

December 2020 Quarterly Production Report



28 January 2021

Record half year shipments and first ore celebrated at the Eliwana mine

Quarterly highlights

- The Total Recordable Injury Frequency Rate (TRIFR) was maintained at 2.1 at 31 December 2020, 13 per cent lower than 30 June 2020
- Iron ore shipments of 46.4 million tonnes (mt) in the quarter contributed to record shipments for a half year of 90.7mt
- C1 costs of US\$12.81/wet metric tonne (wmt) were in line with the previous quarter
- Average revenue of US\$122/dry metric tonne (dmt) realised 91 per cent of the average Platts 62% CFR Index for the quarter
- Strong cashflow generation resulted in net debt of US\$0.1 billion at 31 December 2020, after payment of the FY20 final dividend and the FY20 final tax instalment during the quarter
- First ore was achieved at the Eliwana mine in December 2020, a significant milestone for development of Fortescue's iron ore operations in the Western Hub region of the Pilbara
- Fortescue's commitment to sustainability was recognised with its inclusion in the 2020 Dow Jones Sustainability Indices and an upgraded status in the latest MSCI ESG ratings
- Guidance for FY21 shipments, C1 cost and capital expenditure remains unchanged at the assumed AUD:USD exchange rate of 0.70.

Fortescue Chief Executive Officer, Elizabeth Gaines, said "Record shipments of 90.7mt surpassed any half year since Fortescue's inception, and we are very well placed to meet the sustained strength in demand from our customers.

"Fortescue is continuing to deliver strong results for FY21 across all key measures of safety, production and cost; and during the quarter the team achieved a key milestone of first ore at our Eliwana mine. Safety performance was steady, with the TRIFR remaining at 2.1 on a 12 month rolling basis supported by a strong focus on hazard reduction.

"In December 2020 we celebrated the significant milestones of the first ore processed and commissioning train at the Eliwana mine. Delivery of this strategically important project in line with schedule at an industry-low capital intensity was a remarkable effort by the Fortescue team considering the impact of COVID-19 restrictions.

"Across the business, our entire team is achieving excellent operational performance while continuing to manage challenges associated with COVID-19, including border restrictions. These measures, to protect the health and safety of all of our employees and contractors, enables Fortescue to maintain its strong contribution to the Western Australian and national economies," Ms Gaines said.

Operations

| Production summary (m wmt) | Q2 FY21 | Q1 FY21 | Var (%) | Q2 FY20 | Var (%) |
|----------------------------|---------|---------|---------|---------|---------|
| Ore mined | 50.0 | 58.4 | (14) | 54.6 | (8) |
| Overburden removed | 69.1 | 74.5 | (7) | 70.7 | (2) |
| Ore processed | 44.2 | 46.0 | (4) | 46.2 | (4) |
| Ore shipped | 46.4 | 44.3 | 5 | 46.4 | 0 |
| C1 cost (US\$/wmt) | 12.81 | 12.74 | 1 | 12.54 | 2 |

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

- Fortescue's 12 month rolling Total Recordable Injury Frequency Rate (TRIFR) was maintained at 2.1 at 31 December 2020, representing a 13 per cent improvement from 2.4 at 30 June 2020. Hazard identification and the implementation of exposure reduction activities was a key focus during the quarter.
- A comprehensive COVID-19 risk management strategy and key measures remain in place to safeguard Fortescue team members and communities. There have been no cases of COVID-19 across Fortescue's operational sites.
- Building on the excellent start to FY21, Fortescue's strong operating performance was sustained in Q2 FY21, with mining, processing, rail and shipping combining to deliver record shipments for a half year of 90.7mt, representing a two per cent increase on H1 FY20. Ore railed also achieved record first half volumes, reflecting ongoing improvements in performance and reliability across the supply chain.
- C1 costs of US\$12.81/wmt for the quarter were less than one per cent higher than the prior quarter due to the stronger AUD:USD exchange rate offset by a sustained focus on operational efficiencies.

Marketing

- Chinese crude steel production reached a record of 1,053mt in calendar year 2020, increasing 5.2 per cent compared to 2019. Demand for sinter fines remains strong, supporting prices during the quarter. Total iron ore stocks at Chinese ports rose from 116mt at 30 September 2020 to 125mt at 31 December 2020, consistent with seasonal trends.
- Average revenue for Q2 FY21 of US\$121.84/dmt represented revenue realisation of 91 per cent of the average Platts 62% CFR Index of US\$133.69/dmt. The Platts 62% CFR Index closed at US\$159.20/dmt at 31 December 2020, compared to US\$123.15/dmt at 30 September 2020.
- Revenue per tonne increased by 15 per cent compared to Q1 FY21, more than the 13 per cent increase in the average Platts 62% CFR Index over the same period reflecting robust demand for Fortescue's products.
- Fortescue's wholly owned Chinese sales entity, FMG Trading Shanghai Co. Ltd sold 3.0mt in Q2 FY21 from regional ports in China, with sales of 5.8mt in H1 FY21.

| Product summary (m wmt) | Q2 FY21 | (%) | Q1 FY21 | (%) | Q2 FY20 | (%) |
|-------------------------|---------|-----|---------|-----|---------|-----|
| West Pilbara Fines | 3.8 | 8 | 4.5 | 10 | 4.7 | 10 |
| Kings Fines | 3.9 | 8 | 3.7 | 8 | 4.2 | 9 |
| Fortescue Blend | 18.3 | 39 | 17.7 | 40 | 19.9 | 43 |
| Fortescue Lump | 3.8 | 8 | 3.9 | 9 | 3.3 | 7 |
| Super Special Fines | 14.2 | 31 | 14.3 | 32 | 14.3 | 31 |
| Other products | 2.4 | 5 | 0.2 | 0 | 0.0 | 0 |
| Total shipments | 46.4 | 100 | 44.3 | 100 | 46.4 | 100 |

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

Financial position

- The cash balance was US\$4.0 billion at 31 December 2020, compared to US\$5.1 billion at 30 September 2020.
- Cash outflows in Q2 FY21 included US\$2.2 billion for the FY20 final dividend, US\$872 million for the FY20 final tax payment and US\$1.0 billion of capital expenditure, inclusive of sustaining capital, major projects and exploration.
- Gross debt was US\$4.1 billion at 31 December 2020, consistent with 30 September 2020, and net debt was US\$0.1 billion. Fortescue's balance sheet is structured on low cost, investment grade terms while maintaining flexibility to support ongoing operations and the capacity to fund future growth.
- Fortescue is scheduled to release its half year financial results for FY21 on 18 February 2021. The preliminary net profit after tax for the six months ended 31 December 2020 on an unaudited basis is US\$4.0 - US\$4.1 billion.

Major projects

Eliwana

- Ore processing commenced at the Eliwana mine in December 2020. The project transitioned to the Operations team in January 2021, with the focus on the commissioning and ramp-up of the ore processing facility.
- This is a significant milestone in the development of Fortescue's iron ore operations in the Pilbara by establishing the Western Hub and opening up access to Fortescue's tenements in the region.
- The total investment in the project is expected to be approximately US\$1.375 billion, which is in line with guidance and represents an industry-low capital intensity of US\$46/tonne for mine and rail.

Christmas Creek WHIMS plant

- The construction and installation of the wet high-intensity magnetic separation (WHIMS) plant at the Christmas Creek ore processing facility was completed on budget and schedule during Q2 FY21.
- The WHIMS plant is a strategic beneficiation initiative to recover a higher portion of fine grain ore feed that would otherwise go to tailings. The plant throughput is forecast to ramp up to its installed capacity and expected yield in H2 FY21.

Iron Bridge

- The Iron Bridge Magnetite project achieved key milestones in the quarter. Engineering progress reached 90 per cent and module fabrication commenced in Western Australia and China. The process plant bulk earthworks are 90 per cent complete with the concrete foundations well underway.
- With engineering nearing completion and the majority of contracts committed, the forecast total investment and schedule for the project is undergoing a detailed review. This will take into account the ongoing impacts of the COVID-19 global pandemic, the strength of the Australian dollar and other factors including access to resources and specialist skills.
- Activity at the project is accelerating, with construction of the concentrate handling facility at the port of Port Hedland and pipeline installation commencing in Q3 FY21. Major process equipment and bulk deliveries are gathering momentum, and maintaining the excellent safety performance and project delivery track record is the key focus of the Project team.

Energy

- The Chichester Solar Gas Hybrid project, owned and operated by Alinta Energy, is well advanced with all the solar panels, transmission towers and transmission lines installed, and pre-commissioning activities commenced. The project 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 includes transmission infrastructure, hybrid solar gas generation and large-scale battery storage. PEC will integrate Fortescue's stationary energy facilities in the Pilbara into an efficient network and enable the integration of additional renewable energy in the future. Progress continues with over 300 of the 800 foundations for transmission poles for Stage 1 completed, 130 poles stood and 30 kilometres of transmission line installed.
- Fortescue Future Industries (FFI) is a wholly owned subsidiary of Fortescue, and consistent with the Company's commitment to decarbonisation, FFI has secured and identified renewable energy and green hydrogen opportunities both in Australia and globally. Individual projects will be developed by FFI with ownership and project finance to be separately secured without recourse to Fortescue.

Exploration

- Total exploration and studies capital expenditure for Q2 FY21 was US\$31 million.
- Iron ore exploration in the Pilbara during the quarter continued to focus on resource definition drilling at Eliwana as well as other exploration programs in the Western and Solomon Hubs.
- Early stage exploration activities in the Paterson, Rudall and Goldfields regions of Western Australia continued, along with drilling programs in South Australia and New South Wales.
- Exploration and field activities in Ecuador and Argentina progressed throughout the quarter and drilling activity has recommenced in Argentina and is expected to restart in Ecuador in Q3 FY21, subject to COVID-19 restrictions.

FY21 guidance

- Guidance for FY21 remains unchanged, based on an assumed exchange rate of AUD:USD 0.70.
 - Iron ore shipments of 175 - 180mt
 - C1 costs of US\$13.00 - US\$13.50/wmt
 - Capital expenditure of US\$3.0 - US\$3.4 billion.

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Reporting calendar

| Event | Date |
|-----------------------------------|------------------|
| H1 FY21 Results | 18 February 2021 |
| March Quarterly Production Report | 29 April 2021 |
| June Quarterly Production Report | 29 July 2021 |
| FY21 Results | 30 August 2021 |