13 April 2017

Fortescue
The New Force in Iron Ore

March 2017 Quarterly Production Report

Fortescue Metals Group Limited (ASX: FMG, Fortescue)

Fortescue has released its March 2017 quarterly production results, reporting shipments of 39.6 million tonnes of iron ore. Cash production costs (C1) were US$13.06 per wet metric tonne (wmt), a 12 per cent improvement over the prior comparable period and four per cent higher than the December 2016 quarter due to wet weather impacts on production and shipments.

During the quarter Fortescue repaid a further US$1.0 billion of debt, reducing gross debt to US$4.3 billion, inclusive of US$0.7 billion of finance leases with US$1.5 billion cash on hand at 31 March 2017. This debt reduction has lowered gross gearing to 31 per cent with net gearing of 22 per cent.

Chief Executive Officer, Nev Power, said "Our teams continued to deliver excellent results with improved safety performance and operating margins compared to our first half results. The average realised iron ore price of US$65 per dry metric tonne with a C1 cost of US$13.06/wmt generated strong cash flows which were applied to a further US$1.0 billion debt repayment in March."

"We remain on track to deliver our guidance of between 165 and 170 million tonnes for the full year at a C1 cost of US$12-13/wmt and will continue our focus on further repayment of debt, investment in our core iron ore business and returns to shareholders."

HIGHLIGHTS – MARCH 2017 QUARTER

- TRIFR of 2.9, a nine per cent improvement on the December 2016 quarter
- US$13.06/wmt C1 cost, 12 per cent lower than the prior comparable period
- 39.6 million tonnes shipped
- US$1.0 billion of debt repaid
- Gross debt of US$4.3 billion at 31 March 2017
- Gross gearing of 31 per cent and net gearing of 22 per cent

PRODUCTION SUMMARY

(million tonnes)	Q3 FY17	Q2 FY17	VAR%	Q3 FY16	VAR%
Ore mined	**44.7**	50.1	*-11%*	43.4	*3%*
Overburden removed	**44.4**	54.6	*-19%*	44.7	*-1%*
Ore processed	**40.4**	42.4	*-5%*	42.3	*-4%*
Total ore shipped	**39.6**	42.2	*-6%*	42.0	*-6%*
C1 (US$/wmt)	**13.06**	12.54	*4%*	14.79	*-12%*

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

Fortescue Metals Group Limited
ABN 57 002 594 872
Level 2, 87 Adelaide Terrace
East Perth, Western Australia 6004

PO Box 6915
East Perth, Western Australia
P +61 8 6218 8888
E fmgl@fmgl.com.au

www.fmgl.com.au
@FortescueNews

MINING, PROCESSING AND SHIPPING

- **Safety performance improved by nine per cent during the March quarter and by 31 per cent over the prior 12 months, with a Total Recordable Injury Frequency Ratio (TRIFR) of 2.9** on a rolling 12 month basis. Fortescue continues to focus on improving the health and safety of all employees and contractors.
- **Mining, processing and shipping** was in line with expectations although lower than the prior period as a result of heavy rainfall at the mine sites and several closures of the port due to tropical storms. C1 cost increased slightly to US$13.06/wmt in the quarter reflecting the lower production volume associated with these weather impacts and remained in line with the cost reported for the first half of FY17. Sustainability of existing initiatives and a focus on operational performance position Fortescue to achieve FY17 shipping guidance of 165-170wmt with C1 cost of US$12-13/wmt.
- **The average strip ratio was 1.0 for the quarter** with the Chichester Hub at 1.1 and Solomon Hub at 0.8.

MARKETING

- **Iron ore and steel demand remained strong during the March 2017 quarter** driven by ongoing construction and infrastructure activity in China. Customers have continued to bid-up the price of higher grade ores to offset the impacts of coking coal prices, restrictions on steel mill production and to take advantage of high steel margins.
- **Fortescue's average realised price for the quarter of US$65/dmt** was in line with the December quarter. This represents a 76 per cent price realisation based on the quarterly average Platts 62 CFR price of US$86/dmt after adjusting for timing differences associated with provisional pricing.
- Fortescue's actual price received and operating margins have improved when compared to the first half of FY17 despite price realisation falling during the quarter.
- With the current widening of spreads in prices between iron ore grades, Fortescue has lowered FY17 price realisation guidance to between 75 and 85 per cent of the Platts 62 CFR index. Over the longer term, average price realisation for Fortescue products is expected to revert to historical levels.

FY17 GUIDANCE

- **Shipments between 165-170mt**.
- **C1 cost of US$12-13/wmt.** Cost guidance remains 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 75-85 per cent** on the Platts 62 CFR Index in FY17.
- **Sustaining capital expenditure of US$2.00/wmt** subject to key variables such as oil price, foreign exchange rates and inflation. Sustaining capital is expected to be between US$3.00 and 3.50/wmt in FY18.

DIVERSITY

- **The value of contracts and sub-contracts awarded to Aboriginal businesses and joint ventures through Fortescue's Billion Opportunities** rose to A$1.85 billion during the quarter, following the award of a multi-million dollar safety consumables and materials contract.
- **Fortescue's Aboriginal employment** was 15 per cent of the workforce at the end of the March quarter. Fortescue and its contractors employ more than 1,300 Aboriginal people across Fortescue sites.
- **Fortescue's female participation rate** increased to 16.8 per cent of the workforce at the end of March 2017 as a result of a continuing focus on increasing diversity across the business particularly on programs to increase female employment.

BALANCE SHEET

- **Cash on hand was US$1.5 billion** at 31 March 2017.
- **Gross debt was US$4.3 billion**, inclusive of finance lease liabilities of US$0.7 billion with gross gearing decreasing to 31 per cent and net gearing of 22 per cent at 31 March 2017.
- **US$1.0 billion of Term Loan debt was repaid at par** during the quarter bringing total repayments for FY17 to **US$2.7 billion**.
- **Total capital expenditure for the quarter was US$194 million** inclusive of sustaining capital, ship construction, exploration and development.
- **Iron ore prepayments** were US$797 million at 31 March 2017. Subject to future additions and rollovers, prepayments are scheduled to amortise by US$350 million in FY18 and US$447 million in FY19.
- **Receivables reduced by US$235 million** during the quarter.

CORPORATE

- **Fortescue's second ore carrier, the FMG Grace, was delivered in February**. Construction of the remaining six vessels continues on schedule with total FY17 capital expenditure of US$270 million and US$180 million in FY18.

EXPLORATION & DEVELOPMENT

- **Exploration was primarily focused on iron ore in the Pilbara** with expenditure of US$10 million during the quarter. Total FY17 expenditure is unchanged and estimated to be US$40 million.
- **Fortescue has been granted 32 exploration areas in Ecuador.** Formal consultation with the communities in the vicinity of these areas and baseline environmental studies have commenced.
- **Fortescue has continued target definition work** on the joint venture tenure near Orange, NSW. Detailed analysis and interpretation to define drill targets continues.

MEDIA CONTACT

Michael Vaughan
E: mediarelations@fmgl.com.au
M: 0422 602 720

INVESTOR RELATIONS CONTACT

Stuart Gale
E: investorrelations@fmgl.com.au

REPORTING CALENDAR

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

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