

# June 2020 Quarterly Production Report



30 July 2020

## Outstanding operating performance in Q4, contributing to record shipments for FY20, lower C1 costs and increased revenue realisation

### Highlights

- Total Recordable Injury Frequency Rate (TRIFR) reduced to 2.4 in the 12 months to 30 June 2020 (FY20), improving 14 per cent from 2.8 in FY19
- A comprehensive COVID-19 risk management strategy remains in place to safeguard Fortescue team members and communities
- Record iron ore shipments of 47.3 million tonnes (mt) for the quarter and 178.2mt for FY20, exceeding the top end of guidance of 177mt and six per cent higher than FY19
- C1 costs for Q4 FY20 were US\$13.02/wet metric tonne (wmt). C1 costs for FY20 were US\$12.94/wmt inclusive of COVID-19 related costs of approximately US\$0.22/wmt
- Average revenue of US\$81/dry metric tonne (dmt) in Q4 FY20, realising 86 per cent of the average Platts 62% CFR Index, bringing average revenue to US\$79/dmt in FY20
- Cash on hand of US\$4.9 billion at 30 June 2020 and net debt of US\$0.3 billion
- Total capital expenditure of US\$2.0 billion in FY20 as investment in major projects achieved key milestones
- Climate change target revised to achieve net zero operational emissions by 2040, including a 26 per cent reduction in emissions from existing operations from 2020 levels, by 2030
- FY21 guidance for shipments of 175 - 180mt and C1 costs of US\$13.00 - US\$13.50/wmt
- FY21 capital expenditure guidance of US\$3.0 - US\$3.4 billion including investment in growth projects and energy infrastructure. The forecast investment in the Eliwana Mine and Rail Project is revised to US\$1.325 - US\$1.375 billion (from US\$1.275 billion).

Fortescue Chief Executive Officer, Elizabeth Gaines, said “The entire Fortescue team has delivered strong results for the June quarter, achieving our lowest TRIFR safety performance of 2.4, as well as record quarterly shipments of 47.3mt. For FY20 we also delivered record annual shipments of 178.2mt, while maintaining our industry leading cost position of US\$12.94/wmt.

“This was an outstanding performance which underpinned the operational excellence we delivered in FY20, particularly during a quarter when we implemented a range of measures in response to COVID-19. I am very proud of the team’s commitment and cooperation during this time which has sustained our contribution to the Western Australian and national economies through the reliable and secure supply of iron ore to our customers.

“The impact of COVID-19 continues to be well managed across our operations, ensuring the safety and wellbeing of our team members, their families and our communities.

“During the quarter we announced important targets to achieve net zero operational emissions by 2040 and a 26 per cent reduction in our Scope 1 and 2 emissions by 2030, positioning Fortescue to address the global climate change challenge with a sense of urgency. Our pathway will include investments in energy infrastructure to increase our use of renewables, as well as a focus on technology and innovation to decarbonise through hydrogen and battery energy solutions.

“Our guidance for FY21 builds on the momentum of a record FY20 as we optimise our integrated operations and marketing strategy, with shipments in the range of 175 - 180mt. We have a strong balance sheet and clear focus to reinvest in the business, develop our major growth projects and continue to deliver enhanced shareholder returns” Ms Gaines said.

## Operations

Production summary (wmt)	FY20	FY19	Var (%)	Q4 FY20	Q4 FY19	Var (%)
Ore mined	204.3	206.7	(1)	57.2	57.6	(1)
Overburden removed	318.9	303.7	5	84.7	79.0	7
Ore processed	176.3	176.9	0	42.7	48.5	(12)
Total ore shipped	178.2	167.7	6	47.3	46.6	2
C1 (US\$/wmt)	12.94	13.11	(1)	13.02	12.78	2

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

- Fortescue’s safety culture is embedded across existing operations and the major growth projects as construction ramps up, demonstrated by the reduction in the TRIFR to 2.4 in FY20, improving 14 per cent from 2.8 in FY19.
- The temporary changes to site operational rosters in response to COVID-19 have reverted and Fortescue is participating in the State Government’s DETECT program for fly-in, fly-out (FIFO) workers with Polymerase Chain Reaction (PCR) testing. 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 was sustained in Q4 FY20 with mining, processing, rail and shipping combining to deliver record shipments of 178.2mt in FY20, six per cent higher than FY19 and exceeding the top end of guidance of 177mt. Record quarterly shipments were achieved in Q4 FY20 with 47.3mt shipped.
- The FY20 strip ratio of 1.56 was in line with guidance of 1.5 and is expected to average approximately 1.5 in the current five year mine plan, excluding the Iron Bridge Magnetite project.
- C1 costs of US\$13.02/wmt in Q4 FY20 were two per cent higher than Q4 FY19 due to costs related to COVID-19, with full year C1 costs of US\$12.94/wmt including COVID-19 related costs of approximately US\$0.22/wmt. The reduction in full year C1 costs reflects the continued focus on cost management and innovation.
- Autonomous haulage at the Chichester Hub achieved a significant milestone in the quarter with the conversion of the 100th autonomous truck. The autonomous haulage project is progressing as planned and is expected to be completed in the second half of calendar year 2020 (CY20).

## Marketing

- Chinese crude steel production remained strong in the June quarter, rising to 268.9mt. Production reached 499.0mt for the six months to June 2020, increasing 1.4 per cent on the first half of CY19, according to China's National Bureau of Statistics. Market conditions continue to support ongoing demand for iron ore with demand growth outpacing seaborne supply. Total iron ore stocks at Chinese ports at 30 June 2020 were 108mt, 9mt lower than 31 March 2020.
- Demand for Fortescue's products remains strong as shipments continue to China and other markets. Average revenue for Q4 FY20 of US\$80.64/dmt, represented revenue realisation of 86 per cent of the average Platts 62% CFR Index of US\$93.30/dmt. The Platts 62% CFR Index closed at US\$101.05/dmt at 30 June 2020, compared to US\$83.70/dmt at 31 March 2020.
- Fortescue's average revenue of US\$78.62/dmt in FY20 represents revenue realisation of 84 per cent of the average Platts 62% CFR Index of US\$93.25/dmt. Revenue per tonne increased by 21 per cent compared to FY19, higher than the 16 per cent increase in the average Platts 62% CFR Index over the same period. This reflects the successful execution of Fortescue's integrated operations and marketing strategy, improved product mix and demand for the Company's products.
- Fortescue's wholly owned Chinese sales entity, FMG Trading Shanghai Co. Ltd (FMG Trading) commenced operations in June 2019 and sold 6.5mt in FY20 to over 80 customers, in Renminbi from regional ports in China.

Tonnes shipped (wmt)	FY20	Mix (%)	FY19	Mix (%)	Q4 FY20	Mix (%)
West Pilbara Fines	17.9	10	9.0	5	4.9	10
Kings Fines	15.1	9	14.2	9	4.2	9
Fortescue Blend	72.7	41	72.4	43	17.1	36
Fortescue Lump	12.9	7	8.6	5	4.1	9
Super Special Fines	59.4	33	61.7	37	16.8	36
Manganese Iron Ore	0.2	0	1.8	1	0.2	0
Total	178.2	100	167.7	100	47.3	100

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

## Balance sheet and cashflow

- Cash on hand was US\$4.9 billion at 30 June 2020 (US\$4.2 billion at 31 March 2020).
- Gross debt increased to US\$5.1 billion at 30 June 2020 following the drawdown of the US\$1.0 billion revolving credit facility in April 2020. Fortescue's net debt at 30 June 2020 was US\$0.3 billion, compared with net cash of US\$0.1 billion at 31 March 2020.
- The revolving credit facility was subsequently repaid in July 2020 and the tenor extended to July 2023. The repayment has no impact on net debt or the Company's liquidity position.
- Fortescue's balance sheet remains structured on low cost, investment grade terms while maintaining flexibility and capacity for future growth.
- Total capital expenditure for the quarter was US\$700 million inclusive of sustaining capital, major projects and exploration. Total capital expenditure in FY20 was US\$2.0 billion.
- The balance of the iron ore prepayments of US\$87 million was fully amortised in the quarter.

## Iron ore projects

### Eliwana Mine and Rail Project

- The Eliwana Mine and Rail project achieved key milestones in the quarter including the commencement of tracklaying on the first stage of the 143km railway and installation of over half of the structural steel at the ore processing facility.
- The construction workforce is currently at peak levels, and earthworks, structural steel erection and process equipment installation are advancing rapidly, with pre-strip mining planned to commence in Q1 FY21.
- The forecast total investment in the Eliwana Mine and Rail project is revised to US\$1.325 - US\$1.375 billion (from US\$1.275 billion) due to costs associated with mitigating access delays and COVID-19 impacts. Acceleration measures have been implemented to achieve first ore on train as scheduled in December 2020, underpinning the delivery of Fortescue's product strategy.
- The project maintains an industry leading capital intensity of approximately US\$45 per tonne of installed capacity for mine and rail.

Capital expenditure (US\$ million)	FY19 actual	FY20 actual	FY21 estimate	Total estimate
Eliwana Mine and Rail project	124	619	600-650	1,325-1,375

### Iron Bridge Magnetite Project

- The US\$2.6 billion Iron Bridge Magnetite project is progressing on schedule and budget, with first concentrate production planned in the first half of calendar year 2022.
- Key milestones in the quarter include first earthworks on the ore processing facility, completion of the mine access road and commencement of the permanent village installation.
- Bulk earthworks are over 50 per cent complete and concrete works commenced during July 2020 as the project progressed to construction phase, with activity focused on site construction and major module fabrication.

Capital expenditure (US\$ million)	FY20 actual	FY21 estimate	FY22 estimate	FY23 estimate	Total Estimate
Iron Bridge (Fortescue share <sup>1</sup> )	243	1,050-1,250	500-700	50-100	2,100

<sup>1</sup> 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

- The Chichester Solar Gas Hybrid project commenced site construction works in January 2020. Alinta Energy will provide a low emission energy solution incorporating large-scale solar to displace around 100 million litres annually of diesel used in the existing Christmas Creek and Cloudbreak power stations.
- The Pilbara Energy Connect (PEC) project, totalling US\$700 million and comprising the Pilbara Generation Project and the Pilbara Transmission Project has commenced engineering, procurement and site establishment works for the transmission line and thermal generation. Design and procurement of the solar and battery energy storage components will continue in FY21.

Capital expenditure (US\$ million)	FY20 actual	FY21 estimate	FY22 estimate	FY23 estimate	Total estimate
Pilbara Energy Connect	17	300-400	250-350	50-100	700

## Exploration

- Total exploration and studies capital expenditure for Q4 FY20 was US\$26 million with FY20 expenditure of US\$116 million.
- Iron ore exploration in the Pilbara is ongoing, with activity in the quarter focused on resource definition drilling at Eliwana and the restart of other exploration programs in the Western and Solomon Hubs.
- All field exploration activities in the Paterson, Rudall and Goldfields regions of Western Australia were suspended during the quarter, with activities expected to recommence in Q1 FY21.
- Exploration drilling resumed in New South Wales and South Australia in June 2020.
- Exploration and field activities in Ecuador and Argentina remain suspended due to COVID-19, with assessment of previous drilling results and various geological studies ongoing.

## FY21 guidance

- Iron ore shipments of 175 - 180mt
- C1 costs of US\$13.00 - US\$13.50/wmt, based on an assumed Australian dollar exchange rate of \$0.70
- Capital expenditure of US\$3.0 - US\$3.4 billion, which is inclusive of:
  - Approximately US\$1.0 billion of sustaining, operational and hub development capital
  - US\$140 million on exploration expenditure and studies
  - US\$1.9 - US\$2.3 billion on major projects (Eliwana, Iron Bridge and Energy).

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## Reporting calendar

Event	Date
FY20 Results	24 August 2020
September Quarterly Production Report	29 October 2020
Annual General Meeting	11 November 2020
December Quarterly Production Report	28 January 2021