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## **Not For Release in the United States of America**

26 June 2007

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

Dear Sir,

### **Initiatives to Expedite Project Completion and Secure Schedule**

As advised to the ASX on 18 June 2007, Fortescue Metals Group Ltd ("Fortescue") has been evaluating ways to improve project economics and position its operations for future expansion. This has, in large part been prompted by the continuing strong outlook for iron ore which is reflected in the recent increased off-take commitments from Fortescue's customers.

In addition to its regular project review program, Fortescue has also recently concluded a major replanning of its rail construction schedule following the finalisation of arrangements with two new earthworks contractors NRW Pty Ltd and Brierty Contractors Pty Ltd who will work in conjunction with BGC Contracting. The details of this change and associated costs, are provided within the May 2007 Construction Report which is being lodged concurrently with this release.

### **Optimising Initial Production**

Fortescue has been reviewing plans to expedite its initial production target of 45Mtpa. As a result of this process, the Company advises that it will embark on two initiatives aimed at optimising the ramp up of production following the first ore on ship ("FOOS") date of May 2008:

- Early deployment of the lump circuit

The lump circuit at the mine, and associated port equipment including a re-screening building, was originally planned to be brought into production in 2009. Fortescue now plans to stage this work by commencing the construction of the mine section of the lump circuit straight away being a separate conveying and stockpile unit at the ore processing facility. This will bring into production in late 2008 part of the lump product capacity noting that lump sells at a premium to fines.

The New Force in Iron Ore

- Improve rail capacity

Fortescue intends to increase the early phase rail track capacity by incorporating a “super lift” of the rail track. This is a straight forward process of lifting the actual track after it has been initially bedded in, and placing further ballast underneath.

The original plan contemplated a slower process increase in the rail track capacity however this has been amended to support an accelerated production ramp up. The “super lift” will allow trains to travel more quickly and allow for an increase in axle loads of the wagons from 30 tonnes to 40 tonnes.

The costs associated with the above two brought forward initiatives are estimated at A\$70 million.

### **Safeguarding the Schedule Increases Project Costs**

Following the three cyclones that passed through the project area in March 2007, Fortescue undertook an initial review of the impact which was released to the market on 18 April 2007. Since that time, the company has reviewed its construction schedule in detail and as a consequence initiated a number of changes designed to reduce project and timetable risk.

The most significant changes have focussed on the rail earthworks. As advised on 31 May 2007, the original BGC contract was restructured. This change has allowed the Company to now deploy two additional contractors, NRW and Brierty, to expedite works and maintain the integrity of the FOOS schedule for May 2008. Moreover, the new earthworks contracts are both lump sum which greatly reduces the price risk Fortescue faced under the prior single rail earthworks contract with BGC which under an Alliance Agreement was a cost plus arrangement.

As a consequence of this change and certain other changes in the construction program such as the facilitation of more rail accommodation camps along the rail line to initiate more work fronts, the cost of the project will increase. Working with its Independent Engineer, Fortescue has determined it prudent to increase the Final Forecast Cost by 4% to A\$2,572 million and draw an additional \$99 million from the cost overrun reserve (refer attached May Construction Report).

The revised project budget – which excludes the before-mentioned initiatives to optimise initial production – incorporates an unallocated contingency of A\$102 million. In addition to this unallocated reserve, Fortescue also has available funds of approximately A\$215 million, over and above the revised project budget amount, represented by A\$95 million in the cost overrun reserve and a further US\$100m in a separate back up account.

These funding sources should provide sufficient liquidity for Project Completion as defined in existing bond documentation as producing and shipping 2 million tonnes in any 4 week period. The overall project risk profile has been improved by the combination of two new lump sum contracts for rail construction and the project being at a more advanced stage of development with three contractors now engaged in rail earthworks.

**Expansion Options:**

For some time the Company has studied a progressive expansion program to take production up to 200 million tonnes per annum ("Mta"). It now has a sound technical basis to consider the implementation of this project. From a market perspective, international steel mills have strongly encouraged Fortescue to pursue these endeavours.

As previously advised, Fortescue has recently appointed Citi and JP Morgan to explore funding options that will provide an appropriate financial platform from which an expansion might take place. This review will also explore options for funding the before-mentioned initiatives for optimising production after first ore on ship. Once the project achieves Project Completion, which can be expedited through an accelerated ramp up program, the main approvals remaining to expand the project to its potential target of 200 Mta are the requisite government approvals.

While there is nothing yet definitive as to the form of any capital raising, Fortescue expects that it will put in place a capital structure with an appropriate mix of debt and equity having due regard for all necessary approvals required. As previously advised, Fortescue is also reviewing leasing options as provided for under the original Secured Note Offering documentation, as a further capital raising mechanism.

Yours sincerely

**Fortescue Metals Group Ltd**

**Rod Campbell**

Company Secretary

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