

19 May 2010

The Companies Officer
ASX Limited
2 The Esplanade,
Perth, WA, 6000



Dear Sir

Implications of the Proposed Resource Super Profits Tax

- **Solomon Hub >20,000 jobs – placed on hold**
- **Western Hub >10,000 jobs – placed on hold**
- **Chichester Hub expansion – proceeding**

Fortescue Metals Group (“ASX:FMG” “Fortescue”) wishes to advise that two of the Company’s three expansion projects have been placed on hold due to the financial impact of the Federal Government’s proposed Resource Super Profits Tax “RSPT”.

The uncertainty in the financial markets caused by the proposed tax and the cash impost that RSPT payments will place on future business revenues has necessitated an urgent review of the economics surrounding the development of Fortescue’s major projects.

A key focus within the review process is the funding implications of a proposed retrospective imposition of a cash drain on projects that were financed prior to the RSPT. Also, the implications for financing new projects within Fortescue’s project pipeline will be reviewed and in particular clarification sought as to the Government’s “tax guarantee” for 40% of project losses in the event of bankruptcy. This initiative has been proposed by the Federal Government as an incentive for projects to proceed despite the tax however it is considered of no lending value by project financiers. Therefore the financial modeling of any future development must account for the 40% cash flow leakage without any compensatory benefit under the RSPT.

In reviewing Fortescue’s pipeline of planned expansion opportunities, the three key areas are: 1) the development of the Solomon Hub; 2) the development of the Western Hub; and 3) the completion of the development of the Chichester Hub.

Solomon Hub: US\$9 billion proposed investment with 6,000 people employed in operations and 15,000 through construction.

Fortescue’s planned development of its flagship 160 million tonnes per annum (Mtpa) project known as the Solomon Hub is to be placed on hold until the finance impact of the RSPT can be fully determined.

This project has been four years in development and includes the development of the proposed new Pilbara Port at Anketell Point. To develop Solomon, Fortescue had planned to establish a debt funded capital platform utilising equity derived from the cash flow from the company’s Chichester Hub. This financing plan will be severely impacted as a result of the new tax impost.

Until the financial position is certain, the only work to continue on the Solomon Hub will be the completion of existing studies.

Western Hub: Estimated US\$6 billion proposed investment with 4,000 people employed in operations and 7,500 through construction.

Fortescue's longer term planning includes the potential development of the Western Hub to provide product for export through the proposed new Pilbara Port at Anketell Point. This project has also been put on hold.

The development of Fortescue's western tenements was designed to supply product for export together with product drawn from other miners within the western Pilbara region. Similar to the development of Solomon, the impact of the RSPT will be felt through the erosion of cash flows that are required to finance major project development. Due to the Federal Government's intention to impose the tax after a business commences to derive a return above the risk free bond rate of currently 6% compared to the company's weighted average cost of capital of approximately 15%, the economics of a leveraged project development are substantially impaired.

Therefore, apart from the completion of existing studies for the new port and the Solomon Hub, the Western Hub will be placed on hold until the financial impairment of the proposed RSPT is clarified.

Chichester Hub: US\$4.5 billion invested to date with 2,700 people employed in operations and 7,500 during construction.

Planning for the further expansion of the Chichester Hub from 55Mtpa to 95Mtpa will proceed, as the financing of the project is generated from internal cashflows to be provided from existing operations over the next two years, prior to the proposed implementation of the tax in FY2012 and payment in FY2013. Fortescue will monitor the impact of the proposed tax on its ability to repay existing debt (raised to bring the Chichester Hub into existence), which must be considered in light of the retrospective nature of the RSPT implementation.

In addition, cashflow generated by the Chichester Hub that was to be applied as equity to support ongoing developments will be severely curtailed by the proposed RSPT.

Fortescue will continue to monitor the progress of debate and consultation on the RSPT. However, the company review of the economics surrounding project development and the subsequent decision to place the Solomon and Western Hub developments on hold as a result, has confirmed to Fortescue that the RSPT is poorly designed and will significantly reduce mining investment and the subsequent jobs that are created.

Yours sincerely

Fortescue Metals Group Ltd

Rod Campbell

Company Secretary