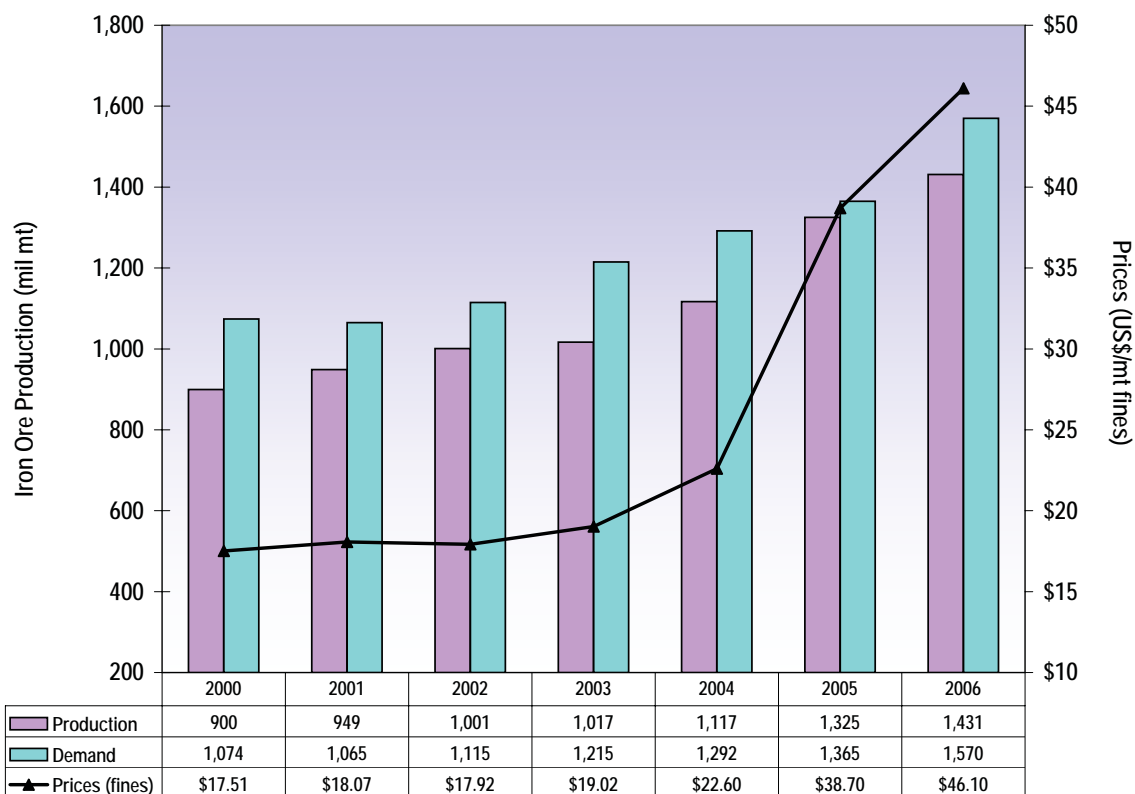


SIGNIFICANT IRON ORE ACQUISITIONS IN 2007

As illustrated in Figure 1 below, world mine production of iron ore has increased an average 5% annually since 2000, reaching a record high of 1.43 billion mt in 2006. Demand by China's surging steel industry has driven the increase, as reflected in rising iron ore prices since 2002. Scrap shortages are exacerbating the need for growth in iron ore supplies to meet steel production demand for at least the next few years. The major iron ore producers are responding by expanding existing capacity and bringing new capacity on line. Based on the first eight months of 2007, iron ore mine production, demand, and prices are all set to reach new record levels.

In addition to internal production growth, the iron ore industry has been consolidating since 2000, led by CVRD's 2000-03 acquisitions of the other significant Brazilian producers—Samarco, Samitri, Ferteco, MBR, and Caemi—for a total acquisition cost of more than \$2 billion. While, CVRD has recently focused its acquisition activity on other metals (such as the \$17.3 billion purchase of Inco in 2006), other iron ore companies are continuing to consolidate the industry.

Figure 1: World Iron Ore Production, Demand, and Prices, 2000-06



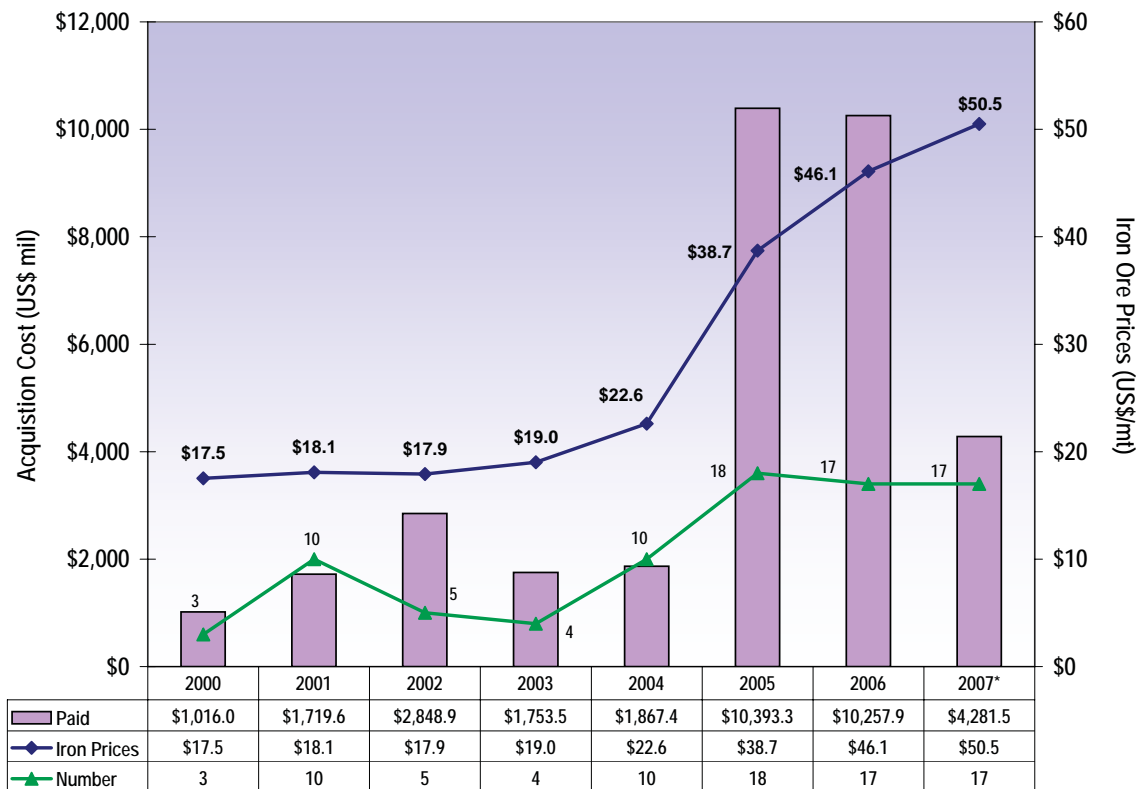
*Estimated.

Data sources: USGS, UBS Commodity Connections, Company reports, MEG estimates.

In North America, Cleveland-Cliffs helped patch together the ailing North American mining industry during the years of low prices by acquiring bankrupt producers—sometimes just for assumption of debt—and keeping them operating. It was also involved in two 2007 deals, one as seller and one as buyer.

In the former Soviet Union, Alisher Usmanov and Vasily Anisimov have been consolidating iron and steel interests under their company Metalloinvest, although the details of this process are not transparent. Metalloinvest and Severstal were recently reported to be considering a merger. Metalloinvest is also in merger talks with Ukrainian steel producer Industrial Union of Donbass. At the end of 2006, Gazmetall, controlled by Metalloinvest, finished consolidating its Russia-based iron ore and steelmaking assets and owns more than 75% of the shares in Lebedinsky GOK, a major iron ore producer in Russia's Belgorod

Figure 2: Significant Iron Ore Transactions 2000-07



*January-August 2007 only.

Data sources: Company reports, MEG estimates.

region, which in turn owns Mikhailovsky, a major iron ore producer in the Kursk region. Gazmetall also owns more than 75% of Oskol Electrometallurgical Combine, a Belgorod steel works that owns the Urals Steel plant in the Orenburg region.

In China, the central government has a policy of consolidating the steel industry, which should result in fewer, but larger, iron ore producers. In addition, Chinese commodity trading and steel companies have begun investing outside China, especially in Australia, with three deals reported in 2007. Japanese companies continue to invest in offshore resources, and were buyers in two major 2007 acquisitions.

As illustrated in Figure 2 on the previous page and Table 1 on the following page, acquisitions activity has remained high so far in 2007, though well below the total dollar value reported in the previous two years, with 17 iron ore assets that were each valued at \$10 million or more changing hands, for a total of almost \$4.3 billion. Two transactions were valued at more than \$1 billion each, and three others at more than \$300 million. These five accounted for almost \$3.4 billion, or 79%, of the 2007 total through August.

The largest was Anglo American's acquisition of a 50% interest in the MMX *Minas Rio* integrated companies in Minas Gerais, Brazil, in May 2007, for \$1.15 billion, including the acquisition of 100% of Centennial Minas-Rio shares. Anglo American also gained an option to buy an additional 1% interest for \$600 million, upon confirmation of phase two of the project. The phase-two expansion is intended to double Minas Rio's capacity, subject to certain conditions, including MMX confirming sufficient reserves and obtaining the relevant permits. MMX's Minas Rio system in Minas Gerais is based on resources of 714 million mt. The mineralization is suitable for producing a concentrate for pelletizing. In June 2007, MMX reported that Minas-Rio capital costs had increased by 10% to \$2.3 billion, and that startup of the pellet plant had been delayed to 2011.

The next-largest transaction is a financing agreement for Australasian Resources's *Balmoral South* project in Western Australia. China Metallurgical Group's subsidiary, Shougang Group, can earn a 50% interest in Balmoral South by providing an interest-free loan covering all capital costs, estimated at \$2.1 billion (Australasian's share is \$1.05 billion), with principal repayment to begin as a percentage of cash flow once full commercial production is reached. Shougang will also take all the premium iron ore produced by the plant for the project's 25-year life. In February 2007, Australasian announced a resource upgrade at Balmoral South's Susan Palmer deposit to 1.11 billion mt. An increased reserves estimate is pending.

In July 2007, Siderurgica Nacional (CSN) acquired *Cia de Fomento Mineral* (CFM), located in Minas Gerais, Brazil, near CSN's flagship project Casa de Pedra, for \$440 million. CFM sold about 3.6 million mt of iron ore in 2006 and about 2.7 million mt in the first half of 2007. It is enlarging its production capacity, and in 2008 its sales are expected to reach 8 million mt of iron ore.

At the beginning of 2006, Novolipetsk Steel sold its 11.96% stake in *Lebedinsky* for \$400 million to a company controlled by Gazmetall, of which businessman Alisher Usmanov is a major shareholder. The transaction gave Gazmetall 93.5% of Lebedinsky's stock. In 2006, Lebedinsky increased iron ore concentrate production by 2.2% to 21.12 million mt.

Table 2: Major Iron Ore Transactions, January-August 2007

Acquisition	Location	Development Stage	Seller	Buyer	Percent Acquired	Acquired Iron Ore (mt)	Price Paid (US\$ mil)
Minas Rio	Brazil	RD	MMX Mineracao	Anglo American	50%	81,103,000	\$1,150.0
Balmoral South	Australia	RD	Australasian Resources	Shougang Group	50%	173,715,000	\$1,050.0
Fomento	Brazil	PRD	Fomento	CSN	100%	81,600,000	\$440.0
Lebedinsky	Russia	PRD	Novolipetsk Iron	Gazprominvestholding	12%	N/A	\$400.0
Pilbara Iron	Australia	PRE	Fortescue Metals	Magnitogorsk Iron	5.4%	23,285,770	\$355.7
Kimkan	Russia	RD	Peter Hambro	Aricom	50%	94,462,500	\$237.2
Cape Lambert	Australia	FEA	Cape Lambert Iron	Best Decade Holdings	70%	277,200,000	\$192.5
Amapa	Brazil	FEA	MMX Mineracao	Cleveland-Cliffs	30%	24,569,100	\$133.0
Jack Hills	Australia	PRD	Murchison Metals	Mitsubishi	50%	21,105,000	\$120.0
Wabush	Canada	PRD	Cleveland-Cliffs	Consolidated Thompson	71.4%	21,848,400	\$64.3
Karara	Australia	FEA	Gindalbie Metals	Anshan Iron	6.5%	34,552,115	\$32.8
Garinskoye	Russia	RD	Local government	Aricom	100%	162,130,000	\$27.0
Bahia	Brazil	RD	Local interest	Arcelor Mittal	100%	1,940,000,000	\$20.0
Maanshan	China	PRD	Ma'Anshan Iron	Wits Basin Precious	100%	4,275,000	\$20.0
Santa Barbara	Chile	PRD	Wyndham Explorations	Admiralty Resources	10%	686,900	\$15.0
Southdown	Australia	FEA	Grange Resources	Sojitz	30%	53,645,700	\$14.0
Apurimac	Peru	RD	MAPSA	Strike Resources	17.2%	133,753,879	\$10.0
Totals						3,127,932,364	\$4,281.5

In August, Magnitogorsk Iron & Steel acquired 15 million shares in Fortescue Metals Group to gain a 5.37% stake in the *Pilbara Iron Ore and Infrastructure* project for \$355.7 million. A July 2007 construction report stated that Cloud Break will begin mining in August 2007, with the first ore to be shipped in mid-May 2008. The project's final capital cost, excluding the \$305 million mining fleet, is \$2,572 million. ◆