



**Fortescue Metals Group Ltd**

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19 October 2006

The Companies Officer  
Australian Stock Exchange Ltd.  
Exchange Plaza  
2 The Esplanade  
Perth WA 6000

Dear Sir,

**Lodgement of Notice of Meeting for 2006 AGM**

Fortescue Metals Group Ltd ("Fortescue") advises that it will hold its Annual General Meeting "AGM" in Perth on Friday November 17 2006. The Notice of Meeting pursuant to the AGM is attached for reference.

Yours sincerely  
**Fortescue Metals Group Ltd**

**Rod Campbell**  
Company Secretary

The New Force in Iron Ore



**Fortescue Metals Group Ltd**  
**ABN 57 002 594 872**

**NOTICE OF ANNUAL GENERAL MEETING  
EXPLANATORY STATEMENT**

Please read the Notice and Explanatory Memorandum carefully

If you are not able to attend the Annual General Meeting of Shareholders, please complete and return the Proxy Form in accordance with the specified directions.

## NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of Fortescue Metals Group Ltd (ABN 57 002 594 872) ("the Company") will be held at the Exchange Plaza Conference Centre, Level 8, 2 The Esplanade, Perth Western Australia on 17 November 2006 commencing at 9.00am.

If you are unable to attend the meeting, you are encouraged to complete and return the proxy form. The completed proxy form must be received at the office of Computershare by no later than 48 hours prior to the time of the meeting or any adjournment thereof.

### Date for determining voting entitlements

The Directors have determined that for purposes of the Corporations Act, the persons eligible to vote at the meeting will be those persons who are registered shareholders at 5.00pm (WST) on Wednesday, 15 November 2006. Accordingly, share transfers registered after that time will be disregarded in determining entitlements to attend and vote at the meeting.

### Appointment of Proxies

Each shareholder is entitled to appoint a proxy. The proxy does not need to be a member of the Company. A shareholder that is entitled to cast two or more votes may appoint two proxies and may specify the proportion of votes each proxy is entitled to exercise. If a shareholder appoints two proxies, each proxy may exercise half of the shareholders' vote if no proportion or number of votes is specified.

**A Proxy Form accompanies this Notice of Meeting and to be effective must be completed and received to Computershare office as detailed below:**

### Share Registry

**Computershare Investor Services Pty Limited**

Level 2

45 St Georges Terrace

PERTH WA 6000

**or by facsimile on:**

(08) 9323 2033

**By no later than 9:00am (WST) on Wednesday, 15 November 2006.**

If any shareholder wishes to lodge a proxy electronically it will be necessary to scan an image of the signed proxy form and e-mail that image with a signature affixed. This is needed to comply with the requirements of Section 250A of the Corporations Act that a valid proxy be in writing and be signed by the shareholder appointing the proxy.

### Corporate Representatives

Any corporate shareholder wishing to appoint a person to act as its representative at the meeting may do so by providing that person with:

A letter or certificate executed in accordance with the corporate shareholder's constitution authorising that person as the corporate shareholder's representative at the meeting; or

A copy of the resolution appointing that person as the corporate shareholder's representative at the meeting, certified by a Secretary or Director of the corporate shareholder.

## AGENDA

The Explanatory Statement which accompanies and forms part of this Notice describes the matters to be considered as ordinary and special business.

### 1. FINANCIAL STATEMENTS

To receive the financial report for the year ended 30 June 2006 and the Directors' and Auditor's reports.

### 2. RESOLUTION 1 - ADOPTION OF REMUNERATION REPORT

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an ordinary resolution:

*"That the remuneration report for the Company and its controlled entities for the year ended 30 June 2006 be adopted."*

### 3. RESOLUTION 2 - ELECTION OF MR JOSEPH S. STEINBERG

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an ordinary resolution:

*"That Mr Joseph Steinberg, having been appointed as an additional Director of the Company since the last meeting of shareholders, resigns from the office of Director in accordance with Rule 17.3 (9) of the Company's Constitution and, being eligible for election, be elected as a Director of the Company."*

### 4. RESOLUTION 3 - RE-ELECTION OF MR HERB ELLIOTT

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an ordinary resolution:

*"That, Mr Herb Elliott, being a Director of the Company who retires by rotation pursuant to Rule 17.3 (3) of the Company's constitution, and being eligible, is re-elected as a Director of the Company."*

### 5. RESOLUTION 4 - RE-ELECTION OF MR GRAEME ROWLEY

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an ordinary resolution:

*"That, Mr Graeme Rowley, being a Director of the Company who retires by rotation pursuant to Rule 17.3 (3) of the Company's constitution, and being eligible, is re-elected as a Director of the Company."*

### 6. RESOLUTION 5 – RATIFICATION OF PRIOR ISSUE OF ORDINARY SHARES

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an ordinary resolution:

*"That, for the purposes of Listing Rule 7.4 and for all other purposes, shareholders ratify the allotment and issue of 26,400,000 ordinary shares at a total issue price of US\$300,000,000 to Baldwin Enterprises, Inc., a subsidiary of Leucadia National Corporation, Inc. of the United States of America."*

**Voting Exclusion:** The Company will disregard any votes cast on this resolution by a person who participated in the issue and any of their associates. However, the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or it is cast by the person chairing

the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

**7. RESOLUTION 6 – ADOPTION OF FORTESCUE METALS GROUP LTD PERFORMANCE SHARE PLAN**

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an ordinary resolution:

*"That, for the purposes of Listing Rule 7.2, exception 9(b) and for all other purposes, the directors of the Company are authorised to implement and maintain an incentive plan to be called the "Fortescue Metals Group Ltd Performance Share Plan", to grant rights (each to acquire one fully paid ordinary share in the capital of the Company) under the plan and to issue Shares upon exercise of rights granted under the plan from time to time upon the terms and conditions specified in the Fortescue Metals Group Ltd Performance Share Plan (the terms of which are summarised in the Explanatory Memorandum), as an exception to Listing Rule 7.1."*

**Voting Exclusion:** The Company will disregard any votes cast on this resolution by a director of the Company (except one who is ineligible to participate in any employee incentive scheme in relation to the Company) and any associate of such director. However, the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

**8. RESOLUTION 7 – ISSUE OF SHARES TO GRAEME ROWLEY AND RUSSELL SCRIMSHAW UNDER THE FORTESCUE METALS GROUP LTD PERFORMANCE SHARE PLAN**

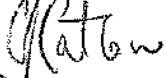
To consider and, if thought fit, to pass, with or without amendment, the following resolution as an ordinary resolution:

*"That, for the purposes of subsection 208(1) of the Corporations Act, Listing Rule 10.14 and for all other purposes, Shareholders approve and authorise the grant of up to a combined total of 900,000 rights (each to acquire one fully paid ordinary share in the capital of the Company) to be granted progressively within three (3) years for nil consideration, to Graeme Rowley and Russell Scrimshaw, and to allot and issue Shares on the valid exercise of those rights, in accordance with the Fortescue Metals Group Ltd Performance Share Plan and otherwise on the terms and conditions set out in the Explanatory Memorandum."*

**Voting Exclusion:** The Company will disregard any votes cast on this resolution by a director of the Company (except one who is ineligible to participate in any employee incentive scheme in relation to the Company) and any associate of such director. However, the Company need not disregard a vote if it is cast by a director as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or it is cast by a person chairing the meeting as a proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Dated this 11 October 2006

By Order of the Board.



Chris Catlow  
Company Secretary

## EXPLANATORY STATEMENT

This Explanatory Statement and all attachments are important documents. They should be read carefully.

If you have any questions regarding the matters set out in this Explanatory Statement or the preceding Notice, please contact the Company, your financial adviser, stockbroker or solicitor.

### 1. FINANCIAL ACCOUNTS

The Corporations Act 2001 (Cth) (“Corporations Act”) requires the following reports for the year ended 30 June 2006 to be laid before the meeting:

- i) the Financial Report; and
- ii) the Directors’ Report and the Auditor’s Report.

Shareholders will be given a reasonable opportunity at the Annual General Meeting to ask questions about or make comment on these above mentioned reports. Shareholders will also be given a reasonable opportunity to ask the Company’s Auditor or its representative, questions relevant to the conduct of the audit and the preparation and content of the Auditor’s Report.

The Corporations Act does not require shareholder approval of these Reports.

### 2. RESOLUTION 1 – ADOPTION OF REMUNERATION REPORT

The Directors’ Report for the year ended 30 June 2006 contains a remuneration report which sets out the policy for the remuneration of the directors and executives of the Company. In accordance with the Corporations Act it is a requirement that members consider and vote on the Remuneration Report as presented in the Financial Report for the year ended 30 June 2006. The vote on this resolution is advisory only and does not bind the Company or its directors.

### 3. RESOLUTION 2 - ELECTION OF DIRECTOR

In accordance with Rule 17.3 (9) of the Company’s Constitution, Mr Joseph S. Steinberg, having been appointed by the Board as a Director of the Company since the last Annual General Meeting, will retire and offer himself for election by shareholders.

Mr Steinberg was appointed a Director in August 2006. Mr Steinberg has been President and a Director of Leucadia National Corporation, Inc. (“Leucadia”) of the United States of America since 1978. Mr Steinberg was invited onto the Fortescue Board to represent Leucadia following its US\$400 million investment, comprising US\$300 million equity and US\$100 million subordinated debt, made in Fortescue in August 2006.

Mr Steinberg is also President and Director on the FINOVA Group, Inc., Jordon Industries, Inc. and Chairman of HomeFed Corporation. He is Trustee of the New York University and serves on several non profit boards. Mr Steinberg received an AB in government in 1996 from New York University and an MBA from Harvard Business School in 1970. He served within the United States Peace Corps from 1966 to 1968.

The Directors (other than Mr Steinberg) recommend that Shareholders vote in favour of this resolution.

#### **4. RESOLUTIONS 3 AND 4 – RE-ELECTION OF DIRECTORS**

In accordance with Rule 17.3 (3) of the Company's Constitution, Mr Herb Elliott and Mr Graeme Rowley will retire at the Annual General Meeting and offer themselves for re-election. Both Mr Elliott and Mr Rowley were appointed in October 2003 and this is the first proposal for their re-election.

##### **Resolution 3: Re-Election of Mr Herb Elliott**

Mr Elliott has been a Non Executive Director of the Company since October 2003 and was appointed Deputy Chairman in May 2005. Mr Elliott is Chairman of the audit committee and a member of the remuneration committee. Mr Elliott is also Chairman of the Telstra Foundation and is a non executive director of Ansell Ltd. Mr Elliott has had a long and distinguished career with previous roles as Chief Executive Officer of PUMA Australia, Director of Sydney Olympic Park Authority, Director of Athletics Australia and Director of World Olympic Association. Mr Elliott is an Australian Olympian. Mr Elliott was formerly the inaugural Chairman of National Australia Day Committee, Commissioner of the Australian Broadcasting Commission, Director of Australian Olympic Committee and Director of the Australian Institute of Sport.

The Directors (other than Mr Elliott) recommend that Shareholders vote in favour of this resolution.

##### **Resolution 4: Re-Election of Mr Graeme Rowley**

Mr Rowley has been an Executive Director since October 2003. Mr Rowley is a former senior executive of global resources group Rio Tinto, holding senior roles in Hamersley Iron, Argyle Diamonds and the former CRA corporate headquarters. His previous executive position before joining Fortescue was as the General Manager of Hamersley Iron's Rail and Port Operations at Dampier in the Pilbara region of Western Australia. During a successful six year term in that appointment, Mr Rowley was responsible for significant improvements in unit costs and productivity, expanding the capacity of the port and rail system from 54 million tonnes per annum to 76Mtpa. Mr Rowley has brought a wealth of operational talent to the Fortescue board with particular emphasis on infrastructure strategy. Mr Rowley's directorships have included Dampier Port Authority, the Pilbara Development Commission (Chairman), the Council for the West Pilbara College of TAFE (Chairman) and the WA State Government's Technical Industry Advisory Council. Prior to his 25 year career with Rio Tinto, Mr Rowley had a 20 year Royal Australian Air Force career, which included a period as Commanding Officer of the RAAF's VIP Squadron at Canberra.

The Directors (other than Mr Rowley) recommend that Shareholders vote in favour of this resolution.

#### **5. RESOLUTION 5 – RATIFICATION OF PRIOR ISSUE OF ORDINARY SHARES**

##### **Listing Rule 7.4**

In accordance with Listing Rule 7.4, the Company seeks shareholder approval and ratification for the offer and issue to Baldwin Enterprises, Inc., a subsidiary of Leucadia, on 21 August 2006 of 26,400,000 Shares for consideration of US\$300,000,000 (equivalent to an issue price of approximately A\$15.20 per Share based on the AUD/USD exchange rate on the date the issue of Shares was announced).

The purpose of seeking shareholder ratification of the prior issue of Shares is to effectively reinstate the maximum limit under Listing Rule 7.1 on the number of securities that the Company may issue in any 12 month period without shareholder approval.

## Disclosure Requirements

In accordance with Listing Rule 7.5, the following information is disclosed to shareholders for the purposes of Resolution 5:

- (a) The number of Shares allotted to Baldwin Enterprises, Inc. was 26,400,000.
- (b) The total issue price of the Shares was US\$300,000,000, being approximately A\$15.20 per Share, based on the AUD/USD exchange rate on the date the issue of Shares was announced.
- (c) The 26,400,000 Shares issued rank equally with all existing Shares.
- (d) The allottee was Baldwin Enterprises, Inc.
- (e) The funds raised have been and will be utilised for general capital expenditure in the planning and construction of the Company's Pilbara Iron Ore and Infrastructure Project.

## 6. RESOLUTION 6 – ADOPTION OF FORTESCUE METALS GROUP LTD PERFORMANCE SHARE PLAN

In accordance with Listing Rule 7.2 exception 9(b), the Company seeks the approval of shareholders for the adoption of the Fortescue Metals Group Ltd Performance Share Plan (“PSP”). Shareholder approval is sought for the adoption of the PSP in accordance with current Australian Stock Exchange Limited best practice guidelines (Guidance Note 9A – recommendation 9.4).

### Background to the Company's Remuneration Policy and Objectives

The Board has recently adopted a recommendation from the remuneration and nominations committee to establish a more formalised remuneration policy to reflect the fact that the Company has now established the requisite financial platform to take it through construction of its Pilbara Iron Ore and Infrastructure Project and into production of iron ore. Accordingly, the Company seeks to build on the remuneration policies established to date to ensure it is well positioned to attract, motivate and retain people of the highest calibre. To facilitate this, the Company has established a separate human resources “HR” department and in July 2006, employed an experienced HR operative to head the division.

The Company's philosophy on remuneration is that employees should be rewarded for performance and be constantly challenged and encouraged to meet and hopefully exceed targets including financial, safety and community relations objectives.

The Company's current remuneration policy includes the payment of a base salary supplemented with the ability to provide both short and long term incentives to employees and consultants. The short term incentive scheme (“STIS”) covers the ability to make bonus payments, generally annually, on the Company achieving specific targets or milestones. The long term incentive scheme (“LTIS”) covers the granting of options under an existing Employee Share Option Plan (“ESOP”). The form of ESOP was presented and approved by members at the AGM in November 2005.

In addition to the ESOP and as part of the LTIS, the Board proposes adopting the PSP to give the Board the ability to issue rights to employees (“Performance Rights”) to be issued Shares in the Company on the fulfilment of a specific out-performance condition (“Performance Shares”). Directors believe that in certain circumstances the PSP is a more appropriate reward scheme as it will be less dilutive for existing shareholders given the allotment of shares will generally be for a lesser number than would be granted under the ESOP. This is because the Performance Shares will be provided for nil cost compared to options which have an exercise price. Accordingly, to provide the same value to employees



the number of shares issued would be less than that required for options. Also the Performance Shares will only be vested on the attaining of a challenging out-performance condition which means they are much more closely aligned to ongoing out-performance. Notwithstanding, there may be some circumstances where Directors may choose to grant options under the ESOP in preference to Performance Rights and hence it is proposed to retain the ESOP in its current form.

The Board considers that its remuneration objectives can be achieved through an appropriate combination of:

- Total Fixed Remuneration (“TFR”); and
- Incentive Schemes, comprising:
  - i. the short term incentive scheme (“STIS”), pursuant to which annual cash bonuses can be paid; and
  - ii. the long term incentive scheme (“LTIS”), pursuant to which Performance Rights and/or Share Options can be granted.

#### Total Fixed Remuneration:

With regards to the fixed amount of remuneration paid by the Company to its employees and directors, the recommendation from the Board is to set a TFR figure at a level consistent with industry standards for like positions. The Company has researched the total employment costs applying across Australia’s mining sector and has subscribed to several independent surveys to establishing the appropriate benchmarks for Fortescue positions.

#### Short and Long Term Incentives:

The ability to earn above the TFR level will be directly related to performance and will be provided under short and long term incentives. The STIS and LTIS will:

- be used to differentiate rewards for high performers and to encourage higher levels of performance; and
- be clearly linked to appropriate goals.

#### **Short Term Incentive Scheme (“STIS”)**

Shareholders should note that member approval is not required for the STIS however the broad terms around the quantum of any STIS cash payment, under current Company practice, is related to a percentage of the TFR amount. The Company has set a maximum amount payable under a STIS at 100% of an individual’s TFR amount noting that this would only be made in recognition of extraordinary work that had led to the successful completion of a project and/or objective by an individual or a team. The general practice would be to pay an amount of between 0% - 50% of the TFR sum in recognition of actual performance levels.

#### **Long Term Incentive Scheme (“LTIS”)**

This resolution seeks an approval from shareholders for the inclusion of the PSP within Fortescue’s LTIS.

The aims of the LTIS component of remuneration are to:

- align the interests of employees and shareholders;
- provide targeted but competitive remuneration and a long term incentive for the retention of key employees; and
- support a culture of employee share ownership.

To achieve these aims, the PSP will involve an out-performance condition. Those employees designated by the Board as key to the long term success of the company will be eligible under the PSP program.

The vesting of the Performance Rights will be over a period that is consistent with the realisation of the long term strategic objectives of the Company as approved by the Board. Under the PSP the minimum vesting period will be three (3) years and the maximum vesting period will be seven (7) years. Any Performance Rights not vested within seven years will lapse.

### **Structure of the PSP**

Under the PSP, participants are offered an award of rights to acquire ordinary shares in the Company ("**Performance Rights**"). The offer of Performance Rights under the PSP takes the form of a conditional entitlement to be issued shares in the Company ("**Performance Shares**") for nil consideration during the performance period, subject to the satisfaction of an out-performance condition ("**Performance Condition**"). Unless the Board otherwise determines, where a participant is entitled to be issued Performance Shares under the PSP, the Company will issue those Performance Shares to the participant.

The terms and conditions of the PSP are summarised below:

- (a) **Board** - The Board, or a duly appointed committee of the Board, is responsible for the operation of the PSP.
- (b) **Participants** - Full-time and part-time employees, executive directors and consultants of the Company, are all eligible to participate in the PSP. Non-executive directors will not be eligible to participate in the PSP.
- (c) **Eligibility** - The Board determines the eligibility of participants, having regard to:
  - (i) the seniority of the participant and the position the participant occupies within the Company;
  - (ii) the length of service of the participant with the Company;
  - (iii) the record of employment of the participant with the Company;
  - (iv) the potential contribution of the participant to the growth and profitability of the Company;
  - (v) the extent (if any) of the existing participation of the participant in the PSP; and
  - (vi) any other matters the Board considers relevant.
- (d) **Invitations** - The Board has discretion to issue invitations to participants offering the grant of Performance Rights.
- (e) **Number of Performance Rights** - The Board has discretion to determine the number of Performance Rights offered to participants, subject to the following limitation. The number of Performance Shares offered to a participant, when combined with the number of shares which may be issued upon exercise of options granted under the ESOP or upon the exercise of Performance Rights granted under the PSP and the number of shares issued during the previous five (5) years under any employee incentive plan of the Company (including the ESOP and PSP), must not exceed 5% of the Company's issued capital at any time (the "**5% Limitation**"). Further, in determining the number of Performance Rights to

be granted to participants, the Board will have regard to current market practice and take into account the overall cost to the Company of grants under the PSP.

- (f) **Frequency of Performance Rights** - The Board will consider the grant of Performance Rights to Participants annually, unless it determines otherwise.
- (g) **Performance Condition** - Vesting of the Performance Rights is conditional on the Company's share price outperforming the S&P Materials Index by at least 10% for 30 consecutive trading days, within the performance period, using the following formula, and where:

$FMG_{NEW}$  = the Company's closing share price on any day during the performance period

$FMG_{BASE}$  = the Company's closing share price at the date the Performance Rights are granted

$S\&P_{NEW}$  = the S&P index as at the same day and time as  $FMG_{NEW}$

$S\&P_{BASE}$  = the S&P index at the date the Performance Rights are granted

$$\left( \frac{FMG_{NEW} \times 100}{FMG_{BASE} \times 1} \right) - \left( \frac{S\&P_{NEW} \times 100}{S\&P_{BASE} \times 1} \right)$$

In the event that the S&P Materials Index ceases to exist, the Board will determine a substitute S&P index to be used as the basis of the Performance Condition.

- (h) **Performance Period** - The performance period applicable to the Performance Rights is the period between three (3) years and seven (7) years from the date of grant of the Performance Rights.
- (i) **Vesting of Performance Rights** - The Performance Rights will only vest if the participant meets the Performance Condition within the performance period. Any Performance Rights which have not vested within the performance period will lapse.
- (j) **Restriction of Shares** - Performance Shares acquired by participants on the exercise of Performance Rights are subject to disposal restrictions for a period of up to 10 years commencing on the date the Performance Rights were originally granted (unless a participant ceases employment with the Company or the Company approves an earlier release on disposal restriction). The disposal restrictions allow participants to defer tax on exercise of the Performance Rights until the restrictions cease (assuming the participant does not elect to pay tax at the time the Performance Rights are granted, in which case there is no further tax to pay until the shares are disposed of).

## 7. **RESOLUTION 7 – ISSUE OF SHARES TO GRAEME ROWLEY AND RUSSELL SCRIMSHAW UNDER THE FORTESCUE METALS GROUP LTD PERFORMANCE SHARE PLAN**

In accordance with Listing Rule 10.14 and section 208(1) of the Corporations Act, the Company seeks shareholder approval to grant Performance Rights, and subsequently to issue Performance Shares, to two executive directors of the Company, Graeme Rowley and Russell Scrimshaw ("Executive Directors"), in accordance with the terms and conditions of the PSP. The Performance Rights which may be granted to the Executive Directors under the PSP must not exceed the 5% Limitation.

### **Background to the Issue of Shares**

The proposed grant of the Performance Rights to the Executive Directors is intended to:

- (a) provide an appropriate and adequate incentive for the Executive Directors to assist the Company to achieve prescribed performance milestones;
- (b) ensure that the Company may retain the services of the Executive Directors; and
- (c) reinforce the commitment of the Executive Directors to the Company.

The Executive Directors will only benefit from the grant of the Performance Rights under the PSP if the Performance Condition is fulfilled and they are issued the Performance Shares.

The Performance Rights which may be issued to the Executive Directors will reflect the level of commitment to be provided by each Executive Director to the Company in assisting the Company to achieve certain specified performance objectives, taking into account the responsibilities of each Executive Director and the time commitments required from each Executive Director. The Performance Rights to be granted to the Executive Directors also reflects the value the Board believes that each Executive Director brings to the enhancement of the Company and the relative importance of the performance objectives set by the Company.

The Performance Rights will be offered to the Executive Directors under the PSP for no cash consideration.

In calculating the TFR provided to the Executive Directors, the Board has taken into consideration the possible issues of securities proposed in Resolution 7. The Board considers that the appropriate remuneration package for each of the Executive Directors comprises the TFR amount together with the financial benefits provided to the Executive Directors under both the STIS and LTIS, subject to achieving the Performance Condition. This will include the value of the securities to be issued under Resolution 7, if it is passed by shareholders. The Board considers it appropriate for part of the remuneration package to comprise non-cash, incentive-based remuneration. These Performance Rights may be issued progressively over three years if approved by the Board and will only vest if the Performance Condition is met.

#### **Chapter 2E of the Corporations Act**

Chapter 2E of the Corporations Act prohibits the Company from giving a financial benefit to a related party of the Company unless either:

- (a) the giving of the financial benefit falls within one of the nominated exceptions to the provisions; or
- (b) prior shareholder approval is obtained to the giving of the financial benefit.

For the purposes of Chapter 2E, each Executive Director is a related party and the grant of the Performance Rights and issue of the Performance Shares to the Executive Directors constitutes the giving of a financial benefit. Accordingly, Shareholder approval is required.

In accordance with the requirements of Chapter 2E, and in particular with section 219, of the Corporations Act, the following information is provided to Shareholders to allow them to assess the proposed grant of Performance Rights and issue of Performance Shares to the Executive Directors:

- (a) The Executive Directors are each related parties of the Company to whom Resolution 7 would permit the financial benefits to be given.

- (b) The nature of the financial benefit to be given to the Executive Directors is the grant of rights to be issued Shares in the Company if the Performance Condition is fulfilled ("**Performance Rights**"), and the issue of Shares upon the valid exercise of those Performance Rights ("**Performance Shares**"), for no cash consideration.
- (c) The combined total number of Performance Rights that may be granted to the Executive Directors must not exceed the 5% Limitation.
- (d) It is proposed that the Performance Rights will be issued progressively within 3 years of the date of Shareholder approval of Resolution 7.
- (e) The Performance Rights proposed to be granted, and the Performance Shares proposed to be issued, will be in accordance with the terms and conditions of the PSP, as summarised in Section 6 of this Explanatory Memorandum.
- (f) The Performance Rights are proposed to be granted to the Executive Directors as an incentive, for no cash consideration. The Performance Shares will be issued upon satisfaction of the Performance Condition, for no cash consideration.
- (g) As at the date of this Notice, the capital structure of the Company is as follows:

<b>Capital</b>	<b>Number</b>
Ordinary Shares	264,224,411
Options exercisable at \$2.67 on or before 31 December 2009	1,865,050
Options exercisable at \$5.69 on or before 25 January 2011	430,000
Options exercisable at \$7.03 on or before 1 June 2011	500,000

If Shareholders approve all Resolutions contained in this Notice and all Shares are issued as contemplated by this Notice (including the issue of the 900,000 Performance Shares under Resolution 7), the issued capital of the Company will be as follows:

<b>Capital</b>	<b>Number</b>
Ordinary Shares	265,124,411
Options exercisable at \$2.67 on or before 31 December 2009	1,865,050
Options exercisable at \$5.69 on or before 25 January 2011	430,000
Options exercisable at \$7.03 on or before 1 June 2011	500,000
Total ordinary shares if all options on issue are exercised	267,919,461

If Shareholders approve the grant of the Performance Rights to the Executive Directors under Resolution 7 and the maximum number of 900,000 Performance Shares are issued to the Executive Directors, the effect will be to dilute the shareholding of existing members by approximately 0.34%, based on the existing number of Shares as at the date of this Notice.

- (h) As at the date of this Notice, the Executive Directors hold the following securities in the Company representing 1.18% of the issued capital of the Company on a fully diluted basis:

<b>Executive Director</b>	<b>Number of Shares held Directly or Indirectly</b>	<b>Number of Options held Directly or Indirectly</b>
Graeme Rowley	2,095,569	Nil
Russell Scrimshaw	1,075,000	Nil

- (i) Details of the Executive Directors' remuneration for the year ended 30 June 2006 (based on information extracted from the Company's 2006 Annual Report) are as follows:

<b>Executive Director</b>	<b>Base Salary (\$)</b>	<b>Non-monetary benefit</b>	<b>Super-Annuation (\$)</b>	<b>Total (\$)</b>
Graeme Rowley	345,454	Nil	34,546	380,000
Russell Scrimshaw	225,000	Nil	25,000	250,000

Details of the estimated remuneration payable to the Executive Directors for the year beginning 1 July 2006 are as follows:

<b>Executive Director</b>	<b>Base Salary (\$)</b>	<b>Bonus Payment</b>	<b>Non-Monetary Benefit</b>	<b>Super-Annuation (\$)</b>	<b>Total (\$)</b>
Graeme Rowley	451,515	380,000	Nil	45,151	876,666
Russell Scrimshaw	432,165	250,000	Nil	43,216	725,381

Note: The base salary and superannuation contribution for the Executive Directors was increased to \$520,000 per annum as from 1 September 2006. A bonus payment (in the form of a STIS cash payment in connection with financial close of the Pilbara Iron Ore and Infrastructure Project) was provided to the Executive Directors at the end of August 2006 and represented a 100% payment on their 2005/2006 fixed annual salary level.

- (j) During the last 12 months before the date of lodgement of this Notice with the ASIC, the highest trading price of the Shares was \$11.85 on 19 July 2006 and the lowest trading price of the Shares was \$3.79 on 20 October 2005. The market price of the Company's Shares over the 5 days of trading on ASX up to and including 10 October 2006 has been between a minimum of \$8.35 per Share to a maximum of \$9.50 per Share. On 10 October 2006, the last trading day before this Notice of Meeting was lodged with the ASIC, the Shares closed at a price of \$8.87 per Share.
- (k) The Company will not receive any money from the grant of the Performance Rights or the issue of the Performance Shares to the Executive Directors.
- (l) The primary purpose of the grant of the Performance Rights to the Executive Directors under the PSP is to provide an incentive to the Executive Directors to strive to meet the Company's performance objectives. Given this purpose, the Directors do not consider that there is any opportunity cost or benefit foregone to the Company in granting the Performance Rights or issuing the Performance Shares, as proposed by Resolution 7.
- (m) The issue of securities to the Executive Directors is a more cost effective incentive for the Company as opposed to the payment of cash compensation.
- (n) Graeme Rowley and Russell Scrimshaw have material personal interests in the outcome of Resolution 7 as the recipients of the Performance Rights and Performance Shares proposed to be issued under that resolution.
- (o) The Directors, other than Graeme Rowley and Russell Scrimshaw, recommend that Shareholders vote in favour of Resolution 7.
- (p) Additional information in relation to Resolution 7 is set out throughout this Explanatory Memorandum. Shareholders should therefore read the Explanatory Memorandum in its entirety before making a decision on how to vote on Resolution 7.

- (q) The Company will incur no liabilities or costs in respect of the proposed grant of the Performance Rights and issue of the Performance Shares to the Executive Directors other than:
- (i) the fees payable to ASX for quotation of the Performance Shares if and when the performance conditions applicable to the Performance Rights are satisfied. At the rates applying at the date of this Notice, these fees would be approximately \$20,000;
  - (ii) a value equal to the weighted average trading price of shares on ASX in the five days immediately before the date of valuation, will be included as wages for the purposes of the *Pay-roll Tax Act 2002 (WA)*, *Pay-roll Tax Assessment Act 2002 (WA)* and the *Taxation Administration Act 2003 (WA)*. If this value in addition to other wages paid or payable by the Company during a month is in excess of the monthly pay-roll tax threshold, the Company may be required to register for pay-roll tax in the relevant jurisdiction. If this value in addition to other wages that are taxable in the jurisdiction is in excess of the annual pay-roll tax threshold, the Company will have a liability in respect of pay-roll tax in that jurisdiction; and
  - (iii) the cost of the Performance Shares which will be expensed through the Company's income statement in accordance with AASB2 Share Based Payments.
- (r) The Company engaged BDO Consultants (WA) Pty Ltd ("**BDO**") to conduct a valuation of the Performance Rights proposed to be offered to Graeme Rowley and Russell Scrimshaw. BDO calculated the value of the Performance Rights using the Binomial option valuation methodology.

The following table incorporates the assumptions used in determining values for the Performance Rights, and the results of the valuation methodologies employed:

Item	Note	S&P Materials
Underlying security Spot price	1	\$8.78
Exercise Price		Nil
Dividend Rate	2	Nil
Standard Deviation of Returns (annualised)	3	36.72%
Risk Free rate	4	5.63%
Valuation date	5	10 October 2006
Expiration period (years)	6	7
Barrier	7	\$40.44
Binomial Valuation (\$ per security)		\$3.17

- Note 1 The underlying security spot price used for the purposes of the valuation is based on the Company's weighted average share price for the previous 5 trading days.
- Note 2 As at the date of the valuation, the Company has not forecast any future dividend payments. For the purposes of the valuation it has therefore been assumed that the Company's share price is "ex-dividend". If dividend payments were forecast, the value of the options would be reduced.
- Note 3 The anticipated standard deviation over the life of the Performance Rights is based on historical data from the Australian Graduate School of Management's Risk Measurement Service.

Note 4: The risk free rate is the Commonwealth Government securities rate with a maturity date approximately that of the expiration period of the Performance Rights being a 5 year bond rate for the directors' Performance Rights.

Note 5: The valuation date is the date of issue.

Note 6: The Performance Rights expire after 7 years should the Performance Condition not be met.

Note 7 The calculation of the barrier is based on the average return of the index for the previous 5 years. This annual return has then been applied to the underlying security spot price and a 10% hurdle is then applied for the resulting value.

- (s) Neither the Board nor the Company is aware of any other information that would reasonably be required by Shareholders in order to decide whether it is in the best interests of the Company to pass Resolution 7, other than as stated in this Explanatory Memorandum.

### **Listing Rule 10.14**

Listing Rule 10.14 provides, in essence, that the approval of ordinary shareholders by ordinary resolution is required before any of the following persons can acquire securities under an employee incentive scheme:

- (a) a director;
- (b) an associate of a director; or
- (c) a person whose relationship with the Company or a related party is, in ASX's opinion, such that approval should be obtained.

Each of the Executive Directors is a Director of the Company for the purpose of Listing Rule 10.14. Accordingly, in order for the Executive Directors to acquire the Performance Rights and Performance Shares under the PSP, the Company must obtain Shareholder approval pursuant to Listing Rule 10.14.

### **Disclosure Requirements**

In accordance with Listing Rule 10.15A, the following information is disclosed to shareholders in relation to Resolution 7:

- (a) Graeme Rowley and Russell Scrimshaw are directors of the Company;
- (b) up to a combined total of 900,000 Performance Rights may be granted to the Executive Directors under the PSP, subject to the 5% Limitation;
- (c) the Performance Rights will be granted to the Executive Directors as an incentive, for no cash consideration. The Performance Shares will be issued upon satisfaction of the Performance Condition, for no cash consideration;
- (d) no Shares have been issued under the PSP;
- (e) executive directors, full-time and part-time employees of, and consultants to, the Company, may be nominated by the Board to participate in the PSP;
- (f) the Performance Rights will be issued progressively within 3 years from the date of the Annual General Meeting;



- (g) the Performance Rights to be granted to the Executive Directors will not be quoted on ASX. The Performance Shares to be issued to the Executive Directors will be quoted on ASX;
- (h) the Performance Shares issued pursuant to Resolution 7 will rank equally with all other Shares on issue;
- (i) no funds will be raised by the grant of the Performance Rights or issue of the Performance Shares to the Executive Directors.
- (j) a summary of the terms and conditions of the PSP is set out in Section 6 of this Explanatory Memorandum;
- (k) details of any securities issued under the PSP will be published in each annual report of the Company relating to the period in which the securities were issued; and
- (l) any additional persons who become entitled to participate in the PSP after Resolutions in the Notice of Meeting are passed and who are not named in the Notice of Meeting will not participate until approval is obtained under Listing Rule 1.14.



# Fortescue Metals Group Ltd

ABN 57 002 594 872

Mark this box with an 'X' if you have made any changes to your address details (see reverse)

## Proxy Form

### All correspondence to:

Computershare Investor Services Pty Limited  
GPO Box D182 Perth  
WA 6840 Australia  
Enquiries (within Australia) 1300 557 010  
(outside Australia) 61 3 9415 4000  
Facsimile 61 8 9323 2033  
www.computershare.com



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FMG



MR JOHN SMITH 1  
FLAT 123  
123 SAMPLE STREET  
THE SAMPLE HILL  
SAMPLE ESTATE  
SAMPLEVILLE VIC 3030

Securityholder Reference Number (SRN)

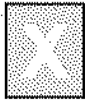


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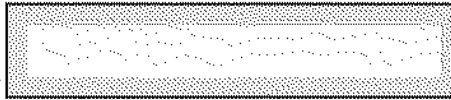
### Appointment of Proxy

I/We being a member/s of Fortescue Metals Group Ltd and entitled to attend and vote hereby appoint



the Chairman  
of the Meeting  
(mark with an 'X')

OR



If you are not appointing the Chairman of the Meeting as your proxy please write here the full name of the individual or body corporate (excluding the registered Securityholder) you are appointing as your proxy.

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, as the proxy sees fit) at the Annual General Meeting of Fortescue Metals Group Ltd to be held at Exchange Plaza Conference Centre, Level 8, Exchange Plaza, 2 The Esplanade, Perth, Western Australia on 17 November 2006 at 9.00am and at any adjournment of that meeting.

### Voting directions to your proxy - please mark



to indicate your directions

- 1 Adoption of Remuneration Report
- 2 Election of Mr Joseph S Steinberg
- 3 Re-election of Mr Herb Elliott
- 4 Re-election of Mr Graeme Rowley
- 5 Ratification of share issue to Leucadia subsidiary
- 6 Adoption of Performance Share Plan
- 7 Issue of Shares to Executive Directors

For Against Abstain\*

	For	Against	Abstain*
1	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

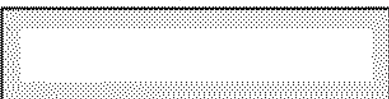
The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business.

\* If you mark the Abstain box for a particular item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

### PLEASE SIGN HERE

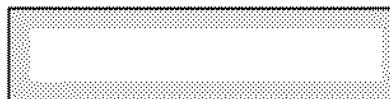
This section must be signed in accordance with the instructions overleaf to enable your directions to be implemented.

Individual or Securityholder 1



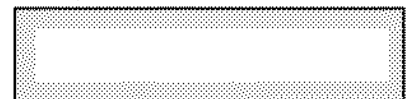
Sole Director and  
Sole Company Secretary

Securityholder 2



Director

Securityholder 3



Director/Company Secretary

In addition to signing the Proxy form in the above box(es) please provide the information below in case we need to contact you.

Contact Name

Contact Daytime Telephone

Date

/ /



# How to complete the Proxy Form

## 1 Your Address

This is your address as it appears on the company's share register. If this information is incorrect, please mark the box and make the correction on the form. Securityholders sponsored by a broker (in which case your reference number overleaf will commence with an 'x') should advise your broker of any changes. **Please note, you cannot change ownership of your securities using this form.**

## 2 Appointment of a Proxy

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box. If the individual or body corporate you wish to appoint as your proxy is someone other than the Chairman of the Meeting please write the full name of that individual or body corporate in the space provided. If you leave this section blank, or your named proxy does not attend the meeting, the Chairman of the Meeting will be your proxy. A proxy need not be a securityholder of the company. Do not write the name of the issuer company or the registered securityholder in the space.

## 3 Votes on Items of Business

You may direct your proxy how to vote by placing a mark in one of the three boxes opposite each item of business. All your securities will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of securities you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on a given item, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

## 4 Appointment of a Second Proxy

You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the company's share registry or you may copy this form.

To appoint a second proxy you must:

- (a) on each of the first Proxy Form and the second Proxy Form state the percentage of your voting rights or number of securities applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded.
- (b) return both forms together in the same envelope.

## 5 Signing Instructions

You must sign this form as follows in the spaces provided:

- Individual: where the holding is in one name, the holder must sign.
- Joint Holding: where the holding is in more than one name, all of the securityholders should sign.
- Power of Attorney: to sign under Power of Attorney, you must have already lodged this document with the registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.
- Companies: where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please indicate the office held by signing in the appropriate place.

If a representative of a corporate Securityholder or proxy is to attend the meeting the appropriate "Certificate of Appointment of Corporate Representative" should be produced prior to admission. A form of the certificate may be obtained from the company's share registry or at [www.computershare.com](http://www.computershare.com).

## Lodgement of a Proxy

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given below no later than 48 hours before the commencement of the meeting at 9.00am on 17 November 2006. Any Proxy Form received after that time will not be valid for the scheduled meeting.

### Documents may be lodged using the reply paid envelope or:

IN PERSON Share Registry - Computershare Investor Services Pty Limited, Level 2, 45 St Georges Terrace, Perth WA 6000 Australia  
BY MAIL Share Registry - Computershare Investor Services Pty Limited, GPO Box D182, Perth WA 6840 Australia  
BY FAX 61 8 9323 2033