24 April 2018

March 2018 Quarterly Production Report

Fortescue Metals Group Limited (ASX: FMG, Fortescue)

Fortescue has released its March 2018 quarterly production results, reporting iron ore shipments of 38.7 million tonnes (mt) and cash production costs (C1) of US$13.14 per wet metric tonne (wmt). Year to date C1 costs are US$12.43/wmt, equivalent to a C1 cost of US$11.90/wmt after normalising for an assumed exchange rate of US$0.75 and fuel costs of US$53 per barrel (WTI).

Fortescue refinanced its 9.75% Senior Secured Notes during the quarter transitioning the balance sheet to an investment grade structure and reducing annual borrowing costs by US$130 million. Cash on hand at 31 March 2018 was US$2.6 billion inclusive of amounts committed to the repayment of debt and the interim dividend in April 2018. The adjusted cash balance at 31 March 2018 is US$0.6 billion. Net debt at 31 March 2018 reduced to US$3.1 billion from US$3.3 billion at 31 December 2017.

Fortescue Chief Executive Officer, Elizabeth Gaines, said "Our team has continued to deliver by maintaining their focus on safety, production and cost. Our strategic goals of investing in the core long term sustainability of the business while pursuing low cost growth options are firmly in our sights as we continue to generate strong margins, leveraging Fortescue's position at the lowest end of the global cost curve."

"During the quarter, we commissioned the first of our autonomous haulage fleet (AHS) at our Christmas Creek operations. Together with the relocatable conveyor at Cloudbreak, the ongoing rollout of AHS at the Chichester Hub is set to contribute to further productivity and efficiency improvements across the business."

HIGHLIGHTS – MARCH 2018 QUARTER

- TRIFR of 3.1
- US$13.14/wmt C1 cost
- 38.7mt shipped
- US$130 million reduction in annual borrowing costs
- Net debt of US$3.1 billion at 31 March 2018

PRODUCTION SUMMARY

(million tonnes)	Q3 FY18	Q2 FY18	VAR%	Q3 FY17	VAR%
Ore mined	**41.6**	47.5	*-12%*	44.7	*-7%*
Overburden removed	**60.4**	69.3	*-13%*	44.4	*36%*
Ore processed	**39.1**	40.8	*-4%*	40.4	*-3%*
Total ore shipped	**38.7**	40.5	*-4%*	39.6	*-2%*
C1 (US$/wmt)	**13.14**	12.08	*9%*	13.06	*1%*

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

MINING, PROCESSING AND SHIPPING

- **Safety performance** was in line with the previous quarter with a Total Recordable Injury Frequency Rate (TRIFR) of 3.1 on a rolling 12-month basis. The health and safety of employees and contractors remains Fortescue's key priority.

- **Mining, processing, rail and shipping** performance was broadly in line with expectations and lower than the previous quarter due to cyclone activity impacting port operations together with planned extended maintenance, equipment downtime and wet weather at the mines. FY18 shipments remain on target to achieve around 170mt.

- **C1 costs increased to US$13.14/wmt,** 9 per cent higher than the prior quarter reflecting production volumes, maintenance, a higher Australian dollar and fuel prices, partially offset by Fortescue's productivity and efficiency initiatives.

  The full year C1 cost, based on the original assumptions for exchange rate (US$0.75) and fuel price (US$53/bbl WTI), is forecast to be below US$12.00/wmt. After taking into account actual exchange rates and fuel price and the outlook for the remainder of FY18, full year C1 costs are now expected to be in the range of US$12.00 to $12.50/wmt.

  The conversion to AHS and the relocatable conveyor at the Chichester Hub are progressing well with seven trucks converted at Christmas Creek. Benefits from these conversions are expected to commence during the fourth quarter.

- **The average strip ratio was 1.5 for the quarter** with the Chichester Hub at 1.9 and Solomon Hub at 0.9. Strip ratios in FY18 are expected to average 1.4.

MARKETING

- **The rebound in steel demand post Chinese New Year** was slower than expected with ongoing localised sinter plant restrictions and recent lower blast furnace operating rates contributing to the market conditions.

  A seasonal lift for the remainder of this quarter is expected to be supportive of steel markets and is key to the ongoing strength in iron ore demand. Profit margins for China's steel mills have declined from the peaks reached in the December 2017 quarter and there are now signs that steel mills are refocussing on costs resulting in increased demand for Fortescue's high value-in-use lower iron content ores.

- **The average realised price for contracts** entered into during the March quarter was 62 per cent of the Platts 62 CFR Index at the time of contracting. The average benchmark Platts 62 CFR index price was US$74 per dry metric tonne (dmt) during the quarter with a closing price of US$63/dmt at 31 March.

- **Year to date revenue realisation at 31 March was 64 per cent** of the average benchmark Platts 62 CFR index after taking into account adjustments associated with provisional pricing. Fortescue's average received year to date price was US$45/dmt to 31 March.

- **FY18 full year price realisation guidance** is approximately 65 per cent of the Platts 62 CFR index based on actual prices received and the outlook for the remainder of FY18.

- **Non China markets** accounted for 11 per cent of total shipments during the March 2018 quarter.

DIVERSITY

- **Fortescue's Billion Opportunities Program** has awarded 250 contracts and subcontracts to 110 Aboriginal businesses and joint ventures totalling A$2 billion. This quarter, several new Traditional Owner businesses have commenced work at the Eliwana mining project in areas of exploration, earthworks and geotechnical civil support ahead of the final investment decision.

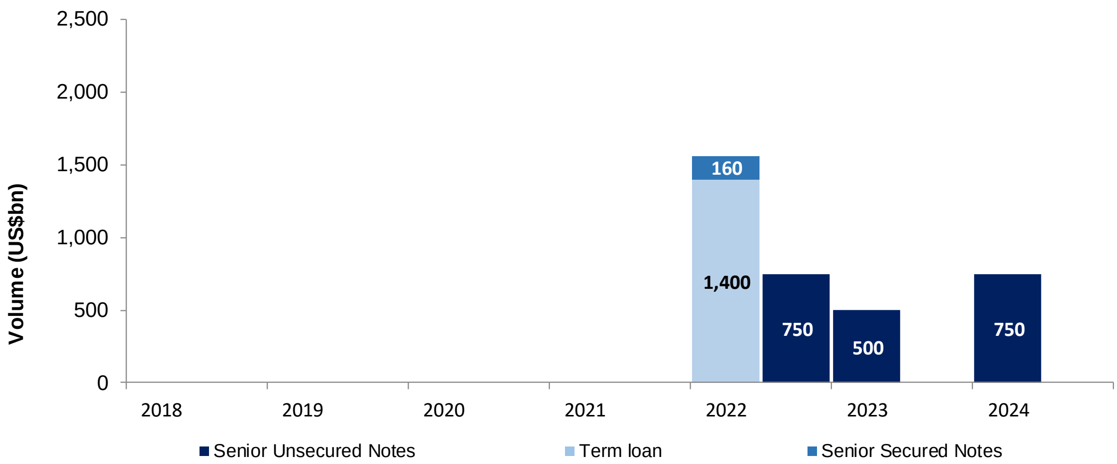
- **Fortescue's Aboriginal employment** was 15 per cent of the workforce at 31 March 2018. Since commencing the Vocational Training and Employment Centre (VTEC) program initiative, 797 Aboriginal people commenced employment with Fortescue and a further 849 Aboriginal people have received driver education and health and literacy support services from VTEC.

- **Fortescue's female participation rate** increased to 17.5 per cent of the workforce at 31 March 2018.

BALANCE SHEET

- **Cash on hand was US$2.6 billion** at 31 March 2018 inclusive of funds reserved for payment of the interim dividend (US$260 million) and the repayment of the Senior Secured Notes and associated costs (US$1.7 billion) in April 2018. Fortescue's US$525 million Revolving Credit Facility remains undrawn.

- **A US$1.4 billion Term Loan and US$0.5 billion Unsecured Note were established** during the quarter transitioning the balance sheet to an investment grade structure. Proceeds from these facilities together with US$100 million of cash have been allocated to repay US$2.0 billion of the high cost 9.75% Senior Secured Notes leaving a balance of US$160 million which will be repaid from future cash-flows. The pro-forma debt maturity profile following the repayment on 27 April 2018 is set out below:



Once complete, the combination of refinancing and repayment will lower annual borrowing costs by approximately US$130 million. Redemption of the Senior Secured Notes will attract a one off early repayment premium equal to 9.75 per cent of the principal value redeemed.

- **US$450 million of debt was repaid** during the quarter. Gross debt at 31 March was US$5.6 billion and after adjusting for committed debt repayments in April will reduce to US$4.1 billion. Net debt at 31 March 2018 reduced to US$3.1 billion (US$3.3 billion at 31 December 2017).

- **Total capital expenditure** for the quarter was US$228 million inclusive of sustaining capital, ship construction, exploration and development expenditure.

- **Iron ore prepayments** remained unchanged at US$794 million at 31 March 2018. Amortisation of prepayments is expected to be US$270 million in FY19 with the balance in FY20.

CORPORATE

- **Feasibility studies and approval processes on the Eliwana mining project continue**. This project remains key to the development of a 60% iron grade product with a final investment decision and detail on timing and capital cost expected by the end of FY18.
- **Feasibility studies for the Iron Bridge Magnetite Project** continue to be assessed with a decision, in conjunction with Fortescue's Joint Venture partners, expected during calendar year 2018.
- **Construction of Fortescue's ore carriers remain on schedule** with the remaining two ore carriers scheduled for delivery in FY18.

EXPLORATION AND DEVELOPMENT

- **Exploration spend was primarily focussed on iron ore and lithium in the Pilbara** with expenditure of US$13 million during the quarter. This brings the total FY18 expenditure to-date to US$42 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, Columbia and Argentina.
- **32 exploration concessions have been awarded in Ecuador** and initial evaluation of potential for porphyry copper deposits has commenced. A further 64 applications have been lodged in Colombia for exploration concessions in areas which are copper and gold prospective.

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REPORTING CALENDAR

June Quarter Production Report	26 July 2018
Full Year Results Announcement	20 August 2018
September Quarter Production Report	25 October 2018
Annual General Meeting	14 November 2018