FY22 Annual Results

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Event Transcript

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Start of Transcript

Operator: Thank you for standing by. Welcome to the Fortescue Metals Group FY22 Full Year Results analyst call. All participants are in a listen-only mode. There will be a presentation followed by a question and answer session. If you wish to ask a question you will need to press the star key followed by the number one on your telephone keypad. I would now like to hand the conference over to Dr Andrew Forrest, Chairman. Please go ahead.

Andrew Forrest: Good morning everyone. Welcome to Fortescue's FY22 results presentation. Joining me today in Perth is Elizabeth Gaines, Chief Executive Officer of Fortescue. Elizabeth, you could not have been a more effective, gracious leader. You are a cross between, in my view, a Queen Boudicca and Mother Teresa whenever required. Our results throughout COVID, our strength of new projects and great operations bear that testimony. You have been wise, humble, sharp as a tack, always living our values, teaching them wherever you've gone.

Alongside us is Ian Wells, Fortescue's Chief Financial Officer. I am delighted that we are also joined by Fortescue Future Industries Chief Executive Officer, Mark Hutchinson. I have excused Guy Debelle. He had a minor biking accident on the weekend, and will be back on his pins shortly. His role will be covered by all of us and particularly by Hutch, our CEO of FFI.

Whether you are participating via phone or webcast, thank you for joining us. Those who have joined us via webcast you will be able to follow along with the slides and those who have dialled in separately, a copy of our FY22 results presentation is available on our website.

That brings me to our full year results. They build on the record operational performance we released to the market only a few weeks ago. Today's announcement is just truly a testament to the hard work, dedication of the entire Fortescue team, guided as we are by our unique Values and culture, just as relevant today as they were when Fortescue was established.

As you know, we emerged just 19 years ago, a David amongst the Pilbara and global iron ore Goliaths. Tiny, though fast, agile and innovative, we had no ground, hardly any capital and certainly no way of getting anything we did find to market. Understandably the task was written off as impossible. You can be forgiven for thinking the same about now. Fortescue will once again be the catalyst for change.

As we are now, back then, we were humble, frugal, empowered, enthusiastic and just a little courageous, with determination as steely as our product. We will never give up. These Values guided us to become one of the largest iron ore producers and certainly the most efficient in the world. To bear that out, this year Fortescue shipped a record of 189 million tonnes of iron ore, despite the immense headwinds posed by COVID and rising inflation. This coming year, we are aiming to break further records, with guidance for shipments of 187 million tonnes to 192 million tonnes.

Iron Bridge will come online, capable of delivering 22 million tonnes per annum of high grade 67% Fe concentrate and despite funding this massive new asset, our balance sheet has remained very strong. These records and the prospect of even greater performance is exciting. But to me, knowing our Fortescue family so well and our tremendous capability, I am not unduly surprised.

What did surprise me is how this great team, revolving around our Values, embraced so rapidly with heartfelt commitment, the massive challenge of transforming our Company to green, to be the first major heavy industry company in the world to do so. Having travelled all over the world several times prior to and during the formal establishment of FFI, I can assure you this group, with their courage, determination, enthusiasm and innovation is without peer.

It is often said that when you come to a fork in the road, take it. Over the long term the cost of not doing so, of indecision, of dithering, it can be very costly. We extend this with the great poet Robert Frost, who remembered his most important days, his greatest memories, as when he took the road less travelled, where unashamedly, unafraid of being decisive and consistently taking the road less travelled.

So today we have two choices. First, we can turn a blind eye to the rapidly changing global business and regulatory climate and of course to climate change itself, the evidence of that change you see deleteriously now all over the world. Or we can transition, as we all believe we must, into a global green metals, minerals, energy, technology and development Company capable of delivering not only green iron ore, but also all of the minerals critical to the green energy transition.

Fortescue can and will lead the green energy revolution, and once again set record-breaking industry benchmarks in everything we do. We have already begun.

As I return to an Executive Chairmanship role, I am equally excited to welcome former President and CEO of General Electric Europe, and previously GE China, Mark Hutchinson, with former Reserve Bank of Australia Deputy Governor Dr Guy Debelle, to FFI's strong leadership team. We are bringing in global leaders with a proven track record in managing large scale, complex global organisations and projects which goes to the heart of our vision for Fortescue, bound together as we are by our common Values and philosophy.

Our operations do and will require green energy. Every time we produce green energy globally, we will need green metals. This is the symbiotic transition into becoming one global green metals, green energy, green technology and development company. Clearly some of our major advantages is the clarity and line of sight that FFI provides into the future macro global demand trends for not only green energy but also green metals and minerals.

FFI's web of country and regional leaders established when hardly anyone else was travelling during the entire reign of COVID on our planet, has not only identified very serious opportunities in energy, but also minerals as you can see with Gabon, with Belinga. The FFI global team feeds trends and analysis for all metals, minerals and energy demand worldwide to the entire group. Our family value continues under this philosophy and binds us together. We are Fortescue.

We will harness our 'We are Fortescue' delivery models across our growing overseas portfolio for both green energy and metals. Our philosophy a set of values that whether projects are big or small, Australian or global, they work. We will supply each other. We will supply the world, becoming a powerhouse in where the world's greatest need is to go green, to supply the energy and supply the metals.

Of course, leading by this example, sharing our green fuels and innovative green technology with the world, we will drive the elimination of global emissions that threaten all nature and all humanity. In this process we will generate substantial value for all shareholders. Team, as we move into FY23, we have one combined mission - to commercially destroy global warming while creating an even stronger global business.

Handing over to you, Elizabeth.

Elizabeth Gaines: Thank you Andrew. So, turning to safety, and I want to commend the entire team for continuing to look out for their mates on our journey to zero harm. Our Total Recordable Injury Frequency Rate continues to improve with the team achieving our lowest TRIFR of 1.8. This was against a backdrop of another challenging year with multiple COVID lockdowns in Western Australia and across the nation.

Of course, we cannot forget the tragic passing of our team member, David Armstrong, as the result of an incident at the Solomon Hub on 30 September. The health and safety of all of our team members is our highest priority and this event has been devastating for the entire Fortescue family. David is missed by all of those who worked with him. A fatality is a very sharp reminder of why safety is our highest focus. We are working with David's family to facilitate a memorial to recognise David's passing and his contribution to the Fortescue family.

During the year, the industry also faced some confronting truths as we worked to better understand people's experiences of sexual harassment at mining operations in Western Australia. The findings from the Western Australian Parliamentary Inquiry were deeply concerning for the industry. At Fortescue we have a zero-tolerance approach to bullying, harassment and discrimination.

Through our ongoing Workplace Integrity Review, we continue to implement a range of initiatives to further enhance the health and wellbeing of all team members, aligned with our unique culture which embraces diversity and inclusiveness. Safety will remain at the heart of our culture and Values, and we will continue to empower everyone at Fortescue to take control and look out for their mates on our journey to zero harm.

So, onto the FY22 results, and the strong performance by the team across the entire supply chain contributed to our highest ever annual shipments of 189 million tonnes, exceeding the top end of guidance. This contributed to revenue of US$17.4 billion and net profit after tax of US$6.2 billion which is the second highest in Fortescue's history. Reflecting our focus on cost management and ongoing investments in innovation and technology, we have maintained our industry-leading cost position with C1 costs for FY22 of US$15.91 a tonne.

Reflecting this outstanding performance and our strong commitment to delivering shareholder returns, we have today announced a final dividend of A$1.21 per share, and this along with our interim dividend of A$0.86, represents total dividends of A$2.07 which is a payout ratio of 75 per cent of full year net profit after tax (NPAT) and represents distributions to shareholders of A$6.4 billion. This dividend distribution is consistent with our stated intent to target the upper end of our policy, to pay out a range of 50 to 80 per cent of NPAT.

Sustainability is integrated in all aspects of Fortescue's business. We are committed to ensuring that communities continue to benefit from our growth and development as we take a global leadership position in the green energy transition. Today we also released our FY22 Sustainability Report and our separate Climate Change Report. The Sustainability Report details Fortescue's performance against key material sustainability commitments and targets and forms a critical component of our business strategy.

Our continued commitment to empowering thriving communities was demonstrated by our delivery of A$27.6 billion in total global economic contribution this year. That included A$5.3 billion in taxes, State royalties and other government payments.

We continue to see the enormous benefits that Fortescue's success has provided to our communities, and this is evident through initiatives such as our Billion Opportunities program, which has resulted in more than A$4 billion in contracts and subcontracts awarded to Aboriginal businesses since the initiative was launched in 2011. We are proud to be one of Australia's largest employers of Aboriginal people representing 10 per cent of our Australian workforce and 15 per cent of our Pilbara operations.

I believe our inclusive, diverse culture has strongly influenced Fortescue's industry leading performance and I'm proud that we continue to lead from the front with 50 per cent female representation on our Board of Directors and a diverse management team with women representing 27 per cent of Senior Leadership. We know that diversity delivers the best results. It is not just the right thing to do. It is the smart thing to do and as an industry, we have a responsibility to ensure as many women as possible have the opportunity to participate in and make a strong contribution to the resources sector.

Increasing female employment remains a key priority for Fortescue, and I'm really pleased that since 2020 - so that's only over the last two years - the number of females employed at Fortescue has increased by 60 per cent.

Fortescue is transitioning to an integrated, global green energy and resources company, and for our size and scale, there is no other mining company in the world that is taking the action we are to eliminate emissions. We've set a target to decarbonise our operations by 2030 – two decades earlier than commitments made by most of the mining industry globally and we've set a target to achieve net zero Scope 3 emissions by 2040.

Fortescue Future Industries is the key enabler of these targets, with a range of heavy industry decarbonisation initiatives underway to eliminate our reliance on fossil fuels. We're already seeing the benefits of our decarbonisation initiatives through the energisation of the 60MW Chichester Solar Gas Hybrid Project, which has displaced 78 million litres of diesel usage in FY22.

We're investing in renewable energy through Pilbara Energy Connect, which includes transmission infrastructure, hybrid solar gas generation, and large-scale battery storage. On that note, I'm absolutely delighted hand over to Mark Hutchinson, CEO of FFI to say a few words. Mark.

Mark Hutchinson: Thank you very much, Elizabeth. Can I take a moment to acknowledge your invaluable contribution to Fortescue. Your hard work and successes have helped place this Company in the best position it can be to take the actions needed to now eliminate emissions.

By virtue of this, Fortescue is not only leading by example, but it has also already begun its transition into the global green energy, resources and technology company of tomorrow that you described.

Today, Fortescue's assets and infrastructure rival the best in the world, and it's from this outstanding platform that we are now positioned for serious growth through FFI. Australia's largest export is iron ore, but our other major export is emissions. FFI will lead the world in eliminating emissions from heavy industry, starting with the decarbonisation of Fortescue's own operations, while driving the establishment of a new market for renewable, green energy that can replace fossil fuels.

FFI will build on for Fortescue's reputation for operational excellence and capital discipline, and we are absolutely committed to maintaining Fortescue's strong balance sheet.

I joined Fortescue Future Industries because it is clear that Fortescue is a company that lives and breathes its Values. I see two clear objectives for the FFI business. The first is to provide the technology and the innovation required to eliminate Fortescue's emissions wherever possible.

By significantly reducing our reliance on diesel, we will also be reducing cost. Much of the technology we need to deliver on this, we will develop ourselves in-house and FFI like FMG is a serious technology company. We will also leverage the technology that is available elsewhere. The acquisition of Williams Advanced Engineering and Fortescue's partnership with Liebherr demonstrate this.

The second objective is to make green hydrogen, at quality and at speed and fulfill our obligation to our customers. The work that our Chairman and the FFI team have done over the past two years on the supply side of the business puts us way ahead of the game. Our focus now is on building out the demand side. We are already in a very strong position. Our MoUs with E.ON and Covestro are a fantastic base, but there is more to be done.

We are progressing towards committed offtake agreements in Europe, Asia, and the United States. There is significant global demand for the green hydrogen and green energy we will produce and for the technology that FFI is developing. There are various estimates that green hydrogen will become a multi-trillion-dollar market.

There is also considerable international capital for green projects and the world's largest asset managers are committed to funding the climate transition.

The geopolitical environment will only serve to speed this up. Policy settings across Europe are helping to ensure that the production of green energy and green hydrogen in particular, is competitive. The recent passage of the *Inflation Reduction Act* sees the US position itself as a potential green hydrogen superpower, and energy security is leading more and more countries to green energy solutions. With the rise of this new industry comes environmental benefits as well as economic ones.

Our role as a new leadership team is to ensure FFI remains at the forefront of this global movement, and that FFI takes full advantage of the huge environmental economic opportunities that come with it. We have never been in a better shape to be able to continue to grow the business and deliver returns to our shareholders.

Our greatest asset is the speed at which we work. We've seen significant progress on a number of projects across FFI's portfolio of work during the financial year. This includes at Gladstone in Queensland, where construction of our Green Energy Manufacturing Centre is well progressed, with the first electrolyser to be manufactured next calendar year.

At Gibson Island, we are working to convert Incitec Pivot's existing ammonia production facility to produce green ammonia from renewable energy with studies progressing on this project. Our focus now is razor sharp on project delivery.

In the short term, we'll focus on prioritising the projects that will ensure our time, our resources, and our funds deliver the outcomes we, our customers and our shareholders expect. I look forward to updating you on all this work in the coming months. On that note, I'd like to invite Ian to provide an update on Fortescue's financial performance.

Ian Wells: Thanks Mark and hi everyone. I'd just like to start by saying it's always a privilege to present a summary of our financial performance, and you can see from our disclosures today that we've again reported a transparent and clean set of results.

We generated strong earnings and cash flows in FY22 by remaining focused on what we can control - delivering consistent operating performance with a strong focus on cost management and capital discipline, and that drives margin, cash flow generation and return on capital.

So, turning to the numbers; revenue of US$17 billion was the second highest in the Company's history, and combined with strong cost discipline, contributed to EBITDA of US$10.6 billion. That was with an EBITDA margin of 61 per cent and noting there was some margin compression relative to FY21 resulting from the lower iron ore prices and the industry-wide cost inflation.

That equates to an EBITDA margin of US$63 per tonne for the iron ore business. For those on the webcast, you can see that Fortescue has continued to generate strong margins through the cycle. In fact, our average EBITDA margin in the past five years is now over US$55 a tonne.

As we discussed in the June Quarterly Release, our C1 cost of production increased due to higher diesel costs, labour rates and other consumables like ammonium nitrate. Our FY23 cost guidance of US$18.00 to US$18.75 per tonne takes all of that into account, together with the lag effect of ongoing inflation pressures and importantly maintains Fortescue's industry-leading cost position.

EBITDA flows through to NPAT, with NPAT of US$6.2 billion, which translates to US dollar earnings of US$2.01 per share and in Aussie dollar terms, A$2.77. Those earnings provide a return on capital employed of 36 per cent; and implies a trailing PE multiple of less than seven times the current share price.

The next slide of the webcast shows EBITDA and NPAT waterfall, relative to FY21, and you can see all the moving parts, including impacts of volume, price and costs. Another point to note is that FFI's incurred expenditure increased to US$386 million and that's reflecting the increased activity from US$104 million in the prior year.

If we move to the cash flow, and as a reminder, FY22 net operating cash flow of US$6.6 billion included the payment of the prior period final FY21 tax instalment of US$900 million. A point to note that during the year we varied our instalment rates to better align cash flow with earnings and therefore we don't expect these timing differences going forward.

FY22 capex was US$3.1 billion. Free cash flow generation was US$3.6 billion. When we compare that with US$6.2 billion of net profit after tax, free cash flow was lower due to two key items. The US$1 billion prior year tax payment that I mentioned earlier, and the second point is capex was US$1.5 billion higher than depreciation as we continue to invest back into the business and invest in growth.

That investment will be reflected in an increase in depreciation year on year of course, as Iron Bridge transitions to operations and as discussed on the June Quarterly call, our FY23 capex guidance is a range of US$2.7 billion to US$3.1 billion excluding FFI.

Fortescue's balance sheet remains strong, with cash on hand of US$5.2 billion at 30 June 2022. This includes reserved cash of US$2.6 billion for the final dividend, which will be paid next month and US$1.1 billion committed to FFI, both in accordance with our capital allocation framework.

Gross debt increased to US$6.1 billion, that was following the drawdown of US$400 million from our term loan facility and the completion of a US$1.5 billion offering of Senior Notes, which importantly included Fortescue's inaugural green bond issue of US$800 million.

If you're on the webcast, we've shown our credit metrics remain well inside of our targeted investment grade levels, which are gross debt to EBITDA of 1x to 2x and gross gearing at 30 to 40 per cent through the cycle. That means we have balance sheet capacity to fund future growth, and we'll continue to proactively manage our debt maturity profile and also look to optimise our debt capital structure.

On shareholder returns, the fully franked final dividend declared by the Board takes the FY22 total dividends to A$2.07 per share. That implies a fully franked dividend yield of more than 10 per cent on the current share price. That capital return is consistent with our capital allocation framework, which as a reminder incorporates the four pillars of reinvesting in the business, maintaining a strong balance sheet, capital returns to shareholders and investing in growth. That includes the allocation of 10 per cent of NPAT to fund FFI.

FFI's anticipated expenditure this year is US$600 million to US$700 million, inclusive of US$100 million capital expenditure and US$500 million to US$600 million which will be recognised as an operating expense.

To reiterate that FFI's projects will be funded with project finance separately secured through the substantial market demand for green investments, noting the widespread investor interest in FFI across the full spectrum of investors range from retail, through to institutional investors and sovereign wealth funds, and right across the whole capital structure.

Disciplined capital allocation is a core competency and really important to us. For us that comes back to doing what we say we're going to do; and that's evident on the slide you can see on the webcast since FY14 - so that's over the past nine years – Fortescue has generated over US$45 billion of net operating cash flow.

We've reinvested US$14 billion back into the business and into growth. We've repaid over US$7 billion of debt on a net basis and declared nearly US$22 billion of dividends and that represents over A$9 per share and equates to an average payout of almost 70 per cent of net profit since 2014.

So, in closing, you can see, we're really proud of delivering the second strongest financial result in the Company's history, underpinned by record operational performance. This is a result of focusing on the things that we can control, consistent and predictable operating performance, strong cost management and disciplined capital allocation. On that note, Elizabeth, I'll hand it back to you.

Elizabeth Gaines: Thanks very much Ian. In summary, we've achieved outstanding results in FY22 with record shipments contributing to the second highest earnings and operating cash flow in Fortescue's history.

Through the Iron Bridge Magnetite Project and FFI, we're investing in the growth of our iron ore operations, as well as pursuing ambitious global opportunities in iron ore, renewable energy and green industries. We've already seen a strong start to FY23, and we remain agile and responsive to market conditions to ensure that we remain a reliable supplier of iron ore to our customers.

On behalf of Fortescue's Board and Executives, I'd like to thank the entire Fortescue family for their contributions in FY22. Our success is truly a testament to their hard work and dedication. By keeping safety and family at the heart of everything we do, I know that we will continue to position ourselves for future success. On that note, I'll hand back to Ashleigh to facilitate Q&A. Thank you.

Operator: Thank you. If you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star two. If you are on a speaker phone, please pick up the handset to ask your question.

In the interest of time, we ask that you limit to two questions per person. Please press star one to re-join the queue if you wish to ask further questions. Your first question comes from Hayden Bairstow with Macquarie. Please go ahead.

Hayden Bairstow: (Macquarie Group) Good morning Andrew, Elizabeth and Ian, and the rest of the team. Just a couple of questions on capital if I may. The first one just on the iron ore business. Just keen to understand, obviously this year we've got the rest of Iron Bridge in the growth capex, and we can understand the sustaining outlook in iron ore but just keen to get a feel for hub development and growth capex for FY24/25 as we work towards Nyidinghu, what sort of range we should be thinking about and how that might grow over and above sustaining for that period.

The second one's on FFI a similar sort of question. You've got a base cost now we can see in operating costs for FFI, but again, that capex allocation within that guidance for FY23, is that likely to step up materially in the next couple of years as you start advancing some of these projects. Thanks.

Ian Wells: Yes, just on the first Hayden, as we discussed at the quarterly, our sustaining capital really is driven by mine plan and then the reinvesting in existing assets and maintaining availability, which drives production. The small hubs will continue for a little bit longer and we spoke about Nyidinghu and an investment decision for Nyidinghu, around the middle of the decade, around FY25.

Then the other thing to consider is our next most material item is the fleet replacement cycle. Of course, that fleet replacement cycle, we're aligning with our decarbonisation initiatives and clearly that kicks off around the middle of the decade as well. So, they're the key moving parts.

Mark Hutchinson: Yes, Mark here Hayden. So, look the guidance we've given on capex for this year - I think we will be within that, but actually it steps up over the coming years, but I would just say that there's an enormous amount of capital out there looking to invest in projects that we're going to do.

So, it's how we manage that capital going forward in light of tapping into that big source of funding for the projects we're going to do.

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

Lyndon Fagan: (JP Morgan) Thanks very much. I'd like to ask Mark and Andrew about FFI if I may. I guess the first one is really just a high-level question on how you would tell the market to value FFI. I mean, we've got US$600 million to US$700 million out the door this year, but at this stage we don't really have a project list to try and value or any real assets that we can attribute to this major amount of spend, which I imagine ratchets up materially over the coming years.

I guess in addition to that, I'm wondering if the 15 million tonnes of hydrogen target by 2030 still stands. We're seven years away from that. We would need to be half of that in three years to even meet that. So, I am wondering if you can try and help frame that target. That was the first question. Thanks.

Andrew Forrest: I saw a number of first questions in that first question. Mate, I mean, if you can imagine, and it does amaze me how forgiving iron ore analysts are, when you've got massive iron ore deposits and guaranteed markets and the technology to get it into market. Even though you are not in production you've proven the resource, you've proven your market. If you can imagine that Lyndon, x 120 that's how I see FFI. I have not ever tried to value the company, but I've had expressions of interest made to me by fund managers, by big infrastructure managers. They've talked around US$20 billion.

I say that just because you are all professional analysts and that is discussion, but that's the kind of overture given to me to try and entice us to list FFI, which I don't think is in Fortescue’s best interest, because the integration we have is bearing such serious fruit. The two together gives us the greatest opportunity of being that world lead, that world example, that a heavy industry company can actually materially reduce its operating cost, materially improve its margins by going green by not smoking billions of dollars of cash each year in fossil fuel, but rather cladding not only ourselves, but exporting it along with the technology and the know-how to everywhere else.

We don't intend, Lyndon, to lose value on that. We don't intend to be the Xerox who invented everything and had Apple steal the show. We are very careful about capturing the value for our shareholders, but making sure we drive the commercial destruction of climate change, of global warming while building a really valuable business as you can see by the conversations which I’ve had. Hutch, for the more granular?

Mark Hutchinson: Yes. So, on the 15 million tonnes, I’d answer it two ways actually Lyndon. I think on the supply side, I’ve been very fortunate to come into this business where Andrew, Elizabeth and the team have done an amazing job of scouring the world for projects for us to work with. So, we have plenty of projects to pick which ones we need to do to fill the supply side.

On the demand side, we already have a five million tonne MoU with E.ON, and there’s others in the works as well so I see no issue at all with the demand side. So, I think the 15 million tonnes still stands for 2030. If you kind of think about how big our market is, ahead of us, it’s kind of the replacement of the entire fossil fuel network globally. So, it’s almost like going back to 1907 when BP and Shell were formed and you know probably people then said oh, you guys are crazy. It’s never going to work, and history has told us that differently. We’re at that inflection point now actually and we got a massive market ahead of us so I’m very confident that the 15 million tonnes will be there.

Andrew Forrest: The scale of 15 million tonnes is really serious team. So, it's over a third of the calorific value of energy which Germany used to import from Russia, so it's meaningful team.

Lyndon Fagan: (JP Morgan) Thanks very much for that discussion. A quick follow up. Andrew, you've spoken before about the green steel opportunity and at the meeting you had with analysts which is a couple of years ago now, you talked about a flow sheet at low temperature that the CSIRO was working on, and it felt like at the time you'd cracked the code there and we really haven't heard anything since. I am wondering if you are able to share where that's up to and whether the trial plant that was proposed is going ahead and what the opportunity there is? Thanks.

Andrew Forrest: The trial plant is going ahead. We did crack the code. We did produce iron metal – green. We are still assessing it to ensure that it can come in as we do at the lowest end of the cost curve. We are not going to bring in a product which is at the wrong end of the cost curve. We need to be hyper competitive when we enter a market and we are also, Lyndon, looking at ways – further ways. We are not losing focus on that but just extending focus that we can leap from that to – or actually, from iron ore straight into green steel. So, we have other horses in the race and we're not losing touch with any of them but that is the way of new technology and new technology break throughs.

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

Kaan Peker: (Royal Bank of Canada) Hi Andrew, Elizabeth, Mark, Ian and team. Two questions from me. The first one is on FFI. I think last year Andrew, you mentioned that FFI's investments were split into four priorities, one of those being green fleet development. However, Williams Advanced Engineering was acquired under FMG, not FFI. Just wondering why it wasn't funded by FFI? Are there any of the 120 projects flagged in the Annual Report that will be funded by FMG such as the Infinity Train?

Andrew Forrest: Well, of course, we don't see anything divisible between FFI and FMG. We are the one family. One organisation. FFI is brought into existence because it needs to roll at a different speed and culture which would not be optimal for a very large hyper efficient operating company yet and when it does, we will make that evolution. But look, we see Williams Advanced Engineering has just been such a natural fit for FMG because the first cab off the rank is the Infinity Train. We use parabolic energy to send the train back up the hill, never any external source of energy nor external source of pollutions.

It is continuing to yield dividends because we now have a large-scale battery source and I don't know any other major industry which is challenged by energy storage which has that but we do. We are also looking at the stock standard - and perhaps the elephant in the room - stored, pumped hydro. Energy in pumped hydro. Clearly, we have the elevation we need around our operations to send our organisations green with another form of battery which is natural.

So, all of these things are in the mix and we will continue to push ahead with green fleet because it's how we will send our organisation green by 2030 and there'll be further information released on this and I think I've covered the bulk of your question. Hutch, did you want to add anything?

Mark Hutchinson: As we look on our kind of project list, I think we've got a lot ahead of us and are very excited to come back to you in a few months' time to take you through some of those and we'll be making announcements by the end of the year on some.

Kaan Peker: (Royal Bank of Canada) Sure. Thank you. The second question was on the iron ore business, particularly around the reserve and resources. So just on the Solomon Hub increase in terms of reserves, talk about a revenue factor forecast? Or that increase in revenue factor? I was wondering what that specifically was referring to? That internal iron ore forecast or FX? On the Chichester Hub, there was talk about metallurgical factor change. Was that relating to the OPFs? Thanks.

Elizabeth Gaines: Look, I think in terms of Solomon, yes, that would be some of our internal assumptions, whether that's iron ore price or FX, so, get those into the model. Chichester is something Andy will come back and give you a bit more detail around that, Kaan, in terms of it is probably more around strip ratio, densities so we can give you some more information.

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

Robert Stein: (CLSA) Hi team. First off congratulations to Elizabeth on your achievements in the role and best of luck in the future.

Elizabeth Gaines: Thank you.

Robert Stein: (CLSA) Just a few questions on growth. Mark, it's good to have you on the call to be able to focus a bit of the Q&A on hydrogen so just leveraging that opportunity. Noting your comments in the FT, and the need for Europe to subsidise H2 investment, how dependent are the economics of bulk H2 importing to Europe on Government subsidies? Is that a risk, should Governments redeploy investments into other energy sources such as nuclear or direct renewables? I.e., can it wash its face without those subsidies, and I've got a second question.

Mark Hutchinson: Yes, thanks Rob, I think I'll answer that by looking at the United States first. I mean, the subsidy on green hydrogen in the United States is historic actually because it makes it competitive with grey hydrogen and I think other places around the world should really take note. I come from the renewables world - part of my world at GE – and it's like going back to when the renewables market started. That impetus from Government to get the industry going was really, really important because then you got scale and you could then smash through the cost of renewables to where they are today. So, the same thing is going to happen to green hydrogen.

Now, it doesn't mean that it's uncompetitive because there's a demand out there for the product and we're going to work through it with the Europeans. But certainly, as I said in the Financial Times there, I really hope that Europe takes note and does something because they need it more than anybody at the moment.

Robert Stein: (CLSA) So I guess just noting that – those subsidies then flowing through to smash costs. If that does reduce barrier to entry, what makes say for example Australian hydrogen exports competitive in that type of framework noting that the high transportation costs and the couple of times you have to handle it to overcome those energy barriers?

Mark Hutchinson: Yes. So look, Australia plays a huge part just because of the sheer size of what we can do here and I think America is going to be very, very focused on their own domestic and – you know economy. So initially, they're probably not going to think about exporting. So, I think Australia has this opportunity to really become a green hydrogen powerhouse and the cost – the more scale we get, the cost is going to come down and become more competitive.

Operator: Your next question comes from John Tumazos with John Tumazos Very Independent Research.

John Tumazos: (John Tumazos Very Independent Research) Thank you very much. Can you give us a little bit of guidance as to when we could see sales revenue from green ammonia or battery haul trucks? Other revenue so we can begin to place a value on FFI?

Mark Hutchinson: Thanks John. We're putting a lot of thought and effort to raise the focus on getting ahead with making green hydrogen and I'm really hoping that we will have some available FY24/FY25 timeframe.

Andrew Forrest: You can really run it from how quickly we complete at Gladstone, it's the electrolyser factory. The world is short of electrolysers. As soon as we have them, we'll start making hydrogen shortly afterwards.

Elizabeth Gaines: Just on the green haul trucks John, the priority will be Fortescue's, for our own decarbonisation. So that won't necessarily generate a revenue stream but it's part of our fleet replacement, but what we'll see is the elimination of diesel and the benefits that will flow from that. So it may not be a revenue line at that point in time, but it will certainly be helping to contribute to lower costs. Then over time, that technology will certainly be able to be commercialised.

Ian Wells: Mark's points on demand side – once these green haul trucks are there and the battery solutions provided by Williams, clearly the demand is there. There's no supply. So that is another example of not being too concerned about the demand side.

Operator: Your next question comes from Lachlan Shaw with UBS. Please go ahead.

Lachlan Shaw: (UBS) Hi Andrew and Elizabeth. Firstly, congratulations. Well done and best of luck for the future.

Lachlan Shaw: (UBS) Just a couple of questions from me. So again, just on FFI and I guess hydrogen. So, hydrogen is quite challenging to store and transport at reasonable costs. Just interested to understand how you're looking at the R&D and technology roadmap to try and innovate and to try and bring those costs down? So not just green ammonia but more generally across the value chain?

Mark Hutchinson: Yes. So, there's a number of ways to transport hydrogen and I think I'll start with the United States where in that domestic market, there's the infrastructure available to not only produce near your customers but also use the existing infrastructure to do that. So that is a different answer than maybe the rest of the world, where we have to ship it and when you ship, you have to convert it to green ammonia - green methane - and we're working with our customers to really understand what they want actually. So, the innovations? We are working on that. It's a big part of the equation and that's one of the many projects we have at the moment to make sure we can deliver in a cost-effective manner to our customers.

Operator: Your next question comes from Glyn Lawcock with Barrenjoey. Please go ahead.

Glyn Lawcock: (Barrenjoey) Good morning Andrew. Andrew, just a couple of questions for yourself. Mostly, could you maybe help me understand how you delineate between projects that go into FMG versus say Wyloo? It feels like FMG maybe has missed out on a couple of opportunities that I thought might have fitted better to them? Thinking like Noront? Then secondly, just your thoughts on the new CEO? Is that still something you're pursuing, and should we expect the CEO for FMG sometime this year? Thanks.

Andrew Forrest: Thanks, Glyn. Great questions, mate. No, look, Wyloo's been there to catch projects which FMG have made a decision not to pursue. If we believe, like Squadron Energy, that they're better off within the group, particularly for knowledge, like Clarke Creek or Sun Cable – Noront's a good example – there's a 500-kilometre road there, which our analysts at the time believed wouldn't be built, so that'd be a stranded asset, potentially worthless.

Next election comes along and, of course, the Government says, actually, we want to build a road to free industry for all those native people in that massive region. So, if you like, it follows a very strict Fortescue-first policy. I know Elizabeth will be delighted to give you details of that, but it is very strict Fortescue-first policy. We will let projects go through to the market unless we think there's strategic value in them staying within the Group and then Tattarang will spend its own funds to keep it within the Group. We've had very real benefit from that as Fortescue Metals.

Secondly, the Chief Executive search, Glyn. To be brutal, it's not our highest priority. It's a wonderful priority. We are seeing fantastic people, but we have, if you like, appointments which we want to make which are even more important to the evolution of a global green metals and green energy company. So, we're not going to be rushed either. There's been a bit of media attention around it, but look, they don't run the Company. They're not our shareholders. The shareholders have signalled to us very directly, very firmly, that they're perfectly happy with the leadership of this Company as it is.

I do intend to appoint a Chief Executive, but I don't intend to be rushed into it. I will continue to build, Glyn, as I promised on the resignation of Elizabeth, and you will recall, that we said we needed 10 to 12 fantastic leaders to allow Fortescue to properly emerge as to what the world really needs. That's been our priority. We started Fortescue Metals Group on that basis and the Fortescue organisation will continue on that basis. We believe the world needs, Glyn, a global powerhouse in green energy and green metals and the provider of the technology to bridge those gaps and send the mining industry and eventually what has to happen, Glyn.

We don't have a choice about this, mate. Global heavy industry has to go green, otherwise you just cooked your kids, mate. So, I do want to say that we are rolling ahead, but we have critical appointments which we'll announce in the future and one of them could well be the Fortescue Metals Chief Executive, but we aren't in a hurry.

Operator: Your next question comes from Kaan Peker with Royal Bank of Canada; please go ahead.

Kaan Peker: (Royal Bank of Canada) Hi, Andrew, Elizabeth, team; thank you for taking my follow-up. Just another quick on FFI. There was a proposed Asian Renewable Energy Hub. It's located in the Pilbara, and you were talking about a design capacity of 15 gigawatts of renewable capacity. That had indicated a cost of around US$25 billion to US$30 billion. Should we view this similar to the capital intensity of the projects being proposed in the renewable space by FFI?

Mark Hutchinson: Look, I think we're working through the cost of what we're trying to do at the moment. So, I wouldn't use that as a benchmark at all actually. We can look at the most cost effective way to make green hydrogen. The enormity of what is needed on the power side is just huge actually. You're talking many, many gigawatts of power. So, finding the most efficient, most cost-effective power around the world, including Australia, is our priority at the moment. But we look forward to coming back to you on that in the not-too-distant future.

Andrew Forrest: Kaan, I need to be very clear. We've made serious breakthroughs in how to produce electrolysers and the like. We are not rushing into our first project, because we want it to be hyper competitive when we do. It took us a long while to get Fortescue to the lowest operating cost in the world for iron ore and we intend to be that with green energy.

Elizabeth Gaines: I might just remind everyone that Eliwana was built for a capital intensity of around $43 a tonne, versus a recently completed project elsewhere in the Pilbara that was more like $79 a tonne. So, I think we've demonstrated time and again that we're able to have the lowest capital intensity. We do that through being innovative and applying all of our thinking and learning to each project.

Kaan Peker: (Royal Bank of Canada) Sure, understood. Thank you. Just one last one; I think this one would probably be for Ian. But just on the balance sheet, we've seen, I think, about $470 odd million of long-term iron ore stockpiles built. I'm just wondering what that was in relation to.

Ian Wells: Yes. Kaan, we made that change at the half year and that's basically running those stockpiles through the life-of-mine model, and they won't be mined in the next 12 months. So that's the definition of a non-current asset, using it in 12 months. So that's more of the technical answer. That is why you've seen it there, but I'd note that we made that change at the half year.

Operator: Your next question comes from Peter O'Connor with Shaw and Partners; please go ahead.

Peter O'Connor: (Shaw and Partners) Elizabeth, congratulations and wish you well and great job done. Mark, great to have you on the call. Just thinking about the supply side ahead – and you talked about demand. Totally agree with where demand is coming from, and you've got a lot of things to build. We talk on a lot of these calls about inflationary pressures, but in dollar terms, but also just sourcing labour, but the right labour. Could you just talk to the sourcing of skills, labour parts, goods, services, et cetera, to do this build? Is that the bottleneck and how does that look and how does that play out?

Mark Hutchinson: Look, Peter, thanks very much and I'm very happy to be here and talking to you today. I'm very blessed to come into this business where Andrew, Elizabeth and the team have scoured the world for projects. So, we have over 100 different projects to choose from to make a business from. So, as I said, I'm quite fortunate to have that position, so I can get to choose where we actually make the green hydrogen.

So, I think on the inflation side, obviously it's a concern, but the demand side is going to – there's challenges to get going very, very quickly. If anything, I'm concerned about, it's the supply of equipment, because just the enormity of what we have to do and you look at what the world makes now, we need a lot of supply. So, one thing we're doing is focusing very much on what's available in the marketplace, but also as I mentioned in the earlier discussion was what can we actually do ourselves. That's going to be a very important part of the equation and that's why we talk about really evolving into a much bigger technology company going forward.

Operator: Your next question comes from Saul Kavonic with Credit Suisse; please go ahead.

Saul Kavonic: (Credit Suisse) Thank you. I just have a couple of quick questions centring around obviously the collection of the new ALP Government. The first one's around what do you see as the risk profile regarding union negotiations under the new government? The second one is regarding the proposed changes to the safeguard mechanism, the 43 per cent emissions reduction target by 2030, and what the risks are to cost to meet that in the near term and also what do you see as the opportunities perhaps on a longer-term horizon?

Elizabeth Gaines: Maybe I'll start with the union negotiations. Look, I think there's still some this week. Fortunately for Fortescue, Andrew's going to be at the Skills Summit, I think that sort of is an opportunity to set some of those discussions around we need to attract skills to Australia. We need people to be trained to transition to green energy, in particular. So, skills – and unions are part of this discussion. They're going to be there at the skill summit. So, this is part of collectively understanding what's in the best interests of our economy and for the workforce.

But from our perspective, that risk profile is actually very low, because we don't have a unionised workforce. So, we have our own enterprise bargaining arrangements. We have very little engagement with unions and – so I think from a Fortescue risk profile that risk is low, but importantly we want to have settings in place that really do attract people with those right skills who can help us transition. One of the things we know is we're an employer of choice and we are attracting great talent, like Mark, because of the vision that's been set for our transition from a resources company to a resources and green energy company. So, we're seeing great traction in the labour market.

Andrew Forrest: Saul, I'd add to that, mate, it's Andrew here – that unions are always welcome on any Fortescue operation or construction site. They can rock on in any time they like. It's just when they get there, there's not a lot to do. You know, as they get told by our workers all throughout operations, if they want to contact Elizabeth, if they want to contact the Chairman, well, they've got the number, they've got the email address; they can just do it. So, there isn't a big role for intermediaries.

Operator: Your next question comes from Lyndon Fagen with J.P. Morgan; please go ahead.

Lyndon Fagen: (J.P. Morgan) Thanks again. Andrew, I was just fascinated by the $20 billion valuation that you were talking about in relation to FFI. I am just wondering how that was arrived at again. I might have missed it initially. I think you said it was some fund managers or something that put that to you. But it'd be great to explore that a bit more. Then the second question was just on the zero-emission mining trucks. I'm wondering which solution we're heading in for that direction. Is it a hydrogen fuel-cell or is it more likely to be a full battery electric solution in terms of the first trucks that appear on a Fortescue mine site? Thanks.

Andrew Forrest: Yes, thanks, Lyndon. I made clear it was a solicitation from a very large group to ask me to consider separately listing FFI, and I've described to you all why we didn't pursue that solicitation. I do see, Lyndon, that you don't see the immense value in FFI. That will just have to come clear over time. I have drawn the analogy, which is accurate, that if you imagine a whole bunch of ore bodies, which have been established, that's what we have in our 120 projects.

We're in the process. You can't do it for chopped liver and by the way, these are really big projects. Then when you have immense markets for that product, you now need to have the technology, which is going to be competitive, and which is uncontroversial in the banking community and the project finance and infrastructure investment community; uncontroversial technology to link that ore body or green energy to the marketplace. That's precisely what we're doing and institutions who really get where the future of world energy has to come from – and remember, Lyndon, this is not a choice.

We can argue about the economics, but at the end of the day when global warming really begins to hit – we've only just seen the start of it – there isn't a choice about this. So, I do see that there's a very strong market. Those customers from Europe who have come to Australia to – who have looked at our projects have said we've got one issue: you're likely to sell to Asia because it's on the way to Europe. We really want to make sure that we tie you guys up to make sure you get past what will be huge Asian markets in order to get through what is for us an existential risk, which is green energy into Europe.

In terms of mining trucks, we're a little energy agnostic here, Lyndon. We have a huge head start with batteries; you can see that by the Infinity Train, you can see it by the confidence which we have with 120 huge world-leading trucks being delivered without a power source, and we supply that power source. It is likely to be batteries because we could solve that straightaway. We have the technology, we have the know-how, we can do it at once.

Will we exclude a fuel cell? Absolutely not. There's huge symmetry in a source of hydrogen to a store of electricity in creating long-term green power. I'd just say we have a plan B, Lyndon, which is bulletproof, which is batteries; we're not ruling out plan A.

Elizabeth Gaines: Andrew, if I might just add. It could well be, Lyndon, that the hydrogen fuel cell is more efficient and effective for long-haul distances and battery electric for short-haul distances. I think the fact that we have both options and we're exploring both options is actually a benefit to our ongoing mining operations.

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

Robert Stein: (CLSA) Thanks for the opportunity for a follow-up. Just maybe asking the question I asked earlier from a different perspective. If I get transmission losses in trying to transport the renewable energy generated in the Pilbara to Europe, why would I not get a better economic return by building renewable infrastructure closer to the end market? That's just something I'm trying to understand in terms of being able to value Fortescue's Australian proposals or potential projects in relation to potential hydrogen projects elsewhere.

Mark Hutchinson: Robert, I think we are looking at projects in Europe and you're right to think about that. It's probably where you start, actually, because it's obviously closer. We see that there's going to be great demand for green hydrogen from around the world, including Asia as Andrew mentioned. Australia will play a big part in that. I think the only issue in Europe you have is that it's more challenged on producing the green energy at scale than probably Australia can. Initially, I think maybe some of our projects will be in Europe but just given the scale of what needs to happen, this is a massive opportunity for Australia actually, to become almost the Saudi Arabia of the green energy world. We're doing both.

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

Peter O'Connor: (Shaw and Partners) Thank you. Can I try and marry a philosophical concept with an accounting one? Just taking on board your comments from I think two questions ago where you said we have to do this, we have no choice, this is an existential issue, which I agree with, and I totally understand. Does that mean the first segment of addressing Fortescue's Scope 1, Scope 2, Scope 3 emissions is sustaining capital?

Andrew Forrest: It's a really good question. I'm going to look at that. I'm not sure if those much more intelligent than I am, have already thought of it within Fortescue. Rocky, I would say that these projects will lead to a very long tail of franked dividends because they will need a lot of capital.

Rocky, while you're there, you have been watching the iron ore global industry seriously and you'd have seen Simandou and all the tribulations, the billions of dollars which has been absolutely barbecued in the pursuit of that project, which is now in a country under the control of a military junta. I just look at that and think we have Belinga, which is for scale and value easily the comparable with Simandou. It didn't cost us billions; it didn't cost us even a fraction of that; we paid for it with our reputation. The President of the country asked who FFI was; he wanted his country to go green not watch other countries do it and was told that they're also the best mining company in the world.

So, we were invited into that country to develop that project which has had a cacophony of other suitors, and the government chose us in joint venture with one of their largest employers and investors. That will be a huge project which will be I think just a complete answer to Simandou for Fortescue. Don't also discount, that in Fortescue in the Pilbara, we have a string of excellent growth projects as well. I just wanted to say don't take your eye off iron ore but yes, the energy business will give us massive leverage to the world going green and we're seeing it right now.

Elizabeth Gaines: Peter, I might just add as well on that question on sustaining capital, which is a really good one. We are actually aligning the greening of the fleet to our fleet replacement cycle so that will naturally be part of sustaining capital because we were going to need to replace that fleet anyway. So, we're already thinking along those lines so that's another good reminder.

Andrew Forrest: Rocky, we chopped through, like all the others, a few billion dollars a year in fossil fuels. It will be a great day and I think a serious revenue and margin-improving day when we have made all our own fuels.

Ian Wells: I think the return on investment is slightly different to sustaining capital insofar as there's a cost offset plus also an enhancement, a potential enhancement in revenue. Whilst Eliwana we looked at a replacement mine which is akin to a sustaining, but remembering that Eliwana added production, we actually internally thought about it, and we talked to the markets about Eliwana being a growth project. I know my view, Chairman, is that the decarbonisation is more akin to growth than sustaining. The replacement of the vehicles is clearly a sustaining, but we are also lining that up from an efficiency perspective so maybe it's a hybrid.

Andrew Forrest: Yes, it's a hybrid. It's like I used to get asked will you go for capital growth or income, and I've said both. In your case, Rocky, it will be both.

Operator: Thank you. That is all the time we have for questions today. I will now hand back to Dr Andrew Forrest for closing remarks.

Andrew Forrest: Thanks, team. I really, really appreciate you guys paying so much attention. I can't miss this, with your attention, to thank Elizabeth again for her immense contribution to Fortescue over the last decade odd. You have shown, Elizabeth, without any doubt that women aren't better than men and men aren't better than women, but the diversity of thought is irreplaceable in vibrant organisations like ours, and you have brought that.

You've been a fantastic Chief Financial Officer when you joined and Non-Executive Director before that. As Chief Executive, you have shot the lights out. I just want to thank you for the immense contribution you have made to our

Company's history to date and then say from stepping down to stepping back up to Global Ambassador we're really going to need you to let the world know that its green energy/green hydrogen solution is on its doorstep and is walking in.

Your track record in guiding our operational leadership through economy, advanced tech, sophisticated major projects. Analysts - so think through this for a second. Our trucks - which are autonomous, right, they are straight against the profit and loss and they literally, if you added them all up, they'd go around Australia a couple of times each day in terms of kilometres run. If you add them up a bit further our autonomous distance has gone to the moon and back 125 times. If you take it a bit further, in a couple of years' time we would have even made it to the sun.

This is a Company which you've driven to be at the technical edge of the mining industry and of course perfect to then go green. Elizabeth, I'd like it recorded that I see you - and we all do in Fortescue - as one of Australia's truly inspiring leaders. Your integrity and respect will be with us always. You are the perfect, perfect role model to be our Global Green Ambassador and we wish you super well in coming back. Thank you, Elizabeth.

Elizabeth Gaines: Thank you, Andrew, so much for those very kind words and you've been a true leader in really taking the lead in corporate Australia in encouraging diversity in all its forms. I'm certainly very grateful to you for your support of me on this amazing journey. It's certainly been a privilege being part of Fortescue's journey for almost a decade and I've seen Fortescue continue to go from strength to strength, and certainly the 2022 financial year was no different with another year of outstanding performance.

I am truly excited about the future and being Global Green Ambassador is just such a privilege but it's no secret that our success would not be possible without the hard work and dedication of our people. This isn't about one person; this is about thousands of people who show their commitment every day to our strong culture and values, and I again thank them for their contributions and our outstanding set of results. So, thank you everyone, thanks for joining in. Stay safe, take care, and we'll see you soon.

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

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