27 July 2017

June 2017 Quarterly Production Report

Fortescue Metals Group Limited (ASX: FMG, Fortescue)

Fortescue has released its June 2017 quarterly production results, reporting shipments of 44.7 million tonnes (mt) of iron ore. Cash production costs (C1) were a record US$12.16 per wet metric tonne (wmt), a 15 per cent improvement over the June 2016 quarter and seven per cent lower than the March 2017 quarter.

Guidance for FY18 has also been provided, targeting a further reduction in C1 costs to US$11-12/wmt and maintaining shipments of 170mt.

During the quarter Fortescue extended its nearest term debt maturity to 2022 by refinancing US$1.5 billion of existing debt through the issue of Unsecured Notes on investment grade terms and conditions. Gross debt at 30 June 2017 was US$4.5 billion with cash on hand of US$1.8 billion.

Fortescue Chief Executive Officer, Nev Power, said "Fortescue's June quarter results demonstrate the continued excellent performance being achieved by our teams in safety, production and operating cost improvement. In FY17, we delivered on our targets by shipping 170.4mt of iron ore, improving our C1 cost by 17 per cent to US$12.82/wmt and generating strong cash margins during a period of volatility in the iron ore price."

"Leading into FY18, we are well positioned to continue our focus on productivity and efficiency initiatives to improve costs, to invest in the long term sustainability of our core iron ore business and maintain production levels. Capital management, further strengthening the balance sheet and generating shareholder returns remain our key priorities."

HIGHLIGHTS – JUNE 2017 QUARTER

- TRIFR of 2.9, a 33 per cent improvement compared to last year
- US$12.16/wmt C1 cost
- 44.7mt shipped in the quarter and total FY17 shipments of 170.4mt
- Cash of US$1.8 billion and gross debt of US$4.5 billion at 30 June 2017
- Gross gearing of 31 per cent and net gearing of 21 per cent

PRODUCTION SUMMARY

(million tonnes)	Q4 FY17	Q3 FY17	VAR%	Q4 FY16	VAR%
Ore mined	**53.5**	44.7	*20%*	47.8	*12%*
Overburden removed	**53.0**	44.4	*19%*	48.6	*9%*
Ore processed	**45.9**	40.4	*14%*	42.8	*7%*
Total ore shipped	**44.7**	39.6	*13%*	43.4	*3%*
C1 (US$/wmt)	**12.16**	13.06	*-7%*	14.31	*-15%*

Note: Tonnage references are based on wet metric tonnes. Fortescue ships product with approximately 8–9 per cent free moisture.

MINING, PROCESSING AND SHIPPING

- **Safety performance improved by 33 per cent over the prior 12 months, with a Total Recordable Injury Frequency Rate (TRIFR) of 2.9** on a rolling 12-month basis. Improving the health and safety of employees and contractors continues to be the key priority for Fortescue.
- **Mining, processing, rail and shipping** all delivered record production performance during the June quarter reflecting the ongoing focus on productivity and efficiency initiatives. As a result C1 costs fell to a record low of US$12.16/wmt in the June quarter and were US$12.82/wmt in FY17.
- Fortescue continues to invest in a number of initiatives which are aimed at improving the safety, productivity and efficiency of its operations. These initiatives, including autonomous haulage technology and conveyor systems are expected to offset the impact of rising strip ratios and other inflationary pressures.
- **The average strip ratio was 1.0 for the quarter** with the Chichester Hub at 1.2 and Solomon Hub at 0.7.

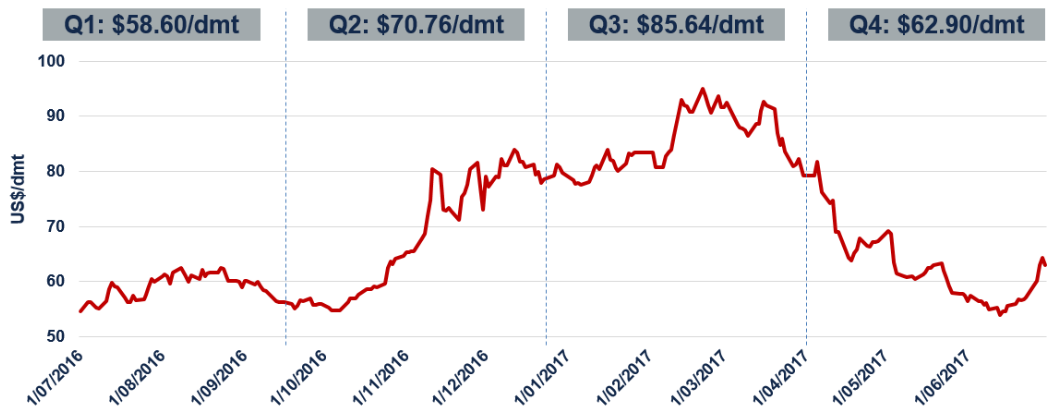
MARKETING

- **Iron ore and steel demand remained strong during the June 2017 quarter** driven by construction and infrastructure development**.** As a result, steel mill profitability in China remains high and continues to incentivise blast furnaces to maximise production which supports the premium for higher grade iron ore.

  The current spread in prices between iron ore grades is expected to continue in the short term while steel mill profitability and iron ore port stockpiles remain at current high levels. In the longer term, Fortescue expects average price realisations to revert to historical levels as market conditions normalise and steel mills maximise the value in use of their operations.

- **Fortescue's average revenue realisation in FY17** was US$53.27/dmt, 77 per cent of the average Platts 62 CFR price of US$69.53/dmt and in line with guidance provided in the March 2017 quarter.
- **The average realised price for contracts entered into during the quarter**, on a weighted product basis, was 73 per cent of the Platts 62 CFR Index at the time of contracting. Timing differences and price volatility, as reflected in the chart below, have resulted in realised revenue for the quarter of US$37.82/dmt.

Chart1: FY17 Platts 62 CFR Index price



FY18 GUIDANCE

- **170mt** of product shipped

- **C1 cost of US$11-12/wmt** remains subject to fluctuations in the Australian dollar exchange rates and fuel prices which have been assumed to average US$0.75 and US$53 per barrel (WTI) respectively.

- **Average strip ratio of 1.4**.

- **Price realisations of 75-80 per cent** on the Platts 62 CFR Index. Realisations are expected to continue at or slightly below the low end of guidance in the first half before recovering to historical levels in the second half of FY18.

- **Sustaining capital expenditure of US$3/wmt** subject to key variables such as exchange rates and inflation.

- **Other capital expenditure**:
  - Ore carriers US$190 million – 85 per cent will be financed on delivery of ships
  - Development US$68 million
  - Exploration US$50 million
  - Tug and tug haven US$90 million

- **Depreciation and amortisation** of US$7.40/wmt

DIVERSITY

- **The value of contracts and sub-contracts awarded to Aboriginal businesses and joint ventures through Fortescue's Billion Opportunities Program** rose to almost A$2.0 billion during the quarter, following the award of four contracts totalling A$100 million in new works to Aboriginal business and joint ventures. Fortescue continues to create unprecedented opportunity through employment and business development. The new works include $65 million in partnership with Yindjibarndi owned businesses bringing the total value of contracts awarded to Yindjibarndi associated businesses close to A$0.5 billion.

- **Fortescue's Aboriginal employment** was 15 per cent of the workforce at the end of the June quarter. Fortescue and its contractors employ more than 1,250 Aboriginal people across Fortescue sites.

- **Fortescue's female participation rate** increased to 17.3 per cent of the workforce at the end of June 2017.

BALANCE SHEET

- **Cash on hand was US$1.8 billion** at 30 June 2017.

- **Gross debt was US$4.5 billion**, inclusive of an increase in finance lease liabilities to US$0.8 billion following the delivery of two ore carriers during the quarter. Gross gearing was 31 per cent and net gearing reduced to 21 per cent at 30 June 2017.

- **US$1.5 billion of Unsecured Notes** were issued during the quarter with proceeds used to repay the 2019 Term Loan and the 2022 Senior Unsecured Notes. The issuance of the notes has extended the nearest term debt maturity to 2022.

- **Total capital expenditure for the quarter was US$209 million** (US$716 million FY17) inclusive of sustaining capital, ship construction, exploration and development.

- **Iron ore prepayments** were unchanged at US$797 million on 30 June 2017. Subject to future additions and rollovers, prepayments are scheduled to amortise by US$350 million in FY18 and US$447 million in FY19.

CORPORATE

- **Fortescue took delivery of two ore carriers, the FMG Sophia and FMG Sydney** during the quarter. Construction of the remaining four vessels continues on schedule.

- **Fortescue has received unconditional commitments for a US$525 million revolving credit facility** from a syndicate of financial institutions in Australia, China and Europe. This facility is expected to close by 31 July and will provide enhanced capital management flexibility with terms reflecting Fortescue's strengthened credit profile.

EXPLORATION & DEVELOPMENT

- **Exploration was primarily focused on iron ore in the Pilbara** with expenditure of US$10 million during the quarter. Total FY17 expenditure was US$39 million.

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REPORTING CALENDAR

Full Year Results Announcement	21 August 2017
September Quarter Production Report	24 October 2017
Annual General Meeting	8 November 2017

Gross gearing is defined as gross debt / (gross debt + equity)
Net gearing is defined as net debt / (net debt + equity)