



**Fortescue**  
The New Force in Iron Ore

# Investor Briefing

27 October 2015



## Disclaimer

### Important Notice

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### Additional Information

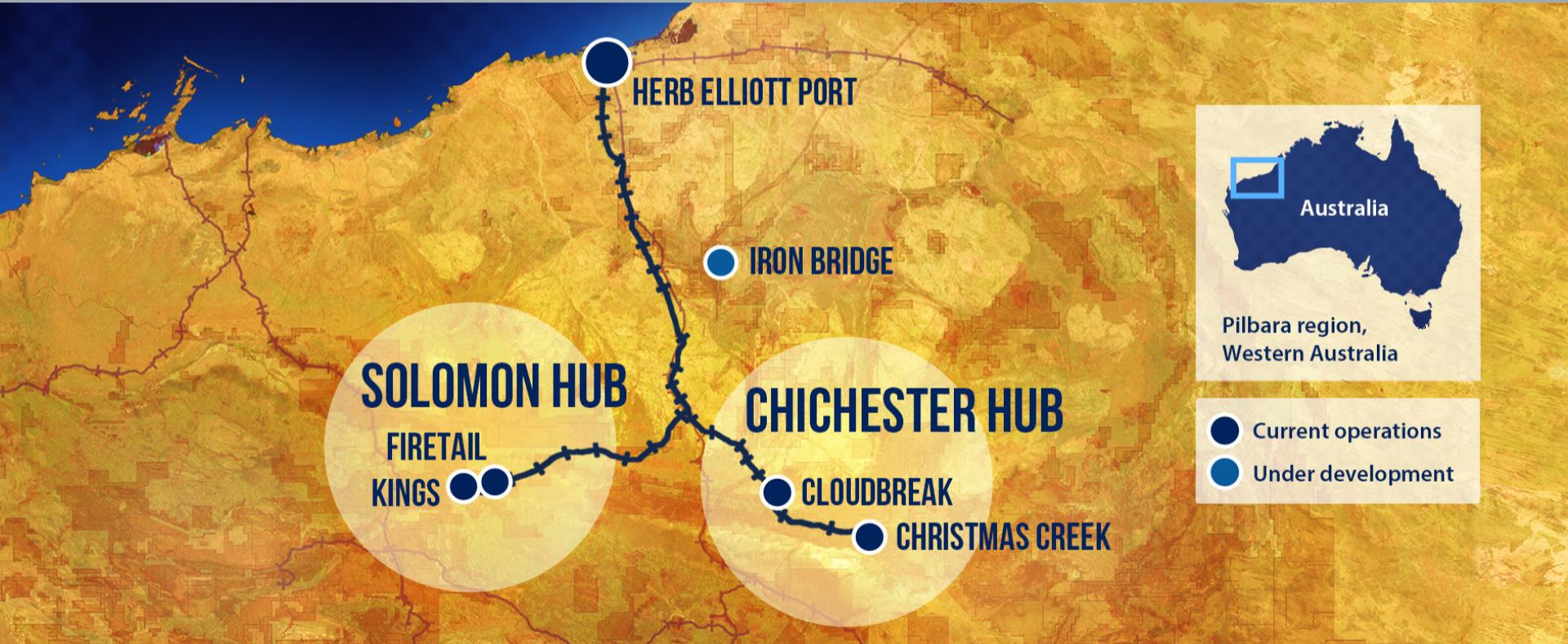
This presentation should be read in conjunction with the Annual Financial Report at 30 June 2015 together with any announcements made by Fortescue in accordance with its continuous disclosure obligations arising under the *Corporations Act 2001*.

Any references to reserve and resources estimations should be read in conjunction with Fortescue's Ore Reserves and Mineral Resources statement for its Hematite and Magnetite projects at 30 June 2015 as released to the Australian Securities Exchange on 21 August 2015. Fortescue confirms in the subsequent public report that it is not aware of any new information or data that materially affects the information included in the relevant market announcement and, in the case of estimates of mineral resources or ore reserves, that all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed.

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.

# Building a world class company

Core supplier to China's growth



# Building a world class company



Core supplier to China's growth

**Founded  
in 2003**

**First ore  
in 2008**



**Low cost  
producer**



Shipped over  
**580mt**

**165mt**  
Production rate



**Unique culture**



# OUR VISION

The safest, lowest cost,  
most profitable iron ore producer

## Our Values



# Safety is at the heart of Fortescue's values

## My brothers' / sisters' keeper

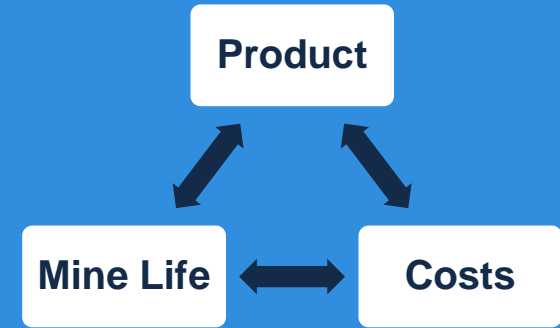
- **Safety Priorities**
  - 1 Look after yourself
  - 2 Look after your mates
- **Engagement** active participation
- **Empowerment** to make decisions
- **Encouragement** to speak up
- **Leadership** strong and visible



# Safety

**Sustainable**  
performance

**Expansions**  
complete



**Established**  
product suite

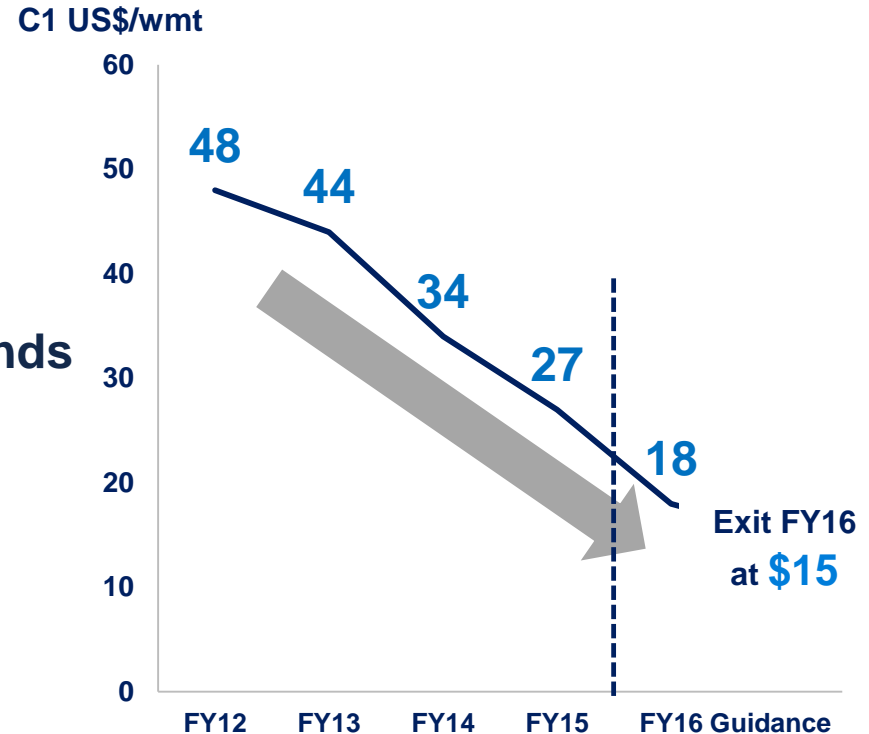
**Cashflow**  
supports  
balance sheet

**Continuous**  
**improvement**  
focus

# Delivery of sustainable cost improvements

Through development of assets, efficiencies, productivity and costs saving

- 1 **Solomon** operations
- 2 **Blending** strategy 58% Fe
- 3 **Processing**, wet plants + de-sands
- 4 Operational **efficiencies**
- 5 Fx and fuel **decreases**







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# Financials

Stephen Pearce, CFO



# Financial keys



Operational performance supporting financial results

**Cost  
improvement  
\$15/wmt**

*Controlling the controllable*

**costs +  
production**

**Capital spend  
\$2/wmt  
sustainable**

**Generating  
operating  
cashflows**

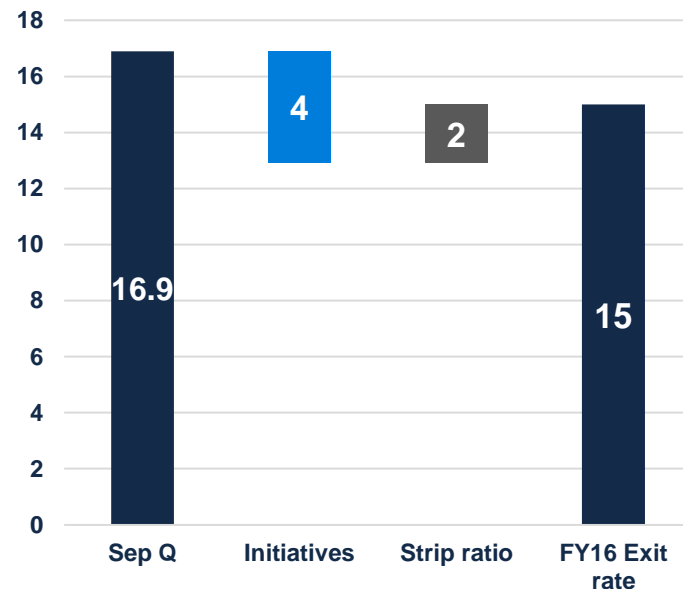
Shipping and  
procurement  
**initiatives**

**US\$384m  
Debt repurchased**

# Path to US\$15/wmt in Q4 FY16

## Continued realisation from efficiency and productivity improvements

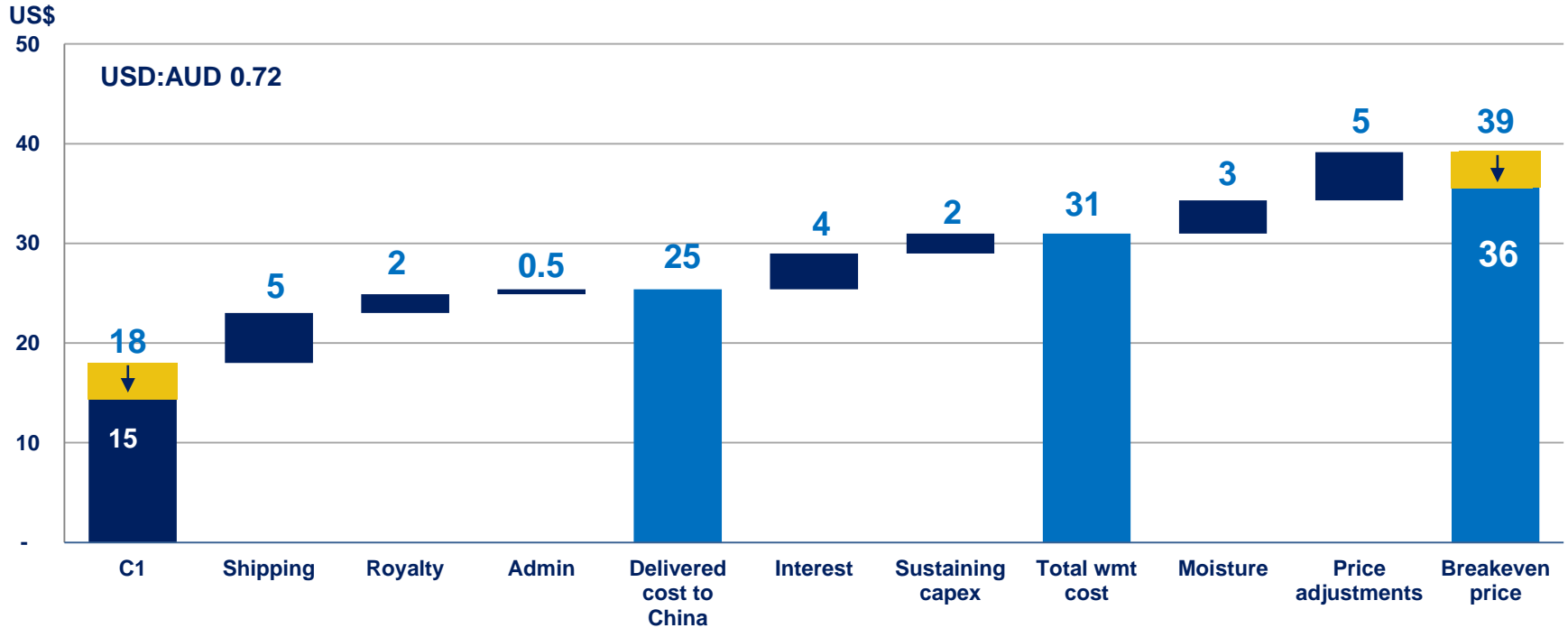
Savings initiatives		Savings (US\$/wmt)
<b>OPF</b>	<ul style="list-style-type: none"> <li>Improved upgrades and yield</li> <li>Shutdown optimisation</li> <li>Enhanced plant reliability</li> </ul>	<b>0.90</b>
<b>Mining</b>	<ul style="list-style-type: none"> <li>Maximising equipment productivity</li> <li>Enhancements to mine plan, e.g. haul route optimisation, pit design</li> <li>Site-wide efficiencies, e.g. reduction in non-production fleet</li> <li>Full realisation of previously identified initiatives, e.g. optimising mining method</li> </ul>	<b>1.50</b>
<b>Procurement initiatives</b>	<ul style="list-style-type: none"> <li>Capturing market deflationary conditions</li> </ul>	<b>0.60</b>
<b>Inventory + FX</b>	<ul style="list-style-type: none"> <li>High-cost inventory to flow through</li> <li>Additional FX reduction 1c</li> </ul>	<b>1.00</b>
<b>TOTAL</b>		<b>4.00</b>



Based on reversion to average strip ratio of 1.8

# Breakeven index price

## Continuing to reduce breakeven price



FY16 cost and break-even guidance will be formally updated at the half year results release





# Balance sheet



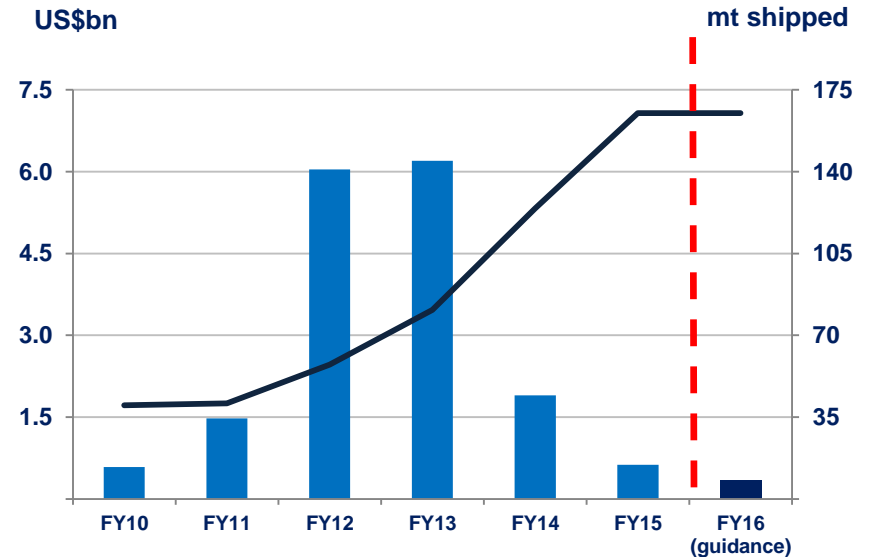


# Capital expenditure

Sustainable capex at US\$2/wmt post expansion

- **FY16** guidance **US\$2/wmt**  
or **US\$330m**
- Expansions **complete**
- **Long life** installed asset
- Significant **mine lives**
- D+A **~US\$7.50/wmt**

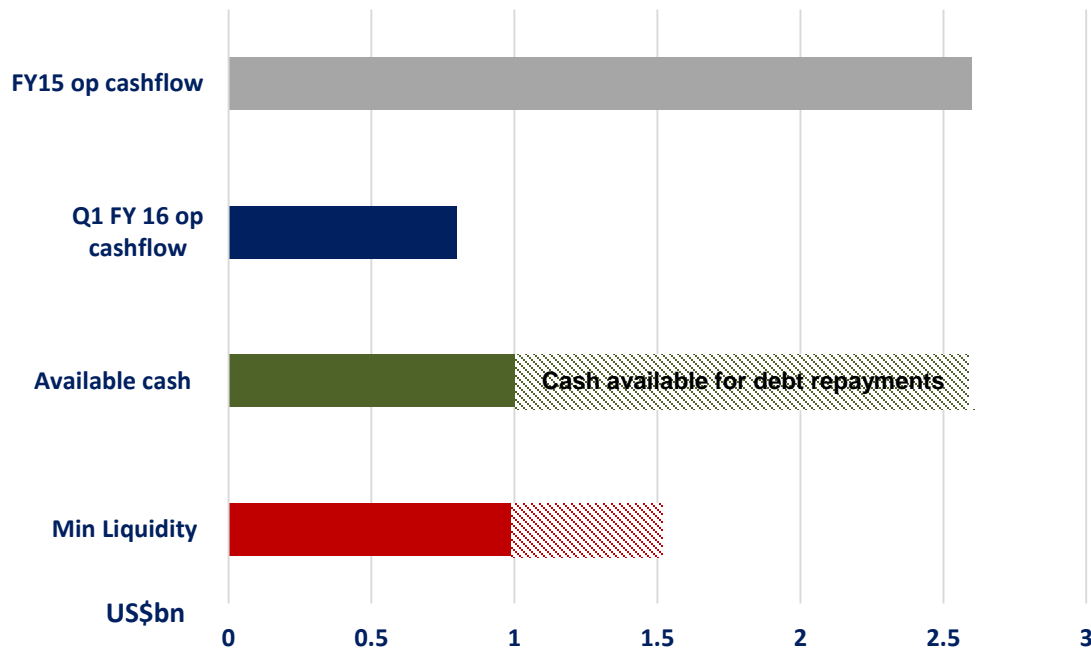
## Capital profile



# Available cash balances

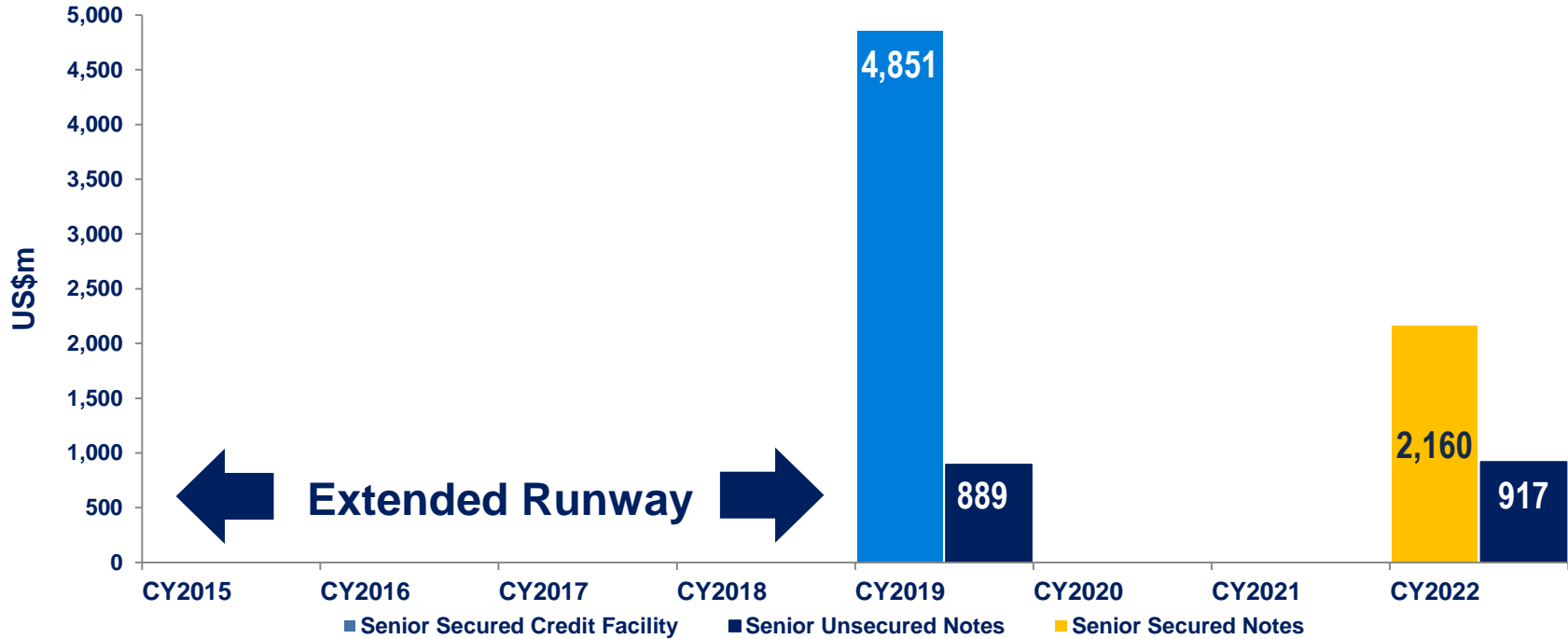
## Operating cashflows supporting continuing debt repayments

- **US\$2.6bn** cash
- Operating **cashflows** strong
- Repayment **options** being considered
- Target **40% gearing** (Debt:Debt + equity)
- Min liquidity **US\$1-1.5bn**



# Debt maturity profile

On market buybacks US\$384m principal value

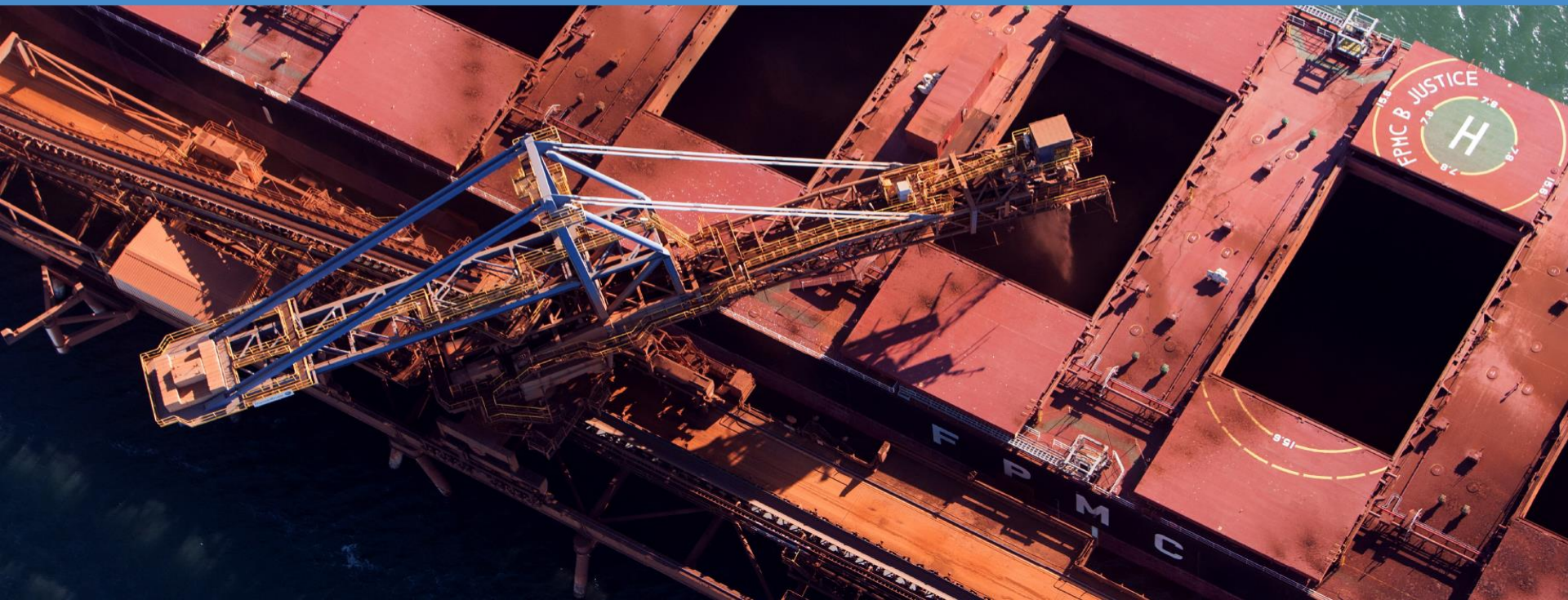


**US\$2.6bn cash on hand at 30 September 2015**



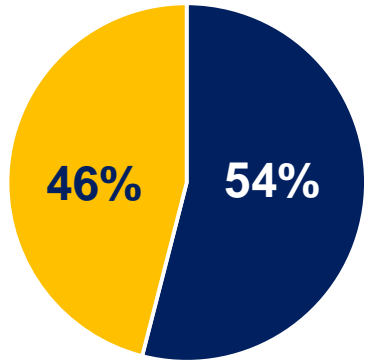
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# Shipping, IT and Procurement



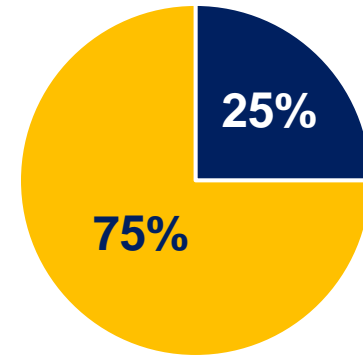
## Vessel Mix

### FY16 YTD



■ <200k DWT ■ >200k DWT

### TARGET



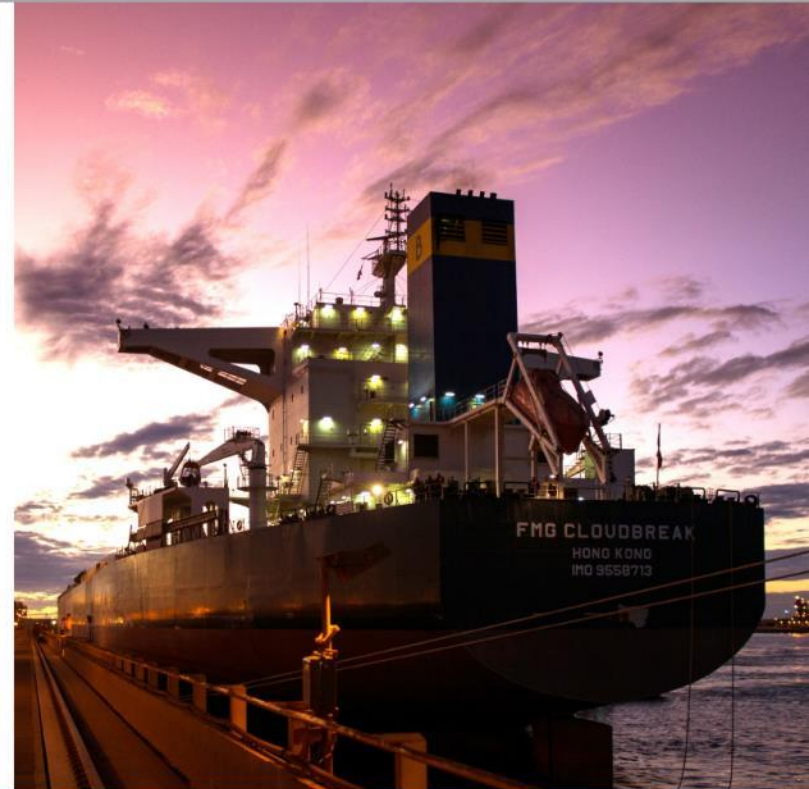
■ <200k DWT ■ >200k DWT

- Vessels **increase load efficiency**, large deadweight (DWT) capacity and shallow draft
- FY16 **54% of volume >200k DWT** and 45% in FY15
- Moving towards **target of 75%** >200k DWT
- Limited supply of VLOC's (market is responding to demand)



## VLOC Operational Benefits

- **Maximise** tidal capacity
- VLOC's designed for Port Hedland **efficiency**
- **Delivery** from Nov 2016 to Mar 2018
- 1<sup>st</sup> steel cutting September 2015, **ahead of schedule**
- **Funding options** being considered



## Capturing cost deflation and process improvements

- Sourcing, negotiation and tender **processes**
- **Aggregation** of materials and equipment demand
- Supplier **consolidating** across operations
- **Productivity** improvements key partners
- Leverage inventory **optimisation** and sharing







# Operations

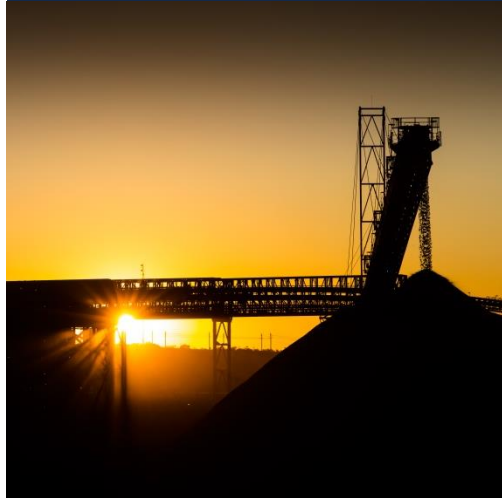
Nick Cernotta, Director Operations



# We have three key assets to work with

1

Infrastructure  
and equipment



2

Ore body  
/ resource



3

People





## The focus

- Leadership creating a **Safe Culture**
  - Employees
  - Contractors
- **Major Hazards** – identify and control exposures
- Continuous **improvement**
  - Learning from incidents



# Safety



## Snapshot

**70mtpa**

2 x OPF's  
26mtpa Firetail – dry plant  
44mtpa Kings – wet plant

**Firetail**

Bedded/detrital product with high Fe and phos blended with low phos from Chichesters

**Kings**

Kings CID Fines, a low alumina channel iron product; and Western Fines, a bedded/detrital product

**1,600**

Approximate workforce  
925 Fortescue, 675 contractors

**2013**

Commenced operations in 2013  
Fortescue's youngest mine

**165mtpa**

Total material movement



# Christmas Creek

## Snapshot

**55mtpa**

Average annual production;  
2 x Ore Processing Facilities

**2,400**

Approximate total workforce;  
650 Fortescue, 1750 contractors

**2011**

Mine was established

**153mtpa**

Total material movement



## Snapshot

**36mtpa** Annual production

---

**1,644** Approximate total workforce;  
1320 Fortescue, 324 contractors

---

**2012** Wet front end added to reduce  
feed grade

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**100mtpa** Total material movement



## Snapshot

**Worlds heaviest haul** 620km track

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**460**

Approximate total workforce;  
460 people  
380 Fortescue, 80 contractors

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**35kt/train** 3 loco, 250 ore cars trains

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**Longer** 3kms with average cycle time 22hrs

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**Faster** 80km/hr speeds

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**Heavier** 42t axle loads





Part of the worlds largest bulk port by annual throughput

## Australia's most efficient bulk Port

**335**

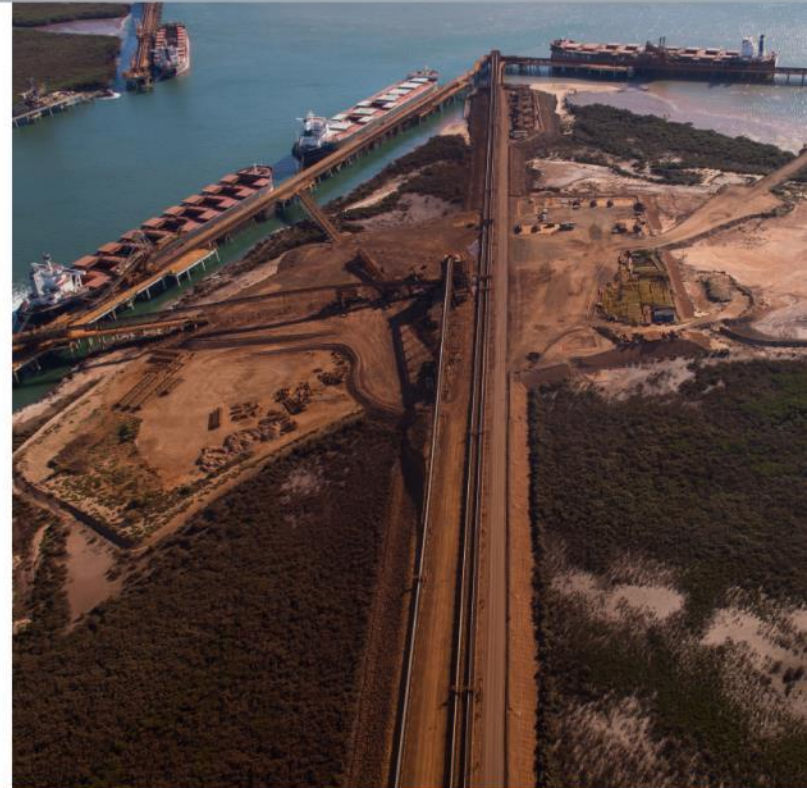
Approximate total workforce  
263 Fortescue, 72 contractors

**36,000tph**

3 train loops, **3 TUL's**  
and **3 stackers** unload  
at a combined rate

**36,000tph**

**3 reclaimers, 3 shiploaders**  
and **5 berths** load vessels at a  
combined rate





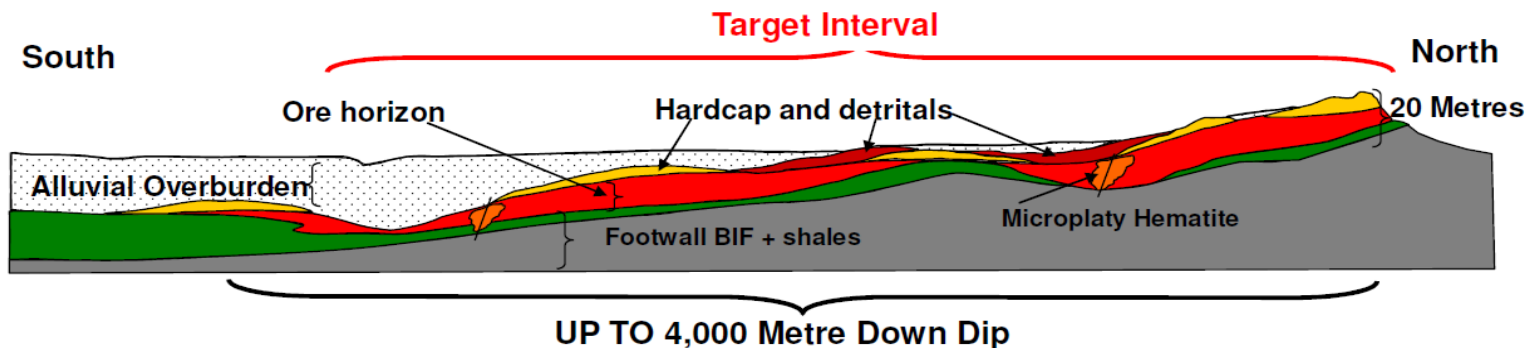


# Ore body / Resource



## Secondary deposits

### Chichester Example Section



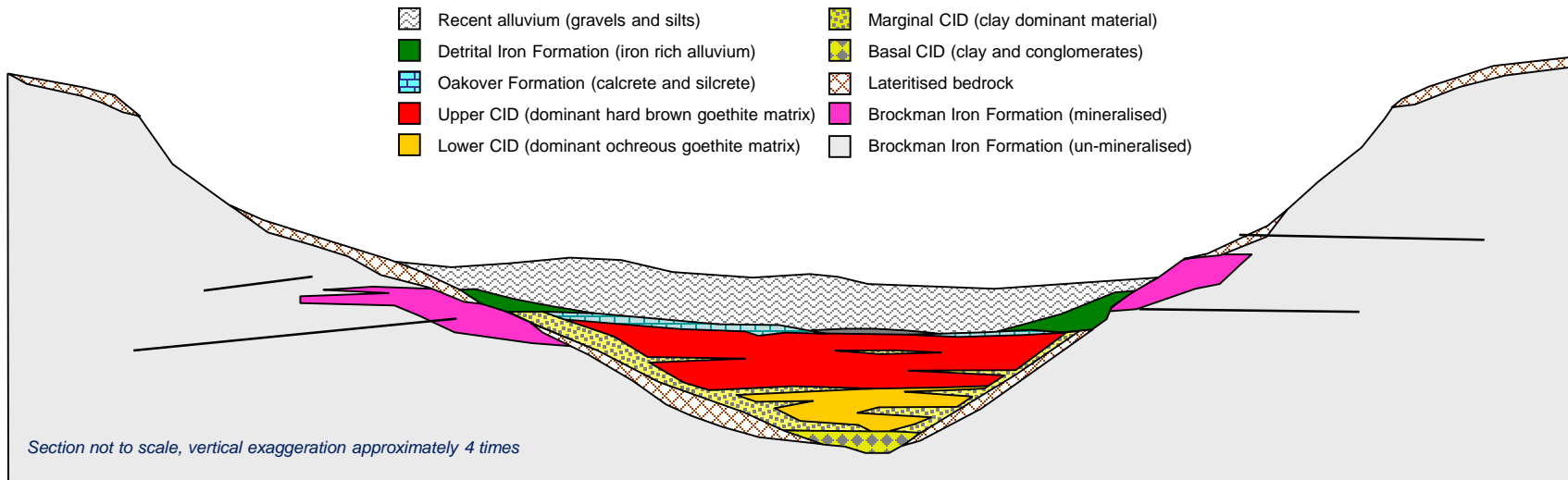
\* Vertical exaggeration over 10 x

### BID (Bedded Iron Deposit)

- Supergene – BIF enriched by surface processes e.g. Chichesters and Firetail
- Hypogene – BIF enriched by hydrothermal processes e.g. Hook Pit

## Tertiary deposits

### Solomon Example Section

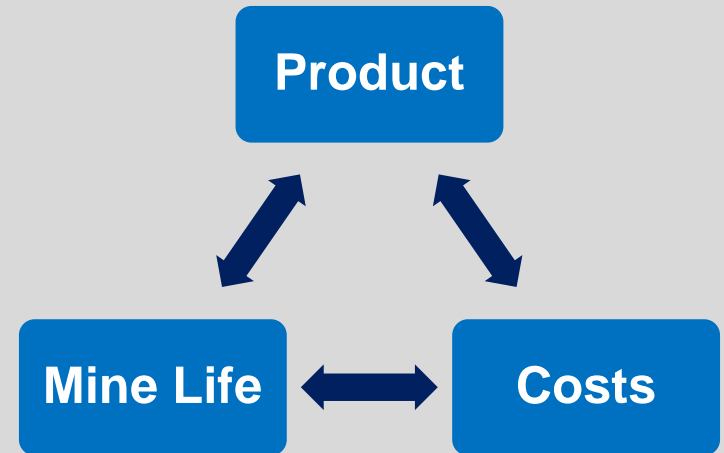


**CID** – Channel Iron Deposit    **DID** – Detrital Iron Deposit

Strategy maximises value from asset base

- **Beneficiation** of ore
- **Lower** cut-off grades
- **Fortescue** Blend
- Product **consistency**

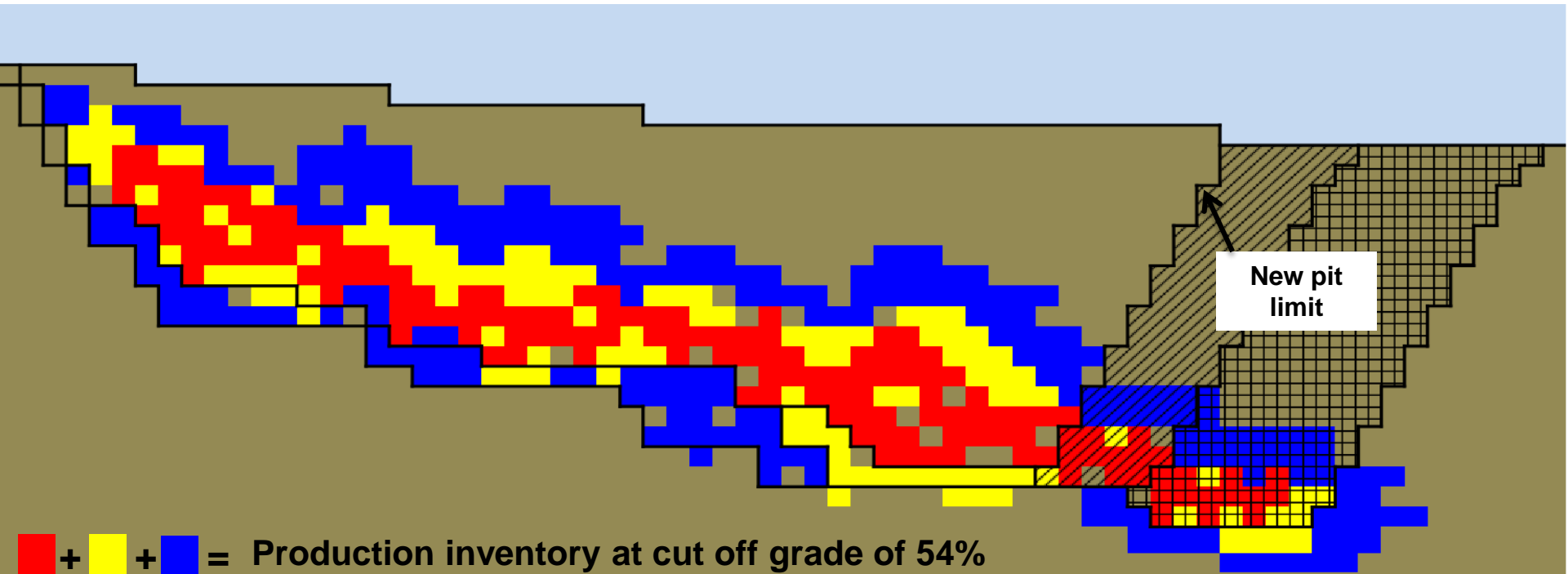
## Solving to maximise



# Blending + wet processing

Blending with Firetail + wet processing, product grade 57.5%

Strip ratio reduced from 5.4 to 2.3

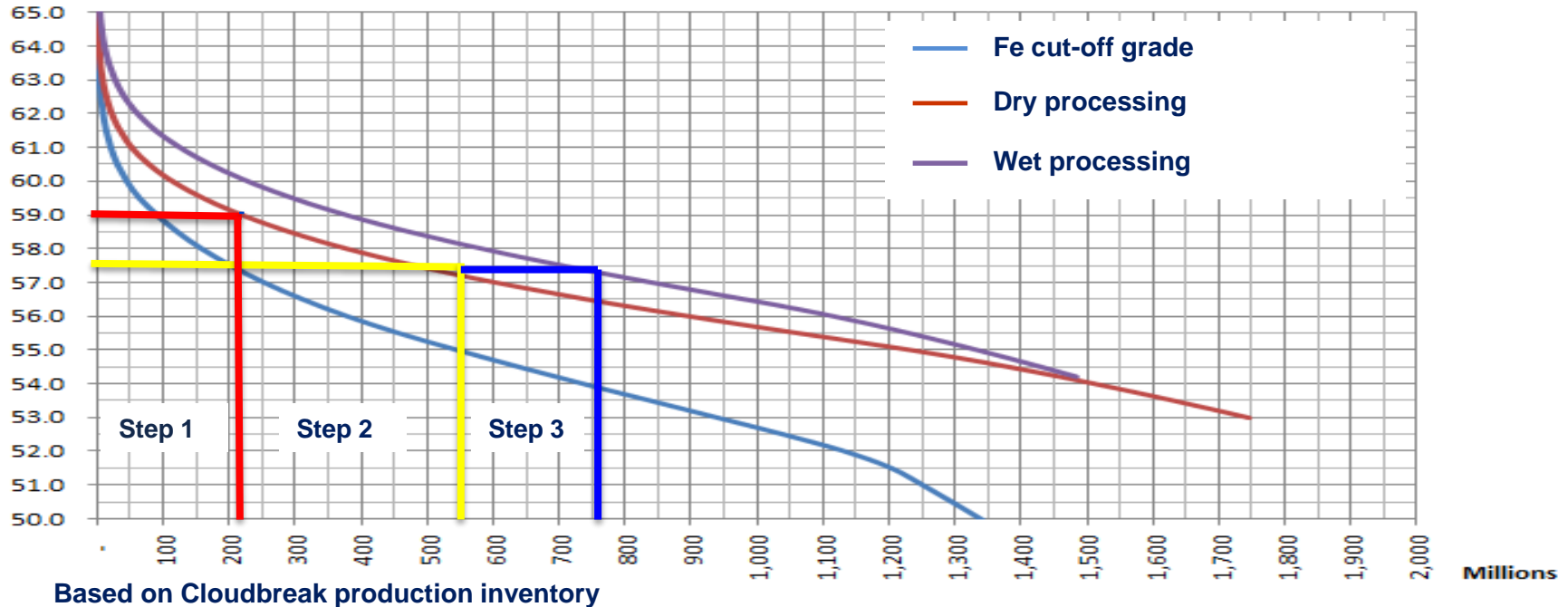




# Maximising flat tonnes / grade

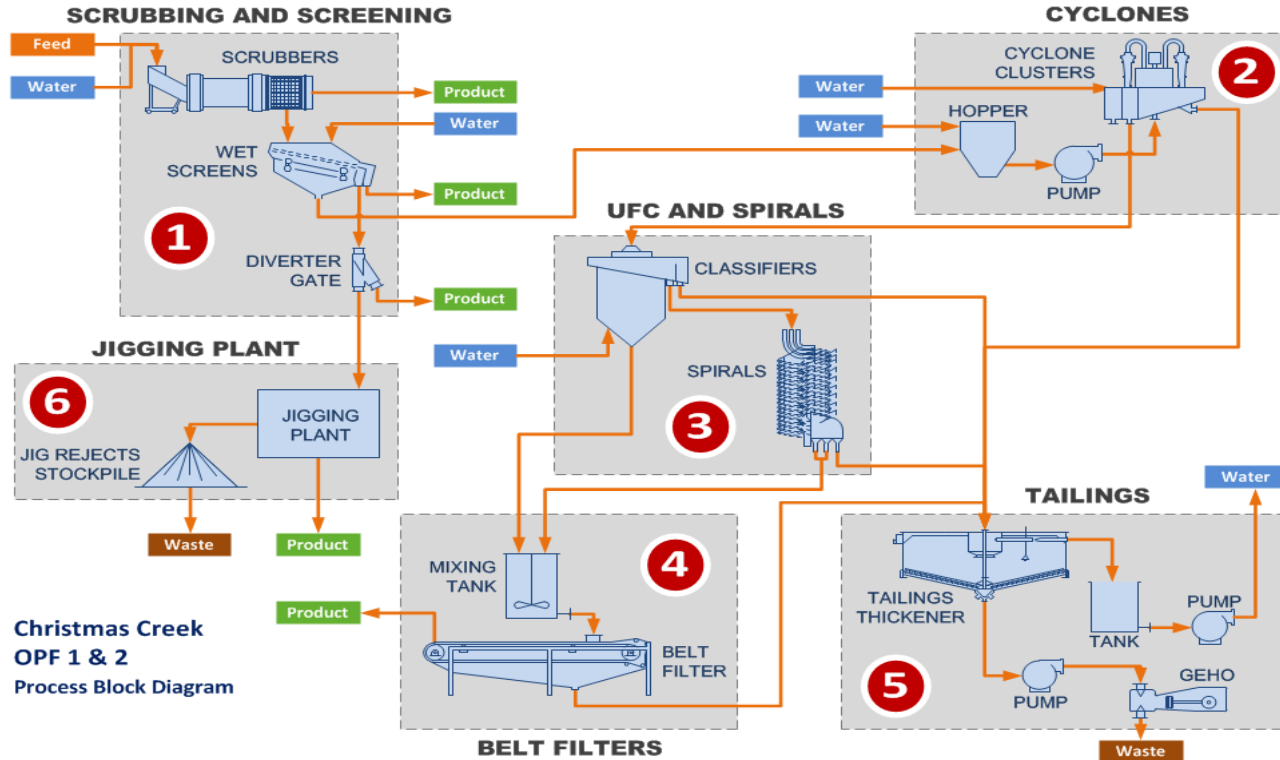
OPF upgrade and blending reduces cut-off grade + strip ratios

Fe content



# Wet process beneficiation

Extracting more Fe and removing Si & Al to improve cut off grades



# Chichester plant upgrades

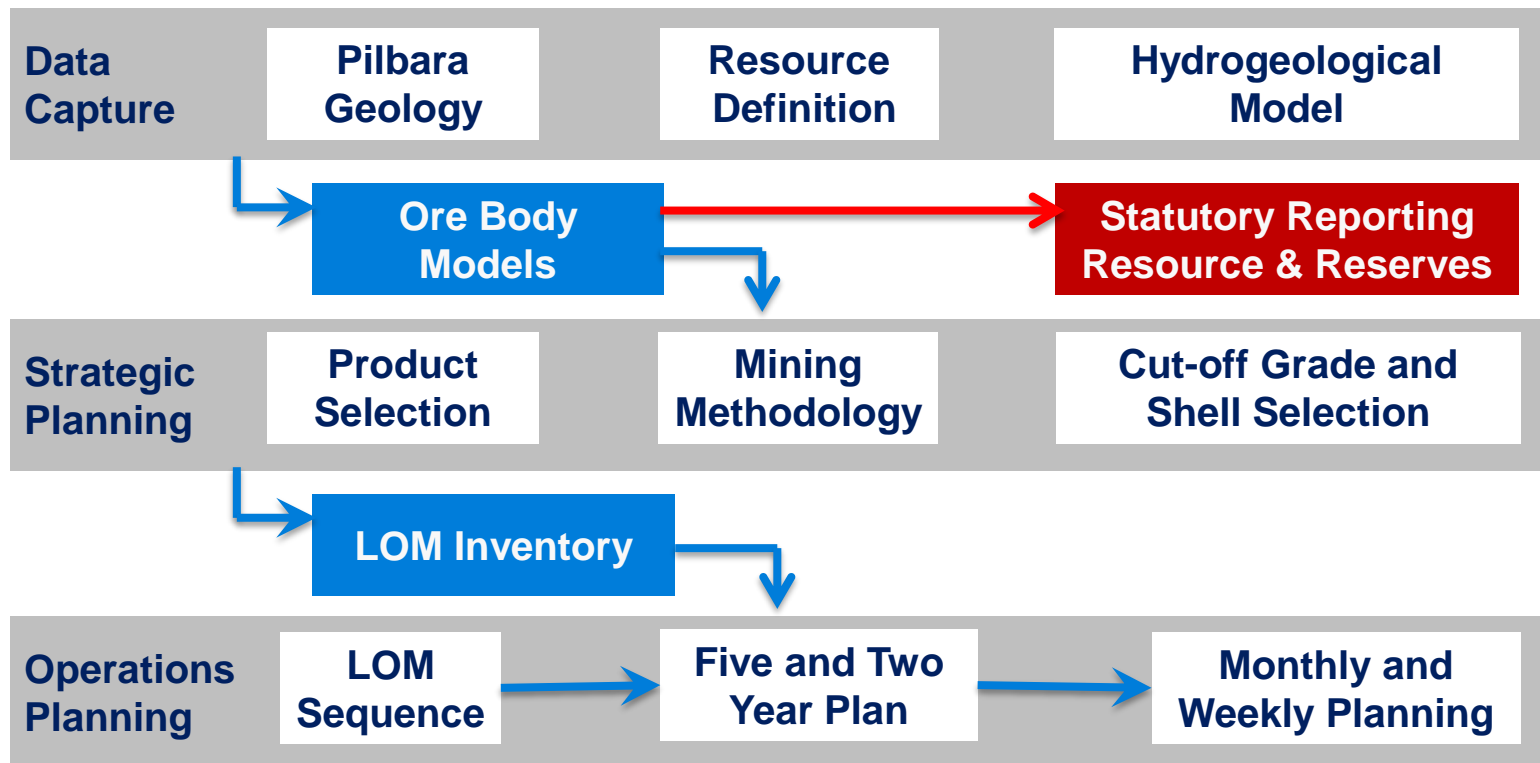
## Cloudbreak upgrades

	Oct-14	Sep-15
Fe Upgrades	101.7%	102.3%
Si Upgrade	86.1%	84.9%
Al Upgrade	84.5%	80.4%
Wet Yield	84.7%	83.6%

## Christmas Creek upgrades

	Oct-14	Sep-15
Fe Upgrades	102.1%	102.9%
Si Upgrade	85.6%	81.6%
Al Upgrade	80.7%	77.8%
Wet Yield	83.6%	89.4%

# Mine planning overview



Strategy and people delivering sustained reductions in strip ratios

## Maintained mine life

	Revised strip ratio	Years 1-5	Life of mine	
 <b>C1 Costs</b>	Chichester Hub	1.6	2.3	 <b>Strip ratios</b>
	Solomon Hub	2.0	1.7	

Expect **improvements** to continue



## Autonomous Haulage Operations (AHS)

**109mt**

Material hauled to date

**41 trucks**

Valley of Kings Mine

**70 trucks**

Full Solomon Deployment  
Valley of Kings Operation  
Firetail Operation

**Safety and  
Productivity**

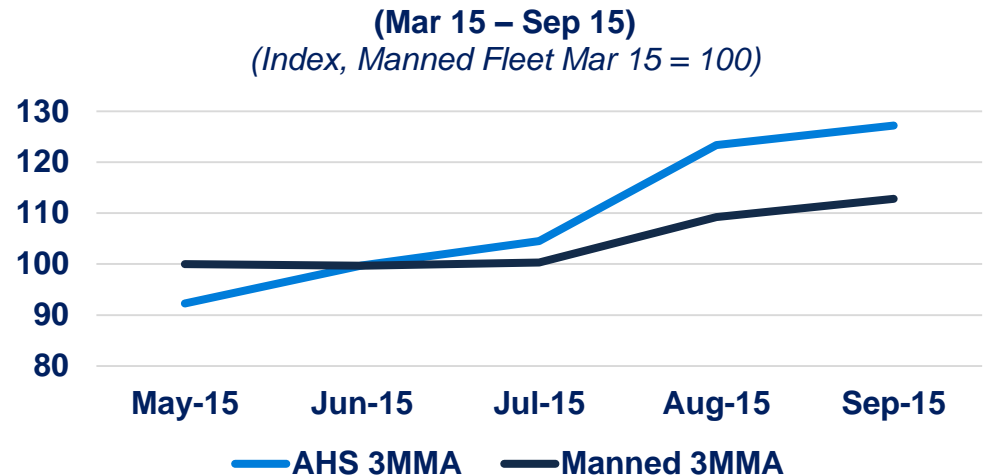
Collision avoidance



## AHS now delivering clear productivity benefits

- AHS productivity **increased 38%** since May 2015
- Productivity of manned fleet has **improved 13%**
- AHS delivering **13% improvement** over manned fleet

### Truck Productivity: Kings AHS vs Manned Trucks



# Journey to US\$15/wmt and beyond



## Next wave of savings initiatives to deliver lower costs

### OPF

- Upgrades and yield
- Shutdown optimisation
- Plant reliability

### Procurement

- Market deflation
- Consolidation
- Re-negotiation

### Mining

- Equipment productivity
- Mine plan optimisation
- Site-wide efficiencies
- Realisation of previously identified initiatives

### New initiatives

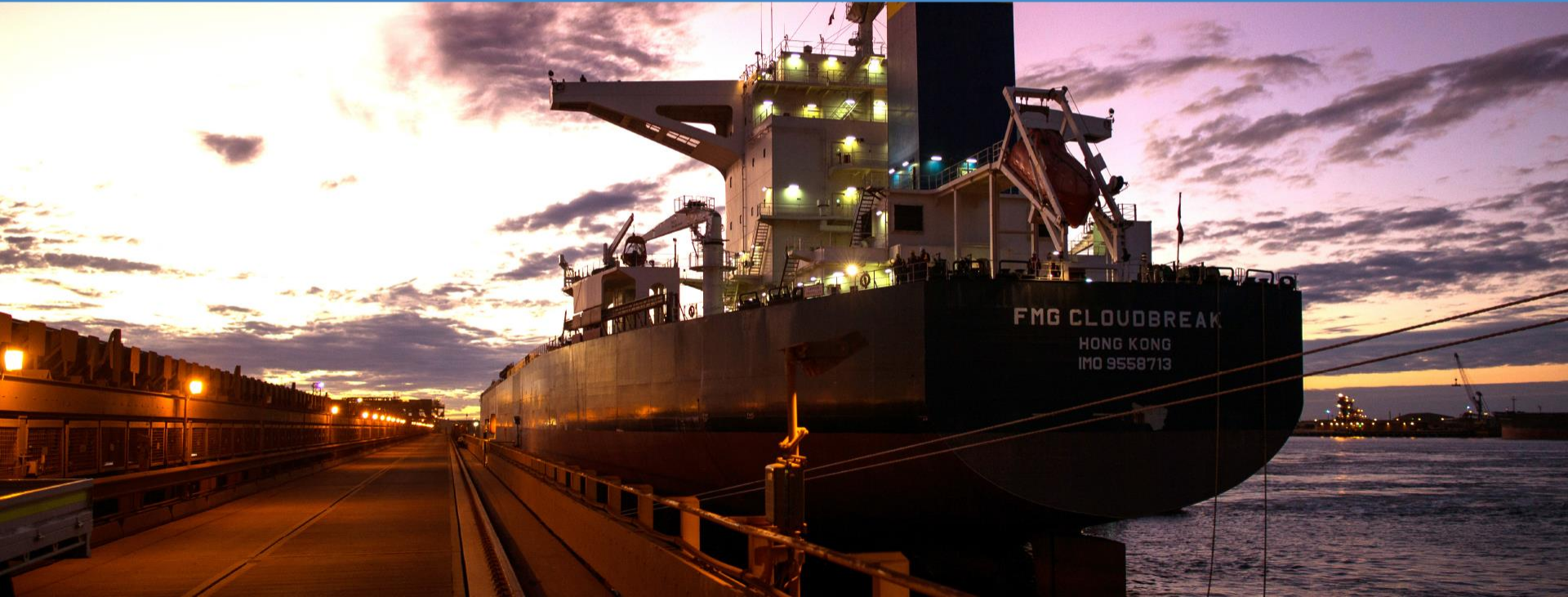
- Major contractors
- Dewatering
- Cross-site synergies
- Technology and innovation



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# Market

## Nev Power, CEO





# Core supplier to Asia

Well established 18% market share of imported iron ore to China

- **Low impurity** 58% Fe average
- High **value in use**
- Large diverse **customer base**
- **Reliable consistent** delivery
- **Proximity** to high growth region



# China's long term growth remains strong

300 million people to urbanise by 2030

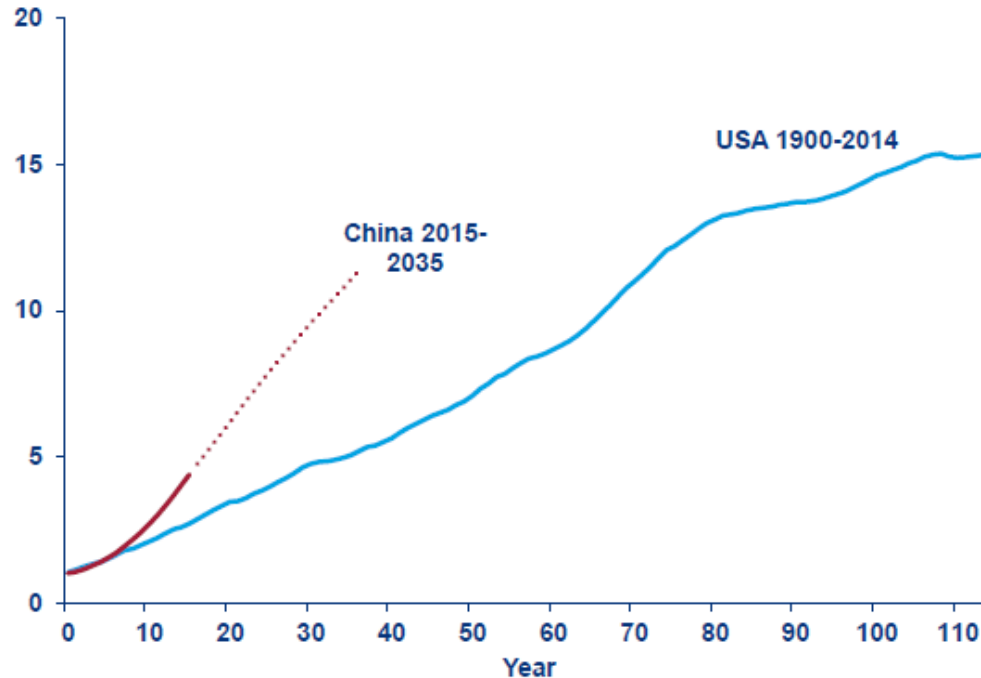
- **Steel** stock-in-use **1/3 USA**
- Steel **demand above 800mtpa**
- **Competitive** and rising steel exports:
  - **One Belt One Road** over billion tonnes
- Short term **growth stabilising**
- Real estate **market recovery**



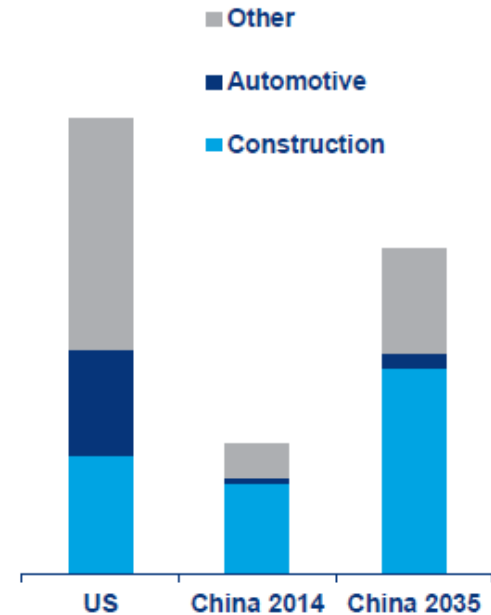
# Steel consumption to build economy

Above 800mtpa – driven by policy decisions

Steel stock-in-use per capita (tonne): China vs. US



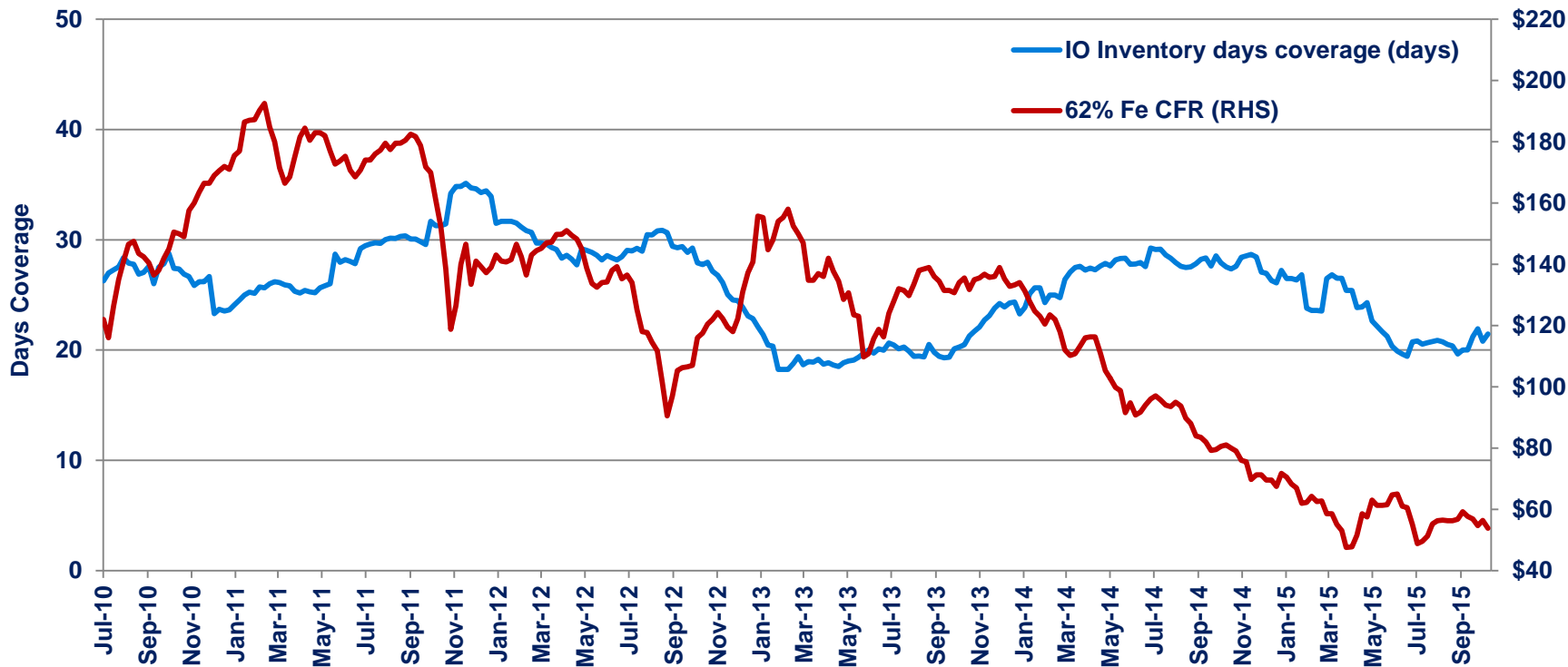
Stock by sector



# Iron ore supply in balance...sentiment driving price



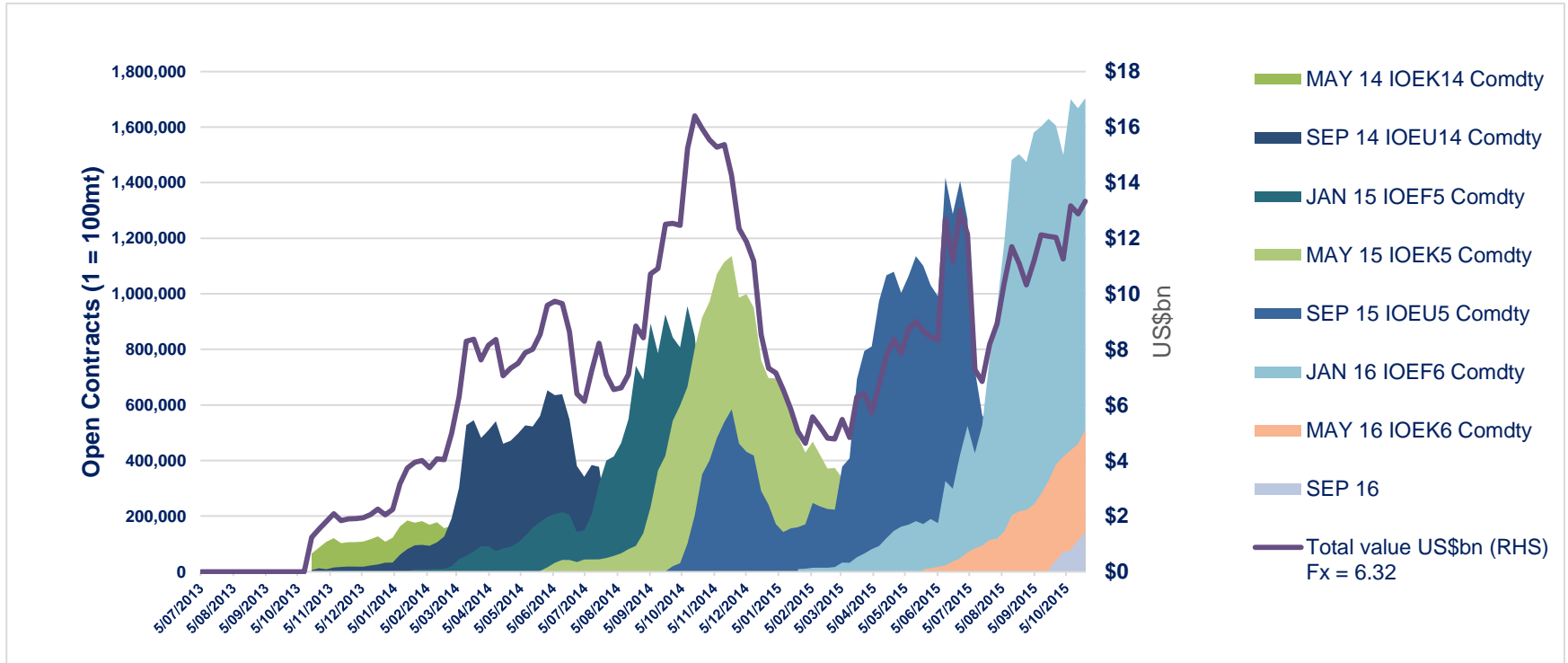
Port stocks continuing to decline, currently at 83mt





# Futures trading – Dalian Commodities Exchange

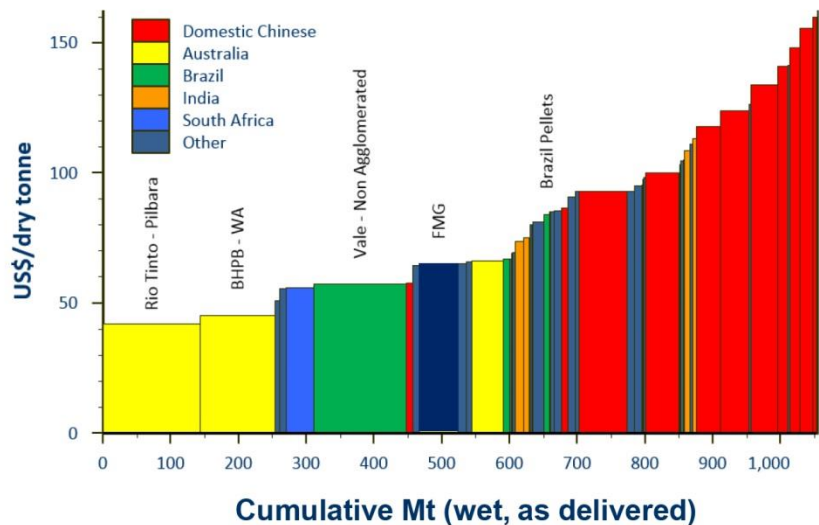
## Setting price below supply-demand balance



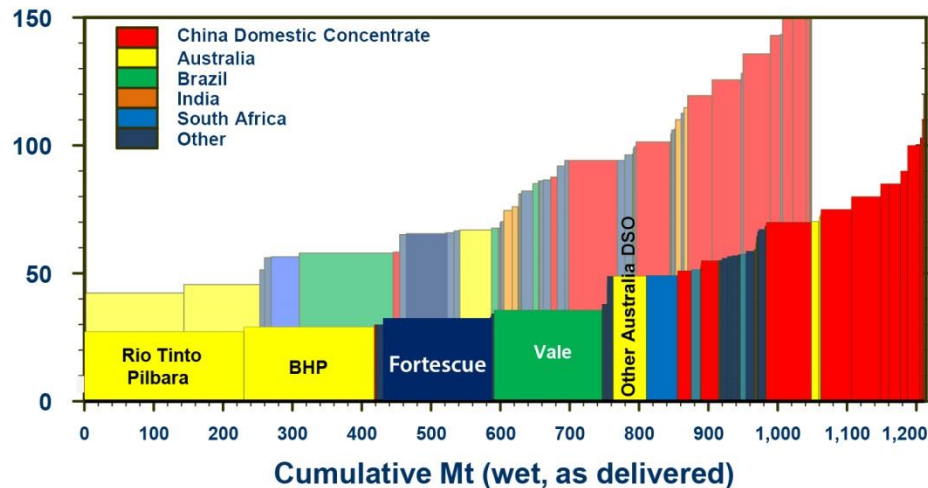
# Moving down the global cost curve

## China's Iron Ore Supply CFR Costs (including royalties & ocean freight)

2012



2015





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# Price realisation and demand

David Liu, Director Sales and Marketing

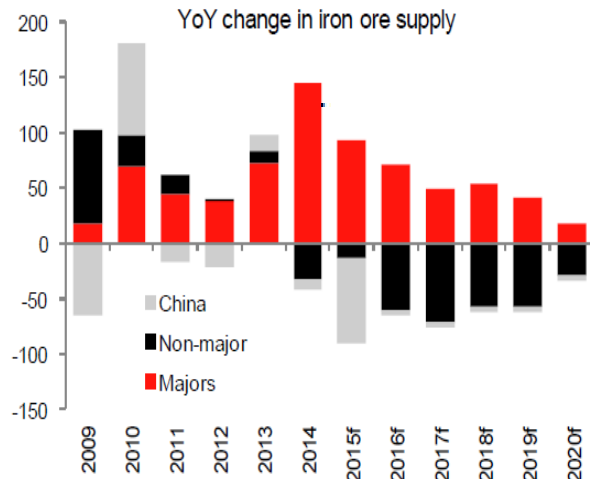


# Iron ore market remains tight

## China's iron ore imports strong despite poor steel market

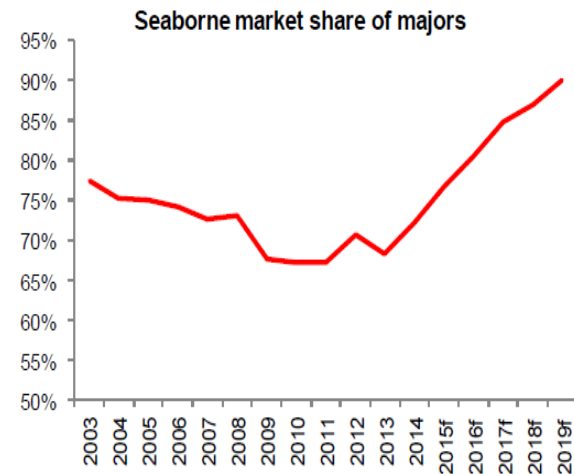
- China domestic and higher cost seaborne ore **exiting**
- Majors **increasing** market share
- **Higher cost** seaborne supply 'at risk'

### Non major supply is the at risk tonnage



Source: NBS, Customs Data, Macquarie Research, September 2015

### With major suppliers being the winner



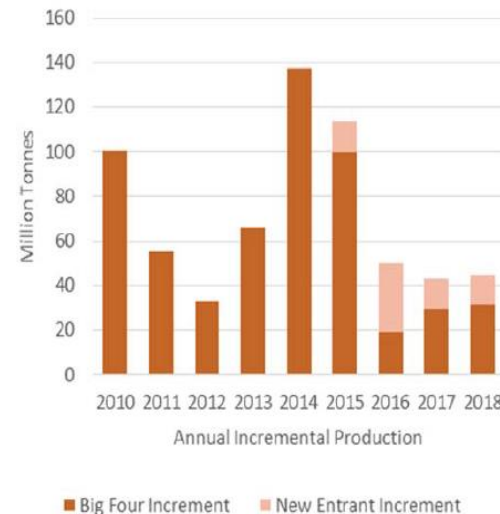
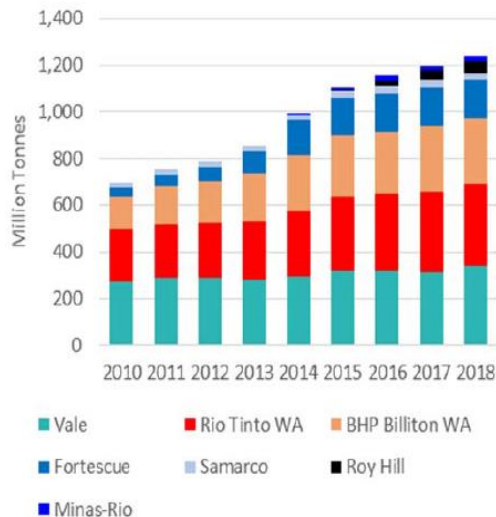
Source: Customs Data, Macquarie Research, September 2015

# Biggest increase in supply has already hit the market

## Increased competition in the “contestable” seaborne market

- Largest **net increases** in supply (Q2 2014 and Q3 2015)
- Incremental increase in **2016 50Mt**
- Vale’s SD11 planned late 2016 is the major net **addition**
- Potential exits for ongoing seasonal **supply** squeeze, BUT
- Iron ore market **needs steel price to stabilise**

### Major seaborne supply (WMT)

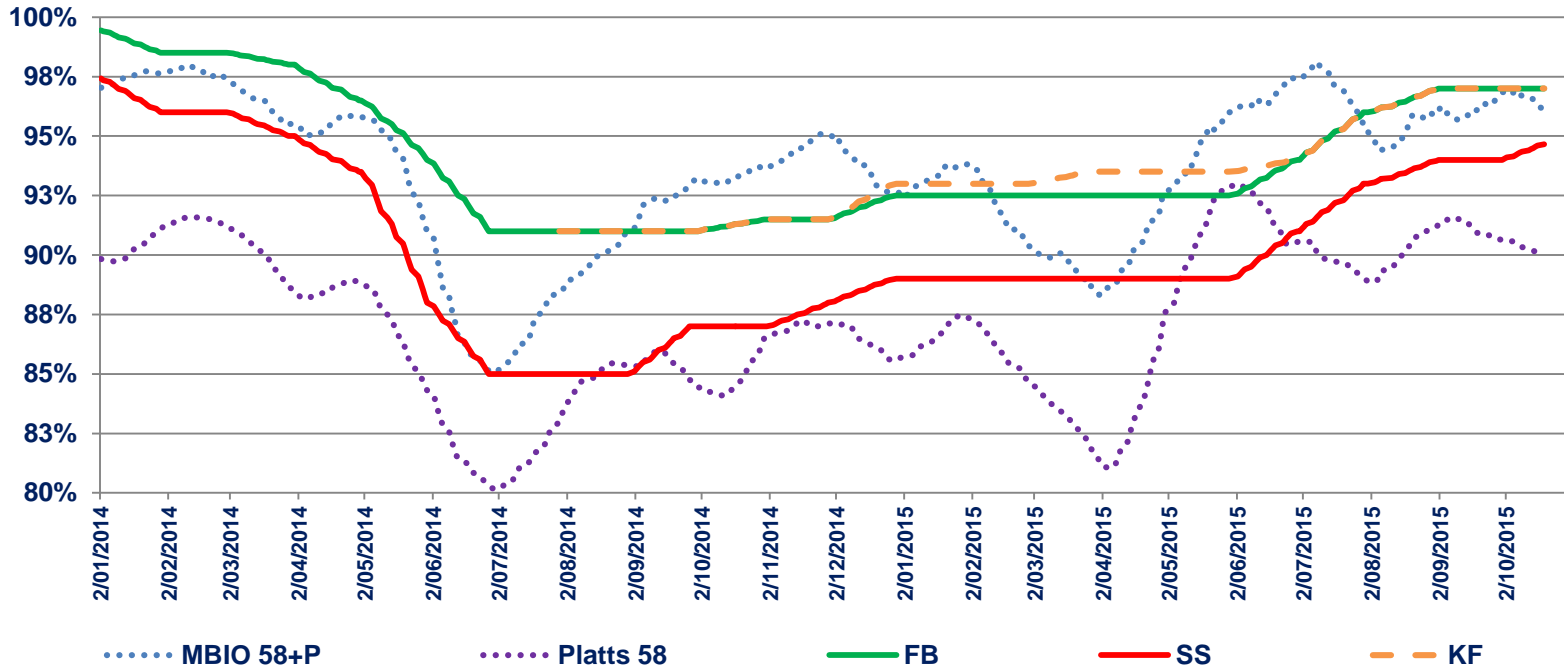


Source: Company reports, Metalitics analysis and forecasts



# Price adjustments improving

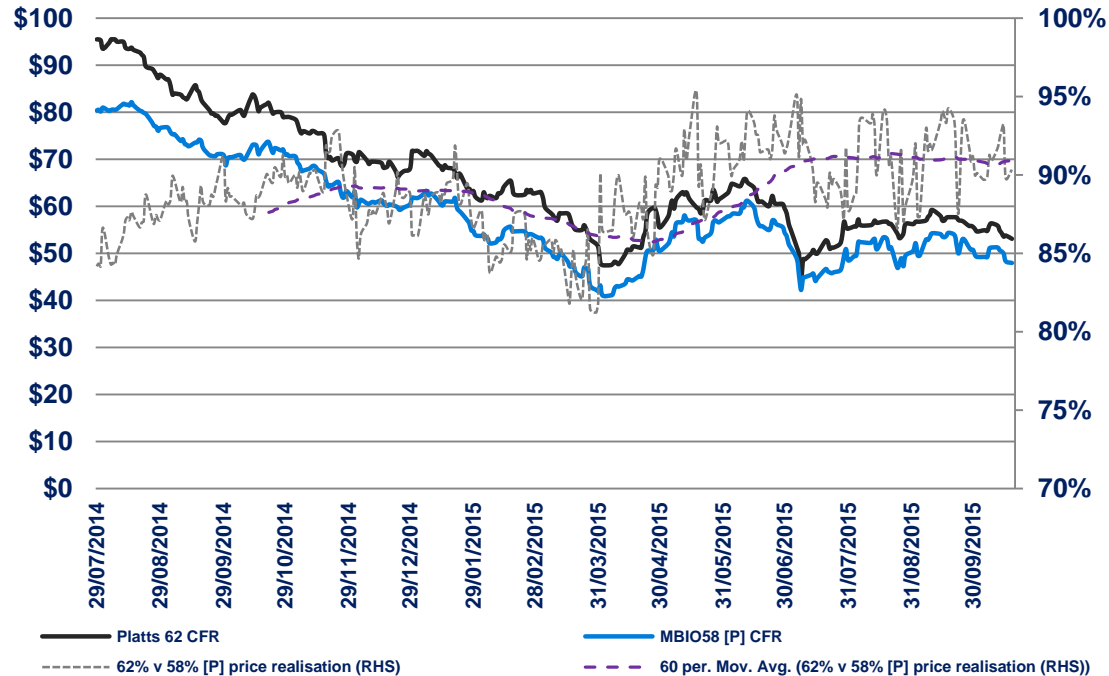
20 day moving ave dmtu adjustment to Platts 62%



# Driving higher price realisation

Realised 91% in FY16 Q1 v 89% in FY15 Q4

- **Improved** dmtu adjustments
- Pricing at average **monthly QP**
- Mills more focussed on **margin**
- Less driven by **production** volumes
- **Spot sales**



# Value In Use drives price realization and cash flow

## What is VIU ?

- “Ores ain’t Ores”
- Ore **characteristics** influence productivity
- Estimates the **value of an ore** to the mill
- Critical to FMG as it drives price realisation and cash flow
- Oversupplied steel market drives **focus on margins**
  - High grade premiums decrease
  - 58% Fe price realisations increase
- FMG ores are in **high demand** and pricing in excess of VIU



- Strong market **demand** for FMG ore
- Price realisations **improved**
- Steel market fundamentals need to improve
- Iron ore **market in balance** and demand holding







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# Development and Resources

Simon Carter



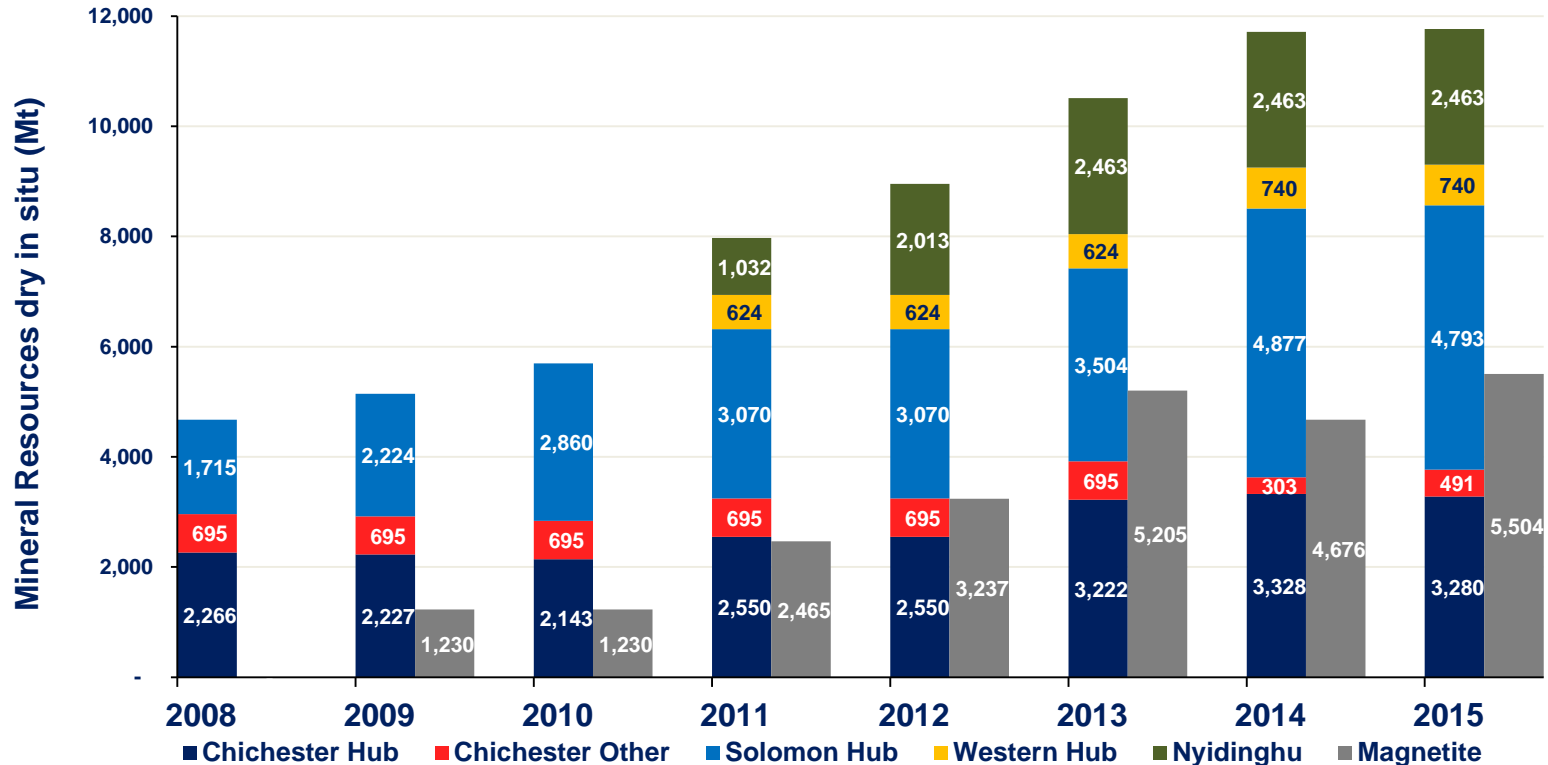


- Highly skilled **successful** exploration team
- Additional **750mt** new and infill deposits over the last year
- Low cost exploration led **copper** opportunity in NSW
- Continuing to underpin the future on Fortescue through **long term** resource discovery



# Resource portfolio supports asset base

## Largest Pilbara tenement footprint



# Iron Bridge

## Overview of project

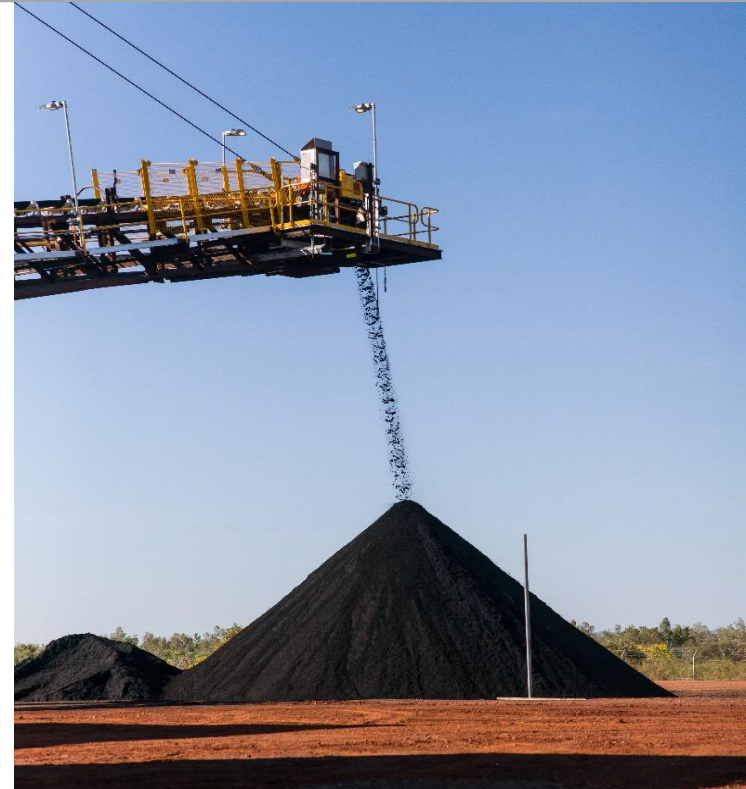
- Joint venture between **Fortescue**, **Formosa** and **Baosteel**
- **Excellent location** ~ 100km south of Port Hedland
- **Largest** Iron Ore Resource in Australia
- **Proven** development team
- **Lowest capital intensity** magnetite project in Australia



# Iron Bridge - Stage 1 highlights

## Proven development approach

- **Safe build** at a TRIFR injury rate of 3.25 per million man hours
- Stretch **targets achieved** – breaking ground to first ore <14 months
- Stage 1 **on budget** and **on schedule**
- Process validation **progressing**
- Major equipment **tested** to design tonnage rates
- Geological model proven and **validated**





# Iron Bridge - Stage 2 highlights

FID decision is scheduled for H1 2016

- **Well developed** mine plan supports a >67% Fe low impurity product
- **Lowest quartile** magnetite global operating cost
- **Low energy** process technology
- **Secure** Port access







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# Supporting our local community

**Nev Power, CEO**



# Ending Aboriginal disparity in the Pilbara

Creating opportunities through training, employment and business opportunity



**1,000**

Aboriginal employees



**13%**

Aboriginal people in  
Fortescue workforce



**A\$1.8bn**

Contracts to Aboriginal  
companies and JVs



**VTEC**

Roebourne | South Hedland



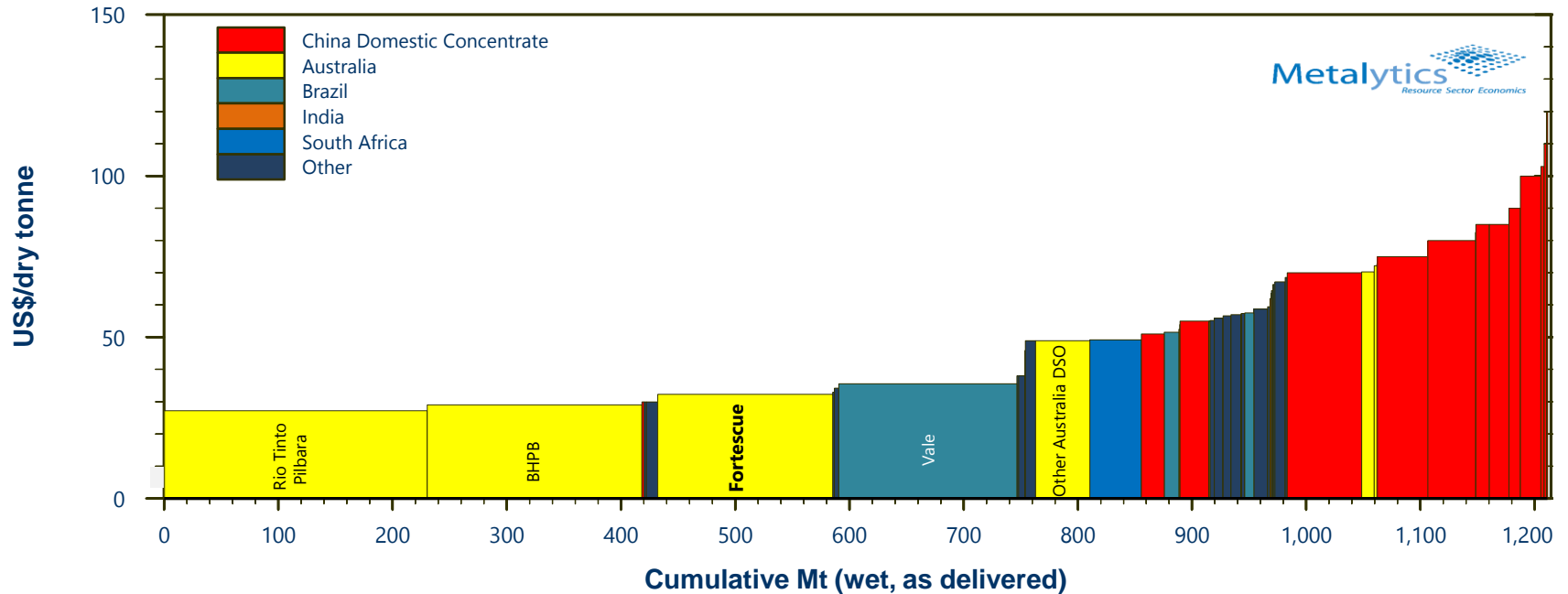


# Focused strategy



# Moving down the global cost curve

## China's 2015 Iron Ore Supply CFR Costs (including royalties & ocean freight)



Source: Metalitics August 2015.



# The new force in iron ore

Unique culture drives performance



Sustainable  
low cost  
producer

World class  
assets +  
people

165mt  
Production rate

Reliable  
Efficient  
Delivery







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<b>C1:</b>	Operating costs of mining, processing, rail and port. The reconciliation of C1 to the amounts disclosed in the financial statements prepared under the Australian accounting standards is provided in the Financial Report for the full year ended 30 June 2015 accompanying this announcement.
<b>CFR:</b>	Cost and freight rate.
<b>mtpa:</b>	million tonnes per annum.
<b>HY:</b>	Half year.
<b>FY:</b>	Full year.
<b>dmt:</b>	dry metric tonnes.
<b>Debt coverage ratio:</b>	debt / Underlying EBITDA
<b>Interest coverage ratio:</b>	Underlying EBITDA / Interest
<b>NPAT:</b>	Net profit after tax. The reconciliation of Underlying EBITDA to the financial metrics disclosed in the financial statements prepared under the Australian accounting standards is presented below.
<b>Underlying EBITDA:</b>	Earnings before interest, tax, depreciation and amortisation, exploration, development and other expenses.
<b>wmt:</b>	wet metric tonnes.