26 July 2018

June 2018 Quarterly Production Report

Fortescue Metals Group Limited (ASX: FMG, Fortescue)

Fortescue has released its June 2018 quarterly production results, reporting record iron ore shipments of 46.5 million tonnes (mt) and cash production costs (C1) of US$12.17 per wet metric tonne (wmt).

HIGHLIGHTS – JUNE 2018 QUARTER

- TRIFR of 3.6
- US$12.17/wmt C1 cost
- 46.5mt shipped taking full year shipments to 170mt
- US$160 million of debt repaid reducing gross debt to US$4.0 billion at 30 June 2018
- Approval of the Eliwana mine and rail project

This result brings FY18 shipments to 170mt with an estimated full year C1 cost of US$12.36/wmt which is equivalent to US$11.83/wmt after normalising for an original assumed exchange rate of US$0.75 and an oil price of US$53 per barrel (WTI).

During the quarter, Fortescue's Board formally approved the development of the US$1.275 billion Eliwana project which will underpin the introduction of a 60 per cent iron grade product. First ore from Eliwana is scheduled to be delivered in December 2020.

Cash on hand at 30 June 2018 was US$863 million following the repayment of the balance of the 9.75% Senior Secured Notes (US$160 million) and payment of the interim FY18 dividend (US$264 million) during the quarter. Net debt was US$3.1 billion.

Guidance for FY19 has been provided targeting total shipments of between 165-173mt, C1 costs between US$12-13/wmt and total capital expenditure of US$1.2 billion.

Fortescue Chief Executive Officer, Elizabeth Gaines, said "It was a strong finish to FY18 with the team delivering record shipments of 46.5mt in the quarter to achieve our target of 170mt for the full year. Importantly, this was delivered while maintaining our focus on costs which decreased by 7 per cent compared to the March quarter."

"Building on our outstanding operational performance in the quarter, Fortescue has delivered on key strategic initiatives which position us for the next phase of growth while improving safety and productivity, ensuring we remain the lowest cost producer of seaborne iron ore. The strategic initiatives achieved in the quarter include:

- Board approval of the US$1.275 billion Eliwana project providing greater flexibility to capitalise on market dynamics while maintaining production capacity;
- the conversion of over 100 trucks to autonomous haulage (AHS) at the Chichester Hub continues to progress with 19 trucks now operational;
- successful commissioning of the relocatable conveyor at Cloudbreak;
- further reduction in gross debt and restructure of the balance sheet to investment grade terms and conditions lowering annual borrowing costs by US$130 million; and
- continued development of low cost growth options through exploration activities in Australia and overseas."

"Fortescue is in a strong position for FY19 as we continue to focus on the safety, productivity and efficiency of our globally competitive operations to sustainably deliver shareholder value."

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PRODUCTION SUMMARY

(million tonnes)	Q4 FY18	Q3 FY18	VAR%	Q4 FY17	VAR%
Ore mined	**49.8**	**41.6**	*20%*	53.5	*-7%*
Overburden removed	**74.0**	**60.4**	*23%*	53.0	*40%*
Ore processed	**44.1**	**39.1**	*13%*	45.9	*-4%*
Total ore shipped	**46.5**	**38.7**	*20%*	44.7	*4%*
C1 (US$/wmt)	**12.17**	**13.14**	*-7%*	12.16	-

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)** increased to 3.6 on a rolling 12-month basis due to a number of low severity injuries during the quarter. The health and safety of our employees and contractors remains Fortescue's highest priority and targeted actions to improve the safety performance across all operations have been implemented.

- **Mining, processing, rail and shipping** combined to operate at or near record rates and achieve shipments of 46.5mt in the June quarter bringing total shipments in FY18 to 170mt.

- **The average strip ratio was 1.5 for the quarter** with the Chichester Hub at 1.7 and Solomon Hub at 1.1. The strip ratio in FY18 averaged 1.4.

- **C1 costs decreased to US$12.17/wmt,** seven per cent lower than the prior quarter reflecting the continued improvement in efficiency together with higher production volumes. C1 costs were in line with the prior comparative period in FY17 as Fortescue's productivity and efficiency initiatives offset higher strip ratios which saw total material moved increase by 16 per cent to 124mt during the quarter.

  The conversion to AHS at Christmas Creek is progressing well with 19 trucks converted and in operation. Cloudbreak's relocatable conveyor was commissioned during the quarter and once full capacity is achieved in November 2018 is expected to replace 12 trucks.

- **Full year C1 costs are expected to be US$12.36/wmt in FY18** and after adjusting to reflect original guidance assumptions for exchange rate (US$0.75) and fuel price (US$53/bbl WTI), the C1 cost equivalent would be US$11.83/wmt.

MARKETING

- **Steel production in China remains strong** with June 2018 annualised production exceeding 975mt. Apparent consumption of steel also continues at high rates with the drawdown in finished steel resulting in inventory levels at CISA mills being maintained in line with previous years.

- **Steel margins in China remain at high levels.** Steel demand, uncertainty surrounding environmental restrictions and high coal prices support steel mill demand for high iron content ores. Steel mill profitability continues to drive high iron content ore premiums and has maintained the spread in prices between iron ore products.

- **The average contractual price realisation** for contracts entered into during the June quarter increased to 63 per cent of the Platts 62 CFR Index which averaged US$65 per dry metric tonne (dmt) during the quarter. The closing Platts 62 CFR price was US$64/dmt at 30 June 2018.

- **FY18 contractual realisations were 65 per cent** of the average Platts 62 CFR index of US$69/dmt. After taking into account all adjustments associated with provisional pricing, Fortescue's average revenue received for the full year in FY18 was US$44/dmt or 64 per cent of the average Platts 62 CFR index price.

- **Non-China markets** accounted for nine per cent of total shipments during the June quarter. This brings FY18 non-China shipments to 13.2mt representing an increase of 103 per cent compared to FY17 and eight per cent of total shipments for the year.

BALANCE SHEET

- **Cash on hand was US$863 million** at 30 June 2018. Fortescue's US$525 million Revolving Credit Facility remains undrawn.

- **US$160 million of debt was repaid** during the quarter completing the repayment and refinancing of the 9.75% Senior Secured Notes. Over the last 12 months gross debt has been reduced by US$0.5 billion due to the repurchase of the Solomon Power Station and repayment of the Senior Secured Notes.

- **Gross debt reduced to US$4 billion** at 30 June 2018 with net debt of US$3.1 billion.

- **Fortescue's balance sheet has been restructured** on low cost, investment grade terms while maintaining flexibility for additional repayment and future growth with no repayment due until 2022.

- **Annual borrowing costs have reduced by US$130 million** following the refinancing and repayment of the high cost debt. One off pre-tax charges of US$213 million in cash costs and US$76 million of non-cash costs will be expensed in FY18.

- **Total capital expenditure** for the quarter was US$249 million inclusive of sustaining capital, ship construction, exploration and development expenditure bringing total FY18 capital expenditure to US$890 million.

- **Iron ore prepayments** remained unchanged at US$794 million at 30 June 2018. Amortisation of prepayments is expected to be US$270 million in FY19 with the balance in FY20.

CORPORATE

- **Fortescue's Board approved the development of the Eliwana mine and rail project on 25 May 2018**. The capital cost of this project is US$1.275 billion and is expected to deliver first ore in December 2020. The project supports the introduction of a 60 per cent iron grade product and provides flexibility to take advantage of market dynamics while maintaining Fortescue's low cost status and production capacity. Supply of the 60 per cent iron grade product will commence from existing operations in the second half of FY19.

- **Feasibility studies for the Iron Bridge high grade magnetite concentrate project** continue to be assessed with a decision, in conjunction with Fortescue's joint venture partners, expected by the end of calendar year 2018.

- **Fortescue took delivery of its seventh ore carrier, the FMG Amanda** during the quarter with the final vessel scheduled for delivery in August 2018.

EXPLORATION AND DEVELOPMENT

- **Exploration spend remained focussed on iron ore and lithium in the Pilbara** with expenditure of US$25 million during the quarter bringing total FY18 expenditure to US$67 million.
- **Drilling has continued on targets in the Company's joint venture in central NSW** which is prospective for copper and gold.
- **Fortescue continues to assess exploration and development opportunities** throughout South America including Ecuador, Colombia and Argentina and has established offices in Quito and Buenos Aires to support these activities. Key exploration work includes stream sediment and rock chip sampling as well as airborne magnetic surveying of all tenements in Ecuador.

FY19 GUIDANCE

- **165-173mt in shipments** with a focus on optimising margins and meeting market demand in product mix and volumes through our fully integrated mining operation.
- **US$12-13/wmt C1 cost**
- **Average strip ratio 1.5**
- **Total capital expenditure of US$1.2 billion**
- **Depreciation and amortisation of US$7.10/wmt**

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REPORTING CALENDAR

Full Year Results Announcement	20 August 2018
September Quarter Production Report	25 October 2018
Annual General Meeting	15 November 2018
Investor Site Visit	27-28 November 2018