

# Half Year Results to 31 December 2019



19 February 2020

## Operational excellence drives record performance for first half of FY20

Fortescue has released its results for the half year ended 31 December 2019 (1H20) reporting record shipments of 88.6 million tonnes (mt), underlying EBITDA of US\$4.2 billion and net profit after tax of US\$2.5 billion.

### Half year highlights

- Total Recordable Injury Frequency Rate (TRIFR) of 2.5, a 38 per cent improvement compared to 1H19
- Shipments of 88.6mt, seven per cent higher than 1H19
- Record half year revenue of US\$6.5 billion
- C1 cost of US\$12.73/wmt, three per cent lower than 1H19
- Underlying EBITDA of US\$4.2 billion with an EBITDA margin of 65 per cent
- Net profit after tax of US\$2.5 billion
- Net debt of US\$0.7 billion, inclusive of US\$3.3 billion cash on hand at 31 December 2019
- Fully franked interim dividend of A\$0.76 per share (1H19: A\$0.30 per share)
- Completion of towage infrastructure and commencement of towage operations at the Port of Port Hedland
- Continued commitment to emissions reduction through investment in energy infrastructure and renewables
- Investment in Eliwana Mine and Rail and Iron Bridge Magnetite growth projects progressing on schedule and budget.

Fortescue Chief Executive Officer, Elizabeth Gaines, said “Fortescue’s excellent results for the first half of FY20 include record production and shipments across the operations generating half year revenue of US\$6.5 billion at an average realised price of US\$80/dmt for the half year, 73 per cent higher than the prior comparable period.

“We are continuing to generate strong margins, driven by our industry leading cost position and product strategy, resulting in a 281 per cent increase in net profit after tax to US\$2.5 billion, delivering outstanding shareholder returns.

“Our integrated mine to market infrastructure is delivering sustained operational efficiencies across the business and both of our significant growth projects, Eliwana and Iron Bridge, are progressing on schedule and budget.

“Fortescue is investing US\$700 million in energy transmission infrastructure and solar-gas hybrid generation, to optimise existing assets and deliver low cost power to the Iron Bridge project. Consistent with our commitment to reduce emissions, it is estimated that 25 – 30 per cent of stationary energy will be powered by solar on completion of these developments.

“Our continued focus on disciplined capital management together with a flexible balance sheet positions Fortescue strongly for the next phase of growth and the delivery of enhanced returns to shareholders. The Board have declared a fully franked interim dividend of A\$0.76 per share (1H19: A\$0.30 per share), which is a 65 per cent pay-out ratio of 1H20 net profit after tax,” Ms Gaines said.

## Half year operational and financial performance

The half year results reflect the impact of improved price realisation, strength in operational performance and the sustained contribution of productivity and efficiency initiatives across the business.

The table below compares key operational and financial metrics for 1H20 to the prior comparable period (six months to 31 December 2018: 1H19).

	1H20	1H19	Var % (1H20 v 1H19)
Ore mined (wmt)	105.2	101.1	4
Ore processed (wmt)	91.3	85.3	7
Ore shipped (wmt)	88.6	82.7	7
Realised price (US\$/dmt)	80.36	46.54	73
C1 costs (US\$/wmt)	12.73	13.11	(3)
Revenue (US\$ millions)	6,485	3,540	83
Underlying EBITDA (US\$ millions)	4,228	1,633	159
Reported net profit after tax (US\$ millions)	2,453	644	281
Underlying net profit after tax (US\$ millions)	2,464	644	283
Basic earnings per share (US cents)	79.7	20.8	283
Basic earnings per share (AUD cents)	116.4	28.7	305
Fully franked interim dividend (A\$/share)	A\$0.76	A\$0.30	153

**Revenue increased to US\$6,485 million** in 1H20, 83 per cent higher than the 1H19 period as the average realised iron ore price increased to US\$80/dmt compared to US\$47/dmt in 1H19. The increase in the average realised price of 73 per cent outperformed the increase in the average benchmark 62% Platts CFR Index price of 38 per cent over the same period.

Improved price outcomes in 1H20 reflected market conditions and product mix changes within Fortescue's portfolio, including the introduction of West Pilbara Fines. Steel production in China continued to grow during CY2019 with 996 million tonnes of crude steel produced, an increase of 8.3 per cent over the prior year, underpinning the strong demand for iron ore.

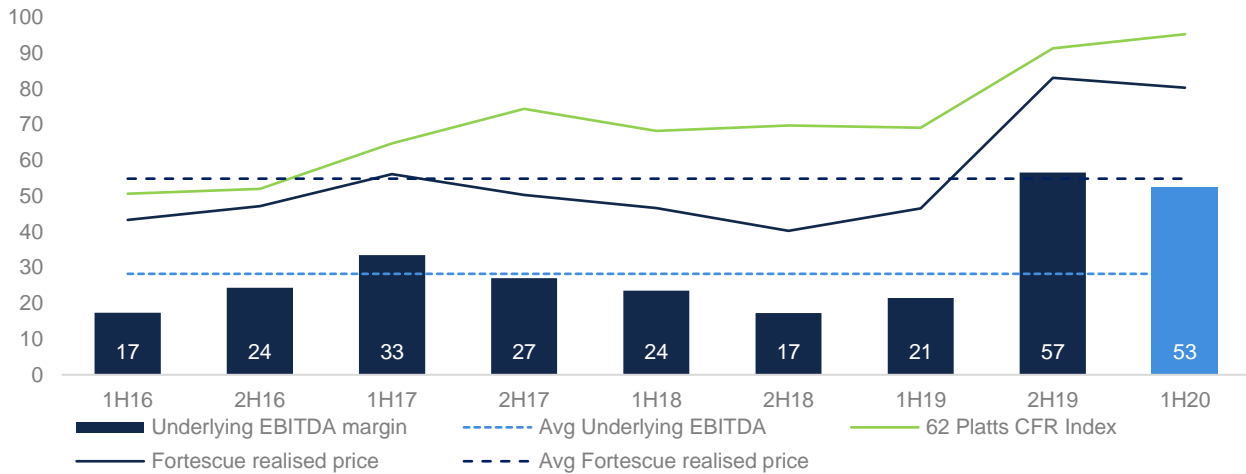
**C1 operating costs averaged US\$12.73/wmt** during 1H20, three per cent lower than 1H19. Fortescue's continued focus on productivity and efficiency delivered ongoing cost benefits throughout the half year period.

The impact of these initiatives has been further enhanced by a favourable AUD/USD exchange rate and the reallocation of operating lease costs from C1 to depreciation and interest expense on the adoption of AASB 16 Leases.

**The underlying EBITDA margin was US\$53/dmt** in 1H20, 152 per cent higher than 1H19, reflecting improved price realisations and sustained industry leading cost position.

Fortescue's underlying EBITDA is set out in the chart below:

### Underlying EBITDA margin (US\$/dmt)



**Underlying EBITDA of US\$4.2 billion** was 159 per cent higher than 1H19 with the key movements between periods set out in the chart below:

### Underlying EBITDA (US\$ millions)



**Interest expense on borrowings and lease liabilities** was US\$109 million, which remains comparable with 1H19 with the repayment and restructuring of the term loan offset by the recognition of commitments on adoption of AASB 16 *Leases*.

**Net profit after tax** of US\$2.5 billion represents a 281 per cent increase compared to 1H19.

**Earnings per share** of US\$0.80 (A\$1.16).

## Cash flow and balance sheet

**Cash on hand** at 31 December 2019 was US\$3.3 billion, an increase of 77 per cent from the closing balance at 30 June 2019. The Revolving Credit Facility (RCF) of US\$1.0 billion remains undrawn at 31 December 2019 and provides short term liquidity to support growth and development.

**Cash from operations** was US\$4.2 billion in 1H20 with net cash from operating activities of US\$3.1 billion and free cash flow available for debt and dividends of US\$2.3 billion, reflecting the continued strength of underlying operating cash margins.

**Capital expenditure** totalled US\$852 million in 1H20 (1H19: US\$531 million) with the increase reflecting investment in growth projects and continued reinvestment in the core iron ore business.

**Gross debt** at 31 December 2019 was US\$4.0 billion (30 June 2019: US\$4.0 billion), inclusive of lease liabilities of US\$829 million, with no maturities of debt instruments (excluding lease liabilities) until 2022. Gross gearing ratio at 31 December 2019 was 24 per cent (30 June 2019: 27 per cent).

**Net debt** at 31 December 2019 was US\$0.7 billion (30 June 2019: US\$2.1 billion) with a net gearing ratio of five per cent (30 June 2019: 16 per cent).

**Iron ore prepayment balance** was US\$218 million at 31 December 2019. Amortisation for 1H20 was US\$268 million and the balance of these prepayments will be fully amortised by 30 June 2020.

## Dividend

The Board has declared a fully franked interim dividend of A\$0.76 per share, representing a 65 per cent pay-out ratio of 1H20 net profit after tax.

The interim dividend will be paid on 6 April 2020.

## FY20 guidance

**Shipments** at the upper end of the range of 170 – 175mt.

**C1 costs** in the range of US\$12.75 – US\$13.25/wmt.

**Average strip ratio** 1.5.

**Total capital expenditure** of US\$2.4 billion incorporating the Pilbara Energy Connect program.

**Depreciation and amortisation** of US\$7.70/wmt

**Dividend pay-out policy** is a ratio of 50 to 80 per cent of full year net profit after tax.

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## Glossary

<b>C1</b>	Operating costs of mining, processing, rail and port on a per tonne basis, including allocation of direct administration charges and production overheads.
<b>CFR</b>	Cost and freight rate
<b>CY</b>	Calendar year
<b>dmt</b>	Dry metric tonnes
<b>Free cash flow</b>	Net cash from operations less capital expenditure
<b>FY</b>	Full year
<b>Gross gearing ratio</b>	Gross debt / (Gross debt + Equity)
<b>mtpa</b>	Million tonnes per annum
<b>Net debt</b>	Total borrowings and lease liabilities less cash and cash equivalents
<b>Net gearing ratio</b>	Net debt / (Net debt + Equity)
<b>NPAT</b>	Net profit after tax
<b>TRIFR</b>	Total Recordable Injury Frequency Rate on a 12 month rolling basis
<b>Underlying EBITDA</b>	Earnings before interest, tax, depreciation and amortisation, exploration, development and other expenses.
<b>Underlying NPAT</b>	Net profit after tax adjusted for the after tax impact of one off refinancing and early debt repayment costs
<b>Wmt</b>	Wet metric tonnes

The reconciliation of underlying EBITDA and underlying NPAT to the financial metrics disclosed in the financial statements prepared under the Australian Accounting Standards is presented below:

US\$ millions	1H20	1H19
Operating sales revenue	6,485	3,540
Cost of sales excluding depreciation	(2,277)	(1,905)
Net foreign exchange gain	72	39
Administration expenses	(52)	(41)
<b>Underlying EBITDA</b>	<b>4,228</b>	<b>1,633</b>
Finance income	27	9
Finance expenses	(150)	(141)
Depreciation and amortisation	(657)	(581)
Exploration, development and other	(21)	(4)
Net profit before tax	3,427	916
Income tax expense	(974)	(272)
<b>Net profit after tax</b>	<b>2,453</b>	<b>644</b>
Cost of early debt repayment after tax	11	-
<b>Underlying net profit after tax</b>	<b>2,464</b>	<b>644</b>