Fortescue

March 2023 Quarterly Production Report

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Start of Transcript

Operator: Thank you for standing by and welcome to the Fortescue Metals Group March 2023 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 Ms Fiona Hick, CEO Fortescue Metals, please go ahead.

Fiona Hick: Thank you and welcome everyone, it's a pleasure to join you today for the March quarterly results. Joining me in Perth is Mark Hutchinson, FFI's Chief Executive Officer, and Andy Driscoll, Fortescue Metals' Acting Chief Financial Officer.

For those of you who have participated in our quarterly calls before, you'd know about our program called CEO for a Day, where we have aspiring leaders work with our leadership team to learn about the business. So, today I'd like to welcome Rhett Bradley, Superintendent of Production Scheduling in Port Hedland, who joins us as CEO for a Day. Rhett is a Yamatji man who joined Fortescue in August 2021 and is a key part of our port operations leadership team.

He leads by example, engages well with others, supports his team to be successful and regularly gives back to the community in a variety of ways. We're very fortunate to have you in the team, Rhett, welcome.

Rhett Bradley: Thank you, Fiona, and good morning all online, it's a pleasure to be here today, thank you.

Fiona Hick: Now this is also my first quarterly call, so before I go to results, I wanted to say two things. First, I'm really pleased to be on board and in the role and I'm looking forward to building on the achievements of the three prior CEOs in Fortescue's 20-year history.

Secondly, some initial reflections. I've spent a lot of time at all our sites and talked with a wide range of people, doing a lot of listening. I see a number of strengths. Fortescue has excellent safety and operational performance, built off a really strong culture and values. I've seen many examples firsthand of how team members are empowered to make improvements, innovate and challenge the status quo to improve the business. We also have an extremely strong balance sheet with great growth prospects, including decarbonisation, which will provide many benefits for all our stakeholders.

I do also see challenges ahead, including industry-wide cost pressures, inevitable mine plan driven cost escalation that we'll need to find ways to mitigate, and challenges in ongoing access to the right skills and talent as our needs evolve.

Building great teams and a disciplined approach to the things we can control will be my focus to position Fortescue for the future.

Turning to safety – our core value and highest priority, our Total Recordable Injury Frequency Rate was 1.8, demonstrating our strong focus on ensuring everyone goes home safely after every shift. I'd like to acknowledge the team's effort on managing the impacts of Tropical Cyclone Ilsa, a severe category 5 storm which crossed the Pilbara earlier this month. Importantly, there were no injuries as a result of the cyclone and no major damage across our operations. But we do recognise this wasn't the case for everyone, so we are working to provide support where we can.

Moving to operational performance. Once again the Fortescue team has delivered outstanding results with shipments of 46.3 million tonnes in the quarter contributing to record shipments for the nine months to 31 March of 143.1 million tonnes. So, that's three per cent higher than the prior corresponding period, which was also a record, or 3.6 million tonnes higher for the period.

This was while maintaining our industry-leading cost position with C1 costs of US$17.73 per tonne in the quarter. Importantly, we've been able to maintain our FY23 guidance, including for shipments of 187 million - 192 million tonnes, despite the recent weather-related disruptions.

On iron ore growth projects, we have a significant milestone to announce and that is the achievement of first production of wet concentrate at our Iron Bridge Magnetite Project, last Friday. So, we are now filling the tanks at the processing plant and are preparing for the first transportation of slurry to Port Hedland's Concentrate Handling Facility and to the stockpile in the coming week. This is a significant milestone for us and our joint venture partner, Formosa, and is a real credit to the entire team.

Iron Bridge is a differentiator for Fortescue, it complements and enhances our existing product mix and our Sales and Marketing team are already seeing strong demand for this high-grade magnetite product.

A brief update on the market, where demand for iron ore was strong in the quarter with continued drawdown of iron ore stocks at ports in China, this is particularly true for Fortescue's product with historically low levels as a proportion of total port stock in China reflecting strong demand.

Price realisations have stayed strong, driven by low steel margins and improvements in pig iron and crude steel production during the quarter, coupled with tight iron ore supply. Economic growth in China remains a key priority for 2023 and we see this supporting the iron ore market. Our sales and marketing strategy is unchanged and remains centred on the current and future needs of our customers and optimising our supply chain.

Looking ahead, investing in growth remains a key focus, and along with Iron Bridge we continue to make progress with the Belinga Project in Gabon. During the quarter we signed the Mining Convention which governs all legal, fiscal and regulatory regimes for the project. We're on track for first mining in the second half of this calendar year and we have drill rigs in country that are mobilising to site.

Belinga is one of the world's largest, undeveloped high-grade hematite deposits. Its development would provide significant environmental economic benefits for the Gabonese people, including employment and training opportunities. The response to our community engagement has been positive and we look forward to building on this and delivering local opportunities.

On exploration, total exploration and studies capital expenditure in the quarter was US$71 million. Iron ore exploration in the Pilbara included resource definition drilling in the Eastern Hamersley with a focus on Nyidinghu and Mindy South, along with the regional exploration programs in the Western Hub.

As Fortescue continues to diversify and grow for the future, we remain focused on decarbonising our iron ore operations by 2030, while maintaining our reputation for capital discipline and operational and project development excellence.

With that, I'll now hand over to Mark for an update on FFI.

Mark Hutchinson: Well thank you, Fiona, and firstly a big welcome to the team, it's really great to have you on board and welcome to your first quarterly. So, I have a few updates to take you through today from an FFI perspective. To start with, congratulations to the team at our Gladstone Electrolyser Manufacturing facility in Queensland, we call it GEM, on a major milestone. Construction works have been completed on the facility and they were under budget and under time, which is fantastic, and the further fit out including the automated production line and testing facilities will begin soon.

We have also successfully completed the build of our first PEM prototype; this is no small feat as we are the first in Australia to do anything like this. We remain firmly on track to produce Queensland-made FFI electrolysers this year. I also recently travelled to the United States to be part of the CERA Week, which is a major international energy conference. At CERA Week I was overwhelmed by the opportunity for renewable energy where the IRA is really making a massive difference, we uncovered lots of opportunity.

As a business, we really have to focus our attention on those markets that make the most commercial sense. Places where renewable power is available and affordable, places where incentives exist for local manufacturing and green energy production, places where offtake agreements, both domestic and export are ready and waiting to be signed. There is an opportunity for countries like Australia to not only compete, but to play a leading role in the green energy transformation if the policy settings are right, but we need to move fast.

We have seen policy responses to the US' IRA from around the world including Europe, Canada, the Gulf States, India and others, announcing their own funding commitments. The Australian Government can help to create a level playing field between fossil fuels and green energy, an IRA equivalent here would help to release Australia's comparative advantage in the green energy production. Speed and scale have always been a focus at Fortescue and we intend to retain this focus as we work to deliver projects this calendar year.

Now we have a number of global projects in our pipeline and each of these are at various stages along our development framework. I would like to demonstrate that it's not one size fits all. I've previously talked about five projects moving to Final Investment Decision this calendar year, as well as indicating that they may come from five different geographies.

Let me just take you through a few of these geographies and give you a bit more information. Firstly, in the United States we are currently looking at projects in Arizona and Texas which will produce green hydrogen for the mobility sector. In Brazil, a large-scale project will be based on creating green ammonia for export, in all probability, to Europe. Currently the project is in a pre-feasibility stage and FFI is advancing discussions with our OEMs. The project will eventually produce a significant amount of green ammonia for export.

In Kenya, we're looking at producing green ammonia for domestic fertiliser production, which is so important for Kenya's own food security. We've recently announced a commercial framework with the Kenyan Government for a potential development of a 300-megawatt green ammonia and fertiliser facility.

In Norway, we're working on producing green ammonia for export, again to mainland Europe. We have completed a local scoping study and commenced a Zoning Plan, as well as announcing an agreement to secure the renewable power we need for a 300-megawatt green hydrogen and green ammonia facility in Holmaneset. The agreement is with Statkraft, Europe's leading renewable power generator.

Lastly, in Australia, Gibson Island is progressing well, we are counting the days down to FID and working very hard on this not only being one of Australia's first projects but also one globally. We will be producing green ammonia for domestic market and for export, probably to South East Asia. The proposed project involves construction of a hydrogen production facility and a refurbishment of an existing natural gas-based ammonia facility in Brisbane.

With that I'll hand over to Andy.

Andrew Driscoll: Thank you, Hutch, and good morning everyone. As you've heard, the March quarter represented another period of consistent operating performance, which has really enabled the business to make the most of the market conditions and deliver another quarter of very strong cashflow generation.

On the financials, average revenue in the quarter of US$109 a tonne represented a realisation of 87 per cent of the Platts 62 Index, and that's up US$22 a tonne at quarter on quarter and in fact is the highest unit revenue since Q1 FY22.

We further built on our industry-leading cost position with the C1 cost of US$17.73 per tonne, up 3 per cent quarter on quarter, or just 1 per cent in Australian dollar terms, as embedded improvement initiatives largely offset the ongoing inflationary pressures that have been a headwind affecting the industry for some time.

Today we maintained our FY23 C1 cost guidance for hematite at US$18.00 to US$18.75 per tonne at the guided FX of A$0.70 and we've indicated we expect costs to be at the lower end of that range, reflecting a strong performance year to date and favourable diesel pricing relative to guidance.

Moving to cashflows, closing cash at 31 March was US$4 billion, unchanged on the December balance date and that was after payment of the FY23 interim dividend of US$1.5 billion and capital expenditure of around US$680 million in the quarter.

Our FY23 capex guidance, excluding FFI, is unchanged at US$2.7 billion to US$3.1 billion.

On the balance sheet, gross debt at 31 March was unchanged at US$6.2 billion, meaning net debt was US$2.1 billion.

Central to our capital allocation framework is a commitment to a strong balance sheet, and you should expect us to continue to proactively manage our debt maturity profile and continue to optimise our debt capital structure.

This robust balance sheet, together with disciplined capital allocation, puts us in great shape as we continue to advance our short, medium and long-term growth opportunities.

On that note, we'll move to the Q&A session, and I'm pleased to advise that Vivienne Tieu, our Director of Sales, Marketing and Shipping, and Dino Otranto, COO Iron Ore, are also available to address questions.

So, Melanie, back to you to introduce the Q&A session please.

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 speakerphone, please pick up the handset to ask your question. Please limit your questions to two per person. If you wish to ask further questions, please re-join the queue. Your first question comes from Hayden Bairstow with Macquarie, please go ahead.

Hayden Bairstow: (Macquarie) Morning all and welcome aboard, Fiona, it's great to have you on the call for the first time. A couple from me, just firstly I think it was touched on initially, there's been some noise I think about potential production cuts in China, profitability still pretty low, quite negative for a lot of the industry. Just keen to get an update on where you guys are seeing the iron ore market and near-term risks to pricing if we do see production cuts?

Fiona Hick: Sure, and thanks very much, Hayden for the question. There's always a level of day-to-day volatility, we try to look through that to the underlying fundamentals on supply and demand. When we do that, we're still quite optimistic on China's crude steel production and demand for certainly this calendar year and beyond. There have been rumours, you're right, of production cuts in recent weeks, but our analysis suggests that demand in China is actually going to increase year-on-year.

So, we're seeing demand in China improve in recent weeks, steel inventory is continuing to draw at both traders and at mill and inventory below. But I'm happy to hand it over to Viv to see if she has any additional comments.

Vivienne Tieu: Thanks, Fiona. So, yes you're right, volatility is common in commodity markets but we really do look at the underlying fundamentals as it relates to the steel market. Data suggests that the rest of world has found its bottom and in China in particular, we are seeing increased steel production rates, pig iron production rates, continue to improve and inventory continue to draw.

Looking ahead, economic growth is a key priority for China in 2023 and we think that this is supportive of the iron ore market. Given where steel margins are at the moment, they are challenged, so we continue to see preference for products like ours and we expect that to continue going forward. Thanks, Fiona.

Hayden Bairstow: (Macquarie) Great, and the second question probably is more for Hutch, just on FFI. It's great we're seeing a little bit of scope on some of these projects in terms of megawatt scale, but how far do you think we are away to be able to give us a bit of guidance on what some of these things might actually cost and where breakeven pricing might be on some of these projects?

Mark Hutchinson: Hayden, thanks. Look all I can say, we're learning every day and working very hard to make sure we get five to FID this year. Over the next few months, as we take these projects to the Board and we land all the planes on all the terms and conditions of the transactions, we'll make the information available. But you'll see that this year, calendar year.

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

Kaan Peker: (RBC) Hi Fiona and Mark, Dino and Andy. Just first question on capex, it looks like it's running below the bottom end of guidance. Can you just maybe talk through; is that FX related or are you just finding it hard to spend at that pace? Thanks.

Fiona Hick: Yes, so thanks very much, Kaan. Look there will always be a level of phasing associated with our capex, but it is made up of course of sustaining capex, we've got some decarbonisation spend in there and there's also some deferred spend. I'll hand to Andy to give some details on the remaining quarter.

Andrew Driscoll: Yes, thanks Fiona. Look not too much to add, Kaan, but you're right, at that lower FX is a little bit of a tailwind for capital, similar to operating costs. The majority of our capital expenditure is incurred in Aussie dollars, but also some phasing or seasonal trends as we do tend to incur, and on a cash flow basis, higher capital in the June quarter relative to the prior quarters. So, as you've seen in the release, we've reiterated our capex guidance for this year.

Kaan Peker: (RBC) Sure, thank you. Just a second question on Iron Bridge. When is the first sales expected? I assume in the coming weeks and of the concentrate produced, can you maybe talk through recovery rates, grade and impurity levels achieved? Thanks.

Fiona Hick: Yes, sure. So, on Iron Bridge look we're seeing 67 per cent, we've just achieved that for production and as we go through commissioning and into ramp up, we're going to provide guidance on shipments for FY24 when we report the June quarterly results in a few months' time, so you'll hear more about that then. In terms of shipments for 2023, we just had our first concentrate production on Friday, so we're just working through establishing the supply chain, getting the stockpiles in our stock yard ready and then we'll optimise shipping from there. So really the team's focus is safe commissioning, safe ramp up and you'll hear more about the first shipment in due course.

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

Lyndon Fagan: (J.P. Morgan) Thanks very much. Just another one on Iron Bridge, I'm wondering will you be reporting a separate achieved price and costs for the asset and are you able to give any colour on the latest thinking around costs? I've got another one after that, thanks.

Fiona Hick: Sure. So Lyndon the short answer is yes. You will start to see that in time segmented out, so we will provide colour both on haematite as well as the magnetite portion of the portfolio, so you'll certainly see that in time. But we don't have that today, obviously, other than we are seeing strong demand for the product and then you'll see more on our realised price for that product in due course.

Lyndon Fagan: (J.P. Morgan) Thanks and a separate one for Hutch, when we finally do see an approval for an FFI project, I'm wondering what sort of disclosure you'll be providing to the market and what I'm really getting at is will there be enough in that disclosure for us to be able to model these assets? I'm wondering if the ammonia offtake contracts are commercial in confidence and you're not going to be able to provide any pricing and therefore I guess how do we try to forecast the earnings from these assets? Thanks.

Mark Hutchinson: Yes, so look firstly on the commercialisation of the contracts, I mean this is a brand-new market, so we're going to have to be careful how we tell the market what we're doing because no one's ever really done this before. But look we're going to try and give as much information as we can. I'm going to pass to Andy who can give you some clarity on that.

Andrew Driscoll: Yes, look Lyndon the short answer is it's absolutely our intent to give you, the investment community, the information required to understand what the economics of these projects look like, you're thinking of the first project, the first FID or may be the first five, we're thinking of a pipeline of over 100 projects and our interests are very much aligned in demonstrating to the investors that these are attractive projects with robust economics.

You're right, it's a little different from iron ore in that there's not an index price that's necessarily assessed. But either through giving you a range in terms of return expectations or perhaps a range enabling modelling of revenue, it's our intent very much to enable you to understand the economics of these projects when we achieve final investment decision.

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

Robert Stein: (CLSA) Thanks guys. Just a couple of quick ones on iron ore from me. So, noting the FX drop and the C1 cost rate in the quarter, just wondering how much of that's related to mine plan and strip ratio, noting that all moves for the quarter was a bit lower than what it was quarter on quarter. Was that a wet weather contingency that didn't eventuate? Then I've got a second one to come back to.

Fiona Hick: Yes, sure Robert. So, as you look at the costs, I you could say it's a bit of a combination, so certainly on strip ratio we said that was going to be around 1.5, it was a little lower than that in the first half. It was 1.6 in the March quarter, and we'd expect you could judge it'll probably be a similar ratio in the coming quarter. So there is a level of strip ratio there as well as we are seeing some lower realised price compared to what we were forecasting for diesel, as well as the FX. So anything to add there, Andy?

Andrew Driscoll: Yes, just a reminder, Rob, on the FX sensitivity, so year to date AUD is about $0.02 lower than that guided rate of $0.70. Every $0.01 movement in Aussie dollar is about $0.15 per tonne to C1.

Robert Stein: (CSLA) Yes, just looking for the residual impact there, but that's good, thanks Andy. Then the other question was related to realised price, so noting the 58 discounts are trending up, but parts are delta to what those discounts are implying in terms of pricing, is that related to I guess the share of West Pilbara Fines as well as the high share lump quarter on quarter. Are we expecting that to be sustainable through time, noting that that was, I guess, one of the key strategies that you put in place to try to get WPF into the blend or into the mix, sorry?

Fiona Hick: Yes, sure, so look as you say, that West Pilbara Fines is generating strong pricing, the volumes there, current product mix is representative of what you can expect into the future. It is generating, the marketing team, credit to them, have been generating strong price realisations. In terms of your expectations and our expectations moving forward we want to make sure that our products continue to achieve fair market value based on the fundamental market supplier-demand equation. So like you say, they have been strong, averaging 86 per cent – 87 per cent, given that strong demand and so that's where they are at the moment, but we're not going to give a forward view on price other than to say we want to make sure that our products generate fair market value.

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

Lachlan Shaw: (UBS) Yes, morning Fiona, Hutch and Andy, thanks very much for the update and welcome Fiona. Couple of questions from me, so just on Iron Bridge, can you just talk to the critical path milestones and ramp up execution that you need to work through from here please?

Fiona Hick: Sure. So, on Iron Bridge, look before I move to what's ahead, I am just going to quickly mention there's been a lot that's happened in the quarter in terms of key milestones. So we've commissioned Crushing Circuit A, the Coarse Ore Stockpile Stacker, you can see in the note as well as construction of Dry Plant Circuit B, the Wet Plant, so all of the concentrate and return water pipelines have been welded, buried and just to give you a sense of scale, I was looking at the length of pipeline; for this project there is around about two-thirds of the distance between Sydney and Melbourne, so to give you a sense of scale.

So in terms of what's ahead, as I mentioned, we're filling up those storage tanks at the moment. When we get to the right levels of volume, we will transport that first slug of slurry through to Port Hedland, so that's the 135-kilometre distance. It then goes through a drying process and then onto the stockpile. Obviously when the stacker starts to stack onto that stockpile and then in time when we reclaim for ship loading, there'll be a level that the reclaimer can't get to, so we've got to kind of build up that first level of stockpile and then when we've got the right volumes, that's when you'll see the first ship. But essentially we are ready to go at the processing plant and the Concentrate Handling Facility are ready to receive and that is imminent.

Lachlan Shaw: (UBS) Great, thank you. Then a second question is Gabon, so just maybe if you can talk to how the capex is shaping up for that. Obviously, you're flagging first tonne second half, what's the critical path there? Then just any updates on potential timing and critical path to the full-scale project down the track. Thank you.

Fiona Hick: Yes, sure, thanks for that. So just on that, we're in this early production phase at the moment and we are on track for first mining planned for the second half of this year. We've got drill rigs in country and as I mentioned earlier, they'll mobilise to site. So really, as we look to the critical path, there's nothing we see there in the project plan that concerns us to deliver that.

Stepping back from Gabon and more broadly, we are working through the study phase for the full production. So, we're looking at a variety of development concepts, looking at how to optimise those concepts and then obviously that's including capital intensity for that full production phase as well. So if you like, there's two steams of work that are ongoing. One is the first early production, which is on track and then secondly working through the study phase, which is looking at capex for the full development.

I'll hand over to Andy.

Andrew Driscoll: Just specifically on the capital that we've called out, Lachlan, so for that exploration and studies phase, that's over three years, 100 per cent basis, about US$90 million is estimated and the early-stage mine development, that's again 100 per cent basis around US$200 million of capital over this and next calendar year.

Operator: Thank you. Your next question comes from Giles Parkinson with RenewEconomy. Please go ahead.

Giles Parkinson: (RenewEconomy) Thank you very much for taking the question. It's a couple for you, Mark, actually. Can you tell us a bit more about the hydrogen electrolyser pilot you have that you just described, I think you described it as a PEM, any more information about the company building that? What your plans are for Gladstone now that the construction has actually been completed, how much production you're imagining now for 2023 and what exactly are you going to be producing?

Mark Hutchinson: Yes, thanks Giles. Look very excited to have the facility complete, that's the first milestone and on time, within budget, which is exciting. We've developed our own PEM technology and we'll start producing those this year. Eventually we'll have a two-gigawatt site here to supply some of the projects we're doing in Australia but also internationally. It doesn't mean that we won't be buying off others. Our need is going to be enormous globally, so we have and retain great relationships with all the suppliers around the world actually and we'll be dealing with different suppliers in different situations around the world. But as far as our own technology goes, the technology is advancing very well. We will be in production this year, it will be some, it won't be the whole two gigawatts, but we will ramp that up over the next couple of years. But exciting for Australia, thank you.

Giles Parkinson: (RenewEconomy) Can you just tell us a bit more about this pilot then, this pilot electrolyser that you built? I mean which – because you've got investments in a couple of different technology companies, I think, can you just give us any more information about whose technology this is or which subsidiary is it, just part of FFI or was it one of the investment companies that you've got in your portfolio and what makes this particular technology or this particular unit particularly interesting?

Mark Hutchinson: Thanks. So look I think there's really three different technologies in the world at the moment. We focused initially on PEM ourselves as we think that's the best technology for what we need at the moment. There are others developing alkaline technology, particularly in China and in Europe. We might make some investment in other technologies we haven't done to date actually, so this has been home-grown technology where we've really developed technology and we will continue to develop that technology out.

I would just say, look this is kind of a new world, right, the technology has been around for a long time, but really this has never been done at scale. So we as an industry have an enormous amount to learn over the next few years as we ramp this up at scale and the technology I think will develop very, very fast over the next few years. So we're just going to be part of that race and we're working very closely with basically every other supplier of electrolyser technology around the world to make sure that we get supply and that we get the best technology in place.

Operator: Thank you. Your next question comes from Peter Milne with WAtoday. Please go ahead.

Peter Milne: (WAtoday) Hi, thanks for the opportunity to ask a question. Mark I'm just interested in the five project areas that you went through, and you noted that Brazil was in pre-feasibility stage, so I assume that means there's no way there's a FID in Brazil this year. So maybe for those five, could you just very quickly take us through where they are technically and commercially, like technically is it pre-feasibility, please, just so we sort of know where they are on the timeline and how many do you think might be FID this year?

Mark Hutchinson: Yes, so look Peter, thanks for the question. I think the way I'm looking at it, we're pushing the teams very hard in the race to make sure we get to what we've committed. So, we have more than five in the race, which is important and they're at different stages of where they are in the process at the moment. Some are being fast tracked actually because they're probably a little bit easier. So we look at the ones in the United States, it comes back to my comments earlier, there's different needs for the product here, so in the United States you're really looking to produce the green hydrogen and then the customers will come and basically pick it up, which is different to when you're exporting where you need to turn it into something else and so it is carried for export, so you need then to think about the ammonia part of that and the shipping part of it, so it adds a level of complexity. So, I'd say, look we have a couple in the United

States quite advanced, moving very quickly and they will be producing just green hydrogen, we won't be converting those to ammonia.

In export markets, again I'm pushing the teams hard in places like Brazil, Norway and Kenya where they're in the pre-feasibility stage and I would very much hope that some of those will get up by the end of the year, not all of them, but some of them will get up and then we hope that they will be ready. The few that missed the deadline, they'll be ready for next year. Australia, as we've mentioned, we're quite advanced on Gibson Island and we hope that that one will be one of the first ones that we bring to FID. So look, the race is on, we will definitely get there, I'm very confident about it, but it does depend on what kind of project it is and we will see more of that over the next few months.

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

Nick Evans: (The Australian) Yes, g'day guys. Firstly one for Mark. Just looking at the hydrogen projects you mentioned today in Norway and Kenya, they're both 300 megawatts, so my back of the envelope suggests that that's between 20,000 and 40,000 tonnes of hydrogen a year at that scale, depending on your capacity factors and a few other things. Is that right and should we assume that the other ones in that first group of five will be of similar scale when you make FID?

Mark Hutchinson: Yes, so again, not one size fits all here, so Norway for example, is hydropower so we don't need the firming power that you would need in other places around the world. In Kenya it's geothermal. So I think there's a lot of different variables that go into it, but you're thinking the right way. I think you can say that the ones in Brazil, the ones in Australia probably would be larger than that, actually, just given the production capability. But I think you are thinking about it the right way. Those ones are different projects.

Norway, we're taking hydropower and we're converting it to ammonia for export. So, that has some complexity in that. In Kenya, we're actually turning green hydrogen into green ammonia for a domestic market that will be then turned to fertilisers. So, different outputs and that will impact the project and how they're put together. But you're thinking about it the right way.

Nick Evans: (The Australian) Just returning to Iron Bridge and welcome to the quarterly roundabout Fiona, are you saying that you will definitely get a shipment out by the end of the financial year, or is that still sort of in doubt depending on how the ramp up and everything else goes with Iron Bridge at the moment?

Fiona Hick: Yes, so thanks very much, Nick. Look, I guess where we are at is we're working to make sure that we've got safe and steady commissioning and ramp up. At this stage, things are looking good, but always as we ramp up a plant, there might be things that we will learn along the way. So, look, you will be aware in time, as we move to first ship, but certainly we are going as fast as we can, as safely as we can, and we also, as you step back more broadly, we did reiterate our guidance today around shipments, despite the weather-related interruptions for total shipments of that 187mt to 192mt.

Operator: Thank you. Your next question comes from Jennifer Walpole with Nikkei. Please go ahead.

Jennifer Walpole: (Nikkei) Thank you. This is Jennifer Walpole from Nikkei Japanese Media. Thank you for your time today. Could you tell us the reason why the direct production cost increased 2 per cent compared to the first six months of the year? Also, what impact do you expect from the amendment safeguard mechanism in terms of the cost?

Fiona Hick: Okay. Thanks for that. So, just in terms of the C1 cost and the C1 cost increase that you mentioned. Look, we do have some industry wide inflationary pressures that I spoke to earlier. Labour rates have gone up, diesel costs. We've got other consumables, like ammonium nitrate, as well as the mine plan driven impacts that I spoke to earlier around strip ratio haulage distances and the like. But we certainly embedded a lot of cost savings as well, that the team have built into the upcoming quarter and into all the quarters to come.

Just on your question around the safeguard mechanisms, look, the first thing I would say is we're really working on having multiparty support to strengthen Australia's climate policy architecture. That's really important. So, it has incentivised real reductions, and I think it's great that policymakers understand and implement the science that's laid out. In terms of impact, your question on what's the specific impact to cost. Well, one of the things that we're doing with our decarbonisation plan is actually de-risking our exposure there. So, you will have seen our decarbonisation roadmap that was issued in September 2022. The goal of that, is to get to the point where the safeguard mechanism means less to us because when our real emissions are lower, and so we see that reducing over the course of the decade.

Operator: Thank you. Your next question comes from Brad Thompson with the Australian Financial Review. Please go ahead.

Brad Thompson: (Australian Financial Review) Hi all, thanks for your time today. Fiona, I'm just going back to Iron Bridge. I think with the December quarterly, the expectation was you would supply about a million tonnes or slightly less from Iron Bridge in the year to 30 June. Are you saying now that you're not putting any figure on supply from Iron Bridge this financial year?

Fiona Hick: So, our guidance, Brad, is going to be less than one million tonnes for Iron Bridge for this financial year. So, we're going through that production. We're going to be learning through commissioning and ramp up, and certainly ramping up as quickly as we can, and we're also talking about hosting a site tour to Iron Bridge later this calendar year. So, for people on the call, if you're interested to come and have a look at Iron Bridge firsthand, it would be great to have you. So, certainly, that is our guidance for this financial year, and then you will hear more on next financial year next quarter.

Brad Thompson: (Australian Financial Review) Okay, thank you, and one for you, Hutch, if you don't mind. You said at the start that there needed to be a response from Australia to the *Inflation Reduction Act*, and I know that you've got projects in Arizona and Texas now that you're very keen on. If you had a wish list for the Australian government, what would you most like to see the government do in this space?

Mark Hutchison: Look, Brad, thank so much. Firstly I think the government is thinking about it the right way, and I think we have to remind everybody, we're building a global business here, so we want to do projects all around the world, and we hope that the governments around the world will respond to what the United States has done. I think as we look at Australia, what we would love to see is really some incentives being built into on a bilateral basis with certain countries. For example, Germany has a window open called H2Global and it would be lovely to see Australia work with Germany on matching something close to the IRA. Not necessarily in quantum but certainly in the incentive levels and maybe splitting the difference between the two because there's the benefits to both countries.

That could be the same with a number of other of Australia's major trading partners. So let's see where this goes. I think very encouraging signs coming out of the government at the moment. Really want to make sure that Australia is in the game and there's a level playing field so - but very encouraging to date.

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

John Tumazos: (John Tumazos Very Independent Research) Thank you. We don't get good news coverage here in the US in terms of Western Australian weather. Could you just review how many days Port Hedland was closed for iron ore shipments and whether you'd be able to make up that idle time over the balance of the quarter?

Fiona Hick: Yes, sure. Thanks, John. Look, in terms of the duration that the Port Hedland port was closed, it was closed for three days. So obviously that allows time for all of the ships to clear, for all of the infrastructure and assets to be made safe and then for all of our staff to - particularly residential staff, to head home and make sure that they are safe and well.

So three days and to your question of can we make it up? Well, we're certainly looking for a very smooth and stable quarter. As I mentioned, we've made no change to that guidance of 187mt to 192mt. So the team are really focussed on that and that is built into that guidance for the full year.
Operator: Thank you. Your next question comes from Anuja Agarwal with Y2 Capital. Please go ahead.

Anuja Agarwal: (Y2 Capital) Hi. Thank you. Thank you for the opportunity. Congrats on a great quarter. So my question is really if you could give us a little more clarity on the economics for your various hydrogen projects? I think that it is quite fantastic that you are doing that transition. So far, you've announced five for the Arizona and Texas and the one you spoke about, Kenya. So could you just give us a little more insight on how you expect the economics to work out over time and any timeline?

Mark Hutchinson: Yes, sure. So look, thanks for the question and as I said, we plan to have five projects in FID this year so we're working very hard to get them to that stage. Look, we'll supply more information around the economics and around how they work as they come to FID. We're working through that as we speak, and we need to take the Board through that first.

But all I can say is that we understand we have to compete for capital within the Company and Fortescue has many great opportunities to invest capital looking into the future. In FFI, we know we have to compete with that capital, so we'll make sure that the economics are fine. So, you'll see more of this over the next few months as we close out the year. We'll educate the media and our investors along the way here to make sure we understand what is basically a new market. So more to come.

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

Nick Evans: (The Australian) Fiona, you made a couple of comments earlier on about costs and labour tightness. I wonder if you can just give us a bit of broad colour on where you think the WA labour market is at. Has it sort of plateaued in terms of those skill shortages and where you think it's headed? Is there any sort of signs of easing on some of those costs at the moment outside of things like diesel which is at the mercy of international commodity markets?

Fiona Hick: Yes, sure. Thanks, Nick. So look, I guess there's two things to say on this. I mean firstly, if you look at the WA resources sector as a whole, there is significant skill shortage. There has been for some time and I don't see that changing any time soon, just given the volume of projects that are in the pipeline. If we look at Fortescue specifically, one of the things that I'm really pleased about is actually that we see two things. One is attraction of talent, particularly associated with decarbonisation, is really strong. That's been great. The second is in terms of turnover.

As we look at the market generally, we have fairly low turnover in our core business. So I think that's a credit to everyone in the team around people - you know, once they arrive they want to stay. So I think there's - that's what I would say, Nick, in terms of skills, it's always going to be something that is at the forefront of our mind. It's not causing us near-term challenges but it's something that we're attuned to, to make sure that we've always got that capability that we need for the business.

Operator: Thank you. Your next question comes from Peter Milne with WAtoday. Please, go ahead.

Peter Milne: (WAtoday) Yes, hi. Thanks for a second question. Mark, my understanding, is FFI is approaching a lot of farmers in the Great Southern for potential wind farms. I just wonder if you could tell me what your thinking is there and what you might be putting that power to use for?

Mark Hutchinson: So look, I think I would say globally we're looking at where we can really secure land in some form to produce green electrons which will feed into our green hydrogen production. Western Australia, South Australia, Northern Territory, we're looking in all of these places in Australia and really, they will be the feedstock into our production facilities as we ramp it up but we're looking elsewhere as well. Africa, Middle East, North Africa, America, Canada, Brazil, Norway. All these places we're looking at where we can secure large tracts of land which have good resources that will supply our future electrons for our future molecules.

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

Robert Stein: (CLSA) Thanks, guys. Just a follow up on the Norway project. Can you just outline how exporting hydrogen via ammonia can compete with any type of transmission infrastructure that could connect the Norway renewables into Europe? Just wondering, considering the NordLink was built a couple of years ago for about €2 billion and there's no energy losses - or very minimal transmission losses there compared to potentially taking an electron into hydrogen into ammonia and then cracking it back into hydrogen on the other end. Just curious how that works from an energy balance and an economic perspective?

Mark Hutchinson: Yes, well thanks, Robert. Look, if you can send an electron, you should because you're totally right, that's the most efficient use of power. But not all the customers want power, actually. So what you'll see is, particularly in Europe, that the early production of ammonia will be used as ammonia within the country that receives it. Also, I'd say that it's not ammonia, it's green ammonia which is completely different to grey and there's going to be a different demand cycle for that. Many customers are looking to blend initially to get going and so at some point, it'll be used for energy as well.

It might be a different medium that is used to transport it but at the moment, the most obvious one is ammonia because there is already a global seaborne trade. There's the infrastructure in place to use that. But yes, you're right, if you can send the electron, you should, but not everybody needs the green electron.

Operator: Thank you. That's all the time we have for our question-and-answer session. I'll now hand back to Ms Hick for closing remarks.

Fiona Hick: Thanks very much and thanks for joining us today for the release of our Q3 results and for your ongoing interest in Fortescue. Our operating performance continues to drive strong results and with one quarter left until the end of the financial year, we're in good shape to deliver on our guidance for FY23. Thank you and we'll speak to you at the next investor call.

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

End of Transcript