15 October 2015

Fortescue
The New Force in Iron Ore

# September 2015 Quarterly Production Report

Fortescue has released its September 2015 quarterly production results, reporting shipments of 41.9mt with cash production costs (C1) of US$16.90 per wet metric tonne (wmt).

Operational efficiencies and sustainable cost reductions together with strong price realisation continue to generate improved operating cashflows. This has enabled the company to repurchase US$384 million of debt on market while increasing cash balances to US$2.6 billion.

Chief Executive Officer, Nev Power, said "The results demonstrate Fortescue's ongoing commitment to consistent, sustained high performance across the entire business."

"Our team is continuing to deliver sustainable cost reductions through an unwavering focus on optimising every aspect of Fortescue's operations. This has resulted in production costs being driven lower for the seventh consecutive quarter, down by 47 percent compared to the September 2014 quarter."

## HIGHLIGHTS

- US$16.90/wmt C1 cost for the September 2015 quarter
- 41.9mt shipped during the quarter
- Price realisation of 91 per cent, US$50/dmt compared to the average 62% Platts price of US$55/dmt
- US$2.6 billion of cash on hand at 30 September 2015
- US$384 million of debt repurchased on market at an average price of 80 cents in the dollar realising a pre-tax gain of $68 million

## PRODUCTION SUMMARY

| (million tonnes) | Q1 FY16 | Q4 FY15 | VAR% | Q1 FY15 | VAR% |
|---|---|---|---|---|---|
| Ore mined | 45.1 | 42.1 | +7% | 42.9 | +5% |
| Overburden removed | 52.7 | 41.4 | +27% | 100.6 | -48% |
| Ore processed | 40.9 | 41.0 | - | 38.9 | +5% |
| Total ore shipped including third party product | 41.9 | 42.4 | - | 41.5 | - |
| C1 (US$/wmt) | 16.90 | 22.16 | -24% | 32.08 | -47% |

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



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## MINING, PROCESSING AND SHIPPING

- **Fortescue's total recordable injury frequency rate was 5.2** for the September 2015 quarter, a slight increase over the prior quarter and 10% improvement over the prior period.
- **Fortescue mined 45.1mt of ore** during the September 2015 quarter, seven per cent higher than the previous quarter. Iron ore inventory levels remained broadly consistent with the prior quarter following the progressive draw down of inventory to levels which support current production volumes.
- **Overburden removed increased by 27 per cent** as strip ratios progressively return to life of mine averages as forecast. During the quarter strip ratios averaged 1.4 at the Chichester Hub and 0.9 at the Solomon Hub, a combined average of 1.2.
- **Fortescue's total output from all Ore Processing Facilities (OPFs) was 40.9mt** in the quarter. OPF upgrades continue to enable efficiencies in mining performance and a reduction in total operating costs.
- Total ore shipments are set out below:

| (million tonnes) | Q1 FY16 | Q4 FY15 | Q1 FY15 |
|---|---|---|---|
| Shipments – Fortescue mined ore | 40.5 | 40.9 | 40.6 |
| Shipments – Fortescue equity ore | 40.8 | 41.3 | 40.9 |
| Total ore shipped including third party product | 41.9 | 42.4 | 41.5 |

## GUIDANCE

- **FY16 guidance** is maintained at 165mt shipped.
- **C1 cost guidance** for FY16 of US$18/wmt will be formally updated at the half year results release. Based on operating targets, Fortescue expects to exit FY16 with a production cost of US$15/wmt at an exchange rate of 0.72.
- **Fortescue's operating cost base** remains sensitive to the US:Australian dollar exchange rate. With the significant reduction in operating costs, Fortescue's C1 sensitivity has decreased to 18 cents per one cent movement in the exchange rate.

## MARKETING

- **Physical demand for Fortescue's product** remains strong despite the softening of steel markets in China. The recent price stability reflects general supply/demand balance in iron ore markets as evidenced by the relatively constant level of Chinese port stocks, approximately 80mt, during the quarter.
- **Fortescue's average realised price** for the quarter of US$50/dmt represents a realisation of 91%. The average 62% Platts CFR price was US$55/dmt during the quarter compared to US$58/dmt in the June 2015 quarter.

## BALANCE SHEET

### Cash and debt

- **Fortescue's net debt was US$6.6 billion** inclusive of US$2.6 billion in cash at 30 September 2015. Increases to the cash position reflect the positive cash margins generated from cost reductions and improved price realisations.

- **Fortescue has repurchased US$384 million of debt** on market at an average price of 80 cents in the dollar since 1 July 2015. This has resulted in a pre-tax gain of US$68 million and annual interest savings of US$33 million.

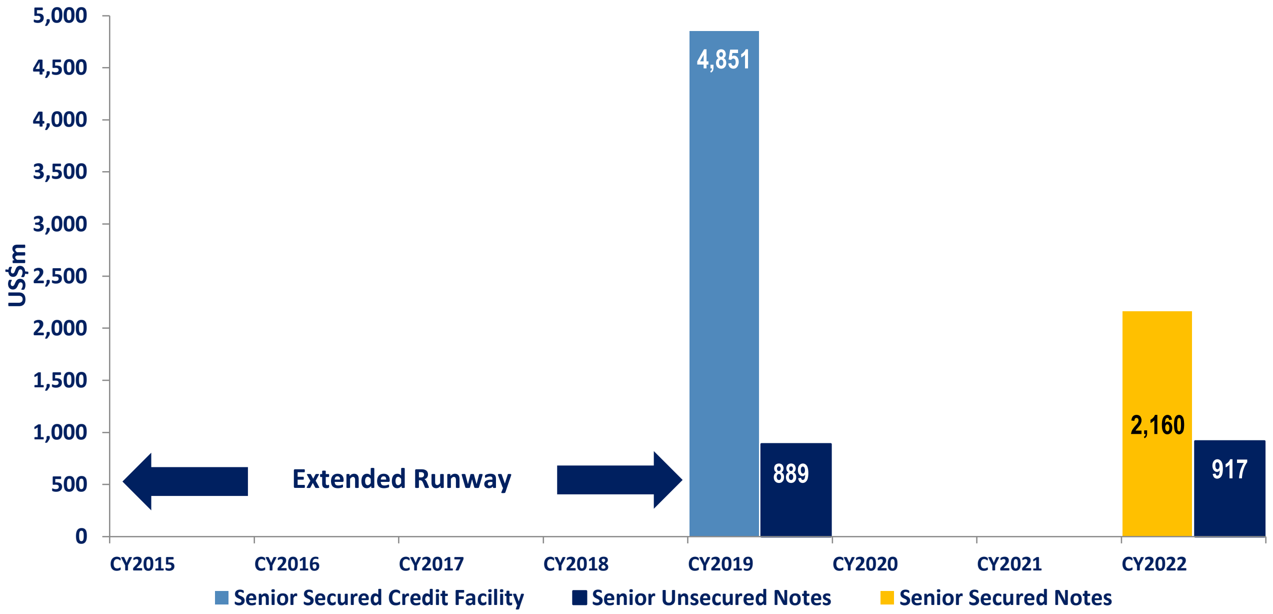
- Secured and Unsecured Notes balances after the repurchase are reflected in the table below:

| Facility | Balance at 30 June 2015 (US$m) | Principal Repurchased (US$m) | Proforma Balance (US$m) |
|---|---|---|---|
| Senior Unsecured Notes due November 2019 | 1,050 | 161 | 889 |
| Senior Unsecured Notes due April 2022 | 1,000 | 83 | 917 |
| Senior Secured Notes due March 2022 | 2,300 | 140 | 2,160 |
| **Total** | **4,350** | **384** | **3,966** |

Chief Financial Officer, Stephen Pearce, said "Fortescue's strong operating cash flows and sustained cost management have allowed us to take advantage of market conditions to reduce our debt and lower our interest costs, ensuring the company is extremely well placed in the current market."

"Fortescue's debt structure has high levels of flexibility and no maintenance covenants. These on market debt reductions are in line with our long term debt reduction strategy reducing interest costs and lowering gearing."

Fortescue's debt maturity profile reflecting the full value of all debt repurchased to date is set out below:




Fortescue will continue to use accumulated cash for further debt reduction and reaffirms its initial targeted gearing level of 40 per cent.

## Prepayments

- **Prepayment amortisation** during the September 2015 quarter was approximately US$100 million leaving a total prepayment balance of US$800 million at 30 September 2015. Subject to rollover or addition of new contracts, prepayment balances will amortise over the remainder of FY16 (US$400 million) and FY17 (US$400 million).

## Capital Expenditure

- **Sustaining capital expenditure** in FY16 is estimated at US$330 million or US$2/wmt excluding vessel funding.

- **Total capital expenditure** for the quarter was US$42 million.

# DEVELOPMENT

- **The Iron Bridge Stage 1** plant trials continue with future development subject to successful completion of Stage 1 and joint venture approval.

# CONTACTS

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# REPORTING CALENDAR

Annual General Meeting: 11 November 2015
December Quarterly Report: 29 January 2016

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