2014 Full year results

August 2014

Fortescue
The New Force in Iron Ore

Disclaimer

Important Notice

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Additional Information

This presentation should be read in conjunction with the Annual Financial Report as at 30 June 2014 and together with any announcements made by Fortescue in accordance with its continuous disclosure obligations arising under the *Corporations Act 2001*.

Any references to reserve and resources estimations should be read in conjunction with Fortescues Mineral Resource and Ore Reserve Statement at 30 June 2014 as release to the Australian Securities Exchange on 20 August 2014.

All amounts within this presentation are stated in United States Dollars consistent with the Functional Currency of Fortescue Metals Group Limited. Tables contained within this presentation may contain immaterial rounding differences.

Fortescue Update

The journey continues

Building a world class company

Reliable and competitive supplier to Asia

- **First ore** 2008
- **400mt** shipped to date
- **155mtpa** production rate
- Large **growing resource** base
- Unique **culture**

FY14 in review

Delivering 155mtpa

124.2mt YTD
38.7mt June Qtr

$US3.1bn
debt reduction

155mtpa
Annualised run rate

- ✓ Infrastructure complete
- ✓ Mines and processing facilities ramped up

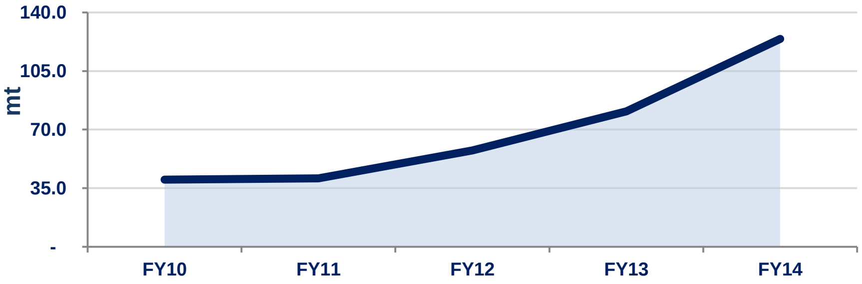
US$2.4bn
cash on hand

Costs 23%
efficiency focus

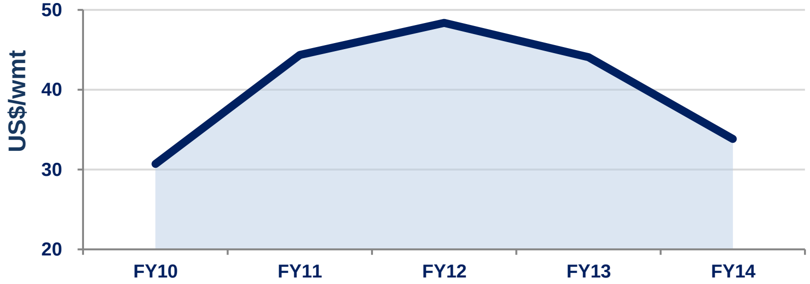
Fortescue overview

Record operational performance delivers NPAT of US$2.7bn and EBITDA* of US$5.6bn

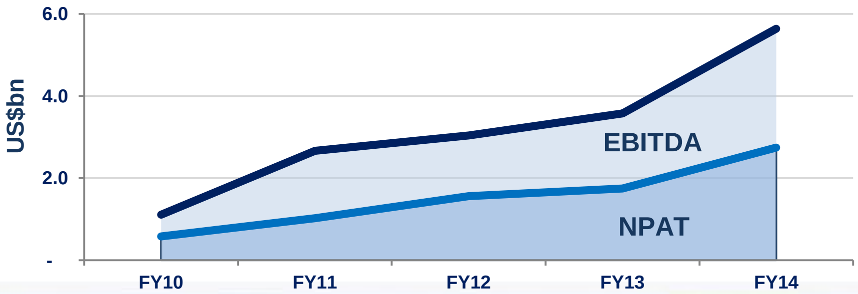
Volume 54%



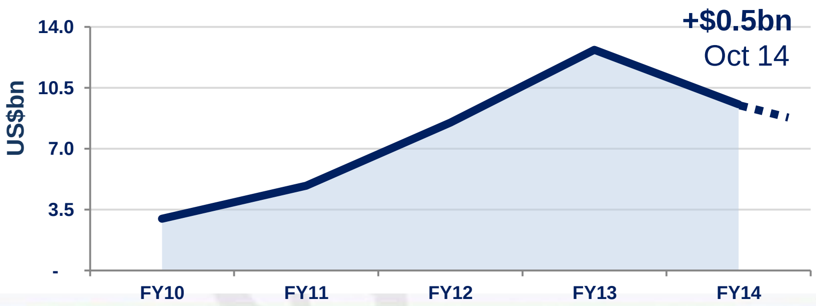
Costs 23%



Earnings EBITDA 58% NPAT 57%



Debt US$3.1bn



* Refer to attached glossary for definitions of non IFRS terms

Building a world class company

World class infrastructure

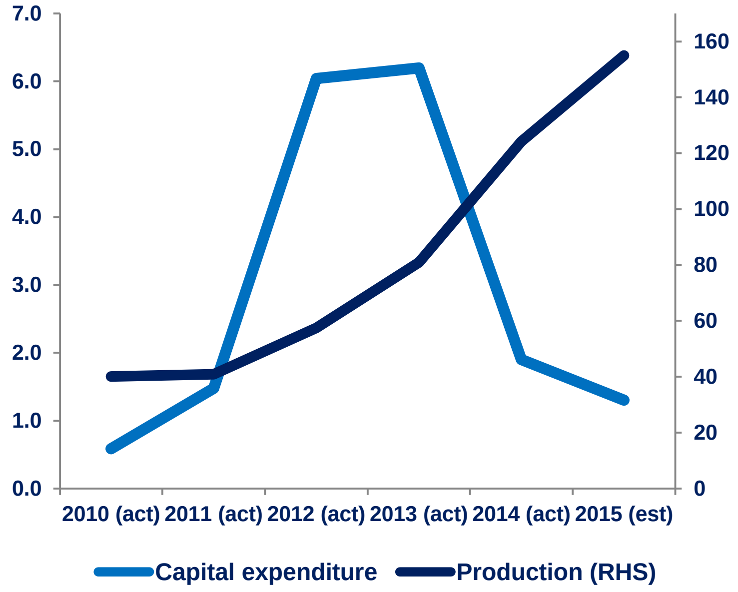
- Over **10,000** jobs
- **5** mines; 5 processing plants
- **3** airports; 30,000 passengers/month
- **5 berths**; 75 ships/month
- **620km** rail; 45 locos, 3,384 ore cars

Foundation for the future

Disciplined capital management

Track record of debt repayment delivering investment grade metrics

- Increased **cashflow** and lower capex
- **US$2-$2.5bn** targeted additional repayments
  - Gearing ~40%
  - Net Debt to Equity ~50%
- Net debt (June 14) **US$7.2bn**
- FY15 capital **US$1.3bn**

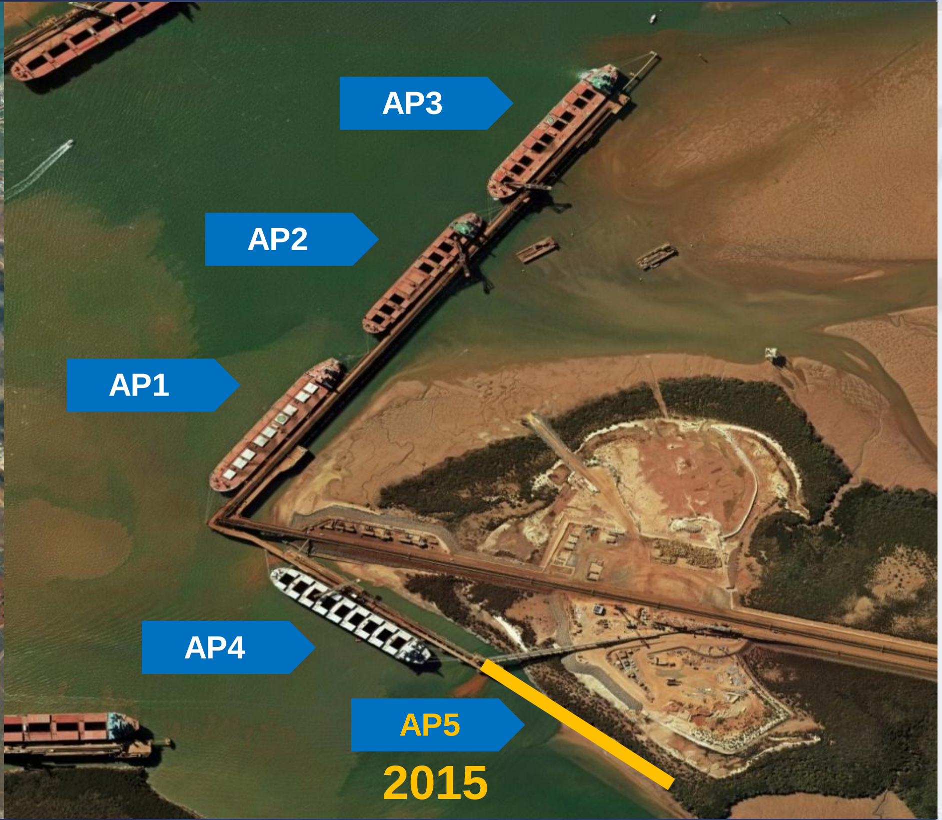


Ongoing projects

- **Targeted exploration** continues to increase resource base
- **AP5 berth** adds 15 – 20mtpa outload capacity
- **Detrital processing plant** adds 5mtpa capacity at Solomon
- **Autonomous haulage** increases operational cost efficiencies
- **Ship construction** 260k dwt ore carriers

Port – flexible design for future growth

Fifth berth under construction



Financials

Highlights

Record financial results

Revenue
US$11.8bn ⬆ **45%**

C1 costs
US$34/wmt ⬇ **23%**

EBITDA
US$5.6bn ⬆ **58%**

NPAT
US$2.7bn ⬆ **57%**

Debt re-paid
US$3.1bn + **US$0.5bn** committed

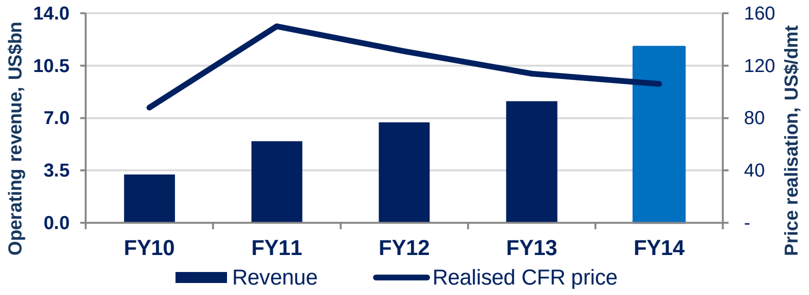
Interest savings
in excess of **US$330m p.a.**

Total FY14 dividends
A$0.20 / share fully franked

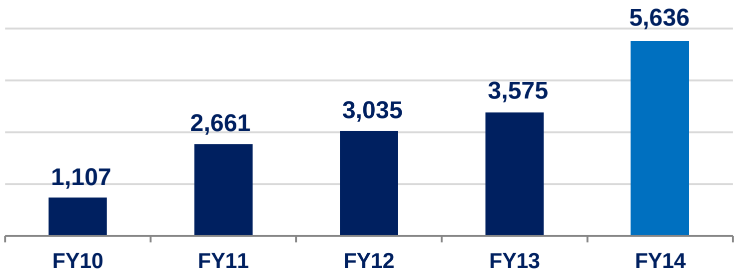
Earning growth

Strong financial results reflect operational performance

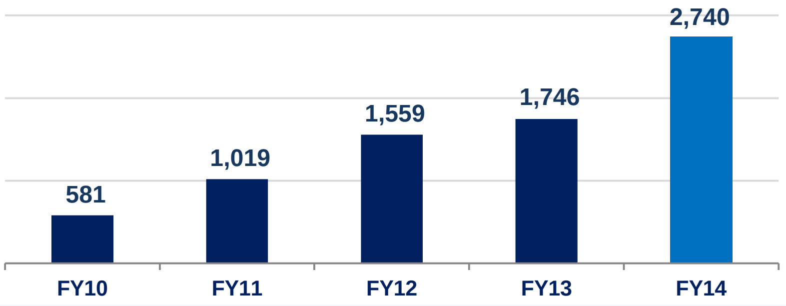
Revenue and price realisation



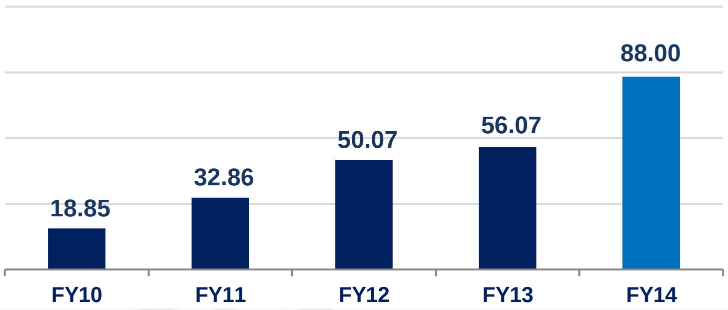
EBITDA, US$ millions



Net profit after tax, US$ millions

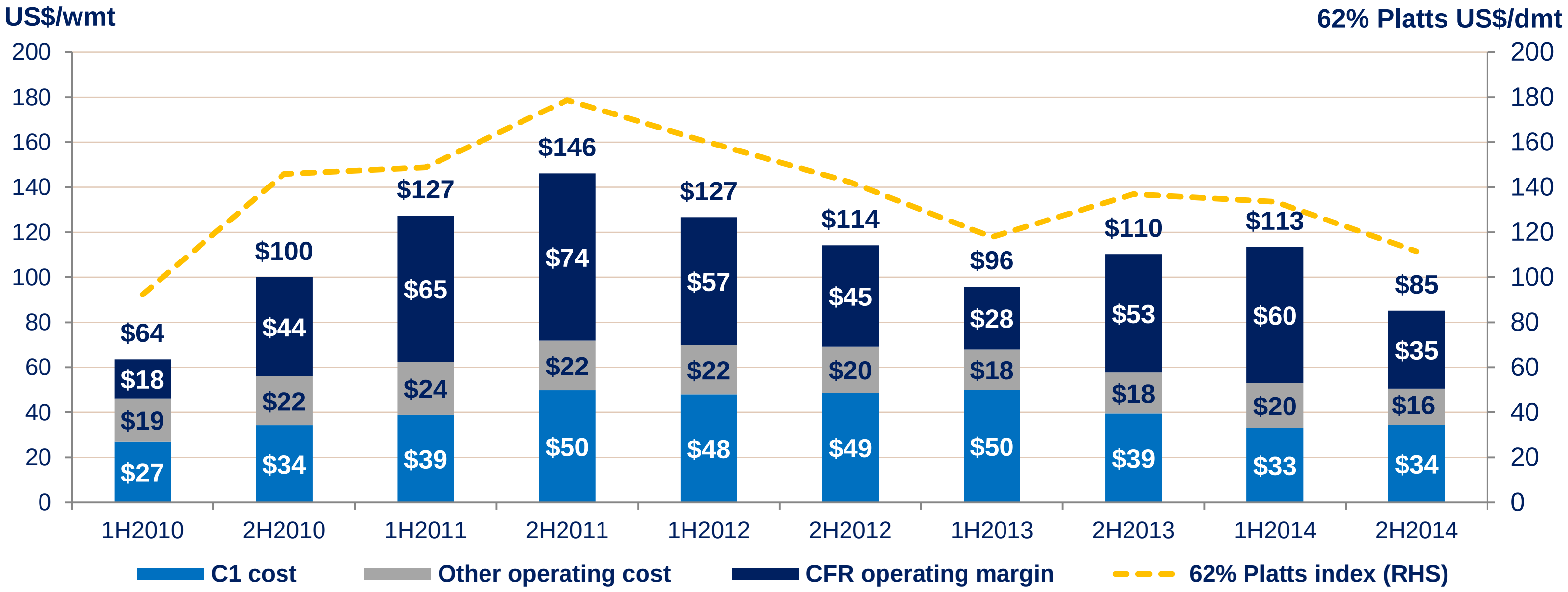


Basic earning per share, US cents



Operating margins

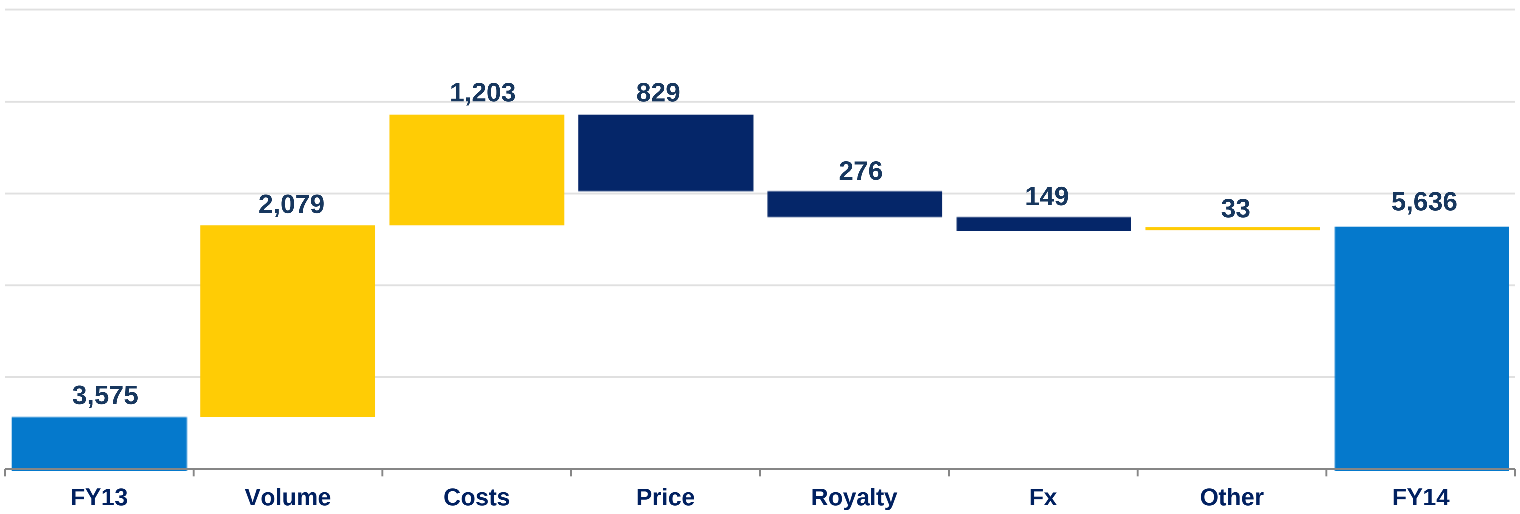
Solid operating margins maintained



- Total delivered cost **US$52/wmt** (US$56/dmt) in FY14
- C1 guidance of **US$31-32/wmt** in FY15

EBITDA

Ramp-up of operations and sustained cost savings deliver record financial results



- Increased shipments - **record production** ⬆ **54%**
- Continued focus on **production costs** C1 $34/wmt ⬇ **23%**

Production costs

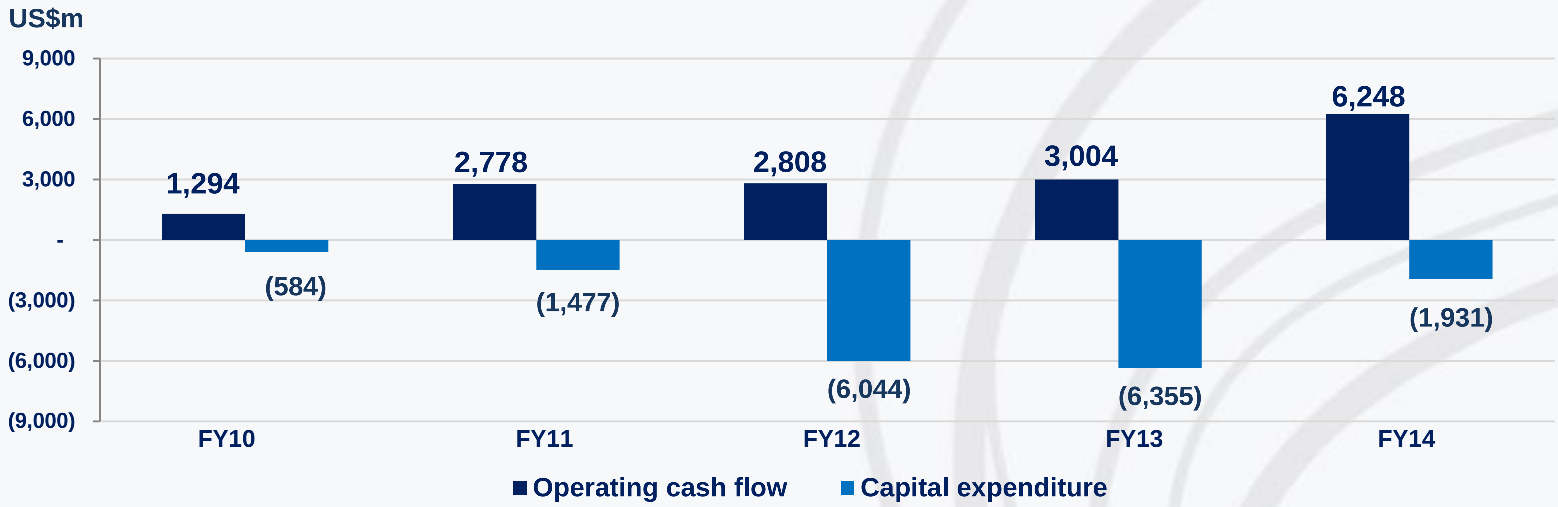
35% reduction generating ~ US$2.6bn lower costs

Driving down the global cost curve

FY12	$48	**CB and CC1 operations** 58mt production @ SR 4.3 with 2 OPF's + 3 Berths
FY13	$44	**CC2, Hamersley line, Firetail, CB WFE** 80mt production @ SR 3.9 from 4 OPF's + 3 Berths
FY14	$34	**AP4, Kings Valley, ITCS, 5 OPF's + 4 Berths** 124mt production @ SR 2.9 from 5 OPF's + 4 Berths 155mtpa run rate achieved
FY15	$31-32	**Full operation capacity achieved + AP5 in March 2015** 155 -160mt, SR maintained + efficiency focus

Cashflow FY14

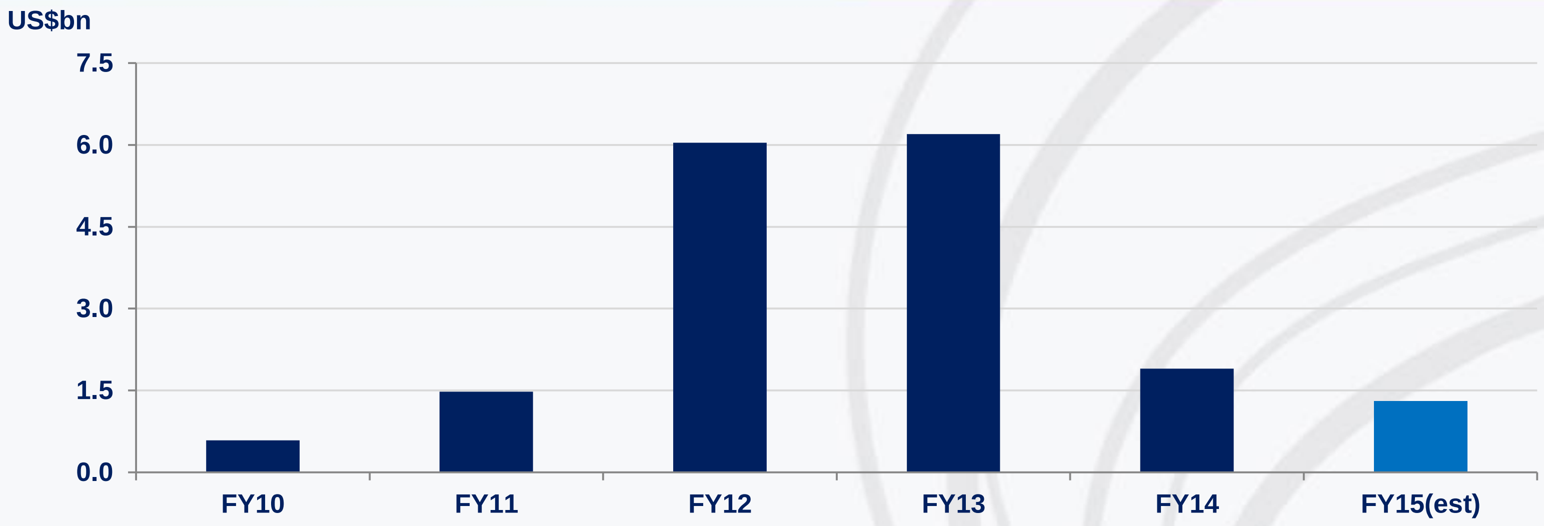
Record net free cash flow US$4.3bn



- Increased production **volumes** and **lower costs** improve operating cash flows
- T155 **expansion complete**

Capital expenditure

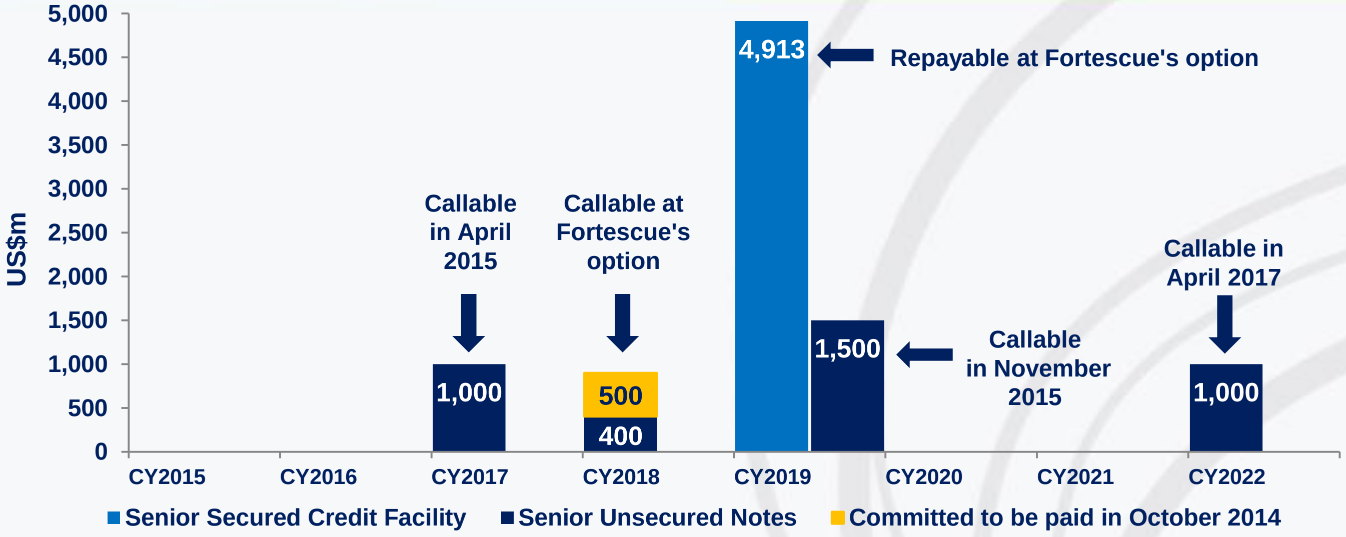
Significant reduction in expenditure as expansion complete



- FY15 capital **US$1.3bn**
- Depreciation and amortisation ~$8.50/t

US$3.1bn re-paid + US$0.5bn committed

Flexibility to enables further repayments and re-financing

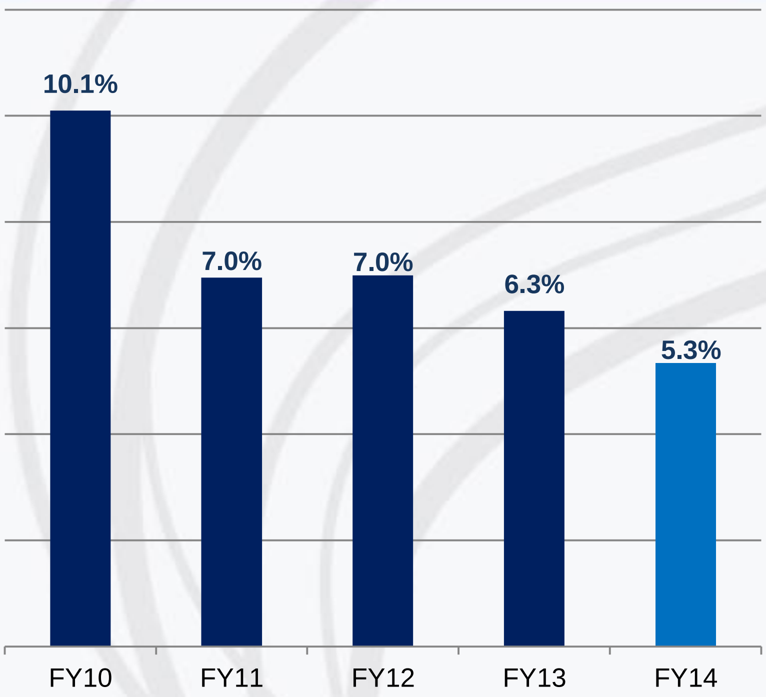


Current ratings	Corporate	Term Loan	Notes
Moody's	Ba1/Stable	Baa3	Ba2
S&P	BB/Positive	BBB-	BB-
Fitch	BB+/Stable	BBB-	BB+

Cost of borrowings

Focus on debt reduction lowering interest costs

- Cost of borrowings **reduced** to 5.3%*
- Debt repayments **US$3.1bn** + **US$0.5bn** committed in Oct 14
- Intention to re-pay additional **US$0.5bn** to **US$1.0bn** in FY15
- Debt reductions + refinancing reduce borrowing costs by **US$330m p.a.**

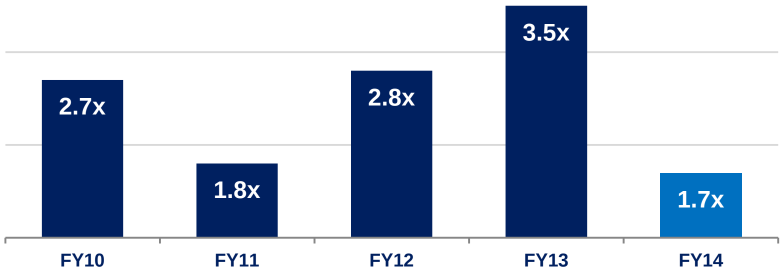


*Cost of borrowings are calculated at 30 June and exclude Leucadia notes and finance leases

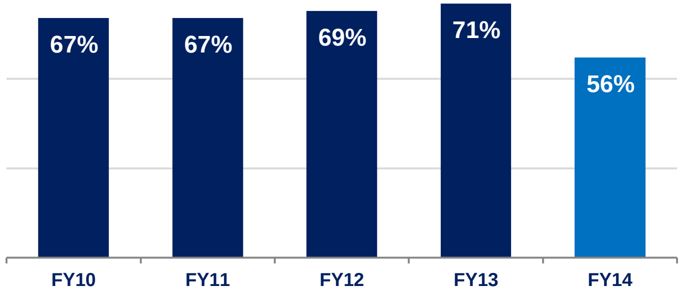
Key credit metrics

Moving towards investment grade metrics

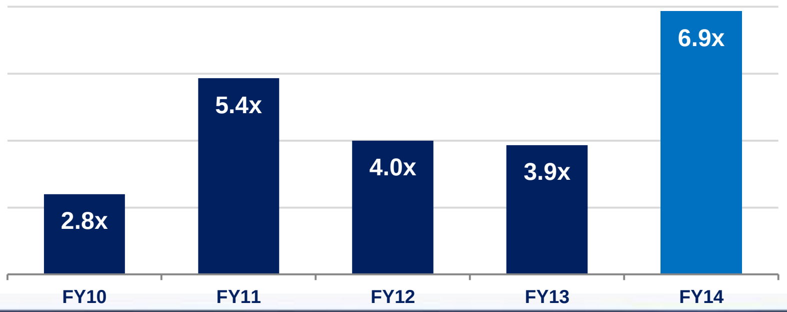
Debt to EBITDA



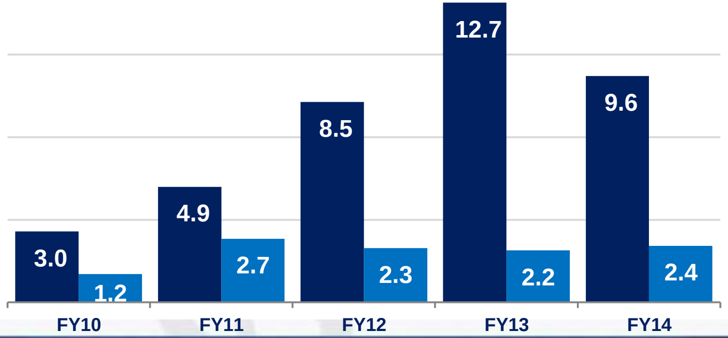
Gearing: Debt / (Debt+Equity)



Interest coverage: EBITDA / Interest



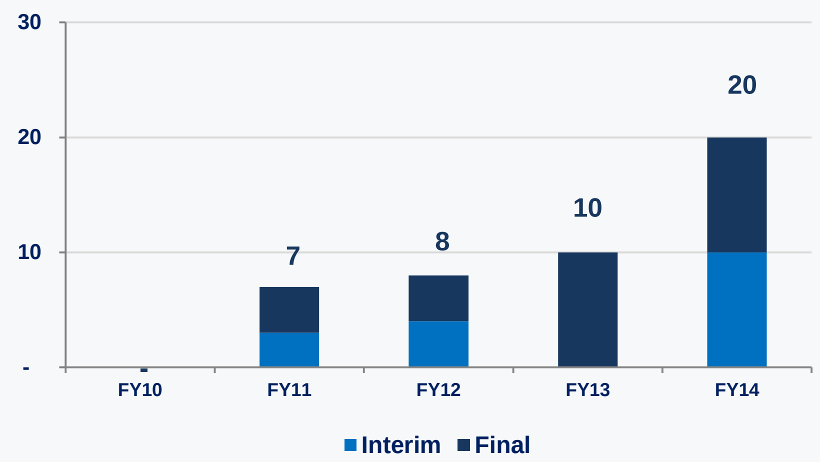
Cash and debt (US$bn)



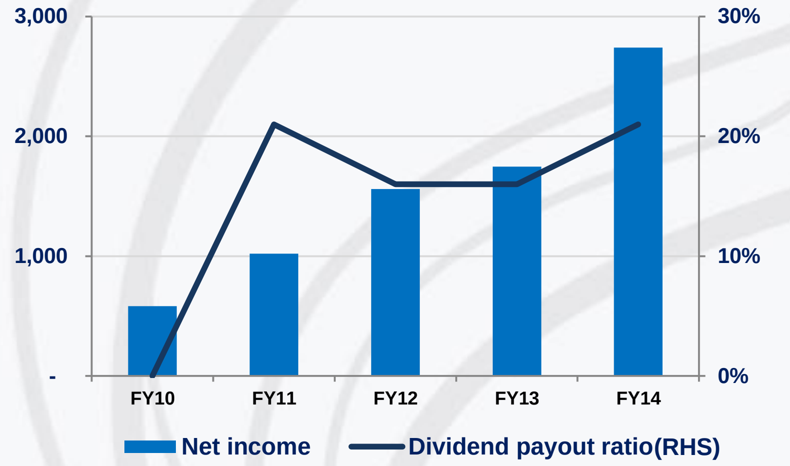
Dividends

Fully franked A$0.20 dividend for FY14

Dividends, AUD cents per share



Dividend payout ratio, %



- Modest dividends – **focus on debt reduction**
- Increased dividends reflect **improved financial** performance
- Moving towards dividend payout ratio of **30 to 40%**

Market

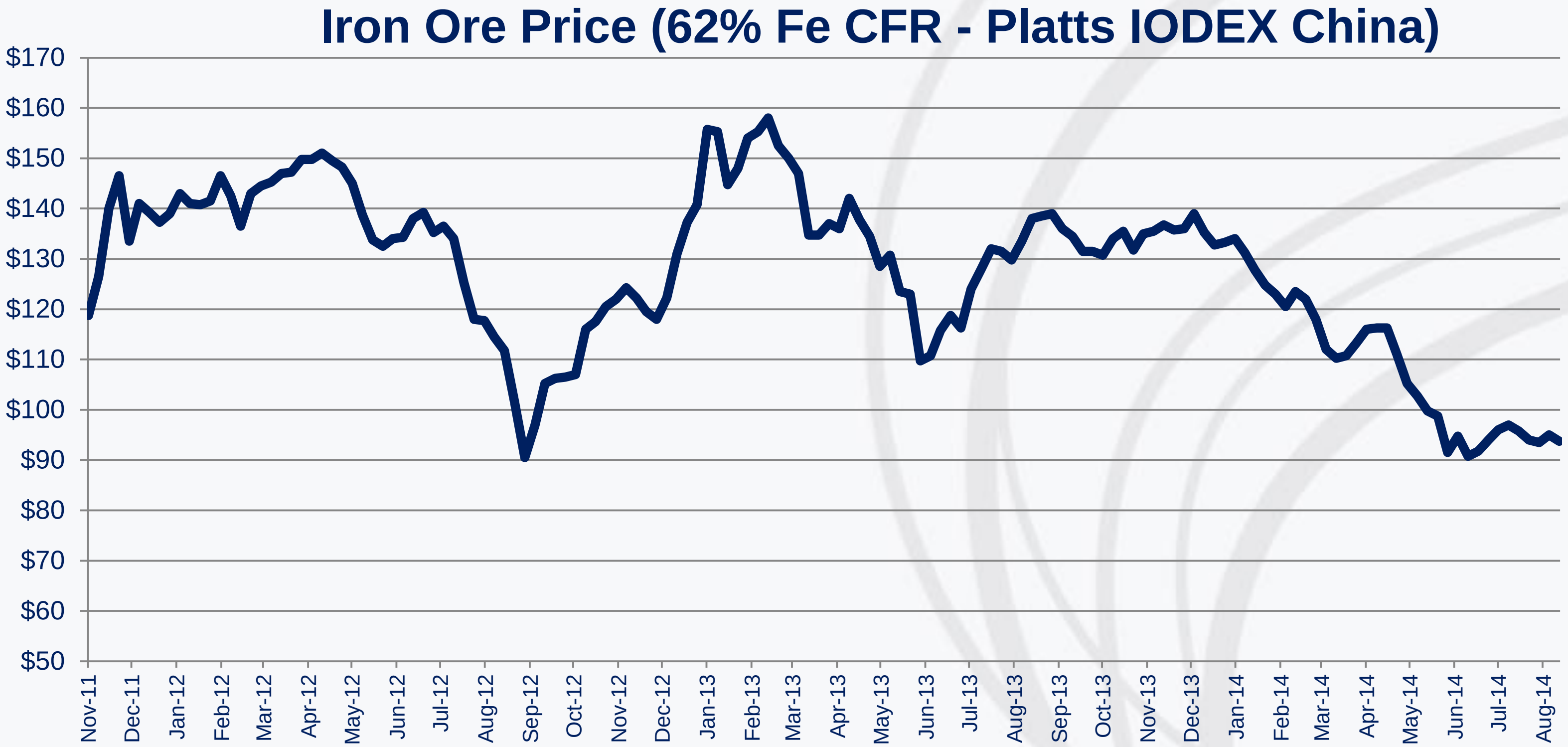
China's growth cities

200m people to urbanise by 2020

- **GDP doubled** in 6 years
- China has just reached **steel consumption** levels of a developed country
- **Record** daily **steel production** 2.3mt
- Iron ore imports **+20%** YTD

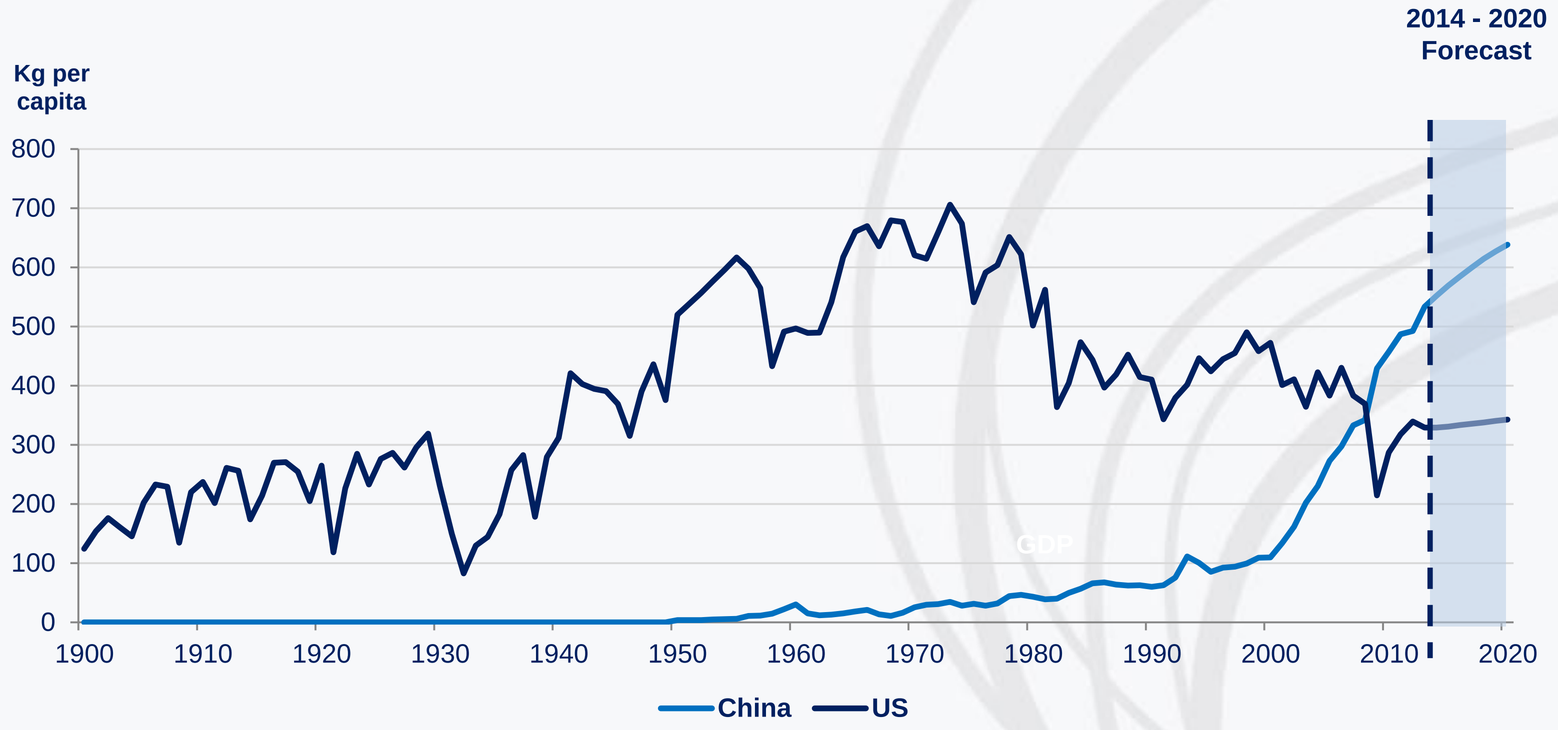
Iron ore price volatility

Realisations at 85–90% as supply re-balances and products transition



Steel consumption per capita

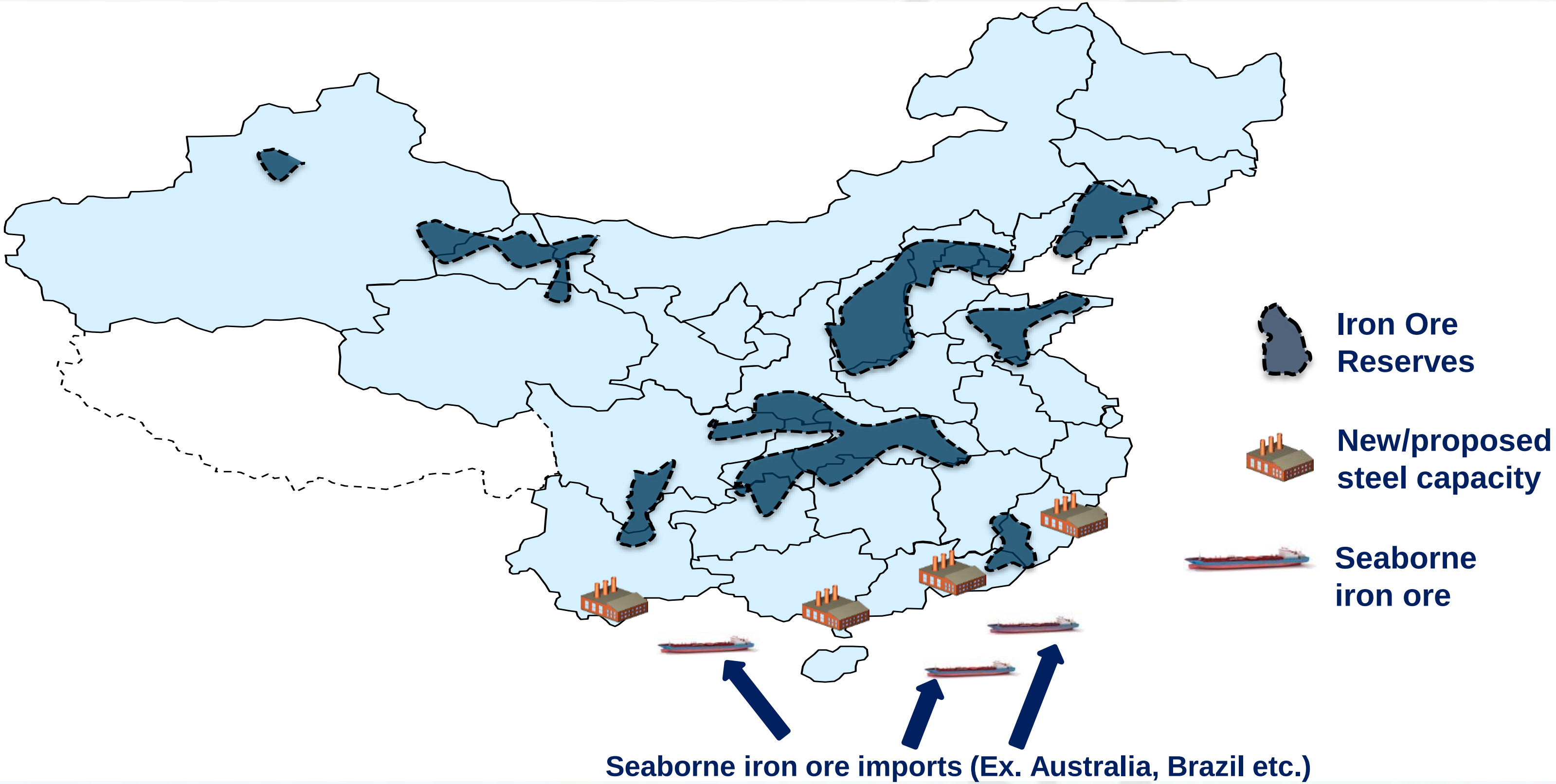
China has only just reached levels of consumption of a developed country



Source: Macquarie Research

Demand for seaborne supply

New coastal steel capacity moving away from domestic iron ore

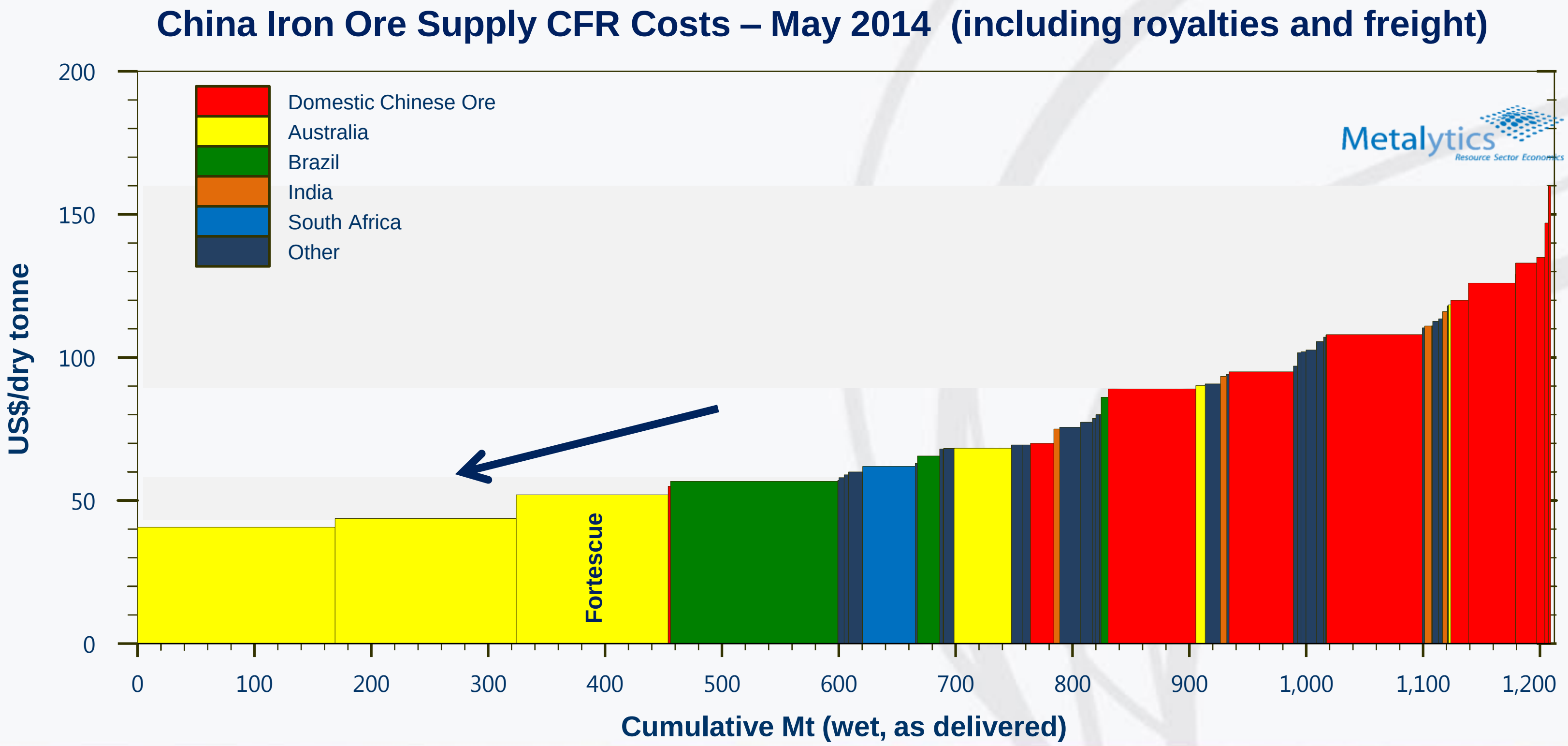


Source: ANZ Research

Clear strategy

Moving down the global cost curve

Targeting bottom quartile

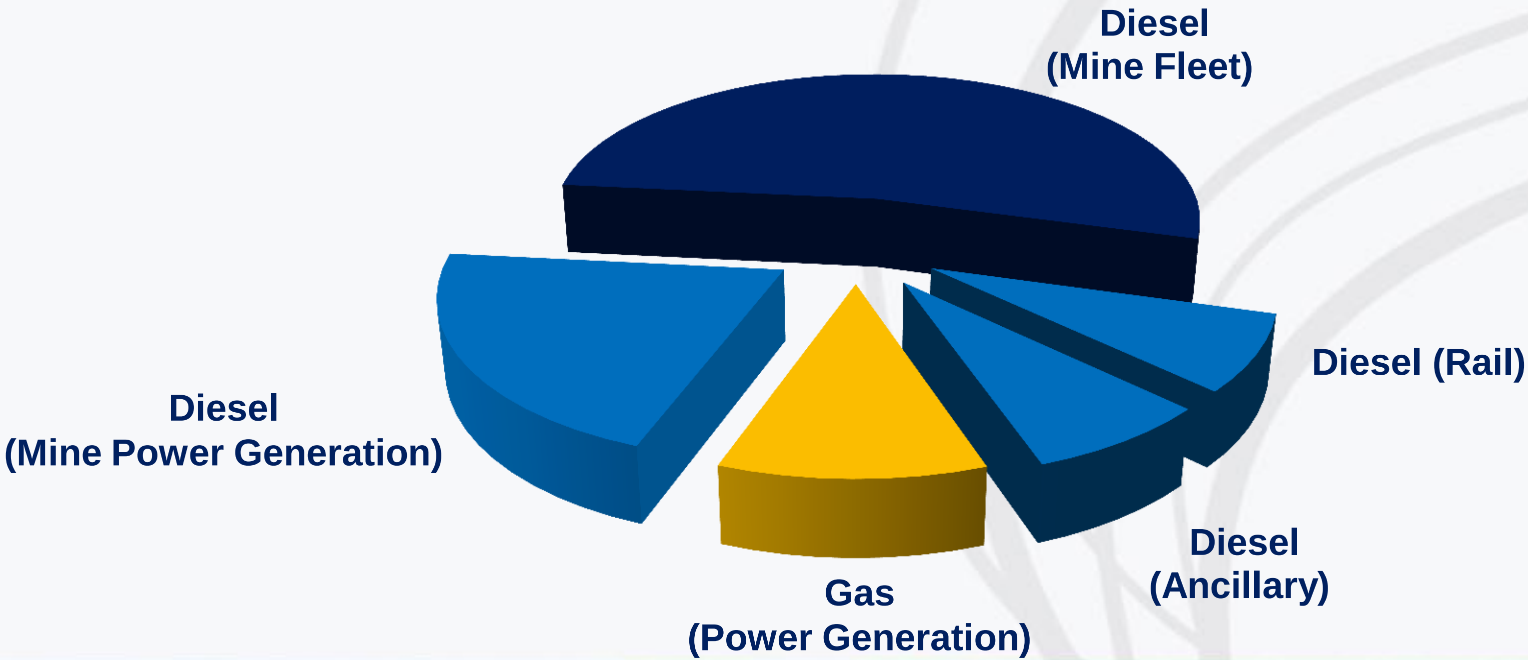


Source: Metalytics

Significant reliance on diesel fuel

Driven by remote power and mobile fleet consumption

Total energy spend >US$800 million



Fortescue River gas pipeline

Stage 1 – to Solomon Hub

Competitive energy powering the future

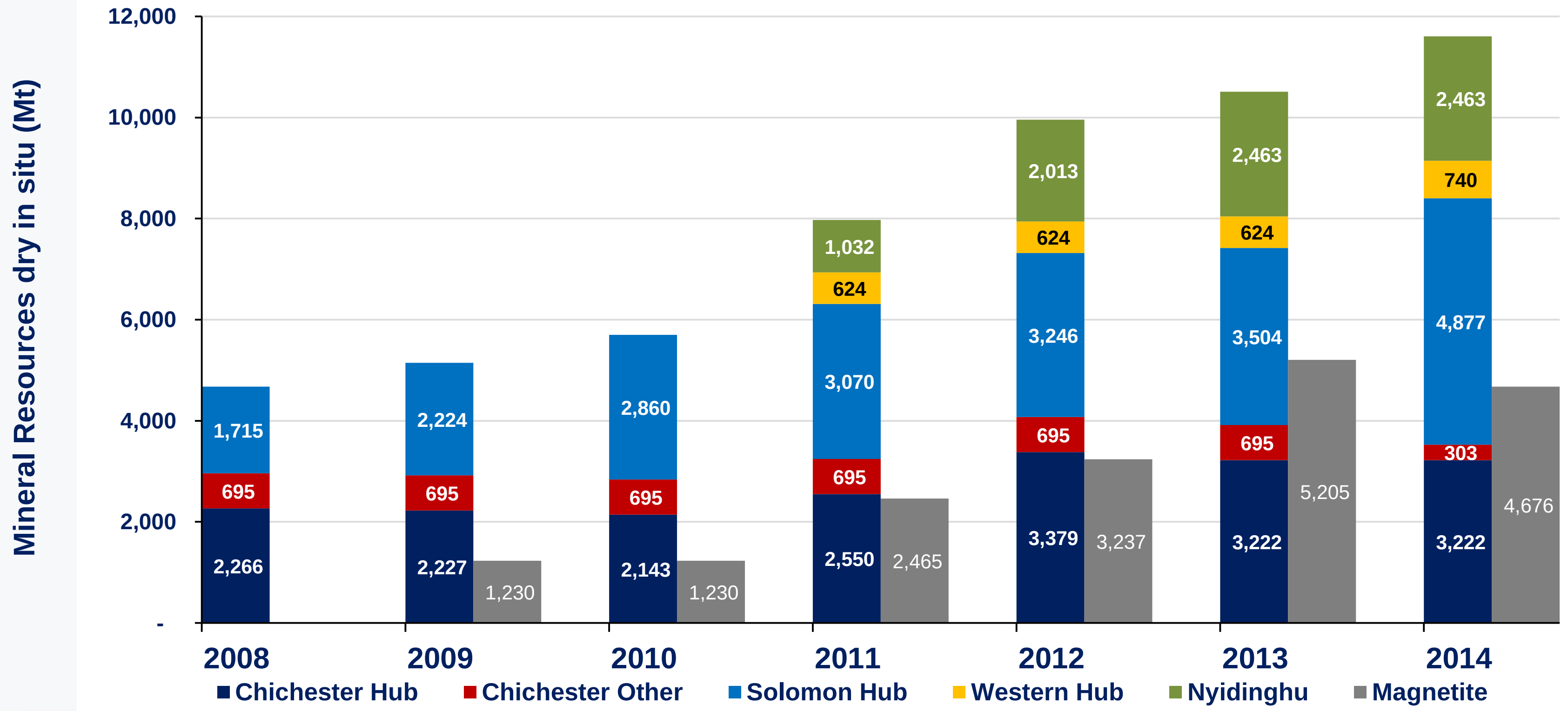
Unlocking Australia’s energy advantage

- Transparent Retention Leases enforce “**Use it or lose it**” policy
- **Competitively priced** energy for our economy
- **Reducing** carbon **emissions**
- Gross State Product **+$2.5 billion** in 2020

Reserves and resources

Resource portfolio supports asset base

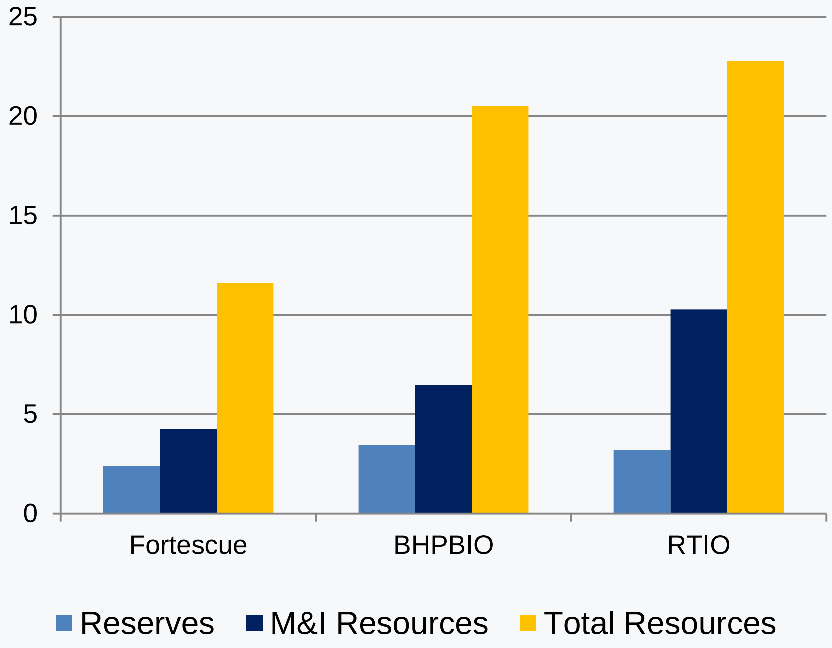
Drilling as required and extend through near mine exploration



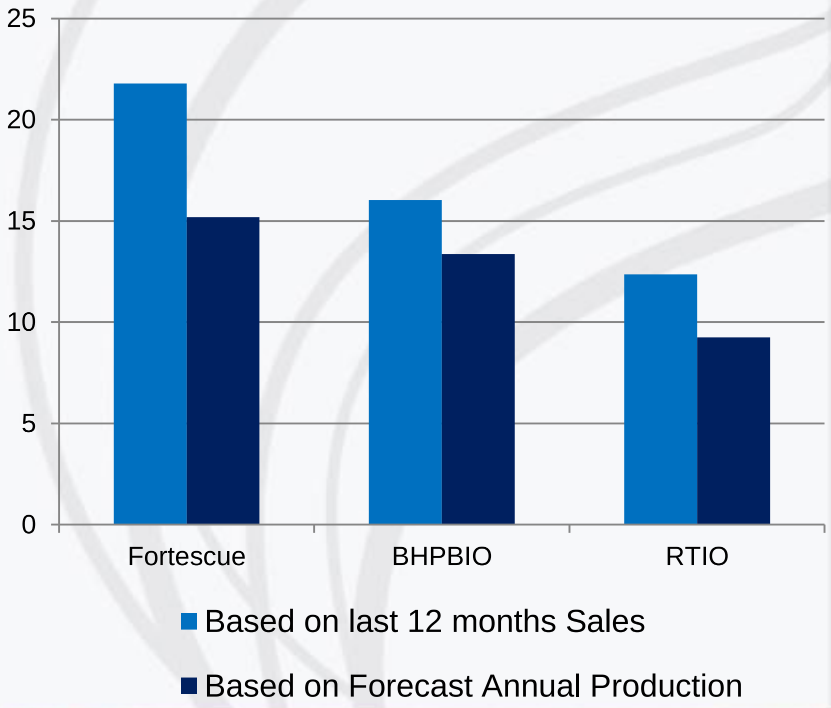
Mine lives based on current reserves

Fortescue mine lives compare favourably

Reserve and Resource Tonnages (dry)



Ore Reserve Life (Years)



Based on latest company announcements

Hematite reserves

Reserve base supports extended operations

	Million Tonnes*	Fe %
Cloudbreak	500	*57.6*
Christmas Creek	970	*57.3*
Chichester Total	**1,470**	***57.4***
Firetail	174	*58.7*
Kings Valley	729	*56.9*
Solomon Total	**903**	***57.2***
Fortescue Total	**2,373**	***57.3***

* Product tonnes on a dry tonne basis

- Focused **exploration** programs
- Significant **reserve** lives
- Chichester **single** ore body, **transferable** between CB + CC
- Significant **BID prospectivity** at:
  - Mt MacLeod (Solomon)
  - Fredricks (Solomon)
  - Kutayi (Chichesters)

Supporting our local community

VTEC

Creating opportunities through training and employment

1,100	**Aboriginal employees**
12%	**Aboriginal people in Fortescue workforce**
$1.5bn+	**Contracts to Aboriginal companies and JV's**
VTEC Training Centres	**Roebourne, South Hedland**

Building our economy

Unlocking the potential of WA's North West

15,000
employed

AU$800m*
wages p.a.

AU$2.1bn
taxes and royalties p.a.

AU$490m
localised spend FY14

** applies to full time employee wages only*

Delivering on targets

Focused on shareholder value

- **155mt** production rate **achieved**

- Committed to debt reduction – initial **gearing target 40%**

- Moving towards **dividend payout ratio** of **30% - 40%** once the gearing target is achieved

- Early work to secure strategic options with **high value opportunities**

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Glossary

Definition of non-IFRS terms

NPAT = net profit after income tax

EBITDA = profit before income tax adjusted for depreciation and amortisation, asset write offs, exploration, development and other write-offs, net finance costs and gain or loss on refinancing

Debt = Current and non-current borrowings and financial liabilities

Net debt = debt + cash and cash equivalents

Gearing = debt / (debt + equity)

C1 = costs of mining, processing, rail and port per wet metric tonne

Total delivered costs = C1 + shipping, royalties and administration costs

Free cash flow = operating cash flow – capital expenditure

Return on equity = profit for the year after income tax divided by total equity

Interest coverage = EBITDA / interest expense

Reconciliation of EBITDA to IFRS items

	2014 US$m	2013 US$m
Profit before income tax	3,913	2,466
Finance income	(21)	(33)
Finance expenses	741	586
Gain on refinancing	-	(23)
Depreciation and amortisation	965	463
Impairment	22	71
Exploration, development and other	16	45
EBITDA	**5,636**	**3,575**

Earnings per share (EPS) = profit for the year after income tax divided by undiluted weighted average ordinary shares.

Non IFRS information disclosed in this presentation has not been subject to audit.

dmt = dry metric tonne

wmt = wet metric tonne

mtpa = million tonnes per annum