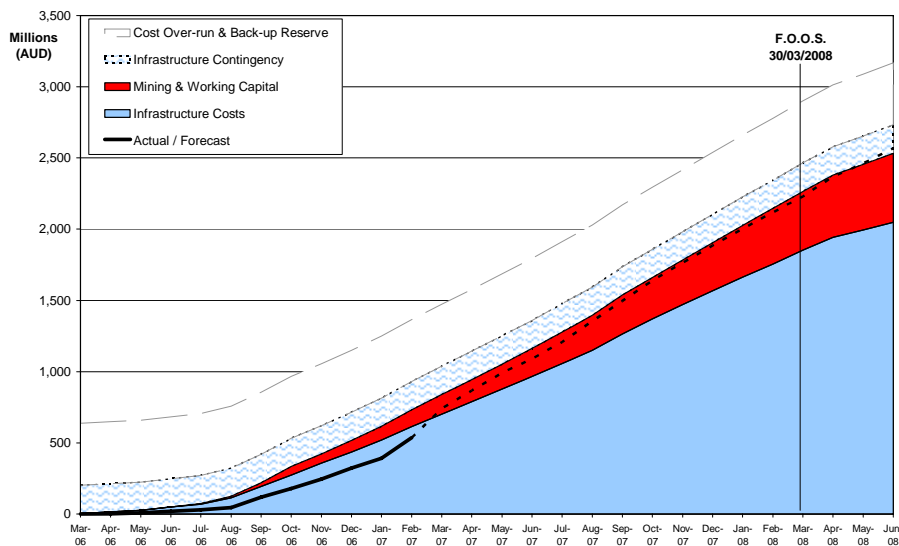
- Project completion remains forecast within current budget.
- Rail earthworks continued on multiple fronts, bridge foundations in progress at three bridges.
- Port dredging ahead of schedule, marine structure piling continuing, port earthworks underway and train unloader vault progressing.
- Mine bulk earthworks for ore preparation facility, airport and access roads continuing.
- Schedule remains with first ore on ship (FOOS) expected at end of Q1 2008.
- Mine plan developed with mining to commence at Three Bears pit at Cloud Break.



First Train Unloader Concrete



Wharf Piling



## **1. PROGRESS**

### **1.1 Infrastructure/Construction**

Overall project progress achieved at the end of February 2007 was ahead of forecast progress. As at February 2007, no change to milestone completion dates is forecast.

The ramp-up of accommodation beds has continued. At the end of February, rail camps 1 and 2 had adequate capacity. Accommodation at the mine (Cloud Break) remains a constraint to mine progress. Pursuant to the progressive release of beds, the permanent mine accommodation has been increased by 100 with a further option to expand by an additional 50 beds. By re-scheduling non-critical items, peak accommodation needs at the mine should be met. At the port, construction of the motel development, to be known as Club Hamilton, has progressed with the installation of the first 150 rooms.

A committee has been established with representatives from BHP Billiton to work through technical and other details associated with conveyor and bridge structures over BHP facilities. This committee is functioning well and the relationship with BHP Billiton is positive.

Quality management activities increased during the period with 90 inspection reports and two non-compliance reports (NCRs) issued by Team45. One Team45 NCR will require rework and a Team45 representative will travel to the fabrication site to assess impact on quality, schedule and cost. Additional resources have been mobilised to carry out audit and inspection services in China where a considerable portion of manufactured materials are being sourced for the project.

EPCM services were reforecast during the period resulting in an increase of \$9.3m in forecast EPCM costs. Forecast design costs have risen due to increased design development activities from the original design estimates. It is noted that EPCM reforecasting is an on-going process with the objective of reducing site management and engineering costs.

The port continues to demonstrate good progress. Dredging and pile driving for the wharf construction are going well with dredging expected to finish ahead of schedule in April. A bulk earthworks contractor has commenced mobilisation and should commence earthworks shortly.

At the rail, progress was disappointing during the period with productivity issues affecting the earthworks contractors progress. Whilst accommodation constraints have affected this contractors planned works program, a 2 day shut down to address health and safety issues had an adverse impact on progress. Drill, blast and fill operations are behind schedule and discussions are currently underway to accelerate these activities with the establishment of a new work front and expanded working hours. The second shipment of rail steel (10,000 tonnes) is being loaded at a port in China and is due in Port Hedland ahead of schedule in mid March.

Progress at the mine was impacted due to limitations on accommodation. Works should accelerate in the next period with the mobilisation of additional construction personnel in line with increased accommodation. Mine engineering works remain a concern and will be monitored closely over the next period. To mitigate this problem, work is proceeding in several WorleyParsons offices in an effort to complete documents so that procurement and construction activities are not delayed.

## **1.2 Mining**

February was heavily focused on developing the mining organisation structure and associated recruitment and training schedules. Grade drilling continued at Cloud Break. A detailed mine plan has been developed for the first 18 months of operation with mining commencing at the Three Bears pit at Cloud Break.

Negotiations continued to finalise contracts with Caterpillar and other suppliers. Some adjustment to delivery schedules in line with the mining plan was also made with contracted suppliers.

Hydrogeology work is ongoing to establish water sources for the water needs at the mine from pit dewatering and alternate ground water sources.

### 1.3 Schedule

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

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	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	

## 1.4 Cost

Due to commercial challenges arising as a result of explicit disclosure about forecast costs, we are no longer separately disclosing port, rail and mine costs.

The Forecast Cost at Completion for infrastructure remains within the original budget amount of A\$2.247bn (inclusive of the \$198 million contingency). Allocation of the contingency has increased to \$71m with \$128m remaining unallocated. Accommodation related costs were largely responsible for the increased allocation of contingency.

The initial mining capital budget for mining capital expenditures required to end of June 2008 remains at \$305m.

The mining infrastructure budget remains at \$120m.

Project Area	Control Budget (\$M)	Current Budget (\$M)	Current FFC (\$M)	Variance - FFC to Current Budget (\$M)
Port, Rail, mine, EPCM, Owner cost	2048.1	2048.1	2119	71
Contingency	198.6	198.6	127.7	(71)
<b>Overall Infrastructure FFC</b>	<b>2246.7</b>	<b>2246.7</b>	<b>2246.7</b>	<b>0.0</b>
Mining infrastructure	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 February including mine permanent buildings and mechanical and structural installation for part of the ore preparation facility.

Infrastructure commitments of \$39m were made during the period taking total commitments to 79% of direct capital costs. Outstanding project commitments to be made include the major structural, mechanical and electrical installation contracts at the port and mine.

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

## **1.7 Disputes**

No material disputes to report.