



Fortescue Metals Group Ltd

Highlights of interview....

Fortescue Metals Group Limited (ASX code: FMG, market capitalisation A\$14 billion). Fortescue's Director Development, Peter Meurs, discusses:

- His role as Director Development at Fortescue
- Fortescue's different approach to development and achieving Fortescue's expansion plans

Record of interview:

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What is your role at Fortescue as Director Development? Would you outline what this role has involved since you began in May 2010, and how your previous experience at Worley Parsons relates to this?

Director Development, Peter Meurs

My essential role is responsibility for planning and implanting the growth at Fortescue. That starts with exploration and includes background studies, feasibility work and ultimately project implementation.

The whole history of WorleyParsons was about delivering projects for customers and adding value for customers and so in joining Fortescue I'm just continuing that work. My relationship with Fortescue started with the initial Fortescue port, rail and Cloudbreak mine where WorleyParsons was the consultant and EPCM contractor. I developed a relationship with Andrew Forrest during that time when Fortescue wanted to get into iron ore and needed WorleyParsons to bring the expertise to make it happen. It was a very successful relationship for both organisations. Since then Andrew spoke with me about joining Fortescue and I ended up deciding it would be a good thing to do.

When I joined Fortescue it was a fabulous company that had achieved its initial production; but it was evolving and without full matured lines. Since joining I've helped to organise a more structured approach where we've got people working at the exploration end, people working on the studies and future projects, and people solely focussed on delivering our massive \$8.4 billion, 100 million tonne expansion. And while we all still work together, we've got a lot more order in the delivery process and it's

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"Peter Meurs on Fortescue's Different Development Approach"

exciting to see this. People have responded extremely well, and it's just a great place to work and be part of.

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Fortescue's different development model is often talked about. Can you explain how this works – in both theory and practice – and relate this to Fortescue's expansion plans, i.e. to 55mtpa; to 155mtpa; and beyond?

Peter Meurs

I think Fortescue takes a very pragmatic and practical approach to development. It really always asks the question about what are the essentials required for developments, what's the best way to do it, and who are the best people to help us. Fortescue doesn't have enough history to have a set view about how it should be done, and that can be negative and positive, but in most cases it's very positive because Fortescue is prepared to take this very practical approach. I think Fortescue's plans are always on the aggressive side and that our schedules and plans are often seen as being unrealistic or overoptimistic but having made those plans and saying what could be done, Fortescue then has an absolute passion and about achieving those results, and that's what sets it apart.

Another thing that's different is that Fortescue engages deeply with its contractors and suppliers to achieve the exceptional outcomes. So – for the 155mtpa expansion, if I can deal with that first, we announced that expansion in November 2010 and in December we went on a trip and visited all of the major suppliers around the world and said to them 'this is what our plan is - we know that it's aggressive - we'd like you to be part of it and we'd like you to tell us what you'd do if it was your business'. And we had an amazing response. First, our suppliers and contractors initially came back and said 'no-one has ever asked us that question!' And then they responded with amazing very aggressive schedules and plans that would help us, so that by January/February, we had new offers, development plans and lots of things to follow up on, and then by April/May we'd ordered almost all of our equipment and had our major contracts in place for the expansion. And we were able to integrate these orders and contracts into the orders for longer lead-time items, such as for ship loaders and reclaimers, that had already been put in place.

When we revisited our contractors in May 2011 – those we'd placed orders with – they said "no-one has ever gone through this process this fast and we didn't believe you could do it - but you did". Now they're even more committed to be part of this because they say "you've given us the opportunity, you've responded very quickly and now we want to achieve that success with you". So I think that is a different approach - and it's not rocket science to me - but it's just really refreshing and practical.

We also try to be flexible in terms of how we approach contract payments. In all our contracts we look at where the risk should sit and what do people need. So we might pay more up front if that means we can get it faster, or if the contractor needs the money to do something. But we won't just give them cash if there is not a reason for it.

Our contracts are still all based on the same essential clauses and protections but we make changes to suit the individual contractor depending on the risks they face and what they're trying to do. This makes a big difference. Across our \$8.4 billion expansion, we have some working as EPCMs, some work on lump-sum, some work as partial-lump-sum and partial schedule of rates. And there are different styles of contracts – some are procurement contracts where we pay a portion up front and then progress payments. But generally, being flexible and listening to what the contractor needs in order to deliver for us, is very important to achieving exceptional results.

The expansion to 55mtpa that we've just completed was a precursor to the expansion to 155mtpa where we were establishing a new 50 kilometre rail link and a 20mtpa ore processing facility at Christmas Creek with completely new infrastructure. This was our first expansion post-GFC and we wanted to prove to ourselves and the market that we could do it again. We in fact completed it in 14 months which was a record - and certainly for us – it proved we could do it again.

That was a much smaller version of our expansion to 155mtpa, but we are seeing all the same elements – rail, new ore processing facilities, all the same types of equipment, and new camps and power stations.

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Can you provide examples of how this approach has worked? Or how it might be applied in the future?

Peter Meurs

We have an aggressive schedule - and at Solomon we're building a new 60mtpa mine in one hit – processing 40mtpa of Channel iron and 20mtpa of Brockman/BID product. It is a massive development in anybody's terms and we have really faced cost and schedule pressure as we're trying to implement Solomon. Obviously, we've been finding that some of our initial plans are not the best solution on a cost or schedule basis. But rather than accept situations which could cause schedule delays or cost impacts, we've gone back to our exploration, mine planning, metallurgical and process engineering teams, and we've said 'let's have another look at this. It looks like we can't achieve the schedule and cost – we can't accept failure - what do we have to do to achieve it?'

So when our teams had a deep look at our mine development plans at Solomon, we looked at the crushing plants. We'll now start with two crushing hubs at Solomon rather than five and we will position them more accurately for our initial mine development. Thus, we've cut back on some capex and scope – but we'll still achieve the same result. So this is an example of how Fortescue works. We don't accept failure, we've got to find alternative ways to get around challenges, and still do the job and achieve the result.

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Development and operations have to work together. How does Fortescue integrate operations with the scale and pace of development activity?

Peter Meurs

I think this is a very important aspect. We don't have rigid boundaries between the various groups in the company, the office is completely open-plan, and no-one has an office. The structure is very flat in terms of layers of management and each group is depended on. So the leaders of the metallurgical mine planning, engineering or operations groups are absolutely relied upon. And I think the fact that those boundaries don't exist, really helps us to achieve the result.

This is particularly true as between the projects and operations teams. In almost every large company I've seen there's a big gap between the development team – where there's a culture of getting on and doing the project – and the operations team – which is all about consistent operations. Typically the development team says 'leave us alone, we'll develop the project, hand it over to you, and you can operate it' and the operations team says 'we'll have to put up with that'.

But in Fortescue we've integrated key operations people in every part of the project from the beginning. So we've got leaders of operations sitting in our development teams for each of the port, rail and mine sites. And they're not just there, they have real roles. They're not just reviewing, but they're actually participating with the development teams and doing the work. So there is no gap between operations and development at all. In fact we're fully integrated and operations are just as focussed on achieving the development goals as the development teams.

I've never seen this work as well before, and it's an absolute key to achieving what we've set out to do. It gets rid of the boundaries, the politics and the mini-wars. Where issues do arise, they get put on the table and people work on them together. It brings the benefits of working in effective small teams into a larger organisation.

I sit right next to the Director of Operations in the office, and we talk every day, and bounce things off each other. It's just co-operative and helpful and we get things resolved. That happens not just at the top but it happens at every part of the organisation.

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Almost inevitably the scale and pace of proposed expansion will raise issues and potential roadblocks. How do you propose to address and overcome these?

Peter Meurs

One thing's for certain – when you're doing an \$8.4 billion expansion –and buying equipment and building at the scale we're doing it - things are going to go wrong. We'll have delays in delivery, and things mightn't come together as expected. We can't avoid that, and we can't avoid people making mistakes. But the big difference is that when things go wrong, we don't use them as an excuse for failure. As I said, we have a very aggressive schedule and cost targets, it's just our job to deliver them. So when things go wrong we just have to find a way to address the problem. Now that sounds like motherhood, but it's true and it's how we're working.

One of the big examples is modularisation. We've said to our contractors that we have to reduce the number of people on site: if they supply in the traditional way, we just won't be able to achieve our objectives in the current Western Australian construction market. So we have to bring in things in bigger pieces. Thus, Thyssen Krupp - which is supplying our stackers and reclaimers - is introducing them in 3 or 4 pieces instead of hundreds of pieces. We've got some marvellous video of these moving down the road - too big for bridges so - the trucks bypass the bridges and go through the creeks!

There are many other examples. For instance, when our conveyors come onto site each container will be numbered and will go to the right location, and we'll take out the pieces and put them together like a big jigsaw. People are doing this elsewhere but we're doing it on a far larger scale.

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So how would you summarise your development plans and objectives for Fortescue?

Peter Meurs

We now have multiple teams working on this development in Fortescue. At the front-end, we have a team exploring to underpin our longer-range 255 to 355 mtpa objective; another team is working on the detailed plans for developing new solutions and optimising the 155 to 255mtpa medium term plan; and finally, another team is fully dedicated to our immediate target - the 55 to 155mtpa stage - which is all about implementing, i.e. getting the work done. The teams are talking to each other, but it is still structured so they're focused on their piece of the puzzle. Of course, we're dissatisfied with some of the things we're currently doing - some better approaches and solutions will be needed - but we've now got a culture and track record of problem-solving and achieving targets.

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Thank you Peter.

A further interview on Fortescue's strategic approach to Pilbara infrastructure will be released shortly.

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