

# Half Year Results to 31 December 2020

 **Fortescue**

**18 February 2021**

## Record half year performance delivers a 93 per cent increase in interim dividend to A\$1.47 per share

### Highlights

- Ongoing improvement in safety performance with the Total Recordable Injury Frequency Rate (TRIFR) reduced to 2.1 at 31 December 2020, 13 per cent lower than 30 June 2020
- Shipments, earnings and operating cashflow surpassed any half year in Fortescue's history
- Underlying EBITDA of US\$6.6 billion for the six months ending 31 December 2020 (H1 FY21) was 57 per cent higher than the prior period, and EBITDA margin increased to 71 per cent
- Net profit after tax (NPAT) of US\$4.1 billion and earnings per share of US\$1.33 (A\$1.84) increased 66 per cent from the prior corresponding period
- Net cashflow from operating activities of US\$4.4 billion and free cashflow of US\$2.5 billion after investing US\$1.9 billion in capital expenditure
- Fully franked interim dividend declared of A\$1.47 per share is 93 per cent higher than the FY20 interim dividend and represents an 80 per cent payout of H1 FY21 NPAT
- Fortescue has a commitment to shareholder returns targeting the top end of its dividend policy to payout 80 per cent of full year NPAT. With 20 per cent of NPAT available to fund future growth, Fortescue intends to allocate 10 per cent to fund renewable energy growth through Fortescue Future Industries (FFI) and 10 per cent to fund other resource growth opportunities.
- Net debt of US\$110 million at 31 December 2020, inclusive of cash on hand of US\$4.0 billion
- In December 2020, first ore was achieved at the Eliwana mine, Fortescue's first mining operation in the Western Hub region of the Pilbara
- Based on strong first half performance and continued focus on debottlenecking to optimise capacity, guidance for FY21 shipments is increased to 178-182mt
- FY21 guidance for C1 cost is updated to US\$13.50-US\$14.00/wet metric tonne (wmt) based on a revision to the assumed FY21 average exchange rate from AUD:USD 0.70 to 0.75
- FY21 guidance for capital expenditure is revised to the upper end of the guided range of US\$3.0 to US\$3.4 billion, primarily due to the revision to the assumed exchange rate.

Fortescue Chief Executive Officer, Elizabeth Gaines, said "Fortescue's performance for the first half of FY21 has been outstanding, and we are very proud of the whole team who have delivered our best half year operating and financial results since the Company was established.

"Revenue of US\$9.3 billion for the first half exceeded the prior comparable period by 44 per cent, with realised prices increasing by 42 per cent, outperforming the increase in the Platts 62% CFR

Index of 32 per cent for the same period. Our continued focus on cost management contributed to Underlying EBITDA of US\$6.6 billion at an increased margin of US\$80 per dry metric tonne.

“Pleasingly, our safety performance also improved, and we have maintained our unwavering commitment to protecting the health and wellbeing of our team during the ongoing global COVID-19 pandemic, ensuring that we continue to meet strong demand from our customers. As a result, Fortescue’s significant economic contribution, together with the mining and resources industry continues to underpin the strong performance of the Western Australian and National economies.

“Our commitment to sustainability across all aspects of our business extends to the important role that Fortescue Future Industries is taking in the global development of renewable energy, building on the projects we have underway in green hydrogen. These exciting diversification opportunities will be supported by Fortescue’s disciplined capital allocation framework.

“Fortescue’s excellent operating performance in the first half and our continued focus on capacity optimisation has supported an increase in FY21 shipments guidance to 178-182mt and against the backdrop of the continued strength of the Australian dollar, we have revised our guidance for C1 cost.

“Our world-class, integrated operations and customer-focused marketing strategy, together with completion of key milestones across our Eliwana and Energy projects, strongly positions Fortescue to continue to deliver sustained returns to our shareholders. The Board have declared an interim dividend of A\$1.47 per share, which represents an 80 per cent payout ratio of net profit after tax, consistent with our target to pay the upper end of our stated dividend policy range,” Ms Gaines said.

## Fortescue Future Industries

- Fortescue Future Industries (FFI) has been established as a wholly owned subsidiary of Fortescue, and through FFI, renewable energy and green hydrogen projects both in Australia and globally have been identified.
- Leveraging Fortescue’s successful track record of identifying, assessing, and developing large-scale resource and infrastructure opportunities, the Company will bring its demonstrated capability of adopting innovation and technology to ensure future green energy projects will position Fortescue at the forefront of this emerging industry.
- Fortescue’s disciplined capital allocation strategy and commitment to shareholder returns targets the top end of its dividend policy to payout 50-80 per cent of full year Net Profit After Tax (NPAT). With 20 per cent of NPAT available to fund future growth, Fortescue intends to allocate 10 per cent to fund renewable energy growth through FFI and 10 per cent to fund other resource growth opportunities.

## Sustainability

- The Company is investing in a range of practical initiatives to decarbonise our operations which will underpin the achievement of our industry leading emissions target of net zero operational emissions by 2040.
- Fortescue’s ongoing commitment to sustainability continues to generate strong recognition, with inclusion in the 2020 Dow Jones Sustainability Indices, an upgraded status in the latest MSCI ESG ratings and the recent award of a Gold Class distinction in the S&P Global Sustainability Awards.
- Fortescue’s inclusion in the 2020 Best Companies for Women to Advance List positions it among the leading companies internationally for supporting the development of female leaders. The Company’s female employment rate continues to steadily increase and is now at 20 per cent of the total workforce and 40 per cent of employees in the head office.
- As of 31 December 2020, Aboriginal people represented 10 per cent of Fortescue’s total workforce and 14 per cent of Pilbara operations employees. Through the Billion Opportunities

program, an initiative that promotes sustainable business opportunities for Aboriginal people, Fortescue has now awarded contracts and subcontracts to Aboriginal businesses and joint ventures with a total value of A\$3 billion.

## Operational and financial performance

- Fortescue's integrated operations and marketing strategy and strong customer demand contributed to record half year shipments, earnings and operating cashflow.
- Revenue of US\$9.3 billion was 44 per cent higher than H1 FY20, reflecting both the three per cent increase in ore sold to 90.2 million tonnes (mt) and a 42 per cent increase in average realised price to US\$114 per dry metric tonne (dmt).
- Underlying EBITDA of US\$6.6 billion was 57 per cent higher than H1 FY20. The Underlying EBITDA margin increased to 71 per cent or US\$80/dmt on higher prices and a continued focus on cost management through productivity and innovation.
- Underlying NPAT of US\$4.1 billion increased 66 per cent compared to H1 FY20 and equates to a return on equity of 47 per cent. Earnings per share (EPS) was US\$1.33 (A\$1.84).

Operations	H1 FY21	H1 FY20	Change (%)
Ore mined (m wmt)	108.4	105.2	3
Ore processed (m wmt)	90.3	91.3	(1)
Ore shipped (m wmt)	90.7	88.6	2
Ore sold <sup>1</sup> (m wmt)	90.2	87.7	3
Realised price (US\$/dmt)	114.02	80.36	42
C1 cost (US\$/wmt)	12.78	12.73	0

<sup>1</sup> Timing differences may occur between shipments and sales as FMG Trading Shanghai Co. Ltd holds inventory at Chinese ports.

Earnings	H1 FY21	H1 FY20	Change (%)
Revenue (US\$ million)	9,335	6,485	44
<b>Underlying EBITDA (US\$ million)</b>	<b>6,639</b>	<b>4,228</b>	<b>57</b>
Underlying EBITDA margin (%)	71	65	9
Reported NPAT (US\$ million)	4,084	2,453	66
<b>Underlying NPAT (US\$ million)</b>	<b>4,084</b>	<b>2,464</b>	<b>66</b>
Basic EPS (US cents)	133	80	66
Basic EPS (AUD cents)	184	116	58
<b>Fully franked dividend (AUD cents)</b>	<b>147</b>	<b>76</b>	<b>93</b>

## Financial position

- Fortescue's balance sheet is structured on low cost, investment grade terms while maintaining flexibility to support ongoing operations and the capacity to fund future growth.
- The cash balance was US\$4.0 billion at 31 December 2020 and gross debt was US\$4.1 billion following the repayment of the US\$1.0 billion revolving credit facility during the half. Net debt of US\$110 million at 31 December 2020 compares to net debt of US\$258 million at 30 June 2020.
- Credit metrics remain strong, with gross debt to EBITDA of 0.4 times and gross gearing of 21 per cent at 31 December 2020.
- Fortescue continued to generate strong cashflows during H1 FY21. Net cash from operating activities of US\$4.4 billion was 42 per cent higher than H1 FY20, reflecting the increase in

Underlying EBITDA. Free cashflow available for dividends and debt was US\$2.5 billion, after investing US\$1.2 billion in major projects (Eliwana, Iron Bridge and Energy).

- Total capital expenditure in H1 FY21 was US\$1.9 billion, comprising US\$647 million in sustaining and operational development capital, US\$58 million in exploration and studies and US\$1.2 billion in major projects.

Financial position (US\$ million)	31 December 2020	30 June 2020	Change (%)
Borrowings	3,203	4,234	(24)
Lease liabilities	881	879	0
<b>Total debt</b>	<b>4,084</b>	<b>5,113</b>	<b>(20)</b>
Cash and cash equivalents	3,974	4,855	(18)
<b>Net debt</b>	<b>110</b>	<b>258</b>	<b>(57)</b>
Equity	15,007	13,244	13

Cashflow (US\$ million)	H1 FY21	H1 FY20	Change (%)
Cashflow from operating activities	4,410	3,114	42
Capital expenditure	(1,891)	(857)	121
<b>Free cashflow</b>	<b>2,519</b>	<b>2,257</b>	<b>12</b>

## Dividend

- The Board has declared a fully franked interim dividend of A\$1.47 per share. The ex-dividend date is 1 March 2021, and the dividend will be paid to shareholders on 24 March 2021.
- The interim dividend is 93 per cent higher than the FY20 interim dividend and represents an 80 per cent payout of H1 FY21 NPAT. This is consistent with Fortescue's dividend policy of a payout ratio of 50 to 80 per cent of full year NPAT.

Dividend summary	H1 FY21	H1 FY20	Change (%)
Underlying NPAT (US\$ million)	4,084	2,464	66
Earnings per share (US cents)	133	80	66
Earnings per share (AUD cents)	184	116	58
<b>Interim dividend (AUD cents)</b>	<b>147</b>	<b>76</b>	<b>93</b>
Dividend payout ratio (%)	80	65	23

## FY21 guidance

- Iron ore shipments of 178 - 182mt
- C1 costs of US\$13.50 - US\$14.00/wmt
- Capital expenditure at the upper end of the range of US\$3.0 - US\$3.4 billion.

Guidance for C1 costs and capital expenditure is based on a revision to the assumed FY21 average exchange rate from AUD:USD 0.70 to 0.75.

Authorised for lodgement by:  
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## Reporting calendar

Event	Date
March Quarterly Production Report	29 April 2021
June Quarterly Production Report	29 July 2021
FY21 Results	30 August 2021
September Quarterly Production Report	28 October 2021



## Appendix

### Glossary

C1	Unit operating costs of mining, processing, rail and port, including allocation of direct administration charges and production overheads
Underlying EBITDA	Earnings before interest, tax, depreciation and amortisation, exploration, development and other expenses
Underlying NPAT	Net profit after tax adjusted for one off refinancing and early debt repayment costs.

<b>Earnings reconciliation (US\$ million)</b>	<b>H1 FY21</b>	<b>H1 FY20</b>
Operating sales revenue	9,335	6,485
Cost of sales excluding depreciation and amortisation	(2,415)	(2,277)
Net foreign exchange gain/(loss)	(119)	70
Fair value change in derivatives	(54)	-
Administration expenses	(109)	(52)
Other income/(expenses)	1	2
<b>Underlying EBITDA</b>	<b>6,639</b>	<b>4,228</b>
Finance Income	11	27
Finance expenses	(86)	(150)
Depreciation and amortisation	(672)	(657)
Exploration, development and other expenses	(28)	(21)
<b>Net profit before tax</b>	<b>5,864</b>	<b>3,427</b>
Income tax expense	(1,780)	(974)
<b>NPAT</b>	<b>4,084</b>	<b>2,453</b>
Loss on early debt repayment after tax	-	11
<b>Underlying NPAT</b>	<b>4,084</b>	<b>2,464</b>

Reconciliation of underlying EBITDA and underlying NPAT under the Australian Accounting Standards.