



# Sustainability Financing Framework

Thriving communities | Global force



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# Thriving communities Global force

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## Our Values

Safety

Family

Empowerment

Frugality

Stretch targets

Integrity

Enthusiasm

Courage and  
determination

Generating ideas

Humility

Fortescue's unique Values drive our performance in a way that sets us apart from others

## Culture

Fortescue is 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





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# About Fortescue



Founded in 2003, Fortescue Metals Group Ltd (Fortescue) has grown to be a global leader in the iron ore industry, recognised for our culture, innovation, and industry-leading development of world class infrastructure and mining assets in the Pilbara region, Western Australia.

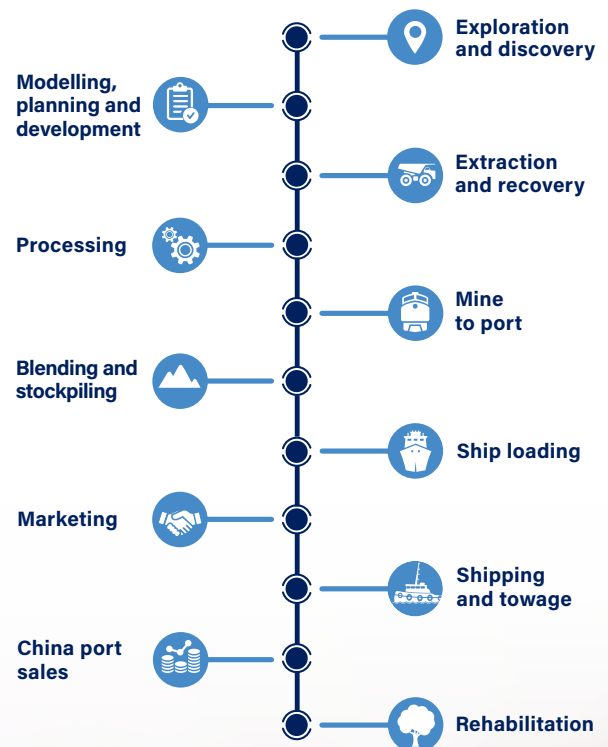
In 2020, we established our 100 per cent renewable green energy company, Fortescue Future Industries (FFI) which is a wholly owned subsidiary. Through FFI, we are committed to developing a global portfolio of green hydrogen and green product operations that will position us at the forefront of the global renewable hydrogen industry.

Underpinned by operational excellence and balance sheet strength, we are focused on our strategic goals of building thriving communities, optimising returns from our operations through disciplined capital management and diversifying to commodities that support decarbonisation.

We know that the energy transition needs to happen far more rapidly than 2050 if we are to meet the targets set by the Paris Agreement. Our commitment to technology and innovation ensures we remain one of the world's lowest cost iron ore producers and continues to guide our pursuit of green energy opportunities.

Fortescue is committed to driving innovation to rapidly reduce emissions across our operations, to accelerate the decarbonisation of hard-to-abate sectors and to minimise the impacts of global warming. We have announced an industry leading position on Scope 3 emissions with a target of carbon neutrality by 2040. In addition to our ongoing investment in renewable energy to power our Pilbara iron ore operations, we are undertaking a range of initiatives to decarbonise our mobile fleet through the next phase of hydrogen and battery electric energy solutions.

## Value chain





# FY21 Highlights



**A\$ 30.2 bn**

Total global economic contribution

**SAFETY**

**2.0** TRIFR



**A\$ 1.5 bn**

Gross salaries, superannuation, incentive payments and training

**EMPLOYMENT**

**10,164**

Employees (including labour hire)



**A\$ 11.1 bn**

Shareholders and investors, including dividends and interest payments

**DIVERSITY**

**954**

Aboriginal people employed across our operations

**14%**

Aboriginal employment across our Pilbara operations

**A\$ 9.6 bn**

All operational payments, including payments made to suppliers

**25%**

Female employment in senior leadership roles



**A\$ 8.0 bn**

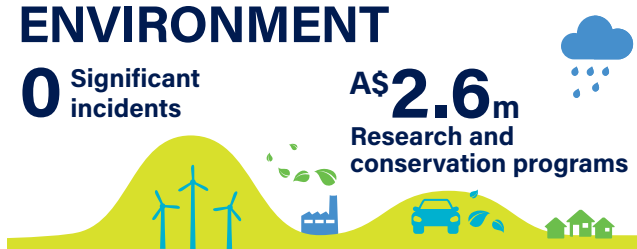
Taxes, royalties, other government payments and Native Title payments

**ENVIRONMENT**

**0** Significant incidents

**A\$ 2.6m**

Research and conservation programs



**Fortescue is committed to empowering thriving communities**



# Our approach to sustainability

We integrate sustainability into all aspects of our business

At the heart of our approach is a commitment to create value for our investors, protect the health and safety of our employees, empower our communities and protect the environments in which we operate.

Our Values form the foundation of our approach to sustainability and integrity is key to building trust with our stakeholders and setting the ethical and moral compass by which we operate.

Our approach to sustainability is aligned to the United Nations Sustainable Development Goals ("SDGs") and we will continue to work with our host governments as they strive to meet these goals. Our sustainability targets and initiatives contribute towards the achievement of the SDGs.

## Material issues are captured under three sustainability 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







## Fortescue's Climate Change Transition

In March 2021, Fortescue set an industry-leading target to achieve carbon neutrality within our operations by 2030. This target includes existing operations and extends to all future operations, including acquisitions.

Our FY21 Climate Change Report, which details our progress against our targets and managing climate change risks is available at [www.fmgl.com.au](http://www.fmgl.com.au).

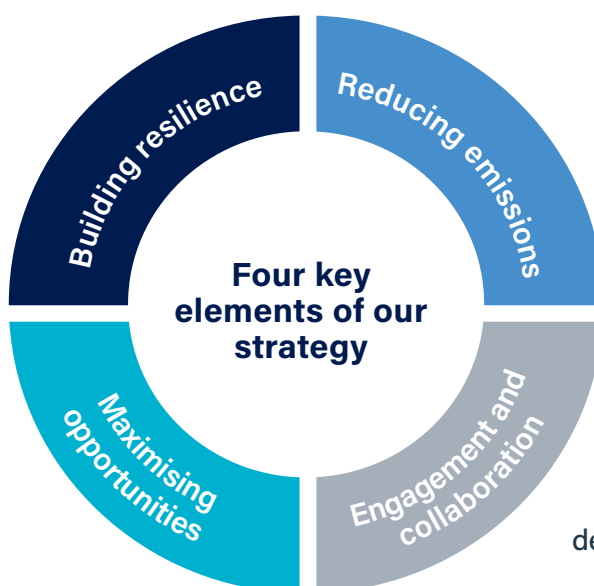
## Our Climate Change Strategy is based on the following four elements:

### Building resilience

Working to ensure the resilience of our operations, assets, value chain and communities.

### Maximising opportunities

Pioneering new low carbon solutions and diversifying the commodities we produce.



### Reducing emissions

Decarbonising our operations to achieve carbon neutrality by 2030.

### Engagement and collaboration

Working with stakeholders across our value chain to support efforts to develop and deploy low carbon solutions.

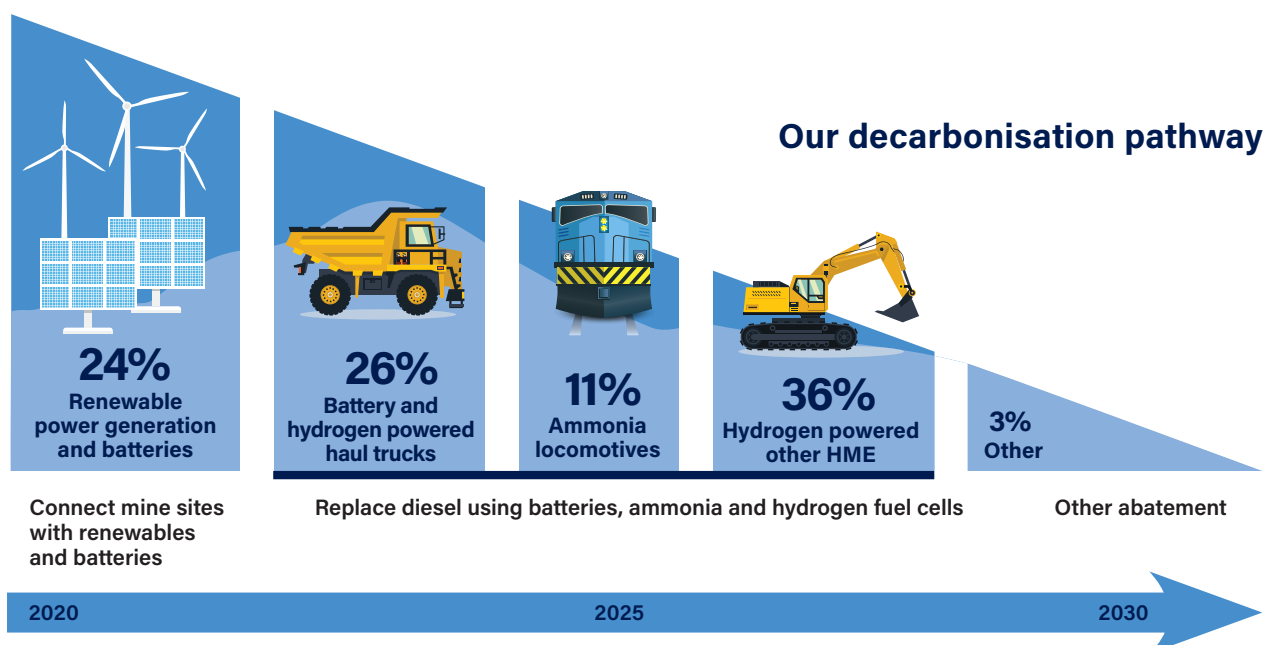
## Decarbonisation of operations (Scope 1 and 2)

Our pathway to decarbonisation is focused on addressing our largest sources of emissions: stationary power and our mining fleet. Our decarbonisation pathway focuses on replacing our fossil fuel power stations with renewable power. Through the first half of the decade we will see emission reductions achieved predominantly through the increased use of renewable energy to power our sites.

Where the technology required to decarbonise our mining fleet is not readily available, we are making significant investment in research and development and partnering with others to develop the technology needed to advance in these areas. We are ensuring our capital investments in decarbonisation are aligned with strategic decisions such as fleet replacement which accounts for 73% of our Scope 1 and 2 emissions.

FFI will be key to the decarbonisation pathway through technology development and the supply of renewable energy, green hydrogen and green ammonia for our operations.





\* The timeline is illustrative only and timing does not directly correlate to the decarbonisation activities.

## Scope 3 GHG emissions

We are engaging with stakeholders and investing in solutions that can reduce emissions beyond our own operations including within the hard-to-abate steel making and shipping sectors.

We have announced an industry leading position on Scope 3 emissions and have set a goal to achieve net zero Scope 3 emissions by 2040. In addition we have identified two medium term targets to reduce emissions intensity levels from the shipping of Fortescue's ores by 50 per cent by 2030 and to enable a reduction in emissions intensity levels from steel making by Fortescue's customers of 7.5 per cent by 2030.

We are working with our customers to reduce emissions from iron and steel making by improving the sintering process used to prepare our iron and developing our Iron Bridge project from which will be producing a higher iron content magnetite concentrate.

We support the International Maritime Organization ("IMO") GHG Strategy which envisages the reduction of carbon intensity across international shipping from 2008 levels by at least 40 per cent by 2030, whilst pursuing efforts towards a 70 per cent reduction by 2050.

Please refer to the Fortescue Climate Change Report for details on Fortescue's Scope 3 emissions available at [www.fmgil.com.au](http://www.fmgil.com.au)

### Carbon offsets for hard-to-abate emissions

Fortescue follows the mitigation hierarchy to avoid and reduce emissions before using offsets. We will only use offsets to abate residual emissions where economically viable decarbonisation opportunities and technologies are unavailable at the scale or within the timeframes required to reduce operational emissions in line with our targets.

## Governance

Our Board of Directors has ultimate responsibility for the oversight and approval of all strategic, risk management and financial investment decisions, including sustainability and climate-related matters. The Board meets quarterly, receives updates on sustainability and climate-related matters, together with their impact on Fortescue's business, at each meeting.

- The Audit Risk Management and Sustainability Committee, a sub-committee of the Board is responsible for the oversight of Fortescue's response to climate change and its implementation of the Company's sustainability initiatives.
- The Remuneration and People Committee responsibilities include overseeing remuneration, diversity strategy, targets, policy and practices including gender pay equity.

At the management level, the Climate Change Committee is responsible for monitoring and coordinating our overall response to climate change and ensuring opportunities and risks are proactively managed and considered. The Sustainability Committee is responsible for implementation of sustainability initiatives and ensuring targets and commitments are met. Both these committees are chaired by the Chief Executive Officer with membership from Executives and Senior Leaders from across the business.

Our Risk Management Framework ensures a consistent approach to the recognition, measurement and evaluation of risks and opportunities, including those related to climate change.

Our latest Corporate Governance Statement and related frameworks and policies, including on climate change and energy, are available on our website: [www.fmgil.com.au](http://www.fmgil.com.au)



# Sustainability Financing Framework

Recognising the role of sustainable finance in supporting the transition to a low-carbon and more resource-efficient economy, Fortescue is putting in place a Sustainability Financing Framework to align its funding policy with its sustainability strategy and Climate Change objectives, while mobilising investors to contribute capital towards the realisation of the UN Sustainable Development Goals ("SDGs").

The Use of Proceeds section of the Framework is aligned with the most recent industry developed Green, Social and Sustainability bond and loan principles:



The Use of Proceeds financing instruments may be issued by Fortescue Metals Group Ltd or any of its subsidiaries or project companies (together referred as "Fortescue").

The Use of Proceeds Financing instruments may include Green, Social, and Sustainability financing instruments (e.g. bonds, loans, bank guarantees, letters of credit, asset backed securities) where an equivalent amount of the net proceeds raised will be allocated in whole to Eligible Green, Social, or a mix of Green and Social projects respectively.

The Framework is structured according to the following key pillars:

1. Use of Proceeds
2. Process for Evaluation and Selection
3. Management of Proceeds
4. Reporting

## 1. Use of Proceeds

An equivalent amount of the net proceeds of Use of Proceeds Financing instruments will be allocated to the financing or refinancing of Eligible Green Projects and/or Eligible Social Projects.

### Types of expenditures

- Capital expenditures of physical assets meeting the criteria set out for Eligible Green or Social Projects;
- FFI, all its capital and operating expenditures:
  - Research and Development ("R&D") expenditures aiming at developing new products and solutions set out under the criteria for Eligible Green Projects, and
  - Majority acquisitions of companies meeting the criteria as set out for Eligible Green Projects or Eligible Social Projects. Fortescue will only consider as eligible the pro-rata share of the acquisition / participation that is dedicated to Eligible Green Projects or Eligible Social Projects
- Fortescue and other subsidiaries operating expenditures (such as maintenance costs that either increase the lifetime or the value of Eligible Green Projects or Eligible Social Projects).

### Look-back period










An equivalent amount of the net proceeds of each Use of Proceeds Financing instrument will be used to:

1. Finance Eligible Green Projects or Eligible Social Projects occurring post issuance of each financing instrument; and/or
2. Refinance disbursements in Eligible Green Projects or Eligible Social Projects initiated up to 36 months prior to the date of issuance of any Use of Proceeds Financing Instrument.










## Eligible Green Projects

Eligible Green Projects are projects supporting the transition to a low-carbon economy while aligning with Fortescue's sustainability and climate change strategy.

To ensure that all Eligible Green Projects provide environmental benefits, they must fall into and comply with at least one of the following Category and Sub-category, while meeting the Eligibility Criteria as set out below and comply with the international E&S standards where feasible.

Category	Eligibility Criteria	Environmental Benefit	Linked SDGs
Renewable energy	<b>Solar, Wind and Geothermal Power Generation</b> Procurement (incl. land acquisition), development, installation, operation, and maintenance of solar, wind and geothermal facilities.	Climate Change Mitigation; Avoidance and reduction of GHG emission (scope 1 and 2)	  
	<b>Hydropower</b> Procurement (incl. land acquisition), development, installation, operation, and maintenance of hydropower facilities.	Climate Change Mitigation; Avoidance and reduction of GHG emission (scope 1 and 2)	
	<b>Transmission and distribution networks</b> Procurement (incl. land acquisition), development, installation, operational readiness, operation, and maintenance of electricity transmission and distribution networks supporting renewable energies.	Climate Change Mitigation; Avoidance and reduction of GHG emission (scope 1 and 2)	
Energy efficiency	<b>Production of magnetite concentrate</b> Production of magnetite concentrate and related infrastructure with at least 20% higher energy efficiency than conventional magnetite processing	Climate Change Mitigation; Avoidance and reduction of GHG emissions (scope 1 and 2)	  
Green hydrogen and ammonia	<b>Green hydrogen</b> Procurement (incl. land acquisition), development, installation, operational readiness, operation, and maintenance of hydrogen from electrolysis using renewable electricity (including solar, wind, geothermal, hydrogen)	Climate Change Mitigation; Avoidance and reduction of GHG emissions (scope 1, 2 and 3)	  
	<b>Green ammonia</b> Procurement (incl. land acquisition), development, installation, operational readiness, operation, and maintenance of ammonia produced from hydrogen as set out in category Green Hydrogen	Climate Change Mitigation; Avoidance and reduction of GHG emissions (scope 1, 2 and 3)	
	<b>Transmission pipelines of hydrogen and ammonia</b> Procurement (incl. land acquisition), development, installation, operation, and maintenance of fluid pipelines dedicated to the transport of green hydrogen and/or ammonia or retrofit of existing natural gas networks for green hydrogen and/or ammonia transport.  Subject to application of best available technologies (including leak detection systems)	Climate Change Mitigation; Avoidance and reduction of GHG emissions (scope 1, 2 and 3)	




Category	Eligibility Criteria	Environmental Benefit	SDGs
Energy storage	<b>Storage of electricity</b> Procurement (incl. land acquisition), development, installation, operational readiness, operation, and maintenance of electricity storage systems including batteries and accumulators for: <ul style="list-style-type: none"> <li>Use in mobile fleet supporting Hydrogen and battery electrical vehicle mobility</li> <li>Energy storage facilities for load balancing in Renewable Energy electricity networks</li> </ul>	Climate Change Mitigation; Avoidance and reduction of GHG emissions (scope 1 and 2)	  
	<b>Storage of hydrogen and ammonia</b> Procurement (incl. land acquisition), development, installation, operational readiness, operation, and maintenance of hydrogen and ammonia storage facilities	Climate Change Mitigation; Avoidance and reduction of GHG emissions (scope 1, 2 and 3)	
Clean transportation	<b>Land transport</b> Procurement (incl. land acquisition), development, maintenance, retrofitting, repurposing, and upgrade of low carbon mining and ancillary equipment including buses, hauling trucks and rails; <ul style="list-style-type: none"> <li>Electric and/or hydrogen based with zero tailpipe emissions</li> </ul>	Climate Change Mitigation; Avoidance and reduction of GHG emissions (scope 1 and 2)	
	<b>Sea and coastal freight transport</b> Procurement (incl. land acquisition), development, maintenance, retrofitting, repurposing, and upgrade of low carbon sea carriers; <ul style="list-style-type: none"> <li>Powered by energy from renewable sources (such as green ammonia) with zero funnel emissions</li> </ul>	Climate Change Mitigation; Avoidance and reduction of GHG emissions (scope 1, 2 and 3)	
Pollution control	<b>Electricity and hydrogen-powered Heavy Mining Equipment (HME)</b> Procurement, development, maintenance, retrofitting, repurposing and upgrade of low carbon diggers, excavators drill rigs and other HME powered by energy from renewable sources.	GHG emission avoidance and Pollution prevention and control	
	<b>Tailing management</b> Dry stacking storages construction	Waste prevention and safer waste management	
	<b>Mine closure</b> Expenditure related to sustainable land rehabilitation and restoration	The protection and restoration of biodiversity and ecosystems	
Sustainable water management	<b>Water efficiency</b> Investments on improving water use efficiency, conservation systems, purification plants and recycling systems	The sustainable use and protection of water and marine resources	 

## Eligible Social Projects

Eligible Social Projects are projects supporting a designated target population while aligning with Fortescue's business strategy.

To ensure that all Eligible Social Projects provide social benefits, they must fall into and comply with at least one of the following Category and Sub-category while meeting the Technical Eligibility Criteria as set out below:

Category	Target Populations	Eligibility Criteria	SDGs
<b>Employment generation</b>  <b>Access to educational and vocational training</b>  <b>Socioeconomic advancement and empowerment</b>	Vulnerable populations that can be targeted are: <ul style="list-style-type: none"> <li>• Females</li> <li>• Rural populations and First Nations People</li> <li>• Economically excluded individuals</li> <li>• Low-income populations</li> </ul>	Spend on procurement with Aboriginal businesses via initiatives such as the Billion Opportunities program and other vulnerable population businesses  Businesses shall not exceed 199 employees and businesses shall be owned at least by 50% by the targeted population  Expenditures providing access to educational and vocational training and apprenticeship through  Fortescue's Vocational Training aimed at indigenous persons, and Fortescue Trade Up providing indigenous persons and females accredited pathway to an apprenticeship	

### Exclusion criteria

Fortescue has established a set of criteria (the "Exclusion Criteria") preventing any projects included in the following list to be considered as Eligible Green Projects or Eligible Social Projects:

- Extracting and / or processing of fossil fuel (including, but not limited to, coal, oil or natural gas);
- Projects related to acquisition, development, operation and maintenance of new or existing fossil-fuel based electricity generation capacity (including, but not limited to, coal, oil or natural gas-powered assets);
- Projects related to the production of hydrogen from non-renewable electricity sources;
- In the context of transmission and distribution infrastructure, projects for infrastructure dedicated to directly and solely connecting or expanding existing direct connection to production plants that are fossil-fuel based;
- In the context of clean transportation, projects for infrastructure dedicated to the transport of fossil fuels or blended fossil-based fuels; and
- Specific exclusion will be applied on a case-by-case basis for each project in the context of any material adverse issues linked to Environmental, Social & Governance factors.

## 2. Process for Evaluation and Selection of Projects

Fortescue is committed to setting high sustainability standards for the identification and selection of Eligible Projects.

Projects which have been presented to the Sustainability Committee will be assessed against the eligibility criteria set in this Framework, as well Fortescue's E&S risks management processes. The CEO chairs the Sustainability Committee which comprises executives and technical experts from across the business, including Finance, Environment, Investor Relations, Sustainability,

Risk Management and FFI. Projects will then be reviewed in line with the Company's Capital Allocation Framework for endorsement by the Capital Allocation Group for approval by the Board.

Selection of Eligible Projects will also consider Fortescue's sustainability priorities and technical criteria in line with industry standards and guidelines.

### E&S Risk Management Processes

In addition to the eligibility criteria set in the Framework, Eligible Projects are evaluated and selected considering their compliance with applicable national, international, environmental and social standards and regulatory requirements.

## 3. Management of Proceeds

The net proceeds of any Use of Proceeds Financing Instrument will be managed on a portfolio basis by Fortescue Group Treasury.

Fortescue Group Treasury will establish a register and will rely on internal accounting systems to track the allocation of any Use of Proceeds Financing Instrument's proceeds. The register will be reviewed semi-annually by the Board and will contain information on the use of proceeds of each Green and Social financing, including the amount of allocation per Eligible Categories.

To the extent that any proceeds of the Use of Proceeds Financing Instruments have not yet been allocated to Eligible Projects, the unallocated proceeds will be managed in accordance with Fortescue's cash management policy inclusive of cash, deposits and money market instruments and will not be invested in any project listed in the exclusion criteria. Any unallocated proceeds will be disclosed as part of Fortescue's post-issuance reporting.

Fortescue will also aim to re-allocate proceeds to other Eligible Projects promptly after a previously identified Eligible Project has been divested, cancelled, or related to a material E&S issue, so long as the facility remains in place.



## 4. Reporting

Fortescue will report annually and until full allocation (or on a timely basis upon material changes of projects) on the allocation or proceeds and on impact of our Use of Proceeds Financing Instruments.

The Use of Proceeds Financing Instruments reporting will be made publicly available on our website ([www.fmgil.com.au](http://www.fmgil.com.au)) and will cover allocation and impact reporting for each project category.

An external verification of the Sustainable Financing Report will be provided by an independent external auditor, on an annual basis and until the complete allocation of proceeds (or in case of significant changes in the allocation of proceeds). The external auditor will verify that the proceeds of the bonds are either allocated to Eligible Projects or managed in accordance with Fortescue's approved Treasury Policies. This verification report will be published on our website ([www.fmgil.com.au](http://www.fmgil.com.au)).

### Allocation Reporting

The allocation reporting will include:

- Total amount of Eligible Projects (the "Portfolio") (in USDm)

- Breakdown of the Portfolio by categories (in USDm and % of total)
- Breakdown of the Portfolio by entities (FMG or FFI) (in USDm and % of total)
- Breakdown of the Portfolio by region/country
- Share of refinancing and financing in the Portfolio
- Breakdown of the Portfolio by type of expenditures (capex and R&D) (in USDm and % of total)
- List of outstanding Use of Proceeds Financing Instruments with their outstanding amount (instruments other than bonds will be reported on an aggregate basis)
- Breakdown of each series of Use of Proceeds Financing Instrument (green, social and sustainability) by eligible category (%)
- Balance of unallocated proceeds (if any) (in USDm)

### Impact Reporting

Impact reporting will consider use of proceeds and the associated meaningful impact indicators. On a best efforts basis and where feasible Fortescue intends to align its impact reporting with the ICMA Handbook 'Harmonized Framework for Impact Reporting'. Examples of impact metrics may include, but are not limited to:

Green Categories	Potential Impact Indicators
Renewable Energy	<ul style="list-style-type: none"> <li>▪ Renewable energy capacity (in MW and/or in percentage)</li> <li>▪ Annual renewable energy generation (in MWh)</li> <li>▪ Annual GHG emissions reduced / avoided (in tCO<sub>2</sub>)</li> </ul>
Green Hydrogen and Ammonia	<ul style="list-style-type: none"> <li>▪ Annual hydrogen and ammonia production (with split between the two) (in tH<sub>2</sub> or m<sub>3</sub>)</li> <li>▪ Description of R&amp;D related to green hydrogen and ammonia</li> </ul>
Energy Storage	<ul style="list-style-type: none"> <li>▪ Annual energy stored (in MWh)</li> <li>▪ Annual hydrogen stored (tH<sub>2</sub> or m<sub>3</sub>)</li> <li>▪ Annual GHG emissions reduced/avoided in tCO<sub>2</sub>e</li> <li>▪ Description of R&amp;D related to energy storage</li> </ul>
Clean Transportation	<ul style="list-style-type: none"> <li>▪ Number and types of low carbon transportation financed</li> <li>▪ Annual GHG emissions reduced/avoided in tCO<sub>2</sub>e</li> </ul>
Sustainable Water Management	<ul style="list-style-type: none"> <li>▪ Annual reduction in water use in %</li> <li>▪ Annual volume of wastewater treated, reused, or avoided in %</li> </ul>
Environmentally Sustainable Management of Living Natural Resources and Land Use	<ul style="list-style-type: none"> <li>▪ Annual amount invested in research and conservation programs</li> <li>▪ Description of biodiversity conservation programs</li> <li>▪ Annual volume of recycled plastics (in tonnes)</li> </ul>
Social Categories	Potential Impact Indicators
Employment generation	<ul style="list-style-type: none"> <li>▪ Cumulative amount and number of contracts awarded to businesses owned or operated by vulnerable populations</li> <li>▪ Estimated number of employees supported</li> </ul>
Estimated number of employees supported	<ul style="list-style-type: none"> <li>▪ Total number of Aboriginals and women trained in the VTEC / Trade Up programs</li> <li>▪ Average conversion rate to permanent headcount of Aboriginals and women in the VTEC / Trade Up programs</li> </ul>



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## External review

Fortescue has obtained a Second Party Opinion from ISS ESG to evaluate the Sustainability Financing Framework, its transparency and governance as well as its alignment with the relevant standards.

The Second Party Opinion is available on our website at [www.fmgl.com.au](http://www.fmgl.com.au).

## Miscellaneous

### Amendments

Fortescue will review this Framework from time to time, including its alignment to updated versions of the relevant principles as and when they are released, with the aim of adhering to best practices prevailing in the market. Fortescue will also review this Framework in case of material changes in the perimeter and methodology. Such review may result in this Framework being updated and amended. If the Framework is amended in the future, Fortescue commits to obtaining another Second Party Opinion on the revised Framework.

