



FY21 Full Year Results

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Start of Transcript

Operator: Thank you for standing by and welcome to the Fortescue Metals Group FY21 full year results analyst call. All participants are in a listen only mode. There will be a presentation followed by a question and answer session. If you wish to ask a question, you will need to press the star key followed by the number one on your telephone keypad. We ask that participants limit their questions to two each. Should you wish to ask a further question, you will need to re-join the queue.

I would now like to hand the conference over to Ms Elizabeth Gaines, CEO. Please, go ahead.

Elizabeth Gaines: Thank you, Melanie. Good morning or afternoon, everybody and welcome to Fortescue's FY21 full year results presentation. I am delighted that today we are joined by Fortescue Founder and Chairman, Dr Andrew Forrest, AO. Andrew, would you like to say a few words?

Andrew Forrest: Thank you, Elizabeth. Just to extend my warm welcome to all of you. To pass on my deep gratitude that these truly spectacular results whilst yes, of course, were carried on the wind of strong commodity prices, predicting strong commodity prices is notoriously difficult. If I was asked, are these the end of them? I'd say no. What I have been sure of, is that commodity price predictors never get it right.

To say that the team has performed way beyond the commodity price is a great understatement. The record set throughout this Company in production, in shipping, in safety, in performance, in their ability to run major projects. To develop major projects. To take all the tough decisions whenever they're required is, I think, without current peer.

So I'd just like to put my congratulations to the team on the record and say thank you all and hand back to Elizabeth gratefully.

Elizabeth Gaines: Thank you, Andrew and joining with me today is also Ian Wells, Chief Financial Officer and Julie Shuttleworth, Fortescue Future Industries Chief Executive Officer. Whether you're participating via phone or webcast, I do thank you for joining us. Those who have joined via webcast, you will be able to follow along with the slides and for those who have dialled in separately, there is a copy of our FY21 results presentation available on our website.

So that brings me to our full year results which build on the excellent operational performance that we released to the market just a few weeks ago. Today's announcement is truly a testament to the hard work and dedication of the entire Fortescue team who are guided by our unique culture and values, which are just as relevant today as they were 18 years ago when Fortescue was established.

The 2021 financial year was a second consecutive year of record achievement with the team delivering outstanding results across all of our key operating and financial measures.

So I will turn first to safety and the team delivered our lowest ever Total Recordable Injury Frequency Rate or TRIFR of 2 against a backdrop of an incredibly challenging year. One which we saw multiple COVID lockdowns in Western Australia but also across the nation.

The current situation on the east coast and especially New South Wales is a reminder that we're still in the midst of a global pandemic and vaccination is absolutely vital to Australia's ongoing response to COVID-19. The health and safety of the Fortescue family is our highest priority and we encourage all eligible team members to get vaccinated.

We believe that vaccination is the key to protecting our workforce and a significant contribution that the resources sector is making to the economy as well as achieving workforce mobility across Australia.

So, before I turn to today's financial results, I would like to again highlight our production results that we released with the quarterly last month. The strong performance by the team across the entire supply chain contributed to our highest ever annual shipments of 182.2 million tonnes.

Reflecting our focus on cost management and the ongoing investments we've been making in innovation and technology, we've maintained our industry-leading cost position with a C1 cost for FY21 of US\$13.93 per wet metric tonne.

The strength of this operating performance, combined with record average revenue has seen earnings and operating cash flow surpass any year in Fortescue's history. Some highlights of this record financial result include revenue of US\$22.3 billion, underlying EBITDA of US\$16.4 billion and net profit after tax of US\$10.3 billion, which is 117 per cent increase compared to last year.

Our integrated operations and marketing strategy continued to deliver significant benefits during FY21 and allowed us to adapt and respond to market conditions. This is firmly reflected in a 72 per cent increase in Fortescue's revenue to US\$135 per tonne.

Throughout the COVID-19 pandemic, Australia's mining and resources sector has continued to drive the country's economic success with the industry generating a new record high of almost A\$300 billion in export revenues in FY21 and with iron ore exports alone contributing A\$152 billion. That's the equivalent of 33 per cent of Australia's total export revenue.

The strength of our operations and balance sheet means that we can continue to invest in our business and importantly, invest in growth. During the year, the team celebrated the delivery of our newest mining operation at Eliwana, with the operations team achieving the annualised rate of production through the ore processing facility of 30 million tonnes per annum within six months of first ore.

Reflecting the low capital intensity of the project as well as the current strength of the market, we're anticipating a short payback period on our investment in Eliwana.

The Iron Bridge Magnetite project is a strategic investment which will provide us with an enhanced product range to meet future customer demand. This project represents one of the few large-scale iron ore growth projects under construction globally.

Reflecting Fortescue's outstanding performance in FY21 and our strong commitment to delivering shareholder returns, we have today announced a final dividend of AU\$2.11 per share and this, along with our interim dividend of A\$1.47 per share, represents total dividends of A\$11 billion and that's a payout ratio of 80 per cent of full year net profit after tax.

This is consistent with our stated intent to target the top end of our policy to payout a range of 50-80 per cent of net profit after tax. So, on that, I'm going to hand over to Ian for an update on the record financial performance. Ian?

Ian Wells: Thanks Elizabeth and hi everyone. I'd just like to start by saying what a privilege it is to be presenting a summary of our financial performance, where we achieved records across all of the key financial measures and have

once again reported a nice clean set of numbers driven by consistent operating performance where low operating costs and capital discipline drives margin, free cashflow generation and return on capital.

On reflection, FY21 was not without its challenges, including managing COVID-19, the impacts of the stronger Australian dollar, tightening materials and labour markets, together with mine plan driven cost escalation.

But we still continue to re-invest in our assets and this investment delivers high availability and productivity. That is reflected in our ability to again continue, in fact, to increase production levels year-on-year and as a result, maximise value.

In the year, we commissioned Eliwana, and this is our third mining hub. That opens up the Western Pilbara region and increases our system's ore processing and rail capacity. As you heard from Elizabeth, Eliwana is a very high return and a fast payback investment.

Turning to the FY21 results and starting with revenue, US\$22.3 billion with market price realisation and also volume contributing to the 74 per cent increase over FY20. Revenue, coupled with strong cost management, contributed to EBITDA of US\$16.4 billion with EBITDA in the second half of almost US\$10 billion which, in and of itself exceeded full year FY20 EBITDA of US\$8.4 billion.

The FY21 EBITDA margin was 73 per cent on US\$99 per tonne and drilling down on slide 12 of the pack, which you all are aware, that is one of my favourites. On the webcast, you can see we've continued to generate strong margins through the cycle with the five year average EBITDA margin now almost US\$50 per tonne.

That margin, of course, is impacted by market factors together with the things that we can control, including the focus on cost performance along with volume and product mix. While the market is cyclical, our realisation has been around 85 per cent of the Platts 62 Index since the second half of FY19.

As we mentioned in the June quarterly, our FY21 operating costs did increase. Largely driven by 11 per cent appreciation in the average Aussie-US dollar exchange rate, together with the impact of the ramp up at Eliwana, and we continue to focus on innovation and technology to drive productivity gains and maintain our industry-leading cost position.

Of course, EBITDA flows through to NPAT, which increased 117 per cent to US\$10.3 billion and earnings per share was US\$3.35. That translates to A\$4.48 and implies an earnings yield of over 22 per cent on Fortescue's current share price.

A couple of points to note on the P&L. On FFI expenditure of US\$104 million, that's included in our other expenses and further detail was provided in the financial statements. We also incurred a US\$54 million after tax expense for the early retirement of debt related to the re-financing that we did in March, which impacts reported net profit after tax.

On cash flow, with the iron ore prepayments fully amortised by the end of FY20, our NPAT to free cash flow reconciliation is relatively straightforward and is represented by two items. One is the variance in depreciation to capital expenditure and the second is the timing of tax payments.

For FY21, capex of US\$3.6 billion was higher than depreciation of US\$1.4 billion, driven by our investment in growth. So our major projects, Eliwana, Iron Bridge and the Pilbara Energy Connect, which together amounted to US\$2.1 billion. Our higher earnings led to an increase in our provision for income tax and that's due to the final tax payment for FY21 of approximately US\$1 billion and that will be paid later in the year in December.

The free cash flows available for debt and dividends was a record US\$9 billion and this contributed to cash on hand increasing to US\$6.9 billion at 30 June 2021.

Moving on to capital allocation and our framework incorporates the four pillars of re-investing in the business, maintaining a strong balance sheet, paying returns back to shareholders and investing in growth. As we guided at the quarterly, FY22 capex includes US\$1.4 billion in sustaining and development capex as well as US\$1.1 billion to US\$1.4 billion on growth projects, which is mostly representative of Iron Bridge.

A point on the balance sheet, you will note that there is no longer the joint venture contribution liability. That is because those payments were made in FY21 and going forward, our share of Iron Bridge capex will be proportionate to our 69% joint venture interest.

On slide 16, that's another favourite. As you can see, our balance sheet and debt capital structure provides future funding capacity, with our gross debt at US\$4.3 billion at 30 June. Gross debt to last 12 months EBITDA is just 0.3 times and gross gearing, so that's the book value of debt, over debt plus equity, is down to 19 per cent.

Both of those ratios are well inside our targeted Investment Grade credit metrics, which is gross debt to EBITDA of 1 to 2 times and gross gearing of 30 to 40 per cent through the cycle.

As you heard from Elizabeth, the fully franked final dividend declared by the Board of A\$2.11 per share increases FY21 total dividends to A\$3.58. That represents a payout ratio of 80 per cent of NPAT and the final dividend is worth approximately US\$4.7 billion. That represents an allocation of almost 70 per cent of the 30 June closing cash balance.

For a bit of perspective, the final dividend offers a fully franked 10 per cent yield in its own right, while the total FY21 dividend of A\$3.58 represents almost an 18 per cent yield at Fortescue's recent trading levels.

So disciplined allocation is really important, and for us, that comes back to doing what we say we're going to do. That track record is evident on slide 17 where you can see that since 2014 - and that was the year we ramped up production to over 100 million tonnes per annum, Fortescue has generated US\$50 billion of EBITDA at an average margin of 57 per cent and reported US\$25 billion of net profit after tax, generated at an average return on capital of 26 per cent.

Of the US\$39 billion of net operating cashflow generated over that period, US\$11 billion has been reinvested back into the business in the combination of sustaining and growth capex, US\$9 billion of debt has been repaid and over US\$17 billion of dividends has been distributed to shareholders inclusive of the dividends declared today. That represents a payout ratio of almost 70 per cent of net profit after tax over that period.

So, in closing, we've achieved excellent financial results for FY21 with record free cash flow generation and a return on capital employed of 66 per cent. Our balance sheet is strong, putting us in a great position heading into FY22 and we remain focussed on the things that we can control, which is safety, delivering on our operations and marketing strategy and maintaining capital discipline, which in turn creates long term shareholder value through a combination of capital returns and growth.

On that note, Elizabeth, back to you.

Elizabeth Gaines: Thanks, Ian. Today we also released our FY21 Sustainability Report and our separate Climate Change Report. As a business, we know that sustainability has never been more important to our stakeholders. We're seeing ongoing changes in societal expectations and a generational shift in our key stakeholders, which includes our investors and our team members and means that we're seeing increased interest across the range of ESG considerations.

From the outset, it has been our vision to ensure that the communities in which we operate benefit from our growth and development. Our continued commitment to empowering thriving communities was demonstrated by our delivery of A\$30 billion in total global economic contribution this year.

That includes A\$8 billion in taxes, state royalties and other government payments as well as social investment of over A\$63 million in our communities through financial and in-kind support of a range of philanthropic community and training programs.

During the year, we celebrated our 10th anniversary of our Billion Opportunities program which has awarded now A\$3.5 billion in contracts to Aboriginal businesses and joint ventures since its inception, and we're proud to be one of Australia's largest employers of Aboriginal people, representing 10 per cent of our Australian workforce and 14 per cent of our Pilbara operations.

Our female employment rate increased last year and reached 21 per cent with 25 per cent of senior leadership roles held by women. Moving forward, we have a very clear focus on ensuring we have a workforce that reflects the community in which we live.

Importantly, in March this year, we announced our industry-leading target to achieve carbon neutrality by 2030. We have set clear short-term priorities on our pathway to decarbonisation including investing in renewable energy through Pilbara Energy Connect.

In line with this commitment, Fortescue's Board has recently determined that we will establish goals to tackle emissions across our value chain, with specific targets and a framework for our approach to Scope 3 emissions to be developed and announced by 30 September 2021.

Fortescue Future Industries will be a key enabler of this target with a range of heavy industry decarbonisation initiatives underway to eliminate our reliance on fossil fuels and leveraging on Fortescue's world leading track record of innovation and infrastructure, FFI will position Fortescue at the forefront of the renewable hydrogen industry. On that, I'm going to ask our Chairman, Dr Andrew Forrest AO to expand on the visions for FFI. Andrew?

Andrew Forrest: Thank you, Elizabeth. Thank you, ladies and gentlemen. We go nowhere at FFI but for the great track record, great achievements, the record after record since 2003 of Fortescue Metals Group. It is their record, our record, of making the tough decisions when they need to be made.

Of setting ourselves those incredibly stretched targets and on the whole, meeting them. Being prepared to fail and fail fast when we can't or don't but being proud of the fact that in every aspect of the organisation, you've got women and men who know that they've done their best for this organisation and/or building our country.

It's leveraging this track record of innovation, this track record of determination, this track record of excellent implementation, operation of infrastructure which gives me such confidence that I will be able to speak to you with meaning about what I see as the sight and the sound and the smell of our future.

It is empowered by a strict allocation of capital, of net profit after tax of 10 per cent. A question we get asked often on that is - is this too high or is this too low? I would say it's right. We have adequate capital to do everything we need to do. So, it's not too low. We have a string of investors around the world with much greater liquidity than us. Even though we're one of the strongest balance sheet and liquidity driven mining companies in the world, there are those who are all cash and need to deploy that cash. Their customers, their investors want to see it deployed in the renewables sector.

That's why Fortescue is evolving into the world's first vertically integrated renewables and resources company. We will keep to our dividend ratio with all the discipline that you've seen from Elizabeth and from Ian and the team. As we've fought so long and so hard for that strong balance sheet, we're never going to give it up. The sweat and the tears, the determination, the calculated risk we took to create that strong balance sheet will stay, as will our attitude to return capital to shareholders and keep our management team, keep our leadership team, keep our Board under pressure to continue to really perform on the excess capital which this great business generates.

So, before I turn to FFI, I would like to take you ladies and gentlemen to the experience I had only recently which really typifies all of Fortescue. I visited our Green Team - Fortescue's Green Team - after they had been in operation only 130 days. I would have to say that the upwelling I felt of emotion and wetness in my own eyes I had hoped was dismissed by my mates as just dust in the yard where we were. But it actually wasn't. I had this experience of what our future will look like, certainly it will look like if we get this right and we grasp the challenges ahead.

I say grasp the challenges ahead because all industries - the Australian economy is made up of industry - and all industry is made up of businesses - operate at their best with ambition or with targets which are often merged into one. If we just loosely did what we thought we should do, didn't set ourselves goals, didn't set ourselves ambitions, then we would probably be an economy of pretty average businesses and therefore pretty average industries. That would of course be a pretty average economy.

But we don't. We set ourselves targets. We set ourselves ambitions. We all work collectively from one business to another, from one industry to another, on the strengths of the targets we've set ourselves. So, I am certainly looking along with the rest of our country for government leadership on this. Australia needs a carbon neutral target, a target which we can then all get in under, all operate to, and all make happen. It is within that environment that some of the toughest targets I've ever seen are placed on Fortescue by Fortescue themselves.

When I ask you to consider whether or not your car, your train, your truck, whatever it is - the ship you're on - whether or not when they start, do you see a plume of smoke or hear sound of the future. The answer to that is no. Even in your battery car there is a plume of smoke and there is sound somewhere else in the electricity grid. Because it's not green. Same with your trains. Same with your trucks. Same with the ships.

But only the other day when I visited the Green Team, a very large haul truck started, one we have all known for ages and many of us have grown up with. It started as you would predict with a lot of sound and a lot of smoke and when that truck operated and operated under pressure, high RPMs, there was significantly more sound and smoke. It operated well.

Then a truck which had its entire power train designed, built, installed and commissioned in 130 days started, it was the world's first hydrogen fuel cell truck. I know this because I was the third person to drive a hydrogen fuel cell haul truck. Only the two engineers who had designed that truck had driven it beforehand. The point I'm making here, which led to that upwelling of emotion in me, is that when that truck started there was no smoke. There was no sound, not even indirectly at a power station somewhere else. There was no smell of fuel and carbon.

In fact, when that truck was under even more pressure, under even greater engine revolutions, the only sound you could hear was air fan coolers and for sight, small wisps of steam, pure hydrogen and oxygen, purer water than you'll ever get from a bottle of Evian. That to me was the sight, sound and smell of the future.

I witnessed a train engine running on ammonia, a huge mobile equipment bigger than some people's houses, running on a hydrogen fuel cell like a truck and it impacted me not of the tremendous fortitude, only the huge determination of our team only, their sacrifice to meet those targets sometimes working around the clock, their courage to take calculated risks with a solid Plan B and their innovation to try whatever they could and to fail and fail quick and then move on fast - expediently from the lessons of that failure which can only be driven from that failure.

I wondered ladies and gentlemen why this has not happened before. Why in 130 days alone are there such massive technical breakthroughs by only one company - determined, yes; innovative, yes; resourced, yes - but only one company in the world which is a heavy industry, heavy manufacturing company, has nailed to its mast 2030 carbon neutrality. Only one company in the world has said, we're absolutely going to do this and supply massive green energy through green hydrogen and green ammonia so that many other companies can do exactly the same thing without that commensurate risk or reward that we are taking.

While I think it's great that companies which society relies on which don't emit any carbon bravely announced that they're going green by some date, I think really that's just an interesting footnote. It is only those industries, it is only those companies which are heavy carbon emitters which society relies on, which by going green can make the difference and start to slow and then eliminate global warming we all face. That global warming is a certainty unless companies like us act. And are other companies acting who are like us? At this stage I'm only hearing crickets, silence. That's okay.

We will continue to lead this industry as a heavy carbon emitter going rapidly green, as an organisation which has a deep strategy in place to produce the fuels the world needs which are zero carbon and to create the economy and the employment which every Australian is going to need. Whatever is the future of the fossil fuel sector, what we know for sure is that the green energy sector will be the largest industry in the world. All those companies who at this stage are silent alongside us with a strong 2030 target and with ambitions to produce from that energy their own green industries to sell to others, they will all join us. It's not a matter of if. It is simply a matter of when.

So, I am deeply proud of Fortescue's major diversification, its people, its vision to be the world's major - and only at this stage - vertically integrated renewables and resources energy company, and to do so ladies and gentlemen, through driving value into Fortescue shares through lowering our operating costs and through increasing our profits and return to shareholders.

With that Elizabeth, thank you for giving me the stage for a moment and I gratefully hand back.

Elizabeth Gaines: Thank you Andrew. So, in summary we have achieved outstanding results for FY21 and guided by our unique culture and values we have delivered a second consecutive year of record performance with shipments, earnings and operating cash flow surpassing any year in Fortescue's history. Through the Iron Bridge Magnetite project and FFI we are investing in the growth of our iron ore operations as well as pursuing ambitious global opportunities in renewable energy and green industries.

We know that we continue to operate in a cyclical market. We are agile and we respond to market conditions to ensure that we remain a reliable supplier of iron ore to our customers. As a low cost producer, we continue to generate strong margins through the cycles.

Ladies and gentlemen, we have already seen a very strong start to FY22 and our guidance as we announced last month is for iron ore shipments in the range of 180 million tonnes to 185 million tonnes, C1 costs of US\$15 to US\$15.50 a tonne which firmly cements our industry leading cost position. Our capital expenditure, excluding FFI, is in the range of US\$2.8 billion to US\$3.2 billion.

It is through this operational excellence, our sustained focus on productivity and our disciplined approach to capital allocation that we will continue to deliver benefits to all of our stakeholders. That includes our shareholders, our customers, our employees and the communities in which we operate. On behalf of Fortescue's Board and Executive, I would like to thank the entire Fortescue family for their contributions in FY21. Our success is only testament to their hard work and dedication and by keeping safety and family at the heart of everything we do, I know that we will continue to position ourselves for future success.

So, thank you. I will now hand back to Melanie to facilitate Q&A. Melanie, thank you.

Operator: Thank you. If you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star two. If you are on a speakerphone, please pick up the handset to ask your question. A reminder for participants to please limit their questions to two per person. Should you wish to ask further questions you will need to re-join the queue. Your first question comes from Rahul Anand with Morgan Stanley Australia. Please go ahead.

Rahul Anand (Morgan Stanley): Hi Elizabeth, Ian, Julie, Andrew and team. I've got two questions. The first one is on the reserve and resource update. The second one is on FFI. The first one is around the resource reduction that we had in the announcement made late last week. I just wanted to touch upon the 465 million tonne reduction in resource. Obviously, you have a large resource so that's not perhaps the focus. But I wanted to check as to what type of drilling has been carried out over the past year that led to this? What portion of the resource was drilled? I'm just trying to gauge a percentage perhaps out of the amount that was drilled in terms of what has been reduced. That's the first one.

The second, around FFI perhaps - I just wanted to get a bit more clarity on the strategy. A major feed in terms of the new haulage truck like Andrew talked about, all I wanted to understand was, is there an opportunity here to be open source in terms of the technologies you develop so that they're more widely accepted and adopted? Is that the plan as well down the road? Then also perhaps if you can provide clarity on geographies, if there is a focus there in terms of the risk that we can potentially face. Then also if operator status is important in all the investments. Thanks.

Elizabeth Gaines: I'll start with reserves and resources. Andy will get back to you on some of the percentages that you asked about. But overall while we saw a reduction in operating properties, we saw an increase in development properties. We have actually had an extensive drilling campaign across the Pilbara. We've increased as you've seen year on year, our exploration expenditure. So that's been well and truly invested in drilling out those areas. We've called out in the report the various areas whether it's Mindy South which added 279 million tonnes. We've also been drilling across Wonmunna, other parts of the tenement holdings.

So, though we did some density drilling as well which you can see referenced in the operating properties for Cloudbreak, Christmas Creek, Queens, Eliwana and majority of Flying Fish deposits. So, it's been pretty comprehensive. As I said, Andy can get back to you if you want any specifics on percentages. But effectively we've seen that increase in our development properties, a reduction in operating properties but overall, that's reflective of a pretty comprehensive drilling campaign and one that will continue into FY22.

Maybe on FFI, Andrew.

Andrew Forrest: Yes, thank you. I'm joined here by our FFI Chief Executive Officer Julie Shuttleworth, our FFI Chief Financial Officer Michael Masterman, our Head of Hydrogen, Dr Michael Dolan. So, by all means team, jump in whenever you like. On open source, that goes straight to the question of technology. Fortescue as you recall kicked off life at around a US\$58 a tonne cost iron ore producer and implemented existing and new technologies which it developed, and with really serious determination, scaled to be the size that it is now.

But of course, from the late 1950s and now into the early mid-teens of operating costs, very dramatic falls. We do intend to lead the technology industry. We have around 215 technology patents to our name now. That's just to give you an idea. The scale is around double what that very successful hydrogen technology company, Plug Power, in North America has to its name. So, we really have continued to drive really seriously the technology cutting edge of Fortescue straight from the iron ore industry into the renewables sector.

As we have half a dozen odd small, but I think very meaningful acquisitions. So, to your question, will we make this open source immediately? I think once we know we've completely removed the risk, that it's been fully integrated into Fortescue, that we have now proven within Fortescue which includes FMG and FFI, to the world that turning green is a very profitable experience where you lower your operating costs, where you can attract premium for your products, then I think we're going to be very comfortable releasing those technologies and others which we will develop and will acquire, to the world. Because you are right. This will drive demand for our major product which is hydrogen and then all the products from hydrogen which includes green ammonia, green fertilisers, green iron, et cetera, et cetera.

As to geographies, yes, we are very cognisant on the risk we take and we have, as you would guess, solid Plan Bs in place for everything we do. While we will be making appointments throughout North America or continue making appointments throughout North America and Europe and the first world, we will also not be leaving behind the

developing world which stands to benefit massively from the advent of what will be the largest industry in the world. That's the green energy, green hydrogen industry.

In terms of operating status, we currently operate remote sites of very significant scale, which are extremely remote, and we operate them from our technology and operating centre known as The Hive. And it's already a 24-hour operation. It already operates extremely efficiently remotely.

All the decisions when I just toured through, all our major operating sites, including our port and rail infrastructure and our most recent sites, Eliwana and Iron Bridge, those rapid fire decisions which operators make, which optimise production, minimise costs, maximise safety, improve efficiencies are being made from The Hive here in Perth.

So being able to operate other very large projects, which have at least the same technical challenge as we have been through is already built into the Fortescue system. I'm just looking forward to rolling that out as we create a fully vertically integrated renewables and resources company. I hope you find that a detailed answer to your question Rahul.

Operator: Thank you. Your next question comes from Kaan Peker with Royal Bank of Canada. Please go ahead.

Kaan Peker (Royal Bank of Canada): Good morning, Elizabeth, Ian, Andrew, Julie and team. Two questions from me; with Ian, Julie and the whole team online, I'm wanting to maybe ask my first question on FFI. I understand the need for stretch targets and ambition but just wanted to first turn to the initial step of FFI's hydrogen prospects.

I think the first mature decision was to be potentially in Tasmania sometime in 2021. Has this changed and when can we get a better understanding of the economics? Also, wondering about projects in the DRC and Afghanistan. How the risk of projects considered to develop these projects and I'll circle back with the second question, thank you.

Andrew Forrest: Okay, so I think you just asked me about projects in the safest part of the world, say Tasmania to the most challenging part of the world, Afghanistan. And they're fair questions.

We are still working with the Tasmanian Government and working closely. We are in discussions with them around the supply of renewable electricity through their hydro and wind capacity in Tasmania. Whether or not they will be the first, look six to 12 months ago I'd have said yes but there are so many other projects, which are now appearing in Fortescue's book that there will be some hot competition as to which project will be the first of the world's major green hydrogen, green ammonia projects.

I'd like it still to be Tasmania. All I can say is that other projects are rapidly catching up. In terms of Afghanistan, clearly, we know the situation very well. I don't really need to answer the question more than to say in a crystalline fashion that what is already existing in our agreements with all governments are four major commitments to our investment.

I would recommend this to all foreign investors; first is countries must legislate and then enforce all forms of modern slavery out of their system. It doesn't mean you have to be perfect, and I know media commentators like to make a big deal when you're not perfect.

But what we do know, what will bring slavery to an end is when companies like us try. When we insist that other governments absolutely do their level best as well like we are. And sure, we make mistakes, and we will learn from those and ensure they don't happen again, but Fortescue exists both in Future Industries and in the Metals Group to drive modern slavery out of the global supply chains wherever we can.

That is condition one in our contract. Condition two is forced marriage. One in less than 15 women in our planet are either suffering conditions of modern slavery or its close relative, forced marriage and child marriage. Forced marriage and child marriage are also conditions precedent that countries agree to legislate it out and enforce it out; the abhorrent practice of forced marriage and child marriage.

And the fourth condition is also not ideological. It's absolutely granular. That a government must drive for equal education outcomes, not targets, not intentions, equal education outcomes for boys and girls. They are the four conditions which we invest in the country in.

And I certainly challenge every country we invest in, including Afghanistan, to meet those conditions.

Kaan Peker (Royal Bank of Canada): Thank you. Just on my second question, I wanted to talk more around the reserve update. Just looking across your operating properties, there seems to be an increase impurities year on year across FMG's resources base namely alumina and silicone. I just wanted to understand why this is incurred. And secondly how or if it will impact discounts going forward, particularly for Super Special Fines, thank you.

Elizabeth Gaines: Well Kaan, I think the information is there. You've rightly picked up on the impurities and that's part of the natural mine plan and life of mine. We're very aware of those trends and there are a number of different opportunities we have via blending opportunities for example, to address that. So, it's not just simply a question of looking at that statement. We actually work very proactively in our integrated marketing and operations team to identify any changes that might be appearing in the nature of our products. And look at ways that we can - through blending and other means actually address those changes. We also work closely with our customers around product placement and we have, as you've seen with the investment in WHIMS in Christmas Creek look at other opportunities as well for further beneficiation.

So, it's a good indication of what we're seeing through the ore bodies. Also, there's a lot underway to address any of those changes which are natural. I mean that's what we would expect is the more that we mine, the mine plan does its job. It tells us to mine the nearest most highly profitable and the best grade material and over time as those mine plans develop then we have to invest whether it's in beneficiation, blending or working with our customers as well. So, nothing unexpected there.

Operator: Thank you. Your next question comes from Peter O'Connor with Shaw and Partners. Please go ahead.

Peter O'Connor (Shaw and Partners): Good afternoon Elizabeth. Congratulations, what a great day for you.

Elizabeth Gaines: Thanks Peter.

Peter O'Connor (Shaw and Partner): A few questions; firstly on the EBITDA bridge on slide 12 and secondly on FFI spend. Just to the second one, this spend is US\$400 million to US\$600 million. If you could just walk us through how we see that flow through Fortescue's accounts cashflow and income statement? Is it off balance sheet, on balance sheet? Are you capitalising or not and why call it out separately from slide 15? Then on the EBITDA bridge which you like slide 13, I like slide 12, is it troubling Ian that over 100per cent of the EBITDA gains in FY21 and FY20 were price related and US\$200 million of volume, which is nice in million dollar terms, but the rest were negative. Thinking ahead, I've got rising costs and I can take whatever view I want on price, but is that a more challenging environment in FY22? Thank you.

Elizabeth Gaines: Thanks Peter, look maybe I'll start with the first question on the spend of US\$400 million to US\$600 million. I'm sure Ian can add some more colour on that.

If you look at slide 39 of the pack, we've got the four buckets of expenditure, which is green fleet development, domestic projects, international projects and capital spend. It's roughly about 25 per cent in each. Most of that, other than the capital spend will be operating expenditure because that's the current nature of the operations is it can't actually be capitalised other than that which qualifies as capital spend.

So, you will see that come through in other expenditure. I think on the EBITDA bridge and I will hand to Ian in a second, that you'll find on price, we actually include the increase volume in price as well. So, where we have increased volume

year on year, that's on last year's price. The actual price benefit of the increased volume is in the price bar. So just to clarify that as well but Ian, you might want to elaborate.

Ian Wells: Yes, I can add to that. I think it's a beautiful thing Peter. That we've captured all of the benefit. Because if you look at the major negatives as you say, royalties go up with the iron ore price. Income tax, it's a quality problem when you're making too much profit, so that's a direct correlation back to the iron ore price.

And you've also got the impact of FX and the Australian/US dollar is largely commodity driven. So that going up 11 per cent over the year that's correlated to the iron ore price.

So, I think is it a concern? No, because we've captured almost 100 per cent of the increase in revenue through a combination of cost management and we increased our production. So, we did capture all the return and we stay focused on the things we can control and keep our operating costs as low as we can.

Andrew Forrest: Peter, Andrew here mate. Just to also pick up on your questions. We do believe that we will lower our operating cost through going green. And we have quite a bit to play with. We have around a billion litres of diesel a year alone by 2030 that we'll have to expend, or we'll have to burn if we do nothing.

And we are confident that over time we're going to be able to show that staying with fossil fuels or going green, the fiscal decision was obvious, and we did the right thing back in 2020 and 2021 when we made those decisions which clearly were not obvious and had a cloudy future, as evidenced by everyone not piling in after us or before us.

But Rocky, there is no creating green steel without green iron. The step between green steel and green iron from a carbon step is the smaller step. From the green iron to green iron ore is a larger step and then to green iron ore itself is a very large step.

We will be the only producers of green iron ore, to enable our customers to start moving green as soon as they possibly can of any scale in the world. And we're implementing technology testing and planning to also produce green iron, which immediately helps our customers to the tune of 60-70 per cent of their emissions if they don't have to process iron ore to iron, because we have done it for them in a completely green environment.

That of course will drive the premium for our product. I'm not going to predict what that premium will be because that would immediately set the market Rocky, and I'd like the market to set the market and not a brief answer to a fulsome question where we could obstruct the future of this company.

I.e., loose lips Rocky, sink ships. However, I'd go on to say that production of hydrogen and green hydrogen and green ammonia itself is expected to be a profitable experience. We are having talks with our customers, many of the same customers who have said, save us that mass hit to our carbon budget by doing it yourselves and shipping us the product.

They are saying that they need our green hydrogen, they need our green ammonia as soon as we can possibly produce in scale. We're not talking about blue hydrogen or fossil fuel hydrogen which researchers and academics are beginning to question whether or not there's any point in ever making hydrogen from fossil fuel because you create more carbon in that process than you ever saved in the hydrogen. So, our customer is saying, we need it to be green and we will be prepared to pay for that.

Now bringing you back to the last point, if we're acquiring projects at well less than say \$5,000 a megawatt for the project itself, and we have to take that project through to final investment decision which means all the matters of law, climate, technology, capital, operating cost, everything gets established, but then we're looking at \$200,000 a megawatt if you just look at comparative values around the world and this would be before you even take into account a massive green premium. This is just what they're worth.

So, when analysts do question us why we're doing what we're doing and it's just an ideological bent, look behind the hard numbers. Look behind the massive scale and look behind the fact that Fortescue is a business, and we'll continue to make very business-like decisions.

Operator: Thank you. Your next question comes from Hayden Bairstow with Macquarie. Please go ahead.

Hayden Bairstow (Macquarie): Afternoon all. Just a couple from me. Firstly, just on the market on iron ore, I mean there's obviously a lot of volatility and everything at the moment, premiums and discounts, et cetera and different products. Just interested to see what the feedback you've had from steel mills - I mean there's obviously pressure in China about limiting volumes for the second half. Are you seeing that in your forward order book and any comments on sort of shorter term moves that we've seen in the iron ore price?

Elizabeth Gaines: Yes, thanks Hayden. Look I think there's no doubt obviously iron ore prices have moderated from the record highs and in recent weeks we have seen that price correction. We think that's influenced by some weaker than expected macroeconomic data in China as well as the implementation of curbs on crude steel production. We think there's also been some transitory factors that have influenced that, so the weather disruptions, the COVID outbreak and most of those we see will dissipate over the coming months.

So, we're expecting a seasonal rebound in steel demand for the fourth quarter of 2021, particularly in the construction sector. So, whilst we're seeing some volatility, we think outlook is not that crude steel production will be up the eight per cent to the end of July - we don't necessarily expect that that will be the full year growth rate - but we do think crude steel production will be up year on year. It's hard to predict exactly what, but there is still constrained supply, we're seeing strong ongoing demand, steel exports are remaining at pretty robust levels, we haven't seen a reduction in steel exports. So overall, we're still seeing the same market environment which is some volatility in recent times but overall, we expect to see some strong rebound in the fourth quarter of this year.

Hayden Bairstow (Macquarie): Okay great and just back on the FFI, I guess we're all sort of trying to put numbers around this. We're just interested to understand, we see the diesel numbers rising over time and there's a diesel rebate which we can sort of calculate the value of that, but is sort of removing diesel you think the primary cost benefit for the business, or do you see other material costs? I mean other than I guess carbon tax type sort of policies coming in, is there other parts of the business and the operating base that are going to suffer from a cost increase over time on a do nothing sort of basis compared to what you're planning to do?

Elizabeth Gaines: I'm sure Andrew or Julie will want to comment as well but I would say that this is not just about the reduction in energy costs. We're also seeing this investment in technology is giving further opportunities for automation. Certainly, we're seeing a step change overall in terms of investment in technology and innovation and we've already seen the benefit of our autonomous haulage fleet.

There is no better case in point I think than the rollout of autonomy at Fortescue which has contributed not only to safety benefits but also to our industry leading cost position. So, all the investments that we're making we think will actually contribute not only to reduction in energy costs and will mitigate what could be the introduction of new costs like a carbon charge for example or the removal of a diesel fuel rebate with a mitigation aspect to it, but also, we think the opportunities for technology to further enhance our autonomy and innovation will attribute to lower cost position but Julie or Andrew?

Andrew Forrest: Yes look, I'd like to throw it to Julie and then Michael and Ian to make a couple comments.

Julie Shuttleworth: Julie here. I'd like to further add that as we learn through our own projects as we decarbonise Fortescue, those learnings and the increased scale will contribute to all our other projects not only in Australia but globally, as we build up those green hydrogen and green ammonia production facilities around the world.

Michael Masterman: It's Michael. On the decarbonisation of the Pilbara operations, there are very significant operating cost savings from both diesel elimination and also gas elimination. The bigger gains will be in the premium for the product. We're not going to set it or judge it now but take a small dollar per tonne number as a premium for being the only green iron ore producer in the world and translate that through into steel markets and other markets and you get a very significant positive EBITDA contribution. On the portfolio, the portfolio will be transformed over the next 12 to 18 months to significantly higher dollar per megawatt values and that's going to add a huge asset base to Fortescue Metals Group.

Ian Wells: Just to quantify, we see our fuel costs are about 25 per cent of our business in the long term. So proportionately, that would increase but then there's probably another 5-10 per cent indirect costs that also flow through. So that's material and when Andrew spoke about going to otherwise a billion litres from the around 700 million litres, clearly energy costs as a percentage of our cost base, even at 25 per cent, but then plus plus. Then you've got the diesel fuel rebate that is currently keeping our costs lower by a factor of about 30 per cent.

Andrew Forrest: So, Hayden, it's Andrew Forrest. Look, I've built a career on identifying great sources of commodity, matching it wherever I can to innovative but non-contentious technology, and I can show you all the way back to the Murrin Murrin days of having done that. Then matching that again to off-takers. The renewable energy space seems to be missed by a lot of people when you break it down into those steps. If you look at the renewable energy space, our off-takers are huge. They are the biggest offtake volume I've ever seen. It's literally the world's energy which will all go green.

There are many people who are leading, many countries and companies who are leading but at the end of the day the world is going green. So that market is enormous, Hayden and we've engaged with at least 20 different companies who want our product. Then we're matching it with non-contentious but innovative technologies and I've spoken about the technology we've already acquired and I've wondered about the massive breakthroughs which Fortescue has made in such a short time, having not had them before, because I'd say Hayden, it hasn't happened before because community expectations didn't reward it or encourage it or in many cases, actively discouraged it, nor was there government leadership for it to happen and I'm not just talking Australian government leadership but global.

We now have global government leadership, and we have very strong society will to go green. Then of course Hayden, one which really answers your question is that the commodity itself is free. It's the most ridiculous copper gold iron ore deposit I've ever seen. It has no overburden, therefore no strip ratios, it comes in at the grade you want, and it goes on forever. Oh, and it costs nothing. So, while we have to get through a capital cost and an electronic and chemical operating cost which is a fraction of anything I've ever seen in the mining industry, once we're going, our own operating costs become extremely competitive against any sector. That is of course a major driver for the future profitability of Fortescue.

Operator: Thank you. Your next question comes from Lyndon Fagan with JP Morgan. Please go ahead.

Lyndon Fagan (JP Morgan): Thanks very much. My questions are directed to Andrew. So, I've got one on green ammonia and green hydrogen. In relation to those projects, when we've tried to model them, the capital intensity is a lot higher than traditional ammonia and hydrogen projects and therefore you need to get a substantial green premium on the other side to generate an acceptable return. I'm just wondering if you can maybe provide a bit more of an update on the projects, how they're looking and how you actually monetise the story that you've been talking about which is very, very compelling but I guess on paper it's hard at this end to try and make the numbers stack up.

I guess the next question is on green iron. You've mentioned that a few times in the presentation today. Where is that up to? At the start of the year when we caught up you were talking about a flow sheet that had been developed at low temperature and working with the CSIRO. I'm just interested to know whether it's shaping up well or whether there still needs to be a lot more trials and when perhaps we can get a bit more information into the market on that? Thanks.

Andrew Forrest: Thank you Lyndon. Well, let me just look at costs. So, once rolling operating costs should be very competitive for the reasons which I just gave, Lyndon and because the commodity is basically free and infinite which is the beauty of renewables. The capital cost gets taken into account and that is where we're spending most of our attention. Electrolysers are one part but a very serious and important part on it and a typical part of what we're seeing in the technology revolution of the green energy and green hydrogen space. Electrolysers would have been quoted to us by Europe only last year, Lyndon at 1.1 million to 1.2 million Euro per megawatt. We're now being quoted 200 to 250,000. That's a saving of 800 to 900,000 a megawatt or 8 billion to 9 billion for 10 GW of capacity. So, you've got really big numbers here, which are falling capex.

Impact on attractive operating cost but the capex is the one which we're challenging most and yes, the initial projects, welcome to Fortescue, Cloudbreak, 2006, 2008, was much, much more expensive - it would still be making a great profit now, but back then it was a tough new project for us and had an operating cost of US\$58. Now the group has an operating cost in the mid to early teens as you know and we all look very clever but even at the time, Lyndon, our shareholders experienced very major capital growth and we've given you some of the reasons including going from US\$5,000 value to US\$200,000 per megawatt with green energy and as you know, we are measuring green energy in not only gigawatts or tens of gigawatts but hundreds of gigawatts which we're capturing around the world to turn into green hydrogen and green energy.

So that scale, Lyndon, will have exactly the same impact and some people have said well, no it won't with hydrogen. I'd just say, really don't stand in the road of history. Don't stand in the road of certainty. It will happen with every industry like it has happened with every industry.

Operator: Thank you. Your next question comes from Robert Stein with CLSA. Please go ahead.

Robert Stein (CLSA): Hi Andrew and Elizabeth and team. Two questions on FFI. The first one is on strategy and the other on monetisation which sort of comes off the back of the previous question. So, re strategy, on the last call I asked a question around nickel acquisitions, i.e., Noront that was being progressed through Wyloo Given that Dr Forrest is on the call, I might ask it again. Why isn't FFI playing a lot closer to its core minerals development operational skill set and targeting nickel acquisition like Noront, Western Areas through the FMG banner? Some may say it's also aligned to a low carbon future and is potentially more aligned to existing investors' mandates and offers potential exploration development synergies?

The second one on monetisation, look I think given the previous catchup that we had about six months ago, we talked about sort of 8-10 per cent IRRs at the project level and then gearing up through green bonds. So, it was on the course to FMG sort of increasing the equity IRRs. Can you give us an indication of any appetite from bond, green bond investors to these opportunities and how they consider heightened country risk with some of the jurisdictions that have been highlighted obviously being at the riskier end of the scale?

Andrew Forrest: Okay, so by the time we got to the end of the last question I've forgotten the start of the first question. Thank you - got it. So, it's a good time to go public on this. Between Tattarang and Fortescue, Fortescue shareholder Tattarang, there's a Fortescue First Principle which means every opportunity which might be or have an interest for Fortescue is offered to Fortescue first and there's periods of time, which are substantial, for Fortescue to consider whether or not it will consider the opportunity and then take over the opportunity or over another period of time, hand the opportunity back to Tattarang.

The same happened with Noront. The issue with Noront for Fortescue is that to move the dial, Fortescue needs very considerable scale and at the early stages of looking at the Ring of Fire, it did not provide Fortescue with the scale it needed to get heavily into nickel. Now if there's massive nickel discoveries made, then sure it might have but at this stage that's a very well drilled out area and seems to be very geologically understood and the nickel upside appeared

limited to Fortescue. I didn't make any of those decisions. That was made independent of me, but it has been explained to me since.

The second question on geography risk, we consider that high risk geographies have a much lower value per potential megawatt than very predictable economies and that's how we still do it. To say we're only going to develop in the western world would be a travesty because there's immense renewable energy in the developing world and they will stand to benefit probably the most on a standard of living improvement indicator, the most of all people in the world through the advent of green energy and particularly green hydrogen. So yes, we are seen to be very early first movers but please don't forget that while we have a vast portfolio in developing countries, we also have a vast portfolio in developed countries.

In terms of monetisation, think of it like Fortescue. Everyone said to me, which you might not be, but how are we going to monetise this? How are we going to sell it? You know, I was always asked about 45,000 times when was I going to sell my shares or a project, et cetera. I said boringly back then that we would not stop until we felt we'd created one of the world's first high growth and high yield companies. Now you can see that the management team of Fortescue has absolutely shot the lights out with that. They've created a high growth, high yield company, very high yield company and the reward for shareholders, if you like, the monetisation to shareholders is dividends.

When I used to have the arguments, yes well dividend is a very poor way to access a company's profits et cetera, you've found that with Fortescue it's been very efficient. There's been a generous dividend and a highly disciplined dividend policy, and I see no reason for that to change when it comes to accessing into what will be the largest industry in the world and that's the renewable sector. The monetisation will be dividends.

Operator: Thank you. Your next question comes from David Coates with Bell Potter Securities. Please go ahead.

David Coates (Bell Potter Securities): Thank you. Good afternoon Dr Forrest, Elizabeth, Ian, Julie and team. It's great to have you all on the call and congratulations on an awesome set of results. I've got one question on FFI and then a more mundane perhaps question on the market. FFI - hydrogen seems to have emerged as the key focus. Can you just run us through - and it's technology that's been investigated for a long time. What are the key hurdles that FFI has overcome in engineering and constructing the hydrogen cell haul truck and is commercialisation of that the next step? And I'll come to my second question in a minute.

Andrew Forrest: Okay thank you. There are about 17 questions in that David but let me run you through your one question. Look, hydrogen has emerged, not because it's hydrogen but rather green hydrogen where we're beginning to see what we've always thought. Which is industries, industrial studies and academic studies, which are beginning to point out that if you take the total amount of emissions from producing blue or any other fossil fuel hydrogen, including of course, fugitive emissions, which the industry likes not to count but is massive, then you're really no better off, if not worse off than just burning the coal or the gas or the oil or whatever it is in terms of limiting carbon.

It appears to us that as the world begins to more fully understand that the work simply has not been done by the oil and gas sector to make any claim about their hydrogen being clean, inverted commas, and that fugitive emissions, like other emissions are not measured in their petitions for funding to government, that green hydrogen is becoming more and more the go-to source for the world as the world's only fully green zero carbon in the supply chain renewable energy source and renewable product source. So, we're focussing very much on that.

David Coates (Bell Potter Securities): Then in terms of the technical challenges of getting a haul truck to work and getting it taken commercially?

Andrew Forrest: I was deliberately quiet on that. There were some solid technical breakthroughs and I'm not going to extrapolate on them in public, but they were significant and fully in line, though, with the track record of Fortescue since 2003.

Michael Masterman: Hi it's Michael Masterman. From a financial point of view, the best way to think about it is this. Electric drive trucks are now less in terms of cost, if you exclude the engine, less than a standard non-electric drive truck. So, we're already there in terms of the drives, we're already there in terms of the chassis and the dumper. Where the big savings come from is being able to drive battery electric which may be a portion of our fleet and fuel cell electric vehicles below the cost of an internal combustion engine. Through a combination of technologies in the United States, internally designed within our operations at Hazelmeire, we're very much on the track to doing that.

As soon as a battery electric haul truck plus a fuel cell electric truck is below the cost of a replacement internal combustion engine truck, we've suddenly got a way to take your entire fleet green with either hydrogen or green electricity as the source of the fuel. That's what allows you to drop those billion litres of fuel out of your iron ore operations. That's what delivers the significant savings. So it's the set of technologies necessary to be able to completely replace an internal combustion engine in a haul truck with a combination of the fuel cells and car electronics and the battery systems.

Operator: Thank you. Your next question comes from Paul Young with Goldman Sachs. Please, go ahead.

Paul Young (Goldman Sachs): Good afternoon, Andrew and Elizabeth. Andrew, I have a few further questions on FFI. Firstly, I guess just to make an observation about your 15 million tonne per annum target by 2030. It's ambitious, I'll give you that, but you've done that before and certainly from a technology standpoint, you've got a proven track record.

I guess I'm struggling a little bit with the economics though, just at least on paper. I guess we all understand the need to decarbonise but - and along with the fact that we understand that opex and capex is coming down potentially for green projects. Can you help me out with respect to the price of green hydrogen and how you think about per kilo, the advantages of being - having scale and being a first mover? What price - how you think about how the price develops over the next decade?

Andrew Forrest: Okay, so I think we're all making a mistake globally. We just could compare one fuel source to another fuel source, with the world wants to which the world doesn't want and say, well actually, one's got to compete with the other. I'd just say, actually it doesn't.

When we're invited by the Port of Rotterdam to start a green hydrogen index or a hydrogen index, we've been very careful about it. We've said no, we'll only start a green hydrogen index. A zero carbon in the supply chain index because we're getting very different demand signals from a leader of energy of - from hydrogen or diesel or oil and gas. Green hydrogen, that is.

So, I think we need to just let the market work that out but what I can tell you, it's not looking like a fossil fuel kilojoule of energy. It's looking entirely different. Why? Well, that's obvious, it's a different product. Oh, and by the way, it doesn't cook the planet.

It's also really efficient. Once you've got it into your system, green ammonia is a beautiful slow burn fuel. Once you've got hydrogen into your system, you've got a very efficient source of energy. So, I just want to put that out there. So continuously comparing green hydrogen to oil and gas is like comparing an apple to a horse. It just pretty irrelevant.

Secondly, I'd say in terms of the capital cost, yes there is a reason why green hydrogen hasn't taken off. It's because the capital cost is too high. If you go the Haber-Bosch process to a \$1.2 million megawatt electrolyser to all the stock standard stuff we already know, you're going to get the same result.

That's why Fortescue's entire value system is on encouraging and driving change because without it, there can be no improvement. So, we're seeing capital costs falling. Will our first project be \$12 to \$15 a relative tonne? No. Will our first project be profitable and a lot higher dollars per tonne? Yes.

But I'm not going to call exactly what that is, but I have to say really clearly, technology in this space is changing super-fast. It's never been scaled. It's being scaled now. A green hydrogen fuel cell truck was never even invented until 130 days ago.

So, all this space is changing and we're finding immense value in the emergent technologies but it's giving us confidence to continue to send Fortescue green and to produce the green energy the world needs.

We also didn't touch on green iron which does have a process flow sheet which operates at a little hotter than your cup of coffee and produces very high grade material. Are we going to opine immediately that that is a fully commercial process? No, we're not. Are we going to tell you that it's been proved? Yes, we are.

We are looking at scaling that technology as quickly as possible but because it runs on low temperature, that is the reason why it can run on renewable electricity. If we're going to adjust technologies to renewables, not renewables to technology, then we'll have an automatic break through.

Now, if we look at making green iron at the same temperatures as it is done commercially for now, or indeed the Boston Metals approach between 1,800 degrees Celsius or 3,000, then we're not going to be able to use renewables because renewables can stop.

But if we can make it at around 100 degrees, now we have a process which can easily be matched to renewable intermittent energy without any further cost. So, these are the breakthroughs, sir, which are happening as we speak.

Operator: Thank you. Your next question is a follow up from Lyndon Fagan with JP Morgan. Please, go ahead.

Lyndon Fagan (JP Morgan): Thanks a lot. You just answered the green iron question that I was planning to ask about, but I guess while I've got the floor, Andrew, I think still a lot of us are struggling to generate strong returns from these projects.

It's such a compelling story that you've outlined, and you can't deny the world will need to decarbonise but how do we get a return for shareholders along the way before the change has fully been implemented in the coming decades? I guess also, the sequencing of projects.

There's been a lot of talk about - in the press and I guess more recently, an opportunity then in Indonesia that Bloomberg reported on for the \$12 billion contribution proposed from Fortescue, which I imagine you would use some debt funding with. But how do we think about the sequencing of projects in terms of all the opportunities that have been outlined to date. It looks as though the Tassie green ammonia could be first, but I'd love to know what might be number two or three on the list. Thanks.

Andrew Forrest: Yes, okay. So, thank you. What governments say to get themselves re-elected is up to governments and as you notice we didn't say it. What I can say, if you're looking at quick and easy way to value uplift, just look at the fact that if we're acquiring projects for less than \$5,000 a megawatt, which we are, it's almost free apart from a bit of skin on the road and then you can value that up to \$200,000 per megawatt even before a green premium then you've got a massive uplift. Forty times.

So, I'd like you to think through that lens. I'd also like you to think through the lens that if we're making green iron ore, will customers want to pay for that when they're getting hammered by their own owners to go green? Or will they want to take an even quicker shortcut and pay even more for it with green iron? The answer to those - both of those is yes. I was going through an old presentation this morning, early last year and I said the answers will become abundantly clear by 2025. I was wrong. The answer's going to become abundantly clear by 2022/23 and this world is changing faster.

Just those uplift numbers when you look at say discovering an iron ore project at a pre-feasibility level or an inferred resource level and you take it up to indicated and then you take it up to measured. You get massive value uplift. That value uplift is not as extreme as what I'm outlining to you between \$5,000 a megawatt and \$200,000 a megawatt.

Operator: Thank you. Your next question is a follow up from Robert Stein with CLSA. Please, go ahead.

Robert Stein (CLSA): Hi, just a follow up to the green bond aspect of the question before. Because these financial markets are maybe a little bit different to what some are used to. Can you just give us a feeling for what the investor appetite is in the green bond space for these projects and the types of premiums that are on offer or discounts, depending which way you think about it, in terms of the rates on - of interest?

Andrew Forrest: Yes, look the only heat I've had is not bringing these green projects to the market quickly enough. It is not an under-estimate to say there are trillions of dollars of available capital. It won't just appear in green bonds. That's a road to capitalisation but it's not the only road and Fortescue doesn't always take the very clear road.

So, what I can say is the appetite, if that's what you're asking, to finance these projects is immense. I've been on the road for eight months of the last 12. I'm about to go out on the road again and I've been joined by the Head of Hydrogen, Head of Finance, Chief Executive. We are very aware that the capital to develop these projects is there. That's why I've said at the start, 10 per cent of NPAT is the right number.

Operator: Thank you. Your next question is a follow up from Kaan Peker with Royal Bank of Canada. Please, go ahead.

Kaan Peker (Royal Bank of Canada): Thanks for taking my questions. Just a quick follow up on the monetisation by dividend from FFI. Just in terms of timeframe, is this post-2030?

Just second thing, we've seen the European oil majors push pretty aggressively into the renewable space. A few of them have considered partial sell-downs or rolling out minority equity shares of their green business arms or IPO to accelerate growth in the business. Is this the path forward for FFI as well? Thanks.

Andrew Forrest: So, thank you. Look, it took us eight years to start Fortescue and then go to dividends. In that time, shareholders enjoyed the most massive growth, and we are still easily Australia's highest return to shareholders over 20 years that this country's seen by a couple of times.

So that growth, I've never seen before since iron ore to now. The renewable energy sector I see as offering that growth. So, monetisation, would we follow the oil and gas companies who are seeing great value in their green energy projects so they're going to sell them down to prop up their fossil fuel business? Yes, I can see why they'd do that. Will we have to do that? I will let you know but we have many ways to skin a cat.

Operator: Thank you. Your next question is a follow up from Paul Young with Goldman Sachs. Please, go ahead.

Paul Young (Goldman Sachs): Thanks again. Andrew, can I ask a similar question on funding and maybe another way? Just also before I ask it, just an observation. I know you gave a presentation to the Clean Energy Council Summit a couple of weeks back where you mentioned that FFI has US\$1.1 billion of cash - actually, over US\$1.1 billion and no debt. I presume that's prior to the allocation of the 10per cent NPAT from the June half but where will you go, Andrew, for external financing?

Andrew Forrest: I'll let you know. It's at this stage, I think the only point I need to make is that we're more than adequately capitalised for our objectives. To be able to drive through what we're really good at, which is the discovery, the proving out the feasibility and then implementation of projects, which gets you that 20 times kick I've referred to three times in this call. \$5,000 to \$200,000. That's what we will do.

Elizabeth Gaines: Just to clarify as well, Paul, the US\$1.1 billion is the 10 per cent of FY21 NPAT from when we actually declared that policy.

Operator: Thank you. There are no further questions at this time. I'll now hand back to Ms Gaines for closing remarks.

Elizabeth Gaines: Thank you, Melanie and thanks everybody for joining us today. It was a great opportunity to hear about the vision for FFI but also to celebrate and recognise the outstanding performance for FY21. As I mentioned earlier, we've had a strong start to FY22 and we're very focussed on delivering on all of our key objects. So, thank you, look forward to speaking to you all soon.

Operator: That does conclude our conference for today. Thank you for participating, you may now disconnect.

End of Transcript