

# June 2019 Quarterly Production Report



25 July 2019

## Record quarterly shipments of 46.6mt bringing total FY19 shipments to 167.7mt

Fortescue has released its June 2019 quarterly production results, reporting record quarterly shipments of 46.6 million tonnes (mt) and cash production costs (C1) of US\$12.78 per wet metric tonne (wmt).

### QUARTERLY HIGHLIGHTS

- Safety TRIFR of 2.8, an improvement of 22 per cent compared to 31 March 2019 and a record annual result
- Record quarterly shipments of 46.6mt including 4.7mt of West Pilbara Fines
- FY19 shipments of 167.7mt, one per cent lower than FY18 due to the impact of Cyclone Veronica
- Average revenue received increased by 30 per cent to US\$92 per dry metric tonne (dmt) compared to the March quarter of US\$71/dmt
- C1 costs of US\$12.78/wmt, five per cent lower than the March quarter (US\$13.51/wmt)
- Payment of a fully franked A\$0.60 per share dividend in June 2019, bringing total FY19 dividend payments to date to A\$0.90 per share
- Official opening of the Judith Street Harbour in Port Hedland marking the completion of Fortescue's towage infrastructure and fully integrated supply chain
- Approval of the US\$287 million investment in the Queens Valley mining area development at the Solomon Hub
- Eliwana Mine and Rail and Iron Bridge Magnetite projects progressing on schedule and budget

Fortescue Chief Executive Officer, Elizabeth Gaines, said "The Fortescue team has achieved exceptional results across safety, production, costs and delivery of our product strategy in the June quarter. Most pleasingly we have seen our TRIFR reduce to its lowest annual level of 2.8, a 24 per cent reduction compared to the prior year reflecting our sustained focus on safety."

"We have delivered record quarterly shipments of 46.6mt while reducing C1 costs by over five per cent to US\$12.78/wmt reinforcing our position as the lowest cost producer. In addition, with healthy iron ore inventory levels across the supply chain we are well positioned to continue delivery of our highly valued product mix to customers in FY20."

"Strong demand for our 60.1% iron content product West Pilbara Fines continues, and we remain focussed on our integrated operations and marketing strategy to optimise product mix to meet the needs of our customers."

"Fortescue has recently established a new wholly owned sales entity in China to support our customers through direct supply from regional Chinese ports, providing customers with an option to purchase smaller volumes, in Renminbi. This entity will complement our existing contractual seaborne arrangements with our first Renminbi transactions completed in June 2019."

“The ongoing strength of our operational performance and cashflow generation resulted in the Board resolving to accelerate returns to shareholders through payment of a fully franked A\$0.60 per share dividend on 14 June 2019. Fortescue has now paid A\$0.90 per share in FY19 dividends to date and maintains its dividend payout policy of between 50 and 80 per cent of full year net profit after tax.”

“Fortescue’s growth and development projects at Eliwana and Iron Bridge remain on schedule and budget. In addition, our ongoing investment in autonomy, relocatable conveyors and other initiatives such as the Queens Valley development will continue to deliver enhanced returns to shareholders.”

## PRODUCTION SUMMARY

(millions tonnes)	Q4 FY19	Q3 FY19	Var %	Q4 FY18	Var %
Ore mined	57.6	48.0	20%	49.8	16%
Overburden removed	79.0	67.3	17%	74.0	7%
Ore processed	48.5	43.0	13%	44.1	10%
Total ore shipped	46.6	38.3	22%	46.5	0.2%
C1 (US\$/wmt)	12.78	13.51	-5%	12.17	5%

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

## OPERATIONS

- **The Total Recordable Injury Frequency Rate (TRIFR)** reduced to 2.8 (3.6 at March 2019) on a rolling 12-month basis. This improved safety performance is also reflected in the quarterly TRIFR of 2.4.

During FY19 initiatives such as the company wide “Safety Stop” and “Take Control” have contributed to a record low annual safety result and a 24 per cent improvement in safety performance compared to the prior financial year.

- **Mining, processing, rail and shipping** combined to achieve record monthly shipments of 17.3mt in June which contributed to record quarterly shipments of 46.6mt. Total FY19 shipments were 167.7mt.

Ore mined and overburden removed increased by 20 and 17 per cent respectively compared to the prior quarter. When combined with a 13 per cent increase in ore processing, this has increased iron ore inventories, supporting Fortescue’s integrated operations and marketing strategy and enhanced product mix into FY20.

The average strip ratio was 1.4, consistent with the prior quarter and averaged 1.5 for FY19.

- **Shipments of West Pilbara Fines were 4.7mt**, representing 10 per cent of the total. FY19 shipments of West Pilbara Fines were 9.0mt in line with guidance.
- **C1 costs of US\$12.78/wmt** reflect disciplined cost management, mining and processing performance, together with record shipping levels achieved during the quarter. FY19 C1 costs were US\$13.11/wmt, six per cent above FY18.

## MARKETING

- **Crude steel production in China reached 492 million tonnes<sup>1</sup>** in the first half of 2019, 9.9 per cent higher than the prior comparable period, driving strong demand for seaborne iron ore. In addition, iron ore stocks at Chinese ports at the end of the quarter were 115mt, a reduction of 39mt since June 2018.
- **Demand for Fortescue's products in the quarter remained strong** as Chinese steel mills focused on optimising raw material costs in response to lower steel margins. Shipped tonnage for all products increased quarter on quarter in response to sustained strong demand from customers.
- **Fortescue's average revenue received increased to US\$92/dmt**, a 30 per cent improvement compared to the prior quarter, while the average Platts 62 CFR Index increased by 21 per cent to US\$100/dmt, reflecting the success of Fortescue's integrated operations and marketing strategy. The average contractual price realisation achieved by Fortescue increased to 87 per cent of the average 62 CFR Index price for the quarter.

FY19 average realised revenue, after taking into account mark to market adjustments, was US\$65/dmt, an increase of 50 per cent compared to FY18 (US\$44/dmt).

- **West Pilbara Fines (WPF) shipments increased to 4.7mt in the quarter representing 10 per cent of the total.** WPF is now well-established in the market and is in high demand reflecting its success as a competitive substitute for other high quality mainstream mid-iron content products.
- **Fortescue's fully integrated operations and marketing strategy** and disciplined approach continues to focus on optimising product mix to meet customer demand in China and other markets.

Total tonnes shipped by product compared to the prior financial year is set out in the table below:

Tonnes shipped millions, (wmt)	FY19	Product mix %	FY18	Product mix %
West Pilbara Fines	9.0	5%	-	0%
Kings Fines	14.2	8%	15.0	9%
Fortescue Blend	72.4	43%	75.0	44%
Fortescue Lump	8.6	5%	-	0%
Super Special Fines	61.7	37%	80.0	47%
Manganese Iron Ore	1.8	1%	-	0%
Total	167.7	100%	170.0	100%

- **Fortescue recently established a wholly owned Chinese sales entity to improve its offering** through the direct supply of products to Chinese customers in smaller volumes, in Renminbi directly from regional ports. This represents a new sales channel for Fortescue which will complement existing seaborne offtake arrangements. Initial shipments together with Renminbi sales occurred in June 2019.
- **Non-China markets** accounted for six per cent of total shipments during the quarter and eight per cent for the full year, balancing strong demand in China with market development opportunities elsewhere.

<sup>1</sup> Source: China's National Bureau of Statistics

## BALANCE SHEET

- **Cash on hand increased to US\$1.9 billion** at 30 June 2019 from US\$1.1 billion at 31 March 2019.
- **Gross debt remained at US\$4.0 billion** at 30 June 2019 with net debt reducing to US\$2.1 billion, the lowest level since achieving current production capacity in FY14.
- **Total capital expenditure** for the quarter was US\$314 million inclusive of sustaining capital, exploration and development expenditure.
- **Iron ore prepayments** reduced to US\$486 million at 30 June 2019. Amortisation for the quarter was US\$133 million bringing FY19 amortisation to US\$309 million. The remaining balance of prepayments will be amortised during FY20.

## IRON ORE PROJECTS

- The **Eliwana Mine and Rail Project** reached an important milestone in July with the official sod turning event and is progressing in line with expectations to achieve first ore on train on schedule and budget in December 2020.

Capital expenditure incurred by year is estimated to be:

US\$ millions	FY19 actual	FY20 estimate	FY21 estimate	Total
Capital expenditure	124	700	451	1,275

To date, the Project has awarded contracts to the value of A\$330 million to more than 250 Australian businesses, and the structural steel fabrication of the overland conveyor, stockyard, train loadout facility and rail bridge girders will occur in Western Australia.

- **The US\$2.6 billion Iron Bridge Magnetite Project** to produce 22mt of premium 67% iron grade concentrate product continues on schedule.

Detailed engineering has commenced and is progressing with early works, including construction of access roads, airport and camp underway. Bulk earthworks are expected to commence in the last quarter of 2019 and procurement of long lead items for the project is underway.

Fortescue's share of Iron Bridge capital expenditure incurred is set out in the table below:

US\$ millions	FY19 actual	FY20 estimate	FY21 estimate	FY22 estimate	Total
Capital expenditure	15	500	850	735	2,100

Contractual awards and project commitments are expected to reach US\$1.0 billion by 30 June 2020.

## EXPLORATION

- **Total exploration expenditure for the June 2019 quarter was US\$29 million** bringing year to date expenditure to US\$96 million.
- **Iron ore exploration** in the quarter was focussed on the Western Hub in the Pilbara.
- **Australian copper-gold exploration continued** with early stage target generation progressing in the Paterson and Rudall projects in Western Australia. Work continues in South Australia, and two joint ventures with Tasman Resources and Strategic Energy were announced in the quarter.
- **Early stage exploration is underway in Argentina** across 48 tenements in the Argentinian province of San Juan which are prospective for copper.

- Drilling on targets, prospective for copper, **continued at Fortescue's Santa Ana concessions in Ecuador** with two rigs having drilled over 3,500 metres to date.

## AUTONOMY

- **The conversion to autonomous haulage (AHS)** continues with 59 trucks converted at the Chichesters, bringing the total autonomous fleet to 128 at 30 June 2019. The conversion to a fully autonomous mining operation is progressing as planned and is expected to be completed by mid-2020.
- **An autonomous light vehicle trial has commenced at Christmas Creek**, building on Fortescue's existing autonomous capability. Fortescue continues to assess opportunities for industrial application and connected technology to optimise safety, efficiency and reliability.

## TOWAGE INFRASTRUCTURE AND OPERATIONS

- **Fortescue celebrated the completion of its tug fleet and towage infrastructure** at the Herb Elliott Port in Port Hedland at the end of June. The fleet consists of six tugs which Fortescue has constructed together with three additional leased tugs. The tugs will be based at the new Judith Street Harbour located in the vicinity of Fortescue's berths one to three at Anderson Point.

## FY20 GUIDANCE

- **170-175mt in shipments**, inclusive of 17-20mt of West Pilbara Fines product
- **C1 costs expected to be in the range of US\$13.25-13.75/wmt**
- **Average strip ratio 1.5**
- **Total capital expenditure of US\$2.4 billion**, allocated to the following categories:
  - Sustaining capital US\$700 million
  - Operational development US\$200 million
  - Queens Valley development US\$150 million
  - Major Projects
    - Eliwana US\$700 million
    - Iron Bridge US\$500 million
  - Exploration US\$140 million
- **Depreciation and amortisation of US\$7.70/wmt**
- **A total dividend pay-out ratio between 50 and 80 per cent of full year NPAT**

## MEDIA

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## REPORTING CALENDAR

EVENT	DATE
FY19 Results	26 August 2019
September Quarter Production Report	24 October 2019
Annual General Meeting	29 October 2019
December Quarter Production Report	30 January 2020
HY20 Results	19 February 2020
March Quarter Production Report	30 April 2020