



Quarterly Production Report

March 2021

Investor and Analyst Call transcript

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29 April 2021

Company: Fortescue Metals Group Ltd
Title: March 2021 Quarterly Production Report (Analyst Call)
Date: 29 April 2021
Time: 11:30 AWST / 13:30 AEST

Start of Transcript

Operator: Thank you for standing by and welcome to the Fortescue Metals Group March 2021 Quarterly Production Report analyst call. All participants are in a listen only mode. There will be a presentation followed by a question and answer session. If you wish to ask a question, you will need to press the star key followed by the number one on your telephone keypad. We ask that you limit your questions to two per turn. Please requeue if you wish to ask further questions. I would now like to hand the conference over to Ms Elizabeth Gaines, CEO. Please go ahead.

Elizabeth Gaines: Thank you Rachel and good morning or afternoon everybody and welcome to Fortescue's March 2021 Quarterly Production Report. Joining me today in Perth is Ian Wells, Chief Financial Officer and I'm also delighted to welcome Jeffrey Farrell who joins us as CEO for a day. Jeffrey is a proud Malgana/Wilinyu man who joined Fortescue as a boilermaker at Christmas Creek in 2014 and has since progressed to his current role as a Live Work Reduction Specialist, and that is a newly created role with a focus on safety in mobile maintenance using technology and innovation.

Jeffrey is passionate about mentoring Aboriginal youth and has dedicated much of his life to driving change within the community, regularly speaking at various events for the past 19 years about his career journey, in addition to volunteering with the Clontarf Foundation, and Jeffrey credits his involvement in Fortescue's Leadership and Excellence in Aboriginal People, or LEAP Program, as vital to his career growth and it's great to have you with us Jeffrey.

Jeffrey Farrell: Thank you Elizabeth, happy to be here.

Elizabeth Gaines: So that brings me to our third quarter results and as you can see from today's report, the Fortescue team's strong performance has continued during the quarter across our key metrics of safety, production and cost, despite the significant impact of wet weather during the period.

As always, I'd like to take a moment to talk about safety and as the lockdown over last weekend has reminded all West Australians, we are still in the midst of a global pandemic and Fortescue maintains our robust COVID-19 management protocols to ensure that we can continue to operate safely. In response to the latest lockdown, we responded swiftly to protect our team members, their families and our communities. Working closely with all relevant authorities, we continue to take every precaution to ensure COVID does not impact our operations.

A highlight of the quarter was our Total Recordable Injury Frequency Rate, or TRIFR, of 2.2 at 31 March 2021 compared to 2.4 at 30 June 2020, which is an improvement of 8 per cent, and importantly we continue to see a downward trend in the severity rate of injuries. Hazard identification was a focus during the quarter and the successful introduction of the 'Identify Then Rectify' program in March has now seen over 600 ideas submitted from across the business to assist us on our journey to zero harm.

Significantly, the Fortescue family celebrated a key milestone during the quarter, with our 1.5 billionth tonne of ore loaded onto the ore carrier FMG Grace in late March. We were very pleased to welcome Prime Minister Scott Morrison to our Christmas Creek operations earlier this month on his first ever trip to the Pilbara, where he was able to celebrate this milestone with our team members. In particular, we welcomed the statements from the Prime Minister during his trip to Western Australia, recognising the importance of the state's mining sector's contribution to the Australian economy, especially through the COVID-19 pandemic.

So, moving to our operational performance for the quarter, Fortescue's strong results in the first half of FY21 has been sustained during the quarter, with shipments of 42.3mt contributing to a record shipping performance for the nine months of the financial year of 132.9mt. Despite significant rain events across our operations, the team achieved a record third quarter performance for all mines, and there is healthy run of mine stocks across the business.

Our operations clearly benefited from the transition and ramp-up at Eliwana, which has also contributed to the strong performance of our OPFs, where ore processed of 44.6mt was also a record for a third quarter. Consistent with the mine plan, the strip ratio was 1.3 in the March quarter.

The C1 cost of US\$14.90 a wet metric tonne was 16 percent higher than the previous quarter, and that reflects seasonally lower volumes and the strength of the Australian dollar. Our focus remains on the ramp-up and integration of the Eliwana operation, which is performing well; while we also continue to pursue productivity initiatives in OPF performance, as well as mining fleet reliability and availability, and rail system capability across our entire operations.

Ian will talk to the balance sheet, but I did want to highlight that cash on hand was US\$3.6 billion and net debt was US\$1 billion at 31 March, and that's after the payment of the US\$3.5 billion interim dividend in late March.

Turning to the market, steel production in China remains at record levels, with output of 271mt in the first quarter of calendar 2021, and that is an increase of 15.6 percent from last year's COVID impacted levels. During that same period, we have seen ongoing strong economic activity supporting robust steel demand, and that's evidence in the steady draw down of steel inventory over the past two months.

That strong demand, coupled with environmental-related production curtailments in Tangshan, have contributed to a sharp increase in steel mill margins, and we continue to expect these curtailments will be offset with production increases elsewhere in China, given China's latent steelmaking capacity and the strong demand environment.

Iron ore inventories at Chinese ports has increased modestly this calendar year, rising to 133 million tonne last week, but that has been offset by a reduction in floating stocks, with overall stock levels largely unchanged. Demand for Fortescue's products remains robust, and we achieved average revenue of US\$143 a dry metric tonne for the quarter, and that is an increase of 17 percent over the previous quarter, and a realisation of 86% of the average Platts 62% index.

We expect government policy in China to remain supportive of steel demand through 2021, with a focus on promoting domestic consumption and sustaining investment, and pleasingly economic indicators outside of China continue to improve, supporting the recovery in these steel markets. As always, we continue to seek opportunities to optimise value through our fully integrated operations and marketing strategy and as we adapt and respond to the market.

So, turning to our major projects, and the technical and commercial assessment of the Iron Bridge Magnetite project commenced during the quarter and is scheduled for completion in late May 2021. Key areas of focus remain on an assessment of the concentrate transport solution, utilisation of Fortescue's port and rail infrastructure, our contractor strategy and selection, and the logistics infrastructure for the delivery of modular components through Port Hedland.

Critical path works at Iron Bridge have continued through this period including pouring concrete footings for both the wet and dry plant, civil works in preparation for structural mechanical piping and deliveries of major process equipment. Approvals for the construction of the Modular Offloading Facility at Lumsden Point at Port Hedland have been received and that debottlenecks the shipping logistics and supports the project schedule.

On our energy projects, commissioning activities are underway at the Chichester Solar Gas Hybrid project, with energisation expected this quarter, this project is a significant contributor to our pathway to decarbonisation and once operational, will displace around 100 million litres annually of diesel currently used at our Chichester Hub operations.

The Pilbara Energy Connect project is also progressing well and at the end of the quarter, over 440 of the 800 foundations for transmission poles for Stage 1 are complete, 330 poles are stood and 60 kilometres transmission line has been installed.

So, I also want to provide an update on heritage management, and as you would be aware, in February, Fortescue became aware of a potential heritage non-compliance during the clearing of top soil and vegetation related to the construction of the Queens Valley Hydraulic Barrier Wall project. The purposes of this barrier wall is the protection of culturally and environmentally significant permanent pools downstream in Weelamurra Creek, and in fact, this is Australia's largest single site environmental and cultural protection project.

Through an administrative error by Fortescue, representatives of the Wintawari Guruma Aboriginal Corporation were not provided the opportunity to monitor top soil clearing and to undertake a cultural salvage of the area. This incident was self-reported by Fortescue to the Wintawari Guruma Aboriginal Corporation and the Department of Planning Lands and Heritage, with all works paused to allow a full investigation into the matter. Now with the agreement of Wintawari Guruma, works will shortly recommence with two Eastern Guruma representatives on site to monitor the activity.

This month, Fortescue also facilitated a site visit at our Solomon operations by four members of the Federal Parliament's Joint Standing Committee on Northern Australia, hosted by Eastern Guruma elders. Committee members visited two protected heritage places of cultural significant to the Eastern Guruma people, as well as Weelamurra Creek, and in line with our commitment to identify and protect places of cultural significance, heritage surveys and consultation continues with our Native Title partners, as we work together to collectively manage the ongoing effects of COVID-19 restrictions.

On that, I'll hand over to Ian for a finance update.

Ian Wells: Thanks, Elizabeth and hi, everyone. As you have heard, the March reporting period was another solid quarter for Fortescue, delivering strong operating performance and cashflow generation through operating costs and capital discipline. This is achieved by focusing on the things that we can control, which is of course, safety, production and cost. That is enhanced by having an integrated planning process to support our operations and marketing strategy.

So firstly, on revenue, the iron ore market has continued to strengthen, and as you heard from Elizabeth, our average realised price increased by US\$21 quarter on quarter to US\$143 per tonne. That represents Fortescue's highest quarterly revenue in dollar terms since Q1, FY12.

This represents a realisation of 86% of the Platts 62% Index of US\$167 for the quarter. That is consistent with the average that we have achieved over the last nine quarters now, which is an average of 87%. It's worth noting that that's lower than the 90% achieved in the first half and that's principally reflecting iron ore market dynamics which are driven by an increase in steel mill profitability.

Our integrated operations and marketing strategy and focus on direct customer engagement means that we continue to be well placed to deliver on our customer's needs and maximise the value of our product portfolio and resource base.

On costs, our Aussie dollar C1 spend was consistent quarter on quarter and when reflected in US dollar terms, that was impacted by seasonally lower volumes and the 7 percent increase in the Aussie dollar exchange rate, which averaged 77 cents in the quarter.

That's consistent with the guidance that we've provided with year-to-date C1 costs at US\$13.45 per tonne and looking ahead, our FY21 C1 cost guidance remains unchanged at a range of US\$13.50 to US\$14.00 per tonne, with the Eliwana costs expected to impact in Q4.

So now turning to the balance sheet, and our strong free cashflow generation is evident during the quarter and we took the opportunity also to further optimise our debt capital structure. Cash on hand was US\$3.6 billion at 31 March 2021 and that compares to US\$4 billion at 31 December 2020.

That 31 March cash balance is after the payment of US\$3.5 billion for the interim dividend. That was of course A\$1.47 per share and we also re-invested US\$909 million of capital expenditure back into the business. That's consistent with our capital allocation strategy of re-investing in the business, returning capital to shareholders and also investing in growth.

Gross debt was US\$4.6 billion at 31 March 2021 and that compared to US\$4.1 billion at 31 December 2020. The change is due to the successful issue that we did in March of 10 year, US\$1.5 billion Senior Unsecured Notes, which had a coupon of 4.375%.

The use of proceeds of the Note includes US\$1.25 billion to re-finance our higher cost 2022 and 2023 Notes. They have got an interest cost of about 5 percent. So, after transaction costs including the redemption premium, we will have added cash to the balance sheet of approximately US\$160 million.

So, at 31 March, we were partway through that redemption process, which is scheduled for a completion by 30 June 2021, when our gross debt is expected to be around US\$4.3 billion. The Note issue further optimises Fortescue's debt capital structure by re-financing our earliest debt maturity, materially extending the maturity profile and at the same time, reducing our overall cost of capital. That is all consistent with our stated strategy of proactively re-financing debts prior to maturity.

Capital expenditure, year-to-date capex is US\$2.8 billion and today we revised up our full year guidance to a range of US\$3.5 billion to US\$3.7 billion. That reflects the ongoing strength of the Aussie dollar, continuation of critical path works at Iron Bridge and includes approximately US\$100 million of capital investment by FFI in decarbonisation projects.

So in closing, we remain really well positioned to have a strong end to the financial year and that's supported by our balance sheet strength, liquidity and capital discipline. Consistency of performance is really important to us and we pride ourselves in doing what we say we are going to do and focussing on the things that we can control, maintaining operating and capital spend discipline to optimise margins and that delivers returns to shareholders. On that note, Elizabeth, back to you.

Elizabeth Gaines: Thanks Ian, and against the backdrop of this strong performance, Fortescue also announced some industry leading targets to achieve carbon neutrality by 2030. We know that to achieve the targets set by the Paris Agreement, the broader energy transition needs to happen far more rapidly than the middle of this century.

In the last week alone, we've seen the US double its commitment, pledging to reduce its admissions by at least 50% by 2030 and Japan has also upped its commitment to curb emissions by 47% by 2030 compared to its previous commitment of 26%.

At Fortescue, we want to be a global leader in the battle against climate change and we have set out clear short-term priorities for our pathway to decarbonisation. These include key initiatives across shipping, haul trucks, drill rigs, locomotives and green iron.

Through Fortescue Future Industries, we're actively pursuing opportunities to drive the transition away from fossil fuels, harnessing the world's renewable energy resources to create new green industries. We're advancing projects globally and across Australia to build capability in new technologies and develop large scale renewable energy and green hydrogen production capacity.

So, in closing, our guidance for FY21 shipments and C1 costs remain unchanged with iron ore shipments in the range of 178mt to 182mt, C1 costs in the range of US\$13.50 to US\$14.00 per wet metric tonne, and as Ian has just described, capital expenditure has been revised to a range of US\$3.5 to US\$3.7 billion.

So it's been another outstanding quarter for the Fortescue team and as always, I want to thank all of our employees, contractors and suppliers for their commitment to the business. Against the backdrop of the record performance in our iron ore business and our clean energy focus, we are well placed to finish the financial year strongly as we continue to meet demand from our customers and deliver value for all of our stakeholders.

So, thank you, I'll hand back to Rachel just to facilitate Q&A. Rachel.

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. As a reminder, we ask that you limit your questions to two per turn. Please re-queue if you wish to ask further questions. Your first question comes from James Redfern from Bank of America. Please, go ahead.

James Redfern (Bank of America): Good morning, Elizabeth. My first question is just around Fortescue's internal view on Chinese steel margins and therefore the implications for price realisations for low-grade iron ore products. I'm just wondering how you're thinking about steel margins in China potentially normalising from the current record highs and then the impact on price realisations for low-grade iron ore. Then I've got one other question after that, please. Thank you.

Elizabeth Gaines: Thanks, James. Look, as we have seen on the market and looking back over time, this is a cyclical market, but we have had nine quarters in a row with price realisation averaging around 87%, 86%, 87%. Our view on steel margins is that they are currently at elevated levels. That's a function of some of the environmental restrictions, I guess we'll wait and see whether there are other restrictions introduced but we are very focussed on staying close to our customers, delivering our quality products and keeping our costs low so we generate strong margins, regardless of that cycle. We need to go back to 2018 where spreads and prices were at their peak. We were still generating strong cash margins. So rather than trying to predict what steel margins are going to do, which I think is difficult for anybody, we actually just stay very close to our customers and continued to deliver and optimise value across our entire integrated operations and supply chain.

James Redfern (Bank of America): Okay, thank you. The second question is just in relation to capex guidance. Slight increase to US\$3.5 billion to US\$3.7 billion through the FY21. I'm just wondering, in terms of breakdown of that capex, please, how much capex is going to be spent by FFI in FY21? Thank you.

Elizabeth Gaines: Ian, do you want to touch on that one?

Ian Wells: Yes, so James, that was the US\$100 million that I called out in my commentary. So, if you look at our previous guidance of US\$3.4 billion, US\$100 million of it is accounted through the FFI investment and then the balance of the range is really Australian dollar impact and we're also calling out specifically the critical works that is ongoing for Iron Bridge as part of it. So that's the key elements.

Ian Wells: Sorry, the other point to note is that for FFI, that's capital. There's obviously operating costs within FFI which we've previously spoken about as well.

Operator: Thank you, your next question comes from Paul Young from Goldman Sachs, please go ahead.

Paul Young (Goldman Sachs): Yes, hi, Elizabeth and Ian and team. Hope you're well but just continuing on the capex discussion, maybe a question for you, Ian. Just that breakdown again? So capex guidance has gone up by US\$300 million to US\$500 million. US\$100 million is FFI. I think you've previously stated that the FX at A\$0.76, A\$0.77 is

probably another US\$100 million. Just trying to understand the balance there, US\$100 million to US\$300 million, is that associated with the port solution that Elizabeth mentioned, also, with any contract cancellations around Iron Bridge?

Ian Wells: Yes, Paul, it's kind of all of the above and you'll recall when we updated guidance in February, we changed C1 from a range of US\$13.00 to US\$13.50 to US\$13.50 to US\$14.00 and on capex, we previously had US\$3 billion to US\$3.4 billion and we said to the upper end of that range on capital. So we've updated that because capital is a bit different to C1 insofar as capital's quite lumpy - you're incurring costs at the time and the FX is at the time whereas operating costs is more of an average. So it's FX associated with the last quarter but we're now in a position where we know what we've spent. We spent US\$2.8 billion year to date and that's not going to change. There's no one single item but yes, the investments that we spoke about at the port, the Iron Bridge critical works but then also the rest of the business as well, which all adds up to our estimate of that US\$100 million to US\$300 million.

Elizabeth Gaines: Paul, I wouldn't interpret that as there's a significant contribution for the cancellation of the contracts. In fact, it's a very small number of contracts that were terminated. Some were suspended while we conduct a review, others were partially suspended but we're continuing to work with our contractors and that's not a significant contributor to that change in guidance.

Paul Young (Goldman Sachs): Okay, great. Thanks for that. Second question is on your realisations. A few points. I mean, you would have received I think a small provisional pricing benefit or tailwind during the period and also, you said your realisation is more on a monthly basis, which were pretty strong in January and February. So I'm just trying to understand why realisations actually drifted so much, even though it's a great price, I understand that, so much in the quarter versus last quarter. Was that due to some underlying change in your product quality or has it really been the forward-looking outlook for steel mill margins considering the steel mill margins only really picked up in late February and into March?

Elizabeth Gaines: Well look, Paul, provisional pricing wouldn't have had a major impact because the number of open tonnes is actually at quite low levels. There would have been some small contribution but it is not a significant contributor to overall pricing.

I think we are looking at months that are seasonally impacted so are lower in terms of shipments and we look at the overall blend of products and that's where it's landed. It's certainly nothing to do with product quality, we're still engaging with the same customers. We're still delivering our products, we're responsive to the market, we do set our discounts on a monthly basis and that's a function that we see through there but there's certainly nothing to indicate anything to do with product quality.

We had good visibility in terms of pricing dynamics because we now have Fortescue Trading Shanghai so we get good visibility in terms of port prices and some of the demand fundamentals across a broader customer base and not just the big steel mills but also the smaller steel mills as well. So there's nothing to read into that price realisation.

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

Lyndon Fagan (JP Morgan): Thanks very much. The first one was just on costs. You called out that Eliwana costs impact the fourth quarter a bit more. I'm just wondering if you could maybe expand on that and talk about when we actually normalise back to a steady run rate and what that looks like. How much of the costs that you've reported are one-off or due to the tie-ins and ramp-up? That's the first one, thanks. I've got another one after that.

Elizabeth Gaines: Well Lyndon I might start. I'm sure Ian will want to add to that. But as Ian mentioned actually our quarter on quarter Australian dollar costs were largely the same. In fact Q3 was a little bit lower than Q2. So in Australian dollar cost terms there's no one-off costs or anything else that's influencing that cost performance. It is actually seasonally lower volumes and the strength of the Aussie dollar. If you go back to Q3 last year our costs also

went up – Costs went up by 6%. So, the seasonally lower volumes obviously have an impact on cost performance in the period.

In fact, the Aussie dollar weakened in that quarter compared to the previous quarter. So this is a fairly usual seasonal trend. There's no sort of one-off items that are influencing that cost performance. But when you've got an Australian dollar averaging \$0.77 in the quarter that does have quite a big impact - I mean the flip side of that is we're seeing very strong revenue obviously because the strength of the Aussie is a function of the strength in commodity prices. So we're seeing a benefit through the revenue line as well.

Ian Wells: So, Lyndon the point of calling out Eliwana in the fourth quarter is because Eliwana's impact in Q3 wasn't great because the tonnes produced versus sold were quite different. So we built up some inventory as you would expect. So as that inventory is sold in Q4 the Eliwana tonnes will have a more material impact. That's part of our full year guidance. You've got tonnes which is disproportionate to the cost of production because you're in a ramp-up. So on a per-tonne basis they are not going to be at the long run until we're at annualised production of Eliwana producing at 30 million tonnes.

So, you get the diseconomies of scale - it is the wrong terminology - but you'll get a disproportionately higher cost of production for Eliwana. There is a little bit of an impact in Q3 but more materially in Q4 as we increase throughput in Q4 and by the end of Q4 we'll probably be at run rate. But until you've had some months of production at 30 million tonnes, you going to have that disproportionate cost per tonne coming from Eliwana.

Lyndon Fagan (JP Morgan): Great, thanks for that. The next one was just on discounts. I'm wondering what you're seeing in the market at the moment. When I look at the Super Special Fines price and Fortescue Blend fines price it looks like the discounts peaked out in February and actually where we stand today is the best price - or the best discount I should say - for those products that we've seen all calendar year, something like 10 percent on Fortescue Blend and less than 15 percent on Super Special Fines. So I'm wondering if that's what or if in fact those reported prices are correct and whether you can make some comments around whether the discounts in this quarter are actually less than what we've just reported. Thanks.

Elizabeth Gaines: Yes, I think we're certainly seeing that there is a response to some of those changing dynamics. We have responded accordingly. I'm not quite getting the math on that Lyndon. We monitor obviously port prices, and as I said we're getting good visibility on actual port prices – sorry I'm not sure what prices you're looking at. Sometimes there can be a bit of a difference between seaborne prices versus port prices. So, we monitor closely both. We set our prices accordingly. But I wouldn't have said that this was the highest pricing currently. But I mean clearly, it is in terms of realised price because of the strength of the benchmark.

Ian Wells: There is a difference between the spot price at any point in time, and the month average. As we spoke about earlier, discounts are set preceding the month and then it's a function of the 62% Index. So, a word of caution on looking at other indexes is that they're not always representative of our price because we price off the 62% Index which of course is nothing new, but just a reminder.

Lyndon Fagan (JP Morgan): Yes, I was just looking at the Mysteel data. Maybe I need to check on that. But thanks very much for that.

Ian Wells: It's a fair point Lyndon. We would question that conclusion as well and we're closer to it than you, so it's a fair comment.

Lyndon Fagan (JP Morgan): All right, great. Then any quick comment on the Tassie FID for green ammonia just to sneak another one in, if I may?

Elizabeth Gaines: Yes, we'll let you off. Look the studies work is continuing Lyndon. We didn't call out a specific update because it's continuing as we had previously disclosed. So we're in the studies phase with the view that we achieve FID this calendar year. But there's a lot of work underway. The team are progressing that well and getting involved in earlier contractor engagement on that also, as part of studies work.

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

Robert Stein (CLSA): Hi Elizabeth, these are nice mining results considering the weather up in the Pilbara at this time of year. Just hate to flog a dead horse but a question on capex. So in terms of - I guess you've spoken a little bit about the FX impact. How do you perceive the high steel prices impacting what you - sort of provided the update you provided to the market last quarter on where you expect Iron Bridge to come out. Are we expecting to see that materially change due to the increase in steel prices?

Elizabeth Gaines: Robert, look I'll deal with that one because we are undertaking the review. We're not going to selectively comment on Iron Bridge. We do need to do all the work. That includes assessment of pricing and all those other aspects of it. But we haven't completed that review, and it wouldn't be appropriate to comment on that at this point in time.

Robert Stein (CLSA): Fair enough. Then the other question around spreads, we've sort of talked about it a little bit. But I was just wondering if you could comment on the exit rate that you guys were seeing in March and what would be appropriate to look forward in the quarter, Q4, given that as I think has been stated on the call, that the spread has widened quite materially throughout that quarter?

Elizabeth Gaines: Yes, we only disclose on a quarter basis. So it is a dynamic environment. The only indication we can consistently keep repeating is that we've had nine quarters at 87% or 86% of realisation. The market does go through cycles and we're staying close to the market. But we don't comment on the specifics, we just report our realisation on a quarterly basis.

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

Kaan Peker (Royal Bank of Canada): Thanks for taking my question. The first one really is around the Iron Bridge JV - in the quarterly Baosteel wasn't mentioned as part of the Iron Bridge JV. Should we read into this and can you please remind us how much Baosteel is expected to contribute to Stage 1 and Stage 2 of Iron Bridge capex?

Elizabeth Gaines: Ian did you want to touch on that?

Ian Wells: As you know the way that the joint venture is structured is that Fortescue and Baosteel own 69%, Formosa own 31% and then of the 69% Fortescue owns 88% and the balance is owned by Baosteel. So I guess that's a matter for us to discuss. You can do the math on what that would be, but I guess the joint venture arrangements and the shareholder agreements associated with that means that funding calls get made and whether they participate or not will be a function of the process that we're going through. We're about a third of the way or so through the project. I guess you can do the math as well as we can on what that might be. That's a question for Baosteel rather than us. It's not for us.

Kaan Peker (Royal Bank of Canada): Sorry but is there sort of a drop-dead date where a contribution has to be made?

Elizabeth Gaines: Only when there's actually a capital call. So at the moment we're in a review phase. Only at that point in time when there is a call on that on contributing capital.

Kaan Peker (Royal Bank of Canada): Sure, thanks. On that second just wanted to see if you could provide some sort of detail around how Eliwana's volumes impacted this quarter's product mix, if any. It looks like a bit of extra West Pilbara Fines were produced and a little bit of less Fortescue Blend.

Elizabeth Gaines: Well, Eliwana's contribution during ramp-up, is actually Fortescue Blend. But during this time, as we've been commissioning and there's been good processing at Eliwana and a healthy level of stocks, that really that is Fortescue Blend grade material.

Kaan Peker (Royal Bank of Canada): As Eliwana picks up we should expect a little bit more Fortescue Blend coming through the mix?

Ian Wells: So, the first mining area, Kaan just to be clear, we've said for some time that it contributes to Fortescue Blend. So I can't remember if it was six or 12 months where that's the case. So we've got that ahead of us. So that's sort of going to be - as we sit here today more like FY23 realistically than FY22.

Elizabeth Gaines: Contributing to volumes of Fortescue blend.

Ian Wells: WPF is more like FY23, realistically than FY22.

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

Hayden Bairstow (Macquarie): Yes, thanks guys. Just a couple from me. Firstly just on the product mix. I mean obviously discounts are what they are. With the prices as high as they are the dollar per tonne numbers are quite significant. I just want to understand how you're thinking about maximising value versus maximising the EBITDA per tonne which was always the measurement we used to look at previously.

Then just on FFI, is there sort of a rough idea about how much of the spend over the next six, 12 months or whatever, is actually just on projects directly relating to the iron ore business, so the batteries and the trucks, the drill rigs and all that sort of stuff and how much of it is more looking towards future industry stuff but not directly going to benefit the iron ore business. Thanks.

Elizabeth Gaines: Well maybe I'll tackle that last question first Hayden. Look I think in the context of FFI, obviously there's a lot of focus on the initiatives we've got underway that will greatly benefit the iron ore business. So a large proportion of that is around our decarbonisation initiatives that we've obviously called out, the battery technology for the mining haul fleet, drill rigs, locomotives. We've got a locomotive and a couple of large haul trucks out at our facility on the outskirts of Perth. There's work underway already on the trials and trialling that technology. So that's a large part of that activity. There are other aspects of it that are looking at investments in technology as well.

So not only actually the work on the conversion of the mining fleet but also some other investments that we think longer term will benefit the business. But we don't call out any specifics in terms of the breakup of that investment. But there is a very strong focus on the decarbonisation of our mining fleet and the offset benefits that will see through our cost base as we move forward. We are only going to achieve carbon neutrality across our operations if we actually accelerate those efforts.

The previous question, on product mix. I mean we're always looking to maximise value. We did have some significant weather during that quarter. There is absolutely no doubt, but we weren't the only ones impacted by that. We had product that was readily available that could be railed and shipped. We look to optimise that value in the current market by being agile and actually meeting those demands. So, we are focused on our overall margin and obviously keeping our costs low. As we've just talked about, there's the strength of the Aussie dollar, but we've also got the underlying strength in revenue, as well.

We're focused on value overall and how do we optimise value across our operations and deliver value to our customers and all of our stakeholders. So, EBITDA is important and by keeping our costs low, then clearly, we're still generating a very strong EBITDA margin. But we do look to optimise our existing product availability and make sure that we're shipping and delivering value to our customers.

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

John Tumazos (Very Independent Research): Thank you. Before the February announcements, we were estimating fiscal 23 output for Iron Bridge maybe 15 million tonnes, or two-thirds of design. Is it still reasonable to estimate output for fiscal 23 for Iron Bridge and should we be scaling it back?

Elizabeth Gaines: Well John, we do have this review underway at the moment. I really can't comment. At the end of that review we will give an update both on the capital outlook and also schedule. Obviously, we'll be able to give some greater clarity then around phasing and timing. But I can't give you an update today.

Operator: Thank you. Your next question comes from David Heath from Morgans Financial. Please go ahead.

David Heath (Morgans Financial): Yes, thank you. Congratulations on such a very strong performance over the last - since whenever. But look, I'm more of a retail client advisor, but just the question I'm being worried by with my clients is, is there any commentary you can make about the current political tensions between China and Australia?

Elizabeth Gaines: Yes David, thank you for your comments as well. Look, we obviously can't be complacent about and ignore those current tensions, although I do think that recently the Australian Prime Minister has called for a reset on the relationship between Australia and China and we do agree with that. But then subsequently there's been some further comments made. But as a business, we're obviously staying very close our customers through strong engagement.

Look, Australia has always been a nation that relies on trade and any opportunity we have to remind the Prime Minister or his ministers of that importance of trade, and I think they get that, particularly the mining industry. We've been a significant contributor during COVID. We've been able to continue operating. We've made a significant contribution to the national and the state economy. So, we continue to promote the importance of that trade relationship.

It's not just a one-way relationship for us. We sell iron ore, we procure product, our second-largest shareholder is a Chinese SOE steel mill. The reality is that 60 per cent of the iron ore that is imported into China comes from the Pilbara. We are a significant contributor to the steel industry. There is no alternate source of supply of that volume. I think we have demonstrated during COVID that we are a secure and reliable supplier, because other countries, like South Africa and other suppliers, have had their impacts from COVID and that's impacted on iron ore shipments.

So, we've maintained our supply throughout. I think that is recognised in terms of the importance of that supply. But we are very focused on promoting that importance of trade and I think there is a good understanding that trade and trade between Australia and China is important. But we stay very close to our customers and we really engage in a very multifaceted way to make sure that we have strong relationships with China, regardless of what the Federal Government might be doing.

Certainly, the State Government here in Western Australia have always promoted the importance of trade with China as well. So, we can't be complacent, but with 60 percent of iron ore coming from the Pilbara and it's very difficult to replicate that from any other market at the moment.

Operator: Thank you. Your next question comes from Rahul Anand from Morgan Stanley. Please go ahead.

Rahul Anand (Morgan Stanley): Hi, Elizabeth and Ian. Thanks for the opportunity. I did dial in a bit late, so apologies up front if some of the questions have been answered. Look, two from me. First one was around realisation. I'm mean, historically we've seen price realisation do a bit better than the 58% index. But for the quarter, the 58% index also averaged at about 86% and that was obviously QP would have been better, I would have assumed, first two weeks of the quarter were stronger than the previous quarter. Just wanted to get an update on how we should be thinking about that, especially when WPF is in the mix as well at this point in time. That's the first one.

The second is around costs. Aussie dollar terms, about \$19.30 this quarter, first two quarters was around \$17.60, so about a 10 percent increase. We're yet to see Eliwana come in into the next quarter and also the strip ratio is running below the average of 1.5 for the next five years at the moment. I was just trying to understand. I mean, have we established a baseline in terms of costs here? Is it fair to then say that costs should go up in the coming quarters and years? Thanks.

Elizabeth Gaines: Well, look, we'll provide an update on costs with the full year results, Rahul. In terms of costs, total Aussie dollars spend, quarter-on-quarter, Q3 versus Q2, Q3 was slightly lower. It's not unusual for Q3 to see an increase in C1 unit costs, given its seasonally lower volumes. Then underlying that we had the strength in the Australian dollar. So, we do now have Eliwana and Eliwana has transitioned to operations. We're seeing the benefit of the additional volumes, given our guidance for this year as well. You only go back a couple of years and we were around about 170mt. So, we're seeing the benefit of volume also.

In terms of realisation, again we don't guide on realisation. We've stayed very close to the customers and the market. We see good visibility through our trading entity in China, Fortescue Trading Shanghai. We're seeing good visibility, we stay current with the market. In terms of the average to the benchmark, I guess, that's not something linked to the 58% benchmark, not something that we actually monitor that closely, but we are staying very close, in terms of our quality of the products that we're delivering to our customers.

There's assumption and some of that's an assumption of product mix as well, but we have averaged over nine quarters of roughly 87% of price realisation. We know that this is cyclical. It is closely linked to steel mill margins and steel mill margins are currently at a higher level, but by being a low-cost producer, we're generating those very strong margins, regardless of where we are in that cycle. Ian, do you want to add something?

Ian Wells: Rahul, if you have a look at Q3 FY20, you'll see that our Aussie dollar costs are quite a bit lower. If you convert that back out on an Aussie dollar basis, same number of tonnes is actually lower, about \$20 back in FY20 and it's it at \$19 in Q3 FY21. But the exchange rate was, of course, was \$0.66 back then. But the point on costs, we called out US\$13.50 to US\$14.00 when we were at less than US\$13 for the half, so yes, the second-half costs were going to be higher, which is inclusive of Eliwana.

But, it's safe to say that it is harder to maintain the same level of costs when you've got natural mine life inflation. We've been talking about that for quite some time, in terms of a lot of our capital investment is to offset cost increases through conveyers and various things to offset natural mine life inflation. So, that's not getting any easier, is a point there.

Operator: Thank you. Your next question is a follow-up from Paul Young from Goldman Sachs. Please go ahead.

Paul Young (Goldman Sachs): Hello, Elizabeth and Ian, again. Now that Eliwana's ramping up, it's probably worth asking a question I've asked previously is what ramps down? So, Eliwana ramps up to 30 million tonnes a year. Obviously, you're maximising margins and by the different types of products. So, which operations will ramp down as Eliwana ramps up?

Elizabeth Gaines: Well, obviously, when we announced the FID on Eliwana, we talked about that as a replacement for Firetail. The benefit we're seeing now is additional ore bodies around Firetail, so we can continue to operate Firetail and

we're seeing the benefit of that though volume. So, if it was a straight like-for-like replacement, we'd probably still be at around 170 million tonnes.

So, we are seeing that benefit. Look, we continue to optimise value from our installed infrastructure. When we give obviously guidance for FY22, you'll get some indications of both volume and costs moving forward. But it's a good question, because originally that was meant to be a replacement, but we're actually seeing opportunities to continue to maximise that installed infrastructure at Firetail and that we're seeing the benefits of that through volume.

Ian Wells: If volumes keep increasing, obviously that has consequential impacts on mine plan sequencing, maintenance schedules and hub developments, and the next mining area developments and so forth. So, I think, your next question, to answer that in advance, Youngie, is we'll be able to give you some more visibility on that in July, as part of FY22 guidance. We're obviously deep in planning for that right now.

Paul Young (Goldman Sachs): Yes, okay. All right. Thanks, Ian. Next question's on FFI, US\$100 million is not a small amount of money to commit. So, curious is that just ordering long-lead items, is that going to OEMs, is that R&D? Is it all of the above? Then just on Bell Bay, what's the approval process like down there and what are the steps there? Also, any further thoughts about when this project could be ready to go to Board? Is it mid-year, is it late this year? Thanks.

Elizabeth Gaines: Look, I think on FFI and the items that you called out, it is literally all of the above. So, it is investment in technology, it's the decarbonisation work that we're undertaking, looking at some other acquisitions that are small by nature, but they add up. But the bulk of it is going into those decarbonisation initiatives. We did really ramp up in March when we announced our new goal to achieve carbon neutrality by 2030.

Our efforts around the future of the mining haul fleet, the drill rigs, the locomotives, ship design, I mean, all of that needs investment and also, looking at the future of green iron, as well. So, there's a lot of activity and that all comes at a cost. But I think the benefit for the mining business is that a lot of that US\$100 million is really focused on initiatives that will benefit us and our cost base, moving forward.

In terms of Bell Bay, we're in studies phase at the moment, we are going through a full approval's stage. We're working with the government, there's an election there I think this weekend and they've been in caretaker mode. So, once they come out of the election and we get closer to knowing how we're going to proceed with that project, then we'll work through that approvals process. The team obviously have been working closely with the government, but they, as I said, are going through an election. We would hope to achieve FID this calendar year, probably later this calendar year.

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

Lyndon Fagan (JP Morgan): Thanks. Look, just to expand on the Firetail discussion, where's the current bottleneck in the system? It sounds like it's not at the mines. I imagine it's the car dumpers at the port. But I'm wondering if you could maybe just give us a bit of colour on that and how much it is theoretically in total capacity. Then the next question is more of a market question. China's cancelled steel export tax rebates. I'm just wondering if you're able to share some initial thoughts on how that impacts the broader iron ore and steel markets. Thanks.

Elizabeth Gaines: So, touching on bottlenecks, I mean, it's fair to say, yes, the mines are operating well, we're seeing very strong OPF performance. We've added additional rail fleet, so, we're investing in rail capability as well. I think probably some of the port infrastructure is where we'll come up against some of those bottlenecks, but there are some plans associated with Iron Bridge around some amendments to port infrastructure as part of that project, which will alleviate some of those challenges, because we have to get ourselves ready, as we have planned to do, for a magnetite product as well.

So, we're very mindful of where that bottleneck is moving. Certainly, mines are performing well, rail is performing well and we're seeing some really good outload performance in recent weeks. So, we've got strong performance, but

obviously port is going to become an area of key focus for us. But we already have plans in place, given we have that approval to increase to material handling through the port to 210 million tonnes. So, we need to make plans to achieve that.

Ian Wells: The second question is on the Chinese export steel tariff changes.

Elizabeth Gaines: Yes, we don't see that there's much impact near-term, as that's been anticipated by the steelmakers. Obviously, we're seeing strong steel demand ex-China, given the recovery we're seeing there, as well. So, we're not seeing any short-term impact of those export tariff changes.

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

Elizabeth Gaines: Thank you, Rachel. Thanks everybody for joining us today. Obviously, we are very pleased with our Q3 performance and that sets us up very strongly for a good final quarter for FY21 and with continuing to deliver those strong results. So, thanks again. We'll look forward to speaking to you after the end of the June quarter. Thank you.

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

End of Transcript