

28 January 2016



December 2015 Quarterly Production Report

Fortescue shipped 42.1 million tonnes of iron ore at a record low cash production cost (C1) of US\$15.80 per wet metric tonne (wmt) for the December 2015 quarter.

Early repayment of US\$750 million of debt (US\$618 million of cash) was completed during the quarter. The cash balance at 31 December 2015 was US\$2.3 billion demonstrating the strength of Fortescue's operating cashflow generation.

Chief Executive Officer, Nev Power, said "Fortescue continues to deliver strong results, improving the productivity and efficiency of our operations and further cementing our position as a low cost, reliable supplier of premium iron ore products to our customers."

"The outstanding performance of our team combined with world class assets and effective strategy are driving sustainable improvements with production costs lowered for the eighth consecutive quarter. This continues to generate positive operating cashflows which has allowed net debt to be reduced to US\$6.1 billion."

HIGHLIGHTS

- US\$15.80/wmt C1 cost
- 42.1mt shipped
- Price received of US\$40.46 per dry metric tonne (dmt), an 87 per cent price realisation
- Net debt of US\$6.1 billion inclusive of US\$2.3 billion of cash on hand at 31 December 2015
- US\$750 million of debt repurchased, realising a pre-tax gain of \$124 million

PRODUCTION SUMMARY

(million tonnes)	Q2 FY16	Q1 FY16	VAR%	Q2 FY15	VAR%
Ore mined	44.8	45.1	-1%	43.6	+3%
Overburden removed	49.9	52.7	-5%	91.2	-45%
Ore processed	41.6	40.9	+2%	36.7	+13%
Total ore shipped including third party product	42.1	41.9	-	41.1	+2%
C1 (US\$/wmt)	15.80	16.90	-7%	28.48	-45%

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

MINING, PROCESSING AND SHIPPING

- **Fortescue's rolling twelve month total recordable injury frequency rate was 4.8** at the end of the December 2015 quarter. This is an eight per cent improvement over the previous quarter and 16 per cent lower than the prior comparable period.
- **Fortescue mined 44.8mt of ore** in line with the previous quarter.
- **Overburden removed reduced by five per cent** as sustainable improvements in OPF performance and mining efficiency and productivity have resulted in a combined average strip ratio of 1.1 for the quarter (1.4 at the Chichester Hub and 0.7 at the Solomon Hub). Fortescue expects to maintain these current strip ratios for the remainder of FY16.
- As previously advised, Fortescue continues to improve OPF beneficiation performance and blending with LOM strip ratios expected to reduce below current guidance.
- Total ore shipments are set out below:

(million tonnes)	Q2 FY16	Q1 FY16	Q2 FY15
Shipments – Fortescue mined ore	41.3	40.5	39.7
Shipments – Fortescue equity ore	41.4	40.8	39.9
Total ore shipped including third party product	42.1	41.9	41.1

GUIDANCE

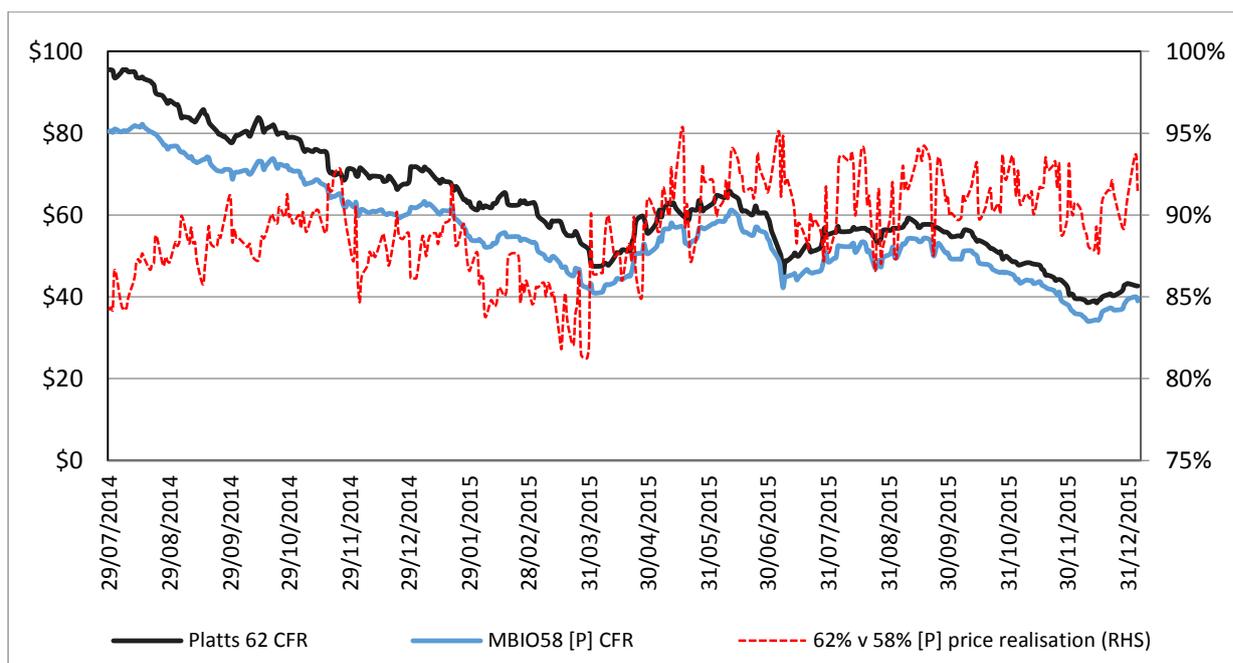
- **FY16 guidance** is maintained at 165mt shipped.
- **Cost performance is well ahead of guidance with the targeted** FY16 exit rate of US\$15/wmt achieved in December 2015. Further details on strip ratios and costs will be provided at the half year results release.
- **Fortescue's cost base** is impacted by the US:Australian dollar exchange rate with each US\$0.01 movement effecting C1 by US\$0.18/wmt.

ABORIGINAL ENGAGEMENT

- **Direct Aboriginal employment continued at 13 per cent** at the end of the December 2015 quarter, with more than 1,000 Aboriginal people employed by Fortescue and our contractors.
- **Fortescue has awarded A\$1.8 billion through 228 contracts and sub-contracts** to 98 Aboriginal businesses and joint ventures as part of its Billion Opportunities program since its inception in 2011.

MARKETING

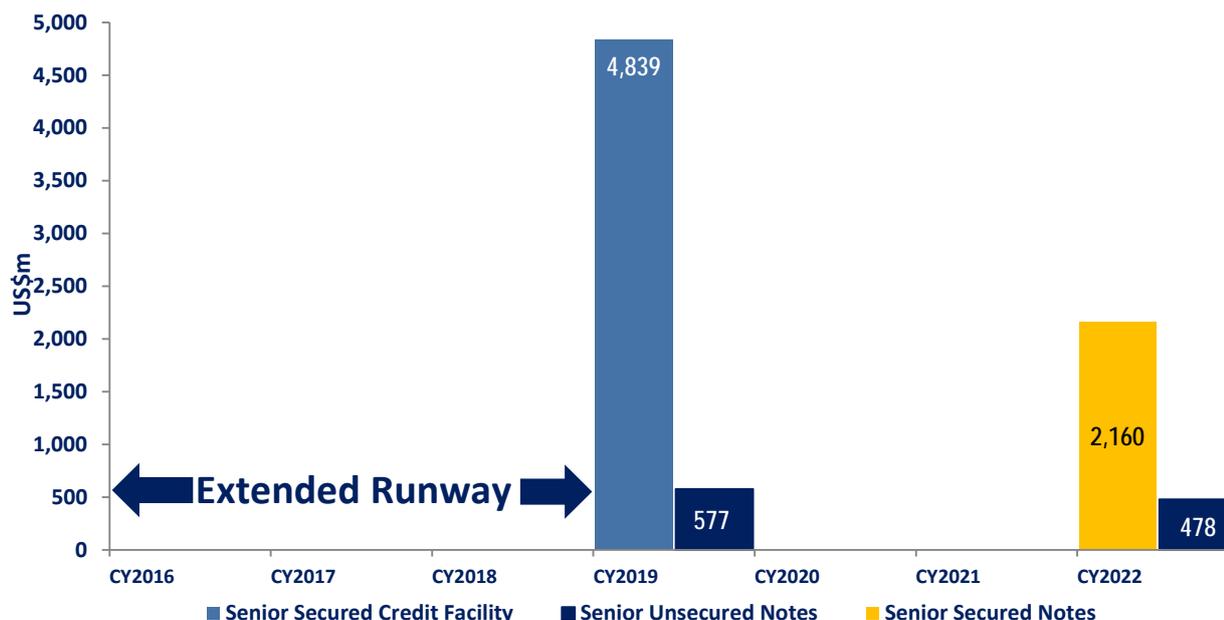
- **Demand for Fortescue's products remains strong** and represents over 17 per cent of imported iron ore into China. Total Chinese iron ore imports in 2015 were 953 million tonnes an increase of 2.2 per cent over the prior year.
- **Fortescue's average realised price was US\$40.46** for the December 2015 quarter, a realisation of 87 per cent of the Platts 62 CFR index net of the timing impact of provisional pricing.
- Fortescue products are priced relative to the Platts 62 CFR index. Realised prices remain in the range of 85-90 per cent of this index and have historically tracked the MBIO Premium (P) 58 CFR index. The chart below shows the relationship between these two indices.



BALANCE SHEET

- **Fortescue's net debt was US\$6.1 billion** inclusive of US\$2.3 billion of cash at 31 December 2015. The strong cash position reflects the positive cash margins generated from cost reduction initiatives through the focus on productivity and efficiency.
- **US\$750 million of debt was repurchased** via a tender process at an average price of 82 cents in the dollar in November 2015. This has resulted in a pre-tax gain of US\$124 million and annual interest savings of US\$56 million.

Fortescue's debt maturity profile, reflecting 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 December 2015 quarter was approximately US\$25 million leaving a total prepayment balance of US\$773 million at 31 December 2015. Subject to rollover or addition of new contracts, prepayment balances will amortise over the remainder of FY16 (US\$400 million) and FY17 (US\$373 million).

Capital Expenditure

- **Capital expenditure** for the quarter was US\$46 million with total capital expenditure for the half year of US\$88 million.
- **Total FY16 capital expenditure** has been revised to reflect the savings that have been achieved in the first half of the year. FY16 capital expenditure is now estimated to be US\$200 million together with US\$50 million of progress payments for Fortescue's eight Very Large Ore Carriers.

CORPORATE

- Fortescue will realise a net pre-tax gain of US\$192 million on the repayment of debt during the half year. The carrying values of investments in the Nullagine Joint Venture (US\$32 million) and capital projects (US\$74 million) are currently being reviewed.

EXPLORATION & DEVELOPMENT

- **Exploration activity** was primarily focused on Fortescue's iron ore activities in the Pilbara. Total capitalised exploration expenditure during the half year to 31 December 2015 was US\$14 million with total expenditure expected to be US\$36 million in FY16.
- **The Iron Bridge Stage 1** test work continues with future development subject to successful completion of ongoing trials, market conditions and joint venture approval.

CONTACTS

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REPORTING CALENDAR

Half Year Results Report; 24 February 2016
March Quarterly Report: 13 April 2016
June Quarterly Report; 28 July 2016
Full Year Results Report; 22 August 2016
September Quarterly Report; 20 October 2016

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