Fortescue

June 2023 Quarterly Production Report

Investor and Analyst

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Start of Transcript

Operator: Thank you for standing by and welcome to the Fortescue Metals June 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 Fiona Hick, CEO of Fortescue Metals. Please go ahead.

Fiona Hick: Thanks Darcy. Welcome everyone. It's a pleasure to join you today for Fortescue's June quarterly results. Joining me in Perth is Mark Hutchinson, Fortescue Energy's Chief Executive Officer, and a very big welcome to Christine Morris, Fortescue Metals Chief Financial Officer.

For those of you who have participated in our quarterly calls before, you would know about our program called CEO for a Day, where we have aspiring leaders work with our leadership team to learn about the business. Today, I'd like to welcome Cynthia Cameron Turland, who joins us as CEO for a Day. Cynthia is a proud Kariyarra woman, who joined Fortescue as part of our Vocational Training Employment Centre program in 2020. Last year, Cynthia graduated from our Leadership Empowerment for Aboriginal People program and this year has been part of our innovative Shadow Supervisor program. Cynthia has been recognised for her outstanding contribution to the Water Management team and for her tireless commitment to mentoring her Indigenous teammates. We are very fortunate to have you in the team, Cynthia. Welcome.

Cynthia Cameron Turland: Thank you, Fiona. I feel very privileged to be a part of this experience today.

Fiona Hick: Before I turn to the results, I want to take a moment to acknowledge Fortescue's 20th anniversary, which we celebrated just last week. Fortescue was built from scratch and has grown to be one of the most successful iron ore companies in the world, it is a great Australian success story. As we celebrate the milestones achieved over the past 20 years, we recently outlined to our 20,000 team members that our two businesses, Metals and FFI, will come together under one Fortescue brand to represent being a unified global metals and green energy Company. This is in line with what we have flagged for some time. Fortescue will operate with two divisions, metals and energy, and Fortescue Energy is comprised of FFI and WAE, led by CEO Mark Hutchinson. We are well positioned for our next phase of growth.

Now to our fourth quarter results. As you can see from today's report, Fortescue's operating excellence continues to drive strong results across our key metrics with another outstanding quarter. Operational excellence is underpinned by our strong focus on safety, which is a core Value and highest priority. Our Total Recordable Injury Frequency Rate for Fortescue Metals was 1.8 in the 12 months to 30 June 2023, demonstrating our commitment to ensuring everyone goes home safely after every shift.

The Fortescue team has also delivered outstanding production results for the June quarter, with iron ore shipments of 48.9 million tonnes, contributing to highest ever annual shipments of 192 million tonnes, achieving the top end of shipments market guidance. This represents the fourth consecutive year of record shipments for Fortescue, and is a result of ongoing investments in our operations; and the team's commitment to operational excellence, production, efficiencies and innovation.

Earlier this week, I was in Port Hedland as we celebrated a major milestone with first ore on ship for Iron Bridge. This follows first production during the quarter which saw the plant deliver to specification with a first run grade of greater than

67% iron content. Iron Bridge is Fortescue's most complex project yet, and its successful construction is a true demonstration of our Values. I'd like to thank everyone who was involved.

This is Fortescue's entry into the high-grade iron ore market segment which diversifies our revenue base and allows us to provide customers with an enhanced product offering.

An update on Iron Bridge commissioning, where activities are progressing well, while managing some disruptions that included Tropical Cyclone Ilsa and a defect in the process water pond that required remedial works. Those remedial works have now been completed while commissioning activities continue in the dry circuit pipelines and concentrate handling facility at Port Hedland.

Reflecting the updated commissioning schedule, the project is now anticipated to transition to operational production in mid-August. The construction activities continue to wind down, and in line with the project schedule, the completion of construction of Dry Circuit B remains on track for September 2023. The focus is now on achieving a safe and efficient ramp up, and we are now expecting to achieve ramp up to full capacity of 22 million tonnes per annum within 24 months from operational production.

Consistent with our commitment to implementing practical initiatives that drive economic and employment opportunities for First Nations Australians, during the quarter we announced an A$18 million contract awarded to Nyamal Holdings as part of our Drill and Blast program for Iron Bridge. This forms part of more than A$370 million in contracts awarded to Nyamal businesses since 2019. This is just one example more broadly of how our Billion Opportunities program continues to support First Nations businesses, with more than A$4.5 billion in contracts awarded since 2011.

A brief update on the markets, where demand for iron ore was strong in the quarter with high levels of crude steel and pig iron production persisting through the first half of the calendar year. Iron ore demand and supply have been well balanced, with limited inventory build at Chinese ports and mills maintaining low inventory levels. Demand for Fortescue's suite of products have been strong with price realisations remaining above 85 per cent.

The recovery in China has been uneven, but we have been encouraged by some recent signals from government, including from this week's important Politburo meeting. We continue to believe that economic growth and employment will remain key priorities for China, and we see this supporting steel demand and the broader iron ore market. Our sales and marketing strategy remains centred on the current and future needs of our customers and on maximising value for our products.

Looking ahead, investing in growth remains a key focus and along with Iron Bridge, we continue to make progress with the Belinga Iron Ore Project in Gabon and executing our decarbonisation program. During the quarter we loaded first ore to train and delivered to port, which keeps us on track to deliver the first shipment of iron ore from Gabon by the end of this calendar year. We have a major exploration drilling campaign underway in Gabon and geological mapping and sampling programs continue to show that this project has the potential to be significant scale and higher iron grade.

The response through our community engagement has been positive and we are now building on this and delivering local employment opportunities. On exploration, total exploration and studies capital expenditure in the quarter was US$59 million, contributing to total investment in FY23 to US$243 million. Iron ore exploration in the Pilbara including resource definition drilling in the Eastern Hamersley with a focus on Nyidinghu and Mindy South, along with regional exploration programs Pilbara wide.

On our other key growth area, decarbonisation, we continue to make strong progress. During the quarter, using WAE's innovative battery technology, we delivered a battery electric haul truck prototype to one of our mine sites where it is now going through a testing program in Pilbara operating conditions. Later this year, we will have our first green hydrogen fuel cell haul truck on site for similar testing, which is being delivered through our partnership with Liebherr.

Progress also continues on decarbonising our rail operations. We have retrofitted a locomotive engine to run dual fuel with ammonia and this has been deployed to site for testing on our rail network.

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.

Building on another year of record performance, our FY24 guidance reflects our ongoing commitment to optimising returns from our iron ore operations. FY24 guidance for total shipments is a range of 192 to 197 million tonnes, including approximately 7 million tonnes from Iron Bridge, and C1 cost guidance for Pilbara hematite within the range of US$18.00 to US$19.00 per wet metric tonne. With that, I will now hand over to Mark, for an update on Fortescue Energy.

Mark Hutchinson: Thank you Fiona, hello everyone and great to be able to speak to you again today. It has been a busy quarter with our team here in Australia and internationally as we have progressed work across all our portfolio. But let us talk about technology first. One of our major priorities is the decarbonisation of Fortescue, and we promised to tell you once we actually had some tangible results, and we are very pleased to take you through some major achievements today.

As you have already heard, the heavy vehicle technology being developed by our Green Fleet team, in collaboration with our partners, is now being tested on site. It has been just over three years since the original concept for our battery electric haul truck, the Roadrunner, was floated and a physical build began just 12 months ago. We are also continuing to build on our hydrogen fuel cell version, and in addition, the Green Fleet team are also commissioning a first prototype three-megawatt fast charger, which we are on track to begin testing on site this quarter.

This will help us to understand and develop haul truck duty and charging cycles. To have developed and readied and delivered technology of this scale for onsite testing is a huge feat and speaks to the expertise and commitment of our team. This is really exciting progress, not only in terms of our decarbonisation program, but also in terms of the IP we are developing within our technology business.

Last month, we also announced the expansion of our battery and electric powertrain production operations in the UK with an additional state-of-the-art facility in Oxfordshire. The facility, which will be open in 2024, will focus on the production of a wide range of zero emission products for the off-road sector, including trucks and trains.

So, let us talk about green electrons and molecules. From the off-takers perspective, our teams are in advanced negotiations with key customers in Australia, Singapore, Korea, the USA, and Europe, and this month we are welcoming customer delegations to Gibson Island, where we will be able to show that we are on track with our first hydrogen production facility.

Last month, we also hosted the board of another of our prospective off-takers, E.ON, on the tour of our operations in the Pilbara, and they were very impressed with what they saw. While much of the early scale demand will come from export customers, we are also committed to ensure that Australia's renewable resources, and the products we make with these resources, do support Australia's own decarbonisation wherever possible. We are in advanced negotiations with domestic off-take partners and hope to provide an update as soon as possible.

We are truly building a global green energy technology business and we recognise the immense importance Australia has to become as a producer and exporter of green energy and green technology. Importantly, over the quarter, the Hydrogen Headstart was announced by the Australian Government. The program sends a very strong signal about the viability of green hydrogen and its role in the energy transition, and is a much needed first step towards setting this country up for success in the growing global market.

Fortescue Energy has the green hydrogen projects in the pipeline ready to go to help drive the Australian industry forward, and we welcome the timeline for expressions of interest applications under the program being brought forward to commence in October this year. The sooner this program is underway, the sooner the industry here can start to deliver green hydrogen projects, and the better Australia's competitive position globally will be.

We also look forward to working with the Australian Government on the National Hydrogen Strategy refresh, and we see this as another opportunity to help address the policy gap that still exist between Australian domestic hydrogen production and the international markets, principally the US.

Now, I am sure you all want to know how we are progressing with our various projects, and those we hope to reach Final Investment Decision this calendar year. Now, we recognise these projects need to compete for capital within Fortescue and we are approaching them all with the utmost financial discipline. In the USA, we have just announced our first major move towards the passage of the IRA, when we invested US$24 million to acquire a 100 per cent interest in the Phoenix Hydrogen Hub.

This hub is a proposed green hydrogen project located in the City of Buckeye, Arizona, with Phase One planned to be an 80 megawatt electrolyser and liquefaction facility, capable of producing up to 12,000 tonnes of liquified green hydrogen annually, which will be sold to the mobility sector. The project is already well advanced. It is currently going through the final stages of permitting process, and we anticipate the project to go to the Board for Final Investment Decision this year.

In Brazil, study work continues on our project in Pecém. This quarter we completed the environmental impact studies and reporting required to comply with local regulations, and progressed licensing through the Ministry of Environmental and Climate Change. In Kenya, we continue to work with the Government to advance our green hydrogen and green fertiliser projects, including the potential for domestic offtake. The project remains on track, with generation and production sites identified and development milestones continue to be met.

In Norway, the European Commission has selected our green hydrogen and green ammonia project in Holmaneset, as a beneficiary of the EU Innovation Fund. This is subject to finalisation of the Grant Agreement, but very exciting. We are looking forward to finalising details with the European Climate, Infrastructure and Environment Executive Agency on this front.

Lastly, in Australia, work on Gibson Island is on schedule. The FEED process is on track, discussions on renewable power supply are advanced, and electrical connection and water supply agreements to site are progressing with Queensland State-owned and Brisbane City Council organisations. Public consultation of the Project Development Approval is now complete and is being finalised. We are working closely towards our goal of a Final Investment Decision by the end of this calendar year, and we remain absolutely focused on operating costs and capital discipline and recognise that our projects need to compete for capital, and with that, I am very happy to hand over to Christine, and welcome.

Christine Morris: Thanks, Hutch. Good morning, afternoon or evening to everyone on the call. I am thrilled to be here today. As you know, I joined Fortescue less than a month ago, and I can already share that the enthusiasm I had coming in has only grown. I moved to Perth from Houston, because I saw that Fortescue was uniquely positioned to truly become a global natural resources company. It combines world class mining operations, producing commodities that the world will continue to need in increasing quantities, with strategic capabilities that will make it a leader in the energy transition.

As I visited our mines earlier this month, I witnessed firsthand the passion of our employees and how we are truly one company developing and implementing solutions to decarbonise our operations. I look forward to sharing more of this with all of you as we meet in person.

So, turning to results, average revenue in the quarter was US$96 a tonne, representing 87 per cent of the Platts 62 CFR Index. This brings FY23 average revenue to US$95 a tonne and a realisation of 86 per cent of the Platts Index.

Demand for Fortescue's products has remained strong all year. This is the result of steel mill profitability as well as the consistent quality of delivered product and the low variability of Fortescue ores, which is valued by our customers. Moving to costs, C1 costs were down 1 per cent quarter on quarter in June to US$17.57 a tonne. This contributed to a full year C1 of US$17.54 a tonne, achieving the lower end of market guidance at the guided exchange rate. This reflected a strong operating performance, focus on cost management, and some relief from lower diesel prices.

As you have heard, our FY24 C1 cost guidance is a range of US$18.00 to US$19.00 a tonne, and that's at today's exchange rate. The guidance also reflects an increase in labour rates, as well as mine plan driven impacts. A culture that fosters strong cost control and accountability is critical to value creation. And Fortescue is absolutely focused on maintaining an industry leading cost position.

On Iron Bridge, Fortescue's proportional share of operating costs before royalties and shipping is anticipated at approximately US$400 million in FY24.

Returning to FY23, capital expenditure and investments was US$967 million during the quarter, and total capital expenditure and investments for the full year was US$3.2 billion, in line with guidance. As a reminder, these numbers are unaudited.

Guidance for FY24 capex, excluding FFI, is a range of US$2.8 billion to US$3.2 billion. This includes sustaining and hub development of US$1.9 billion to US$2.1 billion. It also includes US$300 million to US$500 million investment in decarbonisation, aligned with the execution of our decarbonisation program.

We also provide guidance for FFI, which includes operating expenditure in a range of US$400 million to US$500 million and capital expenditure and investments of US$300 million.

Turning to the balance sheet, on an unaudited basis, closing cash at 30 June 2023 was US$4.3 billion which compares to US$4 billion at 31 March 2023.

Gross debt decreased to US$5.3 billion from US$6.1 billion at 31 March 2023, following the early redemption of our US$750 million Senior Unsecured Notes due May 2024. This is consistent with our strategy to proactively manage our debt maturity profile.

As a result, net debt decreased to US$1 billion at 30 June 2023 from US$2.1 billion at 31 March 2023. The commitment to a strong balance sheet remains central to our capital allocation framework. We look forward to disclosing the full set of financial results at the end of August.

On that note, we will now move to the Q&A part of the call and back to our operator, Darcy.

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.

Please limit your questions to two per person. If you wish to ask further questions, please rejoin the queue. Your first question comes from Rahul Anand from Morgan Stanley. Please go ahead.

Rahul Anand: (Morgan Stanley) Hi Fiona, Christine and team, thanks for the opportunity. Two questions from me. First one is around the sustaining capital budget. So I just want to talk about the hematite business. My understanding was that FY23 was the rebasing year at around that US$1.5 billion mark. We were to expect similar numbers going forward.

Obviously, the capital budget today is a fair bit higher, at about US$2 billion, and I presume there's not much in terms of Iron Bridge in there given the project is still in ramp up.

So just wanted to get a bit more colour on that sustaining capital number and how we should be thinking of years beyond this one. Then I'll come back with my second one which will be on Iron Bridge. Thanks.

Fiona Hick: Thanks very much, Rahul. In answer to your question on that sustaining capital, I think what you can expect to see in future years, we do expect that FY24 will be a peak. I don't think you can expect that that trajectory will necessarily continue. So we are, of course, always looking at ways to optimise that sustaining capital number. Including looking at our hub development to make sure that we are optimising that as much as possible as part of our mine planning.

Rahul Anand: (Morgan Stanley) So in terms of that sustaining capital number then, would that imply that your comments around the rebasing year being FY23 as a go forward still remain relevant?

Fiona Hick: Yes, that's correct.

Rahul Anand: (Morgan Stanley) Okay, brilliant. Look, my second question is on Iron Bridge. Thank you for that extra colour on the project, a bit of detail in the release today. I wanted to touch upon the opex numbers provided and if we convert that to a per tonne number, we're at about US$83 a tonne.

Now, I acknowledge that we're still in ramp up. Study costs were around US$33 to US$38 per tonne. But a lot has changed also since the time the study was done. There's been an inflationary environment. I just wanted to perhaps get an update on how you're thinking about operating costs on a per tonne basis once the project is fully ramped up.

Fiona Hick: Sure and look, Rahul, as you noted, the project is in ramp up, having just had literally first ore iron ship earlier this week. We consciously didn't provide that because we've got low volumes, the majority of costs are fixed, and that's why we have given a total amount for FY24. It would have been less helpful to give you a cost per tonne, given the low volume of shipments and the high fixed costs. Look, we thought that would be the most helpful data to provide this time. And then as we ramp up the project, we will be providing information on unit costs as we understand more on shut schedules and wear rates and the like, in due course.

Operator: Thank you. Your next question comes from James Redfern from Bank of America. Please go ahead.

James Redfern: (Bank of America) Hi Fiona and team, hope you're well. Just a follow on please for Iron Bridge. We've talked about this on previous calls. Just wanted to confirm what the strategy is for the Iron Bridge magnetite product. Whether that will be sold as a concentrate product or blended with other hematite products. Thank you.

Fiona Hick: Yes, thanks very much, James. Look, I said on the last call, we'll sell whichever product and product mix that will give us the highest value. We do expect, at this stage, to sell as a standalone product and that's certainly what we're doing with the first shipment.

So you know, real focus now is on the safe and efficient ramp up. But at this stage, we see that we'll be selling it as a standalone product. We do, however - if the time comes and we see that there's additional value, we do have facilities at the port to blend the product if there are commercial advantages that we see from blending.

James Redfern: (Bank of America) Okay, thanks Fiona. My second question was on Belinga in Gabon. Targeting first production by late calendar 2023. Just maybe if you could please provide some guidance on expected volumes from Belinga later this year and then again in calendar 2024 please?

Fiona Hick: Yes, certainly. So look, Gabon, very pleased at the speed of which we've been able to get that ore on train and to port. As I said, we are on track to deliver the first shipment from Gabon by the end of this calendar year. We're still in the process of seeing how we go. It is very early days. But we expect the first shipment is going to be in the order of 50,000 tonnes.

It's an early stage production project which we're using to build learnings into our three year program. Certainly with the several drill rigs that we've got underway in Gabon, we're very excited by what we see there.

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

Kaan Peker: (RBC) Good morning, Fiona, Mark and team. Congratulations on the sale of Iron Bridge products. Just wanted to check if that initial sale was to previously stated specifications. More around the price realisation relative to the Platts 62 Index, and also that extended ramp up period for 24 months relative to the 18 month prior guidance. What was the reason behind that? And I'll circle back with a second question. Thanks.

Fiona Hick: Sure. Yes, thanks for that. Look, just in terms of that first shipment, yes, on specification and it was sold in alignment with the Platts 65% Fe Index pricing. So that's the story there.

And your second question on ramp up schedule. Look, Iron Bridge, as you know, is a complex project. We've dug deeply into the commissioning schedule. I also mentioned we did have an issue with that process water pond. And so that's the cause of that update to the commissioning schedule, to achieve name plate capacity within 24 months.

Kaan Peker: (RBC) Sure, thanks. And maybe the FY24 capex or the other iron ore projects, that bucket there with US$300 million. Should we assume US$100 million for Iron Bridge and US$200 million for Gabon? And is that additional to the US$3.6 billion capex spend guided to in Iron Bridge already? Thanks.

Fiona Hick: So yes, approximately, in terms of your breakdown there for the mix of that guidance in capital, that's correct.

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

Paul Young: (Goldman Sachs) Morning Fiona, Christine, and Mark. Hope you're all well. Fiona, a good quarterly to present. A few questions, the first one is on Iron Bridge and just getting maybe to the nitty-gritty a little bit on the recent performance in the ramp up. Your 24 months is probably reflective of the scale of the project and new processing tech being used in the plant.

So a couple of questions. First of all on the mining. We don't really talk about this, a lot but how is that tracking, because ultimately the mining rates have to exceed or get up to 100 million tonnes a year in total material movements. Just curious around when the mine plan has mining rates hitting peak. And then anything you can share on the air classifier performance in the dry plant. Just how that new technology is performing so far. I know it's early days.

Fiona Hick: Thanks Paul. So just to give you a bit of colour on the mining. Yes, we're in one pit at the moment and it's actually ahead. We're ahead of target there. So mining operations are progressing very well. In terms of the air classifier system, this has really just started, literally in recent weeks.

So we're pleased with the performance so far, but of course we're bedding down that equipment as we start it up and really ramp it up to full rate as per the standard commissioning schedule. So I'll be able to provide more colour on that next time we talk.

Paul Young: (Goldman Sachs) Yes, okay, great. Thanks for that colour. That's good. And then the second question is on the shipments guidance for hematite, Fiona. 185 to 190 million tonnes, down year on year but still well above where we thought it would get to which is the in-load nameplate of 180. But just curious about why shipments for hematite are falling. Is that just major scheduled maintenance or is it that and a combination of some depletion across some of the older mines like Cloudbreak?

Fiona Hick: Paul, I think the key reason is that we've got Iron Bridge coming in. So having the upside of a higher value product, a higher grade product, where our shipping is actually constant. So the modification that you see there is really predominantly driven by the introduction of Iron Bridge.

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

Hayden Bairstow: (Macquarie) Yes, morning Fiona. Just wanted to have a bit of a chat or get an update on the market, because obviously there's been a bit of talk around potential stimulus in China and even in to the property sector. I mean what are you guys sort of hearing in the last sort of week or two weeks from customers on the steel side in terms of demand?

Fiona Hick: Yes, so Hayden, look, I mean you would have seen the same reports that we have seen out of China over the last month, particularly over the last week. What our team is seeing, both here in Australia as well as in-country, that we're seeing low inventory levels. There's been a drawdown of iron ore stocks. So with that unsold inventory levels in Chinese ports remaining low, we are seeing solid demand.

We have actually achieved very strong sales in the quarter. Demand continues to be strong given quality and consistent product. So certainly, that's what we are hearing, as I said, both in Australia and from the team in-country. More cautiously optimistic would be the summary.

Hayden Bairstow: (Macquarie) Okay, great. Then just on the realisations, does the team sort of think if we get an improvement in steel profitability in China that we will start seeing a bit more divergence on demand for higher grade products versus your core product mix? Or do you think that these current levels are becoming more sustainable longer-term?

Fiona Hick: Look, Hayden, I think we do see variability over time with steel mill profitability. I don't expect that you'll see that change. But we have got low inventories, and so that really supports our realisations at the moment.

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

Lyndon Fagan: (JP Morgan) Thanks very much. The first one's for Mark. Is there any update on the five FIDs we are meant to get this calendar year, and maybe a bit of detail on which one's first? Thanks.

Mark Hutchinson: Yes, look, thanks, Lyndon, for the question. I can say we're progressing on all fronts. We have kind of talked about the various countries before. In the United States, we mentioned during the quarter, that we have bought into a project which is fairly advanced. That's quite exciting because it's going to supply hydrogen to the mobility sector. So I would imagine that would be one of our first ones through the FID progress.

We are working very hard on Gibson Island as well. That's progressing well, and we hope to get that done by the end of the year. Then the rest will come from, as we mentioned, Norway, Kenya, Brazil, and those are progressing as expected at the moment.

I think just in context, no-one is really done this before ever. These are complex projects. We are competing for capital. We want to make sure we have the right discipline around making sure the projects are in the right shape and compete for capital, and we make the right decisions. So look, we're working through that. I can guarantee you that over the next few months you'll hear a lot more about these. We are on track to do five by the end of the year.

Lyndon Fagan: (JP Morgan) Thanks. My follow-up question was just on the sustaining capex, around about US$2 billion. I guess we have been previously told sustaining capex for Fortescue is more around the US$1.2 billion. I'm wondering if we can maybe break down the US$2 billion or so of spend. What's that actually going towards? Given the detail just being separated out, which is the hub that you're developing, and I guess how aggressively is that consuming capex versus just perhaps an elevated or inflated normal sustaining business capex going forward? Thanks.

Mark Hutchinson: Yes, look, thanks again for the question. I'll hand over to Christine who will answer that for us.

Christine Morris: Hi Lyndon, nice to meet you. Yes, I mean we are not going to give massive detail for just a little visibility on the hubs. We have already commenced development in the Hall hub, in the Chichesters, and that's part of it. Then we are also working on Flying Fish in the Western Hub. For the rest, the sustaining part is what you would expect from our normal maintenance and operations. But I think the important piece here is that we are actively replacing resources and reserves while developing new hubs.

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

Robert Stein: (CLSA) Hi Team, just a couple of questions on hydrogen, did I hear correctly, we're talking about 12,000 tonnes of hydrogen to the Arizona facility. Using some rough rules of thumb, well, some rough maths that you'd need another 1,250 of those types of projects to hit the 15 million tonne rate by 2030. So that's a pretty punchy target that you're looking to expand that business by. I'm just curious, is the 15 million tonne target still in play? Is the 15 million tonne target an equity target, or a total Fortescue participation target? What can we expect to see from an equity share of Fortescue's ownership of that 15 million tonnes going forward?

Mark Hutchinson: Thank you, Robert. Look, the Arizona project is a Phase One. All these projects have different phases. So we're going to learn a lot in the first few projects. The way I think about it is, the first five projects really are priming the pump and then we will have bigger projects, or different phases for these particular projects. But also there is going to be some larger projects coming behind them which are going to take a bit more time. So I've been travelling over the last few months in the Middle East, in Africa, in the United States, and we have some larger projects coming through the pipeline.

The 15 million tonnes is still there. I believe that by 2030 we will get to that point. But it will be a mix of partnerships, a mix of us developing projects ourselves. As a look from an equity perspective, we are not looking to finance all the projects 100 per cent with equity. There is a wall of money out there waiting for projects. We have talked about how we are going to non-resource finance these projects, how we're going to bring other equity partners in. We are having active discussions with other equity partners, like the Sovereigns who are very keen to see our pipeline. So that's where we're at, at the moment.

Robert Stein: (CLSA) Cool, just a quick follow-up then. So if the 15 million tonnes is a 100 per cent share, rather than an equity share target, what type of equity share do you think Fortescue shareholders will own of that 15 million tonnes at any given point in time? Obviously it's going to ebb and flow with different leverage profiles and maturities on the project finance debt. But what's the rough rule of thumb? Are Fortescue shareholders going to own 30 per cent of the project mix? Are they going to own 50 to 60 per cent of the project mix? How can we think about that?

Mark Hutchinson: Well, look, it's early days. I think we're working through that, Robert, honestly. We're going to optimise the returns for the Company. We look at it as we are the developer and the operator of these projects. So we are always going to have some equity share in there. It could be between 25 to 50 per cent of the equity. But look, that's going to develop over time as we learn more, to be honest, as we go along. But your assumption on the 15 million tonne is correct, yes.

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

Lachlan Shaw: (UBS) Yes, morning Fiona, Hutch and team. Thanks very much, well done on a solid quarter. Just a couple of questions. So just firstly on the decarb fleet. Can you just talk through how you're seeing the value proposition for hydrogen fuel cell vehicles when round trip efficiency implies three-times to four-times more green electrons needed compared to a battery powered vehicle?

Mark Hutchinson: Thank you, Lachlan. I'm going to hand over to Christiaan Heyning who heads up the decarb team, and he'll take you through this.

Christiaan Heyning: Good morning, Lachlan, Christiaan here. That is an excellent question, and we are therefore putting both battery electric trucks as well as a fuel cell electric trucks on-site this calendar year to do extended testing to figure out the ramp-up efficiency of both battery electric and fuel cell. We will use those insights to make the final decisions about what our fleet will be. As you appreciate, it's really dependent on whole routes, and therefore we need to do more testing before we can make up our mind.

Lachlan Shaw: (UBS) Okay, thank you, that's helpful. Then look, second question. So it's come up a couple of times, just to come back to the lift in sustaining capex. It sounds as though this is maybe a little bit of a one-off. But can you just talk to broader trends? I mean we're seeing a lot of inflation everywhere. We're seeing in general a trend towards increasing sustaining and replacement capex in the industry. How should we be thinking going forward in terms of sustaining per tonne, but also obviously outright sustaining level of spend? Thank you.

Fiona Hick: Thanks, Lachlan. Yes, look, just on the sustaining capex question. We have got the similar inflation that you see and hear about, probably not only from ourselves but from others, in opex, we see that in capex as well. So I think you can carry that across from opex to capex. Second point is, capex is necessarily lumpy, depending on asset lifecycle replacement, depending on hub development. There's a range of factors that will go into the total capex guidance number.

Happy to hand over to Christine for any other comments.

Christine Morris: Well, I think we really don't guide that on a per tonne basis, because there is the lumpiness of the schedule. So I think I just reiterate the fact that we are really disciplined on our strategy of replenishing the reserves and the resources, and obviously it comes with that line.

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

Glyn Lawcock: (Barrenjoey) Good morning, team. Just two quick questions. Firstly, just on the cost guidance for FY24. You talk about mine plan driven impacts. Could you maybe just elaborate a little bit on what exactly that is? Then the second question, just curious to hear any feedback you've got on the first electric truck? How it's working out relative to what it was working like down in Perth, obviously now that it's in the real operating environment. Any colour on how it's going would be great. Thanks.

Fiona Hick: Sure, thanks very much, Glyn. So look, as you'd be aware, costs are driven by strip ratio. The strip ratio was 1.5 last year. For our hematite operations we are going to be around 1.8 this year and next year. So that gives you a sense. The FY24 C1 cost guidance does reflect that higher strip ratio, as well as some labour impacts and other inflationary impacts. But of course we are always looking for ways to optimise costs. You'd see that in the fact that we have delivered to the low end of cost guidance for this financial year.

Just on the truck and how it's tracking in the Pilbara. So look, really pleased. It's very positive signs. The team are very excited to have the Roadrunner truck there. Both Mark and myself have been up there to see it. We're doing a lot of dynamic testing and we've tested more than 20 hours. So we're learning a lot but we're buoyed by what we've seen so far.

Glyn Lawcock: (Barrenjoey) Just in terms of the charging and that as well, I mean how is that playing out versus expectations?

Mark Hutchinson: Christiaan, did you want to answer that?

Christiaan Heyning: Yes, so you'll know Glyn there is both dynamic and static charging, so the dynamic charging is going quite well. That basically means we capture the energy going downhill and use that to charge the onboard battery. That is progressing very pleasingly. On the static charging, so basically putting a truck next to a charger and charging it. As Hutch was saying earlier, we will have our first high-capacity charger prototype on site this calendar year and we'll then see how that performs. Again, all the movement is very positive. We'll test it on site to see how it performs.

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

John Tumazos: (Very Independent Research) Thank you for taking my question. Is there any timetable or target for taking the energy subsidiary public for an equity raise or standalone company or to just educate us mining guys what it's really worth? As a shareholder, I might wish that it's worth US$10 billion or US$20 billion or more, or US$3 to US$6 a share or more. I had two investors come to me in June and pay me to do studies on lithium companies, even though I couldn't talk them out of it. There's enormous interest in the green sector and there aren't enough good companies to invest in for that wall of money you reference.

Mark Hutchinson: John, look great question, thank you very much. Our belief is that having the companies integrated will provide our shareholders a lot more value. There's no intention to spin it off or to list it separately. We're at the infancy of this business and our belief is, over time, as the energy business gets bigger and more successful, that that's going to be reflected in the share price and that's going to be an advantage to the shareholders.

John Tumazos: (Very Independent Research) So the current market climb of super optimism isn't something that you're going to dabble with to make a short-term quick buck.

Mark Hutchinson: No, absolutely not. Our belief is integrating the two businesses together will provide shareholders a longer-term value and that's what we're going to do.

Operator: Thank you. Your next question comes from Guangshuo Zhang from GTJA Futures. Please go ahead.

Guangshuo Zhang: (Guotai Junan Futures) Good morning Fiona and team. I have two questions here and the first one is also on Iron Bridge. For the output of FY24, how would be the ratio or proportion between the amount for term contract and spot sale?

Fiona Hick: So thanks very much, Guangshuo, so the 7 million tonnes is mostly contracted as opposed to spot sales and as I said earlier, we've got lots of demand. So the sales and marketing team are seeing strong demand for the magnetite product, which is very encouraging at this early stage. We don't expect we're going to see any issues selling it.

Guangshuo Zhang: (Guotai Junan Futures) Okay, brilliant, thanks for that. My second question is for Belinga Project in Gabon. Do we have any guidance on the C1 cost number as compared to the pure product? Thank you.

Fiona Hick: So no, we don't. At this stage it is a relatively low production rate and we're doing this early-stage production program to identify and learn lessons where we're not providing guidance on the C1 cost for the project.

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

Giles Parkinson: (RenewEconomy) Thanks very much, just a couple of questions, first on the green fleet work in the Pilbara, can you just tell us a bit more about the three-megawatt charger and who has been building that? Is that something from the Williams Advanced Engineering team? I'm wondering if you can also, you touched on the train and the dual fuels being used and the locomotive, I'm just wondering if that's complementary to the Infinity Train concept or just where that particular project is at.

Christiaan Heyning: Morning Giles, Christiaan here. The three-megawatt charger is indeed developed by WAE. It's not going to stay as a three-megawatt charger, it will become much bigger in order to get the charging rates that we will require and as we said, this is the first prototype. We're developing it together with a third party. A significant proportion of the IP will be ours. On the train, you're right, we are pursuing several technologies. Remember, we are not just doing this for our own needs, but also to sell to other companies that need to decarbonise their rail. So our main concept for our own iron ore is the Infinity Train that you will be aware of, a better electric train basically, while the ammonia train that we are also developing, we might use in a complementary way for very selective use cases, in wheel shunting for example or we will use it for sales to third parties.

Giles Parkinson: (RenewEconomy) If I may, I had another question for Mark. I just want to clarify, I think I understood you saying in your introductory remarks, talking about the Australian policies and your hope to advance the hydrogen kickstart thing and I think I understood you saying you've got three projects which may depend on that. I'm guessing they're Australian projects. Are these different to the other five major green hydrogen projects that you're talking about globally? Because you've mentioned there Brazil, Kenya, Africa and Phoenix, Arizona. I'm just trying to clarify or get it clear in my mind between hydrogen projects in Australia or perhaps the Gibson Island one that you're referring to and some others. If you can just clarify that point please.

Mark Hutchinson: Yes, we have a number of projects in Australia and look they're sequenced depending on power price, where we get the power from, and logistics. So the first one will be Gibson Island, but we do have other projects which could apply for the Headstart and we're hoping the Headstart is just the start of the government support. So the more that's available, the more we can do. That's the way we're thinking about it. I'm very encouraged by what the government has done here. I think it's really going to help us compete globally and quite excited to get to work on some of these as quickly as we possibly can.

Operator: Thank you. Your next question comes from Peter Milne from WA Today. Please go ahead.

Peter Milne: (WA Today) Hi, thanks for the opportunity. Fiona, firstly a question for you, next month the hearing starts in the final stage of the long-running dispute with the Yindjibarndi, will Fortescue be making provisions for that settlement? Also, the second part to you, Mark, has this dispute damaged Fortescue's reputation with Indigenous groups as you go about trying to seek land access for your green energy projects?

Fiona Hick: Thanks Peter and look, on Yindjibarndi, we would certainly like the matter with the Yindjibarndi people resolved as quickly as possible and preferably outside the court. You might be aware Fortescue has offered compensation to the Yindjibarndi people in the past and we continue to be ready to settle this dispute by paying compensation. We do pay financial compensation as part of all seven of our Native Title agreements and as you know, we also provide significant and sustainable outcomes through vocational training and employment opportunities. So as I said, we're certainly working to resolve the matter and we would like it resolved as quickly as possible and preferably outside the court.

Mark Hutchinson: Look, Peter, to your second question, absolutely not. In fact green energy is going to be something very exciting, a great opportunity for our First Nations, so no, absolutely not.

Operator: Thank you. Your next question comes from Eric Johnston from The Australian. Please go ahead.

Eric Johnston: (The Australian) Thanks very much for this. Look overnight Rio Tinto talked about backing away from targets on emissions reduction, citing inflation problems and the technology challenges. I'm not getting you to talk about Rio Tinto, but I'm just trying to get a flavour of how are your emission targets panning out, where's the pathway going for you at the moment? Are there similar issues you're facing?

Fiona Hick: Sure, thanks very much Eric and as you say, anything to do with Rio, is a question for Rio. But if I talk to Fortescue, we're totally focused on that goal to eliminate emissions, we're focused on abatement of emissions at source, that's our priority and you've heard a bit about what we're doing in the here and now on trucks and trains that operating in the Pilbara. So we're committed to our 2030 target that's been announced and we look forward to providing progress updates to you on a regular basis.

Operator: Thank you. That is all the time we have for questions today. I'll now hand back to Fiona Hick for closing remarks.

Fiona Hick: Thanks very much for that and thanks for joining us today for the release of our Quarter Four results and for your ongoing interest in Fortescue. Our operating performance continues to drive strong results and we look forward to speaking with you in August when we release our full year results. Thanks very much.

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

End of Transcript