



Fortescue Metals Group Ltd

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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 August 2007 Monthly Construction Report.

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

August 2007

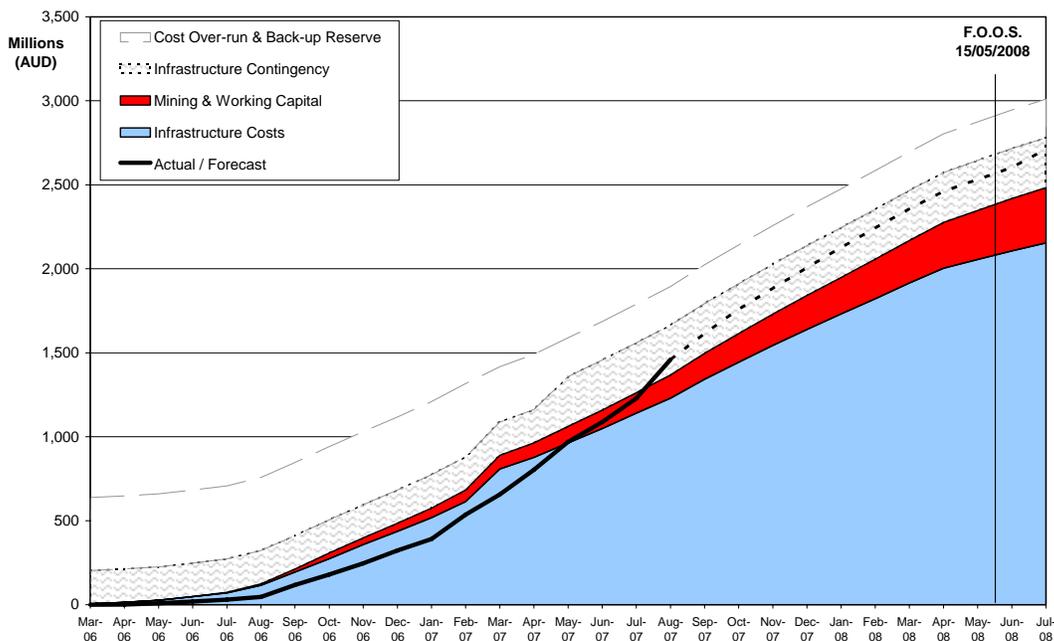
- The schedule remains unchanged for First Ore on Ship in mid May 2008 with overall project completion nearing 58%.
- Accommodation issues are now under control with 3,153 rooms now available following completion of all camps and additional rooms being sourced out of Port Hedland.
- While rail remains on the critical path the earthworks program continued to show the positive results of the additional contractors with good progress again in August although there are sequencing issues within the first 80 km section to allow for track laying.
- Port works remain ahead of schedule; the first sections of the BHPB rail crossing conveyor were delivered and major concrete pours at various sites were completed.
- At Cloud Break the steel erection program continues to advance and the power station building has been completed with the transmission line contractor now mobilised.
- The Project Final Forecast Cost remains at \$2,572 million which includes \$60 million of unallocated contingency following a \$45 million contingency allocation during the month.



Erection of First Conveyor Structure



Piling on loading berth nears completion



* In addition to the original project funding above Fortescue raised A\$500 by issuing new shares in July 07.

1. PROGRESS

1.1 Infrastructure/Construction

There were no lost time injury events during August which reinforces the improved safety performance trends of the last few months.

Overall project completion was at c.58% as at the end of August 07 – measured by value of work completed - with first ore on ship (FOOS) on schedule for mid May 2008.

The port site remains ahead of schedule with structural works commencing at various locations across the project area including the delivery of the first of the sections for the conveyor bridge span that will cross the BHPB rail line between the train unloader and the stockpile lay down area.

Mine works progressed well during August with the continuation of the major steel erection program. The power plant building was completed, the work shop areas advancing well and the crushing and screening plants both progressing in line with schedule. The frequency of charter flights to the site has increased and the number of contractors is growing with the opening up of all the work fronts

The rail program remains on the critical path with track laying lagging schedule due to delayed earthworks as previously advised and a delay in the full commissioning of the rail welding plant. Notwithstanding the rail earthworks program continued to show improvement during the month and is catching schedule. Also a remedial plan for track laying is being worked on to mitigate the welding delay.

The Forecast Final Cost (FFC) at completion of the project remains at \$2,572 million however the contingency within the FFC has been reduced to \$60 million following the allocation of \$45 million during August. The allocations spread between the rail and mine programs. The rail was adjusted to account for an increase in the earthworks program and tracklaying & bridges together with the removal of the proceeds from the proposed sale of the rail maintenance workshop. The increase in the mine cost reflected a larger volume of steel being required.

Port Construction

Progress of the port works program is assessed at being c.69% complete. Construction of the marine structures is advancing well with 119 of the 134 piles driven and the commencement of the concreting of the transfer station on the wharf.

A major concrete pour was conducted at the train unloader site and the trunnion floor of the facility has now been completed. To date some 4,776 m³ of concrete has now been poured at the unloader out of a total required of 6,800 m³.

Another major milestone during the period was the delivery of the first sections of the conveyor bridge over the BHPB rail line. Once dumped into the unloader the ore will be conveyed over the BHPB line and stacked into windrows on the stockpile lay-down area. Other milestones include the completion of the stacker embankment; completion of the major concrete works at the southern end of the stockpile and commencement of the concrete foundation work at the northern stockpile site; installation of the main switch room and control room and installation of the HV cable to the ship loader substation.

Rail Construction

Progress of the rail works program is assessed at c.49% complete. As previously advised the three rail earthworks contractors are fully deployed along the rail route and the work rates being achieved continue to be in excess of the monthly schedule. However the rail is still firmly on the critical path and while earthworks is catching schedule there have been delays to the roll-out of the track laying program due to insufficient sections of completed formation work being handed over to the track laying contractor. There have also been some problems with the full commissioning of the rail welding plant and while this has not impacted track laying to date it, is being carefully managed to ensure it does not become a limiting variable. The previous concerns about the ballast supply have been alleviated through the sourcing of an additional supplier who is now producing c. 4,000 tonnes of ballast per day.

The mitigation of the rail laying program is being addressed by the manual laying of track at the very northern section of the line. This can be done without the track already welded into lengths as it is manually done in situ.

Milestones achieved during the period were; all beams have now been erected across the East Turner River and the placement of rock armour is well advanced; good progress is being made at the site of the BHPB rail overpass crossing along the rail route and accommodation across all the rail camps has been allocated to the satisfaction of contractors.

1.2 Mine Construction

Mine construction has progressed over the month with the site assessed as c.56% complete as at end August. The number of contractors on site has increased over the last month as the room availability reaches its maximum and the number of charter flights to site increases.

An important achievement during the period was the completion of the power plant building including the structural steel with wall and roof sheeting which can now allow for the installation of the diesel generators. Work has also commenced on the major underground HV cabling.

Other key milestones were an additional 800 tonnes of structural steel erected at the crushing plant; the delivery of 3 of the crushing units to site ready for installation; an additional 1,400 tonnes of structural steel installed at the screening plant together with the installation of screen hoppers and chutes; completion of the steel structure for the heavy duty plant workshop and stores and utilities facilities; completion of the fuel farm which was followed by an inspection by BP and the delivery of the first fuel load for commissioning.

1.3 Mine Planning

The commissioning of the first Wirtgen surface miner was a milestone during the period. In total the machine excavated c.26,600 tonnes of ore. The flow rates produced were substantially higher than the 700 tonnes per hour under the original mining trial in 2005. There is a second surface miner being commissioned at site with a third on route from Perth.

Commissioning of other equipment primarily focused on the overburden removal machinery supplied by Terex and CAT was also a milestone for August. This equipment is being prepared for operation readiness in September when stripping of overburden commences.

Recruitment of personnel was also a key activity over the month with a number of positions filled. The focus has been to get the teams assembled for the commencement of operations next month.

1.4 Schedule

The scheduled FOOS date remains at mid May 2008. There is no adjustment required to the schedule this month.

Milestone	Control Schedule	Forecast	Actual
PORT			
Bunds	Jun 06		Jun 06
Dredging start	July 06		May 06
Complete south end bulk earthworks	May 07		May 07
Complete dredging	May 07		May 07
Train unloader commissioning	Apr 08	Apr 08	
Shiploader/stacker/stockpiles	Apr 08	Apr 08	
FOOS	May 08	May 08	
RAIL			
Start rail earthworks	Nov 06		Nov 06
Start marshalling yard	Nov 06		Nov 06
Start tracklaying	Jun 07		July 07
Complete bridges	Jan 08	Dec 07	
Finish rail earthworks	Jan 08	Feb 08	
Finish tracklaying (mainline)	Mar 08	Mar 08	
First loaded train to port	Mar 08	Mar 08	
MINE			
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	Feb 08	
Commissioning complete	Apr 08	Apr 08	
MINING			
Commence waste mining	Sep 07	Sep 07	
Commence ore mining	Oct 07	Oct 07	

1.5 Cost

The Forecast Cost at Completion for the Project (excluding mining fleet) is \$2,571.5 million which is unchanged from the last report. This figure includes an unallocated contingency which now stands at \$60 million following a \$45 million cost reforecast made during August.

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

Project Area	Control Budget (\$M)	Revised Budget (\$M)	Current FFC (\$M)	Variance - FFC to Revised Budget (\$M)
Overall FFC	2,246.7	2,571.5*	2,571.5*	0.0
Mine fleet	225.0	305.0	305.0	0.0

**Now includes mining infrastructure*

1.6 Material Delays

There are no material delays to the project this month. The scheduled FOOS date remains at mid May 2008.

1.7 Contracts and Approvals

The total value of commitments made during the month was \$106 million.

1.8 Disputes

As advised last month Fortescue and BGC Contracting are in legal action pursuant to a disputed "alliance fee" amount owing following the termination in May 2007 of the original Alliance Agreement. A preliminary hearing was held during August and the judge ruled in favour of BGC which meant that an amount of \$12.5 million was transferred to them. Fortescue is appealing that decision and will advise as further details come to hand. In addition to this there is a further amount of approx. \$6 million that is in arbitration with BGC relating to the quantum of the direct cost recovery under the alliance agreement. The outcome of arbitration is unlikely to be known for some months.