26 October 2017

September 2017 Quarterly Production Report

Fortescue Metals Group Limited (ASX: FMG, Fortescue)

Fortescue has released its September 2017 quarterly production results, reporting shipments of 44.0 million tonnes (mt) of iron ore. Cash production costs (C1) were lowered to a record US$12.15 per wet metric tonne (wmt), a slight reduction over the prior quarter and a 10 per cent improvement over the September 2016 quarter. Normalising C1 costs at a constant exchange rate of US$0.75 would have resulted in an equivalent C1 cost of US$11.65/wmt for the quarter.

Cash on hand increased to US$2.3 billion with gross debt of US$4.4 billion at 30 September 2017. A US$0.5 billion revolving credit facility was finalised during the quarter enhancing capital management flexibility, with terms reflecting Fortescue's strengthened credit profile.

Fortescue Chief Executive Officer, Nev Power, said "The September quarter has continued our excellent operational performance, shipping 44.0mt and further reducing C1 costs to a record low and industry leading US$12.15/wmt. C1 cost momentum has continued as evidenced by an equivalent C1 cost of US$11.65/wmt for the quarter based on a constant exchange rate of US$0.75."

"Our teams' focus on safety, together with sustained productivity and efficiency initiatives has successfully offset the impact of exchange rates and increasing strip ratios. The rollout of autonomous haulage to the Chichesters and the introduction of the innovative relocatable conveyor system will deliver further improvements from the second half of FY18 and into the future."

"Investing in the long-term sustainability of our core iron ore business, maintaining production, further strengthening the balance sheet and generating shareholder returns remain our key priorities," Mr Power said.

HIGHLIGHTS – SEPTEMBER 2017 QUARTER

- TRIFR of 3.0
- US$12.15/wmt C1 cost
- 44.0mt shipped
- Cash of US$2.3 billion and gross debt of US$4.4 billion at 30 September 2017

PRODUCTION SUMMARY

(million tonnes)	Q1 FY18	Q4 FY17	VAR%	Q1 FY17	VAR%
Ore mined	**45.7**	53.5	*-15%*	49.5	*-8%*
Overburden removed	**63.7**	53.0	*20%*	52.9	*20%*
Ore processed	**41.7**	45.9	*-9%*	43.6	*-4%*
Total ore shipped	**44.0**	44.7	*-2%*	43.8	*0%*
C1 (US$/wmt)	**12.15**	12.16	*0%*	13.55	*-10%*

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 12 per cent over the prior 12 months with a Total Recordable Injury Frequency Rate (TRIFR) of 3.0 on a rolling 12-month basis, slightly higher than the prior quarter of 2.9**.** Improving the health and safety of employees and contractors continues to be the key priority for Fortescue.

  Mining, processing, rail and shipping performed in line with FY18 guidance with shipments of 44.0mt during the quarter. C1 costs improved to a record low of US$12.15/wmt as productivity and efficiency initiatives offset the impacts of higher strip ratios and foreign exchange rates.

  Initiatives to improve safety, productivity and efficiency include the introduction of autonomous haulage technology in the Chichester Hub, autonomous drilling and a relocatable conveyor. These initiatives will be rolled out over a three year period with cost benefits expected to commence in the latter part of FY18, continuing through to FY20. C1 guidance for the full year is maintained at US$11-12/wmt based an exchange rate of US$0.75.

- **The average strip ratio was 1.4 for the quarter** with the Chichester Hub at 1.7 and Solomon Hub at 1.0.

MARKETING

- **Steel output in China remained at near record** levels during the September 2017 quarter maintaining the strong demand for iron ore. Steel mill profitability has also remained at historically high levels and continues to incentivise blast furnaces to maximise production supporting the premium for higher grade iron ore. This has maintained the spread in prices between iron ore grades and these are expected to remain in the near term.

- **The average realised price for contracts entered into during the September quarter,** on a weighted product basis, was 71 per cent of the Platts 62 CFR Index at the time of contracting. The average benchmark Platts 62 CFR index price was US$70.90 per dry metric tonne (dmt).

  Based on current market prices Fortescue is revising its FY18 price realisation guidance to 70-75 per cent of the Platts 62 CFR index. In the longer term, as market conditions normalise, steel mills are expected to reduce their cost base by using higher value-in-use iron ore.

- **Fortescue continues to generate strong cash margins** from operations in the current market and is fine tuning its product strategies to further maximise value.

DIVERSITY

- **Fortescue's Billion Opportunities Program** has awarded 245 contracts and subcontracts to 105 Aboriginal businesses and joint ventures, totalling just under A$2.0 billion. This quarter, Fortescue and ANZ Bank launched a $50 million guaranteed leasing facility to address difficulties which have prevented Aboriginal businesses from accessing equipment financing. The partnership will also enable Aboriginal businesses to build a credit history and a relationship with ANZ Bank.

- **Fortescue's Aboriginal employment** was 15 per cent of the workforce at the end of the September quarter. In 2017, Fortescue celebrated the tenth anniversary of Fortescue's pioneering Vocational Training and Employment Centre (VTEC) program in Port Hedland. Since the initiative began 774 Aboriginal people have begun employment with Fortescue, while a further 794 Aboriginal people have received driver education and health and literacy support services from VTEC.

- **Fortescue's female participation rate** remained steady at 17 per cent of the workforce at the end of September 2017.

BALANCE SHEET

- **Cash on hand was US$2.3 billion** at 30 September 2017. These funds are available for the final FY17 dividend (A$780 million paid on 3 October), the repurchase of the Solomon Power Station in November (US$348m) and payment of the final FY17 tax instalment in December 2017 (US$675m).

- **Gross debt was US$4.4 billion,** inclusive of finance lease liabilities of US$0.8 billion.

- **Completion of the US$525 million revolving credit facility** occurred on 28 July 2017. The facility provides enhanced capital management flexibility with terms reflecting Fortescue's strengthened credit profile.

- **Total capital expenditure for the quarter was US$173 million** inclusive of sustaining capital, ship construction, exploration and development expenditure.

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

CORPORATE

- **Feasibility studies and development options for the Iron Bridge Magnetite Project** continue to be evaluated. Market opportunities for the project are being assessed with a decision expected to be made with Fortescue's Joint Venture partners during FY18.

- **Fortescue's four ore carriers continue to deliver efficiency and cost benefits** with the remaining four carriers on schedule for delivery in FY18.

- **Evaluation of the Firetail replacement** continues and a decision on the preferred option is expected in FY18.

EXPLORATION & DEVELOPMENT

- **Exploration spend was primarily focused on iron ore in the Pilbara** with expenditure of US$17 million during the quarter. Drilling has also commenced on targets in Fortescue's joint venture in central NSW.

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REPORTING CALENDAR

Annual General Meeting	8 November 2017
December Quarter Production Report	30 January 2018
Half Year Results Announcement	21 February 2018