



Fortescue Metals Group CLSA

September 2018



Fortescue
The New Force in Iron Ore

Forward looking statements

Disclaimer

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Additional Information

This presentation should be read in conjunction with the Annual Report at 30 June 2018 together with any announcements made by Fortescue in accordance with its continuous disclosure obligations arising under the *Corporations Act 2001*.

Any references to reserve and resources estimations should be read in conjunction with Fortescue's Ore Reserves and Mineral Resources statement for its Hematite and Magnetite projects at 30 June 2018 as released to the Australian Securities Exchange on 17 August 2018. Fortescue confirms in the subsequent public report that it is not aware of any new information or data that materially affects the information included in the relevant market announcement and, in the case of estimates of mineral resources or ore reserves, that all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed.

All amounts within this presentation are stated in United States Dollars consistent with the functional currency of Fortescue Metals Group Limited, unless otherwise stated. Tables contained within this presentation may contain immaterial rounding differences.

Building a world class company

Core supplier
to China

Shipped over
1 billion
tonnes

Low cost
producer

170mt
Annual production
rate

Safety and unique culture

Looking out
for our mates

3.7
TRIFR

23%
reduction
SIFR

94%
Safety and Culture
survey participation



Fortescue's values

Our Vision:
The safest, lowest
cost, most profitable
mining company



Safety



Empowerment



Family



Frugality



Stretch targets



Integrity



Enthusiasm



**Courage and
determination**



Generating ideas



Humility

Delivering FY18 results

TRIFR 3.7

170mt
Shipped

C1 cost
US\$12.36/wmt

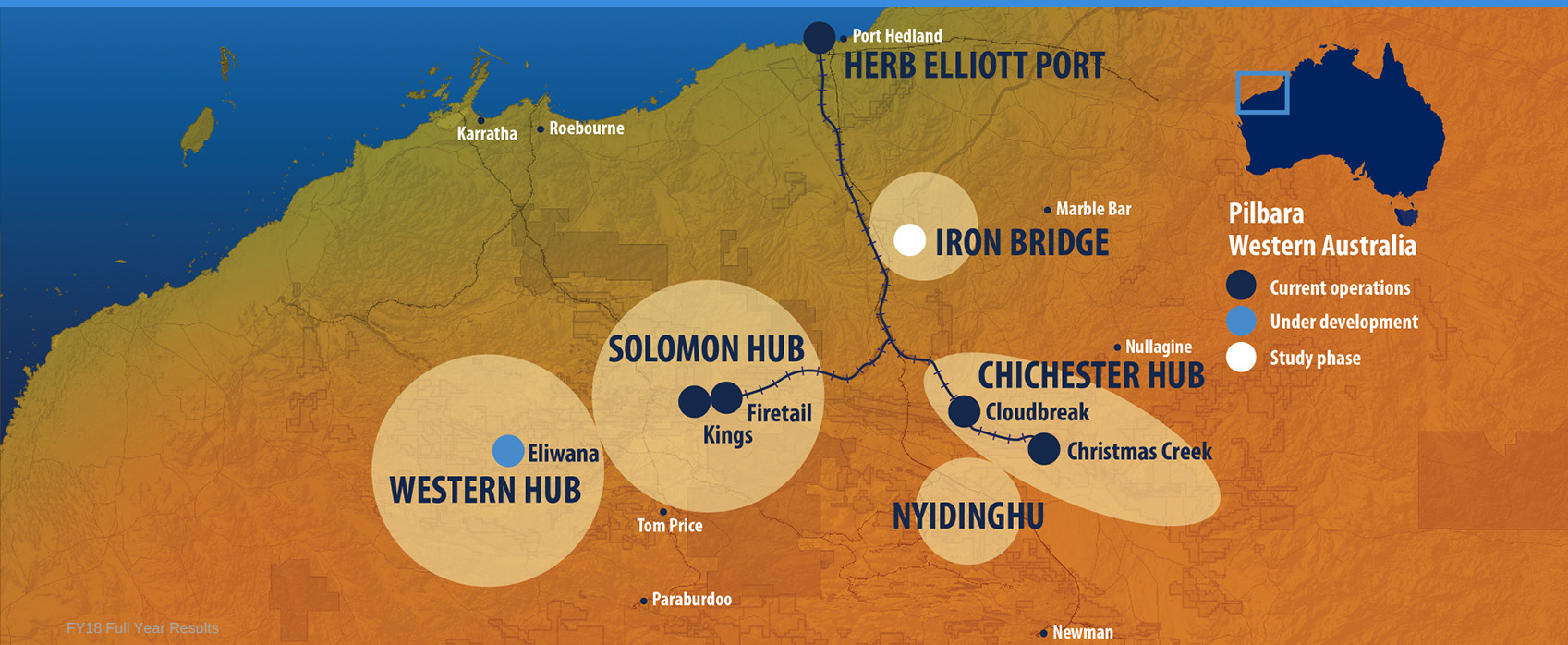
24%
Net gearing

A\$0.23 per share
Total dividends
62% of FY18 NPAT

US\$4.0bn
Gross debt

Integrated mining and infrastructure operations

Focus on safety, production and cost





Sustainable cost improvements

Structural improvements

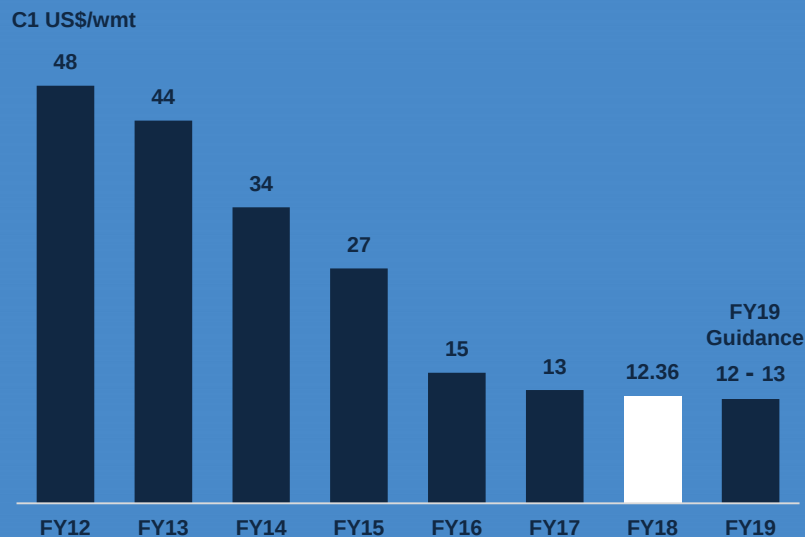
Solomon + blending + processing

Productivity and efficiency

Utilisation, recoveries, maintenance

Innovation and technology

Autonomy, gas, ore carriers, data analysis



Financial performance



FY18 financial outcomes

US\$3.2bn
Underlying
EBITDA

US\$1.1bn
Underlying NPAT

US\$878m
Reported NPAT

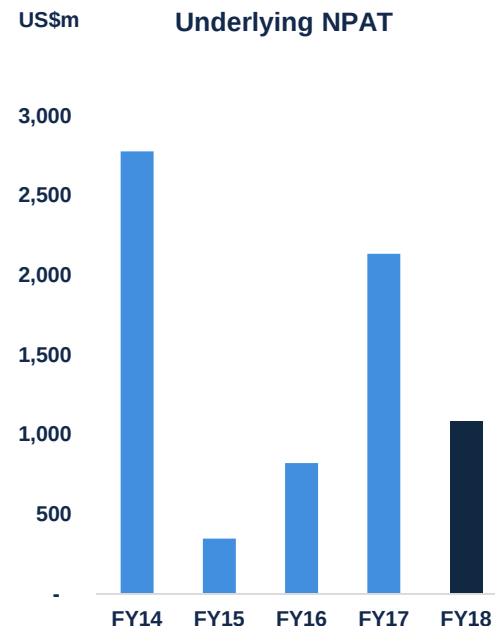
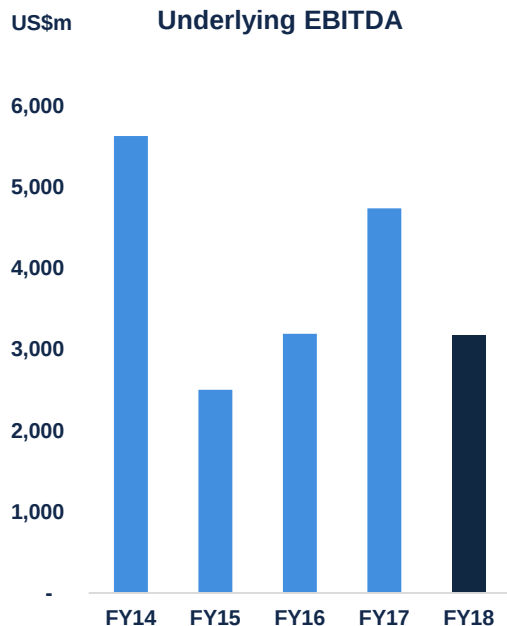
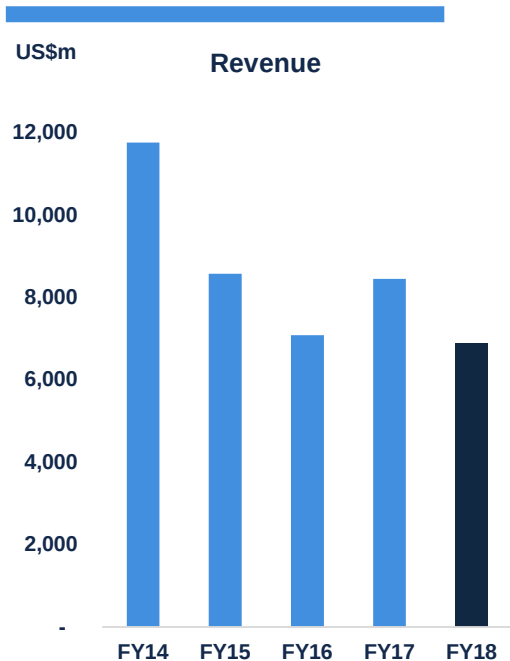
US\$3.0bn
Cash from
operations

US\$863m
Cash on hand

A\$0.12 per share
Fully franked
final dividend

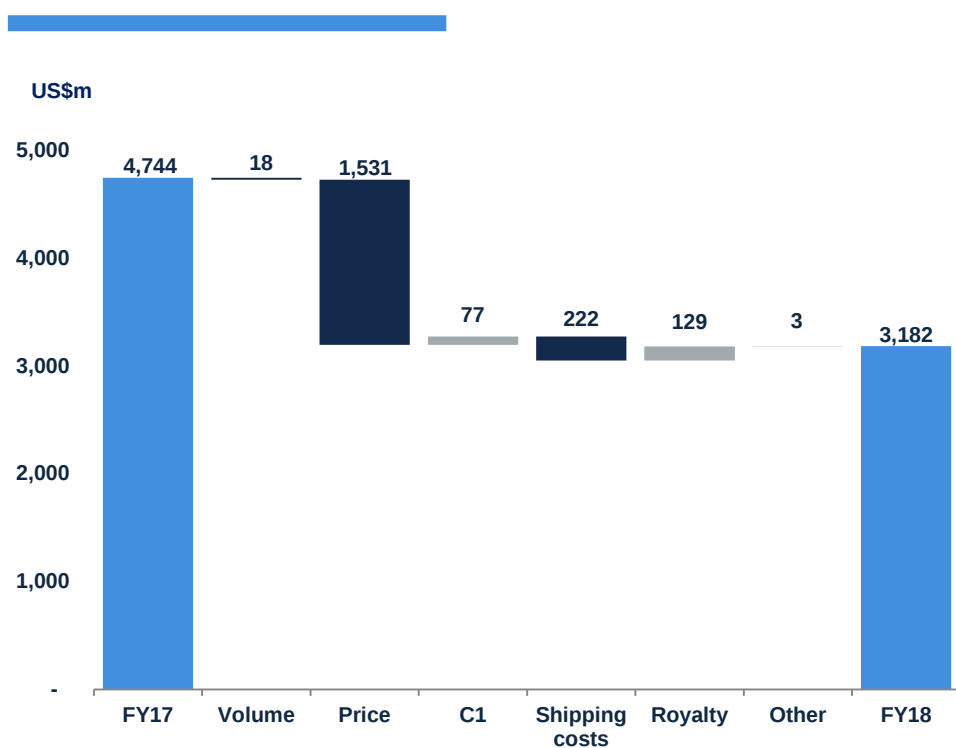
FY18 highlights

Continuing to deliver strong returns

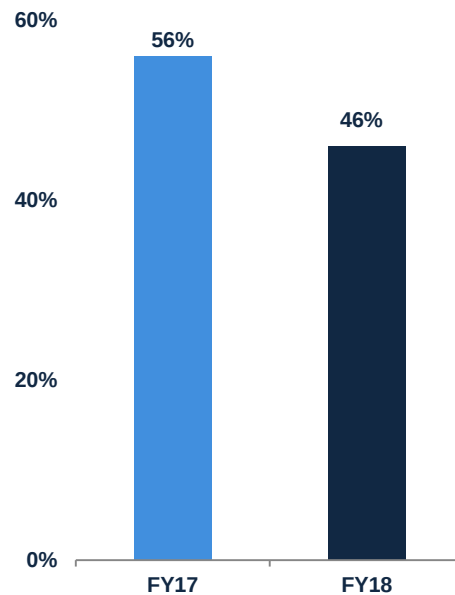


Underlying EBITDA

Strong margins maintained from an average received price ^{US}\$44/dmt

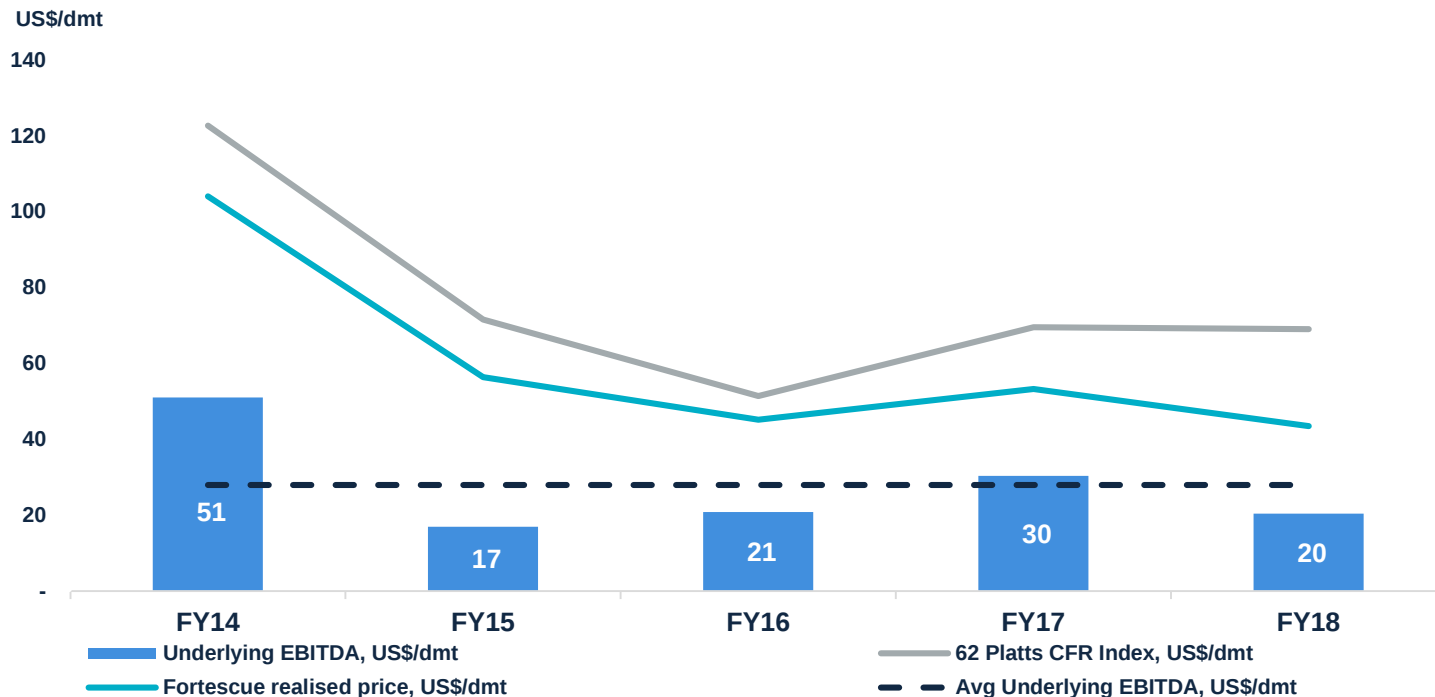


Underlying EBITDA margin



Price and margins

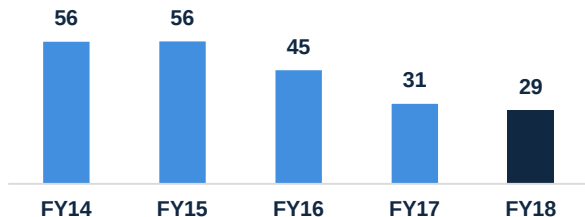
Cost leadership and efficient operations generating cash margins



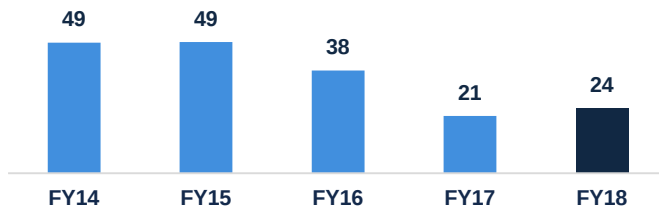
Credit metrics

Key metrics reflecting financial strength

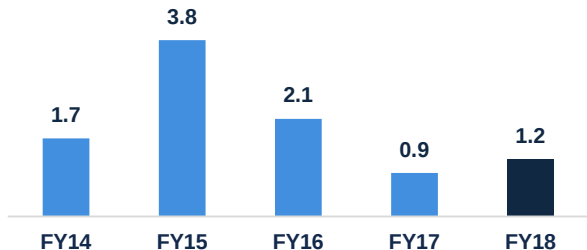
Gross gearing (%)



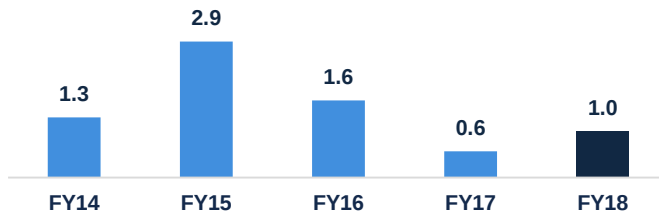
Net gearing (%)



Gross debt to underlying EBITDA (x)



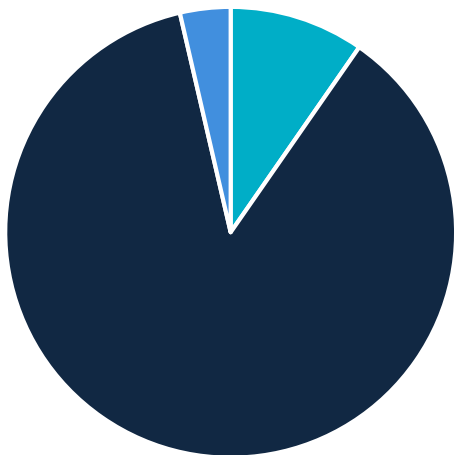
Net debt to underlying EBITDA (x)



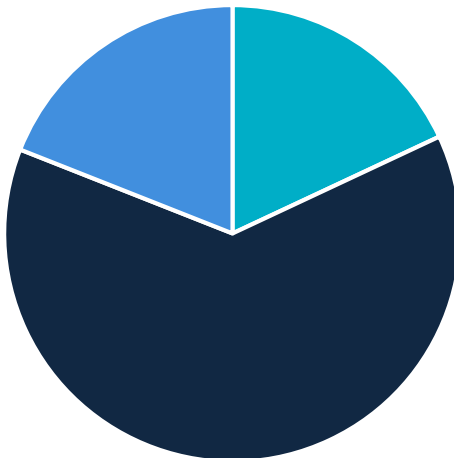
Capital allocation

Increased returns to shareholders following rapid de-gearing of balance sheet

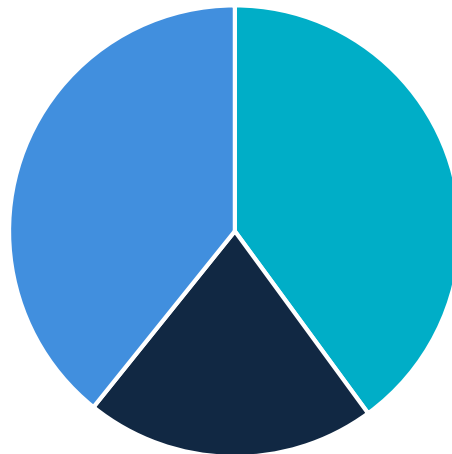
FY16 – US\$3.1bn



FY17 – US\$4.0bn



FY18 – US\$2.2bn

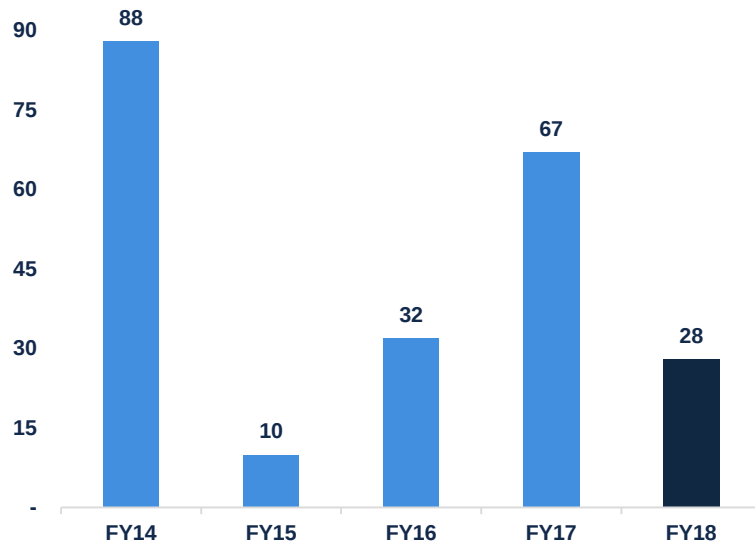


■ Capital expenditure ■ Net debt repayments ■ Dividends

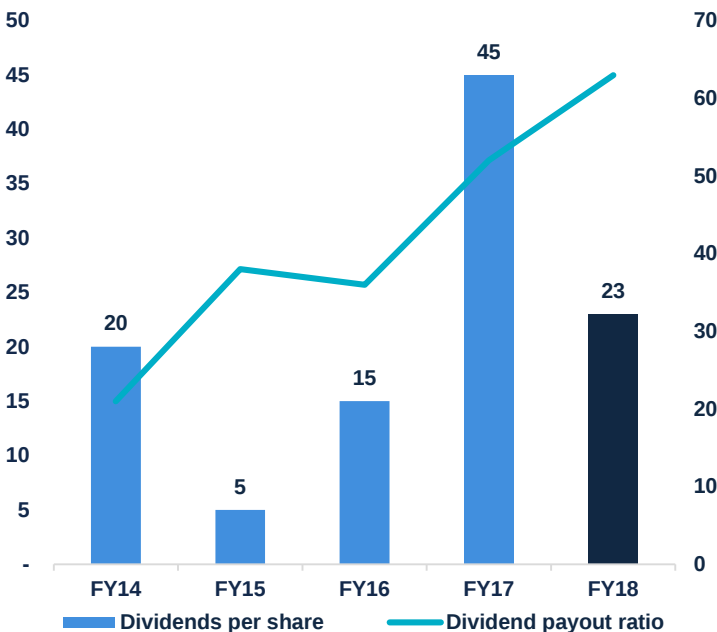
Returns to shareholders

Dividend payout ratio policy 50% - 80% of full year NPAT

US\$ cents Earnings per share



A\$ cents Declared dividends + payout ratios



FY19 capital expenditure

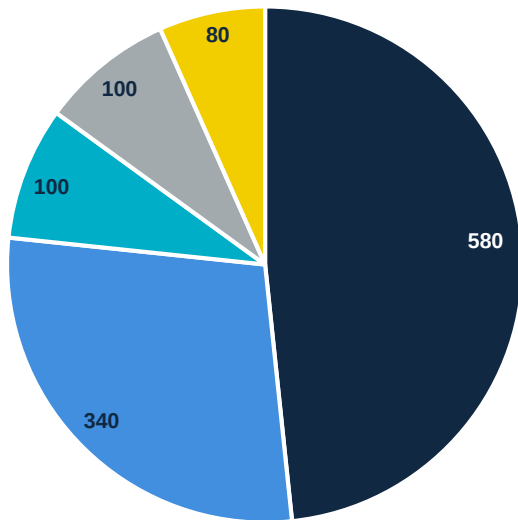
Disciplined capital allocation, investing in the core iron ore business,
innovation and growth

Sustaining capital ~\$3.50/wmt

Investing in innovation

Exploration and growth

Eliwana mine and rail Project



- Sustaining capital
- Eliwana
- Exploration
- Development expenditure
- Ore carriers and towage



Eliwana mine and rail project

**World leading
development**

US\$1.275bn capital investment

143kms rail; 30mtpa dry OPF

Initial strip ratio 1.1:1

First ore on train Dec 2020

Market

Core supplier to Asia

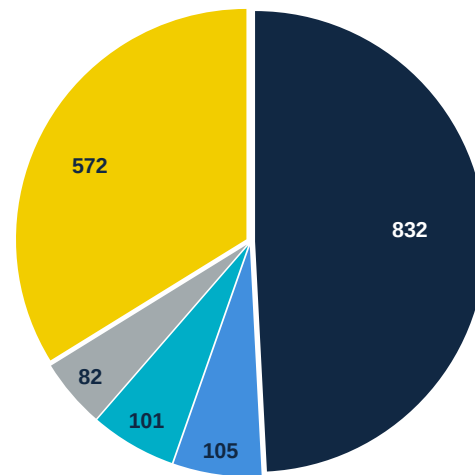
Competitive **value in use**

Diverse customer base

Responsive to market needs

Proximity to high growth region

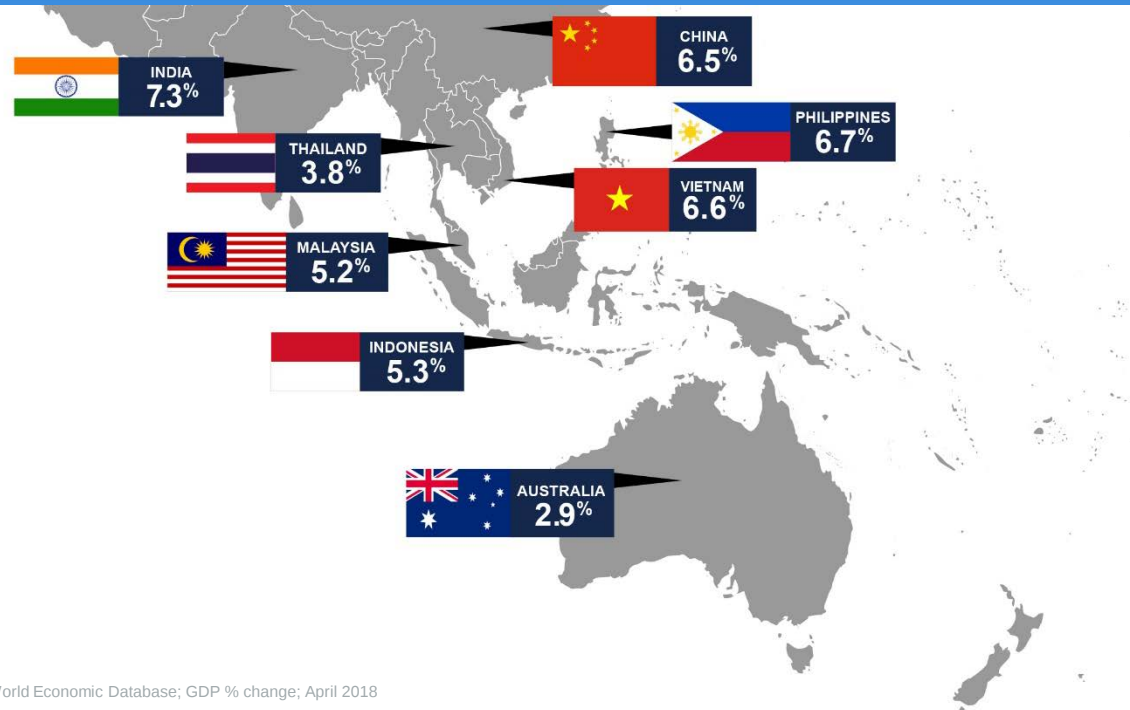
2017 global steel production 1,691mt



■ China ■ Japan ■ India ■ United States ■ Rest of World

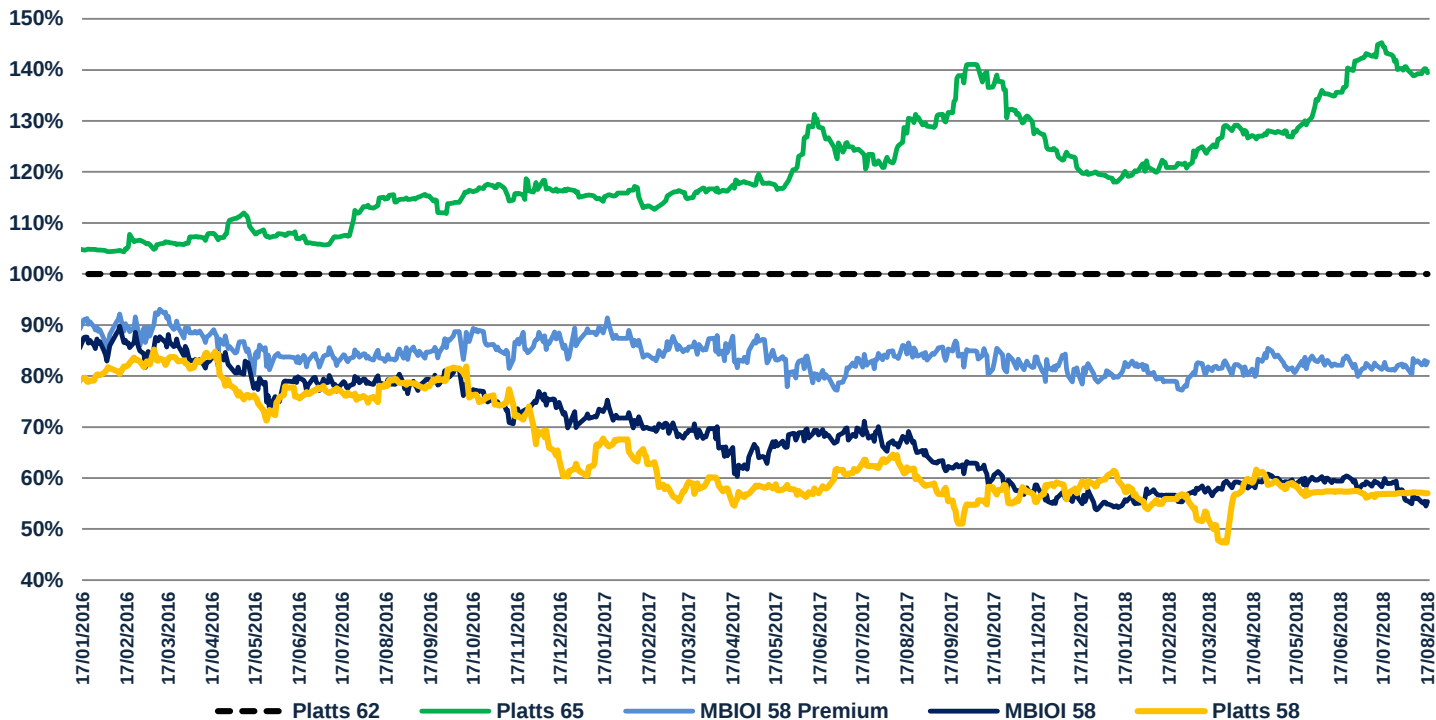
Developing and emerging Asia

Representing two thirds of global growth



Iron ore prices

Variation between iron ore products driven by high steel mill profitability



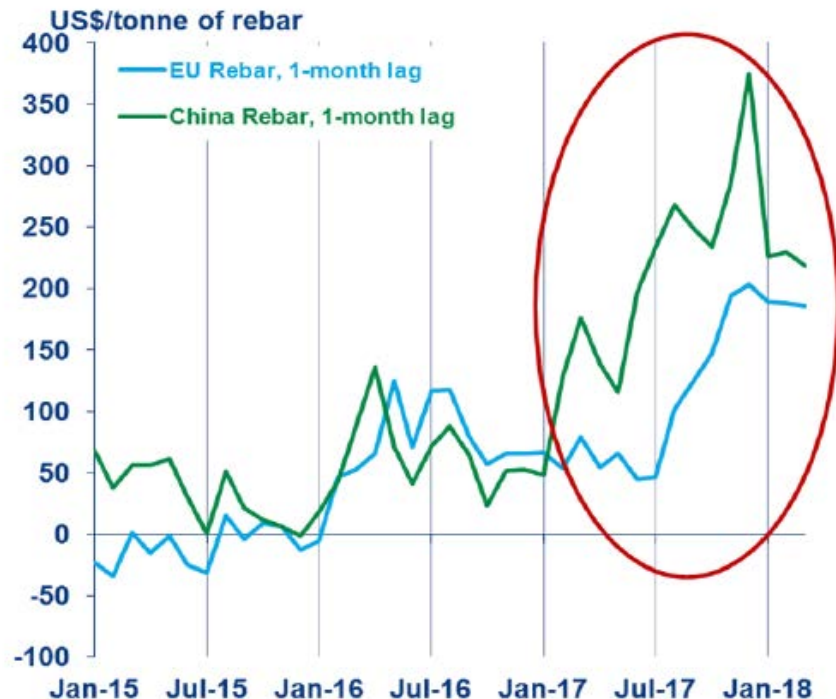
Steel mill profitability

Strong growth in steel margins

High steel **margins**

Mills focus on **productivity**

High Fe ores in demand



Product and processing strategy

Eliwana

Key to 60% Fe
product

Blending

Chichester
Solomon Eliwana

Greater
Operational
flexibility

Optimise
margins

West Pilbara Fines



**60% iron, low
alumina product**

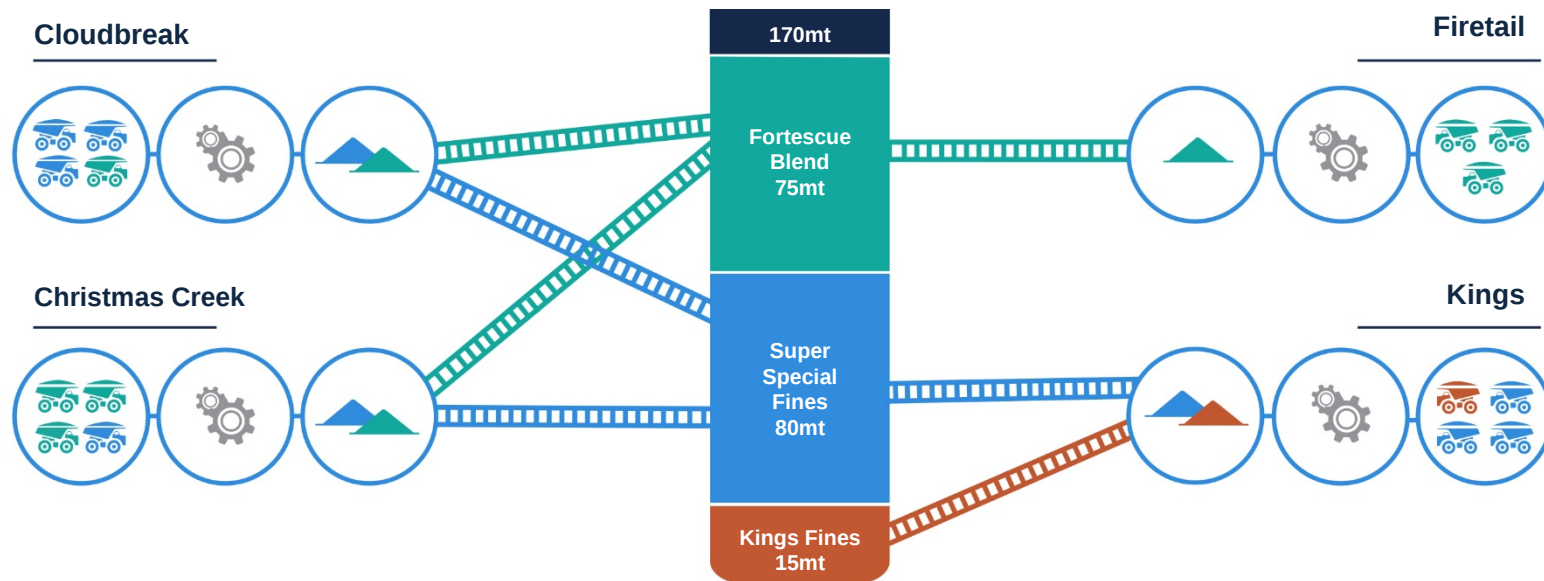
**Underpinned by Eliwana's
maiden 60.1% Fe reserve**

Flexibility to optimise margins

Maintain low cost base

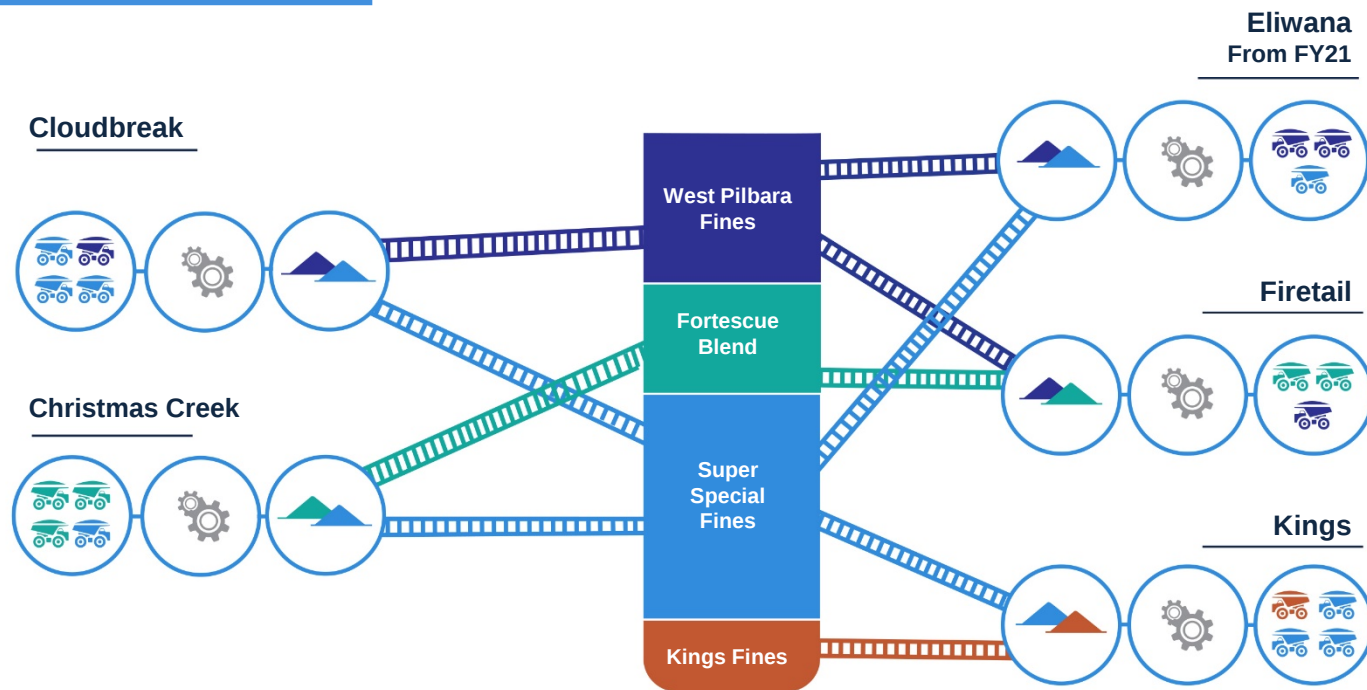
FY18 production

Leveraging operational flexibility and integrated operations



FY19 and beyond

Development of Eliwana underpins long term production of West Pilbara Fines



Innovation



Embracing technology

**World leading
autonomous
haulage
technology**

**Autonomous
drills**

**Relocatable
Conveyor**

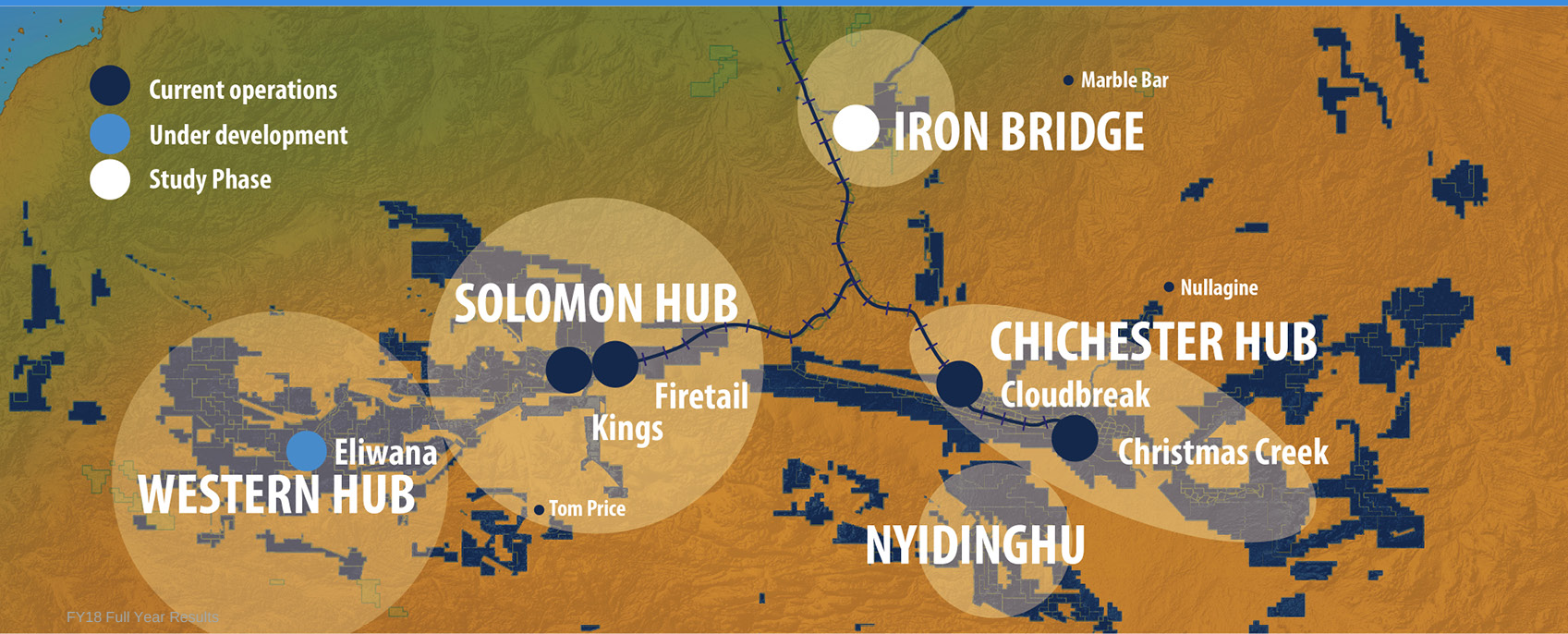
**Data analytics
Systems and
processes**

**Remote
integrated
operations centre**

**Fortescue Ore
Carriers
Purpose built**

Growth and development

Significant Pilbara footprint for long life production



Active exploration

Pilbara

Iron ore, lithium

NSW

~2,000km² tenure

South Australia

~6,000km² tenure

South America

Ecuador, Colombia
Argentina



Focussed strategy



FY19 Guidance

165-173mt
Shipments

US\$12-13/wmt
C1 cost

US\$1.2bn
Capital spend

Dividend policy
50-80%
pay-out of NPAT



Key strategic focus

Balance sheet strength

Long term sustainability

Growth and development options

Returns to shareholders





Fortescue
The New Force in Iron Ore

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FOUNDATION

Glossary

C1 - Operating costs of mining, processing, rail and port on a per tonne basis, including allocation of direct administration charges and production overheads.

CFR - Cost and freight rate

Dmt - Dry metric tonnes

Free cash flow - Net cash inflow from operations less capital expenditure

FY - Full year

Gross gearing – (Gross debt) / (Gross debt + Equity)

HY - Half year

mtpa - Million tonnes per annum

Net debt - Total borrowings and finance lease liabilities less cash and cash equivalents

Net gearing ratio - (Net debt) / (Net debt + Equity)

NPAT - Net profit after tax

TRIFR - Total Recordable Injury Frequency Rate per million man hours worked

SIFR - Significant Incident Frequency Rate per million hours

wmt - Wet metric tonnes

Underlying EBITDA - Earnings before interest, tax, depreciation and amortisation, exploration, development and other expenses.

Underlying NPAT - Net profit after tax adjusted for the after tax impact of one-off refinancing and early debt repayment costs.

The reconciliation of underlying EBITDA and underlying NPAT to the financial metrics disclosed in the financial statements prepared under the Australian Accounting Standards (AAS) is presented below:

	30-Jun-18 (US\$m)	30-Jun-17 (US\$m)
Operating sales revenue	6,887	8,447
Cost of sales excluding depreciation and amortisation	(3,665)	(3,661)
Net foreign exchange gain	29	13
Administration expenses	(70)	(56)
Other income	1	1
Underlying EBITDA	3,182	4,744
Finance income	24	19
Finance expenses	(652)	(502)
Depreciation and amortisation	(1,277)	(1,243)
Exploration, development and other	(32)	(51)
Net profit before tax	1,245	2,967
Income tax expense	(367)	(874)
Net profit after tax	878	2,093
Cost of early debt repayment after tax	202	41
Underlying net profit after tax	1,080	2,134