

# September 2019 Quarterly Production Report



24 October 2019

## A strong start to FY20 with shipments of 42.2mt and C1 costs of US\$12.95/wmt

Fortescue has released its September 2019 quarterly production results, reporting shipments of 42.2 million tonnes (mt) and cash production costs (C1) of US\$12.95 per wet metric tonne (wmt).

### Quarterly highlights

- Safety TRIFR of 2.7, an improvement of four per cent compared to 30 June 2019
- Shipments of 42.2mt, five per cent higher than Q1 FY19
- C1 costs of US\$12.95/wmt, two per cent lower than Q1 FY19
- Average revenue received of US\$85 per dry metric tonne (dmt), 89 per cent higher than Q1 FY19 of US\$45/dmt
- Repayment of US\$200 million and re-financing of the balance of the US\$1.4 billion Term Loan on improved terms
- Net debt of US\$0.5 billion at 30 September 2019, compared to US\$2.1 billion at 30 June 2019
- Sod turning ceremony for the Eliwana Mine and Rail project on 5 July 2019
- Commencement of towage operations at the Port of Port Hedland on 5 September 2019
- Renewal of the A\$500 million share buy-back program for a further 12 months to October 2020

Fortescue Chief Executive Officer, Elizabeth Gaines, said “The Fortescue team has delivered a strong performance across all aspects of the business in the first quarter of FY20, building on our record results in FY19. Importantly, our safety performance has maintained its positive trend with a four per cent improvement in TRIFR to 2.7.

“Fortescue’s outstanding operational performance across mining, processing, rail and port delivered shipments of 42.2mt, a five per cent improvement on Q1 FY19, at a C1 cost of US\$12.95/wmt. Through the quarter we maintained our enhanced product mix with strong demand for our range of products, including our 60.1% iron content West Pilbara Fines. This is reflected in Fortescue’s contractual price realisation which averaged 89 per cent of the benchmark 62% CFR Index price during the quarter.

“The combination of operational performance and realised price has generated exceptional operating cashflows and lowered net debt to US\$0.5 billion at 30 September 2019. This has provided the capacity to further strengthen the balance sheet through debt reduction and refinancing of the Term Loan on improved terms.”

## Production summary

Million tonnes	Q1 FY20	Q4 FY19	Var %	Q1 FY19	Var %
Ore mined	50.6	57.6	-12%	51.9	-3%
Overburden removed	88.0	79.0	11%	85.0	4%
Ore processed	45.1	48.5	-7%	42.9	5%
Total ore shipped	42.2	46.6	-9%	40.2	5%
C1 (US\$/wmt)	12.95	12.78	1%	13.19	-2%

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

## Operations

- **The Total Recordable Injury Frequency Rate (TRIFR)** reduced to 2.7 on a rolling 12-month basis (2.8 at June 2019).

Fortescue remains focussed on improving safety performance through sustained risk reduction activities and projects. Initiatives such as the “Take Control” program are delivering improvements in safety culture and performance across the business.

- **Mining, processing, rail and shipping** combined to achieve quarterly shipments of 42.2mt, five per cent above Q1 FY19 and nine per cent lower than the record performance in the June quarter, reflecting seasonal maintenance activity. Full year shipping guidance remains at 170-175mt.

During the quarter a number of new mining areas were developed, resulting in an increase in overburden removal, ensuring Fortescue is well positioned to deliver on its product strategy. As a result, strip ratios were slightly higher at 1.7 during the quarter and are expected to average 1.5 for FY20.

Ore processing was five per cent higher than Q1 FY19, and the variance to the June quarter reflects seasonal maintenance activity.

- **C1 costs of US\$12.95/wmt** reflect disciplined cost management, mining and processing performance. Total Australian dollar cash costs were consistent with the June quarter with C1 costs benefitting from the lower Australian dollar and changes to the accounting treatment of leases.

## Marketing

- **Crude steel production in China reached 745 million tonnes<sup>[1]</sup>** for the nine months ended 30 September 2019, 8.4 per cent higher than the prior comparable period, underpinning demand for seaborne iron ore. Iron ore stocks at Chinese ports at the end of the quarter were 120 million tonnes, five million tonnes higher than the prior quarter, representing approximately 42 days of inventory. Iron ore demand is supported by continuing high levels of steel production, decreased use of scrap and mill restocking.
- **Demand for Fortescue's products in the quarter remained strong** with Chinese steel mills focussed on raw material costs in response to current steel margins.
- **Fortescue's average revenue was US\$85/dmt** in the quarter. The average contractual price realisation increased to 89 per cent of the average 62 CFR Index price of US\$102/dmt during the quarter. The closing Platts 62 CFR Index price at 30 September was US\$93/dmt (US\$118/dmt at 30 June).

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

Tonnes shipped, millions (wmt)	Q1 FY20	Product mix %	Q1 FY19	Product mix %
West Pilbara Fines	4.3	10%	0.0	0%
Kings Fines	3.4	8%	3.5	9%
Fortescue Blend	18.1	43%	19.2	48%
Fortescue Lump	2.0	5%	0.4	1%
Super Special Fines	14.4	34%	17.0	42%
Manganese Iron Ore	0.0	0%	0.1	0%
Total	42.2	100%	40.2	100%

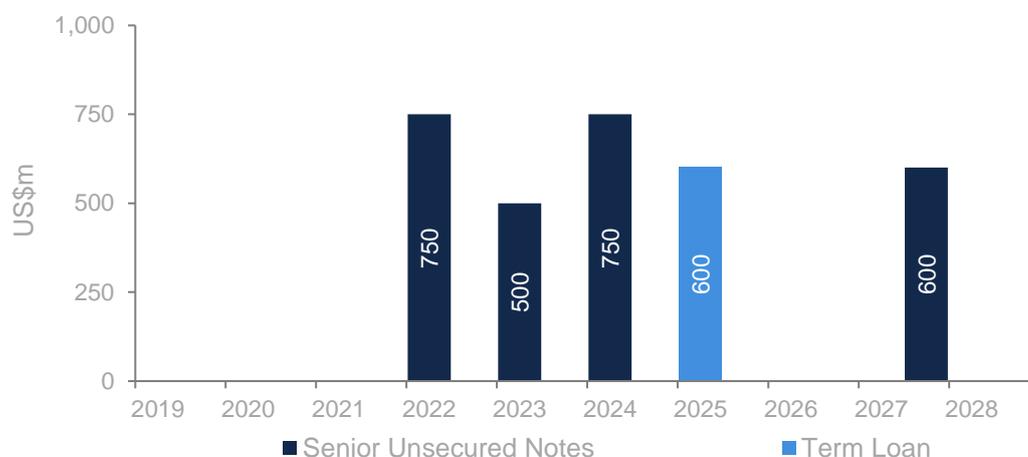
- **West Pilbara Fines shipments were stable at 10 per cent of quarterly shipments**, in line with guidance of 17-20mt for FY20.
- **Non-China markets** accounted for six per cent of total shipments during the quarter.

## Balance sheet

- **Cash on hand increased to US\$3.4 billion** at 30 September 2019 from US\$1.9 billion at 30 June 2019. Included in the 30 September cash balance are amounts reserved for the payment of the FY19 final dividend of US\$0.5 billion in October and the FY19 final tax payment of US\$0.6 billion, due in December.
- **Net debt reduced to US\$0.5 billion with gross debt of US\$3.9 billion at 30 September 2019.** During the quarter US\$200 million of debt was repaid and changes to the accounting treatment of leases added US\$175 million to balance sheet liabilities.

<sup>[1]</sup> Source: China's National Bureau of Statistics

- Fortescue's debt maturity profile following the **successful US\$600 million Senior Unsecured Note issue and subsequent Term Loan repayment and refinancing** is set out in the chart below:



- Total capital expenditure** for the quarter was US\$421 million inclusive of sustaining capital, exploration and development expenditure.
- Iron ore prepayments** reduced to US\$353 million at 30 September 2019, with amortisation for the quarter of US\$134 million. The balance of prepayments will be amortised during FY20.

## Iron ore projects

- The **Eliwana Mine and Rail Project** reached an important milestone in July with the official sod turning ceremony and is progressing in line with expectations to achieve first ore on train on schedule and budget in December 2020.

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% iron grade concentrate product in the first half of 2022.

Preliminary site works have commenced including road upgrades, earthworks and village construction, with key long lead procurement contracts placed.

**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 September 2019 quarter was US\$33 million** with guidance for FY20 maintained at US\$140 million as drilling programs ramp up over the course of the year.
- **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 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 7,500 metres to date.
- **Early stage exploration is underway in Argentina** with preparation for commencement of the drilling season in the Argentinian province of San Juan which is prospective for copper.

## Energy

- On 18 October, Fortescue announced the **landmark agreement with Alinta to establish the Chichester Gas Solar Hybrid project**. Once completed, up to 100 per cent of daytime stationary energy requirements at the Chichester Hub will be provided by solar generation, with the remaining power requirements to be met through the integrated battery storage and gas power station facilities.
- **In addition, Fortescue will invest approximately US\$250 million in energy transmission infrastructure** which will integrate its iron ore operations in the Pilbara into an energy efficient network, with completion due in the second half of 2021. The Pilbara Energy Connect project involves the construction of approximately 300km of high voltage transmission lines connecting Fortescue's existing mine sites at the Chichester and Solomon Hubs to Iron Bridge.
- The Project facilitates **low cost power delivery to Iron Bridge** while at the same time **enhancing Fortescue's overall security of supply**, leveraging its investment in existing gas pipeline and generation capacity at the Solomon Power Station and supporting the investment in renewable energy.

## Autonomy

- **The conversion to autonomous haulage (AHS)** continues with 73 trucks converted at the Chichesters, bringing the total autonomous fleet to 142 at 30 September 2019. At the end of September 2019, Fortescue's AHS fleet has moved over one billion tonnes of material and safely travelled in excess of 35 million kilometres since first introduced at the Solomon Hub. The conversion to a fully autonomous haulage operation is progressing as planned and is expected to be completed in mid 2020.

## Towage infrastructure and operations

- **Towage operations in the Port of Port Hedland commenced on 5 September** with a total of 82 vessel movements conducted during the month.

## FY20 guidance

- **170-175mt in shipments**, inclusive of 17-20mt of West Pilbara Fines product
- **C1 costs expected to be in the range of US\$13.25 - 13.75/wmt**
- **Average strip ratio 1.5**
- **Total capital expenditure of US\$2.4 billion**
- **Depreciation and amortisation of US\$7.70/wmt**
- **Total dividend pay-out ratio between 50 and 80 per cent of full year net profit after tax**

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## Reporting calendar

Event	Date
Annual General Meeting	29 October 2019
December Quarter Production Report	30 January 2020
HY20 Results	19 February 2020
March Quarter Production Report	30 April 2020