Fortescue

Quarterly Production Report

September 2020

Investor and Analyst Call transcript

provided by Open Briefing

29 October 2020

Company: Fortescue Metals Group Ltd
Title: Fortescue Metals Group: September 2020 Production Report Analyst Call
Date: 29 October 2020
Time: 13:00 AEST

Start of Transcript

Operator: Thank you for standing by and welcome to the Fortescue Metals Group September 2020 Quarterly Production Report Analyst Call. All participants are in a listen only mode. There will be a presentation followed by a question and answer session. If you wish to ask a question, you will need to press the star key followed by the number one on your telephone keypad. I would now like to hand the conference over to Ms Elizabeth Gaines, CEO. Please, go ahead.

Elizabeth Gaines: Thank you Rachel. Good morning or afternoon everybody and welcome to Fortescue's September 2020 Quarterly Production Report. Joining me today in Perth is Ian Wells, Chief Financial Officer and Greg Lilleyman, Chief Operating Officer, and I'm very pleased to welcome Jade Wilson, who joins us as CEO for a day.

An Oomiday woman born and raised in Port Hedland, Jade joined Fortescue in 2012 as a civil operator and in 2015, Jade joined Fortescue's Trade Up Program, which provides a pathway to an apprenticeship for Aboriginal employees. Jade has now completed her Fixed Plant Mechanical Fitter apprenticeship and has secured a full-time role at Fortescue's Port Operations where she's very keen to pass on her learnings and mentor new apprentices onsite.

I first met Jade at the Trade Up graduation last December and I am delighted she could join us today. It's great to have you with us, Jade.

Jade Wilson: Thank you for having me.

Elizabeth Gaines: Before I discuss our results, I would like to make a few comments about safety, which is a core value and Fortescue's highest priority. We're proud of the critical role the mining industry has played in response to COVID-19 and our risk management strategy and key measures introduced remain in place to safeguard our teams and ensure business continuity.

We continue to generate a strong economic contribution to the West Australian and national economy and we're providing ongoing support to our east coast team members who have been impacted by the West Australian border closure and we do greatly appreciate their ongoing commitment.

It is pleasing to see the progress in Victoria this week and the subsequent plan for easing of restrictions and we're looking forward to seeing our borders open when it is safe to do so.

So that brings me to our Q1 results and as you can see from today's report, Fortescue has delivered a strong start to FY21 across all key measures of safety, production and cost and that's underpinned by the hard work and dedication of the entire Fortescue team.

A key highlight was our safety result with a TRIFR of 2.1 at 30 September and that's a 13% improvement from 2.4 at 30 June and the injury severity rate continuing its downward trend.

We had strong engagement across our teams in implementing an updated job hazard analysis program this quarter and the JHA is our primary planning tool and we all know that a well-planned task is a safe one.

In terms of our operating performance, it was another quarter of records. Fortescue's outstanding operating performance was sustained with record first quarter iron ore shipments of 44.3 million tonnes and that's a 5% increase on Q1 FY20.

Ore processing and rail also achieved record Q1 performance and C1 costs for the September quarter were US$12.74 a wet metric tonne and that's 2% lower than the same quarter last year and it also includes costs associated with managing COVID-19.

We achieved average revenue of US$106 per dry metric tonne in Q1 and that's a realisation of 89% of the average Platts 62% CFR index.

Other recent operational highlights include receiving approval to increase the license throughput of the Herb Elliott port facility at Port Hedland from 175 million to 210 tonnes per annum on a staged basis. We also announced the consolidation of the management of the Cloudbreak and Christmas Creek mines into an integrated Chichester Hub and Greg will expand on this important development.

Ian will talk to the balance sheet but I did want to highlight that cash on hand was US$5.1 billion at 30 September and our strong free cashflow generation in the quarter contributed to a net cash position of US$1 billion at 30 September compared to net debt of US$300 million at 30 June 2020.

On our major projects, the Eliwana mine and rail and Iron Bridge magnetite projects remain on schedule with key milestones that delivered for both projects in Q1 and Greg will provide a more detailed update.

On our energy projects, comprising the Chichester Solar Gas Hybrid Project and the US$700 million Pilbara Energy Connect project, both of those are also progressing and are a key component of our decarbonisation pathway as we work to achieve our ambitious target of net zero operational emissions by 2040.

On the market, we continue to see robust demand for Fortescue's products and Chinese crude steel production reached 781.6 million tonnes to the nine months to 30 September and that's a 4.5% increase compared to the same period in 2019. At this rate, crude steel production in China is on-track to achieve over a billion tonnes in 2020.

We have successfully diversified in growing our distribution channels with FMG Trading Shanghai selling 2.8 million tonnes from regional ports in China in Q1 and since inception in June 2019, portside sales have now exceeded 10 million tonnes.

On exploration, total exploration, and studies capital expenditure for Q1 was US$31 million, which included resource definition drilling at Eliwana, exploration programs in the Western and Solomon Hubs and early stage exploration activities in the Paterson, Rudall and Goldfields regions of Western Australia.

Our exploration and field activities in Ecuador and Argentina remain suspended due to COVID-19 and there is ongoing assessment of previous drilling results and various geological studies are continuing. But pleasingly and subject to COVID-19 restrictions, we do expect seasonal drilling activities in the San Juan region of Argentina will commence this quarter.

On that, I'm going to hand over to Greg for an update on operations and major projects. Greg.

Greg Lilleyman: Thanks, Elizabeth. Good morning or afternoon everyone. Well I'm really pleased to say that our operations and major projects continue to run extremely well and most importantly, of course, our safety performance continues to improve.

Our updated job hazard analysis program was fully implemented in September right across our business to reduce injurie and we've had very positive feedback from both our operations teams and also across our major projects with our contracting partners.

So, as you've heard, Fortescue's Total Recordable Injury Frequency Rate reduced to 2.1 at the end of the quarter and we're working very hard to achieve our goal of zero harm. With peak construction on Eliwana and the ramping up of construction activity at Iron Bridge, we're managing construction risk across multiple sites with multiple construction contractors very successfully.

So, on the operations, well it's always good to report record performance and we've achieved that again in the first quarter with the shipments as Elizabeth mentioned, of 44.3 million tonnes. That's 5% higher than the same period last year, although it's 6% lower than the very strong finish to FY20 in Q4, reflecting the planned seasonal maintenance with elevated shut activity during Q1.

Each of our processing facilities continue to perform really well. Ore processed was 46 million tonnes, which was also a record for a first quarter and similarly, ore railed was a Q1 record as well and the overall results really demonstrate the ongoing improvement and focus on reliability across our value chain.

We continue to identify opportunities to capture operational synergies and improved productivity and with that objective in mind, we've now started the consolidation of the management of the Cloudbreak and Christmas Creek mines into a single integrated Chichester Hub operation. We've got plans in mind with things like a single shut team across the sites, reducing support and admin costs and also optimum allocation of assets and resources and people across the Hub.

As we recently announced, we've now completed the Company's Chichester Hub Autonomous Haulage Project and that project, which represents one of the largest fleet conversions to autonomous haulage in the industry, has now expanded the Fortescue autonomous haulage fleet to a total of 183 autonomous trucks operating across our Solomon and Chichester Hubs.

Ian will share some detail on the cost performance but as Elizabeth mentioned, our C1 costs of US$12.74 per tonne means that we are well placed to deliver on the full year guidance of US$13 to US$13.50 per tonne.

On the iron ore market, demand for Fortescue's products is exceptionally strong and it's probably best demonstrated in the 31% quarter on quarter increase in our average revenue realised price at US$106 per tonne which again outpaced the 27% increase in the Platts 62% index over the same period.

It's also a reflection of the ongoing successful execution of our integrated operations and marketing strategy. The team achieved a milestone this month as cumulative portside sales in China exceeded 10 million tonnes. Portside sales further grows our distribution channels and plays an important role in price discovery, of course.

Iron ore stocks at China's ports have risen recently in line with seasonal trends and reflects some recovery of exports from South America. However, I note that stocks of fines material remains low and we've seen strong demand continue for Fortescue's products into October, underpinning a strong start to Q2. I also note that activity is picking up across - with steal making across Japan and Korea recently as well.

So, some comments on our major projects. So Eliwana first. It's in its final stages of construction. Key milestones in the quarter are the completion of the structural and mechanical equipment installation at the ore processing facility. So, we've got power on and the lights are on and process equipment is being progressively powered up.

We've started pre-strip, including the first ore stockpiling on the ROM pad, ready for the plant commissioning in early December. The Eliwana railway remains on the critical path and I'm pleased to report solid progress in both bridge construction and track laying. In fact, the last of the bridge girders over our two bridges are being lifted into place today. The schedule for first ore on train in December remains tight but is achievable and the final forecast cost remains at our guided US$1.325 billion to US$1.375 billion.

On Iron Bridge, activity continues to ramp up of course, as the project transitioned towards peak construction phase early in the new year. Our engineering sits at over 85% complete and pleasingly, Iron Bridge sits with a TRIFR of zero, with over one million hours worked to date.

Over 80% of the civil earthworks have now been completed and the first concrete has been poured for the ore processing facility. In parallel, key process equipment manufacturing and major module fabrication is also progressing on schedule with the first of the process equipment already arriving onsite.

We've worked closely with our partners and suppliers to mitigate any impacts due to COVID-19 on engineering, manufacturing, and fabrication. We've also received now the first of our new Cat Autonomous trucks onsite in preparation for the start of pre-stripping early in the new year.

Over 60% of the project is now committed under contract and will reach 80% by the end of this quarter. As you'd expect from Fortescue projects, the budget and schedule remain tight but in true Fortescue spirit, these remain in line with our plan of US$2.6 billion and first ore on ship in the first half of 2022.

This week, we introduced the first feed into the Christmas Creek Wet High Intensity Magnetic Separation plant (or the WHIMS plant) on time and budget. Ramp up will occur over the coming months to deliver enhanced recovery and maintain product grade.

On our energy projects, they're also tracking well. At the Chichester Solar Gas Hybrid Project, over 100,000 solar panels and 55 kilometres of transmission line has been installed by Alinta Energy to date. At the Pilbara Energy Connect Project, bulk earthworks are well advanced and about 100 poles of total 800 poles have been erected in preparation for transmission line installation. In fact, the first conductors were pulled through the system yesterday.

So as you can hear, we're in a period of peak activity in the project space and I'm really pleased with how the project portfolio as well as the operations are performing on the key metrics of safety, budget, schedule and cost. On that note, it's back to you, Elizabeth.

Elizabeth Gaines: Thanks, Greg, I'll hand over to Ian for the finance update. Ian?

Ian Wells: Thanks, Elizabeth and hi everyone. It's always a real privilege to present the results our team has achieved, and you can see we've delivered another solid quarter, maintaining guidance across all metrics and that's certainly a great way to start FY21.

Consistency and predictability in performance is really important to us and we pride ourselves on doing what we say we're going to do and focussing on the things that we can control.

So, on the financials, and firstly revenue, our average realised price for the quarter increased to US$106 per tonne and that's up US$25 per tonne, quarter on quarter.

US$106 per tonne is the highest average revenue in 26 quarters now, so going back to Q3 '14 when Fortescue's realised price was US$107 per tonne and the index at that time was US$132.50. As mentioned, the realised price for the quarter was 89% of the Platts 62% index and that's a function of both the market through strong demand for our portfolio of products as well as product mix.

And that 89% realisation continues the trend to a seventh consecutive quarter of average revenue realisation at or around 85% of the 62% index.

So, on cost, the Aussie dollar cash costs were down quarter on quarter with lower total material movement, a lower fuel price and also reflecting lower shipments and, as Greg mentioned, through the planned maintenance cycle. This was offset in part by a stronger Australian dollar which was $0.71 in the quarter and that compares to the average of $0.66 in Q4.

Operator: Ladies and gentlemen, we have temporarily lost connection with the speaker line. Please continue to hold and the conference will re-commence shortly.

Ian Wells: Hi everyone. Hopefully we're back. Obviously, my presentation was so good, everyone hung up on me. So I think where I got to was two key points to bear in mind from the full year C1 guidance of US$13 to US$13.50 is firstly we're assuming an Aussie/US dollar rate of 70 cents and secondly, the impact of operational readiness and post construction ramp up costs will be reflected in the second half cost of production as Eliwana transitions from development to operations.

Now, on the balance sheet, as you've heard, cash on hand of US$5.1 billion that compared to 30 June of US$4.9 billion. Just to drill down on that for further context, our cash balance went up quarter on quarter inclusive of repaying US$1 billion of debt and also after investing almost US$900 million of capital expenditure during the quarter.

Our relatively simple debt capital structure has consistent terms and conditions across our debt facilities and our strategy is to proactively refinance debt prior to maturity. We intend to put a project facility in place to part fund our share of the Iron Bridge Project and we're continuing to work on that.

Net cash of US$1 billion at 30 September compares to net debt of US$300 million at 30 June and that's just really a reflection that strong free cashflow generation.

Also, to note, there was no real material movements in working capital during the quarter and you may recall the balance of our customer prepayments were fully amortised to zero, progressively through FY20.

So then, consistent with our capital allocation strategy the cash on hand at 30 September is all being put to work and that includes US$2.2 billion paid in early October to our shareholders through the FY20 final dividend payment of AU$1 per share. Plus, we've approximately US$850 million reserved for the FY20 final tax payment and that payment will be made to the ATO in December, later this year.

As you heard, the major growth projects are progressing well, and we are now well and truly in the peak investment period. Capital spend of US$889 million in the quarter saw most categories in line with our expectations and the investment in major projects reflects the completion phase of Eliwana.

So, no change to FY21 total capital expenditure guidance of US$3 billion to US$3.4 billion, including US$1.9 billion to US$2.3 billion for major projects and the balance of US$1 billion re-invested back into the core business. This includes sustaining operations, development, and the Queens Hub capital.

So, in closing, it's been another consistent and predictable quarter executing on our integrated operations and marketing strategy and remaining focussed on the things that we can control, which of course is safety, production and costs. Fortescue's strong balance sheet and disciplined capital allocation enables us to continue to both re-invest in the business and our major projects which of course in turn supports our commitment to growth and shareholder returns. On that note, Elizabeth, back to you.

Elizabeth Gaines: Thanks, Ian. Before I talk about the new energy technologies and our guidance, I would like to comment on heritage-related matters. Fortescue's primary objective is to avoid significant Aboriginal cultural heritage places and our activities are carried out in consultation with traditional custodians and knowledge holders within the existing framework of the *Western Australian Aboriginal Heritage Act*.

We support the modernisation of the Act, including an increased voice for Aboriginal people in the heritage process and equitable right of appeal for all parties. Since the commencement of operations, Fortescue has protected and avoided almost 6000 heritage places and we are committed to open and transparent engagement, noting that our agreements do not include heritage gag clauses.

Arrangements are being finalised for Fortescue to appear before the joint standing committee on northern Australia's enquiry into heritage matters in the Pilbara region of Western Australia.

Before we wrap up, I'd like to touch on our growth and diversification initiatives. There are a number of hydrogen-related activities underway, including the MOU we recently signed with Hyundai and the CSIRO to accelerate the development of renewable hydrogen technology as well as our $32 million investment in hydrogen fuel cell passenger coaches and a refuelling station at Christmas Creek.

Fortescue is committed to decarbonisation and to further that objective, we've recently entered into agreements to further assess clean energy opportunities both in Australia and overseas through our wholly owned subsidiary, Fortescue Future Industries.

These investigations are still in their early stages and consistent with exploration activities, the analysis of the details and timing of studies is currently being assessed. The intention is that individual projects will be developed by Fortescue Future Industries with ownership and project finance sources to be separately secured without recourse to Fortescue.

So, in summary, we've maintained our guidance for FY21 as we execute on our major growth projects and our integrated operations and marketing strategy. With our guidance unchanged at iron ore shipments in the range of 175 to 180 million tonnes, C1 costs in the range of US$13 to US$13.50 and capital expenditure of US$3 billion to US$3.4 billion.

We have a strong balance sheet and a clear focus to re-invest in the business and develop our projects and we should be proud of our industry's response to COVID-19 as we have clearly demonstrated that Australia is a reliable supplier of commodities to global markets and we have sustained our contribution to the West Australian and the national economy.

Against the backdrop of a strong performance for the first quarter, we are very well positioned for FY21 to meet our guidance, to execute our growth strategy and to deliver returns to shareholders. As always, I would like to thank our team members, contractors and supplies for their continued contribution and commitment this quarter as we continue to deliver on our stretch targets.

Thank you and I'll pass back to Rachael 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 start two. If you are on a speaker phone, please pick up the handset to ask your question. We ask that you please keep to a limit of two questions. If you wish to ask more, please re-join the queue. Your first question comes from Lyndon Fagan from JP Morgan. Please go ahead.

Lyndon Fagan (JP Morgan): Thanks very much. A couple of questions. So the first one is just on a cashflow bridge and I was wondering, Ian, if you could maybe call out some of the larger items that weren't in the report, like financing costs or any tax paid during the period. Just to allow us to reconcile things?

Ian Wells: Well I'd like to say, Lyndon, that I went through that in detail when I got cut off, but I didn't. I guess this is a quarterly as opposed to a full set of financial results. But I think a key point perhaps to remind is that PAYG instalments that are re-set each year, clearly, they will have increased and they're based on a percentage of revenue. If you think about the quarter on quarter, clearly revenue is a lot higher so the cashflow will differ to the earnings number, simply because it's on instalments and year on year that's increased commensurate with the year on year earnings increases.

That's one thing to have a look at and the second thing is, what you normally see in this quarter, there are some below the line items in the financing cashflows that normally flow through into this quarter. So, I guess that's the best lead I can give you now. We'll give you some more information obviously in the half year and by all means, reach out to Andy for some more detail.

Lyndon Fagan (JP Morgan): Okay and the next one was just related. So, if we look at the CapEx in the quarter, it's annualising over US$3.5 billion. Should we take it that the US$3 billion to US$3.4 billion range, you're going to be at the upper end of that?

Ian Wells: Not necessarily because there's a couple of points. One is Eliwana, which we've guided for $600 to $650 million, and that's obviously not an annual number because Eliwana gets commissioned with first ore on train in December, and while there will be a tail into Q3 but you can't annualise that. If you annualise that $600 to $650 million, obviously you'd be overstating it by double.

The answer to that is no, but at the end of the day we have given a range. Forex is a bit higher than what we had expected, and we've maintained our guidance. So, where are we? We're in a range of US$3 billion to US$3.4 billion.

Lyndon Fagan (JP Morgan): Okay. Thanks, I'll turn it over.

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, Elizabeth. Firstly on this Chichester Hub combination, I'm just interested on Greg's side if there's anything material that's going to change there or is that part of - as you ramp up Eliwana that it's better managing the tonnes coming out of there or is it literally just a management thing?

Then on the port. You've got this approval now at 210mtpa. I'm just keen to understand, I think it's 188 of hematite within that. Is the train outload or inload circuit the real bottleneck for that to achieve it and how confident are you that you can actually push hematite output to that sort of level? Thanks.

Elizabeth Gaines: Do you just want to touch on Chichester?

Greg Lilleyman: Yes. Chichester Hub, I think there's a few things. Clearly, we're looking to always optimise, simplify, all those sorts of things, Hayden. With the delivery now of the autonomous trucks across the Chichesters, we've got less people in the team there, makes it more readily available for single management. We've got opportunities to share resources, think about shut strategies that mean you can have one consolidated shut team.

As we are ramping up Eliwana in the new year, it allows us to transition or transfer people between one site and another without having to add people. There's just good, solid, management, in the same way that we got Solomon Hub, which is the Kings and Firetail mines and plants managed under one central leadership, we're doing the same in the Chichesters. It is one extended ore body with an arbitrary line between the two parts for each site, so we're just removing that arbitrary line and calling it one site.

On the port capacity and where's the bottleneck, I think we've talked a number of times over the last year or two about bottlenecks and how they move over time. Clearly, as we ramp up Eliwana, we are adding process plant and mining capacity, et cetera. The rail's a bit further away. We've still got the same number of dumpers and we're guiding at 175 million to 180 million tonnes, which is where we were last year.

As we look forward, we'll do the bottleneck analysis. We'll always continue to look for improving reliability, improving throughput - and it's likely through the dumper circuit and into the yard is where the main focus would be for us and through that rail system. Obviously, it all depends on what the market is doing as well as to where we end up with our focus on throughput. I'd say that's where our focus will be from a pure physical bottleneck perspective.

Hayden Bairstow (Macquarie): That's great thanks.

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

Rahul Anand (Morgan Stanley): Hi, Elizabeth and team. Thank you for the opportunity. The first question is on the cost side. A pretty good performance there so congratulations on that, but I wanted to understand, is there a lag here in terms of the fuel costs, because you did mention that and I note that obviously June costs were significantly lower for brent than they are now. Does that mean there would be a bit of a catch-up in the last quarter?

Ian Wells: That's exactly right. We've talked about the fuel lag and so if you take the Q1 average of, I don't know, in the mid-40s, compared with Q4 '20, which was in the mid-30s, and so that's exactly what you're seeing flowing through into our results and I guess we've hovered around that mid-40s for a while. I'm not sure there's too much of a tailwind going into the second quarter, but that's exactly what you're seeing play out during this Q1 result.

Rahul Anand (Morgan Stanley): Perfect. Just one on the market, please. Lump premiums obviously running much lower and perhaps even lower than the cost of sintering. I was wondering if you have seen anything specific in the market whether this is purely driven by the ex-China demand weakness, or is there any other underlying trend here in terms of moving to find them and especially your product?

Greg Lilleyman: There's nothing material we're seeing outside of the fact that there's good profitability to be made through the sintering process and hence iron ore fines have been moving at pace. Iron ore lump has been - the premiums have been relatively low, and the stocks are relatively high, so there's now somewhat of an overhang in the lump market in general in stocks in China. I think there is some cyclicality to that as well. Coke prices are relatively high. It plays a part in direct charge materials as well. I don't know that it's going to necessarily sustain; it is cyclical, and I think that the lump premiums have been just lifting a little lately and we might see that occur again.

Rahul Anand (Morgan Stanley): Okay. That's great. Thank you very much for that. I'll pass it on.

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

Paul Young (Goldman Sachs): Hi, Elizabeth, Greg and Ian and team. A few questions on some of the soft issues which are quickly becoming I guess the hard issues. First of all, the first question is on the energy projects and maybe a question for Greg. I'm just curious about how that's tracking; I'm talking PEC or Pilbara Energy Connect, to the timeframe, Greg, and when do you think you'll be connecting the solar and batteries into the grid?

Greg Lilleyman: The PEC is on schedule, Youngie. I think the focus is on the transmission project first because if you may recall, the existing Solomon power station holds excess generated capacity so connecting directly from that power station through to Iron Bridge, for example, is the source of the first power for Iron Bridge as we get into commissioning and initial ramp-up. That's tracking on plan, ahead of plan if anything.

As I've mentioned, we've got 100 of the transmission poles stood and we've started to string the wires to go through that. Solar was always planned and scheduled to come in at the backend of the process. It's large fields, large arrays that need to be installed over large land mass areas, so that's on track but it isn't our initial focus as on the transmission line. The engineering, the supply, the major contract for delivery of the power generation units to go into Solomon to supplement the existing plant there are all place and they're being manufactured in Europe as we speak, and will be on their way - I'm not sure of the timing of it, but anyway, all on track there.

The other project is the Chichester solar gas hybrid. That's being delivered by Alinta Energy, and is well and truly on track for early next year for supply of power to us, the connection through to Newman, the gas-fired power station and the solar field there, will be delivering into the Chichesters and take us off the diesel and save 100 million litres of diesel over the course of next year.

Elizabeth Gaines: Yes. The only thing I would add is I'm not sure they're soft issues. These are decisions we've made. Obviously, we've got a commitment to reduce emissions and decarbonise, but also, we're looking at long term if we integrate our operations through the transmission, the poles and wire infrastructure, we're going to get greater benefits. We'll be able to incorporate more renewables and we'll be able to see a lower cost of energy. So, there's certainly a financial element to this as well.

Greg Lilleyman: Absolutely.

Paul Young (Goldman Sachs): Thanks for that. Second question is on heritage, and Elizabeth, two parts to this. One is first of all, with the changes to the Heritage Act, and that's still ongoing and that no doubt will take some time and just discussions with Traditional Owners. Do you see any risk at all to the timing of your key I guess three growth projects, including the energy project, and secondly, to the short-term mine plan, talking the next two years?

The second part, Elizabeth, is to one topic that's come up recently is FMG has applied for a couple of mining licences over an area which was deemed a moratorium area by the PKKP to the west of Rio's Brockman mine. Can you maybe make some comments on what's happening there, thanks?

Elizabeth Gaines: Yes. Maybe I'll start with that last point first. We had an existing prospecting licence that was due to expire, so as is usual practice, we've applied for a mining lease over that area, but it certainly doesn't feature in our short or even medium-term mine plans. But we have, as is usual practice, applied for that mining lease and we would obviously work with the PKKP to survey that area. As I said, it doesn't feature in the short term at all but that is just usual practice. We have good engagement, we're meeting with the PKKP regularly, and they understand that we won't do anything until that area has been surveyed and that will take place over a number of years.

I think to your other question about any impact, there are a range of matters that are I think still being assessed by native title partners. I know they're all keen to understand the new legislation. We don't see any risk to our short-term mine plan but we're sensitive to some of these developments and we want to maintain that level of consultation and sensitivity. I can't sit here and say there won't be any impacts; I think we have to work through that process.

There's obviously very heightened awareness by the native title groups as well of the need to actually survey and survey areas that previously hadn't been maybe surveyed or had - they're revisiting areas as well. So, we have to work closely with them and that's exactly what we're doing. We've got very good engagement with our native title partners. Our heritage team are meeting with them regularly and understanding the matters that are important to them. We agreed to pause the section 18 application on Queens Valley. Since then we've met with Wintawari on a number of occasions and as a result of that, that section 18 approval process has recommenced. It's about engagement.

I guess the broader concern is that we have to take a longer-term view in terms of timing of approvals and take into account any potential delays given there's going to be a lot of survey required more broadly, I think, across the Pilbara because obviously the other iron ore operators had different types of agreements. I think as they come under a similar form of legislation then we may find that there's significant pressure on what are relatively scarce resources to actually survey, with the right people and with the traditional knowledge holders. We've got to factor that into our planning for our mine plans.

Paul Young (Goldman Sachs): Okay, great. Thanks, Elizabeth. I appreciate those comments.

Operator: Thank you. Your question is from Paul McTaggart from Citigroup. Please go ahead.

Paul McTaggart (Citigroup): Hi, all. Really, it's a follow-up question around Kings heritage. Section 18 was good, in inverted commas, in the sense it gave certainly miners certainty about what they could do, and in some instances that didn’t really work out too well. You mentioned equitable right of appeal. I'm just trying to get a sense of how you think the agreement process might go in the future, and if there's a change in heart amongst Traditional Owners, have you got enough flexibility in your mine planning that you can rejig mine planning and get around that? It's not just for you; I'm thinking it's a broader issue for the iron industry in the Pilbara. You mentioned that we might have midterm uncertainty, but I'm just trying to get a sense of how you think the heritage process might change and how you might deal with change of hearts amongst some Traditional Owners around various sites?

Elizabeth Gaines: I think the state government are very alive to the fact that there is a desire to continue to balance that preservation of heritage in the broader public interest in jobs and growth. But first and foremost, we do support equitable rights of appeal and the current legislation doesn't allow for that. But we've always entered into Section 18 approvals, seeking to have the support of our native title partners through survey processes and the like.

I think it would be particular to each mining company in terms of what the impacts could be. I mean we've got a very large resource base as we look across our whole portfolio. If there are areas that for reasons of cultural heritage we need to avoid, then we've done that historically, we will continue to do that. We will work with native title partners and we've got a large resource base that we can adjust our mine plans, but it doesn't mean that it may not come without some cost and some additional infrastructure and those are the factors we would need to take into account.

But whether that equally applies to other participants, I think you'd have to pose that question to them, but we certainly are confident in the strength of our relationships and the fact that we do have a large portfolio, but as I said, that doesn't mean it may not come without some amendments required and some changes to some of our plans. But we'll have to work closely through this process and through the introduction of the new legislation and the transition provisions to really understand what that might mean.

Paul McTaggart (Citigroup): Okay, thanks. Thanks, Elizabeth.

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

John Tumazos (Very Independent Research): Thank you very much to the entire team for the generous dividends.

Elizabeth Gaines: You're welcome.

John Tumazos (Very Independent Research): Could you explain the phasing the 210 million tonnes from 175 at the port, it would seem with the Iron Bridge coming at calendar 2022 that should need to be at 200 by then or by the time the Iron Bridge is full. Are there any details about the 175 to 210 license?

Elizabeth Gaines: Yes, John, look, it takes into account our plans, and the 210 is structured as 188 million tonnes of haematite and 22 million tonnes of magnetite. We have worked with the regulator so that when we say staged approach, that does take into account the timing of our infrastructure that we are adding for magnetite, and it’s entirely consistent with our plans.

John Tumazos (Very Independent Research): Thank you. Was there any provisional pricing benefit in the September US$106 and how many tonnes were provisionally priced exiting the quarter?

Elizabeth Gaines: Ian, do you want to touch on that?

Ian Wells: Yes, sure. We don't detail how many tonnes are priced, but there was a slight benefit and you can see that from the difference in the opening and closing index price, but largely, the realised price is a reflection of the contracted price, John and that's a function of the work that's been done over a number of years to shorten up our pricing periods, lower the number of open tonnes at the end of the period and reduce spot sales, which then mean our realised price is more predictable and representative of the average over the period. And I guess the track record of seven quarters in a row where our realised price - it moves quarter on quarter - is largely driven by market, but also supported by that integrated operations and marketing strategy and the benefits associated with that integration.

John Tumazos (Very Independent Research): Thank you.

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

Glyn Lawcock (UBS): Good afternoon, Elizabeth. A couple of questions, just firstly on Simandou in Guinea; is there still any interest or opportunities for Fortescue? I know the Chairman's travel diaries in the press suggest he went through there and then the second question is just on the port capacity, the 210, I know it's split 188 and 22, but are they hard limits? I mean I would have thought it's just iron ore, is there a split for - in a particular way? Is it Cape size versus Panamex and any update on Southwest Creek and the additional berth discussion? Thanks.

Elizabeth Gaines: Three questions, Glyn. Well done.

Glyn Lawcock (UBS): Oh, Southwest Creek is important?

Elizabeth Gaines: I'll start with the second one first. The 210 is split between 188 and 22, and that's the extent of the split. There is no other vessel splits or anything else, that is it and it is a fairly hard split in the context of how it's been described. That doesn't mean as things progress, that we can't work with the regulator, but we need that 22 million tonnes of magnetite capacity so that fits within our requests and the regulator as well.

Look, Southwest Creek, there is no further developments, at least not that I'm aware of. Nothing has been announced by the state government in the context of the allocation of those berths. And I wouldn't believe everything you read in the press about the Chairman's travel diary, but he certainly hasn't been to that particular part of the world on his trip. No, nothing further to report in that regard. We are monitoring reports as everybody else is.

Glyn Lawcock (UBS): All right, so, Elizabeth, just as a follow-up, so you offered us the 22 and the 188 split? Because it's just iron ore on a boat, so I'm just trying to understand why you have to split it or why did you offer up the split suggestion?

Elizabeth Gaines: Well, I think Greg's going to add, but what I would say as well is that getting an increase to capacity through the port of Port Hedland is no easy feat. It's a relatively busy and constrained port, so the investment we are making in Iron Bridge is obviously very well known and understood in terms of how we have described our facility and we needed that 22 million tonnes of magnetite capacity.

Greg Lilleyman: Glyn, think about it as well on the basis of it's about how many tonnes of material you handle. It's not actually specifically a shipping allocation or anything like that. It's tonnes of material handling and the licence is really through the lens of environmental management and dust control. So, there are differences in how dust generates from the handling of magnetite versus haematite and our controls and processes have to be in place to manage those various aspects. So, we've been given that approval on that basis of that split of tonnes in terms of material handling, not specifically shipping in a particularly.

Glyn Lawcock (UBS): Okay, great. Thanks very much.

Operator: Thank you. Your next question is from Peter O'Connor from Shaw and Partners. Please go ahead.

Peter O'Connor (Shaw and Partners): Elizabeth, Greg, Ian, thanks for the call. Two questions; Elizabeth, freight rates, super volatile during the first quarter of this fiscal year; any guidance to what they dropped out for you this quarter?

Elizabeth Gaines: Well this is not financial reporting, so we don't disclose that level of detail, Peter. I mean we do get better than market basically because we have our own ore carriers.

Ian Wells: Yes, Pete, no real change to the market rates, but also take note don't forget the VLOCs which obviously have a different economic outcome in our P&L. But nothing outside of the ordinary I would suggest.

Peter O'Connor (Shaw and Partners): Okay, thanks, Ian, thanks, Elizabeth and second one, just following on from the last question and thinking through the lens of external growth for Fortescue and given that you did do a deep-dive into Simandou sometime in the last 12 months. Is Fortescue ready for external growth and if so, does it have to be in iron ore or would you look elsewhere and I'm thinking out on your doorstep, there's an unfolding play in the space of lithium. Is that something that Fortescue would delve into, look at or consider?

Elizabeth Gaines: Peter, I think we've made it pretty clear actually over the last little while that we are interested in other commodities and we are certainly ready for external growth, that's why we are drilling for copper in South America. We drilled for lithium in the Pilbara as we've said in the past. We didn't find anything of scale in our tenements, but yes, we are absolutely poised and able to take advantage of growth opportunities and we are interested in diversification. We don't feel constrained to only iron ore.

Peter O'Connor (Shaw and Partners): I think yeah, appreciate the answer.

Operator: Thank you. Your next question is a follow-up from Lyndon Fagan of JP Morgan. Please go ahead.

Lyndon Fagan (JP Morgan): Thanks, just on the exploration spend, US$31 million in the quarter sort of annualising 120 a year, won't be long before that's half a billion spent on exploration. I'm just wondering if you could maybe give us a bigger update on some of the programs, which particular prospects looking most likely to turn into a mine and I know you're in the Goldfields region of Western Australia, I mean would you actually consider a gold project? Thanks.

Elizabeth Gaines: I'm not sure where you get a $500 million-type of number Lyndon. I mean the sort of spend on exploration was US$31 million, that's pretty consistent with last year. There tends to be some seasonality in this as well and a large proportion of that is on iron ore in the Pilbara, so we've been drilling in the Western and Solomon Hub so this is not all on other opportunities. Actually, we continue to drill across our large tenement portfolio in the Pilbara and that would be the majority of that spend, particularly as we've been suspended on activities in South America due to COVID-19.

In fact, it's about the same number that we spent in the same quarter last year, except that more of it would be on FE this quarter because of the other activities. We did have to suspend some activities even on our Australian operations in South Australia as well. There's nothing yet to report, but obviously a large portion of the spend is on iron ore.

Lyndon Fagan (JP Morgan): So how much of your annual exploration budget is just on iron ore?

Elizabeth Gaines: Well, it's a combination of iron ore drilling and studies, and it would probably be 60% or so. And this year it will be about 70%

Greg Lilleyman: Yes, also the mine requires sustaining in terms of definition drilling and so forth, so if you mean purely exploration, that's in the $140 million as Elizabeth said and we've also got studies within the around about $20 million which most of the studies to Elizabeth's earlier point are on things like future developments in iron ore.

Lyndon Fagan (JP Morgan): Great, and just a quick - another follow-up. Does Fortescue have any sort of ongoing studies around another port option? I mean way back, there was Anketell Point. Is there anything ongoing there?

Elizabeth Gaines: Not at the moment and as we look to the future and we think about the development maybe of hydrogen export markets, then that will probably entail some assessment of those type of opportunities, but nothing at the moment.

Lyndon Fagan (JP Morgan): So, Fortescue doesn't have any rights as such to participate in another port at this stage?

Elizabeth Gaines: No.

Lyndon Fagan (JP Morgan): Okay, thanks.

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

Elizabeth Gaines: Thanks, Rachel. Thanks everyone who joined and thanks for the questions and we look forward to speaking with you at our next set of results. As you can tell, we are very pleased with this first quarter of FY21; it certainly set us up for a very strong full year. On that note, stay safe, take care, and speak to you soon.

End of Transcript