Quarterly Production Report

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Start of Transcript

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

Elizabeth Gaines: Thank you Amanda. Good morning or afternoon everyone. Welcome to Fortescue's December 2020 Quarterly Production Report. Joining me today in Perth is Ian Wells, Chief Financial Officer and Greg Lilleyman, Chief Operating Officer. I'm very pleased to welcome Caitlin Smith, who joins us as CEO for a day. A Banjima woman, Caitlin joined Fortescue in 2017 as a geologist in the exploration team. More recently Caitlin has moved to the tenements and acquisitions team in approvals and reporting. Her drive and enthusiasm has led to improvements in the reporting and rehabilitation area. Caitlin is a valuable asset to the team and always willing to help her fellow teammates.

Outside of Fortescue, Caitlin is passionate about Indigenous rights and is a key contributor to Amnesty International's Raise the Age initiative. Caitlin truly encapsulates Fortescue's values and I am delighted she could join us today. It's great to have you with us, Caitlin.

Caitlin Smith: Great to be here.

Elizabeth Gaines: Before I discuss our results, I would like to make a few comments about safety. It is important to acknowledge that we are still in a global pandemic. Fortescue maintains our comprehensive COVID-19 risk management strategy. Key measures remain in place to safeguard Fortescue team members and communities. Pleasingly there have been no cases of COVID-19 across Fortescue's operational sites. While I do acknowledge that our Chairman and Founder, Dr Andrew Forrest, did contract COVID-19 whilst overseas, I'm very pleased to confirm that Andrew has made a full recovery and is back in Australia, well and fighting fit.

We are proud of how Western Australia has responded to the COVID-19 global pandemic and the critical role the WA mining industry has played in supporting our State and national economies. We also continue to provide ongoing support to our East Coast team members impacted by the Western Australian border closures. We do greatly appreciate their ongoing commitment. During this quarter we had a key focus on hazard identification and the implementation of exposure reduction activities. Greg will discuss this in more detail.

That brings me to our second quarter results. As you can see from today's report the Fortescue team has continued to deliver across all key measures of safety, production and cost demonstrated by our record shipments for the half which has surpassed any half year since Fortescue's inception. A key highlight was maintaining our total recordable injury frequency rate or TRIFR of 2.1 at 31 December, 2020. That's a 13% improvement from 2.4 at 30 June, 2020. I would like to acknowledge and congratulate our Solomon team who had no recordable injuries this quarter which is quite an achievement.

In an important operational highlight for the quarter Fortescue celebrated first ore at the Eliwana mine in December which is a significant milestone for the development of our iron ore operations in the Western Hub region of the Pilbara.

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Fortescue's outstanding operating performance was sustained with second quarter iron ore shipments of 46.4 million tonnes contributing to the record half year shipments of 90.7 million tonnes.

Ore processed and railed also achieved record first half volumes reflecting ongoing improvements in performance and reliability across the supply chain. C1 costs for the December quarter were US$12.81 a wet metric tonne. That is in line with the prior quarter. We achieved average revenue of US$122 a dry metric tonne in the December quarter. That's a realisation of 91% of the average Platts 62% CFR Index.

Ian will talk to the balance sheet, but I did want to highlight that the cash balance is US$4 billion at 31 December, 2020 and Fortescue's gross debt was US$4.1 billion resulting in net debt of US$0.1 billion. That's after payment of the FY20 final dividend and the FY20 final tax instalment during the quarter.

Turning to major projects and as I've mentioned ore processing commenced at the Eliwana mine in December and the project transitioned to the Operations team under the leadership of Eliwana General Manager, Katie Day. The construction and installation of the wet high-intensity magnetic separation or WHIMS plant at Christmas Creek was completed on budget and on schedule during Q2.

We also continued the good momentum at Iron Bridge with key milestones achieved including process plant bulk earthworks reaching 90% completion, with the concrete foundations well underway. With engineering nearing completion and the majority of contracts committed, the forecast total investment and schedule for Iron Bridge is undergoing a detailed review. Greg will provide a more detailed update on this and our major projects.

On the markets, recently released statistics show Chinese crude steel production reached a record of 1.053 billion tonnes in calendar year 2020. That's an increase of 5.2% compared to 2019. Chinese iron ore imports were 9% higher over the year at 1.17 billion tonnes. That's also a record. Chinese government policy continues to promote domestic investment and consumption which is supportive of an outlook of further growth in steel demand this year. We believe China's ongoing commitment to urbanisation and development will underpin long term iron ore demand.

On exploration, our total exploration and studies capital expenditure for the December quarter was US$31 million. Iron ore exploration in the Pilbara continued to focus on resource definition drilling at Eliwana as well as other exploration in the Western and Solomon Hubs. Early stage exploration activities in the Paterson, Rudall and Goldfields regions of Western Australia continued along with drilling programs in South Australia and New South Wales. Exploration and field activities in Ecuador and Argentina progressed throughout the quarter. Drilling activity has recently recommenced in Argentina and is expected to restart in Ecuador this quarter, subject to COVID-19 restrictions.

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

Greg Lilleyman: Thanks Elizabeth. Good morning and afternoon everyone. It's really pleasing to say our operations continue to run extremely well, but most importantly of course our absolute focus on safety performance continues. As you just heard from Elizabeth our TRIFR was maintained at 2.1 at the end of December. That's a 13% improvement on 30 June 2020 and a 16% improvement on December 2019. Importantly, our injury severity rate continues to trend down as well. I'm really pleased with this result given the ramp-up in construction activity during the quarter.

Our focus on hazard identification and elimination through what we call our Exposure Reduction Activities program has led to excellent engagement right across the business with a lot of ideas generated and implemented to create a safer working environment.

On production, of course it's great to report record performance which we've been able to do again today. However, of course we take nothing for granted. I assure you the entire team is working hard to identify the next opportunities for improvement.

It was a really strong second quarter, shipments of 46.4 million tonnes contributing to that all-time record shipment for a half year of 90.7 million tonnes. That was supported by the best production ever for our railway and strong performance across our ore processing facilities despite some wet weather in December.

Our focus on the OPF performance, mining fleet availability and asset reliability, together with improved planning and grade control performance, is really starting to come through in these results. The planned build-up of healthy levels of run of mine stocks across the business proved beneficial during the quarter as it allowed our operations to continue to run flat out during the wet weather events.

The strip ratio was 1.4 in the quarter. That was in line with our mine plans. Our C1 costs of US$12.81 per tonne reflect the ongoing focus on our productivity and efficiency as well as strong recoveries from the Cloudbreak and Kings OPFs.

On the market, China's economy appears to have well and truly recovered to pre-COVID activity levels. That's clearly reflected in steel demand. Steel inventory reduced sharply during the December quarter despite record levels of crude steel production. Steel inventories in China are now back to pre-COVID levels.

Pleasingly we continue to see a recovery in steel markets outside of China including in Japan and Korea where there is some restocking underway. In fact, we shipped about 8 million tonnes to customers outside of China in the first half.

You can see from page three of our release that we adjusted our product mix in the quarter as we opportunistically shipped products sourced from lower-Fe material in response to the market conditions and the strong demand for those products. The ability to adapt and respond to the market is enabled by our fully integrated operations and marketing strategy and we will continue to seek opportunities to optimise value.

Demand for Fortescue's products remain strong. You can see that from the 15% quarter on quarter increase in average revenue per tonne which compares favourably to the 13% increase for the Platt 62% Index over the same period as well of course as our overall realisation for our portfolio of products. Another great result delivered by our Sales and Marketing team.

Turning to our major projects, this year really is the peak period of activity in the project space as Eliwana comes to completion, Iron Bridge transitions to full construction phase and works continue on our portfolio of energy and operational development projects. As Elizabeth said, celebrating first ore at Eliwana on schedule was a major achievement, given the challenges presented by COVID-19 and access and weather-related delays.

The total investment is expected to be approximately US$1.375 billion which equates to an industry low capital intensity of US$46 per tonne, split almost evenly between the rail and mine. The project has now been handed over to the Operations team and they are focussed heavily on the commissioning and ramp up of the processing facility, and we're pleased with the run rates being achieved already.

Another milestone in the second quarter was completion of the Christmas Creek wet high-intensity magnetic separation plant or WHIMS plant, on schedule and budget. You will recall this was a beneficiation initiative to mitigate changes in our ore body. The plant enables us to recover a higher portion of the high Fe content fine-grained feed that would otherwise go to tailings. It's expected to deliver enhanced recovery and maintain our product grade and the plant should ramp up to full capacity during the June half.

Iron Bridge is progressing well with engineering now 90% complete, module fabrication is underway both here in Western Australia and also in China. Bulk earthworks are nearing completion and the civil and concrete works are underway for the processing facility.

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Now that engineering is nearing completion and the majority of contracts have been committed, the forecast total investment and schedule for the project is undergoing a detailed review. This will take into account the ongoing impacts of the COVID-19 global pandemic, the strength of the Australian dollar and other factors including access to resources and specialist skills.

I can certainly report that activity at the project is accelerating with construction to begin on the Concentrate Handling Facility at the port of Port Hedland and the pipeline installation commencing this quarter. Major process equipment and bulk deliveries are gathering momentum and the focus remains on maintaining the excellent safety performance and project delivery track record.

On our energy projects, we are getting close to energising the Chichester Solar Gas Hybrid project at Christmas Creek, which will be a significant step in our overall energy strategy. Further to the north, the poles and wires are going up between Solomon and Iron Bridge as part of the Pilbara Energy Connect project with 130 of 800 poles now stood and 30 kilometres of the total 200 kilometres of transmission line installed. With that, 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've already heard, the operating performance in the December quarter and the first half of FY21 continues to be strong across all of the key metrics. It's always a real privilege to present the results the team have achieved and this quarter is no different.

The strength in the iron ore market is not lost on us and irrespective of the cycle, we really pride ourselves in doing what we say we're going to do and as always, focussing on the things that we can control.

So firstly, the top line - on revenue is another strong quarter with our average realised price of US$122 a tonne and that represents 91% realisation of the Platts 62% Index of US$134 for the quarter. That realised price of US$122 is the highest realised price we've seen in six years, so we had to go back to Q2 FY14.

With the realisation of 91%, this continues to trend for our realised price. Making it eight quarters. Yes, that's two years of consistent price realisation actually pushing our quarterly average realisation to 87% of the index over that two-year period.

Steel mill profitability is of course a factor, and importantly this also reflects the successful execution of our integrated operations and marketing strategy.

Moving on to cost, our Aussie dollar direct cash cost quarter-on-quarter were lower, reflecting the lower material movement and also our continued focus on operating efficiencies.

Our FY21 C1 cost guidance remains unchanged at US$13 to US$13.50 per tonne, based on an assumed Australian dollar of 0.70. We also note the recent strengths in the dollar, so it's worth reminding all of you of our forex sensitivity for those C1 costs. A one cent movement in the Aussie:US dollar exchange rate impacts our direct C1 costs by approximately US$0.13/wmt.

As another reminder, the full year C1 guidance reflects the impact of the operational costs of the Eliwana mine, which will be incurred in the second half. So now that Eliwana mine and processing costs are recognised as a cost to production, this causes the usual impact through ramp up when you consider these costs on a per tonne basis.

Now turning to the balance sheet and as Elizabeth said, cash on hand of US$4 billion compares to US$5.1 billion at 30 September 2020. The movement in the cash balance reflects strong free cashflow generation considering cash outflows in the quarter included the final FY20 dividend of AU$1 per share, which in US dollars was worth US$2.2 billion. We also

paid the FY20 top-up tax payment of US$872 million, so that's over and above the normal tax instalments, and we also invested US$1 billion across sustaining growth and exploration capex.

That's all consistent with our disciplined capital allocation strategy to reinvest in the business, invest in growth and return capital to shareholders.

Gross debt at 31 December remained at US$4.1 billion, making net debt US$100 million and we continue to assess opportunities to refinance debt prior to maturity and also assess Iron Bridge funding options. The optionality of funding sources is enabled by our relatively simple debt capital structure with consistent terms and conditions across all of our debt facilities.

We also disclosed to the ASX last week, our preliminary net profit after tax for the six months ended 31 December 2020 of US$4 billion to US$4.1 billion and our half year interim financial statements will be released on 18 February.

As you heard from Greg, the major projects are progressing rapidly and we are very much in a period of significant investment. Capital expenditure in the first half was US$1.9 billion across sustaining major projects and exploration.

Eliwana, as you heard, has transitioned to Operations and, as Greg mentioned, the expected total Capex for the project is approximately US$1.375 billion. Our disciplined capital allocation process and a low capital intensity ensures that the Eliwana investment generates strong returns through the cycle and notwithstanding the current market environment, delivers a very strong return on capital employed and has a very short payback period.

As Greg mentioned, the WHIMS plant was completed during the quarter and this investment enables the Christmas Creek plant to maintain yield and product grades and is a prime example of what we call an operational development project.

By that, we mean capital allocated to discretionary investment that generates a high return on capital and has a short payback period. The returns from these types of projects come from either increasing revenue or lowering costs. In the case of the WHIMS projects, it does both.

So in closing, it's been a really strong first half performance. Our balance sheet strength and liquidity position provides confidence and puts us in a really strong position headed into the second half of FY21. Central to our consistent and predictable performance is of course our values. Remaining focussed on the things that we can control, which is safety, delivering on our integrated operations and marketing strategy, while maintaining operating and capital spend discipline to optimise margins which deliver returns to shareholders. On that note, Elizabeth, I'll hand it back to you.

Elizabeth Gaines: Thanks, Ian. There have been many achievements that we can be proud of this quarter, including the recognition of Fortescue's ongoing commitment to sustainability as evidenced by Fortescue's inclusion in the 2020 Dow Jones Sustainability Indices and an upgraded status in the latest MSCI ESG ratings.

We also recently announced the award of two contracts to Aboriginal business partners as part of the Iron Bridge Magnetite Project, totalling over A$13 million and that demonstrates our commitment to procurement and delivery of benefits to our Native Title partners across the Pilbara.

Another major achievement for our business has been the establishment of Fortescue Future Industries or FFI, a wholly owned subsidiary of Fortescue. Fortescue is committed to decarbonisation and through FFI, we have identified renewable energy and green hydrogen projects both in Australia and globally, that could lead to some 300 gigawatts of power generation.

Individual projects will be developed by FFI with ownership and project finance to be separately secured without recourse to Fortescue.

Green hydrogen is the purest source of energy in the world and if we improve and scale the technology, we can replace a significant portion of global emissions. Fortescue Future Industries will play an important role in the development of green energy, showing that business can take a lead as we transition away from fossil fuels.

We have maintained our guidance for FY21 based on an assumed exchange rate of USD:AUD 0.70, with iron ore shipments of 175 million to 180 million tonnes, C1 costs in the range of US$13 to US$13.50 a wet metric tonne and capital expenditure in the range of US$3 to US$3.4 billion.

We have a strong balance sheet and a clear focus to reinvest in the business, develop our major growth projects and to continue to deliver enhanced shareholder returns.

In closing, we have built on our momentum from the first quarter and our record shipments reflect our strong operating performance together with resilient demand for iron ore. As always and particularly as we continue to manage COVID-19, I would like to thank and congratulate all of our employees, contractors and suppliers who continue to demonstrate our unique culture and values.

Our Fortescue family's approach to the measures introduced in response to COVID-19, which have now been in place since March 2020, have been truly outstanding and our team members know that by continuing to safely operate, we are making a substantial contribution to the economy.

Thank you and 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 start two. If you are on a speaker phone, please pick up your handset to ask your question.

We ask that you limit your questions to two. If you have further questions, please re-join the queue. Your first question comes from Rahul Anand from Morgan Stanley. Please, go ahead.

Rahul Anand (Morgan Stanley): Hi, Elizabeth and Team. Thanks for the opportunity. Elizabeth, if I could please start with you?

We understand Iron Bridge Capex and schedule are under review still, so not looking for numbers here but perhaps you could help us understand how to think about the sensitivity of the amounts that have not been denominated in AUD? Perhaps touch on where the key areas are for the delays as well, please, and I'll come back with the second. Thanks.

Elizabeth Gaines: Rahul, thank you. I don't think we have flagged any delays yet. I think we've identified key areas as part of the review including the strength of the Aussie dollar, COVID impact, and the labour and resources impact. Look, it is a detailed review. Once that's complete, we'll be able to give an update with the half year on the status of that review. Ian, you might want to comment on the sensitivity to the currency?

Ian Wells: Yes, so with C1, we normally talk about Aussie dollar costs in the order of 70% to 80% and what we find with Capex, this is probably closer to the top end of that. So around 80% but a word of caution that it does depend on the cycle of the project because you do have intensive period of Australian dollar costs. You know, earthworks and on-the-ground activity in Australia visa vie importing goods that are US dollar denominated. So, 80% is probably a reasonable guide and that's very close to what our operating costs are also, obviously because it's all done in the Pilbara.

Rahul Anand (Morgan Stanley): Okay, perfect. Thanks for that. Second one is for Greg. I was just going through the numbers and noticed that the material movements were a bit softer. Were there any impacts here, perhaps, with the tie-

in with Eliwana, even though it’s an independent project? Or is there something else? Then also are the strip ratios obviously clocking below the five-year plan, when should we expect those to come back up? Thanks.

Greg Lilleyman: Thanks, Rahul. There’s certainly no impact from Eliwana tie-ins on any volumes in the quarter. We did have some wet weather, I mentioned that, in December that we were able to mitigate by being in advance of that with healthy stocks. We have natural ebbs and flows of strip ratio and presentation of ore that naturally occurs during quarters over the course of the year.

There's nothing out of whack in terms of our expectations against plan, Rahul, if I could answer that way. Similarly, on the strip ratio, 1.4 versus 1.5 is at the margin and not material and we will see some ups and downs on that sort of range, and I would expect to see the same over the coming years.

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

Lyndon Fagan (JP Morgan): Thanks very much. Look the first question is on the green steel plans. Just wondering if we can flesh that out a bit. So looking for a bit of detail on what technology is being looked at and what sort of level of investment Fortescue is going to make there and I guess when. That would be great if you could share anything, thanks.

Elizabeth Gaines: Hi Lyndon. Look it is early stages. We've talked that about by the end of this year commencing the building of a pilot plant. We have got experience with pilot plants. We did that with Iron Bridge, we did that with our WHIMS project that was recently completed at Christmas Creek, where we had a small pilot plant. So, it's just too early, Lyndon, to talk about the actual technology, the dollars, and the timing but certainly, our intent is to approach this in a similar way in terms of establishing a pilot plant before making any broader assessments or decisions.

Lyndon Fagan (JP Morgan): Okay thanks and then, I'm guessing you can't really add anything on the hydrogen plans but really just looking for also a bit more detail on the next wave of Pilbara operations decarbonisation and I guess I'd like to understand a bit more about what is left there in terms of the total investment that isn't approved and what does it entail?

Elizabeth Gaines: Well again Lyndon, and I understand wanting to have those details, but our current investment is our Pilbara Energy Connect project and as we referenced in the release, we are at the stage of commissioning the Alinta Chichester Solar Gas Hybrid and that's obviously going to make a significant difference to our emissions given that it displaces about 100 million litres of diesel annually from our stationary energy. And then our Pilbara Energy Connect program which as Greg mentioned is well progressed and that is incorporating large scale renewables with 150 megawatts of solar.

We have a goal to decarbonise by 2040, a full decade ahead of our peers. We're ambitious to do it even sooner than that and there's work going into that as we referenced in the last release in the battery electric vehicle for example and other initiatives, but in terms of committed capex at the moment, it's just the Pilbara Energy Connect program.

Operator: Thank you. Your next question comes from Kaan Peker from RBC. Please go ahead.

Kaan Peker (RBC): Thanks Elizabeth and team. Two questions from me if that's okay. Firstly, just on Iron Bridge I understand that Capex and schedule is under review. I think it goes there a bit to Rahul's question but can you give an idea of key development items particularly on sort of critical path and long lead items that may have been impacted by border closures or COVID?

Greg Lilleyman: Yes Kaan, look I think we were very early into the market for placing orders for long lead items. Through that pilot plant that Elizabeth was just talking about and understanding the process, we already had been working with key suppliers of process equipment very early on and those orders have been placed. There's nothing in terms of the

supply of those long lead items that are of any concern to our critical path on the project. In fact we've started to receive process equipment into Port Hedland as we speak. Pipelines for example are arriving as well.

So, there's nothing in that regard that's raised my concern. We are at that point in a project where we've completed effectively the engineering, we have committed most of the contracts, that you would normally and naturally take a step back and review the position of the project and understand it in some detail so that you have a very clear pathway to the end of the project and that's what we're doing at the moment. We would expect that we'll be able to give perhaps a little more of the answers that you all would love to be able to have today and an update at our half year results.

Elizabeth Gaines: Certainly, some of our contracting partners, they do rely on a labour force that largely resides on the East Coast. So, with the ongoing border restrictions, those sort of pressures, we do need to take into account as well and that will form part of the review.

Kaan Peker (RBC): Sure thanks. Second one is more around the capital contribution from Baosteel. Just wondering if there's a timeline around that and given that there is very public political tension between Australia and China, has there been any change to the JV partnership?

Elizabeth Gaines: Ian, did you want to comment on that?

Ian Wells: Yes, no change to the JV partnership. As you know the majority ownership is with Fortescue and Formosa and in terms of our relationship with Baosteel, it continues to be very good in terms as an offtaker and just more broadly with the business that we do together. So in terms of the funding and so forth, as I said most of it is still under consideration and there's no material change from our perspective.

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

Paul Young (Goldman Sachs): Yes, morning Elizabeth, Greg, Ian, and team. First question is on the other products that you sold, only 2.4 million tonnes or 5% of the mix so pretty small but did increase quarter-on-quarter. Can you maybe talk about what is this, where is it coming from, grades, realised price margins et cetera and can we expect that the sales of other products to increase?

The second one is for Ian. I might have missed this Ian, just on working capital comments but did you see an increase in working cap with the strength in the iron ore price and also were there any new leases that came onto the balance sheet during the quarter? Thanks.

Elizabeth Gaines: Thanks Paul. I might hand over to Greg to touch on the other products.

Greg Lilleyman: Yes, g'day Paul. Look, it really was an opportunistic play if you want to call it that in the quarter. In the Chichesters we were seeing an area of the mine that was producing what we call Mokare Fines, it's an area of the pit at Christmas Creek. It wouldn't normally meet our specifications, but we had some enquiries from some customers, and we had the product available. It was cheap and going to be mined anyway and we made a decision to meet the market on that front.

So, it's not necessarily something that we're looking long term in any respect to continue to produce. It was opportunistic and we had the chance there to make the most of an opportunity and we took it. As for price and margin, we wouldn't go into that detail for individual products, but it is a lower grade product and at a similar end of the spectrum to Super Special Fines if you like.

Elizabeth Gaines: Look I think on the balance sheet, working capital and the new leases, obviously that will be part of our half year results disclosure but Ian, you might want to add.

Ian Wells: Yes, you didn't miss it Paul. Basically, there was very minimal, so immaterial movement, and I think consistent with probably the last two quarters where we did call it out, prepayments have gone. And so yes, you're right that the debtors balance goes up because of the higher iron ore price but the net working capital movement was not material.

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

Peter O'Connor (Shaw and Partners): Elizabeth, Greg, Ian, happy new year, and congratulations. First question on price, Ian. I know this comes up every time and if it's the same answer as last time, just say so. Provisional pricing, component of the 99% - you mentioned last quarter it was almost negligible. Is that still the case?

Ian Wells: Yes, I think what you've seen with our price realisation, it's been quite consistent relative to the index price and that's due to a couple of things. The consistency of the product - product mix has been consistent - but also the contracting and the strategy, having the integrated operations and marketing strategy in place where the average quotation period has been pulled in over the last couple of years at least. So, execution of the strategy and minimal mark-to-market adjustment, which are showing out in the contractual versus the accounting numbers. which are pretty much exactly the same because of that minimal change.

Elizabeth Gaines: Yes, the marketing team have done a great job in that area.

Peter O'Connor (Shaw and Partners): Second question on Eliwana. You mentioned Elizabeth it's now in transition to the operational team and it will be included in COGS for this period. What level of expectation do we have for production and sales of Eli product this half year period?

Elizabeth Gaines: We haven't specifically guided to production and sales. As you know, we've referenced in the past that the initial grade of Eliwana will be more of a Fortescue Blend or FB grade. So, it won't be WPF grade and obviously we're in a period of ramp up over this next six months or so. Greg, you might want to add.

Greg Lilleyman: Yes, Peter I'd say there's nothing tricky about the processing facility itself. It's a pretty simple crushing and screening plant. There's no wet processing so the ramp up trajectory should be pretty straightforward and pretty quick. Obviously at any time when you're opening up a new mine, it will be more down to the mine development and the pace of getting the mine opened up to be able to run at the higher rates rather than the processing plant itself. So as Elizabeth said, I would expect over the course of the next six to nine months to be ramping up the plant and getting up towards at peak production levels over the course of that time.

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

Hayden Bairstow (Macquarie): Good morning, morning all. Just a couple from me. Firstly, just on Iron Bridge, Ian I think we've spoken about this a few times but just debt for the JV, is that part of this review or is it something that's still being planned or given how much cash you're making, you're just going to fund it all off your own facilities? Then the second one was just on FFI Elizabeth. Is there anything we can think about in terms of spend even in the next six months. Is there going to be any - does it get allocated into exploration sort of development costs? Is it sort of cash you guys are putting forward at the moment or is it still sort of pretty early stages, more a 2022 and beyond type spend and we need to start putting some cash outflow into?

Elizabeth Gaines: Well, Hayden, I'll deal with that one first. FFI activities will be an operating cost at this stage rather than a capital investment but we did indicate when we had the Investor Day that we were targeting an investment similar to exploration, at around US$80 million to US$100 million and that still remains the case at this stage. Obviously if there's anything else to update, we will, but the team are working through quite an extensive portfolio of opportunities that have

been established and they will be assessing where to invest and how much to invest in studies and the like. So that will be something that we'll be able to disclose as those activities continue.

Ian if you want to talk about the debt funding.

Ian Wells: Yes. I think you answered your own question Hayden, so thanks for that. Yes, obviously the current market conditions enable optionality but in terms of debt for Iron Bridge, it's very much still an option for us and we've always said we'll use debt as proportion of our investment and that's exactly our strategy. We've clearly got balance sheet capacity and where it makes sense and lowering our cost of capital and using the balance sheet to free up capital that can be allocated to other things, other growth projects and so forth, is very much in the mix.

Operator: Thank you. Your next question comes from Paul McTaggart from Citigroup. Please go ahead.

Paul McTaggart (Citigroup): Good morning. So, look, I just wanted to ask, how should we think about the Chinese steel industry at the minute? Obviously iron ore prices are great, demand has been strong, but the consumer, the Chinese steel mills are suffering pretty aggressively now from poor profitability, because of, in part, higher iron ore prices, but perhaps more like met coal prices. How do you think this resolves itself?

Elizabeth Gaines: Well, look, I think from a demand perspective, we're still seeing that the fundamentals of iron ore demand are very strong. I think you're right, there's pressure on margins, particularly around the increase in coking coal prices. But we're seeing steel inventories are back to pre-COVID levels of around 13 million tonnes. I think they peaked at 39 million tonnes. But back to pre-COVID levels, and we're seeing a drawdown of iron ore inventories and ongoing strong demand.

There'll be some seasonality as we head into Chinese New Year, but currently everything we're seeing continues to support that ongoing strength in demand. If anything, it's always difficult to predict what crude steel production rates of growth might be in a calendar year, but we're probably still thinking there'll be modest growth in crude steel production of 1% to 2% this calendar year, which, in itself, will result in additional demand for iron ore to support that growth.

Paul McTaggart (Citigroup): Okay. So, on that basis, I mean, if demand's there, you would be expecting steel makers in China to be able to lift prices to cover the current operating losses?

Elizabeth Gaines: So, I think we've seen, over the cycle, periods where there have been losses and there's been periods of super profitability. I think they take a long-term view. As I said, we're still predicting there will be growth in crude steel production. But I think profitability goes through various cycles, as we have seen over the number of years, and more recently 2018 where there was a period of super profits in the sector.

Greg Lilleyman: Paul, the other thing is that in the industry in China there is still as an objective of further consolidation and retirement of some of the aging and less efficient steel-making capacity. So, there is still a number of levers there that I think the industry will tackle. But as Elizabeth said, there are cycles in each of the industries we're a part of here and I think that coking coal price is obviously having a big impact at the moment but that won't always been the case.

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

James Redfern (Bank of America): Hi, good morning, Elizabeth, and team. Just wondering if you can please remind me about the sensitivity to C1 cash costs to a one cent in move in the Aussie dollar, US dollar exchange rate please. I have one more question after that.

Ian Wells: US 13 cents, James, yes.
Elizabeth Gaines: US 13 cents, yes.

James Redfern (Bank of America): US$0.13, okay, thank you. Then and just going back to FFI, at the moment any spend there is an exploration expense, I think you said, US$800 million per year. But let's say in FY22, or '23, that there are, say, several billion dollars of investments that are being pursued by FFI and there will need to be an equity contribution for these projects, my question's is that Fortescue Metals Group will be providing the equity capital to FFI, which could, in time, be quite material. Is that how I should think about it?

Elizabeth Gaines: Look, James, just clarifying on the comment, your first part of that about it's not an exploration expense, we said it's akin to exploration, in terms of the same sort of investment profile. So, it's US$80 million to US$100 million a year at this stage. That will be an operating cost, so it's not capitalised currently. As we develop opportunities, we will assess those.

There are numerous sources of financing available for development of renewable energy. We'll look at equity contributions as and when those opportunities are presented. But certainly, as we've said clearly throughout, the intention is it will be non-recourse to Fortescue and that we would look at funding opportunities, including project finance, but there will be other opportunities as well.

So, it's just too early to say at this point in time. I think when we do have a project and we're going through that investment decision, that's when we'll be able to give greater clarity. But the discipline remains, in terms of our discipline approach to capital allocation and our commitment to our dividend policy and targeting the upper end of that range. But that does give some flexibility, given the strength of our operations and our balance sheet, to consider those investments, as and when they arise, but also to consider other forms of funding.

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

John Tumazos (Very Independent Research LLC): Thank you, everyone, for your efforts for the shareholders. We certainly don't want people travelling and getting sick and risking their lives, but we appreciate everyone's effort.

Elizabeth Gaines: Thank you, John.

John Tumazos (Very Independent Research LLC): So, the pricing was very strong, but the 2.4 million tonnes of the special project probably was a drag on the price realisations. How much was the benefit from provisional pricing, US$5 to US$10 a tonne?

Elizabeth Gaines: Ian, did you want to comment on that?

Ian Wells: No, John, the question that was asked earlier of the impact on the quarter's revenue, so the marked-to-market impact has progressively been reducing as Danny and the marketing team have been renegotiating contractual positions. We've really reduced the marked-to-market positions, so the quotation periods are much lower, closer to M, rather than even M+1. So, in the quarter we didn't have the material impact on our revenue.

Our revenue for a number of periods now has been largely tracking the Index. We haven't seen the swings and the roundabouts that perhaps we used to see a couple of years ago, if not three or four years ago. So, that's not the case anymore. In terms of that lower-grade product that Greg spoke of, in terms of its impact in the overall mix, it's in the less than 1% of the percentage point of 91% realised price, is what I would estimate, Greg?

Greg Lilleyman: Yes, well, it's 2.4 million tonnes out of 46.4 million for the quarter. We obviously looked at it closely and saw an opportunity there. We got healthy prices for those products and I don't see it as a drag but an incremental value-add.

John Tumazos (Very Independent Research LLC): If I can ask another without getting too much into your proprietary details, could you tell us a little bit more about the green steel? Two, three decades ago the Japanese and German steel companies or the world steel industry was studying direct steelmaking or plasma arc steelmaking or no carbon steelmaking because the coke oven batteries are almost as unpopular as the virus. Would it make sense to JV with Nippon Steel, JFE, Thyssen, ArcelorMittal or some of the companies that were working on direct steelmaking two, three decades ago?

Elizabeth Gaines: John, we as a team will undertake a full assessment of what's occurred in the past and also the latest technology, and there has been a lot of innovation in the last couple of decades. But there is no doubt that we'll talk to partners and we will seek to benefit from existing technology as well as looking at new and more innovative technologies. It is just a bit too early to say but I think we've got a track record. We've got partnerships with the CSIRO, and we recently entered into a MOU with Kawasaki and Iwatani.

We're not opposed to working with others to develop and learn as we go through that process. We're working with ATCO on hydrogen refuelling infrastructure. We've got a track record of doing that and we would certainly seek to take into account what's been done in the past but also what the current innovation and technology can facilitate.

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

Glyn Lawcock (UBS): Hi, Elizabeth. Just two quick ones, hopefully. Just on the capex for Iron Bridge then, just so I understand what you and the team were trying to explain, we've got about US$1.3 billion left if I look at the fiscal '20 presentation and assume you've spent half of the '21 budget already. Is it simply to say 80% of the US$1.3 billion left is Aussie dollar denominated, originally done at US$0.70, now do it at US$0.77, and then you get a rough US$100 million increase in CapEx, all else being equal? Is that what Ian was trying to explain?

Elizabeth Gaines: I don't think the maths is quite that simple but Ian, you might want to elaborate.

Ian Wells: I was going to say, over the life of the project it may work out to that, Glyn, but it's not as simple as that. I guess that would give you an order of magnitude. Your calculation would be as good an estimate as we can give on publicly available information, but you really need to go back to the start and look at the total project and then look at what we've spent. Obviously, what we've spent, the FX isn't going to change on that but that's what you would expect over the life of the project, to be about 80%. We have done a lot of earthworks but there's still a lot of Australian dollar denominated costs to come and it's probably more proportionate to the back end than the front end if I had to speak out loud, using Greg's terminology.

Glyn Lawcock (UBS): Fair enough. Just a second question. You start calling out now because you are stockpiling in China and selling locally timing differences. Is there much materiality in the quarter, in the half between your shipments and your actual sales that's worth calling out, or don't worry about it?

Ian Wells: No, and we haven't called it out specifically Glyn, because it hasn't been material. We do note it in our deck for obvious reasons but in the most parts - in some cases we've been a little under and in actual fact I think it was either this quarter or last quarter where we actually sold more than shipped - but over the half not material.

Operator: Thank you. Your next question is a follow-up question from Kaan Peker from RBC. Please go ahead.

Kaan Peker (RBC): Thanks, again, management team. Two quick ones. Given the recent steel mill profitability, can you maybe talk through what you're seeing in terms of purchasing behaviour from steel mills? Should we expect lower West Pilbara Fines volumes given current market conditions? And just a follow-up on along the lines of what Glyn was asking. I think Ian mentioned FX sensitivity to operational costs. I was just wondering what FX sensitivities are for non-operational costs. You've got a large FX adjustment coming through this half in the P&L. Thanks.

Elizabeth Gaines: Okay. Thanks, Kaan. I'll start with the steel mill profitability and WPF. We continue to see strong demand. The marketing team have done a great job in terms of long-term contracts; we're delivering in accordance with those contracts, so we're not seeing any change in behaviour in terms of that product mix as it is contracted.

Greg Lilleyman: I think, Kaan, there's a natural tension there. As coking coal prices go up, a steel mill will often be incentivised to chase higher Fe units and higher quality, but with steel mill profitability relatively low, they're incentivised to cut their costs. We're seeing that almost balancing out, if you like, such that we're still seeing good demand for our products but equally there's good demand for high quality products, and that's just driven by the fact that the overall demand for iron ore is very high. Steel production is very high.

We all know that there has still been, relatively speaking anyway, supply disruptions out of Brazil in particular, so supply has not been as strong, so those things coming together. There's certainly no lower demand for our WPF. I wouldn't be seeing any lessening of demand for that product going forward at all.

Elizabeth Gaines: Ian, FX sensitivity on non-operational costs?

Ian Wells: Yes. The non-operational, that means SG&A, that would be close to 100% Aussie dollar denominated. The thing I guess to watch out for, where the detail will be in the financial statements in February, is that we do hold material Aussie dollar liabilities on the balance sheet and so the FX sensitivity on that is obviously on Aussie dollar so if you have a 10% increase in the FX rate, your liabilities have just gone up by 10%. Clearly, there will be more detail in the financial statements, but that's probably one that's more material to look out for when that comes out in February.

Operator: Thank you. Your next question is a follow-up question from Peter O'Connor from Shaw. Please go ahead.

Peter O'Connor (Shaw and Partners): I was just following up on the opportunistic sales that Greg talked about. Can you shed some more colour on where they were to - customer, country - and when they occurred during the quarter, and if there are any rolling over into this half-year period? And I've got a follow-up.

Elizabeth Gaines: It was all China customers, and throughout the quarter.

Greg Lilleyman: Yes, it was all China. We wouldn't talk to which specific customers of course, Peter, but China-based demand that was spotted, if you want to call it that, by the team matching up to the very close teamwork with the operations group. Looked at the opportunity and said here's a good chance for us to make the most of this opportunity and we took it. Again, I think it's a bit unique to the way that we're set up and able to move quickly when we see those opportunities and we made the most of it. I'm not sitting here with an expectation of growing that volume or anything like that.

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

Elizabeth Gaines: Thank you, Amanda and thanks, everybody, for joining us. As you no doubt can tell, we're very pleased with the December quarter and particularly with those record shipments for a half-year of 90.7 million tonnes it has really set us up well for a strong financial year. On that note, we will be reconvening in a few weeks when we release the half-year, so we look forward to speaking with you then. Thank you all, and stay safe.

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

End of Transcript