



Quarterly Production Report March 2022

Investor and Analyst Call transcript

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28 April 2022

Company: Fortescue Metals Group
Title: March 2022 Quarterly Production Report (Analyst Call)
Date: 28 April 2022
Time: 1:30PM AEST

Start of Transcript

Operator: Thank you for standing by and welcome to the Fortescue Metals Group March 2022 Quarterly Production Report Analyst Call. All participants are in a listen-only mode. If you wish to ask a question, you will need to press the star key followed by the number one on your telephone keypad.

We do ask that participants limit themselves to two questions each. If you wish to ask further questions, please re-join the queue. I would now like to hand the conference to Elizabeth Gaines, Chief Executive Officer. Please go ahead.

Elizabeth Gaines: Thank you Harmony, good morning or afternoon everyone and welcome to Fortescue's March 2022 Quarterly Production Report. Joining me today in Perth is Ian Wells, Chief Financial Officer. I am delighted to welcome Jessica Curnuck, who joins us as CEO for a Day.

A proud Martu woman, Jess commenced her career working in customer service. However, after realising her passion for healthcare, Jess retrained as a nurse where she went on to spend the next six years working across regional and remote hospitals right across Western Australia. Jess is now using her wealth of knowledge in her role as a Registered Nurse at Fortescue's Chichester Hub to promote Aboriginal health and mentor Aboriginal team members. It's great to have you with us Jess.

Jessica Curnuck: Thanks for having me.

Elizabeth Gaines: So that brings me to our third quarter results. As you can see from today's report, Fortescue's operating excellence continues to drive strong results across our key metrics of safety, production and costs. With mining, processing, rail and shipping combining to deliver record shipments for the third quarter and record shipments for the nine months to 31 March 2022.

Our operational excellence is underpinned by our absolute focus on the health, safety and wellbeing of the entire Fortescue family. I want to commend the entire team for continuing to look out for their mates on our journey to zero harm.

Our Total Recordable Injury Frequency Rate (TRIFR) continues to improve, with the TRIFR for the 12 months to 31 March 2022 of 1.8. That's an 18 per cent improvement on the same period last year. This was a particularly pleasing performance during this quarter while we were managing the ongoing challenges resulting from COVID-19, given the increased community transmission of COVID cases across Western Australia with a current seven-day rolling average in the WA community of approximately 7,500 new cases every day.

Fortescue has successfully mitigated potential disruptions to our operations in the quarter by maintaining a comprehensive COVID-19 management plan and through investing in business continuity planning measures. I would like to take a moment to acknowledge those of our team members who have contracted COVID, including those who have had to isolate on site.

So, moving to our operational performance and shipments of 46.5 million tonnes in the third quarter was 10 per cent higher than the same period in 2021. We saw continued strong performance across the supply chain. That includes the mining operations, the Ore Processing Facilities and port and rail, together with seasonally favourable weather.

This contributed to record shipments in the nine months to 31 March 2022 of 139.5 million tonnes, with that performance underpinned by the successful delivery and ramp up on the Eliwana project, as well as the execution of our integrated operations and marketing strategy which has resulted in our FY22 shipment guidance being upgraded to a range of 185 to 188 million tonnes.

Ian will talk to the balance sheet, but I did want to mention the recent completion of Fortescue's inaugural green bond issue, which will see US\$800 million of proceeds available to fund decarbonisation initiatives.

The successful completion of the offering demonstrates Fortescue's passion and commitment to integrate sustainability into all aspects of our operations, as we take a global leadership position in the green energy transition.

Turning to the market, we continue to see strong demands for Fortescue's products during what remains a dynamic and volatile period in the iron ore market. The increase in COVID-19 related lockdowns in China and supply disruptions resulting from the tragic events in Ukraine have added to market uncertainty and volatility.

The iron ore price recovery during the quarter has been driven by the expectations of improving steel demand, linked to supportive policies by the Chinese government and its strong GDP growth target, as well as anticipated supply impacts from Europe and the attractiveness of commodities in an inflationary environment.

China's crude steel production was 243 million tonnes in the first quarter of calendar 2022. That's a decrease of 10.5 per cent compared to the same period last year. Steel production accelerated in March and it's now back to an annualised rate of over one billion tonnes, reflecting the easing of mill production curtailments following the Winter Olympics.

We expect that as China pursues its economic targets this year, its policy settings will support property, infrastructure and consumption, which will underpin steel demand and production.

Fortescue's average revenue was US\$100 a tonne in the March quarter, which represented a realisation of 70 per cent of the average Platts 62 Index. That's up from 68 per cent in the December quarter. Our sales and marketing strategy remains centred on the current and future needs of our customers and the optimisation of our supply chain.

As always, we remain focused on working closely with our customers in China and elsewhere to ensure that we are responsive to market conditions.

So, turning to Iron Bridge, and we have updated the schedule and the capital estimate today. Ian and I visited Iron Bridge earlier this month, and the project has made significant progress with key milestones achieved during the quarter, including the delivery and unloading of five module ships at Port Hedland, taking the total for the project to date to 14 of 21 module ships.

The team commenced the mechanical installation of Primary Crusher A, and that follows the earlier completion of works on the civil component. There's been continued progress on both the concentrate and return water pipeline installation as well as the raw water pipeline, our team have completed the earthworks for the Concentrate Handling Facility (CHF) at Port Hedland and the award of the mechanical and electrical works contract at the CHF, the last major contract award for the project.

Despite these achievements, it has continued to be a challenge developing a major greenfield project during a global pandemic. Out of all of our sites, Iron Bridge has been most impacted by the pandemic with over 20 per cent of all positive cases at Fortescue associated with Iron Bridge.

COVID-related labour constraints, including isolation and absenteeism, together with a tight labour market have contributed to workforce levels on average being 30 per cent below the plan for the March quarter. The Western Australian Government's extension of the reopening of the State border in February impacted the required personnel ramp-up that was needed to deliver scheduled progress, with the pipeline construction teams most impacted by the delay in the border's opening.

Other factors include ongoing supply chain issues, higher construction and installation costs as well as escalation in logistics and shipping costs. These have been further exacerbated by the recent lockdowns in China.

Together, these challenges have contributed to a revision in the project capital estimate to a range of US\$3.6 billion to US\$3.8 billion, which is subject to Joint Venture approval. Fortescue's share is revised to a range of US\$2.7 billion to US\$2.9 billion, with first production now scheduled for the March quarter in 2023.

Of course, we continue to proactively manage these challenges and prioritise critical path work to minimise the impact of schedule.

Even at this revised capital estimate, Iron Bridge is a low capital intensity project with a competitive operating cost structure that represents a compelling investment for the Joint Venture partners.

The strong demand for this high value in use product is expected to attract a premium to the Platts 65% CFR Index and will extend Fortescue's product range into the high-grade market segment.

This project demonstrates Fortescue's commitment to our strategic pillars of investing in the long-term sustainability of our iron ore business and investing in growth.

On exploration, and consistent with our strategic focus to invest in the future of our core iron ore business and diversify into commodities that support decarbonisation, total exploration and studies capital expenditure for the March quarter was US\$42 million.

Iron ore exploration in the Pilbara included target and resource definition drilling in the Western Hub and Eastern Hamersley, with a focus on the program at Mindy South and South Star.

Exploration activity on the Australian copper-gold portfolio included target generation from utilising geophysical datasets gathered through the first half of the financial year, and that has a focus over the Paterson and Rudall projects in Western Australia.

Our international activities include drilling projects in Argentina, and exploration activities over several project areas in Chile, Brazil, and Ecuador. On that I'll hand over to Ian for the finance update.

Ian Wells: Thanks, Elizabeth and hi everyone. The March quarter was another period of consistent and predictable operating performance for Fortescue, which positioned us very well to capitalise on the market conditions and contributed to the strong free cash flow generation.

Our whole-of-business integrated planning process and the investment in business continuity measures have all contributed to the strong numbers we reported today.

So, if I start with revenue; our average revenue in Q3 of US\$100 a tonne was 70 per cent of the average Platts 62 Index in the quarter. That was up US\$25 a tonne or 34 per cent quarter on quarter and compares to the 68 per cent revenue realisation we reported for the December quarter.

You can see that our product mix in Q3 was consistent with the first half of the year, and the low variability of Fortescue's products and the consistent product quality continues to be recognised by our customers and in the marketplace. A reminder that revenue realisations are cyclical and are a result of the market supply-demand dynamics, and Fortescue's average realisation over the past decade is at approximately 82 per cent.

So, moving to costs and as you are all aware, we are operating in an environment of elevated cost inflation, and we've been really transparent about the drivers of those costs. Inflationary pressures have further increased during the quarter as a result of the supply disruptions arising from the Russia-Ukraine conflict and other general COVID-19 related labour shortages and supply chain issues.

Our C1 cost of US\$15.78 a tonne in Q3 was three per cent higher than the prior quarter, with strong volumes and our ongoing focus on cost management offset by inflationary impacts of key input costs, including diesel and labour costs. Our year-to-date C1 cost is US\$15.45 a tonne, and as we flagged previously, there is a lag in the diesel price flow through, which we expect will impact Q4.

Related to that, today we have revised our FY22 guidance to a range of US\$15.75 to US\$16.00 a tonne. As a reminder, that's up from the range of US\$15.00 to US\$15.50 previously. That reflects an updated crude oil price assumption, an increase in other input costs like ammonium nitrate and labour rates, and also an update on the Aussie dollar exchange rate.

Our COVID-19 management, including investment in business continuity measures has been really successful. What you can see from our numbers is the potential disruptions have been mitigated. That's really important, particularly given we're in such a strong iron ore price environment.

A quick reminder on our cost sensitivities, a US\$10 movement in the barrel price of crude oil translates to US\$0.30 to US\$0.35 per tonne on the C1 cost. When you consider that Brent prices were around US\$70 a barrel this time last year, compared to the recent levels of US\$100, that would mean mathematically a US\$1 per tonne increase to our C1.

On the exchange rate, the majority of our cost base is incurred in Aussie dollars. So, every one cent movement in the Aussie/US exchange rate impacts C1 by about US\$0.15 per tonne.

Moving to cashflow and the balance sheet; closing cash at 31 March 2022 was US\$2.2 billion. That compares with US\$2.9 billion at the end of the half. That's after capital expenditure of US\$830 million in the quarter. That capital expenditure included the acquisition of Williams Advanced Engineering (WAE) for US\$221 million, and also the cash outflow with the payment of the interim dividend to all of our shareholders, worth US\$2.0 billion.

Moving to capex, I've got two points to highlight. The first one is on the Iron Bridge capital estimate and that's been increased to a range of US\$3.6 billion to US\$3.8 billion, with Fortescue's joint venture share being US\$2.7 billion to US\$2.9 billion.

The investment that has been incurred on the project to 31 March 2022 is approximately US\$2.6 billion and Fortescue's investment for the same period is US\$2.0 billion.

The second point on capex is FY22 guidance. Today we've amended capex guidance to a range of US\$3.0 billion to US\$3.2 billion. As a reminder, that was previously US\$3.0 billion to US\$3.4 billion. We lowered the top end of the range, and that's a timing issue related to the execution of our capital programs across both projects and operations with the spend now expected to be incurred in FY23.

On the balance sheet, gross debt was unchanged at US\$4.6 billion at 31 March 2022. Earlier this month we completed a US\$1.5 billion offering of Senior Notes, which included Fortescue's inaugural green bond. The green bond is significant

for Fortescue because it starts the transition of our debt capital structure to align with our broader ESG objectives and importantly provides access to the growing pools of green and sustainable capital.

Proceeds from the US\$800 million green bond will be applied to decarbonisation initiatives, including the 150 megawatts of solar generation component of Pilbara Energy Connect (PEC), the acquisition of WAE, and also the hydrogen mobility project at Christmas Creek.

The balance of the US\$1.5 billion was raised from the US\$700 million Senior Notes, and that will fund our other growth projects, including Iron Bridge together with the balance of PEC. The Notes issue further optimises our debt capital structure, and is consistent with our capital allocation framework, which includes a commitment to a strong balance sheet with targeted investment grade credit metrics.

So, in closing, you can see that our operating performance, balance sheet strength and capital discipline means we are well placed to continue to generate strong free cash flows, reinvest back in the business, invest in growth and deliver returns to our shareholders.

As always, we remain focused on the things that we can control; to deliver consistent and predictable operating performance, and to do what we say we are going to do. On that note, Elizabeth, I will pass it back to you.

Elizabeth Gaines: Thanks Ian. Fortescue's transition to a vertically integrated global green energy and resources company continues to gain momentum. Fortescue Future Industries will be a key enabler in delivering on our decarbonisation targets.

The completion of our acquisition of Williams Advanced Engineering during the quarter further underpins our leadership in green energy through the provision of critical technology and expertise in high-performance battery systems and electrification.

Key integration activities with Williams are well advanced, and with work underway to develop the Infinity Train, the world's first regenerating battery electric iron ore train, which will eliminate diesel and the associated CO₂ emissions from Fortescue's iron ore trains, leveraging the 400 to 600 metre vertical gain on the journey from our sites to the port.

Other milestones during the quarter include the commencement of construction of the Green Energy Manufacturing centre in Gladstone, and the establishment of a working alliance with Airbus to facilitate the decarbonisation of the aviation industry through the supply of green energy.

In addition, FFI announced the starting of an MoU with one of Europe's largest operators of energy networks and energy infrastructure, EON, to deliver up to five million tonnes per annum of green, renewable hydrogen to Europe by 2030.

This important agreement highlights the growing demand for the secure supply of renewable energy, which has been further exacerbated by global events, including the invasion of Ukraine by Russia. Australia, and Fortescue Future Industries are well placed to meet this growing demand with FFI establishing the building blocks across technology ownership, manufacturing capability, green energy generation, and energy distribution, to deliver across the entire value chain.

So in closing, our excellent operating performance continues to drive strong results with our guidance for FY22 shipments upgraded to a range of 185 to 188 million tonnes. Capital expenditure, excluding FFI is revised to a range of US\$3.0 billion US\$3.2 billion, and our C1 cost guidance for FY22 is revised to a range of US\$15.75 to US\$16.00 a wet metric tonne.

We remain very focused on innovation and productivity to maintain our low-cost status, despite the inflationary environment that we are all facing, as highlighted by the recent inflation data for Australia, which was announced yesterday

with Australia recording inflation at 5.1 per cent, its highest level in over 20 years, and Perth recording the highest of any capital city with inflation at 7.6 per cent.

Our record operational performance, along with a disciplined approach to capital allocation means Fortescue is positioned strongly for the future. As always, I'd like to thank our team members, contractors and suppliers for their hard work and commitment this quarter as we continue to deliver on our strategic priorities. So, thank you and I'll hand back to Harmony to facilitate Q&A.

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. Your first question comes from Robert Stein from CLSA. Please, go ahead.

Robert Stein: (CLSA) Hi, Elizabeth and team. Congratulations on the good result, all things considered with the COVID outbreaks and the impressive production results as well. A couple of quick questions.

One on the green financing. Noting that the green bond wasn't at a discount to the other package of debt that you raised at the time, is that consistent with your assumptions around how this industry gets financed in the future and who actually claims, I guess, the rent that is created by these instruments into the future? Is it going to be the banks that get all the premium from the green financing or will it be the companies that the debt is provided to?

Then the second question is on CEO succession. Just wondering for an update on that, given that it's been some time since we've had one.

Elizabeth Gaines: Yes, well thanks, Rob and thanks for your earlier comments. I'm sure Ian might want to elaborate but the difference in pricing really reflected the tenor of the two instruments. One was 10 years, one was eight years and that's the difference in the pricing, but Ian might want to comment on that.

On the CEO succession, it's a detailed global search. It's certainly well progressed. There's a shortlist, and the Board are working through that. The key is to find the right person and in the interim, it's business as usual. I'm certainly here to ensure an orderly transition. Ian, did you want to talk about green financing?

Ian Wells: Yes, Robert, that category of funding and the pools of capital are developing, and I think the theory is that there should be some form of a premium, or a discount to the issuer. We think going forward, that is probably going to be the case as the supply and demand for these types of products change where the demand is growing and then for companies like Fortescue, who are spending real money on decarbonisation, will differentiate in the market.

So, I think the theory is there. Our strategy was about getting the best price in the market, which clearly, we've done that but importantly, strategically, being able to access that capital. So, it wasn't just about the cost of capital. Obviously it's an important point and I think if you look at the consequential trading of those bonds that we issued, both the eight year and the 10 year, then you could argue that we've captured a premium but I would counter that, and it's probably more market conditions but nonetheless, it is a really important strategic move for Fortescue to access that emerging source of capital.

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

Paul Young: (Goldman Sachs) Hi Elizabeth, hi Ian. Question on the Iron Bridge capex and maybe one for Ian. Ian, it must be pretty difficult to do re-estimates on capital projects at the moment because the time you do it, you sort of have to do it again with the inflation you're seeing but can I ask, what percentage of capex is actually committed on the Iron Bridge project?

Secondly, maybe this is a question for Elizabeth. Just on the product mix, Elizabeth, and observations around West Pilbara Fines production which actually came down in the quarter. Should we be dragging right on that production for West Pilbara Fines? I.e., four million tonnes per quarter? Thanks.

Elizabeth Gaines: I'll start with the second question. West Pilbara Fines production (WPF) has been pretty consistent with our indications of product mix, and in each quarter we're showing our consistency there. I guess as we've said some time ago, we're dealing with and working with PKKP on heritage management in the Eliwana area but it has been pretty consistent with around 15 million tonnes level of WPF, and there'll be some variations quarter-on-quarter.

But importantly, we've seen great productivity at Eliwana. They've ramped up to that annualised 30 million tonnes rate. It is a big contributor to our Fortescue Blend product as well and the WPF production, which is pretty much consistent with our earlier indications of around 15 million tonnes per annum. Ian, did you want to talk about Iron Bridge?

Ian Wells: Yes, Paul, we're probably around low 80 per cent, and I think at this point in time, as Elizabeth noted in her speech, that we've signed up and agreed the final major contract. So that's probably about where you'd expect to be because now it's really down to execution and particularly getting the fourteenth vessel, getting them will mean that we're getting all the modules in Australia and we're taking progressively back more control on the execution.

I think that's a reflection of de-risking, the continuous de-risking of the project. Not to say that we haven't got a bit to go and need to keep on top of it but the committed is quite high and that compares with that I mentioned earlier that we've actually spent US\$2.6 billion on the project.

Paul Young: (Goldman Sachs) Okay. Any inflation pressures on the Pilbara Energy Connect project at this point?

Ian Wells: Yes, I think nothing's safe anywhere. The good news is that the transmission lines have been connected. We'll have power flowing to Iron Bridge ahead of the amended schedule. So, from that risk perspective, I think the solar execution would be the next thing that we're keeping a close eye on.

Elizabeth Gaines: Yes, so the gas generation is largely completed at Solomon.

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

Kaan Peker: (RBC) Hi, Elizabeth and team. Two from me. Both on Iron Bridge. Just wanted to understand or maybe if you could please talk through the potential ramp up expected for Iron Bridge. With guidance maintained at 12 to 18 months ramp-up, should we expect a linear ramp up or something more lumpy? I'll circle back with the second one.

Elizabeth Gaines: Well, it won't be linear. It'll be a bit lumpier so it will start relatively low level and then it will have quite a significant steep curve, but it is over that 12 to 18 month period that we had previously indicated.

Kaan Peker: (RBC) Sure, thank you. Given capex has been updated, maybe if you can provide an update on unit cost guidance? I think Ian talked about the impact on diesel and currency on hematite operations and maybe a sensitivity around the diesel price given that over 100 million tonnes of material are moved to produce 20 million tonnes of product. Thanks.

Ian Wells: Yes, it's hard to say because there's so many moving parts, but if you thought about a sensitivity, the FX sensitivity would probably be similar in terms of the Aussie dollar spend profile vis-à-vis US dollar. So, it's obviously a different type of product, therefore it's got a higher C1 but as a percentage, it's similar.

Then diesel price, whilst we've got a smaller fleet, in a relative sense, gas price gets rolled up in it and of course, whilst we do have solar and renewable generation as part of Iron Bridge, predominantly it is gas in the interim.

But then, at the same time, the good news is that the price of the product has also increased, so clearly our guidance for life of mine, C1 costs for Iron Bridge and all-in sustaining costs for Iron Bridge could change materially relative to the material changes in market conditions but again, when you look at it net-net, it is still a compelling investment.

Capital intensity, even with the amended range is relatively low and then when you align that up to a spot price today of \$160 - \$170 and we think the realised price is going to be in excess of that, that it still makes a lot of sense and it's of course also an important part of our product mix going forward.

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

Hayden Bairstow: (Macquarie) Morning, guys. Just a couple from me. Firstly, on I think Youngie's question around Eliwana. Can we just talk about the ultimate production rate of that project? It's obviously running lower than what we'd anticipated. Is there issues on just getting access to new areas to continue that ramp up and when do we think that starts to ease if that's the case?

Just on the cost side of things, Ian, we need to still work out what the Q4 cost guidance is, is that all else being equal, a pretty good guide for what we should be assuming for next year? Or is there elevated costs or stripping or anything in this quarter that won't be the case next year?

Elizabeth Gaines: I'll start with the first question. Eliwana is actually operating at the 30 million tonnes, so it's had a fantastic ramp up. There's no productivity issues at Eliwana, it's just that product mix and the WPF is around that sort of annualised 15 million tonnes and the balance is going into Fortescue Blend grades.

So, we've seen very strong performance and let's not forget, Hayden, we've gone from an annual rate of around about 165 million tonnes to 170 million tonnes of shipments, now we're guiding at 185 million tonnes to 188 million tonnes. So, we're seeing that contribution and benefit of Eliwana across our entire operations, including additional rail capacity, the processing capacity. But it's performing really well and is operating at that 30 million tonnes.

The mix is a little bit different and we're managing, as I said, through some of the heritage-related matters post Juukan Gorge and some of the sensitivities there but that's going well and we're working proactively with the PKKP. Ian, did you want to talk about Q4?

Ian Wells: Yes, on the cost, we need to think about the diesel price as it flows through from the current market rates. How they flow through our C1 costs and there's a lag. So, there is the potential for an additional step up as we go into FY23 because of that – as that diesel price flows through and then obviously you need to take an assumption. But, the Q4 rate, I think is instructive of where the cost of production is going from the impacts of the market.

Our labour rates are sticky, and they're not going to change relative to that Q4. And then you've got that underlying supply chain impacts and cost of goods sold to consider. Also, rates from contractors. So, I think it is instructive of where costs are headed and I think that's a consistent theme right across the industry.

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

Lyndon Fagan: (J.P. Morgan) Thanks very much. I'm just wondering, with these hydrogen commitments made to, say the German Government, whether there was a commitment on which asset that supplies that volume? I guess further to that, are you able to say at this stage when an FID on any hydrogen production project is likely to occur?

Elizabeth Gaines: Well firstly, there was no commitment to which asset would supply that green hydrogen. Clearly one of the most advanced would be Gibson Island in Australia and I think there is a strong focus on the Australian opportunities.

We would expect the FID for Gibson Island, given where that is at, to be in the first half of 2023 and production in 2024 would be the intention. So that is the sort of timing, but I think in terms of first green hydrogen, it is with the mobility project at Christmas Creek, the first hydrogen would be produced later this calendar year.

Lyndon Fagan: (J.P. Morgan) Thanks for that. So, is that first half 2023 a fiscal year or a calendar year?

Elizabeth Gaines: Calendar year.

Lyndon Fagan: (J.P. Morgan) Okay, great and I guess just further on the blending questions, are you able to give a broad update on the heritage clearance issues that may have been restricting access to ore?

Elizabeth Gaines: I don't know what specific issue you might be referring to, Lyndon. Clearly we've been working through all of our mine planning. The rate of surveys have been relatively slow this year due to COVID as well, so that's had some impact on mine planning and it's not one particular issue.

As I said though, Eliwana and particularly that Western Hub, which is close to Juukan Gorge, we're working closely with PKKP who are looking at areas where we actually have approval to mine and they're taking another look at those areas. We're working proactively with them with a focus as we always have had on heritage protection but no particular areas, just a focus on heritage management with our Native Title partners.

We have the co-management framework with Wintawari Guruma and that was announced last year. That's going to really facilitate the ongoing mining activities at Solomon. So, a lot of work and focus on heritage management working with Native Title partners but there has been some impact of COVID-19 on the ability to conduct those all-important surveys, and we have had to make some changes to mine plans to amend for that accordingly.

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

Lachlan Shaw: (UBS) Hi Elizabeth, Ian. Thank you for the updates. So just a couple of questions from me. Firstly, COVID and just operations more broadly. Strong production in the March quarter, how are you seeing things at the moment?

Elizabeth Gaines: Well, we're seeing a continuation of that strong performance, which is why we've upgraded our guidance for shipments this year. We've been managing COVID. I know many in our sector are really struggling with COVID, particularly with labour availability.

Let's not forget we've got an autonomous haulage fleet so we don't have the same exposure to a manned fleet from a haulage perspective, and we've been able to put in place continuity plans to ensure that our operations continue unaffected. Against all of that, we've upgraded that guidance for shipments this year.

Lachlan Shaw: (UBS) That's great and then second question, sticking with the COVID theme and thinking about the current lockdowns in China, likely supply chain impacts. Are you seeing any impacts to date and I guess more importantly, are you getting guidance on what potential impacts there might be to supply chains looking into next year?

Elizabeth Gaines: Well look, in terms of our key exposure to China, is obviously our customers in the steel mills and we're seeing that the mills are maintaining their steel production and utilisation rates, certainly in late March and April. There's very limited scrap availability and we're seeing the same iron ore demand.

Actually, port stocks in China have fallen from a peak of around 160 million tonnes in February, to I think it was 155 million tonnes at the end of March, and currently at around 147 million tonnes so we're seeing a draw down on port stocks in

anticipation of increased steel production. As I mentioned earlier in March, the annualised rate of production is just over that billion tonnes so we're seeing strong ongoing demand for iron ore.

In terms of broader supply chain, obviously that's something we're very focussed on. We still have to take delivery of further shipments from China for Iron Bridge and we've had some impacts of lockdowns, particularly where our module fabrication yard is and the restrictions on the movements of ships, but we've been working proactively with them. I mean, it's something we've just stayed very focussed on.

Operator: Thank you. Your next question comes from Rahul Anand from Morgan Stanley. Please, go ahead.

Rahul Anand: (Morgan Stanley) Hi, team. Thanks for the opportunity. Look, some of the questions that I had, have been asked but I wanted to touch a bit more about costs in my first question. 4Q sitting at about US\$17 a tonne and I do note that the strip ratio as well is lower than the five-year guide of 1.5. I calculate that at 1.3.

Is it fair to say that US\$17 adjusted for the strip ratio is how we should think about costs going forward? What about the sustaining capital-related inflation? How should we think about that? That's the first one. I'll circle back with the second, thanks.

Elizabeth Gaines: Ian, did you want to touch on costs. On strip ratio, Rahul, the year-to-date strip ratio is actually at 1.5, so we do see some short-term planning that as a result, there's been some deferred waste movement. So that's been reflected in the quarter but the year-to-date is around that 1.5. Ian, did you want to talk about the run rate and sustaining capital?

Ian Wells: Yes, can do and I reckon it's two questions in the one Rahul, but that's okay. I think the COVID impact to our capital profile is instructive here because the ability to get work done but also the underlying cost, as you quite rightly point out, does affect both operating and capital costs. The underlying costs or intensity of both operating costs and capital costs has been affected right across the board.

So, the guidance that we've given is obviously for Q4, but as we move into FY23, as I mentioned to Hayden, this is instructive of where costs more broadly are trending and when you look at the exchange rate, we normally talk about that as the biggest swing factor here - that's an input into it, but the COVID impacts are more broad. Then we've got diesel as well and labour and general inflation that affects our contractors as well.

So, it's instructive of where it's headed and ultimately, you guys will need to take a view on these factors and we'll be able to guide FY23 with some more level of certainty when we do that at the end of July. But a US\$17 price mathematically - you know the math is right and you can see where the costs are headed.

Rahul Anand: (Morgan Stanley) Thank you and thanks for answering the double question. Look, I'll keep the last one very short. Just a follow on from the discussion you just had around iron ore. I just wanted to see if you had any further visibility in terms of the realisations? Obviously, the port drawdown. Suppose the low grades stocks is helping realisation in part but what are you seeing or hearing from your customers in terms of low-grade versus high-grade? Obviously, it is profitability driven but in general, going into the second half, any sort of cues as to how the steel mills are viewing the Government's intentions in terms of infrastructure spend, et cetera? Or how is the mood in general in terms of your customers? Thanks.

Elizabeth Gaines: Well, I think the port stocks is instructive and that's as Ian said before, Fortescue is now less than eight per cent of total port stocks in China and that's a pretty low level. So, we're seeing very strong demand for our products and that would be indicative of the trend we're seeing in price realisations. But we know that they're cyclical. As Ian said, the last decade, our average price realisation has been around about 82 per cent.

So, it will go through various cycles but we are seeing very strong demand so I think that benefits from our ongoing focus on quality, consistency and value in use and our close relationships with our customers. The Chinese Government have recently reiterated the GDP growth target of 5.5 per cent for this year. They're putting in place measures to support the property sector by lowering the default risk for developers. They've been encouraging house purchases and they've been postponing some property market reforms and we saw strong infrastructure spending in Q1. So, all of that would indicate that it's supportive of steel demand and obviously that would therefore be supportive of demand for iron ore.

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

Glyn Lawcock: (Barrenjoey) Firstly, on Iron Bridge, just a little more detail if you could please. You talked about low 80 per cent committed. Just wondering on contingency and what you've got built in now, and maybe what's the critical path or the key thing that could drive this further into the future in terms of duration and time capex? Then the second question, on Gabon and Midwest? I know it's still early days but any initial thoughts you can share with us on your studies into Gabon and Midwest? Thanks.

Elizabeth Gaines: Thanks Glyn. Well, in terms of Iron Bridge, there's a lot of key milestones that we expect to be achieved over the next six months and the team are making good progress. There's the energisation of the transmission infrastructure which should occur in June. In the September quarter, we'll see the commissioning of the dry plant and that's the Primary Crusher A and the secondary crushers. So, a lot of key achievements coming up in the short term and the project is being progressively de-risked.

In terms of the critical path items, it's probably around the pipelines. I mean, the team have made good progress, but we had an almost four to six week delay with the border reopening changes to get in those critical skills that we needed and then we had COVID. Now, I guess just anecdotally, with the COVID impact, it has disproportionately impacted Iron Bridge and not only in terms of numbers of cases but also in terms of the flow-on impact because whole specialist crews, like a scaffolding crew for example, have come down with COVID and if they can't do their job, then that impacts on other crews and their ability to do their work and get to their area of activity.

So, it's had a flow on impact. Pipelines will be key. Progress on the dry plant as I said has been fantastic and on the tailings storage facility. It's the pipelines that are going to be really key to achieving that timeframe and something that the team are very focused on.

Then Gabon and Midwest. Gabon is a 36-month exclusivity period which we're in negotiations with the Government of Gabon on for the detailed documentation and the team has undertaken some activity. Not on the ground in Gabon at this time until we get all that documentation finalised, but we're certainly ramping up and getting ready to go with exploration activities on what we know could be a pretty interesting project.

For the Midwest, there has been quite a lot of work and again, the team are getting ready to advance those studies on the project.

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

Kaan Peker: (RBC) Hi Elizabeth and team. Thanks for taking my follow up. I just wanted to circle back on Iron Bridge. I think previously, Iron Bridge was expected to be a project finance facility. Can you maybe talk though what's changed there?

Ian Wells: Well, nothing much has changed for now. We had been advising that we did previously contemplate a project finance facility but the iron ore price for the last two and a half years has meant we've been fortunate enough to generate enough free cashflow to be able to invest that into Iron Bridge and we've funded just over US\$2.0 billion of our share of the joint venture from free cashflow.

So as Elizabeth mentioned and we've been speaking on the call, we've progressively de-risked that and we've been able to do that because of the strong free cashflow and so putting in place a corporate debt and utilising our balance sheet in that way probably saves a little bit on a corporate finance facility but that's the rationale. We can always look back to do it later where it optimises our capital structure but this is the benefit of having a flexible debt capital structure where you do have options and you can maximise returns by utilising that balance sheet capacity.

Kaan Peker: (RBC) Sure. Thank you. Also, I think Elizabeth mentioned approval by the joint venture. Just interested what happens if the JV doesn't approve the capex increase?

Ian Wells: Well, I think that's highly theoretical. We have got a good relationship with the Joint Venture partner. Obviously, it's being respectful - we can't just make a unilateral decision - we need to go back and justify and explain all of these various questions that you're all asking us as well. We will do that and would expect to be successful but ultimately, they will need to make their own decision as have the Fortescue Board.

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

Robert Stein: (CLSA) Hi. Sorry just a quick follow up on hydrogen. We note that the increase in capital costs associated with your mining projects related to labour as well as commodities and the like have driven capital costs across the industry up. How are you factoring in sort of that cost escalation into something that is capital intensive like hydrogen generation into how you're thinking about project economics going forward? Noting also the increase of energy costs globally?

Elizabeth Gaines: Well, look, when you're in an inflationary environment, as I said earlier, that's generally supportive of higher commodity prices and you've got to look at all sides of the equation which is the capital costs, the operating costs as well as the demand side. What we're seeing is an acceleration of demand for renewable energy and that will actually further underpin the project economics in terms of the revenue that will be generated from those projects.

We have to factor in the current environment when we're working through our costs estimates. As similar to iron ore, we're always focused on costs optimisation and that low capital intensity, low operating costs, that's always a focus for us. But it will be a combination - the economics will be a combination of not only of the costs but also of the revenue assumptions and as I said we're seeing strong demand. I think that is evidenced by some of the MoUs for offtake that we've already entered into.

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

Elizabeth Gaines: Thanks Harmony. Thanks everybody for joining us today. I know it is a very busy day and towards the end of April you've got lots of companies reporting so we do appreciate your time and your interest in Fortescue. In the meantime, please stay safe and well and we look forward to catching up with you soon. Thank you.

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

End of Transcript