

# Half Year results to 31 December 2021

16 February 2022

## Record half year shipments contribute to net profit after tax of US\$2.8 billion and a fully franked interim dividend of A\$0.86 per share

### Highlights

- Ongoing improvement in safety with the Total Recordable Injury Frequency Rate (TRIFR) of 1.8 for the 12 months to 31 December 2021, 14 per cent lower than 31 December 2020
- Strong operating performance across the supply chain contributed to record half year iron ore shipments of 93.1 million tonnes (mt), three per cent higher than H1 FY21
- Underlying EBITDA of US\$4.8 billion for the six months ending 31 December 2021 (H1 FY22), with an Underlying EBITDA margin of 59 per cent
- Net profit after tax (NPAT) of US\$2.8 billion and earnings per share (EPS) of US\$0.90 (A\$1.24)
- Net cashflow from operating activities of US\$2.1 billion after payment of the FY21 final tax instalment of US\$915 million
- Capital expenditure of US\$1.5 billion, inclusive of US\$589 million investment in the Iron Bridge growth project and the Pilbara Energy Connect decarbonisation project
- Fully franked interim dividend declared of A\$0.86 per share, representing a 70 per cent payout of H1 FY22 NPAT
- Strong balance sheet maintained with net debt of US\$1.7 billion at 31 December 2021, inclusive of cash on hand of US\$2.9 billion
- Announced an industry leading target to achieve net zero Scope 3 emissions by 2040
- Recognised for outstanding corporate sustainability performance with the inclusion in the 2022 S&P Global Sustainability Yearbook with a Gold Class Sustainability Award
- Fortescue Future Industries continues to rapidly advance a global portfolio of green energy projects and decarbonisation technologies
- Guidance for FY22 shipments, C1 cost and capital expenditure is unchanged.

Fortescue Chief Executive Officer, Elizabeth Gaines, said “Fortescue’s performance for the first half of FY22 has been outstanding and we are proud of the entire team who have delivered record half year shipments and contributed to net profit after tax of US\$2.8 billion, the third highest in Fortescue’s history.

“Safety is our number one priority and the team’s continued focus resulted in further improvement in our TRIFR safety performance while managing the ongoing challenges resulting from COVID-19. We have a robust COVID-19 management plan in place to prioritise the health and safety of our team and the communities in which we operate, and this is constantly reviewed considering Commonwealth and State health requirements.

“We have continued to reinvest in the business and invest in growth. Our major project, Iron Bridge is progressing well with first production scheduled in December 2022. We remain focused on managing industry cost pressures and challenges posed by Western Australia’s ongoing border restrictions, and we are working closely with the Western Australian Government and relevant authorities to ensure we have access to the specialist skills required.

“During the half, Fortescue Future Industries continued to advance a portfolio of renewable energy and green hydrogen project opportunities, while growing its green technology capabilities. As Fortescue continues its transition to a vertically integrated green energy and resources company, Fortescue Future Industries will be a key enabler of our industry-leading targets to decarbonise our operations by 2030 and to remove net emissions from our entire value chain by 2040.

“Guided by our unique culture and Values, Fortescue is strongly positioned to deliver on our strategic priorities of optimising returns from our mining operations and investing in growth and green energy, supported by our strong balance sheet and disciplined capital allocation framework. Our commitment to ESG leadership continues to gain recognition, including the recent distinction of a Gold Class award in the S&P Global Corporate Sustainability Assessment.

“The strength of our financial and operating performance, together with our ongoing commitment of delivering returns to shareholders, has resulted in the Board declaring a fully franked interim dividend of A\$0.86 per share, representing a 70 per cent payout of the first half net profit after tax. We have had a strong start to the second half which positions us well to deliver on our guidance for the full year,” Ms Gaines said.

## Sustainability

- Health and safety is Fortescue’s highest priority, and the Fortescue family were devastated by the death of team member David Armstrong on 30 September 2021. The Company continues to work with authorities to investigate the incident as well as making support available to his team members and family.
- A continued focus on safety contributed to a Total Recordable Injury Frequency Rate (TRIFR) of 1.8 for the 12 months to 31 December 2021, a 14 per cent improvement on 31 December 2020.
- Fortescue’s comprehensive COVID-19 management plan remains in place to safeguard Fortescue team members and communities. In response to the increase in COVID-19 community transmission in Western Australia, Fortescue has recently introduced enhanced screening and testing, and is investing in business continuity measures.
- During the half year, a Workplace Integrity Review was conducted together with an independent assessment of site security and safety measures. As a result, a number of initiatives to enhance the safety, culture and experience of working at Fortescue were implemented. All team members are strongly encouraged to Speak Up, in line with Fortescue’s Values and a zero-tolerance approach to harassment, bullying and intimidation.
- Fortescue is progressing a range of initiatives to decarbonise its operations by 2030. An important milestone was achieved in the period with the completion of the 60MW Alinta Energy Chichester Solar Gas Hybrid project, which will displace about 100 million litres of diesel annually. The Company announced an industry leading target to achieve net zero Scope 3 emissions by 2040, addressing emissions across its entire value chain.
- Consistent with Fortescue’s commitment to protect places of cultural significance, engagement with Native Title partners remains a priority. In September 2021, Fortescue established a groundbreaking co-management framework with members of the Wintawari Guruma Aboriginal Corporation to oversee the development of new mining areas at the Solomon Hub operations.
- In December 2021 the Aboriginal Cultural Heritage Bill 2021 passed the Western Australian Parliament and was proclaimed into law. Fortescue supports the modernisation of Western Australia’s Aboriginal heritage legislation and will actively engage in contributing to the co-design of the important regulations and guidance which will shape the transition from the 1972 Act.

- Fortescue's commitment to sustainability continues to generate recognition, with the Company achieving industry leading status in the MSCI ESG ratings, a Gold Class award in the S&P Global Corporate Sustainability Assessment and membership of the Australian, Asia Pacific and World Dow Jones Sustainability Indices.

## Fortescue Future Industries

- Fortescue Future Industries (FFI) is taking a global leadership position in green energy and green technology, leading the effort to decarbonise hard-to-abate sectors.
- FFI is investing to create a global portfolio of green energy projects to supply 15 million tonnes per year of renewable green hydrogen by 2030.
- In November 2021 FFI received planning approval from the Queensland Government for the Global Green Energy Manufacturing Centre in Gladstone, Queensland. The first stage development is an electrolyser manufacturing facility with initial capacity of two gigawatts per annum with investment of up to US\$83 million.
- FFI has successfully completed the first phase of studies with Incitec Pivot Limited to convert the Gibson Island ammonia production facility to be powered by green hydrogen. The next phase is to progress the project to a Front End Engineering Design study to refine cost, schedule, permitting and commercial agreements.
- In January 2022 Fortescue announced it had entered into an agreement to acquire Williams Advanced Engineering Limited (WAE). WAE will be vertically integrated into Fortescue and will be managed via FFI. FFI will utilise WAE's critical technology and expertise in high-performance battery systems and electrification to accelerate the decarbonisation of Fortescue's iron ore operations.
- FFI progressed rail decarbonisation initiatives with the arrival of two additional four stroke locomotives for testing on a blended ammonia fuel system; and in January 2022 announced the purchase of two battery electric locomotives for delivery in 2023.
- Fortescue's capital allocation policy includes the allocation of 10 per cent of NPAT to fund FFI. As at 31 December 2021, the unutilised funding commitment is US\$651 million after H1 FY22 operating and capital expenditure of US\$242 million.
- FFI's FY22 anticipated expenditure is US\$400 - US\$600 million, inclusive of US\$100 - US\$200 million of capital expenditure and US\$300 - US\$400 million of operating expenditure.

## Operational and financial performance

- The strong operating performance across Fortescue's supply chain, together with the successful integration of Eliwana, contributed to record first half iron ore shipments and ore processed.
- Revenue of US\$8.1 billion in H1 FY22 decreased 13 per cent on H1 FY21. Average revenue of US\$96/dry metric tonne (dmt) represented a 70 per cent realisation of the average Platts 62% CFR Index (H1 FY21: US\$114/dmt, 90 per cent realisation).
- C1 cost of US\$15.28/wet metric tonne (wmt) was 20 per cent higher than H1 FY21 as a result of price escalation of key input costs, including diesel, other consumables and labour rates, the integration of Eliwana as well as mine plan driven cost escalation.
- Underlying EBITDA of US\$4.8 billion was 28 per cent lower than H1 FY21 with an Underlying EBTIDA margin of 59 per cent (H1 FY21: US\$6.6 billion, 71 per cent margin).
- NPAT of US\$2.8 billion decreased by 32 per cent compared to H1 FY21 (US\$4.1 billion). Earnings per share was US\$0.90 (A\$1.24).

Operations	H1 FY22	H1 FY21	Change (%)
Ore mined (m wmt)	118.0	108.4	9
Overburden removed (m wmt)	179.0	143.6	25
Ore processed (m wmt)	97.6	90.3	8
Ore shipped (m wmt)	93.1	90.7	3
Ore sold (m wmt)	92.1	90.2	2
Average revenue (US\$/dmt)	95.58	114.02	(16)
C1 cost (US\$/wmt)	15.28	12.78	20

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

Earnings	H1 FY22	H1 FY21	Change (%)
Revenue (US\$ million)	8,125	9,335	(13)
<b>Underlying EBITDA (US\$ million)</b>	<b>4,762</b>	<b>6,639</b>	<b>(28)</b>
Underlying EBITDA margin (%)	59	71	(18)
<b>NPAT (US\$ million)</b>	<b>2,777</b>	<b>4,084</b>	<b>(32)</b>
<b>Underlying NPAT (US\$ million)</b>	<b>2,779</b>	<b>4,084</b>	<b>(32)</b>
Basic EPS (US cents)	90	133	(32)
Basic EPS (AUD cents)	124	184	(33)

## Financial position

- Fortescue's balance sheet remains structured on low cost, investment grade terms while maintaining flexibility to support ongoing operations and the capacity to fund future growth. Fortescue continues to optimise its capital structure and established its Sustainability Financing Framework during the period to enable the future issuance of Green and Social debt instruments.
- The cash balance was US\$2.9 billion at 31 December 2021 and gross debt increased to US\$4.6 billion due to the US\$400 million drawdown of the Term Loan Facility, resulting in net debt of US\$1.7 billion (30 June 2021: Net cash of US\$2.7 billion). The FY21 final dividend of US\$4.7 billion was paid during the half year.
- Fortescue's credit metrics remain strong with gross debt to last 12 months EBITDA of 0.3 times and gross gearing of 23 per cent as at 31 December 2021.
- Net cashflow from operating activities in H1 FY22 of US\$2.1 billion included payment of the FY21 final tax instalment of US\$915 million and a working capital outflow resulting from lower payables and provisions, together with an increase in inventory.
- Total capital expenditure in H1 FY22 was US\$1.5 billion, including US\$743 million of sustaining and development capital, US\$94 million of exploration and studies, US\$62 million by FFI and US\$589 million in growth and decarbonisation projects.

Financial position (US\$ million)	31 December 2021	30 June 2021	Change (%)
Borrowings	3,838	3,442	12
Lease liabilities	785	810	(3)
<b>Total debt</b>	<b>4,623</b>	<b>4,252</b>	<b>9</b>
Cash and cash equivalents	2,899	6,930	(58)
<b>Net debt / (Net cash)</b>	<b>1,724</b>	<b>(2,678)</b>	<b>-</b>
Equity	15,780	17,735	(11)
Cashflow (US\$ million)	H1 FY22	H1 FY21	Change (%)
Net cashflow from operating activities	2,136	4,410	(52)
Capital expenditure	(1,488)	(1,891)	(21)
<b>Free cashflow</b>	<b>648</b>	<b>2,519</b>	<b>(74)</b>

## Dividend

- The Board has declared a fully franked interim dividend of A\$0.86 per share. The ex-dividend date is 28 February 2022, and the dividend will be paid to shareholders on 30 March 2022.
- The interim dividend represents a 70 per cent pay out of H1 FY22 NPAT. This is consistent with Fortescue's capital allocation framework and stated intent to target the top end of the dividend policy to payout 50 to 80 per cent of full year NPAT.

Dividend summary	H1 FY22	H1 FY21	Change (%)
NPAT (US\$ million)	2,777	4,084	(32)
Basic EPS (US cents)	90	133	(32)
Basic EPS (AUD cents)	124	184	(33)
<b>Interim dividend (AUD cents)</b>	<b>86</b>	<b>147</b>	<b>(41)</b>
Dividend payout ratio (%)	70	80	(13)

## FY22 guidance

- Iron ore shipments of 180 - 185mt
- C1 cost of US\$15.00 - US\$15.50/wmt
- Capital expenditure (excluding FFI) of US\$3.0 - US\$3.4 billion

Guidance for C1 cost and capital expenditure is based on an assumed FY22 average exchange rate of AUD:USD 0.72.

Authorised for lodgement by:  
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## Reporting calendar

Event	Date
March Quarterly Production Report	28 April 2022
June Quarterly Production Report	28 July 2022
FY22 Results	29 August 2022
September Quarterly Production Report	27 October 2022

## Appendix

C1	Unit operating costs of mining, processing, rail and port, including allocation of direct administration charges and production overheads
Underlying EBITDA	Earnings before interest, tax, depreciation and amortisation, exploration, development and other expenses
Underlying NPAT	Net profit after tax adjusted for one off refinancing and early debt repayment costs.

Earnings reconciliation (US\$ million)	H1 FY22	H1 FY21	Change (%)
Operating sales revenue	8,125	9,335	(13)
Cost of sales excluding depreciation and amortisation	(3,052)	(2,415)	26
Net foreign exchange gain / (loss)	(13)	(119)	(89)
Fair value change in derivatives	-	(54)	-
Administration expenses	(125)	(87)	44
Fortescue Future Industries expenses	(174)	(22)	691
Other income / (expenses)	1	1	0
<b>Underlying EBITDA</b>	<b>4,762</b>	<b>6,639</b>	<b>(28)</b>
Finance income	6	11	(45)
Finance expenses	(82)	(86)	(5)
Depreciation and amortisation	(722)	(672)	7
Exploration, development and other expenses	(16)	(28)	(43)
<b>Net profit before tax</b>	<b>3,948</b>	<b>5,864</b>	<b>(33)</b>
Income tax expense	(1,171)	(1,780)	(34)
<b>NPAT</b>	<b>2,777</b>	<b>4,084</b>	<b>(32)</b>
Cost of early debt repayment after tax	2	0	-
<b>Underlying NPAT</b>	<b>2,779</b>	<b>4,084</b>	<b>(32)</b>

Reconciliation of Underlying EBITDA and Underlying NPAT under the Australian Accounting Standards.