



Fortescue Metals Group Ltd

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The Companies Officer
Australian Stock Exchange Ltd
Exchange Plaza
Perth WA 6000

Dear Sir

**Landmark Iron Ore Long Term Off-take Agreement and
Magnetite Development MOU with Baosteel Trading Co Ltd**

Fortescue Metals Group Ltd ("Fortescue") has over the past three years been developing a broad relationship with China's largest steel mill Shanghai Baosteel Group Corporation.

Fortescue is pleased to announce that it has today signed a Long Term Off-take Agreement for up to 20 million tonnes p.a. ("Mta") of iron ore with the wholly owned subsidiary Baosteel Trading Co Ltd ("Baosteel").

This agreement covers a first phase quantity of up to 5Mta being 11.1% of Fortescue's initial 45Mta production. Baosteel has also committed to purchase a further minimum of 11Mta up to a maximum of 15Mta, out of a total of 25Mta of Fortescue's first expansion tonnage being achieved (any Fortescue expansion beyond 45Mta is subject to Fortescue Board and other requisite approvals including government and finance).

Fortescue and Baosteel have also signed a Memorandum of Understanding ("MOU") to form a joint venture ("JV") to explore and develop a potentially large area of Banded Iron Formation ("BIF") magnetite material close to the Fortescue rail corridor and between the mine site at Cloud Break and Port Hedland in Western Australia's Pilbara region.

Long Term Off-take Agreement

The Long Term Off-take Agreement has been signed by FMG Chichester Pty Ltd (the owner of Fortescue's Pilbara Iron Ore and Infrastructure Project iron ore deposits), Fortescue Metals Group Ltd and Baosteel Trading Co Ltd.

The material terms of the Agreement are;

- 1) A term of ten years;

The New Force in Iron Ore

- 2) Baosteel is committed to purchase up to a maximum of 20 Mta of Fortescue's iron ore production under the stages described as follows;
 - a. Baosteel will purchase up to 5Mta being 11.1% of Fortescue's first stage production capacity of 45Mta.
 - b. The Agreement covers planned expansion by Fortescue noting that any Fortescue expansion beyond 45Mta is subject to Fortescue Board and other approvals. Baosteel is committed to take a minimum of 11Mta of the first 25Mta production above stage 1 capacity. This 11Mta includes the first 5Mta of Fortescue expansion beyond 45Mta and up to 6Mta of the next 20Mta of Fortescue expansion tonnage.

An additional 4Mta will also be available to Baosteel within the first Fortescue 25Mta expansion, subject to Fortescue's delivery timeframe and Baosteel's own expansion plans at that time.

- 3) The products specified under the Agreement cover Fortescue's reasonably anticipated annual mining plan product mix including both High Grade lump and fines together with Super Value fines.
- 4) Pricing under the agreement is based on the annual industry benchmark pricing for Pilbara Premium Iron Ores, and will reflect similar pricing for like products to Baosteel from other major international suppliers.
- 5) The Agreement provides for a broad Strategic Relationship between the companies. Under this Strategic Relationship Fortescue will preferentially seek out other opportunities with Baosteel to the mutual benefit of both parties.
- 6) Baosteel has agreed to an ongoing program to undertake certain technical work on Fortescue's behalf for which a commensurate commercial fee will be paid. The program is designed to support the optimization of Fortescue's iron ore products for the market.

Memorandum of Understanding

Fortescue and Baosteel have also signed a Memorandum of Understanding to negotiate in good faith a more formal JV arrangement reflecting the terms of the MOU. It is intended by the companies that this MOU will be converted into a JV Agreement within 90 days of the signing of this MOU.

The primary purpose of the JV is to explore and develop an area of BIF mineralization, targeting at least one billion tonnes of Magnetite resource. The exploration area is located close to the Fortescue railway line currently under construction and lies between the mine site at Cloud Break and Port Hedland.

The area's mineralization is described as predominately Banded Iron Ore Formation magnetite.

The MOU describes the development phase in 3 sequential parts being:

- 1) Exploration and resource definition - target delineation of at least 1 billion tonnes.
- 2) Feasibility studies; and
- 3) Agreement to proceed to mine.

After the JV successfully completes stages 1 and 2, the equity share will be 50/50. If the project were to exceed production of 1.1 billion tonnes then Fortescue will gain a small incremental share of equity and off-take at that time.

Under the terms of the MOU, Baosteel will fund the exploration of the prospective area and, if approved by a joint operating committee, will then fund the pre-feasibility and definitive feasibility studies. Fortescue's responsibilities include the holding charges and provision of the exploration areas, the delivery of all requisite consents and approvals and access at competitive rates to Fortescue's transport infrastructure. It is intended that all initial costs of Stages 1 and 2 will be reimbursed to the parties from the JV proceeds.

In the event the JV makes the decision to proceed to mining in stage 3, the terms of the JV will be further negotiated to reflect an operating business. Notwithstanding, the basic terms and conditions embodied within the JV will remain consistent across any new agreement.

Conclusion

With the Baosteel Long Term Off-take Agreement now signed, Fortescue has fully committed its first stage production target of 45Mta. In noting this Agreement for 5Mta under stage 1, Fortescue advises that by mutual consent with one of the company's customers, an earlier 1.5Mta agreement has been moved from the first stage production delivery. Fortescue intends to renegotiate this to possible expansion tonnages.

Fortescue believes Baosteel's signing of the above documents marks a significant turning point in the development of the Pilbara on a long-term infrastructure driven and community basis. It underpins Fortescue's previously announced objective to grow its Pilbara Iron Ore and Infrastructure project with a target of 110 million tonnes identified in the presentation released to the ASX on 26 February 2007.

Fortescue is honoured to have entered into one of the largest single off-take agreements and partnerships in the history of the iron ore industry.

Yours sincerely

Fortescue Metals Group Ltd

Rod Campbell

Company Secretary