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Our Purpose
Global force | Thriving communities

Our Culture
We are 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.

Our Values
Safety  Family  Empowerment  Frugality  Stretch targets
Integrity  Enthusiasm  Courage and determination  Generating ideas  Humility
FY20 highlights

**LONG-TERM GOAL**

**Net zero operational emissions by 2040**

**MEDIUM-TERM TARGET**

**Reduce Scope 1 and 2 emissions by 26% from Existing Operations by 2030**

- Scenario analysis expanded
- Carbon price application expanded
A message from the Climate Change Committee

The impacts of climate change are changing the way we live, our communities and how we operate our business. We must work together to take action and play our part in ensuring this global issue does not create a burden for future generations.

This year, we announced an industry leading emissions reduction goal to achieve net zero operational emissions by 2040.

The business sector is in a privileged position to take the lead and tackle the challenges associated with climate change. Mining is one of the most innovative industries in the world and we are harnessing this advantage to work towards carbon neutrality with a sense of urgency.

The Pilbara region of Western Australia, where our operations are based, produces more sunshine hours in a day than anywhere else in Australia, providing a unique opportunity to use alternative energy sources to supply power to our mine sites.

This year, we announced an industry leading emissions reduction goal to achieve net zero operational emissions by 2040. This goal is core to our Climate Change Strategy and is underpinned by a pathway to decarbonisation, including the reduction of Scope 1 and Scope 2 emissions from Existing Operations by 26 per cent from 2020 levels, by 2030.

Our proud history of setting stretch targets is strengthened by the introduction of practical initiatives that will help us deliver on our targets in an economically sustainable manner.

We have already announced investments and made progress on energy infrastructure projects that support our journey towards reaching our emissions reductions goal through increasing our use of renewable energy.

We are working towards decarbonising our mining fleet, which generates over 50 per cent of our operational emissions, through the next phase of hydrogen and battery electric energy solutions.

In addition, green hydrogen production, storage and use is a key focus and we have a portfolio of projects underway to ensure Fortescue is well positioned to advance emerging technologies to meet the inevitable demand for this important commodity as both an export opportunity and to further reduce our own emissions.

We are proud to be taking a leadership position in addressing the global climate change challenge. On behalf of our Climate Change Committee, I’d like to thank the Fortescue family, who with the support of our contracting partners and suppliers, are passionate about making a difference and contributing to positive change for our future.
About Fortescue

A proud West Australian company, Fortescue Metals Group Ltd (Fortescue) is a global leader in the iron ore industry, recognised for its culture, innovation and industry-leading development of world class infrastructure and mining assets in the Pilbara, Western Australia.

Since Fortescue was established by our Founder and Chairman Dr Andrew Forrest AO in 2003, we have discovered and developed major iron ore deposits, constructed some of the most significant mines globally and grown to be one of the world’s largest producers of iron ore.

Delivering consistent operational excellence, our integrated mining, rail, shipping and marketing teams work together to export around 175 to 180 million tonnes of iron ore annually (mtpa) and our commitment to technology and innovation ensures we remain one of the world’s lowest cost iron ore producers.

Fortescue’s wholly owned and fully integrated operations in the Pilbara include the Chichester and Solomon mining hubs and we are developing the Western Hub, home to the new Eliwana mine. The Iron Bridge Magnetite Project, an industry leader in cost and energy efficiency, will be one of the highest-grade magnetite projects in the world.

Our mining hubs are connected to the five berth Herb Elliott Port and the Judith Street Harbour towage infrastructure in Port Hedland via 620 kilometres (km) of the fastest, heavy haul railway in the world, with an additional 143km under development to support Eliwana.

Our supply chain extends to our innovative tug fleet and the eight purpose-built 260,000 tonne capacity Fortescue Ore Carriers, which have been designed to complement the efficiency of our port and maximise the safety and productivity of Fortescue’s operations.

The Fortescue Hive, our expanded Integrated Operations Centre, brings together our entire supply chain to deliver significant safety, productivity, efficiency and commercial benefits and will underpin our future use of technology including artificial intelligence and robotics.

Through our world class exploration capability together with our business development and projects focus, we are driving future growth, targeting the early stage exploration of commodities that support decarbonisation and the electrification of the transport sector.

We are undertaking exploration activities in New South Wales and South Australia, as well as in Ecuador and Argentina. We are also undertaking preliminary exploration activities on tenements that are in application in Colombia, Peru, Portugal and Kazakhstan, prospective for copper, gold and lithium.

Our longstanding relationships with customers in China have grown from our first commercial shipment of iron ore in 2008. Today, we are a core supplier of seaborne iron ore to China and have expanded into markets including Japan, South Korea and India.

In 2019, we established FMG Trading Shanghai, a wholly owned Chinese sales entity, to support our customers through the direct supply of iron ore from regional Chinese ports, providing them with an option to purchase smaller volumes in renminbi.

Fortescue was founded on the belief that our communities should benefit from our success. Today, we are a global force, committed to empowering thriving communities, as we deliver training, employment and business development opportunities for Aboriginal people.

As a large consumer of energy, we have committed to an industry-leading carbon emissions target of net zero operational emissions by 2040. To achieve this, we are investing in practical initiatives such as the development of wind and solar energy, as well as gas and battery storage hybrid projects to displace our current thermal generation. We are also investigating the next phase of hydrogen and battery electric vehicle mobility.

Fortescue is a values-based business, committed to our strategic goals of ensuring balance sheet strength and flexibility, investing in the long-term sustainability of our core business while pursuing growth and development options and delivering enhanced returns to our shareholders.
About this report

This report has been prepared for Fortescue’s stakeholders and details our progress in managing climate change-related risks and opportunities during FY20.

Fortescue’s FY20 Climate Change Report is part of our annual reporting suite which also includes the FY20 Annual Report, FY20 Sustainability Report and FY20 Corporate Governance Statement, all of which are available on our website at www.fmgl.com.au

The report is aligned with the recommendations of the Task Force on Climate-related Financial Disclosure (TCFD), which has guided our climate change reporting since FY18.

The report captures activities within our operations, including exploration and development as well as those operated through subsidiaries and joint ventures where Fortescue has operational control.

Scope 1, 2 and 3 greenhouse gas emissions data included in this report is subject to assurance by KPMG.
Our approach

Fortescue is contributing to global efforts to combat climate change.

We accept the scientific consensus as assessed by the Intergovernmental Panel on Climate Change (IPCC) and support the Paris Agreement goal of limiting global temperature rise to well below 2°C above pre-industrial levels.

Climate change is a complex and challenging issue impacting governments, businesses and communities all over the world.

Successful mitigation and adaptation to climate change impacts requires a collaborative approach. This will ensure we succeed as a global community in protecting our environment for future generations, while maintaining economic stability and sustainable growth.

We believe practical, technology driven solutions are key to managing the impact of climate change. Innovation must be incentivised and governments need to show leadership and develop strong policy frameworks to ensure a smooth transition to a low carbon economy.

As a values-based company, we acknowledge our responsibility to engage and accelerate the transition towards a net zero emissions global economy. We are committed to taking a leadership position on climate change and believe this will drive shareholder value over the longer-term, while meeting the expectations of our internal and external stakeholders.

The transition to a low carbon economy presents both opportunities and risks and we are implementing measures to mitigate and manage these risks and maximise opportunities.

Our Board of Directors has overall responsibility for the oversight of climate-related matters and our dedicated Climate Change Committee (CCC) provides advice to the Audit and Risk Management Committee (ARMC) and the Board.
Climate Change Strategy

Our Climate Change Strategy focuses on implementing innovative and practical emissions reduction initiatives to maximise opportunities and proactively mitigate and manage climate-related risks in a transitioning economy.

- Our emissions reduction strategy should inform business strategies and provide certainty to investors and other stakeholders that Fortescue will continue to thrive in a net zero economy.

In FY17, we set short-term targets and have reported our performance against these since FY18. This year, we revised our long-term goal and set a new medium-term emissions reduction target. Details are presented in the ‘Metrics and targets’ section on page 15.

**Power generation**

Stationary power generation at our sites makes up approximately 30 per cent of our operational emissions. This includes the power we generate (Scope 1), as well as the power we purchase from third party producers (Scope 2).

To ensure our operations are supplied with cost effective, secure and reliable power, our Energy Strategy includes investment in renewable and low emissions energy sources.

To date, we have committed to directly invest over US$700 million to reduce emissions from power generation and we will continue to investigate opportunities to increase the use of renewables at our Pilbara operations, including through additional solar generation.

Along with the US$100 million being invested by Alinta Energy to provide solar/gas generated power to the Chichester Hub, the total investment exceeds US$800 million.

We are also investigating green hydrogen as a fuel source for future power generation.

Building resilience

To ensure the resilience of our operations, assets, value chain and the communities in which we operate, we evaluate the physical, market and regulatory impacts of climate change.

Specifically, we:

- Implement a risk-based approach to understanding the physical impacts of climate change and ensure these impacts are considered during capital allocation, business forecasts, investment decisions, the design of infrastructure and operational planning for new projects.
- Consider how climate change-related physical impacts and transitional risks under differing policy, technology, society and market demand scenarios may impact our business.
- Engage with value chain partners to support the management of the physical and transitional risks of climate change that may impact their operations.

A detailed discussion of our climate change risks can be found on pages 17 to 19. More detail on our scenario analysis can be found on page 20.

Reducing emissions

We are committed to achieving net zero operational emissions by 2040. This goal is core to our Climate Change Strategy and is underpinned by a pathway to decarbonisation including the reduction of Scope 1 and 2 emissions from Existing Operations by 26 per cent from 2020 levels, by 2030.

The decarbonisation of our operations is a major focus and this year the CCC established a dedicated Decarbonisation Committee to expand our strategy. The Decarbonisation Committee is guided by the following risk-based principles:

- Emissions reduction programs should drive our transition to carbon neutrality.
- The mitigation hierarchy to avoid, reduce and offset emissions should be applied to all potential emission reduction programs and projects.
- Emissions reduction pathways that mitigate climate change transition risks should be prioritised.

In FY17, we set short-term targets and have reported our performance against these since FY18. This year, we revised our long-term goal and set a new medium-term emissions reduction target. Details are presented in the ‘Metrics and targets’ section on page 15.
Fortescue and our partners have announced US$800 million in energy infrastructure projects. This includes our US$700 million investment in the Pilbara Energy Connect (PEC) project.

Fortescue will build, own and operate the PEC which includes:

- The US$450 million Pilbara Generation Project comprising 150MW of gas fired generation together with 150MW of solar photovoltaic (PV) generation and large-scale battery storage. This solution will see us avoid up to 285,000 tonnes of CO2-e per year in emissions, as compared to generating electricity solely from gas.

The PEC project leverages existing assets and provides Fortescue with a hybrid solar gas energy solution that enables the delivery of stable, low cost power and supports the incorporation of additional large-scale renewable energy in the future.

The PEC project builds on the Chichester Solar Gas Hybrid Project which was announced in October 2019. Once completed, the combined projects will deliver 25 to 30 per cent of our stationary energy requirements from solar power.

Announcing the PEC in 2020, Chief Executive Officer Elizabeth Gaines said, “Mining is a 24/7 operation and efficient, reliable, competitive energy generation remains an important consideration for the mining sector in Western Australia. The lack of an integrated transmission network in the Pilbara has been a key barrier to entry for large-scale renewables and our investment will address this issue.

“Together with our partners, we are investing over US$800 million in electricity generation and transmission infrastructure which will complete the integration of our stationary energy requirements in the Pilbara into an efficient network, while lowering the overall cost of electricity to existing and future sites.”
Mining fleet
Approximately 50 per cent of our operational emissions are generated by our mining fleet. These vehicles currently use diesel as a fuel source and consume around 400 to 450 million litres of diesel per year.

Decarbonising the mining fleet is one of the biggest challenges facing our industry. While electric light vehicles are readily available for the passenger and domestic market, there are currently no economic or technologically viable, large-scale vehicles available for the mining industry.

We believe we can drive industry innovation and technology development to support the decarbonisation of our mining fleet. During FY20, we worked closely with mobile fleet Original Equipment Manufacturers (OEMs) and fuel suppliers to discuss our goal to be diesel free by 2030 and identify how we can support them to accelerate innovation.

Supply chain and customers
We acknowledge our ability to engage and collaborate with our supply chain partners and customers to reduce their emissions.

We support the United Nations Framework Convention on Climate Change which mandates that individual nations take responsibility for emissions within their own borders. We believe that we must prioritise the reduction of our operational emissions and our revised targets for Scope 1 and 2 emissions, together with our net zero goal, are a clear demonstration of this.

Steel manufacturing
The steel making process generates significant greenhouse gas (GHG) emissions and we will continue to actively engage with our customers and suppliers to encourage and facilitate the reduction of emissions in their value chain.

During FY20, we investigated the potential impacts of emerging emissions reduction frameworks, including the Chinese Emissions Trading Scheme, on our downstream partners. This research will inform our engagement with customers to build their resilience to transitional risks and also informs our understanding of customer expectations in a global economy transitioning towards net zero emissions.

Specifically, we are engaging with our customers on opportunities to reduce their emissions from iron and steel making in the following areas:

- **Deep-bed sintering**

  Many sinter operations are adopting deep-bed sintering techniques where, with some modifications, the height of sinter beds is increased from 750mm to up to 1000mm.

  We are actively investigating opportunities to maximise metallurgical performance and minimise emissions through deep-bed sintering. In this process, productivity is potentially doubled with minimal increase in coking coal consumption, effectively reducing emissions by up to 50 per cent.

  Fortescue ores are well suited to deep-bed sintering because of the high level of beneficiation which creates preferable sizing and texture characteristics. We actively promote this technique to our customers and we are undertaking collaborative research with a major Chinese steelmaker to assess the benefits of deep-bed sintering by introducing Fortescue ore into its blends.

We are integrating carbon pricing into the project evaluation and investment decision making process.
• Magnetite concentrate product
  Once operational, the Iron Bridge Magnetite Project will deliver a magnetite concentrate product that has beneficial properties when used in sintering and pelletising. Magnetite is exothermic and provides thermal heat that can be utilised in the steel manufacturing process to reduce the consumption of coking coal by up to 5 to 10 per cent, reducing their emissions. The higher grade concentrate also increases hot metal productivity, reducing emissions further on a hot metal output basis.
  For the production of magnetite concentrate we have invested in energy efficient equipment, including a dry grinding circuit, to reduce our power consumption by approximately 30 per cent in comparison to conventional magnetite processing.
• Hydrogen research and technology
  Our partnership with the Australian Commonwealth Scientific and Industrial Research Organisation (CSIRO) and continued investment in hydrogen technology provides opportunities to reduce emissions including those from the iron making and steel manufacturing process. We have initiated several partnerships to investigate the potential to use our ore in downstream processing with hydrogen as a fuel source either directly as a reductant or as a method to generate electricity.
  We also believe that ambitious emission reductions in our direct operations will allow us to offer lower emissions iron ore products to our supply chain partners to build competitive advantages.

Shipping
In FY20, the shipping of our products from the Pilbara to our customers around the world accounted for approximately 3.5 million tonnes of CO₂-e emissions. These emissions are classified as Scope 3 emissions.

Shipping on international waters falls outside of the scope of the Paris Agreement. The International Maritime Organisation (IMO) is responsible for developing regulations applicable to the shipping industry and has adopted a strategy to reduce GHG emissions consistent with the Paris Agreement. The IMO GHG Strategy envisages a reduction in carbon intensity of international shipping, reducing CO₂ emissions per transport work, as an average across international shipping by at least 40 per cent by 2030, pursuing efforts towards 70 per cent by 2050 from 2008 levels.
We support the IMO targets and are working closely with our shipping partners and other relevant industry participants to develop and implement strategies that will deliver on these targets.

We will continue to engage in industry consultation in FY21 to support the Australian Government’s representation to the IMO Marine Environment Protection Committee.
The fleet of eight Fortescue ore carriers, representing approximately 14 per cent of our shipping requirements, are highly efficient and require less fuel per tonne of cargo shipped than other ships commonly used in the industry. We are actively pursuing the development of next generation vessels which incorporate clean energy and other complementary technology to reduce emissions.
During FY20, we undertook the following key actions to assist with the reduction of our emissions from shipping:
  • Commenced development of a model to measure emissions from shipping activities
  • Assessed new technology and operational opportunities to reduce emissions on existing vessels
  • Investigated the use of liquid natural gas as a main engine fuel to meet IMO targets in conjunction with complementary technology
  • Commenced an initiative to develop a ‘next generation vessel’ that includes the use of lower emission fuels.

Maximising opportunities

Hydrogen
Our history of embracing innovation and adopting technology underpins our hydrogen activities as we work to capitalise on the economic opportunities of zero emissions green hydrogen.

In 2018, we announced a landmark partnership agreement with the CSIRO to develop its metal membrane technology, providing the potential for the bulk transportation of hydrogen through ammonia. A portfolio of additional projects associated with hydrogen production, storage and use is under development to ensure we are well positioned to meet the demand for hydrogen as a major export opportunity.

As a significant energy consumer within our operations, we continue to actively pursue opportunities to reduce our carbon footprint and cost base and we expect renewable hydrogen will play a key role in our decarbonisation journey.

As a significant portion of our diesel consumption can be attributed to our mining fleet, there is an opportunity for hydrogen to be used as a replacement fuel to significantly reduce our cost base and emissions intensity. We are working with vehicle manufacturers to maximise opportunities to use hydrogen as a fuel source for mining vehicles and equipment.

Domestic transport is also a significant contributor to Australia’s GHG emissions and urban air pollution and hydrogen can address both areas. We have entered into a partnership with ATCO Australia to deploy hydrogen refuelling infrastructure which will support clean transportation options across Western Australia.
In April 2020, Fortescue and ATCO Australia (ATCO) signed an agreement to explore the deployment of hydrogen vehicle fuelling infrastructure in WA. Under the agreement, the two parties will collaborate to build and operate a combined hydrogen production and refuelling system at ATCO’s existing facility in Jandakot in the Perth metropolitan area, with the possibility of wider deployment across the State.

The initial refuelling facility will provide Fortescue, ATCO and approved third parties with the opportunity to refuel vehicles capable of utilising hydrogen as the primary fuel source, including a fleet of Toyota Mirai fuel cell electric vehicles which have been made available by Toyota Motor Corporation Australia.

The project will serve as a showcase for hydrogen mobility in WA and support the transition to the next generation of zero emission transport.

Chief Executive Officer Elizabeth Gaines said, “Fortescue is committed to working with other organisations to position Australia as a leader in the global hydrogen economy.

As the world moves towards a lower carbon future, hydrogen has the potential to play a key role in the future energy mix and we want to ensure we remain at the forefront of Australia’s renewable hydrogen industry.

“Identifying and establishing partnerships is critical to unlocking the future potential of hydrogen and we look forward to working with ATCO to capitalise on the economic opportunities associated with hydrogen and support the development of a competitive hydrogen industry,” Ms Gaines said.

We are working to capitalise on the economic opportunities of zero emissions green hydrogen.
Diversification

Fortescue continues to assess opportunities to diversify and expand our portfolio as the world transitions to a low carbon economy. This includes increasing exposure to commodities that support the electrification of the transport sector, with a focus on lithium, copper and gold.

During FY20, we continued early stage exploration and evaluation work across a range of these commodities in Australia and internationally.

Hydrogen is another example of our diversification as we position Fortescue to capitalise on a net zero future economy.

Engagement and collaboration

Engagement with stakeholders including investors, regulators, customers and industry peers is a critical component of our Climate Change Strategy.

This report is an important part of disclosing our voluntary commitments and reporting performance against our voluntary emission reduction targets. Throughout the year, we communicated with our stakeholders at our Annual General Meeting and via media statements, company publications, conferences and our website.

Investor interest in climate change continues to grow and throughout FY20 we met with investors and their advisors both in Australia and overseas to discuss our approach to climate change. We value these discussions and will ensure they continue.

Fortescue will also continue to engage with State and Commonwealth governments as policy frameworks evolve to ensure future climate change and energy policies incentivise innovation while supporting economic growth.

Working with our customers

We acknowledge that the steel making process generates significant GHG emissions and that we have a role in engaging collaboratively with value chain partners to support their emissions reduction programs.

We will continue to work with our customers to ensure our iron ore products meet their requirements. Further detail on how we work with our customers can be found on pages 10 to 11.

Industry associations

We are a member of a number of industry groups and associations. Participation in these groups enables a coordinated industry approach to the development of effective policy frameworks. It also facilitates the sharing of best practice and allows us to access information and insights on material issues including climate change.

We consider our memberships annually to ensure they continue to provide value and align with our objectives. During FY20, we participated in the following industry groups and associations:

- Ammonia Energy Association
- Association of Mining and Exploration Companies (AMEC)
- Australia-China Business Council
- Australian Hydrogen Council
- Australia Indonesia Chamber of Commerce
- Australian Institute of Management (AIM)
- Australian Resources and Energy Group (AMMA)
- Business Council of Australia
- Chamber of Commerce and Industry of Western Australia (CCI)
- Chamber of Mines and Energy of Western Australia (CME)
- Committee for Economic Development Australia
- Committee for Perth
- Corporate Tax Association
- DomGas Alliance
- Global Reporting Initiative
- Green Ammonia Consortium
- Green H2 Consortium
- Hydrogen Council
- Hydrogen Mobility Australia
- National Hydrogen Strategy Taskforce
- NSW Minerals Council
- Port Hedland Industries Council
- South Australian Chamber of Mines and Energy (SACOME)
- Supply Nation – founding member
- United Nations Global Compact
- United Nations Global Compact - Network Australia
- WA Renewable Hydrogen Council.
Fortescue's Board has ultimate responsibility for the oversight and approval of all risk management and financial investment decisions, including climate-related matters. The Board’s Audit and Risk Management Committee (ARMC) has the specific responsibility to consider climate change matters and related strategies.

The Board regularly considers how climate change may impact Fortescue's business, taking into account how climate change may drive changes to our physical, regulatory and commercial operating environments and inform the development of our medium to long-term goals and strategies.

Collectively, the Directors have a diverse and relevant range of skills, backgrounds, knowledge and experience to ensure effective governance of the business. To the extent that any skills are not directly represented on the Board, they are augmented through management and external advisors. Specific skills and experience of the Board includes understanding the business challenges, strategy and options associated with managing the risks of climate change.

The work of the ARMC is supported by the Climate Change Committee (CCC). The CCC is chaired by the Chief Executive Officer, with senior leaders from across the business including Finance, Operations, Environment, Corporate Affairs, Energy, Investor Relations, Sustainability, Risk Management and Strategic Planning, to oversee the management of all climate change matters on behalf of Fortescue’s Board. The CCC is responsible for monitoring and coordinating Fortescue’s overall response to climate change and ensuring opportunities and risks are proactively managed and considered from a whole of business perspective.

The CCC met seven times in FY20 and provides quarterly updates to the ARMC. Key components of the CCC’s agenda in FY20 included reviewing and endorsing medium-term emissions reduction targets, revising our long-term climate change goal, developing our decarbonisation strategy and the publication of this inaugural stand alone Climate Change Report.

Our overall approach to corporate governance is explained in the FY20 Corporate Governance Statement, available on our website at www.fmgl.com.au

To ensure the robust management of climate change risks to our business and the broader community, Fortescue established a Climate Change Committee in FY17.

Chaired by Chief Executive Officer Elizabeth Gaines, the role of the Committee is to bring together senior leaders from across the business including Finance, Operations, Environment, Corporate Affairs, Energy, Investor Relations, Sustainability, Risk Management and Strategic Planning, to oversee the management of all climate change matters on behalf of Fortescue’s Board.

Chief Executive Officer and CCC Chair Elizabeth Gaines said, “Generating ideas and integrity are key Fortescue Values and the Climate Change Committee brings together a diverse range of experiences and expertise as we position Fortescue to capitalise on the opportunities of climate change, while ensuring the management of risks.”

Key achievements of the CCC this year include:

- Establishment of four subcommittees; the Disclosure, Decarbonisation, Offsets and Resilience committees
- Revision of long-term goal and setting a medium-term target
- Establishment of decarbonisation risk-based principles
- Expanded scenario analysis
- Establishment of offsets sourcing principle
- Engaging with our suppliers to find ways to decarbonise our mobile fleet.

CASE STUDY

Climate Change Committee

To ensure the robust management of climate change risks to our business and the broader community, Fortescue established a Climate Change Committee in FY17.

Chaired by Chief Executive Officer Elizabeth Gaines, the role of the Committee is to bring together
Metrics and targets

**LONG-TERM GOAL**

Net zero operational emissions by 2040

This year, we revised our long-term emissions reduction goal to achieve net zero operational emissions by 2040. This goal is core to our Climate Change Strategy and is underpinned by a pathway to decarbonisation, including the reduction of Scope 1 and 2 emissions from Existing Operations by 26 per cent from 2020 levels, by 2030.

Our long-term goal to achieve net zero operational emissions by 2040 is supported by a strategy that drives industry-leading decarbonisation of our operations, including the US$800 million investment in energy infrastructure projects with our partners. We are focused on developing and implementing practical initiatives that will allow us to deliver on our targets in an economically sustainable manner.

**MEDIUM-TERM GOAL**

Reduce Scope 1 and 2 emissions by 26% from Existing Operations by 2030

The United Nations has identified 2020-2030 as a critical decade within which year on year emissions reductions are required to limit global temperature increases to below 2°C above pre-industrial levels by 2100. A target aligned to the 2°C limitation requires year on year reductions of emissions of approximately three per cent, equating to an overall reduction in GHG emissions of 26 per cent from 2020 to 2030.

Our Existing Operations include our current iron ore mines, together with the Eliwana Project which is due for completion in December 2020. Iron Bridge is currently under construction and is expected to be operational by mid-2022. A target to reduce emissions from its investment case baseline by 2030 will be implemented when operational.

Our Remuneration Strategy, which is reviewed annually, links executive performance to our Energy Strategy. We will continue to review our emissions reduction targets and incentive structures to ensure they allow us to proactively manage climate change-related transition risks and meet stakeholder expectations.

**SHORT-TERM TARGETS**

By FY20, reduce emissions intensity in electricity generation by 25% from FY15 levels

By FY20, reduce emissions intensity in electricity consumption in the production process by 5% from FY17 levels

We have reported performance against these targets annually since FY17 and our FY20 performance is reported under our Emissions profile on page 21.
Carbon offsetting

Fortescue’s use of offsets will be consistent with the mitigation hierarchy to avoid, reduce and offset emissions. Offsetting will only be used to abate residual emissions where economically viable decarbonisation opportunities and technologies are unavailable.

This practical approach recognises that effective low carbon technology solutions may not be commercially or practically available at the scale or within the timeframes required to reduce operational emissions in line with our targets.

To manage the risks of offsets sourcing, the CCC has developed offset sourcing principles. These principles have been designed to ensure our offsetting activities effectively manage reputational risks and support the objectives of the Paris Agreement. The principles also prioritise high quality offset options with co-benefits that create additional value for us, as well as local stakeholders. The principles ensure a risk based appraisal of offsets and were informed by the Code of Best Practice developed by the International Carbon Reduction and Offset Alliance (ICROA).

During FY20, the CCC procured a small volume of Australian Carbon Credit Units (ACCUs), to ensure compliance with the Safeguard Mechanism. The CCC is also evaluating opportunities to invest in projects that could contribute towards our emission reduction objectives.

Offsetting will only be used to abate residual emissions where economically viable decarbonisation opportunities and technologies are unavailable.

CASE STUDY

Chichester Solar Gas Hybrid Project

Fortescue is implementing projects to increase the use of solar energy to power our sites.

The Chichester Solar Gas Hybrid Project, owned and operated by Alinta Energy, is under construction and will include a 60MW solar photovoltaic (PV) generation facility at the Chichester Hub, comprising Fortescue’s Christmas Creek and Cloudbreak mines.

In addition, an approximately 60km transmission line will be built, with completion due in mid-2021. This will link the Christmas Creek and Cloudbreak mines with Alinta Energy’s Newman gas-fired power station and 35MW battery facility.

Construction of the solar array is well under way for the installation of 166,740 solar panels, covering an area equal to 79 Melbourne Cricket Grounds.

Once completed, up to 100 per cent of daytime stationary energy requirements at the Chichester Hub will be solar powered.

Overall, this means we avoid using approximately 100 million litres of diesel annually, that would otherwise be used in the existing Christmas Creek and Cloudbreak power stations.
Risks and opportunities

Risk management process
The evaluation of climate change risks and opportunities is integrated into our company wide risk management process. Fortescue's Risk Management Framework (FRMF) ensures a consistent approach to the recognition, measurement and evaluation of all risks and opportunities, including those related to climate change. This framework is applied to all activities over which we have operational control.

Fortescue has well developed processes for the identification, assessment and management of risk. Primary responsibility for this process lies with management, with oversight provided by the ARMC and the Board. Regular reporting is provided to the ARMC on management’s assessment of climate change-related risks and opportunities. The CCC also plays an important role in coordinating and collating risk information across the business and oversees specific risk management actions.

We understand that climate change presents both risks and opportunities to Fortescue. We undertook a climate change-focused risk assessment in June 2020 and our material climate change risks and opportunities are described below.

Material risks and opportunities

Transitional risks

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<th>Mitigation and opportunities</th>
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<tr>
<td>Policy and regulatory changes</td>
<td>Policy and regulatory changes, including those that cap emissions, may increase operational costs. It is expected that these frameworks and associated market mechanisms will continue to evolve in the coming years.</td>
<td>We will continue to work with industry bodies, our peers, the government and the community to ensure an effective regulatory framework that enables the transition to lower emission outcomes by incentivising innovation and supporting economic stability and growth. We are also focused on continuing to reduce our GHG emissions and have set a voluntary medium-term target and a long-term emissions reduction goal for our operations. Our Energy Strategy ensures that renewable energy sources are considered during the development and replacement of power stations and we apply a price on carbon when assessing new projects including power supply options, and potential energy infrastructure projects. Specifically, our policy scenario models, developed during FY19, include both explicit and implicit carbon price ranges with these tools being integrated into investment decision making processes to ensure consideration of carbon price impacts over time. Our Energy Strategy focuses on opportunities to gain commercial advantage from investment in renewable sources. Investment in renewables and alternative fuel technology may also improve energy security, reduce energy costs and GHG emissions. This reduces our exposure to policy and regulatory changes that cap absolute emissions.</td>
</tr>
</tbody>
</table>
## Transitional risks continued

<table>
<thead>
<tr>
<th>Risk</th>
<th>Risk detail</th>
<th>Mitigation and opportunities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Reduced product demand</strong></td>
<td>Demand for our products may change if market demand shifts, for example, as a result of the introduction of non-market based climate change regulations directly impacting the steel manufacturing sector in China.</td>
<td>We will continue to engage with customers to facilitate the reduction of emissions and to share learnings that will assist in achieving this goal and pursue opportunities to reduce emissions from steel mills. As emissions reduction frameworks evolve, we will ensure the environmental performance of our products exceeds or equals that of higher iron content ore products and will look at opportunities to engage with new customers, as these frameworks drive market changes and incentivise demand for other base metals. Our strategy of producing the majority of our ore with an average iron content above 60% Fe creates a product range that continues to be valued by the market through all cycles. We are also assessing diversification options to increase business exposure to base metals where demand is expected to increase in a global economy transitioning towards net zero emissions. We are also undertaking low cost, early stage, exploration and evaluation work of commodities such as copper and lithium.</td>
</tr>
<tr>
<td><strong>Technical innovation is not delivered at commercial scale to support required emission reductions</strong></td>
<td>The majority of emissions from our operations are related to the use of gas/diesel for stationary power supply and the use of diesel in mining fleet and rail. Developing low-carbon solutions for mobile fleet and rail is technically challenging and will require the development of innovative energy solutions such as electrification and/or hydrogen fuel. There will be challenges integrating new technologies within existing infrastructure, systems and processes. In addition, the commercial viability of low-carbon alternatives is uncertain in the short to medium-term.</td>
<td>We have already made commitments associated with the integration of significant gas and solar energy sources. Opportunities for further renewable energy solutions (solar, wind) in stationary power continue to be investigated. Additionally, we are researching the use of low carbon energy solutions such as hydrogen fuel cells, autonomous electrification for mobile fleet and/or rail. We are working in partnership with key suppliers and other mining sector participants to develop low carbon solutions at commercial scale. Our use of offsets will be consistent with the mitigation hierarchy to avoid, reduce and offset emissions. Offsetting will only be used to abate residual emissions where economically viable decarbonisation opportunities and technologies are unavailable.</td>
</tr>
<tr>
<td><strong>Reputational damage</strong></td>
<td>We may experience reputational damage if stakeholders view our action on climate change as inadequate. This may impact our social licence to operate, and financing and investment opportunities.</td>
<td>We support the Paris Agreement and work to maintain open relationships with our stakeholders, and have voluntarily aligned our climate change reporting with Task Force on Climate-related Financial Disclosures (TCFD) recommendations. In FY20, we set a voluntary medium-term emissions reduction target for Scope 1 and 2 emissions and a long-term goal to achieve net zero operational emissions by 2040. We have also articulated clear strategies to support the achievement of these goals through innovative solutions in the Pilbara involving extensive use of renewable energy and low emission fuel sources for our stationary power assets.</td>
</tr>
</tbody>
</table>
# Physical risks

<table>
<thead>
<tr>
<th>Risk</th>
<th>Risk detail</th>
<th>Mitigation and opportunities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Acute</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cyclone frequency and intensity</td>
<td>There is a risk of increased severity and intensity of cyclone activity impacting the Pilbara region. This creates potential exposure from port inundation, wind damage and flooding which may cause material damage to assets leading to operational disruptions, impacts to production rates and increased costs associated with asset repair.</td>
<td>Our Climate Change Strategy focuses on building resilience into our operations to protect assets and minimise operational downtime from extreme weather events. We have constructed our port, rail and mine infrastructure to meet the highest specifications, accounting for the risk of extreme weather events. All new projects assess and develop management and mitigation mechanisms to address the potential physical impacts of climate change. We will continue to work with the Pilbara Ports Authority and other operators to minimise impacts to ship movements during extreme weather events.</td>
</tr>
<tr>
<td>Bushfire frequency and intensity</td>
<td>Temperature increases in the Pilbara could increase the frequency and/or severity of bushfires which have the potential to cause damage to our infrastructure and/or disruption to mining and rail operations.</td>
<td>Our Climate Change Strategy focuses on building resilience into our operations to protect assets and minimise operational downtime from bushfires. We regularly implement a Bushfire Risk Management program across fire prone areas focusing on the protection of people and key assets/infrastructure from wildfire. The program incorporates the use of prescribed burning to reduce available fuel and minimise the frequency, intensity and duration of bushfires. An objective of the program is to reduce the disruption (loss of business continuity) caused by bushfire by managing the land on which we operate. We engage with the relevant Traditional Custodians to participate in the fire management program.</td>
</tr>
<tr>
<td><strong>Chronic</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Changes in precipitation patterns</td>
<td>The potential for prolonged drought events or changes to seasonal precipitation patterns in the Pilbara region may place increasing stress on the availability of water resources to support operational requirements and meet existing environmental obligations. This could cause production interruptions and also has the potential to delay regulatory approvals and/or require more onerous water management and monitoring controls that increase costs.</td>
<td>Our Water Strategy is focused on improving the efficiency of water usage across our operations. This includes adopting technological solutions and using metrics and internal performance standards to proactively manage water scarcity risks. We will continue to work with regulators to reduce the risk of extended approval timeframes and ensure that appropriate risk management and internal controls are in place to meet regulatory requirements.</td>
</tr>
<tr>
<td>Rising sea levels and storm surge inundation</td>
<td>Global sea level rises coupled with storm surges have the potential to cause material damage to port infrastructure through inundation. Sea levels may rise due to expanding ocean volumes from temperature increases and from melting glaciers and ice sheets. There is a range of projections around sea level rises from 0.3m to 2.5m by 2100 (NOAA Climate.gov) depending on emissions scenarios.</td>
<td>We have constructed our port infrastructure to meet the highest specifications accounting for the risk of extreme weather events and potential long-term rise in sea levels. Port infrastructure is currently designed to an Australian Height Datum (AHD) of 6.8m. This takes into account current independent modelling on storm surge levels and potential sea level rises.</td>
</tr>
</tbody>
</table>
Scenario analysis

During FY20, we expanded the scope of our climate-related scenario analysis to evaluate the impact of various climate change-related physical and transition risks on the demand for iron ore and other commodities.

The analysis was supported by three tailored, demand driven and divergent ‘climate futures’.

Assumptions were informed by research that considered climatic, economic, demographic, technology and policy scenarios. The qualitative and quantitative elements of the research were endorsed and validated by internal stakeholders from across the business. Scenario assumptions were also compared against iron ore demand forecasting conducted separately by Fortescue.

The scenario analysis process was informed by guidance from the TCFD, embedding assumptions that were:

- Plausible
- Distinctive
- Consistent
- Relevant
- Challenging.

The resilience of our business was assessed against the following three ‘climate future’ scenarios, for the period 2021 to 2040:

- Rapid transition: 2°C increase
- Accelerating transition: 3°C increase
- Slow transition: 4°C+ increase

Outcomes of the climate-related scenario analysis workshops are being integrated into our risk management processes and will support the definition and management of material business risks to inform strategic decision making.

In FY21, we will continue to test resilience against the material risks presented in the Risks and Opportunities section within this report (see pages 17 to 19). We will also review core assumptions and expand operational stress testing against the physical impacts of climate change.

Fortescue will continue to assess opportunities to diversify and grow our portfolio as the world transitions to a net zero emissions global economy. This includes increasing exposure to commodities other than iron ore where demand of those commodities is expected to increase. As part of our scenario analysis, commodities included in our future demand assessments include copper, lithium, nickel, zinc and hydrogen.

Scenario 1
Rapid transition

The first scenario represents a rapid global transition to net zero emissions, where strong action is undertaken to limit global temperature increase to below 2°C. In this scenario, the rapid transition is driven by significant climate-related physical impacts in the short term. Following a period of initial instability in the global economy, there is strong demand for those commodity types required to support low emissions and negative emission technologies.

Scenario 2
Accelerating transition

The second scenario represents an accelerating transition to net zero emissions, resulting in a global temperature increase closer to 3°C. Population and consumption growth increases, resulting in an increase in global emissions until 2030. Significant climate-related physical impacts result in declining global economic growth from 2035, driving widespread acceleration and ambitious emissions mitigation frameworks. Between 2035 and 2040, demand accelerates for those commodity types required to support low emissions and negative emission technologies.

In accordance with TCFD guidance, Scenario 2 has been selected as our central case scenario as we currently consider it to be the most likely of the three scenarios to eventuate.

Recognising the significant physical impacts in this scenario, Fortescue has developed an emissions reduction strategy that advocates for faster-paced reductions that are more closely aligned with Scenario 1 (see Metrics and Targets section).

Scenario 3
Slow transition

The third scenario represents slow transition to net zero emissions, resulting in a global temperature increase of over 4°C. Population and consumption growth increases, resulting in an increase in global emissions until 2030. Despite high magnitude climate-related physical impacts, there is no coordinated global response to develop aggressive emissions mitigation frameworks. There is a weakened economic outlook but some additional demand for commodity types required to support low emissions and negative emission technologies.
Emissions profile

Emissions intensity in electricity generation (Scope 1) has reduced by 16 per cent from FY15 levels.

Scope 1 and 2 emissions

<table>
<thead>
<tr>
<th>Objective</th>
<th>Target</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduce carbon emissions across the business</td>
<td>By FY20, reduce emissions intensity in electricity generation by 25% from FY15 levels</td>
<td>16% reduction</td>
</tr>
<tr>
<td></td>
<td>By FY20, reduce emissions intensity in electricity consumption in the production process by 5% from FY17 levels</td>
<td>7% reduction</td>
</tr>
</tbody>
</table>

Our FY20 Scope 1 emissions were 1.93 million tonnes of CO₂-e and our Scope 2 emissions were 0.16 million tonnes of CO₂-e. Emissions intensity in electricity generation (Scope 1) has reduced by 16 per cent.

This target will be achieved 12 to 18 months later than expected due to delays to the construction of the Chichester Solar Gas Hybrid Project.

Total emissions generated in FY20 are approximately 13 per cent higher than FY19. This increase is primarily due to expanding operations, including construction works at the Eliwana mine and rail development and increased haulage distances due to the long and shallow nature of Fortescue’s ore body at the Chichester and Solomon Hubs. Emissions intensity in energy consumption during FY20 was 325.2 t CO₂-e/mt.km, a reduction of seven per cent since FY17.

Our approach to GHG emissions reporting is compliant with the Australian Government’s National Greenhouse and Energy Reporting Act 2007 and associated regulations.
Scope 3 emissions

Scope 3 emissions are those emissions that fall within a company’s value chain but are outside its operational control. Our Scope 3 estimates are informed by the international Greenhouse Gas Protocol’s (GHG Protocol) Corporate Value Chain (Scope 3) Accounting and Reporting Standard. In accordance with this guidance we determined that crude steel manufacturing and shipping were priority Scope 3 emission sources for Fortescue because of their relative materiality. FY20 Scope 3 emissions from these two sources are estimated to be 244.5 million tonnes of CO2-e.

All other Scope 3 emissions were determined to be immaterial. Estimates for quantified Scope 3 emissions sources are provided in the table below.

Scope 3 emissions are defined by the GHG Protocol as the direct emissions of another entity. Inherent in Scope 3 reporting is double counting of the same emission source by two or more entities within the same value chain. For example, the Scope 3 emissions from steel manufacturing would be counted by the company that supplies the coal, as well as the company that supplies iron ore.

We apply a crude steel emissions factor developed by the World Steel Association to calculate the Scope 3 emissions from steel manufacturing. We believe that this emissions factor may overstate our actual Scope 3 emissions because of recent lower emission steel making technology and process upgrades at some customer mills that reduce the emissions intensity of their operations.

We expect that Scope 3 emissions from our customer steel mills will continue to trend downwards over time as we increase our focus on modifying the processing of our ores to maximise metallurgical performance and support our customers in adopting innovative lower emissions processes and technologies (see Climate Change Strategy section on pages 8 to 11).

Steel is strong and durable and will be integral to the emergence of a sustainable circular global economy that is resilient to the physical impacts of climate change. We will continue to engage with and support customer steel mill emissions reductions through technology, innovation and process upgrades.

Engagement with our supply chain and customers includes information on the opportunities being pursued to reduce our Scope 3 emissions in steel manufacturing is detailed in Reducing Emissions on pages 8 to 11.

<table>
<thead>
<tr>
<th>Scope 3 emissions source</th>
<th>FY20 Scope 3 emissions (Mt CO2-e)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crude steel manufacturing</td>
<td>241.0</td>
</tr>
<tr>
<td>Shipping</td>
<td>3.5</td>
</tr>
</tbody>
</table>
Data table

<table>
<thead>
<tr>
<th>Greenhouse gas emissions</th>
<th>FY20</th>
<th>FY19</th>
<th>FY18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scope 1 emissions (million tonnes CO₂-e)</td>
<td>1.93</td>
<td>1.69</td>
<td>1.46</td>
</tr>
<tr>
<td>Scope 2 emissions (million tonnes CO₂-e)</td>
<td>0.16</td>
<td>0.15</td>
<td>0.21</td>
</tr>
<tr>
<td>Emissions intensity in electricity generation (t CO₂-e/wmt ('000))</td>
<td>3.64</td>
<td>3.6</td>
<td>3.78</td>
</tr>
<tr>
<td>Reduction in emissions intensity in electricity generation since FY15</td>
<td>16%</td>
<td>17%</td>
<td>13%</td>
</tr>
<tr>
<td>Reduction in emissions intensity in electricity consumption in the production process since FY17</td>
<td>7%</td>
<td>8%</td>
<td>4%</td>
</tr>
<tr>
<td>GHG emissions intensity in energy consumption (t CO₂-e/mt.km)</td>
<td>325.2</td>
<td>319.6</td>
<td>324.4</td>
</tr>
<tr>
<td>Scope 3 emissions - Crude steel manufacturing (million tonnes CO₂-e)</td>
<td>241.0</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Scope 3 emissions - Shipping (million tonnes CO₂-e)</td>
<td>3.5</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total diesel consumption (million litres)</td>
<td>641</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total natural gas consumption (million gigajoules)</td>
<td>3.6</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Navigational Index

The Navigational Index references the location of TCFD-aligned disclosures within our FY20 Climate Change Report.

<table>
<thead>
<tr>
<th>TCFD recommendation</th>
<th>Disclosure</th>
<th>Location</th>
</tr>
</thead>
</table>

Governance - Disclose the organisation’s governance around climate change-related risks and opportunities.

a) Describe the board’s oversight of climate-related risks and opportunities. Governance page 13
b) Describe management’s role in assessing and managing climate-related risks and opportunities. Governance page 13

Strategy - Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation’s businesses, strategy, and financial planning where such information is material.

a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long-term. Risks and opportunities pages 17-19
b) Describe the impact of climate-related risks and opportunities on the organisation’s businesses, strategy, and financial planning. Risks and opportunities pages 17-19
c) Describe the resilience of the organisation’s strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario. Scenario analysis page 20
<table>
<thead>
<tr>
<th><strong>TCFD recommendation</strong></th>
<th><strong>Disclosure</strong></th>
<th><strong>Location</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk management - Disclose how the organisation identifies, assesses, and manages climate-related risks.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Describe the organisation's processes for identifying and assessing climate-related risks.</td>
<td>Risks and opportunities: Risk management process</td>
<td>pages 17-19</td>
</tr>
<tr>
<td>b) Describe the organisation's processes for managing climate-related risks.</td>
<td>Risks and opportunities: Material risks and opportunities</td>
<td>pages 17-19</td>
</tr>
<tr>
<td>c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.</td>
<td>Risks and opportunities: Risk management process</td>
<td>pages 17-19</td>
</tr>
<tr>
<td>Metrics and targets - Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.</td>
<td>Metrics and targets</td>
<td>page 15</td>
</tr>
<tr>
<td></td>
<td>Emissions profile</td>
<td>pages 21-22</td>
</tr>
<tr>
<td>b) Disclose Scope 1, Scope 2 and if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.</td>
<td>Emissions profile</td>
<td>pages 21-22</td>
</tr>
<tr>
<td></td>
<td>Data tables</td>
<td>page 23</td>
</tr>
<tr>
<td>c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.</td>
<td>Metrics and targets</td>
<td>page 15</td>
</tr>
<tr>
<td></td>
<td>Emissions profile</td>
<td>pages 21-22</td>
</tr>
</tbody>
</table>

**Glossary - Data table metrics**

**CO₂ equivalent (CO₂-e)**  
The universal unit of measurement to indicate the aggregate carbon dioxide equivalent emissions of carbon dioxide (CO₂), methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride.

**Existing Operations**  
Existing Operations include all of Fortescue's current iron ore mines, together with the Eliwana Project.

**Scope 1**  
Emissions from operations owned and controlled by Fortescue within Australia. These include emissions from our mining fleet and the power stations operated by us.

**Scope 2**  
Indirect emissions generated from electricity purchased by Fortescue within Australia.

**Scope 3**  
Indirect emissions within Fortescue’s value chain (excluding Scope 2), including upstream and downstream emissions.

**Task Force on Climate-related Financial Disclosure (TCFD)**  
The TCFD was established by the Financial Stability Board to develop recommendations for more effective climate-related disclosures to allow a better understanding of carbon related assets and exposures to climate-related risks.