

June 2021 Quarterly Production Report



29 July 2021

Outstanding operating performance delivers record shipments for the June Quarter and FY21

Quarterly highlights

- Total Recordable Injury Frequency Rate (TRIFR) improved to 2.0 in the 12 months to 30 June 2021, 17 per cent lower than 2.4 at 30 June 2020
- Record iron ore shipments of 49.3 million tonnes (mt) for the quarter and 182.2mt for FY21, exceeding guidance of 182mt
- Record average revenue of US\$168/dry metric tonne (dmt) for the quarter, realising 84 per cent of the average Platts 62% CFR Index, and US\$135/dmt for FY21
- C1 cost for Q4 FY21 of US\$15.23/wet metric tonne (wmt), two per cent higher than the previous quarter, with C1 cost for FY21 of US\$13.93/wmt in line with guidance
- Strong free cashflow generation contributed to cash on hand of US\$6.9 billion and net cash of US\$2.7 billion at 30 June 2021, compared to net debt of US\$1.0 billion at 31 March 2021
- Total capital expenditure for FY21 of US\$3.6 billion with first production achieved at Eliwana and continued development of the Iron Bridge and Pilbara Energy Connect (PEC) projects
- Fortescue Future Industries' (FFI) stretch targets achieved to support Fortescue's pathway to decarbonisation
- Fortescue's Billion Opportunities procurement initiative celebrated its ten-year anniversary, with more than A\$3 billion in contracts awarded to Aboriginal businesses and joint ventures
- FY22 guidance for shipments of 180 - 185mt and C1 cost of US\$15.00 - US\$15.50/wmt
- FY22 capital expenditure guidance (excluding FFI) of US\$2.8 - US\$3.2 billion, inclusive of sustaining and development capital, major projects and exploration
- FFI is progressing a global portfolio of renewable green energy projects and decarbonisation technologies with FY22 expenditure anticipated to be US\$400 - US\$600 million.

Fortescue Chief Executive Officer, Elizabeth Gaines, said "The Fortescue team has delivered excellent results for the June quarter, with record quarterly shipments of 49.3 million tonnes contributing to our highest ever annual shipments of 182.2 million tonnes in FY21.

"This was an outstanding performance despite the impact of wet weather, as well as COVID-19 restrictions requiring many of our team members to remain on site for extended periods during WA's lockdowns. We greatly appreciate the ongoing cooperation of the entire Fortescue family as we continue to manage the impacts of COVID-19.

"The strength of the operating performance, combined with record average revenue resulted in strong free cashflow generation in the June quarter as demonstrated by the movement from a net debt position at the end of March of US\$1.0 billion to net cash of US\$2.7 billion at 30 June.

"I would like to commend the entire Fortescue team for achieving our lowest ever TRIFR safety performance of 2.0, an improvement of 17 per cent from 2.4 at 30 June 2020. This reflects our core value of Safety and the commitment to look out for our workmates and ourselves.

"During the quarter, Fortescue Future Industries made significant progress on a number of decarbonisation projects including the successful combustion of ammonia in a locomotive and testing of battery cell technology to be used on Fortescue haul trucks. This work underpins Fortescue's industry leading target to achieve carbon neutrality by 2030.

"Building on a second consecutive year of record performance, our guidance for FY22 reflects our ongoing commitment to optimising returns from our integrated operations and marketing strategy, with shipments in the range of 180 - 185 million tonnes. Together with our focus on investing in growth through the Iron Bridge Magnetite project and Fortescue Future Industries, we will continue to deliver strong results to ensure all our stakeholders benefit from Fortescue's success," Ms Gaines said.

Operations

Production summary (m wmt)	FY21	FY20	Var (%)	Q4 FY21	vs Q3 FY21 (%)	vs Q4 FY20 (%)
Ore mined	226.9	204.3	11	64.9	21	13
Overburden removed	295.2	318.9	(7)	82.4	19	(3)
Ore processed	185.8	176.3	5	50.9	14	19
Ore shipped	182.2	178.2	2	49.3	17	4
C1 cost (US\$/wmt)	13.93	12.94	8	15.23	2	17

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

- Fortescue's 12-month Total Recordable Injury Frequency Rate (TRIFR) was 2.0 at 30 June 2021, 17 per cent lower than 2.4 at 30 June 2020. Importantly, the injury severity rate continues to trend lower. Hazard identification and the implementation of the "Identify Then Rectify" program remained a key focus during the quarter.
- A comprehensive COVID-19 risk management strategy remains in place with key measures aligned to State Government and Health Department guidelines to safeguard Fortescue team members and communities. There have been no cases of COVID-19 across Fortescue's operational sites.
- Building on the results achieved for the first nine months of the financial year, Fortescue's outstanding operating performance continued in Q4 FY21 with mining, processing, rail and shipping combining to deliver record shipments of 182.2mt in FY21, two per cent higher than FY20 and exceeding guidance of 182mt.
- Strong performance across the supply chain, together with the ramp up and successful integration of Eliwana contributed to record quarterly shipments of 49.3mt in Q4 FY21, as well as record ore processed and railed in both Q4 and FY21.
- The C1 cost in Q4 FY21 of US\$15.23/wmt was two per cent higher than the previous quarter, reflecting inflationary impacts and COVID-19 related costs, largely offset by higher volumes and the continued focus on cost management.
- The C1 cost in FY21 of US\$13.93/wmt was in line with guidance and maintains Fortescue's cost leadership position. Productivity gains through innovation and technology remain a focus to mitigate mine plan cost escalation, materials and consumables inflation and a strong labour market.
- Heritage surveys and consultation with Native Title partners remains a priority, with mine plans and schedule continuing to be managed to protect places of cultural significance and align with the heritage approvals process.

- Fortescue celebrated several significant operating milestones during the quarter, including ore shipments exceeding 1.5 billion tonnes since first production in 2008 and the autonomous haulage fleet surpassing two billion tonnes of material moved.

Marketing

Product summary (m wmt)	FY21	(%)	FY20	(%)	Q4 FY21	(%)
West Pilbara Fines	17.0	9	17.9	10	4.3	9
Kings Fines	15.2	8	15.1	9	3.9	8
Fortescue Blend	68.5	38	72.7	41	17.6	36
Fortescue Lump	15.5	9	12.9	7	4.2	9
Super Special Fines	56.4	31	59.4	33	15.3	31
Other products	9.6	5	0.2	0	4.0	8
Total shipments	182.2	100	178.2	100	49.3	100

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

- Chinese crude steel production was 563mt in the first half of calendar 2021, an increase of 11.8 per cent compared to the same period in FY20, and crude steel production outside of China has largely recovered to pre-COVID levels.
- Fortescue's average revenue of US\$135.32/dmt in FY21 represents revenue realisation of 88 per cent of the average Platts 62% CFR Index of US\$154.31/dmt. Revenue per tonne increased by 72 per cent compared to FY20, reflecting strong market conditions and sustained demand for Fortescue's products.
- Average revenue for Q4 FY21 of US\$167.95/dmt increased by 17 per cent over the previous quarter, representing revenue realisation of 84 per cent of the average Platts 62% CFR Index of US\$200.01/dmt. The Platts 62% CFR Index closed at US\$218.40/dmt at 30 June 2021, compared to US\$164.75/dmt at 31 March 2021.
- Fortescue's Chinese sales entity, FMG Trading Shanghai Co. Ltd sold 2.8mt in Q4 FY21 from regional ports in China, with sales of 11.2mt in FY21.

Financial position

- Strong free cashflow generation in the quarter contributed to net cash of US\$2.7 billion at 30 June 2021, compared to net debt of US\$1.0 billion at 31 March 2021.
- The cash balance increased to US\$6.9 billion at 30 June 2021, compared to US\$3.6 billion at 31 March 2021, noting that the final FY21 tax instalment of approximately US\$1.0 billion will be paid in December 2021.
- Total capital expenditure for the quarter was US\$835 million inclusive of sustaining and development capital, major projects and exploration. Total capital expenditure in FY21 was US\$3.6 billion.
- Gross debt reduced to US\$4.3 billion at 30 June 2021 from US\$4.6 billion at 31 March 2021 due to the completion of the refinancing of the Senior Unsecured Notes.

Iron Bridge

- The Iron Bridge technical and commercial assessment was completed in May 2021, with a revised capital estimate of US\$3.3 - US\$3.5 billion (Fortescue share US\$2.5 - US\$2.7 billion). The project will deliver 22mt per annum of high grade 67% Fe magnetite concentrate, with first production scheduled by December 2022 and a ramp up period of 12 - 18 months.
- Iron Bridge is a strategic investment with compelling returns and will increase production capacity and further enhance Fortescue's range of products with the addition of the high grade concentrate.
- Critical path items continued during the assessment period, including engineering, off site fabrication, procurement activity and site based civil works. Concrete footings were poured for the wet and dry plant and the first modules were delivered to site during the quarter.
- Construction of the module offload facility at Lumsden Point in Port Hedland has commenced to address logistical constraints and underpin the project schedule.
- Iron Bridge is an Unincorporated Joint Venture between FMG Magnetite Pty Ltd (69 per cent) and Formosa Steel IB Pty Ltd (31 per cent). FMG Magnetite was previously owned by Fortescue (88 per cent) and Baosteel Resources International Company (12 per cent). Baosteel has reduced its ownership in accordance with the terms of the Shareholders Agreement, with Fortescue now controlling 100 per cent of FMG Magnetite at 30 June 2021.

Capital expenditure incurred (US\$ million)	FY20 actual	FY21 actual	FY22 estimate	FY23 estimate	Total estimate
Iron Bridge (Fortescue share)	243	1,224	850-1,050	100-300	2,500-2,700

Timing differences may occur between capital expenditure incurred and cash outflows.

Fortescue Future Industries

- Fortescue Future Industries (FFI) is taking a global leadership position in the green energy and green products industry by harnessing the world's renewable energy resources to produce green electricity, green hydrogen, green ammonia and other green industrial products.
- FFI's vision is to make renewable green hydrogen the most globally traded seaborne energy commodity in the world.
- As a key enabler of Fortescue's decarbonisation strategy, FFI achieved its 30 June 2021 stretch targets during the quarter, including:
 - Successful combustion of ammonia in a locomotive fuel, with a pathway to achieve completely renewable green fuel
 - Completion of design and construction of a combustion testing device for large marine (ship) engines, with pilot test work underway and a pathway to achieve completely renewable green shipping fuel
 - Finalised design of a next generation ore carrier (ship) that will consume renewable green ammonia, with the Classification Society giving in principle design approval
 - Testing of battery cells to be used on Fortescue haul trucks
 - Design and construction of a hydrogen powered haul truck for technology demonstration complete, with systems testing underway
 - Design and construction of a hydrogen powered drill rig for technology demonstration complete, with systems testing underway
 - Successful production of high purity (>97 per cent) green iron from Fortescue ores at low temperature in a continuous flow process
 - Successful initial trialling to use waste from the green iron process with other easily sourced materials, to make green cement.

- FFI's expenditure in FY21 was approximately US\$120 million.
- FFI continues to progress a global portfolio of renewable green energy projects and decarbonisation technologies with FY22 expenditure anticipated to be US\$400 - US\$600 million, inclusive of US\$100 - US\$200 million of capital expenditure and US\$300 - US\$400 million of operating expenditure. Key areas of activity include green fleet development and decarbonisation technologies, as well as studies and asset identification across Australia, Asia, Africa, Latin America, Europe and North America.

Exploration

- Total exploration and studies capital expenditure in Q4 FY21 was US\$93 million and FY21 expenditure was US\$186 million.
- Iron ore exploration in the Pilbara included target and resource definition drilling in the Western Hub, Solomon Hub and Eastern Hamersley with study work progressing at Nyidinghu.
- In June 2021, Fortescue acquired a strategic tenement adjacent to Fortescue's Mindy South iron ore tenement package in the Pilbara, with mapping and drilling to be prioritised in FY22.
- Exploration activity on the Australian copper-gold portfolio included the completion of airborne magnetic and electromagnetic surveys and a ground gravity survey over the Paterson and Rudall projects in Western Australia. Planning for a follow-up drilling program at the Arcoona Project in South Australia is underway following an initial campaign.
- International exploration included the restart of field activities and drilling in Ecuador and the commencement of drilling in Kazakhstan. The drilling season concluded in Argentina during the June quarter, with geological reviews underway in preparation for the 2021/22 field season.

FY22 guidance

- Iron ore shipments of 180 - 185mt
- C1 cost of US\$15.00 - US\$15.50/wmt
- Capital expenditure (excluding FFI) of US\$2.8 - US\$3.2 billion, inclusive of:
 - US\$1.1 billion on sustaining capital
 - US\$200 million on hub development
 - US\$250 - US\$300 million on operational development
 - US\$180 million on exploration and studies
 - US\$1.1 - US\$1.4 billion on major projects (Iron Bridge and PEC)

Guidance for C1 cost and capital expenditure is based on an assumed FY22 average exchange rate of AUD:USD 0.75.

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Reporting calendar

Event	Date
FY21 Results	30 August 2021
September Quarterly Production Report	28 October 2021
Annual General Meeting	9 November 2021
December Quarterly Production Report	25 January 2022