

December 2021 Quarterly Production Report

25 January 2022



Strong December quarter performance and record half year shipments

Quarterly summary

- Total Recordable Injury Frequency Rate (TRIFR) of 1.8 for the 12 months to 31 December 2021, a 14 per cent improvement on 2.1 at 31 December 2020
- Iron ore shipments of 47.5 million tonnes (mt) contributed to shipments of 93.1mt for H1 FY22, three per cent higher than H1 FY21 and a record for a half year
- Average revenue of US\$74.36/dry metric tonne (dmt) representing revenue realisation of 68 per cent of the Platts 62% CFR Index for the quarter
- C1 cost of US\$15.31/wet metric tonne (wmt) in line with the previous quarter
- Net debt of US\$1.7 billion at 31 December 2021 after payment of the FY21 final tax instalment of US\$915 million and capital expenditure of US\$744 million in the quarter
- Sustainability Financing Framework established to enable the future issuance of Green and Social debt instruments that will support investments in eligible projects
- On 24 January 2022, announced the acquisition of UK-based Williams Advanced Engineering (WAE) for £164 million (approximately US\$223 million) to provide critical technology and expertise in high-performance battery systems and electrification
- Entered exclusivity agreement with the Government of the Republic of Gabon to study the opportunity to develop the Belinga Iron Ore Project in Gabon, West Africa
- Fortescue Future Industries (FFI) continued to rapidly advance a global portfolio of green energy projects and decarbonisation technologies
- Guidance for FY22 shipments of 180 - 185mt and C1 cost of US\$15.00 - US\$15.50/wmt. Cost guidance is based on a revised average exchange rate assumption of AUD:USD 0.72
- FY22 capital expenditure (excluding FFI) is increased by US\$200 million to US\$3.0 - US\$3.4 billion after incorporating the acquisition of WAE.

Fortescue Chief Executive Officer, Elizabeth Gaines, said “The Fortescue team has again delivered an outstanding performance for the first half of FY22 with mining, processing, rail and shipping combining to deliver record second quarter shipments of 47.5 million tonnes, contributing to record performance for a half year of 93.1 million tonnes.

“Our C1 cost was in line with the previous quarter, reflecting our strong focus on cost management to mitigate inflationary pressures associated with strong demand for labour and resources, as well as supply chain constraints due to COVID-19. We are proud of the entire Fortescue family who continue to deliver record operating performance and achieve key project milestones.

“During the quarter, the momentum of Fortescue’s transition to a vertically integrated green energy and resources company continued to accelerate. Fortescue Future Industries is making significant progress and will be a key enabler of Fortescue’s delivery against our industry leading decarbonisation targets.

“Our acquisition of Williams Advanced Engineering supports these targets and further underpins our leadership in green energy through the provision of critical technology and expertise in high-performance battery systems and electrification. We will utilise this capability in the decarbonisation of our own operations and in turn the global heavy industry sector, further demonstrating our commitment to green energy and the creation of a sustainable future.

“Fortescue is advancing on its clear strategic vision and our focus remains on safety and operational excellence to meet strong demand from our customers. 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. We continue to assess the implications of the uncertain timing of the reopening of Western Australia’s border to ensure we have access to the skills and expertise needed to maintain Fortescue’s significant contribution to our stakeholders, as well as the State and national economies. We thank our team members for their ongoing dedication and commitment,” Ms Gaines said.

Operations

Production summary (m wmt)	Q2 FY22	Q1 FY22	Var (%)	Q2 FY21	Var (%)
Ore mined	57.2	60.8	(6)	50.0	14
Overburden removed	79.8	99.2	(20)	69.1	15
Ore processed	49.2	48.4	2	44.2	11
Ore shipped	47.5	45.6	4	46.4	2
C1 cost (US\$/wmt)	15.31	15.25	0	12.81	20

Volume references are based on wet metric tonnes (wmt). Product is shipped with approximately nine per cent moisture.

- Fortescue’s Total Recordable Injury Frequency Rate (TRIFR) was 1.8 in the 12 months to 31 December 2021, a 14 per cent improvement on 2.1 at 31 December 2020.
- Fortescue’s comprehensive COVID-19 risk management plan and measures remain in place to safeguard Fortescue team members and communities, including pre-flight rapid antigen screening and health declarations.
- Fortescue has successfully implemented the Western Australian Government’s mandatory COVID-19 vaccination for fly-in fly-out and other resource sector workers and has measures in place to implement the recently announced booster mandate, as well as vaccination requirements for office based staff.
- Building on the strong start to FY22, Fortescue’s excellent operating performance continued in Q2 FY22, with mining, processing, rail and shipping combining to deliver record shipments of 93.1mt in H1 FY22, three per cent higher than H1 FY21.
- Strong operating performance and healthy inventory levels across the supply chain, together with the successful integration of Eliwana, contributed to record second quarter shipments and ore processed of 47.5mt and 49.2mt respectively.
- The C1 cost of US\$15.31/wmt in Q2 FY22 was in line with the previous quarter. The C1 cost was 20 per cent higher than the previous corresponding period, reflecting the 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.

Marketing

Product summary (m wmt)	Q2 FY22	(%)	Q1 FY22	(%)	Q2 FY21	(%)
West Pilbara Fines	4.3	9	3.7	8	3.8	8
Kings Fines	3.1	7	3.6	8	3.9	8
Fortescue Blend	21.6	45	20.0	44	18.3	39
Fortescue Lump	0.8	2	1.0	2	3.8	8
Super Special Fines	17.2	36	16.8	37	14.2	31
Other products	0.5	1	0.5	1	2.4	5
Total shipments	47.5	100	45.6	100	46.4	100

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

- Chinese crude steel production reached 1,033mt in CY21, decreasing three per cent compared to 2020's record level. Output in the second half of CY21 was impacted by steel production curtailments and energy supply shortages.
- Global crude steel production excluding China increased by 12.6 per cent to 804mt in the 11 months to 30 November 2021. Ex-China crude steel production has returned to pre-COVID levels, supported by the recovery in global steel demand.
- Fortescue's average revenue of US\$74.36/dmt in Q2 FY22 represents revenue realisation of 68 per cent of the Platts 62% CFR Index of US\$109.61/dmt. The Platts 62% CFR Index was US\$119.0/dmt at 31 December 2021, compared to US\$118.25/dmt at 30 September 2021.
- China portside sales by FMG Trading Shanghai Co. Ltd increased to 5.1mt in Q2 FY22, with sales of 8.8mt in H1 FY22.

Financial position

- Fortescue's cash balance was US\$2.9 billion at 31 December 2021, compared to US\$4.1 billion at 30 September 2021.
- Cash outflows in Q2 FY22 include US\$915 million for the FY21 final tax payment and US\$744 million of capital expenditure.
- Gross debt increased to US\$4.6 billion at 31 December 2021 (US\$4.2 billion at 30 September 2021), due to the drawdown of US\$400 million from the Term Loan facility.
- Fortescue established its Sustainability Financing Framework during the quarter, to enable the future issuance of Green and Social debt instruments that will support investments in eligible projects. This reflects Fortescue's ongoing commitment to ESG leadership and recognises the growth in sustainable, green and social sources of capital, further optimising Fortescue's capital structure.

Iron Bridge

- The Iron Bridge Magnetite project will deliver 22mt per annum of high grade 67% Fe magnetite concentrate, with first production scheduled for December 2022.
- During the quarter, the project achieved key milestones, including:
 - Completion of the module offload facility at Lumsden Point, with five ships received and unloaded to date
 - Commenced laying the concentrate pipeline, return water pipeline and the Canning Basin raw water pipeline

- Commenced earthworks at the concentrate handling facility at Fortescue's port facility in Port Hedland
- Mobilised the Structural Mechanical Piping (SMP) and Electrical and Instrumentation (E&I) contractors at the Ore Processing Facility
- Commenced pre-strip mining.
- The project has made excellent progress to date with a continued focus on managing industry cost pressures, supply chain constraints and other challenges associated with the impact of COVID-19. As the project ramps up to peak construction workforce numbers, the availability of labour and access to specialist skills remains a key focus.
- The capital estimate is unchanged at US\$3.3 - US\$3.5 billion (Fortescue's share US\$2.5 - US\$2.7 billion). Iron Bridge is an Unincorporated Joint Venture between FMG Magnetite Pty Ltd (69 per cent) and Formosa Steel IB Pty Ltd (31 per cent).

Fortescue Future Industries

- Fortescue Future Industries (FFI) is taking a global leadership position in green energy and green technology, with a vision to make green hydrogen the most globally traded seaborne commodity in the world.
- During the quarter FFI achieved the following:
 - 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
 - Announced a Memorandum of Understanding (MoU) with UK-based construction company JCB and Ryze Hydrogen for the purchase of 10 per cent of FFI's global green hydrogen production
 - Entered into a Master Development Agreement with the State of Papua New Guinea that will enable FFI to undertake feasibility studies on a portfolio of major green energy and hydrogen projects
 - Entered an agreement with AGL Energy to undertake a feasibility study to repurpose infrastructure at the Hunter Valley Liddell and Bayswater coal-fired power stations to generate green hydrogen from water, using renewable energy
 - Advanced green fleet development with the arrival of two additional four-stroke locomotives at the research and development facility in Hazelmere, Perth for testing on the new fuel system; and in January 2022 announced the purchase of two new battery electric locomotives for delivery in 2023
 - 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
 - Successfully designed and built its own electrolyser, adding to a number of new electrolyser technologies that FFI has developed.
- FFI's H1 FY22 operating expenditure was US\$174 million.
- FFI's FY22 anticipated expenditure is unchanged at US\$400 - US\$600 million, inclusive of US\$100 - US\$200 million of capital expenditure and US\$300 - US\$400 million of operating expenditure.

Exploration

- Total exploration and studies capital expenditure for Q2 FY22 was US\$45 million.
- Iron ore exploration in the Pilbara included target and resource definition drilling in the Western Hub and Eastern Hamersley with a focus on the program at Mindy South. Drilling was completed by mid-December for the 2021 field season and will recommence in February 2022.
- Exploration activity on the Australian copper-gold portfolio included the completion of airborne magnetic and electromagnetic surveys, a ground gravity survey and on-ground mapping and soil sampling over the Paterson and Rudall projects in Western Australia, with target generation to be completed in the second half. A drilling program at Vulcan South on the Tasman Resources Joint Venture project in South Australia is underway.
- International activities included the commencement of a drilling program at the Rincones project in Argentina and continued exploration activities on several project areas in Ecuador. Drilling programs are expected to commence on several other projects in both Argentina and Ecuador in H2 FY22.

FY22 guidance

- Iron ore shipments of 180 - 185mt
- C1 cost of US\$15.00 - US\$15.50/wmt
- Capital expenditure (excluding FFI) is increased by US\$200 million to US\$3.0 - US\$3.4 billion after incorporating the acquisition of WAE

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

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Reporting calendar

Event	Date
H1 FY22 Results	16 February 2022
March Quarterly Production Report	28 April 2022
June Quarterly Production Report	28 July 2022
FY22 Results	29 August 2022