

March 2021 Quarterly Production Report



29 April 2021

Continued strong operating performance contributes to record year-to-date shipments

Quarterly highlights

- Total Recordable Injury Frequency Rate (TRIFR) of 2.2 at 31 March 2021, compared to 2.1 at 31 December 2020 and 2.4 at 30 June 2020
- Iron ore shipments of 42.3 million tonnes (mt), in line with record third quarter shipments last year. Year-to-date shipments of 132.9mt are 2 per cent higher than the comparable period in FY20
- Average revenue of US\$143/dry metric tonne (dmt) increased 17 per cent compared to the previous quarter with revenue realisation at 86 per cent of the average Platts 62% CFR Index
- C1 cost of US\$14.90/wet metric tonne (wmt) increased 16 per cent compared to Q2 due to seasonally lower volumes and the strength of the Australian dollar, with year-to-date C1 cost of US\$13.45/wmt
- Net debt of US\$1.0 billion at 31 March 2021 after payment of the FY21 interim dividend of US\$3.5 billion and capital expenditure of US\$909 million in the quarter
- Capital structure further optimised with the issue of US\$1.5 billion Senior Unsecured Notes to refinance debt, extend the debt maturity profile and lower the cost of capital
- Announced a revised target to achieve carbon neutrality by 2030, ten years earlier than the previous target
- Guidance for FY21 shipments and C1 cost remains unchanged, with capital expenditure guidance revised to a range of US\$3.5 to US\$3.7 billion.

Fortescue Chief Executive Officer, Elizabeth Gaines, said “Fortescue’s excellent operating performance continues to drive strong results, with shipments of 42.3mt in the third quarter contributing to a record shipping performance for the first nine months of the financial year.

“The commissioning of the Eliwana mine has contributed to an increase in both ore mined and processed during the quarter, despite the impact of significant rainfall across our operations in the Pilbara.

“Our focus on safety and a commitment to zero harm continues, with TRIFR improving by eight per cent from 2.4 at the start of the financial year to 2.2 at 31 March 2021.

“Significantly, Fortescue announced during the quarter a target to achieve carbon neutrality by 2030, positioning us as a global leader in the battle against climate change. We have set out clear priorities for our pathway to decarbonisation, including the establishment of a green mining fleet through the development and assessment of hydrogen and battery electric solutions.

“Fortescue Future Industries continues to assess a range of renewable energy and green hydrogen opportunities and is advancing projects internationally and across Australia.

“Against the backdrop of the record performance in our iron ore business and our clean energy focus, Fortescue is well-placed to finish the financial year strongly, as we continue to meet demand from our customers and deliver value for all stakeholders,” Ms Gaines said.

Operations

Production summary (m wmt)	Q3 FY21	Q2 FY21	Var (%)	Q3 FY20	Var (%)
Ore mined	53.6	50.0	7	41.9	28
Overburden removed	69.2	69.1	0	77.5	(11)
Ore processed	44.6	44.2	1	42.4	5
Ore shipped	42.3	46.4	(9)	42.3	0
C1 cost (US\$/wmt)	14.90	12.81	16	13.27	12

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 2.2 at 31 March 2021, compared to 2.1 at 31 December 2020, eight per cent lower than 2.4 at 30 June 2020. Importantly, the injury severity rate continues to trend lower. Hazard identification and the implementation of the “Identify Then Rectify” program 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.
- Fortescue’s strong operating performance continued, with mining, processing, rilling and shipping combining to deliver shipments of 42.3mt in Q3 FY21, in line with the record third quarter shipments achieved last year. The performance benefited from commissioning of the Eliwana mine in December 2020, which contributed to an increase in ore mining and processing during the quarter, despite the impacts of significant rainfall across Fortescue’s Pilbara operations.
- The Eliwana mine transitioned to the Operations team in January 2021 with the focus on the commissioning and ramp up of the ore processing facility.
- C1 cost of US\$14.90/wmt was 16 per cent higher than the previous quarter due to seasonally lower volumes and the strong AUD:USD exchange rate. The year-to-date C1 cost is US\$13.45/wmt.

Marketing

- Chinese crude steel production was 1,065mt for calendar 2020 and 271mt in the first quarter of 2021, an increase of 15.6 per cent compared to the same period in 2020. Underlying demand for iron ore remains strong and in conjunction with seasonally weaker supply, index prices strengthened during the March quarter.
- Average revenue for Q3 FY21 of US\$143.12/dmt increased by 17 per cent over the previous quarter and represented revenue realisation of 86 per cent of the average Platts 62% CFR Index of US\$166.90/dmt. The Platts 62% CFR Index closed at US\$164.75/dmt at 31 March 2021, compared to US\$159.20/dmt at 31 December 2020.
- Fortescue’s Chinese sales entity, FMG Trading Shanghai Co. Ltd sold 2.6mt in Q3 FY21 from regional ports in China, with sales of 8.4mt in the nine months ended 31 March 2021.

Product summary (m wmt)	Q3 FY21	(%)	Q2 FY21	(%)	Q3 FY20	(%)
West Pilbara Fines	4.4	10	3.8	8	4.1	10
Kings Fines	3.7	9	3.9	8	3.2	8
Fortescue Blend	15.0	35	18.3	39	17.6	42
Fortescue Lump	3.6	9	3.8	8	3.5	8
Super Special Fines	12.6	30	14.2	31	13.9	33
Other products	3.0	7	2.4	5	0.0	0
Total shipments	42.3	100	46.4	100	42.3	100

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

Financial position

- The cash balance was US\$3.6 billion at 31 March 2021, compared to US\$4.0 billion at 31 December 2020.
- Cash outflows in Q3 FY21 included US\$3.5 billion for the FY21 interim dividend and US\$909 million of capital expenditure, inclusive of sustaining capital, major projects and exploration. Total capital expenditure year-to-date is US\$2.8 billion.
- Gross debt was US\$4.6 billion at 31 March 2021, compared with US\$4.1 billion at 31 December 2020, and net debt was US\$1.0 billion.
- During the quarter, Fortescue issued US\$1.5 billion Senior Unsecured Notes at an interest rate of 4.375 per cent with a maturity of April 2031. Use of proceeds include the refinance of the Company's 4.75 per cent Senior Unsecured Notes due 2022 and the 5.125 per cent Senior Unsecured Notes due 2023, together with transaction costs. Net proceeds of approximately US\$160m are retained as cash on hand. The redemption process is scheduled for completion by 30 June 2021 when Fortescue's gross debt is expected to be approximately US\$4.3 billion.
- The Notes issue further optimises Fortescue's capital structure by refinancing the earliest debt maturities, extending the weighted average maturity profile and reducing interest expenses. Fortescue's balance sheet is structured on low cost, investment grade terms, maintaining flexibility to support ongoing operations and the capacity to fund future growth.

Heritage management

- Consistent with Fortescue's commitment to identify and protect places of cultural significance, heritage surveys and consultation continues with Native Title partners, including managing the ongoing effects of COVID-19 restrictions. The health and safety of all stakeholders is Fortescue's highest priority.
- On 1 February 2021, Fortescue became aware of a potential heritage non-compliance during the clearing of top soil and vegetation near a work area at the Solomon Queens Valley Hydraulic Barrier Wall Project. When completed, this project will protect the culturally and environmentally significant permanent pools downstream of the Queens mining area in Weelamurra Creek.

Through an administrative error by Fortescue, representatives of the Wintawari Guruma Aboriginal Corporation (WGAC) were not provided with the opportunity to monitor the top soil clearing and to undertake a cultural salvage of the area. Fortescue reported the incident to the WGAC and the Department of Planning Lands and Heritage (DPLH) and all works associated with the project were paused as Fortescue conducted a full investigation and collaborated with WGAC. Fortescue has fully cooperated with the ongoing DPLH investigation into the clearing.

With the agreement of WGAC, works are expected to recommence shortly, with two Eastern Guruma representatives present to monitor the activity.

- Fortescue facilitated a site visit at its Solomon operations on 14 April 2021 by four members of the Federal Parliament's Joint Standing Committee on Northern Australia hosted by Eastern Guruma elders. Committee members visited two protected heritage places of cultural significance to the Eastern Guruma people as well as the Weelamurra Creek clearing area.

Major projects

Iron Bridge

- The technical and commercial assessment of the Iron Bridge Magnetite project commenced during Q3 and is scheduled for completion in late May 2021. Critical path works have continued through this period.
- Key areas of focus include an assessment of the concentrate transport solution, utilisation of Fortescue's port and rail infrastructure, contractor strategy and selection, as well as the logistics infrastructure for the delivery of modular components through Port Hedland.
- The project is an unincorporated joint venture between FMG Iron Bridge Ltd, via subsidiary FMG Magnetite Pty Ltd (69 per cent), and Formosa Steel IB Pty Ltd (31 per cent). The project will deliver production capacity of 22mtpa of a 67% Fe content, low impurity concentrate suitable for pellet feed or blending with sinter fines.

Energy

- Work continues on the Pilbara Energy Connect (PEC) project, which 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. At 31 March 2021, over 440 of the 800 foundations for transmission poles for Stage 1 have been completed, 330 poles stood and 60 kilometres of transmission line installed.
- Commissioning activities are underway at the Chichester Solar Gas Hybrid project, with energisation expected in Q4 FY21. The project, owned and operated by Alinta Energy, will provide a low emission energy solution, incorporating large-scale solar to displace around 100 million litres annually of diesel used in the existing Christmas Creek and Cloudbreak power stations.

Fortescue Future Industries

- Fortescue Future Industries (FFI) is assessing renewable energy and green hydrogen opportunities globally. It will be a key enabler of Fortescue's carbon neutrality pathway through the development of renewable energy, green hydrogen and green ammonia projects in Australia and internationally.
- FFI will deliver several key decarbonisation projects in the short term, including:
 - Developing a ship design powered by green ammonia and trialling that design in new ammonia engine technology, at scale
 - Testing large battery technology in Fortescue's haul trucks
 - Trialling hydrogen fuel cell power for Fortescue's drill rigs
 - Trialling technology on Fortescue's locomotives to run on green ammonia
 - Conducting trials to use renewable energy in the Pilbara to convert iron ore to green iron at low temperatures, without coal.

Exploration

- Total exploration and studies capital expenditure for Q3 FY21 was US\$31 million and year-to-date expenditure is US\$93 million.
- Iron ore exploration in the Pilbara includes drilling at Eliwana with a focus on target testing and resource definition, along with other programs in the Solomon Hub and Eastern Hamersley.
- Drilling programs were progressed on projects prospective for copper-gold mineralisation in South Australia and New South Wales, including two holes associated with the farm-in and joint venture agreement with Tasman Resources.
- Early stage exploration activities in the Paterson, Rudall and Goldfields regions of Western Australia have restarted after the wet season with airborne geophysics surveys to begin in the coming quarter.
- In Argentina, exploration and field activities are progressing with drilling activity continuing throughout the quarter. Field activities have recommenced in Ecuador with drilling expected to restart in Q4 FY21. All activities operate within both Fortescue and the respective national COVID-19 protocols.

FY21 guidance

- Iron ore shipments of 178 - 182mt
- C1 costs of US\$13.50 - US\$14.00/wmt
- Capital expenditure revised to US\$3.5 - US\$3.7 billion reflecting the ongoing strength of the Australian dollar, continuation of critical path works at Iron Bridge and investment by FFI in decarbonisation initiatives.

Guidance for C1 costs and capital expenditure is based on an assumed FY21 average exchange rate of AUD:USD 0.75.

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Reporting calendar

Event	Date
June Quarterly Production Report	29 July 2021
FY21 Results	30 August 2021
September Quarterly Production Report	28 October 2021
Annual General Meeting	9 November 2021