



Quarterly Production Report

June 2020

Investor and Analyst Call transcript

provided by Open Briefing

30 July 2020

Company: Fortescue Metals Group Limited
Title: June Quarterly Production Report Analyst Call
Date: 30 July 2020
Time: 1:30 AEST

Start of Transcript

Operator: Thank you for standing by and welcome to Fortescue Metals Group Ltd June 2020 Quarterly Production Report 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 Elizabeth Gaines, CEO. Please go ahead.

Elizabeth Gaines: Thank you Amanda, and good morning or afternoon everybody. Welcome to Fortescue's June 2020 Quarterly Production Report. Joining me today in Perth is Ian Wells, Chief Financial Officer, and Greg Lilleyman, Chief Operating Officer.

I am very pleased to welcome Paul Clowry, who joins us as CEO for a day. A Murray man who grew up on Koori country, Paul is a Fixed Plant Electrician, currently at Solomon, and recently graduated from our Trade Up program. It was at the graduation ceremony late last year where I first met Paul. Once he completes his final exams, Paul will move to Eliwana where he will be part of the team during the all important ramp-up of our new mine.

Paul's been recognised for providing invaluable mentoring and guidance to many of the new intake of electrical apprentices. I am delighted he could join us today, it's good to have you with us Paul.

Paul Clowry: Thank you Elizabeth, it's great to be here today.

Elizabeth Gaines: Before I discuss our results, I would like to make a few comments about safety. The mining industry is a close industry, and our thoughts go out to our colleagues and friends at Saracen Mineral Holdings who tragically lost a teammate recently.

Obviously COVID-19 has bought into stark focus our responsibility to protect the safety, health and wellbeing of our people. The COVID-19 pandemic continues to present challenges for communities around Australia and the world. Our thoughts are with those impacted by the most recent outbreaks in Victoria and New South Wales, as well as our colleagues in South America and industry peers in Brazil.

From Fortescue's point of view, I am very proud of the team's commitment and co-operation during this time, which has sustained our contribution to the Western Australian and national economies through the reliable and secure supply of iron ore to our customers.

So that brings me to our Q4 results, and as you can see from today's report, the Fortescue team has focused on the task at hand, and has again achieved outstanding results for the quarter. Continuing our positive momentum. There is one word you hear us use a lot today, and that's record. That's because Q4 in FY20 was a year of record achievements for Fortescue. Underpinned by the hard work and dedication of the entire Fortescue team.

A key highlight was our safety achievement, which resulted in a total recordable injury frequency rate of 2.4 on a rolling 12 month basis. That's an improvement of 14% compared to FY19. During the June quarter we completed our annual

safety excellence and culture survey, with 96% participation across the business. The results demonstrate that our overall safety culture remains strong, and our Take Control campaign has been well-received and is now embedded in the business.

Pleasingly, our team members are proactive with reporting safety matters and sharing learnings. We received over 11,600 responses and 30,000 comments and recommendations from the survey. These will guide our future action plans. We remain confident that we can continue to improve our safety culture as we work towards achieving zero harm.

In terms of our operating performance, it was a quarter of records. Building on the records achieved for the first nine months of the financial year, Fortescue's outstanding operating performance was sustained. With mining, processing, rail and shipping combining to deliver record quarterly shipments of 47.3 million tonnes. Record full year shipments of 178.2 million tonnes, were 6% higher than FY19 and exceeded the top end of guidance, which was 177 million tonnes.

C1 costs for the June quarter were USD13.02 a wet metric tonne. That's 2% higher than the same quarter last year due to costs associated with managing COVID-19. C1 costs for FY20 were USD12.94 per wet metric tonne. That includes approximately USD0.22 per wet metric tonne of direct COVID-19 related costs. Importantly we maintained our industry leading cost position through our continued focus on innovation and productivity. We achieved average revenue of USD81.00 a dry metric tonne in Q4. That's a realisation of 86% of the average Platts 62% CFR Index. That results in FY20 revenue of USD79.00 per dry metric tonne, and that's 21% higher than FY19.

Another operational highlight for the quarter was the opening of the Fortescue Hive, our expanded integrated operations centre. This purpose-built facility in the Fortescue Centre in Perth includes planning, operations and mine control teams, together with port, rail, shipping and marketing teams to deliver improved safety, reliability, efficiency and commercial outcomes.

Ian will talk to the balance sheet, but I did want to highlight that cash on hand was USD4.9 billion at 30 June, and Fortescue's net debt was around USD300 million.

Just touching on our iron ore growth projects, Greg and I visited Eliwana and Iron Bridge earlier this month. It's great to see the progress at Eliwana in particular, as the project gets nearer to completion. The teams have worked over five million hours in FY20, and both projects are progressing well, with strong safety outcomes. Greg will provide a more detailed update, including the important key project milestones for both Eliwana and Iron Bridge that were achieved in the June quarter.

On the market, our iron ore ships continued as planned during the quarter. We have seen strong ongoing demand for our products. Chinese crude steel production reached 268.9 million tonnes in the June quarter, and 499 million tonnes of the first half of this calendar year. That's 1.4% higher compared to the first half of calendar year '19. As we mentioned in April, we anticipated a steady recovery in China's economic activity, and this continues to be the case, supporting our confidence in the strength of China's economy.

Notably, in June 2020 according to the Australian Bureau of Statistics, exports of Australian iron ore increased by 8% to AUD9.92 billion. The highest export value on record. This brings total exports of iron ore for FY20 to over AUD100 billion, with China being the main market, accounting for 87% of all iron ore exported in FY20. As home to three of the four largest iron ore producers in the world, Western Australia is well-positioned to support China's ongoing growth and development, which in turn will underpin WA and Australia's economic recovery post-COVID-19.

Just touching on exploration. Total exploration and studies capital expenditure for Q4 was USD26 million, with FY20 expenditure of USD116 million. Iron ore exploration in the Pilbara is ongoing, and exploration programs in the Western and Solomon Hubs have restarted. We have also resumed exploration drilling in New South Wales and South Australia

during June. Exploration and field activities in Ecuador and Argentina however remain suspended due to COVID-19, but the team are assessing the results of previous drilling and there are various geological studies that are ongoing.

So on that note I'll hand over to Greg for an update on our operations and major projects. Greg.

Greg Lilleyman: Thanks Elizabeth. Good morning or afternoon everyone. Well, I've got to say at the outset that I'm really happy with how our operations are performing, achieving multiple records right across the business. However we are certainly not becoming complacent. The team work hard every day to look for the next opportunity to improve performance, and we take nothing for granted.

Without a doubt our proudest achievement is on safety this year, where we further reduced our injury rate by 14%. This of course was notable because it's during both a significant ramp-up of construction activity and in the middle of our response to COVID-19. The strength of the Fortescue culture really shone through this period, and was highlighted through the results of our annual safety culture survey, as already mentioned by Elizabeth.

On operations, it was really great to meet our guidance for the year with 178.2 million tonnes shipped, and a solid quarter to finish at 190 million tonnes per annum rate, with 47.3 million tonnes shipped in the quarter. In fact all of our sites achieved records, including our rail and port. There really has been a solid and consistent performance right across the board.

The strip ratio was effectively as planned and guided this year, and the lift in the West Pilbara fines production to about 18 million tonnes was also as planned and guided. Pleasingly we have come in under USD13.00 per tonne for our C1 costs for the full year, and that includes the impact of managing COVID-19 at about USD0.22 per tonne. The operations team has done an outstanding job to deliver these results during the COVID-19 period.

On the market, China really has seemed to have recovered from COVID-19 better than most. With the auto sector, real estate and infrastructure bucking the trend elsewhere to help lift steel demand. With crude steel production at 499 million tonnes in the first half of this year, and supply disruptions in Brazil we saw Chinese port stocks held at relatively low levels as a result. Helping to support prices overall.

Our product mix changed, as we had flagged previously, with increases in our higher value products, such as West Pilbara Fines and Fortescue Lump, which are noted in the table on Page 3 of our release, are driving our average price to lift 21% to USD79.00 per dry metric tonne, outperforming the Platts 62% Index increase of 16% during the year. This really demonstrates the benefit of Fortescue's integrated operations and marketing strategy, and the great results delivered by our sales and marketing team.

Importantly, our Chinese-based trading company, FMG Trading Shanghai Co. Ltd, sold 6.5 million tonnes of iron ore in FY20 to over 80 customers. Nearly all of them new customers. Keeping us in close contact as we maintain and build existing and new relationships.

I'll turn now to our investments in the major projects.

On Eliwana first, we had some really excellent progress during the quarter, track laying commenced on the rail way and we're now with over 50% of the structural steel now installed on the site at the process plant. Some access delays and COVID-19 impacts have driven a compressed construction schedule and associated acceleration costs in order to maintain first ore on train as scheduled in December '20.

As flagged, the approvals for Eliwana were received early this year, which were a little later than our original tight schedule. Our recovery plans were then impacted by COVID-19, meaning we now have a need for further acceleration measures to meet the December '20 schedule. This results in revised forecast total investment of \$1.325 billion to \$1.375 billion from

the original \$1.275 billion. Eliwana remains well and truly the lowest capital intensity for mine plus rail for current projects in the Pilbara, at \$45 per tonne, with the mine capital intensity at about \$23 per tonne.

To Iron Bridge, it's really starting to hit its straps now with earthworks and civil works well underway and site access and camps well progressed. Engineering is over 70% complete. The project remains on budget and schedule with a number of key large construction and fabrication packages and contracts under final assessment before award over the coming quarter.

Our energy projects have started well, the key contract for the thermal generation already awarded and within budget. As Elizabeth mentioned, we were up in the Pilbara recently at Cloudbreak and the extended Cloudbreak relocatable conveyer project had just been commissioned, on time and budget. It ramped up to full nameplate capacity within 24 hours.

We also visited Christmas Creek where our investment in the Wet High Intensity Magnetic Separation Plant or WHIMS plant, is also tracking on time and budget for delivery of first product before the end of the year.

So all in all, throughout the quarter our major projects have progressed well and are on track. Back to you, Elizabeth.

Elizabeth Gaines: Thanks, Greg. I'll hand over to Ian for the finance update. Ian.

Ian Wells: Thanks, Elizabeth, and hi everyone. As you heard from both Greg and Elizabeth, the June quarter and FY20 have been outstanding really across all of the key metrics and I'm also really proud of the result the team has achieved. It has been consistent and predictable operating performance that's really at the heart of doing what we say we're going to do and focusing on the things that we can control and that's of course safety, production and costs.

So just firstly on revenue, our average realised price of \$81 a tonne was 86% realisation and the average index of 93 for the quarter. For the fiscal year ended 30 June we averaged 84% of the Platts index. So that reflects another quarter, in fact six in a row now, plus a full year, where our realised price has averaged around that 84% to 85% level.

As Greg mentioned, our realised price outperformed the market, reflecting not only the market conditions but really importantly, our improved product mix. Onto cost, our Aussie dollar cash cost quarter-on-quarter were up consistent with the higher volumes shipped, and in US dollar terms we saw the combined benefits of a lower oil price which did flow through into Q4 and a marginal improvement in foreign exchange and those benefits were somewhat offset by the COVID-19 costs that the guidance spoke about.

Looking at full year performance, C1 costs at 12.94, that compares favourable with last year at 13.11 and that was just under the midpoint of the updated range of 12.75 to 13.25 that we provided back in the Q2 production report earlier this year.

So, if we move to full year guidance for FY21, that's 13 to 13.50, and there's two key points that guidance is based on an assumed average Aussie - US exchange rate of \$0.70, and it also includes Eliwana operating costs as the project transitions from development to operation. So those operational readiness and ramp up costs will be incurred in the second half of the fiscal year.

Moving onto the balance sheet and cash, our continued focus on total costs, so not just C1, with strong production, strong realised price and disciplined capital allocation means we're maximising cash margins on every tonne of ore sold.

During the quarter we continued to invest in the business and deliver value to shareholders. We paid the AUD \$0.76 fully franked dividend to shareholders, which in US dollar terms was \$1.4 billion, and total capital expenditure for the quarter stepped up to US \$700 million. So that compares with around \$400 million for each of the previous three

quarters and that reflects a step up in our investment in major projects of Eliwana and Iron Bridge. This is about \$2.8 billion annualised.

At 30 June our cash balance was \$4.9 billion, and this included the revolving credit facility proceeds from drawing down the revolver in April. As a reminder, we will have a FY20 tax payment due when we lodge our return in December this year and further details of course will be provided with our annual results when they're released in August next month.

Given our operating performance, relative market strength and also confidence in the outlook, the revolver was actually repaid this week and during the quarter we also negotiated an extension on the maturity of that facility to 2023. So, the impact is, there's no change to net debt, the undrawn facility remains an additional source of liquidity, obviously together with our cash on hand.

We're really pleased to advise that the final deliveries under our pre-payment contracts have now been made with the balance of those prepayments amortising down to zero at 30 June.

So, we had gross debt of \$5.1 billion at 30 June, this reduces to \$4 billion after paying the revolver, and we have a relatively simple debt capital structure with consistent terms across the debt facilities, with both the capacity to fund future growth and we have no financial maintenance covenants.

So then moving to capital allocation and consistent with our track record of discipline execution of our capital programs, total CapEx for FY20 was \$2 billion, with all major categories in line with guidance, albeit at the lower end of our updated range of US \$2 billion to \$2.2 billion.

So now for FY21 guidance, it's \$3 to \$3.4 billion year-on-year increase reflects the peak investment period in growth through Eliwana, Iron Bridge and Energy. We have provided further detail in the release which I would split the capital really into three main categories and that's investing in the core business, exploration and major projects. The guidance is \$1 billion for reinvesting the core business, and that includes sustaining, operations development and the Queens Hub.

Consistent with FY20, sustaining capital includes investment in mine, OPF, rail and port infrastructure, condition-based maintenance, fleet and other life cycle asset replacements. The operation's development category, the objective of that is to deliver a return on capital by increasing revenue or reducing costs. These are mostly high return, fast payback projects of existing operations, and an example in FY21, this includes the relocatable conveyers and the WHIMS project Greg mentioned earlier, together with the completion of the AHS rollout.

For major projects, our guidance is \$1.9 to \$2.3bn. As I mentioned earlier, Eliwana swings into operation as we complete the development phase through project completion. Iron Bridge steps up with the completion of major earth works and transition to the construction phase, and on energy our investment in generation and transmission infrastructure leverages existing generation to deliver low cost, low emission energy to the Iron Bridge project.

So, with work completed to date, contracts committed, a strong balance sheet in the liquidity position, we're extremely well placed to deliver this capital program for FY21.

So in closing, we remain focused on the things we can control: safety, delivering on our operations, marketing strategy, together with costs and capital to maximise margins and deliver shareholder returns. And a reminder, our dividend policy is a pay out in the range of 50% to 80% of the full year net profit after tax. With that, I'll hand back to you, Elizabeth.

Elizabeth Gaines: Thanks, Ian. While there's no doubt that this has been a period of extraordinary disruption that no one would have predicted, there have been many achievements we can be proud of. During the quarter we have celebrated an important milestone in our commitment to Aboriginal business development with the approval of an aggregate of a

total of \$20 million in financial support for nine Aboriginal contractors under our guaranteed leasing facility with ANZ, that's \$20 million since it was launched in 2018.

Access to capital has been identified by our Aboriginal contracting partners as a barrier to growth, and through our innovative guaranteed leasing facilities with the ANZ, we are helping to address this challenge by providing practical tools to deal with long-term capability and capacity.

During the quarter, the mining sector's work with Aboriginal communities, particularly the industry's approach to protecting Aboriginal heritage came into sharp focus, and at Fortescue our primary objective is to work on a cultural heritage avoidance basis. We have seven native title land access agreements and many dozens of Aboriginal heritage agreements that established detailed processes for the conduct of Aboriginal cultural heritage surveys, consultation, project planning, impact mitigation and negotiation. We have worked closely and transparently with native title partners and with traditional knowledge holders to protect and avoid almost 6000 heritage places.

So in summary our guidance for FY21 builds on the momentum of a record FY20 as we execute our major growth project and our integrated operations and marketing strategies. We've guided to iron ore shipments of 175 million to 180 million tonnes, C1 cost of \$13 to \$13.50 and capital expenditure of \$3 billion to \$3.4 billion. We have a strong balance sheet and a clear focus to reinvest in the business, develop our major growth projects and continue to deliver enhanced shareholder returns.

As always, and especially as we celebrate the end of this financial year, I'd like to thank and congratulate all of our employees, contractors and suppliers for their contributions during this quarter and the year. We have worked together through a period of unprecedented disruption to our workplace, our homes and our communities, with all of our team never losing sight of our responsibility to look out for their mates.

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

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 speaker phone, please pick up the handset to ask your question. We ask that you limit your questions to two per person, however you may re-enter the question queue. Your first question comes from Rahul Anand from Morgan Stanley. Please go ahead.

Rahul Anand: (Morgan Stanley) Thank you. Thanks, Elizabeth and team. Good afternoon. Look, my first question is around strip ratios. So you did provide guidance today for that to be at 1.5 times from FY20 to FY25. If we go back to the last presentation from the site tour in 2018, we had that average at around FY19 to 23 at 1.6, and then 23 to 26 at about 1.8. I just wanted to get a better understanding of what has led to that reduction in strip ratios today. I'll come back with the second one, thanks.

Greg Lilleyman: Rahul, it's Greg. Thanks for the question. Look, two things, of course, I certainly also recall at the time saying our focus will always be on looking for opportunity to reduce strip ratio into the future with all sorts of different activities such as investment in relocatable conveyers and other things, but equally at that time we didn't have Eliwana fully baked into our strip ratio guidance. So the combination of those two things, updating of our mine plans, always looking to optimise our future ore body developments et cetera have meant we've been able to now deliver new mine plans that do result in that strip ratio average of around 1.5.

Rahul Anand: (Morgan Stanley) Okay, perfect. So there's no pre-stripping element as such that's been baked into that number?

Greg Lilleyman: There is no additional pre-stripping, there is pre-stripping as you would expect as part of each of the Eliwana and Iron Bridge projects, but they're within the capital estimate as would be normally be the case. Nothing has changed in that regard.

Rahul Anand: (Morgan Stanley) Perfect. Thanks, Greg. The second one was around the cost guidance for this year. So, FY21 you indicate the COVID-19-related impact was roughly US\$0.22. I just wanted to get an understanding on whether this year's guidance is now included in that US\$0.22? If these impacts abate, is cost guidance then a bit conservative from that aspect?

Elizabeth Gaines: I'll take that one. About 75% of the cost in FY20 was associated with employee-related matters with the temporary change to rosters. So, we've wound that back now. As you know, we had the extended rosters. The balance is really around some of our additional cleaning and accommodation for some of our interstate workers, as well as testing and physical distancing measures. So, there's an element of that that we'd assume will continue into FY21, but the majority of it won't, because we are not anticipating the change to rosters. So, it's about \$0.05 to \$0.10 we've included in our guidance.

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

Hayden Bairstow: (Macquarie Group) Good morning, everyone. Another good result, well done, particularly in the circumstances. Just a couple of questions from me. Just firstly, on the outlook. I know I don't want to lock you into three-year guidance, but is there anything we should think about as Eliwana ramps up about bottlenecks in rail or anything like that that might drop production in '22, '23 during that ramp-up period, or is it the opposite's the case, that it frees up capacity and then hence production could be at the upper end of those ranges? Just wanting to get an understand what that looks like.

Then, just on the port approvals, can you just remind me where you're at with that? I mean, I'll assume you're going to push up against your limit for this calendar year and what's the timing on getting that expanded? Thanks.

Elizabeth Gaines: Yes, maybe I'll start with the port approval, Hayden and Greg might want to talk about the outlook. Look, on port approvals, yes, it's 175 million tonnes on a calendar-year basis. So, we're obviously mindful of that. But we're confident in where we are in the approvals process that we will have our approval to increase our capacity by the end of this calendar year. So, that's well in train.

Greg Lilleyman: Hayden, I guess, on the capacity, clearly the supply chain does change as we haul up to 30 million tonne a year out of Eliwana. Of course, we take that into account as we also add rolling stock and add other aspects to our overall capacity. I mean, clearly, we will have some more processing capacity as we bring on the extra mine and plant at Eliwana. But equally, we constantly are looking at optimising the productivity, the efficiency, the throughput, de-bottlenecking all the way through.

So, there's certainly nothing on the horizon from my perspective that would see us go backwards at all. As you say, we wouldn't guide beyond this next financial year, but certainly nothing in my mind setting us backwards.

Hayden Bairstow: (Macquarie Group) Perfect. Thanks.

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

Lyndon Fagan: (JP Morgan) Thanks very much. First question's just on the Juukan Gorge issue. Are you able to maybe elaborate on how some of these sites affects Fortescue and what might change going forward as a result of the Rio Tinto issue, i.e. are there reserves that are potentially more difficult to access now and more difficult approvals, that sort of thing?

I guess, sticking to the Rio Tinto theme, Simandou looks as though it is coming on, on a five-year view, particularly the northern part. Obviously, you guys were looking at that, as well. Just wondering how you think about Simandou and how it might affect product realisations for Fortescue, if that material came to market in a big way? Thanks.

Elizabeth Gaines: Thanks, Lyndon. Maybe I'll start with the, I guess just call it that heritage management, as opposed to just to the Juukan Gorge. Our approach has been consistent throughout, Lyndon. We work very closely with the traditional custodians of the lands on which we operate. Our primary objective is to work on a cultural heritage avoidance basis. By that, there's a priority of avoidance. It's burial sites, it's rock art, it's ancient man-made structures. We have our heritage team out on country with the knowledge holders and the traditional owners to really understand at the early stage of mining, is to understand those areas of significance. So, we've always had a policy of strong collaboration and communication.

We have the seven *Native Title Land Acts* as an agreement as I referenced earlier. We've got dozens of heritage agreements. So, we have already avoided and protected almost 6000 heritage places across our operations. So, for us, we will continue to approach it on a close consultation basis and to work very closely with those traditional owners.

And obviously there is an enquiry underway at the moment. The State Minister has flagged that there will be a review of the *Heritage Act*, which is I think written over 50 years ago. So, we need to stay abreast of that, we always work in closely with industry, through CME and AMEC as well as having our own views and we'll work with the State Government to understand what any new legislation - what may arise and how that might impact us. But we have always approached it from a policy of avoidance.

I think on Simandou, there seems to be enough commentary around the fact that there is activity. Whether it's five years or eight years, it is difficult to tell. I think everyone is aware it's a complex project, through some difficult terrain and a lot of infrastructure that needs to be built. For us, we're staying very focused on delivery of our Iron Bridge project in particular, Eliwana and Iron Bridge. But a 67% grade Magnetite concentrate products which come to market, in the first half of 2022, it certainly, I think, will be very well received.

There's no change to our underlying strategy. I think on price realisation, we've seen price realisations go through various cycles. But by maintaining our low-cost status, we've generated strong cash margins throughout. So, we'll continue to do what we do and we know we do it well.

Lyndon Fagan: (JP Morgan) All right, thanks.

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

Paul Young: (Goldman Sachs) Yes, good afternoon, Elizabeth, Greg and the team. First question is on Eliwana. We're pretty close to first ore on train now. Curious about the ramp-up profile. So, how quickly can we ramp this to 30 million tonnes per annum? Also, where we're ramping down? Which mines in response ramp down to keep it 175, 180? Also, what production of WPF do you expect in FY21? Thanks.

Elizabeth Gaines: Greg, do you want to do that?

Greg Lilleyman: Yes, sure. Good day, Paul. Yes, look, Eliwana, in reality it's a relatively simple plant. There's certainly no wet process part of it. It really is a plant that's designed to turn big rocks into little rocks. So, I don't really see any real reason why there should be any long ramp-up period for Eliwana. It sits in our plans as part of our FY21, in the second half of FY21, of course. So, I think we'll see it ramp up pretty well over that second half of this financial year.

As we've been flagging, a big part of the value equation with Eliwana, is that it will underpin an increase in West Pilbara Fines up to that sort of 35-or-so million tonnes position. You won't see that in this current financial year, but certainly, come FY22, it will start to impact on that. We'll see an increase in Fortescue Blend however, which is obviously a higher-value product, as well, for us over the course of this FY21.

We take a balanced approach across the rest of the sites, in terms of the way that we're looking at where those offsetted tonnes come from. It's not a significant volume anyway. We did have some contract crushing in the past that will drop off, et cetera. So, it's only minor impact on our Chichester operations.

Paul Young: (Goldman Sachs) Yes, okay. Thanks, Greg. Second question, Greg, on CapEx, around development projects. So, we've seen a little bit of a creep on Eliwana. I can understand that's just to get the project complete by the end of the year. I'm just curious about Iron Bridge. Just looking at your CapEx profile, versus now compared to when you approved that project. A little bit of extra CapEx in FY21 and FY22 a little bit of underspend versus original numbers in FY20. We know that that continues in this project.

So, just curious about where you're tracking, versus budget, across all the key components and also what percentage of CapEx actually have you committed on this projected, or awarded, if I call it that?

Greg Lilleyman: Yes, sure. At this stage, our estimate to complete for that project is on track. \$2.6 billion and first delivery of ore in the first half of 2022. So, there's nothing in the process so far of awarding contracts and completing the engineering, et cetera, that says to us that we're going to see any increase over that. Like all our projects, we set ourselves stretch targets. So, there's nothing left in the tank, if you like, in terms of the overall capital estimate and schedule.

We're about half committed, in terms of the contracts let; the supply of long-lead items and equipment, the engineering resources, detailed design, all those sorts of things. I think I mentioned in my comments, we are on the cusp in this next quarter of a few of the larger contracts that are yet to be let around some of the steel fabrication and erection on site. So, we're pretty well advanced on the engineering procurement and contracting strategy. We are just starting to get that ramp-up on site activity over the course of this next six months. So, it's in good shape is my summary of where that project sits today.

Ian Wells: It's Ian, I'd just add as well, if you just look, it at timing at cash flows. Remember we reduced upfront cashflows, because we'd assumed that a significant proportion of the contracts would require upfront deposits. We managed to contract that out. So, that because of a timing issue. We're giving quite a lot of transparency on the splits across projects across months and across years. So, it's not at any exact time. So, it's just a case of trying to get the cashflows right. Obviously, we're managing that from a Group Treasury perspective, at the same time.

Operator: Thank you. Your next question comes from John Tumazos, a private investor. Please go ahead.

John Tumazos: (Private Investor) Thank you. Could you describe the solar cell portion and the storage battery portion of the \$700 million capital project? How many megawatts will be the solar, what it costs and what would be the storage battery technology?

Elizabeth Gaines: Yes, John, I think in the \$700 million, we have split it into two components. There's \$250 million for transmission, so poles and wire. There's \$450 million for generation. So, the solar fits within the \$450 million of generation. But a combination of we're adding 150 megawatts of gas-fired generation at our existing Solomon power station. We're supplementing that with 150 megawatts of solar. So, that's been part of our strategy is to incorporate renewables. So, we'll have a combination of transmission, as well as generation.

When all that is installed, including the work that Alinta are doing in our Chichester Hub to install 60 megawatts of solar, we will end up with 25% to 30% of our stationary energy as being sourced from renewables, effectively solar. I think in

terms of the battery storage technology, we're still going through the selection of that. The battery storage is more to meet some of those peaks and it's not going to be a main source of energy when the sun is not shining. That's why we're installing the gas generation as well because storage technology is not quite there yet.

John Tumazos: (Private Investor) If I can ask another one about the hydrogen energy long term research. If you were to export hydrogen energy derived from solar, what would be the benchmark to sell it? Would it be - do you look at the economics versus Brent Crude, versus LNG? I'm just asking where is the value of hydrogen energy.

Elizabeth Gaines: John, that might be one that we might ask Andy to come back to you on because it's early stages at this point in time around some of those metrics. The team are - we've got some interest in some hydrogen projects. And we've got some benchmarks but it is very early stages. But perhaps we can leave that with Andy to come back to you with some more details on that.

Operator: Thank you, I will now hand back to Elizabeth for closing remarks.

Elizabeth Gaines: I think we've got - Amanda, there's Glyn Lawcock in the queue that we can see for a question.

Glyn Lawcock: (UBS) Thanks very - no worries, hi. Thanks very much for that. Just a couple of questions, the USD0.22 a tonne in the year, I mean COVID obviously mostly occurred in the June quarter. So is it fair to say the impact was probably more like USD0.70 on the quarter? Is that fair?

Ian Wells: Yes, USD0.70 to USD0.80 in that order. Most of the costs flowed through in the June quarter yes.

Elizabeth Gaines: In the fourth quarter. And that's largely to do with those extended rosters Glyn, which have now been wound back. So they really were only a feature of the quarter.

Glyn Lawcock: (UBS) Yes and so when you look at '21, if I heard correctly there was probably some diseconomies of scale from the Eliwana ramp up in the year in the guidance you've given? So at a fully ramped up Eliwana, all else being equal I mean, where would costs sit? Is it fair to assume Eliwana is a lower cost mine than what it's replacing?

Greg Lilleyman: There's certainly elements of it that are going to be lower cost Glyn. It's a good strip ratio pit. It's a simple process plant as we take some tonnes off elsewhere. Remember some of what it's offsetting is Firetail, which is equally a simple plant and equally relatively good strip ratio. So, we're not flagging here that it's a material change of cost profile as Eliwana gets to full tilt but certainly there will be in the early stages some of that diseconomies of scale until we get that ramped up to full rate.

Glyn Lawcock: (UBS) So if the guidance volume had a fully ramped up, all else being equal, you'd do better than USD\$13 to USD\$13.50?

Elizabeth Gaines: Well, you know there are other costs. In fact, we're not giving guidance on that yet Glyn.

Glyn Lawcock: (UBS) Yes, that's fine.

Greg Lilleyman: So, the main drivers of the year on year is that we've - as Elizabeth said, we've taken into account some COVID costs. We're going to have some diseconomies of scale by having respectively the fixed costs of Eliwana without the tonnes and then FX is a step up from a couple of cents year on year based on a USD0.70. That sort of gives you a range for things and obviously offsetting that is that we'll have other productivity measures to offset that. And also we need to take into consideration general inflation together with the general mine life inflation that we're seeing because of longer haul distances and so forth. And in part that's why we're continuing to invest in those assets that are helping us to keep that cost as low as possible.

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

Paul Young: (Goldman Sachs) Yes, one quick follow up thanks team. The question actually for you Ian, just looking at - it's probably the biggest delta we've seen between ore process and ore shipped in a quarter and obviously the right thing to do at the end of the financial year. But you must have drawn down pretty much all your finished product stock onsite and also the port. So, the question is working capital, you got a big tailwind in the quarter. Are we going to go through a period of now rebuilding those stocks? I mean you're going through a maintenance quarter anyway but are you going to rebuild those stocks over the next quarter or two?

Ian Wells: Well, I think Greg's been reporting through all the quarters that our stock levels have been really healthy, and I think the reflection of the record tonnes and at the right product mix means that the entire logistic chain is pretty healthy. You'll see our ore inventories; iron ore inventories have been ticking up a little bit but that investment has been paying off. As we go into FY21, obviously we're ramping up Eliwana so that depending on the reporting period, you could see some increase in iron ore inventories. But nothing out of the ordinary and in fact I'm pretty delighted on where things are at as opposed to giving Greg a hard time, which hasn't always been the case Paul.

Greg Lilleyman: A bit of colour as well, I mean we actually built an increased stock over the previous year or so, maybe even 18 months as our processing plants were ticking up. You might recall me talking about the bottleneck moving from processing into the rail, which is why we did choose to bring the Eliwana ore cars on early, to be able to use those to benefit before Eliwana mine comes on to be able to help draw down some of those stocks and convert some of that into cash. So, we finished the financial year with perfectly healthy stock levels both at the port and across the mines. And if anything, we still had a little bit up our sleeve across the mines Paul. So if anything we may even be able to draw down a little more this year with full comfort.

Paul Young: (Goldman Sachs) Fantastic. Thanks again.

Operator: Thank you. Your next question comes from Glyn Lawcock from UBS. Please go ahead.

Glyn Lawcock: (UBS) Thanks Elizabeth. Sorry, just had a second question. Just on the freight rates and obviously we saw some pretty low freight rates in the quarter around COVID, is it fair to say that traditionally you've made a bit of a positive margin on freight? When the freight rates are that low is it fair to say you make a loss on freight despite even owning your own vessels? Thanks.

Ian Wells: Yes, maybe I'll take that. You're right that when the rates are higher we are making an increased profit on our ore carriers because we've got fixed costs and obviously we're not paying ourselves a margin. But when they do get lower it is definitely harder to make a return, a significant return on those market rates. But ultimately those vessels are the most efficient and so therefore that's the lowest cost, certainly in that fleet and perhaps in the industry as well. So yes, that's...

Greg Lilleyman: I think the other thing is to recall that those vessels make up about 12% or so of our overall volume moved Glyn, so the rest are all moving with the market now if they're willing to fix prices in the market on an ongoing basis. So whatever is happening with those eight vessels only makes up a small proportion of the overall outcome.

Glyn Lawcock: (UBS) Okay that's great. Thanks very much.

Operator: Thank you. There are no further questions at this time. I will now hand back to Elizabeth for closing remarks.

Elizabeth Gaines: Thanks Amanda. Thanks everybody for joining us today. We're obviously delighted with our Q4 results and particularly our safety performance. But no doubt we'll be back in with you in a few weeks' time when we announce the full year results. So look forward to speaking to you then. Thanks very much.

End of Transcript