Dear fellow Fortescue Shareholders,

FORTESCUE RESPONSE TO RESOURCE SUPER PROFITS TAX

We are bewildered by the Government's inability to consult on this poorly thought out proposal. They introduced the tax with no consultation before they took it into their budget and no real consultation since. It's now clear that this means they have dropped on the Australian people a socialist style funding and tax device where the Government is now your silent partner, as per the alarm first raised by your CEO. The tax is simply a huge new take dressed up as a project funding contribution where it makes none.

In short, we believe the Resource Super Profits Tax (RSPT) is bad for every Australian. It harms the mining industry and especially Fortescue and we are urging the Government to drop this proposal and to open a new forum for dialogue with all industries to discuss tax reform.

We acknowledge Australia needs tax reform and are pleased to be working with the Treasury consultation panel to consider and make input to a new and fairer tax system. Unfortunately the existing "consultative" process does not allow for any negotiation or discussion on the key parameters of the Government's proposal. The panel had their hands tied behind their backs by the Government before "consultations" started.

Hence previously healthy projects become unfinanceable. We now have a huge new tax on the mining industry that will ultimately decimate future investments in new projects and have a negative impact on the value of your investment in our Company.

Put simply, our major concerns about this retrospective tax are:

1. Increasing the rate of tax for mining companies to such a high rate will make it almost impossible for Australian companies to finance new projects;
2. The 40 per cent tax component is applied prior to paying interest and other taxes, increasing the overall tax responsibility on a company to around 58 per cent, which makes the Australian mining industry the highest taxed in the world;
3. The Government's 40 per cent guarantee, which is the key to the model for the RSPT, is of little to no value to banks and project financiers: the model is fundamentally flawed;
4. You, our loyal shareholders, may continue to see the value of your shares negatively impacted along with all Australians who invest in the resources sector through their superannuation; and

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5 Jobs will be denied to tens of thousands of Australians who would have been employed on new projects.

You may have been told that the RSPT proposal is similar to the Resources Rent Tax that has applied to the petroleum industry. It's not. It's much, much worse. Even though that tax was not particularly successful either, the projects that finally proceeded under it have waited decades in the international queue as more attractive projects went first. Those overseas projects which were developed before ours did not employ Australians nor generate wealth for our country. Where the same Australian economist applied a similar tax, it suffocated exploration and development in Papua New Guinea to a fraction of what it could have been. However, the RSPT is much worse as kills the financing of a project as well as the returns expected from it, not just the returns.

Australia has maintained a proud history of being viewed as a safe international investment destination. However, with no consultation, the implementation of an additional 40 per cent take, before all other taxes and obligations on existing and new mining businesses, has changed this perception forever. It is incumbent upon us all to get rid of the RSPT to limit the damage to our country's reputation.

This tax was not designed by anyone with a working knowledge of project finance; the keystone of this tax rests on a Government guarantee to refund 40 per cent of any losses not rebated through the tax system. It waits until a project has failed or reached the end of its life without having redeemed the tax credits. It is of course theoretical nonsense. Who believes that companies could fund 40 per cent of an investment on the strength of some future unbudgeted Government tax credit after it failed? No bank wants to fund a failed project on the premise that 40 per cent can subsequently, perhaps, be reclaimed through tax.

To make the point, imagine for a moment that your home loan was based on you failing to make your mortgage repayments and the house being sold in a mortgagee-in-possession auction. Do you think your banker would be happy that someone would make good 40 per cent of the loss as a reason to lend you the money - in return for taking 40 per cent of your income? The same income they were relying on to allow you to repay the loan? Clearly the banker would have stopped you buying the house because they rely on believable repayment schedules, not bankruptcy events.

With this premise discredited, so too is the notion that the Government is justified in taking an additional 40 per cent of a company's normal profits.

To imagine that earning a rate above six per cent constitutes a "super profit" just further diminishes the basis upon which this nonsense has been developed.

The sad outcome of this flawed economic logic is that the Fortescue Board has taken the tough decision to place our Solomon and Western Hub projects on hold. These projects are of national significance and if developed would produce as much iron ore as the equity owned in existing iron ore projects in the Pilbara by Rio Tinto and BHP Billiton. To delay, or worse still, possibly cancel two of the world's greatest undeveloped resource projects will impact the Australian economy for decades.

Finally, all Australian companies must make a profit to survive. This protects Australia from sub-economic projects being developed. An unintended consequence of this new tax is that sub-economic projects can now be developed with taxpayers' money being used to subsidise these projects through the refunding of royalties paid to the States.

Major commodity importers often invest in projects to guarantee supply, without necessarily needing to make profits. It is entirely possible that such an overseas party could mine the ore, send it overseas where they need it and make a loss in Australia. Another unintended consequence of this tax is that this foreign entity could then send the bill for 40 per cent of the unrealised tax credits to the Australian people when the project came to the end of its life. As resource projects are huge, so too could be the loss borne by the Australian people. All 100 per cent out of the government's budget.

As your CEO has said, Fortescue in its current form would not exist if this tax had been in place at the time of its inception. If the tax remains as proposed certain future projects will not be possible.

Two years from now, and nine years after Fortescue was founded, we expected to be able to begin rewarding shareholders with dividends to add to continuing capital growth. Many of you took a risk on investing your money in a company that merely had unexplored land and the idea of building a new iron ore company - if that exploration proved successful. Now all our shareholders are facing a future with no immediate prospect of dividends and even the possibility of declining capital return from their investment going forward.

It is for these reasons that we have chosen to write to you and to urge you to join us in contacting firstly the Prime Minister and the Treasurer (Ph: +61 2 6277 7340; Email: ministerial@treasury.gov.au); and secondly your local Federal Member of Parliament.

Please tell them how flawed this tax is and how it will continue to harm the Australian economy. Demand that they remove this deeply troubling impost on Australia's position as a globally respected destination for investment, and on Australia's ability to create jobs, to keep its people employed, and its overall economic strength.

Kind regards
FORTESCUE METALS GROUP LIMITED

Herb Elliott AC
Chairman