27 July 2016

June 2016 Quarterly Production Report

Fortescue Metals Group Limited (ASX: FMG, Fortescue)

Fortescue has released its June 2016 quarterly production results, reporting shipments of 43.4 million tonnes of iron ore with cash production costs (C1) of US$14.31 per wet metric tonne (wmt), a reduction of three per cent compared to the March 2016 quarter and 35 per cent over the prior twelve months.

Guidance for FY17 has also been released targeting shipments between 165-170mt and C1 costs in the range of US$12-13/wmt.

Operating cash flows throughout the quarter supported additional debt repayments, with net debt lowered to US$5.2 billion at 30 June 2016 inclusive of cash balances of US$1.6 billion and total debt repayments of US$2.9 billion during FY16.

Chief Executive Officer, Nev Power, said "Our June quarter result demonstrates the consistent delivery of outstanding operational performance across all aspects of our business. Costs have been lowered for the tenth consecutive quarter and our continued focus on productivity and efficiency measures will drive C1 costs even lower in FY17."

"With net debt reduced to US$5.2 billion, we are fast approaching our initial balance sheet targets and will continue to apply cash flows to further reduce debt."

"Our team continued to innovate and deliver sustainable cost improvements through a focus on productivity and efficiency at our world class mining and infrastructure assets to generate long term value for our shareholders."

HIGHLIGHTS – JUNE 2016 QUARTER

- US$14.31/wmt C1 cost
- 43.4mt shipped
- US$1.6 billion of cash on hand at 30 June 2016
- Net debt of US$5.2 billion with net gearing[1] below 40 per cent
- FY16 C1 cost of US$15.43/wmt

PRODUCTION SUMMARY

(million tonnes)	Q4 FY16	Q3 FY16	VAR%	Q4 FY15	VAR%
Ore mined	**47.8**	43.4	*10%*	42.1	*14%*
Overburden removed	**48.6**	44.7	*9%*	41.4	*17%*
Ore processed	**42.8**	42.3	*1%*	41.0	*4%*
Total ore shipped including third party product	**43.4**	42.0	*3%*	42.4	*2%*
C1 (US$/wmt)	**14.31**	14.79	*-3%*	22.16	*-35%*

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 (TRIFR) was 4.3** at the end of the June 2016 quarter, a 15 per cent reduction over the prior financial year. This reduction is an important milestone on the journey towards zero injuries.

- **Mining, processing, rail and shipping** continued to perform well reflecting the sustainability of productivity and efficiency measures. Underlying cost reductions achieved during the quarter were offset by higher exchange rates and fuel prices resulting in a US$13.10/wmt C1 cost in the month of June 2016.

  During the quarter, the Solomon Autonomous Haulage System fleet safely transported the 200 millionth tonne of material using driverless trucks.

- **Strip ratios on a combined basis were 1.0 for the quarter.** The continued improvement in OPF upgrade performance has increased ore recovery, with strip ratios at the Chichester and Solomon Hubs each averaging 1.0 during the quarter.

  Strip ratios are expected to average 1.4 over the next five years, however, options to further improve OPF and mining performance continue to be developed and are expected to lower strip ratios over that time frame.

- Total ore shipments are set out below:

(million tonnes)	Q4 FY16	Q3 FY16	Q4 FY15
Shipments – Fortescue mined ore	43.4	41.7	40.9
Shipments – Fortescue equity ore	43.4	41.8	41.3
Total ore shipped including third party product	43.4	42.0	42.4

FY17 GUIDANCE

- **165-170mt of shipments.**

- **US$12-13/wmt C1 cost.** C1 costs are expected to progressively reduce over the course of FY17 as productivity and efficiency gains take full effect. Cost guidance remains subject to key variables such as exchange rate and oil price which have been assumed to average $0.75 and US$50 per barrel (WTI) respectively.

- **Average strip ratios of 1.1**. Strip ratios are expected to be slightly higher in the September 2016 quarter and will gradually reduce over the course of FY17.

- **Price realisations of between 85 and 90 per cent** of the Platts 62 CFR index and an average moisture content of 8.5 per cent.

- **Sustaining capital expenditure** of US$2.00/wmt.

- **Construction of eight Very Large Ore Carriers (VLOCs) continues 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 at Port Hedland** are estimated to have a capital cost less than US$200 million. FY17 capital expenditure on the project is US$90 million with the balance due in FY18. Options to fund this project are also being considered.

- **Depreciation and amortisation** charges to reduce to US$7.10/wmt shipped.

ABORIGINAL ENGAGEMENT

- **Direct Aboriginal employment** rose to 14% at the end of the June quarter. Fortescue and its contractors employ more than 1,100 Aboriginal people across Fortescue sites.

- **Fortescue's second intake of its Trade Up Program** occurred during the quarter and currently has 36 participants. The program provides a pathway to a trade qualification for Aboriginal employees. In addition, Fortescue's Apprenticeship Program has 10 Aboriginal apprentices from a total of 41 participants.

- **Fortescue's Billion Opportunities program** was recognised at a national level at the annual Supply Nation Connect Awards in May. Fortescue currently has 38 Aboriginal businesses providing goods and services with the total value of contracts awarded under the Billion Opportunities program maintained at AUD$1.8 billion.

MARKETING

- **Iron ore and steel markets remained positive** during the June 2016 quarter. Increased Chinese demand from the property and infrastructure sectors together with low inventory and strong exports supported steel production. These combined effects drove the average Platts 62 CFR index iron ore price to US$55.66/dmt for the June 2016 quarter, 15 per cent higher than the March 2016 quarter.

- **Fortescue's average realised price was US$48.79/dmt** for the quarter, an 88 per cent realisation on the Platts 62 CFR index after adjusting for timing differences associated with provisional pricing.

- **Average price realisation for FY16 was 88 per cent** or US$45.36 after taking into account the full impact of all provisional price timing differences and revenue adjustments.

BALANCE SHEET

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

- **Net debt was US$5.2 billion**, inclusive of cash on hand and finance lease liabilities of US$0.5 billion at 30 June 2016.

- **US$1.7 billion of debt was repaid during the quarter** through redemption of US$577 million of 2019 Senior Unsecured Notes and $1.15 billion of the Term Loan. Total debt repayments in FY16 were US$2.9 billion.

- **Net gearing has dropped below 40 per cent** with gross gearing[2] expected to fall below 40 per cent during FY17.

- **Sustaining capital expenditure in FY16 was US$1.33/wmt,** well below original guidance of US$2.00/wmt and slightly above revised guidance of US$1.21/wmt due to timing, higher exchange rates and fuel prices. Capital expenditure on construction of eight VLOCs was US$48 million, in line with guidance.

- **Prepayment balances are US$0.6 billion at 30 June 2016** with scheduled amortisation of US$0.4 billion in FY17 and US$0.2 billion in FY18, subject to future additions and rollovers.

CORPORATE

- **Discussions with Vale SA continue** and Fortescue remains hopeful that an agreement can be concluded before the end of the year.

- **A second towage licence was awarded** to Fortescue for the construction of marine and landside tug haven facilities at Port Hedland. The towage services have been awarded for an initial term of 15 years, commencing in 2019.

- **Fortescue is exploring** the level of external interest in a number of potential lithium projects located within its tenement holdings in the Pilbara.

EXPLORATION & DEVELOPMENT

- **Exploration activity** was primarily focused on Fortescue's iron ore tenements in the Pilbara. Total capitalised exploration expenditure in FY16 was US$31 million, in line with previous guidance. FY17 exploration expenditure is expected to be US$40 million.

- **Fortescue continues to undertake early stage, low cost exploration** on copper-gold prospective tenements in South Australia and New South Wales and is assessing high potential, early stage exploration tenements in highly prospective areas of Ecuador. This exploration is in line with Fortescue's strategy of focussing on its core iron ore business while creating low cost future optionality.

- **Development planning is underway for replacement of Firetail** within the next five years. This strategy involves progressive steps to develop satellite ore bodies and, in the medium to long term, will require the extension of rail infrastructure. High level capital cost estimates of this development are expected to range between US$1.0 to US$1.5 billion and, depending on the preferred strategy, are likely to be incurred between FY19 to FY21.

- **The Iron Bridge magnetite project** remains subject to market conditions and joint venture approval.

MEDIA CONTACT

Luke Forrestal
E: mediarelations@fmgl.com.au
M: 0411 479 144

INVESTOR RELATION CONTACT

Stuart Gale
E: investorrelations@fmgl.com.au

REPORTING CALENDAR

Full Year Results Report: 22 August 2016
September Quarterly Report: 20 October 2016
Investor presentation: 1 November 2016
Investor site tour: 2 and 3 November 2016
Annual General Meeting: 9 November 2016

Online: www.fmgl.com.au
Twitter: twitter.com/FortescueNews
Youtube: www.youtube.com/user/FortescueMetalsGroup
Investor Relations: investorrelations@fmgl.com.au
Media: mediarelations@fmgl.com.au

[1] Net gearing is defined as net debt / (net debt + equity)
[2] Gross gearing is defined as gross debt / (gross debt + equity)