

13 April 2016

March 2016 Quarterly Production Report

Fortescue has released its March 2016 quarterly production results, reporting shipments of 42.0 million tonnes of iron ore with cash production costs (C1) of US\$14.79 per wet metric tonne (wmt), a reduction of six per cent over the December 2015 quarter and 43 per cent compared to the prior comparable period.

The company's sustained focus on productivity and efficiency improvements again resulted in strong operating cash flows for the quarter, increasing cash balances to US\$2.5 billion at 31 March 2016 and lowering net debt to US\$5.9 billion.

Chief Executive Officer, Nev Power, said "The March quarter reinforces Fortescue's consistent delivery of outstanding results across all areas of the business. C1 costs have been lowered further to \$14.79/wmt, the ninth consecutive quarterly reduction, with productivity and efficiency gains offsetting increases in the Australian dollar and fuel prices."

"Our team has continued to innovate and deliver sustainable cost improvements generating strong cash margins. Cash balances have increased by US\$200 million during the quarter, lowering net debt to US\$5.9 billion and positioning us for further debt repayment."

HIGHLIGHTS

- US\$14.79/wmt C1 cost
- 42.0mt shipped
- US\$2.5 billion of cash on hand at 31 March 2016
- Net debt of US\$5.9 billion
- Memorandum of Understanding signed with Vale SA to pursue long term value creation opportunities

PRODUCTION SUMMARY

(million tonnes)	Q3 FY16	Q2 FY16	VAR%	Q3 FY15	VAR%
Ore mined	43.4	44.8	-3	35.5	+22
Overburden removed	44.7	49.9	-10	66.7	-33
Ore processed	42.3	41.6	+2	37.0	+14
Total ore shipped including third party product	42.0	42.1	-	40.4	+4
C1 (US\$/wmt)	14.79	15.80	-6	25.90	-43

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

MINING, PROCESSING AND SHIPPING

- **Fortescue's rolling twelve month total recordable injury frequency rate was 4.5** at the end of the March 2016 quarter. This is a six per cent improvement over the previous quarter and 17 per cent lower than the prior comparable period.
- **Mining, processing and shipping** were consistent with the previous quarter reflecting the sustainability of productivity and efficiency measures. Unseasonal mild weather conditions experienced during the quarter have resulted in total iron ore shipments running slightly ahead of target at the end of March 2016.
- **Overburden removal reduced by ten per cent.** Ongoing improvements in OPF upgrade performance facilitated a combined average strip ratio of 1.0 (1.2 at the Chichester Hub and 0.8 at the Solomon Hub). Low strip ratios remain sustainable for the remainder of FY16 and will progressively increase back towards the five year average strip ratio of 1.4 over the next 12 to 24 months.
- Total ore shipments are set out below:

(million tonnes)	Q3 FY16	Q2 FY16	Q3 FY15
Shipments – Fortescue mined ore	41.7	41.3	38.9
Shipments – Fortescue equity ore	41.8	41.4	39.4
Total ore shipped including third party product	42.0	42.1	40.4

GUIDANCE

- Shipments are currently running ahead of target due to the unseasonal mild weather experienced during the March quarter. Potential upside to the full year guidance remains subject to the impact of weather during the June quarter.
- US\$13/wmt cost of production exit rate in FY16 is maintained albeit more challenging to achieve given the recent increase in the Australian dollar exchange rate and higher oil prices.
- Full year C1 cost guidance is also maintained at US\$15/wmt after factoring in an average exchange rate of 0.75 for the remainder of the year.
- Capital expenditure guidance of US\$200 million is maintained together with a total of US\$50 million of progress payments on eight Very Large Ore Carriers in FY16.
- Depreciation and amortisation charges of US\$7.50/wmt shipped.

ABORIGINAL ENGAGEMENT

- **Direct Aboriginal employment continued at 13 per cent** during the March 2016 quarter, with more than 1,000 Aboriginal people employed by Fortescue and our contractors. An additional 33 Aboriginal people were trained through Fortescue's Aboriginal Development programs and commenced employment at Fortescue operational sites during this period.
- **Fortescue has awarded A\$1.8 billion through 228 contracts and sub-contracts** to 98 Aboriginal businesses and joint ventures as part of its Billion Opportunities program since its inception in 2011.

MARKETING

- **Iron ore and steel markets were strong** during the March 2016 quarter. Positive macro sentiment in China and an improving steel price were the key drivers of iron ore price with the Platts 62 CFR index averaging US\$48.30/dmt during the quarter.
- **Fortescue's average realised price was US\$45.94/dmt** for the March 2016 quarter, a 95 per cent realisation on the Platts 62 CFR index after adjusting for timing differences associated with provisional pricing.
- Fortescue products are priced relative to the Platts 62 CFR index with realised prices expected to be within the 85-90 per cent range of this index.

BALANCE SHEET

- Cash on hand at 31 March 2016 was US\$2.5 billion.
- Net debt at 31 March was US\$5.9 billion, inclusive of cash on hand and finance lease liabilities of US\$0.5 billion.
- US\$0.2 billion of cash will flow into the June 2016 quarter as timing adjustments associated with provisional pricing are realised.
- The balance of prepayments at 31 March 2016 was US\$0.7 billion following the receipt of an additional US\$0.1 billion and a US\$0.2 billion roll-over. Prepayments are now scheduled to amortise by US\$0.1 billion for the remainder of FY16, US\$0.4 billion in FY17 and US\$0.2 billion in FY18, subject to future rollovers.
- Capital expenditure for the quarter was US\$88 million bringing total capital expenditure to US\$176 million year to date.

CORPORATE

- On 8 March, Fortescue entered into a non-binding Memorandum of Understanding with Vale SA that sets out the principles on which both companies have agreed to pursue long term opportunities and create additional value for their customers in the Chinese steel industry. These opportunities include the development of an attractive and competitive new iron ore blend for our Chinese customers to reduce supply chain complexity and costs.
- Fortescue also announced the transition to a full owner operator model at Christmas Creek. The change will take effect from the completion of the current mining services contract with Downer EDI Limited ending on 30 September 2016, and will further improve efficiency and reduce costs at the Christmas Creek mining operations.

EXPLORATION & DEVELOPMENT

- **Exploration activity** was primarily focused on Fortescue's iron ore tenements in the Pilbara. Total year to date capitalised exploration expenditure is US\$22 million with total expenditure expected to be US\$30 million for FY16.
- Development of the Iron Bridge magnetite project remains subject to market conditions and joint venture approval.

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REPORTING CALENDAR

June Quarterly Report: 28 July 2016
Full Year Results Report: 22 August 2016
September Quarterly Report: 20 October 2016
Annual General Meeting: 9 November 2016

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