Grange Resources announces major step forward for US$1.2b iron ore pellet project
Launch of global tender process for joint venture partner

The development of Grange Resources’ (ASX: GRR) US$1.2 billion Australian-Malaysian iron ore pellet project has taken a major step forward with the launch today of an international tender process for joint venture partners for the project.

Grange is seeking one or more joint venture partners to contribute to the development of the project through direct cash funding and provision of services.

The tender process is being managed by Azure Capital and is expected to take approximately 6 months to complete. The tender process will be open to all qualified parties with no exclusive or preferred relationship currently in place.

Project construction is expected to commence in January 2007 (subject to statutory approvals) and first production is scheduled for early 2010.

The project is expected to produce 6.8 million tonnes per annum of iron ore pellets for supply to steelmakers using blast furnace or direct reduction production processes.

The mine will be located at Southdown, near Albany in Western Australia. Iron concentrate will be transported by slurry pipeline to Albany Port before being shipped to Kemaman in Malaysia where the pellet plant will be located.

Grange has adopted a dual location strategy for the project to maximise efficiency, take advantage of exceptional infrastructure at Kemaman and gain best possible proximity to Asian steel production centres.

Grange Managing Director Geoff Wedlock said pre-tender interest in the project was very high, with corporations in Asia-Pacific, Europe and North America, and the fast growing Middle East market, expressing a desire to become involved.

“This is a world-scale project with an outstanding opportunity to leverage its location in the Asia-Pacific region and the demand for iron ore pellets in burgeoning economies in the region,” said Mr Wedlock.
We have strong competitive advantages over traditional suppliers to this market, most of whom have their operations located outside this region.

“We believe this will be reflected in high interest in the Southdown/Kemaman project from major international groups.”

Key Milestones

Key milestones in the Joint Venture Partner tender process are as follows:

- Closing date for Expressions of Interest: 8 May 2006*
- Due Diligence and Negotiation with Select Parties: mid-May to mid-August 2006*
- Announcement of Preferred Parties: mid-August 2006*

* Dates are indicative and may change

Grange will keep the market updated on progress with the tender process in its Quarterly Reports.

Aside from financial and service contributions, Grange is also seeking Joint Venture Partners that can make non-financial contributions in the form of marketing, operational and strategic expertise.

Among those that have already given indications of interest are a number of Asian steel producers, existing iron ore producers, trading companies and financial investors.

Southdown/Kemaman Project Fundamentals

The project will operate for at least 22 years and is expected to supply pellets to key markets in the Asia-Pacific region at a very competitive delivered cost. The proximity of Kemaman to key Asian markets provides a significant freight advantage over alternative sources of supply such as Brazil.

Mr Wedlock said the outlook for the iron ore market, especially for iron ore pellets, was strong.

“In addition to the current unprecedented demand for iron ore in all forms – primarily required as feedstock to meet growing demand for steel in Asia – environmental factors are underpinning the rise of pellets in blast furnace steel production,” he said.

Grange considers that the long term demand fundamentals for pellets are very positive and that this will underpin continued strong prices for the foreseeable future.

Open and Equal Tender Process

The intention behind the tender process is to provide a framework for the submission of offers by interested parties so that Grange can identify the most suitable parties and the best terms available.

Grange is committed to providing all qualified parties with the opportunity to participate in the tender process and participation will be on an equal basis.

There are currently no preferred or exclusive relationships in place.

Capital Management
Grange Chairman Anthony Bohnenn said the Company was very pleased to have received such strong interest in the project ahead of the formal tender process.

“The range of interested parties and varied ideas expressed about the optimum way forward for Grange is very encouraging,” said Mr Bohnenn.

“The final joint venture structure could take many forms and we are excited about the range of possibilities for structuring the development of the project and delivering value for Grange shareholders through the project development process.”

**Tender Process Adviser**

Grange has appointed Azure Capital as its corporate adviser and manager of the Joint Venture Tender Process.

Suitable parties are currently being invited to submit an Expression of Interest (EOI). From the EOI list, Grange and Azure Capital will shortlist the parties who offer the best terms and are considered the most suitable development partners. These parties will be given the opportunity to conduct detailed due diligence and submit a final, binding offer.

Expressions of interest are due 5pm Western Australian time on 8 May 2006.

More information concerning the Project and Joint Venture Tender Process is attached.

For further information visit the Grange website at [www.grangeresources.com.au](http://www.grangeresources.com.au) or for media enquiries contact John McGlue or Ann Nahajski at Porter Novelli on +61(8) 386 1233.

**MARK SMITH**  
Company Secretary
Grange Resources Limited ("Grange")
6.8 Mtpa Iron Ore / Pellet Plant Joint Venture

Overview

Background

- Grange is an Australian resources company, listed on the ASX.
- Grange owns 100% of the Southdown Magnetite and Kemaman Pellet Project ("Project") which will comprise:
  - A magnetite resource of 458Mt grading 37% magnetite, located near Albany on the south coast of Western Australia;
  - A mining and concentration operation producing 6.6Mtpa of concentrate grading 69% Fe for 22 years;
  - A 105km slurry pipeline delivering concentrate to the Albany port where it will be shipped using capesize vessels; and
  - A Pellet Plant in Kemaman, on the east coast of peninsular Malaysia capable of producing 6.8Mtpa of Pellets grading 66% Fe for blast furnace and/or higher grades suitable for direct reduction use.
- The Southdown site and Albany port benefit from good local infrastructure and services. The Kemaman site has existing purpose built infrastructure for industrial use, and an existing port that can accommodate capesize vessels. Locating in Malaysia also presents opportunities to benefit from certain tax benefits and investment incentives.
- Importantly, given Kemaman’s proximity to Asian markets, Grange’s pellets are expected to be very price competitive. The life of project cost, including capital amortised at an 8% WACC, is expected to be US$62/DMT (FOB Kemaman).
- Resource evaluation, metallurgical test work and engineering design for the concentrator, pipeline and Albany port facilities are largely complete; operating and capital costs have been estimated; environmental baseline studies done; and a bankable feasibility study is near completion.
- Capital costs are estimated at US$1.17 billion and Grange is seeking joint venture partners to buy an equity stake in the Project and contribute a share of the capital cost.
- Approximately A$23.7M on Project development costs will have been spent by the time the tender process concludes in August 2006.

Benefits to Asian Iron Ore Consumers

- With rapidly growing demand from China and other Asian countries, the iron ore market is in deficit and in need of new sources of supply, particularly in the Asian region. Demand for iron ore pellets, for both blast furnace and direct reduction use,
is expected to be strong in the future. This is due to the decline in quality and quantity of natural lump ores, increased environmental concerns with sinter production and the improved freight economics of a high grade product without moisture.

- Test work has shown that the Project can produce pellets suitable for blast furnace or direct reduction use, and the pellets will have a low phosphorous content (0.004%).

- Currently pellets are primarily supplied from Brazil which has a significant freight disadvantage compared to Kemaman (30 days sailing from Brazil to SE Asia). The Project will also be able to ship economically in large or small quantities, will tie up less working capital due to the shorter shipping time and handling losses will be minimised.

**Financial Overview**

- Compared to other proposed Magnetite projects, the Project benefits from proximity to existing infrastructure, in particular ports, power, gas and water.

- The Project is strongly NPV positive and shows a healthy return for a period of 22 years, at iron ore prices well below current prices. Strong prospects for increasing Project life by extending the mine onto an adjacent tenement and/or expanding pellet production beyond 22 years provides further upside.

- The life of Project cost of pellets (including capital return) is estimated at US$62/DMT FOB Kemaman. This compares to a 2005 contract price of US$94/DMT for Brazilian blast furnace pellets CIF China, and higher for spot pellet sales. The CIF price of direct reduction grade pellets to Kemaman exceeded US$100/DMT in 2005.

**Joint Venture Opportunity**

- The Project requires estimated capital contributions of US$1.17 billion plus other financial obligations to secure infrastructure etc.

- Grange is seeking joint venture partners prepared to share the capital cost in return for an ownership interest and a share of pellet production or a marketing arrangement. Grange is prepared to consider a range of structures, and is willing to joint venture with more than one party.

- Azure Capital has been appointed to manage a tender process under which expressions of interests are being sought. A limited number of parties who lodge an expression of interest will be invited to conduct detailed due diligence and potentially negotiate terms for joint venture participation.

- An information memorandum has been prepared, along with other information, and expressions of interest are due to be received by 8 May 2006. Interested parties are asked to contact Simon Price or Liz Sheil on +618 6263 0888 or scp@azurecapital.com.au or lms@azurecapital.com.au.