



Fortescue Metals Group Ltd

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The Companies Officer
ASX Limited
2 The Esplanade,
Perth, WA, 6000

Dear Sir

Fortescue Shipping Contracts

Fortescue Metals Group ("ASX:FMG" "Fortescue") is pleased to announce it has reached agreement to settle its shipping dispute with Classic Maritime ("Classic") over its three suspended Contracts of Affreightment. Under the agreement, Classic will discontinue its arbitration action which was to commence next month in London.

Following previous announcements regarding Fortescue's shipping contracts, including the announced settlement with Bocimar International NV ("Bocimar"), Fortescue continued to review its remaining 8 disputed contracts. After Bocimar, Classic was the next largest dispute involving three contracts with an average tenure of 5 years.

The key terms of the settlement agreement with Classic are as follows:

- Fortescue will restructure its future cargo obligations and extend the contracted term with Classic from 5 years out to 11 years ending in 2020. The number of contracted shipments with Classic will increase progressively over the term from 4 per month in 2010 rising to 8 per month over the last 3 years out to 2020;
- Fortescue is to pay to Classic an upfront amount of US\$25.35 million and then US\$0.99 per tonne over 21.93 million tonnes to be shipped with Classic over a period of 2 ½ years under the abovementioned monthly chartering arrangements.
- The freight rate under the restructured arrangements will be aligned to the accepted market index for voyages between Australia and China. This mitigates the risks of fixed price contracts in a volatile market. In moving from a fixed rate under the old contracts to a variable rate, Fortescue has agreed to a participation structure whereby a per tonne margin over the index rate may apply depending where future rates trend out to 2020. If average rates move above an agreed base of between US\$23,000 – US\$30,000 Fortescue is able to claw back this margin and should they fall below a top up mechanism will be activated. While noting the current daily charter rate is ~US\$45,000, Fortescue has estimated a net present value of US\$66.7 million on these future payments based on a discount rate of 15%.

With Classic now settled, there are 5 suspended shipping contracts remaining with tenures ranging from 3 to 5 years. One of the remaining contract counterparties has proposed a scheme of arrangement with its creditors which we believe is a default under the contract. The other 4 contracts are with 3 separate companies and proceedings are continuing in the UK with the next arbitration scheduled for September 2009. Fortescue continues to vigorously defend these actions.

In the announcement of 24 February 2009 following the Bocimar settlement, Fortescue provided market guidance of an estimate of the potential exposure at US\$171 million, whilst noting the inherent uncertainty of variables relating to any such estimation. As an update to this guidance, the settlement of the Classic dispute is consistent with the original estimate. This takes due regard of currently available information, the settlement terms of previously resolved contract disputes and the time value of money.

Yours sincerely
Fortescue Metals Group Ltd

Rod Campbell
Company Secretary