

31 January 2019

## **December 2018 Quarterly Production Report**

### **Fortescue Metals Group Limited (ASX: FMG, Fortescue)**

Fortescue has released its December 2018 quarterly production results, reporting total shipments of 42.5 million tonnes (mt) and cash production costs (C1) of US\$13.02 per wet metric tonne (wmt).

#### **HIGHLIGHTS – DECEMBER 2018 QUARTER**

- TRIFR of 4.0
- Shipments increased six per cent to 42.5mt bringing half year shipments to 82.7mt
- Average realised price increased to US\$48 per dry metric tonne (dmt)
- C1 cost decreased to US\$13.02/wmt
- First cargo of West Pilbara Fines shipped on 16 December 2018
- A\$139.2 million (US\$101 million) of Fortescue shares acquired under the buy-back program at an average price of A\$3.997 per share
- The Eliwana mine and rail development project is progressing on schedule
- Partnership announced with CSIRO to develop and commercialise hydrogen technology

The results for the quarter demonstrate the continued ability of Fortescue's operations to generate strong cashflows through the successful execution of its product strategy, resulting in higher realised prices and sustained low cost performance.

Fortescue Chief Executive Officer, Elizabeth Gaines, said "The Fortescue team have delivered a strong December quarter with shipments of 42.5mt bringing the total for the first half of FY19 to 82.7mt. Our average realised price increased by seven per cent in the quarter to US\$48/dmt which combined with lower C1 costs of US\$13.02/wmt generated strong cashflows."

"During the quarter we delivered significant shareholder returns through payment of the FY18 final dividend of US\$270 million and the acquisition of US\$101 million of shares on market, while maintaining our quarter end cash balance at US\$962 million."

"The first cargo of our 60.1% iron grade West Pilbara Fines product was shipped to China on 16 December 2018 and we now expect to deliver between 8-10mt of this product in FY19. Initial customer feedback has been excellent and we look forward to supplying 40mpta of West Pilbara Fines from December 2020, once the Eliwana mine and rail development project has commenced operations."

"We are pleased with the execution of Fortescue's share buy-back program after acquiring 34.8 million shares at an average price of A\$3.997 per share during the quarter. Maintaining our disciplined approach to capital management together with maximising shareholder returns remains our key focus."

## PRODUCTION SUMMARY

(millions tonnes)	Q2 FY19	Q1 FY19	Var %	Q2 FY18	Var %
Ore mined	49.2	51.9	-5%	47.5	4%
Overburden removed	72.5	85.0	-15%	69.3	5%
Ore processed	42.5	42.9	-1%	40.8	4%
Total ore shipped	42.5	40.2	6%	40.5	5%
C1 (US\$/wmt)	13.02	13.19	-1%	12.08	8%

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

## MINING, PROCESSING AND SHIPPING

- **The Total Recordable Injury Frequency Rate (TRIFR)** was 4.0 on a rolling 12-month basis. Fortescue's highest priority is the health and safety of employees and contractors and a program of targeted safety initiatives continues across all operations.
- **Mining, processing, rail and shipping** combined to achieve total shipments of 42.5mt in the quarter. Ore mined and overburden removed was in line with FY19 strip ratio guidance of 1.5 following a build in ore inventories during the September 2018 quarter.

The first cargo of Fortescue's 60.1% iron content, West Pilbara Fines product was shipped to China in December 2018. This product is a blend of higher iron, low alumina ore from the western pits at Cloudbreak with ore from the Firetail mine. Fortescue now expects to ship between 8-10 million tonnes of West Pilbara Fines in FY19.

- **C1 costs were lower than the prior quarter at US\$13.02/wmt**, due primarily to a reduction in overburden removal, a lower exchange rate and the continued focus on productivity and efficiency. These improvements were partially offset by unscheduled downtime as a result of bush fires caused by lightning strikes at the Solomon Hub in mid-December 2018.

The conversion to autonomous haulage (AHS) is progressing well with 44 trucks converted at Christmas Creek.

- **Fortescue has reached agreement with Thiess for the insourcing of mobile maintenance** related activities at the Solomon Hub. Transition will be effective from 1 July 2019 and all Solomon site-based Thiess personnel will be offered employment at Fortescue.

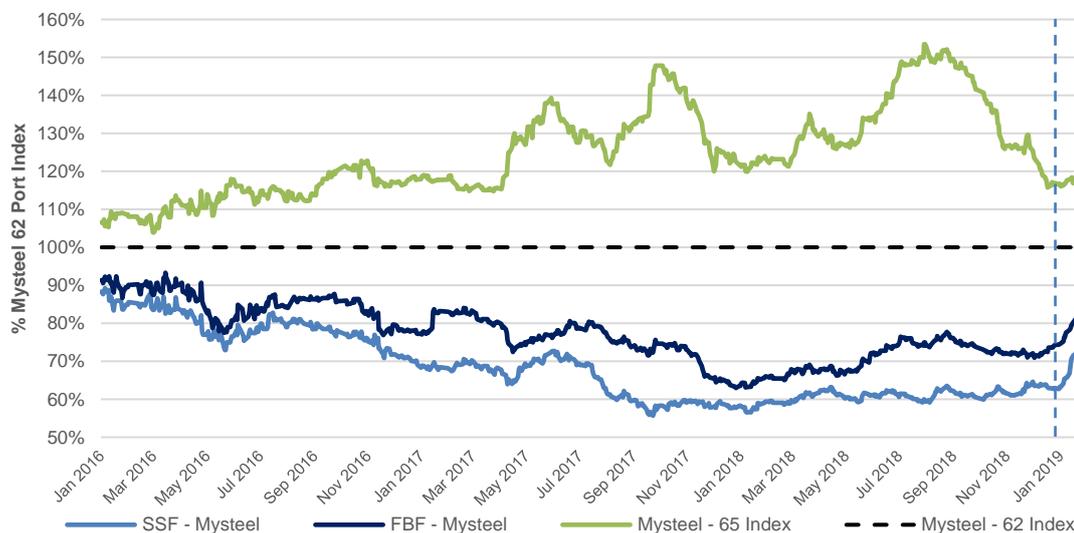
## MARKETING

- **China's official crude steel production increased by 12 per cent to a record 928 million tonnes** in the 2018 calendar year, up from 830 million tonnes in 2017, demonstrating the continued strength of the Chinese steel industry.
- **Following a period of sustained high profitability, China's steel industry experienced reduced margins during the quarter confirming the cyclical nature of the sector.** Reported steel production remained high, while finished steel inventories were stable, with environmental production curtailments having limited impact.

Demand for Fortescue products further strengthened, as lower steel margins drove steel makers to focus on input costs.

- **The average price realisation** during the quarter increased by 7 per cent to US\$48/dmt compared to the prior quarter. This represents a 67 per cent realisation of the average Platts 62 CFR Index price.

Since the end of December the spread in price between high and lower iron content ores has narrowed significantly as illustrated in the Mysteel port price chart below:



- **Shipments of West Pilbara Fines** commenced in December with multiple cargoes shipped during the period. Feedback on the West Pilbara Fines product has been excellent with strong interest from numerous customers in China and other key markets. The first long term contract for West Pilbara Fines has been concluded and a number of customers have committed to future off-take.
- **Sales by product are set out in the table below:**

Tonnes shipped millions, (wmt)	Q2 FY19	Product mix %	Q1 FY19	Product mix %
Fortescue Blend	20.0	47%	19.2	48%
Kings Fines	3.2	8%	3.5	9%
Super Special Fines	15.9	37%	17.0	42%
Fortescue Lump	2.7	6%	0.4	1%
Manganese Iron Ore	0.3	1%	0.1	0%
West Pilbara Fines	0.4	1%	-	-
Total	42.5	100%	40.2	100%

Fortescue's fully integrated operations and marketing strategy continues to focus on optimising the product mix to deliver higher margins.

- **Non-China markets** accounted for 10 per cent of total shipments during the quarter.

## BALANCE SHEET

- **Cash on hand was US\$962 million** at 31 December 2018.
- **Gross debt remained at US\$4 billion** at 31 December 2018 with net debt of US\$3 billion.
- **Total capital expenditure** for the quarter was US\$254 million inclusive of sustaining capital, exploration and development expenditure.
- **Iron ore prepayments** reduced to US\$748 million at 31 December 2018. Amortisation for the quarter was US\$49 million and total FY19 amortisation is expected to be US\$270 million. The balance of prepayments is expected to amortise in FY20.

## EXPLORATION AND DEVELOPMENT

- **Total exploration expenditure for the December 2018 quarter was US\$21 million** bringing year to date expenditure to US\$49 million. The majority of this expenditure was on iron ore in the Pilbara.
- **Australian copper-gold exploration continued** including drill testing of targets in South Australia together with ongoing assessment of drilling results at Fortescue's joint venture near Orange in NSW.
- **In November 2018 Fortescue acquired an Argentinian exploration company**, Argentina Minera S.A., for US\$2 million. This acquisition provides access to 48 tenements covering a large greenfield landholding of approximately 2,930 km<sup>2</sup> in the Argentinian Province of San Juan which is prospective for copper-gold. Initial field work commenced in January 2019 in a project area approximately 180km from San Juan.
- **Drilling on targets prospective for copper-gold is expected to commence at Fortescue's Santa Ana concessions in Ecuador** in the coming months once final approval is received under the Ecuadorian Government's recently announced Scout Drilling reform.

## FY19 GUIDANCE

- **165-173mt in shipments** with second half shipments expected to be higher than the first half, inclusive of West Pilbara Fines production of **8-10 million tonnes**.
- **Higher volumes in the second half will contribute to lower C1 costs** with full year costs expected to be towards the upper end of the US\$12-\$13/wmt range.
- **Average strip ratio 1.5.**
- **Total capital expenditure of US\$1.2 billion.**
- **Depreciation and amortisation of US\$7.10/wmt.**

## MEDIA CONTACT

Michael Vaughan, Fivemark Partners  
E: [mediarelations@fmgl.com.au](mailto:mediarelations@fmgl.com.au)  
M: 0422 602 720

## INVESTOR RELATIONS CONTACT

Stuart Gale  
E: [investorrelations@fmgl.com.au](mailto:investorrelations@fmgl.com.au)

## REPORTING CALENDAR

EVENT	DATE
HY19 Results	20 February 2019
March Quarterly Production Report	18 April 2019
June Quarterly Production Report	25 July 2019
FY19 Results	26 August 2019