FY26 Half Year Results

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[START OF TRANSCRIPT]

Operator: Thank you for standing by and welcome to the Fortescue Ltd FY26 Half Year Results. All participants are in a listen only mode. There will be a presentation followed by a question and answer session. If you wish to ask a question, you will need to press the star key followed by the number one on your telephone keypad. I would now like to hand the conference over to Mr Dino Otranto, CEO Metals and Operations. Please go ahead.

Dino Otranto: Welcome everyone. It's great to be back with you. I'm in London this evening, joined by Gus Pichot, Growth and Energy CEO and Apple Paget, our CFO. Last month we reported our Quarterly Production Results, including record first half shipments of 100.2 million tonnes. We did this while keeping our people safe and costs low. Hematite C1 unit costs were US$18.64 per tonne for the half, cementing our industry leading cost position.

We delivered US$4.5 billion in Underlying EBITDA and US$1.9 billion in net profit after tax (NPAT). Reflecting these strong results, the Board has declared a fully franked interim dividend of A$0.62 per share. That's a 65 per cent payout of NPAT and returns A$1.9 billion to our shareholders, and we're also investing in decarbonising our operations, which will drive our costs down even further.

We made a heap of progress this half. Construction is underway on the 133-megawatt Nullagine Wind Project, two large battery energy storage systems have been delivered at North Star Junction and Eliwana and our Cloudbreak solar farm is two thirds complete. We are now installing over 3,600 solar panels each and every day with another gigawatt kicking off imminently.

We started switching out our diesel equipment with 12 electric excavators and one electric drill now up and running. Our first XCMG electric wheel loader and wheel dozer have just finished being built and we'll start seeing them and our electric trucks rolling off the production line this year. We also recently started commissioning our two new battery electric locomotives, and we're not doing this alone. We're working with global partners like BYD, XCMG, Liebherr, Envision, and LONGi to deliver decarb at scale.

By removing diesel from our operations, we're taking structural costs out of the business. The less diesel we consume, the less exposure we have to price volatility, and that means stronger and more predictable margins. On Green Metal, construction at Christmas Creek is going well. We're on track for first production this year, which will make it the first project at this scale to produce green metal using Pilbara fines. The steel industry is changing. Customers want low emission steel and China is looking for partners to make that happen.

If the Pilbara wants to stay in the game, we need to adapt, and that means working with China to decarbonise its steel industry. There's an exciting opportunity here for Australia and China, and

I'll be back there next month to continue these discussions with the mills and renewable energy companies.

On Iron Bridge, it continues to ramp up steadily. Since operations began, we've shipped 14 million tonnes of high-grade magnetite concentrate at an average grade of 67% iron. We're seeing record operating time and throughput and recovery are improving month on month as the team continues to optimise the secondary grinding circuit.

During the half we announced an updated Hematite life of mine plan. This creates significant value and gives us more certainty over the long term. The plan is underpinned by the inclusion of Blacksmith and involves the refinement of product mix. It is also designed to reduce the total material moved, which will help further reduce costs. Exploration at Mindy South, Nydinghu, and Wyloo North continues, expanding the resource base and keeping our options open.

Before handing over to Gus, I'd like to give a big thank you to the entire Fortescue crew and all our partners for their outstanding efforts this half. We've had record production, strong safety performance, and stayed laser focused on lowering costs. With that, I'll hand over to Gus for an update on energy and growth.

Gus Pichot: Gracias Dino, and congratulations to everyone on another incredible set of results. It's a huge team effort across our global Fortescue family. We're building on that rock solid foundation, combining our expertise as a world leading mining business with innovation and groundbreaking technology. We are exploring global opportunities in a disciplined and commercially focused way, looking at metals, critical minerals, energy and technology. Our global partnerships are key to our future success and to achieving Real Zero.

We've joined forces with BYD, LONGi, Envision Energy, Liebherr and XCMG accelerating our deployment of solar, wind, batteries and energy storage. Those partnerships also strengthen and add a new layer to our longstanding relationship in China. For almost two decades, we have been a reliable supplier of iron ore and we continue to see strong demand for our products with low grade discounts continuing to narrow through the first half.

This has helped us deliver stronger results for the business. That track record means we are well placed to navigate market dynamics and continue to deliver reliably for our customer needs. Actively advancing growth opportunities also helps secure long-term resilience and diversified returns.

Exploration is a big part of that. It's how we started and continue to grow our Pilbara operations. Beyond that, we are strengthening our global footprint through a diversified portfolio of metals and critical mineral projects.

We expect to finalise shortly the acquisition of Alta Copper, strengthening our corporate portfolio in Latin America. Once this transaction is completed, our immediate focus will be on technical reviews, community engagement, and advancing the studies required to inform future development decisions. This will build on our existing critical minerals exploration activities in Argentina, Australia, Canada and Kazakhstan. Exploration and study activities also continue to advance at the Belinga Iron Ore Project in Gabon. Planning is also advancing for the delivery of an integrated mine, rail and port solution.

We continue to look at future opportunities to diversify and develop green energy globally, maintaining a pipeline of electron molecules and technology projects. We're doing this with a disciplined and commercially focused mindset. When markets are ready and when the economics stack up, we will provide updates on the progress of projects. In the meantime, we are not just waiting for that to happen. Technology is key to unlocking our global growth opportunities. We are investing in research and development to engineer the breakthrough technologies we need.

Fortescue Zero is a driver of that innovation for our business. In the last six months, we progressed the power system for our T 264 trucks, with the first due onsite later this year. Our battery intelligence software, Elysia, has acquired Zitara to boost capability beyond EVs to support and monitor battery energy storage systems. We are also investing in developing the technology that will drive down the cost of green hydrogen, launch a green iron industry, and deliver our green metals projects. On that note, thank you again to our teams for an incredible first half. Let's go now to Apple to dive deeper into our financial resource.

Apple Paget: Thank you, Gus, and a big hello to everyone from London. It is my absolute pleasure to share some details of our financial performance, where highlights for me include margin expansion, underpinned by cost discipline, and an increase in cash generation and further optimisation of our balance sheet. On the results, first half revenue of US$8.4 billion was 10 per cent higher than the same period last year, driven by record first half shipments and a 7 per cent increase in our hematite realised price to US$91 per tonne.

Our focus on operational efficiency and cost discipline is reflected in our industry leading cost position with the Hematite C1 unit cost of US$18.64 per tonne, 3 per cent lower than H1 last year. This is despite inflationary pressures. We have a clear pathway to delivering on our full year C1 unit cost guidance of US$17.50 to US$18.50 per tonne at the guidance exchange rate of A$0.65. Just a reminder, FX sensitivities are important given the recent strengthening of the Aussie dollar and a one cent movement in the exchange rate impacts C1 costs by around 16 cents.

Strong cost controls together with higher prices resulting in Underlying EBITDA increasing 23 per cent to US$4.5 billion as the EBITDA margin expanded five percentage points to 53 per cent. This flowed through to a 23 per cent increase in NPAT to US$1.9 billion, with a healthy return on capital employed of 20 per cent.

For those on the webcast, you can see from this slide the reconciliation of the year-on-year change in NPAT. Below EBITDA, the key moving parts include higher depreciation and amortisation and an increase in exploration development and other expenses. Depreciation rose 19 per cent on H1 FY25, mainly attributable to our growing asset base consistent with our capital program.

Moving to the next slide, which shows Fortescue's consistently strong generation of cash. Net cash flow from operating activities increased by 32 per cent to US$3.2 billion and free cash flow more than doubled year on year to US$1.5 billion. This is after investing US$1.7 billion in capex, including US$1 billion in sustaining and hub development and US$426 million on decarbonisation.

As you can see here, our balance sheet remains in great shape. Cash on hand at 31 December 2025 was US$4.7 billion, and net debt was US$1 billion, and during the first half, we further enhanced our debt capital structure, including the successful syndication of a low cost RMB Term Loan, the repayment of our US Dollar Term Loan Facility and the repurchase of some of our senior unsecured notes. This diversified our funding sources and lowered Fortescue's weighted average cost of debt by over 60 basis points, while increasing the weighted average tenor.

You can see Fortescue's credit metrics on this slide with gross debt to EBITDA of 0.7x and gross gearing of 22 per cent resulting in plenty of headroom. A strong balance sheet is fundamental to Fortescue's capital allocation framework, as is our commitment to return capital to shareholders.

As you've already heard from Dino, the Board has declared a fully franked interim dividend of A$0.62 per share. The dividend is 24 per cent higher than the FY25 interim dividend and represents a payout of 65 per cent of first half NPAT, consistent with our dividend policy to payout 50 to 80 per cent of full year Underlying NPAT.

In closing, we've delivered strong financial results in the first half, underpinned by record shipments, strong pricing and disciplined cost and capital management. I'll hand back to the operator to facilitate the Q&A where we welcome your questions.

Operator: Thank you. If you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star two. If you are on a speaker phone, please pick up the handset to ask your question. We ask today that you please limit yourself to two questions per person, after which you may then re-enter the queue. Your first question today comes from Rahul Anand with Morgan Stanley. Please go ahead.

Rahul Anand: (Morgan Stanley) Hi. Good morning, team, or rather, good evening, team. Thank you for the call. I just wanted to ask a couple of questions. The first one on perhaps the CMRG side of things, a couple of your peers in the industry have briefly discussed and talked about how those discussions are progressing.

Just wanted to get your views on how you're seeing those discussions and basically are you making any progress in terms of which direction you're headed in or are we still in the testing phase of what's going to eventuate? Obviously, the newspapers are also talking about the government looking at it. So any sort of colour there would be much appreciated, and I'll come back with a second. Thanks.

Dino Otranto: Thanks, Rahul. Look, this is not a new conversation for us, is how I'd start out the answer. It's been ongoing now for a couple of years. We have a strategy on how to diversify our overall relationship with China. It's been a longstanding relationship. Our products are moving well. We expect that to continue. On maybe more specificity of the current conversations, I'll hand over to Ben Kuchel who's with me here, our Director of Marketing.

Ben Kuchel: Thanks, Dino, and thanks for the question. We won't be going into obviously the specifics of the discussions but they are ongoing. I think you can probably think of them as phased discussion. These sorts of commercial negotiations are – in many ways, are a part of our industry and have been so for many years, so in that sense, no major changes.

Rahul Anand: (Morgan Stanley) Sure. Okay. Thank you. Then look, the second one is just around future growth and we briefly talked about in the introductory comments around Gabon and also the copper side of things. I guess these are genuinely transformational opportunities for the company and basically on the iron ore side with the high grade and then obviously copper is well liked by the market.

I guess my question is more around where do you see the critical path items for both these projects? At what point do you think you can start materialising a bit more in terms of studies, capex numbers, timelines, for these two growth opportunities? Just for the market to perhaps give them a bit more value or to understand the impacts on the business better.

Gus Pichot: Yes. Thank you for the question. In both, you mentioned Gabon. Clearly, we are advancing on the ground. We have been working in Gabon for the last couple of years. We have Nick online, Nick, do you want to give any update on the exploration front, on what we're doing in Gabon. Concerning the updates on Cañariaco, it is too premature to discuss about them. Both in Gabon and as I said, in the position that we are finalising for Alta Copper. So Nick, do you want to discuss about both because they are in an exploration phase? Do you want to give any update on people on the ground in both Gabon and in Peru, please?

Nick Nitschke: Yes, thanks, Gus. From a Belinga Project perspective, drilling continues. We're excited over the coming months to test some of the other targets in the eastern part of the concession, which we've just secured approvals for, so we'll be doing some initial drilling there. The results to date have been in line with expectations and we're looking to really focus in on the areas that have the most high-grade and lump potential as priority for our exploration projects in Belinga.

From a Peru perspective, specifically the Alta Cañariaco Project, initial work will very much be focused on securing community and social access so we can get on ground to reassess the work that has been done previously by Alta and then start progressing our own exploration study work as we push that project through. We are excited about the project. There's a significant resource there that has the potential to grow, so we're very keen to progress that as fast as we can to ensure we get on ground as quick as we possibly can to push the study work.

Operator: Your next question comes from Rob Stein with Macquarie. Please go ahead.

Rob Stein: (Macquarie) Hi Dino and team. Look, a quick one just on costs going forward and where you see the industry structure filling out. Obviously, iron ore with supply growth and potentially demand flatlining, we'll see limitations to price upside, but on the cost side, you're obviously taking a lot of action to reduce your cost base, decarbonisation, the investments in AI. I'm just curious around where you see yourselves leading the drive to take costs lower.

Dino Otranto: Thanks, Rob, for acknowledging that industry leading cost position that we announced today and it's part of our DNA, really, so we pull every single lever that we can. The real exciting one for us though is decarbonisation. You're talking about the offset of all of that diesel and you can do the numbers yourself. We've already flagged the potential US$2 to US$4 a tonne cost impact before 2030. So that's really exciting for us.

You've rightly mentioned AI. We already have a number of agents operating within our scheduling of rail network which is yielding more volume upside at this stage. However, we have banked some cost savings already this coming forecast in that space. So look, for us, just to recap, being the forefront of the curve has been existential for Fortescue and it will remain.

Apple Paget: Rob, just to further add to Dino's excellent comments, as you mentioned, it is about controlling what we can control and one of that is cost, but you have to remember, we also have a very, very healthy balance sheet that is well set up and positioned to support future growth and capex as required, as evidenced by our credit metrics.

Rob Stein: (Macquarie) Thanks. Thanks, Apple and Dino. Maybe just to take that a bit further, so what are you seeing in your investments today and what you're developing from an IP point of view that allows you to take more bets on differentiating resources, maybe I'll put it all resources that may not necessarily be hotly contested, how are you thinking about using that to extract value? For example, what do you see in Alta Copper that means that you can develop the resource cheaper, faster, with low labour intensity that can ultimately drive value?

Dino Otranto: I think our record for capital intensity speaks for itself. We have historically deployed capital I'd say ahead of our peers in the Pilbara. We expect to apply that same project mentality to any of our projects around the world. One specific technology that we have already disclosed is an investment we made in a process which removed arsenic from copper ore bodies and we look to then apply that at our Alta Copper project to further improve to deploy capital in the processing infrastructure.

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

Paul Young: (Goldman Sachs) Thanks. Evening, Dino, Gus and Apple. Hope you're all well. First question is more just a housekeeping one, actually on decarb capex. Dino, I think it was a bit over US$400 million in the half and guidance implies it has to step up to US$500 million to US$700 million in the second half. More broadly though, actually, the question is on looking on the go for when is peak year for decarb spend?

Dino Otranto: The next couple of years, Paul. This is really the first significant year of expenditure. We see our equipment turning up this year, that's the majority of expense, then it will take a couple of years for that to conclude.

Apple Paget: Paul, just to add to that, you're absolutely right. We're not changing our guidance. We spent US$426 million in the first half; we will continue to spend up to the US$900 million to US$1.2 billion guidance. Just FYI, we've spent about US$800 million up to 30 June last year. Let's say we spend another US$1 billion. We've given the US$6.2 billion in real terms. We've probably got a run rate of about US$1 billion left to the end of the decade, however, it is going to be lumpy and, as Dino said, probably next couple of years would continue to grow.

Paul Young: (Goldman Sachs) Okay. Thanks. Thanks, Apple. Then broadly, just looking at the go forward, the strategy and the outlook for capex and projects for FMG has changed considerably over the last two or three years. You're not spending anything on hydrogen projects now, that's reduced and that pipeline's reduced. The balance sheet's strong but the forward-looking capex will probably stay around the US$4 to US$4.5 billion mark with the decarb program.

Then you've got the replacement mines which are kicking in and I see you've added another one to the mix, Wyloo North, which is Eliwana on the small side, but still, the replacement mine capex, Dino, will kick in quite aggressively at the end of the decade and then over a five-year period and at the same time now, we're taking on potentially two, yes, exciting and interesting projects, Gabon and Cañariaco in Peru, and just basic benchmarking, when these are minimum US$5 billion projects, I would have thought, and possibly FID by the end of the decade.

So yeah, the balance sheet's probably stronger now than what you thought. So I'm just trying to match up how do you think about do you have enough capacity towards the end of the decade and is FID on these projects by end of the decade realistic within your budgeting?

Dino Otranto: Thanks, Paul. Look, I think largely you're on point, based on what we've said. We've been talking about Nydinghu and Mindy for the last five years and every time it's still another 5-10 years out. So that's our objective. Thank you for picking up Wyloo North that we brought in because that's another one of the smaller outlooks.

I think I reminded everyone on the call last time, Blacksmith as a standalone will open up a corridor for Serenity as well, so we're looking forward to that coming in. So our objective is to defer Mindy and Nydinghu as much as we can. They're currently still in the timeline, as you have suggested. I'll just let Apple speak to the balance sheet capacity for any projects and I think, again, we're really well positioned.

Apple Paget: Yeah, Paul look, we have, as I've mentioned in the past, we purposefully entered into this investment cycle with very, very strong cash position to draw from. We've got plenty of headroom. I do question some of your comments around US$5 billion here and there on FID. We're not there yet. I think the best prediction of the future is probably the past, including this year. It is going to be lumpy in nature, but we have done everything that we possibly can to keep it as even as possible and as low as possible whilst not impacting production, safety and of course, opex.

Operator: Your next question comes from Kaan Peker with RBC. Please go ahead.

Kaan Peker: (RBC) Good afternoon, Dino, Gus, Apple and Andy. First question is on Hematite shipments. Have there been any annual contracts reset on a blended benchmark basis already and if so, can you quantify the portion of that and I'll come back with a second.

Ben Kuchel: Thanks, Kaan, for the question. Look, I mean again, we don't comment on contractual specifics which of course are confidential in nature. What I am happy to say is that when it comes to determination of pricing for our products, whether it's under a long-term contracts or spot contracts or any other form of pricing is intended to ensure that we achieve competitive market-based pricing. The index component of that is one component, but importantly, for our products, there's a discount that is applied on a product-specific basis and the net result will continue to deliver market-based pricing for our product.

Kaan Peker: (RBC) Sure. I mean just maybe pressing on that. I mean it is - you have previously mentioned that you are going to mix benchmarks. There's no indication of when that would start or has that already started?

Ben Kuchel: When it comes to the pricing references that we are using, look, I mean, we've historically used Platts 62% Index when that existed. Obviously, the shift to the 61% Index is applied from January, there was always going to be some shift in underlying reference indices from that point in time.

Operator: Your next question comes from Lachlan Shaw with UBS. Please go ahead. Lachlan Shaw, your line is live please proceed with your question.

Lachlan Shaw: (UBS) Good evening, guys sorry – Dino, Apple, team, I hope you're well, two from me. So firstly, just in terms of the decarb, obviously pleasing progress. You're stepping up the pace of rollout of solar cells, batteries and Nabrawind turbines in the Pilbara. I wanted to ask how is the sort of performance and cost of install there progressing versus expectations and I'll come back with my second.

Dino Otranto: Look, really, really well. Every solar installation is coming in cheaper than the last and the batteries as we talked about before, we've got an amazing partnership with BYD and we're really just starting to roll out the batteries. So I guess the next important milestone for us on our solar installation is looking at an automated process. So in Australia, more than half the costs are in labour for installation, so we're really excited about a couple technologies we've got in our back pocket that we're rolling out now for the rest of the solar farm that we're building.

Lachlan Shaw: (UBS) Great, thank you. Then just my second one is I suppose a market question. So sitting here today, we've got elevated port stocks in China. We've just come out of Lunar New Year. Interested in what your team on the ground is reporting back to you about the sentiment and the mood in the market there, and to what extent the current fundamentals you think reflect the usual seasonality around port stocks or maybe there's more of an underlying issue there. So any comments or colour that you can help us with in terms of the market would be appreciated. Thank you.

Ben Kuchel: Yes, thanks for the question. It's Ben Kuchel here, Sales and Marketing Director, I'll take that one. Look, I think we've only just come out the Lunar New Year, so it's probably quite early to get a lot of detailed information from the ground post New Year. But I think the expectation leading into the New Year was that there would be a continuation of existing production or at least for a period of time after the holidays. You can probably anticipate that we're going to head into March, April, May and that's typically a period of higher crude steel production and that's what I would anticipate this year as well.

The outlook for this year more generally I think is similar to last year and in that sense, it should be a stronger year for crude steel production similar to last year.

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

Lyndon Fagan: (J.P. Morgan) Thanks very much and g'day, everyone. Dino, I just wanted to focus in on the Energy division. There was some talk of it being EBITDA break-even, we're still losing a couple of hundred million in a half. I can see that revenue ticked down ever so slightly and there's been a bit of R&D spend pulled back, but have you got any sort of new guidance on when we can expect that division to I guess not be a drag on the numbers?

Dino Otranto: Thanks, Lyndon, but I'll hand it over to Gus, mate. He leads that division.

Gus Pichot: Well yes, so R&D, it's a dynamic process. Again, we take care and we try, as I mentioned before, to bring technology constantly into every single project that we take on. Clearly, we had again, as everything on R&D, it has its risks, but again, we're on the forefront of that technology, trying to make it happen, so we will address this when it comes if there's a breakthrough into our project.

Apple Paget: To add to that, Lyndon, we are heading in the right direction. Our H1 net opex is US$201 million, that's a 45 per cent reduction from US$365 million in H1 last year. As Gus would attest to, our R&D has reduced a lot, but that reflects our strategic pivot and refocus of Fortescue during that period and we have moved away from in-house manufacturing and streamlined the portfolio to focus on priority technologies and this will result in a reduction in R&D run rate, but we will see, hopefully, over the next handful of years, a turnaround of that into a positive territory.

Lyndon Fagan: (J.P. Morgan) Thanks, and I guess my next one is just more thinking about Fortescue as an investment proposition. I guess you're going into a period of being ex-growth from an earnings point of view. I guess what would you say to prospective investors to make them want to buy the stock? I mean we've got Gabon coming, copper coming, but they are next decade in reality. We've got higher capex for the foreseeable future. I guess what would you put out there as a reason for shareholders to - or prospective shareholders to buy the stock?

Dino Otranto: Well, I think relative to our peers, it's trading at a pretty good price, right? We will continue to strip costs out of the business. We're deploying technology at a rate of knots unseen in any other organisation in mining. We believe that's a commercial proposition, and we're going hard at diversifying into a copper business. So yes, you call out Alta, which is in that time, we've got a couple other exploration copper plays in our own backyard, which we're really excited about. And fundamentally, look at the divvy. I mean it's a significant cash-generating business in whatever way you look at it, in whatever cycle. We're the cheapest iron ore producer on the market. I mean, I think it's a no-brainer.

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

Glyn Lawcock: (Barrenjoey) Morning, team. Just a couple of ones. Firstly, Dino, you said you've rolled out some I think electric excavators, a couple of trains, locomotives. Anything you're seeing at the moment? Are there any teething issues? How's the battery life going? Maybe a little bit early, but just any observations you might be able to share. Then the second one's for Apple very quickly. Just D&A stepped up again in the first half, about US$150 million half on half and that was - that previous one was up a hundred on the half before that. So just anything you could share with what the second half looks like. I'm conscious you are obviously stepping up your spend. So just anything you could add. Thank you.

Dino Otranto: I'll take the first one then I'll hand over to Apple, Glyn. Look, these electric excavators for instance are performing well above our expectations - and we're basically getting to record equivalent rates within the first couple months of using them. As with any new piece of equipment, you have a few teething issues in commissioning, but we're well through that. I think the upside is coming back to the energy grid that we're building. It is phenomenal what you can do with electrification now. The grid's working exactly as expected.

Our battery storage - our facilities, for instance, have already saved a number of blackout situations on our network as the system is much faster to respond than the typical hydrocarbon or diesel generator, for instance. So we see it to be a much more reliable, much less maintenance intervention as the fleet goes on. So I'd just remind everyone, we're at the start of the technology at the moment and we're already cheaper than the diesel counterpart.

Apple Paget: Glyn, to your second question, absolutely right, US$1.45 billion in a half, up 19 per cent compared to prior period. It's attributable to a few things and as you mentioned, when you have a growing asset base, you do have an increase in depreciation and a step up in depreciation. That's attributable to the investments in sustaining and hub development. Also, don't forget the transition of our decarbonisation assets, which have now become operational, like PEC4 and Iron Bridge. To your question, what does it look like for the second half? Expect the same run rate as this half.

Operator: Your next question comes from Mitch Ryan with Jefferies. Please go ahead.

Mitch Ryan: (Jefferies) Thanks for taking my question. This is just a follow-up to Lyndon's question just around the R&D spend. So it was run rating at US$270 million a half last year and then US$175 million in this half. How do we think about that going forward? Will that continue to fall as you're decreasing some of that spend?

Gus Pichot: Again, as I mentioned, I think I addressed earlier, but I want to enforce this. We will look at the R&D budget last year, mainly because we had a lot of other programs there that we were again testing to see which was the most suitable for the decarb and other project objectives. We are redoing the budget again for next year as we speak, addressing again all what Dino mentioned about what it's been taking advantage into our decarb product. So again, we will be disciplined and we'll look at how commercial this R&D will be, mainly having the main objective to decarb our own projects as we are doing and then that will have the commercial analysis into the budget that is coming in the next couple of months.

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

John Tumazos: (John Tumazos Very Independent Research) We have so much wonderful work that's been done on the green front and a lot of money that's been spent, and I know it takes time for the projects to come together and show us revenue. Do you think Fortescue would take a partner, sell a 20 per cent stake so that there would be a marker in the market quantifying the value where a partner shows respect and pays to get in and bear some of the cost?

Gus Pichot: Again, yes, sorry about the noise. Somebody's drinking coffee late. Well, we analyse again, we are on the stage that we are trying to bring forward the projects as long as we can. Obviously, we would de-risk if we have to into partnerships and the de-risking capital if needed. At the moment, we're not in that stage, as I said, and I think on the latest calls, and you heard me since I took this position, that the market is not there for most of the projects. That comes back to the growth new mindset of being commercially disciplined and that decision that at the moment - and I appreciate your observation, but at the moment we are not in that stage to look at partnerships.

Yes, it's always an option and we also look at every potential partnership to just bring projects to light, but it's not looking at the moment that we are going to do that.

Operator: Your next question comes from Brad Thompson with The Australian. Please go ahead.

Brad Thompson: (The Australian) Hi Dino, Gus and Apple and team, thanks for your time. Congratulations on the record shipments from Port Hedland in the first half. Just wondering about that, your guidance is up to 205 million tonnes. You've got an allocation of 210 million tonnes. Have you got any interest in another berth there in Port Hedland or are you happy at 210 million tonnes for the foreseeable future?

Dino Otranto: Thanks, Brad. Look, we are always evaluating optionality right now. We see our licence limit at 210 million tonnes in our current capacity is a pretty good, sweet spot for our portfolio in the near term.

Brad Thompson: (The Australian) Thank you. If I could just ask Gus a question about Fortescue Zero. With the reset last year, Gus, how many employees did you - what sort of size workforce did you settle at?

Gus Pichot: Well, yes, we went through that process and again, it's still going. So that detail I don't have, but as we discussed previously, we're going through, again through the process and as I said before, R&D for us and technology is very important. So we are - what I can tell you, and I've been today going through the different projects and programs that we have in Zero and still it looks really promising. I would probably update it a little bit further down, as I said in the next couple of weeks. Again, we have a lot of people still doing amazing things.

Operator: Your next question comes from Melanie Burton with ThomsonReuters. Please go ahead.

Melanie Burton: (ThomsonReuters) Hi everyone. Thanks for your time today. So we can see that you're increasing your copper footprint with Alta and perhaps there could be some more near dated copper growth. So there's obviously a lot of M&A in the sector, big scale M&A. I wonder how you're thinking about that given your growth options in copper and iron ore are much longer dated. Is that something that you're actively thinking about? Thank you.

Gus Pichot: Again, we have a lot of options and mainly as you know, critical minerals is clearly on our main strategic view. Alta Copper is there. Again, like Dino mentioned, there are other exciting projects that we cannot update at the moment because they're not significant, but they look quite promising. So again, as I said before, some of the other projects on molecules and electrons are taking longer because again, as we said, the market is not there. Again, we are being disciplined commercially, and we'll wait for the right moment to happen. But again, we are focusing on diversification in critical minerals.

Melanie Burton: (ThomsonReuters) Your diversification in critical minerals at the minute appears to be Alta Copper, which is in the 2030s. Is there any colour that you can give us around these copper exploration that you found in Australia or otherwise? When we think about critical minerals, we're thinking about an array of minerals beyond copper. Is that the way that you are thinking about it or just focusing on copper?

Gus Pichot: No, I mentioned critical minerals because we have a rare earth project in Brazil and Nick, I don't know if you want to expand on that. Also, copper in Kazakhstan and in North America as well. So apart from Latin America, as we mentioned with Peru, Argentina, Chile. Nick, do you want to expand into the portfolio please?

Nick Nitschke: Sure. Thanks Gus. Yes, that's right. We've got a number of copper projects globally. I'll call out a couple specifically in Canada, in British Columbia where we've got some very exciting tenements that sit between two world-class mines that we are going to fast track to drilling this year. Similar in Kazakhstan, we've got a suite of projects that will be progressed to drilling. We look to drill about 15,000 metres this field season, testing a number of both porphyry targets as well as a couple sedimentary copper targets within the Chu-Sarysu basin.

So our focus from an exploration perspective is still try and pick up tenements in world-class terrains and that's what we're doing. As Gus touched on, we'll be aggressively testing these targets through the portfolio over the coming 12 to 24 months.

Operator: Your next question comes from Brandon How with Capital Brief. Please go ahead.

Brandon How: (Capital Brief) Hi team. Thanks very much for the time this morning. Just a couple of questions. First of all, does Fortescue have any concerns about the potential flow through impact to iron ore earnings from the Australian Government's move to put tariffs on Chinese steel? Secondly, Fortescue's Green Iron partner, Baowu Steel has warned that these tariffs, if not given any exemption for its own green steel products, could undermine Australia's transition assets. Is that a position that you agree with? Thanks.

Ben Kuchel: Sure. It's Ben Kuchel here. Thanks for the question. I mean, I've noticed the commentary in this space. I think we're not a party to the discussions going on around steel tariffs as you might imagine. From our perspective, free trade is a key to our success and has been a key element to Australia's success over many, many years. So from our perspective, trade barriers are something that we would have to understand in detail.

Brandon How: (Capital Brief) Did you have any thoughts on Baowu Steel's comments?

Ben Kuchel: I think your question is probably better directed to Baowu Steel.

Operator: Your next question comes from Mark Wembridge with AFR. Please go ahead.

Mark Wembridge: (Australian Financial Review) Morning, evening guys. Just a quick one from me today. Everyone else has covered everything quite well. Is there any update on Gladstone and your discussions with the Queensland Government there?

Gus Pichot: Well, as you know, we have very good discussions and we are progressing into finding a solution. Again, as we said, we are probably one of the biggest taxpayers in Australia and we want to do the right thing. So, we are working very collaboratively with the Government, and we'll continue to do so.

Mark Wembridge: (Australian Financial Review) But you haven't reached a figure yet?

Gus Pichot: Not yet.

Mark Wembridge: (Australian Financial Review) Okay, thank you.

Operator: The next question comes from Kaan Peker with RBC. Please go ahead.

Kaan Peker: (RBC) Hi again, team. Sorry I got cut off before I could ask my second. Just on the 55% Fe strategy, have you guys shipped any trial parcels of the new product? Any comments about realisation and if there is a difference in the spread, what would trigger the reintroduction of West Pilbara Fines or something similar of that grade? Thanks.

Ben Kuchel: Sure. Thanks for the question, Kaan. It's Ben Kuchel here. I will have a crack at answering it for you. At this stage, the lower grade product goes into production later this calendar year. We're going to be focusing closely on engaging customers over the - well, we've already been engaging with customers, but we'll continue to engage closely with customers in the coming months ahead of the start of production to place that product for maximum value. At this stage, it's probably too early to form a view on what realisation we will average over time in the future.

Kaan Peker: (RBC) And [unclear] what about West Pilbara Fines?

Andrew Driscoll: Sorry Kaan, it's Andy here. We didn't quite catch the last part of that question, but if you recall the refinement in product mix and the change in mine plan has resulted in a very significant reduction in TMM over the life of mine. So that's over the next 20 years. The strip ratio is going to be smoother. It's going to average about 1.6. So we talked about some very significant value accretion as a result of the product mix refinement and life of mine change.

We would need to see a very significant, and evidence of a sustained move in pricing relativities to look at walking back the strategy. Clearly that would remain an option for us, and I think we said at the time, Kaan, that we would have the flexibility to reintroduce a higher-grade product once we've developed some of the larger hubs into the next decade.

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

Lachlan Shaw: (UBS) Evening, team. Thanks for taking my follow up question. I just had one, long dated I know, but the molten oxide electrolysis cell that you're now starting to talk to in terms of zero carbon iron, what's the critical pathway here? There's a lot of new elements in terms of how that comes to market, potential reagents, waste management. How do we think about that? That's obviously, is it mid-2030s, we should be thinking about? What's the thinking there on timing. Thanks.

Dino Otranto: Well, thanks for the question, Lachlan. It's actually pretty exciting from the development we've done on it. The critical path is now to get the balance of plant design done. It's similar to a Bayer circuit that we're looking at, so it's not too complex. The most exciting thing though is the energy intensity, so the work is to get the cost of the electron down, which we're working pretty hard on, and then we'll see that technology come through. We are looking at building a much larger pilot plant up in the Pilbara when we're ready,

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

Dino Otranto: Look, just thank you everyone for joining us on the call today. There were some great questions. We went over time, so appreciate everyone for coming and we'll see you all again soon.

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

[END OF TRANSCRIPT]