



Target for carbon neutrality by 2030

Investor and Analyst Call transcript

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Start of Transcript

Operator: Thank you for standing by and welcome to the Fortescue Metals Group Carbon Neutrality by 2030 investor and 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 Ms Elizabeth Gaines, CEO. Please go ahead.

Elizabeth Gaines: Thank you Ashleigh and good morning or afternoon everybody and thank you for joining us to discuss today's important announcement. I am here in Perth with Fortescue's Chairman and founder, Dr Andrew Forrest AO, our Deputy CEO and also Chief Executive Officer of Fortescue Future Industries Julie Shuttleworth and Chief Financial Officer Ian Wells.

There is no doubt that climate change is the most pressing issue facing the planet today and to achieve the target established by the Paris Agreement, the broader energy transition will need to happen far more rapidly than the middle of the century. At Fortescue, we want to lead by example, which is why we are today announcing a revised target to achieve carbon neutrality by 2030, 10 years earlier than our previous industry leading target of 2040. Independent verification will be employed to monitor the Company's march to carbon neutrality and Fortescue will also incorporate these carbon emission targets into our formal remuneration structure, including short and long term incentives across the Company.

We have a proud history of setting ambitious stretch targets. And driven by our culture and values, our people stand ready to tackle this critical challenge. Our revised target is underpinned by a pathway to decarbonisation with planning well advanced and key projects identified including the decarbonisation of our mining haul fleet through large battery technology, trialling hydrogen fuel cell power for our drill rigs, trialling technology on our locomotives to run on green ammonia, development of a ship design powered by green ammonia and conducting trials to use renewable energy in the Pilbara to convert iron ore to green iron at low temperatures without coal.

These projects build on the industry leading initiatives that we have previously announced, including our US\$700 million investment in Pilbara Energy Connect and our Christmas Creek hydrogen bus trial, which will see the development of Australia's largest electrolyser to support refuelling of the bus fleet. Through these projects, Fortescue will demonstrate that major steel, truck, train, shipping and mobile plant industries can be operated with renewable, environmentally friendly energy, and each will be tested by Fortescue using commercial scale equipment and we will prove that demand for direct green electricity, green hydrogen and green ammonia will one day be as large as the current demand for fossil fuels.

Fortescue will move from being a major consumer of fossil fuel, with a current trajectory of over one billion litres a year of diesel being used across our operations if we do nothing, to a major clean and renewable energy exporter. Fortescue Future Industries will be a key enabler of this target through the development of green hydrogen and green ammonia projects in Australia and internationally. On that note, I would like to invite the Fortescue Future Industries Chief Executive Officer Julie Shuttleworth to say a few words. Julie.

Julie Shuttleworth: Thank you Elizabeth. I am privileged to be leading a highly talented and capable team. We are focused on harnessing the world's renewable energy resources to produce green electricity, green hydrogen, green ammonia and other green industrial products. Building on Fortescue's track record of developing large scale projects

and our proud history of leading through innovation and technology, we will ensure FFI is at the forefront of this emerging industry and position ourselves as the world's lowest cost producer of green hydrogen. We have identified renewable energy and green hydrogen projects exceeding 300 gigawatts of power across the globe, more than four times what Australia currently consumes.

Here in Australia, FFI is advancing projects to build large scale renewable energy and green hydrogen production capacity. This will expedite the substitution of carbon based fuel with green electricity, green hydrogen and green ammonia. These projects will, with the support of Australia's government, contribute to a significant reduction in national carbon emissions. FFI will take a global leadership position, driving the renewable energy and green hydrogen industry, powering the economy and creating jobs as we transition away from fossil fuels.

I will now hand over to Ian Wells for a discussion on the capital allocation framework.

Ian Wells: Thanks Julie and hi everyone. Let me start with a reminder of Fortescue's capital allocation framework, which comprises the four pillars of sustaining the business, maintaining a strong balance sheet, returns to shareholders and funding growth. Within our framework, we are committed to targeting the top end of our dividend payout policy which is 80% of net profit after tax and that is evidenced clearly by doing exactly that in FY2019, FY2020 and most recently, an 80% payout for our FY2021 interim dividend.

We recently stated that the balance will be allocated to growth, including 10% of net profit after tax to FFI. So that is capitalising the business and building on the significant and growing capability and asset base within FFI. It is also worth noting the rapid increase in value, access to capital and broader liquidity within the asset class.

Decarbonising our business is critical to sustaining our business and as Elizabeth mentioned, we already committed U\$700 million to the Pilbara Energy Connect program, which not only adds solar generation but it creates an integrated power network, enabling further renewable energy to be efficiently installed in the future.

Whilst we are not specifically guiding to capital estimates today, there are two key considerations. One is with relation to the stationary energy consumption: additional renewable energy and battery storage can be efficiently integrated into our existing network and that will benefit from the ongoing decrease in capital intensity and also the rapid technology development. And secondly with regards to decarbonising the mobile fleet, so that includes haul trucks and locomotives, where the investment timing will be strategically linked to the asset replacement cycle and also conversation.

Specifically on FFI, we have guided for annual expenses of US\$80 million to \$100 million for studies and we will advise on capital investments as projects are endorsed and as a reminder, any debt funding for FFI projects will be on a non-recourse basis.

Fortescue has a clear track record of disciplined allocation of capital over our history and there is no reason why you wouldn't expect that to continue. I will now hand over to Fortescue founder and Chairman, Dr Andrew Forrest, for final remarks.

Andrew Forrest: Thank you very much, Ian, Elizabeth and Julie. I am proud to work with you. This has really been quite a historical day. You've seen, ladies and gentlemen, from today's announcement that Fortescue and Fortescue Future Industries are demonstrating that our position to fill the massive gap of over 30% of global carbon emissions that are occupied and are not being addressed by global heavy industry. We intend to both provide the technology, the solutions and the capability for industry, not just to ourselves but around the world, to commercially adopt other energy sources and fuels that are totally free of carbon.

Through this commitment that you have witnessed today of carbon neutrality by 2030 of just one major industrial platform called Fortescue, FMG will both lead the way and encourage industry worldwide through providing first mover solutions to their particular business and of course humanity's enormous carbon challenge.

I know our team will act with integrity and by doing what we say we are going to do. This has always been at the heart and is the hallmark of Fortescue. To encourage this, we will have independent verification of Fortescue's march to neutrality, will structure our remuneration strategies to be accountable for its delivery and further, to firmly provide the solutions we uncover and the energies we create, at the lowest possible cost to the world, to the rest of global heavy industry.

We at Fortescue are trialling and demonstrating green electricity and green hydrogen and ammonia technologies at a global scale, in our own heavy industry environment and our own operating commercial environments, while simultaneously through FFI rapidly evolving into a global, green hydrogen and ammonia producer and major exporter. This translates to our core commitment to demonstrate both green hydrogen's economic value in our world scale operations while becoming a major green energy exporter to allow other heavy industry platforms to also go green. This translates to our core commitment to demonstrate green hydrogen's both economic value, in world scale operations, while we become ourselves a major green energy exporter through FFI.

This positions Fortescue as not only a thought leader and investor, but where we are unique in the world, as an executor of major green hydrogen and ammonia projects both within our operations and through production nationally and globally as an exporter. We aim to provide those two critical missing links in the world's battle against climate change, creating both a demand for and the supply of green hydrogen and green ammonia and direct green electricity to our own operations.

Our strong focus on green energy and our target to achieve carbon neutrality by 2030 sits alongside and very comfortable with our continuing excellence and commitment to our own iron ore business as well as our enthusiastic and committed participation in the development of the global resources sector. It is worthwhile observing that it was the calculation that our operating costs would fall when we obviated the need to continue being a rich in carbon fuel importer to being a zero carbon fuel exporter and consumer of that energy ourselves that would lead to an even more competitive operating cost structure than Fortescue already has, leading the world iron ore business.

I am so proud to say that Fortescue and FFI are showing the missing heavy industry leadership in green energy and green products with these first mover industry initiatives. The world is aware that hydrogen can replace coal in the production of steel and can convert hydrogen to ammonia to replace fossil fuel ammonia in production of fertilisers. We intend to drive these heavy industries as well as others through FFI and in so doing, lower the world's carbon footprint through every step of our activities. We will be addressing heavy road haul, heavy rail haul, heavy mobile equipment operations, shipping, major processing operations and of course, iron and steel, all with green energy and products. This is of course Fortescue's opportunity to lead but it is also the world's heavy industry opportunity to have a choice, a choice to replace its own operations with what their customers want and that is the power, their own production with carbon free fuel and products.

I will hand back to our facilitator for 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 speakerphone, please pick up the handset to ask your question. We ask today that you limit your questions to two per person. Should you wish to ask further questions, you may then re-join the queue. Your first question today comes from Hayden Bairstow with Macquarie. Please go ahead.

Hayden Bairstow: (Macquarie, Analyst) Morning all. Just a couple from me, firstly on the fleet replacement to the cycle and just I guess getting an understanding of how quickly we could start seeing some of this emerge on mine sites. Just what's the sort of replacement cycle at and when do we need this technology going so you can sort of meet those targets of hitting your fleet replacement cycle? I mean it is probably more the trucks I guess than the rail.

Then a question on the sort of capital allocation framework. I mean it's pretty hard I guess given where the iron ore price is to really get an understanding of how much money you could commit here. I mean if we were spot prices forever it's - I would imagine over a billion dollars a year but if that is the case for the next sort of two to three years, should we still be thinking about those numbers or is it likely to be a lower spend in the early couple of years and we could see additional dividends while we are sort of waiting to get all these sort of technologies lined up?

Elizabeth Gaines: Well let's start with the fleet replacement Hayden, and Ian might want to talk to the specifics but the good thing about where we are now and you know that we have been talking about this for some time. We talked about Project Roadrunner at the investor day late last year. This is something that has been on our radar. We have been exploring the future of haul trucks for some time and it does fit well with our replacement cycle where we will be making decisions in 2024 and 2025 for fleet replacement with our next big replacement cycle due in 2026. So, this timing works very well.

Obviously anything we can do to accelerate that we will, and I think the hydrogen buses is a good example of where we are trialling that technology. These buses are being designed for our operating environment, for the heat and the dust and we're working with our partners to make sure that we can trial that technology and test it in the Pilbara in our operating conditions.

Ian Wells: I think Hayden, the point on capital allocation is we have been very clear at targeting the top end of the range and 2.5 years of track record on that. So in terms of dividends, they are going to be a function of net profit after tax. We've been clear on capitalising FFI through 10% of net profit after tax and we are also committed to maintaining a strong balance sheet. So access to capital for FFI continues to improve. As I said in my introduction, access to capital, liquidity in the market and building FFI's growing asset base and capability is pretty clear.

Andrew Forrest: Hayden, hi it's Andrew Forrest. We haven't spoken in a little while, mate. I do remember in the early days of Fortescue, analysts saying well you can't have growth and income. You just can't do it. You just don't do it. It's not how it's done. You've got to commit to one or the other. Your question tends to lend a bit towards that old-fashioned thinking, Hayden. I believe we can have income growth and capital growth and that's exactly why we're doing FFI. The 10% of that NPAT is a pretty small allocation, but it's substantial in the next couple of years. It isn't intended to hit the up to 80% allocation of NPAT to dividends, and I think you'll see through FFI, which already has significant liquidity, an enormous asset base, and no debt, that you can have capital growth as well.

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

Robert Stein: (CLSA, Analyst) Hi. Just a couple of questions on I guess the economic viability clause that you've got in there. It would just be interesting to understand the internal carbon price deck that you're looking to set a floor under your expenditures to achieve net zero. Obviously, if you can invest at lower than that carbon price it would result in some economic value added, so just looking for an indication on that.

Then similarly, considering downstream changes to emissions profiles, noting that the net zero is around scope 1 and 2 emissions and the obvious asymmetry around scope 3 emissions being order of magnitude larger. Are you looking to invest downstream and then claim savings downstream against your upstream activities?

Elizabeth Gaines: Maybe I'll start, Robert, with the second question, on scope 3, and then perhaps Ian might want to talk about the carbon charge and the economic viability. On scope 3, what I think we've made clear is that in the past we haven't set a target for scope 3; we've been focused on scope 1 and 2 emissions, and that's aligned with our carbon neutrality goal by 2030, and there's a lot of activity underway, as we've just talked about, to reduce those emissions and achieve carbon neutrality by 2030.

But we're also doing a lot of work in the areas of shipping, for example, and in green iron. Those would contribute to an overall reduction in scope 3 emissions because obviously shipping at the moment is included in our assessment of

scope 3 emissions. We haven't set a target; we're not looking to - I think you were asking whether there's any credits. We are very focused on scope 1 and 2 but we know the work that we're undertaking, particularly in decarbonising the shipping fleet, will be a significant contributor to a reduction in scope 3 emissions as well.

Ian Wells: On carbon price. Carbon price is the same as a number of other investment analysis assumptions that are included. So, yes, of course we included carbon price and also, importantly, what may or may not happen with the diesel fuel rebate. It's a relative assessment but at the end of the day I think what we're talking about today is reducing emissions and the economic feasibility of that is one outcome, but we're talking about reducing emissions today.

Andrew Forrest: Robert, it's Andrew. Just to say that's pretty heavy duty thinking, talking about a carbon price. We have not as a Board considered that. Yes, a price on carbon will assist the world's march to a carbon neutral environment, but at Fortescue we haven't taken that into account. We're able to argue that we can lower our own operating costs by going green, as well as present our shareholders with very significant economic opportunities on that march.

Elizabeth Gaines: I think I'd also add, Robert, further to Andrew's point, is that this is actually about looking forward and seeing the risk that might come into the business which might include a levy or tax or some other sort of charge. It could include the removal of the diesel fuel rebate, for example, so we're doing a lot of work to actually mitigate some of that risk that could occur if we do nothing.

Operator: Your next question comes from David Radclyffe with Global Mining Research. Please go ahead.

David Radclyffe: (Global Mining Research, Analyst) Hi. Thanks, Andrew, Elizabeth, and team. My question is - or the first - in bringing forward the target, how did you become comfortable with now you're talking less than nine years to deliver, and some of the projects you mentioned, obviously not all, could take years of study, construction and ramp-up. What's changed over the last little while to bring this target forward?

Elizabeth Gaines: Well, David, I guess what's changed in the last nine months - we talked about 2040 when we set our goal in June last year - at the time we thought that was a pretty ambitious goal but what has become clear is that there is a greater sense of urgency, combined with the work that Julie and Andrew and the team have done on Fortescue Future Industries, we recognize that this is accelerating.

We were already doing a number of initiatives at Pilbara Energy Connect. We spoke about the decarbonization of our haul fleet. So, a number of initiatives are already in train; we're just accelerating those efforts because we think it is absolutely critical to set that goal, and it is an industry-leading goal, but that's less about positioning where we are in the industry; it's actually recognizing that we need to do this, and we need to do it by 2030.

Andrew Forrest: Yes. I would add to that we've become more and more comfortable with the technology, not only around decarbonising our own operations but decarbonising others such as the massively carbon-emitting fertiliser and steel and shipping industries. As we've become comfortable with our capability to produce hydrogen and to produce green ammonia if we wish from that hydrogen, it's ratcheted up our confidence that we can apply these benefits firstly to our own operations and then undertake a significant commercial opportunity by supplying those benefits to heavy industry around the world.

David Radclyffe: (Global Mining Research, Analyst) Okay, thanks. Well, maybe a follow-up then. If we look at the emissions last financial year, they were in the order of 2 million tonnes and you're going to add to that Ironbridge, so a little bit over 2 million tonnes, assuming all things are equal. With these projects you've really quite briefly mentioned here, are you able to give us an idea of what the key ones are and the associated volumes of offset they could represent?

Elizabeth Gaines: We can follow up with some more detailed specifics, but we've already made it clear in terms of the work that's underway in Pilbara Energy Connect and adding large-scale solar and the gas transition at the Chichesters that that contributes to a reduction of 25% to 30% of emissions from stationary energy, which is a significant part of our overall emissions profile.

The mobile fleet, for example, the haul fleet represents probably 25% of our overall emissions, so finding a solution to decarbonising the haul fleet is a significant contributor. Then obviously, the other big emitters will be rail and the other parts of our ancillary equipment. So, everything is on the table but that's where we'll see these emission reductions achieved.

Andrew Forrest: Yes, and I'd back that. While you would never rule out offsets, it's not what we're planning. We walked through a list of heavy-haul rail, heavy-haul road, shipping, fixed plant, processing, and of course into green iron and steel. We're not leaving anything out.

Operator: Your next question comes from Emily Whelan with UBS. Please go ahead.

Emily Whelan: (UBS, Analyst) Hi, team Fortescue. Thanks for having the call today; it's been really informative and great. I just have two questions around the new targets you've set. The first one is you called out independent verification of your movement towards these targets. Can you give us a little bit more detail about how that actually is going to assist you in moving to cover neutrality? Then the second one is just about the change in incentives to suit this new target, just some more information on that, and clarification, would be great. Thank you.

Elizabeth Gaines: I think in terms of the independent verification, Emily, we already verify our emissions profile every year, so we've been reporting against that, and we have independent verification and good monitoring. We'll be able to apply the same principles and use that data, and I think, importantly, we've got the ability to also forecast our emissions profile depending on various aspects of energy usage.

So, a combination of that activity, but we already have that independently verified, and that's part of our annual reporting suite. Of course, any data that we collect and any data that enables us to forecast as well will contribute to our overall reduction in emissions.

Andrew Forrest: Yes. In terms of accountability and responsibility for delivering, we do want to remunerate Fortescue on the basis of turning green, as well as providing that responsibility to everybody, like the verification of our march to carbon neutrality on a transparent basis.

What we're saying is that the transparency of both incentivising and holding accountable our leadership to meet our targets as well as show the world we are meeting our targets is both important from a Fortescue perspective, but probably equally if not more so important from a global perspective, that heavy industry can turn green while protecting its bottom line. It isn't necessarily one or the other. If we do this right, we can absolutely do both.

Elizabeth Gaines: I would only add to that whilst obviously the announcement today will add to that overall incentive framework, we already have key performance measures against our existing target and against some major projects, like the Pilbara Energy Connect project, for example.

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

Paul McTaggart: (Citigroup, Analyst) Good morning. In your release you're saying that you're undertaking to deliver several key projects by the stretch target of 30 June '21 and that includes developing a ship design to use green ammonia, testing large battery technology in haul trucks, et cetera. So you must be quite some way advanced in this, so I wanted to get an understanding of where you are with some of these projects, who you're working with. If you're

designing new ships and engine technology you must be working hand in hand with other large-scale engine manufacturers. Maybe we can get a bit more detail on where you're at with these technical developments, please.

Julie Shuttleworth: It's Julie here. Regarding the haul trucks, this work has been underway for some time, developing the large-scale batteries, which are world first. That testing is underway, and we'll also be doing some additional testing here in Perth on that. With the drill rigs and we've got our own team working on that research and development, which is well underway. Regarding the shipping, we have been working with research and development partners such as CSIRO and doing that testing ourselves in partnership with them and our own team is designing the ships that can take these green ammonia engines.

Regarding the green steel, we have got a lab-proven concept underway with small-scale trials and we'll have results from them by 30 June this year. This will focus on the electrochemical reduction of iron ore at low temperatures without coal and we'll be scoping up a pilot plant to test that technology as well using the Pilbara's renewable energy. So, the range of projects has been underway for some time. The testing of those is ramping up to meet the 30 June stretch target, and we'll be able to make decisions thereafter.

Andrew Forrest: Yes. I'd only endorse that, that a lot of this work has been underway for over a year. Now that we're becoming more and more confident about it, we should share with you that we have been working towards a 30 June target and we're feeling more and more confident we can meet it, so we've gone public about it, but they are still big stretch targets, but this work has been underway for over a year and we're now disclosing it.

Elizabeth Gaines: Paul, I'd only add to that as well is that we've talked for some time about our partnership with the CSIRO. We announced that at the end of 2018, from memory, looking at metal membrane technology. This is something that we've been studying and undertaking quite a lot of work on over a period of time now.

Whilst to Andrew's and Julie's point, these are stretch targets but there's a lot of work underway and I think that's evidenced as well by our hydrogen bus trial and with those hydrogen buses due to arrive here by the end of this year. There's a lot of work underway in that decarbonisation effort.

Julie Shuttleworth: One of the important projects is the locomotives running on green ammonia, which will be happening in the next few months. That will be a very exciting project. We will have our very first green hydrogen production running green fleet, being the buses Elizabeth mentioned, within 10 months. That will also be an Australian first on a mine site.

Paul McTaggart: (Citigroup, Analyst) So, for example, those tests on the locos, they're being done in conjunction with OEM manufacturers of the locos, is that the work you're doing with them, or is it independent?

Andrew Forrest: Well, we are doing a great deal of that in house, including not only trains but also ships. We're trialling green ammonia prior to 30 June in a full-scale ship's engine, so this is happening at pace.

Elizabeth Gaines: But we are staying abreast of the developments of the OEMS as well so that we can understand those advancements, particularly on the locos.

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

Peter O'Connor: (Shaw and Partners, Analyst) Thanks, good afternoon, Andrew. Just wanted to say congratulations. Your delivery at the Boyer address on hydrogen was I think your best in terms of content and delivery I've ever seen, so kudos to you. Two questions. Firstly, Ian, just on diesel fuel rebate, can you just wrap a number around that, what is that now and what would that possibly be if that was to change? My second question, with what appears to be a lot of IP you're developing internally with both ships and trains and buses, et cetera, thoughts on how that IP is shared; is it via licensing or how would that - or is there a mechanism for transmission of that technology and IP in the future?

Ian Wells: Maybe I'll go on the diesel rebate. Without putting a specific number on it, Peter, it's potentially material. And I guess that's what Andrew said earlier in terms of the economics of projects and it is an input into the process that specifically if it was taken away, it would be a significant impact to not only ourselves but everyone.

Elizabeth Gaines: To everybody, Peter, it's not specific to Fortescue and we reported last year in our climate change report that we actually used about 640 million litres of diesel in our operations. You can do the calculation based on the rebate, but we know that by doing nothing, we will be on a trajectory to get a billion litres.

Andrew Forrest: Rocky, can I say, mate, long time between drinks and thank you. I'll be over east next week so if you and the other analysts on this call want to try and coordinate and catch up, let me know.

Peter O'Connor: (Shaw and Partners, Analyst) Yes, certainly.

Andrew Forrest: I would say, there is some really, really interesting technology which this company has been developing, keeping its light under a bushel a little, which we will of course keep to protect and give to green industry clients all over the world who wish to use hydrogen and ammonia, direct electricity which we will be able to produce and supply to them. They will need technology in ships and trains and trucks and fixed plant processing, et cetera to be able to use those green fuels and we'll be happily providing it to them.

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

Paul Young: (Goldman Sachs, Analyst) Thank you. Morning, Dr Forrest, Elizabeth, Ian, Julie and team. Some very ambitious but exciting targets. Had some questions on FFI. First one is, Pilbara Energy Connect, the PEC, it sits within the FMG parent, can you confirm will the new investments in the haul truck and rail decarbonisation, will that sit within FFI subsidiary or with FMG?

Elizabeth Gaines: That sits within FMG, Paul. That's consistent with the work we've already been undertaking across as you said, PEC, the work we're already doing on the haul truck and anything that's used in our actual operations.

Ian Wells: But it's a wholly owned subsidiary. And a level of vertical integration into the business fully as a fuel source and generating value, left pocket, right pocket but as long as we generate value, it doesn't really matter which pocket it comes from.

Andrew Forrest: FFI sits within Fortescue too, mate.

Paul Young: (Goldman Sachs, Analyst) Yes, understand that. The next question is, with FFI, maybe a question for you, Andrew, do you have a thought around the debt equity split that that subsidiary will carry and then also, is – and I'm maybe getting a little bit ahead of myself here but I have to ask this, is an IPO of FFI one option that is being considered at some stage?

Andrew Forrest: We'd probably have a more aggressive debt equity split for a number of these projects, simply because there is green energy capital available in the hundreds of billions, if not trillions and no projects to put that into. We are providing those projects as well as those markets. So, I think we'll continue to keep the parent company very conservatively financed, very strong balance sheet and with FFI, most of the project finance will be done at the project level, taking advantage of that green capital which is both available now and becoming more and more available.

Elizabeth Gaines: I think on the ability Paul, whether it's an IPO or some other separation, obviously we own FFI 100% but we are making sure that we establish the corporate structure to facilitate anything that might occur in the future.

Andrew Forrest: I think if you want to invest in the most exciting green energy and green industry company in the world, it's pretty handy to have a company like that which also has one hell of a balance sheet and very strong cashflows from a super reliable industry like export iron ore. So, we see our resource business continuing its growth and being highly successful but also supporting what could well be the world's most exciting green energy and industry company.

Paul Young: (Goldman Sachs, Analyst) Thanks, Andrew. That's the IPO pitch, the first one, anyway. Is it possible therefore at some point that these investments in your decarbonising your mines, that those projects could be transferred to FFI or as we stand today, ringfence those and assume that the green hydrogen and everything outside of the Pilbara really will sit with FFI?

Andrew Forrest: I would say this; your only access to FFI, in or out of Fortescue will be through Fortescue.

Paul Young: (Goldman Sachs, Analyst) Yes, okay. I understand. I will throw one last one in there. In its – and I actually asked Ian this is on the last results call, and it's about discount rates used for FFI projects versus the iron ore projects, can you confirm that the FFI projects will be assessed on a lower discount rate relative to the iron ore or minerals projects?

Ian Wells: I think Paul you've got to take a different approach, clearly and it will boil down to your capital structure and your risk profile. I think with the development of this industry being slightly different to the current one we're in where you're looking at developing off-take - markets for off-take, traditionally large investments like this have fixed take or pay off-take agreements. So, they come with a different level of risk, and risk and return go together and so yes, that gets reflected in the discount rate that you're using but I think quite clearly, we do need to take a different approach. I think today's announcements show that we're willing to take a different approach.

Andrew Forrest: I'd totally agree with that and add to it that FFI, as a subsidiary which can gear its projects - its return on equity may be much higher than the return equity on its subsidiary projects. The return on equity then, inside FMG, which at this stage has only kicked in small change and now has a massive asset base, is astronomic. I think just saying what will return on equity be? Is a bit of an over-simplification inside the projects, themselves, where green energy and industry investors want to go into projects and might be happy with a six or eight per cent return. That will lever up the equity return in FFI which, again, levers up the equity return in FMG substantially.

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

Robert Stein: (CLSA, Analyst) Hi. Sorry, a quick follow up question around the return horizons and it just, I guess, builds off Paul's question before. How should we think about the return horizons for these hydrogen projects as you're building the market for demand? Potentially there's large CapEx, low OpEx, slow investments. How resilient will they be to the hydrogen energy prices globally as we're in an infant market and there might be a bit of lumpiness to the supply and demand of the underpinning commodity? Does that mean that, really, you're looking for a prolonged returns horizon to really make good on this investment?

Andrew Forrest: I think Ian and Julie and Elizabeth have been head down, tail up on making sure FMG is the most profitable, low cost iron ore company in the world and Julie has also been on the road with me, both technically and in acquisitions. Because I've been on the road for a vast portion of last year, speaking to equity and debt and grant investors, I can say that their return horizons are much lower than what we would expect in the parent company.

To be clear, single digit inside a project owned by FFI will attract very substantial green capital. If it has zero carbon, secure markets and secure production that's exactly where vast pools of capital are searching right now. We intend to supply avenues for that appetite, for that investment. When you come back up the chain to FFI, that means the return on FFI's equity becomes double digit and then the return on FMG's equity back into FFI is much higher again.

Just applying a blanket, what is your return, would lead you to misanalyse the strategy of Fortescue. Fortescue's return on FFI is already very large. When FFI splits out its projects and capitalises its projects into development and profitable operations its return will be much higher than what investors are looking for - who simply want to make sure that they get a decent return - single digit - but want to make sure that the world goes green and that's at least equal concern with the return.

Robert Stein: (CLSA, Analyst) Yeah, that makes sense. From an FFI project point of view that, potentially, the green premium coming in to lower the risk appetite.

Andrew Forrest: Yes, exactly.

Elizabeth Gaines: Yes, that's right. If we adopt the same principal, low capital intensity and industry leading operating costs then it's a very similar proposition to Fortescue. So we have that real focus on lowest capital intensity, lowest operating costs and then obviously, as you said, then decide the premium for the product.

Andrew Forrest: Further, once you switch on these green energy projects they run on the sniff of an oily rag and are almost impossible to compete with. The capital needs to be long, long term. There is long term capital available to fund these projects and therefore you've got what's known as high quality earnings sitting in a totally green vehicle at FFI.

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

Elizabeth Gaines: Thank you, Ashley and thanks everybody for joining us. This is a historical day for Fortescue. We have been talking about a range of these initiatives for a period of time. We've been talking about FFI, the great work that Julie and the team are undertaking there coupled with the existing initiatives across Fortescue and that's given us the confidence to announce a target of carbon neutrality by 2030. It's an ambitious target. But as I think you know, with Fortescue we have practical initiatives underway. We're backing this up with action and there's going to be further updates, as this develops. Andrew, did you want to add anything?

Andrew Forrest: No. Just to thank you guys. Everyone on this call has a really critical role to play. I think others will observe, this is the world's first heavy industry major platform which has committed to go green in a short time but is trailing green fuel in very large equipment within the next several months, which is almost a violent change to the energy market. I just would like to thank you for your interest, we really, really encourage it. This is the biggest economic change which all of us on this call in the financial sector will ever live through. Let's all embrace it and let's all make it happen.

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

End of Transcript