30 January 2018

December 2017 Quarterly Production Report

Fortescue Metals Group Limited (ASX: FMG, Fortescue)

Fortescue has released its December 2017 quarterly production results, reporting total shipments of 40.5 million tonnes (mt) of iron ore. Cash production costs (C1) were lowered to a record US$12.08 per wet metric tonne (wmt).

Cash on hand at 31 December 2017 was US$0.9 billion following cash outflows in the quarter for the Solomon Power Station purchase, dividends and the final FY17 tax payment with gross debt decreasing to US$4.2 billion.

Fortescue Chief Executive Officer, Nev Power, said "Our team achieved another excellent result for the second quarter of FY18 supporting production at an annual rate of 170mt and a record C1 cost of US$12.08/wmt. Our productivity and efficiency initiatives have continued to reduce the cost base offsetting higher strip ratios, exchange rates and fuel prices. Our focus on improving safety continues, together with our clear market and product strategy to deliver value to our customers, generating strong cash margins and shareholder returns."

"I am very pleased to hand over to the incoming leadership team with Fortescue well positioned for its next phase of development and growth", Mr Power said.

Chief Executive Officer Elect, Elizabeth Gaines said "It is a privilege to follow on from Nev Power, who has led Fortescue on its journey to become the lowest cost provider of seaborne iron ore to China. I welcome the opportunity to work with the highly capable Core Leadership Team to deliver ongoing success for our shareholders and key stakeholders. We remain focused on growth and development, while maintaining our commitment to the long-term sustainability of our iron ore business, debt repayment, balance sheet strength and returns to shareholders."

HIGHLIGHTS – DECEMBER 2017 QUARTER

- TRIFR of 3.1
- US$12.08/wmt C1 cost
- 40.5mt shipped
- Cash of US$0.9 billion and gross debt of US$4.2 billion at 31 December 2017

PRODUCTION SUMMARY

(million tonnes)	Q2 FY18	Q1 FY18	VAR%	Q2 FY17	VAR%
Ore mined	**47.5**	45.7	*4%*	50.1	*-5%*
Overburden removed	**69.3**	63.7	*9%*	54.6	*27%*
Ore processed	**40.8**	41.7	*-2%*	42.4	*-4%*
Total ore shipped	**40.5**	44.0	*-8%*	42.2	*-4%*
C1 (US$/wmt)	**12.08**	12.15	*-1%*	12.54	*-4%*

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 3 per cent over the prior 12 months with a Total Recordable Injury Frequency Rate (TRIFR) of 3.1 on a rolling 12-month basis, slightly higher than the prior quarter of 3.0. The health and safety of employees and contractors remains Fortescue's key priority.

- **Mining, processing, rail and shipping** performance was maintained in line with guidance at a consistent rate of 170mt per annum with total shipments in the first half of 84.5mt.

- **C1 costs for the quarter decreased to a record low of US$12.08/wmt** as productivity and efficiency initiatives offset the impacts of higher strip ratios, foreign exchange rates and fuel costs. C1 cost guidance for the full year is maintained at US$11-12/wmt.

  The conversion to autonomous haulage technology and the relocatable conveyor at the Chichester Hub are progressing well with cost benefits expected to commence in the latter part of FY18.

- **The average strip ratio was 1.5 for the quarter** with the Chichester Hub at 1.8 and Solomon Hub at 1.0. Strip ratios in FY18 are expected to average 1.4 as previously guided.

MARKETING

- **Steel production in China remained consistent** in calendar 2017 supporting the continuing strong demand for iron ore. More recently, steel mill profitability has moderated while coking coal prices have fallen. These trends are expected to result in steel mills seeking to minimise input costs by increasing the use of high value-in-use, low impurity Fortescue ores. This supports the market view that post Chinese New Year and the end of winter production restrictions there will be a reduction in price spreads between iron ore grades.

- **The average realised price for contracts** entered into during the December quarter, on a weighted product basis, dipped to 66 per cent of the Platts 62 CFR Index at the time of contracting. The average benchmark Platts 62 CFR index price was US$65.57 per dry metric tonne during the quarter.

- **Revenue realisation was 68 per cent in the first half of FY18** after taking into account adjustments associated with provisional pricing. All Fortescue products continued to generate strong cash margins at an average realised price of US$46.70/dmt in the half.

- **FY18 full year price realisation guidance** is maintained at 70-75 per cent of the Platts 62 CFR based on market expectations.

DIVERSITY

- **Fortescue's Billion Opportunities Program** has awarded 250 contracts and subcontracts to 107 Aboriginal businesses and joint ventures totalling almost A$2.0 billion. This quarter, several new Traditional Owner businesses have commenced work at the Eliwana mining project in areas of exploration, earthworks and geotechnical civil support.

- **Fortescue's Aboriginal employment** was 15 per cent of the workforce at the end of the December quarter. Since commencing the Vocational Training and Employment Centre (VTEC) program initiative 780 Aboriginal people have begun employment with Fortescue, while a further 822 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 December 2017.

BALANCE SHEET

- **Cash on hand was US$0.9 billion** at 31 December 2017 after payment of the final FY17 dividend (A$780m), the repurchase of the Solomon Power Station (US$324m) and payment of the final FY17 tax instalment (US$640m) in the quarter. Fortescue's US$525 million Revolving Credit Facility remains undrawn.

- **Gross debt was US$4.2 billion** inclusive of finance lease liabilities of US$0.5 billion with net debt of US$3.3 billion.

- **Total capital expenditure for the quarter was US$240 million** inclusive of sustaining capital, ship construction, exploration and development expenditure.

- **Iron ore prepayments** remained unchanged at US$794 million at 31 December 2017 as amounts scheduled to amortise during FY18 were rolled-over. Amortisation of prepayments is now expected to be US$270 million in FY19 with the balance in FY20.

CORPORATE

- **Feasibility studies and approval processes on the Eliwana mining project** continue with detail on timing and capital cost expected by the end of FY18. This project is key to the development of a majority 60% iron grade product which will provide additional market flexibility.

- **Feasibility studies and development options for the Iron Bridge Magnetite Project** continue to be evaluated with a decision, in conjunction with Fortescue's Joint Venture partners, expected during FY18.

- **Construction of Fortescue's ore carriers remain on schedule** with the FMG Matilda delivered in January 2018. The remaining three ore carriers are scheduled for delivery in FY18.

- **Fortescue continues to assess exploration and development opportunities** throughout South America including Ecuador, Columbia and Argentina.

EXPLORATION & DEVELOPMENT

- **Exploration remained primarily focused on iron ore in the Pilbara** with expenditure of US$12 million during the quarter bringing total FY18 expenditure to date to US$29 million. Key areas of exploration include:
    - Iron ore in Fortescue's Western Hub area
    - Lithium in the Pilbara
    - Copper/gold near Orange in NSW
    - Ecuador where preliminary exploration and community engagement has commenced on the 32 concessions granted
    - Columbia where 64 exploration concession applications have recently been submitted.

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REPORTING CALENDAR

Half Year Results Announcement	21 February 2018
March Quarter Production Report	24 April 2018
June Quarter Production Report	26 July 2018