

25 October 2018



September 2018 Quarterly Production Report Fortescue Metals Group Limited (ASX: FMG, Fortescue)

Fortescue has released its September 2018 quarterly production results, reporting iron ore shipments of 40.2 million tonnes (mt) and cash production costs (C1) of US\$13.19 per wet metric tonne (wmt).

HIGHLIGHTS – SEPTEMBER 2018 QUARTER

- TRIFR of 3.9
- US\$13.19/wmt C1 cost
- 40.2mt shipped with full year guidance maintained at 165 to 173mt
- Average realised price of US\$45 per dry metric tonne (dmt), 12.5 per cent higher than the June 2018 quarter
- Delivery of the final vessel in Fortescue's ore carrier fleet, FMG Northern Spirit
- A\$500 million on-market share buy-back program announced

The results for the first quarter of FY19 reflect the continued improvement in realised price through the execution of our marketing and product strategy as well as sustained cost performance, generating strong cash flows.

During the quarter Fortescue announced the establishment of an on-market share buy-back program for up to A\$500 million (approximately US\$355 million). The program, to be funded out of operating cash flows, will commence following the release of today's Quarterly Production Report and remain in place for a period of up to 12 months.

Cash on hand at 30 September 2018 was US\$972 million with net debt of US\$3.0 billion.

Guidance for FY19 remains unchanged 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 "The Fortescue team have delivered a strong start to FY19 with shipments of 40.2mt for the quarter, an increase in realised price to US\$45/dmt through our optimised product strategy and C1 costs of US\$13.19/wmt. Shipments of our 60.1% iron grade product, West Pilbara Fines (WPF) are scheduled to commence from December this year, further enhancing our product mix".

"Following record shipments in the last quarter of FY18, we have re-built our iron ore inventories and prepared new areas for mining which increased total material moved by 11 per cent during the quarter positioning us to achieve FY19 targets."

"The Eliwana mine and rail development project is progressing and our innovation projects across the Chichesters, including the Christmas Creek autonomous haulage (AHS) fleet conversion and the Cloudbreak relocatable conveyor continue to contribute to our productivity and efficiency improvements."

"Fortescue's disciplined capital management is a key focus, with our A\$500 million share buy-back program announced during the quarter."

PRODUCTION SUMMARY

(millions tonnes)	Q1 FY19	Q4 FY18	Var %	Q1 FY18	Var %
Ore mined	51.9	49.8	4%	45.7	14%
Overburden removed	85.0	74.0	15%	63.7	33%
Ore processed	42.9	44.1	-3%	41.7	3%
Total ore shipped	40.2	46.5	-14%	44.0	-9%
C1 (US\$/wmt)	13.19	12.17	8%	12.15	9%

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 3.9 on a rolling 12-month basis. The health and safety of employees and contractors remains Fortescue's highest priority and targeted actions, including safety stops, were undertaken across all operations during the quarter to improve safety.
- **Mining, processing, rail and shipping** combined to achieve shipments of 40.2mt in the September quarter. Ore mined and overburden removal increased by 4 per cent and 15 per cent respectively compared to the June 2018 quarter as ore inventories were replaced and new areas prepared for mining. As a result, total material moved increased by 11 per cent compared to the prior quarter with strip ratios of 1.6 (Chichester Hub at 2.0 and Solomon Hub at 1.1). Strip ratios are expected to average 1.5 over the full year.

Finished product and run of mine inventories increased by 6.7mt over the quarter rebuilding iron ore inventories to provide greater blending optionality. Together with increased overburden removal this provides Fortescue with flexibility to manage production and capitalise on market conditions.

- **C1 costs were US\$13.19/wmt**, an eight per cent increase from the prior quarter due to higher overburden removal, scheduled maintenance and higher fuel costs. These increases were partially offset by a lower Australian dollar.

The conversion to AHS at Christmas Creek is progressing well with 32 trucks converted and in operation. Cloudbreak's relocatable conveyor has doubled throughput capacity through an additional crushing station.

- **Full year C1 cost and shipping guidance is unchanged at US\$12-13/wmt and 165-173mt.**

MARKETING

- **The steel industry in China remains healthy**, with strong production, high steel margins and low finished steel inventories across the industry. This continues to support strong demand for imported iron ore.
- **The average price realisation** during the September quarter increased by 12.5 per cent to US\$45/dmt compared to the prior quarter. This represents a 67 per cent realisation of the average Platts 62 CFR Index price which increased by two per cent over the previous quarter.

- Sales for the quarter are set out in the table below:

(Tonnes shipped millions, (wmt))	Q1 FY19	Product mix %	FY18	Product mix %
Fortescue Blend	19.2	48%	75.0	44%
Kings Fines	3.5	9%	15.0	9%
Super Special Fines	17.0	42%	80.0	47%
Fortescue Lump	0.4	1%	-	0%
Manganese Iron Ore	0.1	0%	-	0%
	40.2	100%	170.0	100%

- **Non-China markets** accounted for ten per cent of total shipments during the September 2018 quarter.

BALANCE SHEET

- **Cash on hand was US\$972 million** at 30 September 2018.
- **Gross debt remained at US\$4.0 billion** at 30 September 2018 with net debt of US\$3.0 billion.
- **Total capital expenditure** for the quarter was US\$276 million inclusive of sustaining capital, ship construction, exploration and development expenditure.
- **Iron ore prepayments** of US\$794 million remained unchanged at 30 September 2018. Amortisation of prepayments is expected to be US\$270 million in FY19 with the balance in FY20.

CORPORATE

- **Fortescue's 60.1 per cent iron grade product, West Pilbara Fines (WPF)**, will commence production in December and is expected to deliver between 5 and 10mt during the second half of FY19. The Eliwana mine and rail project is progressing in line with schedule to deliver first ore in December 2020 and, once complete, supports WPF production of 40mt per annum.
- **Fortescue announced the establishment of an on-market share buy-back program** for up to A\$500 million (approximately US\$355 million) during the quarter. The program will commence following the release of today's Quarterly Production Report and is expected to remain in place for a period of up to 12 months with all shares purchased on-market cancelled.
- **Fortescue took delivery of its eighth ore carrier, FMG Northern Spirit** during the quarter. All eight ore carriers have now been delivered and will provide approximately 14 per cent of Fortescue's annual shipping requirements. The ore carriers have been designed to provide operational cost improvements and loading efficiencies.

EXPLORATION AND DEVELOPMENT

- **Exploration work in the quarter was primarily focussed on iron ore in the Pilbara.** Total expenditure for the September 2018 quarter was US\$28 million.
- **Drilling of prospective copper-gold targets on the Company's joint venture in central NSW** continued during the quarter.
- **Fortescue continues to assess exploration and development opportunities throughout South America** including Ecuador, Colombia and Argentina with approvals to commence drilling on concessions held in the Santa Ana region of Ecuador pending.

FY19 GUIDANCE

- **165-173mt in shipments** with a focus on optimising margins through product mix and volumes across our fully integrated mining operations.
- **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

EVENT	DATE
Annual General Meeting	15 November 2018
Investor Site Visit	27-28 November 2018
December Quarterly Production Report	31 January 2019
HY19 Results	20 February 2019
March Quarterly Production Report	30 April 2019
June Quarterly Production Report	25 July 2019
FY19 Results	26 August 2019