Fortescue

June 2022 Quarterly Production Report

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Start of Transcript

Operator: Thank you for standing by and welcome to the Fortescue Metals Group June 2022 Quarterly Production Report analyst call. All participants are in a listen only mode. There will be a presentation followed by a question and answer session. If you wish to ask a question, you will need to press the star key followed by the number one on your telephone keypad. Please note, there is a limit of two questions per participant. If you wish to ask more questions please re-join the queue. I would now like to hand the conference call over to Ms Elizabeth Gaines, CEO. Please go ahead.

Elizabeth Gaines: Thank you Harmony, and good morning or afternoon everybody and welcome to Fortescue's June 2022 Quarterly Production Report. Joining me today in Perth is Ian Wells, Chief Financial Officer. I'm delighted to welcome Yuluwirri McGrady who joins us as CEO for a day. As a proud Goomilaroi man, Yulu joined Fortescue in 2014, where he worked at Christmas Creek in the Aboriginal Development and VTEC space.

Now in his role as Manager of Aboriginal Business Development, Yulu is a very important interface between Aboriginal businesses and our Billion Opportunities program. Yulu is committed to encouraging and empowering the next generation of Aboriginal leaders to take advantage of the vast career opportunities within the resources sector and it's great to have you with us Yulu.

Yuluwirri McGrady: Thanks Elizabeth, great to be here.

Elizabeth Gaines: That brings me to our fourth quarter results. As you can see from today's report, Fortescue's operating excellence continues to drive strong results across our key metrics of safety, production and cost, with another outstanding quarter for Fortescue.

Our operational excellence is underpinned by our absolute focus on the health, safety and wellbeing of the entire Fortescue family. I want to commend the entire team for continuing to look out for their mates on our journey to zero harm. Our Total Recordable Injury Frequency Rate (TRIFR) continues to improve, with a TRIFR for the 12 months to 30 June 2022 of 1.8. That's 10 per cent lower than at 30 June 2021.

This reflects our core value of Safety, and it was a particularly pleasing performance while managing the ongoing challenges resulting from COVID-19. Fortescue is not immune from the latest wave of community transmission of COVID across Western Australia and each of our sites continues to be impacted. I would like to acknowledge our team members who have contracted COVID, including those who have either isolated or are isolating on site.

I'd also like to take this opportunity to acknowledge the 'Enough is Enough' report, which was released during the quarter, following a WA Parliamentary Inquiry into sexual harassment against women in the FIFO mining industry. Having participated fully in the Inquiry process, Fortescue supports this important work undertaken by the Committee. Ensuring the safety and wellbeing of our Fortescue family is our highest priority. There is no place for harassment of any kind at Fortescue or in any workplace, and we continue to take decisive action to ensure our workplaces are safe for everyone.

Moving to our operational performance, the Fortescue team has delivered excellent results for the June quarter, with record iron ore shipments of 49.5 million tonnes. This outstanding operating performance has resulted in record FY22 shipments of 189 million tonnes, which exceeded the top end of guidance.

In FY19, Fortescue shipped 168 million tonnes and that's approximately 20 million tonnes below the shipments we just reported for FY22, clearly demonstrating the value that has been created year on year. This is a result of the team's commitment to operational excellence and production efficiency, which together with the successful integration of Eliwana, has delivered strong growth in Fortescue's production and shipments.

This year's results were achieved in a challenging operating environment due to the impact of COVID-19, as well as severe inflationary pressures, including soaring diesel costs resulting from the conflict in Ukraine.

We continue to operate in an environment of elevated cost inflation and as Ian will discuss shortly, these inflationary pressures have further increased during the quarter. Despite these industry-wide and global headwinds, Fortescue's unique culture and values have delivered these exceptional results and I'm immensely proud of the performance of the entire Fortescue team.

Turning to the market, we continue to see a strong demand for Fortescue's products during what remains a dynamic and volatile period in the iron ore market. Ongoing COVID-19 related lockdowns in China and weakening global economic outlook have added to the market uncertainty.

Iron ore prices trended lower during the quarter, impacted by COVID-19 restrictions, which disrupted China's downstream steel demand and weighed on steel mill margins.

Looking ahead, there are clear headwinds to global economic growth including the continuing conflict in Ukraine, the energy crisis in Europe and tighter monetary policy. In China, we expect both infrastructure investment and the further relaxation of COVID restrictions to support underlying steel demand.

Fortescue's average revenue was US$108 a tonne in the June quarter and that's an increase of 8 per cent over the previous quarter as our realisation increased from 70 per cent to 78 per cent of the Platts 62% Index.

Our sales and marketing strategy remains very centred on the current and future needs of our customers and the optimisation of our supply chain. As Fortescue continues to maintain strong relationships with all of our Chinese stakeholders and that's underpinned by our multifaceted approach spanning supply, procurement, financing, investment and social engagement.

Portside sales by our wholly owned China sales entity, FMG Trading Shanghai, increased to 5 million tonnes in the June quarter, with sales of 18.5 million tonnes in FY22. FMG Trading Shanghai is now a very well-established part of our broader sales and marketing function, and complements our other sales channels. As always we remain very focused on working closely with our customers in China and elsewhere to ensure that we're responsive to market conditions.

Turning to Iron Bridge, the Project continues to make significant progress with key milestones achieved during the quarter, including six module ships unloaded at Port Hedland, which takes the total at 30 June to 20 of 21 module ships that have been berthed and unloaded. All critical path items have now been delivered to site and I'm pleased to advise that the last module ship was unloaded this week.

We've seen the installation of primary crusher A, and we've commenced commissioning of dry circuit A from the primary crusher to the coarse ore stockpile. The team have made continued progress on the installation of the concentrate and return water pipelines across excavation, welding and laying. And construction of the Concentrate Handling Facility at Port Hedland has advanced with civil, structural and electrical works progressing.

The Iron Bridge project demonstrates Fortescue's commitment to our strategic pillars of investing in the long term sustainability of our iron ore business and investing in growth. Iron Bridge will deliver 22 million tonnes per annum of high grade 67% Fe magnetite concentrate, enabling Fortescue to provide an enhanced product range and increase production and shipping capacity.

The capital estimate for the project is unchanged at a range of US$3.6 billion to US$3.8 billion, with first production scheduled for the March 2023 quarter.

Turning to exploration, and consistent with our strategic focus to invest in the future of our core iron ore business and diversify commodities that support decarbonisation, total exploration and studies capital expenditure for the June quarter was US$63 million. For FY22 the total expenditure was US$194 million.

Iron ore exploration in the Pilbara included resource definition drilling in the Eastern Hamersley, with a focus on the program at Nyidinghu and Mindy South, along with regional exploration programs across our tenement holdings in the Pilbara.

Exploration activity on the Australian copper-gold portfolio included target generation, utilising geophysical datasets gathered through the first half of the financial year, with a focus over the Paterson projects in Western Australia; as well as drilling at the Vulcan South project in South Australia.

Our international activities included drilling programs in Argentina and Kazakhstan, and exploration activities across several project areas in Peru, Chile, Brazil and Ecuador. On that note, I'll hand over to Ian for the finance update. Ian.

Ian Wells: Thanks Elizabeth, and hi everyone. The June quarter and FY22 marks another period of consistent and predictable performance, which has enabled the business to take advantage of market conditions and deliver another year of strong free cash flow generation.

As always, it's a real privilege to highlight the financial results disclosed in the quarterly report that we released earlier this morning.

Starting with revenue, our average revenue in Q4 of US$108 a tonne, represented a realisation of 78 per cent of the Platts 62% Index, that was up US$8 a tonne quarter on quarter and compares to a realisation of 70 per cent in the March quarter. That means full year average revenue was an even US$100 a tonne at a realisation of 72 per cent of the Platts 62% Index.

Realisations have been in sharp focus through the year, impacted by Chinese steel production curtailments during the December half and more recently as COVID-19 restrictions disrupted steel demand and impacted steel margins. As you can see revenue realisations improved in the quarter and we've been consistent in our message that realisations are cyclical and a result of the market supply-demand dynamics.

Fortescue's average realisation of 78 per cent in the June quarter is clearly trending back towards the historical average, which is a little over 80 per cent. It also shows the consistent product quality and low variability of Fortescue's ores continue to be recognised in the market and valued by our customers.

So moving to costs and as discussed last quarter, the lag effect of inflationary pressures continue to impact operating and capital costs. Our C1 costs of US$17.19 in the June quarter was 9 per cent or about US$1.40 per tonne higher than the previous quarter, and that reflects the increase in diesel costs, labour rates and other consumables like ammonium nitrate.

C1 costs for the full year was US$15.91 a tonne, and that was in line with our updated guidance, and we remain focused on cost management and leveraging technology and innovation to deliver productivity gains. Our FY23 cost guidance takes into account that lag effect of ongoing inflationary pressure into FY23.

So relative to the June quarter C1 of US$17.19, our FY23 C1 cost guidance of US$18.00 to US$18.75 a tonne anticipates a further increase in diesel prices, labour rates and other consumables as well as mine plan driven impacts.

Just a reminder on our cost sensitivity guidance, for fuel and energy, which is largely diesel that has increased to represent around 20 per cent of total C1 costs, and we guide that a US$10 movement in the barrel price of crude oil translates to a 30 to 35 per cent per tonne impact on C1.

On the exchange rate, the majority of our cost base is incurred in Aussie dollars, so every one cent movement in the AUD/USD exchange rate impacts C1 by about 15 cents a tonne.

Moving to cashflow and balance sheet; closing cash at 30 June 2022 was US$5.2 billion and that compares to US$2.2 billion at 31 March, and reflects both strong free cash flow generation during the quarter, as well as the proceeds of our US$1.5 billion bond issue. That cash balance is also after capital expenditure of US$766 million in the quarter, bringing total capex for FY22 to US$3.1 billion. That was also in line with guidance.

The investment included about US$1.0 billion on major projects, that's Iron Bridge and PEC, as well as US$220 million for the acquisition of Williams Advanced Engineering.

Gross debt increased to US$6.1 billion at 30 June, that was after the completion of the bond issue, which included Fortescue's inaugural green bond of US$800 million. The Notes issue further optimises Fortescue's capital structure and is aligned with our capital allocation framework, which includes a commitment to a strong balance sheet with targeted investment grade credit metrics. As we've done in the past, we'll continue to proactively manage our debt maturity profile.

This balance sheet strength and our disciplined capital allocation framework positions us well moving into FY23 to continue to reinvest back into the business to support safe, reliable, and productive operations, and we're clearly seeing the benefits of that with our production performance.

We're also focused on delivering returns to shareholders and also investing in growth. On that investment, there are a few parts to highlight in our FY23 capex guidance, which is a range of US$2.7 billion to US$3.1 billion excluding FFI.

Firstly, on sustaining capital, that's a range of US$1.4 billion to US$1.6 billion; this is capital investment, which supports asset performance and production increases and as a result, an attractive return on investment. This category is showing an increase relative to FY22 of US$1.3 billion.

Just to call out a few items. In FY23, we'll see the completion of the Operational Development projects that started in FY22. We've got scheduled maintenance on our ore processing facilities, we also have maintenance and upgrades of camp infrastructure and that's aligned with the initiatives that were identified through our Workplace Integrity Review.

We've got some mine-plan led dewatering increases, and of course there'll be some sustaining capital incurred for Iron Bridge as it transitions into operations.

We're also guiding hub development capex of US$300 million with work underway on the Flying Fish mining area, exploration studies of US$200 million, and that's in line with FY22, major projects in a range of US$700 million to US$800 million, that's reflecting the completion of the Iron Bridge project and ongoing work on PEC.

Then the final category is US$100 million to US$200 million of capital investment in decarbonisation, which largely relates to early stage renewable energy infrastructure and green fleet development, both aligned with our decarbonisation commitments.

On Fortescue Future Industries, FFI's total expenditure in FY22 was US$534 million. That's inclusive of US$386 million of operating expenditure, and that was also consistent with our guidance. In accordance with Fortescue's capital allocation framework, the capital commitment unutilised by FFI as at 30 June 2022 is US$728 million. FFI's FY23 anticipated expenditure is a range of US$600 million to US$700 million inclusive of US$100 million of capex and the balance of US$500 million to US$600 million will be recognised as an operating expense.

So in closing, delivering consistent performance and being transparent in doing what we say we're going to do is an important part of Fortescue's track record of delivery. As always, by focusing on the things that we can control, we continue to create value for all of our stakeholders. So, we look forward to disclosing the full set of financial results at the end of August. On that note Elizabeth, I'll pass it back to you.

Elizabeth Gaines: Thanks Ian. Fortescue is taking an industry-leading position on reducing emissions across our operations as we continue to transition to a global green energy and resources company. We've set clear priorities for our pathway to decarbonisation, including investment in renewable energy, through Pilbara Energy Connect, as well as investing in green technologies to eliminate the use of diesel in our mobile fleet.

We're already seeing the benefits of our decarbonisation initiatives with over 78 million litres of diesel consumption avoided in FY22 at our Chichester operations as a result of the Chichester Solar Gas Hybrid project, which included the first large scale solar power generation from November last year.

Development continues on the Pilbara Energy Connect project, which includes transmission infrastructure, hybrid solar gas generation and large scale battery storage. PEC will integrate Fortescue's stationary energy facilities into an efficient network and enable the integration of additional renewable energy in the future.

Recent milestones include the completion of the Stage 1 transmission line construction and energisation, which is now providing power to Iron Bridge, as well as the completion of the installation of all major structures and mechanical equipment at the expanded Solomon Power Station.

During the quarter, Fortescue entered into a strategic partnership with Tier 1 global heavy equipment manufacturer, Liebherr, for the development and supply of zero emission green mining haul trucks. This agreement is a major step to decarbonising our mobile fleet and it leverages the capabilities and the considerable value that has been created through Fortescue's acquisition of Williams Advanced Engineering earlier this year.

Fortescue Future Industries is taking a global leadership position in green energy and technology and will be a key enabler in delivering on our decarbonisation targets. Progress continues on the development of our Infinity Train project, which will use gravitational energy to recharge its battery electric systems without any additional charging requirements.

Another milestone for FFI during the quarter included the appointment of Mark Hutchinson as CEO Elect, which follows the appointment of Dr Guy Debelle as FFI's CFO. Mark was the former President and CEO of General Electric Group Europe and held a number of senior positions during his 24-year tenure at GE.

Other activities for FFI during the quarter included construction continuing on the two-gigawatt electrolyser manufacturing facility at the Green Energy Manufacturing Centre in Gladstone, Queensland. FFI also participated in an Australian-German business coalition to release a green hydrogen roadmap for large-scale green hydrogen import into Germany. This follows FFI's previously announced MoU with E.ON, one of Europe's largest operators of energy networks and energy infrastructure to deliver up to 5 million tonnes per annum of green hydrogen to Europe by 2030.

In closing, building on our third consecutive year of record operating performance, our FY23 guidance reflects our ongoing commitment to optimising returns from our integrated operations and marketing strategy, with iron ore shipments in the range of 187 million to 192 million tonnes, including 1 million tonnes from Iron Bridge, a C1 cost for hematite in the range of US$18.00 to US$18.75 a tonne and capital expenditure (excluding FFI) in the range of US$2.7 billion to US$3.1 billion.

We remain focused on innovation and productivity to maintain our industry-leading cost position and deliver strong operational performance, despite the inflationary environment that we're all facing. Together with our focus on investing in growth through the Iron Bridge Magnetite project and Fortescue Future Industries, we're well placed to ensure our stakeholders continue to benefit from Fortescue's success. As always, I'd like to pass on my sincere thanks to all of our team members, contractors, and suppliers for their hard work and commitment during this quarter and the financial year as we continue to deliver on our strategic priorities and achieve a record operating performance.

Thank you. I'll hand back to Harmony 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 speakerphone please pick up the handset to ask your question. A reminder that there is a limit of two questions per participant. To ask further questions, please re-join the queue.

Your first question comes from James Redfern from Bank of America. Please go ahead.

James Redfern: (Bank of America) Hi Elizabeth and Ian, hope you are well. Two questions please from me. The first one, this has been talked about before, but I just wanted to confirm the marketing strategy for the Iron Bridge Magnetite product, whether it will start being produced from the March quarter next year, albeit it's only 1 million tonnes next year but thinking more for FY24. Just wondering, will that be sold as a concentrate product directly to China or blended with Fortescue's other hematite products? Thanks.

Elizabeth Gaines: Thanks, James. We've built the infrastructure so that we can blend. I think that an important part of this is that the infrastructure at the port will facilitate the blending of the concentrate with our hematite fines. As to whether we actually blend will depend on the best value that we can generate from the sale of the magnetite concentrate at the time. We've got the flexibility to do that. At this stage it's probably leaning towards sale as a standalone product but I think importantly, we can also sell a virtual blend which is magnetite concentrate and also acquiring sinter fines. The team are working on the marketing strategy, but we know there's going to be very strong demand for our high-grade magnetite concentrate in the market.

James Redfern: (Bank of America) Okay, excellent. Thank you. Second question is around capex. Sustained capex appears to have increased to around US$8 a tonne from US$6 a tonne previously, which is higher compared to your peers, and then also the spend in FFI that is going to be expenses, so there's 85 per cent in FY23, up from 70 per cent in FY22. I just want to understand (1) why is the sustained capex so high and (2) why is the amount that's being expensed in FFI up compared to FY22. Thank you.

Elizabeth Gaines: Maybe we'll start with sustaining capex, so I'll ask Ian to answer that one.

Ian Wells: Yes, the sustaining capex, I think we've been pretty consistent all the way through in terms of I suppose of the cycle that we're in. We spoke about our heavy mining equipment and the maintenance cycle; we're heading into a fleet replacement cycle later in the year. We've also had mine-plan led investment and I suppose differentiating our sustaining capital to our peers you could probably also look at our production performance relative to our peers. We're getting a good return on reinvesting back into our assets.

Elizabeth spoke about the FY19 168 million tonnes versus 188 million tonnes, that's 20 million tonnes per annum. It doesn't take long to get that to add up and if you look at our average EBITDA over the past five or so years that's US$50 a tonne, a very quick payback, let alone at US$100 a tonne. So, we're in that cycle supporting operations. Looking forward, we expect our overall capital to reduce. As Iron Bridge completes, obviously PEC will wind off as well and excluding the decarbonisation investment which will be further down the track and looking forward you should think about it from the perspective we've flagged our fleet replacement and associated investment as production increases and mine-plan led.

We've also then got hub development which the smaller hubs will feature until the next major hub, which we've spoken about, is likely to be Nyidinghu - with a FID on Nyidinghu probably around FY25. So, I think we're really well placed. The production performance and consistency of our operations and remembering that T155 was 155 million tonnes per annum. So, we've had effectively very low capital cost production creep and that's where we're seeing that we're getting appropriate return on that capital.

Elizabeth Gaines: I'll pick up on FFI, and Ian might want to add to that. In terms of the percentage of opex versus capex, I'm not sure we should look at it as a fixed percentage, it's just how the numbers have played out in FY22. There was investment across HyET Solar, some other smaller acquisitions, and the current split is a function of the capex is largely on the manufacturing initiatives and the opex reflects the current activities across the business, largely centred on project identification and targeting specific assets and specific projects, but those costs can't be capitalised until we actually have a project. They will be an operating expenditure until there is a project. Anything you want to add to that, Ian?

Ian Wells: Yes, start-up businesses and operating expenditure treatment is a function of the accounting standards.

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

Hayden Bairstow: (Macquarie) Morning, Ian and Elizabeth. Just on the capex, Ian, I just wanted to touch back on sustaining. Is that level then a fair number to you, ignoring all of the other stuff which clearly is going to roll off, should we be thinking about around that US$1.5 billion mark for the hematite assets going forward and there will be, as you say, need new hubs and things like that, that come in and make it a bit more lumpy? Is that a good way to think about it?

Ian Wells: I think I've been consistent in talking about depreciation as a proxy for sustaining capital, noting that you do have some lumps and bumps. Not that you'd be bored enough to go back and have a look at it but if you look at our investment over the last 10 years it not surprisingly matches up pretty closely to depreciation. So, a couple of things. Depreciation is increasing; we've been investing at higher than depreciation for the last few years through our growth projects and so forth but going forward that's a fair proxy.

The key points of the lumpiness I spoke to, answering James's question, which is the fleet replacement, the smaller hub developments which is maintaining production, and then Nyidinghu being the major one, and then obviously that's excluding decarbonisation, which is something that we haven't provided to you yet. We've got some capital guidance for this year, which is early-stage studies type, and research and development expenditure as opposed to the major investment required to support our broader decarbonisation by 2030.

Hayden Bairstow: (Macquarie) Okay, so lift the D&A to match the sustaining capital guidance I guess is the message there, but then let's confirm that. Then also on Iron Bridge, they're not going to produce much this year or FY23. Do I just assume that it's all capitalised for this year or are you going to run it through the P&L in the early phases with an effective loss?

Ian Wells: The way the accounting works, Hayden, is the first production as soon as you've got revenue, it's not about being necessarily profitable revenue but as soon as you've got revenue you kick in from capex to opex. So, your cost on a per-tonne basis is kind of irrelevant to the production; it's what the cost is. There is some inventory but if you think about Eliwana and the ramp-up of Eliwana, the first batch of production over a number of months is disproportionate on a cost basis on the long-run cost versus the cost within that period. So, short version is there'll be operating costs for Iron Bridge that we recognised along with that million tonnes and again the cost will be disproportionate to the million tonnes.

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

Kaan Pecker: (Royal Bank of Canada) Hi Elizabeth, Ian and team. Two questions from me. I'm just wondering if you can give a little bit more guidance around the portion of West Pilbara Fines for FY23. Do we expect it to stay in that single-digit percentage for the product mix?

Elizabeth Gaines: Kaan, it will be consistent with the sort of volumes we saw in FY22.

Kaan Pecker: (Royal Bank of Canada) Sure. Also maybe on Iron Bridge, when will we be able to get a unit cost update for that?

Ian Wells: I think that's probably for next financial year. We're currently in the midst of concluding the development. We'll have some costs, as I mentioned to Hayden, but I think guidance for Iron Bridge will be later in this year if not this time next year.

Kaan Pecker: (Royal Bank of Canada) Sure, and quickly, still on Iron Bridge. Just wondering how we should know that 1 million tonne guidance will be March 2023 first production. It seems like a slow initial start-up. Is that fair to assume?

Elizabeth Gaines: Well, we indicated a 12 to 18 month ramp-up. I think for FY24 it's relatively linear. We'd probably see in FY24, depending on where we are in that range, between 7 million and 11 million tonnes. I think that would give you an indication. That would be the indication in terms of FY24 volumes, based on a linear 12 to 18 month ramp-up profile.

We've had a lot of success with ramping up Eliwana. We know how to ramp it up and that's where the focus will be once we get the project complete and commissioned.

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

Robert Stein: (CLSA) Hi team. Congratulations on a record year. I just had a couple of questions on the hydrogen side of the business. One, on the electrolyser facility, how flexible are you in changing technology between different types of electrolysers as they either compete or get better versus say their competition, the PEM electrolysers for example?

Elizabeth Gaines: Well, I think the team are staying right across the developments, there is some flexibility in that. We're looking at an automated assembly facility. As things change, there is some flexibility there to change with that new and emerging technology as well.

Robert Stein: (CLSA, Analyst) So, you're not locked into a technology at the start, you can adapt and move as different costs and different technologies change.

Elizabeth Gaines: It's the combination of the stack and then you get the balance of plant and the technologies. This is an initial stage but importantly, there is the capacity to automate the assembly, and you can - as we know with many manufacturing facilities, things can change and then you have that flexibility with an automated assembly function. We're at the initial stages now. The team is staying right across that emerging technology and there'll be the opportunity to flex as that opportunity emerges. We've talked about this being stage 1; there could be other stages of that facility.

Robert Stein: (CLSA, Analyst) Yes, no problems. Thanks for that. The second part of that question is relating to the green iron technology that we've heard a little bit about in the past. We haven't heard on it much recently. Can you just give us an update on how those pilots are going with the conversion of low-grade iron ore in the Pilbara to that green iron at low temperature?

Elizabeth Gaines: Yes. That work is progressing. We think we're in a unique position to scale green iron and potentially green steel production in a decarbonising economy and through Fortescue Future Industries we are evaluating a range of pathways. This includes electrochemically converting iron ore to green iron at low temperatures. We've done test work and we're now establishing a separate facility here in Perth to really advance that work and get to lab-scale testing. There's a lot of work underway and particularly in the LTE, which is that low-temperature electrochemical conversion. We've established this dedicated facility to advance that work, and we're also looking at DRI studies as well.

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

Lyndon Fagan: (JPMorgan) Thanks very much. The first one is just on the US$600 million to US$700 million spend on FFI, which I can see broadly equates to 10 per cent of NPAT this year. However, when I think about that going out a few years and I look at consensus a few years out, which is US$3.8 billion NPAT which implies sub-US$400 million going into FFI, I'm just wondering whether that 10 per cent of NPAT guidance is up for debate or whether I guess the company moves away from it. Because it is very hard to envisage that the spend goes down given all the projects that need to be built and I'm guessing whether ultimately that spend fluctuates with the iron ore cycle.

Elizabeth Gaines: Well look, there's a funding commitment unutilised at the end of June, as Ian called out, of US$728 million. FFI has been off to a very strong start from that 10 per cent NPAT allocation. As we mentioned earlier, as the team are assessing the portfolio of projects and going through the asset identification and the feasibility studies, that is an operating expenditure, but when a project is actually approved that will be capital expenditure and that project will need to have its own funding source.

It's heavy on operating expenditure at the moment as we go through that target identification and the way the accounting standards work; these costs are incurred as an operating expense, but as we actually go through and identify and approve those projects that will be through capital expenditure, as I said, with its own funding source. We talk a lot about the cost and the investment but then there's the demand side of it and what we're seeing is strong demand for renewable energy. I think that's evidenced by the MOU with E.ON in Germany.

In fact, we've had the Chief Operating Officer of E.ON, Patrick Lammers, here in Perth recently visiting our operations. Their view is can you do it quicker, because there is very strong demand for green renewable energy and we're seeing that strong demand and the revenue that comes from that will also be an important part of that overall equation. The team is doing a lot of work - the 10 per cent, we've been very clear and very disciplined in our asset allocation and we remain focused on that overall capital allocation, the strength of our balance sheet, and with FFI, as I said, as those projects develop and that flips to capital expenditure and then having that source of funding to support those projects will be part of that development.

Lyndon Fagan: (JPMorgan) Thanks for that. Just to clarify, if for instance we end up with a US$2 billion budget for FFI in a few years, if US$1.5 billion of that was from project funding, that wouldn't be included as part of the 10 per cent of Fortescue NPAT, just to try and use the worst example? Is that how I should think about it?

Elizabeth Gaines: Yes, and we've been clear on that from the start, Lyndon, that any project will require its own source of funding. That wasn't intended to be funded from the 10 per cent NPAT allocation. An actual project is intended to have its own source of funding.

Lyndon Fagan: (JPMorgan) Okay, great. Then first cab off the rank, is it possible to just update us on what that might be? I guess I'm still struggling to try and value FFI and just thinking about what might be coming up.

Elizabeth Gaines: Oh look, I think we have communicated, there's been a number of releases in terms of the areas of focus for FFI. Work is advancing on the feasibility studies for Gibson Island in Brisbane, so that's certainly getting a lot of attention and focus from the team. There's work underway on other domestic opportunities including Esperance here in

Western Australia, the Pilbara region of Western Australia, as well as some international opportunities in Brazil, New Zealand, and in Africa. So, a range of project initiatives that the team are focused on. I think domestically those would be - and Bell Bay in Tasmania - those would be the areas of more near-term focus.

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

Paul Young: (Goldman Sachs) Good afternoon Elizabeth and Ian. A few questions on the hematite business. The first one is just an observation about you had a record quarter, doing a fantastic job and really probably leading the way for the industry on how to debottleneck operations, particularly at the port. Just an observation around the hematite ops are doing 190 of shipments for the next 12 months, and if Iron Bridge, assuming it gets to 20-odd million tonnes - 22, I should say, in FY24, that does put you at the cap of 210?

Which is a good problem to have, Elizabeth, but any sort of discussion internally about if you do get there, that potentially you might look to change your licence to go beyond that?

Elizabeth Gaines: Well, we were comfortable Paul, with the 210 million tonnes which was notionally 22 million tonnes of magnetite and 188 million tonnes of hematite. As you said, we've seen fantastic performance across the hematite operations. We have got a ramp up profile so we've got some time with magnetite but to consider what our future port requirements might be.

There's always an opportunity for us to look to increase that capacity at the appropriate time but we're comfortable that we've got the infrastructure in place at the port with the concentrate handling facility. We have just completed Canyon G which gives us that flexibility from a blending perspective. We've got the capacity that we need for that 210 million tonnes.

We work well with the Pilbara Port Authority. They keep us abreast of their plans for the port but we're comfortable where we are at the moment and that - given we have that ramp up profile but we're always staying very focussed on future plans and future developments.

Paul Young: (Goldman Sachs) Yes, great. Thanks. Then on just FY23 guidance and looking at costs and what's embedded in that. Obviously, the less waste you move, in theory, the better. Your strip ratio's only 1.1 in the June quarter. Traditionally you've said - or historically, I should say, that we should be using 1.5. What will the strip ratio be in FY23 and understanding that you don't have a huge amount of flex?

Elizabeth Gaines: Yes, look, it'll be around that 1.5, Paul. So - and that's what we've guided 1.5, thereabouts. Yes, a bit lower in that June quarter but we expect it to be around about that level per previous guidance for that five year plan.

Ian Wells: Just a reminder that full year was 1.4 as well.

Elizabeth Gaines: But you know the costs are a function of all the other inflationary factors that we're seeing. Diesel, labour, other consumables.

Ian Wells: The good news is the planners have got it right, because you should start at the lowest strip ratio. And that natural mine life inflation which we've been talking about for a while, is - that's the reality that you need to deal with and mitigate.

Paul Young: (Goldman Sachs) Yes. No, I understand, and Ian, just while you're there, did I hear correctly on Flying Fish that there's some spend on Flying Fish in FY23 on mine replacement? I might have misheard that.

Elizabeth Gaines: Yes, in the hub development.

Paul Young: (Goldman Sachs) The hub development. Yes, just on that, has that come in early? Because I thought Flying Fish was more a 2030 sort of timeframe?

Ian Wells: Well, you know, these things change. I don't know where the 2030 has come from but that's what the schedule has popped out and we've been working on Flying Fish for a good couple of years, I think you've perhaps misconstrued the 2030 timing.

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

Glyn Lawcock: (Barrenjoey) Good afternoon, Elizabeth and Ian. Elizabeth, could you just clarify your comments to Paul just before about the limits at Port Hedland? When you said 188 and 22, are they firm limits or is it you can ship whatever you like in the 210?

Elizabeth Gaines: No, we announced at the time when we received the 210 million tonne increase that that was 188 of hematite and 22 million tonnes of magnetite. Having said that, Glyn, we're actually actively in discussion with the regulator around increasing that to - having greater flexibility given the ramp up profile of Iron Bridge and the contribution for magnetite. So, it's 210 total. There were limits in terms of the split but we're actively in discussions and that's been reported on in the past.

Glyn Lawcock: (Barrenjoey) Could that see some extra spend at the port then to manage dust if you get a larger split to DSO? Whereas is there any risk of more spend?

Elizabeth Gaines: No, look, nothing material at all. That's what we're working through but no, there wouldn't be anything material.

Glyn Lawcock: (Barrenjoey) Okay and that's a calendar year limit? So, you've got to get your solution done before year end?

Elizabeth Gaines: It's a calendar year limit so on the current run rate, by the end of this calendar year, we want to have clarity on that but we're well advanced on that.

Glyn Lawcock: (Barrenjoey) Okay and then just the second question. Just on the electrolyser facility in Gladstone, you said projects will be funded by non-recourse funding. Where does the electrolyser facility sit then? Is that not an FFI project? That should be funded non-recourse to Fortescue shareholders?

Elizabeth Gaines: No, that is an FFI project, but we announced the capital spend on that which was relatively modest. About a US$80 million investment and we had support from the Queensland Government as well. So that project fitted in that allocation of NPAT well and truly.

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

Kaan Peker: (Royal Bank of Canada) Thanks for taking follow up questions. I just wanted to ask you, with Nyidi, just wondering if that capital spend was to start in 2024, is that part of the capital spend currently being guided to in '23?

Elizabeth Gaines: There's studies expenditure in FY23 so we're advancing our studies expenditure for Nyidi but that's very small. I mean there's not a significant spend in FY23 for Nyidinghu at this point in time.

Kaan Peker: (Royal Bank of Canada) Sure, thank you and just on the last couple of quarters. Process volumes are larger than ship volumes for the second quarter in a row. Can we expect this to reverse over the first half of next year? I'm just sort of asking more around the cost profile.

Elizabeth Gaines: No, just normal.

Ian Wells: Normal planning cycle.

Elizabeth Gains: Yes, normal planning cycle. Stock levels. Yes, managing stock levels.

Operator: Thank you. Your next question comes from Lachlan Shaw from UBS. Please, go ahead.

Lachlan Shaw: (UBS) Yes, good morning Elizabeth and Ian. So just a couple of ones from me. So firstly, on Pilbara Energy Connect, US$462 million spent so far. Over what timeframe should we think about the remaining spend there occurring?

Ian Wells: Lachlan, I'd say most of it in this year, but it could go into next year as well. So, in terms of the original range, we said it was going to cost us US$700 million so there's US$250 million to spend. Some of that is going to be in this year and it could go into next year. Probably more weighted to this year than next year.

Lachlan Shaw: (UBS) Okay, got it. That's helpful, thank you. Then just - second question. So just back to FFI and funding - financing the projects. How are you thinking about target final equity hold from FFI's point of view?

Ian Wells: Well, I think that perhaps back on the 10 per cent. If you think about the 10 per cent as being the equity capitalisation of the business right now and so the previous question about the split of debt and equity and projects having debt funding but also naturally the size of the projects will require some level of partnering.

For example, we use the example of the success we've had with Formosa, from a joint venture perspective. That's not to say that all of the FFI projects will be joint ventures, but you can foresee arrangements where offtakers become equity partners as well. Because, an important part of this whole process is, while there's asset identification and technology development but there's also access to capital.

So, I guess it's difficult to say precisely other than maximising returns to Fortescue shareholders would be our overriding objective, which is an obvious statement but nonetheless, it's hard to say at this point in time.

Lachlan Shaw: (UBS) Got it. Okay, understood. I might just sneak one more in if I can? Just on the China buying platform centralisation. Do you have any thoughts or observations on that?

Elizabeth Gains: Oh look, Lachlan, I think we're obviously monitoring that very closely. We continue to stay very close to our customers. We continue to see it as really a market-based approach. That means that the prices will ultimately be determined by supply and demand for iron ore.

We haven't had any formal guidance yet on how that may operate and we're obviously monitoring - as I said, monitoring that closely but we've been selling iron ore into China under our current approach for over 14 years and it's been industry standard for most of the time.

It works well but having said that, we're always open to engaging with our customers to better understand their needs and demand for products and ultimately, that will determine price. But we will actively engage and monitor the situation as it develops.

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

Elizabeth Gaines: Thanks, Harmony. Thanks everybody for attending today's call. We really appreciate your interest in Fortescue. As you can no doubt tell, we're very pleased with the continued operating performance right across Fortescue and we look forward to sharing the full year results with you at the end of August. Stay safe and we'll speak to you then.

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

End of Transcript