



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 December 2007 Monthly Construction Report.

Yours sincerely
Fortescue Metals Group Ltd

Rod Campbell
Company Secretary

PILBARA IRON ORE AND INFRASTRUCTURE PROJECT MONTHLY CONSTRUCTION REPORT

December 2007

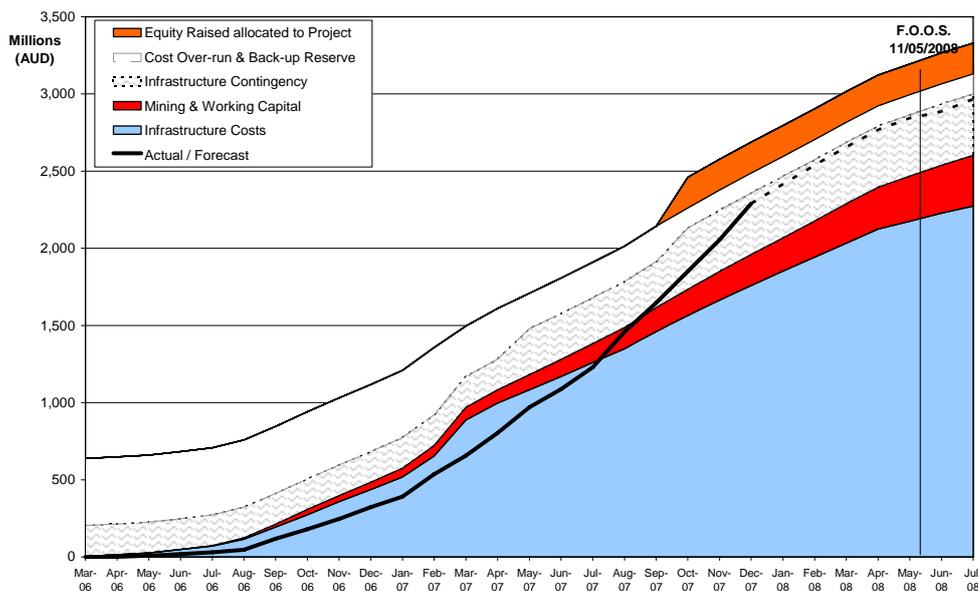
- The schedule remains for First Ore On Ship (FOOS) in mid May 2008 with overall project completion at 82% measured by value of work.
- Port works are 87% advanced with completion of piling works for the lay-by berth, completion of assembly for the ore stacker, the commencement of pulling the conveyor belts and the commencement of commissioning works for the ship loader which is due to be lifted into place in January 2008.
- Mine site works are 75% complete with excellent progress in a range of areas including the power lines, mining maintenance workshop, slewing stacker, the product vaults and the train load out facility.
- Rail works are 79% complete with the automated track laying complete to chainage 97 heading south, manual track laying from Cloudbreak heading north at chainage 256 and a total of 520 ore wagons on site out of the order of 816.
- Project Final Forecast Cost is \$2,699 million which is an increase of \$17 million from last period. During the month there was also a draw on contingency of \$22 million.



Testing of Shiploader in China



Ore Car Indexer being lowered into position



1. PROGRESS

Infrastructure/Construction

There were no lost time injuries during December however there was one restricted work case and two medical treatments. The main safety event during the period was a cyclone watch when Tropical Cyclone Melanie passed to the north of Port Hedland and eventually dissipated out at sea to the north west of Karratha. The project team moved into cyclone alert and the incident management team at Port Hedland was activated to take control of the potential event. As the cyclone passed well to the north and did not cross land, there was no impact or damage to any of the project assets but it did provide an opportunity to test the cyclone safety procedures.

Overall project completion was at 82% at the end of December with the value of work completed during the month at 4.7%. As previously reported the critical path remains the rail program with track laying behind schedule, however during the month there was an increase in the quantity of track laid with a total of 36.2km's completed. This was caused by an improved performance level of the SUM automated track laying machine and also the work of the two manual track laying teams showing results. At end December formation capping was completed to chainage 103 and track laying completed to chainage 97. The capping program is intended to remain slightly ahead of the laying program as exposing completed capping for too long prior to track and ballast laying heightens the risk of potential rain damage. Manual teams had also progressed track laying heading north from Cloudbreak and heading north from the marshalling yard towards the port.

The Forecast Final Cost "FFC" now stands at A\$2.699bn which is an increase of \$17m from the previous month. There was also an allocation of contingency of \$22m which means that at the end of December there was no remaining contingency amount within the FFC. Notwithstanding the project funding base still has approximately A\$80m in its back up reserve and a further \$300m is held by the parent from the 2007 equity raising.



Assembled stacker at the port

1.1 Port Construction

The port works are assessed as 87% complete. The scheduled date for the port to be ready to receive ore is now March 14 which is several weeks earlier than recorded in the November report.

Key achievements during the period included 1) the completion of the stacker that will service the port stockpile area (first stage commissioning of the stacker without a load will be conducted in January with full commissioning conducted when ore is delivered to the port; 2) the lifting and connection of the reclaimer slew ring resulting in the near completion of this piece of equipment 3) the commencement of pulling the conveyor belts through the major conveying system linking the train unloader to the stockpile site and 4) completion of the piling works for the lay-by berth.

Commissioning of the ship loader in China progressed well during December and the equipment is scheduled to be loaded onto a ship in China in early January for shipment to Port Hedland.

1.2 Rail Construction

The rail program is assessed as 79% completed with good progress made during December. For the second month running the assessed value of work "VOW" completed during the month was above the budget with 7.0% achieved against a target of 6.6%.

The good progress continues to show the effects of the remedial plans put in place some months ago and management is confident that this trend should continue. The automated track laying machine is performing well as are the manual track laying teams operating at the northern and southern ends of the rail line. The rail earthworks program was also bolstered during December through the application of a part of Fortescue's mine fleet and personnel to a specific section on the rail line.

During the month an additional 318 ore wagons were delivered to site taking the fleet to 520. The balance of the 816 wagon order is scheduled to arrive in January/February. As previously mentioned the 15 GE locomotives were delivered to site in October 2007 and since then they have been commissioned. During December a full rail "consist" made up of 2 locos and 200 wagons was tested along a 60 kilometre run from the marshalling yard down the line. This is all part of the general commissioning of the fleet that will occur prior to ore being loaded and railed to the port.

The scheduled date for the completed rail line to be ready to accept ore is now early April which puts the rail program on the critical path for a successful first ore on ship in mid May. As at end December the track had been laid to the 97 kilometre mark and during the period the SUM machine showed it was capable of laying over 2kms in a day. The challenge for the rail team is to ensure that there is sufficient capped rail formation ahead of the SUM machine to ensure it operates all day and every day.

1.3 Mine Construction

Mine construction was assessed at 75% complete with a target date of mid March for the mine to be ready to provide ore to the train. During the month there was a cost increase for the mine project of \$24.5m which was largely directed toward the de-sand plant. While this change resulted in a lesser value of work completed for the month it is noted that the de-sand plant is not on the critical path to first ore on ship as it is not required within the first few months of ore processing given the higher quality ore that will be mined initially under the mine plan.

Key achievements during the month were: 1) the completion of the concrete pour for the third and final product load out vault [ie. vault 403]; 2) completion of the slewing stacker from the Ore Preparation Facility ("OPF") to the product stockpile area; 3) the hand over of the fuel farm and power plant to operations; 4) the completion of the placement of the pre-cast tunnel sections from the train load-out and vaults 401 and 402 in readiness for the backfilling of the tunnels in January 5) good progress on structural steel erection at the train load out facility.

1.4 Mine Planning

The mining activities at Cloudbreak have been ongoing now for some months and during December the team removed some 308,175 bank cubic meters "bcm" of which some 280,000 bcm was removed from the main pit known as Hayman. Total ore mined during the month was 121,020 tonnes which came from the Hayman pit and was extracted by the Wirtgen surface miners. Year to date some 665,000 tonnes of ore has been stockpiled. Some of this material has been used for sheeting out the ROM pads and this project is now near complete. The balance of material is being stockpiled and will assist with the commissioning of the OPF (ie. crushing & screening facilities) which is scheduled to commence in March 2008.

The delivery to Cloudbreak of the necessary mining machinery continues and the site inventory currently stands at 4 Wirtgen SM2500 surface miners, 13 Terex 190 tonne overburden haul trucks; 6 O&K shovels and back hoes; 18 CAT 100 tonne haul trucks, 3 D11 CAT dozers, 3 D10 CAT dozers, 3 water trucks, 2 graders and 5 service trucks.

With regards to safety, in December there no lost time injuries "LTIs". This follows 5 previous months of no LTI's. There were 4 minor injuries during the period of which 2 resulted in restricted work duties.

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	Mar 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	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		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 \$2,699.9 million which is an increase of \$17m from the last report. There was also an allocation of \$22 million from the contingency account which effectively means that within the current FFC there is no remaining contingency.

The application of the contingency allocation and the cost increase totalling \$39 million, was \$24.5 for scope changes at the port, \$10 million for additional rail costs and \$4m for port power supply costs .

The reinstatement of a contingency reserve within the FFC is being considered during January. The project retains the ability to draw on the existing cost over run reserve of some \$80 million to accommodate an allocation. Further funds are available, if so required, from the parent for an amount up to \$300 million. The source of these funds was from the \$500 million equity placement completed in July 2007 and from which the parent company Fortescue Metals Group Ltd contributed \$200 million into the project accounts to provide for optimisation measures and replenish contingency.

In regards to the optimisation measures the Independent Engineer has incorporated these into the T45 project premised on the fact that they are all required to ensure a smooth ramp up to 45 million tonnes per annum. A number of the measures including the mine lump circuit and the related port stacker and reclaimer were already a part of the overall construction plan albeit they were originally planned to be funded from cash flow after first ore on ship rather than from debt / equity over the initial construction phase. It was also noted by the IE that other scope changes including the construction of a third de-sand plant and the conversion of the lay-by berth to a ship loading berth will facilitate the ramp up to 45 million tonnes per annum.

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*	2,699.9	128.4
Mine fleet	225.0	305.0	305.0	0.0

**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 \$112.3 million.

6. Disputes

There were no new material disputes during the period.