

June 2022 Quarterly Production Report



28 July 2022

Strong June Quarter performance contributes to record shipments of 189 million tonnes for FY22

Quarterly summary

- Continued focus on safety contributed to a Total Recordable Injury Frequency Rate (TRIFR) of 1.8 in the 12 months to 30 June 2022 (FY22), 10 per cent lower than 30 June 2021
- Record iron ore shipments of 49.5 million tonnes (mt) for the quarter and 189.0mt for FY22, exceeding full year guidance
- Average revenue of US\$108/dry metric tonne (dmt) for the quarter, realising 78 per cent of the average Platts 62% CFR Index, and average revenue of US\$100/dmt in FY22
- C1 cost of US\$17.19/wet metric tonne (wmt) for Q4 FY22 and US\$15.91/wmt in FY22
- Strong cash flow generation contributed to cash on hand of US\$5.2 billion and net debt of US\$0.9 billion at 30 June 2022, compared to net debt of US\$2.4 billion at 31 March 2022
- Total capital expenditure for FY22 of US\$3.1 billion, including the investment in the Iron Bridge Magnetite and Pilbara Energy Connect (PEC) projects
- Significant progress to decarbonise Fortescue's mining fleet through the strategic partnership with Liebherr for the development and supply of green mining haul trucks
- FY23 guidance for shipments of 187 - 192mt inclusive of approximately 1mt from Iron Bridge and C1 cost for hematite of US\$18.00 - US\$18.75/wmt
- FY23 capital expenditure guidance (excluding FFI) of US\$2.7 - US\$3.1 billion, inclusive of sustaining and development capital, exploration and studies, decarbonisation and major projects
- FFI is progressing a portfolio of green energy projects, manufacturing initiatives and technology developments with FY23 expenditure anticipated to be US\$600 - US\$700 million.

Fortescue Chief Executive Officer, Elizabeth Gaines, said, "The Fortescue team has delivered excellent results for the June quarter, with record iron ore shipments of 49.5 million tonnes. This outstanding operating performance has resulted in record FY22 shipments of 189 million tonnes, exceeding the top end of guidance. This was achieved in a challenging operating environment due to the impact of COVID-19 throughout the financial year. Despite industry-wide and global headwinds, Fortescue's unique culture and Values has delivered these exceptional results and I am immensely proud of the performance of the team.

"We maintain a strong focus on safety and a commitment to zero harm, with TRIFR improving to 1.8 in the 12 months to 30 June 2022, 10 per cent lower than 2.0 at 30 June 2021. This reflects our core Value of Safety and the commitment to look out for our workmates and ourselves.

“Fortescue continued to significantly advance its decarbonisation objectives in the quarter, as evidenced by the strategic partnership with Tier 1 global equipment manufacturer Liebherr for the development and supply of zero emission green mining haul trucks. The agreement leverages the capabilities and value created through Fortescue’s acquisition of Williams Advanced Engineering.

“Building on another year of record performance, our guidance for FY23 reflects our ongoing commitment to optimising returns from our integrated operations and marketing strategy, with total shipments in the range of 187 - 192 million tonnes.

“We remain focused on innovation and productivity to maintain our industry leading cost position and deliver strong operational performance. Together with our focus on investing in growth through the Iron Bridge Magnetite project and Fortescue Future Industries, we are well placed to advance our transition to a global green energy and resources company and ensure our stakeholders continue to benefit from Fortescue’s success,” Ms Gaines said.

Operations

Production summary (m wmt)	FY22	FY21	Var (%)	Q4 FY22	Vs Q3 FY22 (%)	Vs Q4 FY21 (%)
Ore mined	228.8	226.9	1	59.2	15	(9)
Overburden removed	314.6	295.2	7	66.9	(2)	(19)
Ore processed	188.7	185.8	2	46.8	6	(8)
Ore shipped	189.0	182.2	4	49.5	6	0
C1 cost (US\$/wmt)	15.91	13.93	14	17.19	9	13

Volume references are based on wet metric tonnes (wmt). Product is shipped with 8-9 per cent moisture.

- Fortescue’s Total Recordable Injury Frequency Rate (TRIFR) was 1.8 for the 12 months to 30 June 2022, a 10 per cent improvement on 2.0 at 30 June 2021.
- A comprehensive COVID-19 risk management plan and business continuity measures remain in place to safeguard Fortescue team members and communities.
- Fortescue’s outstanding operating performance continued in Q4 FY22, with mining, processing, rail and shipping combining to deliver record shipments of 189.0mt in FY22, four per cent higher than FY21 and exceeding the top end of guidance of 188.0mt.
- FY22 represents the third consecutive year of record shipments, reflecting strong performance across the entire supply chain and the successful integration of Eliwana which commenced operations in January 2021.
- The C1 cost in Q4 FY22 of US\$17.19/wmt was nine per cent higher than the previous quarter due to higher diesel costs, labour rates and other consumables.
- The C1 cost in FY22 of US\$15.91/wmt maintains Fortescue’s industry leading cost position, supported by an ongoing focus on productivity gains through innovation and technology.
- FY23 C1 cost guidance for hematite of US\$18.00 - US\$18.75/wmt reflects the lag effect of ongoing inflationary pressures, with the increase driven by diesel, labour rates, ammonium nitrate and other consumables together with mine plan driven cost escalation.

Marketing

Product summary (m wmt)	FY22	(%)	FY21	(%)	Q4 FY22	(%)
West Pilbara Fines	15.0	8	17.0	9	3.3	7
Kings Fines	15.0	8	15.2	8	4.3	9
Fortescue Blend	83.1	44	68.5	38	20.8	42
Fortescue Lump	3.6	2	15.5	9	1.2	2
Super Special Fines	70.0	37	56.4	31	19.1	38
Other products	2.3	1	9.6	5	0.8	2
Total shipments	189.0	100	182.2	100	49.5	100

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

- Chinese crude steel production was 527mt in the first half of calendar 2022, a decrease of 6.5 per cent compared to the same period last year.
- The iron ore price trended lower during the period, impacted by COVID-19 restrictions that disrupted China's downstream steel demand and a weakening global economic outlook.
- Fortescue's average revenue of US\$107.84/dmt in Q4 FY22 increased by eight per cent over the previous quarter and represents revenue realisation of 78 per cent of the average Platts 62% CFR Index of US\$137.90/dmt (70 per cent in Q3 FY22). The Platts 62% CFR Index was US\$120.10/dmt on 30 June 2022, compared to US\$158.30/dmt on 31 March 2022.
- Average revenue of US\$99.80/dmt in FY22 represents revenue realisation of 72 per cent of the average Platts 62% CFR Index of US\$137.99/dmt.
- China portside sales by FMG Trading Shanghai Co. Ltd increased to 5.0mt in Q4 FY22, with sales of 18.5mt in FY22.

Financial position

- Strong free cash flow generation during the quarter contributed to a net debt position of US\$0.9 billion at 30 June 2022, compared with net debt of US\$2.4 billion at 31 March 2022.
- Fortescue's cash balance increased to US\$5.2 billion at 30 June 2022, compared with US\$2.2 billion at 31 March 2022.
- Total capital expenditure for the quarter was US\$766 million and total capital expenditure for FY22 was US\$3.1 billion.
- Gross debt increased to US\$6.1 billion at 30 June 2022 (31 March 2022: US\$4.6 billion) after completion of a US\$1.5 billion offering of Senior Notes during the quarter. The offering included Fortescue's inaugural green bond issue of US\$800 million.

Iron Bridge

- The Iron Bridge Magnetite project will deliver 22mt per annum of high grade 67% Fe magnetite concentrate, with first production scheduled for the March 2023 quarter.
- Iron Bridge is a strategic investment that enables Fortescue to provide an enhanced product range and increase its production and shipping capacity.
- During the quarter, the Project achieved key milestones, including:
 - Six module ships unloaded at Port Hedland, taking the total to 30 June 2022 to 20 of 21 module ships berthed and unloaded
 - All critical path items have now been delivered to site and the remaining ship was delivered and unloaded in July 2022

- Installation of primary crusher A and commenced commissioning of dry circuit A from the primary crusher to the coarse ore stockpile
- Continued progress on the installation of the concentrate and return water pipelines across excavation, welding and laying
- Construction of the Concentrate Handling Facility at Port Hedland has advanced with civil, structural and electrical works progressing.
- The Project capital estimate is unchanged at US\$3.6 - US\$3.8 billion, with Fortescue's share US\$2.7 - US\$2.9 billion. Fortescue's share of capital expenditure incurred in FY22 was US\$849 million and Fortescue's investment in the Project as at 30 June 2022 is US\$2.3 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).

Energy

- Development continues on the Pilbara Energy Connect (PEC) project, which includes transmission infrastructure, hybrid solar gas generation and large scale battery storage. PEC will enable the integration of Fortescue's stationary energy facilities into an efficient network and support the addition of large scale renewable energy in the future.
- Recent milestones include the completion of the Stage 1 transmission line construction and energisation (Solomon to Iron Bridge) and the completion of the installation of all major structures and mechanical equipment at the expanded Solomon Power Station.
- Capital expenditure incurred on PEC in FY22 was US\$187 million and on the Project as at 30 June 2022 is US\$462 million.

Fortescue Future Industries

- Fortescue Future Industries (FFI) is taking a global leadership position in green energy and technology and is committed to producing zero-carbon green hydrogen.
- Key developments during the quarter include:
 - The announcement of the appointment of Mark Hutchinson as CEO Elect which follows the appointment of Dr Guy Debelle as FFI CFO
 - Advanced construction of the two gigawatt capacity electrolyser manufacturing facility at the Green Energy Manufacturing Centre in Gladstone, Queensland
 - Entered a Memorandum of Understanding (MoU) with Firstgas Group to identify opportunities to produce and distribute green hydrogen in New Zealand
 - Participated in an Australian-German business coalition to release a green hydrogen roadmap for large scale green hydrogen import into Germany, which follows the MoU announced with E.ON in March 2022 to supply up to five million tonnes per annum of green hydrogen to Europe by 2030.
- FFI's FY22 total expenditure was US\$534 million, inclusive of US\$148 million in capital expenditure and US\$386 million in operating expenditure.
- In accordance with Fortescue's capital allocation framework, the capital commitment unutilised by FFI as at 30 June 2022 is US\$728 million.
- FFI's FY23 anticipated expenditure is US\$600 - US\$700 million, inclusive of US\$100 million of capital expenditure and US\$500 - US\$600 million of operating expenditure.

Exploration

- Total exploration and studies capital expenditure in Q4 FY22 was US\$63 million and FY22 expenditure was US\$194 million.
- Iron ore exploration in the Pilbara included resource definition drilling in the Eastern Hamersley with a focus on the program at Nyidinghu and Mindy South, along with regional exploration programs across our tenement holdings in the Pilbara.
- Exploration activity on the Australian copper-gold portfolio included target generation utilising geophysical datasets gathered through the first half of the financial year, with a focus on the Paterson projects in Western Australia. A drilling program at Vulcan South on the Tasman Resources Joint Venture project in South Australia was completed in the quarter.
- International exploration activities included drilling programs in Argentina and Kazakhstan with exploration activities over several project areas in Peru, Chile, Brazil and Ecuador.

FY23 guidance

- Iron ore shipments of 187 - 192mt, including approximately 1mt from Iron Bridge (100 per cent basis)
- C1 cost for hematite of US\$18.00 - US\$18.75/wmt
- Capital expenditure (excluding FFI) of US\$2.7 - US\$3.1 billion, inclusive of:
 - Sustaining capital: US\$1.4 - US\$1.6 billion
 - Hub development: US\$300 million
 - Exploration and studies: US\$200 million
 - Decarbonisation: US\$100 - US\$200 million
 - Major projects (Iron Bridge and PEC): US\$700 - US\$800 million
- FFI's FY23 anticipated expenditure is US\$600 - US\$700 million, inclusive of US\$100 million of capital expenditure and US\$500 - US\$600 million of operating expenditure.

Guidance is based on an assumed FY23 average exchange rate of AUD:USD 0.70.

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Reporting calendar

Event	Date
FY22 Results	29 August 2022
September Quarterly Production Report	27 October 2022
Annual General Meeting	22 November 2022
December Quarterly Production Report	25 January 2023