December 2019 Quarterly Production Report

Fortescue

30 January 2020

Record shipments, sustained cost reduction and improved safety performance underpins FY20 cost guidance upgrade

Fortescue has released its December 2019 quarterly production results, reporting shipments of 46.4 million tonnes (mt) and cash production costs (C1) of US$12.54 per wet metric tonne (wmt) for the quarter.

Quarterly highlights

- Total Recordable Injury Frequency Rate (TRIFR) of 2.5, an improvement of seven per cent compared to 30 September 2019
- Shipments of 46.4mt, nine per cent higher than Q2 FY19 bringing first half shipments to a record 88.6mt
- C1 costs of US$12.54/wmt, four per cent lower than Q2 FY19
- Average revenue received of US$76 per dry metric tonne (dmt), 58 per cent higher than Q2 FY19 of US$48/dmt
- Net debt of US$0.7 billion at 31 December 2019
- Fortescue's wholly owned Chinese sales entity, FMG Trading Shanghai Co. Ltd has successfully ramped up, achieving 3mt of sales to date
- Continued commitment to investment in energy infrastructure and emissions reduction

Fortescue Chief Executive Officer, Elizabeth Gaines, said "Once again, the Fortescue team has achieved outstanding results demonstrated by multiple records across the operations, including record shipments of 88.6mt during the first half of FY20, while maintaining our industry leading cost position below US$13/wmt. The key highlight for the quarter was our improved safety performance resulting in a TRIFR of 2.5 on a rolling 12-month basis.

"Excellent operational performance across all mines, rail and port was maintained during the quarter to deliver shipments of 46.4mt, a nine per cent improvement on the corresponding period last year, with C1 cost reducing to US$12.54/wmt. Customer demand across all products resulted in Fortescue's price realisation averaging 86 per cent of the benchmark 62% CFR Index price during the quarter.

"Based on Fortescue's strong performance in the first half, we expect shipments to be at the upper end of our guided range of 170 – 175mt and C1 cost guidance is lowered to a range of US$12.75 – US$13.25/wmt," Ms Gaines said.

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"The strength in performance across the business is delivering strong free cashflow and has resulted in net debt of US$0.7 billion at 31 December 2019. Investment in growth continues with the Eliwana and Iron Bridge projects progressing on time and budget.

"Fortescue is committed to reducing emissions, as evidenced by our Chichester Solar Gas Hybrid project announced in October 2019, as well as the Pilbara Energy Connect project which integrates transmission and generation to provide Fortescue's stationary energy requirements in the Pilbara.

"Fortescue's Pilbara Energy Connect is a US$700 million program of works which will allow us to leverage our existing energy infrastructure and deliver a low cost energy solution for Iron Bridge, while mitigating the need for increased diesel consumption through a hybrid solar and gas solution," Ms Gaines said.

Production summary

Million tonnes	Q2 FY20	Q1 FY20	*Var %*	Q2 FY19	*Var %*
Ore mined	54.6	50.6	*8%*	49.2	*11%*
Overburden removed	70.7	88.0	*-20%*	72.5	*-2%*
Ore processed	46.2	45.1	*2%*	42.5	*9%*
Total ore shipped	46.4	42.2	10%	42.5	*9%*
C1 (US$/wmt)	12.54	12.95	-3%	13.02	*-4%*

Note: Tonnage references are based on wet metric tonnes. Fortescue ships product with approximately 8–9 per cent moisture.

Operations

- **The Total Recordable Injury Frequency Rate (TRIFR)** reduced to 2.5 on a rolling 12-month basis during the first half of FY20.

  Fortescue remains focussed on improving safety culture and performance through its committed leadership and empowered workforce and initiatives are in place to further reduce the potential for injuries.

  To support the positive mental health and wellbeing of the Fortescue team, in December 2019 more than 440 family members of Fortescue's Pilbara-based workforce were flown to the Company's operational sites to celebrate the festive season with loved ones.

- **Mining, processing, rail and shipping** combined to achieve quarterly shipments of 46.4mt, nine per cent above Q2 FY19 and ten per cent higher than Q1 FY20. This reflects the record performance through the ore processing facilities over the quarter which was nine per cent higher than Q2 FY19, and two per cent higher than Q1 FY20. This quarter benefited from Q1 FY20 development of new mining areas, with the strip ratio slightly lower at 1.3 and the year to date strip ratio tracking at 1.5. Fortescue continues to be well positioned to deliver on its fully integrated operations and marketing strategy to meet the needs of customers.

- **C1 costs of US$12.54/wmt** reduced by three per cent **compared to US$12.95/wmt in Q1 FY20** reflecting strong mining and processing performance and sustained cost management.

Marketing

- **Crude steel production in China** in 2019 reached 996 million tonnes[1], 8.3 per cent higher than 2018 and the current outlook indicates continued strong demand for iron ore. In the quarter, iron ore demand was supported by low steel inventories, high levels of steel production and mill restocking. Total iron ore stocks at Chinese ports at the end of the quarter were 127 million tonnes, representing approximately 42 days of offtake, similar to the end of last quarter.

- **Sustained steel demand** and low steel inventory contributed to higher steel margins in the quarter. West Pilbara Fines shipments were stable at 10 per cent of quarterly shipments, in line with guidance of 17-20mt for FY20, with sales of Fortescue's products across all segments consistently strong during the quarter.

- **Fortescue's average revenue was US$76/dmt** in the quarter. The average price realisation was 86 per cent of the average 62% CFR Index price of US$89/dmt for the quarter. The closing Platts 62% CFR Index price at 31 December was US$92/dmt (US$93/dmt at 30 September 2019).

  Total tonnes shipped by product compared to Q1 FY20 and Q2 FY19 is set out in the table below:

Tonnes shipped, millions (wmt)	Q2 FY20	*Product mix %*	Q1 FY20	*Product mix %*	Q2 FY19	*Product mix %*
West Pilbara Fines	4.7	*10%*	4.3	*10%*	0.4	*1%*
Kings Fines	4.2	*9%*	3.4	*8%*	3.2	*8%*
Fortescue Blend	19.9	*43%*	18.1	*43%*	20.0	*47%*
Fortescue Lump	3.3	*7%*	2.0	*5%*	2.7	*6%*
Super Special Fines	14.3	*31%*	14.4	*34%*	15.9	*37%*
Manganese Iron Ore	0.0	*0%*	0.0	*0%*	0.3	*1%*
Total	**46.4**	**100%**	**42.2**	**100%**	**42.5**	**100%**

Balance sheet

- **Cash on hand was US$3.3 billion** at 31 December 2019 (US$3.4 billion at 30 September 2019). During the quarter both the FY19 final dividend of US$0.5 billion and the FY19 final tax instalment of US$0.6 billion were paid.

- **Gross debt at 31 December 2019 was US$4.0 billion with net debt of US$0.7 billion.** During the quarter an additional US$107 million of commitments were recognised as lease liabilities under AASB 16. Total lease liabilities at 31 December 2019 were US$829 million (including US$282 million recognised under AASB 16).

- **Fortescue's balance sheet** remains structured on low cost, investment grade terms while maintaining flexibility for additional repayment and future growth, with no debt maturing until 2022.

- **Total capital expenditure** for the quarter was US$431 million inclusive of sustaining capital, exploration and development expenditure.

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[1] Source: China's National Bureau of Statistics

- **Iron ore prepayments** reduced to US$218 million at 31 December 2019, with amortisation for the quarter of US$136 million. The balance of these prepayments will be amortised by 30 June 2020.

Iron ore projects

- The **US$1.275 billion Eliwana Mine and Rail Project** is on schedule and budget with first ore on train due in December 2020. All key approvals have been secured with an important milestone of the grant of the Special Rail Licence in January 2020 and site work is ramping up with peak construction workforce expected to be reached by mid-year.

  Capital expenditure incurred by year is estimated to be:

US$ million	FY19 actual	FY20 actual/est	FY21 estimate	Total estimate
Capital expenditure	124	700 - 800	350 - 450	1,275

- The **US$2.6 billion Iron Bridge Magnetite Project** is on schedule and budget to produce premium 67% concentrate product in the first half of 2022.

  Preliminary site works are continuing with placement of major contracts underway.

  Fortescue's share of Iron Bridge capital expenditure incurred by year is estimated to be:

US$ million	FY19 actual	FY20 actual/est	FY21 estimate	FY22 estimate	Total estimate
Capital expenditure	15	300 - 400	1,200 - 1,300	400 - 500	2,100

Exploration

- **Total exploration expenditure for the December 2019 quarter was US$38.9 million.**
- **Iron ore exploration** in the quarter was focussed on both the Western Hub and Eastern Hamersley regions in the Pilbara.
- **Australian copper-gold exploration** continued with drilling of targets in South Australia and New South Wales and early stage target generation progressing in the Paterson and Rudall projects in Western Australia.
- **Drilling on targets** prospective for copper continued at Fortescue's Santa Ana concessions in Ecuador with two rigs having drilled over 11,000 metres to date.
- **Drilling on targets** prospective for copper commenced in the Argentinian province of San Juan with over 1,000 metres drilled to date.

Energy

- **On 18 October 2019, Fortescue announced the landmark agreement for Alinta Energy to build, own and operate the Chichester Solar Gas Hybrid project**. Once completed, the project is expected to displace around 100 million litres annually of diesel used in the existing Christmas Creek and Cloudbreak power stations.

- **Fortescue has today announced that it will invest US$450 million in the Pilbara Generation Project,** which is in addition to the US$250 million Pilbara Transmission Project announced last year. Together, the Pilbara Transmission and Generation Projects (Pilbara Energy Connect) will provide Fortescue with a hybrid energy solution that will enable low cost power to be delivered to the energy efficient Iron Bridge project. This allows Fortescue to leverage its existing gas pipeline and generation capacity at the Solomon Power Station and incorporate large scale renewable energy to improve its carbon footprint.

- The project capital expenditure for Pilbara Energy Connect, totalling US$700 million, will be funded by a combination of operating cashflow and low cost asset finance. Capital expenditure incurred by year is estimated to be:

US$ million	FY20 actual/est	FY21 estimate	FY22 estimate	Total estimate
Pilbara Energy Connect	50	350 - 400	250 - 300	700

Note: Refer to Fortescue's Pilbara Generation Project announcement lodged with the ASX on 30 January 2020 for more detailed information.

FY20 guidance

- Based on the strong performance in the first half, Fortescue upgrades guidance to:
  - **Shipments** at the upper end of the range of 170 – 175mt
  - **C1 costs** in the range of US$12.75 – US$13.25/wmt (previously US$13.25 – US$13.75/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**

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Reporting calendar

Event	Date
HY20 Results	19 February 2020
March Quarter Production Report	30 April 2020
June Quarter Production Report	30 July 2020
FY20 Results	24 August 2020
September Quarter Production Report	29 October 2020
Annual General Meeting	11 November 2020