

Appendix 4D

For the half year ended
31 December 2020

This information should be read in conjunction with Fortescue's Financial Report for the half year ended 31 December 2020.

Name of entity

Fortescue Metals Group Ltd

ABN

57 002 594 872

Results for announcement to the market

		US\$ million
Revenue from ordinary activities	increased 44% to	9,335
Profit from ordinary activities after tax attributable to members	increased 66% to	4,084
Net profit for the half year attributable to members	increased 66% to	4,084

Dividends	Amount per security	Franked amount per security
Interim dividend declared for the half year ended 31 December 2020	A\$1.47	A\$1.47
Interim dividend declared for the previous corresponding period	A\$0.76	A\$0.76
Ex-dividend date of interim dividend		1 March 2021
Record date of interim dividend		2 March 2021
Payment date of interim dividend		24 March 2021

Dividend Reinvestment Plan

The Company operates a Dividend Reinvestment Plan (the Plan) which allows eligible shareholders to elect to invest dividends in ordinary shares which rank equally with the ordinary shares of the Company. The allocation of price for shares under the Plan will be calculated as the average of the daily volume weighted average market price of all Fortescue shares traded on the Australian Securities Exchange during the period of five trading days commencing on 4 March 2021.

The last date for receipt of applications to participate in or to cease or vary participation in the Plan is by 5:00pm (AEDT) on 3 March 2021. The Directors have determined that no discount shall apply to the allocation price and the Plan will not be underwritten. Shares to be allocated under the Plan will be acquired on market and transferred to participants on 24 March 2021. A broker will be engaged to assist in this process.

A copy of the Plan Rules is available at
<http://www.fmgl.com.au/investors>

Net tangible asset backing

Net tangible asset backing per ordinary share: US\$4.87
(previous corresponding period: US\$4.06).

Previous corresponding period

The previous corresponding period is the half year ended 31 December 2019.

Commentary on results for the period

A commentary on the results for the period is contained within the half year presentation and the financial statements that accompany this announcement.



For the half year ended
31 December 2020

Financial Report

ABN 57 002 594 872

FY21

Thriving communities | Global force

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Our Purpose

Thriving communities | Global force

Our Culture

We are a values-based business with a strong, differentiated culture. We believe that by leveraging the unique culture of our greatest asset, our people, we will achieve our stretch targets.



Our Values



Half year at a glance

2.1

Total Recordable Injury
Frequency Rate

90.7_{mt}

Ore Shipped

US\$
12.78/wmt

C1 costs

US\$
9.3_{bn}

Revenue

US\$
4.1_{bn}

Net profit after tax

US\$
4.0_{bn}

Cash on hand

About Fortescue

A proud West Australian company, Fortescue Metals Group Ltd (Fortescue) is a global leader in the iron ore industry, recognised for its culture, innovation and industry-leading development of world class infrastructure and mining assets in the Pilbara, Western Australia.

Since Fortescue was established by our Founder and Chairman Dr Andrew Forrest AO in 2003, we have discovered and developed major iron ore deposits, constructed some of the most globally significant mines and have grown to be one of the world's largest producers of iron ore.

Delivering consistent operational excellence, our integrated mining, rail, shipping and marketing teams work together to export 175 to 180 million tonnes of iron ore annually (mtpa), and our commitment to technology and innovation ensures we remain one of the world's lowest cost iron ore producers.

Fortescue's wholly owned and fully integrated operations in the Pilbara include the Chichester and Solomon mining hubs and we are developing the Western Hub, home to the new Eliwana mine. The Iron Bridge Magnetite Project, an industry leader in cost and energy efficiency, will be one of the highest-grade magnetite projects in the world.

Our mining hubs are connected to the five berth Herb Elliott Port and the Judith Street Harbour towage infrastructure in Port Hedland via 763 kilometres (km) of the fastest, heavy haul railway in the world with the addition of 143km of rail to Eliwana.

Our supply chain extends to our innovative tug fleet and the eight purpose-built 260,000 tonne capacity Fortescue Ore Carriers, which have been designed to complement the efficiency of our port and maximise the safety and productivity of Fortescue's operations.

The Fortescue Hive, our expanded Integrated Operations Centre, brings together our entire supply chain to deliver significant safety, productivity, efficiency and commercial benefits, underpinning our future use of technology, including data analytics, artificial intelligence and robotics.

Through our world class exploration capability together with our business development and projects focus, we are driving future growth, targeting early stage exploration of commodities that support decarbonisation and the electrification of the transport sector.

Recent Australian exploration activity has been primarily focused on early stage target generation for copper-gold in the Paterson and Rudall regions in Western Australia.

We are also undertaking exploration activities in New South Wales and South Australia, as well as in Ecuador, Peru, Argentina and Kazakhstan, and preliminary exploration activities on tenements that are in application in Colombia and Portugal, prospective for copper, gold and lithium.

Our longstanding relationships with customers in China have grown from our first commercial shipment of iron ore in 2008. Today, we are a core supplier of seaborne iron ore to China and have expanded into markets including Japan and South Korea.

In 2019, we established FMG Trading Shanghai (FMG Trading), a wholly owned Chinese sales entity, to support our customers through

the direct supply of iron ore from regional Chinese ports, providing them with an option to purchase smaller volumes in Renminbi.

Fortescue was founded on the belief that our communities should benefit from our success. Today, we are a **global force**, committed to empowering **thriving communities**, as we deliver training, employment and business development opportunities for Aboriginal people.

As a large consumer of energy, we have committed to an industry-leading carbon emissions target of net zero operational emissions by 2040. To achieve this, we are investing in practical initiatives such as the development of wind and solar energy, as well as gas and battery storage hybrid projects to displace our current thermal generation. We are also investigating the next phase of hydrogen and battery electric vehicle mobility.

Further building on our investment in renewable energy, we have established Fortescue Future Industries (FFI), a wholly owned subsidiary of Fortescue. Through FFI we have identified renewable energy and green hydrogen projects both in Australia and globally that could lead to some 300GW of power generation capacity.

Fortescue is a values-based business, committed to our strategic goals of ensuring balance sheet strength and flexibility, investing in the long-term sustainability of our core business while pursuing growth and development options and delivering enhanced returns to our shareholders.

About this Report

This report has been prepared for Fortescue's stakeholders in line with statutory and regulatory obligations. It provides a summary of the Company's operations, performance and financial position as at and for the half year ended 31 December 2020.

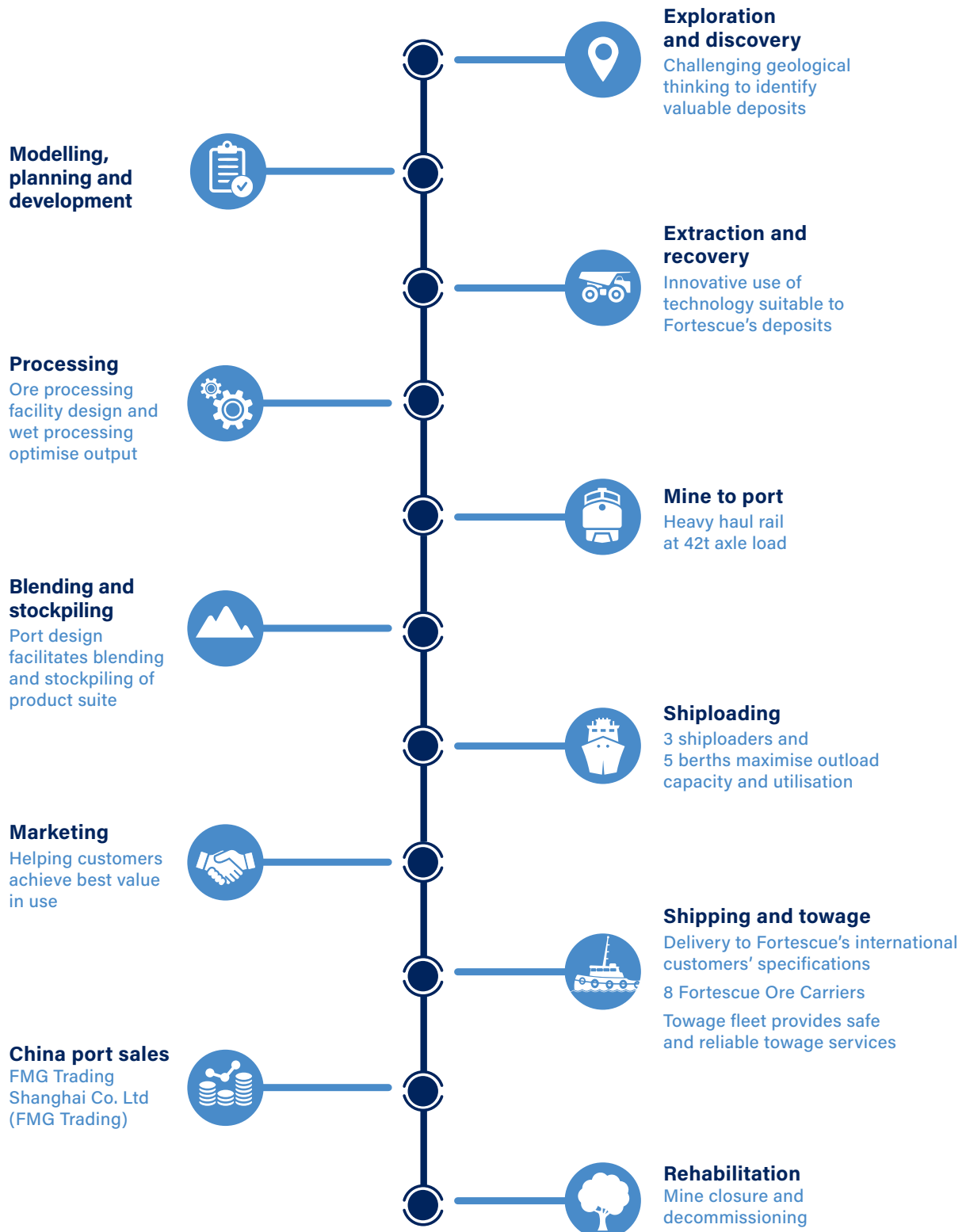
All references to Fortescue, the Group, the Company, we, us, and our, refer to Fortescue Metals Group Ltd (ABN 57 002 594 872) and its subsidiaries. All dollar figures are in US currency unless otherwise stated.

This report should be read in conjunction with the Annual Report for the financial year ended 30 June 2020, and any public announcements made by the Company during the half year ended 31 December 2020 and up to the date of this report in accordance with the continuous disclosure requirements of the *Corporations Act 2001* and the *ASX Listing Rules*.



Value chain

Innovation in process and design has been a key component of Fortescue's strategy in challenging industry standards to more efficiently and effectively deliver its product suite from mine to market.





02

Directors' report

Governance

Directors

Your Directors present this report on Fortescue Metals Group Ltd for the half year ended 31 December 2020

The Directors of the Company in office during the half year and until the date of this report are as follows.



Dr Andrew Forrest AO
Chairman



Mark Barnaba AM
Lead Independent Director/
Deputy Chair



Elizabeth Gaines
Chief Executive Officer/
Managing Director



Lord Sebastian Coe CH, KBE
Non-Executive Director



Jennifer Morris OAM
Non-Executive Director



Dr Jean Baderschneider
Non-Executive Director



Penny Bingham-Hall
Non-Executive Director



Dr Cao Zhiqiang
Non-Executive Director



Dr Ya-Qin Zhang
Non-Executive Director

Directors were in office for the entire period unless otherwise stated.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 40, and forms part of this report.

Rounding of amounts

All amounts in this report have been rounded to the nearest million dollars, except as indicated, in accordance with the Australian Securities and Investments Commission (ASIC) Corporations Instrument 2016/191.

Subsequent events

On 18 February 2021, Fortescue declared a fully franked interim dividend of A\$1.47 per share, payable in March 2021.

This report is made in accordance with a resolution of the Directors.

Dr Andrew Forrest AO
Chairman

Dated in Perth on this 18th day of February 2021.

Safety

We are committed to providing a safe working environment for all employees and contractors as we strive to become a global leader in safety.

Each day, everyone at Fortescue is empowered to take control and look out for their mates and themselves.



Ongoing response to COVID-19

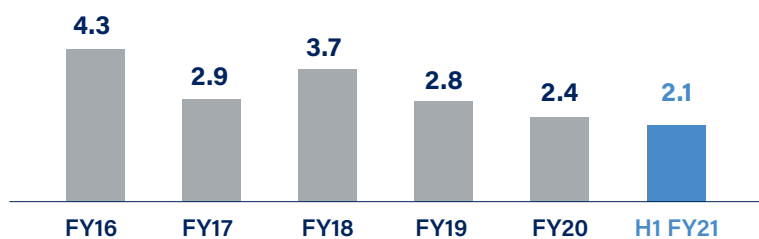
We continue to carefully monitor COVID-19 risks and our measures to protect the health and safety of our team members and the broader community.

Our ongoing response, combined with measures required by both the Commonwealth and State governments, has ensured that COVID-19 has had minimal impact on our operations. Significant measures through the half year ended 31 December 2020 included:

- A strong focus on good hygiene practices and social distancing
- Temperature checks and health screening at airports, offices and villages
- Changes to food service and additional cleaning services across our village facilities.

Our Incident Management Team (IMT) continues to meet regularly to review our operations and the latest advice from the Commonwealth and State governments. We regularly communicate with our teams on all measures related to the mining sector. There have been no cases of COVID-19 across Fortescue's operational sites.

12-month rolling TRIFR, per million hours worked



Our focus on the health and safety of our workforce extends to their mental health and wellbeing. All team members and their families have access to Fortescue Chaplains and Employee Assistance Program 24 hours a day, seven days a week.

Safety results

During the first half of FY21 we had no fatalities. Fortescue's rolling 12-month Total Recordable Injury Frequency Rate (TRIFR) decreased by 13 per cent from 2.4 at 30 June 2020 to 2.1 at 31 December 2020. We also saw a reduction in the severity of workplace injuries with the injury severity rate improving by 15 per cent.

We implemented a revised Job Hazard Analysis (JHA) process in September 2020, with strong engagement across the operations and project teams. We also improved

our exposure reduction program so it is easier and quicker to implement our team member's safety ideas.

As we aim to reach our goal of zero harm, we will continue to improve safety performance across the following areas:

- Strengthening safety leadership through specific action plans to address the priorities identified by the annual company-wide Safety Excellence and Culture Survey
- Engagement with our contracting partners to ensure compliance with Fortescue's safety standards as well as alignment with our culture and Values
- The continued reduction of workplace exposures through safety improvement opportunities
- Continuing to improve the physical and mental health of our people.

Sustainability

Fortescue is committed to ensuring that the communities in which we operate benefit from our success.



We work to integrate sustainability into all aspects of our business. At the heart of our approach is a commitment to create value for our stakeholders. Our Values form the foundation of our approach to sustainability, setting the ethical and moral compass by which the business operates.

We have aligned our approach to sustainability with the United Nations Sustainable Development Goals and will continue to work with our host governments as they strive to meet these goals.

Our Board is responsible for the oversight of all sustainability issues

through the Audit, Risk Management and Sustainability Committee (ARMSC). At the operational level, sustainability is managed by our Chief Executive Officer with support from the Core Leadership Team and the Director Sustainability and Corporate Affairs.

Our Sustainability Strategy incorporates commitments and targets under three core pillars.



Setting high standards

- Employee health and safety
- Economic contribution
- Workforce diversity
- Protecting Aboriginal heritage
- Ethical business conduct



Safeguarding the environment

- Climate change action and disclosure
- Protecting biodiversity and water resources
- Tailings management



Creating positive social change

- Creating employment and business opportunities for Aboriginal people
- Building sustainable communities
- Human rights



We produce an annual Sustainability Report detailing our performance against key material sustainability commitments and targets for the financial year.

Our annual reporting suite also includes an Annual Report, Climate Change Report, Corporate Governance Statement and a Modern Slavery Statement, which are available at www.fmgl.com.au

A summary of our key sustainability commitments and performance during the half year follows.

Setting high standards

Diversity

Fortescue is committed to providing a safe and inclusive workplace that attracts, develops and retains motivated and high performing people.

As at 31 December 2020, we employed 1,842 women, representing 20 per cent of the total workforce. Forty per cent of employees in our head office are female.

Increasing female and Aboriginal employment rates is a key priority. Our Diversity Plan outlines our objectives and targets and is informed by regular consultation with our employees.

Preserving Aboriginal heritage

Since the commencement of our operations in the Pilbara, we have worked closely and transparently with our Native Title partners to protect and avoid almost 6,000 heritage places with a primary objective of avoidance of heritage places of cultural significance. We have seven Land Access Agreements and many dozens of Aboriginal heritage agreements in place.

We have dedicated Aboriginal heritage, Native Title and Aboriginal development teams, who are empowered to work hand in hand with our operations and Traditional Custodians to manage Aboriginal heritage sustainably and responsibly.

In 2020, Fortescue participated in the Joint Standing Committee on Northern Australia Inquiry into the destruction of 46,000 year old caves at the Juukan Gorge in the Pilbara region of Western Australia.

We acknowledge the Puutu Kunti Kurrama and Pinikura peoples and their grief over the loss of cultural heritage at Juukan Gorge.

The destruction of Juukan Gorge has refocused our industry, the government and our communities to ensure that an appropriate balance is found between protecting significant Aboriginal heritage and facilitating local jobs and economic growth.

Fortescue supports a number of the recommendations in the interim report from the Inquiry relating to sharing of information, supporting mapping and truth telling initiatives as well as working with Traditional Custodians.

We are committed to the protection of Aboriginal heritage and we believe that, by working together, the mining industry can continue to enhance processes, working within the framework of the relevant legislation. We also continue to support the modernisation of Western Australia's *Aboriginal Heritage Act 1972*, including legislating an increased voice for Aboriginal people and equitable rights of appeal for all parties.

Safeguarding the environment

Climate change

Fortescue is committed to taking a leadership position on climate change.

We accept the scientific consensus as assessed by the Intergovernmental Panel on Climate Change (IPCC) and support the Paris Agreement goal of limiting global temperature rise to well below 2°C above pre-industrial levels.

Material climate-related risks

Transitional risks

- Reduced product demand
- Technical innovation is not delivered at commercial and economic scale to support required emissions reductions
- Reputational damage

Physical risks – acute

- Cyclone frequency and intensity
- Bushfire frequency and intensity

Physical risks – chronic

- Change in precipitation patterns
- Rising sea levels and storm surge inundation

Environmental management

We are committed to safeguarding the environment and take a precautionary approach to environmental management. We acknowledge that our activities have the potential to impact the environment and are committed to minimising these impacts by integrating mitigation measures into all stages of our operations.

Compliance with all relevant environmental laws and obligations is the absolute minimum standard with which we comply. We respect legally designated protected areas and conservation listed species.

We continue to contribute to research and conservation initiatives that improve the collective body of environmental knowledge in the areas where we operate.





Tailings management

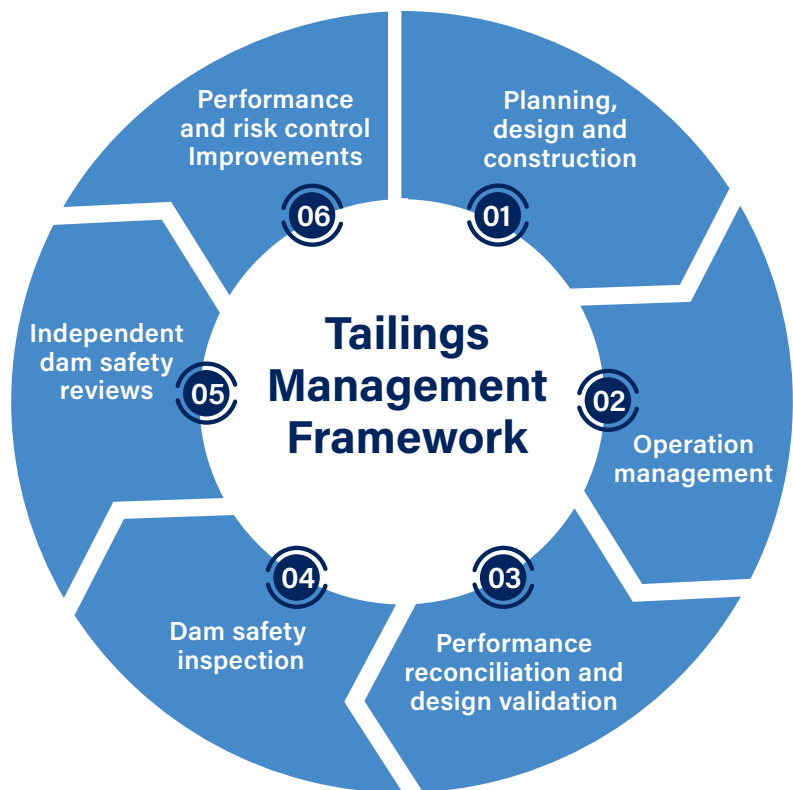
Our management of tailings includes rigorous design practices, comprehensive monitoring and management programs, independent auditing and a strict corporate governance regime.

We currently operate four active Tailings Storage Facilities (TSFs) and manage an additional six inactive facilities. All of our facilities are located in the Pilbara region of Western Australia.

None of our TSFs are considered to be large or complex engineering structures, or operated in geotechnically, geologically, topographically or meteorologically complex settings.

We do not employ the upstream raise as a TSF design or construction method. All of our TSFs are located in remote areas and there are no communities situated near any facilities.

We implement a life-cycle TSF management framework. The objective of this framework is to define, understand, prioritise, control, mitigate and effectively eliminate TSF failure.



Our TSF register, containing detailed information on each TSF, can be found on the Environment page on our website at www.fmgil.com.au

Creating positive social change

Fortescue is committed to creating positive social change within Aboriginal communities through local procurement, business development, mentoring and capacity-building opportunities.

Billion Opportunities

Our Billion Opportunities program is an initiative that promotes sustainable business opportunities for Aboriginal people by building the capability and

capacity of Aboriginal businesses. The program forms a critical element of our approach to ensuring economic opportunity and growth for the Traditional Custodians within the regions in which we operate.

Since it began in 2011, the program has awarded contracts and subcontracts worth a total value of A\$3 billion. During the half year, Fortescue's Billion Opportunities continued to support Aboriginal businesses with over A\$317 million in new contracts awarded.

Aboriginal employment

We are proud to be one of Australia's largest employers of Aboriginal people. As at 31 December 2020, we employed 891 Aboriginal people, representing 10 per cent of the total workforce. Fourteen per cent of employees at our Pilbara operations are Aboriginal.

Our Aboriginal training, professional development and support programs are designed to assist Aboriginal people to gain employment and progress their career with Fortescue.



Tax

The payment of taxes within the countries that we operate is an important element of the Company's contribution to the economic development of these countries. Our primary revenue generating operations are located in Australia, which means the majority of our tax liabilities are paid in Australia.

Taxes applicable to our business include:

- Corporate taxes
- State government royalties
- Comprehensive employment taxes such as fringe benefits taxes, payroll taxes and various employee insurances.

We also collect and pay a number of additional taxes beyond those directly attributable to the Company. These include Pay As You Go (PAYG) withholding tax from salary and wages paid to employees. Our total income tax paid for FY20 was A\$2,919 million.

Human rights

Fortescue is committed to respecting and promoting the human rights of all people, including our employees, the communities in which we operate, those who may be impacted by our activities and those within our supply chains.

We conduct business in a manner consistent with the human rights principles encompassed in the Universal Declaration on Human Rights, the International Labour Organisation's Declaration on Fundamental Principles and Rights at Work, the United Nations Global Compact, the Forced Labour Convention and the United Nations Guiding Principles on Business and Human Rights.

We oppose all forms of slavery in our operations and the operations of our suppliers. We are committed to identifying, assessing and mitigating human rights impacts, providing access to remedy through effective

grievance mechanisms, and ensuring continuous improvement to strengthen our actions. We work in collaboration with our suppliers to eradicate modern slavery from our supply chain.

In August 2020, we released our third modern slavery statement, the first required under Australia's **Modern Slavery Act 2018** (Cth). Our FY20 Modern Slavery Statement is available on our website at www.fmgl.com.au



Operations

Fortescue continued to safely operate throughout the COVID-19 pandemic, achieving record shipments of 90.7 million tonnes (mt) for the first half through consistent and predictable operational performance, and leveraging the capability and flexibility in our value chain. Our improvement in productivity is the result of consistent Ore Processing Facility (OPF) performance (both throughput and yield), healthy inventory balances across all stages of production and expanded sales volumes through our Chinese trading entity FMG Trading Shanghai (FMG Trading) locally in China.

Mining production performed strongly with ore mined 3.2mt above H1 FY20. Strip ratio for H1 FY21 of 1.3 reflects the benefits of developed areas available at the start of the year and ore mining operations maintaining optimal inventory volumes.

Ore processed was marginally lower than the corresponding prior period, reflecting sustained performance through the OPFs and reduced reliance on ancillary crushing. Commissioning of the Wet High Intensity Magnetic Separators (WHIMS) at Christmas Creek occurred in December 2020, on time and budget, and will improve the yield and grade at the plant as it ramps up to full capacity in the second half of FY21.

Sales via FMG Trading continued to build during the period with 6.3mt shipped for H1 FY21, and total shipments of 14.0mt from commencement in June 2019 through to 31 December 2020. This entity allows Fortescue to increase its sales channels through the direct supply of products to Chinese customers in smaller volumes, and in Renminbi, directly from regional ports. The difference between ore shipped and ore sold for the half represents the change in inventory held by this entity at regional ports in China.

Production and shipments on a wet metric tonne (wmt) basis for the half year are outlined below.

	6 months to 31 December 2020 (mt)	6 months to 31 December 2019 (mt)	Movement %
Overburden removed	143.6	158.7	-10
Ore mined	108.4	105.2	+3
Ore processed	90.3	91.3	-1
Ore shipped	90.7	88.6	+2
Ore sold	90.2	87.7	+3

Ore Shipped, mt



Marketing and product strategy

Fortescue's world class, integrated operations and customer-focused marketing strategy underpins our strong market penetration in China and other countries.

This strategy delivers a flexible product range to meet customer requirements and maximise value.

Sales of Fortescue's 60.1% iron grade product, West Pilbara Fines, which commenced in December 2018, totalled 8.4mt for the six months ended 31 December 2020 (HY20: 9.0mt). With finalisation of the Eliwana mine project and commissioning of operations, we are well positioned to meet strong demand from our customers.

While China remains Fortescue's core focus and represents more than 50 per cent of world steel production, shipments to non-China markets totalled around 8mt, including to Japan, South Korea and growth economies in South East Asia.

Innovation and technology

Fortescue is a global leader in embracing innovation and technology across our operations. The conversion to autonomous haulage (AHS) is now complete at the Chichester Hub, bringing the total autonomous fleet to 183 at 31 December 2020.

We continue to look for opportunities for automation and artificial intelligence to drive greater efficiency across the business, including the use of data to predict outcomes and optimise performance, the expansion of autonomous mining and the application of relocatable conveyor technology.

Major projects



Eliwana

The Eliwana Mine and Rail Project included development of a mine with annual production capacity of 30mtpa for a minimum of 20 years, 143km of rail, a new dry ore processing facility and associated infrastructure. During H1 FY21, operational readiness was achieved with mined ore inventories built in preparation for processing and first ore fed through the OPF. The project transitioned to the Operations Team in January 2021 with a focus on commissioning and ramp up to full production.

Achieving practical completion at Eliwana was a significant milestone being the first mining area developed in our Western Hub, supporting our low cost status and providing incremental product mix flexibility.

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.

Iron Bridge

The Iron Bridge Magnetite Project (Iron Bridge) is under development to deliver production capacity of 22mtpa of a 67% Fe magnetite concentrate product.

In February 2021, the Company announced that a detailed review of Iron Bridge had been completed. The

review has considered the forecast total investment and schedule for the project, taking into account the strength of the Australian dollar, access to resources and specialist skills, as well as other market factors.

The review indicated a revised preliminary total investment of up to US\$3.0 billion with first production expected in the second half of calendar year 2022, subject to validation through further technical and commercial assessment and Iron Bridge Joint Venture approval. The 12 week assessment has commenced, with limited project works on critical path items to continue during that time.

Energy

Fortescue has continued development and construction of US\$700 million in energy infrastructure through the Pilbara Energy Connect (PEC) program of works. This program will be constructed, owned and operated by Fortescue and comprises:

- The US\$250 million Pilbara Transmission Project which consists of 275km of high voltage transmission lines connecting Fortescue's mine sites
- The US\$450 million Pilbara Generation Project which includes 150MW of gas fired generation, together with 150MW of solar photovoltaic (PV) generation, supplemented by large scale battery storage.

PEC will integrate Fortescue's stationary energy facilities in the Pilbara into an efficient network and enable the addition of other renewable energy projects in the future. The project continues to progress with bulk earthworks completed at the Solomon power generation site and over 300 of the 800 foundations for the transmission line complete.

The Chichester Solar Gas Hybrid Project, owned and operated by Alinta Energy, consists of a 60MW solar PV generation facility at the Chichester Hub and 60km of transmission line linking the Christmas Creek and Cloudbreak mining operations with Alinta Energy's Newman gas-fired power station. The project will provide a low emission energy solution expected to displace around 100 million litres of diesel used annually in the existing Christmas Creek and Cloudbreak power stations. The project is well advanced, with all the solar panels, transmission towers and transmission lines installed, and pre-commissioning activities now underway.

On completion, this Project will integrate with the PEC program via the Pilbara Transmission Project.

Exploration

Fortescue holds the largest tenement portfolio in the Pilbara region of Western Australia. Our iron ore tenements are key to maintaining mine life and sustaining product quality across our core iron ore business. The Western Hub Resources include significant amounts of high iron content bedded iron ore, adding dry, low cost tonnes to Fortescue's product suite.

Australian exploration activity during the first half has focused on iron ore in the Western Hub and Eastern Hamersley regions in the Pilbara, early stage target generation for copper-gold in the Paterson, Rudall and Goldfields regions of Western Australia, along with drilling programs in South Australia and New South Wales.

Exploration and field activities in Ecuador and Argentina have progressed, with drilling activity recommenced in Argentina and expected to restart in Ecuador in Q3 FY21, subject to COVID-19 restrictions.

Fortescue Future Industries

Building on our investment in renewable energy, the PEC project and Fortescue's hydrogen program has been the establishment of Fortescue Future Industries (FFI), a wholly owned subsidiary of Fortescue.

Fortescue is committed to decarbonisation, and through FFI we have identified renewable energy and green hydrogen projects both in Australia and globally that could lead to some 300GW of power generation capacity.

Individual projects will be developed by FFI with ownership and project finance to be separately secured without recourse to Fortescue.

In the first half of FY21, Fortescue established a global liquid hydrogen consortium to develop a supply chain between Australia and Japan through a Memorandum of Understanding with Kawasaki Heavy Industries and Iwatani Corporation. Our aim is to develop a business model for the supply of liquid hydrogen to Japan.

Additionally, a team from FFI led by Fortescue's Chairman, Dr Andrew Forrest, visited a total of 47 countries in H1 FY21 to conduct early stage studies to identify the best global opportunities for renewable energy and green hydrogen.

FFI will play an important role in the development of green energy, showing that business can take the lead as we transition away from fossil fuels.

Fortescue has a portfolio of projects underway associated with renewable hydrogen, including:

- A partnership with the CSIRO to develop new hydrogen technologies, including a world first membrane technology which provides the potential for large scale hydrogen extraction from ammonia
- An A\$32 million hydrogen mobility project at Christmas Creek comprising the construction of a renewable hydrogen refuelling facility and the deployment of a fleet of hydrogen fuel cell passenger coaches from mid-2021
- A partnership with ATCO Australia to build and operate the first combined green hydrogen production and refuelling facility in Western Australia
- A Memorandum of Understanding with Hyundai Motor Co and CSIRO to advance renewable hydrogen technology for domestic transport
- A feasibility study into a 250MW green hydrogen plant in Tasmania, with a green ammonia production capacity of 250,000 tonnes per annum for domestic use and international export.





Financial results

Financial performance

Fortescue's financial results for the half year demonstrated our continued ability to generate strong cash flows from our operations, through the successful execution of our integrated product and marketing strategy. Sustained low cost performance and high price realisation are reflected in strong operating margins.

Key metrics	31 December 2020	31 December 2019
Revenue, US\$ millions	9,335	6,485
Underlying EBITDA ¹ , US\$ millions	6,639	4,228
Net profit after tax, US\$ millions	4,084	2,453
Earnings per share, US cents	132.7	79.7
Earnings per share, AUD cents	183.7	116.4
Key ratios		
Underlying EBITDA margin, %	71	65
Return on equity, %	47	44

¹ Refer to page 20 for the reconciliation of Underlying EBITDA to the financial metrics reported in the financial statements under Australian Accounting Standards.

During the half year ended 31 December 2020, Fortescue delivered a record net profit of US\$4,084 million and earnings per share of 132.7 US cents, reflecting strong operating performance through the continued focus on productivity and efficiency, together with a strengthened realised price.

Financial results

Revenue

	Note ¹	31 December 2020	31 December 2019
Total iron ore revenue, US\$ millions	3	8,703	5,696
Total shipping revenue, US\$ millions	3	606	769
Other revenue, US\$ millions	3	26	20
Operating sales revenue, US\$ millions		9,335	6,485
Shipments, wmt		90.7	88.6
Ore sold, wmt ²		90.2	87.7
62% Fe CFR Platts index, US\$/dmt		126	95
Realised price, US\$/dmt		114	80

¹ Notes to the accompanying financial statements.

² Fortescue's wholly owned trading entity maintains some inventory at Chinese ports and ore sold versus shipments reflects the timing differences that may occur between shipments and sales to external customers.

Strong demand for iron ore continued, with China's official crude steel production increasing by 5.2 per cent to a record 1,053 million tonnes in the 2020 calendar year, demonstrating the continued strength of the Chinese steel industry.

Fortescue's price realisation in H1 FY21 increased by 42 per cent over the prior year compared to an increase of 32 per cent in the Platts 62% index price over the same period. The outperformance of the index reflects the enhanced contribution of higher value products meeting the demands of our customers as well as iron ore market supply constraints from South America due to a number of issues, including the impact of COVID-19.

Production costs

The reconciliation of C1 costs and total delivered costs to customers to the financial metrics reported in the financial statements under Australian Accounting Standards is set out below.

	Note ¹	31 December 2020	31 December 2019
Mining and processing costs, US\$ millions	3	959	934
Rail costs, US\$ millions	3	99	94
Port costs, US\$ millions	3	94	88
C1 costs, US\$ millions		1,152	1,116
Ore sold, mt		90.2	87.7
C1, US\$/wmt		12.78	12.73
Shipping costs, US\$ millions	3	608	727
Government royalty ² , US\$ millions	3	642	421
Administration expenses, US\$ millions	3	109	52
Shipping, royalty and administration, US\$ millions		1,359	1,200
Ore sold, mt		90.2	87.7
Shipping, royalty and administration, US\$/wmt		15	13
Total delivered cost, US\$/wmt		28	26
Total delivered cost, US\$/dmt		31	29

¹ Notes to the accompanying financial statements.

² Fortescue pays 7.5 per cent government royalty for the majority of its iron ore products, with a concession rate of five per cent applicable to beneficiated fines.

C1 costs averaged US\$12.78/wmt for the half year, less than one per cent higher compared to the prior period.

Fortescue's continued focus on productivity and efficiency has provided ongoing cost benefits throughout the half year period, including:

- Completion of the AHS rollout at the Solomon, Christmas Creek and Cloudbreak mine sites, lowering overall mining operating costs
- Sustained operational performance and reliability across all OPFs, reducing reliance on ancillary crushing facilities
- Operation of the second phase of the Cloudbreak relocatable conveyor
- Consolidation of Cloudbreak and Christmas Creek operations into a single Chichester Hub, creating synergies and increasing overall productivity.

The favourable impacts of the above internal factors have been partially offset by the strengthening of the Australian dollar over the period.

Financial results

Underlying EBITDA

Underlying EBITDA, defined as earnings before interest, tax, depreciation and amortisation, exploration, development and other expenses, is a key measure of Fortescue's financial performance. During the half year, our operations generated Underlying EBITDA of US\$6,639 million (H1 FY20: US\$4,228 million). The reconciliation of Underlying EBITDA to the financial metrics reported in the financial statements under Australian Accounting Standards is presented below.

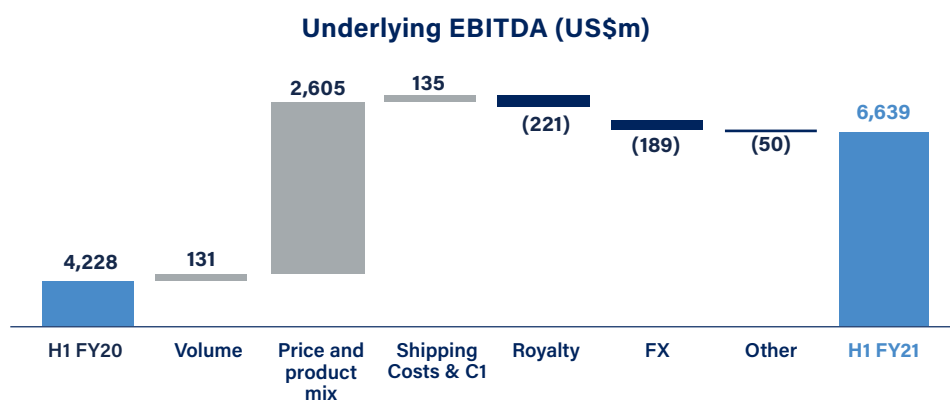
	Note ¹	31 December 2020 US\$m	31 December 2019 US\$m
Operating sales revenue	3	9,335	6,485
Cost of sales excluding depreciation and amortisation	3	(2,415)	(2,277)
Net foreign exchange gain/(loss)	3	(119)	70
Fair value change in derivatives ²	3	(54)	-
Administration expenses	3	(109)	(52)
Other income	3	1	2
Underlying EBITDA		6,639	4,228
Finance income	3	11	27
Finance expenses	3	(86)	(150)
Depreciation and amortisation	3	(672)	(657)
Exploration, development and other	3	(28)	(21)
Net profit before tax		5,864	3,427
Income tax expense ³		(1,780)	(974)
Net profit after tax		4,084	2,453
Loss on early debt repayment after tax		-	11
Underlying net profit after tax		4,084	2,464

¹ Notes to the accompanying financial statements.

² Represents derivatives not designated as eligible cash flow hedges.

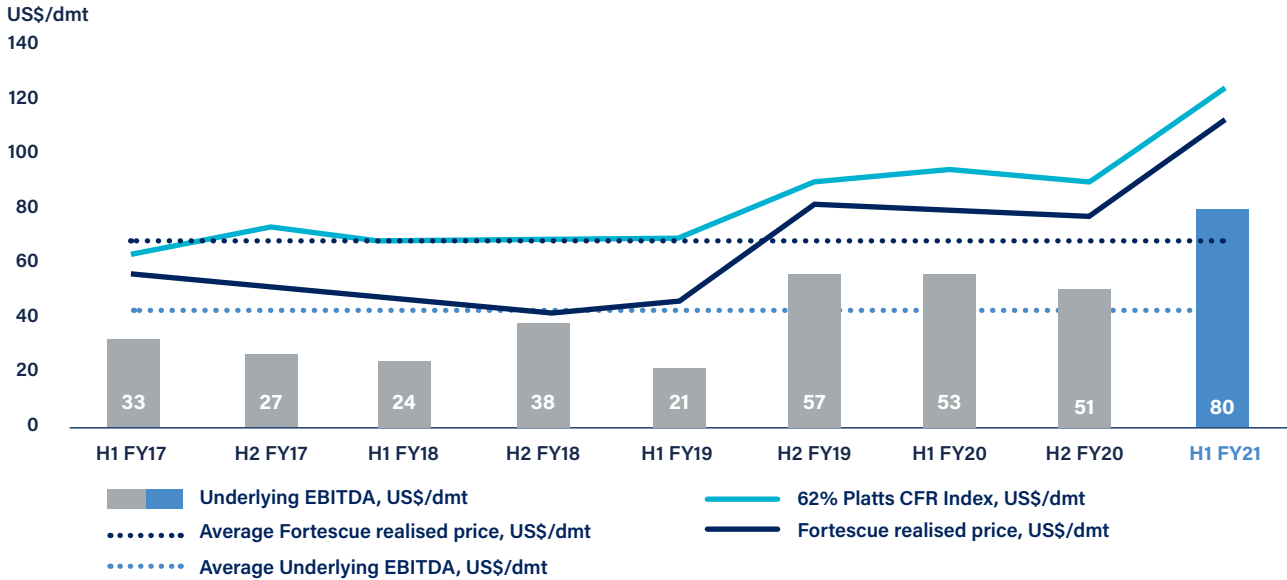
³ Refer to the consolidated income statement.

The improved benchmark Platts index price and Fortescue's realisation thereof, is the primary driver of the 57 per cent improvement in Underlying EBITDA from the prior comparable period. The variances in H1 FY21 Underlying EBITDA relative to H1 FY20 are outlined below.



Underlying EBITDA continued

The Underlying EBITDA of US\$6.6 billion for the first half of FY21 represents a margin of 71 per cent or US\$80/dmt. As illustrated in the chart below, Fortescue has maintained strong Underlying EBITDA margins through market cycles, demonstrating the continued commitment to and focus on productivity, efficiency and innovation.



Other expenses

Other expenses of US\$319 million have increased compared to the prior period (H1 FY20: US\$83 million) as a result of:

- Net foreign currency losses on Australian dollar denominated payables, including income tax and trade payables, of US\$119 million (H1 FY20: net foreign currency gains of US\$70 million, included in Other income). The exchange rate increased from 0.69 USD/AUD at 30 June 2020 to 0.77 USD/AUD at 31 December 2020.
- The use of commodity swap contracts, in accordance with Fortescue's risk management framework, to manage its exposure to fluctuations in the underlying iron ore index in which sales are priced, particularly in respect to port sales in China. Hedge accounting was applied to some instruments to recognise the unrealised fair value change through other comprehensive income (OCI) until settlement. For the six months ended 31 December 2020, the realised fair value change in derivatives recognised in profit and loss was an expense of US\$54m, with unrealised losses, net of tax, recognised in OCI of US\$55m.
- An increase in administration expenses to US\$109 million for H1 FY21 (H1 FY20: US\$52 million) reflecting the costs of early stage project assessments and feasibility studies for FFI initiatives, as well as a one-off additional employee incentive related to Fortescue's record FY20 performance that was approved by the Board in the current period.

Depreciation and amortisation

Depreciation and amortisation of US\$672 million is up two per cent on the prior period (H1 FY20: US\$657 million) in line with production.

Finance expenses

Finance expenses of US\$86 million for the half year ended 31 December 2020 are 43 per cent lower than the prior period (H1 FY20: US\$150 million) primarily due to the reduced cost of Fortescue's debt portfolio after the refinancing activities completed in H1 FY20.

Income tax

Income tax expense for the half year of US\$1,780 million represents an effective tax rate of 30 per cent (H1 FY20: US\$974 million, effective rate of 28 per cent) in line with underlying financial results.

Financial Results

Financial position and capital management

Key metrics	Note ¹	31 December	30 June
		2020	2020
		US\$m	US\$m
Borrowings	4	3,203	4,234
Lease liabilities	4	881	879
Total debt		4,084	5,113
Cash and cash equivalents		3,974	4,855
Net (cash)/debt		110	258
Equity		15,007	13,244
Key ratios			
Gearing, %		21	28
Net gearing, %		1	2
Debt to EBITDA (x)		0.38	0.61
Net debt to EBITDA (x)		0.01	0.03

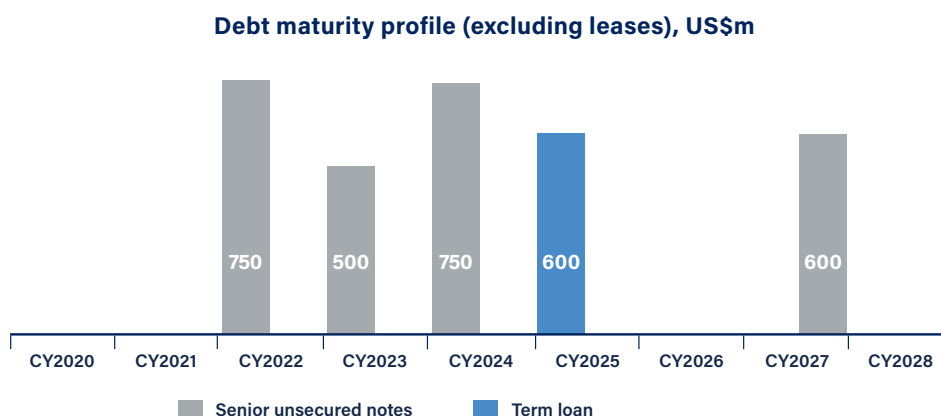
¹Notes to the accompanying financial statements.

Debt and liquidity

Fortescue's balance sheet is structured on low cost, investment grade terms with optimal gearing and liquidity levels to support ongoing operations. The debt capital structure allows optionality and flexibility for future growth.

During July 2020, Fortescue repaid the US\$1,025 million Revolving Credit Facility which was drawn down in April 2020 as a proactive response to capital management in a time of global uncertainty. The repayment occurred in advance of the due date and reflected confidence in the market outlook for H1 FY21.

Fortescue's debt maturity profile at 31 December 2020 is set out below. We continue to assess opportunities to refinance debt prior to maturity, and also assess Iron Bridge funding options. The optionality of funding sources is enabled by our relatively simple debt capital structure with consistent terms and conditions, including no financial maintenance covenants, across all instruments.



At 31 December 2020, Fortescue had US\$4,999 million of liquidity available including US\$3,974 million of cash on hand and US\$1,025 million available under the revolving credit facility. Total debt of US\$4,084 million, inclusive of US\$881 million of lease liabilities, represents gross gearing of 21 per cent.

Cash flows

Key metrics	31 December 2020 US\$m	31 December 2019 US\$m
Cash generated from operations	6,591	4,201
Cash flows from operating activities	4,410	3,114
Capital expenditure (including joint operations)	(1,891)	(857)
Free cash flow	2,519	2,257

Cash generated from operations of US\$6,591 million was 57 per cent higher than the prior period, largely as a result of higher Underlying EBITDA.

Net cash flows from operations include net interest payments of US\$114 million (H1 FY20: US\$122 million) and income tax paid of US\$2,077 million (H1 FY20: US\$991 million).

Capital expenditure was US\$1,891 million for the half year (H1 FY20: US\$857 million) reflecting the expenditure undertaken on growth projects including Eliwana, Iron Bridge and PEC.

Dividends

In October 2020, Fortescue paid a fully franked final dividend of 100 Australian cents per share for the financial year ended 30 June 2020.

On 18 February 2021, Fortescue declared a fully franked interim dividend of A\$1.47 per share, payable in March 2021.

Dividends and shareholder returns

For the half year ended 31 December 2020, Fortescue generated earnings of 132.7 US cents per share (H1 FY20: 79.7 US cents per share) and, subsequent to period end, declared an interim dividend of 147 Australian cents per share (H1 FY20: interim dividend of 76 Australian cents per share).

	31 December 2020	31 December 2019
Underlying net profit after tax ¹ , US\$ millions	4,084	2,464
Basic earnings per share, US cents per share	132.7	79.7
Basic earnings per share, AUD cents per share ²	183.7	116.4
Interim dividend, AUD cents per share	147	76
Dividend payout ratio, % (excluding special)	80	65

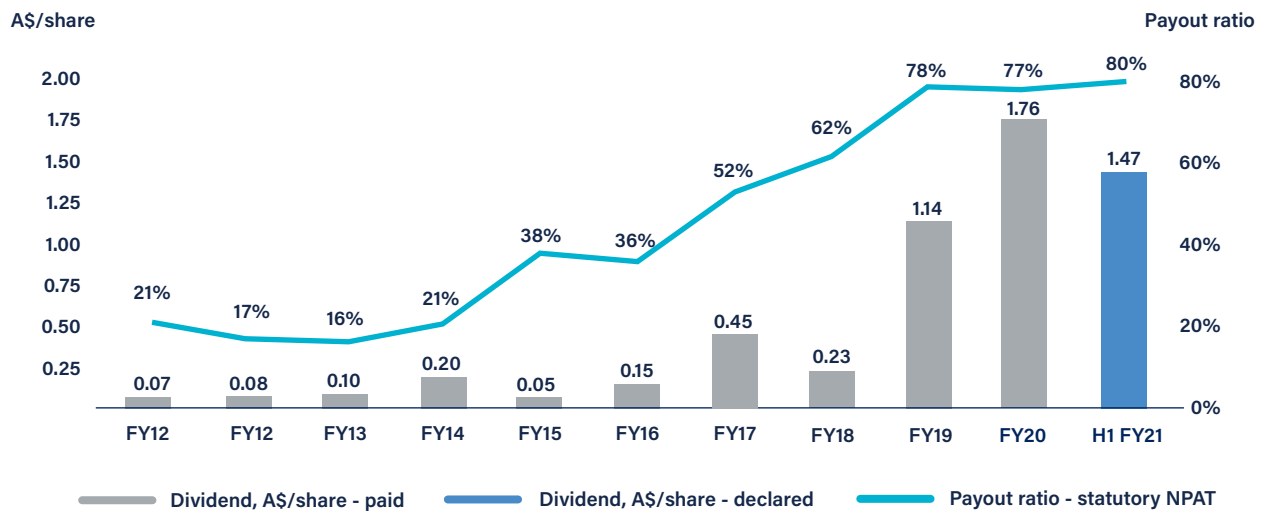
¹ Underlying net profit after tax is calculated as statutory net profit after tax adjusted for the cost of early debt repayment.

² Australian dollar earnings per share is calculated by translating the US dollar earnings per share at the average exchange rate for the period of 0.723 USD/AUD (31 December 2019: 0.685 USD/AUD).

The interim dividend for the current period represents a payout ratio of 80 per cent of net profit after tax, in line with Fortescue's guidance of maintaining a payout ratio at the top end of the Board approved range of 50 to 80 per cent of net profit after tax. The interim dividend declared reflects the strong operating cash flow environment, confidence in the outlook for the second half of FY21 and the strength of the balance sheet.

Financial Results

Dividends declared and payout ratios



Share buy-back scheme

On 10 October 2020, Fortescue extended its share buy-back program for an unlimited duration. The maximum number of shares which can be bought back is determined periodically by the 10/12 limit, being that a company cannot buy back more than 10 per cent of its voting shares within the span of any 12 month period. During H1 FY21, no shares were acquired under the program, which remains available and is a strategic element of Fortescue's capital management strategy.

FY21 guidance

- Iron ore shipments of 178 - 182mt
- C1 costs of US\$13.50 - US\$14.00/wmt
- Capital expenditure at the upper end of the guided range of US\$3.0 - US\$3.4 billion.

Guidance for C1 costs and capital expenditure is based on a revision to the assumed FY21 average exchange rate from 0.70 to 0.75 USD/AUD.

03

Financial statements



Consolidated income statement

For the half year ended 31 December 2020

	Note	31 December 2020 US\$m	31 December 2019 US\$m
Operating sales revenue	3	9,335	6,485
Cost of sales	3	(3,078)	(2,924)
Gross profit		6,257	3,561
Other income	3	1	72
Other expenses	3	(319)	(83)
Profit before income tax and net finance expenses		5,939	3,550
Finance income	3	11	27
Finance expenses	3	(86)	(150)
Profit before tax		5,864	3,427
Income tax expense		(1,780)	(974)
Profit after tax		4,084	2,453
Profit is attributable to:			
Equity holders of the Company		4,084	2,453
Net profit after tax		4,084	2,453

The above consolidated income statement should be read in conjunction with the accompanying notes.

Consolidated statement of comprehensive income

For the half year ended 31 December 2020

	31 December 2020 US\$m	31 December 2019 US\$m
Profit after tax	4,084	2,453
Other comprehensive income		
<i>Items that may be reclassified to profit or loss in subsequent periods, net of tax:</i>		
Loss on cash flow hedges	(55)	-
Exchange differences on translation of foreign operations	(13)	6
<i>Items that will not be reclassified to profit or loss in subsequent periods, net of tax:</i>		
Gain on investments taken to equity	3	-
Other comprehensive income / (loss), net of tax	(65)	6
Total comprehensive income for the period, net of tax	4,019	2,459
Total comprehensive income for the period attributable to:		
Equity holders of the Company	4,019	2,459
Total comprehensive income for the period, net of tax	4,019	2,459
	Cents	Cents
Earnings per share for profit attributable to the equity holders of the Company:		
Basic earnings per share	132.7	79.7
Diluted earnings per share	132.3	79.4

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated statement of financial position

At 31 December 2020

	Note	31 December 2020 US\$m	30 June 2020 US\$m
ASSETS			
Current assets			
Cash and cash equivalents		3,974	4,855
Trade and other receivables		988	543
Inventories		953	828
Other current assets		134	71
Total current assets		6,049	6,297
Non-current assets			
Trade and other receivables		9	2
Property, plant and equipment		18,395	17,073
Intangible assets		9	7
Other non-current assets		11	19
Total non-current assets		18,424	17,101
Total assets		24,473	23,398
LIABILITIES			
Current liabilities			
Trade and other payables		1,452	1,041
Derivatives	5	107	16
Borrowings and lease liabilities	4	161	186
Provisions		260	277
Deferred joint venture contributions		82	251
Current tax payable		823	1,024
Total current liabilities		2,885	2,795
Non-current liabilities			
Trade and other payables		50	50
Borrowings and lease liabilities	4	3,923	4,927
Provisions		972	738
Deferred tax liabilities		1,636	1,644
Total non-current liabilities		6,581	7,359
Total liabilities		9,466	10,154
Net assets		15,007	13,244
EQUITY			
Contributed equity	6	1,104	1,167
Reserves		12	62
Retained earnings		13,870	12,002
Equity attributable to equity holders of the Company		14,986	13,231
Non-controlling interest		21	13
Total equity		15,007	13,244

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

Consolidated statement of cash flows

For the half year ended 31 December 2020

Note	31 December 2020 US\$m	31 December 2019 US\$m
Cash flows from operating activities		
Cash receipts from customers	8,973	6,692
Payments to suppliers and employees	(2,382)	(2,491)
Cash generated from operations	6,591	4,201
Interest received	10	26
Interest paid	(114)	(122)
Income tax paid	(2,077)	(991)
Net cash inflow from operating activities	4,410	3,114
Cash flows from investing activities		
Payments for property, plant and equipment - Fortescue	(1,382)	(796)
Payments for property, plant and equipment - joint operations	(339)	(56)
Payments of deferred joint venture contributions	(170)	(5)
Proceeds from disposal of plant and equipment	2	3
Purchase of financial asset	-	(7)
Net cash outflow from investing activities	(1,889)	(861)
Cash flows from financing activities		
Proceeds from borrowings	-	600
Repayment of borrowings	(1,025)	(786)
Repayment of lease liabilities	(94)	(60)
Finance costs paid	(5)	(15)
Dividends paid	(2,204)	(502)
Purchase of shares by employee share trust	(122)	(44)
Net cash outflow from financing activities	(3,450)	(807)
Net (decrease) / increase in cash and cash equivalents	(929)	1,446
Cash and cash equivalents at the beginning of the period	4,855	1,874
Effects of exchange rate changes on cash and cash equivalents	48	(6)
Cash and cash equivalents at the end of the period	3,974	3,314

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity

For the half year ended 31 December 2020

	Attributable to Equity Holders of the Parent:				Non-controlling interest US\$m	Total equity US\$m
	Contributed equity US\$m	Reserves US\$m	Retained earnings US\$m	Total US\$m		
Balance at 1 July 2019	1,181	42	9,365	10,588	13	10,601
Adjustment on adoption of AASB 16	-	-	(7)	(7)	-	(7)
Restated total equity at 1 July 2019	1,181	42	9,358	10,581	13	10,594
Net profit after tax	-	-	2,453	2,453	-	2,453
Other comprehensive income	-	6	-	6	-	6
Total comprehensive income for the period, net of tax	-	6	2,453	2,459	-	2,459
Transactions with owners:						
Purchase of shares under employee share plans	(43)	-	-	(43)	-	(43)
Employee share awards vested	28	(28)	-	-	-	-
Equity settled share-based payment transactions	-	30	-	30	-	30
Dividends declared	-	-	(519)	(519)	-	(519)
Other	-	-	1	1	-	1
Balance at 31 December 2019	1,166	50	11,293	12,509	13	12,522
Balance at 1 July 2020	1,167	62	12,002	13,231	13	13,244
Net profit after tax	-	-	4,084	4,084	-	4,084
Other comprehensive income	-	(65)	-	(65)	-	(65)
Total comprehensive income for the period, net of tax	-	(65)	4,084	4,019	-	4,019
Transactions with owners:						
Purchase of shares under employee share plans	(122)	-	-	(122)	-	(122)
Employee share awards vested	59	(59)	-	-	-	-
Equity settled share-based payment transactions	-	82	-	82	-	82
Shares in subsidiary issued to non-controlling interests	-	(8)	-	(8)	8	-
Dividends declared	-	-	(2,215)	(2,215)	-	(2,215)
Other	-	-	(1)	(1)	-	(1)
Balance at 31 December 2020	1,104	12	13,870	14,986	21	15,007

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Notes to the consolidated financial statements

For the half year ended 31 December 2020

Basis of preparation

01 Basis of preparation

These financial statements cover the consolidated group consisting of Fortescue Metals Group Ltd (the Company) and its subsidiaries, together referred to as Fortescue or the Group.

(a) Statement of compliance

These general purpose consolidated interim financial statements have been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the annual financial report for the year ended 30 June 2020, and any public announcements made by the Company during the half year ended 31 December 2020 in accordance with the continuous disclosure requirements of the *Corporations Act 2001* and the *ASX Listing Rules*.

The financial statements were approved by the Board of Directors on 18 February 2021.

All amounts in the financial statements have been rounded to the nearest million dollars, except as indicated, in accordance with the ASIC Corporations Instrument 2016/191.

(b) Significant accounting policies

The accounting policies applied in these financial statements are consistent with those applied by the Group in the 30 June 2020 consolidated financial statements, except as disclosed in note 1(c) which relates to hedge accounting adopted during the period ended 31 December 2020.

Certain new accounting standards, amendments and interpretations have been published that are not mandatory for the 31 December 2020 interim reporting period and have not been applied in these financial statements. The Group is currently assessing the impact of these new standards and amendments on future financial statements.

(c) Derivative financial instruments and hedge accounting

The Group holds derivative financial instruments to hedge its foreign currency and commodity price risk

exposures. Derivatives are initially measured at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognised in profit or loss. The Group designates certain derivatives as hedging instruments to hedge the variability in cash flows associated with highly probable forecast transactions arising from changes in commodity prices or foreign exchange rates. At inception of designated hedging relationships, the Group documents the risk management objective and strategy for undertaking the hedge. The Group also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedged item and hedging instrument are expected to offset each other.

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income (OCI) and accumulated in the hedging reserve. The effective portion of changes in the fair value of the derivative that is recognised in OCI is limited to the cumulative change in fair value of the hedged item, determined on a present value basis, from inception of the hedge. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

The Group designates only the intrinsic value of option contracts as the hedging instrument in cash flow hedging relationships. The time value is recognised in other comprehensive income to the extent that it relates to the hedged item and is accumulated in a separate cost of hedging reserve. For all hedged forecast transactions, the amount accumulated in the hedging reserve and the cost of hedging reserve is reclassified to profit or loss in the same period or periods during which the hedged expected future cash flows affect profit or loss. If the hedge no longer meets the criteria for hedge accounting or the hedging instrument is sold, expires, is terminated or is exercised, then hedge accounting is discontinued prospectively. When hedge accounting for cash flow hedges is discontinued, the amount that has been accumulated in the hedging reserve remains in equity until it is reclassified to profit or loss in the same period or periods as the hedged expected future cash flows affect profit or loss. If the hedged future cash flows are no longer expected to occur, then the amounts that have been accumulated in the hedging reserve and the cost of hedging reserve are immediately reclassified to profit or loss.

Notes to the consolidated financial statements

For the half year ended 31 December 2020

Financial performance

02 Segment information

Fortescue's chief operating decision maker is the Core Leadership Team (CLT) which comprises the Chief Executive Officer, Deputy Chief Executive Officer, Chief Financial Officer and Chief Operating Officer. The CLT reviews the Group's financial performance and makes significant operating decisions having regard to all aspects of the integrated operation with the key financial information presented internally for management purposes on a consolidated basis. Accordingly, one reportable operating segment has been identified in presenting the Group's consolidated financial performance.

Fortescue uses Underlying EBITDA, defined as earnings before interest, tax, depreciation and amortisation, exploration, development and other expenses, as a key measure of its financial performance. The reconciliation of Underlying EBITDA to the net profit after tax is presented below.

	Note	31 December 2020 US\$m	31 December 2019 US\$m
Underlying EBITDA		6,639	4,228
Finance income	3	11	27
Finance expenses	3	(86)	(150)
Depreciation and amortisation	3	(672)	(657)
Exploration, development and other	3	(28)	(21)
Profit before tax		5,864	3,427
Income tax expense		(1,780)	(974)
Net profit after tax		4,084	2,453

(a) Geographical information

Fortescue operates predominantly in the geographical location of Australia, and this is the location of the vast majority of the Group's assets. In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. The amounts presented exclude fair value loss in derivatives designated as cash flow hedges of US\$105 million (31 December 2019: nil).

	31 December 2020 US\$m	31 December 2019 US\$m
Revenues from external customers		
China	8,616	6,151
Other	824	334
	9,440	6,485

(b) Major customer information

Revenue from two customers amounted to US\$933 million and US\$721 million for the half year ended 31 December 2020 (31 December 2019: US\$768 million and US\$988 million), arising from the sale of iron ore and the related shipment of product.

Notes to the consolidated financial statements

For the half year ended 31 December 2020

Financial performance (continued)

03 Revenue and expenses

	31 December 2020 US\$m	31 December 2019 US\$m
Iron ore revenue	7,956	6,165
Provisional pricing adjustments - iron ore	852	(469)
Cash flow hedging adjustment ¹	(105)	-
Total iron ore revenue²	8,703	5,696
Shipping revenue	601	732
Provisional pricing adjustments - shipping revenue	5	37
Total shipping revenue²	606	769
Other revenue ³	26	20
Operating sales revenue	9,335	6,485
Mining and processing costs	(959)	(934)
Rail costs	(99)	(94)
Port costs	(94)	(88)
Shipping costs	(608)	(727)
Government royalty	(642)	(421)
Depreciation and amortisation	(663)	(647)
Other operating expenses	(13)	(13)
Cost of sales	(3,078)	(2,924)
Net foreign exchange gain	-	70
Other	1	2
Other income	1	72
Fair value change in derivatives not designated as hedging instruments	(54)	-
Net foreign exchange loss	(119)	-
Administration expenses	(109)	(52)
Exploration, development and other	(28)	(21)
Depreciation and amortisation	(9)	(10)
Other expenses	(319)	(83)
Interest income	11	27
Finance income	11	27
Interest expense on borrowings and lease liabilities	(79)	(109)
Loss on early debt redemption	-	(16)
Other	(7)	(25)
Finance expense	(86)	(150)

¹ Cash flow hedging adjustment represents the effective loss reclassified from OCI to profit or loss on close out of the hedge position.

² Certain sales contracts are provisionally priced at the initial revenue recognition (bill of lading) date, with the final settlement price based on a pre-determined quotation period. Operating sales revenue from these contracts comprises of two parts:

- (i) Iron ore revenue and shipping revenue recognised at the bill of lading date at current prices; and
- (ii) Provisional pricing adjustments which represent any difference between the revenue recognised at the bill of lading date and the final settlement price.

Shipping revenue and the provisional pricing adjustments to shipping revenue are recognised over the period during which the shipping service has been provided.

³ Other revenue includes towage services provided by Fortescue (commenced in September 2019) which is recognised as performed.

Notes to the consolidated financial statements

For the half year ended 31 December 2020

Capital management

04 Borrowings and lease liabilities

	31 December 2020 US\$m	30 June 2020 US\$m
Senior unsecured notes	24	24
Syndicated term loan	8	8
Revolving credit facility	-	9
Lease liabilities	129	145
Total current borrowings and lease liabilities	161	186
Senior unsecured notes	2,586	2,583
Syndicated term loan	585	585
Revolving credit facility	-	1,025
Lease liabilities	752	734
Total non-current borrowings and lease liabilities	3,923	4,927
Total borrowings and lease liabilities	4,084	5,113

Fortescue's listed debt instruments are classified as Level 1 financial instruments in the fair value hierarchy with their fair values based on quoted market prices at the end of the reporting period. The senior unsecured notes had a fair value of US\$2,782 million at 31 December 2020 (30 June 2020: US\$2,662 million). The carrying values of other financial assets and liabilities approximate their fair values.

Revolving credit facility

The revolving credit facility was drawn in full on 2 April 2020 for proceeds of US\$1,025 million. Fortescue elected to repay the full amount drawn, plus accrued interest, on 29 July 2020. The facility remains available for redraw until maturity on 28 July 2023.

Notes to the consolidated financial statements

For the half year ended 31 December 2020

Capital management (continued)

05 Financial instruments - Derivatives

Risk management activities

The Group's risk management policy is to consider hedging a portion of its estimated commodity price risk exposure in respect of forecast sales that remained subject to provisional pricing at any point in time. During the period and in accordance with its risk management framework, Fortescue entered into iron ore option arrangements (i.e. zero cost collars) that were designated in cash flow hedge relationships. As disclosed in the 30 June 2020 consolidated financial statements, the Group also uses short term structured iron ore and foreign currency option arrangements that are not designated into hedging relationships. All options arrangements are measured at fair value.

At 31 December 2020, total derivative liabilities were measured at a fair value of US\$107 million, of which US\$78 million related to derivatives designated as cash flow hedges and US\$29 million related to derivatives not designated as hedging instruments (30 June 2020: derivative liabilities US\$16 million, not designated as hedging instruments).

The effective loss on derivatives designated as cash flow hedges recognised in OCI amounted to US\$55 million, net of a deferred tax impact of US\$23 million.

The iron ore options have strike prices that are indexed to SGX IO TSI, quoted on the Singapore Exchange. Hedge ineffectiveness has been assessed as negligible in relation to the iron ore options and no amount has been recognised in profit or loss.

Fair value hierarchy

For all fair value measurements and disclosures, the Group uses the following levels to categorise the method used:

Level 1: the fair value is calculated using quoted prices in active markets for identical assets and liabilities.

Level 2: the fair value is estimated using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data. The Group does not have any financial assets or liabilities in this category.

All derivatives are valued using valuation techniques which employ the use of market observable inputs, such as foreign exchange spot and forward rates, yield curves of the respective currencies, interest rate curves and forward rate curves of the underlying commodity. Accordingly, these derivatives are classified as Level 2.

For financial instruments that are carried at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

There were no transfers between levels during the period.

Notes to the consolidated financial statements

For the half year ended 31 December 2020

Capital management (continued)

06 Contributed equity

(a) Share capital

	Issued shares	Treasury shares	Contributed equity	Issued shares	Treasury shares	Contributed equity
	Number	Number	Number	US\$m	US\$m	US\$m
At 1 July 2019	3,078,964,918	(1,510,681)	3,077,454,237	1,195	(14)	1,181
Purchase of shares under employee share plans	-	(8,017,231)	(8,017,231)	-	(42)	(42)
Employee share awards vested	-	8,277,348	8,277,348	-	28	28
At 30 June 2020	3,078,964,918	(1,250,564)	3,077,714,354	1,195	(28)	1,167
Purchase of shares under employee share plans	-	(9,394,611)	(9,394,611)	-	(122)	(122)
Employee share awards vested	-	9,008,783	9,008,783	-	59	59
At 31 December 2020	3,078,964,918	(1,636,392)	3,077,328,526	1,195	(91)	1,104

(b) Issued shares

Issued shares are fully paid and entitle the holders to one vote per share and the rights to participate in dividends. Ordinary shares participate in the proceeds on winding up of the Company in proportion to the number of shares held.

(c) Treasury shares

Movements in treasury shares represent acquisition of the Company's shares on market and allocation of shares to the Company's employees from the vesting of share rights under the employee share-based payment plans.

(d) Share buy-back program

During the period, the Company acquired none of its own shares on market under the share buy-back program which was extended on 10 October 2020 for an unlimited duration. The maximum number of shares which can be bought back is determined periodically by the Company's 10/12 limit, being that a company cannot buy back more than 10 per cent of its voting shares within the span of any 12 month period.

Notes to the consolidated financial statements

For the half year ended 31 December 2020

Capital management (continued)

07 Dividends

(a) Dividends paid during the half year

	31 December 2020 US\$m	31 December 2019 US\$m
Final fully franked dividend declared for the year ended 30 June 2020: A\$1.00 per share (30 June 2019: A\$0.24 per share)	2,215	519

(b) Dividends declared and not recognised as a liability

	31 December 2020 US\$m	31 December 2019 US\$m
Interim fully franked dividend for the half year ended 31 December 2020: A\$1.47 per share (31 December 2019: A\$0.76 per share)	3,520	1,574
Total dividends declared	3,520	1,574

Unrecognised items

08 Commitments and contingencies

(a) Capital commitments

At 31 December 2020, Fortescue had contractual commitments to capital expenditure of US\$1,687 million (30 June 2020: US\$1,165 million).

(b) Contingent assets and liabilities

There has been no change in the status of the matter previously disclosed between Fortescue and the Yindjibarndi people. Fortescue remains open to negotiating a Native Title agreement to the benefit of all Yindjibarndi people on similar terms to the agreements it has in place with other Native Title Groups in the region. During the period and up to the date of this report, no such negotiations have commenced or claims for compensation have been made.

Fortescue had no material contingent assets or contingent liabilities at 31 December 2020 or at the date of this report. Fortescue occasionally receives claims arising from its activities in the normal course of business. It is expected that any liabilities arising from such claims would not have a material effect on the Group's operating results or financial position.

09 Subsequent events

On 18 February 2021, the Directors declared an interim fully franked dividend of A\$1.47 per ordinary share payable in March 2021.

Directors' declaration

Directors' declaration

In the Directors' opinion:

- (a) the interim financial statements and notes of Fortescue Metals Group Ltd set out on pages 26 to 36 are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2020 and of its performance for the half year ended on that date;
 - (ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*;
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

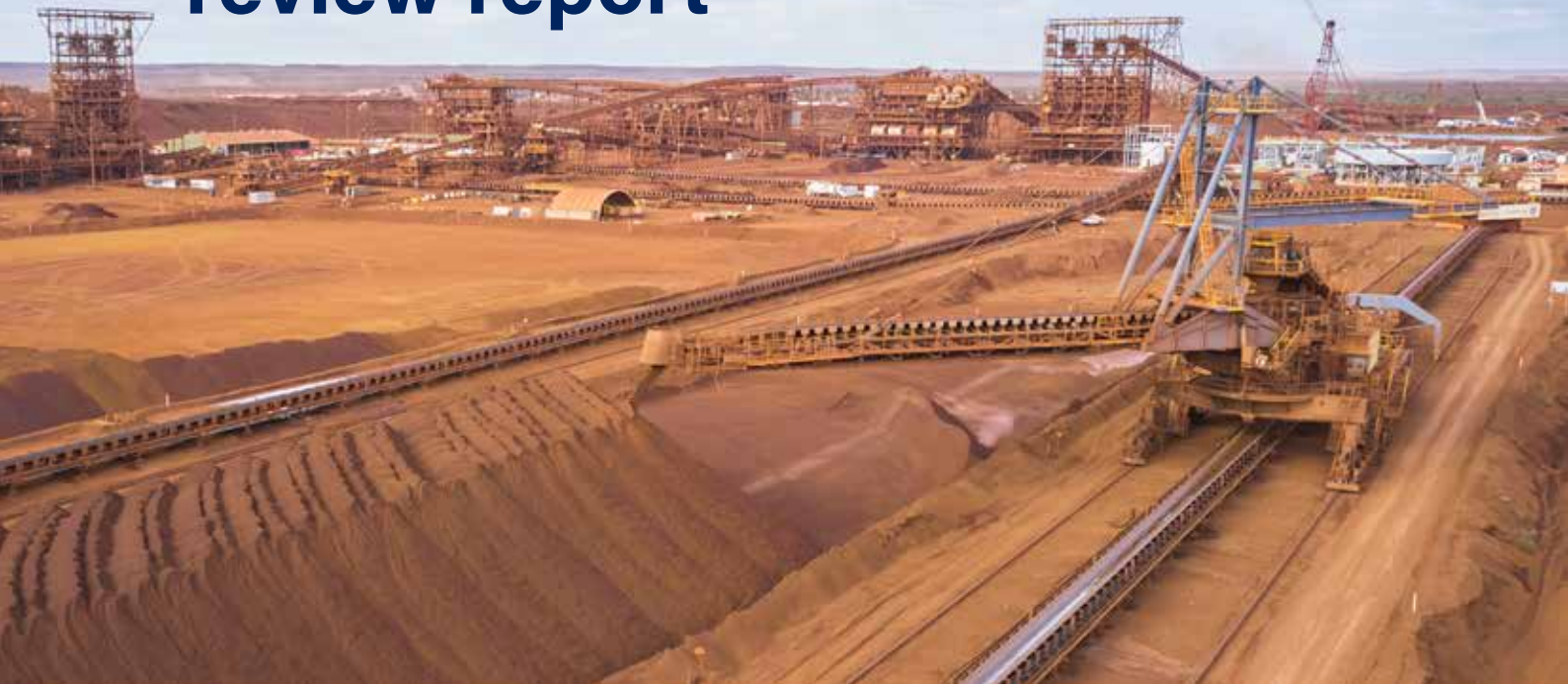
The Directors have been given the declaration by the Chief Executive Officer and Chief Financial Officer for the half year ended 31 December 2020 in accordance with the 4th Edition of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations.

This declaration is made in accordance with a resolution of Directors.

Dr Andrew Forrest AO
Chairman

Dated in Perth on this 18th day of February 2021.

Independent auditor's review report



To the members of Fortescue Metals Group Ltd

Independent auditor's review report



Report on the half-year financial report

Conclusion

We have reviewed the half-year financial report of Fortescue Metals Group Ltd (the Company) and the entities it controlled during the half-year (together the Group), which comprises the consolidated statement of financial position as at 31 December 2020, the consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and consolidated income statement for the half-year ended on that date, significant accounting policies and explanatory notes and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of Fortescue Metals Group Ltd does not comply with the *Corporations Act 2001* including:

1. giving a true and fair view of the Group's financial position as at 31 December 2020 and of its performance for the half-year ended on that date
2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Independent auditor's report (continued)

For the half year ended 31 December 2020

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* (ASRE 2410). Our responsibilities are further described in the *Auditor's responsibilities for the review of the half-year financial report* section of our report.

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

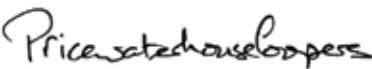
Responsibility of the directors for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement whether due to fraud or error.

Auditor's responsibility for the review of the half-year financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2020 and of its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



PricewaterhouseCoopers



Justin Carroll
Partner

Perth
18 February 2021

PricewaterhouseCoopers, ABN 52 780 433 757

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Auditor's independence declaration



Auditor's independence declaration



As lead auditor for the review of Fortescue Metals Group Ltd for the half-year ended 31 December 2020, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Fortescue Metals Group Ltd and the entities it controlled during the period.

A handwritten signature in black ink that reads 'Justin Carroll'.

Justin Carroll
Partner
PricewaterhouseCoopers

Perth
18 February 2021

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Glossary

Australian Accounting Standards

Australian Accounting Standards are developed, issued and maintained by the Australian Accounting Standards Board, an Australian Government agency under the *Australian Securities and Investments Commission Act 2001*.

AASB

Australian Accounting Standards Board.

AHS

Autonomous Haulage System.

ASIC

The Australian Securities & Investments Commission.

ASX

The Australian Securities Exchange.

C1 Cost

Operating costs of mining, processing, rail and port on a per tonne basis, including allocation of direct administration charges and production overheads.

CFR

A delivery term that indicates that the shipment price includes the cost of goods, freight costs and marine costs associated with a particular delivery.

Chichester Hub

Fortescue's mining hub with two operating iron ore mines, Cloudbreak and Christmas Creek, located in the Pilbara, approximately 250 kilometres south-east of Fortescue's Herb Elliott Port in Port Hedland.

Corporations Act

Corporations Act 2001 of the Commonwealth of Australia.

dmt

Dry metric tonne.

EBITDA

Earnings before interest, taxes, depreciation, and amortisation.

Eliwana Mine and Rail Project

Fortescue's US\$1.275 billion Eliwana Mine and Rail development includes 143km of rail and a 30mpta dry OPF. The project underpins the introduction of the 60.1% iron content product, West Pilbara Fines.

Fe

The chemical symbol for iron.

Fortescue

Fortescue Metals Group Ltd (ACN 002 594 872) and its subsidiaries.

Fortescue Future Industries (FFI)

Fortescue Future Industries is a wholly owned subsidiary of Fortescue.

FY

Refers to a Financial Year.

Gearing

Debt / (debt + equity).

Hematite

An iron ore compound with an average iron ore content of between 57 per cent and 63 per cent Fe. Hematite deposits are typically large, close to the surface and mined via open pits.

H1

Refers to the first half of a Financial Year.

H2

Refers to the second half of a Financial Year.

Iron Bridge Magnetite Project

The project will deliver 22mtpa of high grade 67% Fe magnetite concentrate product.

Magnetite

An iron ore compound that is typically a lower grade ore than Hematite iron ore because of a lower iron content.

Magnetite ore requires significant beneficiation to form a saleable concentrate. After beneficiation, Magnetite ore can be palletised for direct use as a high-grade raw material for steel production.

MW

Megawatts.

mt

Million tonnes.

mtpa

Million tonnes per annum.

Net gearing

(Debt - cash) / (debt - cash + equity).

NPAT

Net profit after tax.

OPF

Ore Processing Facility.

Pilbara

The Pilbara region in the north-west of Western Australia.

PV

Solar photovoltaic panels on the roofs of homes and businesses use energy from the sun to generate electricity cleanly and quietly.

Solomon Hub

A mining hub with two operating iron ore mines, Firetail and Kings. The Hub is located approximately 60 kilometres north of the township of Tom Price and 120 kilometres west of the railway that links the Chichester Hub to Port Hedland.

TRIFR

Total Recordable Injury Frequency Rate per million hours worked, comprising lost time injuries, restricted work and medical treatments.

TSFs

Tailings Storage Facilities.

Underlying EBITDA

Underlying EBITDA is defined as earnings before interest, tax, depreciation and amortisation, exploration, development and other expenses.

Underlying EBITDA margin

Underlying EBITDA / Operating sales revenue.

United Nations Sustainable Development Goals

The SDGs are a call for global action through national governments to end poverty, protect the planet and ensure that all people are able to enjoy peace and prosperity.

West Pilbara Fines

Fortescue introduced a 60.1% iron content product called West Pilbara Fines in December 2018.

wmt

Wet metric tonne.

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Securities Exchange Listings

Fortescue Metals Group Limited shares are listed on the Australian Securities Exchange (ASX)
ASX Code: FMG

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