FMG Fortescue

FY20 Full Year results

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 Ltd FY20 results analysts 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. Please go ahead.

Elizabeth Gaines: Thank you Kayleigh. Good morning everybody. Welcome to Fortescue's FY20 full year results presentation. Joining me today in Perth is Ian Wells, Chief Financial Officer and Greg Lilleyman, Chief Operating Officer. Whether you are participating via phone or webcast thank you for joining us. For those who have joined via webcast you will be able to follow along with the slides. For those who have dialled in separately a copy of our complete FY20 results presentation is available on our website.

Today's results are a testament to the hard work and dedication of the entire Fortescue team guided by our unique culture and values which continue to be as fresh and relevant today as they were when the Company started, and which also continue to underpin everything we do. FY20 was a year of record achievement with the Fortescue team delivering excellent results across all of our key operating and financial measures.

So, I'll turn first to safety. Once again Fortescue's unique culture has shone through. I am incredibly proud of our entire team who in true Fortescue spirit have adapted to the significant changes we have asked of them as we responded to the global COVID-19 pandemic. It's a credit to the whole team that during these unprecedented conditions we also achieved an overall improvement in safety performance with our total recordable injury frequency rate (TRIFR) reducing by 14% to 2.4 at 30 June, 2020.

Safety is both a Fortescue value and it's our number one priority. Our strong safety culture has seen our TRIFR reduced by 44% over the past five years. We've also seen efforts to reduce exposures in productive injury management which has resulted in our injury severity rate reducing by 41% over the past year.

Before I turn to today's financial results, I wanted to again highlight our excellent production results which we released to the market in late July. Our record full year shipments of 178.2 million tonnes was 6% higher than FY19 and we exceeded the top end of guidance which was 177 million tonnes.

C1 costs for FY20 were $12.94 a wet metric tonne. So that includes $0.22 of COVID-19 related costs. Importantly we maintained our low cost position through our continued focus on innovation and productivity. This excellent operating performance has underpinned record financial results including revenue of $12.8 billion, underlying EBITDA of $8.4 billion, net profit after tax of $4.7 billion. Each of these is a record in their own right.

Turning to the market, Fortescue was privileged to continue to operate during the COVID-19 restrictions as both the Commonwealth and state governments acknowledged the mining sector's significant contribution as a provider of essential services. We did take this responsibility seriously. Through a range of COVID-19 measures and the commitment of the entire Fortescue team there was no impact to our shipping schedule which demonstrates to our customers that we are a reliable and secure supplier of iron ore.

Notably, the iron ore price has held up strongly through this period due to the remarkable recovery in China's economy as well as ongoing supply constraints, particularly in South America. We remain a core supplier of iron ore to China and we've seen strong, ongoing demand for all of our products. Pleasingly, we've seen this continue through July and now into August which underpins a strong start to FY21.

China's crude steel production continues to grow, reaching 593 million tonnes in the first seven months of the calendar year. That's an increase of 2.8% year on year. China has largely absorbed the iron ore that has been diverted from weaker steel markets and both iron ore stocks at Chinese ports and stocks held by steel mills remain at low levels. That's a reflection of this strong demand environment.

Now more than ever, we cannot lose sight of the fact that we are a trading nation, as we continue to benefit from our valuable trading relationship with China. Record revenue from iron ore exports is underpinning both WA and Australia's economy. In FY20, according to the Australian Bureau of Statistics, the total exports of iron ore reached A$100 billion with China the main market accounting for 87% of all iron ore exported.

It's strong trading relationships like these that underpin the Australian mining industry as a stable and reliable provider of jobs, taxes and royalties which go to fund our nation's health, education and public infrastructure. And to give that some additional context our state royalties of A$1.25 billion for FY20 was enough to fund the opening of almost 20 new secondary schools in Western Australia.

So, turning to our integrated operations and marketing strategy which is designed to maximise value. Our product mix improved again this year with an increase in West Pilbara Fines and Fortescue Blend products. This contributed to our average revenue increasing by 21% to US$79 per dry metric tonne in FY20. That out-performed the 16% increase in the average Platts 62% index. We will continue to enhance our product mix and deliver on our product strategy as Eliwana ramps up and the Iron Bridge magnetite project contributes the 67% premium grade magnetite concentrate product, once it is operational.

The strength of our operations and our balance sheet means we can continue to reinvest in the business and importantly invest in growth. There is a significant pipeline of mining and resources projects in Western Australia. Fortescue is proud to be part of this as we invest in the Eliwana, Iron Bridge and our energy projects.

Eliwana is progressing with first ore on train due in December 2020. Over 50% of the structural steel at the OPF has been installed. And just last week the team completed the main top span of the Eliwana rail bridge. This is one of two major bridges along the 143 kilometres of rail.

Detailed engineering of the Iron Bridge project is 70% complete together with over 60% of the bulk earthworks. Iron Bridge is on track for first ore on ship in mid-2022.

In line with our commitment to have net zero operational emissions by 2040 we are investing $800 million together with our business partners in renewable energy, battery storage and transmission infrastructure. These world leading projects will be delivered in the next one to two years. The 5000 jobs they create and countless businesses they support will be critical to the economy.

As government looks to the business community to drive Australia's economic recovery post COVID-19, Fortescue is investing in growth projects, supporting job creation through investment and delivering strong returns to our shareholders. Today we announced a final dividend of A$1 per share and this, along with our interim dividend of $0.76, represents a payout ratio of 77% of full year net profit after tax. That's consistent with our policy to pay out a range of 50% to 80% of net profit after tax and I think clearly demonstrates our commitment of enhancing returns to our shareholders.

On that note I will now hand over to Ian for an update on our record financial performance. Ian.

Ian Wells: Thanks Elizabeth. Hi everyone and welcome. So, what you will see from our FY20 financial performance is a really clean set of numbers. They have been driven by consistent and predictable operating performance and focusing on the things that we can control. That's of course safety, production and cost.

Moving to earnings and revenue of $12.8 billion or 29% increase year on year was really driven by three things - strong demand for our products with total shipments of 178 million tonnes, up 6% on the prior year; the market price for iron ore was up 16% year on year and the third point which is our average revenue per tonne out-performing the market increase. That was due to our integrated operations and marketing strategy including improvement in product mix.

Revenue flows through to EBITDA and our disciplined cost controls and cost management is reflected in US$8.4 billion EBITDA and a revenue margin of 65%. Full year NPAT then of $4.7 billion reflects the underlying operations performance and that NPAT translates into earnings per share of US$1.54 or in Aussie dollar terms A$2.29. Those Aussie dollar earnings represent a 12.7% earnings yield on a share price of $18.

Drilling down further on EBITDA – And if you are on the webcast one of my favourite charts which shows EBITDA in FY20 of US$52 per dry metric tonne. That's a $13 per tonne increase year on year or 33%. We have a clearly demonstrated ability to generate strong margins through the cycle underpinned by a focus on total costs, not just C1, and supported by an improving product mix. Average revenue realisations have now been around about 85% of the Platts 62% index for six consecutive quarters and for the whole of FY20. Moving to cashflow and with the strong correlation with earnings free cashflow, that's the cashflow available for dividends and debt, was US$4.4 billion. That was 94% of the US$4.7 billion NPAT and that's a free cashflow yield of about 12%.

Key items of the NPAT to free cashflow reconciliation include working capital movements, which included about US$500 million of pre-payment amortisation. As a reminder, a total of US$800 million has now been amortised through the delivery of product over the last two years. The point being that there will be no further working capital impact from these agreements going forward.

Capex of $2 billion was higher than the P&L charges for depreciation, essentially driven by the investment in growth projects, Eliwana, Iron Bridge and Energy. We also saw a net increase in our provision for income tax and that's due to the final tax payments for FY20 and that top-up payment of approximately US$800 million will be paid in December, later this year.

Moving on to the balance sheet, we reported in the quarterly production report gross debt of US$5.1 billion. That's inclusive of finance leases and the drawdown of the revolving credit facility. We since repaid the revolver in July and gross debt went back to US$4.1 billion. Just as a reminder, during the year we repaid just under US$200 million as part of the refinancing undertaken back in September 2019. We added roughly the same amount in operating leases, due to the implementation of the new accounting standards.

As reported at the quarterly, net debt at 30 June was US$258 million. So, EBITDA of US$8.4 billion sees debt to EBITDA at 0.6 times on a gross-debt basis and basically zero on a net-debt basis. All of our debt metrics remain well below our target investment grade credit metrics of one to two times gross debt to EBITDA and 30% to 40% gearing, being the book value of debt to debt plus equity.

You'll recall that over the past few years we've been progressively simplifying our debt capital structure. We have consistent terms and conditions across all of our debt facilities. We have no financial maintenance covenants. We clearly have the capacity to fund future growth. With no debt maturities until 2022, our strategy will be to refinance that debt proactively. The quality of our earnings is also reflected in FY20 return on equity of 40% and return on capital employed at a similar level at 37%.

On to capital allocation and the A$1.00 per share fully franked final dividend declared by the Board increases the total FY20 dividends to A$1.76 per share. That's 54% increase year on year and continues the strong delivery of returns to shareholders and represents a fully franked dividend of around 10%.

Looking forward, capital allocation includes our investment in growth projects, Eliwana, Iron Bridge and Energy and demonstrating that we can return dividends to shareholders at the same time as investing in growth, creating jobs and contributing to the community.

If you're viewing the webcast, the slide on your screen shows our discipline in capital allocation and provides an overview of our track record. Since reducing gross debt to around $4 billion in FY18, the proportion and the total dollar value of capital allocated to shareholders has consecutively increased for the last three financial years. To provide further perspective on our capital allocation since the Company's inception, Fortescue has now generated US$19.4 billion in NPAT, made US$9 billion in voluntary debt repayments and total dividends, that's paid and declared, worth US$9.5 billion. That represents more than A$4.00 per share.

So, in closing, the strength of our operations and balance sheet means we can continue to reinvest in the business, invest in growth, contribute to the communities in which we operate and reward shareholders through both dividends and earnings growth. We do this by focusing on the things we can control and that's safety, production and costs. So, with that, I'll hand back to you, Elizabeth.

Elizabeth Gaines: Thanks, Ian. Today we also released our FY20 Sustainability Report and our Modern Slavery Statement. For the first time we published a standalone Climate Change Report. FY20 was a milestone year for our climate change and energy strategies, as we announced an industry-leading emissions reduction goal, to achieve net zero operational emissions by 2040 and that includes a 26% reduction in emissions from existing operations, from 2020 levels, by 2030.

Further to our investment in energy infrastructure, we're progressing with plans to develop hydrogen technologies. In fact, just last week, we signed an MOU with Hyundai and the CSIRO to accelerate the development of renewable hydrogen technology for domestic transport.

Significantly, we also announced a A$32 million investment in our renewable hydrogen mobility project. In a first for an Australian mining operation, we will deploy 10 full-size hydrogen-fuelled coaches to replace the existing fleet of diesel coaches at Christmas Creek from about the middle of 2021. That will be supported by the installation of a refuelling station, which will harness renewable electricity from the Chichester solar gas hybrid project, to generate renewable hydrogen on site.

Fortescue's continued commitment to empowering thriving communities was demonstrated by our delivery of A$17.2 billion in total global economic contribution during the year and that includes A$4.3 billion in taxes and royalties. Closer to home, we're very proud to be one of Australia's largest employers of Aboriginal people, representing 14% of our Pilbara workforce and 10% of our Australian workforce. Our female employment rate reached 19%, with 26% of senior leadership roles held by women.

So, in summary, Fortescue has achieved outstanding results for FY20. The successful execution of our integrated operations and marketing strategy contributed to record shipments, revenue, earnings and operating cashflow. Delivering enhanced returns to shareholders remains a priority. We're proud to have achieved a number 1 ranking in the S&P/ASX 100 Index for total shareholder returns over the three years to 30 June 2020 of 266%.

As I mentioned earlier, we've had a strong start to FY21. Our guidance, as we announced last month, is iron ore shipments in the range of 175 to 180 million tonnes, C1 costs in the range of US$13.00 to US$13.50 per wet metric tonne and capital expenditure in the range of US$3.0 billion to US$3.4 billion.

Our clear strategic focus on product, operations, marketing, as well as growth and balance sheet management, is driving strong results and delivering significant benefits for our shareholders. As we enter this exciting phase of growth in Fortescue's history, our work is underpinned by our unique culture and values.

Fortescue's success in working together during the COVID-19 pandemic is testament to our culture and values. By keeping safety and family at the heart of every decision we've made, we are managing this situation together. On behalf of the Core Leadership Team, I'd like to thank the entire Fortescue family for their contributions this year. Our team's commitment to meeting key safety, production and costs targets, as well as their willingness to challenge the status quo to deliver operational excellence, will be fundamental to the achievement of our stretch targets and Fortescue's future success. Thank you. On that note, I'll hand back to Kayleigh to facilitate Q&A.

Operator: Thank you. If you wish to ask a question, please press star 1 on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star 2. If you are on a speaker phone, please pick up the handset to ask your question. To allow everyone an opportunity to participate, we ask that questions are limited to two per person. If you have further questions, you are welcome to re-register. Your first question comes from Rahul Anand, with Morgan Stanley. Please go ahead.

Rahul Anand (Morgan Stanley): Thank you, Elizabeth. I'd like to firstly ask Ian a quick question on depreciation, if I may please, Ian? We had some guidance for this year for FY20, which sat at about US$7.70 per tonne. Would you have any guidance available for FY21 and how should we think about it if there is no guidance provided?

Ian Wells: Yes, I think consistent for year on year. The little bit of an uptick relative to the guidance that we've provided earlier in the year, Rahul, was just the implementation of the lease standards. I think everyone's had some challenges in terms of estimating it back then. So, nothing out of the ordinary and therefore you'd expect it to track production, because most of it's depreciated on units of production. So, the previous year is a good guide for future years.

Rahul Anand (Morgan Stanley): Okay, perfect. Thank you. The second one was on Iron Bridge. Elizabeth, perhaps one for you. I just wanted to understand how you view the project in terms of any potential future expansions? I mean, nameplate's around that 20 million tonnes per annum mark, but is the project, so to speak, modular in any way, whereby future expansions might be easy? If you could marry that up with the port capacity perhaps, please? Thank you.

Elizabeth Gaines: Yes, well, I guess, nothing's ever easy, given it's a significant investment, but it certainly is, modular in nature. It's 22 million tonnes on a wet basis and each train is 11 million tonnes. So, given the size of the resource there, there would be opportunity to consider that in the future. That would come with some further infrastructure, as well, in terms of how we configure the pipeline and various other aspects.

So, it's certainly feasible. I wouldn't say any of it is easy. But we'll first and foremost focus on completing this stage of Iron Bridge, getting to that nameplate capacity of the 22 million tonnes and then consider our options from there. In terms of port capacity, it's clear that's another consideration that we would need to take into account for any further expansion plans.

Rahul Anand (Morgan Stanley): Okay, perfect. Could I have a quick follow-up on that, please? In terms of the infrastructure and the pipeline, is there spare capacity beyond that 22 as it sits, or you'd need to invest more?

Elizabeth Gaines: Look, it's been designed for that 22 million tonnes. There may be, in true Fortescue style, we always like to push things as much as we can. But there's not a lot of excess capacity that's been configured in the current scenario.

Rahul Anand (Morgan Stanley): Okay, perfect. Thank you very much for that. I'll pass it on.

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

Hayden Bairstow (Macquarie Group): Morning, Elizabeth, Ian and all. Just a couple from me. Firstly, just a quick one on the port, Elizabeth, just on that approvals process. I presume you're going to go past your limit on this calendar year, just where we are with that and when we should expect some sort of announcement on getting that locked away?

Then just on Iron Bridge and the project blending opportunities. I mean, have you done more work on that, in terms of what the product mix might look like, or what the varying options might well be between removing some of your lower-grade product, or just selling it on a standalone basis? Thanks.

Elizabeth Gaines: Yes, hi, Hayden. I think in terms of that port licence capacity, I mean, that is ongoing. We've said we expect to have that approved by the end of this calendar year. So, we're very mindful of our current expectations on shipments and that timeframe. But we're feeling confident that it fits within our guidance for this financial year.

On the Iron Bridge blending opportunities, the work's ongoing. There's technical works that is currently underway. We've got time, in terms of understanding the market, what the market might look like, by the time we get first ore on ship. That process of the technical assessment will take six to 12 months, so we're undergoing a very comprehensive process, a testing process, but that's a work in progress.

Hayden Bairstow (Macquarie Group): Okay, great. Thanks.

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

Peter O'Connor (Shaw and Partners): Elizabeth and team, congratulations on a cracker result.

Elizabeth Gaines: Thanks, Peter.

Peter O'Connor (Shaw and Partners): Firstly, quality in the market at the moment, it's not being paid for by customers. Any thoughts on what that means in the near term?

Elizabeth Gaines: I think we're finding that pricing for our products is strong, and we're comfortable with where that's currently at.

Greg Lilleyman: Peter, it's Greg here. I mean, the cycles go along with the profitability. Although the steel makers are making reasonable profits, there's been all sorts of change to supply, there's changes due to COVID in terms of the way that restrictions have happened or not happened within China. There's all sorts of changes with the weather and flooding in some places. The flat products are doing better than they were before. If you can decipher all of those complex part of the simultaneous equation we get if the quality's being paid for or not, and I'd challenge you to do so. We're obviously focused on our products and getting the best value we can for them, and focusing on the customers that value our products the most, and think that's the key of what we've been able to do.

Peter O'Connor (Shaw and Partners): Okay. A little bit of a follow-up on funding for Iron Bridge. We've talked on the call about it before, being a project style of funding, given your cashflow, balance sheet, funding facilities et cetera, and the need for capital returns to shareholders as you've outlined, what's the balance? Should you be funding Iron Bridge with a project facility or cash, and why?

Elizabeth Gaines: Well, I think we've said at the outset that we saw this as an opportunity for a standalone project financing. That view hasn't changed. We continue to assess the opportunities in the market. Obviously, price is one aspect of that, certainty of execution is another, and we have the benefit of our strong cashflow. They're all weighed up in terms of our disciplined approach to capital allocations, but we are still intending to secure a separate facility for Iron Bridge.

Ian Wells: Peter just to add to that, just because the market's great it doesn't change our strategy or our discipline. All of the reasons that we articulated to you earlier still hold. It does provide an opportunity with additional cashflows coming in, so therefore timing we can maybe choose a bit more, but ultimately strategy and discipline doesn't change through this cycle.

Peter O'Connor (Shaw and Partners): Okay, thank you.

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

Lyndon Fagan (JP Morgan): Thank you very much. Look, the first question is just on the Firetail reserve and resources that are still left. It looks like almost three years of reserve and about nine years of resource, albeit its lower grade. I know Eliwana's obviously coming on soon, but can you talk about what the plans are to extract maximum value from the already-installed infrastructure there? Would you be looking to increase production or is that sort of a drip-feed over the years to come, in getting that out? That's the first one.

The next one's just on hydrogen. Really interested to see the 10 buses that are being powered on hydrogen and just wondering whether you can talk about the future plans there. How aggressively can you roll that out into the mining fleet and the like, or any other opportunities to utilise hydrogen? Thanks.

Elizabeth Gaines: I might start with the hydrogen one, and then Greg might pick up on Firetail. Look, these 10 coaches, it's a little bit of R&D in nature. The manufacturer we were dealing with hadn't, whilst there are other hydrogen passenger coaches on the roads in Europe, they weren't designed for an off-road type environment, so we actually had to work pretty closely with them to specify exactly what we need, and we've got to build that refuelling infrastructure.

The challenge for the team is getting to the position where the capital cost and the operating cost for a hydrogen coach is as competitive as a diesel coach. At the moment, that wouldn't be the case. This is part of this R&D in nature. I think, assuming it is successful, and we're all assuming that it will be because there are other coaches that operate on hydrogen, is it does create the environment where we can assess that, the operating cost, the ongoing management, the refuelling of vehicles, whether they're coaches or other forms of mining fleet. So, it's a little bit of R&D for us, but we are also taking a long-term view as we do see hydrogen and other renewable energy sources being important to our future decarbonisation.

This is us actually saying, let's do something really practical to try and test that. We're also working with the OEMs to try and determine what the mining fleet of the future might look like, and there's a range of different options, not necessarily all hydrogen. We're working with them on that, but we do think this will be an important test case to see how it works in our mining environment.

Greg Lilleyman: Lyndon, of course Firetail is depleting in terms of the ore body in the resource there, but as we've noted before, it doesn't fall off a cliff the day that Eliwana starts up. There will be a period there where we've got this overlap, if you want to call it that. As you're getting towards the end of an ore body you don't have large, long productive mining faces to get the best productivity et cetera, so you want to limit the pure volume of that material. That might be a little bit higher-cost towards the end of an ore body. There's higher risk if you're relying on the last 2 million tonnes in a pit, for example, if you're a little bit out in terms of the timing or the quality et cetera.

We don't expect to have any major implications of the fact that we've still got a few years' worth of ore there available. We'll continue to feed that in, as Eliwana ramps up. It's still another six months away until we start seeing any appreciable quantity come out of Eliwana and ramp up there as well. The next couple of years or so we've got a bit of overlap. We obviously manage our ore bodies across the system of mine sites to get the best overall outcome, managing grades, managing tonnage, managing haul distance, managing rail hauls and all the rest of it. We'll have that overlap period that we'll make sure we make the most of, to be sure.

Lyndon Fagan (JP Morgan): Quickly Greg, does that overlap include additional production? You've obviously given guidance to '21, but thinking into '22 where you'll have spare mine capacity, how should we think about that?

Greg Lilleyman: Well, I think you've got to think of it as the system. We've got a railway and we've got a port at the end of it as well, remember, we're not changing the port configuration at the moment. The rail, the average distance to the port gets further away, given that Eliwana's 30mtpa contribution is 143 kilometres further from the port than say Firetail is. So, the overall system capacity doesn't increase even though clearly the installed OPF capacity does. Look, we'll aim always to try and eke out a little bit more if we can and if it makes sense and the market warrants it, but I wouldn't be sitting here expecting we're going to be adding 30 million tonnes to the output in the next couple of years, that's for sure.

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

Glyn Lawcock (UBS): Good morning, Elizabeth and team. Elizabeth, I just wanted to talk a little bit about South West Creek and perhaps what intentions Fortescue has or doesn't have. You might have seen Mineral Resources last week talking about additional berths and it's unclear whether they build them standalone or integrated into Roy Hill. I would have thought you've in the past expressed interest in adding another berth in the ship loader. What are Fortescue's intentions in South West Creek, if any, thanks, or can you talk to what's going on there?

Elizabeth Gaines: I think we've read what's been reported as well and the state government has made it clear that the berths that are in South West Creek at SP 3 and 4 are allocated for juniors. I guess it's a question for them to determine how that might be allocated. I think from our perspective we continue to assess our requirements for both additional ship loader and additional berth and we've had constructive dialogue with the state government.

We obviously have a significant interest in what further developments there are in South West Creek because it will require significant dredging activities, not just building of the berths at SP 3 and 4, it's the dredging that's required, it's the addition of a turning circle. That's going to require significant investment by whoever develops that infrastructure. As I said, not just the berths themselves but for anybody who's operating in South West Creek, and we currently do, there is significant work required the further you get down the creek. That's not an insignificant undertaking in its own right.

We continue to assess our own longer-term plans for port infrastructure and we've had good engagement and dialogue with the state government over our plans, and they're obviously very supportive because we are actually currently investing in Eliwana and Iron Bridge so we've got genuine growth ahead of us and the investment has already been made.

Glyn Lawcock (UBS): Elizabeth, sorry, do I take from your answer then that you are interested in discussions and potentially thinking about a six-berth and a fourth ship loader then?

Elizabeth Gaines: Well, that's always been part of our longer-term plan. The answer is that yes, we're considering all of those aspects in terms of our plans for the future, and we do take a long-term view on the infrastructure at the port of Port Hedland.

Glyn Lawcock (UBS): Okay, that's great. Just a second question, if I may. Just on realised price, and 85% on average the last six quarters, you've doubled the percentage of West Pilbara Fines from 5% to 10%, '20 versus '19, but I guess we're not seeing that in the realised pricing, it's still 85%. Is that something that disappoints you or should it start to change once we bring on Eliwana and we get more West Pilbara Fines product? Thanks.

Elizabeth Gaines: We've used an average, but I think you could go back over those quarters to see it was 83% and then at 84% and then at 85%. So, as we've progressively increased volumes, I think that has been reflected in our overall price realisation. Importantly, we saw a 21% increase in average realised price in FY20, whereas the average index was up 16%.

We have outperformed the index through a combination of delivering on our product strategy, and we have seen that gradual increase, it averages around that 84% or 85%, but you go back over a number of quarters and that's been progressively increasing. So no, I wouldn't sit here and say that I'm disappointed at all. I think the outperformance of the average index, the delivery on the strategy and doing what we say we're going to do has been recognised by the market.

Ian Wells: Yes. I think that - Glyn, it's Ian - that consistency is what we're very happy with at the end of the day.

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

Paul McTaggart (Citi): Good morning. With the quarterly, you gave us guidance for mining strip ratio is to stay around that 1.5 level for the next five years, from recollection. Beyond that, from previous slides, we always thought it would longer term trend to nearer 2. Is that still the view or do you think you can keep to lower strip ratios for a longer period?

Greg Lilleyman: Paul, it's Greg. I think I'd comment by saying when we had that slide that had that longer-term trend, I think a comment I made as what I can assure you is that by the time we get anywhere near that, we will have addressed it to make sure that we do everything we can to make sure that doesn't happen. Now, whilst I wouldn't sit here and say we've done that or achieved it all, that's still the reality. The job of the mine planners is never complete; every day they wake up working out how can they eke out some better value out of our ore bodies, whether that's in thinking about strip ratio, haul distance, whatever the case may be.

There's nothing however in the current mine plans that demonstrate a similar trend to be such as it had before, which is why we altered the commentary there and looked more in the next five years or so as pretty flat. But we don't know what else the other ore bodies are going to show up into the future beyond that to give too much guidance on that, but there's nothing at this point in time that would have me being concerned about a significant increase in strip ratio going out beyond 10 years or so.

Elizabeth Gaines: Yes. I think that slide from a few years ago didn't even feature Eliwana, so it was just an indication.

Greg Lilleyman: It was at a point in time.

Elizabeth Gaines: It was at a point in time, and as other ore bodies are identified, that will influence it, but I think it's more that three to five years' time frame where we're guiding to no significant change.

Paul McTaggart (Citi): Okay, thanks. Thanks for that.

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

Paul Young (Goldman Sachs): Good afternoon, Elizabeth and team. First is on sustaining Capex and the guidance for FY21. Looking at history, sustaining Capex has been increasing around $100 million per annum since I think the lows in FY16. Just on FY21, it looks like you've grouped sustaining and development capital together. Can you maybe split that out, what is sustaining and what is development capital?

Ian Wells: Paul, I think looking at last year it was $700 million or thereabouts for sustaining and a couple of hundred million for operations development. This year is roughly the same with we also put the completion of the Queens development into that $1 billion so therefore effectively very consistent year-on-year for those three categories.

Paul Young (Goldman Sachs): Thanks, Ian. Then maybe just going forward, if that's been steady '21 on '20, where are we on the major equipment replacement cycles? I'm talking truck engines and truck bodies and major plant. Is $700 million effectively steady state going forward or could that actually move up and down depending on major replacement cycles?

Ian Wells: Yes. Greg might want to comment as well but from a capital allocation perspective, I think the net-net would be as we do see the peaks and troughs, you cut your cloth accordingly. I think we've taken the benefit of the new infrastructure and the question of reinvesting back in the business to improve productivity and availability to ensure production of tonnes is a good investment and we're continually asking ourselves the question, are we spending enough and are we spending on the right areas. I think the ebbs and flows, I think within those sort of numbers, with the caveat of the iron ore price drops and free cash flow is lower, the things like the discretionary operations development of a couple of hundred million bucks a year would drop off fairly quickly.

Greg Lilleyman: I think, Youngie, that certainly the normal sort of cycle of replacing engines and components in process plants and haul trucks and things like that, we're in a bit of a steady state, as you say. We replace some fleet but probably not until the second half of this decade would we see any major fleet coming together at once.

In part, that's what's driving some of our work through the decarbonisation strategy with OEMs to look at and help them think about what the next generation of haul truck might look like, how could it be hydrogen powered or battery or whatever the solution may be so that when we get to the point where we're going to have some major capital on the next generation of fleet for Fortescue, we would hope that that might be a different truck than just a diesel-powered truck. But, it's the second half of this decade before we'd see any I think material change, certainly on fleet replacement strategy or major plant or anything like that.

Elizabeth Gaines: I think as well, we'll continue to look at, along those decarbonisation lines, opportunities for additional conveyors that will then be obviously powered by our solar gas hybrid energy, so those are going to be some of the other opportunities we'll look at in our capital profile moving forward.

Paul Young (Goldman Sachs): That's great. You covered actually in part there my question, so can I just squeeze in one more, and that, Greg, or Elizabeth, on the section 18, a lot of discussion in the market on the section 18. I do see that you received your section 18 on Iron Bridge on 3 August and on 5 August you received Eliwana. Can you maybe just talk through, does that cover those consents - with conditions, do they cover all of the tenements across those projects and are you now covered until you - also on Queens, and until you go to Nydi or a future project?

Elizabeth Gaines: No, I think with those two that you've mentioned, Paul. The Eliwana one was specific to an access road, it's the widening of an access road. It wasn't anything really to do with the ongoing project. Some of these section 18s are actually quite specific and the Iron Bridge one I think was similarly a specific area. So, I wouldn't read into a section 18 that covers the entirety of the mine. And when it comes to Queens, we've publicly said that we've paused one section 18 while we work with the Wintawari native title group, it doesn't impact on our two-year mine plan but we're just looking at a couple of areas in particular that might mean we have to redesign a waste dump, for example.

We're not changing our process in terms of engagement and communication. We're working with native title partners; in some areas we actually advise them of significant sites that we find that we think might be of significance, I should say, and we have a very good engagement. Those two section 18s that you referenced are just very particular to a certain part of the access road, for example. Currently, section 18s are operating and they're continuing, the Minister is still signing off on section 18s as you referenced, but we'll continue our strong engagement with the native title groups.

Paul Young (Goldman Sachs): Okay, that's great. Thank you very much.

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

Peter O'Connor (Shaw and Partners): Elizabeth, Simandou. You've probably got more knowledge of Simandou than most given you've been on the other side of the table for a period. We've talked about this with other companies on calls over the last couple of weeks. How do you see the evolution of Simandou given you know what's there and you've seen other parties talk about it, and how does that play out in the long-term price formation of iron ore?

Elizabeth Gaines: I think one of the things we do know from our review and assessment during the course of last year is it's a significant infrastructure project in the context of rail and port infrastructure. So, it's not without its complexity and the reality is there'll be a considerable period of time, whether that's four to five years, before first ore. There is a very good ore body there. I think every indication is that at some point now this will be developed.

As I mentioned, the infrastructure and the project in its own right is a very significant one. I think we will continue on our own strategy. We will introduce a high-grade magnetite concentrate product long before first ore from Simandou. The Iron Bridge product is very high grade, 67% Fe. It will establish that product in the market, and that's why we have our settings in place as being a low-cost producer is important to us, looking at volume, cost, margin, staying close to our customers and basically through all the market cycles generating those very strong cash margins.

Peter O'Connor (Shaw and Partners): Thank you.

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

Elizabeth Gaines: Thanks, Kayleigh and thanks everybody for joining us today. I think, as you can no doubt appreciate, we are very pleased with the FY20 results. I think importantly, we are genuinely pleased with the safety performance. We're not being complacent about COVID-19; I think it's pretty easy here in Western Australia to develop a sense of complacency, but we certainly aren't. We're working with our team members, particularly our east coast based team members and those who have been impacted in an ongoing management process for us in the context of having the right settings in place to ensure that we remain COVID free.

I think as a community more broadly, we're all still managing through that, and for any of you who are in Victoria then our best wishes to you all. But certainly, we'll stay very focused on achieving our targets around safety, cost and production and maintain that same focus on safety.

On that note, thank you very much, look forward to chatting to you all at our next results call. Thank you.

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

End of Transcript