Half Year Results to 31 December 2018

FMG Fortescue
The New Force in Iron Ore

20 February 2019

Integrated operations and marketing strategy delivering increased earnings, enhanced shareholder returns

Fortescue has released its half year FY19 (1H19) results reporting net profit after tax of US$644 million and underlying EBITDA of US$1.6 billion.

HIGHLIGHTS

- Safety TRIFR of 4.0
- Net profit after tax of US$644 million
- Underlying EBITDA of US$1.6 billion
- 82.7 million wmt of ore shipped
- C1 cost of US$13.11/wmt
- Net debt of US$3.0 billion, inclusive of US$962 million cash on hand at 31 December 2018
- Total fully franked dividends of A$0.30 per share (1H18: A$0.11 per share) comprising:
  - Interim dividend of A$0.19 per share representing a 65 per cent pay-out ratio of half year net profit after tax
  - Special dividend of A$0.11 per share
- A$139.2 million (US$101 million) of Fortescue shares were acquired since the launch of the buy-back program at an average price of A$3.997 per share
- Shipments of West Pilbara Fines commenced in December 2018
- The Eliwana mine and rail development project is progressing on schedule and budget
- Commitment to diversity maintained with Aboriginal employees comprising 13 per cent of Australian workforce and female participation increasing to 18 per cent

The half year results demonstrate Fortescue's continued ability to generate strong cashflows from its highly efficient Pilbara operations, resulting in enhanced shareholder returns through increased dividends and the successful execution of the share buy-back program.

Fortescue Chief Executive Officer, Elizabeth Gaines, said "the Fortescue team have successfully delivered on our integrated operations and marketing strategy, resulting in an average realised price of US$47/dmt for the half year. This reflects strengthening iron ore markets, demand for our products and the introduction of West Pilbara Fines. Together with the ongoing contribution of our low cost operations, we generated strong margins and achieved a 66 per cent increase in underlying net profit after tax compared to the half year ended 30 June 2018 (2H18)."

"The Board have declared a fully franked interim dividend of A$0.19 per share, which is a 65 per cent pay-out ratio of 1H19 net profit after tax (1H18: 40 per cent) and a fully franked special dividend of A$0.11 per share. When combined, dividend payments for 1H19 total A$0.30 per share which is 30 per cent higher than the total dividends paid for the whole of FY18, reflecting confidence in the outlook."

"Maintaining our disciplined approach to capital management together with our flexible balance sheet positions Fortescue strongly for the next phase of growth and delivery of returns to our shareholders."

HALF YEAR OPERATIONAL AND FINANCIAL PERFORMANCE

The half year results reflect the impact of improved price realisations, consistent operational performance and ongoing productivity and efficiency initiatives to deliver strong financial results.

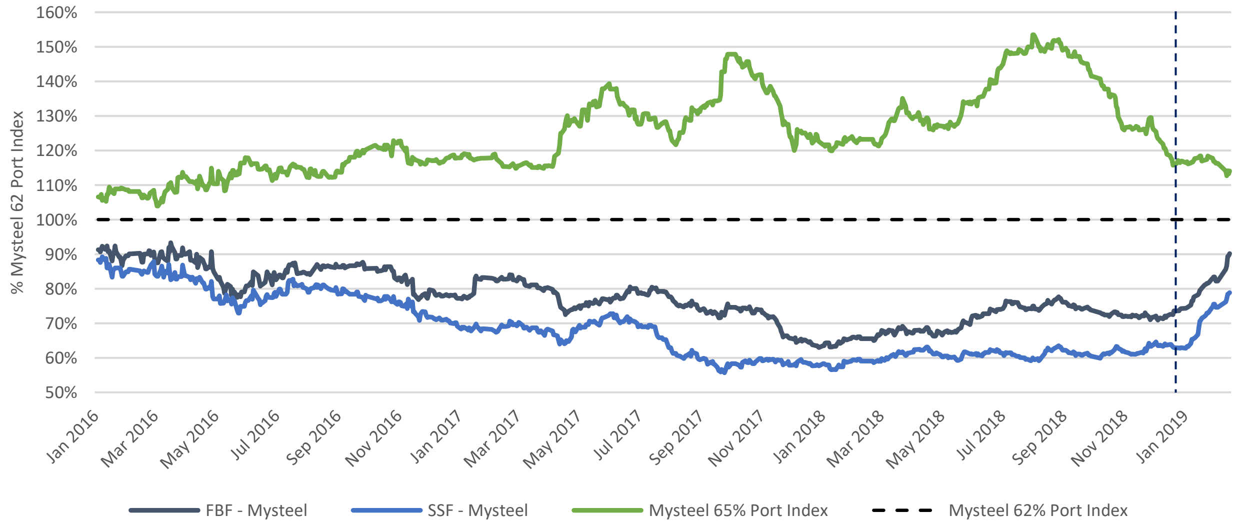
The table below compares key operational and financial metrics for 1H19 to the previous half (six months to 30 June 2018: 2H18) and to the prior comparable period (six months to 31 December 2017: 1H18).

	1H19	2H18	*Var % (1H19 v 2H18)*	1H18	*Var % (1H19 v 1H18)*
Mined ore tonnes (wmt)	101.1	91.4	*11%*	93.1	*9%*
Processed tonnes (wmt)	85.3	83.1	*3%*	82.5	*3%*
Shipped tonnes (wmt)	82.7	85.2	*-3%*	84.5	*-2%*
Realised price (US$/dmt)	47	40	*18%*	47	-
C1 costs (US$/wmt)	13.11	12.61	*4%*	12.11	*8%*
Revenue (US$ millions)	3,540	3,208	*10%*	3,679	*-4%*
Underlying EBITDA (US$ millions)	1,633	1,354	*21%*	1,828	*-11%*
Reported net profit after tax (US$ millions)	644	197	*227%*	681	*-5%*
Underlying net profit after tax (US$ millions)	644	387	*66%*	693	*-7%*
Basic earnings per share (US cents)	20.8	6.3	*230%*	21.9	*-5%*
Fully franked dividends (A$/share)	A$0.30	A$0.12	*150%*	A$0.11	*173%*

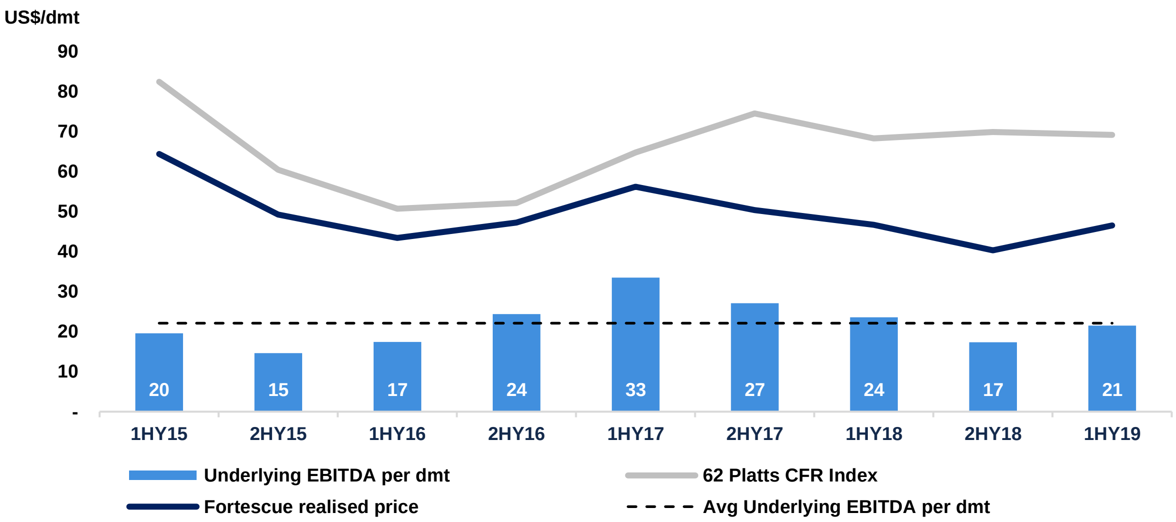
Revenue increased to US$3,540 million in 1H19, 10 per cent higher than the 2H18 period as the average realised iron ore price increased to US$47/dmt compared to US$40/dmt in 2H18.

During the last financial year record steel mill profitability incentivised steel mills to maximise their output by using higher iron content ores. With recent reductions in steel mill margins, together with Fortescue's integrated marketing and operations strategy, the demand for lower iron content ores has increased and the spread in price between high and low iron content ore has narrowed. This has been particularly evident since the end of December 2018 as illustrated in the Mysteel Port price chart below:

Mysteel Port prices:

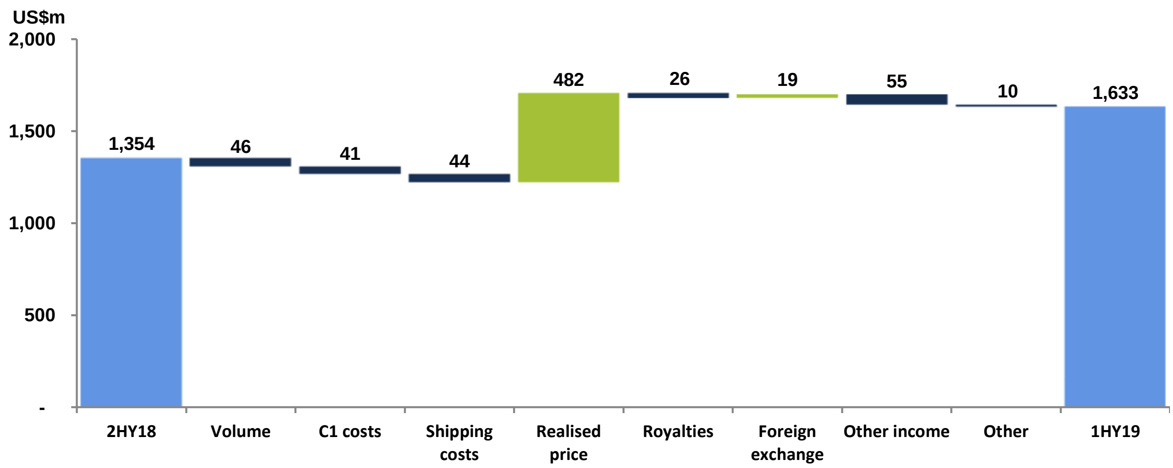


The underlying EBITDA margin was US$21/dmt in 1H19, 24 per cent higher than 2H18. The contribution of improved price realisations in Fortescue's underlying EBITDA per tonne compared to the average received price and benchmark 62 Platts CFR Index price is set out in the chart below:



Underlying EBITDA of US$1.6 billion was 21 per cent higher than 2H18 with the key movements between periods set out in the chart below:

Underlying EBITDA:2H18 v 1H19



C1 operating costs averaged US$13.11/wmt during 1H19, four per cent higher than 2H18. Productivity and efficiency initiatives, including autonomy and the relocatable conveyor, partially offset the impact of increases in costs due to longer haul distances, higher fuel prices and increased salaries and wages.

Interest expense on borrowings and finance lease liabilities was US$109 million, a decrease of 31 per cent compared to 2H18 following the repayment and refinancing of the debt capital structure in FY18.

TAILINGS STORAGE FACILITIES (TSFs)

Fortescue extends its deepest sympathies to the families of those who lost their lives in the tragic tailings dam failure at Vale's operations in Brazil in January 2019 and to everyone at Vale and the local community.

Fortescue has three active and six inactive TSF's none of which have been constructed using the sequential upstream raise method. All TSFs have been designed and are operated in compliance with Fortescue's strict governance regime and all regulatory guidelines.

CASH FLOW AND BALANCE SHEET

Cash on hand at 31 December 2018 was US$962 million.

During the half **the Revolving Credit Facility (RCF)** was increased by US$500 million to US$1,025 million and extended by 12 months to July 2021. The RCF remained undrawn at 31 December 2018 and provides short term liquidity to support growth and development.

Cash from operations was US$1.1 billion with net cash from operating activities of US$948 million reflecting the continued strength of underlying operating cash margins.

Working capital increased by US$488 million during the period primarily as a result of increases in iron ore inventories, trade receivables and provisions.

Capital expenditure totalled US$530 million (1H18: US$413 million) inclusive of US$308 million of sustaining capital, US$64 million for ore carrier and towage construction, US$49 million of exploration and US$109 million of development expenditure.

Gross debt was US$4.0 billion (1H18: US$4.2 billion), inclusive of finance lease liabilities of US$613 million, with no maturities until 2022.

Iron ore prepayments were US$748 million at 31 December 2018. Amortisation for 1H19 was US$49 million and total FY19 amortisation is expected to be US$270 million. The balance of prepayments is expected to amortise in FY20.

Fortescue's A$500 million on-market share buy-back program commenced in October 2018. To date Fortescue has acquired 34.8 million shares for a total of A$139.2 million at an average A$3.997 per share. All shares acquired have been cancelled and the program will remain in place for a period of up to 12 months.

DIVIDEND

The Board has declared a fully franked interim dividend of A$0.19 per share, representing a 65 per cent pay-out ratio of 1H19 net profit after tax and a fully franked special dividend of A$0.11 per share.

Historically the interim dividend pay-out ratio has been approximately 40 per cent. The increased pay-out, together with the special dividend, accelerates the distribution of franking credits to eligible shareholders.

The combined dividends will be paid on 22 March 2019.

DIVERSITY

Fortescue is focussed on practical initiatives to empower Aboriginal people through training for guaranteed jobs, employment and business development opportunities. Aboriginal employees comprise 13 per cent of Fortescue's Australian workforce and the Company has to date awarded over A$2.2 billion in contracts to Aboriginal businesses and joint venture partners.

Fortescue is committed to diversity with female employees now representing 18 per cent of Fortescue's employees, including 24 per cent of senior management positions.

FY19 GUIDANCE

165-173mt in shipments with second half shipments expected to be higher than the first half, inclusive of West Pilbara Fines production of **8-10 million tonnes.**

Higher volumes in the second half will contribute to lower C1 costs with full year costs expected to be towards the upper end of the US$12-$13/wmt range.

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 from operations less capital expenditure

FY - Full year

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

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

TRIFR – Total Recordable Injury Frequency Rate

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

wmt - Wet metric tonnes

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

US$ millions	1H19	2H18	1H18
Operating sales revenue	3,540	3,208	3,679
Cost of sales excluding depreciation	(1,905)	(1,844)	(1,821)
Net foreign exchange gain	39	28	1
Gain on sale of fixed assets	-	1	-
Administration expenses	(41)	(39)	(31)
Underlying EBITDA	**1,633**	**1,354**	**1,828**
Finance income	9	12	12
Finance expenses	(141)	(438)	(214)
Depreciation and amortisation	(581)	(647)	(630)
Exploration, development and other	(4)	(10)	(22)
Net profit before tax	916	271	974
Income tax expense	(272)	(74)	(293)
Net profit after tax	**644**	**197**	**681**
Cost of early debt repayment after tax	-	190	12
Underlying net profit after tax	**644**	**387**	**693**