Fortescue

FY25 Half Year Results

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[START OF TRANSCRIPT]

Operator: Thank you for standing by and welcome to the Fortescue Ltd FY25 Half Year Results conference 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 Mr Dino Otranto, Fortescue Metals CEO. Please go ahead.

Dino Otranto: Thank you and welcome all. It's great to be back with you again. I'm here in London and joining me is Mark Hutchinson and Apple Paget, CFO. Last month we presented our quarterly production results, which included our highest ever first half shipments of 97.1 million tonnes. We did this while achieving an outstanding safety performance, with a significant improvement across all our safety indicators, including a 44 per cent improvement in our Total Recordable Injury Frequency Rate (TRIFR).

We remain on track to deliver our FY25 guidance, despite recent weather events in the Pilbara, including Cyclone Zelia last week. The team was well prepared and did a phenomenal job in managing its impacts, working hard to resume normal activities as safely and quickly as possible. Apple will talk to the financials shortly, however there were a few results I wanted to call out.

We continued to keep our costs low, achieving a hematite C1 of US$19.17 a tonne in the half, delivering a strong Underlying EBITDA of US$3.6 billion and a net profit after tax of US$1.6 billion. Reflecting these results, the Board today declared a fully franked dividend of A$0.50 per share, representing a 65 per cent payout of net profit after tax and a return of A$1.5 billion to our shareholders.

There were many highlights during the half. Our Billion Opportunities program has now awarded A$6.5 billion in contracts to First Nations businesses since 2011. We continue to ramp up Iron Bridge with more than five million tonnes of high-grade magnetite concentrate now shipped to our customers since operations began. We commenced construction on our Green Metal Project at Christmas Creek with first production on track for later this year. We continue to work closely with Chinese steel mills and renewable energy companies to further define and partner on developing an Australian-China green metal supply chain.

Our decarbonisation plan also went from strength to strength with a US$2.8 billion contact signed with Liebherr for zero emissions mining equipment. This will see more than US$1 billion of revenue flow back to Fortescue Zero for providing the battery power systems. Our recent deal with XCMG to purchase over 100 pieces of zero emissions heavy mobile equipment marked another step in our journey to real zero. We also commissioned a 100-megawatt solar farm, the first of around 1.5 gigawatts we'll build before the end of the decade.

On Iron Bridge, we're continuing to learn every single day and the facility is improving month on month. In fact, in December we had our best month to date with Concentrate production annualising at around nine million tonnes. The schedule for operating at nameplate capacity though by September 2025, as we announced today, is under review. An assessment is underway to optimise the performance of the air classification circuit and downstream aerobelt conveying system. This assessment is anticipated to be completed in Q4 this year.

Before handing over to Hutch, I'd like to give a huge shout out to the entire Fortescue team and all of our partners for their huge effort this half. It's been a strong half with record production, outstanding safety performance, all while continuing to keep costs low. On that note, I'll hand over to Hutch.

Mark Hutchinson: Thanks Dino and hi everybody. Our energy business continues to be agile, innovative and disciplined in the way we approach a very dynamic global energy market. Our view remains the same, the world needs abundant renewable energy. Recently the head of the International Energy Agency said electricity demands will increase six times faster than total energy demand over the next 10 years. Where is it going to come from? It won't all come from gas and our firm belief is, it will predominantly come from renewables.

We have been focused over the last six months on advancing and commercialising our portfolio of green technology. Technology is key to everything we're doing to decarbonise. To capitalise on that, Fortescue Zero is evolving from the engineering services company we acquired a few years ago, to a customer driven, profitable product business. The US$2.8 billion deal Fortescue signed with Liebherr has a big flow-on effect for our technology business, with Fortescue Zero supplying the power systems for hundreds of zero emission pieces of mining equipment.

This does mean, as Dino said, that a significant amount of our value will come back to the Company. Liebherr and Fortescue will also deploy an autonomous battery electric haulage solution for large-scale mining operations. There is huge value in the IP we have created, and this presents a significant commercial opportunity for what we're doing at Fortescue Zero.

So let me turn to green energy projects. We have continued to progress and refine our green energy portfolio in a very disciplined manner and remain fully committed to green energy and large-scale industrial decarbonisation. As you've heard me say before, our financial discipline always comes first, and we are only focused on developing projects that are economically viable. While we do remain confident in the long-term viability of green energy, we must be realistic about the current challenges the industry faces.

Right now, the world is in an uncertain place. The Trump Administration has instructed the federal agencies to pause grant payments under the *Inflation Reduction Act*. There is considerable uncertainty around RED III in Europe and how that will be implemented at the member state level and we're waiting on the outcome of several elections globally.

However, our firm belief is that the world needs an enormous amount of green energy and so we will not be pulling back from our ambitions. That is why we continue to maintain a portfolio of projects and only execute on them when they make economic sense. This does include looking at a timeline on the FID projects we have previously announced. These changes are what happens when you have an unstable government policy which creates uncertainty for investors. To be clear, our timelines may change, but our ambitions will not. We anticipate having more clarity on these external factors by the end of the financial year.

As you heard Dino say earlier, we are still on track and progressing our Christmas Creek Green Metals Plant where we will use the green hydrogen, we're already producing onsite. Feasibility studies and planning approvals will continue to progress for our projects in Norway and Brazil, and there is still plenty to be excited about and we know what we have done over the last few years in the energy space has set us up for long-term success. Right now, we are focused on making business decisions that make sense commercially and delivering the best value for our shareholders.

So, let's go now to Apple to deep dive in the financial results.

Apple Paget: Thanks Hutch and a big hello to everyone from London. It remains a privilege for me to step you through the financials and you can see from our announcements today that we have reported another set of clean accounts.

Turning to the results, first half revenue was US$7.6 billion which was 20 per cent lower than the same time last year as the hematite realised price decreased by 21 per cent. Our costs continued to be impacted by mine plan led cost escalation and market inflationary pressures and the first half C1 for hematite was up 8 per cent year on year. We remain very focused on cost discipline and are tracking well against our FY25 guidance.

EBITDA was US$3.6 billion on an EBITDA margin of 48 per cent with the Metals EBITDA margin of 54 per cent. The Metals segment EBITDA was US$4.1 billion, or US$47 a tonne and the Energy segment EBITDA loss was US$365 million in line with the full year guidance of US$700 million. EBITDA flows through to net profit after tax, which was US$1.6 billion in the half.

For those on the webcast, you can see from this slide the reconciliation of the year-on-year change in NPAT, with all the moving parts including the significant price impact on EBITDA. One item to call out here, and as we highlighted in the FY24 Full Year Results, the increase in depreciation and amortisation relates to the lagged impacts of several years of higher sustaining capex, together with the commissioning of new assets and in particular, Iron Bridge. The slide shows the variance relative to H1 last year, but in fact depreciation was flat half on half.

Moving to cash flows, net operating cash flow declined to US$2.4 billion and free cash flow was US$0.7 billion and that's after investing US$1.8 billion in capital expenditure. The capital expenditure comprises US$1.6 billion in Metals and US$145 million in the Energy segment. The details are on this slide, and I note the US$1.3 billion of sustaining and hub development capital includes US$235 million of fleet deposits.

Our FY25 guidance for Metals capital expenditure has been revised to a narrower range of US$3.5 billion to US$3.8 billion, previously US$3.2 billion to US$3.8 billion. The revisions include sustaining and hub development capital increase from timing of fleet deposits to US$2.4 billion to US$2.6 billion. Also, a revision down on decarbonisation based on phasing of spend of US$500 million. Finally, the inclusion of the Red Hawk Mining transaction which will be approximately US$160 million.

Today we will reduce the FY25 guidance for Energy capex to US$400 million from US$500 million and that is a result of lower spend on green energy projects as you've just heard from Hutch.

As reported last month, our balance sheet is in great shape. Cash on hand at 31 December 2024 was US$3.4 billion and net debt was US$2 billion. You can see Fortescue's robust credit metrics on this slide, with the gross debt to EBITDA of 0.6x and gross gearing of 22%. These credit metrics show we clearly have balance sheet capacity within our threshold leverage metrics of no more than 2x gross debt to EBITDA, and no more than 40% gross gearing through the cycle.

A strong balance sheet is core to Fortescue's capital allocation framework, as is our commitment to return capital to shareholders. As you've already heard from Dino, the Board has declared an interim dividend of A$0.50 per share. This represents a payout of 65 per cent of NPAT and is consistent with our dividend policy to pay out 50 to 80 per cent of NPAT.

In closing, we have achieved a strong financial result in the first half and are well positioned heading into the second half.

I'll hand back to the operator, Rachael, to facilitate the Q&A session where we welcome your questions.

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're on a speakerphone, please pick up the handset to ask your question. Please note that we ask participants to limit themselves to two questions and if you have any further questions, you may rejoin the queue.

Your first question is from Kaan Peker from RBC, please go ahead.

Kaan Peker: (RBC) Good morning Andy, Dino, Apple and Hutch. Just on Iron Bridge's 22 million tonne ramp up, is that referring to not being able to achieve that nameplate capacity or talking to a slower ramp up? And what does that air classification circuit really have to do with recoveries? I'll circle back with a second. Thanks.

Dino Otranto: Yes, thanks Kaan. You're right, it's timing at this stage and we'll reissue guidance around timing of nameplate in Q4. I actually have Graham Howard on the call who heads up the operations as well and can talk about the product splits around air clarifications.

Graham Howard: Yes, thank you, it's Graham here, coming in from Perth. The dry circuit or specifically the air classification circuit is ultimately the last circuit before we get to the wet plant, and it's purely designed to remove some further silica from the product to gain that beneficiation that we require. The material sizing in that circuit is about 80 microns, so when the material is at that 80 micron, it becomes wet and goes into the wet plant and if it's not at that size, we recirculate until it is, so that's what it's designed to do.

Kaan Peker: (RBC) Sure, thank you. The second one, the Red Hawk acquisition, can I just ask what drove this, assuming it's replacing depleting ore from Firetail? Does it change the expected phasing of the replacement hubs Mindy South and also Nyidinghu? Thanks.

Dino Otranto: Thanks, good question. They ran a process towards the end of last year. We participated in that. We've been successful, we reached the 90 per cent compulsory acquisition trigger this week and now we'll look at the impact on our long-term mine plan.

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

Paul Young: (Goldman Sachs) Thanks, good evening team, good to connect. First question is for Hutch. Hutch, just on the pause at the Phoenix project in the US, can you just maybe tell us how much you spent on that project and then secondly, just an update on Norway and Brazil and that's really just turned the focus on trying to accelerate those projects? I know you've said previously that what sort of power price you require and also, they require government subsidies as well, but just curious about the overall strategy, thanks, on green ammonia now.

Mark Hutchinson: Yes, look thanks so much, Paul, for the questions. Look I think the US has been an interesting place with the Trump Administration. We're really analysing what that means for our projects in the US at the moment and it may impact the timeline on the Arizona project. The Trump Administration, there's been a flurry of executive actions, some sections of the IRA from the grants have come into question and including the hydrogen production tax credit. So, until we really have a much clearer view on that, we are being quite cautious about what we're doing.

We've spent about one fifth of the capex on Arizona at the moment. I think it was originally US$550 million, so we're being very cautious, as I said and very disciplined about the money we spend until we know exactly what happens in that market.

On the rest of the globe, we're progressing with Holmaneset and Pecém. We're in the feasibility stage and getting approvals. We have some very favourable, I believe, power cost there from hydro, which is fully firm, that's why we're focused on those two projects and we're now putting the rest of the pieces together. But we're not going to bring them to the Board until we really believe we've locked in the buyers as well. We're having discussions with offtakers, there's uncertainty globally for them too and until we have a project which is economically viable, we won't take those to the Board.

Paul Young: (Goldman Sachs) Okay, thanks Mark. Then maybe a question for Apple, just on sustaining capex and those fleet deposits, I presume for the heavy haul trucks, et cetera, can you just step through that and why they came in a little bit earlier? Then any colour you can provide on just total capex on fleet replacement over the near to medium term?

Apple Paget: Thank you very much. Look the fleet deposits show up in the cash flow statement for the H1 and you can see that that's US$235 million. We've mentioned previously our transition of diesel mining fleet to zero emission fleet and we signed several partnerships with several manufacturers including Liebherr and XCMG, and Maclean and you're right, these agreements involve securing build slots and paying deposits, which is showing in that investing cash flows that I've mentioned, and for simplicity and transparency, we have included these deposits in our capital expenditure breakdown for the FY25 guidance.

In terms of fleet replacement, we're looking at over 800 units over the life – well, up until FY30. It's going to be lumpy over time, but as you'll anticipate that will come through with our guidance over the next few years.

Operator: Thank you. The next question is from Rob Stein from Macquarie. Please go ahead.

Rob Stein: (Macquarie Group) Hi team. Just a technical one on contingent liability, the Yindjibarndi claim has gained a bit of press lately. When does that start to move from something that's been negotiated, settled, into a contingent liability, just from an accounting point of view?

Dino Otranto: Thanks, Rob. I'll start and then Apple can add around the liability provisions. Look, as the matter is before the courts, our final submissions are due this week, I won't comment on specific details on the amounts that we're hearing other than to say look, we've never shied away from the right compensation outcome. Apple, over to you on the treatment.

Apple Paget: Yes, thanks. As you know, look, it is a contingent liability at the moment, but we won't be disclosing anything unless and until the compensation becomes a lot clearer.

Rob Stein: (Macquarie Group,) Okay, thank you and then just one on Iron Bridge. Obviously, Tropical Cyclone Zelia flowed through the region. Were there any impacts to the operation? Obviously, water has been an issue at site due to lack of it. We've had a fair bit of it. How do you think through the impacts of that on any type of water issues at site?

Dino Otranto: I love the silver lining on the cyclone cloud.

Rob Stein: (Macquarie Group) Yes, water banking.

Dino Otranto: Water banking strategy, that's right. So yes, you're right, we've got a lot of water onsite but that's probably the short story of what's happened last week in terms of the impact to the Iron Bridge operation. It wasn't on the direct line of the cyclone but as you could imagine there was significant water as all the iron ore players have reported recently.

Operator: Thank you. The next question is from Lachlan Shaw from UBS. Please go ahead.

Lachlan Shaw: (UBS) Good evening, Dino, Apple and team, Hutch. Thanks for taking my questions. Two from me. So, just on the green energy piece and I'm just interested obviously with the re-phasing re-emphasis. We've seen, in terms of types of projects, we've seen a lot of progress recently around battery backed solar and wind globally. Economics are improving, they're underpinned by ongoing deflation in battery costs.

I'm just wondering when you look at the variety of projects in front of you Hutch, when do you maybe tilt a little more towards battery backed solar and wind and maybe a little away from these more distant green hydrogen, green ammonia type projects? I'll come back on the second.

Mark Hutchinson: Great question, thank you. Look, we are always looking for ways to decrease the cost of what we're doing, whether it's battery, solar, wind, green ammonia and we continue to reassess how those costs continue to come down. Ultimately, where we want to get to with our green projects is to make them competitive with grey. That's the end goal here and we're working very diligently on that.

We look at solar, batteries, wind, looking at a variable wind, we're doing that in the Pilbara as we speak with our decarbonisation plan. That's actually being rolled out. We're looking very carefully at how we bring those additional elements in and as we shift eventually to green metals and that's going to play a big part in how we make that economically.

Lachlan Shaw: (UBS) Okay, got it. Thank you. My next one is just for maybe Apple. Just on the capex and again just a follow up on the sustaining and hub development increase. You've broken out the splits there in terms of the spend then in the first half. Is it fair for us to take those splits forward for the remainder of the capital guidance for FY25 and maybe into FY26 too? Thank you.

Apple Paget: Yes. Look, I would say that in terms of the deposits it's pretty similar in the second half as well. For the following year, look, good try. We don't guide until a few months later.

Operator: Thank you. The next question is from Lyndon Fagan from J.P. Morgan. Please go ahead.

Lyndon Fagan: (J.P. Morgan) Hi everyone. Look, the first one I had was just on that billion-dollar revenue flowback for Fortescue I just wanted to explore that a little further. Is that just simply Fortescue Energy paying Fortescue Metals or is there any third-party revenue coming in there? I'm just trying to see if that's just out of one pocket into the other. I guess related to that, it would be really nice to see the US$700 million Opex in Energy become EBITDA neutral. Just any update on when you foresee that might be the case. Thanks.

Apple Paget: Oh, thank you Lyndon. Look, the billion-dollar revenue is third party revenue and of course there will be cost of goods sold associated with the appropriate margin recognised in Fortescue Zero and of course in our consolidated Group because it's third party. Just bear in mind that that is spread over the next few years.

In terms of EBITDA, we are looking at a loss that we have reported at the moment which is US$365 million for the half. There's no change to guidance of about US$700 million EBITDA loss this year. In terms of when we are hoping to change that into a positive situation, obviously a lot quicker with things like our Liebherr contract and it will be over the next few years.

Lyndon Fagan: (J.P. Morgan) Sorry, just to clarify that billion dollars of revenue. Fortescue Metals is paying Energy for the technology sale, or Fortescue Zero, I can't keep up with all the terms I guess, but can you split the Fortescue component of that revenue versus what you're expecting to get from third parties?

Mark Hutchinson: Yes, look, Mark here. I think the way to look at it is we sell the power systems to Liebherr and Liebherr sell the trucks to a third party or to Fortescue. You can see by the percentage of the billion dollars that Fortescue Zero gets of that contract, as a percentage of the total contract, how that relationship is going to be going forward for third parties as well.

Lyndon Fagan: (J.P. Morgan) Okay, thanks. I might take it offline. Then just back quickly in Iron Bridge. Dino, I guess you've been pretty confident in the process and product spec up until I guess this release where we're seeing a bit of a delay. What's changed since the quarterly to sort of announce that?

Dino Otranto: Yes, Lyndon. Still confident mate and the ramp up by any measure has gone actually exceedingly well. We have though announced, as you said, we are reviewing our timing for nameplate. We are working through, as we have stated, a key part of the process plant in the dry circuit which is the air classification area. It consists of 12 separate units. As we mentioned last time on the call, we have started the rectification of that work ourselves and as we're bringing them online it's taking a little bit longer to get them up to the production rates we want. So, we just wanted to be transparent and open on the call today with where we're at.

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

James Redfern: (Bank of America) Oh, hi everybody. Thank you for the call. Just a quick question on the Blacksmith project that you're acquiring from Red Hawk Mining. Probably one for you Dino.

Just the feasibility study talked about production of five million tonnes and 60.5% iron ore grade. Just wondering if we should be using that feasibility study just for our modelling purposes or if you think that you can bring the cost down or increase production and so on. Thanks, Dino.

Dino Otranto: James, thanks for the interest in Blacksmith. Look, we haven't yet got our hands on the ground yet so we're going to assess it. Obviously when you look at the strategic ownership, we are kind of placed well based on the proximity of our other deposits in the area, so we'll look at how we integrate that best and the timing of it most importantly for us.

Operator: Thank you. The next question is from Rahul Anand from Morgan Stanley. Please go ahead.

Rahul Anand: (Morgan Stanley) I'm going to try a third time guys. Hopefully I'm through this time. I'm having some troubles with the desk line. Apologies in advance if anything is a repeat but I wanted to - I heard some of the questions and I wanted to perhaps have a conversation around the underlying markets and how you're seeing them currently. Obviously Chinese steel has come back to moderate profitability, and you've seen a bit of an expansion in your discount for the lower grade products.

So, I just wanted to touch upon how you're seeing the market in general especially with a focus on how you see domestic production of both steel and iron ore in the Chinese domestic market. I see the total steel inventory is still tracking a bit below the last five year levels and in terms of domestic production of iron ore, that also seems to be a bit weaker. Any anecdotes that you're hearing from your customers as to what is to expect in terms of both the demand of iron ore and how steel is progressing there? Thanks.

Dino Otranto: Thanks, Rahul and it's so great that you've made it through on the third time lucky. Look, you've called it out exactly how we see it. It's relatively flat. There are some green shoots and there's some headwinds. All I can say is that our product suite is moving very, very well. I have Ben Kuchel, the Director of Sales and Marketing on. Ben, is there anything you wanted to add?

Ben Kuchel: Thanks, Dino. Thanks for the question. Yes, look I think the only thing I would add is that we're just still in a period of time between Chinese New Year and the major political conferences that happen in March. The market I think broadly speaking is moving a bit sideways waiting on those announcements that will come in March, but at this point in time no major movement either way.

Rahul Anand: (Morgan Stanley) Got it, okay. Look, just a second one from me on Iron Bridge please. I just wanted to perhaps test on some of the critical elements as we progress through the ramp up. Obviously, you had some initial hiccups and we've gone and addressed them and expecting the ramp up to go smoothly from here, but if I had to take the other approach and say what are the key risks here that you see in terms of your ramp up besides, I guess, water which you have addressed. Are there any key elements beyond that in terms of this project that you see as critical elements for you to get to that nameplate?

Dino Otranto: Thanks. Yes, we've said technically in terms of the process flow a big tick, we're really comfortable with that. Then it was executing the actual project completion which we're now into. Then the third, which we're right in the middle of, it's a big complex plant as everybody knows, prior to the capital intensity that we've deployed on the plant but it's, you know, Graham and team is just head down bum up working through the challenges that you normally expect for these big complex operations.

It's really difficult to call out one particular thing as the team works through the current challenge which is the air classification. I would say it's one of the larger pieces of work that we need to work through and what we then do in parallel is work through the sequence of other bottlenecks as we ramp up to nameplate.

Operator: Thank you. The next question is from Glyn Lawcock from Barrenjoey. Please go ahead.

Glyn Lawcock: (Barrenjoey) Good morning. A few clarification questions. Sorry, so Dino, can we just confirm the Iron Bridge, the nameplate is not in question at the moment it's just purely the ramp up schedule?

Dino Otranto: Good to hear from you, Glyn. Yes, exactly right, so it's timing.

Glyn Lawcock: (Barrenjoey) Okay, cool. Thanks. Then one for Hutch. Hutch, I think I heard you say on the call that you won't go ahead now with the Norway project unless you've got the offtake. You had previously indicated that you might loss lead with a billion dollars. Is it the customer that's moved further away now from where you needed the price to be or is it you've become a lot more conservative with the balance sheet and being more prudent with what you spend. Thanks.

Mark Hutchinson: Look, yes, thanks. We've never actually said I think, Glyn, that we'd take that just on balance sheet, that project by itself unhedged and with no offtake. It's always been part of being very disciplined on the bigger projects and Holmaneset and Pecèm are bigger than the original ones we did FID on. So, I would say we continue to be very disciplined, and we will not take projects that don't stack up to the Board, so we continue to do that.

Operator: Thank you. The next question is from Jon Bishop from Jarden. Please go ahead.

Jon Bishop: (Jarden) Oh, good evening, guys. Thanks for taking the questions. You announced in 2022 a US$6.2 billion budget towards renewable power infrastructure. I'm just wondering where that physically is at today in terms of permitting construction rollout, et cetera.

Dino Otranto: Yes, thanks, Jon. We're basically a third, just a bit over a third of the way through. You did highlight the one area that we're putting a lot of attention on is approvals, particularly on the solar farms that we need to build, but the equipment side, the generation side, the distribution side is all absolutely well on track. We announced two key contracts this quarter with Liebherr and XCMG and that really rounded out the design of our entire fleet and we're about to rollout the distribution and charging networks over the ensuing couple of years. So, no, all on track actually and hope to report a lot more detail soon on the progress.

Jon Bishop: (Jarden) Excellent. That's a great segue because my second question was in terms of the HME and support equipment that you've ordered, what's been taken at site at the moment? I guess probably more interestingly, how are you seeing the relative performance of those pieces of kit on that basis relative to the incumbents?

Dino Otranto: Fantastic question. The first point I'd make is - we've actually already started to take delivery of a diesel electric fleet from Liebherr. We have a number of those machines already running and you can imagine that half the technology that we need for a full battery electric truck is now already operating in the Pilbara. We've deployed our software solution, which is a real key part of this, so we actually have launched our own fleet management system which will have autonomy enabled as well.

We have four fully electric excavators running and the performance that we're getting is actually a lot better than expected with the excavators. So, we're learning a lot in terms of power consumption. We have two prototype 240 tonne trucks running around. One is a hydrogen fuel-cell and one's a full battery electric and that is going into the modelling of the entire system.

It's great to be here in London. We visited the Oxford Banbury site where we're manufacturing our power systems, and we sent our very first power system to Liebherr which will go into the very first fully battery electric haul truck. That will come later this year I believe into the operation. So, that's on the equipment side.

The other exciting announcement we made was the partnership with MacLean which is an underground mining equipment supplier. We're bringing them to the surface mining operations, and they'll have a fully electric 24M sized grader that we're working on together. I saw the prototype just recently and it looks bloody fantastic. So, no, we're really encouraged by it. Look, lastly the charging infrastructure and the charger, the high-speed charger that we've been developing ourselves is ready. We're proud to say that it will have a six megawatt charging capacity which is a revolutionary design and technology in the market, so well positioned, Jon.

Operator: Thank you. The next question is from David Coates from Bell Potter. Please go ahead.

David Coates: (Bell Potter) Good morning, everyone. Thanks for your time this morning. A quick one firstly on capex and dividends. Just notionally speaking will the reduction in capex on the energy and decarbonisation projects put less pressure on free cashflow and enable perhaps higher dividend payout ratios to be maintained for longer?

Apple Paget: Thank you, David. Look, our dividend policy and payout is a matter for the Board and we'll pay within the 50 to 80 per cent range. If you've got less capex, you've got more free cash flow, but it will still be within that range.

David Coates: (Bell Potter) Thanks and just circling back on marketing. Just wondering if there's any work going on to diversify the customer base further away from China at all?

Dino Otranto: Yes, thanks, David. We've been attempting to diversify our book for the last few years. In fact, Ben and the team have done some great work into Europe. The reality though is China still supplies the majority of the world's total steel. So, it's - our key customer still is in China.

Operator: Thank you. The next question is from Baden Moore from CLSA. Please go ahead.

Baden Moore: (CLSA) Good morning, everyone. I was wondering, just following on from your comments around US policy support for your projects. Are you seeing any opportunities as well potentially emerging around critical minerals or anything that might fit within your portfolio?

I guess the second one to follow up would be just looks like there's new commentary, or I think it's new commentary around the inclusion of share buyback commentary in your report. Just wondering if that was signalling anything that you're actively thinking about?

Dino Otranto: So, the commentary on share buyback is not new commentary. Just on the critical mineral stuff, yes, interesting point. So, we are exploring in that Latin American region for a couple of the rare earths. So certainly, we see a feeder into the US market there being pretty important to support the macro market for critical minerals.

At this stage, we don't have a large presence in the US, but we do have a presence in Canada looking for exactly those minerals.

Operator: Thank you. The next question is from John Tumazos from John Tumazos Very Independent Research. Please go ahead.

John Tumazos: (John Tumazos Very Independent Research) Thank you very much. I'm trying to peruse the Red Hawk website and understand the project that we're taking over. I see there's a 49-page pre-feasibility. The last pre-feasibility I read was 701 pages. This looks a little skimpy.

They were going to have contract mining, contract crushing, contract trucking, public roads, public ports. In rough terms, under the auspices of Fortescue, would you expect that the operating costs would be one quarter less or one half less since you have rail and port and pretty good trucks and things like that?

Dino Otranto: Yes, good question, John. We haven't done that detailed work, but you could imagine if you're a stranded asset, you're going to have to have all that infrastructure. It would feed into our Western Hub system most likely at Eliwana - sorry, Solomon and Firetail area.

We're just going to have to assess whether or not that's a hauling solution or a conveyor extension for Firetail. But you're right, our interests piqued because of clearly the invested capital we already have in that region. Thanks, John.

Operator: Thank you. The next question is from Giles Parkinson from RenewEconomy. Please go ahead.

Giles Parkinson: (RenewEconomy) Yes, hi. Yes, a couple of a clarifying questions probably for Mark. One, you mentioned that the targets will remain the same and the timelines might shift.

Can you specify exactly what you're referring to there and is that sort of the broader green energy, green hydrogen deal which might be affected by some political uncertainty overseas? Or does that reflect 2030 targets for Real Zero at Fortescue? If you can just clarify that.

Second one, while I'm on the line, can you just clarify also the battery electric truck that's actually in trial at the moment, you said that the first fully battery electric truck will come later on this year as you sent the first power system away from the UK to Liebherr.

So, is the one that's being trialled at the moment fully battery electric? Or is it just a referral to the fact that this one will be the first one with a Fortescue power system anywhere? If you can clarify those two, that would be great, thank you.

Dino Otranto: Thanks, Giles. Dino here. I'll take the first one on the truck and then hand over to Hutch. Just to clarify, the Roadrunner truck was our prototype fully battery electric. That will form the basis of the production unit.

That's what I was referencing to, the power system that goes to the Liebherr factory to then make the first production unit.

Mark Hutchinson: Yes, thanks so much, Giles. Look, I think - our plans, our goals on the decarbonisation of the Company have not changed. 2030. 100 per cent. So, what we're looking at is not delaying anything. We're just going to reassess some of the timelines to some of the projects we went to FID on, and Arizona is a good example given what's happening with the *Inflation Reduction Act*.

So, it's really reassessing those timelines and our ambitions on the decarb are different, and that has not changed.

Operator: Thank you. The next question is from Tom Zaunmayr from *Business News*. Please go ahead.

Tom Zaunmayr: (Business News) Morning, everyone. I guess this is a question around water, particularly Iron Bridge. I mean you've got a few pastoralists up that way fairly miffed at the amount of water you've been allocated from Wallal. We've got a lot of TO groups around the Pilbara really starting to rattle the cage about the resources industry's use of ground water and extraction of ground water.

I wonder if there's much work going on in Fortescue around, I guess how to reduce that water use at Iron Bridge and how to reinject more of what you are using back into the aquifers?

Dino Otranto: Yes, thanks, Tom. Yes, good technical questions around Iron Bridge and you've highlighted one of the key issues we need to manage there is water balance. Good news is, we received the second extraction licence from the aquifer, so that takes us to the full 20 gigalitres a year that we require.

You've got a view on pastoralists' perspective. We work extremely well with our pastoralists around the Canning Basin up there. So that focus is exactly what you're talking about, it's about recycling the water and water conservation and with what the team are doing on this water banking strategy, we're utilising a lot more of the water that we have around the sites and clearly events like the last week do help out. Thanks.

Tom Zaunmayr: (Business News) Just a second question on the Green Iron Plant, I just wonder if you can give an update how construction is progressing there and if the timeline you've indicated when we were first out there last year is still in place.

Dino Otranto: Yes, it's still in place, so calendar year this year for 1,500 tonne per annum plant. It'll be located at Christmas Creek in our Green Energy Hub.

Operator: Thank you. The next question is from Brad Thompson from The Australian. Please go ahead.

Brad Thompson: (The Australian) Hello all, thanks for your time. Hutch, just wanted to ask you about jobs in the green energy. Last year when the 700 job cuts were announced, it wasn't made clear how many exactly were in green energy. Just wondering how many of the job cuts were in green energy, how many staff you're carrying at the moment and is there the prospect of job losses now that there are these new delays on the horizon at Arizona and Gladstone?

Mark Hutchinson: Hi Brad, thanks for the question. We didn't disclose the job cuts last year. I mean we've moved to a One Fortescue approach to the business, so our business is extremely integrated now, so I think that's important to understand. We always look for efficiencies in the business and how to use the workforce the best possible way we can. There is no delay of the project, we're just reassessing the timeline at the moment, and we'll let you know later in the year.

Brad Thompson: (The Australian) Okay, thanks Hutch. One for you, perhaps Dino, if you don't mind, the Red Hawk acquisition, is there any concern about permitting delays with some of your other projects on your books, like Mindy South and also permitting for the wind farms and solar farms that you'll need to build to hit your real zero targets and how's that progressing and how are your relationships with Traditional Owners and are they perhaps being impacted by what's going on with the Yindjibarndi case?

Dino Otranto: Only two questions Brad, you've got about five in one there, so let me try and remember them all. In terms of Red Hawk, the Blacksmith project had all approvals already done, so that fits well within the portfolio and allows the Mine Planning team to work out the best sequencing. We're working exceptionally well with our Traditional Custodian partners, and we have for over 20 years, so the conversations now are including energy potential, not only just mining, clearly, it's a different type of infrastructure that we need to build and also with the State Government, we're working really, really close, hand in glove with everybody in Roger Cook's ministry.

Operator: Thank you. The next question is from Mark Wembridge from AFR. Please go ahead.

Mark Wembridge: (AFR) Morning. Brad has actually touched upon most of what I wanted to ask there, well done Brad. But just I want to get a little bit more clarity from you guys on the reduced capex and what it means for the green energy. Is this a real pull back from hydrogen?

Mark Hutchinson: Thanks Mark. No, absolutely not. We're still fully committed to hydrogen. What it does mean, we're being very careful and disciplined about the way we spend our capex given that the environment globally is kind of uncertain and Arizona, as I said, is a good example of that, where there is uncertainty with what the Trump Administration is going to do around the hydrogen production tax credit and so we will slow the spend down as we become more enamoured and understand how that's going to impact that project.

Mark Wembridge: (AFR) Okay, just got one more potentially for Dino on the latest Mitsui deal that happened over in WA. Just wanted to get your thoughts on what you thought of the valuation for Rhodes Ridge.

Dino Otranto: We're not going to comment on the Rhodes Ridge acquisition. It's quite a large number, which reinforces the value of the entire Pilbara region. It's great to see you've got the Japanese taking long-term positions in the Pilbara region to sustain steel demand for the next generation. I think it's fantastic to see.

Operator: Thank you. The next question is from Lachlan Shaw from UBS. Please go ahead.

Lachlan Shaw: (UBS) Thanks guys for taking my follow up. I just wanted to confirm something from the slide pack. So, if I look at pages 12 and 19 together, am I right to infer that the Pilbara solar, wind and best configuration is now approximately 1.5 gigawatts of solar, about a gigawatt of wind and four- to five-gigawatt hours of battery? Is that the current configuration you're going forward with?

Mark Hutchinson: There's no change, yes.

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

Dino Otranto: Well, thank you very much, thanks everyone for joining us today. Again, thank you for everyone that's been involved in the success of the half so far. So, we'll see you next time.

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

[END OF TRANSCRIPT]