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Minerals Market Outlook

George Robles, President & CEO

FLSmidth Capital Markets Day, 26 January 2007

Market Outlook (1)

- The mining industry is currently enjoying the **largest boom in its history**
- The main driver has been a substantial increase in demand for commodities fuelled by rapid economic growth in **China** coupled with **under investment** in the mining industry for years
- Currently, the most attractive of many new projects in the pipeline are being initiated due to **severe shortages** of specialized large mining machinery as well as qualified and experienced personnel. This will, all other things being equal, lead to a **prolonged boom** in the mining industry
- We believe that the current **favorable market conditions for CAPEX investment** will continue for at least the next **3-5 years**

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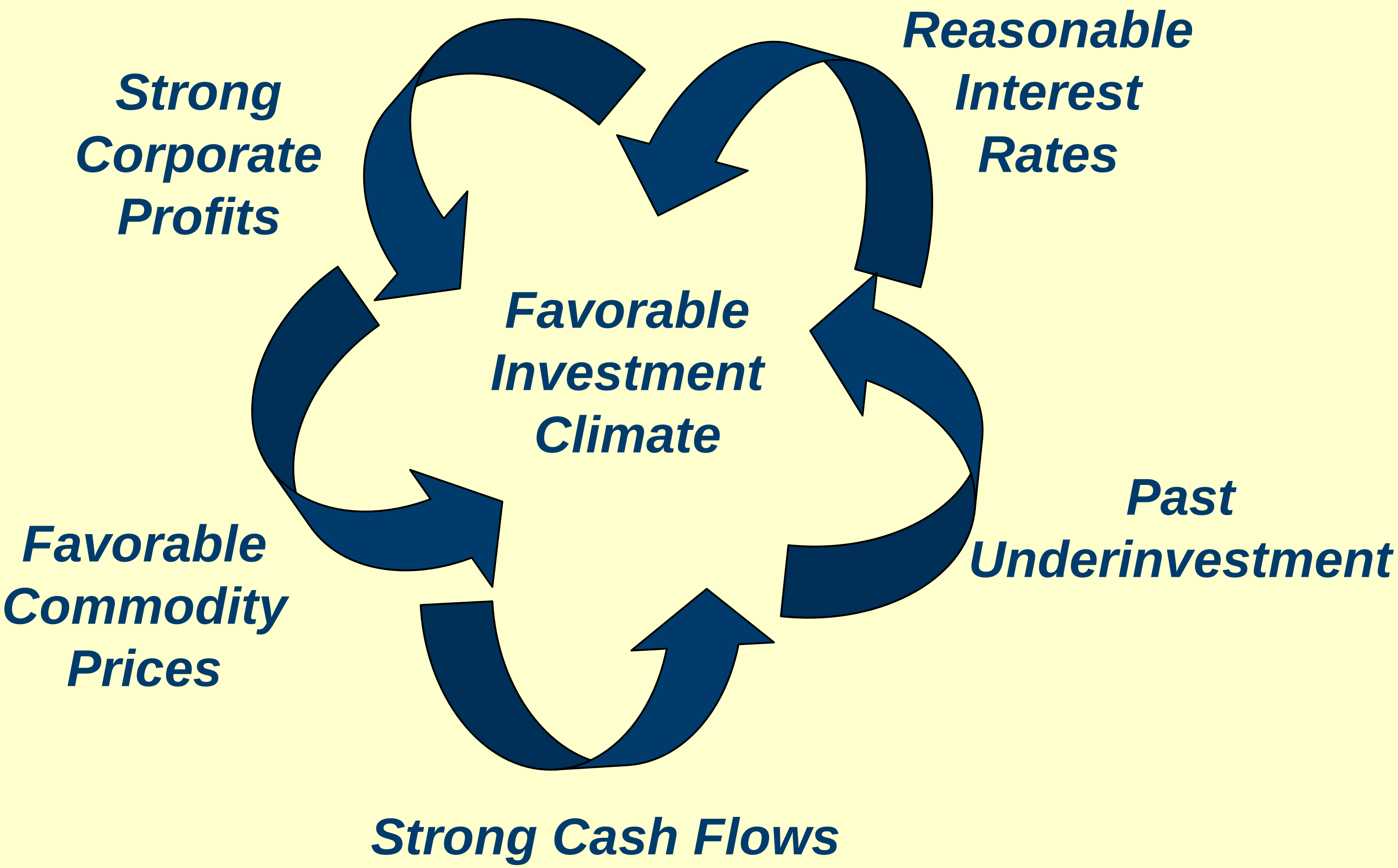
Overall a Positive Investment Climate



Market Outlook (2)

- The major mining companies have been focusing on **growth through acquisitions**
- All indications, and history, tell us that the focus will shift towards bringing forward **additional production**
- Exploration spending is at an all time high, but there has been a declining **discovery rate** of ”Tier 1” deposits in recent years
- Traditional exploration/production areas are **reaching maturity**
- **New Mining Regions** are being established such as Russia and the CIS countries, China, Mongolia, and a notable return of investment in Africa
- Mining and Metal **Capex levels** tend to peak 2-3 years after the metal prices peak, therefore, demand for equipment will continue at least through the end of the decade

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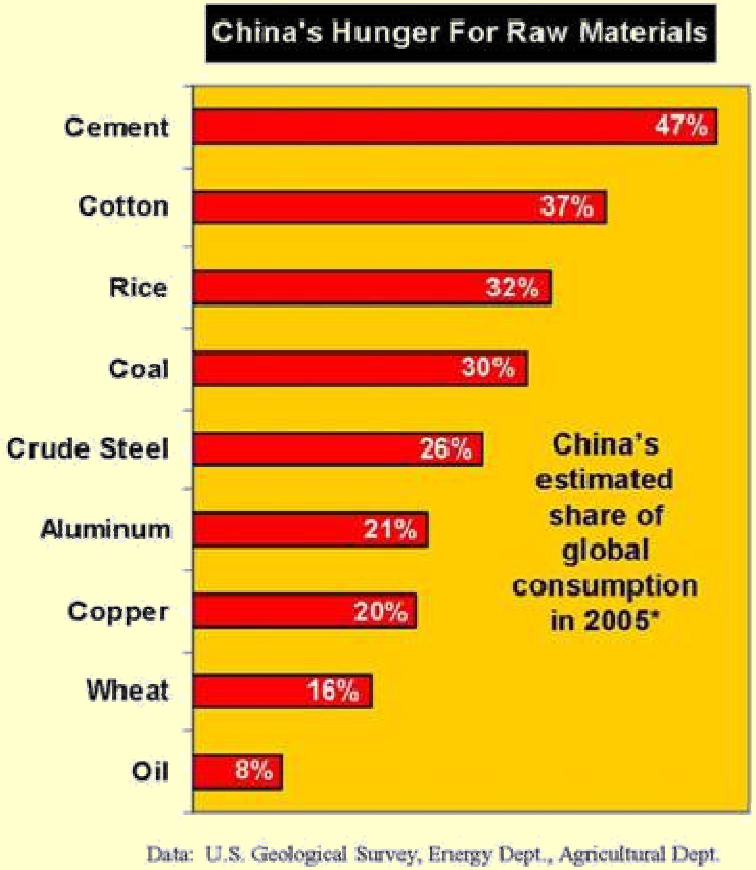
Global Demand for Raw Material Influences Price and Availability

- **Developing economies** such as China are competing for available raw materials as they continue to build infrastructure
- **China** achieved 12% of the world economy on purchasing power parity basis in 2004 (second to the United States)
- In 2004, China accounted for half of global growth in metals demand, and one-third of global growth in oil demand
- China's economy has a high energy intensity. The country uses 20-100% more energy than OECD countries for many industrial processes.



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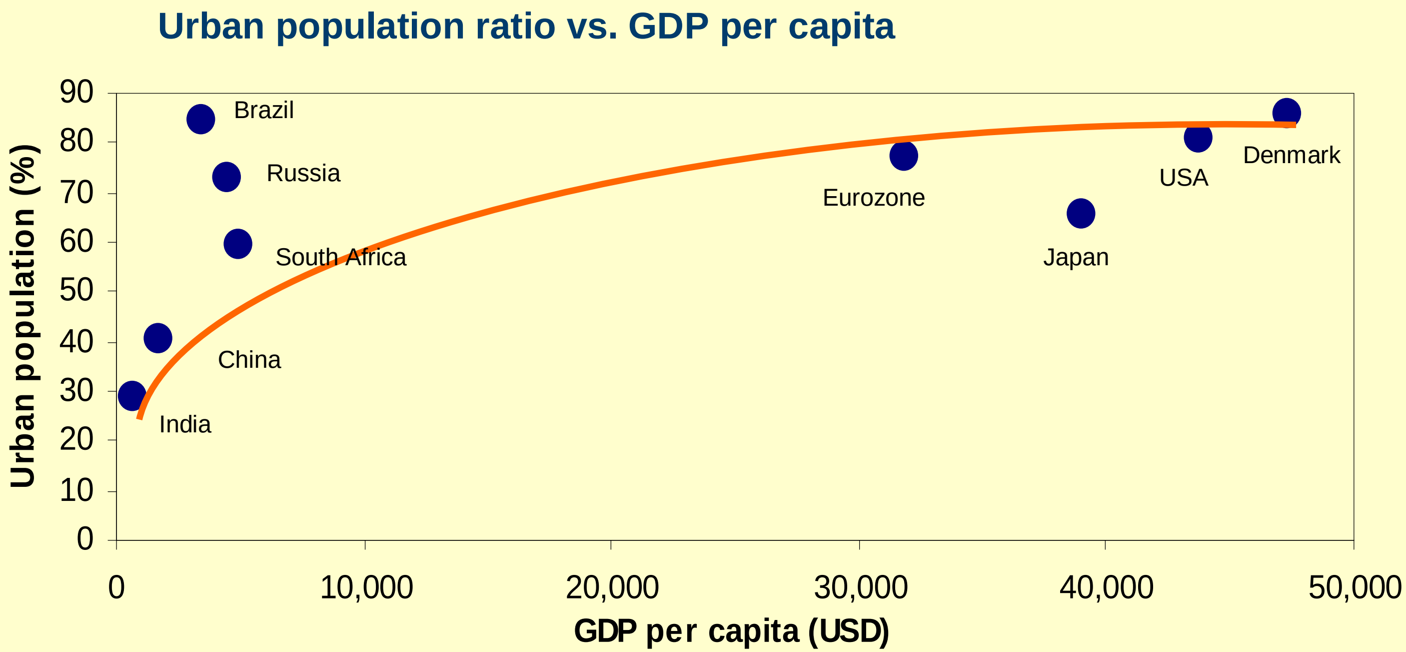
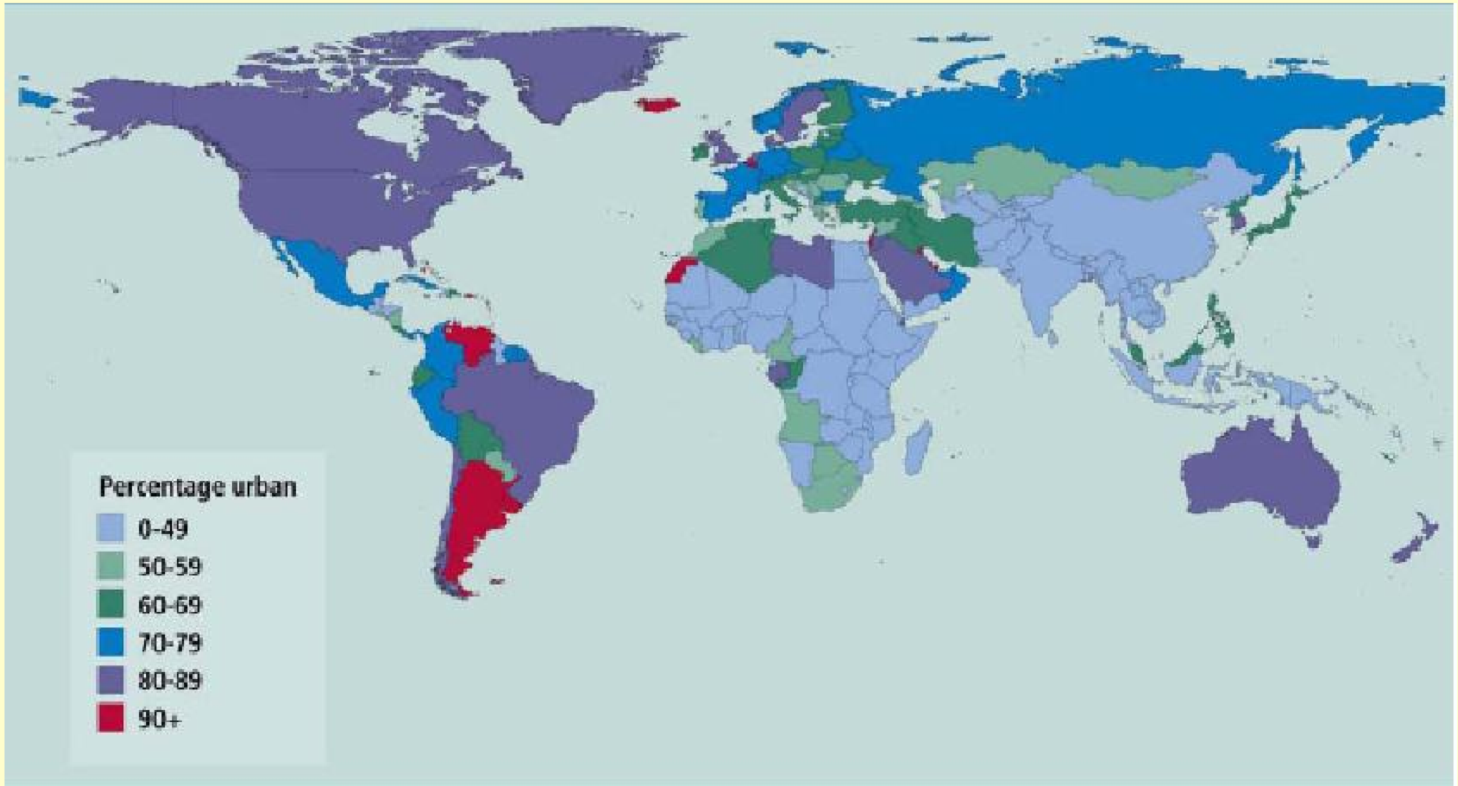
Urbanisation
- a key long term driver for materials consumption



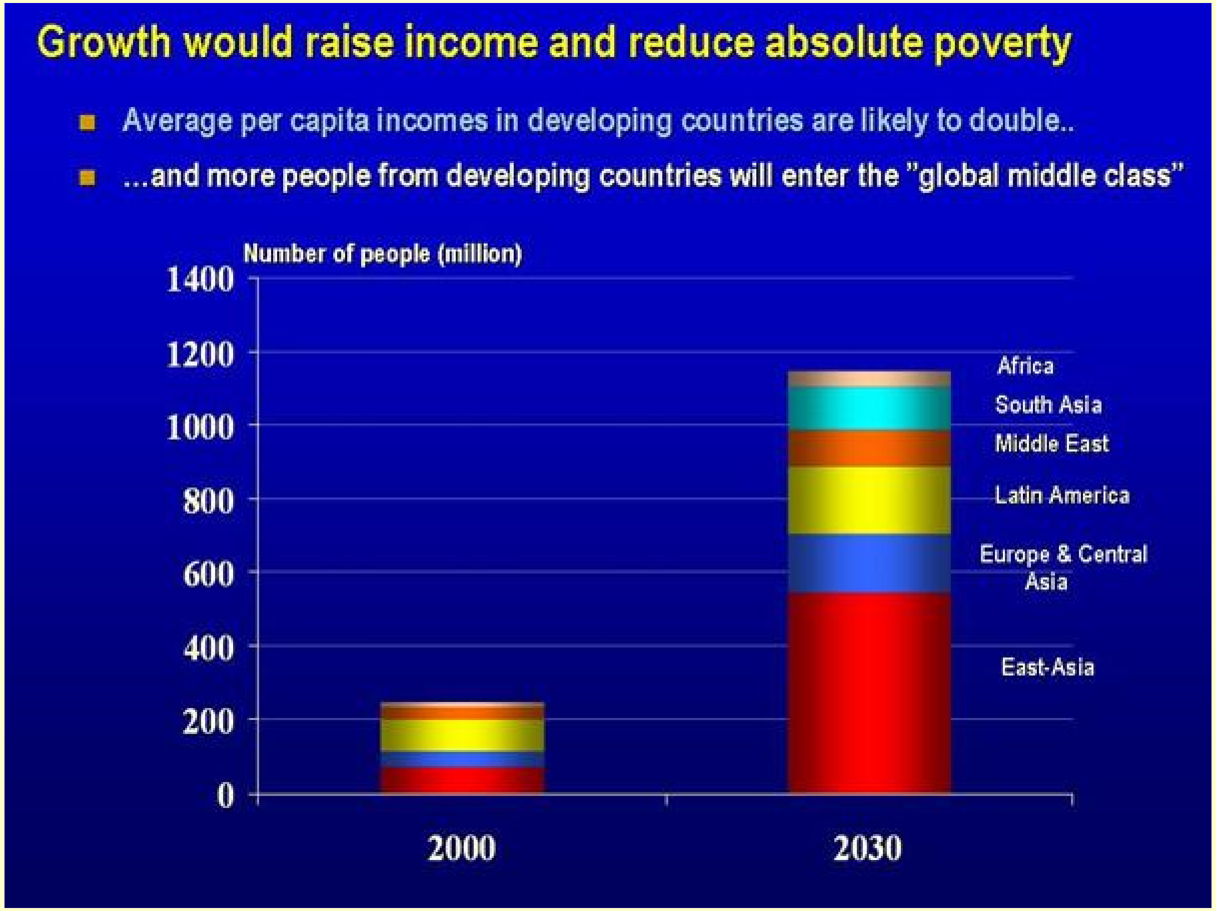
Source: World Bank, United Nations

Percentage of population living in urban areas



Source: United Nations; World Urbanization projects: the 2005 revision

Emergence of a global middle class

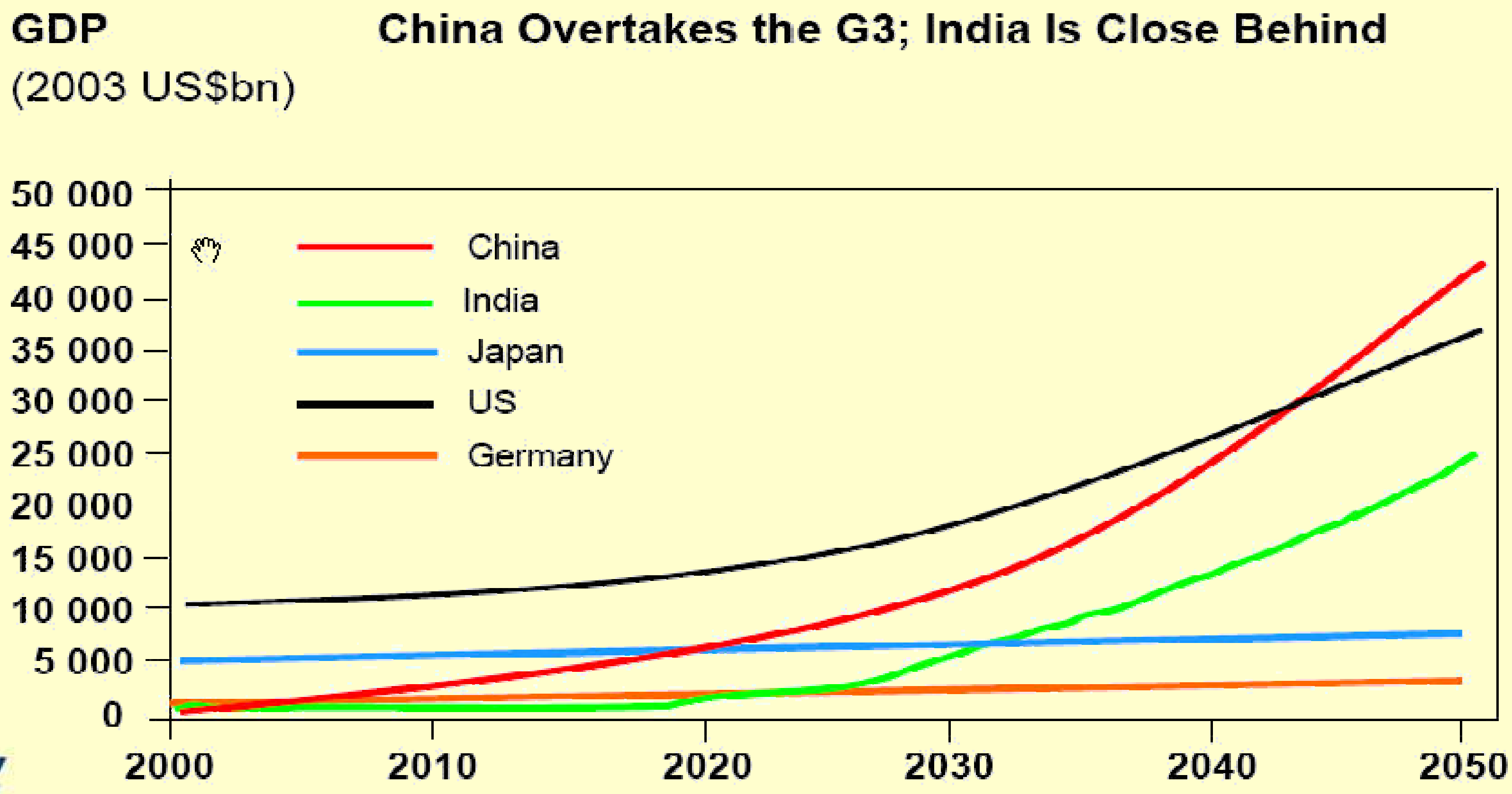


- "**By 2030, 1.2 billion people in developing countries** (15 percent of the world population) **will belong to the "global middle class,"** up from 400 million today.

- This group will have a purchasing power of between $4,000 and $17,000 per capita, and will enjoy access to international travel, **purchase automobiles** and other **advanced consumer durable goods**……"

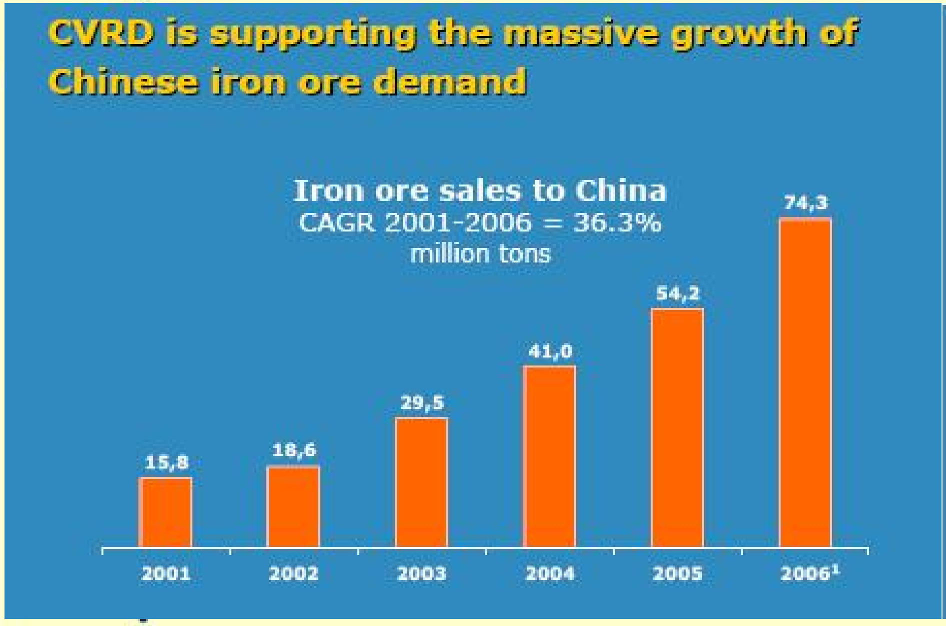
Source: World Bank: Global Economic Prospects 2007, 13 December 2006

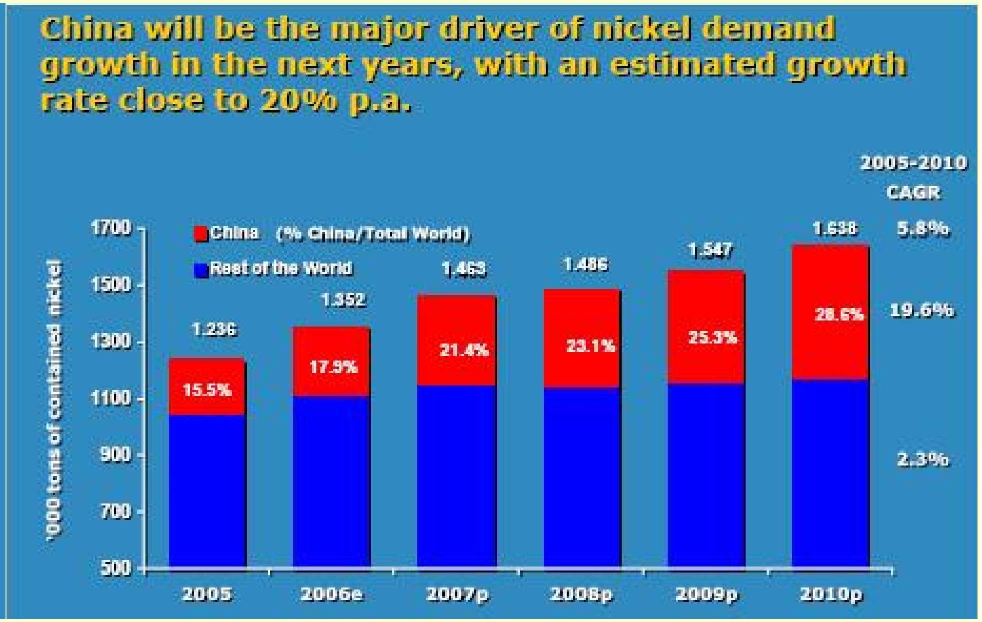
China and India – Some years ahead



China

– will continue to be the major driver of materials consumption





Source: CVRD

Market outlook

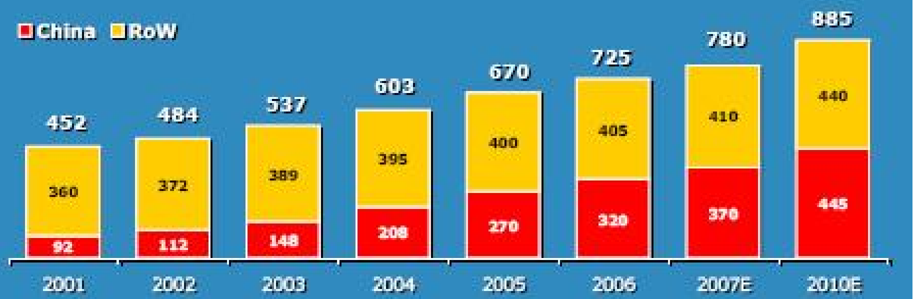
Urbanisation
- the key long term driver for materials consumption

We expect the global iron ore market to stay tight for the near future

- CISA forecasts a 13% p.a. average growth rate for Chinese steel production during 2006-2012
- The Middle East is the new world booming region: investments in construction and industrial capacity in the GCC[1] countries are growing dramatically
- Indian iron ore export growth will lose steam due to the requirements of an expanding domestic steel industry

We expect the global demand for iron ore to increase 215 Mt from 2006 to 2010

Global seaborne trade



	World	China	RoW
CAGR 2001-05	11.0%	31.5%	3.2%
CAGR 2005-10E	5.7%	10.5%	1.9%

Source: CVRD

Market outlook

Supply is responding, but not quickly enough

- Low metals prices in the 1990's caused cutbacks in exploration expenditure and industry capex
- Producers did not anticipate just how strong demand would be. Unwillingness to invest in what is almost entirely a China story
- High prices provide the incentive to develop new resources, but doing so takes time – Capex follows profit cycles
- Production has not been delivered as planned over the last two years due to lower ore grades, unplanned outages (strikes), lack of equipment (trucks, tires) and skilled staff
- High construction costs will make some of the new projects unfeasible

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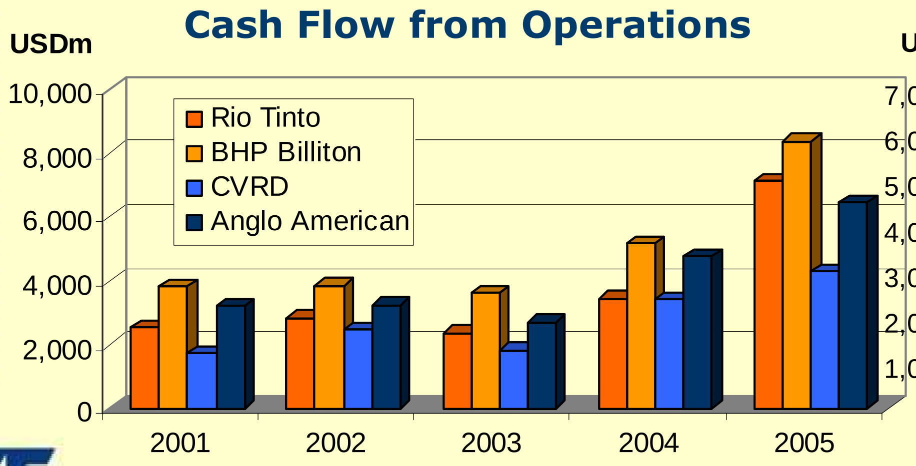
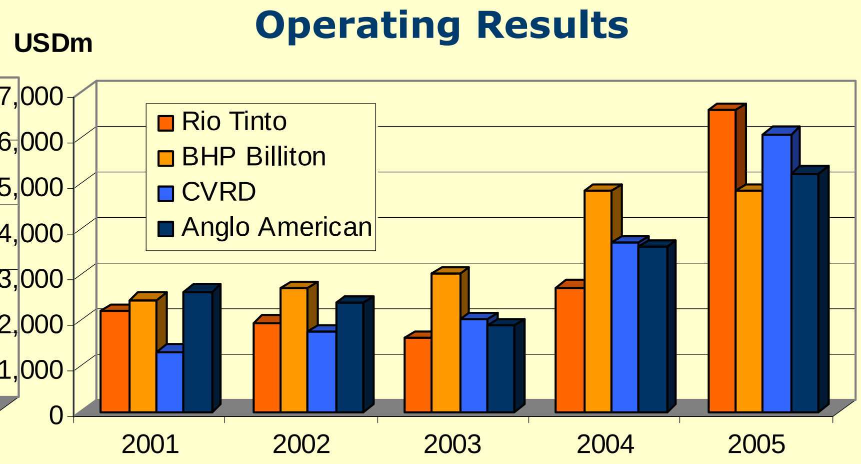
Strong corporate profits and cash flow

- The mining companies are profiting from increased demand and higher metal prices
- They have plenty of cash to spend on acquisitions, distribution to shareholders and new production
- Focus is shifting from acquisitions to bringing forward new production





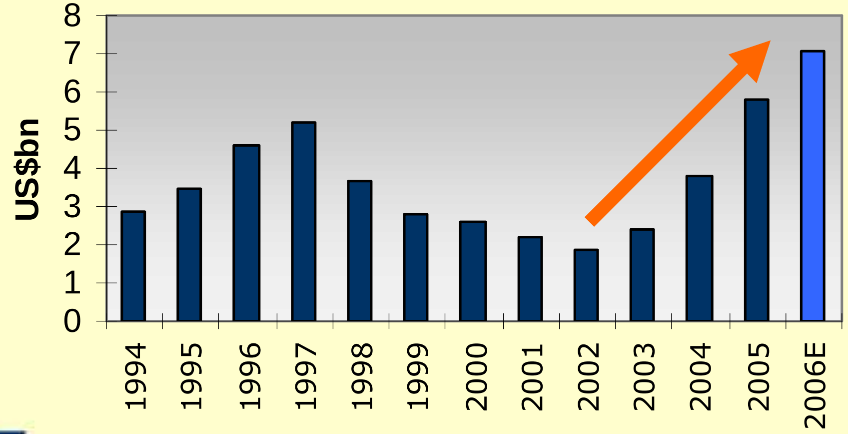
Source: Bloomberg

Global exploration and Capex trends

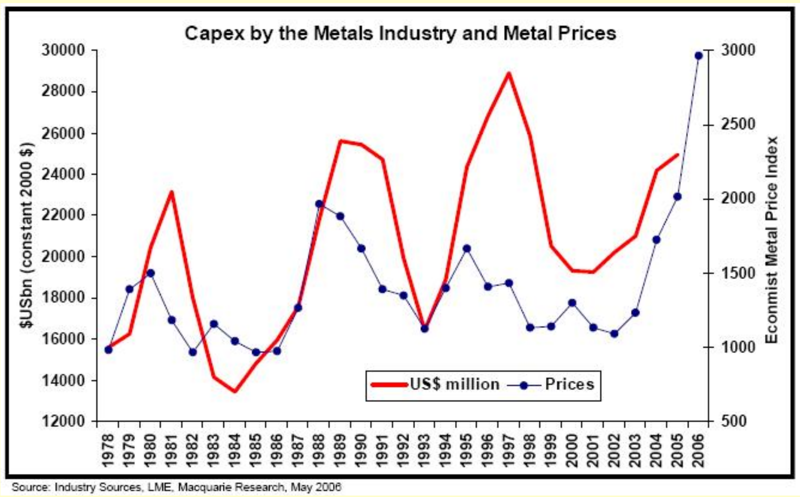
- Investments in exploration have increased 3-fold since 2002
- Metal Industry Capex is cyclical and follows metal prices
- Historically, Metal prices have peaked 2-3 years before Metal Industry Capex

Global investments in exploration of non-ferrous metals

Source: Metals Economics Group

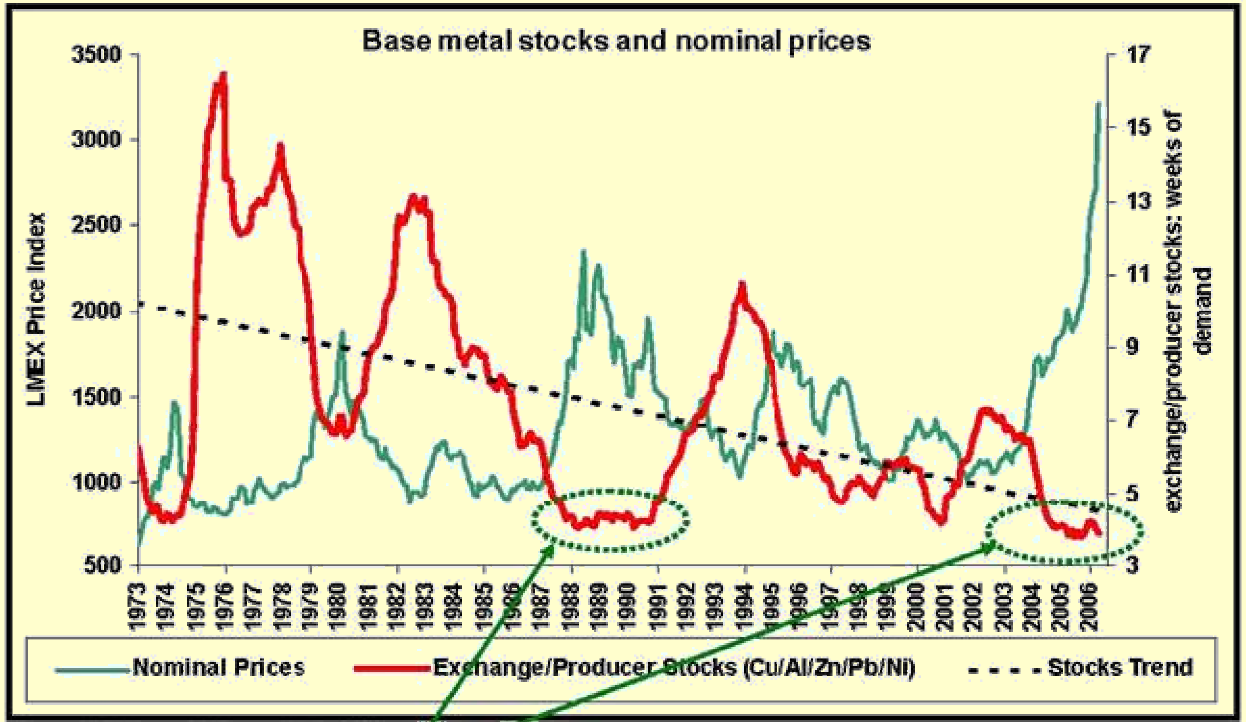


Development in Metal Prices and Metal Industry Capex



Market outlook

If stocks remain chronically tight, prices can remain high

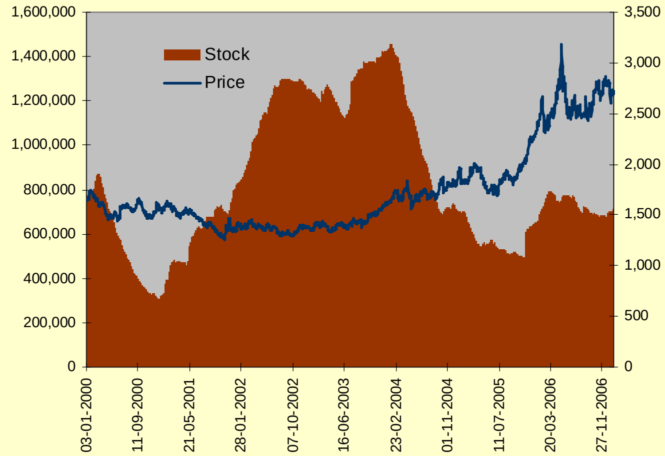


Source: LME, Macquarie Research, May 2006

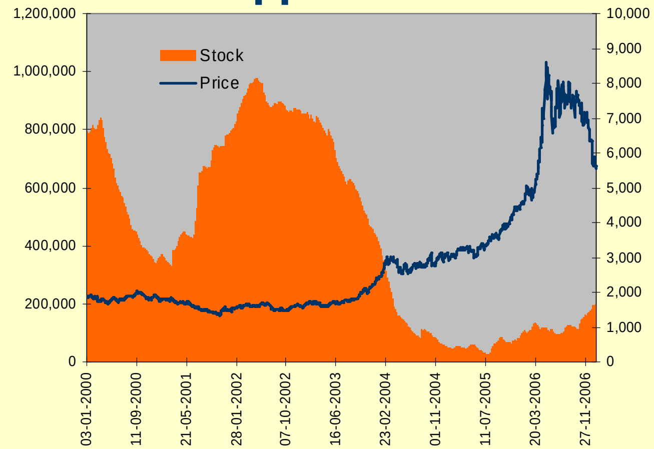
- In the late 1980s, market inventories stayed at critically tight levels despite slowing economic growth – this is what supported prices then…and now.

Developments in Commodity Stocks and Prices

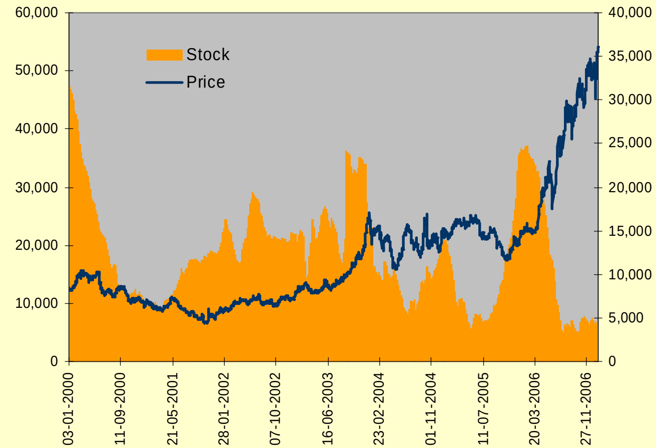
Aluminium



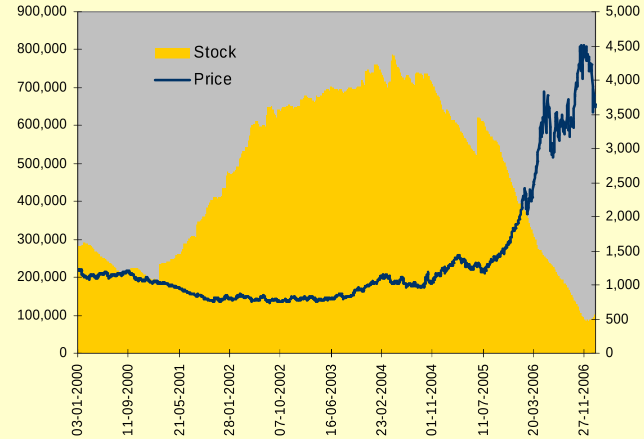
Copper



Nickel



Zinc



Source: Bloomberg, LME

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Market outlook

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Overall a positive investment climate

- Past underinvestment
- Favorable commodity prices
- Strong corporate profits and cash flow
- Capex generally lags metal market peaks by 2-3 years
- Growing middle-class creates demand

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THANK YOU