31 January 2017

Fortescue
The New Force in Iron Ore

December 2016 Quarterly Production Report

Fortescue Metals Group Limited (ASX: FMG, Fortescue)

Fortescue has released its December 2016 quarterly production results, reporting shipments of 42.2 million tonnes of iron ore consistent with guidance and prior performance. Cash production costs (C1) were improved to US$12.54 per wet metric tonne (wmt), a reduction of seven per cent compared to the September 2016 quarter and 21 per cent over the prior twelve months.

During the quarter Fortescue repaid a further US$1.0 billion of debt, reducing gross gearing to 36 per cent and net gearing to 30 per cent. Net debt at 31 December 2016 was lowered to US$4.0 billion, inclusive of US$1.2 billion cash and US$0.6 billion of finance leases.

Chief Executive Officer, Nev Power, said "Fortescue has delivered another strong quarterly result, achieving improved safety performance, consistent production and sustained cost reductions across all of our operations. Through continued focus on efficiency and productivity initiatives, C1 costs were lowered for the 12th consecutive quarter to US$12.54/wmt."

"Our strong operating results together with positive market conditions have generated excellent cash flow which supported a further US$1.0 billion of debt repayments in December. Initial gearing targets have been surpassed and it is pleasing to see the ratings agencies recognise our performance and upgrade their ratings and outlook accordingly."

HIGHLIGHTS – DECEMBER 2016 QUARTER

- TRIFR of 3.2, six per cent improvement on the prior quarter
- US$12.54/wmt C1 cost
- 42.2 million tonnes shipped
- US$1.2 billion of cash on hand and net debt of $4.0 billion at 31 December 2016
- Initial gearing target achieved with gross gearing of 36 per cent

PRODUCTION SUMMARY

(million tonnes)	Q2 FY17	Q1 FY17	VAR%	Q2 FY16	VAR%
Ore mined	**50.1**	**49.5**	*1%*	44.8	*12%*
Overburden removed	**54.6**	**52.9**	*3%*	49.9	*9%*
Ore processed	**42.4**	**43.6**	*-3%*	41.6	*2%*
Total ore shipped including third party product	**42.2**	**43.8**	*-4%*	42.1	-
C1 (US$/wmt)	**12.54**	**13.55**	*-7%*	15.80	*-21%*

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

MINING, PROCESSING AND SHIPPING

- **Safety performance improved by six per cent during the December quarter and by 33 per cent over the prior 12 months, with a Total Recordable Injury Frequency Ratio (TRIFR) of 3.2** on a rolling 12 month basis. We are maintaining our focus on continuing to improve the health and safety of all of our employees and contractors.

- **Mining, processing and shipping** were consistent with prior performance and in line with FY17 guidance. Productivity and efficiency initiatives continue to drive performance and have lowered quarterly C1 costs to US$12.54/wmt. Sustainability of existing initiatives and a focus on continuous improvement place Fortescue in a strong position to achieve C1 cost guidance of US$12-13/wmt in FY17.

- **The average strip ratio was 1.1 for the quarter** with the Chichester Hub at 1.2 and Solomon Hub at 0.9. Average five year strip ratios of 1.4 are expected to increase C1 costs by approximately US$1.00/wmt based on current operational performance. Ongoing initiatives to improve OPF and mining performance are being developed to mitigate the impact of these higher strip ratios going forward.

FY17 GUIDANCE

- **Shipments of 165-170mt,** subject to wet season impacts.

- **C1 cost of US$12-13/wmt.** 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 ratio of 1.1** in FY17.

- **Price realisations of 85–90 per cent** on the Platts 62 CFR Index in FY17.

- **Sustaining capital expenditure of US$2.00/wmt** subject to the early adoption and investment in productivity and efficiency initiatives, foreign exchange rates and inflation.

DIVERSITY

- **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 Aboriginal employment** was 15 per cent of the workforce at the end of the December quarter. Fortescue and its contractors employ more than 1,100 Aboriginal people across Fortescue sites. Aboriginal women comprise 22 per cent of the total Aboriginal workforce.

- **Fortescue's female participation rate** in the workforce was 16.2 per cent at the end of December 2016. Fortescue is committed to achieving diversity across all operations, with a specific focus and range of programs in place to increase female employment rates.

MARKETING

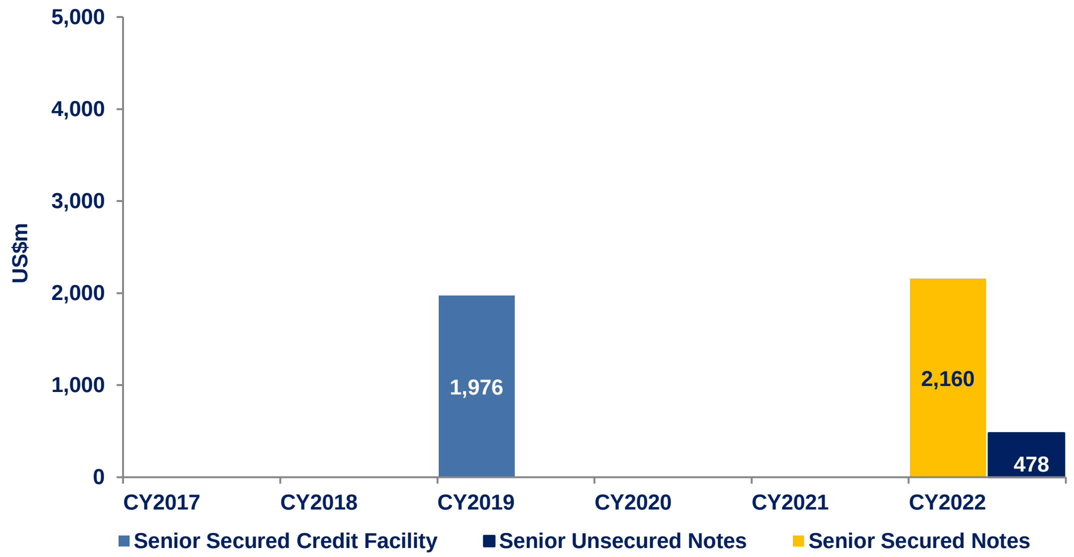
- **Iron ore and steel markets grew at a modest rate during calendar year 2016** with China importing a record 1.02 billion tonnes of iron ore, and steel production increasing by 1.2 per cent to 808 million tonnes compared to 2015. Ongoing Chinese economic policies and infrastructure project initiatives continue to support the demand for steel and iron ore.

- **Fortescue's average realised price was US$64.87/dmt for the quarter**, a 91.7% realisation on the Platts 62 CFR index after adjusting for timing differences associated with provisional pricing. Price realisations are expected to average 85-90 per cent over FY17.

BALANCE SHEET

- **Cash on hand was US$1.2 billion** at 31 December 2016.
- **Net debt was US$4.0 billion**, including cash on hand and finance lease liabilities of US$0.6 billion at 31 December 2016.
- **US$1.0 billion of Term Loan debt was repaid at par** during the quarter. Net gearing decreased to 30 per cent with gross gearing decreasing to 36 per cent at 31 December 2016.

  Fortescue's debt maturity profile at 31 December 2016 is set out below:



- **Total capital expenditure for the quarter was US$210 million** inclusive of sustaining capital, ship construction, exploration and development.
- **Prepayment amortisation** during the December 2016 quarter was US$125 million reducing the total prepayment balance to US$797 million at 31 December 2016. Subject to future additions and rollovers, prepayments will amortise over the remainder of FY17 (US$100 million), FY18 (US$450 million) and FY19 (US$247 million).
- **Working capital increased by US$385 million during the quarter** mainly due to an increase in receivables associated with an increase in the iron ore price and provisional pricing adjustments. This increase is expected to reverse in the second half of FY17.

CORPORATE

- **Fortescue completed a financing agreement for eight ore ships with CDB Leasing**. The finance lease facility funds 85 per cent of the construction cost for a minimum of 12 years on highly flexible terms, including early repayment and extension options. On delivery of each ship, 85 per cent of the construction cost will be drawn down from the finance lease facility.
- **Fortescue's first ore ship, FMG Nicola, was delivered and successfully completed her maiden voyage during December.** Construction of the remaining seven vessels is on schedule with capital expenditure of US$57 million during the quarter with FY17 spend of US$270 million and US$180 million in FY18.

- **Ratings agencies S&P and Moody's have both upgraded Fortescue's** corporate issuer and debt ratings with secured debt upgraded to investment grade. All ratings have a stable outlook and are set out in the table below:

Agency	Corporate Family Rating	Secured Debt Rating	Unsecured Debt Rating
Moody's	Ba1	Baa3	Ba2
S&P	BB+	BBB-	BB
Fitch	BB+	BBB-	BB

EXPLORATION & DEVELOPMENT

- **Exploration expenditure during the quarter** was US$9 million. Total FY17 exploration expenditure is estimated to be US$40 million.
- **Exploration was mainly focused on iron ore in the Pilbara during the December quarter.** In-fill drilling was carried out on the Eliwana area in the Western Hub with results consistent with expectations.
- **Development work on the Firetail replacement project** has commenced to allow for the timely processing of approvals and licences. Expenditure during the quarter was US$6 million with total FY17 development expenditure expected to be US$40 million.

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REPORTING CALENDAR

Half Year Results Announcement	22 February 2017
March Quarter Production Report	13 April 2017
June Quarter Production Report	27 July 2017
Full Year Results Announcement	21 August 2017
September Quarter Production Report	24 October 2017
Annual General Meeting	8 November 2017

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