21 February 2018

Half Year Financial Results to 31 December 2017

Fortescue Metals Group Limited (ASX: FMG, Fortescue)

Net profit of US$681 million and interim dividend of A$0.11 per share

Fortescue has released its FY18 half year results reporting a net profit after tax of US$681 million and Underlying EBITDA of US$1,828 million.

HIGHLIGHTS

- Safety TRIFR of 3.1, a 3 per cent improvement on the prior comparable period
- Net profit after tax of US$681 million and Underlying EBITDA of US$1.8 billion
- 84.5 million tonnes (mt) of ore shipped
- US$12.11 per wet metric tonne (wmt) C1 cost, a 7 per cent improvement compared to HY17
- Net debt of US$3.3 billion, inclusive of US$892 million in cash
- New US$1.4 billion Term Loan facility to partially repay 9.75 per cent Secured Notes
- A$0.11 per share fully franked interim dividend

Total iron ore shipments for the six months ended 31 December 2017 were 84.5mt with C1 costs of US$12.11/wmt. Productivity and efficiency initiatives continue to deliver operational improvements resulting in consistent earnings per tonne and strong cash flow generation.

Cash at 31 December 2017 was US$892 million with gross debt reducing to US$4.2 billion and a net gearing level of 25 per cent. Fortescue has established a new US$1.4 billion Term Loan with proceeds to be used to partially repay the high cost 2022 Senior Secured Notes and lower Fortescue's borrowing costs.

Fortescue Chief Executive Officer, Elizabeth Gaines said, "Our team has continued to deliver during the first half improving safety, lowering C1 costs to US$12.08/wmt in the December quarter and maintaining production in line with our full year guidance of 170mtpa."

"We are also very pleased to have finalised a US$1.4 billion funding agreement with key Chinese, domestic and international relationship banks. This facility lowers Fortescue's average cost of capital, improves flexibility, strengthens the balance sheet and further develops our strong relationships with China."

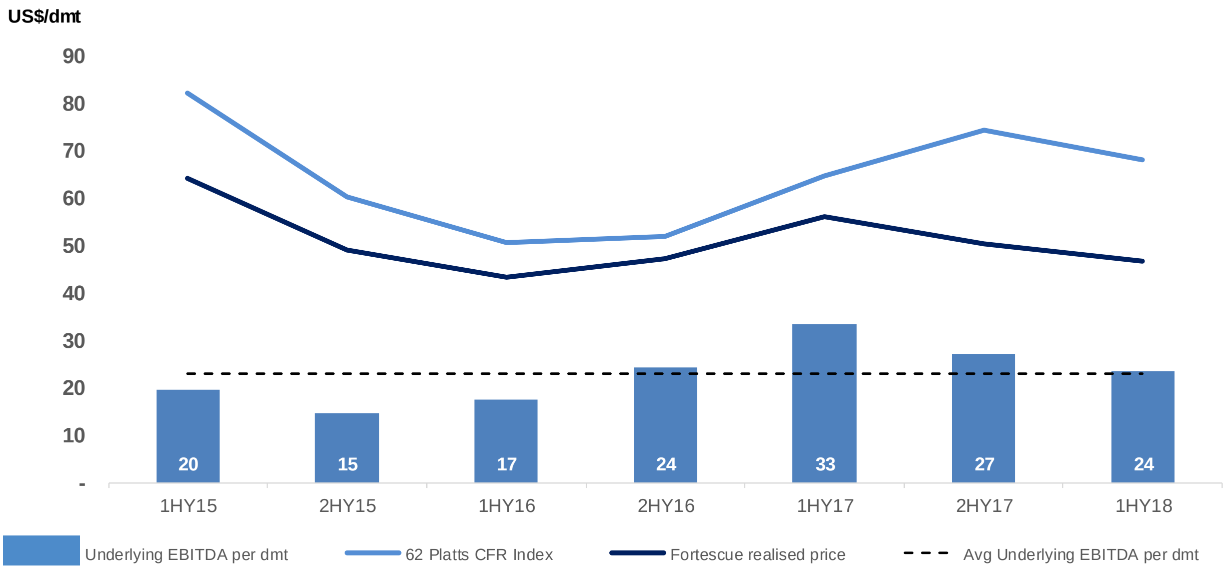
"Our consistent operating performance and financial outlook has led to the Board declaring an interim fully franked dividend of A$0.11 per share, which is a 40 per cent pay-out of net profit after tax."

FINANCIAL PERFORMANCE

	31 DEC 17	31 DEC 16	*Var %*
Revenue (US$ millions)	3,679	4,492	*-18%*
Underlying EBITDA (US$ millions)	1,828	2,645	*-31%*
Net profit after income tax (US$ millions)	681	1,222	*-44%*
Cash generated from operations (US$ millions)	1,391	2,332	*-40%*
Basic earnings per share (US cents)	21.9	39.3	*-44%*

- **Revenue** of US$3,679 million decreased by 18 per cent compared to HY17 as high steel mill profitability incentivised blast furnaces to maximise production by using higher iron content ores. Revenue realised was US$47/dmt (HY17: US$56/dmt) or 68 per cent of the Platts 62 CFR price which averaged US$68/dmt (HY17: US$65/dmt) during the half year.

- **Underlying EBITDA** of US$1,828 million was 31 per cent lower compared to HY17 due to the decrease in revenue. Cost improvements and productivity initiatives have partially offset the lower revenue and Fortescue has maintained a relatively consistent earnings profile since 1HY15 on Underlying EBITDA per tonne as reflected in the chart below:



- **C1 operating costs** improved to average US$12.11/wmt in HY18, a 7 per cent reduction from the prior comparable period. Fortescue achieved a record low C1 cost of US$12.08/wmt in the December 2017 quarter as productivity and efficiency initiatives continued to offset the impact of higher strip ratios, exchange rates and fuel prices.

- **Total delivered cost** to customers, inclusive of C1, shipping, royalty and administration costs, remained constant at US$22/wmt, as lower C1 costs were offset by a 27 per cent increase in average shipping cost.

CASH FLOW AND BALANCE SHEET

- **Cash on hand** at 31 December 2017 of US$892 million.

- **Cash generated from operations** of US$1,391 million, reflecting the continued positive cash margins generated through operational performance.

- **Capital expenditure** totalled US$413 million (HY17: US$312 million) inclusive of US$249 million of sustaining capital, US$62 million for ore carrier construction, US$29 million of exploration, US$26 million for the tug project and US$47 million of development expenditure.

- **Gross debt decreased to** US$4.2 billion (HY17: US$5.2 billion), inclusive of finance lease liabilities of US$520 million. During HY18 Fortescue re-purchased the Solomon Power Station reducing debt by US$324 million.

- **A US$1.4 billion Term Loan** established and announced on 20 February 2018. This facility provides improved capital management flexibility with terms reflecting Fortescue's strengthened credit profile.

  The Loan has competitive investment grade terms and conditions consistent with the existing Revolving Credit Facility with a four year maturity and an option to extend for one year. Proceeds from this Loan will be used to repay a portion of the 9.75 per cent Senior Secured Notes, reducing Fortescue's ongoing borrowing cost by approximately US$80 million per annum. Repayment of the Senior Secured Notes will attract a one off cost equivalent to 9.75 per cent of the amount repaid.

- **Prepayment balance was US$794 million** at 31 December 2017 with scheduled amortisation of US$270 million in FY19 and the balance in FY20, subject to future additions and rollovers.

- **The US$525 million revolving credit facility** remained undrawn at 31 December 2017.

DIVIDEND

- The Board has declared an interim fully franked dividend of A$0.11 per share, a pay-out ratio of 40 per cent of net profit after tax after taking into account Fortescue's operating performance and financial outlook.

FY18 GUIDANCE

- **170mt** of product shipped
- **C1 cost of US$11-12/wmt** subject to fluctuations in the Australian dollar exchange rates and inflation.
- **Average strip ratio of 1.4**.
- **Price realisations of 70-75 per cent** on the Platts 62 CFR Index based on current market expectations.
- **Total capital expenditure of US$900** million in line with prior guidance including sustaining capital expenditure of US$3/wmt**,** ore carriers, tugs, development and exploration.
- **Depreciation and amortisation** of US$7.30/wmt
- **Dividend pay-out ratio maintained at 50 to 80 per cent** of net profit after tax of full year earnings. The actual dividend pay-out ratio will be determined each reporting period based on the iron ore price received and financial performance whilst maintaining Fortescue's commitment and priority to disciplined capital management and balance sheet strength.

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GLOSSARY

C1 - Operating costs of mining, processing, rail and port on a per tonne basis, including allocation of direct administration charges and production overheads.

CFR - Cost and freight rate

Dmt - Dry metric tonnes

Free cash flow - Net cash inflow from operations less capital expenditure

FY - Full year

HY - Half year

mtpa - Million tonnes per annum

Net debt - Total borrowings and finance lease liabilities less cash and cash equivalents

Net gearing ratio - (Net debt) / (Net debt + Equity)

NPAT - Net profit after tax

Underlying EBITDA - Earnings before interest, tax, depreciation and amortisation, exploration, development and other expenses.

The reconciliation of Underlying EBITDA to the financial metrics disclosed in the financial statements prepared under the Australian Accounting Standards (AAS) is presented below:

Reconciliation of underlying EBITDA to AAS measures:

	31 December 2017 US$m	**31 December 2016 US$m**
Underlying EBITDA	1,828	2,645
Finance income	12	8
Finance expenses	(214)	(256)
Depreciation and amortisation	(630)	(622)
Exploration, development and other	(22)	(43)
Profit before income tax	974	1,732
Income tax expense	(293)	(510)
Profit after income tax	681	1,222

wmt - Wet metric tonnes