20 August 2018

Fortescue
The New Force in Iron Ore

Full Year Results to 30 June 2018

Fortescue Metals Group Limited (ASX: FMG, Fortescue)

Fortescue has released its 2018 full year results reporting underlying net profit after tax of US$1.1 billion and underlying EBITDA of US$3.2 billion.

HIGHLIGHTS

- Safety TRIFR of 3.7
- Underlying net profit after tax of US$1.1 billion, adjusting for the impact of one-off refinancing and early debt repayment costs, reported net profit after tax was US$878 million
- Underlying EBITDA of US$3.2 billion
- 170 million tonnes (mt) of ore shipped
- US$12.36 per wet metric tonne (wmt) C1 cost, a four per cent improvement compared to FY17
- Net debt of US$3.1 billion, inclusive of US$863 million cash on hand at 30 June
- US$0.5 billion reduction in debt and restructure of terms to investment grade
- A$0.12 per share fully franked final dividend
- Total FY18 dividends of A$0.23 per share representing a dividend payout ratio of 62 per cent of net profit after tax

The FY18 results reflect the Company's cost leadership position and continued focus on productivity and efficiency initiatives, delivering operational improvements, consistent earnings per tonne, strong cash flow generation and returns to shareholders.

Fortescue Chief Executive Officer, Elizabeth Gaines said, "The Fortescue team has achieved an outstanding finish to FY18 with a record June quarter delivering total shipments of 170mt for the year. Importantly, our ongoing productivity and efficiency improvements have generated a record low annual C1 cost of US$12.36/wmt. We remain focused on maintaining our cost leadership position by capitalising on technology and innovation initiatives to offset inflation and optimise operating margins.

"During FY18, we completed the restructure of Fortescue's balance sheet reducing debt, improving terms to investment grade conditions and significantly lowering the overall cost of borrowings. FY18 saw Fortescue's capital allocation weighted more heavily towards shareholder returns resulting in a payout ratio of 62 per cent of full year net profit after tax, ensuring that our shareholders benefit from our success following the rapid de-gearing of the balance sheet.

"The development of Eliwana was approved by the Board, underpinning the delivery of a 60% iron content product which provides flexibility to capitalise on market dynamics while maintaining our low cost position. This new product will be called West Pilbara Fines and will be launched in the second half of FY19 from existing operations.

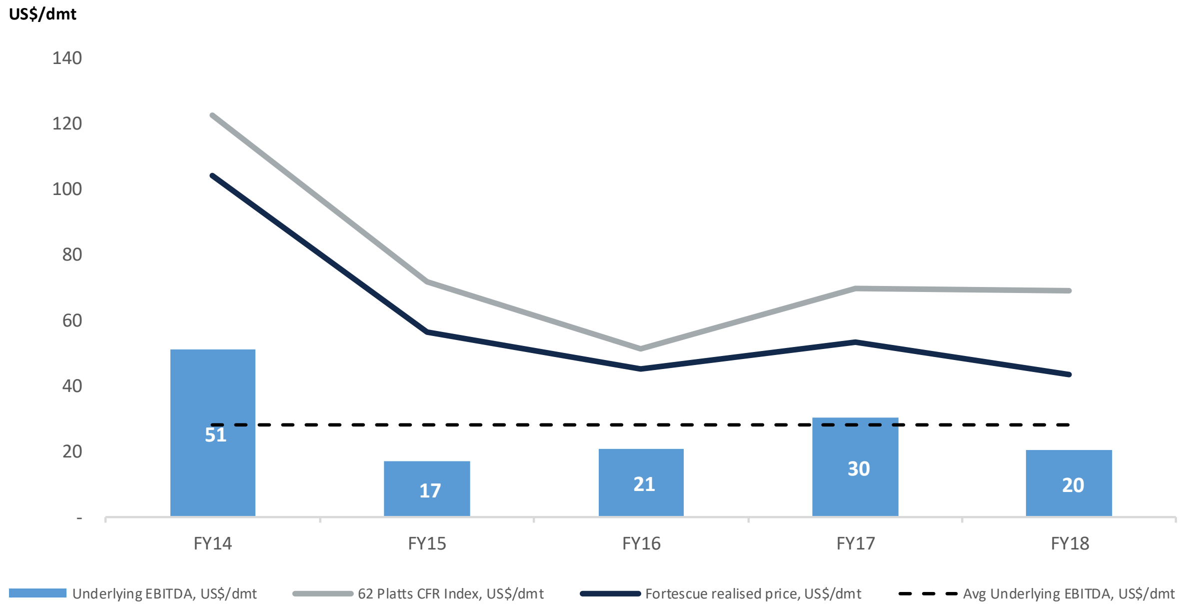
"The Board's declaration of a final fully franked dividend of A$0.12 per share brings total dividends for FY18 to A$0.23 per share representing a 62 per cent pay-out of full year net profit after tax. The outlook for our existing operations, together with our flexible balance sheet positions Fortescue strongly for the next phase of growth and delivery of continued returns to our shareholders."

FINANCIAL PERFORMANCE

	30 June 18	30 June 17	*Var %*
Revenue (US$ millions)	6,887	8,447	*-18%*
Underlying EBITDA (US$ millions)	3,182	4,744	*-33%*
Underlying net profit after income tax (US$ millions)	1,080	2,134	*-49%*
Net profit after income tax (US$ millions)	**878**	**2,093**	***-58%***
Cash generated from operations (US$ millions)	3,031	5,024	*-40%*
Basic earnings per share (US cents)	28.2	67.3	*-58%*

- **Revenue** decreased by 18 per cent compared to FY17 as the average iron ore price received reduced to US$44/dmt (FY17: US$53/wmt). The reduction in average price received is primarily attributable to high steel mill profitability in China which incentivises use of higher iron content ores to maximise production and has resulted in revenue realisation of 64 per cent of the average Platts 62 CFR Index price in FY18 compared to 77 per cent in FY17.

- **Underlying EBITDA** of US$3.2 billion was lower than FY17 due to the decrease in revenue. C1 costs were four per cent lower than FY17 which combined with lower royalty payments, offset an increase in shipping costs. A summary of Fortescue's underlying EBITDA compared to the average received price and benchmark 62 Platts CFR Index price is set out in the chart below:



- **C1 operating costs** lowered to average US$12.36/wmt in FY18, a four per cent reduction compared to FY17. Fortescue achieved a C1 cost of US$12.17/wmt in the June 2018 quarter as productivity and efficiency initiatives continued to offset the impact of higher strip ratios, exchange rates and fuel prices.

- **Total delivered cost** to customers, inclusive of C1, shipping, royalty and administration costs, was US$24/dmt, as lower C1 costs and royalty payments were offset by a 24 per cent increase in average shipping cost.

- **Underlying net profit after tax was US$1.1 billion.** Taking into account one-off costs associated with early debt repayment, reported net profit after tax was US$878 million.

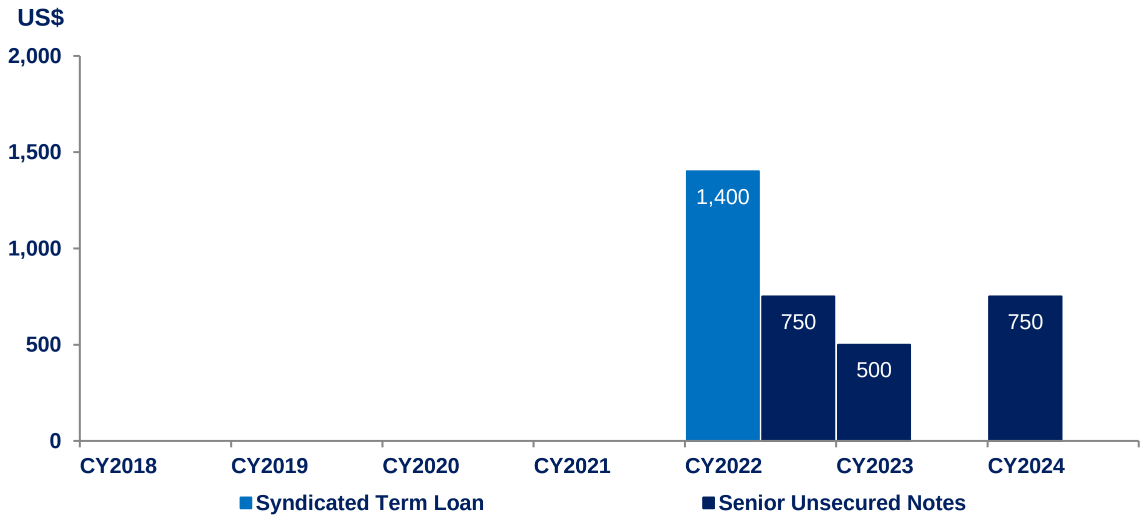
CASH FLOW AND BALANCE SHEET

- **Cash on hand** at 30 June 2018 was US$863 million. The US$525 million revolving credit facility remained undrawn at 30 June 2018 providing up to US$1.4 billion of liquidity.

- **Cash from operations** was US$3.0 billion reflecting the continued strong cash margins generated from Fortescue's highly efficient operations.

- **Capital expenditure** totalled US$890 million (FY17: US$716 million) inclusive of US$507 million of sustaining capital, US$201 million for ore carrier and towage construction, US$67 million of exploration and US$115 million of development expenditure.

- **Gross debt decreased to** US$4.0 billion (FY17: US$4.5 billion), inclusive of finance lease liabilities of US$595 million. During FY18 Fortescue restructured its debt portfolio on investment grade terms and lowered annual interest costs by US$130 million following the repurchase of the Solomon Power Station and the repayment and refinancing of the 9.75% Senior Secured Notes. Fortescue's debt maturity profile at 30 June 2018 is set out in the chart below:



- **Iron ore prepayments were US$795 million** at 30 June 2018 with scheduled amortisation of US$270 million in FY19 and the balance in FY20, subject to future additions and rollovers.

DIVIDEND

- The Board has declared a final fully franked dividend of A$0.12 per share bringing total fully franked dividends for FY18 to A$0.23 per share which represents a 62 per cent pay-out of full year net profit after tax.

FY19 GUIDANCE

- **165-173mt in shipments**

- **US$12-13.00/wmt C1 cost**

- **A 60% iron content product, named West Pilbara Fines,** will be produced in the second half of FY19 in advance of the development of the Eliwana mine and rail project. The introduction of West Pilbara Fines in FY19 from existing operations will enhance operating margins and provide customers with this product prior to full scale production on completion of the Eliwana project.

  West Pilbara Fines will initially be produced by blending ore from the Firetail mine with higher iron content ore from newly developed areas to the west of the Cloudbreak mine at the Port. Development of Eliwana will maintain Fortescue's low cost position and underpins the long term production of West Pilbara Fines while providing Fortescue with greater flexibility to capitalise on market dynamics and maintain mine lives.

  Fortescue's Reserve and Resources report, released on 17 August 2018, includes a maiden reserve for Eliwana of 213mt at an average 60.1 per cent iron grade.

- **Average strip ratio 1.5**

- **Total capital expenditure of US$1.2 billion** allocated to:
    - Sustaining capital US$580 million
    - Eliwana US$340 million
    - Exploration US$100 million
    - Development expenditure US$100 million
    - Ore carriers and towage US$80 million

- **Depreciation and amortisation** of US$7.10/wmt

- **Dividend pay-out ratio maintained at 50 to 80 per cent** of net profit after tax of full year earnings. The actual dividend pay-out ratio will be determined each reporting period based on financial performance while maintaining Fortescue's commitment and priority to disciplined capital management, growth and shareholder returns.

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GLOSSARY

C1 - Operating costs of mining, processing, rail and port on a per tonne basis, including allocation of direct administration charges and production overheads.

CFR - Cost and freight rate

Dmt - Dry metric tonnes

Free cash flow - Net cash inflow from operations less capital expenditure

FY - Full year

Gross gearing ratio - (Gross debt) / (Gross debt + Equity)

HY - Half year

mtpa - Million tonnes per annum

Net debt - Total borrowings and finance lease liabilities less cash and cash equivalents

Net gearing ratio - (Net debt) / (Net debt + Equity)

NPAT - Net profit after tax

Underlying EBITDA - Earnings before interest, tax, depreciation and amortisation, exploration, development and other expenses.

Underlying NPAT – Net profit after tax adjusted for the after tax impact of one-off refinancing and early debt repayment costs.

The reconciliation of underlying EBITDA and underlying NPAT to the financial metrics disclosed in the financial statements prepared under the Australian Accounting Standards (AAS) is presented below:

	30-Jun-18 US$m	30-Jun-17 US$m
Operating sales revenue	6,887	8,447
Cost of sales excluding depreciation and amortisation	(3,665)	(3,661)
Net foreign exchange gain	29	13
Administration expenses	(70)	(56)
Other income	1	1
Underlying EBITDA	3,182	4,744
Finance income	24	19
Finance expenses	(652)	(502)
Depreciation and amortisation	(1,277)	(1,243)
Exploration, development and other	(32)	(51)
Net profit before tax	1,245	2,967
Income tax expense	(367)	(874)
Net profit after tax	878	2,093
Cost of early debt repayment after tax	202	41
Underlying net profit after tax	1,080	2,134

wmt - Wet metric tonnes