30 June 2019 Full Year Results

Fortescue
The New Force in Iron Ore

26 August 2019

Record annual earnings and returns to shareholders

Fortescue has released its 2019 full year results reporting a record net profit after tax (NPAT) of US$3.2 billion and a fully franked final dividend of A$0.24 per share bringing total FY19 dividends to A$1.14 per share.

Highlights

- Record annual safety performance with a Total Recordable Injury Frequency Rate (TRIFR) of 2.8, a 24 per cent improvement compared to 30 June 2018
- Ore shipped of 167.7 million tonnes (mt), one per cent lower than FY18
- Average revenue received of US$65 per dry metric tonne (dmt), a 48 per cent increase compared to FY18, resulting in revenue increasing to US$10.0 billion
- C1 costs of US$13.11 per wet metric tonne (wmt), maintaining Fortescue's industry leading cost position
- Record Underlying EBITDA of US$6.0 billion, 90 per cent higher than FY18
- Record Underlying NPAT of US$3.2 billion, 195 per cent higher than FY18
- Earnings per share of US$1.03 or A$1.47 per share
- Declaration of a fully franked final dividend of A$0.24 per share bringing total FY19 dividends to A$1.14, a 78 per cent pay-out of full year NPAT, 396 per cent higher than FY18 dividends of A$0.23 per share

Fortescue Chief Executive Officer, Elizabeth Gaines, said "FY19 was a year of record achievements, most importantly in safety performance which resulted in our lowest annual TRIFR of 2.8, with the entire Fortescue team delivering excellent results across all of our operations."

"Our integrated operations and marketing strategy, record processing, together with our continued disciplined approach to cost management delivered shipments of 167.7mt and a full year Underlying EBITDA margin of US$39/dmt. Cash on hand increased to US$1.9 billion at 30 June, while net debt reduced to US$2.1 billion, the lowest level since achieving current production capacity in FY14."

"Fortescue's unwavering determination to deliver shareholder returns through dividends and investment in growth was evident in FY19 with record fully franked dividends of A$1.14 per share declared, a significant increase on FY18 dividends of A$0.23 per share. The ability to deliver increased returns to our shareholders is underpinned by the successful execution of our strategy, through balance sheet strength, enhanced product mix, sustained cost and efficiency focus, as well as demand for iron ore."

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"We are executing our strategy of producing the majority of our products at greater than 60% Fe, with an important first step of this journey being the introduction of West Pilbara Fines in December 2018. Our US$3.875 billion investment in growth through the Eliwana Mine and Rail development and Iron Bridge Magnetite projects will increase the average iron content of our ores providing Fortescue with flexibility to meet our customers' requirements and enhance returns to shareholders through all market cycles."

"We have seen a strong start to FY20 and Fortescue is well positioned to continue to deliver benefits to all stakeholders, including our customers, employees and the communities in which we operate while rewarding shareholders. Fortescue has never been in a stronger position to continue to optimise margins and cashflows, underpinning the resilience in our earnings through all market cycles." Ms Gaines said.

FY19 Operational and Financial Performance

FY19 results reflect the additions to Fortescue's product suite, record processed tonnes as well as the continued focus on productivity and efficiency initiatives which have maintained the Company's low cost of production and contributed to the record FY19 financial performance.

Table 1: Key operational and financial metrics for FY19 compared to FY18

	FY19	FY18	Var % (FY19 v FY18)
Mined ore tonnes (wmt)	206.7	184.5	*12%*
Processed tonnes (wmt)	176.9	165.7	*7%*
Shipped tonnes (wmt)	167.7	169.8	*-1%*
Realised price (US$/dmt)	65	44	*48%*
C1 costs (US$/wmt)	13.11	12.36	*6%*
Revenue (US$ millions)	9,965	6,887	*45%*
Underlying EBITDA (US$ millions)	6,047	3,182	*90%*
Reported net profit after tax (US$ millions)	3,187	878	*263%*
Underlying net profit after tax (US$ millions)	3,187	1,080	*195%*
Basic earnings per share (US cents)	103.1	28.2	*266%*
A$ earnings per share (AUD cents)	147.1	36.4	304%
Fully franked dividends (A$/share)	A$1.14	A$0.23	*396%*

Table 2: Product mix comparing FY19 to FY18

Tonnes shipped millions, (wmt)	FY19	Product mix %	FY18	Product mix %
West Pilbara Fines	**9.0**	*5%*	**-**	-
Kings Fines	**14.2**	*9%*	**15.0**	*9%*
Fortescue Blend	**72.4**	*43%*	**75.0**	*44%*
Fortescue Lump	**8.6**	*5%*	**-**	-
Super Special Fines	**61.7**	*37%*	**80.0**	*47%*
Manganese Iron Ore	**1.8**	*1%*	**-**	-
Total	**167.7**	*100%*	**170.0**	*100%*

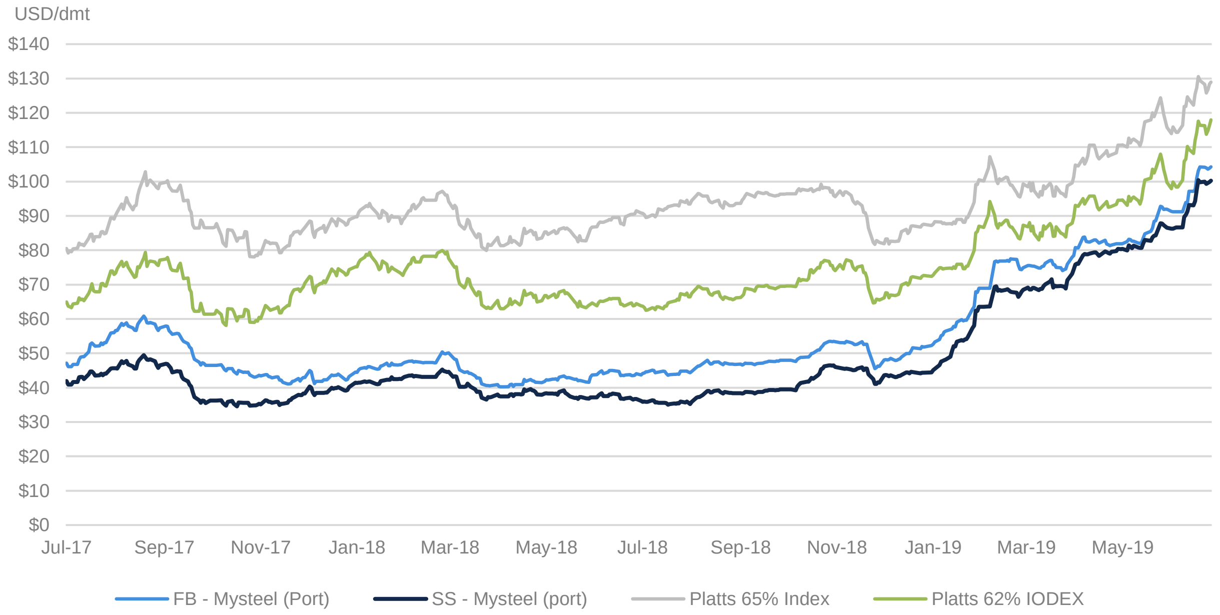
Revenue increased to US$9,965 million in FY19, 45 per cent higher than FY18 as Fortescue's average revenue per tonne increased to US$65/dmt compared to US$44/dmt in FY18.

The key factors contributing to Fortescue's FY19 revenue include:

- Success of the integrated operations and marketing strategy increasing the volume of higher value products shipped, including West Pilbara Fines (refer to Table 2)
- Increasing demand for Fortescue's products following moderation of steel mill margins and narrowing of price spreads in China from late 2018
- Continued strength in Chinese steel production, growing by 9.9 per cent in the first half of calendar 2019 compared to the prior comparable period
- Sustained strength in the benchmark iron ore price following supply disruptions in Brazil and Australia in the first quarter of 2019, leading to significant drawdowns in iron ore inventories at Chinese ports.

Chart 1 shows the implied US dollar price of Fortescue Blend (FB) and Super Special Fines (SS) products compared to the benchmark Platts 62% CFR and Platts 65% CFR prices between 3 July 2017 and 28 June 2019.

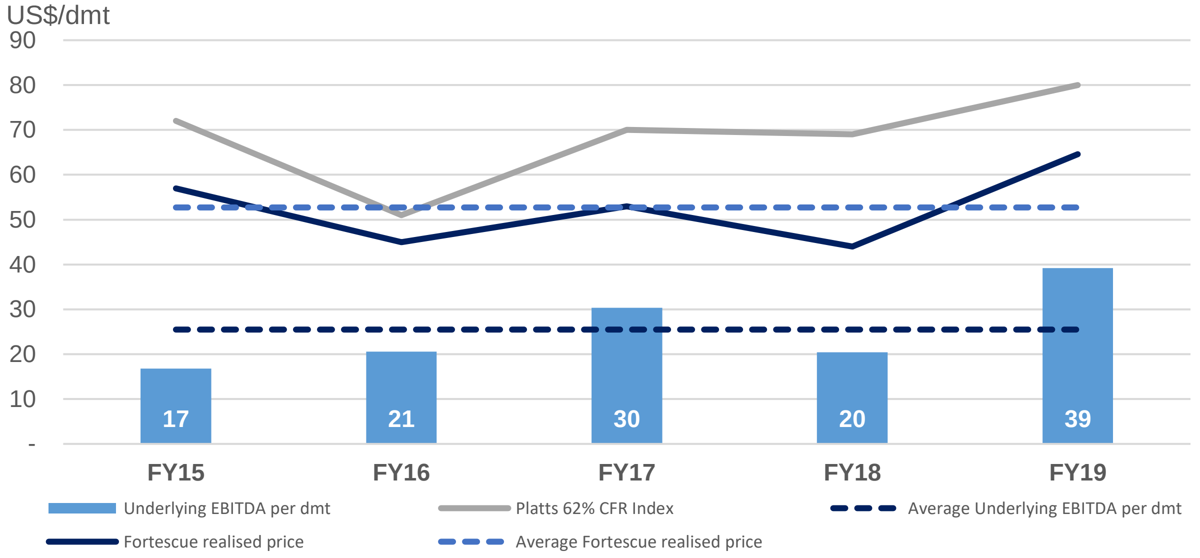
Chart 1



Underlying EBITDA was US$39/dmt, a 95 per cent increase compared to FY18. Improved iron ore price realisations combined with consistent operational cost performance are the key factors which have contributed to the increase in Fortescue's Underlying EBITDA.

Chart 2 compares Fortescue's average received price, benchmark Platts 62% CFR Index price and Underlying EBITDA/dmt on an annual basis for the period FY15 – FY19, demonstrating the resilience in earnings through market cycles.

Chart 2: Underlying US$ EBITDA/dmt and iron ore price



C1 operating costs averaged US$13.11/wmt during FY19, six per cent higher than FY18. Productivity and efficiency initiatives, including autonomy and the relocatable conveyor, partially offset the impact of increased costs associated with longer haul distances, higher fuel prices and increased salaries and wages.

Interest expense on borrowings and finance lease liabilities was US$218 million, a decrease of 36 per cent compared to FY18 following the repayment and refinancing of the debt capital structure on improved terms and conditions, lowering the overall cost of capital.

Cash Flow and Balance Sheet

Cash on hand at 30 June 2019 was US$1,874 million.

Cash from operations increased by 64 per cent to US$5.0 billion with net cash from operating activities of US$4.4 billion, reflecting the continued strength of underlying operating cash margins.

Working capital increased by US$45 million during the year inclusive of a provision of US$670 million for the final FY19 tax payment due in December 2019.

Capital expenditure totalled US$1,040 million (FY18: US$890 million) inclusive of US$612 million of sustaining capital, US$80 million for ore carrier and towage construction, US$105 million of exploration, US$126 million of development expenditure, US$102 million Eliwana and US$15 million Iron Bridge project expenditure.

Gross debt at 30 June is US$4.0 billion (FY18: US$4.0 billion), inclusive of finance lease liabilities of US$573 million, with the earliest debt maturity in 2022. Net debt reduced to US$2.1 billion (FY18: US$3.1 billion).

Iron ore prepayment balance was US$486 million at 30 June 2019. Amortisation for FY19 was US$309 million and the balance of prepayments is expected to amortise in FY20.

Fortescue's A$500 million on-market share buy-back program commenced in October 2018. To date Fortescue has acquired 34.8 million shares for total consideration of A$139.2 million at an average A$3.997 per share. All shares acquired have been cancelled and this current program expires in October 2019, unless otherwise extended.

Dividend

The Board has declared a fully franked final dividend of A$0.24 per share. This brings total FY19 dividends declared to A$1.14 per share representing a 78 per cent pay-out ratio of FY19 NPAT and an increase of 396 per cent compared to FY18 dividends of A$0.23 per share.

The final dividend will have a record date of 3 September 2019 and is payable on 2 October 2019.

Diversity and Community

Fortescue has released its FY19 Corporate Social Responsibility (CSR) report, outlining the Company's key initiatives of setting high standards, safeguarding the environment and creating positive social change.

Highlights of the report include:

- Fortescue's total global economic contribution of A$13.1 billion, including over A$2.8 billion in Australian taxes, royalties and Native Title payments
- At 30 June 2019, Fortescue directly employed 779 Aboriginal people, representing 12 per cent of the total Australian based workforce and 15 per cent of Pilbara based employees
- The award winning Billion Opportunities procurement initiative reached A$2.3 billion in contracts awarded to 284 Aboriginal businesses and joint ventures since the initiative began in 2011
- Fortescue's female employment rate reached 19 per cent with 26 per cent of senior management roles held by women as at 30 June 2019 and the majority of Board positions held by women.

Fortescue's CSR Report is available at www.fmgl.com.au.

FY20 Guidance

- **170-175mt in shipments**, inclusive of 17-20mt of West Pilbara Fines product
- **C1 costs expected to be in the range of US$13.25-13.75/wmt**
- **Average strip ratio 1.5**
- **Total capital expenditure of US$2.4 billion,** allocated to the following categories:
  - Sustaining capital US$700 million
  - Operational development US$200 million
  - Queens Valley development US$150 million
  - Major Projects
    - Eliwana US$700 million
    - Iron Bridge US$500 million
  - Exploration US$140 million
- **Depreciation and amortisation of US$7.70/wmt**
- **A total dividend pay-out ratio between 50 and 80 per cent of full year NPAT**

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Reporting Calendar

Event	Date
September Quarter Production Report	24 October 2019
Annual General Meeting	29 October 2019
December Quarter Production Report	30 January 2020
HY20 Results	19 February 2020
March Quarter Production Report	30 April 2020

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

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

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.

Underlying NPAT – Net profit after tax adjusted for the after tax impact of one-off refinancing and early debt repayment costs.

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

	2019 US$m	2018 US$m
Operating sales revenue	9,965	6,887
Cost of sales excluding depreciation and amortisation	(3,931)	(3,665)
Net foreign exchange gain	110	29
Administration expenses	(95)	(70)
Other income/ (expenses)	(2)	1
Underlying EBITDA	**6,047**	3,182
Finance income	26	24
Finance expenses	(279)	(652)
Depreciation and amortisation	(1,196)	(1,277)
Exploration, development and other expenses	(29)	(32)
Net profit before tax	**4,569**	1,245
Income tax expense	(1,382)	(367)
Net profit after tax	**3,187**	878
Cost of early debt repayment after tax	-	202
Underlying net profit after tax	**3,187**	1,080

wmt - Wet metric tonnes