

December 2022 Quarterly Production Report

27 JANUARY 2023

FMG Fortescue

FORTESCUE
FUTURE
INDUSTRIES

Record quarter delivers best ever half year operating performance

Fortescue Executive Chairman, Dr Andrew Forrest AO, said, “The Fortescue team delivered our highest ever December quarterly shipments of 49.4 million tonnes, our best ever half year, grew the mineral and green energy business globally, strengthened our balance sheet, kept costs low, all while maintaining our excellent safety performance.

“We are now nearing the 200 million tonne annualised rate in our iron ore business even before we commission Iron Bridge. Our Company has never performed better on the mining, exploration, green hydrogen and green energy development front, while leading the world as the first heavy industry company to achieve real zero with a fully costed plan. Fortescue will step beyond fossil fuels this decade, saving shareholders approximately US\$1 billion a year and setting the global stage for all environmentally responsible companies to follow.

“Demand for Fortescue’s suite of iron ore products remains strong and our entry into the higher-grade segment of the market has been well received, with significant interest in the Iron Bridge magnetite concentrate. This is further supported by the Belinga Project in Gabon, with engagement rapidly advancing and very positive geological assessments from ground mineral surveys. The initial drilling program is expected to commence in March 2023. We also continue to develop our rare earths division as announced at the 2022 Annual General Meeting.”

Summary

- Total Recordable Injury Frequency Rate (TRIFR) of 1.8 at 31 December 2022, consistent with December 2021.
- Iron ore shipments of 49.4 million tonnes (mt) in Q2 FY23 contributed to shipments of 96.9mt for H1 FY23, 4% higher than H1 FY22 and a record for a half year.
- Average revenue of US\$87/dry metric tonne (dmt), realising 88% of the average Platts 62% CFR Index for the quarter.
- C1 cost of US\$17.17/wet metric tonne (wmt), 3% lower than the previous quarter.
- Cash increased to US\$4.0 billion (net debt of US\$2.1 billion) at 31 December 2022, after capital expenditure of US\$728 million in the quarter.
- Commencement of civil works on the installation of the solar farm as part of the Pilbara Energy Connect program of works.
- Fortescue Future Industries (FFI) established a framework agreement with the Government of Kenya to develop green ammonia and green fertiliser facilities.
- Announced the appointment of experienced executive Fiona Hick as Chief Executive Officer of Fortescue Metals.
- Guidance for FY23 shipments is maintained at 187 - 192mt, inclusive of Iron Bridge shipments of less than 1mt (previously 1mt).
- Guidance for FY23 C1 cost and capital expenditure remain unchanged.

“We’ve made strong progress on our massive iron ore interest in Gabon, our electrolyser facility in Gladstone, our battery facility in the UK and our green energy projects all over the world. All these assets, some which give us preeminent leadership capability in their industries, have been added through operating cashflow. Despite this major asset growth, cash flows have allowed a strong reduction to our net debt, adding further weight to the existing strength of our balance sheet.

“Some 100 meetings at the World Economic Forum in Davos made clear to Fortescue the demand for green energy is immense. This gives us confidence that global capital markets will be aligned to progress five FFI green energy projects to Final Investment Decision in calendar 2023 allowing first production in 2024.

“Green hydrogen gives the world energy storage potential of the massive scale of oil, gas and coal. Green electrons are already the world’s lowest cost energy and rely on batteries for firming capacity and energy mobility. Batteries are also fundamental to the rapidly growing global hydrogen fuel cell industry and are therefore one of Fortescue’s preeminent focuses.

“The unique technical strength and commercial potential of battery prototype design and maker WAE Technologies in Oxfordshire, will be developed through transitioning from prototype design to manufacturing and distribution of world leading mobile storage systems. Our first manufacturing facility in Kidlington will be commissioned in April. To accelerate and globalise this transition, Mark Hutchinson has been appointed Chairman, tasked with growing WAE into a multi-billion dollar green technology, battery and vehicle control systems company.” Dr Forrest said.

Operations

Production summary (m wmt)	Q2 FY23	Q1 FY23	Var (%)	Q2 FY22	Var (%)
Ore mined	60.0	54.8	9	57.2	5
Overburden removed	80.4	80.6	(0)	79.8	1
Ore processed	50.0	48.0	4	49.2	2
Ore shipped	49.4	47.5	4	47.5	4
C1 cost (US\$/wmt)	17.17	17.69	(3)	15.31	12

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

- Building on the excellent start to FY23, Fortescue’s strong operating performance continued in Q2 FY23, with mining, processing, rail and shipping combining to deliver record shipments.
- Ore processed and railed also achieved a record performance for a half year.
- The C1 cost of US\$17.17/wmt was 3% lower than the previous quarter, supported by the strong operational performance.

Marketing

Product summary (m wmt)	Q2 FY23	(%)	Q1 FY23	(%)	Q2 FY22	(%)
West Pilbara Fines	3.9	8	3.7	8	4.3	9
Kings Fines	4.1	8	3.6	8	3.1	7
Fortescue Blend	21.0	43	20.5	43	21.6	45
Fortescue Lump	1.5	3	1.1	2	0.8	2
Super Special Fines	17.8	36	17.6	37	17.2	36
Other products	1.0	2	1.0	2	0.5	1
Total shipments	49.4	100	47.5	100	47.5	100

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

- Chinese crude steel production reached 1,013mt in calendar year 2022, showing limited impact of COVID by decreasing only by 2.1% compared to 2021. Global crude steel production decreased by 3.7% to 1,691mt in the 11 months to 30 November 2022.
- Fortescue's average revenue of US\$86.93/dmt in Q2 FY23 represents a realisation of 88% of the average Platts 62% CFR Index of US\$99.00/dmt. The Platts 62% CFR Index increased to US\$117.35/dmt on 31 December 2022, compared to US\$95.95/dmt on 30 September 2022.
- China portside sales by FMG Trading Shanghai Co. Ltd were 4.0mt in Q2 FY23, with sales increasing to 9.3mt in H1 FY23.

Financial position

- Fortescue's cash balance increased to US\$4.0 billion at 31 December 2022 (US\$3.3 billion at 30 September 2022).
- Total capital expenditure for the quarter was US\$728 million and total capital expenditure for H1 FY23 was US\$1.4 billion.
- Gross debt was unchanged at US\$6.1 billion at 31 December 2022, and net debt decreased to US\$2.1 billion (US\$2.8 billion at 30 September 2022).

Beyond fossil fuels

- The delivery against Fortescue's plan to step beyond fossil fuels is on-schedule.
- Next tranche of solar PV, transmission infrastructure, and large-scale battery storage is being built (100MW).
- Wind design and procurement are advanced and locations are being finalised with local communities.
- Battery electric haul trucks, ammonia locomotives, and hydrogen-based transport and refuelling will all be tested in the next quarter on-site.
- In January 2023, Fortescue Metals received delivery of the first prototype battery system from Fortescue's market leading green technology, battery and vehicle control systems company, WAE Technologies, for integration into its zero emission battery electric haul truck.
- The first prototype green ammonia locomotive was delivered to Port Hedland to undergo further testing before being deployed in Fortescue's rail operations.
- The opening of Western Australia's first green hydrogen refuelling station in partnership with ATCO to enable Fortescue, ATCO and third parties to support their fleets of hydrogen fuel cell vehicles.
- Achieved progress towards green ironmaking with Fortescue, Primetals Technologies and Voestalpine to jointly evaluate a new green ironmaking process using hydrogen and Fortescue's Pilbara ores.
- Submitted a successful proposal to develop a Green Products Precinct at the Boodarie Strategic Industrial Area in Port Hedland and the Ashburton North Strategic Industrial Area near Onslow for potential green ammonia and green iron production.

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:
 - Established a framework agreement with the Government of Kenya to develop green ammonia and green fertiliser facilities to help eliminate fossil fuels from Kenya's fertiliser supply chain
 - FFI and the Egyptian Government entered an agreement to work together to study and develop green hydrogen projects and renewable energy projects in Egypt
 - Commenced work with Siemens Energy – using FFI technology developed with the CSIRO – on an ammonia cracker prototype which is part of the green hydrogen supply chain, with a focus on mobility and off-grid power applications.
- FFI's H1 FY23 operating expenditure was US\$226 million, exclusive of US\$57 million of expenditure incurred on behalf of Fortescue Metals for decarbonisation.

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 end of the March 2023 quarter.
- During the quarter, the Project achieved key milestones, including:
 - First ore into the processing plant on 31 October 2022
 - Continued commissioning of Dry Processing Line A equipment; and commenced energisation and commissioning activities in the Wet Plant
 - Continued progress on the installation of the concentrate and return water pipelines, with approximately 90% of the twin pipelines welded, as of 31 December 2022
 - Completed the welding and burying of the entire raw water pipeline, together with the dry commissioning of eight of ten bores in the West Canning Basin Bore Field
 - Completed the structural steel installation at the Concentrate Handling Facility at Port Hedland, with civil, structural and mechanical works well progressed.
- The Project capital estimate is US\$3.6 - US\$3.8 billion (Fortescue's share US\$2.7 - US\$2.9 billion), with the capital expected to be at the top end of the range.
- Iron Bridge is an Unincorporated Joint Venture between FMG Magnetite Pty Ltd (69%) and Formosa Steel IB Pty Ltd (31%).

Minerals exploration

- Total exploration and studies capital expenditure in Q2 FY23 was US\$49 million.
- Iron ore exploration in the Pilbara included resource definition drilling in the Eastern Hamersley with a successful focus on Nyidinghu and Mindy South, along with the regional exploration programs.
- Activity at the Belinga Iron Ore Project in Gabon focused on geological mapping and sampling programs across the primary target areas. The initial drilling program is planned to commence in March 2023.
- Exploration activity on the Australian copper-gold portfolio included a drilling program completed at the McKay Range and Isdell projects in Western Australia.
- International exploration included drilling programs in Argentina, Chile and Brazil, as well as exploration activities over several project areas including the Latin America region and Kazakhstan.

FY23 guidance (no change)

- Iron ore shipments of 187 - 192mt
- C1 cost for hematite of US\$18.00 - US\$18.75/wmt
- Capital expenditure (excluding FFI) of US\$2.7 - US\$3.1 billion
- FFI's FY23 anticipated expenditure comprises US\$500 - US\$600 million of operating expenditure and US\$230 million of capital expenditure.

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

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