

16 June 2014

The Companies Officer  
Australian Securities Exchange Ltd  
2 The Esplanade  
Perth WA 6000



Dear Sir,

### **Fortescue Secures Construction Contracts for Very Large Ore Carriers**

Fortescue Metals Group Ltd (ASX: FMG, Fortescue) has taken another significant step towards reducing its costs and securing the supply of efficient seagoing vessels with the signing of a contract with a Chinese shipyard for the construction of four very large ore carriers (VLOC) valued at around US\$275 million. The vessels will be delivered from November 2016 through to May 2017 with the majority of payments made upon delivery and funded from operating cashflows.

The 260,000 dwt (dead weight tonnage) class vessels, which will account for approximately six per cent of Fortescue's shipping fleet requirements, are much larger than the traditional capesize vessels that have dominated the seaborne market and incorporate design specifications ideally suited to Port Hedland's tidal conditions.

Fortescue Chief Executive Officer Nev Power said the contract represents a strategic decision to secure long term, low cost freight on vessels that will complement infrastructure at Herb Elliott Port and maximise shipped volume. We are already in the shipping business, with an annual forecast spend of around US\$1.5 billion a year," Mr Power said. "These vessels are a natural extension of our supply chain and will play a significant role in increasing efficiencies at the Port and lowering costs. They also reflect and strengthen our close relationship with China, our largest customer."

Fortescue was instrumental in the research and development of the vessels to ensure design specifications complemented Port Hedland's tidal conditions and shallow natural harbour. In recent times the average size of vessels has been increasing although only a small proportion are in the 250,000 dwt or greater segment. The larger vessels offer operational efficiencies and higher carrying capacity but they do not significantly deviate from the size parameters of vessels currently operating in the Pilbara.

Mr Power said the contract was consistent with Fortescue's strategy of improving efficiencies and lowering its cost base. "Owning and managing vessels especially designed to complement conditions at the Port and to maximise shipped volume is expected to reduce our costs below benchmark rates," Mr Power said.

Yours sincerely

**Fortescue Metals Group Ltd**

**Mark Thomas**

Company Secretary

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