March 2019 Quarterly Production Report

FMG Fortescue
The New Force in Iron Ore

18 April 2019

Product strategy delivers a 47 per cent increase in average price received to US$71/dmt

Fortescue has released its March 2019 quarterly production results, reporting total shipments of 38.3 million tonnes (mt) and cash production costs (C1) of US$13.51 per wet metric tonne (wmt).

HIGHLIGHTS

- Safety TRIFR of 3.6, an improvement of 10 per cent compared to 31 December 2018
- Average price received increased to US$71 per dry metric tonne (dmt) compared to the December quarter of US$48/dmt representing a 47 per cent increase and outperforming the benchmark increase of 16 per cent
- Total shipments of 38.3mt including 3.8mt of West Pilbara Fines
- Impact of Tropical Cyclone Veronica limited to 2.5mt of shipments lost due to closure of the Port Hedland Port for five days
- C1 cost of US$13.51/wmt
- Approval of the development of Stage 2 of the Iron Bridge Magnetite Project announced on 2 April
- Eliwana Mine and Rail Project progressing on schedule and budget
- Fortescue Future of Mobility Centre launched in Karratha, Western Australia

Fortescue Chief Executive Officer, Elizabeth Gaines, said "The Fortescue team has achieved an excellent result for the March quarter through a continued focus on optimising product mix in a strong market, including the success of our 60.1% iron grade West Pilbara Fines product. Building on our integrated operations and marketing strategy, the sustained demand for our products combined with higher benchmark iron ore prices has seen our average realised price increase by 47 per cent to US$71/dmt, compared to US$48/dmt in the December quarter."

"Long term contracts for off-take of our 60.1% iron grade West Pilbara Fines product have now been finalised with nine customers, accounting for the majority of the product."

"We recently announced the approval of the 22mtpa, US$2.6 billion Iron Bridge Magnetite Project. Building on the success of the launch of West Pilbara Fines, the Iron Bridge product will increase our average grade, providing Fortescue with the ability to deliver the majority of our products at greater than 60% iron grade. We are confident the Project will deliver growth in earnings and cashflow, resulting in enhanced returns to our shareholders and our joint venture partners through all market cycles."

"Fortescue delivered shipments of 38.3mt for the quarter, which is in line with the prior comparable period, while ore mined and overburden removed increased by 15 and 11 per cent respectively ensuring we maintained our inventory and improved our product mix, positioning us for a strong final quarter."

"Closure of the Port Hedland Port, combined with localised flooding in the area caused by Tropical Cyclone Veronica in late March, resulted in the loss of five days of shipments equating to 2.5mt. This volume impact has seen C1 costs increase to US$13.51/wmt for the quarter. We are now expecting full year shipments of 165-170mt and C1 costs in the range of US$13-13.50/wmt."

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PRODUCTION SUMMARY

(millions tonnes)	Q3 FY19	Q2 FY19	Var %	Q3 FY18	Var %
Ore mined	**48.0**	**49.2**	*-2%*	41.6	*15%*
Overburden removed	**67.3**	**72.5**	*-7%*	60.4	*11%*
Ore processed	**43.0**	**42.5**	*1%*	39.1	*10%*
Total ore shipped	**38.3**	**42.5**	*-10%*	38.7	*-1%*
C1 (US$/wmt)	**13.51**	**13.02**	*4%*	13.14	*3%*

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 3.6 (from 4.0 at December 2018) on a rolling 12-month basis. A record low TRIFR performance of 2.1 was achieved during the quarter reflecting the focus on ensuring the health and safety of our employees and contractors. The "Take Control" program was successfully rolled out across the operations during the quarter and is aimed at focussing employees on safely controlling their working environment.

- **Mining, processing, rail and shipping** combined to achieve total shipments of 38.3mt in line with the prior comparable quarter. Shipments compared to the December 2018 quarter were 10 per cent lower primarily due to the impacts of Tropical Cyclone Veronica which closed the port for five days and caused localised flooding to the railway in the immediate vicinity of the Port operations. Ore mined and overburden removed increased by 15 and 11 per cent respectively compared to the prior comparable quarter maintaining inventory to support delivery of the enhanced product mix.

  The average strip ratio was 1.4 consistent with the prior comparable quarter.

- **West Pilbara Fines shipments for the quarter were 3.8mt,** 10 per cent of the total for the quarter with FY19 total shipments expected to be between 8-10mt.

- **C1 costs were higher than the prior quarter at US$13.51/wmt,** due to the impact of Tropical Cyclone Veronica on shipments.

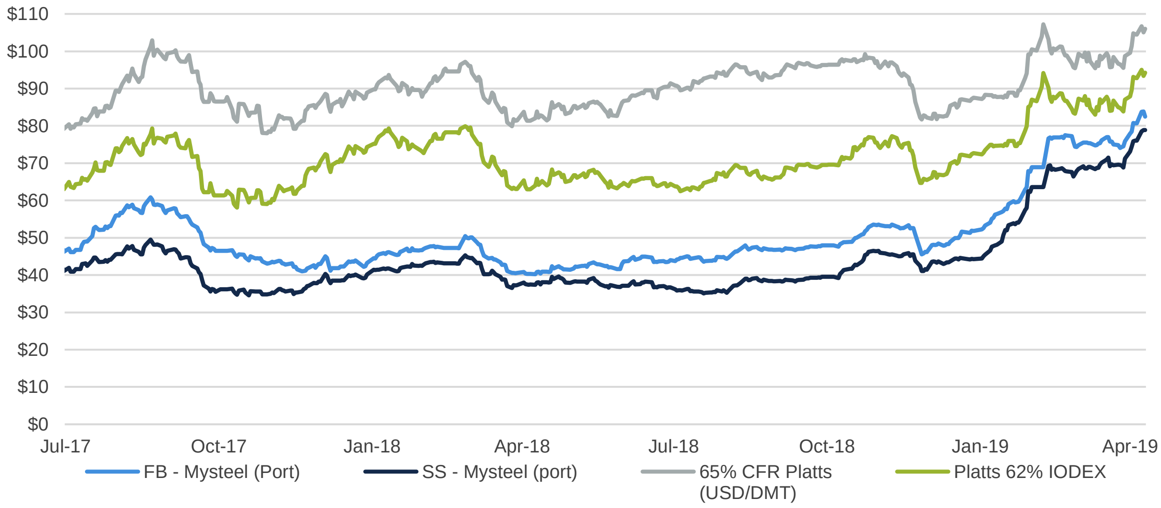
MARKETING

- **Chinese crude steel production remains strong, reaching 231 million tonnes** in the first quarter of 2019, an increase of 9.9 per cent year-on-year, (China's National Bureau of Statistics) with finished steel inventories remaining stable. Since the end of the quarter the draw down on steel inventories has accelerated in line with increased demand.

- **Demand for Fortescue's products in the quarter was strong** reflecting continued moderation of steel mill margins, resulting in a significant reduction of Fortescue products at Chinese ports.

- **Fortescue's average price received during the quarter increased to US$71/dmt,** a 47 per cent improvement compared to the prior quarter, outperforming the 16 per cent increase in the average Platts 62 CFR Index price of US$83/dmt. This reflects the success of Fortescue's integrated operations and marketing strategy. The actual price realisation achieved by Fortescue for the quarter was 86 per cent of the average 62 CFR Index price.

The implied US dollar price for Fortescue's products at ports in China on an equivalent seaborne basis, compared to the seaborne spot prices for 62% and 65% Platts CFR products is set out in the chart below:



- **Shipments of West Pilbara Fines increased significantly in the quarter representing 10 per cent of the total.** Long term contracts for off-take with nine customers have now been finalised accounting for the majority of West Pilbara Fines product. Market and customer development associated with West Pilbara Fines continues in China and other key markets.

- **Fortescue's fully integrated operations and marketing strategy** continues to focus on optimising the product mix to deliver higher margin products. Sales by product are set out in the table below:

Tonnes shipped millions, (wmt)	Q3 FY19	*Product mix %*	Q2 FY19	*Product mix %*	Q1 FY19	*Product mix %*
West Pilbara Fines	**3.8**	*10%*	**0.4**	*1%*	**-**	-
Kings Fines	**3.4**	*9%*	**3.2**	*8%*	**3.5**	*9%*
Fortescue Blend	**16.1**	*42%*	**20.0**	*47%*	**19.2**	*48%*
Fortescue Lump	**2.2**	*6%*	**2.7**	*6%*	**0.4**	*1%*
Super Special Fines	**12.6**	*33%*	**15.9**	*37%*	**17.0**	*42%*
Manganese Iron Ore	**0.2**	*0%*	**0.3**	*1%*	**0.1**	*0%*
Total	**38.3**	*100%*	**42.5**	*100%*	**40.2**	*100%*

- **Non-China markets** accounted for 7 per cent of total shipments during the quarter, with reduced shipments to India given strong demand and higher price realisations from the Chinese market.

BALANCE SHEET

- **Cash on hand was US$1.1 billion** at 31 March 2019.

- **Gross debt remained at US$4.0 billion** at 31 March 2019 with net debt of US$2.9 billion.

- **Total capital expenditure** for the quarter was US$196 million inclusive of sustaining capital, exploration and development expenditure.

- **Iron ore prepayments** reduced to US$619 million at 31 March 2019. Amortisation for the quarter was US$129 million bringing year to date amortisation to US$178 million. Remaining FY19 amortisation is expected to be US$133 million with the balance amortising in FY20.

IRON ORE PROJECTS

- **The US$2.6 billion, Stage 2, Iron Bridge Magnetite Project (the Project) to produce 22mt of premium 67% iron grade, low impurity concentrate product** was announced on 2 April 2019. The Project, which is structured through an unincorporated joint venture (UJV) between Fortescue subsidiary FMG Magnetite Pty Ltd and joint venture partner Formosa Steel IB Pty Ltd, has been comprehensively studied since 2010 and de-risked through the successful completion and operation of the Stage 1 large scale pilot and full-scale demonstration plants between 2015 and 2018.

  Each of the UJV partners is responsible for their equity share of total capital expenditure. Fortescue's capital contribution will be US$2.1 billion inclusive of US$274 million deferred contributions from Stage 1. FY19 early works expenditure of US$100 million will be funded by Fortescue.

  Fortescue will manage and operate the Project including maintaining full marketing rights, supporting the Company's strategy of a majority of products greater than 60% iron grade. The actual product mix will be based on market conditions to deliver the greatest value to Fortescue and its partners.

  Delivery of first ore from the Project is expected in the first half of calendar year 2022, with ramp up to full production within 12 months. The all-in sustaining cost for the Project is between US$45-55/dmt including C1 cost of production (US$30-35/dmt inclusive of a fee to access Fortescue's port infrastructure), sustaining capital expenditure (US$4-6/dmt) as well as royalties, administration costs and sea freight (subject to exchange rate, inflation and other market factors).

- **The US$1.275 billion Eliwana Mine and Rail Project** is progressing in line with expectations to achieve first ore on train on schedule and budget in December 2020.

EXPLORATION

- **Total exploration expenditure for the March 2019 quarter was US$18 million** bringing year to date expenditure to US$67 million.

- **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 at Fortescue's joint venture near Orange in NSW with ongoing assessment of drilling results and further target generation.

- **Early stage exploration is underway in Argentina** across the 48 tenements in the Argentinian province of San Juan which are prospective for copper-gold.

- Drilling on targets, prospective for copper-gold, **commenced at Fortescue's Santa Ana concessions in Ecuador on 15 April 2019.**

- **Fortescue has applied for 25 tenements across 7,000 km^2 in Portugal,** with these tenements expected to progress to grant later in 2019. Early stage exploration has commenced, with the tenements prospective for lithium.

AUTONOMY

- **The conversion to autonomous haulage (AHS)** continues to progress with 55 trucks converted at Christmas Creek, bringing the total autonomous fleet to 112, with the conversion at Cloudbreak to commence shortly. Once completed, Fortescue will be the first iron ore operation globally to have a fully autonomous haulage fleet.

- **An autonomous light vehicle trial at Christmas Creek mine** was announced during the quarter, building on Fortescue's autonomous capability.

- **Fortescue announced the establishment of the Fortescue Future of Mobility Centre**, a research and development centre based in Karratha, Western Australia to explore opportunities for the application of autonomous mobility technology in an urban environment.

FY19 GUIDANCE

- **165-170mt in shipments**, inclusive of West Pilbara Fines product of 8-10mt.
- **C1 costs expected to be between US$13-13.50/wmt.**
- **Average strip ratio 1.5.**
- **Total capital expenditure of US$1.2 billion,** inclusive of Fortescue's share of the Iron Bridge Magnetite Project for FY19.
- **Depreciation and amortisation of US$7.10/wmt.**

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REPORTING CALENDAR

EVENT	DATE
June Quarterly Production Report	25 July 2019
FY19 Results	26 August 2019