

FY23 Full Year Results

28 AUGUST 2023

Underlying net profit after tax of US\$5.5 billion and fully franked FY23 total dividends of A\$1.75 per share

Highlights

- Appointment of Dino Otranto as Fortescue Metals Chief Executive Officer.
- Safety is Fortescue's most important Value, and the team achieved a Total Recordable Injury Frequency Rate of 1.8 in the 12 months to 30 June 2023 (FY23).
- Record iron ore shipments of 192 million tonnes achieved the top end of market guidance, contributing to the third highest earnings in Fortescue's 20 year history.
- Underlying EBITDA of US\$10.0 billion with an Underlying EBITDA margin of 59 per cent.
- Underlying net profit after tax (NPAT) of US\$5.5 billion.
- Statutory NPAT of US\$4.8 billion after a US\$726 million non-cash impairment charge relating to Iron Bridge.
- Net cash flow from operating activities of US\$7.4 billion and free cash flow of US\$4.3 billion.
- Strong balance sheet with cash of US\$4.3 billion and net debt of US\$1.0 billion as at 30 June 2023. Gross debt to last 12 months Underlying EBITDA of 0.5 times and gross gearing of 23 per cent.
- Fully franked final dividend of A\$1.00 per share, increasing total dividends declared in FY23 to A\$1.75 per share, equating to A\$5.4 billion and a 65 per cent payout of Underlying NPAT.
- Iron Bridge achieved first concentrate loaded on ship in July 2023. The updated life of mine C1 cost attributable to Fortescue is estimated at US\$45/wet metric tonne.
- Continued progress on decarbonisation, including the deployment of the first battery electric haul truck and the first dual fuel green ammonia locomotive prototypes to the Pilbara.
- Total global economic contribution of A\$26.3 billion in FY23, including A\$5.5 billion in corporate taxes and State government royalties.
- Operating segments realigned to Fortescue Metals and Fortescue Energy to reflect the strategic objectives and operations of each segment. Fortescue Energy comprises Fortescue Future Industries (FFI), Fortescue WAE and Fortescue Hydrogen Systems.
- Disciplined capital allocation framework prioritises maintaining a strong balance sheet and capital returns to shareholders with the dividend policy maintained to payout 50 - 80 per cent of Underlying NPAT.
- Guidance provided for Fortescue Energy, with FY24 net operating expenditure of approximately US\$800 million and capital expenditure and investments of approximately US\$400 million. This includes operating expenditure incurred for decarbonisation.
- Consistent with the new operating segments, going forward, the 10 per cent of Fortescue's NPAT to fund FFI will no longer apply and all projects and investments will be assessed on their own merits consistent with Fortescue's capital allocation framework.

Fortescue Metals Chief Executive Officer, Dino Otranto, said “I am honoured and humbled to be appointed CEO of Fortescue Metals. We are a unique company at a unique point in time. The opportunity before us is immense. I am proud to be working alongside our people and alongside Hutch as we forge the next chapter in our history.

“The team has delivered a fourth consecutive year of record operational performance for FY23, contributing to underlying net profit after tax of US\$5.5 billion and free cash flow of US\$4.3 billion. This was achieved while maintaining our focus on safety, with a Total Recordable Injury Frequency Rate of 1.8 across our iron ore operations.

“Fortescue celebrated a number of significant milestones during the financial year including first production at our Iron Bridge Magnetite project, and first ore mined from the Belinga Iron Ore project in Gabon as part of the early stage mine development.”

“Reflecting our ongoing commitment to delivering enhanced shareholder returns, the Board has declared a fully franked final dividend of A\$1.00 per share, bringing total dividends declared for FY23 to A\$1.75 per share. This represents a 65 per cent payout of underlying net profit after tax.”

Fortescue Energy Chief Executive Officer, Mark Hutchinson, said “We maintained momentum in our journey to decarbonise our Australian iron ore operations with the arrival of our battery electric haul truck prototype to site in the Pilbara for testing, as well as a retrofitted locomotive engine to run dual fuel with ammonia.

“As Fortescue celebrates its 20th anniversary, we are moving to one brand to represent our global metals and green energy Company. Through operational excellence, our disciplined approach to capital allocation and ongoing investment in metals, green energy and green technologies, we are well positioned to continue to deliver benefits to all of our stakeholders.”

“Today, we released our FY23 annual reporting suite which outlines in detail our commitment to the communities in which we operate, our strong financial performance and our goal to tackle climate change and eliminate emissions across our business.”

Appointment of Chief Executive Officer

- Dino Otranto has been appointed Chief Executive Officer of Fortescue Metals.
- Mr Otranto joined Fortescue in 2021 as Chief Operating Officer. A highly qualified senior executive, Mr Otranto has over twenty years’ experience in the global energy and resources industry, spanning various commodities and operations across the globe.
- Mr Otranto brings significant operational, technical and financial expertise, and a strong focus on safety leadership and employee engagement to Fortescue’s Senior Executive team.
- Fiona Hick has made a joint decision with the Fortescue Board to leave the Company and pursue other opportunities.

Sustainability

- Sustainability is critical to Fortescue’s future success and it is integrated into all aspects of the Company’s business. Fortescue’s FY23 Sustainability Report, along with the FY23 Annual Report, Climate Change Report and Corporate Governance Statement are available on the Company’s website at www.fortescue.com.
- The safety and wellbeing of the Fortescue team members is the Company’s highest priority. In FY23, Fortescue Metals’ Total Recordable Injury Frequency Rate was 1.8 and the injury frequency risk profile decreased by 22 per cent compared to FY22.
- Fortescue is committed to providing a workplace where everyone feels safe to be themselves. Through the Fortescue Family Diversity Plan, the Company is building a workforce that reflects the communities in which team members live.

- The female employment rate was stable in FY23, with females holding 23 per cent of total positions, 26 per cent of leadership positions and 30 per cent of senior leadership roles.
- First Nations people represent 10 per cent of Fortescue's Australian workforce and 16 per cent of the operational workforce. Fortescue's Vocational Training Employment Centre (VTEC) program continues to provide sustainable career pathways for First Nations people, with over 1,400 First Nations people employed through VTEC since 2006.
- From the outset, Fortescue has been committed to delivering practical initiatives that drive economic and employment opportunities for First Nations people, evident through the Billion Opportunities program. Since it was established in 2011, more than A\$4.6 billion in contracts have been awarded to over 190 First Nations Businesses.
- In FY23, Fortescue updated its Human Rights Policy and established its Free, Prior and Informed Consent Position Statement.
- Fortescue is taking action to eliminate emissions profitably across its iron ore operations and entire value chain. In FY23, the Company set a target to achieve Real Zero Scope 1 and 2 terrestrial emissions across its iron ore operations by 2030. Real Zero refers to no fossil fuels and no offsets. Fortescue plans to have its emissions reduction targets verified through the Science Based Targets initiative.
- Fortescue is committed to minimising the potential impacts its activities have on biodiversity by integrating mitigation measures into all stages of its operations. Water is a critical resource and its effective management is fundamental to the sustainability of Fortescue's operations and the ecosystems and communities it operates in.
- Fortescue's economic contribution creates wealth in the Australian economy and around the world. Payments to employees, suppliers, shareholders, and governments totalled A\$26.3 billion in FY23.

Operational and financial performance

- Strong operational performance across Fortescue's supply chain contributed to record iron ore shipments and ore sold in FY23, two per cent higher than FY22.
- Revenue of US\$16.9 billion decreased three per cent on FY22 as the increase in iron ore sales was more than offset by the five per cent decrease in average revenue.
- C1 cost of US\$17.54/wet metric tonne (wmt) was 10 per cent higher than FY22, primarily reflecting an increase in diesel prices, labour rates and other consumables.
- Underlying EBITDA of US\$10.0 billion was six per cent lower than FY22 with an Underlying EBITDA margin of 59 per cent.
- Underlying NPAT of US\$5.5 billion was 11 per cent lower than FY22. Statutory NPAT of US\$4.8 billion decreased by 23 per cent compared to FY22, reflecting the decrease in Underlying EBITDA and an impairment charge of US\$726 million relating to Iron Bridge.

Operations	FY23	FY22	Change (%)
Ore mined (m wmt)	217.9	228.8	(5)
Ore processed (m wmt)	192.4	188.6	2
Ore shipped (m wmt)	192.0	189.0	2
Ore sold (m wmt)	192.4	188.6	2
Average revenue (US\$/dmt)	94.74	99.80	(5)
C1 cost (US\$/wmt)	17.54	15.91	10

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

Earnings	FY23	FY22	Change (%)
Revenue (US\$ million)	16,871	17,390	(3)
Underlying EBITDA (US\$ million)	9,963	10,561	(6)
Underlying EBITDA margin (%)	59	61	(3)
NPAT (US\$ million)	4,796	6,197	(23)
Underlying NPAT (US\$ million)	5,522	6,197	(11)
Basic EPS (US cents)	180	201	(11)
Basic EPS (AUD cents)	267	277	(4)

Financial position

- Fortescue's balance sheet remains strong with a cash balance of US\$4.3 billion and gross debt of US\$5.3 billion, resulting in net debt of US\$1.0 billion as at 30 June 2023.
- Fortescue's credit metrics are strong with gross debt to last 12 months Underlying EBITDA of 0.5 times and gross gearing of 23 per cent as at 30 June 2023.
- Net cash flow from operating activities of US\$7.4 billion increased 12 per cent on FY22, with FY22 cash flow impacted by payment of the FY21 final tax instalment. The free cash flow of US\$4.3 billion increased 19 per cent on FY22.
- Total capital expenditure and investments (cash flow basis) in FY23 was US\$3.2 billion, including US\$1.4 billion of sustaining and hub development capital, US\$233 million of exploration and studies, US\$949m in major iron ore projects and US\$394 million by FFI.

Financial position (US\$ million)	30 June 2023	30 June 2022	Change (%)
Borrowings	4,587	5,348	(14)
Lease liabilities	734	755	(3)
Total debt	5,321	6,103	(13)
Cash and cash equivalents	4,287	5,224	(18)
Net debt	1,034	879	18
Equity	17,998	17,345	4
Cash flow (US\$ million)	FY23	FY22	Change (%)
Net cash flow from operating activities	7,432	6,646	12
Capital expenditure and investments	(3,181)	(3,074)	3
Free cash flow	4,251	3,572	19

Dividend

- The Board has declared a fully franked final dividend of A\$1.00 per share. The ex-dividend date is 4 September 2023 and the dividend will be paid to shareholders on 28 September 2023.
- Including the interim dividend of A\$0.75 per share, the total dividends declared for FY23 are A\$1.75 per share, representing a payout ratio of 65 per cent of FY23 Underlying NPAT. This is consistent with Fortescue's dividend policy to payout 50 to 80 per cent of full year Underlying NPAT.

Dividend summary	FY23	FY22	Change (%)
NPAT (US\$ million)	4,796	6,197	(23)
Underlying NPAT (US\$ million)	5,522	6,197	(11)
Underlying EPS (US cents)	180	201	(11)
Underlying EPS (AUD cents)	267	277	(4)
Interim dividend (AUD cents)	75	86	(13)
Final dividend (AUD cents)	100	121	(17)
Total dividend (AUD cents)	175	207	(15)
Dividend payout ratio (%)	65	75	(13)

Iron Bridge

- Iron Bridge commenced production of high grade magnetite concentrate in May 2023, and the first concentrate was loaded on ship in July 2023.
- The Project transitioned to operational production in August 2023, with the ramp up to full production capacity of 22mt per annum expected within 24 months.
- The Project capital estimate is updated to US\$4.0 billion (previously US\$3.9 billion), with Fortescue's share approximately US\$3.1 billion.
- Iron Bridge's FY24 operating expenditure excluding shipping and royalties is anticipated to be approximately US\$400 million (Fortescue's share).
- Aligning Iron Bridge's operating cost structure with market conditions contributes to a life of mine C1 cost estimate of approximately US\$45/wmt (real 2023) attributable to Fortescue (net of fees for port and power services).
- In accordance with Accounting Standards and internal policies, Fortescue has undertaken a review of the carrying value of its assets and as a result has recognised a non-cash, post-tax impairment charge for Iron Bridge of US\$726 million (US\$1.0 billion pre-tax).
- The original book value of the Iron Bridge Cash Generating Unit as of 30 June 2023 was US\$3.5 billion. Iron Bridge remains an important and strategic asset for Fortescue.
- In concluding on the carrying value assessment, Management considered the nature of costs carried forward. The majority of asset value is the assembled plant, pipelines and infrastructure, but there are also less tangible components like the cost of the pilot and demonstration plants and capitalised interest. Along with the impact of increasing discount rates, these accounted for the impairment taken of US\$1.0 billion.
- Other factors impacting the Iron Bridge cost base are inflationary impacts on construction costs and supply chain delays, offset by increasingly strong outlook for future product prices.
- 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 Energy

- Fortescue formalised the structure for Fortescue Energy, comprising the following integrated segments:
 - **Fortescue Future Industries:** Green energy project development and production
 - **Fortescue WAE:** Battery and fleet technology development and manufacturing
 - **Fortescue Hydrogen Systems:** Electrolyser and hydrogen production systems development and manufacturing.
- Fortescue Energy has prioritised and progressed its global portfolio of green energy projects, with a target of five Final Investment Decisions by the end of calendar year 2023.
- Ongoing focus on priority projects in Australia, United States, Norway, Brazil and Kenya.
- Advanced offtake discussions underway with Australian, European, American, and Asian customers for green hydrogen and derivatives.
- Completed construction works on the 2GW Gladstone electrolyser manufacturing facility.
- Commenced manual assembly of in-house designed proton exchange membrane (PEM) electrolyser stacks, with automated assembly line due for delivery and installation in FY24.
- Advanced development of technology and Intellectual Property to underpin decarbonisation of Fortescue Metals, including testing of green haul trucks and fast charger.
- Expanded WAE's battery and electric power train production operations in the United Kingdom to focus on zero emission products for the off-road sector.
- Continued research and development into green iron and green steel including agreements with China Baowu Steel Group and Primetals and Voestalpine.
- Positive momentum in global policy environment, including Inflation Reduction Act in the United States, Green Deal Industrial Plan in Europe, and Hydrogen Headstart program in Australia.

FY24 guidance

- Iron ore shipments of 192 - 197mt, including approximately 7mt for Iron Bridge (100 per cent basis)
- C1 cost for Pilbara hematite of US\$18.00 - US\$19.00/wmt
- Fortescue Metals capital expenditure of US\$2.8 - US\$3.2 billion
- Fortescue Energy net operating expenditure of approximately US\$800 million and capital expenditure and investments of approximately US\$400 million (exclusive of projects subject to FID).
- Guidance is based on an assumed FY24 average exchange rate of AUD:USD 0.68.

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Appendix

C1	Unit operating costs of mining, processing, rail and port, including allocation of direct administration charges and production overheads
Underlying EBITDA	Earnings before interest, tax, depreciation and amortisation, exploration, development and other expenses
Underlying NPAT	Net profit after tax adjusted for significant non-recurring items.

Earnings reconciliation (US\$ million)	FY23	FY22	Change (%)
Operating sales revenue	16,871	17,390	(3)
Cost of sales excluding depreciation and amortisation	(6,109)	(6,175)	(1)
Net foreign exchange gain / (loss)	48	(103)	(147)
Administration expenditure	(288)	(204)	41
Research expenditure	(553)	(354)	56
Other income	2	1	100
Share of (loss)/profit from equity accounted investments	(8)	6	(233)
Underlying EBITDA	9,963	10,561	(6)
Finance income	149	14	964
Finance expenses	(275)	(174)	58
Depreciation and amortisation	(1,744)	(1,528)	14
Exploration, development and other expenses	(170)	(27)	530
Impairment expense	(1,037)	-	-
Income tax expense	(2,090)	(2,649)	(21)
NPAT	4,796	6,197	(23)
Underlying NPAT	5,522	6,197	(11)

Reconciliation of Underlying EBITDA and Underlying NPAT under the Australian Accounting Standards.