



**Fortescue Metals Group  
Limited**

**Date of Lodgement: 8/6/12**

**Title: “Company Insight – Andrew Forrest on Chairmanship and China”**

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**Highlights of Interview**

With the Chairman of Fortescue Metals Group Ltd (ASX code: FMG, market capitalisation A\$15 billion), Mr Andrew Forrest.

- **Discusses how his role as Chairman differs from his previous role as Chief Executive**
- **Observations on organisational changes at Fortescue, and why the new system is working**
- **Explains why Fortescue has taken such a prominent role in the sponsorship of the Boao Forum, and his views on China**
- **Discusses the basis for his views, and Fortescue’s, on addressing indigenous issues - and Fortescue’s role together with other businesses in addressing the problems**
- **His observations on whether, and how, Fortescue’s original vision has changed**

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**Record of interview:**

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How would you describe your new role as Fortescue’s Chairman, and how different is it from your former role as Chief Executive?

**Chairman, Andrew Forrest**

It is a major difference. My move has allowed considerably more depth into the Company, and that’s changed my role as well as everyone else’s. At the same time, and not that he needs it, the Chief Executive has me as a 24/7 sounding board.

As far as operational issues go, I’m ‘hands right off’. You can contribute from the perspective of culture, commercial philosophy, and strategy, but I know that mine is a hands-off role and I do want that to be the case. This allows the executive team to operate within broad parameters, and with the confidence of knowing they’re fully supported. It also means that

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stakeholders are secure in the knowledge that the direction and philosophy of the Company is being adhered to.

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What are your main observations or reflections on the organisational and operational changes at Fortescue that happened just over a year ago?

**Andrew Forrest**

I wanted to bring in a senior leadership team, and that took some time and a lot of faith from all involved. It has been very positive. We couldn't have asked for a better person than Peter Meurs for project identification, development and execution; and Stephen Pearce, in terms of financial leadership and the discipline of a first-class financial person, particularly since our cashflows have become very large. On top of that we needed a Chief Executive who had a clear understanding of the direction of this Company, the enormity and potential of its assets, but most of all, the importance of the Company's culture as his primary responsibility. That's a rare and difficult person to find, and we have that in spades with Nev Power. However Nev also brings a hard operational edge and a tough commercial approach that comes from years of building up major businesses, and in hard-money contracting and mining. These changes have really helped Fortescue.

Throughout the Company there are many challenges associated with the various developmental, operational and financial roles. Fortescue attracts very talented people who accept great challenges and respond to them - and - who need to feel they are both intellectually supported and fully empowered to meet them. I believe, first, that the leadership team has achieved the right balance of challenge and support; and secondly, that the Company owes much to all the people who are meeting the challenges and doing the work. Importantly, we all acknowledge a debt of gratitude to those who have gone before us.

The organisation is working well; and much better for Fortescue's current and future challenges than the old structure.

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Since its inception Fortescue has been closely involved with China, and the Company is a major sponsor of China's major economic and business forum, The Boao Forum. What do you think are the main benefits to Fortescue's shareholders of its Boao sponsorship?

**Andrew Forrest**

I believe - very simply - that it is every major company's responsibility in Australia - no matter what industry you're in - to engage with Asia. It is such a massive influence on our very doorstep, that even if you're not as fully-connected to Asian markets as Fortescue is, you should be cognisant of, and co-operating with, those in Asian markets. Regardless of industry, the next several years and decades will be heavily influenced by what happens in Asia. So Fortescue plays a key role in Asia's and China's most important economic and business forum. Our contribution means we maintain a profile exactly where Fortescue's shareholders and our government expect us to be.

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In your view, what were the main messages that Fortescue sent to, or heard from, the recent Boao Forum?

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**Andrew Forrest**

We sent the message that Fortescue is maintaining and building its relationships and connections with all of Asia, and particularly China. China is on a determined and logical path to bring Western standards of living to the huge majority of its 1.3 billion population. That cannot be ignored. We also know now that Australia is no longer in a one-horse-race to meet Asia's needs. That may have been the perception over previous decades but we now know we are up against a large number of horses also seeking to serve Asia. And we heed the messages from those in Asia looking out - probably best described using the analogy "If you wish to buy a car, do you buy it off someone you can trust if it's at the same price, or from someone you barely know? The answer, of course, is you would buy it from someone you know and trust. And that's why it is essential to Fortescue that we engage with Asia. It is just as important for Australia as a sovereign nation to adopt that same attitude.

I know some people argue that you can get iron ore from anywhere, but reputation is important. If you have a reputation for honesty and a product from which it is easy to make steel, and which has high value-in-use, you've established the basis for a sound reputation in your major marketplaces. You combine that with being seen as reasonable and fair to deal with, then, even if iron ore is seen as a commodity, customers will turn to *your* commodity because they know it well, they know how reliable it is, they've seen it year-in-year-out, and they know it's highly competitive from a cost of steelmaking perspective. All other things being equal, reputation and relationships will always win.

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The market sees Fortescue's performance linked directly to China's economy. As the boom slows, and given you've been a long-time visitor to China, in your view what will be the impact on Fortescue and its development programs?

**Andrew Forrest**

There are three basic points to be made. First, China's recent growth rates could not stay that high, and like many others, I'm personally much more comfortable with growth in China at levels that are manageable and sustainable, remembering that each time it grows, its base gets bigger and bigger. Secondly, because China is now the world's second-largest economy with a GDP of around \$7 trillion, even at lower growth rates of 7 to 8% the scale of Chinese activity and economic growth is still massive. The annual increments themselves are just huge. Finally, we shouldn't forget that China now has considerable economic management flexibility and I believe – and most people agree – that they'll use that capability to stay on that determined and logical growth path to better themselves. In the current softening, some people seem to be losing sight of these basic points.

In any event, and I should say very clearly, the slowing of China's boom will not affect Fortescue's expansion to 155 million tonnes at all. The funding is in place and the development has a short payback period even at lower iron ore prices.

I also think people don't appreciate what a position Fortescue will be in once that happens. Not only will we have secured a large market share, but over time I believe we will have a stronger role in the global supply marketplace. When prices fall as will happen over time as more supply hits the market, there will be consolidation amongst suppliers. Those remaining, which will include Fortescue, will become even more valuable. We believe we will be positioned to do very well in all types of future markets particularly as we move down the cost curve when Solomon product comes on stream.

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Since you became Chairman, you have led Fortescue into increasing prominence in indigenous issues. Why have you done that? What is behind your interest in indigenous affairs - and how do you see Fortescue's interests aligning with those of indigenous advancement?

**Andrew Forrest**

My personal view is this: when Kevin Rudd spoke about the 'greatest moral issue of all time', I believe he completely missed his own doorstep. The huge intolerable disparity that exists between indigenous people and other Australians just won't be fixed by the charitable mentality of throwing money at a problem. It is fixed with equalisation of expectation and opportunity, coupled with responsibility. And that's what Australia has been missing.

I grew up amongst Aboriginal people, and I saw an incredibly proud and dignified people who, over decades at the hands of welfare and misguided good intentions, have become more and more desperate. Both I and the Company - as a corporate member of Australian society - feel we should do what we reasonably can to turn that around.

As a mining company we don't think we have any lesser or greater opportunity or responsibility to help Aboriginal people than, say, a retail or a manufacturing concern or, say, a catering company. 85% of Australia's aboriginal people reside in urban areas where the most jobs are. Where Fortescue operates there's also a good proportion of aboriginal people and we've created opportunities in the form of real jobs. In our areas we've brought our needs and their requirements together - and gone out to do what we can to equalise the living conditions, and professional and working achievements of indigenous and non-indigenous Australians.

But it isn't because there's anything special about the mining industry. We're a company that has decided to move on the issue, and we're now seeing hundreds and hundreds of other companies operating on the exact same philosophy and coming together in a program called the Australian Employment Covenant, which guarantees employment to indigenous people who accept and take up job-specific training. That group is now asking that the Government fulfils its promise and meets its side of the covenant to around 330 employers around Australia and the 50,000 aboriginal people involved. The Government must now deliver on that promise.

These initiatives make great business sense for Fortescue and other mining companies but all those companies in urban areas where most indigenous people live, should be making as big a contribution as Fortescue. Every business needs workers to develop and run their projects. The retail industry has a real need for trained and friendly professional people and they're a bigger employer than the mining industry. Of course, the mining industry is one of the few areas of growth illuminating the Australian economic horizon, and while we can't overcome the current lack of confidence, I would say there is some gentle growth and some turnover, and within those bounds a small percentage of this gentle growth and natural turnover should be used to employ and train Aboriginal people, and value-add to your business, as Fortescue's is doing. Corporate Australia can collectively take measurable and valuable steps to end the disparity, and if Government also meets its promise, indigenous people and children can become educated, stay healthy and trained for lives worth living. The disparity will become a memory.

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Fortescue was your original vision. Has that vision changed, and if so, how has it altered?

**Andrew Forrest**

I'd have to say the original vision hasn't changed, but has become more substantial. We still have our 2004 master plan across a map of the Pilbara with mines, railways lines and ports; and have our aim to fill the large gap in the marketplace that we foresaw approximately 10 years' ago. We designed a company on assumptions that we couldn't predict, but we still planned for an operation that could grow and meet future needs of up to 400mtpa if that's what the market required.

Our desire was to fill that gap as *an Australian company* knowing full well that if we didn't, it would be filled by companies from other countries. So my basic vision hasn't altered. The significant change is that Fortescue has crystallised the leadership and capability to meet the vision.

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Thank you, Andrew.

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