20 October 2016

September 2016 Quarterly Production Report

Fortescue Metals Group Limited (ASX: FMG, Fortescue)

Fortescue has released its September 2016 quarterly production results, reporting shipments of 43.8 million tonnes of iron ore consistent with guidance and prior performance. Cash production costs (C1) improved to US$13.55 per wet metric tonne (wmt), a reduction of five per cent compared to the June 2016 quarter and 20 per cent over the prior twelve months.

During the quarter Fortescue repaid US$700 million of debt and reduced net debt to US$4.2 billion inclusive of US$1.8 billion cash and finance leases of US$0.5 billion.

Chief Executive Officer, Nev Power, said "Key to our sustained performance has been the alignment of our marketing and operations strategies to optimise production, maximise efficiency and consistently deliver quality products. This has driven C1 costs to US$13.55/wmt, the eleventh consecutive quarterly reduction, generating continued strong cash margins."

"All of our operations delivered strong production results during the quarter and most importantly we also achieved a company wide improvement in safety performance of 36 per cent compared to a year ago."

"An additional US$700 million of debt was repaid during the quarter reducing net debt to US$4.2 billion with net gearing of 33 per cent. Our focus remains firmly on continuing to innovate, improve productivity and efficiency for ongoing cost improvements, debt reduction and enhanced shareholder value."

HIGHLIGHTS – SEPTEMBER 2016 QUARTER

- Safety TRIFR of 3.4 achieved, 21 per cent reduction over prior quarter
- US$13.55/wmt C1 cost
- 43.8 million tonnes (mt) shipped
- US$1.8 billion of cash on hand at 30 September 2016
- Net debt of US$4.2 billion with net gearing[1] of 33 per cent

PRODUCTION SUMMARY

(million tonnes)	Q1 FY17	Q4 FY16	VAR%	Q1 FY16	VAR%
Ore mined	**49.5**	47.8	*4%*	45.1	*10%*
Overburden removed	**52.9**	48.6	*9%*	52.7	-
Ore processed	**43.6**	42.8	*2%*	40.9	*7%*
Total ore shipped including third party product	**43.8**	43.4	*1%*	41.9	*5%*
C1 (US$/wmt)	**13.55**	14.31	*-5%*	16.90	*-20%*

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

- **The total recordable injury frequency rate (TRIFR) was 3.4** on a rolling 12 month basis at the end of the September 2016 quarter. This is a 21 per cent reduction over the June quarter and 36 per cent reduction over the September 2015 quarter. The health and safety of Fortescue people remains the key priority across all of Fortescue's operations.

- **Mining, processing and shipping each** achieved record operational performance during the quarter. Productivity and efficiency initiatives have driven this performance and lowered C1 costs to US$13.55/wmt. Sustainability of performance together with a focus on additional productivity improvements position Fortescue to achieve FY17 C1 cost guidance of US$12-13/wmt.

- **Strip ratios were 1.1 for the quarter** with the Chichester Hub at 1.1 and Solomon Hub at 1.0.

  Ongoing initiatives to improve OPF and mining performance are expected to minimise the impact of higher strip ratios which are currently estimated to average 1.4 over five years. Based on recent operational performance a reversion to the average five year strip ratio would increase C1 costs by approximately US$1.00/wmt.

GUIDANCE

- **FY17 guidance** is maintained at 165-170mt shipped.

- **US$12-13/wmt C1 cost.** Cost guidance is subject to key variables such as exchange rate and oil price which have been assumed to average US$0.75 and US$50 per barrel (WTI) respectively.

- **Average strip ratios of 1.1** in FY17.

- **85 – 90 per cent average price realisations** on the Platts 62 CFR Index.

DIVERSITY

- **Fortescue's Aboriginal employment** rose to 15 per cent of the workforce by the end of the September quarter. Aboriginal women comprise 22 per cent of the Aboriginal workforce. Fortescue and its contractors employ more than 1,100 Aboriginal people across Fortescue sites.

- **Fortescue's Billion Opportunities program** currently has 38 Aboriginal businesses providing goods and services with the total value of contracts awarded maintained at A$1.8 billion.

- **Fortescue's female participation rate** in the workforce is now at 16 per cent. Fortescue is committed to achieving diversity across all operations, with a specific focus and range of programs in place to address female participation rates.

MARKETING

- **Iron ore and steel markets continued to be supported by infrastructure and housing activity** in China during the September 2016 quarter. Steel consumption in China remains stable and together with exports resulted in annualised steel production of 809mt at the end of September.

- **Fortescue's average realised price was US$48.36/dmt for the quarter**, an 82.5 per cent realisation on the Platts 62 CFR index after adjusting for timing differences associated with provisional pricing. Price realisations are expected to return to the 85–90 per cent guidance range throughout FY17.

BALANCE SHEET

- **Cash on hand was US$1.8 billion** at 30 September 2016.
- **Net debt was US$4.2 billion**, including cash on hand and finance lease liabilities of US$0.5 billion at 30 September 2016.
- **US$700 million of Term Loan debt was repaid at par** during the quarter.
- **Net gearing decreased to 33 per cent** and gross gearing is expected to fall below 40 per cent during FY17.
- **Sustaining capital expenditure was US$1.28/wmt during the September quarter.** Full year sustaining capital is expected to average US$2.00/wmt.
- **Prepayment balances were US$0.9 billion at 30 September 2016,** a net increase of $0.3 billion after receipt of US$0.5 billion and amortisation of US$0.2 billion during the quarter. The prepayment balance of US$0.9 billion is scheduled to amortise by US$0.2 billion in FY17, US$0.5 billion in FY18 and US$0.2 billion in FY19, subject to future additions and rollovers.

CORPORATE

- **Fortescue agreed to acquire BC Iron's 75 per cent interest in the Nullagine Joint Venture for A$1** and will constantly evaluate the viability of restarting operations subject to market conditions.
- **Discussions with Vale SA** to jointly develop a blended product continue to progress.
- **Construction of eight VLOC ships is on schedule** with the first ship due for delivery in late November 2016**.** Capital expenditure on VLOC's was US$35 million during the quarter with remaining FY17 spend of US$235 million and US$180 million in FY18. Funding arrangements are expected to be complete before delivery of the first VLOC.

EXPLORATION & DEVELOPMENT

- **Exploration expenditure during the quarter** was US$11 million and was primarily focused on Fortescue's iron ore tenements in the Pilbara. Total FY17 exploration expenditure is estimated to be US$40 million.
- **Fortescue continues to undertake early stage, low cost exploration** on copper-gold prospective tenements in 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 expenditure associated with replacement of Firetail** has been bought forward to ensure all early stage approvals are obtained. Total Firetail replacement expenditure is estimated at US$1.0 to US$1.5 billion with the majority to be incurred between FY19 to FY21.
- **The Iron Bridge magnetite project** remains subject to feasibility, market conditions and joint venture approval.

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REPORTING CALENDAR

Investor presentation: 25 October 2016
Investor site tour: 25 and 26 October 2016
Annual General Meeting: 9 November 2016

Online: www.fmgl.com.au
Twitter: twitter.com/FortescueNews
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[1] Net gearing is defined as net debt / (net debt + equity)
[2] Gross gearing is defined as gross debt / (gross debt + equity)