



Mines and Money Growth Opportunities and Market Challenges

23 March 2011

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The information in the report to which this statement is attached that relates to Mineral Resources is based on information compiled by Mr Stuart Robinson, Mr Mark Glasscock and Mr Clayton Simpson who are all Members of The Australasian Institute of Mining and Metallurgy.

Mr Stuart Robinson, Mr Mark Glasscock and Mr Clayton Simpson are full time employees of Fortescue Metals Group Ltd and provided geological interpretations for Mineral Resource calculations and compiled the exploration results. Mr Robinson, who is a Fellow of The Australasian Institute of Mining and Metallurgy, and Mr Glasscock and Mr Simpson who are Members of The Australasian Institute of Mining and Metallurgy, have sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which they are undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Mr Robinson, Mr Glasscock and Mr Simpson consent to the inclusion in this report of the matters based on their information in the form and context in which it appears.



The Waves Shaking the World

- **China, India, the Third Wave and the Crabs**
 - Almost ¼ of world GDP and growing rapidly
 - ½ of world population enjoying rising standards of living
 - Wealth will approximately double every 10 years
 - Increased wealth taken initially as calories by poorer people
 - Upward pressure on food prices globally
- **Rising food prices will have repercussions elsewhere**
 - In stagnant economies will result in falling living standards
 - This will generate political instability



Communications Change Regimes Quicker than Bullets

- **Internet and mobile phone communication**
 - Allows dissemination of political discontent
- **Stagnant economies**
 - Politically inspired regulation
 - Tolerance of corruption
 - Rent seeking by political elites
- **Rising food prices + Stagnant economies + Digital Communication**
 - Tunisia, Egypt, Libya - ??



The Impact of Digital Communication

Growth of mobile phones

- CISCO predicts 138 million users globally by 2015 without access to electricity grid
- Is underpinning productivity growth in less developed countries
 - No need to wait for electricity
 - No need to wait for fixed lines

Phone credits acting as parallel currency/ banking system

Mobile phones communicate market conditions – improving effectiveness of markets

This will be increasingly important in underpinning and sustaining Indian and Third Wave growth



Iron ore industry overview

- Over the last decade, growth in demand for iron ore has been underpinned by significant demand from China and other emerging economies
- Primary driver has been the industrialization and urbanization of these regions
- The major iron ore producing countries are Australia, Brazil and China
- Export iron ore production has very high barriers to entry
- Iron ore producers have been challenged to expand rapidly enough to keep pace with global demand



Where are we in the economic cycle?

➤ Predictions for growth



CRABS – Canada, Russia, Australia, Brazil, South Africa

Big economies underpinned by resources

~ 4% growth

- Canada; Russia; Australia; Brazil; and South Africa – “CRABS”
- Will continue to do well whilst commodity markets remain strong
- Collectively around 10% of world GDP; 440 million people



“Third wave” of South and South East Asian economies ~ 6% growth

- “First wave” – China; “Second wave” - India
- Diverse bunch ranging from Malaysia to Indonesia and Sri Lanka
- Collectively around 5% of world GDP; 1 billion people



CRABS + Third Wave

- Currently 15% of world GDP – bigger than Chinese economy
- Currently 1.4 billion people – bigger than China’s population



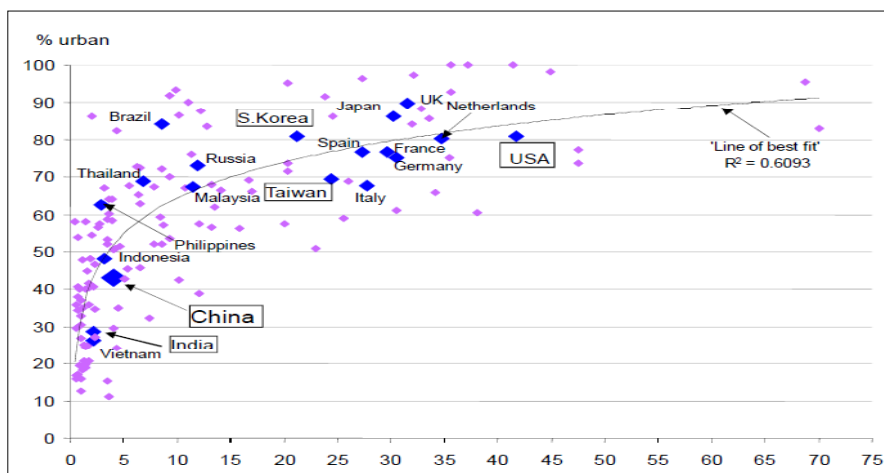
China, India and Third Wave ridden by the CRABS



(From the archives of Fortescue)



Urbanisation in China and India has a way to go



Source: CRU



China



China able to maintain growth > 8% growth

- Overheating, property price inflation can cause problems
- Controlled through directives used to keep growth balanced
- Around 13% of world GDP; 1.3 billion people



India

Indian growth expected to mirror Chinese performance > 8% growth



- Least affected of all large economies by GFC
- Strong growth underpinned by growing domestic demand
- Around 5% of world GDP; 1.1 billion people





Strong growth – a political imperative in China



China's 12th five year plan – great for growth

- Current forecast of around 665mt of steel production for 2011
 - YoY rise of over 6.2% (2010: 626mt)
- Chinese economic growth is set to drive continued strength in demand for steel and iron ore, and the continued recovery in steel production in Asia (outside China)
- China plans to
 - build up to 10million low-incoming housing units in 2011, up 72.4% from 2010
 - invest around RMB700b (\$106b) in railroad construction projects in 2011
 - build >20m new vehicles
- Industrialisation and urbanisation will continue in next 5-year plan, especially in west



➤ Fueling China's growth



Fueling China's growth

- Fortescue engaged with China in early stages of their emergence (first contracts in 2003/2005)
- Targeted steel mills who did not previously have access to long-term supply arrangements
- China Southern University, Fortescue developed a product type to optimise China's fines only market
- Deliberate procurement strategy – Fortescue purchased equipment from China such as rail steel, ore wagons, stackers, reclaimers
- 45 separate contracts





There will be dozens of future Chinese cities – planning to build up to 20 small and medium new cities a year

And grow from there...

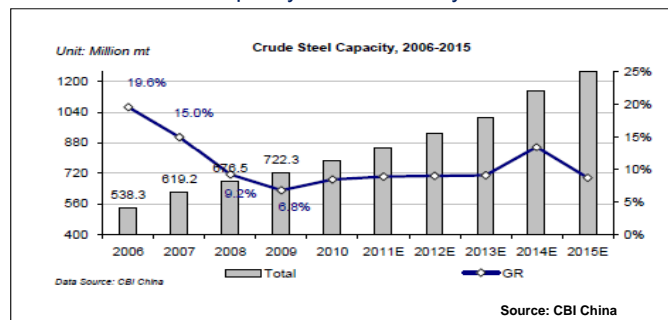


Outlook for Steel and Iron Ore Industries

Expected steel capacity growth

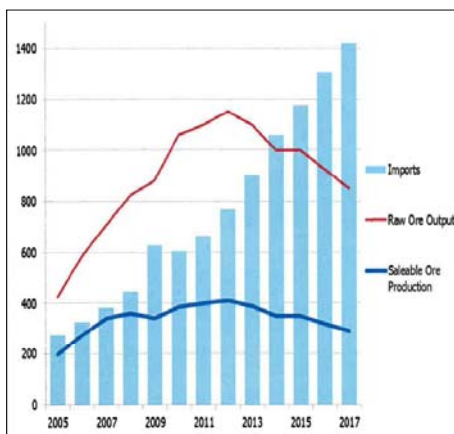
China's growth will be supported by continued steel capacity expansions

- Crude Steel production capacity
- Approximately 790Mt capacity in 2010;
 - To around 1290Mt in 2015
- An increase in steel capacity of 500Mt in 5 years



Chinese domestic production

Domestic vs. Imported Ores (Mt)



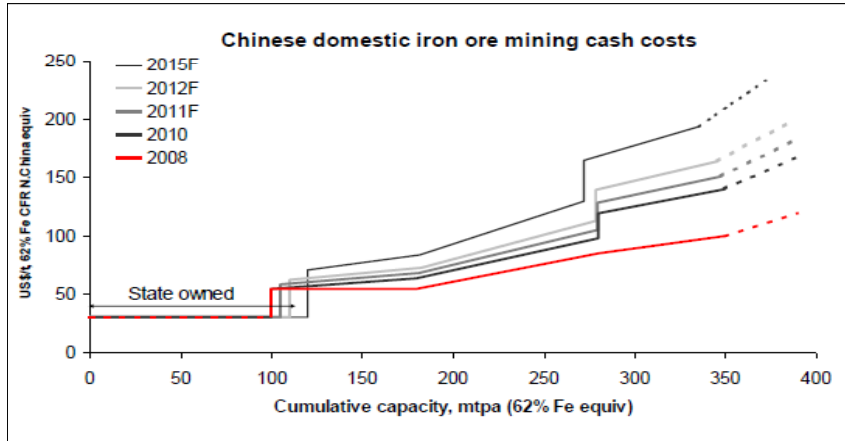
Source: Metalytics

- **Domestic ore production measured by contained iron difficult to sustain**
 - Though physical tonnes may increase, grade is falling faster
 - Production increases will be possible only at higher prices
- **Increased demand for iron ore from China but;**
- **Domestic production not able to respond further without price rises**



Chinese domestic iron ore cash costs

The relatively high cost of China's domestic iron ore supply will support the long-term price of iron ore

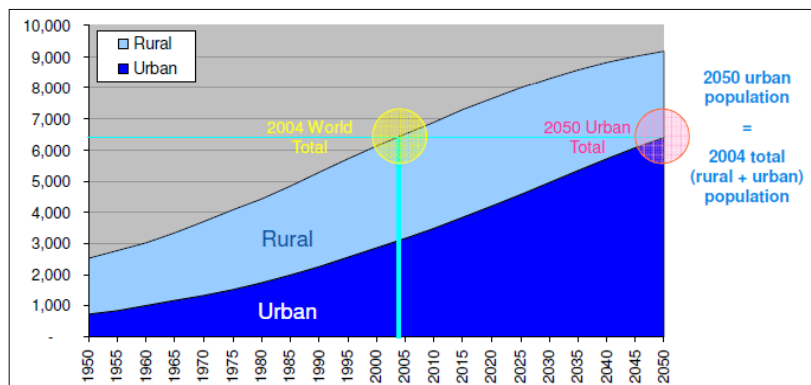


Source: Macquarie Research



Outlook - steel demand

World urbanisation will drive steel demand for decades



World urban population increasing by one billion 2005-2020

Source: Metalytics





Iron ore price will
remain strong



Outlook – iron ore price

- Prices expected to remain high until at least 2012 with new supply gradually entering the market from 2013 to 2015
- Iron ore demand will continue to be supported by the industrialisation of the developing world
- The relatively high cost of China's domestic iron ore supply will support the long-term price of iron ore
- India's growth expected to constrain export supply



Marketing – index pricing transition



- Changed pricing delivers strong returns
- Index pricing better represents supply/demand
- CFR terms lock in shipping advantages for proximity to market



Key risk factors facing the industry and strategies to overcome them

Key risks for industry

Key risk

- Supply of iron ore to keep up with demand
- Skill shortages
- Taxation (MRRT, Carbon Tax)

Mitigation

- Fortescue is expanding rapidly and has jump on others
- Automation/remote control
- We will continue to influence taxation outcomes for the industry



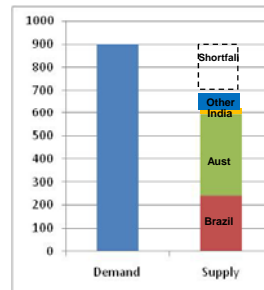
Expected production increases by 2015

- **Brazilian ~ 240Mtpa (mostly Vale)**
- **Australian Producers ~ 353mtpa**
 - FMG ~ 115mtpa increases (to 155mtpa)
 - BHPB ~ 80mtpa increases (to 235mtpa)
 - Rio Tinto ~ 65mtpa increases (to 283mtpa)
 - Citic ~ 23 mtpa (coming on supply)
 - Others hopefuls (eg Atlas, API, Hancock etc) ~ 70 mtpa
 - NWIOA ~ no finance
 - Mid-West ~ delays
- **Indian ~ 20mtpa (increases in exports restrained)**
 - Exports will continue
 - High prices will over-ride political constraints
 - Constraint comes from domestic demand



Expected production increases by 2015

- **Others (eg SNIM, Kumba, etc) ~ 75mtpa**
 - South Africa ~ 15mtpa (Kumba)
 - West Africa ~ ?
 - Risk precludes conventional finance
 - New infrastructure not built
 - Upgrades to existing possible
 - Delays - Rent seeking by politicians



- **900mtpa increased demand – 688mtpa identified supply**

Conclusion:



- Chinese domestic response requires higher prices
- If China builds 500mtpa of additional steel capacity by 2015 there will be a shortfall in supply



Engaging with local communities essential



Engaging with local communities

Fortescue will be in the Pilbara for generations

Community development plan

- Residential workforce where possible, encouraging growth of regional cities
- VTEC – local indigenous training and employment; guaranteed jobs for graduates
- Actively seek to promote and encourage local procurement where possible
- Building accommodation/homes in Port Hedland
- Community offices and support for local amenities



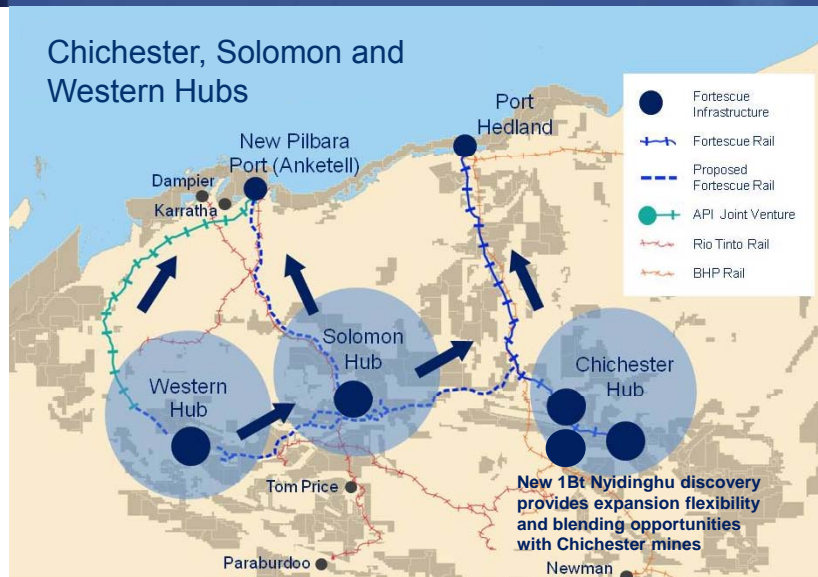
Engaging with local communities



Engaging with local communities



Three Hubs - Two Ports expansion strategy





Fortescue – growing rapidly

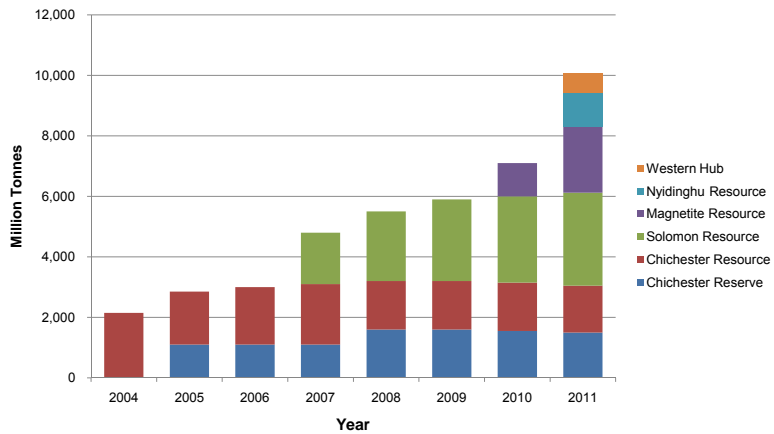


Carpe diem - 155mtpa

- Rapid growth:
- Now: Chichester 55mtpa on schedule for March Qtr 2011 commissioning
- Short term: 155mtpa Port and Rail expansion underway and Solomon advancing rapidly
- Medium term: Remaining Solomon and Anketell Port approvals winning Government support
- Development strategy leverages existing contractor relationships and brown-field opportunities
- Agreement with key procurement suppliers to ensure target delivery
- Strengthened management team already in place for 155mtpa

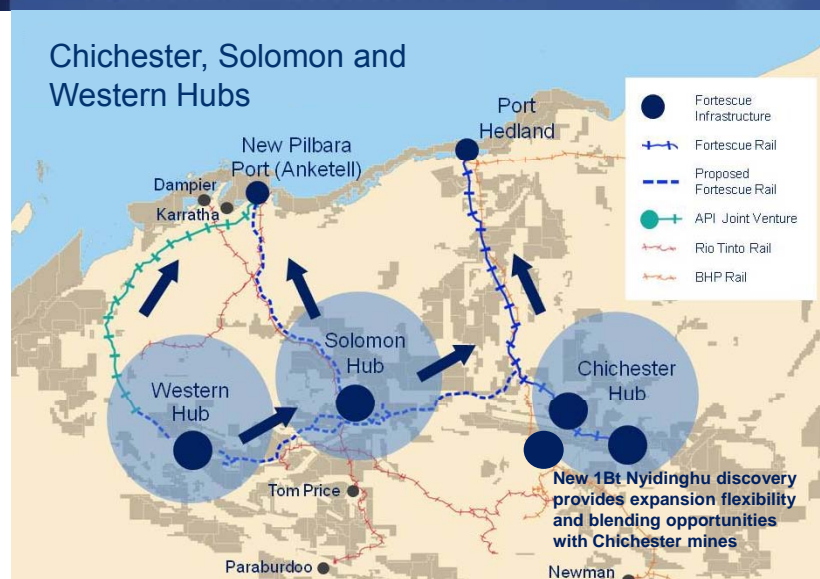


10 billion tonnes - one of the worlds greatest resource holdings



- Maiden resource statement of 625mt from the Western Hub
- Total exploration portfolio of 10.03 billion tonnes of JORC Resources
- Growing resources at up to 2bt per year
- Reserve of 1.5 billion tonnes of direct ship ore

Two Ports Three Hubs - 355mtpa strategy



Designed for future expansion



The Path to 155Mtpa then 355Mtpa

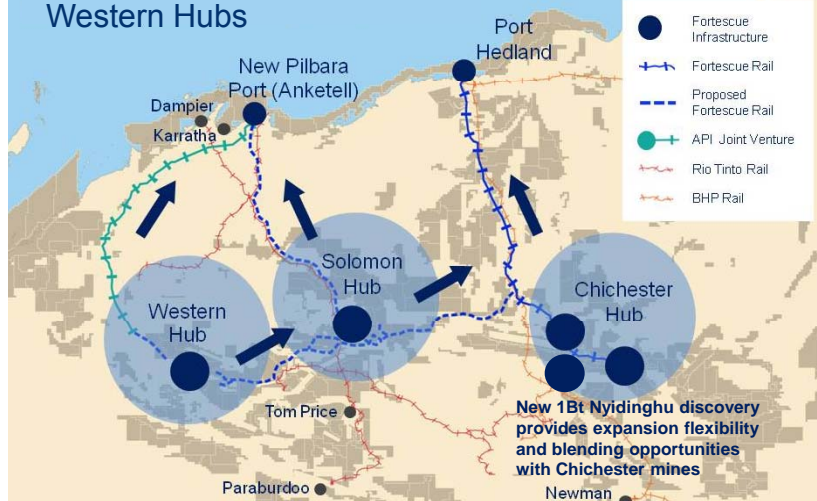


Note: BCI JV is 50% Fortescue owned



Three Hubs - Two Ports expansion strategy

Chichester, Solomon and Western Hubs



41



Future growth story without parallel



- New exploration model across the Pilbara
- Massive discoveries leads to 10bn tonnes
- Fastest ramp up of any Pilbara mine
- Surface miners optimise grade control
- Largest ore processing plant in the Pilbara
- Fastest Heaviest haul rail system
- Port out-load rates highest in Australia

➤ **Compare FMG 155mtpa with 355mtpa potential to BHP/RIO iron ore market caps**

42



Forging ahead



Fortescue
The New Force in Iron Ore