



H1 FY21 Results

for the half year ended 31 December 2020

Investor and Analyst Call transcript

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Start of Transcript

Operator: Thank you for standing by. Welcome to the Fortescue Metals Group FY21 Half 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. I would now like to hand the conference over to Ms Elizabeth Gaines, Chief Executive Officer. Please go ahead.

Elizabeth Gaines: Thank you Bernadette. Good morning or afternoon everybody. Welcome to Fortescue's FY21 Half Year Results presentation. Joining me today in Perth is Ian Wells, Chief Financial Officer. We also released a separate statement today regarding the Iron Bridge project, however I will first focus on the half year results. The first half of the financial year has been a record period for Fortescue with the team delivering excellent results across all of our operations.

Most pleasingly our Total Recordable Injury Frequency Rate, or TRIFR, reduced to 2.1 at 31 December 2020. That's 13% lower than 30 June 2020. We are encouraged by this progress as we maintain our unwavering commitment to protecting the health and wellbeing of our team particularly during the global pandemic. Fortescue maintains a comprehensive COVID-19 risk management strategy and key measures remain in place to safeguard Fortescue team members and communities. I am pleased to report that there have been no cases of COVID-19 across Fortescue's operational sites.

We do also continue to provide ongoing support to our team members who have been impacted by the Western Australia hard border closures and we do greatly appreciate their ongoing commitment.

Turning to the half year results, Fortescue's performance for the first half of FY21 has been outstanding. We are very proud of the whole team who have delivered our best half year operating and financial result since the Company was established. The Board has declared the single largest dividend in the Company's history of A\$1.47 per share and that's an 80% payout of net profit after tax which is consistent with our target to pay the upper end of our stated dividend policy range. This dividend continues our excellent track record of delivering enhanced returns to our shareholders.

The Company's record performance generated half year revenue of US\$9.3 billion and that exceeded the prior comparable period by 44% with realised prices increasing by 42% outperforming the increase in the Platts 62 CFR index of 32% for the half year.

Our continued focus on cost management contributed to underlying EBITDA of US\$6.6 billion and an increased margin of US\$80 per dry metric tonne for the half year. Our outstanding cost position together with the breadth of our product mix resulted in a net profit after tax of US\$4.1 billion and earnings per share of US\$1.33 or AU\$1.84. That's an increase of 66% from the prior corresponding period.

In an important operational highlight in the half year, Fortescue celebrated first ore at the Eliwana mine in December. That is a significant milestone for the development of our iron ore operations in the Western Hub region of the Pilbara. Our world class integrated operations and customer focussed marketing strategies together with completion of Eliwana positions Fortescue strongly for the second half of the year to deliver sustained returns to our shareholders.

Our continued focus on sustainability generated strong recognition throughout the half with a number of highlights. That included inclusion in the 2020 Dow Jones Sustainability Indices and 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 also made the 2020 Best Companies for Women to Advance List, positioning it among the leading companies internationally for supporting the development of female leaders. I am personally really pleased that our commitment to diversity is driving outcomes for female leaders in our team.

During the half Fortescue has continued to invest in a range of practical initiatives to decarbonise our operations, and that will underpin our industry leading emissions target of net zero operational emissions by 2040. This includes 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 both in Australia and globally. Ian will speak to the capital allocation framework as we invest in these exciting diversification opportunities.

As most of you would be aware, we announced some changes to our Leadership and Projects team on Tuesday, including the resignation of Chief Operating Officer Greg Lilleyman, Director of Projects Don Hyma and Director of Iron Bridge Manie McDonald. Greg has made a significant contribution to Fortescue since he joined in January 2017. The success of our integrated marketing and operations strategy is a lasting legacy of Greg's strategic focus and his commitment to our success over that period.

I understand that describing the decisions that were made at Fortescue this week on the basis of our values, against the backdrop of our culture is not typical corporate language. We've had that feedback from a number of external stakeholders. However, I don't step back from this values-based language as it is absolutely fundamental to the way that we do things. What I do want to make clear is that Greg didn't do anything wrong in the sense of the usual financial behavioural or business conduct parameters by which senior executives are judged.

What he did was, to miss the fact that the Iron Bridge project had suffered a breakdown in team culture. In turn this resulted in poor communication at the senior leadership level and a lack of empowerment across the organisation. News wasn't being shared and that meant that challenges weren't being addressed in a timely way by involving others who could bring ideas and work together on solutions.

I've worked closely with Greg for the last four years. I know that he takes his leadership accountability very seriously. The fact that he didn't see the failings that were impacting the team culture or somehow missed the implications that subsequently came to light, was the reason that he made the incredibly difficult decision to resign. As he described that decision, it was quite simply that at the end of the day he felt accountable for the team and their behaviour and did not believe that he had any other alternative. I have great respect for Greg and I wish him all the very best for the future.

So, turning now to the update on our Iron Bridge Magnetite project and as we flagged in our December Quarterly last month, a detailed review was conducted and considered the forecast capital estimate and schedule for the project, taking into account the strength of the Australian dollar, access to resources and specialist skills, as well as other market factors.

The outcome of that review indicated a revised capital estimate of up to US\$3 billion for the project, with first production expected in the second half of calendar year 2022, subject to validation through further technical and commercial assessment and Iron Bridge Joint Venture approval.

A technical and commercial assessment is underway and is scheduled to be completed in 12 weeks. The key areas of focus will include the assessment of the magnetite concentrate transportation solution and return water pipelines to Port Hedland, enhanced utilisation of Fortescue's port and rail infrastructure, our contractor strategy and selection and logistics infrastructure to maintain the schedule for delivery of large modular components through Port Hedland.

Limited project works on critical path items will continue during the next 12 weeks including engineering, offsite fabrication, procurement activities and site based civil works. Leading this review is a highly experienced team led by Acting Projects Director, Derek Brown, who brings more than three and a half decades of mining sector experience and most recently has done an excellent job at leading our Solomon operations.

Supporting Derek are Andrew Hamilton, Project Director Iron Bridge, Corey Dennis, Project Director Port Rail Pipelines and Power and Warren Harris, Project Director Iron Bridge OPF and Operational Projects, who have all had first-hand experience at successfully delivering large scale projects at Fortescue. Using a consistent approach to the Eliwana Mine and Rail project, Corey will have responsibility for the port and transport and Warren has responsibility for the mine. I have every confidence that this team will draw on all of Fortescue's DNA, our world-class expertise and our values as we challenge ourselves through innovative thinking and capital discipline.

With that, I'll hand over to Ian to take us through the financials. Ian.

Ian Wells: Thanks Elizabeth. Hi everyone. Our first half FY21 performance has hit records across all of our key financial metrics. We have again reported a clean set of numbers. Strength in the iron ore market has obviously contributed with the performance underpinned as always by us focusing on the things that we can control.

Our integrated planning processes supporting our operations and marketing strategy continues through the Company including all of our support functions. It's the planning and then execution that is really driving the best commercial outcomes right across the business.

Starting on the P&L and revenue for the first half was US\$9.3 billion with volume market price and realisation all contributing. As we mentioned at the quarterly, Fortescue's realised prices have remained at or around 85% of the index for two years now.

Revenue combined with disciplined capital management resulted in EBITDA of US\$6.6 billion at an EBITDA margin of 71%. Drilling down on that margin our first half EBITDA was US\$80 per dry metric tonne. That represents a US\$28 increase or 53% increase compared to this time last year. EBITDA flowed through to net profit after tax of US\$4.1 billion, up 66% on the prior period. Just for context that compares to last year's full year net profit after tax of US\$4.7 billion. So a very strong first half.

If you're watching on the webcast, slide 11 is the CFO's favourite chart. We obviously had leverage to the price cycle and also a clearly demonstrated ability to generate strong margins through that cycle. In fact, Fortescue's average EBITDA margin sits at almost US\$40 per tonne since FY16. Those results are of course impacted by market factors together with the things that we can control including the focus on total costs - so not just C1, together with volume and product mix. So our focus on both revenue and cost drives optimised margins.

It's also worth noting that our enhanced product mix including the introduction of West Pilbara Fines, occurred in late 2018. On C1 costs at US\$12.78 per tonne in the first half, that shows that we've held costs back when you compare that to US\$12.73 we reported this time last year.

Today, we updated our full year C1 costs guidance to a range of US\$13.50 to US\$14 per tonne, and this is based on a revision of the assumed FY21 average Aussie-US exchange rate of 0.75, up from the previous 0.70 assumption.

There's three points I'd like to make, and the first one is the guidance means we are assuming an average of 0.77 in the second half. The second point is that you will recall our C1 cost sensitivity is US\$0.13 per once every 0.01 Aussie dollar movement. When you do the math, you can see that our updated guidance is showing that we have mitigated some of that cost pressure and also, as a reminder of the impact of operational readiness and post-construction ramp-up at

Eliwana. So, the costs for Eliwana will be incurred in the second half cost of production now that Eliwana has produced first ore and also transitioned to an operating mine site.

Moving to cash flow, and we've talked about it previously, our free cash flow and net cash flow available for dividends and debt correlates to after-tax earnings when depreciation and capex align. Total capex in the half was US\$1.9 billion and that compares with depreciation of US\$670 million. The difference of US\$1.2 billion represents our investment in growth, so the Eliwana, Iron Bridge and Energy projects. Free cash flow in the first half was US\$2.5 billion, and the reconciliation to the US\$4.1 billion net profit after tax obviously includes that US\$1.2 billion investment in major projects and it also reflects the timing of the tax payment. Just as a reminder, from this month our tax instalment rate will increase.

Moving to the balance sheet, low net debt and strong credit metrics means we have balance sheet capacity, and as I've said before, we continue to assess Iron Bridge debt funding options and we will also look to proactively refinance debt prior to maturity. We reported at the Quarterly gross debts of US\$4.1 billion and net debt of US\$110 million at 31 December 2020, and gross debt fell from US\$5.1 billion at 30 June 2020. That's because we repaid the revolver during the first half, which was obviously drawn at 30 June 2020.

With the last 12 months of EBITDA at US\$10.8 billion, our gross debt to EBITDA is down to less than 0.5 times, and growth gearing, that's the book value of debt plus equity of 21%. Both ratios are well below our targeted investment grade metrics which are 1 to 2 times gross debt to EBITDA, and 30% to 40% gross gearing through the cycle.

Disciplined capital allocation for us comes back to doing what we say we're going to do and delivering returns to shareholders is a clear focus for us. Given our strong liquidity position, including US\$4 billion of cash of hand in the US\$1 billion undrawn revolver, payment of the interim dividend of A\$1.47 has been brought forward to 24 March, so prior to the end of the quarter, and that's earlier than - previously, we paid our interim dividend in early April.

Including the FY20 dividend of A\$1 per share, our trailing fully franked dividend yield was about 10% based on Fortescue's current share price.

Now, moving to capital expenditure, our guidance for FY21 has been refined to the upper end of the range of US\$3 billion to US\$3.4 billion. A couple of things to call out on the updated guidance: the updated Aussie-US dollar exchange rate that I spoke to earlier, we've had some timing of spend on major projects, noting that we have factored in of course the completion of Eliwana and we've also invested approximately US\$50 million in our rail system and that supports an increase in shipments guidance for FY21.

Moving to capital allocation, and if you're on the webcast, slide 15, which is my second favourite chart. On that chart you can see since 2014, that was the year we ramped up production to over 100 million tonnes following what we called the T155 investment. Over that period, Fortescue has generated US\$40 billion of EBITDA and an average margin of 54% and reported US\$19 billion of net profit after tax, generating an average return on capital employed of 26%.

Of the US\$30 billion of net operating cash flow generated over this period, US\$9.5 billion has been reinvested back in the business in both sustaining and growth capex. We've repaid US\$9.3 billion worth of debt and US\$12.6 billion of dividends have been distributed to shareholders, inclusive of the dividend that was declared today. That represents a payout ratio of 66% of net profit after tax over that period.

Looking forward, we have a commitment to target the top end of the payout range of 80%. The remaining 20% of NPAT is then available to fund growth. To provide further clarity on our capital allocation framework, we've guided this morning of our intent to allocate 10% of net profit after tax to FFI renewables growth and the other 10% for resource growth opportunities. Of course, while this is a target, any funding is subject to the fierce competition for capital we have across Fortescue and ultimately will be a function of free cash flow at the time.

As I hand back to Elizabeth, you can see that Fortescue achieved outstanding results in the first half. Our balance sheet strength and liquidity position provides confidence in the outlook and puts us in a very strong position for the second half of the financial year. Central to our consistent and predictable performance is our values and there was a stark reminder of the importance of this, this week and never losing sight of living and breathing the values, all of the values, all of the time. We remain focused on the things that we can control, which is safety, delivering on our integrated operations and marketing strategy while maintaining operating and capital discipline which optimises margins and that means we can deliver returns to shareholders. Elizabeth back to you.

Elizabeth Gaines: Thanks, Ian. We've seen a strong start to FY21, and we are continuing to deliver benefits to all stakeholders, including our customers, team members and the communities in which we operate. To that end, during the period our Billion Opportunities program continued to award sustainable business opportunities for Aboriginal people. We've now achieved the significant milestone of awarding contracts and subcontracts to Aboriginal businesses and joint ventures with a total value of A\$3 billion since the initiative began in 2011. As of 31 December 2020, Aboriginal people represent 10% of Fortescue's total workforce and 14% of our Pilbara operations employees.

In closing, this has been a challenging week for the Fortescue family. This is a great Company with a huge depth of talent and experience and it's because of this that Fortescue delivered such outstanding results for the first half of FY21. Our ability to deliver increased returns to our shareholders is underpinned by our operational excellence, together with the successful execution of our strategy through balance sheet strength, enhanced product mix and our industry leading cash position.

We are obviously now well and truly into the second half of the financial year and our guidance is for iron ore shipments in the range of 178 to 182mt, C1 cost guidance in the range of US\$13.50 to US\$14 a wet metric ton, and capital expenditure at the upper end of our previously guided range of US\$3 billion to US\$3.4 billion. As always, the team remain focussed on what we can control: safety, production, and cost.

This month in Western Australia we experienced a five-day hard lockdown, and our team members remained committed and worked closely with us, many showing their dedication and staying onsite for longer shifts.

I also want to acknowledge the recent bushfires near Perth that had a devastating impact on our wider community. This event was personal to us at Fortescue as we had a number of team members who were directly impacted, and I'm very proud to see members of our Fortescue family volunteering to support firefighters. Of course, we continue to support our partners, Minderoo through the fantastic work they do with the Minderoo Fire Fund. It is in situations like this that our Fortescue values shine their brightest and I want to thank all our Fortescue family for never losing sight of our responsibility to look out for their mates.

Thank you. I'll hand back to Bernadette to facilitate Q&A.

Operator: Thank you. If you wish to ask a question, please press star 1 on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star 2. If you are on a speakerphone, please pick up the handset to ask your question. Please note there is a limit of two questions per participant. If you wish to ask further questions, please re-register. Your first question comes from Rahul Anand of Morgan Stanley. Please go ahead.

Rahul Anand (Morgan Stanley): Hi, Elizabeth and Ian. Thanks for taking my question. Perhaps if we can please start with the capital allocation framework, your commitment to allocate 10% of earnings to FFI, specifically. Just wanted to understand if there's an update here on what potential opportunities there are or getting close to fruition and then also slide 13 shows the potential windfarm. I just wanted to check, is that something that's going to sit within FFI and not FMG like the Pilbara Energy Connect? I'll come back with the second thing.

Elizabeth Gaines: Maybe I'll start with the second question first. We're looking at a range of opportunities. I think that's an image that we've used to show the opportunity for renewable energy. The Pilbara has an abundance of wind and solar energy and currently we're actually installing large-scale solar. There are studies underway to look at the opportunities for further wind and solar in the Pilbara to tap into that for our renewable energy, but our current focus at the moment is largely on solar, but certainly the FFI team are looking at and undertaking studies on the potential for wind.

In terms of the allocation of earnings to FFI, I think what we've actually just spelt out our framework, so we're targeting the upper end of our dividend policy. Payout ratio, the upper end being at 80%, we're saying that there is half of that to FFI and renewables and half to other opportunities. In terms of FFI, the team have actually been able to identify a number of opportunities globally, and they are now undertaking further work and studies. We have indicated previously that we anticipate we will be investing about US\$100 million in FFI this financial year.

The 10% of net profit after tax is there to facilitate further studies but they still will need to come to the Board for approval under a very disciplined capital allocation framework, and the studies that they're looking at include some of the global opportunities that they have identified on the recent FFI global trip, but also we have referenced the Tasmania opportunity as well for green ammonia. Those are the near-term opportunities, certainly more domestic in terms of Pilbara and Tasmania, but we're also assessing a number of opportunities globally.

Operator: Thank you. Your next question comes from James Redfern of Bank of America. Please go ahead.

James Redfern (Bank of America): Hi, Elizabeth and Ian. First question just on Iron Bridge. The indicated capex of US\$3 billion up from US\$2.6 billion is a 15% increase, which is a lot lower than some of the market commentary around a 30% to 40% increase, so this is obviously a positive outcome. How confident should we be that the capex will be around this US\$3 billion mark I think is the first question.

Elizabeth Gaines: Well, James, we are undertaking a further technical assessment. We've clearly done a lot of work in the detailed review but there is further technical assessment required. That's a preliminary estimate of up to US\$3 billion. There's a range of factors that have contributed to that; there's currency, there's general materials cost, that includes access to labour and mobility, and also schedule and logistics is a big part of that. There will be further work underway, but as you know, we're very focused on being innovative and ensuring that we are able to deliver the project at the lowest capital intensity. That's where the focus will be, but there has been significant work to arrive at that preliminary estimate and the next 12 weeks we will be firming that up.

James Redfern (Bank of America): Okay. Thank you. My second question then, I hope you don't mind me asking, there were some obviously very big changes this week in the leadership team and both yourself and Ian are not going to be receiving an incentive payment for FY21. Just wondering, in regard to yourself and Ian, was that a self-imposed move or was that placed on you by the Board?

Elizabeth Gaines: Look, I think James that we won't comment further on that.

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

Lyndon Fagan (JP Morgan Securities): Thanks a lot. So, the first question is on Iron Bridge. I just wanted to understand a bit more about the technical assessment that being undertaken. I'm just wondering what that actually involves and whether you have in fact thinned down the flow sheet? It just feels like a term that really should be applied pre-project, not necessarily during construction. So, I'm just really trying to get a better handle on that.

Then the second question is, with regards to the 10% of NPAT going into FFI, I guess, if I look at Bloomberg consensus, we're a bit over \$8 billion this year. So, is it as simple as \$800 million going into next year's capex budget, or is this some sort of through the cycle type average? Thanks.

Elizabeth Gaines: Yes, thanks, Lyndon. Look, on Iron Bridge, there are no issues with the process. As you know, we invested \$500 million in the pilot and demonstration plants, we've produced the concentrate. So, this is not an issue at all to do with the process flow sheet. The areas that we've called out that we are reviewing is the magnetite concentrate transportation and return water pipelines, looking at opportunities to utilise Fortescue's port and rail infrastructure. There's contractor strategy and selection, as well as logistics infrastructure.

But there is nothing about the processing plant itself that has arisen as a result of the review. We're very confident in the processing plant. But there are things that have occurred, whether they are related to the access to labour, the mobility of labour, some of the contractor selection and their access to labour that are causing us to review those particular areas for the next 12 weeks.

Elizabeth Gaines: Ian will deal with the FFI question.

Ian Wells: Just on FFI, perhaps a practical example, this is a framework. As I mentioned, our capital allocation process, where there's going to be a competition for capital and dependent on the cashflows at the time and a practical example is net profit after tax for the half was \$4.1 billion, 20% of that is \$820 million. I stepped you through the reconciliation, where we've allocated \$1.2 billion to growth. Now, that's clearly 100% reinvestment back in the business. So, FFI is currently in the studies phase, projects come up and projects will be considered within that capital allocation framework.

So, I think the practical applications is perhaps a good example of how it would work, but clearly, at the time of making an investment decision and at the time of allocating the capital to, as Elizabeth said, those exciting projects which are going to come up in the future.

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

Kaan Peker (Royal Bank of Canada): Good morning, Elizabeth and team. Thanks for taking my question. Just on that capex increase, wondering if you could provide some sort of split of the components, given that we've had a step up in capex and the project's still under review, don't you think it's appropriate to give a little bit more transparency around where the capex is being spent and what's increased? I'll ask a second question following.

Elizabeth Gaines: Look, I think that will be part of this technical assessment when we get to the end of this 12-week period. We've indicated that there has been a detailed review. There are a number of factors that have contributed to that, including strength of the Australian dollar. Some of the other market factors that we're seeing, particularly with the access to labour and mobility. I think we can see from the areas that we are assessing as part of this detailed technical assessment, that that's where the key area of focus is, in terms of the overall capital estimate and the magnetite concentrate transportation and return water pipelines is a key area of that process.

Kaan Peker (Royal Bank of Canada): Thank you. Also, just wondering there's five binding off-take agreements already with Iron Bridge around 5 million tonnes odd. When did that commence? I suppose, are there drop-dead dates that's been committed to? Thanks.

Ian Wells: No, Kaan, they're linked to production. You can't sell a product without producing it. So, we've got the contract set up, but that's on production.

Operator: Thank you. Your next question is from Paul Young of Goldman Sachs. Please go ahead.

Paul Young (Goldman Sachs): Hi, Elizabeth and Ian. A tough week no doubt. Just a few questions from me. First one is for Ian on sustaining capex, which ran at US\$650 million for the half. That's a little bit high, it has been trending high for

the last couple of years. Is that a good run rate, Ian, to double that and drag that right in our models? Or do you think that that could be lumpy and it could actually increase?

The second question's on FFI again. When you look at projects, investing in projects and how they compete for capital, with, say, a minerals project, do you actually have a lower hurdle rate for renewables projects? We're seeing how other projects get approved on IRRs of 5% and lower, is that the way you think about renewables, or do you actually require the lower hurdle rate than, say, investing in your own business in the Pilbara?

Ian Wells: Perhaps I'll take the second one, wash your mouth out when you say a lower hurdles rate, Paul! The answer is, it depends. You've got to take a different view for the different projects, but at the end of the day, we need to get an appropriate return on capital for the capital employed and relative to the next best option. So, I wouldn't leave you with the expectation that we're going to lower our hurdle rate, but it does depend on the project.

Also, the funding solution, we're talking about the cash that's being allocated to FFI through our capital allocation framework, but any project within FFI, the extent to which they are raising debt capital, that would be non-recourse to Fortescue. Elizabeth?

Elizabeth Gaines: Yes, I mean, they will be looking, as you would expect, Paul, at low capital intensity, lowest cost quartile operations. So, that framework that we've applied to our iron ore operations, would also apply to any projects developed by FFI. We won't be doing what everybody else is doing, we'll be targeting a very low-capital intensity and low operating costs.

Ian Wells: Just on sustaining capital, if we go back to our original guidance and the \$1 billion was split up into two component parts, what we would call sustaining capital, but also operations development capital. So, the WHIMS project, which was successfully commissioned and is running and ramping up, is part of our operations development capital. That's a bit lumpy and with WHIMS being in the first half, obviously that implies that the first half is a bit higher than the average, which is right.

But really, in terms of your long run, it depends on your iron ore price, because if we can afford to do short-payback, high-return projects, we will. But if we can't afford it, then it pulls back to a number of - in the order of we've talked about US\$700 to US\$800 million a year. So, it depends on what you've got in your model and you can't put \$1 billion if it's got a low iron ore price. But if you've got a higher iron ore price, relative, you're going to be investing in projects like WHIMS and conveyors and other things to mitigate cost pressure, as well. Similarly, that goes to the assumptions on the cost of production.

The other point I'd make on those hub developments, such as the Queens, which is at the back end of this process, as those come up, we'll call those out separately. So, you would need to make obviously an assumption on that, going forward. But that \$1 billion, round numbers, is the right number, for now.

Operator: Thank you. Your next question come from Hayden Bairstow of Macquarie. Please go ahead.

Hayden Bairstow (Macquarie Group): Yes, morning, guys. Just a couple from me, on Iron Bridge, just wanted to touch, Elizabeth, on your comments about sharing the infrastructure. Is there anything structurally at issue with building a pipeline and flowing concentrate to port? Are there any concerns about them? It's effectively all downhill, so I don't imagine it's that much of a problem, or is it just timing and cost to deliver it, and hence that's what's under review, because that could be the key issue for the project?

Secondly, just on the capital allocation, I mean, your capex increase for Iron Bridge at \$3 billion, I assume that's on the new currency adjustments, so that's only like an 8% increase, if you take that away. So, it doesn't seem to be that much.

Then is that part of the 10% of resource growth opportunities that you allocate out separately, as part of Iron Bridge and the rest goes to that over the next couple of years? Or is that captured within the sustaining capital assumptions?

Elizabeth Gaines: So, Hayden, maybe I'll deal with the pipeline. I think it's more about current market conditions, labour, access to skilled resources and installation. So, the pipeline itself, as you rightly point out, is the relatively straightforward solution. Albeit, as there are some challenges to do with the corrosive nature of the water, but we have a solution for that. So, it's more around installation costs that is driving this review, because the installation costs in this current market environment do require further assessment. So, that's the focus for this review. Ian, did you want to touch on the capital allocation?

Ian Wells: Yes. Hayden, perhaps just to clarify, when we talk about resource growth, that includes iron ore, or magnetite, and other resource. So, broadly, resource and renewables, that's the category. So, Iron Bridge is well and truly in that resource growth category.

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

Peter O'Connor (Shaw and Partners): Good afternoon, Elizabeth and Ian. A few questions, firstly on FFI. Ian, the likely first timing of a major project for the Board? The capital allocation process, you seem to be suggesting its cash only as part of that 10%, so it's not a levered total number?

Ian Wells: Yes. So, first timing, that's I think impossible to say.

Elizabeth Gaines: I mean, with certainty, there's a lot of work to be undertaken.

Ian Wells: That's right. We're in the studies phase, we're allocating to FFI, we're in our admin costs, which we've spoken about. In terms of the allocation of capital to FFI, that would be the unlevered amount, clearly. As I said earlier, the expectation of any debt funding associated with FFI projects would be non-recourse to Fortescue.

Elizabeth Gaines: Peter, I should clarify that there is a Tasmania opportunity that we're actively considering, which we have disclosed before. There are studies underway looking at that opportunity. We would expect that there will be some proposal taken to the Board during the course of this year.

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

Robert Stein (CLSA): Hi, Elizabeth and Ian. Great result. Just two quick questions. The first one regarding Iron Bridge. If we just direct that expected wage inflation as we've previously talked to get the lion's share of the US\$400 million capex, so therefore at a cost targeting re scope and contractor rates worth the scheduling risks that you're introducing, given the higher short-term iron ore prices that are generally forecast to weaken over time?

Second question is regarding the \$100 million cash hedging losses, I think you've said in the previous quarterly that the QP lag was virtually non-existent and that we can assume price of the day. So, with the hedging losses, is that assumption still valid? Is the hedge program being maintained, given the robust market view and the \$4 billion of cash that you have? Thank you.

Elizabeth Gaines: Thanks, Robert. Maybe I'll take the first one around Iron Bridge. Look, obviously, you're right, there are some of these escalations in the market, but one of the other challenges is around schedule and that's why we're also considering some of the logistics infrastructure. I mean, the port of Port Hedland is a busy port. We've got large off-shore modules that are being fabricated, which will need to be delivered through Port Hedland. What we're finding is that's putting some pressure both on costs but also on schedule.

That's part of the assessment that we'll be making over the next 12 weeks. But you're absolutely right. I mean, the focus is to, with both schedule and forecast final costs and that's why we need to do that work, taking into account some of those issues we've seen around – as I said before general market factors, labour costs and the like. But schedule is also part of this 12 week assessment and we do have a number of options. And one particular option regarding how we can improve the delivery of schedules for those large modular components, but that does need that 12-week period, to fulfil the assessment option.

Ian Wells: Yes. On the hedging – the loss is in relation to some risk management activities that we took to support the sales increase domestically into China so the Fortescue Shanghai Trading. That's not a long-term position. That position will be closed out at the end of this quarter. Important to note that will then have full exposure to the iron ore price changes going forward and again, an important point that it's not a long term position.

Elizabeth Gaines: The average realised price in those hedge instruments is \$111 compared to our average realised prices to US\$114/tonne.

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

David Coates (Bell Potter Securities): Congratulations on a great result in what would have been a tough week. My question is on Iron Bridge. If I read your update correctly limited project works will continue during the next 12 weeks. Is the implication that a number of work streams have been shut down for that time. If so, what sort of scale back that has occurred with work on Iron Bridge?

Elizabeth Gaines: Yes. David, there is some activities that will slowdown. I'm not sure if it's a complete shutdown although some of the areas that we're assessing, there will be a significant slowdown. I think, more importantly, during this 12 week period we'll avoid what would have otherwise been a ramp up and I think that's the key, is we're going to take this period, do that commercial and technical assessment and avoid further ramping up during that period of other contractors and mobilisation. This really is a focus more on continuing with the activities that we outlined in the release which includes engineering, offsite fabrication, procurement activities and site based civil works. Other areas will slow down but really this is an opportunity to do that assessment and avoid what would have otherwise been a significant ramp up.

David Coates (Bell Potter Securities): No worries. Thanks very much.

Operator: Thank you. You're next question comes from Glyn Lawcock of UBS. Please go ahead.

Glyn Lawcock (UBS): Hi Elizabeth. Look, I guess I'm still trying to wrap my head around Iron Bridge and the events of the last 48 hours. I mean, slowing down, changing contractors or contractor strategy, I mean, for anyone who's ever built anything this seems to lend to itself to increasing capex and a 15% increase so far doesn't really support the announcements of the last 48 hours, so I'm just trying to square that circle. I know it's a hard one to answer. Then the second one is with that FFI, I know it's going to be a project by project basis but in terms of debt versus equity do you have a sense as to when you go to fund your first project would it be 50/50. I'm just trying to figure out how much it will be, Fortescue money and how much will be project finance. Thanks.

Elizabeth Gaines: Thanks, Glyn. I'll take that first question. Look, the events of the last 48 hours as I said earlier are not a reflection of capital estimate. I think, first and foremost, the changes that we've made are not as result of the capital estimate. As I outlined earlier this really was about a breakdown in team culture and not an assessment of that capital estimate. So they are different issues. There are some factors that arose as a result of that detailed review not only around capital estimate but also some of these challenges around the team culture and the escalation of information and the ability to take the opportunity to call on all of our great ideas and people who could work on solutions.

So yes, I guess there's not more I can say about that other than it's not a reflection of the capital estimate. Obviously, you've made the point as well around contractor selection and strategy, the plan is not to increase capital costs. The plan is do everything we can to be able to bring that project in at a low capital intensity so that's where the focus will be. But there are some areas where contracts have yet to be awarded and some quite significant contracts, but this is the opportunity to reassess those areas that we've pointed out there, the transportation solution as well as the utilisation of Fortescue's infrastructure.

Ian Wells: On FFI funding, I think it's too early to really give you anything definitive because it will ultimately depend on the types of projects but major infrastructure projects are funded differently to perhaps the Tasmania project that Elizabeth spoke about earlier. And we can give you that level of detail once we have visibility on it ourselves, I guess, is the simple answer.

Operator: Thank you. Your next question comes from John Tumazos of Very Independent Research LLC. Please go ahead.

John Tumazos (Very Independent Research LLC): Thank you all for your service to the company both those included and departed recently. Earlier today for you, I hosted a meeting for a Quebec iron ore project, Magnetite, that opined that it was better to be 65.1% FE than targeting 67 or 68 because of the electricity consumption for a fine grind. They don't have any carbon goals and they get renewable hydro really really cheap because there's too much hydro in Quebec. Could you tell us what the fine grind is 16 microns – what microns it is for Iron Bridge and how sure you are that the pilot studies are accurate and how much the capital is for the solar or wind to deliver the grind size to get the 67%.

Elizabeth Gaines: Sure, I think in terms of the energy costs we have a separate project which is the Pilbara Energy Connect project and that is separate to the Iron Bridge project. Remembering that Iron Bridge is a joint venture so Pilbara Energy Connect is a project of Fortescue which is \$700 million for the large scale installation of solar as well as additional gas generation capacity at Solomon. Renewable energy was a big part of our initial assessment on the project and the work we undertook through the pilot and demonstration plants to ensure that it is energy efficient and to add the innovative step of dry processing. I think the end result is sizing of 30 microns – there has been a lot of work on this in terms of energy efficiency, the addition of dry processing at the front end of the process and obviously, as I said, separately we have a low-cost energy solution which incorporates large scale renewable and gas generation.

Ian Wells: Perhaps the scenario where it's been done on the relativity between 67% or 65% Fe and working in an integrated way with the operations and marketing team together with our customers and that's how we landed on the 67.1% product.

Operator: Thank you. Your next question comes from Sam Webb of Credit Suisse. Please go ahead.

Sam Webb (Credit Suisse): Thanks Elizabeth and Ian. Just back to the capital allocation quickly. In any event you go through a period where there isn't some lumpy capital to spend in FFI or the other resources. Is that cash then ring-fenced or can that potentially come back to shareholders? And secondly, what is being targeted in that 10% bucket in other growth opportunities? Is it wildly different from your current exploration targets that you have now or is there anything new that you are targeting with that 10% spend?

Elizabeth Gaines: Maybe I'll start with that one Sam and Ian can talk about ring-fenced capital. Look it is consistent with the opportunities that we were already considering in our other commodity diversification exploration activities so it is not inconsistent with that diversification opportunity, as well as in iron ore to further increase our resources and pursue opportunity in the iron ore sector. Ian, you might want to talk about the capital.

Ian Wells: Yes, Sam I wouldn't think about it being ring-fenced because cash is fungible. What we're talking about is allocation methodology that's going to be subject to the point in time. So if you look at the capital allocation that we've

done just for this half is that we've allocated 80% of net profit after tax which is a material proportion of our cash on hand at the end of the period. So, it's not ring-fenced and cash is fungible and it's part of managing the group capital allocation and obviously cash flow is an important input into that together with the project and then funding the project at the time of making that investment decision.

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

Lyndon Fagan (JP Morgan): Thanks for that. Just going back to Tassie. Assuming you do take a FID and this thing is built, just wondering if the green ammonia is something that would be used by Fortescue to decarbonise or whether this is something you would be looking to sell to third parties. And the other follow up I had was on the green steel pilot plant. It looks as though this is targeted for construction starting within 24 months. I'm wondering whether that's looking to utilise Iron Bridge product or existing product from Fortescue's other operations and whether you can provide a hint on the technology that's being looked at? Thanks.

Elizabeth Gaines: Well Lyndon, I can't give you a hint on the technology yet because there are a number of technology solutions that are being assessed. In terms of the magnetite concentrate there is actually product that's already been produced for the pilot plant as well. But all options in terms of the feed in for the pilot plant will be considered as part of that technical assessment. In terms of Tasmania, I think again the team will look at those opportunities whether it's used by Fortescue as part of our decarbonisation or whether that is intended for third parties. That's part of the study phase and is under way at the moment. We can't really give you a firm and definitive view on that yet. Both those options would be part of that assessment.

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

Kaan Peker (Royal Bank of Canada): Thanks for taking my question again. Just on FFI, if you take 10% of net income, about \$800 million this year. All these renewable projects have capital intensity of US2-4 billion per gigawatt. How do we bridge that gap to that 100-200 gigawatt target? I've got a question after that.

Elizabeth Gaines: I think that capital allocation is to support studies phase. If there is a project that is presented for consideration and approval then the funding of that project will be part of that consideration.

Kaan Peker (Royal Bank of Canada): Okay, also just back on Iron Bridge be taking about \$3 billion capital number in terms of capital intensity per tonne of process, Iron Bridge has similar number to magnetite projects currently being developed which don't have [unclear]. Despite being a magnetite project, which requires tertiary processing and work, how do we get to that low capital intensity?

Elizabeth Gaines: Well, I think that low capital intensity is part of Fortescue's approach. We've studied the project in detail and that whole concept was to arrive at a low capital intensity through using innovation and I did mention as well that the power solution is a separate project funded by Fortescue with the Iron Bridge project being the user but it does use 20% less water and 30% less power and other similar processes and that's the innovation that went into the pilot and demonstration phase so that was studied comprehensively before we reached an investment decision.

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

Peter O'Connor (Shaw and Partners): The pipeline and thinking about what you review over the next twelve weeks is a change of scope of your transport option with magnetite part of this? Is it a pipeline / rail? Would you, could you rail magnetite material? Is that part of this scope, so the review?

Elizabeth Gaines: Peter, the review will assess in that and the technical viability of that. Yes, you can actually transport magnetite on rail, that's not an issue but part of the assessment is looking at the estimated cost of the pipeline installation

versus, as we said, looking at enhance utilisation of existing infrastructure. So that's the assessment that we'll be undertaking. But yes you can transport magnetite by rail.

Peter O'Connor (Shaw and Partners): And the follow up is on dividend. The paid ratio over the last couple of years you've always tailored the range you've guided. 65% seems to be the way the first half has dropped out over the last couple of periods. Do we take today's 80% as a guideline or should we'll stick to the range.

Ian Wells: Targeting the top end of the range reflects strength of the outlook together with the cash generated in the quarter.

Elizabeth Gaines: Peter in the past, first half performance has probably been lower than our second half performance as we have always historically had a very strong June quarter. So there's been seasonality but what you've seen actually in this first half is a record performance where we shipped 90.7 million tonnes. And I guess a slightly more even distribution of performance.

Ian Wells: And to be fair, we said we were targeting the top end of the range and that's exactly what we've done.

Operator: Thank you. Your final question comes from Paul Young of Goldman Sachs. Go ahead.

Paul Young (Goldman Sachs): Hi again Elizabeth and Ian. Question on the shipment guidance of 178 to 182, it would be really impressive if you can push above the 180 mark which is I guess in theory, well it's a theoretical capacity of the car numbers being \$60 million tonnes each. What's your sense or any update on whether you can squeeze that beyond the 182 and where the bottleneck might be. Is it on the rail or is it actually, the car numbers can do more than 182? The second question I had is actually on the iron ore market. No questions on that today. The last call you did on the quarterly, you actually mentioned that the expectation was that Chinese stockpiles could actually fall to 100 million tonnes by the end of the March quarter just by conversations with Steel mills. We're only a day or two post Chinese New Year, it's very early stages, what's your stance on takeaway capacity and restocking by Steel mills that you've seen post Chinese New Year so far?

Elizabeth Gaines: Thanks Paul, in terms of shipments above 180 million tonnes, as Ian mentioned in our updated capital guidance we had invested in some additional rail fleet so that's where the challenge has been to really push that rail optimization in terms of the car dumpers. We're always looking at ways to optimize performance through the car dumpers, and they have demonstrated that there is some additional capacity but really it's been about the rail fleet, so we are investing in additional ore cars.

But that's a constant area that is of focus for us which is how we'll optimise our installed infrastructure and we'll be doing more work on that as we move forward. In terms of the iron ore market, what we're seeing is that it's pretty stable at the moment actually. There hasn't been that sort of same draw down that the seasonal trend as significant as it might have been in the past. Activity has stayed fairly consistent through Chinese New Year with less people travelling back to their homes. Obviously with China and COVID-19 restrictions. So we've seen that it's pretty stable.

Operator: Thank you, there are no further questions at this time. I will now hand back to Ms Gaines for the closing remarks.

Elizabeth Gaines: Thanks for joining us. Obviously, a really pleasing set of results and the highest single half year performance since the company was established, with a record dividend so a pleasing set of results. The team are positioned very strongly to deliver in this second half. Thank you and we look forward to speaking to you soon.

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

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