



Fortescue Metals Group Ltd

ACN: 002 594 872
87 Adelaide Terrace East Perth
Western Australia 6004
PO Box 6915, East Perth, Western Australia 6892

Telephone: + 61 8 6218 8888

Facsimile: +61 8 6218 8880

Website: www.fmgl.com.au

20 November 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 October 2007 Monthly Construction Report.

Yours sincerely

Fortescue Metals Group Ltd

Rod Campbell
Company Secretary

PILBARA IRON ORE AND INFRASTRUCTURE PROJECT MONTHLY CONSTRUCTION REPORT

October 2007

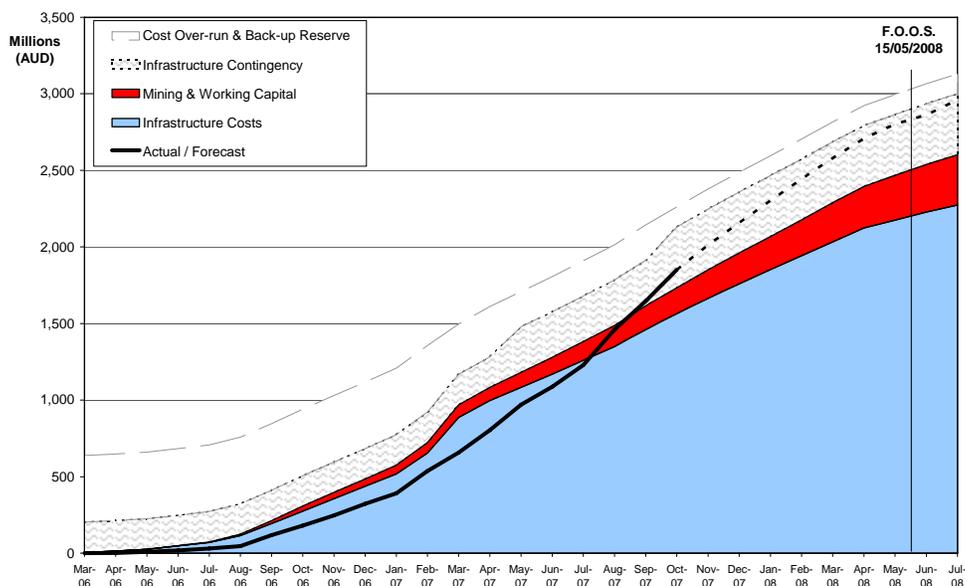
- The schedule remains unchanged for First Ore On Ship (FOOS) in mid May 2008 with overall project completion at 72% measured by value of work.
- Port works are 80% complete with the installation of conveyor bridge over the BHPB rail, one of the ore wagon unloader cells set in place, the iron ore stacker & reclaimer delivered and both under assembly and the decking over the first loading wharf platform.
- Mine site works are 70% complete with crushing & screening plants well advanced, the power station and administration block completed and work commencing on the train loader.
- Rail works are 64% complete with installation of the bridge over the BHPB line, delivery of the first shipment of ore wagons and the entire 15 GE locomotives.
- The Project Final Forecast Cost has been increased by A\$100m to \$2,671.5 million which includes an unallocated contingency of \$40 million. The increase has been determined following a further review of the rail works program and is in part covering additional new costs designed to ensure the integrity of the rail schedule.



BHPB rail overpass installed



FMG Locomotives arrive



1. PROGRESS

Infrastructure/Construction

For the fourth consecutive month there were no lost time injury events. There was one restricted work case incident and one medical treatment case. Across all areas there was extensive focus on cyclone safety planning work in preparation for the commencement of the cyclone season from November 1.

Overall project completion was at 72% as at the end of October with the value of work completed during the month of 7.1%. First ore on ship remains scheduled for mid May 2008. The rail track laying program still remains on the critical path due to slower completion of final track formation and slower results from the SUM automated track laying machine. Recently however there have been a number of initiatives implemented to remedy these two areas with additional earthwork resources applied along the mid section of the rail route, and two manual track laying teams engaged at the northern and southern end of the line. To provide context to the capacity of a manual team, the automated machine has a target of 1.8kms per day and a manual team is capable of laying up to 1km a day.

The formation work for the first 80km section is nearing completion with the contractor originally due to demobilise in November, however under the new initiatives this contractor is to be retained for additional work on the next section of the line.

To cover the costs of these initiatives as well as covering some short falls identified in a recent audit of the final rail accommodation costs, the ballast supply contract and certain earthworks contracts, an additional \$100m has been added to the final forecast project cost "FFC". The FFC now stands at A\$2.671.5bn within which an unallocated contingency of A\$40m exists. The funds have been drawn from existing cost overrun reserves that were raised in the initial project debt package. The balance of this undrawn reserve pool now stands at approximately US\$100m.

This level of reserve together with unallocated contingency is considered by Fortescue as sufficient to see the project through to completion given its status of 71% complete. Fortescue also has at hand some \$300m from the proceeds of the July 2007 equity raising that could be directed toward the project should unforeseen events occur prior to completion.



Wharf Modules in place on the Loading deck

1.1 Port Construction

The port works continue to progress well and the site is assessed as being 80% complete. A major milestone during the period was the erection of the conveyor bridge across the BHPB rail line and the Finucane Island access road. The unit had been delivered to site in September and then was lifted into place as one complete unit during October.

Another important milestone during October was the decking of the first ship loading berth. As previously reported the piling work had been completed in September in readiness for the installation of the pre fabricated decks that had been shipped from Perth. Over 2 days the decks covering a length of 350 metres were fixed into place to complete the entire hard stand area of the ship loader.

Other events during October were 1) the delivery of the ThyssenKrupp designed ore reclaimer that was manufactured in China and is now being assembled on site, 2) the continuing assembly of the stacker that was delivered to site in September, 3) the installation of the first rotating ore wagon unloader cell with the second cell to be fixed during November.

1.2 Rail Construction

Reasonable progress was made during the month with work completed of 7.6% of the total value of work required. The overall program is assessed as 64% complete at month's end. As previously reported, 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.

Initiatives are being implemented to speed up the program with one of those being the retention of Brierty Contracting, once they have completed their original designated section of the rail line being the first 80kms from the port heading south. Brierty was due to complete during November however the company is now going to be redeployed along the second section of the rail line to assist BGC. Fortescue is also deploying some of its heavy duty overburden removal equipment to the rail line to further assist the external contractors. This machinery is available for use following the completion of the overburden removal at the first mining bench at Cloudbreak. The application of additional resources is expected to accelerate the completion of further formation work to ensure that the earthworks program stays well ahead of the SUM automated track laying machine.

Several milestones were reached during the month being 1) the installation of the BHPB rail overpass that was lifted into place as a single steel girder section measuring 39 metres long, 7 meters wide and weighing 160 tonnes - the fact that this was completed within 45 minutes was an extraordinary operational achievement by the rail team; 2) the delivery of the first 58 ore Wagons from China with the balance of the total 820 order to be progressively delivered over the next few months 3) the arrival of all 15 GE locomotives that were manufactured in the US and shipped to Port Hedland. The locomotives have now been delivered to the marshalling yard and will be subjected to commissioning trials.

1.3 Mine Construction

Mine construction is assessed at 70% complete and in some areas the construction program is being finalised and a hand-over made to the operating team.

Work on the site power station has been completed and the 15 power units installed are able to supply up to 30 megawatt capacity. All overhead power poles from the power plant to the sub stations servicing the ore preparation facility have been installed and the cabling is c.60% completed.

The crushing and screening plants continue to progress well with structural steel at the crushing plant now 99% complete and 70% complete at the screening house – in total some 5,500 tonnes of structural and construction steel has now been erected across both sites with 6,848 tonnes required in total (nb. the total requirement has been varied upwards from that shown in the September report). The crushing units have now been delivered to site and are being progressively lifted into position. The permanent water storage tanks are near completion and the main administration block was completed during October and is being handed over to operations.

1.4 Mine Planning

The mining team achieved an important milestone during October being the overburden removal of some 750,000 bank cubic meters of waste in preparation for the commencement of mining that was scheduled for early November. The overburden was removed through the traditional methods of drill and blast with the waste removed to the side of the first mining bench known as Hayman pit. As at the end of October some 390,000 tonnes of ore had been stockpiled which has largely been generated from the surface miner commissioning work.

The commissioning of the third Wirtgen surface miner continued during October and it is expected that this will be completed by early November as per schedule for commencement of commercial scale mining. The plan for the mining team is to have a stockpile of some 1.5 million tonnes of ore in readiness for the commissioning of the crushing and screening units scheduled for early 2008.

The progressive delivery of Fortescue's mobile mining fleet continues with the current inventory on site being 6 Terex 190 tonne overburden haul trucks; 5 O&K shovels and back hoes; 15 CAT 100 tonne haul trucks, 3 D11 CAT dozers, 3 D10 CAT dozers, 2 water trucks, 2 graders and 3 service trucks.

The safety statistics for the mine operations are reported separately to the construction program. In October there were 3 restricted work injuries and 1 first aid treatment event. There were no lost time injuries which is consistent with the results of the construction program.

2: 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	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	
MINE			
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	
MINING			
Commence waste mining	Sep 07		Sept 07
Commence ore mining	Oct 07	Nov 07	

3: Cost

The Forecast Cost at Completion “FFC” for the Project (excluding mining fleet) is \$2,671.5 million which is an increase of \$100m from the last report. This figure includes an unallocated contingency of \$40 million noting that all of the previous month’s \$59 million unallocated contingency has been now allocated across various items within the rail program. The additional \$100 m capex inclusion to the FFC budget has been sourced from existing reserves that had been raised as part of the overall project funding program in August 2006. The balance of this undrawn cost overrun reserve now stands at approximately US\$100m.

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*	2,671.5	100.0
Mine fleet	225.0	305.0	305.0	0.0

**Now includes mining infrastructure*

4. Material Delays

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

5. Contracts and Approvals

The total value of commitments made during the month was \$88.9 million.

6. Disputes

There were no new material disputes during the period. It should be noted that Fortescue was successful in its appeal to the Supreme Court in relation to the previously advised BGC contractual dispute. As reported BGC were awarded a court order to take possession of \$12 million that was being disputed by Fortescue in connection with the severance payment following the termination of the rail works Alliance Contract in May 2007. Fortescue won the appeal in October 2007 which meant that BGC had to return the funds to be held in trust pending a full determination, either by agreement or court determination, of the correct amount to which BGC might be entitled.