

September 2021 Quarterly Production Report

28 October 2021



Record first quarter shipments and strong cost management

Quarterly summary

- Total Recordable Injury Frequency Rate (TRIFR) of 2.0 at 30 September 2021, five per cent lower than 2.1 at 30 September 2020. Tragically, Fortescue team member David Armstrong lost his life as a result of an incident at the Solomon Hub on 30 September 2021
- First quarter iron ore shipments of 45.6 million tonnes (mt) were three per cent higher than Q1 FY21 and a record for a first quarter
- Average revenue of US\$118/dry metric tonne (dmt) represents revenue realisation of 73 per cent of the average Platts 62% CFR Index and contractual realisation of 77 per cent
- C1 cost of US\$15.25/wet metric tonne (wmt) was in line with the previous quarter
- Net debt of US\$175 million at 30 September 2021 after payment of the FY21 final dividend of US\$4.7 billion and capital expenditure of US\$744 million in the quarter
- Announced an industry-leading target to achieve net zero Scope 3 emissions by 2040
- Established a groundbreaking co-management framework with members of Wintawari Guruma Aboriginal Corporation
- Fortescue Future Industries announced the development of a green energy and green hydrogen manufacturing industry in Gladstone, Queensland
- Guidance for FY22 shipments, C1 cost and capital expenditure remains unchanged.

Fortescue Chief Executive Officer, Elizabeth Gaines, said “The health and safety of the Fortescue family is our highest priority and we were devastated by the death of our team member, David Armstrong. A fatality is a reminder of why safety is our most important focus and we appreciated the support shown across the mining industry. We are supporting David’s family and his team at Solomon at this very difficult time, and we are working with authorities to investigate the incident.

“Across our operations, we achieved record first quarter shipments of 45.6 million tonnes and maintained our industry leading C1 cost of US\$15.25 per wet metric tonne. Our C1 cost was in line with the previous quarter, reflecting our strong focus on cost management to mitigate inflationary pressures. Strong performance across the supply chain, together with the contribution of Eliwana continues to drive record operational performance.

“Fortescue’s strategy to diversify continues to gain momentum with Fortescue Future Industries’ (FFI) recent announcement to develop a renewable energy and green hydrogen manufacturing centre at Gladstone, Queensland as well as agreements with Incitec Pivot and Plug Power.

“We are committed to working with our customers, suppliers and other industry participants to facilitate the reduction of emissions, including technology development and the supply of green hydrogen and ammonia through FFI, with these initiatives enabling our commitment to achieve net zero Scope 3 emissions by 2040.

“During the quarter, we announced the establishment of a co-management framework with members of Wintawari Guruma Aboriginal Corporation. We remain committed to working with our Native Title partners to deliver training, employment and business development opportunities, with Fortescue having now awarded over A\$3.5 billion of contracts to Aboriginal businesses and joint ventures through our Billion Opportunities program.”

Operations

Production summary (m wmt)	Q1 FY22	Q4 FY21	Var (%)	Q1 FY21	Var (%)
Ore mined	60.8	64.9	(6)	58.4	4
Overburden removed	99.2	82.4	20	74.5	33
Ore processed	48.4	50.9	(5)	46.0	5
Ore shipped	45.6	49.3	(8)	44.3	3
C1 cost (US\$/wmt)	15.25	15.23	0	12.74	20

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

- Fortescue's Total Recordable Injury Frequency Rate (TRIFR) was 2.0 in the 12 months to 30 September 2021, five per cent lower than 2.1 at 30 September 2020.
- Fortescue commenced pre-flight rapid antigen screening for COVID-19 during the quarter and a comprehensive COVID-19 risk management strategy and measures remain in place to safeguard Fortescue team members and communities.
- On 5 October 2021, the Western Australian Government announced mandatory COVID-19 vaccination for fly-in fly-out and other resources sector workers. Fortescue is actively planning for the implementation of this mandate.
- In a strong start to FY22, mining, processing, rail and shipping combined for record first quarter shipments of 45.6mt, three per cent higher than the prior comparable period. Ore processed and railed also achieved record first quarter volumes, reflecting strong operational performance across the supply chain and expanded system capacity following the ramp up of Eliwana.
- The C1 cost in Q1 FY22 of US\$15.25/wmt was in line with the previous period and 20 per cent higher than in Q1 FY21. The increase relative to Q1 FY21 is attributable to:
 - Appreciation of the AUD:USD exchange rate
 - Price escalation of key input costs, including diesel and labour rates
 - Integration of the new mining hub at Eliwana
 - Mine plan driven cost escalation.
- Heritage survey and consultation with Native Title partners remains a priority. During the quarter, Fortescue and members of Wintawari Guruma Aboriginal Corporation, the prescribed body corporate for the Eastern Guruma People, established a co-management framework to oversee the development of new mining areas at Fortescue's Solomon Hub operations.

Marketing

Product summary (m wmt)	Q1 FY22	(%)	Q4 FY21	(%)	Q1 FY21	(%)
West Pilbara Fines	3.7	8	4.3	9	4.5	10
Kings Fines	3.6	8	3.9	8	3.7	8
Fortescue Blend	20.0	44	17.6	36	17.7	40
Fortescue Lump	1.0	2	4.2	9	3.9	9
Super Special Fines	16.8	37	15.3	31	14.3	32
Other products	0.5	1	4.0	8	0.2	0
Total shipments	45.6	100	49.3	100	44.3	100

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

- Chinese crude steel production was 806mt in the nine months to 30 September 2021, an increase of two per cent compared to the same period in calendar 2020. Steel production curtailments and energy supply shortages contributed to lower output during the September quarter.
- Global crude steel production excluding China increased by 15.8 per cent to 660mt in the nine months to 30 September 2021. Ex-China crude steel production has returned to pre-COVID levels, supported by the recovery in steel demand.
- Fortescue's average revenue of US\$118.41/dmt in Q1 FY22 represents revenue realisation of 73 per cent of the average Platts 62% CFR Index of US\$162.94/dmt, including the impact of mark to market pricing on open tonnes. The Platts 62% CFR Index decreased from US\$218.40/dmt on 30 June 2021 to US\$118.25/dmt at 30 September 2021. The contractual realisation achieved in the quarter was 77 per cent.
- China portside sales through FMG Trading Shanghai Co. Ltd increased to 3.7mt in Q1 FY22, compared with 2.8mt in Q1 FY21.

Financial position

- The cash balance was US\$4.1 billion at 30 September 2021, compared to US\$6.9 billion at 30 June 2021, noting that the final FY21 tax instalment of approximately US\$1.0 billion will be paid in December 2021.
- Cashflow generation remained strong during the quarter with cash outflows including US\$4.7 billion for the FY21 final dividend and US\$744 million of capital expenditure.
- Gross debt was US\$4.2 billion at 30 September 2021, compared with US\$4.3 billion at 30 June 2021.
- Fortescue completed an amendment and extension of its Revolving Credit Facility (RCF) and Term Loan, with maturities extended to 2025 and 2026, respectively. The Term Loan facility was increased by US\$400 million, which together with the RCF of US\$1 billion provides undrawn liquidity of US\$1.4 billion. Fortescue is committed to incorporating sustainable financing principles into its debt capital structure.

Iron Bridge

- The Iron Bridge Magnetite project will deliver 22mt per annum of high grade 67% Fe magnetite concentrate, with first production scheduled for December 2022.
- During the quarter, the project achieved key milestones, including:
 - Delivery and installation of the first modules to site
 - Installation of the first high pressure grinding roll (HPGR) in the tertiary crushing facility
 - Completion of earthworks for the tailings storage facility
 - Construction of the module offload facility at Lumsden Point
 - Commissioning and operation of the airport.
- The project is progressing on schedule with the forecast capital investment unchanged at US\$3.3 - US\$3.5 billion (Fortescue's share US\$2.5 - US\$2.7 billion). Iron Bridge is an Unincorporated Joint Venture between FMG Magnetite Pty Ltd (69 per cent) and Formosa Steel IB Pty Ltd (31 per cent).

Fortescue Future Industries

- Fortescue Future Industries (FFI) is taking a global leadership position in the renewable energy and green products industry and has a vision to make green hydrogen the most globally traded seaborne commodity in the world. Recent progress includes:
 - Announcement of the construction of the Global Green Energy Manufacturing centre in Gladstone, Queensland. The first stage development is an electrolyser factory with an initial capacity of two gigawatts
 - A letter of intent with Plug Power for a 50-50 Joint Venture for the two gigawatt electrolyser factory, with ability to expand into fuel systems and other hydrogen-related refuelling and storage infrastructure in the future
 - A partnership with Incitec Pivot to conduct a feasibility study to convert their Gibson Island ammonia production facility in Queensland to run on green, renewable hydrogen
 - Acquisition of a 60 per cent equity interest in Dutch based High yield Energy Technologies (HyET) Group.
- FFI is a key enabler of Fortescue's decarbonisation strategy, including Fortescue's recently announced industry leading target to achieve net zero Scope 3 emissions by 2040.
- Fortescue's approach to reducing Scope 3 emissions is to develop projects and technologies with a focus on reducing emissions from iron and steel making and to work with current and prospective customers on the application of the technology and the supply of green hydrogen and ammonia from FFI.
- FFI's FY22 expenditure is 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.

Exploration

- Total exploration and studies capital expenditure for Q1 FY22 was US\$44 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.
- Exploration activity on the Australian copper-gold portfolio included the completion of airborne magnetic and electromagnetic surveys, a ground gravity survey and on-ground mapping and soil sampling over the Paterson and Rudall projects in Western Australia. A follow-up drilling program at the Arcoona Project in South Australia is underway following an initial campaign.
- International exploration activities included the completion of a drill program at the Santa Ana project in Ecuador. Drill programs were also completed over two project areas in Kazakhstan, with mapping and ridge sampling conducted on several other project areas. Exploration continues in Argentina, with the seasonal drilling program to recommence in October 2021.

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

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
Annual General Meeting	9 November 2021
December Quarterly Production Report	25 January 2022
H1 FY22 Results	16 February 2022
March Quarterly Production Report	28 April 2022