Fortescue

September 2022 Quarterly Production Report

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Start of Transcript

Operator: Thank you for standing by and welcome to the Fortescue Metals Group September 2022 Quarterly Production Report. 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 Andy Driscoll, GM Investor Relations. Please, go ahead.

Andrew Driscoll: Thanks Ashleigh and welcome everybody. Now, to provide you with the best insights and access, you'll shortly hear from Fortescue's leadership, but before that and on behalf of the entire team, I'm delighted to welcome Tia Hayter who joins us as CEO for a day.

A proud Kariyarra woman, Tia joined the Port Hedland Rail Operations in 2018. Tia was quickly identified as a future leader and successfully completed Fortescue's LEAP program. Now based at our Cloudbreak operations, Tia is responsible for the crewing of trains right across the network. She is passionate about supporting her team and demonstrates outstanding leadership. It's really great to have you with us today, Tia. On that note, I'll hand over to Fortescue's Founder and Executive Chairman, Dr Andrew Forrest.

Andrew Forrest: Welcome all. Yes, look, another outstanding quarter for Fortescue, and as everyone likes to ask me about who is going to be the next CEO, why don't I just throw it to Tia? Tia, over to you.

Tia Hayter: Thank you, Chairman. To start, I wanted to say how great it is to be here today. I am a supervisor of rail line operations at Cloudbreak. I schedule and load our trains and help get our ore to the port.

Fortescue's values of courage and determination really resonate with me. I like to push myself and being here today is part of that. You just have to be willing to work hard, and you can achieve whatever you want to achieve here. Working hard to become the first resources Company in Australia to go green is no different. Thank you and I'll pass back to Andrew.

Andrew Forrest: Great work, Tia. So team, September quarterly results. Fortescue's operating excellence is driving very strong results across safety, which Dino will speak to in a moment, we're delighted about. But also production and cost. I mean many of you have remarked about our costs rising. I'm sure you've all seen the diesel price, that's exactly why we're going to step this Company beyond diesel. Beyond all fossil fuels.

I'll pass to Dino shortly to provide you with that detail but most importantly, we have achieved the lowest Total Recordable Injury Frequency Rate (TRIFR), ever. You know everybody's safety is at the heart of our culture and everyone at Fortescue takes full control of their safety and we all look out for our mates.

A major step, as I've just mentioned, is to step us beyond the extreme risk of fossil fuel. Hutch will talk about that in a moment, to lead the world out of the consumption of fossil fuel. We can all beat the oil companies up, and because they've been greenwashing for so long they probably deserve it, but if we're going to really make change, we have to stop buying it and that is what every consumer, every company, everyone on this call must think about. How do we stop buying fossil fuel? How do we each lead the world out of the consumption of fossil fuel?

We are hard at work stepping beyond our fossil fuel program, and I have every faith - not blind faith, that we're going to do this. We have a track record of delivering on complex projects. Of course Iron Bridge, great example. A very complex project which will make massive amounts of high-grade magnetite and I'm really delighted to say we are commencing commissioning next week. Dino will give you the details.

Along the way, we're going to create 900 new jobs in a tight labour market where I have to say, we've been swamped by applications. Tight labour market, you'd expect if you advertise for 900, you get 901, you're lucky. We got thousands and thousands. Over 1,000 of those are really great quality applicants. I'm delighted and I'm sure that is because we angled the ads to demonstrate you can make a difference here. You can help send the world green and be what you want to be. Which is a miner.

Iron Bridge could well be, I have to flag it, could be one of our first fossil fuel free sites. You're seeing young people like Tia leading the charge to not only eliminate fossil fuels but to do their job even better.

Tia really reminds me of our Next Gen Group, to introduce it, it is young Fortescue emerging leaders who are all under 25 years old, and it's their heart to accelerate our decarbonisation work and simplify and streamline this Company. It's a campaign we're on every day. Let's take them seriously. The youth have already inherited the earth and at COP27 next month in Egypt, we will certainly be making sure their voices are heard.

On that note, Hutch, the floor is yours.

Mark Hutchinson: Thank you, Andrew. In September, we made a major announcement in New York on the decarbonisation of Fortescue. This was a huge deal that has really cemented Fortescue as a true global leader. We are the first major heavy industrial Company to have a fully funded plan to eliminate carbon emissions and get to real zero - not net zero, real zero, by 2030.

This will step us beyond fossil fuels forever. We have the roadmap to do this and more importantly, it's a very sound investment decision. Our plan is to invest US$6.2 billion to fully decarbonise the Company. What's really exciting about this is we actually save US$3 billion in the process. This means our net investment is actually US$3.2 billion and we will save over US$800 million a year, every year from then on.

Now, we've done this to show the world it's possible. Our decarbonisation plan will step us beyond fossil fuels and it will also significantly de-risk the business. We will avoid fossil fuel price risk forever. We will avoid carbon pricing, carbon tax and carbon offset costs and we also will significantly de-risk our future access to the capital markets.

It's very clear that the capital markets are quickly moving away from fossil fuels and also customers are demanding fossil fuel free products. As an example, we will have carbon free iron ore by 2030. Fortescue is leading the world in responding to these shifts which presents a significant opportunity for our businesses and will create significant value for our shareholders.

Now, FFI is a key enabler of our decarbonisation plan. It also is the enabler of the evolution of Fortescue into a green global energy, technology and resources Company. FFI has made significant progress across the quarter. We have achieved major milestones and maintain our razor-sharp focus on creating bankable projects.

In Australia, we have progressed planning to final stages with Incitec Pivot for the conversion of the Gibson Island site to produce green hydrogen and also to make green ammonia. We are working towards a Final Investment Decision this financial year.

We've also entered into a global strategic collaboration with energy infrastructure developer Tree Energy Solutions. This will accelerate the development of a world leading green hydrogen and green energy import facility in Germany, which is so important for getting product to our European customers.

We have also established a Colorado Technology Hub, announced a partnership with the U.S. Department of Energy's National Renewable Energy Laboratory. This will expand our US presence and strengthen our position as a leading global developer of green energy technology. Now, with that, I'd like to pass over to Dino, who is Fortescue's Chief Operating Officer, Iron Ore.

Dino Otranto: Thanks Hutch, and going back to safety. I want to personally commend the entire Fortescue team for delivering our lowest ever TRIFR of 1.7. That's 15 per cent lower on this time last year. There's no doubt in my mind that our operational excellence is underpinned by our absolute focus on the health, safety and wellbeing of the entire Fortescue family.

On the operations, it's always good to report record performance and we achieved that in the first quarter with shipments of 47.5 million tonnes. That's four per cent higher than the same period last year. On that, I'll actually hand over to Tia who is part of our rail leadership team, to talk a little bit about our rail performance. Tia.

Tia Hayter: Thanks Dino. It was also a record performance on rail for the first quarter with 47.4 million tonnes railed. Rail operations remains focussed on productivity and capacity improvement opportunities. Generating ideas and improving our business and ensuring we remain as simple and nimble as the day we started is at the core of what we do and underpins our strong operational performance.

Dino Otranto: We have an amazing team behind these fantastic results and I'm humbled to be able to call them and Tia, my family. Turning to an update on Iron Bridge, which is a huge differentiator for us in the Pilbara, and I'm really pleased with the progress the team is making across the processing facility, pipelines and the port.

I'll just call out a number of key milestones that we achieved during the quarter. The final module ship from China unloaded at Port Hedland. That's a total of 21 module ships that were delivered and unloaded on time. We energised our Pilbara Energy Connect, a 220 kilometre long transmission line from Solomon to Iron Bridge, which gives us the power to our new site. We have also commenced commissioning of the crushing and processing plants.

Capital estimate for the Project is unchanged at US$3.6 billion to US$3.8 billion and we remain on track for first production in the March quarter next year. Just a reminder, this project will deliver 22 million tonnes per annum of high-grade magnetite concentrate and, of course, enables Fortescue to enhance its product suites and increase our total capacity.

Tia, why don't I hand back to you to close out on our Iron Bridge story? Thank you.

Tia Hayter: I look forward to travelling to Iron Bridge next week with the team to celebrate first ore in the processing facility and showcase the Project's scale and engineering prowess. And as you can hear, we're all really pleased that our operations and projects continue to run extremely well. I will now hand over to GM Sales and Marketing, Ben Kuchel for an update on the market.

Ben Kuchel: Thank you Tia, and hello everyone. Despite iron ore prices trending lower, demand for lower grade iron ore strengthened during the quarter which, together with the ongoing success of our integrated operations and marketing strategy, contributed an increase to our price realisations.

The value of Fortescue's products, including its consistent quality, is well recognised by the market and our customers and we continue to see strong demand, with November shipments fully allocated and the estimated inventory of Fortescue products at Ports in China at low levels.

China's steel demand has proven resilient this year, and we still anticipate crude steel production of about one billion tonnes, despite the headwinds due to ongoing COVID-related lockdowns and continued weakness in China's property sector.

Our sales and marketing strategy remain centred on the current and future needs of our customers. As always, the team remains focussed on engaging closely with our customers to ensure we are responsive to market dynamics in the future. I'm happy to address questions but before that, I will hand over to Fortescue's Chief Financial Officer, Ian Wells, for the finance update.

Ian Wells: Thanks Ben, and hi everyone. Well as you've heard, the September quarter represented another period of consistent, predictable performance, providing a terrific start to the financial year and sees us maintaining guidance across our key metrics.

On the financials and starting with revenue, our average revenue in Q1 was US$87 a tonne at a realisation of 85 per cent of the Platts Index, and that's up from 78 per cent in the June quarter and 72 per cent average for FY22. That just really reflects the cyclicality of the market.

Moving to costs, our C1 cost of US$17.69 a tonne in the September quarter was just three per cent higher than the previous quarter. That was despite impacts from market-driven inflationary pressures that have been affecting the industry for some time. That's including diesel costs, labour rates and other consumables. That was partially offset by the favourable move in the Aussie dollar which depreciated about three cents quarter-on-quarter.

Our C1 guidance for hematite remains unchanged at US$18.00 to US$18.75 a tonne, at the guided exchange rate assumption of A$0.70. Just a reminder, on our exchange rate sensitivity, a one cent movement in AUD:USD rate impacts C1 by about US$0.15 a tonne.

So moving to cash flows. Closing cash at 30 September 2022 was US$3.3 billion. That compares to US$5.2 billion at 30 June 2022. That's after outflows of US$2.4 billion for the payment to shareholders of our A$1.22 final dividend and US$650 million capital expenditure, as we continue to invest back in the business and, importantly, invest in growth. A point on our run rate on capex in Q1, that's just really reflecting timing and our capex guidance for FY23 is unchanged.

On the balance sheet, gross debt at 30 September 2022 is unchanged since 30 June 2022 at US$6.1 billion, while net debt is US$2.8 billion. Central to our capital allocation framework is a commitment to a strong balance sheet with targeted investment grade credit metrics. What that means is, we retain balance sheet capacity to fund future growth, and will continue to proactively manage both our debt maturity profile and also optimise our debt capital structure.

So the strong start to FY23 means we're really well placed to meet our guidance, which just as a reminder, is iron ore shipments of 187 million to 192 million tonnes. That includes one million tonnes from Iron Bridge. C1 costs for hematite of US$18.00 to US$18.75 as I mentioned earlier, and capital expenditure, excluding FFI, of US$2.7 billion to US$3.1 billion.

So, in closing, delivering consistent and predictable performance and being transparent in doing what we say we're going to do, is such a critical part of Fortescue's track record. And, as always, by focussing on the things that we can control, we continue to create value for all of our stakeholders.

Just before I hand back to Ashleigh to facilitate the Q&A sessions, just advising that in addition to the speakers you've heard from today, a note that we also have Guy Debelle, FFI CFO to answer questions. So Ashleigh, back to you and we'll get into Q&A. Thank you.

Operator: Thank you. If you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star two. If you're on a speaker phone, please pick up the handset to ask your question. In the interest of time, we ask that you limit to two questions per person. You may then press star one to re-join the queue if you wish to ask further questions. Your first question comes from Rahul Anand with Morgan Stanley. Please, go ahead.

Rahul Anand: (Morgan Stanley) Hi Dr Forrest, Ian and team. Thanks for that update. Look, my first question was perhaps if we could get a quick recap of Iron Bridge in terms of the operating costs? Obviously the last update was in May 2021 and at that point, there was an indication of inflation driving the operating costs up by about 10 per cent. Obviously since then, there has been inflation quite significant as well. So I just wanted to understand if you had a chance to look at those estimates as the project gets close to production.

Andrew Forrest: Rahul, thank you. Yes, we look at operating costs for Iron Bridge all the time. We've actually connected Iron Bridge to a big gas-fired power station at Solomon and we're looking forward to sending Iron Bridge green and maybe having enough electrons for all of Iron Bridge and send it back down the line the other way to send Solomon green.

So operating costs for Iron Bridge very much has our attention. We want it to be like we are with hematite, to have the lowest cost magnetite production in the world and we'll be working very hard on that Rahul but to give you details, I have Dino in the room, Chief Operating Officer. Dino, over to you.

Dino Otranto: Thanks Andrew. No doubt inflation is impacting a number of our operations but at this stage there's no change to the long-term guidance we've already issued into the market and as Andrew commented, there's always opportunities we look for in our business to further improve the bottom line of our business because it's so critical for us and it's been part of our story since day dot.

Ian Wells: I think also to add that it's important to take into account the inflation changes that you spoke about Rahul, are important, but we've just started commissioning. We've got a 12 to 18-month ramp up, and so there obviously is diseconomies of scale associated with ramp up as you it bring it on. It's a big site with a big cost base. So, it would be more appropriate to guide to long run update as that information becomes available and we're still a bit early in the piece for now.

Rahul Anand: (Morgan Stanley): Sure Ian. Thanks for that. Okay. My second question perhaps is a bit more strategic in nature. In terms of – if you talk about iron ore, can we perhaps get your views on how you see the market developing, especially post-Simandou in terms of, I guess, the low-grade iron ore, but then also in terms of Gabon. I mean, does Gabon fit in as a complement or a supplement to your Pilbara production and then obviously the earlier point on low grade and how that fits into the mix, please. Thanks.

Ben Kuchel: Sure, I can provide some response in relation to future market developments. Simandou, when it arrives in the market, will add additional volume and naturally we'll see some adjustments in supply and demand dynamics at that time. The exact timing and extent of that specific project and its impact on the market, of course, remains to be determined. Given our cost structure at Fortescue, we obviously will expect to continue to be very competitive. We wouldn't necessarily anticipate any impact on our iron ore business, given the very different nature of our product quality at Fortescue versus the expected high-grade production from Simandou.

Ian Wells: I think I'd just add as well, the supply and demand models are really lagging the current market environment – the more recent changes to the regulatory approvals and community expectations means that it's more difficult to bring on new mining areas even ones with existing approvals. Clearly, with the well-documented challenges we've had with Eliwana and having to change mine plans and so forth. So we're not necessarily convinced that the supply and demand models have been updated for that.

Rahul Anand: (Morgan Stanley): Just to follow up on that Gabon question as well, whether that's a complement or supplement for your production in the Pilbara at that point, how you view that?

Ian Wells: Yes. I think that will be something that we consider at the time. I mean, the key point here is this is optionality for us. It may enhance our product suite and gives us that optionality.

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

Paul Young (Goldman Sachs) Good morning, your time, Andrew, Mark, Dino, Ben. Good to have the whole team on the call. Ian, a few questions for you actually, just high level on the balance sheet. The balance sheet's in good shape ahead of the big step up in investment. There's been lots of discussion on the balance sheet recently. Could I just ask a couple of questions. First of all, is the gross gearing target of 40 per cent or thereabouts over the mean term, is that still intact and that's what we should be solving for? That's the first question.

Ian Wells: Yes, that's certainly so. We've got two ratios. One is Debt to EBITDA which is a cashflow metric, gross debt to EBITDA, and then the gearing one you're referring to is book value of debt over debt plus equity, so that's 30 to 40 per cent through the cycle. We are well under the bottom end of both of those ranges and that's consistent with our capital allocation framework, which goes to reinvesting in the business, investing in growth, maintaining balance sheet strength and also returns to shareholders, with 10 per cent allocation of NPAT to FFI and dividend payout ratio in the range of 50 to 80 per cent. So no change.

Paul Young: (Goldman Sachs) Okay, thanks, Ian. Then maybe the second question around future capex and profiles. The site visit recently, that was a good update on all the hubs and options for iron ore mine replacement. Capex will stay pretty elevated post Iron Bridge and decarbonisation spend is actually obviously stepping up, so when I look at the capex profile, excluding FFI. I guess, the question is where do you see capex peaking over the medium term? Ian, is it sort of in the US$4 billion to US$5 billion range ex-FFI?

Ian Wells: Well, it's difficult to be as precise as that, but if we go through the component parts, the good news is that our reinvestment back in the business has seen our production increase from T155 to nearly in excess of 200 million tonnes now and that's a function of productivity and availability resulting from capital-light investments. Sustaining capital, as you'd expect, has increased and then capital costs going forward include decarbonisation, which we've been clear on that, and you know it doesn't all happen over one year.

Then we've got hub capital. Obviously we're going to complete Iron Bridge, but then the hub capital and looking at those options on other areas without being absolutely explicit, because we've got a large resource body. We've got lots of options and optimising through that capital allocation framework that I just spoke about to ensure we're getting an appropriate return on capital with a balance sheet that can support that.

I think the thing that the market is hopefully slowly catching up with, is that Fortescue's in a unique position where we have short, medium and long-term growth options, which I'm not sure there's that many companies out there, certainly of our size, that have those options. Andrew, I didn't know if there was anything that you wanted to add to that.

Andrew Forrest: No, just that we've always been very controlled in our capital spend. That philosophy flows straight over into FFI. We have the same team, which took over Iron Bridge and has done a great job completing Iron Bridge and that is going super well. They'll come straight over onto FFI. That culture and ability to drive these projects will stay with FFI, like it's come from Fortescue long term.

Ian Wells: Thanks Andrew. Andy's just reminded me, the other call on capital of course is the fleet replacement program which fits into and we've always spoken about in aligning that investment with decarbonisation, which again is going to be an incredibly efficient use of capital over the next years.

Paul Young: (Goldman Sachs) Yeah thanks, I think I can add all those components up. Thank you.

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

Lyndon Fagan: (JP Morgan) Thanks a lot. The first one I've got is whether you're able to provide an update on Nyidinghu. So I'm just interested in latest metrics around the scope and when first production may be, so again we can get an idea of scheduling the capex, that was the first one, thanks.

Andrew Forrest: Nyidinghu is a really great project. All of our production is going super well. We'll let you know when we want to pull the trigger on it but we're in no hurry and we continue to improve the metrics, the iron ore available to it so Dino, if you want to add anything you're most welcome.

Dino Otranto: Thanks Andrew, and as you iterated before, we've got a number of options now, Gabon being one of them. That is on the playbook so we are into the study phase of that project and as soon as we've done that work we will instruct the market.

Lyndon Fagan: (JP Morgan) So I guess to further understand it a bit more, can you give us an idea please of what is depleting. I think the previous comments on a call about six months ago was Nyidinghu was at the back end of the five-year plan. I'm trying to also understand the level of depletion which is in the business, i.e. what we need to be replacing.

Dino Otranto: No change really to the previous guidance Lyndon. The depletion is coming so no surprise. Our very first mine in Cloudbreak, it's been incredibly successful and we've got a number of lives out of Coudbreak over the years and as we're looking further and further into the study as we shared on the site visit, our strategy is to maximise the output of our existing installed capital. Our drilling programs around the Chichesters are finding a few more bits and pieces so that'll form part of a study around when Nyidinghu needs to come in.

Lyndon Fagan: (JP Morgan) Great, and just a final one so in terms of putting the pieces of the jigsaw puzzle together on capx, would you guide to US$1.5 billion of sustaining capex similar to what we're seeing this year as the long-run post Iron Bridge excluding depletion and other major spend?

Ian Wells: We've been consistent in speaking about the life of our assets and reverting back to a level consistent with depreciation. Depreciation is going to step up over the next few years as we've commissioned new sites and we will see the major investment in Iron Bridge. So capital expenditure is not linear, but in terms of a long-term outlook, I think depreciation is a fair representation of where you would expect the business to be because I've mentioned this for a long time, is that if you're not reinvesting back into your business at that rate, your asset base is depleting.

If your asset base depletes, it impacts your productivity and efficiency and you don't end up producing at your nameplate capacity, and Fortescue is a differentiator in the market, where we've been able to produce at higher than our nameplate capacity and that's because one of our core values is frugality, and that's spending the least amount of money on the right things. So I guess to answer your question and also to give you some other things to consider as well.

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

Glyn Lawcock: (Barrenjoey) Afternoon Andrew, two quick ones. Firstly, just the permit to get beyond 188 million tonnes in a calendar year, obviously if you track like you did in the December quarter you'll do 191 million tonnes, so just wondering if you've got success on getting the EPA to approve your permit above 188mt direct shipping ore (DSO)? And then the second question, just interested, obviously you've got very ambitious plans for electrification of the business. We talked a lot about your green fleet, your loco, your trucks. Just your lithium sourcing strategy, I mean we're hearing from everybody that everyone wants lithium. Just curious what your approach will be? Is it going to be FFI that has to source the lithium or it will be the battery manufacturer that you task to build the battery. Just wondering how you're going to address that situation, thanks.

Andrew Forrest: Yes, thank you Glyn. The 188mt DSO, I'll let Warren Fish comment on, but I have to admit that I'm feeling very relaxed about our approval process. The government really supports what we do. They're absolutely in love with Iron Bridge as it is such a large and value-adding project and we are experiencing tailwinds of support there Glyn. And Warren, would you like to wade in and then I'll come back on lithium with Hutch.

Warren Fish: Thanks Andrew, hello Glyn. My name's Warren Fish, I'm Director of Community, Environment and Government at Fortescue. The permitting process is underway. It's on track to deliver on time, no issues have been raised to us to date so as far as we're concerned it's all go.

Andrew Forrest: Look, lithium, I'm just not seeing a shortage. There is so many lithium projects we get offered and so it's just one of those things, Glyn, which is just not keeping me awake at night at all. But to get specific about FFI and lithium, I'm going to ask Hutch to speak but Fortescue Metals Group is a fantastic explorer and developer but also acquirer of assets.

As you've heard us say in the past, Glyn, we'll be taking responsibility as a mining and exploration company without many peers to deliver the battery metals and the future facing metals which FFI needs. The beauty of FFI, Glyn, is that it gives us a really clear view into the future as to what is going to be required by when. But Hutch, over to you.

Mark Hutchinson: Yes, thanks Andrew. Hi, Glyn. Look, I think as we look at battery sourcing now, we'll buy from the marketplace initially, but we are looking at lithium longer term and batteries and seeing what we can do, particularly with our mining capabilities in the Company. Also looking at other alternatives as well like using hydrogen and even pumped storage. So it's top of mind but we have a number of different solutions.

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

Lachlan Shaw: (UBS) Yes, good morning, Andrew and team. Great update and well done on a really strong quarter. Two questions from me. Firstly on Iron Bridge, can you just give a little bit more colour on the pathway from opening next week - or commissioning next week, through to first tonnes in the March quarter and ultimately squaring away with guidance for a million tonnes of production in FY23?

Andrew Forrest: Yes, thank you, Lachlan. I'll ask Dino to comment further but just to say that that I've never commissioned a project over the last 30 years which hasn't had all sorts of challenges but that's why, Lachlan, we have a really well-prepared team. We've brought our commissioning team on very early in the piece. We're troubleshooting everything which could go wrong.

We're fully expecting the old adage, Lachlan, all the battle plans collapse after the first bullet's fired but we are as a team, really looking forward to the commissioning challenge. We're very well prepared for it and Dino, I'll hand over to you.

Dino Otranto: Yes, thanks, Andrew and one of the unique things about Fortescue is our value of working together. So we have been able to bring some of the commissioning activities forward, as you say. But really, we're in the height of construction right now so next week we'll start in earnest putting some tonnes through the front end of our plant and then as we continue to build and handover big chunks of the plant, we'll commission them and that'll ultimately result in March next year where we'll get first ore onto ship, and have the entire process flow then commissioned and at the same time, the complexity of ramping up a plant of this magnitude will take us that timeframe that we've previously indicated to the market.

Lachlan Shaw: (UBS) Great. Thank you. Then just second question from me before passing it on. So just on costs, up a little bit quarter on quarter, but I think pretty reasonable given higher strip ratios, diesel and industry-wide pressures. Just interested in what you're seeing in terms of cost indicators looking forward. You starting to see some of those roll over and when would you expect to see that come through into bottom line? Thank you.

Andrew Forrest: Thank you, Lachlan. Our biggest cost driver is fossil fuel, diesel in particular. We've mitigated that to a point with gas but the big one is diesel, and that's why we actually started the decarbonisation process last year, saved tens of millions of dollars last year. That'll add up, as Hutch mentioned, to over US$3 billion in savings over the period we completely commissioned out the fossil fuel input systems.

Bear in mind, Lachlan, that unlike every complex mining project, electrification is plug and play. So you have next to no commissioning issues and we expect our costs to become really competitive. As Hutch has said, we'll save US$3 billion over the build-commissioning period and then US$820 million every year after that. So yes, we really think it's going to shave 20 to 25 per cent off our costs, if not a little more by that stage.

Operator: Your next question comes from Austin Yun with Macquarie. Please go ahead.

Austin Yun: (Macquarie) Morning, Dr Forrest and the team. Thank you for taking my questions. I have two questions. The first one is on the product quality mix. The West Pilbara Fines were eight per cent of the total production in the quarter. Should we expect even more West Pilbara Fines going forward given that it seems like the Eliwana plant is running really well? I'll come back with the second. Thank you.

Dino Otranto: Yes, thanks. I'll pick that up and get Ben to comment on any of the product pricing mixes. Obviously, the West Pilbara Fines being our premium product, as you said, we did commission Eliwana extremely successful. 15 million tonnes is the current production rate but we as a business are striving for every little tonne on top of that. But right now, we do predict a stable mix year on year on West Pilbara Fines. Ben?

Ben Kuchel: Thanks, Dino. Just picking up on the demand for the products, demand for West Pilbara Fines certainly remains very strong. It is now a well understood product in the marketplace and when we have more West Pilbara Fines available we'll certainly to be able to present that to the market, and we would be very confident in being able to place that volume at the current pricing.

Austin Yun: (Macquarie) Thank you, both. Second question is on the decarbonisation and the green hydrogen. Fortescue started the construction of the Gladstone electrolyser factory in Queensland early this year. I'm just wondering if you can provide any update on how that is going. I believe the targeted production is sometime next year, right? Thank you.

Mark Hutchinson: Mark here, Austin. It's progressing very well, actually. The site is up and running, we've got a roof on which is great. So, the construction is going extremely well and we plan to have our first production next year as planned, so all good so far.

Operator: Your next question comes from Nick Evans with The Australian. Please go ahead.

Nick Evans: (The Australian) Good day, guys. Just a quick question on labour market tightness. I know, Andrew, you said at the very beginning that you were still seeing some, but we're seeing a lot more coalminers on the east coast complaining of tightening conditions in the labour market here. Are conditions easing in WA or is it much as it was or getting worse? Could you give us a bit of colour around what you're actually seeing in the marketplace at the moment?

Andrew Forrest: Nick, it's a good question. Particularly amongst the younger workforce, which is a really competent workforce, we are getting very strong applications, our turnover is low particularly compared to our peers, Nick, and the Iron Bridge advertisements to invite people to come and make a real difference, not just get work, really struck home. We are finding no shortage of labour but I do think that's not a fair reflection, Nick, of the marketplace, I think it's Fortescue specific. Dino or others, would you like to comment on the wider labour market?

Dino Otranto: Yes. I think it does certainly remain tight in WA and particularly in the mining space but as Andrew said, we were really surprised by the interest in the recruitment campaign that we launched a couple of weeks ago for Iron Bridge. I think it just goes to show people are attracted to what they do these days. Folks want to work for organisations that have a cause, and we have to remain competitive in what we offer people. I think once you achieve both of those things, as Andrew said, our turnover has been, relative to our peers, very healthy.

Mark Hutchinson: I would just add, Nick - Mark here, that when you get up to the mines and you meet the teams and they're so excited about the decarbonisation journey we're on and I think that adds a huge value to employing people. We're seeing this in FFI as well. The mission is critical.

Dino Otranto: I will add a comment that it's quite exciting, we're launching the decarbonisation roadshows in our operations at the moment and we're literally getting hundreds, if not entire parts of our business turn up and give their ideas about how we can decarbonise even quicker than what we've announced. It's really, really engaging to be part of.

Nick Evans: (The Australian) Just a second question, just on mining rates. Whilst it was a record export quarter, mining rates dipped down 10 per cent year-on-year and a bit quarter-on-quarter. Is there anything behind that or is that a timing issue of shipments or where you are in the ore body?

Dino Otranto: No, there's nothing sinister behind that at all, it's just timing, shutdown related, and we had a really high base in Q1 FY22 so it's probably unfair to think about that as the basis.

Ian Wells: I'd also add that it was a record, so I think that's probably part of the answer there, Nick, so obviously some seasonality in managing the ore body.

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

Kaan Peker: (Royal Bank of Canada) Hi, Andrew and Dino and team. Two questions from the me. The first one is on following up on Glyn's question. Just thinking about capital intensity, compared to Eliwana which had a capital intensity around the US$40 a tonne, should we expect revenue to be higher given Fortescue's decarbonisation ambitions?

Andrew Forrest: No. I'm going to ask once again Dino to step in here, but I just do want you to know that Nyidinghu is part of our portfolio of being able to have heaps of choices, long-term beautiful big projects we can bring on at anytime we like. You start adding in capital cost into your forecast for Nyidinghu you may be disappointed because we're not seeing any pressure to bring Nyidinghu on. Dino, over to you.

Dino Otranto: Yes. I can add to that as well, and certainly on an apples-with-apples comparison to any of our other projects, we don't expect to see much difference in capital intensity, but the ore body itself has a uniqueness to it which we'll then design a processing plant accordingly. It does actually throw up some better options in terms of our product suite that we're just working through at the moment, and that will be reflected in the value of the project, not necessarily just the capital.

Andrew Forrest: Kaan, does that answer your question completely?

Kaan Peker: (Royal Bank of Canada) Yes it does, thank you. The second one is on Iron Bridge. I just wanted to get an understanding of what first production means. Is that first concentrate, first ore, and does the concentrate have to be to a certain spec to be given first production?

Andrew Forrest: Thanks Kaan. We're not doing first production next week, we're commencing commissioning. That's always a mega-milestone in any big project, the commencement of commissioning. It changes the entire thinking of the workforce at site, and of course of the Company, because construction is winding down and operations starting to ramp. So, I just don't want to confuse commencement of commissioning with completion, and your question is more directed at actual production of product, which we see well into next year. I want to get this commissioning absolutely right, Kaan, so I'm not going to be rushing it. Dino, any comments you would like to make?

Dino Otranto: Yes, maybe just a last comment on that. We don't intend to not sell a high-grade magnetite concentrate in March, so our absolute intention is to get our flow sheet working well and make that 67% Fe product that the market so desperately needs.

Operator: Your next question comes from Peter Kerr with Australian Financial Review. Please go ahead.

Peter Kerr: (Australian Financial Review) Hi, everyone. My question is in the context of the Federal Government talking this week about intervening in domestic energy markets, particularly gas. Andrew, do you think that's an appropriate thing for them to do, and secondly, does it in any way affect Fortescue's plans to sell gases, plural, into the eastern states?

Andrew Forrest: Peter, that's a very good angle. I don't think they're directing that at green hydrogen. I could be wrong, but what I can say, Peter, is that in the very short term the government's got to do what governments do. In the medium term, the A$25 billion they've put towards green energy is a good start. If we'd been doing this many, many years ago we'd have the lowest-cost energy in the world and the most abundant, as you know, and it's of course frustrating to all of us to know that just adding on subsidies or whatever it is to fossil fuel exacerbates the problem, just gives us a quick sugar hit as we crave for more of a fossil fuel drug.

Peter, we need to really grow the largest source of energy in the world, not fossil fuel because the more you use it, as we've all worked out, the more expensive it becomes, and you've got other people who play military strategy with it as well. What we need to bring down the operating costs of the lifestyles of every single Australian, is to have pushed years ago green energy into the marketplace. It's the cheapest cost of energy, it's the only energy which the more you use it, the lower the cost becomes. So, it's just common sense. We've got to get on and get it done.

Peter Ker: (Australian Financial Review) Andrew, when you say governments have got to do what they've got to do - are you effectively saying that you think it's now reasonable for price caps on gas domestically?

Andrew Forrest: Look, I don't have to wade into that, Peter. I don't want to pass an opinion on it. All I can say is that we need the lowest form of energy which is in the highest volume and that is only if we go green and we've got to crack on and do it.

Peter Ker: (Australian Financial Review) Okay, no problems. Speaking of which, perhaps one for Mark, on electrolyser manufacturing. We had the Enel CEO out this week saying that he thinks only a fraction of the electrolyser manufacturing capacity that's promised will actually get delivered. Are you seeing long delays for the components and the robots and so forth that are needed to build the factories that will make your electrolysers or do you disagree with his view?

Mark Hutchinson: Yes. I think there's going to be a huge demand for electrolysers, period. That's why we're building the Gladstone facility. We have plans to do others as well around the world, but we want to make sure that that supply chain for us is covered. The other thing also I think the technologies are going to change. All the facilities are PEM at the moment and that's going to change over time as innovation happens and more projects get done. I worry about supply chain for everything given the enormity of what we've got to do, but we'll find ways to solve that ourselves as well.

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

John Tumazos: (John Tumazos Very Independent Research, Analyst) Thank you. Chinese steel output has been very erratic in the last year, from 3.26 million tonnes half a day and a year ago to 2.3 million tonnes a year ago, to 3.17 million tonnes in April, then fell to 2.6 million tonnes. Now in September it's rebounded to 2.9 million tonnes. What do you think is the short-term trend in Chinese steel output and why don't they run their furnaces more smoothly and consistently, it's probably a lot more safe and efficient?

Andrew Forrest: John, thank you. Sensational question, and I've got the right guy to answer it. Ben.

Ben Kuchel: Thanks for the question, John. There's a number of factors that impact crude steel production rates in China. One of them is the market; the Chinese steelmakers remain very responsive to market conditions and they will increase production when they see an opportunity to do so in response to higher margins, and equally they're responsive at reducing production when those margins aren't there. So that's a very consistent approach in many parts of the world.

The other factor of course that does periodically impact crude steel production in China is government policy and government intervention, so periodically we'll see government come out and curtail production for environmental reasons, for example. That's the other major influence that does contribute to crude steel production variability.

John Tumazos: (John Tumazos Very Independent Research) What do you think will be in the next few months?

Ben Kuchel: We're heading into winter in the northern hemisphere, so typically you do see an increased level of curtailments associated with environmental protection and maintaining air quality outcomes, in northern China in particular. I suspect that there will be a number of disruptions linked to the protection of air quality in coming months.

Operator: Your next question comes from Jo Clarke with Argus. Please go ahead.

Jo Clarke: (Argus) Hi, guys. I just wanted to go back to Iron Bridge. I was just wondering whether you've made any decisions about how you're planning to sell that concentrate, whether it will go into a blend or whether it will be sold standalone?

Andrew Forrest: Jo, thank you. We did a lot of numbers before we approved this project on just selling it as concentrate or having it available as a blend. We'll be a little spontaneous around that Jo. It's a really good question, because if the higher-grade product is reaching a premium then we have the facilities at our Port to blend and we'll take advantage of that, if that's a high-grade delivered product.

Generally, we're seeing very strong demand for this high-grade magnetite and it's likely I think that we'll sell it as just as a stand alone high-grade product, but I do want to put it out there, Jo, that if there's commercial advantages in shandying our ore with this high-grade product to reach greater overall revenues then that's what we're going to do, because of course, that's exactly what our customers will do, so there's nothing to stop us doing it as well.

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

Peter O'Connor: (Shaw and Partners) Hi, Andrew. Two clarifications or follow-ups. Firstly, on the port allocation question from Glyn. Just a practical manifestation of that this year. Did I understand the answer that with your approvals running you will have that sorted by end of year so it won't be an issue? Because if you don't, as per Glyn's point, you have a very, very tight quarter. Is that how it plays out, practical?

Andrew Forrest: Rocky, we haven't seen any resistance to our ability to ramp up our production profile. Clearly, the State gets royalties, employment, every other possible incentive, so we're just not seeing it as a hurdle. Warren, did you want to comment any further?

Warren Fish: No, Andrew, just to agree with your statement.

Peter O'Connor: (Shaw and Partners) So, if you exceed 188, you will be allowed to do that, is that what you're suggesting?

Warren Fish: That is correct.

Peter O'Connor: (Shaw and Partners) Okay, good, and second follow-up. Ian, to Lyndon's question about the sustaining capital profile going forward, I'll have to see the transcript after, but it sounded like you confirmed the US$1.5 billion per year sustaining spend or did I mishear that?

Ian Wells: No, I didn't confirm because obviously we've got plans, it’s not linear and capital allocation is important. The point I was making is that naturally reinvestment back into your business has a good return on investment and you want to have stable production, availability of all of your plant. And as your plant and your ore bodies get older they get more expensive.

So, if you're not reinvesting back at or around the level of depreciation, naturally your asset base is reducing and if you look back over time, that's exactly what has happened with our business and the trade-off and the return on that is that we've been able to produce and ship at production rates which were higher than nameplate at T155 through a number of different ways, but in a capital-light way. So, I wasn't saying it's going to be US$1.5 billion; capital expenditure is not linear and you take each year and you match your mine plan and you optimise your capital accordingly.

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

Andrew Forrest: Okay. Thank you for joining us today, team. Obviously, our first quarter has got us out of the starting gates with a really great one I think to the end of the year, and so I want to thank my operations team, you're doing a spectacular job, don't get a big head team, but let's just say, you can climb up towards matching your last quarter.

Before I close, I'd just like to say yes, we have ore bodies which are going to last a decade and all the like and we've opened up some really interesting areas in other metals and of course, other fronts in iron ore, but the magic of Fortescue is its people, is its creativity, it's the sense of deep ownership of the Company which each of us have which is reflected across our 20,000 people. Probably no one better to act as ambassador to those values is Tia. Congratulations again, dear girl, we're all super proud of you. Would you just like to make some closing remarks?

Tia Hayter: Thank you, Andrew. To finish, on behalf of all of us here today, I want to thank the Fortescue team members, contractors, and suppliers whose hard work and commitment has delivered another fantastic set of results. I'm so proud of what we've collectively achieved over the quarter and for what we'll achieve in the next one. I'm so proud to represent my colleagues here today. Thank you.

Andrew Forrest: Well done, Tia. Stay safe everybody and look forward to speaking to you soon. Cheers.

End of Transcript