



## Fortescue Metals Group Ltd

### Highlights of interview....

- His background and new role at Fortescue
- Approach to operational and expansion issues including co-operative approach to mining contractors, and dealing with cost and ramp-up questions
- Relationship with customers and the dealing with iron-ore market issues
- Fortescue's role in relation to the Boao Forum

### Record of interview:

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Fortescue Metals Group Ltd (ASX code: FMG, market capitalisation A\$19 billion) recently confirmed the appointment of Mr Neville Power as Chief Operating Officer. What is your role as Chief Operating Officer at Fortescue and could you tell us how your background fits with FMG's business model?

#### **Chief Operating Officer, Neville Power**

I joined Fortescue in February this year as Chief Operating Officer and my key responsibility is to support the CEO, Andrew Forrest, and our expanding executive team. My role will cover both the current operations and the various expansion projects. The management team will report to me as COO and then I report through to Andrew.

My background is really in three major parts. My most recent role was as Chief Executive of Australian Operations at Thiess, which is Australia's premier mining construction and services group. That is important in two respects to Fortescue as it provided me with experience in both mining contracting and construction. Prior to that, I spent around 11 years with Smorgon Steel Group growing that from a family-based company through to an ASX-listed multinational. That gave me a great understanding of the global steel industry and the technicalities associated with the steel making process, which has given me some very valuable insights into the requirements of our customers. Moreover, earlier in my career, I spent 20 plus years with MIM Holdings where I obtained extensive experience in all aspects of mining including underground and open cut operations.

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4 May 2011

### Title:

"New COO, Neville Power, on Operations & Expansion"

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I believe my experience in construction, steel making and mining are well suited to supporting Fortescue in its current operations and its growth objectives. My contracting background will provide many benefits as Fortescue expands its contractor interface both in mining operations and construction.

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How does your role relate to Fortescue's team of people?

**Neville Power**

One of the key features that attracted me to Fortescue was the outstanding group of people including Peter Meurs, the Director of Development, Stephen Pearce, the Chief Financial Officer and Paul Hallam, the Director of Operations. All three are at the top of their areas of expertise in the industry and we are lucky to have these people at Fortescue.

We will become one of the world's largest mining companies and it is important to have such highly skilled people to take us through that transition and significant growth phase.

We also have great depth at the next management level down because Fortescue has been able to attract some extremely good individuals, which I think is due to our very strong 'can-do' culture. Generally speaking, talented people who want to make a contribution have tired of the slow-to-move investment decisions in the industry generally, and what captures these people's attention is Fortescue's emphasis on teamwork and its focus on getting investments quickly to market.

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At the key operational levels, what do you see as your main tasks?

**Neville Power**

There are a number of important aspects.

First and foremost is the area of operations where it is important that we operate safely, efficiently and cost-effectively to keep our customers supplied with critical raw materials, especially in today's market where there is demand for more material than can be supplied. Therefore it is absolutely critical that we maximise the production and logistics processes - from mining through to our rail transportation and port facilities.

The second major task is to manage our phenomenal growth plans as we move from 55mtpa to 155mtpa and beyond, which is an enormous design, construction and development effort. This is critical to the future of Fortescue; to supply increasing demand from China and the developing world.

A third major task for me is to work with the Chief Financial Officer, Stephen Pearce, and his team to make sure the appropriate funding is in place. That will include taking advantage of the current debt markets where there is a great appetite to lend to Australian resources companies.

Wrapping all of this together, I'm committed to make sure that we continue to maintain and grow the very strong culture that Fortescue already has - of 'can-do' and fast growth, safety, frugality and very strong team-oriented values.

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How do you see Fortescue being able to deal with the tight labour markets in WA?

**Neville Power**

There are a number of ways to deal with this. First, we are very heavily tapped into the West Australian labour market and particularly into local contracting, and we aim to develop a lot more home grown skill and capability including through our links with the indigenous community.

Secondly, we are extensive users of contractors in both our operations and construction activities, who are able to mobilise workforces from the East Coast and other areas of Western Australia. So, to date, we have not had any serious problems in recruiting people. We are also helped because a key attraction for people is that Fortescue is seen as a great place to work and a dynamic, growing company with a fresh culture.

Thirdly, as we progress, and as our workforce numbers grow dramatically, we are looking to adjust the way we manage our operating model. We aim to minimise the number of people we will need to have located on mine sites utilising modern technologies and different work arrangements. Our objective is for more of our people being able to work from Perth office. In consideration of those who do work on site, our strategy is to establish family-friendly work rosters and also to target a particular type of worker including encouraging working couples who bring a good balance to the worksite. We aim to encourage them to remain part of our organisation.

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Rapid expansion involves ramp-up risk. How do you assess the risk of cost blow-outs when you are determined to advance projects so speedily?

**Neville Power**

We are just commissioning Christmas Creek's first ore processing facility and will move directly into a second one there, at the same time as commencing the development and construction at our Solomon mine, so we don't have a gap between our previous construction work and the next stage. Therefore, we have a continuing process – utilising the same momentum that we've developed and leveraging off the same relationships with vendors and contractors, where we've demonstrated an ability to develop in acceptable timeframes. So, we're looking to continue that momentum into the future.

Secondly, in comparison with a number of other 'would-be projects', we are seen as 'certain': we've got the funding in place for the next level of expansion, and so we are very attractive to vendors and contractors, and of course we have very strong and established relationships there.

Thirdly, and contrary to conventional wisdom, we've found that the faster we can develop our assets, the lower the cost compared with slower options. One of the potential cost blowouts is from having the fixed cost of labour onsite longer than is optimal. So when we are able to get in, build safely and quickly and get out, we actually minimise the cost - so high speed and low cost do in fact go hand in hand.

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In an industry plagued by long slow tender processes and very long mobilisation processes, vendors and contractors generally want to move quickly and know where their next jobs are, so they respond very well to firm dates and moving rapidly; in other words, long-dated ramp-ups are actually not the best way to work with contractors.

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What is Fortescue's broad outlook for iron ore markets and what might drive this? Do you have any particular approach to iron ore marketing that will address the risks that many see in demand and pricing?

**Neville Power**

We see a strong outlook for iron ore markets. Having just returned from China and visiting our main customers, I witnessed the plans for most of them to significantly expand their businesses. Steel demand in China is increasing not only for infrastructure, but also for broader sectors such as white goods and cars. Urbanisation also is continuing at a rapid rate.

The increasing demand for iron ore is not only coming from China. About half the world's population – about 3 billion people – live in the so-called developing countries including important economies such as Brazil, Russia and India. As other developing countries follow China, we'll see demand coming from infrastructure and urbanisation in those countries as well.

So the long-term growth prospects are very strong. Invariably however there will be short-term price fluctuations along the way – that's the way it is with commodities – but the long-term prognosis is very robust and our long term planning reflects this view.

We believe an important point, when considering growth in seaborne iron ore, is that the majority of China's iron ore is supplied from domestic mines which are high-cost and becoming higher-cost due to the depleting grades of China's resource base together with cost pressures from environmental and safety influences. Chinese mills are voting with their feet and developing major receival points along the coast to make sure they position themselves for the growth in seaborne product.

Our fundamental marketing strategy from day one has been to deal directly with the mills and not with trading intermediaries. That way we can better understand our customer's business and fully appreciate how and where our product fits. We have established our business as a long-term reliable supplier. Being close to our customers also means we can quickly respond to market changes. While prices will fluctuate, particularly under the new index pricing structure which is more responsive to the supply/demand balance, being a long term supplier of such a critical ingredient to a mill's operations will ensure we continue as an integral part of their businesses.

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Would you briefly explain the planned expansion stages for Fortescue including the infrastructure capacity increases?

**Neville Power**

We're currently operating at a rate of 40mtpa at Chichester and the new plant at Christmas Creek will take us to 55mtpa by the end of June 2011. That will mean our existing mine, rail

and port facilities will be operating at capacity. The next expansion stage, to 95mtpa, involves increasing port capacity and building the second stage of the ore processing facility at Christmas Creek.

We plan to be ramped up to an operating rate of 155mtpa from Chichester and our new Solomon development during 2014. That will require expansions at Port Hedland, and expansions to our rail system including a new spur line to link our existing lines with the new Solomon mine and ore processing facilities. The expansion process is well under way. We have Board approval and have committed the expenditure required to build the 155mtpa production capability.

Beyond that, the next expansion stage is to develop the new port at Anketell Point, which is the next designated iron ore port in the Pilbara. We are also developing the tenements to serve our Western Hub, and we will build a new rail line to Anketell. In due course, this would take our production and delivery capability up to 355mtpa; depending, of course, on market conditions and demand at that time.

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There appear to be increasing challenges for mining service companies to access the requisite capital to service the rapid growth in mining activity. Given your background in the world of contracting, how do you see these challenges being met? What approach will Fortescue take to the question of potential service constraints through capital limitations?

#### **Neville Power**

It is certainly a growing issue whether mining service and contracting companies will be able to provide enough capital from their own balance sheets to support the massive amount of plant and equipment required in Australia's mining industry.

Our approach is to work with those service companies, more in 'partnership'. We will look to facilitate the funding of equipment, not only using the service providers' and contractors' balance sheets, but also our own, as well as looking to create conditions for third parties to provide funding. A major obstacle for services and contracting companies is the short tenure of most contracts, making it hard to support the purchase of expensive equipment over the contract terms. By extending the terms of contracts and by partnering with suppliers and service companies, we believe we will help them fund that equipment. A great example of our approach is our Christmas Creek processing facility, which is effectively a BOOT scheme where the service company is building and part-funding the plant as well as operating it through a concession period before it transfers back to our ownership.

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There was recent press about Fortescue's involvement in the Boao Forum recently held in China. Can you give some background to Fortescue's involvement?

#### **Neville Power**

We are very proud to have been a diamond sponsor of the Boao Forum, a very important conference for Asia and the developing world generally, for the past three years. Many people do not appreciate that it is the equivalent of the Davos World Economic Forum for Asia and notably, all the BRICS countries were very well represented this year. The Forum gives us a great opportunity to gain additional insights into the key drivers for all of the

developing countries and interestingly, this year's theme was the balance between economic and social growth, to make sure the value of economic development spreads into the broader communities. We share these core values with the countries of our business partners.

In July 2011, Perth will host the first Boao Forum to be held in Australia and many important Government and business leaders will attend. Fortescue will be a major sponsor. It is a great opportunity to showcase not only Perth, Western Australia and Australia, but the significant developments and achievements at Fortescue that are having such a direct impact on their important supply requirements.

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

**Neville Power**

Our team's key objective is to continue to drive our existing operations to be more cost effective and efficient, and to be a supplier of choice for our customers. We are rapidly expanding our production capability to meet our customers' demands. This strategy is enabled and underpinned by strong management and people, operational cash flows and our balance sheet. I'm looking forward to introducing my experience to further develop Fortescue's terrific team and great organisational culture, and to successfully execute this unique and exciting growth opportunity.

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Thank you Neville.

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