



**Fortescue Metals Group Ltd**

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23 October 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 September 2007 Monthly Construction Report.

As a post September 2007 event, Fortescue has committed to proceed with certain optimisation initiatives comprising the early construction of the lump circuit at the mine site and the development of the second berth for ship loading.

The scope of these measures has been presented to the Independent Engineer "IE" and when the detailed designs, estimates and implementation plans have been presented and reviewed, they will be reported on in the IE construction report. Fortescue has estimated the cost of the project changes to be AUD\$200 million but will report in more detail once they are finalised and the IE has reviewed them.

Fortescue can also report that the various activities referenced in the attached report as scheduled for completion on October 17 were undertaken successfully.

Yours sincerely

**Fortescue Metals Group Ltd**

**Rod Campbell**

Company Secretary

# PILBARA IRON ORE AND INFRASTRUCTURE PROJECT MONTHLY CONSTRUCTION REPORT

*September 2007*

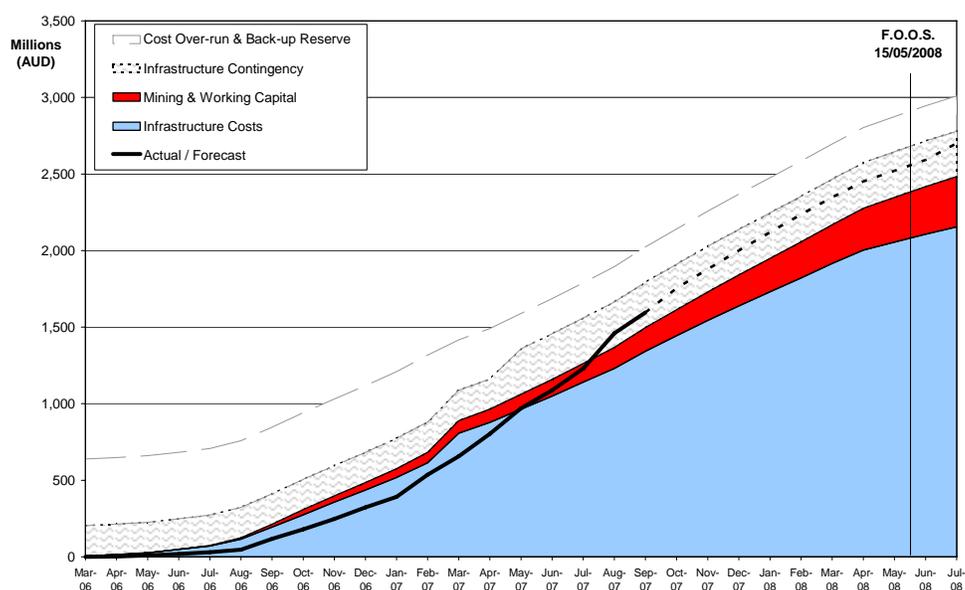
- The schedule remains unchanged for First Ore on Ship in mid May 2008 with overall project completion at 65% measured by value of work.
- Port works are at c.74% complete with steel erection now well progressed, final section of the conveyor bridge over the BHPB rail delivered to site, loading wharf piling completed and the stacker tipper erected on site.
- Mine site works are c.65% complete with advances made on the crushing & screening plants, installation of 13 power generation units and progress on overhead power lines and conveyor installation.
- Rail works are c.56% complete with tracklaying remaining on the critical path as delays experienced in the handing over of finished track formation.
- The Project Final Forecast Cost remains at \$2,572 million inclusive of \$60.3 million unallocated contingency which was reduced by \$0.3 million during September.



Stacker Tripper Erected at Site



Stockpile Hopper Bin at Fabricators Works



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

## **1. PROGRESS**

### **Infrastructure/Construction**

For the third consecutive month there were no lost time injury events. This is particularly pleasing given the significant increase in the number of contractors on site and reflects the efforts of Fortescue management to continually reinforce the safety message to all project workers.

Overall project completion was at 65% as at the end of September 07 – measured by value of work completed - with first ore on ship (FOOS) on schedule for mid May 2008.

The port site remains the most advanced with a target date to be ready for the delivery of first ore being in the first week of April 2008. Work is advancing on many fronts as various sites are being made ready for the erection of major equipment items including the conveyor bridge over the BHPB rail line, installation the train unloader units that were delivered to site in September and completion of the wharf pilings in readiness for the fixing of the prefabricated decking modules in October.

The mine works program experienced good progress during September with the value of work completed being above that targeted for the month. The program is now estimated to be 65% complete by the value of work measurement. The schedule for the mine is to be ready for the loading of first ore onto the train during February 2008.

The rail program is estimated at 56% complete which is behind schedule for first ore onto train during March 2008. The main critical path item remains track laying which is being hampered by the slower delivery of completed rail formation from the earthworks contractors. As advised last month there are remedial works programs in place and Fortescue remains confident that it can catch up the time delays to achieve the schedule dates.

The Forecast Final Cost (FFC) at completion of the project remains at \$2,572 million which includes the contingency of \$60 million. During the month there was a small draw on unallocated contingency of only \$0.3 million.

### **Port Construction**

The port works continue to progress well with a number of milestones achieved during September or planned to be achieved this month. The piling works for the loading berth have been completed in readiness for the installation of the decking modules that have been prefabricated in Perth and are now en-route to Port Hedland. Once fixed into place, which is scheduled for mid October, the wharf platform will be ready for the installation of the travelling ship loader tracks.

During September the 400 tonne train unloader rotating steel cell unit was transported by ship (in two sections) from Perth where it had been constructed. The final concrete pour for the train unloader “trunnion floor” is being undertaken now in preparation for the installation of the rotating unit scheduled for October 24.

The final section of the ore conveyor bridge to span the BHPB rail line at the port was delivered to site and the entire preassembled unit is scheduled to be lifted into place on October 17.

All major concrete pours have been completed with the final sections of the transfer station adjacent to the wharf now finished. The other major concrete work was the completion of the slabs and footings for the conveyor bridge over the BHPB rail line.

The electrical contractor is now fully mobilised and has commenced the construction of the permanent 66kV power supply works to Anderson Point.

## **Rail Construction**

Over the month rail made reasonable progress but continues to lag the overall schedule. The critical path item is track laying which in turn has been delayed due to the slower delivery of sufficient quantities of finished continuous earthworks formation. The automated SUM tracking laying machine relies on a continuous length of formation as it moves along the laid rail feeding the sleepers and rail line from its front end as it travels along. As at end September approximately 12 kms of formation had been handed over and laid which is less than planned. However during October there has already been a significant increase in hand over volumes and by late October it is expected that 45 kms will be with the track layer.

To mitigate the risk of a single reliance on the SUM machine, the decision was taken to commence manual track laying at the southern and northern ends of the rail line. As with the earthworks program some months ago, the opening up of several track laying work fronts will assist the team to catch up on schedule. It is anticipated that the far southern 30kms of the rail line will be manually laid as will the very northern 25 kms.

An important milestone was reached during the month with the completion of the two concrete abutments at either side of the BHPB rail overpass crossing which occurs 140kms to the south of Port Hedland. The steel girder that spans the abutments at 9 meters above the rail line is 37 metres long, 7 metres wide, weighs 160 tonnes and is scheduled to be lifted into place on October 17.

## **1.2 Mine Construction**

Mine construction progressed well over the month with the site now marginally ahead of schedule. All accommodation has now been fully commissioned with 1,206 beds available for use.

Work on the site power station has made good progress with 13 power units now installed. Erection of overhead power cabling is also advancing with lines now in place to the ore preparation centre and also to the main camp.

The crushing and screening plants continue to show good progress with approximately 3,800 tonnes of structural steel now erected across both sites (6,610 tonnes required in total). The crushing units have now been delivered to site and are being progressively lifted into position. The permanent water storage tanks are advancing with foundation works now completed and floor plates being laid into position. The fuel farm was commissioned during September.

### **1.3 Mine Planning**

The key achievement of the mining team was the commencement of overburden removal as per schedule. As at months end approximately 400,000 cubic metres of waste had been stripped and some 150,000 cubic metres of ore has been stockpiled. The volume of ore is largely a result of the commissioning of the first two Wirtgen surface miners rather than representing a start of mining which is not scheduled to commence until later this month.

Equipment procurement is progressing with the commissioning of several more Terex trucks and O&K shovels together with shipping of another three Wirtgen surface miners which are expected to arrive into Perth in October.

The safety statistics for the mine operations are reported separately to the construction program. While in September there were two reportable safety incidents together with three minor medical treatment events, there were no lost time injuries which is consistent with the results of the construction program.

## Schedule

The scheduled FOOS date remains at mid May 2008. There is no adjustment required to the 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	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	
<b>RAIL</b>			
Start rail earthworks	Nov 06		Nov 06
Start marshalling yard	Nov 06		Nov 06
Start tracklaying	Jun 07		July 07
Complete bridges	Jan 08	Jan 08	
Finish rail earthworks	Jan 08	Jan 08	
Finish tracklaying (mainline)	Mar 08	Mar 08	
First loaded train to port	Mar 08	Mar 08	
<b>MINE</b>			
Start bulk earthworks	Nov 06		Nov 06
Start concrete works	Feb 07		Feb 07
Finish crusher deliveries	Sep 07		Sept 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	Sep 07		Sept 07
Commence ore mining	Oct 07	Oct 07	

## 1.4 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 stands at \$60 million with only a small \$0.3 million allocation during September.

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*

## 1.5 Material Delays

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

## 1.6 Contracts and Approvals

The total value of commitments made during the month was \$124 million.

## 1.7 Disputes

There were no new material disputes during the period.