22 August 2016

Media release – FY16 results

Net profit of US$985 million and full year dividend of A$ 12 cents per share

Fortescue Metals Group Limited (ASX: FMG, Fortescue) has released its 2016 full year results reporting a profit after tax of US$985 million and underlying EBITDA of US$3,195 million.

The FY16 financial results have been driven by Fortescue's excellent operational performance with a sustained focus on productivity and efficiency initiatives reducing C1 operating costs to US$14.31 per wet metric tonne (wmt) in the June 2016 quarter, the tenth consecutive quarterly reduction.

Fortescue CEO, Nev Power said, "The entire Fortescue team has delivered on safety, production and cost targets resulting in outstanding FY16 results. Successful cost improvement measures and lower capital expenditure have more than offset the impact of falling iron ore prices to generate strong free cash flow. We have repaid US$2.9 billion of debt in FY16, reducing net debt to US$5.2 billion and will continue to repay debt from operating cashflows."

"Our continued focus on safety, innovation, efficiency and productivity has ensured a solid foundation for achievement of FY17 goals and ongoing balance sheet strength."

HIGHLIGHTS

- Safety TRIFR target of 4.3 achieved, 15 per cent improvement on prior period
- Profit after tax of US$985 million and underlying EBITDA of US$3,195 million
- 169.4 million tonnes (mt) shipped
- US$15.43/wmt C1 cost in FY16, a 43 per cent reduction from FY15
- Net debt of US$5.2 billion, including $1.6 billion in cash
- A$ 12 cents per share fully franked final dividend

US$ millions	FY16	FY15	*Var %*
Revenue	7,083	8,574	*-17%*
Underlying EBITDA	3,195	2,506	*+27%*
Net profit after income tax	985	316	*+212%*
Net cash flow from operating activities	3,023	2,037	*+48%*
Basic earnings per share (US cents)	31.6	10.2	*+210%*
Operating cash flow per share (US cents)	97.1	65.4	*+48%*

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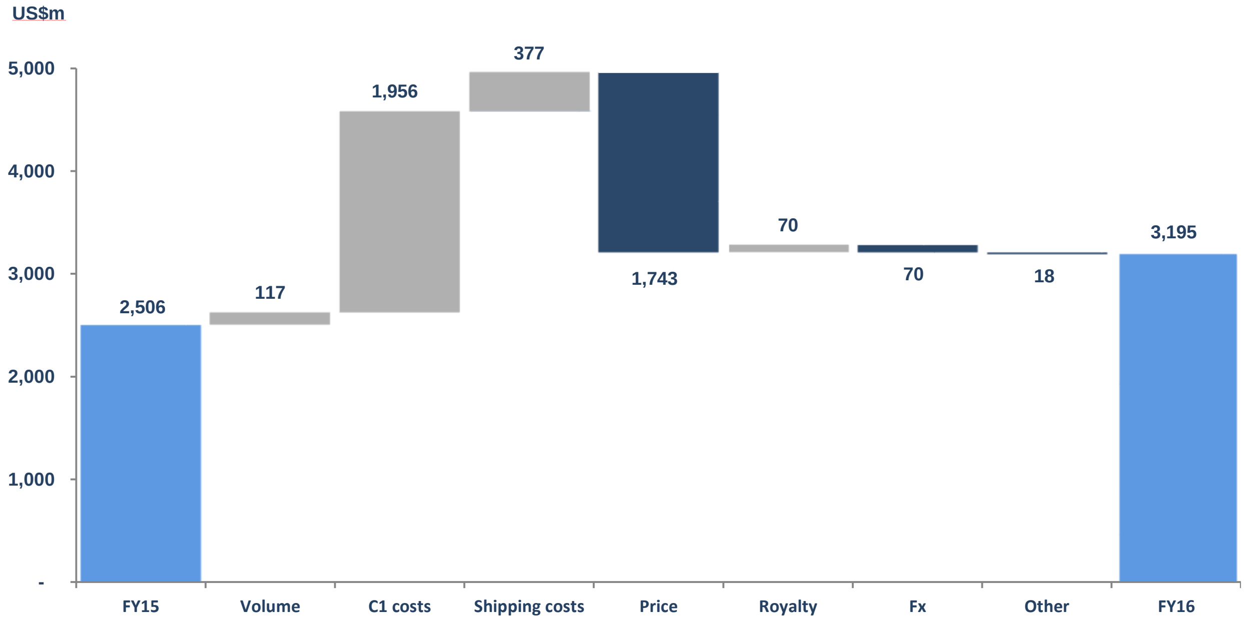
FINANCIAL PERFORMANCE

- **Underlying EBITDA** of US$3,195 million reflects Fortescue's continued focus on efficiency and productivity measures which have reduced costs offsetting the impact of lower iron ore prices as shown in the chart below:



- **Revenue** of US$7,083 million (FY15: US$8,574 million) reflects a 29 per cent reduction in the average Platts 62% CFR index price to US$51.37/dmt, offset by an improvement in price realisation and increased shipments.

  Fortescue's average realised price in FY16 was US$45.36/dmt, an 88 per cent realisation of the average Platts 62% CFR index price.

- **C1 operating costs** continued to improve averaging US$15.43/wmt for FY16, a 43 per cent reduction from the prior year. Fortescue achieved C1 costs of US$14.31 in the June 2016 quarter and exited the month of June at US$13.10/wmt.

- **Total delivered cost** to customers, inclusive of C1, shipping, royalty and administration costs, decreased to US$23/wmt, a 39 per cent reduction compared to FY15 (US$38/wmt).

CASH FLOW AND BALANCE SHEET

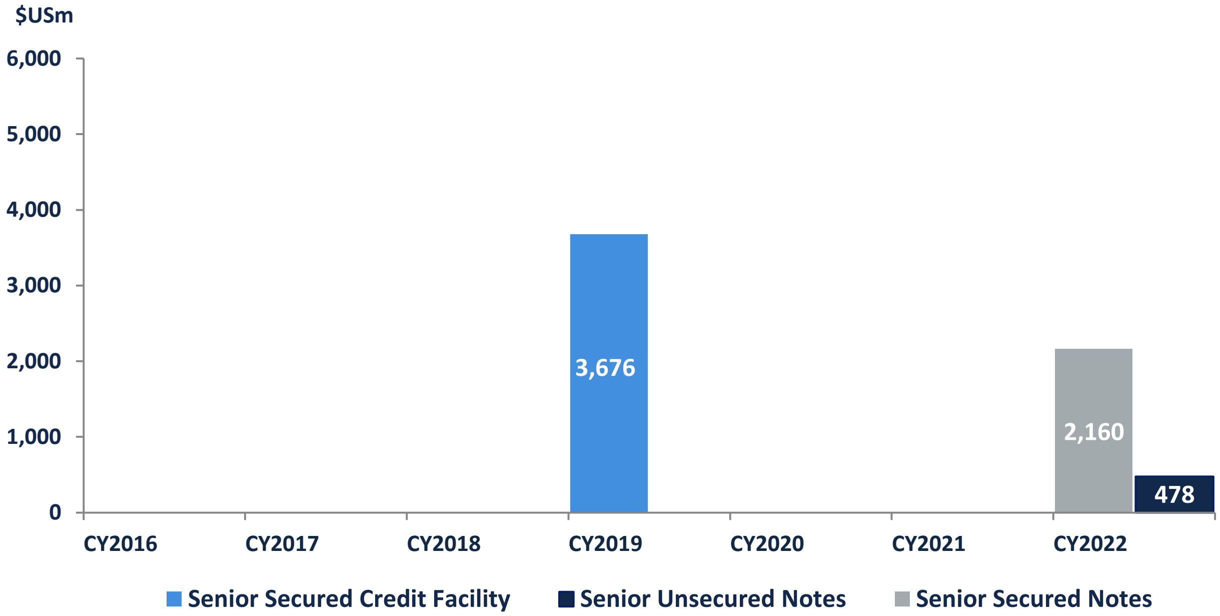
- **Cash on hand** at 30 June 2016 of US$1.6 billion.

- **Free cash flow from operations** of US$2,719 million, a 93 per cent increase from the prior year, reflecting the positive cash margins generated through operational efficiencies and lower capital expenditure.

- **Capital expenditure** reduced to US$304 million (FY15: US$626 million) including US$225 million of sustaining capital, US$48 million in VLOC progress payments and US$31 million of exploration expenditure.

- **Net debt** at 30 June 2016 of US$5.2 billion (US$7.2 billion at 30 June 2015), including cash on hand of US$1.6 billion and finance lease liabilities of US$505 million. During FY16 debt was reduced by a total of US$2.9 billion through a series of on-market buy backs, tender offers and calls.

  Fortescue has maintained the flexibility to continue early debt repayments or refinancing to further reduce debt levels. First debt maturity is in June 2019 as shown in the graph below:



- **Prepayment** balances were US$571 million at 30 June 2016 with scheduled amortisation of US$374 million in FY17 and US$197 million in FY18, subject to future additions and rollovers.

DIVIDEND

- After taking into account current results, cash flow forecasts and market conditions the Board has declared an A$ 12 cents per share final fully franked dividend.

  This brings total FY16 fully franked dividends to A$ 15 cents per share, a payout ratio of 36 per cent of profit after tax, in line with guidance of 30 to 40 per cent.

FY17 GUIDANCE

- FY17 shipping guidance of 165-170mt.
- US$12-13/wmt average C1 cost based on an exchange rate of 0.75 and an oil price of US$50 per barrel (WTI).
- Average strip ratio of 1.1. Strip ratios are expected to be slightly higher in the September 2016 quarter gradually reducing over the course of FY17.
- Price realisations between 85 and 90 per cent of the 62% Platts CFR index and an average moisture content of 8.5 per cent.
- Sustaining capital expenditure of US$2/wmt.
- Construction of eight VLOC ships continue on schedule. Options are currently being negotiated for the funding of future VLOC payments of $270 million in FY17 and US$180 million in FY18.
- Tugs and infrastructure expenditure at Port Hedland is expected to be less than US$200 million. US$90 million will be incurred in FY17 and the balance in FY18. Options to fund this project are also being considered.
- Depreciation and amortisation charges reduced to US$7.10/wmt shipped.

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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

HY - Half year

mtpa - Million tonnes per annum

NPAT - Net profit after tax

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

The reconciliation of underlying EBITDA to the financial metrics disclosed in the financial statements prepared under Australian accounting standards is presented below:

Reconciliation of underlying EBITDA to IFRS measures

US$ millions	30 June 2016	30 June 2015
Profit before income tax	1,354	420
Finance income	(214)	(15)
Finance expenses	675	644
Depreciation and amortisation	1,244	1,405
Exploration, development and other	136	52
Underlying EBITDA	3,195	2,506

VLOC - Very large ore carrier

wmt - Wet metric tonnes