

# September 2020 Quarterly Production Report

Fortescue

29 October 2020

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## Strong start to FY21 with record first quarter operating performance

## Quarterly highlights

- The Total Recordable Injury Frequency Rate (TRIFR) improved to 2.1 at 30 September 2020 on a 12 month rolling basis, 13 per cent lower than 30 June 2020
- Record first quarter iron ore shipments of 44.3 million tonnes (mt) were five per cent higher than Q1 FY20. Ore processed and railed also achieved record Q1 performance
- C1 costs of US$12.74/wet metric tonne (wmt) in Q1 FY21 were two per cent lower than the prior comparable period
- Ongoing demand for Fortescue's products delivered average revenue of US$106/dry metric tonne (dmt) in Q1 FY21, representing 89 per cent of the average Platts 62% CFR Index
- Strong free cashflow generation in the quarter contributed to net cash of US$1.0 billion at 30 September 2020, compared to net debt of US$0.3 billion at 30 June 2020
- The Eliwana Mine and Rail and Iron Bridge Magnetite projects remain on schedule, with key milestones delivered for both projects in Q1 FY21
- Approval was received to increase the licensed throughput of the Herb Elliott Port facility at Port Hedland from 175 million tonnes per annum (mtpa) to 210mtpa on a staged basis
- Guidance for FY21 shipments, C1 costs and capital expenditure remains unchanged.

Fortescue Chief Executive Officer, Elizabeth Gaines, said "Fortescue has delivered a strong start to FY21 across all key measures of safety, production and cost. The improvement in safety performance across the business was a key highlight with a TRIFR of 2.1, down from 2.4 at 30 June 2020. At the same time, a record result for first quarter shipments of 44.3mt was achieved with lower C1 costs of US$12.74/wmt, reflecting our continued focus on cost discipline.

"Robust demand from our customers contributed to an increase in revenue realisation, 31 per cent higher than the June Quarter and above the 27 per cent increase in the average Platts 62% CFR Index. We have successfully grown and diversified our distribution channels, with portside sales in China by FMG Trading Shanghai now exceeding 10mt since sales commenced in June 2019.

"Our major projects continue on schedule, including the commencement of pre-strip mining and ore stockpiling at the Eliwana Mine and Rail project.

"Our COVID-19 risk management strategy and key measures remain in place to safeguard our team and operations and we continue to generate a strong economic contribution to the West Australian and national economy. We are providing ongoing support to our East Coast team members who have been impacted by the West Australian border closure and greatly appreciate their ongoing commitment."

"Against the backdrop of a strong performance for the first quarter, we are well positioned for FY21 to meet our guidance, execute our growth strategy and deliver returns to our shareholders," Ms Gaines said.

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## Operations

| Production summary (m wmt) | Q1 FY21 | Q4 FY20 | Var (%) | Q1 FY20 | Var (%) |
|---|---|---|---|---|---|
| Ore mined | 58.4 | 57.2 | 2 | 50.6 | 15 |
| Overburden removed | 74.5 | 84.7 | (12) | 86.0 | (13) |
| Ore processed | 46.0 | 42.7 | 8 | 45.1 | 2 |
| Ore shipped | 44.3 | 47.3 | (6) | 42.2 | 5 |
| C1 cost (US$/wmt) | 12.74 | 13.02 | (2) | 12.95 | (2) |

Volume references are based on wet metric tonnes (wmt). Product is shipped with approximately 9 per cent moisture.

- Fortescue's 12 month rolling TRIFR was 2.1 at 30 September 2020, representing a 13 per cent improvement from 2.4 at 30 June 2020 and the injury severity rate continued its downward trend. An updated Job Hazard Analysis program was implemented in September 2020, with strong engagement across the operations and projects teams.
- A comprehensive COVID-19 risk management strategy and key measures remain in place to safeguard Fortescue team members and communities. There have been no cases of COVID-19 across Fortescue's operational sites.
- In a strong start to FY21, mining, processing, rail and shipping combined to deliver record first quarter iron ore shipments of 44.3mt, five per cent higher than the prior comparable period and six per cent lower than Q4 FY20, reflecting planned seasonal maintenance activity. Ore processing and rail achieved record first quarter volumes due to consistent performance of the ore processing facilities and healthy product stocks at mines.
- The Q1 FY21 strip ratio was 1.3 and is expected to average approximately 1.5 in the current five year mine plan, excluding the Iron Bridge Magnetite project.
- C1 costs of US$12.74/wmt in Q1 FY21 were two per cent lower than both the prior comparable period and Q4 FY20 as the lower strip ratio and fuel prices offset a stronger AUD:USD exchange rate.
- The consolidation of the management of the Cloudbreak and Christmas Creek mines into an integrated Chichester Hub has commenced. Following the recent completion of the Chichester Hub's autonomous haulage project, this will further optimise productivity and efficiency by capturing operational synergies.

## Marketing

- Chinese crude steel production reached 781.6mt in the nine months to September 2020, increasing 4.5 per cent compared to the same period in 2019. Demand was very strong for sinter fines, supporting prices during the quarter. Total iron ore stocks at Chinese ports rose from 108mt at 30 June 2020 to 116mt at 30 September 2020.
- Average revenue for Q1 FY21 of US$105.77/dmt represented revenue realisation of 89 per cent of the average Platts 62% CFR Index of US$118.21/dmt. The Platts 62% CFR Index closed at US$123.15/dmt at 30 September 2020, compared to US$101.05/dmt at 30 June 2020.
- Revenue per tonne increased by 31 per cent compared to Q4 FY20, higher than the 27 per cent increase in the average Platts 62% CFR Index over the same period reflecting robust demand for Fortescue's products.
- Fortescue's wholly owned Chinese sales entity, FMG Trading Shanghai Co. Ltd (FMG Trading) sold 2.8mt in Q1 FY21 from regional ports in China. FMG Trading's total portside sales has now exceeded 10mt.

| Product summary (m wmt) | Q1 FY21 | (%) | Q4 FY20 | (%) | Q1 FY20 | (%) |
|---|---|---|---|---|---|---|
| West Pilbara Fines | 4.5 | 10 | 4.9 | 10 | 4.3 | 10 |
| Kings Fines | 3.7 | 8 | 4.2 | 9 | 3.4 | 8 |
| Fortescue Blend | 17.7 | 40 | 17.1 | 36 | 18.1 | 43 |
| Fortescue Lump | 3.9 | 9 | 4.1 | 9 | 2.0 | 5 |
| Super Special Fines | 14.3 | 32 | 16.8 | 36 | 14.4 | 34 |
| Other products | 0.2 | 0 | 0.2 | 0 | 0.0 | 0 |
| Total shipments | 44.3 | 100 | 47.3 | 100 | 42.2 | 100 |

Timing differences may occur between shipments and sales as FMG Trading holds inventory at Chinese ports.

## Heritage management

- Fortescue's primary objective is to avoid significant Aboriginal cultural heritage places. Since the commencement of operations, Fortescue has protected and avoided almost 6,000 heritage places. The Company is committed to open and transparent engagement, and Fortescue's agreements do not include heritage 'gag' clauses.
- Fortescue's activities are carried out in consultation with Traditional Custodians and Knowledge Holders, within the existing framework of the Aboriginal Heritage Act of Western Australia. Fortescue supports the modernisation of the Act, including an increased voice for Aboriginal people in the heritage process and equitable right of appeal for all parties.
- Arrangements are being finalised for Fortescue to appear before the Joint Standing Committee on Northern Australia's inquiry into heritage matters in the Pilbara region of Western Australia.

## Balance sheet

- Strong free cashflow generation in the quarter contributed to net cash of US$1.0 billion at 30 September 2020, compared to net debt of US$0.3 billion at 30 June 2020.
- Cash outflows in Q1 FY21 included US$1.0 billion allocated to the repayment of the revolving credit facility and US$889 million of capital expenditure, inclusive of sustaining capital, major projects and exploration.
- Cash on hand was US$5.1 billion at 30 September 2020 (US$4.9 billion at 30 June 2020). This includes US$2.2 billion allocated to the FY20 final dividend, which was paid on 2 October 2020, and approximately US$850 million reserved for the FY20 final tax payment due in December 2020.
- Gross debt was US$4.1 billion at 30 September 2020, compared to US$5.1 billion at 30 June 2020, reflecting the repayment of the revolving credit facility. Fortescue's balance sheet is structured on low cost, investment grade terms while maintaining flexibility to support ongoing operations and the capacity to fund future growth.

## Major projects

### Eliwana

- The Eliwana Mine and Rail project achieved key milestones in the quarter including commencement of pre-stripping and ore stockpiling, rail bridge construction and the completion of structural and mechanical equipment installation at the ore processing facility.
- The construction workforce is currently at peak levels, with tracklaying progressing and electrical and instrumentation installation well advanced.
- The forecast total investment for the Eliwana Mine and Rail project remains US$1.325 - US$1.375 billion with first ore on train scheduled in December 2020.

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### Iron Bridge

- The Iron Bridge Magnetite project is progressing on schedule and budget, with the first shipment of concentrate planned in the first half of calendar year 2022.
- Key milestones achieved in the quarter include over 80 per cent completion of earthworks and first concrete poured for the ore processing facility.
- Village installation and aerodrome construction is well advanced leading into the main construction phase. Key process equipment manufacturing and major module fabrication is progressing well.
- The forecast total investment for the Iron Bridge Magnetite project is US$2.6 billion. The project is an unincorporated joint venture between FMG Magnetite Pty Ltd (69 per cent) and Formosa Steel IB Pty Ltd (31 per cent), and Fortescue's share of the total investment is US$2.1 billion.

### Energy

- The Chichester Solar Gas Hybrid project, owned and operated by Alinta Energy, will provide a low emission energy solution, incorporating large-scale solar to displace around 100 million litres annually of diesel used in the existing Christmas Creek and Cloudbreak power stations. Construction is advancing, and by the end of Q1 FY21 approximately 80,000 solar panels, 125 transmission towers and 45 kilometres of transmission line have been installed.
- The US$700 million Pilbara Energy Connect project includes transmission infrastructure, hybrid solar gas generation and large-scale battery storage. The project will integrate Fortescue's stationary energy facilities in the Pilbara into an efficient network and will lower emissions and the cost of electricity to existing and future sites. Bulk earthworks are well advanced and 100 transmission poles have been erected in preparation for transmission line installation.

## Exploration

- Total exploration and studies capital expenditure for Q1 FY21 was US$31 million.
- Iron ore exploration in the Pilbara during the quarter focused on resource definition drilling at Eliwana as well as other exploration programs in the Western and Solomon Hubs.
- Early stage exploration activities in the Paterson, Rudall and Goldfields regions of Western Australia continued, along with drilling programs in South Australia.
- Exploration and field activities in Ecuador and Argentina remain suspended due to COVID-19, with assessment of previous drilling results and various geological studies continuing. Subject to COVID-19 restrictions, seasonal drilling activities in the San Juan region of Argentina are expected to commence in Q2 FY21.

## FY21 guidance

- Iron ore shipments of 175 - 180mt
- C1 costs of US$13.00 - US$13.50/wmt, based on an assumed exchange rate of AUD:USD 0.70
- Capital expenditure of US$3.0 - US$3.4 billion, which is inclusive of:
    - US$1.0 billion of sustaining, operational and hub development capital
    - US$140 million of exploration expenditure and studies
    - US$1.9 - US$2.3 billion for major projects (Eliwana, Iron Bridge and Energy).

Authorised for lodgement by:
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## Reporting calendar

| Event | Date |
|---|---|
| Annual General Meeting | 11 November 2020 |
| December Quarterly Production Report | 28 January 2021 |
| 1H FY21 Results | 18 February 2021 |
| March Quarterly Production Report | 29 April 2021 |

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