



**Fortescue**  
The New Force in Iron Ore

# Working together. Delivering results.

ABN 57 002 594 872 | 2015 Annual Report



## THE YEAR AT A GLANCE



### SAFETY

Total Recordable  
Injury Frequency Rate (TRIFR)

# 5.1



Operating cost

# 21%



Revenue



**US\$8.6**  
billion

# 13%

Aboriginal  
employment  
achieved



### Fifth berth at Herb Elliott Port

*Commissioned March 2015*



Fortescue River  
Gas Pipeline

*construction completed*



# A\$1.8 billion

*Contracts to Aboriginal companies and JVs*



# 2.4

billion tonnes  
*Ore Reserves*

# 17.3

billion tonnes  
*Mineral Resources*

## ABOUT FORTESCUE

Fortescue Metals Group is a global leader in the iron ore industry, recognised for its culture, innovation and industry-leading development of world class infrastructure and mining assets in the Pilbara, Western Australia.

Since it was founded in 2003, Fortescue has discovered and developed significant iron ore deposits and constructed some of the largest mines in the world.

The Chichester Hub, which includes the Cloudbreak and Christmas Creek mines, is located in the Chichester Ranges, and produces more than 90 million tonnes per annum (mtpa) of iron ore and an additional six mtpa from Fortescue's joint venture with BC Iron.

The Solomon Hub is located in the Hamersley Ranges, and includes the Firetail and Kings Valley mines which produce in excess of 70 mtpa. Fortescue has constructed world class facilities at its five berth Herb Elliott Port in Port Hedland, and operates the fastest, heavy haul railway in the world with up to 42 tonne axle load capacity over 620km of track, including 12 bridges.

The company is now producing 165 million tonnes of iron ore per annum and is focused on being the safest, lowest cost, most profitable iron ore producer.

As a proud West Australian company, Fortescue values its relationship with key stakeholders by working together to positively manage and create opportunities for Aboriginal people, communities, the environment and the broader Australian economy.

## ABOUT THIS REPORT

This report has been prepared for Fortescue's stakeholders in line with our statutory and regulatory obligations. The Company is committed to becoming the safest, lowest cost, most profitable iron ore producer and the information within this report outlines Fortescue's performance and the journey to realising this vision in a manner that reflects the Company's core values.

This report provides a summary of Fortescue's operations and financial position for the financial year ended 30 June 2015. All references to Fortescue, the Group, the Company, we, us and our refer to Fortescue Metals Group Limited (ABN 57 002 594 872) and its subsidiaries. All references to a year are the financial year ended 30 June 2015 unless otherwise stated. All dollar figures are in US currency unless otherwise stated.

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## THE BEST ADDRESS FOR IRON ORE

Fortescue holds the largest tenement position in the Pilbara.





# OVERVIEW

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# CHAIRMAN'S MESSAGE

Andrew Forrest

I am delighted to provide the Chairman's Report on your Company's performance during the 2014-15 financial year. Our operations are mining, processing, shipping and exploring our valuable iron ore at a steady canter of 165 million tonnes per annum. Sitting within our arsenal is the ability to accelerate production significantly, quickly and very cost efficiently. Operating costs, which continue to fall, are already a match for the best in the industry.

At Fortescue, you "always do what you say you are going to do". As a shareholder, I am grateful for that attitude because during a year of intense price volatility in the iron ore market, our Company has delivered outstanding results across the key performance measures of safety, production and cost, and accumulated substantial cash on our balance sheet. The strength of the relationships we enjoy with our customers are driven not only because we produce exactly the product they need, but also because the substantial market share they have given us is met with deep respect. They can and do rely on us because our product is predictable, excellent value, and our team is great to deal with.

As of 30 June 2015 we have US\$2.4bn in cash and as such net debt of US\$7.2bn. Our world class assets are worth in the tens of \$billions. Today, like every other, we will add several million dollars to that balance sheet - while employing some 8,600 people. Your Company is in great shape and, of all the majors, we are proud to pay our fair share of tax. We are the only iron ore major to not channel iron ore through offshore tax minimising marketing hubs.

Australia must ask itself if the skewed business playing field working against locals is what it wants? In our industry multinational competitors pay less tax per iron ore production unit than their major local competitor. Is this the industry playing field it expects Australian based taxpayers to successfully compete in, or to level the playing field are we being in effect encouraged to move offshore as well?

When the market turns and does require additional iron ore, we will be there, fast and inexpensively. Yet it won't be Fortescue that pushes the iron ore price down in weak markets to the detriment of the economy, simply because our machines have spare capacity. Fortescue grew to this very strong base in equally strong markets. We met real demand with real production. In weak markets we also act in a rational manner and slow or even stop expansion.

While we too can make good money on incremental expansion tonnes, we fail to see any logic in doing so when we lower the value for all our tonnes we produce on your behalf. The net gain on the extra tonne is completely overwhelmed by the overall loss caused by lowering the iron ore price, by pushing incremental tonnes into a market that doesn't want them. The logic that you keep expanding just because you can squeeze an extra tonne out of your machines, applies well to mining juniors that won't put a dent in the market, but is market vandalism and self harm when industry leaders do it. The buyers make a picnic out of you and that's exactly what happened to the Australian iron ore industry.

And that industry is massive. It impacts every Australian and every Australian is a stakeholder. At Fortescue we have worked hard to educate the media, government and the broader community of the importance of iron ore to the Australian economy, responding to the urgent need for much greater transparency on the practices, contribution and challenges for the industry as a whole. It's only fair the public receives the same level of information as well run national industries. Previously the iron ore industry has studiously resisted such transparency, using industry bodies and lobbyists to pursue this objective.

Iron ore is inelastic in demand. That simply means our customers have a strong need for the product to a point and are not particularly price sensitive up to reaching that point. However, once that need has been realised, any further product offering will see the price collapse. We have seen that this year. Our customers won't take more iron ore even if our competitors offered to give it away. All the arguments we have seen this year trying to explain away overproduction into weak markets don't hold water. Stepping back it is easy to see that the logic of demand inelasticity overwhelms the excuses given by multinationals for expanding into a weak market, which has so diminished Australia's national income.

Earlier this year, iron ore demand and supply was in balance, with stockpiles declining and all shipments being sold. However downward price volatility was driven by the expectation of irrational oversupply behaviour. Sophisticated markets predicted multinational iron ore producers would be driven by the market share ambitions of their corporate managers, who, in attempting to explain their behaviour, would argue they are simply running their machines hard. In other words, seemingly suggesting that their machines set their corporate supply strategy.



The markets predicted that the multinationals would pursue market share ahead of total returns for shareholders and public stakeholders, and they were right.

Against this backdrop, we remain confident in our own competitiveness and the strong fundamentals of the Chinese market. Projected GDP remains strong and the important US\$140 billion “Belt & Road” infrastructure plan will drive solid growth and demand for steel for decades to come. To this end, our longstanding relationships with our customers and stakeholders in China are all part of what makes Fortescue unique. Your board visited China for a series of significant meetings with steel mills, shareholders and government during March. We then returned to the Boao Forum as a Diamond Sponsor for the seventh consecutive year, with the theme of this year’s Forum, “Asia’s New Future: Towards a Community of Common Destiny”. The relationship is symbiotic. Chinese leaders expect our contribution in expert panels and high profile political and economic events, and we learn invaluable lessons from them that help shape our strategy and our company.

Since 2013 we have facilitated the Australia-China Senior Business Leaders’ Forum (“SBLF”) at the Boao Forum and its formal meetings have again demonstrated the strong value to Fortescue of our participation. In particular, prior to this year’s Forum, I was honoured to accept on behalf of all Fortescue stakeholders an appointment to the Boao Forum for Asia Advisory Board, and inaugural Co-Chair of its Expert Committee on Energy, Resources and Sustainable Development. This will make a positive contribution to policy throughout the region and further deepen our Asian relationships, and led to the launch of the Australia Sino Hundred Year Agricultural and Food Safety Partnership (“ASA100”). This will help cement Australia as the safest, secure and premium quality food supplier partner to Asia. Now launched and successful, Fortescue is stepping back and we wish the new permanent team sponsored by the Business Council of Australia well.

During the 2015 financial year, Fortescue has continued to provide important support to key philanthropic ventures. Its support of the Minderoo Foundation through providing the Chairman, office administration and of course paying dividends, has seen your Company supporting over 230 initiatives across Australia and internationally. Philanthropic investments have ranged from donations to local organisations, supporting the Australian community in times of hardship, to the establishment of Walk Free, a global initiative to end modern slavery. Focus areas remain slavery, indigenous Australians, early childhood, arts and culture, and leading edge research. As examples:

### Walk Free Foundation

The Global Freedom Network’s joint venture with the major faiths, facilitated the Islamic world’s first official fatwa to clarify its Holy Text and condemn modern slavery. Then the coming together of the world’s major faith leaders at the Vatican on 2 December 2014 made history through the unprecedented nature of their first meeting, and their formal agreement clarifying all Holy Text’s through their unified Global Proclamation against slavery.

The four other institutions of Walk Free also performed well. The second edition of the Global Slavery Index (“GSI”) was released with the third due in early 2016. This latest edition will have unprecedented detail with more than 50 countries subject to independent expert surveys. Through all the initiatives of Walk Free, governments and companies around the world have received much better data and solid popular support for taking their own steps to eliminate slavery within their communities.

The Freedom Fund has liberated over 2,000 people from slavery and impacted on a further 55,000 lives in Northern India and Nepal. While the Walk Free Movement, working with our partners, have had successful campaign with 11 governments, the European Parliament, the International Labour Organization and eight major companies have also adopted our anti-slavery recommendations.

### GenerationOne

GenerationOne, the Foundation’s vehicle to help eliminate the indigenous disparity through employment, entered a new phase in 2015. Some 24,000 jobs have been filled from over 50,000 guaranteed job opportunities. Now, as part of an A\$45 million Federal Government funded pilot, GenerationOne is on track to meet its goal of long-term sustainable employment for a further 5,000 disadvantaged and unemployed first Australians. Together with this, the Federal Government has also announced its plan to operationalise the initiatives under the 27 recommendations of the Foundation’s Creating Parity Review, written for the Prime Minister and Cabinet.

### Thrive by Five

The Commonwealth Government announced a \$20 million commitment to improve early childhood service delivery in the child care sector, in response to recommendations from the Minderoo Foundation under the Creating Parity Review. In addition to this, the Foundation is continuing to consolidate strategic partnerships with stakeholders across the research community, government and service sectors to demonstrate how effective service delivery (at a community and policy level) can significantly enhance the lives of vulnerable children and their families.

### Forrest Research Foundation

The first scholarships as part of an A\$65 million partnership across all five Western Australian universities were awarded. Outstanding students are commencing research into Australian plant biology, seismic imaging of the earth, responses for neurological disorders, the influence of DNA in cancer development and metabolic function.

### Culture and Arts

A collaboration with the Jackman Furness Foundation for Performing Arts was initiated with 10 projects funded by the Foundation to enhance the learning and teaching experience of the Western Australian Academy for Performing Arts.

### Conclusion

I reference the work of the Foundation to make the point that it is the ongoing success of your Company, Fortescue, enables both your Company and the Foundation to contribute to all levels of community. During the year we made a number of changes to the Board. Dr Jean Baderschneider joined us and Herb Elliott, Bud Scruggs and Graeme Rowley retired. We have expressed our gratitude to the new and retired directors for their service and immeasurable contributions. Owen Hegarty has stepped up very well to the role of Vice Chairman and equally Mark Barnaba is doing a great job as our new Lead Independent Director. Through these changes, our Board will sustain its outstanding technical, financial and corporate expertise as it drives Fortescue on its journey to becoming the safest, lowest cost iron ore producer.

Nev Power has continued to provide outstanding thinking, cultural and operational leadership, and I would like to thank him, his leading Executive team and all of the Fortescue family for their tremendous efforts and dedication. Together with my fellow directors, I look forward to another outstanding year in FY16. As each year passes my commitment and confidence in the truth of the statement, “the best is definitely in front of us”, grows.



# CHIEF EXECUTIVE OFFICER'S REPORT

Nev Power

## Overview – Our Team

During 2015, Fortescue's dedicated team of employees, suppliers and contracting partners have worked tirelessly to deliver excellent results against our three key areas of focus: safety, production and costs.

We continue to strive towards our vision of being the safest, lowest cost, most profitable iron ore producer.

As a business, we emphasise the importance of doing what we say we will do and by maintaining our focus and leveraging our company's unique culture and values we have again achieved our stretch targets.

Our unwavering commitment to the journey of becoming global leaders in safety performance continues with a core focus for all of us – taking responsibility to look after ourselves and our mates.

## Safety

Our team's focus on safety throughout FY15 has seen the Total Recordable Injury Frequency Rate (TRIFR) improve 65 per cent over the last four years, taking us a further step on our journey to achieving safety leadership in every aspect of our operations.

Our culture and values place the highest emphasis on the safety of our people, and through coaching, mentoring and constant reinforcement of safety as a core value we empower our people to look after their own safety and to be their brothers' and sisters' keepers.

For FY16, we have set challenging targets to inspire sustained improvement in safety across all of our operations with particular emphasis on helping our contracting partners achieve the same safety standards and performance.

## Production

After achieving our targeted production rate in the fourth quarter of FY14, Fortescue has maintained production at 165mtpa across FY15 and plans to continue production at that rate through FY16.

We have completed our growth capital expansion phase and are now well positioned to fully optimise our world class assets. Our position in support of responsible and rational market behaviour during a period of market volatility had the effect of drawing much needed public scrutiny to the behaviour and rhetoric of some of the key market producers which was exacerbating the price volatility, speculative trading and destruction of industry value.

Fortescue's strategy of using wet processing to upgrade our ore and reduce impurities is a key element of our ongoing cost reduction strategy. Our West Australian designed and built Ore Processing Facilities (OPFs) are achieving ongoing improvements in efficiency and productivity with sustainable cost savings through our blending strategy facilitating lower mining cut off grades.

With production costs forecast to average US\$18/wmt in FY16, the performance of the OPFs has been complemented by a range of cost initiatives, including consolidation of contractors, procurement, mining upgrades and efficiency initiatives. Every fibre of our business is focused on productivity and sustained improvement.

Going forward, the innovative design and attention to detail in developing our world class mines and infrastructure underpins this production performance, with significant upside in capacity available to meet market demand as required.



## Market

The market in FY15 has been impacted significantly by threats of oversupply made by some of the large iron ore producers, and this in turn contributed to the dramatic volatility in the iron ore price during FY15. Fortescue has supported the need to raise public awareness of the impact of this issue, including the importance of holding other organisations accountable.

We have focused on what we can control to ensure Fortescue has emerged from this period, and the ensuing market speculation shorting the iron ore futures price, with even greater resilience.

Despite the damaging impact of the oversupply commentary, FY15 has seen both iron ore and steel stocks reduce, indicating the physical market has rebalanced with the exit of some higher cost production. Fortescue has optimised its product suite to match customer requirements and maximise the value from our ore bodies, and on average we expect price realisation to continue at 85-90 per cent of the Platts 62 per cent index through FY16.

## China outlook

China's economic growth through urbanisation and infrastructure development continues to drive strong demand for steel and iron ore with Fortescue achieving a major milestone of over 550 million tonnes of iron ore shipped to our Chinese customers to date.

In 2015, Fortescue accounted for 18 per cent of China's total iron ore imports and we have developed relationships with China through four key areas of engagement:

- **Core supplier of iron ore to China:** over 550 million tonnes of iron ore shipped to date
- **Procurement:** large quantity of consumables and equipment sourced from China, over \$1 billion in Chinese contracts since commencement of operations
- **Investment partner:** highly successful direct investment by Hunan Valin Steel Group
- **Community engagement:** longstanding funding of scholarships at Central South University (CSU), member of the Lingnan College International Advisory Board, sponsorship of Boao Forum for Asia and the Senior Business Leaders Forum (SBLF).

Fortescue has now funded in excess of 100 scholarships at CSU, and has provided over RMB 18 million in research funding. In FY15, for the seventh consecutive year, Fortescue was a Diamond sponsor of the prestigious and globally significant Boao Forum for Asia.

Our participation in the prestigious Boao Forum for Asia and a number of visits to our customers and other stakeholders in China during the year underpinned these important relationships.

## Costs

Fortescue's commitment to cost reduction has resulted in C1 cost exiting FY15 at US\$19/wmt for the month of June. Since 2012, we have more than halved our production costs from US\$48/wmt and guidance for FY16 C1 cost of US\$18/wmt places us firmly at the low cost end of the industry curve with targets in place to drive our competitive position further.

Our achievements in cost reduction reflect our ability to leverage economies of scale, as well as our core capability in identifying and delivering sustainable cost improvements, focused in three broad areas:

- Operational improvements across our mining operations and processing facilities
- Securing competitive rates from our contractors and suppliers and, in some circumstances, insourcing services
- Improving labour productivity

These key focus areas were complemented by the Company's successful 'Have a Crack' program which provides a framework for employees to identify and implement innovative cost initiatives. We're continuing to drive a smarter, more efficient and cost effective way of operating at Fortescue, with US\$1.6 billion in cost savings achieved over the last two years and a further US\$1.4 billion projected for FY16.

## Aboriginal Development

Fortescue's industry leading commitment to creating economic opportunities for Aboriginal people through training, employment and business development continued during the year, with direct employment of Aboriginal people equalling 13 per cent and a total of around 1,000 Aboriginal people employed across our sites.

Our Vocational Training and Employment Centres (VTEC) in South Hedland and Roebourne provided training and subsequent employment with Fortescue for approximately 80 Aboriginal people during the year.

Another significant milestone for Aboriginal business development was achieved when Fortescue facilitated a 50/50 joint venture agreement between the Wiru-murra Yindjibarndi Aboriginal Corporation and mining services provider Thiess Pty Ltd for maintenance of non-processing infrastructure at the Solomon Hub. The contract, worth approximately A\$85 million over three years, brings the total value of contracts awarded through the Billion Opportunities program to over A\$1.8 billion.

## Community

Fortescue's work with our valued community partners continued through FY15 with our team providing great support for fundraising efforts with Ronald McDonald House and the Royal Flying Doctor Service as well as providing smaller community grants to a number of organisations in the Pilbara.

We value our communities and the organisations we work with and we're proud of the difference we can make together.

## Outlook

The excellent results achieved by Fortescue in FY15 have further cemented a strong and resilient foundation for our business, positioning us to build on our significant achievements in safety, cost and productivity for the year ahead.

I take this opportunity to thank all of our dedicated and passionate people for their excellent contribution to our business and look forward to continuing our journey together to become the safest, lowest cost, most profitable iron ore producer.



# VISION, STRATEGY AND OUTLOOK

Fortescue Metals Group Ltd

## Vision

To be the safest, lowest cost, most profitable iron ore producer.

## Strategy

Fortescue's strategy to achieve its vision is built on a foundation of assuring reliable and sustainable throughput, driving down costs, reducing debt and increasing shareholder value. The Company's differentiating "can-do" culture, shaped by its values, is the key to its continued strong performance against stretch targets.

## Safety

At the core of Fortescue's values is safety, with the focus being on empowering everyone to look after themselves and to look after their mates.

In February 2014, an independent review of safety performance and management was undertaken, confirming the leading edge practices in place across the business. Building on this strong base, a number of areas for improvement are now being implemented. Employees and contractors are engaged to actively participate in Fortescue's Life Saving Choices programme and encouraged to speak up and identify any potential or real hazards or risks.

While FY15 delivered a reduction in the TRIFR from 6.0 per million hours worked to 5.1 per million hours worked, the entire Fortescue team are continually striving for improvement.

## Production

FY15 marked the first full year of production following completion of the US\$9.2 billion T155 Project. Sanctioned in 2010 to capture unmet demand and building on the initial T45 Project, the T155 Project delivered a fully integrated, state of the art, globally competitive suite of mining and infrastructure assets from ore processing to the fastest, heaviest haul rail line in the world and the world's most advanced iron ore port. These outstanding assets, coupled with the Company's unique culture of determination and innovation, have seen Fortescue safely and efficiently deliver record performances across all facets of the business.

Fortescue is targeting production of 165mtpa of iron ore in FY16.

## Financial performance

Having turned its focus to optimisation and efficiency in 2012, Fortescue made further strong progress in driving down costs during FY15. The cash cost across the ship's rail (C1) was lowered to US\$27/wmt, a reduction of more than 21 per cent over the prior year. For FY16, Fortescue has provided guidance for C1 of US\$18/wmt and will maintain its unwavering focus on further improving its competitiveness.

In order to assure the sustainability of its cost out programs, Fortescue has developed an umbrella project to identify, assess, rank and provide visibility to key cost out initiatives. Fortescue's Advanced Business Drivers program, combined with its 'Have a Crack' Innovation program ensure initiatives generated from all parts of the business are assessed, prioritised and tracked through implementation in a disciplined way.



## Vision, strategy and outlook (continued)

The transition from construction and ramp up to a focus on operational excellence, coupled with a decision to defer further low cost expansion projects, has resulted in significantly lower capital expenditure of US\$626 million in FY15. With steady state operations for FY16, the quality of the newly commissioned assets will allow for capital expenditure to be reduced further to approximately US\$330 million.

Strong operating cash flows have allowed the Company to reduce gearing levels and repay more than US\$3.7 billion of debt since late 2013 with US\$500 million repaid during the financial year. In FY15 Fortescue also successfully refinanced US\$2.3 billion of near term debt, with the earliest debt now maturing in 2019. This provides the Company with greater flexibility over the next four years to actively manage its debt portfolio as it targets a gearing level of approximately 40 per cent.

## Outlook

### Market

As a core supplier to China, with a market share of imported ore of about 18 per cent, Fortescue maintains confidence in China's growth as long term fundamentals remain positive. With more than RMB 10 trillion in approved projects, pro-business structural reform and continued urbanisation at a rate of 10 million people per year, China has reaffirmed its objective of ensuring ongoing GDP growth of seven percent. Further easing measures have been announced aimed at stabilising and supporting the Chinese property market which remains a major driver of steel demand.

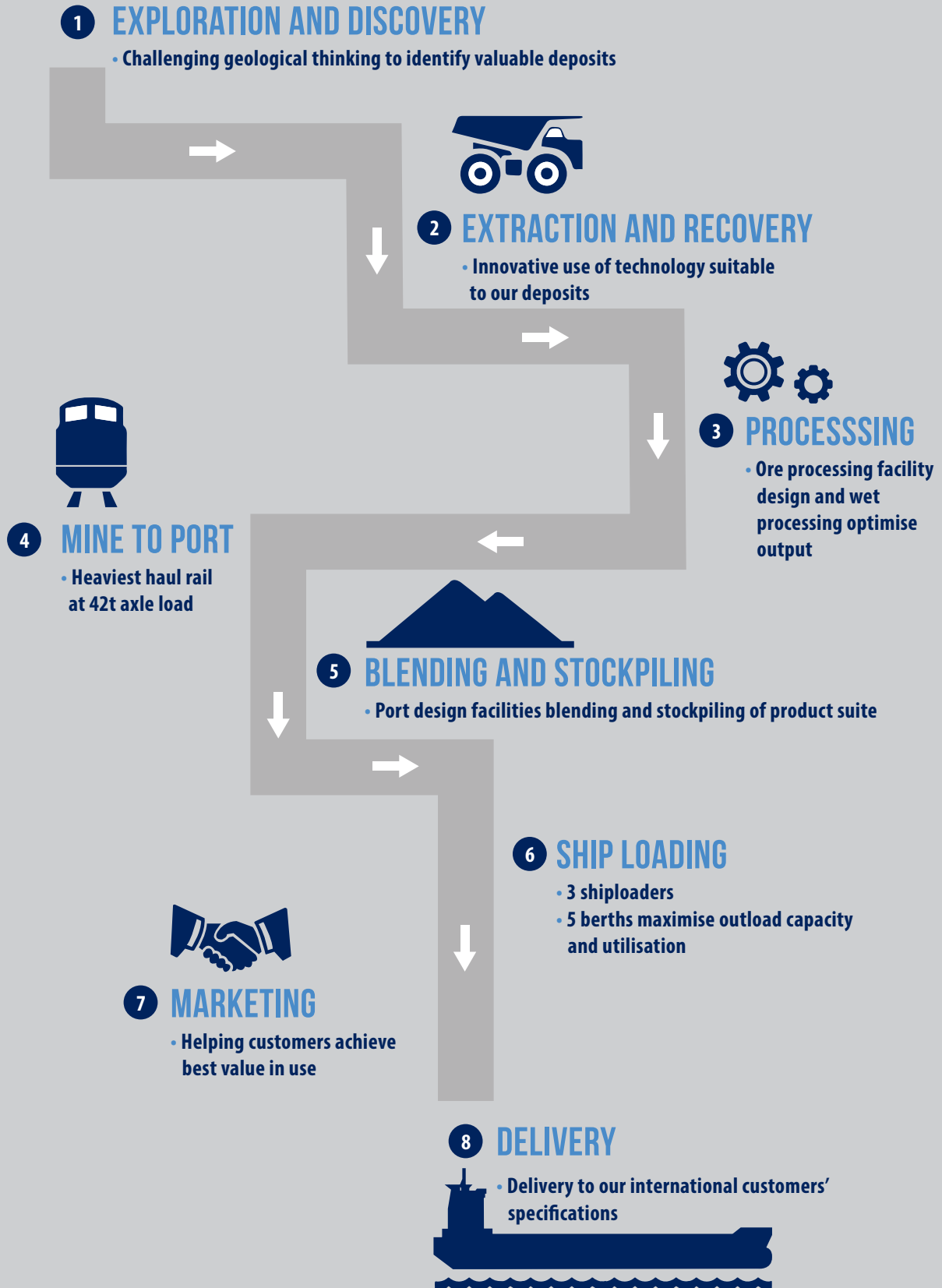
Despite market volatility through FY15, Fortescue continued to enjoy strong support from its customers. The latter part of FY15 has seen the market rebalance as port stocks and steel stock volumes returned to lower levels consistent with historic averages. While ongoing balance in the physical market is anticipated, Fortescue expects continued volatility through FY16 to be amplified as sentiment continues to be a major driver of unprecedented churn in Chinese derivatives.

### Working together. Delivering results.

Fortescue believes that by leveraging the unique and differentiating culture of its greatest asset, its people, it will achieve stretch targets in its key strategic pillars of safety leadership, assuring reliable and sustainable production, driving down operating costs and reducing gearing, to deliver outstanding value to its shareholders.

# FORTESCUE'S VALUE CHAIN

Innovation in process and design has been a key component of Fortescue's strategy in challenging industry standards to more efficiently and effectively deliver our product suite from mine to market





## FORTESCUE BOARD OF DIRECTORS AND EXECUTIVE TEAM

Fortescue leaders are accountable to live and behave in line with Company values, and to act with integrity and honesty while striving to protect the safety of our people and drive long term shareholder value.



## THE BOARD



### Andrew Forrest

*Chairman, Non-Executive Director*

Appointed Chairman in July 2003, Chief Executive Officer in 2005 resuming Non-Executive responsibilities as Chairman (elect) in July 2011.

#### Experience:

Founder and Chairman of the Company, and Founder and Chairman of Minderoo Foundation, Australia's largest philanthropic organisation, operating GenerationOne, The Australian Employment Covenant and Walk Free, a global campaign to end slavery.

Appointed by the Prime Minister as Chair of the Indigenous Jobs and Training Review in 2013 (the Forrest Review).

#### Current directorships (ASX listed entities) and other interests:

- None

#### Other Directorships and interests:

- Chairman Minderoo Foundation
- Chairman Global Freedom Network
- Councillor Global Citizen Commission
- Commonwealth ambassador for employment and engagement with disadvantaged communities
- Vice Patron of the SAS Resources Fund
- Chair of the Foundation of the Art Gallery of Western Australia
- Adjunct Professor of the China Southern University
- Fellow of the Australian Institute of Mining and Metallurgy
- Co-Chairman of the China Australia Senior Business Leaders' Forum

#### Committee membership:

- Member, Remuneration and Nomination Committee
- Member, Finance Committee



### Owen Hegarty

*Vice Chairman*

Appointed as Vice Chairman in November 2014 having served as a Non-Executive Director since October 2008.

#### Experience:

40 years experience in the global mining industry, 25 years with the Rio Tinto group including Managing Director of Rio Tinto Asia and Managing Director of the Group's Australian copper and gold business.

Founder and CEO of the Oxiana Ltd Group (now OZ Minerals Ltd).

Awarded Australian Institute of Mining and Metallurgy Institute Medal in 2006 and G.J. Stokes Memorial Award in 2008 for achievements in the mining industry.

#### Current directorships (ASX listed entities) and other interests:

- Chairman, Tigers Realm Minerals Pty Ltd
- Chairman, EMR Capital
- Non-Executive Director, Tigers Realm Coal Limited
- Non-Executive Director, Highfield Resources Limited

#### Other Directorships and interests:

- Executive Vice Chairman of Hong Kong listed G-Resources Group Ltd
- Director, AusIMM
- Member of a number of Government and industry advisory groups

#### Committee membership:

- Member, Remuneration and Nomination Committee



### Mark Barnaba

*Lead Independent Director*

Appointed Lead Independent Director in November 2014, having served as a Non-Executive Director since February 2010.

#### Experience:

Serves as both Chairman of Macquarie Group, Western Australia and as Chairman and Global Head, Resources Group, Macquarie Capital, co-founder (and previously Co-Executive Chairman) of Azure Capital, previously the Chairman of Western Power, Edge Employment Solutions, the West Coast Eagles Football Club and Alinta Infrastructure Holdings.

Appointed by the Premier to chair the WA Steering Committee of the Commonwealth Business Forum in CHOGM in 2011.

#### Current directorships (ASX listed entities) and other interests:

- None

#### Other Directorships and interests:

- Chairman of The University of Western Australia's Business School Board
- Adjunct Professor in Investment Banking and Finance at the UWA Business School
- Chairman of Black Swan State Theatre Company
- Member of the Advisory Council for the Hugh Jackman Deborah-lee Furness Foundation for the Performing Arts

#### Committee membership:

- Chair, Audit and Risk Management Committee
- Chair, Finance Committee
- Member, Remuneration and Nomination Committee



### Nev Power

*Chief Executive Officer, Executive Director*

Appointed Chief Executive Officer in July 2011, and Executive Director in September 2011.

#### Experience:

More than 30 years' experience in the mining, steel and construction industries including as Chief Executive Australian Operations for Thies Pty Ltd, a wholly-owned subsidiary of Leighton Holdings, and as Chief Executive of the Reinforcing and Steel Products Division of the Smorgon Steel Group.

As Chief Executive Officer, Nev has led Fortescue's growth to 165mtpa, as well as its commitment to safety excellence and the Billion Opportunities program.

#### Current directorships (ASX listed entities) and other interests:

- None

#### Other Directorships and interests:

- Fellow, Engineers Australia
- Fellow, Australian Institute of Metals and Mining
- Member, Australian Institute of Company Directors

#### Committee membership:

- Attends all Committee meetings of the Board as applicable



### Peter Meurs

*Executive Director*

Appointed as an Executive Director of the Company in February 2013.

#### Experience:

Director Development for Fortescue. Previously Managing Director at WorleyParsons with senior project management and company development experience in hydrocarbons, minerals and metals.

#### Current directorships (ASX listed entities) and other interests:

- None

#### Other Directorships and interests:

- Fellow, Engineers Australia
- Member, Australian Institute of Company Directors



### Jean Baderschneider

*Non-Executive Director*

Appointed as a Non-Executive Director in January 2015.

#### Experience:

30 years of experience with ExxonMobil in global operations, strategic sourcing and supply chain management roles including as Vice-President, Global Procurement.

Previously member of the Board of Directors of the Institute for Supply Management and the Executive Board of the National Minority Supplier Development Council (NMSDC) and Presidential appointee to the US Department of Commerce's National Advisory Council of Minority Business Enterprises in February 2011.

Past Board member of The Center of Advanced Purchasing Studies (CAPS) and Procurement Councils of The Conference Board and the Corporate Executive Board.

#### Current directorships (ASX listed entities) and other interests:

- None

#### Other Directorships and interests:

- Member, Advisory Councils of President Lincoln's Cottage (Executive Committee)
- Member, Ford's Theatre, and the ILR School at Cornell University
- Member, Cornell's President's Council of Cornell Women and the Board of Trustees of the Maret School in Washington, D.C.



## THE BOARD (CONTINUED)



**Elizabeth Gaines**

*Non-Executive Director*

Appointed as a Non-Executive Director in February 2013.

**Experience:**

Currently Chief Executive Officer of Helloworld Limited. Previous roles include Chief Financial Officer of the Stella Group, Chief Finance and Operations Director of UK-based Entertainment Rights Plc and Chief Executive Officer of Heytesbury Pty Limited. Senior treasury and finance roles at BankWest, Kleinwort Benson UK and Ernst & Young.

**Current directorships (ASX listed entities) and other interests:**

- Executive Director, Helloworld Limited
- Non-Executive Director of NEXTDC Limited

**Other Directorships and interests:**

- Member, Institute of Chartered Accountants in Australia
- Member, Australian Institute of Company Directors and Chief Executive Women
- Director and Vice Chairperson of the Australian Federation of Travel Agents Limited

**Committee membership:**

- Member, Audit and Risk Management Committee
- Member, Finance Committee



**Cao Huiquan**

*Non-Executive Director*

Nominated by Hunan Valin Iron & Steel Group Company Ltd as a Non-Executive Director in February 2012.

**Experience:**

Joined Hunan Xiangtan Iron & Steel Co. Ltd in 1991, appointed General Manager in 2003 and General Manager of Hunan Valin Iron & Steel Co Ltd in 2005.

Appointed Chairman of Hunan Valin Iron & Steel Group, Chairman and CEO of Hunan Valin Steel Co Ltd in 2011.

**Current directorships (ASX listed entities) and other interests:**

- None

**Other Directorships and interests:**

- Chairman of Hunan Valin Iron & Steel Group Co Ltd
- Chairman and CEO of Valin Iron & Steel Co Ltd



**Geoff Raby**

*Non-Executive Director*

Appointed as a Non-Executive Director in August 2011.

**Experience:**

Australia's Ambassador to the People's Republic of China (2007-2011). Previously Deputy Secretary in the Department of Foreign Affairs and Trade (DFAT), Australia's Ambassador to the World Trade Organisation (1998-2001), Australia's APEC Ambassador (2003-2005), and Head of DFAT's Office of Trade Negotiations and Head of the Trade Policy Issues Division at the OECD, Paris.

Chair of DFAT's Audit Committee and an ex officio member of the Boards of Austrade and Export Finance and Insurance Corporation.

**Current directorships (ASX listed entities) and other interests:**

- Non-Executive Director, Oceana Gold Corporation
- Non-Executive Director, SmartTrans Holdings Limited
- Non-Executive Director, Yancoal Australia Limited
- Non-Executive Director, iSentia Group Limited

**Other Directorships and interests:**

- None



### Sharon Warburton

*Non-Executive Director*

Appointed as a Non-Executive Director in November 2013.

#### Experience:

Executive Director of Strategy and Finance with Brookfield Multiplex.

Previously Chief Planning and Strategy Officer of UAE based, ALDAR Properties PJSC, and senior executive roles with Brookfield, Citigroup and Rio Tinto.

#### Current directorships (ASX listed entities) and other interests:

- None

#### Other Directorships and interests:

- Member, Institute of Chartered Accountants in Australia
- Graduate Member, Australian Institute of Company Directors
- Part-time member, Takeovers Panel

#### Committee membership:

- Chair, Remuneration and Nomination Committee
- Member, Audit and Risk Management Committee



### Ian Wells

*Company Secretary*

Mr Wells was appointed as Company Secretary in February 2015 after joining Fortescue in 2010 as Group Manager, Treasury and Business Planning.

With more than 20 years' experience in senior finance and management roles in the mining, energy infrastructure and healthcare industries, Ian was previously Chief Financial Officer at Singapore Power subsidiary Jemena Limited, and also held senior executive roles at Alinta Limited.

Mr Wells holds a Bachelor of Business in Accounting, is a Fellow of CPA Australia, and a Certified Finance and Treasury Professional. He is also a Director of not-for-profit Alzheimer's Australia WA and a member of the Salvation Army business advisory committee.



### Mark Thomas

*Group Manager Infrastructure Services,  
Company Secretary*

Mr Thomas was appointed as Company Secretary in June 2010, joining Fortescue in April 2004 as Group Financial Controller. Mark has recently been appointed as the Group Manager of Infrastructure Services and acts as joint Company Secretary.

He has extensive experience in accounting and finance, IT and business administration in the mining and professional service industries.

Mr Thomas has a Bachelor of Commerce, Graduate Diploma in Applied Corporate Governance and an MBA. He is a Certified Practising Accountant and a Fellow of Chartered Secretaries Australia.

Full biographies of the Board members are available on the Fortescue website.





## EXECUTIVE TEAM



**Nev Power**

*Chief Executive Officer, Executive Director*

Mr Power was appointed as Chief Executive Officer in July 2011 and has over 30 years' experience in the mining, steel and construction industries.

Please refer to the Board of Directors section for more details on Mr Power's experience.



**Stephen Pearce**

*Chief Financial Officer*

Mr Pearce joined Fortescue in March 2010 with more than 20 years' experience in senior management roles in the mining, oil and gas and utilities industries.

He previously held the position of Managing Director and CEO of Southern Cross Electrical Engineering Limited and prior to that Chief Financial Officer of Alinta Limited.

He has a Bachelor of Business from RMIT, a Graduate Diploma in Company Secretarial Practice and is a fellow of the Institute of Chartered Accountants Australia and New Zealand, a Chartered Secretary and a member of the Australian Institute of Company Directors. Stephen served as a member of the Western Australian Business and Industry Committee for the Salvation Army for seven years. He is currently Chairman of the Lions Eye Institute and a Non-Executive Director of Cedar Woods Limited.



**Nick Cernotta**

*Director Operations*

Mr Cernotta was appointed as Director, Operations in March 2014 with more than 30 years' experience in the mining industry, spanning various commodities and operations in Australia, Africa, South East and Central Asia, Saudi Arabia and Papua New Guinea.

Prior to joining Fortescue Mr Cernotta held the position of Chief Operating Officer, Macmahon Contracting and prior to that Director of Operations for the Barrick Gold Australia Pacific Regional Business Unit.

He has extensive experience in health, safety and environmental, maintenance, engineering, business improvement and technical services.



### Peter Meurs

*Director Development, Executive Director*

Mr Meurs joined Fortescue in May 2010 and was later appointed as an Executive Director of the Company in February 2013.

Please refer to the Board of Directors section for more details on Mr Meurs's experience.



### David Liu

*Director of Sales and Marketing*

Mr Liu joined Fortescue in 2003 and was appointed as Director of Sales and Marketing in 2011. As one of the earliest privately funded students from China, completing his post-graduate studies at the University of Western Australia, David has spent nearly 30 years in Perth.

His previous roles have involved trade and investment projects between Australia and China. He brings a deep understanding of Asian, particularly Chinese, culture and business practices to Fortescue's strategy of securing long term partnerships with the major steel mills in Asia.



### Peter Huston

*Director Corporate Services, Chief General Counsel*

Mr Huston joined Fortescue in January 2005 with over 20 years' experience in legal and corporate advisory roles. Prior to joining Fortescue, he spent 12 years' as a Partner of the law firm now known as Norton Rose and 10 years in private equity, mergers and acquisitions.

Mr Huston is admitted as a Solicitor and Barrister of the Supreme Court of Western Australia, the Federal and High Court of Australia and has a Bachelor of Jurisprudence, Bachelor of Laws (with Honours), Bachelor of Commerce and a Master of Laws.



## EXECUTIVE TEAM (CONTINUED)



**Tim Langmead**

*Director External Relations*

Mr Langmead was appointed Director External Relations in January 2014 after joining Fortescue in January 2013 as Group Manager Corporate Affairs.

Previously Mr Langmead held senior corporate affairs roles in the Australian business units of global oil and gas companies. He served in senior staff roles for Ministers in the Howard-Anderson and Howard-Vaile governments and commenced his career as an agribusiness journalist.



**Linda O'Farrell**

*Group Manager Fortescue People*

Ms O'Farrell joined Fortescue in October 2013 as Group Manager Fortescue People, joining the Executive team in December 2014. Ms O'Farrell has previously held executive human resources roles in major Australian resources companies, and brings deep experience in strategic people management, diversity and Aboriginal employment.

She holds a Bachelor of Economics degree (Honours in Industrial Relations) from the University of Western Australia.



**Simon Carter**

*Group Manager Development*

Mr Carter joined Fortescue in 2011. He was appointed Group Manager, Development in November 2014 following the delivery of the Solomon Project, for which he was the Project Director. He holds bachelor degrees with honours in Electrical Engineering and Law, and has over 25 years of engineering, construction and project experience in Africa, South America, Europe, New Zealand and Australia. Immediately prior to joining Fortescue Mr Carter was a Senior Vice President and General Manager with WorleyParsons in the USA.



**Gerhard Veldsman**

*Co-ordinating General Manager Port and Rail Operations*

Mr Veldsman was appointed as Co-ordinating General Manager, Port and Rail in December 2014 with more than 15 years' experience in the mining industry, spanning various commodities and operations in Australia and South Africa.

Before joining Fortescue in 2011, Mr Veldsman held the position of Manager, Nelson Point Operations at BHP Billiton Iron Ore in Port Hedland and brings previous expertise in asset reliability, supply chain optimisation and overseeing mechanical, structural and expansion projects. Mr Veldsman holds a Bachelor of Engineering, Masters of Engineering, and is registered as a Professional Engineer in South Africa.



**Rob Watson**

*Group Manager Health and Safety*

Mr Watson joined Fortescue in 2011 and was appointed Group Manager Health and Safety in 2014.

Mr Watson has held a number of senior corporate health and safety roles in large mining companies over the last 15 years. His total career in health and safety spans over 25 years in a number of industries and commodities.

Mr Watson holds a Masters in Occupational Health and Safety.

# OPERATING AND FINANCIAL REVIEW

Overview | **Operating and Financial Review** | Reserves and Resources | Corporate Social Responsibility | Governance | Financial Report | Remuneration Report | Corporate Information







## OPERATING AND FINANCIAL REVIEW HIGHLIGHTS

Production

**165.4**  
Million tonnes

*Consistently delivering at 165mt run rate for the whole of FY15*

Operating costs

**US\$27**/wmt

*A 21 per cent reduction from the prior year with guidance of US\$18/wmt in FY16*

Revenue

**US\$8.6** Billion

*Continued as a core supplier to China*

Capital expenditure

**US\$0.6** Billion

*Sustaining capital expenditure reduced to US\$2/wmt*

Underlying EBITDA

**US\$2.5** Billion

*Increased shipments and lower costs underpin financial performance*

Cash

**US\$2.4** Billion  
at 30 June 2015

*Sustainable cost reductions and strong operational performance support generation of positive cash margins*

Net profit after tax

**US\$0.3** Billion

*Net earnings significantly impacted by the fall in iron ore market prices*

Debt repayments

**US\$3.7** Billion  
repaid since November 2013

*Significant flexibility across debt portfolio with no maintenance covenants and the earliest debt maturing in 2019*





## OVERVIEW OF OPERATIONS

Fortescue is the world's fourth largest iron ore producer, the owner and operator of an integrated supply chain comprising iron ore mines in the Chichester and Hamersley Ranges, 620km of the world's heaviest haul railway and the Herb Elliott Port in Port Hedland, using the latest technology and operating five berths.

The 2015 financial year marked the first full year of production following completion of a major expansion program approved by the Board in 2010, with strong and consistent performance delivered by all areas of the business resulting in 165 million tonnes of ore shipped for the year.







## Chichester Hub

The Chichester Hub in the Chichester ranges, comprising the Cloudbreak and Christmas Creek mines, has an annual production capacity in excess of 90 million tonnes (mt) from three Ore Processing Facilities (OPFs).

Consistent and sustained output delivered from the OPFs has allowed Fortescue to continue optimisation of its product strategy through enhanced blending and beneficiation. As a result, Fortescue has been able to increase iron upgrades reducing impurities and lower mining cut-off grades, further optimising ore bodies and sustainably reducing strip ratios, whilst maintaining and improving final product specifications.

In addition to the benefits achieved through improved OPF upgrades, Fortescue implemented a number of strategies delivering further cost savings to its mining and processing operations. These include enhanced mining hygiene and ore recovery, optimisation of mining fleet, operational efficiencies and productivity enhancements.

During the year, Fortescue consolidated mining contractors at Christmas Creek into a single mining services contract. This decision resulted in considerable cost savings and enabled a consolidated approach to safety, planning and maintenance, providing the foundation to further improve mining efficiency.



## Solomon Hub

The Solomon Hub in the Hamersley Ranges, 60km north of Tom Price and 120km to the west of the Chichester Hub, comprises the Firetail and Kings mines. Together, Firetail and Kings have an annual production capacity in excess of 70mt. Low phosphorous Kings ore is a stand-alone product, while higher grade Firetail ore is blended with low impurity Chichester ore allowing Fortescue to maximise the benefits of both ore bodies and reduce cut-off grades.

FY15 represented the first full year of production out of the Solomon Hub, with naturally lower strip ratios playing an important role in reducing Fortescue's overall strip ratios and, consequently, operating costs.

During the year, Fortescue continued to expand the use of autonomous haulage at both Kings and Firetail mines, delivering further performance and safety improvements.

In March 2015, Fortescue completed the construction of the Fortescue River Gas Pipeline, connecting the Solomon Power Station to the Dampier to Bunbury Pipeline. Conversion of the power station to gas, completed in May 2015, is expected to have a positive impact on the Group's energy costs and carbon footprint. This most important gas pipeline built in Western Australia in a decade lays the foundation to extend the infrastructure in future years, as an alternate energy source for Fortescue's and third party operations in the Pilbara.





## Rail and Port Infrastructure

Fortescue wholly owns its purpose designed rail and port facilities, constructed to support the production and sale of iron ore from its mines in the remote areas of Pilbara, Western Australia.

The Company's railway consists of 620km of heavy haul rail track and is the fastest and heaviest haul line in the world. During the year, Fortescue successfully increased the axle loads of its ore cars from 40 tonnes to 42 tonnes and the number of cars per train set from 240 to 250. These initiatives further reduced train cycle times and average load out times, improving efficiency and increasing the capacity of the rail line.

Fortescue now has 13 train sets operating daily from Christmas Creek, Cloudbreak and Solomon, each train hauling approximately 36,000 tonnes of iron ore to Herb Elliott Port in Port Hedland at an average cycle time of less than 23 hours.

Further efficiencies have been delivered at the Port, with additional outload capacity as a result of construction of the fifth berth completed during the year providing greater flexibility for optimal ship fleet utilisation.

## Iron Bridge

The Iron Bridge Magnetite project, 100km south of Port Hedland, incorporating the North Star and Glacier Valley ore bodies, is being developed in conjunction with Taiwan's Formosa Group and China's Baosteel Group. Stage 1 of the project, consisting of a 1.5mtpa OPF, was completed in March 2015 and is undergoing a period of rigorous testing and process validation.

Stage 2 of the Iron Bridge project remains subject to successful Stage 1 process validation and approval by the joint venture partners.

## Exploration

Fortescue has a large tenement portfolio in the Pilbara, with the details of the Ore Reserves and Mineral Resources summarised in the Ore Reserves and Resources Report on page 33 to 44.

The exploration drilling program, focused primarily on identifying and defining new targets for bedded mineralisation in and around the existing Chichester and Solomon Hubs, continued through FY15. Fortescue has continued to evaluate opportunities that afford low cost entry to exploration potential in a range of commodities. A co-funded drilling grant from the WA State Government of up to A\$150,000 for the Trifecta base metals project in the West Pilbara was received, and a Fortescue managed joint venture covering approximately 320 square kilometres near Orange in central NSW extends exploration into an area prospective for copper.







Always look after the  
**safety**  
of ourselves and our mates

Safety

**TRIFR 5.1**  
**↓ 15%**

Production

**165mt**  
**↑ 33%**

C1 Cost

**US\$27/wmt**  
**↓ 21%**

## KEY PERFORMANCE INDICATORS

Fortescue's operations are absolutely focused on the key areas within the Company's control that support its strategy to become the safest, lowest cost, most profitable iron ore producer:

- Continuous improvements in safety
- Sustainable production delivering maximum value from the Company's assets
- Driving down costs.

In FY15, Fortescue delivered on all three of its key performance targets, comprising safety, production and costs. In doing so, Fortescue further increased its competitiveness and ability to withstand uncertainty and volatility in the iron ore market.

### Safety

Fortescue has continued to reinforce safety as its highest priority and remains committed to becoming a global leader in safety.

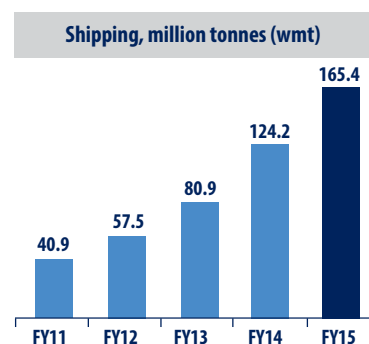
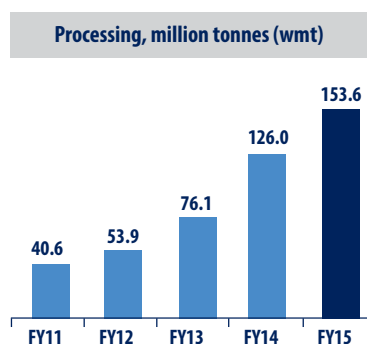
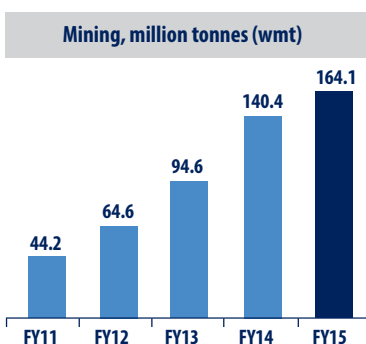
The Company uses TRIFR as a measure of its safety performance. During the year, TRIFR improved by 15 per cent to 5.1, demonstrating the results achieved through a number of safety initiatives, including focus on field leadership and the Life Saving Choices programme.

During the year, a comprehensive safety survey was undertaken across every business area to ensure all safety standards, systems and processes are understood and remain current and effective. The results of this survey, with over 8,000 respondents, demonstrated a strong improvement in culture and key safety performance measures.

## Production

Having completed all expansion activity, Fortescue has acted to maximise value for its shareholders by maintaining shipments at a 165 million tonne annualised rate over the 12 month period, delivering record shipments of 165.4mt in FY15.

12 months to 30 June 2015 (millions of tonnes)	2015	2014	Movement, %
Ore mined	164.1	140.4	+17
Overburden removed	300.0	404.5	-26
Ore processed	153.6	126.0	+22
Ore shipped – Fortescue mined ore	160.2	118.4	+35
Ore shipped – Fortescue equity ore	161.4	119.9	+35
Total ore shipped including third party product	165.4	124.2	+33



The life of mine strip ratios have been revised and are expected to average 2.3 at the Chichester Hub and 1.7 at the Solomon Hub over a 20 year period. These sustainable improvements to the strip ratio reflect the strategic investment made by Fortescue in processing capacity together with the focus on mining efficiencies, improved ore body modelling and ore recovery.

During the year, Fortescue significantly reduced its iron ore inventories, which have been drawn down to efficient and sustainable levels to support shipments of 165 million tonnes per annum on an ongoing basis.

Fortescue's rail and port infrastructure have been consistently supporting the Company's mining operations during the year. Reduced rail cycle times and additional port capacity following commissioning of the fifth berth have further improved flexibility and increased efficiencies delivered by Fortescue's integrated supply chain.

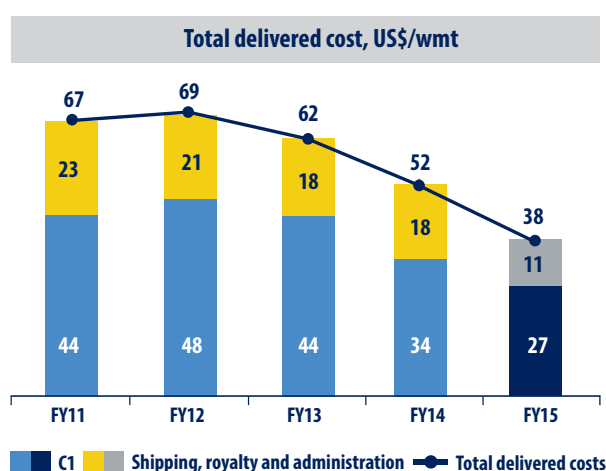


## Costs

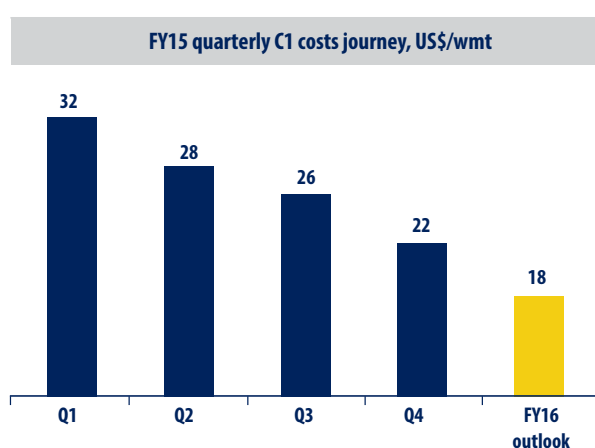
Sustainable improvements in operating costs delivered during FY15 lowered Fortescue's average C1 cost for FY15 to US\$27/wmt, a 21 per cent reduction from US\$34/wmt in the prior year.

Total delivered costs to customers, inclusive of C1 cost, shipping, state government royalties and administration charges, were US\$38/wmt (FY14: US\$52/wmt).

Fortescue's operating costs are sensitive to movements in the exchange rate, with approximately 70 to 80 per cent of C1 operating costs paid in Australian dollars. The US to Australian dollar exchange rate averaged 0.84 for the financial year (FY14: 0.92). Each one cent movement in the exchange rate has a US\$0.20/wmt to US\$0.25/wmt impact on C1 costs.



The US\$27/wmt average C1 cost for the full year incorporates US\$22/wmt C1 achieved in the June 2015 quarter, delivered through:



- The Group's blending strategy, realising the full benefits of higher grade Firetail and lower impurity Chichester ore
- Volume benefits derived from the first full year of production from the lower strip Solomon operations
- Enhanced processing capacity with 85 per cent of product beneficiated
- Consistent delivery of iron upgrades of 103 to 104 per cent and significant reduction in alumina and silica
- Procurement initiatives
- Mining efficiencies
- Changes to the standard mining rosters
- Improved ore body modelling and recovery
- Consolidation of Christmas Creek mining contractors.

The full impact of these sustainable improvements to operating costs embedded in the cost structure will lower C1 cost in FY16 to US\$18/wmt.



## FINANCIAL RESULTS AND POSITION

Fortescue's FY15 financial results reflect the overall improvement delivered in areas within the Company's control, being safety, production and costs.

Fortescue's focus on optimisation and efficiency remains key to operations and in FY15 the Company delivered a significant reduction to operating and capital costs with a clear path to continue driving costs down further in FY16.

This has established a strong foundation for generation of positive cash margins, as Fortescue continues to provide solid earnings and deliver long term value to shareholders.

Strong cash flows generated by operations, a disciplined approach to capital management and working capital efficiencies allowed Fortescue to continue debt repayments in FY15.

In addition, a recently completed refinancing further strengthened the Company's financial position, extending debt maturity.

	2015 US\$m	2014 US\$m
<b>Key metrics</b>		
Revenue	8,574	11,753
Underlying EBITDA <sup>1</sup>	2,506	5,636
<b>Net profit after tax</b>	<b>316</b>	<b>2,740</b>
<b>Earnings per share</b>	<b>US cents</b>	<b>88.00</b>
Cash from operating activities	2,037	6,248
Capital expenditure – Fortescue	626	1,931
Cash and cash equivalents	2,381	2,398
Debt	9,569	9,557
<b>Net debt</b>	<b>7,188</b>	<b>7,159</b>
<b>C1 costs</b>	<b>US\$/wmt</b>	<b>34</b>
<b>Key ratios</b>		
Gearing	56%	56%
Return on equity	4%	42%

<sup>1</sup> Refer to page 28 for reconciliation of Underlying EBITDA to the financial metrics reported in the financial statements under Australian Accounting Standards.

## Financial performance

In FY15 Fortescue delivered net profit after tax of US\$316 million and earnings per share of 10.18 cents (FY14: US\$2,740 million and 88.00 cents). The benefits of cost savings delivered during the year and improved operational performance were offset by lower revenues from a 41 per cent fall in iron ore prices.

### Underlying EBITDA

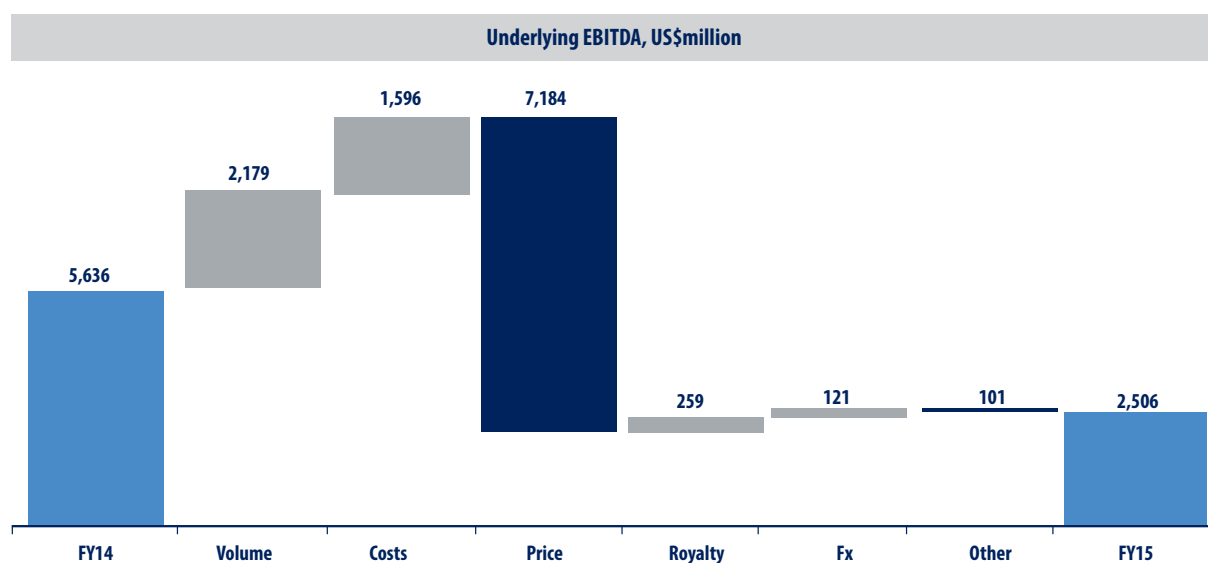
Fortescue uses Underlying EBITDA defined as earnings before interest, tax, depreciation and amortisation, exploration, development and other expenses as a key measure of its financial performance. In FY15, Fortescue's operations generated Underlying EBITDA of US\$2,506 million (FY14: US\$5,636 million). The reconciliation of Underlying EBITDA to the financial metrics reported in the financial statements under Australian Accounting Standards is presented below.

	Note <sup>1</sup>	2015 US\$m	2014 US\$m
Operating sales revenue	3	8,574	11,753
Cost of sales excluding depreciation and amortisation	5	(6,051)	(6,078)
Gains on disposal of assets	4	3	109
Net foreign exchange gain (loss)	4,6	68	(53)
Administration expenses	6	(94)	(112)
Other income	4	6	17
<b>Underlying EBITDA</b>		<b>2,506</b>	<b>5,636</b>
Finance income <sup>2</sup>		15	21
Finance expenses	7	(644)	(741)
Depreciation and amortisation	5,6	(1,405)	(965)
Exploration, development and other	6	(52)	(38)
<b>Net profit before tax</b>		<b>420</b>	<b>3,913</b>
Income tax expense	8	(104)	(1,173)
<b>Net profit after tax</b>		<b>316</b>	<b>2,740</b>

<sup>1</sup> Notes to the accompanying consolidated financial statements.

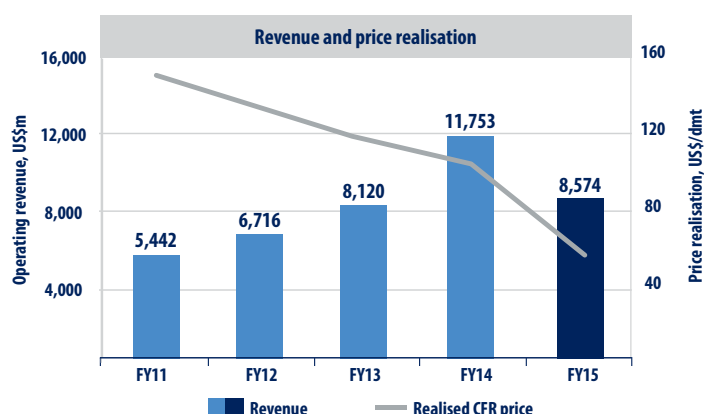
<sup>2</sup> Refer to the consolidated income statement.

As illustrated in the chart below, a significant improvement to Underlying EBITDA has been achieved in areas within Fortescue's control, with a 33 per cent increase in shipping volumes contributing US\$2,179 million and a 21 per cent reduction in C1 operating costs, together with shipping cost reductions, contributing a further US\$1,596 million. These improvements have been offset by a 41 per cent decrease in iron ore market prices reducing the Underlying EBITDA by US\$7,184 million.



## Revenue

		2015 US\$m	2014 US\$m
Sale of iron ore		8,323	11,485
Sale of joint venture ore		67	126
Other revenue		184	142
<b>Operating sales revenue</b>		<b>8,574</b>	<b>11,753</b>
Ore shipped - Fortescue mined ore	mt	160.2	118.4
Fortescue's share of joint venture ore	mt	1.2	1.5
62% CFR Platts index	US\$/dmt	72	123
Realised price	US\$/dmt	57	106



Revenue from the sale of iron ore decreased by 28 per cent, reflecting the impact of lower realised price of US\$7,184 million, offset by US\$4,022 million increase generated from higher shipments.

In FY15, Fortescue realised US\$57/dmt (2014: US\$106/dmt), based on the 62 per cent CFR Platts index of US\$72/dmt (2014: US\$123/dmt).

## Production costs

Fortescue refers to operating costs of mining, processing, rail and port on a per tonne basis as C1 cost. The reconciliation of C1 cost and total delivered costs to the customers to the amounts disclosed in the financial statements is shown below.

	Note <sup>1</sup>	2015 US\$m	2014 US\$m
Mining and processing costs	5	3,765	3,442
Rail costs	5	230	238
Port costs	5	274	252
Operating leases	5	80	74
C1 cost, US\$million		4,349	4,006
Ore shipped – Fortescue mined ore		160.2	118.4
<b>C1, US\$/wmt</b>		<b>27</b>	<b>34</b>
Shipping costs	5	1,112	1,210
Government royalty	5	516	775
Administration expenses	6	94	112
Shipping, royalty and administration, US\$/wmt		11	18
<b>Total delivered cost, US\$/wmt</b>		<b>38</b>	<b>52</b>

<sup>1</sup> Notes to the accompanying consolidated financial statements.

Fortescue's average C1 costs for FY15 decreased to US\$27/wmt, a 21 per cent reduction from US\$34/wmt in the prior year. Total delivered costs to customers, inclusive of C1 costs, shipping, state government royalties and administration charges, were US\$38/wmt (FY14: US\$52/wmt). Key factors contributing to the FY15 operating costs performance are discussed on page 26.





### Royalty

Fortescue pays 7.5 per cent state government royalty for a majority of its products, with a concession rate of 5 per cent applicable for beneficiated fines. Royalty charges decreased to US\$516 million from US\$775 million in prior year consistent with the lower revenue base.

### Non-operating events

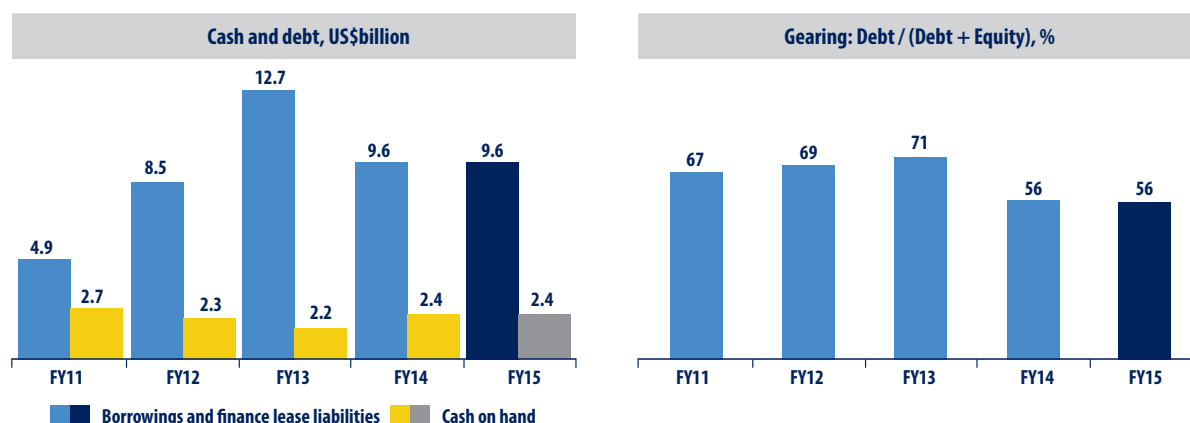
Other non-operating matters forming part of the financial result include:

- Finance expenses of US\$644 million (2014: US\$741 million), largely interest expense
- Depreciation and amortisation expense of US\$1,405 million (2014: US\$965 million), reflecting completion and full commissioning of the expansion projects and ramp up of operations
- Income tax expense for the year of US\$104 million (2014: US\$1,173 million), with a lower effective rate of 25 per cent (2014: 30 per cent) attributable to permanent differences as a result of foreign exchange gains arising on settlement of the FY14 current tax liability.

The number of shares on issue at 30 June 2015 was 3.1 billion and remained unchanged since last year.

## Balance sheet strength

At 30 June 2015, Fortescue's net debt position was US\$7,188 million (FY14: US\$7,159 million), inclusive of finance leases and cash on hand.

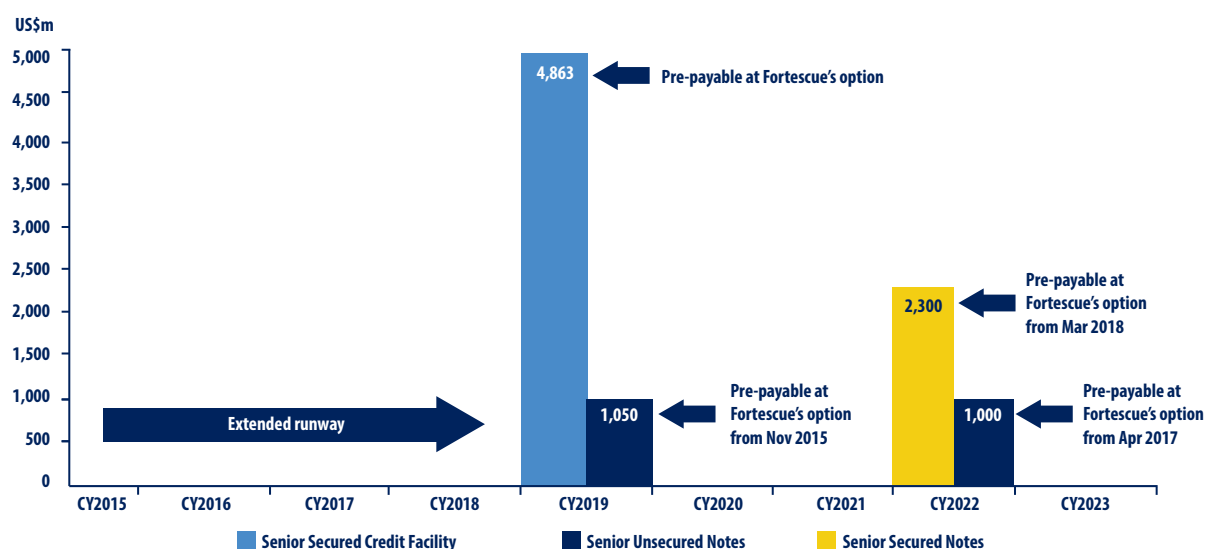


Fortescue has a highly flexible debt profile with no maintenance covenants and the earliest debt maturing in 2019.

During the financial year Fortescue further enhanced its capital structure through:

- Voluntary debt repayment of US\$500 million in senior unsecured notes ahead of maturity in 2018
- Extension of the period to the first debt maturity to 2019 through refinancing via an issue of US\$2,300 million senior secured notes, full redemption of the remaining 2017 and 2018 and partial redemption of the 2019 senior unsecured notes.

Fortescue continues to explore a number of options to further enhance its debt structure with a broad initial target of reducing its gearing to 40 per cent. The following chart illustrates Fortescue's debt maturity profile at 30 June 2015 and highlights the benefits of the refinancing and early debt repayments.





## Cash flow generation

Fortescue continues to generate steady, consistent cash flows achieved through delivery on production targets, continued focus on operational cost reductions, disciplined capital management and working capital efficiencies.

Having fully completed its capital expansion program in FY15, Fortescue is not planning to invest in any additional production capacity. Capital expenditure in FY16 will be limited to sustainably support the existing operations, estimated at US\$2/wmt.

Cash and cash equivalents at 30 June 2015 were US\$2,381 million compared to US\$2,398 million at 30 June 2014, with the key cash flow movements for the year are outlined below.

Operating cash flows for the financial year were US\$2,037 million (2014: US\$6,248 million):

- The positive impact of higher shipments and a significant reduction in the cost base offset by the adverse impact of a fall in the iron ore market price
- Successful strategy of mine stocks reduction, releasing US\$623 million out of working capital
- Net reduction in customer prepayments, including US\$669 million amortisation through delivery of iron ore offset by US\$500 million received during the year
- Income tax paid of US\$529 million, largely attributable to the FY14 final income tax instalment.

Investing cash flows reduced to US\$726 million (2014: US\$1,392 million), including Fortescue's capital expenditure of US\$626 million (2014: US\$1,931 million), reflecting the ex-growth nature of Fortescue's capital profile with the stay in business capital reduced to US\$2/wmt going forward.

The key factors contributing to the net financing outflows of US\$1,235 million (2014: US\$4,625 million) were:

- Early repayment of the 2019 senior unsecured notes of US\$500 million
- Refinancing completed during the year with the proceeds of US\$2,300 million used to redeem outstanding 2017, 2018 and partially the 2019 senior unsecured notes, with the remaining US\$320 million reserved for early retirement of the 2019 senior unsecured notes
- Interest and finance cost paid of US\$605 million (2014: US\$853 million)
- Dividend payments of US\$343 million (2014: US\$581 million), including the payment of a final dividend of 10 Australian cents per share for the 2014 financial year in October 2014 and an interim dividend of three Australian cents per share for the 2015 financial year in April 2015.



# RESERVES AND RESOURCES

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# ORE RESERVES AND RESOURCES REPORT

## Ore Reserves and Mineral Resources

Reporting is grouped by operating and development properties and includes both hematite and magnetite deposits.

Hematite Ore Reserves total 2.4 billion tonnes (bt) at an average iron (Fe) grade of 57.3 per cent. Combined hematite Mineral Resources total 11.6bt at an average Fe of 56.9 per cent.

Magnetite Ore Reserves total 0.7bt at an average mass recovery of 27.2 per cent. Magnetite Mineral Resources total 5.5bt at an average mass recovery of 23.2 per cent.

Operating property Ore Reserves and Mineral Resources have all been reported to the Joint Ore Reserves Committee (JORC) 2012 standard. Accordingly, the information in these sections should be read in conjunction with the respective explanatory Resource and Reserve information (Fortescue ASX release dated 21 August 2015). Development property Mineral Resources are a combination of JORC 2012 and JORC 2004 estimates. Those development property resources reported to JORC 2012 standard are identified in the Fortescue ASX release on 21 August 2015 that includes the supporting technical data. The remaining JORC 2004 resource estimates will be progressively updated to the JORC 2012 standard as development priorities dictate.

Magnetite resources have been updated and reported to the JORC 2012 standards. The resources quoted in this report should be read in conjunction with the supporting technical data contained in the corresponding ASX release dated 21 August 2015.

Audit of the estimation of Mineral Resources and Ore Reserves is addressed as a sub-set of the annual internal audit plan approved by the Board Audit and Risk Management committee (ARMC). Specific audit of the Ore Reserve process was performed in 2011, 2013 and 2015. These audits were managed by Fortescue's internal audit service provider with external technical subject experts.

In addition to routine internal audit, the ARMC monitors the Ore Reserve and Mineral Resource status and approves the final outcome. The annual Ore Reserves and Mineral Resource update is a prescribed activity within the annual Corporate Planning Calendar that includes a schedule of regular Executive engagement meetings to approve assumptions and guide the overall process.

The Ore Resource and Mineral Resource estimation processes followed internally are well established and are subject to systematic internal peer review, including calibration against operational outcomes. Independent technical reviews and audits are undertaken on an as-required basis as an outcome of risk assessment.

Tonnage and quality information contained in the following tables has been rounded and as a result the figures may not add up to the totals quoted.

## Ore Reserves Operating Properties – Hematite

The 2015 combined Chichester and Solomon Hematite Ore Reserve is a total of 2,400 million dry tonnes (mt) at an average iron (Fe) grade of 57.3 per cent.

The Ore Reserve is quoted as at June 30, 2015 and is inclusive of ore stockpiles. Ore Reserves are quoted on a dry product basis while Mineral Resources are quoted on a dry in-situ basis.

Company production and sales reporting is based on wet tonnes. The typical free moisture content of shipped products is nine per cent. The proportion of higher confidence Proved Ore Reserve has been increased from 587mt to 726mt as a result of ongoing in-fill drilling at both the Solomon and the Chichester deposits.

The Chichester Hub (Cloudbreak and Christmas Creek deposits) contains 1,609mt at an average Fe grade of 57.6 per cent, an increase of 139mt due to additions from grade control and in-fill drilling. Proven Ore Reserve constitutes 38 per cent of Chichester Ore Reserve. While the Cloudbreak and Christmas Creek deposits are quoted separately for historical reasons, they effectively represent a single deposit with ore generally directed to the most proximal of the three available ore processing facilities (OPFs).

The Ore Reserve estimate for the Solomon Hub is 791mt at an average Fe of 56.7 per cent, a decrease of 112mt due to production depletion and application of revised OPF performance factors. Solomon Ore Reserve consists of 14 per cent of the tonnage in the Proved Ore Reserve category.

The 2015 hematite Ore Reserve estimates were subject to comprehensive review and update addressing:

- Revisions to the Cloudbreak Resource model and to grade control models in all near-term mining areas
- Revisions of ore loss and dilution factors based on last two years of operational history
- Revisions to the processing response through all Ore Processing Facilities (OPFs) based on updated test work (Kings OPF) and operational history (Cloudbreak OPF)
- Ore depletion as a result of sales
- Exclusion of low margin mineralisation to enhance financial outcomes
- A revised life of mine (LOM) plan that addresses the listed items and incorporates the latest information on long term product strategy and mining and processing reconciliation trends.

## Hematite Ore Reserves – as at 30 June 2015

Hematite Ore Reserves – as at 30 June 2015							Hematite Ore Reserves – as at 30 June 2014					
Category	Product tonnes (mt)	Iron Fe%	Silica SiO <sub>2</sub> %	Alumina Al <sub>2</sub> O <sub>3</sub> %	Phos P%	Loss on ignition LOI%	Product tonnes (mt)	Iron Fe%	Silica SiO <sub>2</sub> %	Alumina Al <sub>2</sub> O <sub>3</sub> %	Phos P%	Loss on ignition LOI%
<b>Cloudbreak</b>												
Proved	268	57.3	4.99	2.83	0.052	8.5	132	57.7	4.20	2.35	0.048	8.7
Probable	265	57.1	5.25	2.85	0.052	8.1	368	57.5	4.55	2.33	0.052	8.1
<b>Total</b>	<b>533</b>	<b>57.2</b>	<b>5.12</b>	<b>2.84</b>	<b>0.052</b>	<b>8.3</b>	<b>500</b>	<b>57.6</b>	<b>4.46</b>	<b>2.33</b>	<b>0.051</b>	<b>8.3</b>
<b>Christmas Creek</b>												
Proved	346	57.9	5.60	2.62	0.046	7.9	312	57.3	5.72	2.45	0.043	7.9
Probable	730	57.8	5.01	2.80	0.047	8.0	659	57.3	4.91	2.62	0.044	7.9
<b>Total</b>	<b>1,076</b>	<b>57.8</b>	<b>5.20</b>	<b>2.74</b>	<b>0.047</b>	<b>8.0</b>	<b>970</b>	<b>57.3</b>	<b>5.17</b>	<b>2.57</b>	<b>0.044</b>	<b>7.9</b>
<b>Subtotal Chichester Hub</b>												
Proved	615	57.6	5.33	2.71	0.049	8.1	444	57.4	5.27	2.42	0.045	8.2
Probable	994	57.6	5.07	2.81	0.049	8.0	1,026	57.4	4.78	2.52	0.047	7.9
<b>Total</b>	<b>1,609</b>	<b>57.6</b>	<b>5.17</b>	<b>2.77</b>	<b>0.049</b>	<b>8.1</b>	<b>1,470</b>	<b>57.4</b>	<b>4.93</b>	<b>2.49</b>	<b>0.046</b>	<b>8.0</b>
<b>Firetail</b>												
Proved	23	58.2	5.99	3.22	0.142	6.8	39	59.2	5.66	2.66	0.133	6.4
Probable	118	58.7	6.42	2.46	0.109	6.4	136	58.5	6.84	2.63	0.106	6.2
<b>Total</b>	<b>142</b>	<b>58.6</b>	<b>6.35</b>	<b>2.58</b>	<b>0.115</b>	<b>6.5</b>	<b>174</b>	<b>58.7</b>	<b>6.58</b>	<b>2.64</b>	<b>0.112</b>	<b>6.3</b>
<b>Kings and Queens</b>												
Proved	89	56.6	7.23	2.29	0.067	9.0	105	57.6	6.14	2.22	0.061	8.5
Probable	561	56.2	7.09	2.80	0.064	8.9	624	56.7	6.57	2.67	0.064	8.9
<b>Total</b>	<b>650</b>	<b>56.3</b>	<b>7.11</b>	<b>2.73</b>	<b>0.064</b>	<b>8.9</b>	<b>729</b>	<b>56.9</b>	<b>6.50</b>	<b>2.61</b>	<b>0.064</b>	<b>8.8</b>
<b>Subtotal Solomon Hub</b>												
Proved	111	57.0	6.96	2.49	0.084	8.5	143	58.0	6.01	2.34	0.081	7.9
Probable	680	56.7	6.97	2.74	0.072	8.4	760	57.1	6.61	2.66	0.072	8.4
<b>Total</b>	<b>791</b>	<b>56.7</b>	<b>6.97</b>	<b>2.70</b>	<b>0.073</b>	<b>8.5</b>	<b>903</b>	<b>57.2</b>	<b>6.52</b>	<b>2.61</b>	<b>0.073</b>	<b>8.3</b>
<b>Combined</b>												
Proved	726	57.5	5.58	2.68	0.054	8.2	587	57.6	5.45	2.40	0.053	8.1
Probable	1,674	57.2	5.84	2.78	0.058	8.2	1,786	57.3	5.56	2.58	0.057	8.1
<b>Total</b>	<b>2,400</b>	<b>57.3</b>	<b>5.77</b>	<b>2.75</b>	<b>0.057</b>	<b>8.2</b>	<b>2,374</b>	<b>57.3</b>	<b>5.53</b>	<b>2.54</b>	<b>0.056</b>	<b>8.1</b>

<sup>1</sup> The diluted mining models used to report the 2015 Ore Reserves are based on Christmas Creek Mineral Resource model reported in 2012, Solomon Mineral Resource models revised in 2014 and Cloudbreak Resource model completed 2015. Diluted mining models are validated by reconciliation against historical production.

<sup>2</sup> Proved Reserves are inclusive of ore stockpiles at the mines and port totalling approximately 22.6mt on dry product basis.

<sup>3</sup> The Chichester Ore Reserve is inclusive of the Cloudbreak and Christmas Creek BID deposits. Selected Christmas Creek Ore Reserve will be directed to the Cloudbreak OPF to optimise upgrade performance and balance Cloudbreak and Christmas Creek OPF lives.

<sup>4</sup> Reserve in-situ Fe cut-off grades are approximately 53.5 per cent for BID deposits and 51 per cent for CID deposits.



## Ore Reserve – Magnetite (Maiden Reserve)

The 2015 Ore reserves for Magnetite are from the Iron Bridge project. They are the first (maiden) Ore Reserves announced for the project totalling 705mt at an average mass recovery of 27.2 per cent.

The Magnetite Ore Reserve is quoted as at June 30, 2015. Ore Reserves are quoted on a dry in-situ tonnes basis prior to processing.

No company sales or production have occurred for Magnetite as of 30 June 2015, when shipping occurs production will be quoted in wet tonnes. The typical free moisture content of shipped products is below eight per cent.

All Magnetite Ore Reserves are classified as Probable Ore Reserves. These are estimated from utilising a portion of the Indicated plus Measured Mineral Resources from within the North Star mining study pit. Additional processing Indicated Resources from outside the study pit and the Glacier Valley area have not been included in this Ore Reserve study.

The Magnetite Ore Reserves have been estimated by independent consultants (Golder Associates) using detailed information on mining parameters, geotechnical studies, metallurgical processing, and financial analysis information. This was gained from the Iron Bridge feasibility study.

## Magnetite Ore Reserves – as at 30 June 2015

Magnetite Ore Reserves – as at 30 June 2015						Magnetite Ore Reserves – as at 30 June 2014				
Category	In-situ tonnes (mt)	DTR mass recovery %	Product iron Fe%	Product silica SiO <sub>2</sub> %	Product alumina Al <sub>2</sub> O <sub>3</sub> %	In-situ tonnes (mt)	DTR mass recovery %	Product iron Fe%	Product silica SiO <sub>2</sub> %	Product alumina Al <sub>2</sub> O <sub>3</sub> %
<b>North Star (60.72% Fortescue)</b>										
Proved	-	-	-	-	-	-	-	-	-	-
Probable	705	27.2	67.2	5.5	0.25	-	-	-	-	-
<b>Total</b>	<b>705</b>	<b>27.2</b>	<b>67.2</b>	<b>5.5</b>	<b>0.25</b>	-	-	-	-	-
<b>Glacier Valley (60.72% Fortescue)</b>										
Proved	-	-	-	-	-	-	-	-	-	-
Probable	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	-	-	-	-	-	-	-	-	-	-
<b>West Star (60.72% Fortescue)</b>										
Proved	-	-	-	-	-	-	-	-	-	-
Probable	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	-	-	-	-	-	-	-	-	-	-
<b>Total Magnetite Ore Reserves</b>										
Proved	-	-	-	-	-	-	-	-	-	-
Probable	705	27.2	67.2	5.5	0.25	-	-	-	-	-
<b>Total</b>	<b>705</b>	<b>27.2</b>	<b>67.2</b>	<b>5.5</b>	<b>0.25</b>	-	-	-	-	-

<sup>1</sup> Magnetite Ore Reserves are a result of a mining study only upon the North Star deposit. Utilising 705.4mt of Measured plus Indicated Mineral Resources within a defined optimal pit design.

<sup>2</sup> All reporting is based on Mass Recovery expressed as a 9 per cent Davis Tube Recovery (DTR) cut-off.

<sup>3</sup> All Ore Reserves are reported on a dry-tonnage basis.

## Mineral Resources Operating Properties – Hematite

Mineral Resources for the operating properties including the Chichester and Solomon hubs are stated on a dry in-situ basis. The Mineral Resources are inclusive of that portion converted to Ore Reserves, including stockpiles.

As of 30 June 2015, the total Mineral Resource for the Chichester and Solomon hubs was 5,415mt at an average Fe grade of 56.2 per cent, a slight decrease over that stated in the prior year. This was accompanied by a slight increase in the proportion of higher confidence Measured and Indicated Mineral Resource mineralisation

from 63 per cent to 67 per cent as a result of infill drilling and changes to reporting cut-offs.

The Chichester Hub Mineral Resource totalled 3,280mt at an average Fe grade of 56.5 per cent, with 76 per cent of the tonnage in the Measured and Indicated Mineral Resource categories.

The total Solomon Hub Mineral Resource totalled 2,135mt at an average Fe grade of 55.9 per cent, with 53 per cent of the tonnage in the Measured and Indicated Mineral Resource categories.

## Hematite Mineral Resources – as at 30 June 2015

### Hematite Mineral Resources – as at 8 January 2015 (Chichester Hub) and 30 June 2014 (Solomon Hub)

Mineral Resources – as at 30 June 2015							Mineral Resources – as at 8 January 2015 and 30 June 2014					
Category	In-situ tonnes (mt)	Iron Fe%	Silica SiO <sub>2</sub> %	Alumina Al <sub>2</sub> O <sub>3</sub> %	Phos P%	Loss on ignition LOI%	In-situ tonnes (mt)	Iron Fe%	Silica SiO <sub>2</sub> %	Alumina Al <sub>2</sub> O <sub>3</sub> %	Phos P%	Loss on ignition LOI%
<b>Cloudbreak</b>												
Measured	386	57.2	5.25	3.29	0.052	8.6	274	57.5	4.86	3.06	0.054	8.7
Indicated	374	56.5	6.38	3.32	0.053	8.2	457	56.7	5.80	3.34	0.059	8.2
Inferred	280	56.0	6.82	3.60	0.052	8.1	499	56.3	6.11	3.36	0.057	8.3
<b>Total</b>	<b>1,039</b>	<b>56.6</b>	<b>6.08</b>	<b>3.39</b>	<b>0.053</b>	<b>8.3</b>	<b>1,230</b>	<b>56.7</b>	<b>5.72</b>	<b>3.29</b>	<b>0.057</b>	<b>8.4</b>
<b>Christmas Creek</b>												
Measured	499	57.0	6.11	3.09	0.047	8.1	516	57.3	5.93	2.97	0.047	8.0
Indicated	1,237	56.3	6.12	3.52	0.048	8.0	1,082	56.6	5.97	3.37	0.049	7.9
Inferred	505	55.9	6.92	3.35	0.059	7.3	500	56.4	6.55	3.21	0.059	7.2
<b>Total</b>	<b>2,241</b>	<b>56.4</b>	<b>6.30</b>	<b>3.39</b>	<b>0.050</b>	<b>7.8</b>	<b>2,098</b>	<b>56.7</b>	<b>6.10</b>	<b>3.23</b>	<b>0.051</b>	<b>7.7</b>
<b>Subtotal Chichester Hub</b>												
Measured	885	57.1	5.74	3.18	0.049	8.3	790	57.4	5.56	3.00	0.049	8.2
Indicated	1,610	56.4	6.18	3.47	0.049	8.0	1,539	56.6	5.92	3.36	0.052	8.0
Inferred	785	56.0	6.88	3.44	0.056	7.6	999	56.3	6.33	3.28	0.058	7.8
<b>Total</b>	<b>3,280</b>	<b>56.5</b>	<b>6.23</b>	<b>3.39</b>	<b>0.051</b>	<b>8.0</b>	<b>3,328</b>	<b>56.7</b>	<b>5.96</b>	<b>3.25</b>	<b>0.053</b>	<b>8.0</b>
<b>Firetail</b>												
Measured	32	57.7	6.00	3.57	0.140	7.3	45	58.0	5.80	3.35	0.141	7.3
Indicated	152	59.0	6.09	2.54	0.110	6.4	155	58.9	6.11	2.64	0.107	6.4
Inferred	157	57.5	6.89	3.29	0.108	6.9	170	57.6	6.85	3.25	0.110	6.9
<b>Total</b>	<b>341</b>	<b>58.2</b>	<b>6.45</b>	<b>2.98</b>	<b>0.112</b>	<b>6.7</b>	<b>371</b>	<b>58.2</b>	<b>6.41</b>	<b>3.00</b>	<b>0.112</b>	<b>6.7</b>
<b>Kings and Queens</b>												
Measured	119	53.8	7.30	2.56	0.071	8.6	121	56.4	7.43	2.87	0.068	8.5
Indicated	817	55.7	7.75	3.21	0.065	8.8	818	55.7	7.75	3.22	0.065	8.8
Inferred	858	55.6	7.83	3.43	0.077	8.6	909	55.6	7.86	3.41	0.076	8.6
<b>Total</b>	<b>1,794</b>	<b>55.5</b>	<b>7.76</b>	<b>3.28</b>	<b>0.071</b>	<b>8.7</b>	<b>1,848</b>	<b>55.7</b>	<b>7.78</b>	<b>3.29</b>	<b>0.071</b>	<b>8.7</b>
<b>Subtotal Solomon Hub</b>												
Measured	150	54.6	7.03	2.78	0.086	8.3	167	56.8	6.99	3.00	0.088	8.2
Indicated	970	56.2	7.49	3.11	0.072	8.4	973	56.2	7.49	3.12	0.072	8.4
Inferred	1,015	55.9	7.69	3.41	0.081	8.4	1,079	55.9	7.70	3.38	0.082	8.3
<b>Total</b>	<b>2,135</b>	<b>55.9</b>	<b>7.55</b>	<b>3.23</b>	<b>0.078</b>	<b>8.4</b>	<b>2,219</b>	<b>56.1</b>	<b>7.55</b>	<b>3.24</b>	<b>0.078</b>	<b>8.3</b>
<b>Combined</b>												
Measured	1,035	56.7	5.92	3.12	0.055	8.3	957	57.3	5.81	3.00	0.056	8.2
Indicated	2,580	56.3	6.67	3.34	0.058	8.2	2,512	56.5	6.53	3.27	0.059	8.1
Inferred	1,800	55.9	7.34	3.42	0.071	8.0	2,078	56.1	7.04	3.34	0.070	8.1
<b>Total</b>	<b>5,415</b>	<b>56.2</b>	<b>6.75</b>	<b>3.32</b>	<b>0.061</b>	<b>8.1</b>	<b>5,548</b>	<b>56.5</b>	<b>6.60</b>	<b>3.25</b>	<b>0.063</b>	<b>8.1</b>

<sup>1</sup> Chichester Hub Mineral Resources are quoted at a cut-off grade of 53.5 per cent Fe while Solomon Hub Mineral Resources are quoted at a cut-off grade of 51 per cent Fe.

<sup>2</sup> The Measured Mineral Resource estimate includes mine and port ore stockpiles totalling 27mt.

## Mineral Resources Development Properties – Hematite

Development property Mineral Resources are a combination of JORC 2012 and JORC 2004 estimates. Those development property resources reported to JORC 2012 standard are identified in the Fortescue ASX releases of 20 May 2014 and 8 January 2015 that includes

the supporting technical data. The remaining JORC 2004 resource estimates will be progressively updated to the JORC 2012 standard as development priorities dictate.

### Hematite Mineral Resources – as at 30 June 2015

Mineral Resources – as at 30 June 2015							Mineral Resources – as at 30 June 2014					
Category	In-situ tonnes (mt)	Iron Fe%	Silica SiO <sub>2</sub> %	Alumina Al <sub>2</sub> O <sub>3</sub> %	Phos P%	Loss on ignition LOI%	In-situ tonnes (mt)	Iron Fe%	Silica SiO <sub>2</sub> %	Alumina Al <sub>2</sub> O <sub>3</sub> %	Phos P%	Loss on ignition LOI%
<b>Greater Chichester</b>												
Measured	-	-	-	-	-	-	-	-	-	-	-	-
Indicated	82	57.9	6.30	2.99	0.053	6.8	-	-	-	-	-	-
Inferred	409	57.0	6.66	3.61	0.059	6.8	303	57.1	5.90	3.25	0.067	7.1
<b>Total</b>	<b>491</b>	<b>57.1</b>	<b>6.60</b>	<b>3.51</b>	<b>0.058</b>	<b>6.8</b>	<b>303</b>	<b>57.1</b>	<b>5.90</b>	<b>3.25</b>	<b>0.067</b>	<b>7.1</b>
<b>Greater Solomon</b>												
Measured	-	-	-	-	-	-	-	-	-	-	-	-
Indicated	254	56.6	6.70	3.45	0.083	8.3	254	56.6	6.70	3.45	0.083	8.3
Inferred	2,404	56.8	6.93	3.71	0.081	7.2	2,404	56.8	6.93	3.71	0.081	7.2
<b>Total</b>	<b>2,658</b>	<b>56.8</b>	<b>6.91</b>	<b>3.69</b>	<b>0.082</b>	<b>7.3</b>	<b>2,658</b>	<b>56.8</b>	<b>6.91</b>	<b>3.69</b>	<b>0.082</b>	<b>7.3</b>
<b>Eliwana and Flying Fish</b>												
Measured	-	-	-	-	-	-	-	-	-	-	-	-
Indicated	-	-	-	-	-	-	-	-	-	-	-	-
Inferred	740	59.1	5.21	2.88	0.091	6.5	740	59.1	5.21	2.88	0.091	6.5
<b>Total</b>	<b>740</b>	<b>59.1</b>	<b>5.21</b>	<b>2.88</b>	<b>0.091</b>	<b>6.5</b>	<b>740</b>	<b>59.1</b>	<b>5.21</b>	<b>2.88</b>	<b>0.091</b>	<b>6.5</b>
<b>Nydinghu</b>												
Measured	23	59.6	3.56	2.21	0.139	8.0	23	59.6	3.56	2.21	0.139	8.0
Indicated	580	58.1	4.52	2.95	0.148	8.6	580	58.1	4.52	2.95	0.148	8.6
Inferred	1,860	57.2	5.00	3.36	0.147	8.8	1,860	57.2	5.00	3.36	0.147	8.8
<b>Total</b>	<b>2,463</b>	<b>57.4</b>	<b>4.87</b>	<b>3.25</b>	<b>0.147</b>	<b>8.8</b>	<b>2,463</b>	<b>57.4</b>	<b>4.87</b>	<b>3.25</b>	<b>0.147</b>	<b>8.8</b>
<b>Total Development Property Mineral Resources</b>												
Measured	23	59.6	3.56	2.21	0.139	8.0	23	59.6	3.56	2.21	0.139	8.0
Indicated	916	57.6	5.28	3.09	0.121	8.3	834	57.6	5.18	3.10	0.128	8.5
Inferred	5,413	57.3	6.01	3.47	0.104	7.6	5,307	57.3	5.95	3.45	0.105	7.7
<b>Total</b>	<b>6,353</b>	<b>57.4</b>	<b>5.90</b>	<b>3.41</b>	<b>0.107</b>	<b>7.7</b>	<b>6,165</b>	<b>57.3</b>	<b>5.85</b>	<b>3.40</b>	<b>0.108</b>	<b>7.8</b>

<sup>1</sup> The Greater Chichester Mineral Resource includes the Investigator, White Knight, Kutayi and Mt Lewin deposits. Additional material is from extensions at Mount Lewin and the maiden Mineral Resource for Kutayi announced on 8 January 2015, these estimates are in compliance with the 2012 Edition of the JORC Code.

<sup>2</sup> The Greater Solomon Mineral Resource includes the Serenity, Sheila Valley, Mount MacLeod, Queens Extension, Cerberus, Stingray and Raven deposits.

<sup>3</sup> All Mineral Resources are quoted on an in-situ basis after applying an appropriate cut-off for each deposit. Details relating to the cut-offs were provided when the Mineral Resource was first announced.



## Mineral Resources Development Properties – Magnetite

Mineral Resource updates for the North Star, West Star and Glacier Valley deposits (60.72 per cent Fortescue) were completed in 2015, incorporating additional drilling, including the results of an infill reverse circulation drilling campaign across all areas. This drilling has confirmed the tonnage of higher confidence Measured and Indicated Mineral Resource at North Star and Glacier Valley, which can potentially be converted to an Ore Reserve at an improved mass

recovery. Peripheral Inferred mineralisation contained in the prior estimate has been re-assessed based on the improved understanding of the mineralisation controls and continuity. Increased Mineral Resources are observed over all deposits, with a maiden Mineral Resource being estimated for the West Star deposit. Infill drilling has allowed an increase in the Indicated and Measured Resources at North Star, plus maiden Indicated Mineral Resources at Glacier Valley.

## Magnetite Mineral Resources – as at 30 June 2015

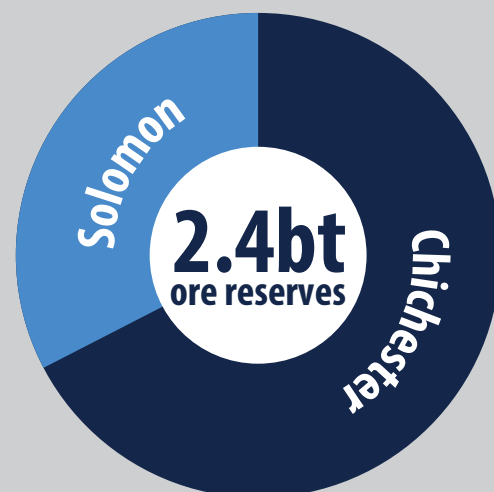
Magnetite Mineral Resources – as at 30 June 2015						Magnetite Mineral Resources – as at 30 June 2014				
Category	In-situ tonnes (mt)	DTR mass recovery %	In-situ iron Fe%	In-situ silica SiO <sub>2</sub> %	In-situ alumina Al <sub>2</sub> O <sub>3</sub> %	In-situ tonnes (mt)	DTR mass recovery %	In-situ iron Fe%	In-situ silica SiO <sub>2</sub> %	In-situ alumina Al <sub>2</sub> O <sub>3</sub> %
<b>North Star (60.72% Fortescue)</b>										
Measured	77	28.5	32.4	39.45	1.90	44	27.2	32.2	29.8	2.0
Indicated	708	26.6	31.7	39.85	2.02	679	28.0	32.2	39.6	1.9
Inferred	1,877	23.6	30.5	41.97	2.52	1,926	23.4	30.6	40.9	2.5
<b>Total</b>	<b>2,663</b>	<b>24.5</b>	<b>30.9</b>	<b>40.63</b>	<b>2.37</b>	<b>2,648</b>	<b>24.6</b>	<b>31.0</b>	<b>40.6</b>	<b>2.3</b>
<b>Glacier Valley (60.72% Fortescue)</b>										
Measured	-	-	-	-	-	-	-	-	-	-
Indicated	343	24.3	32.6	39.10	1.72	-	-	-	-	-
Inferred	2,238	21.5	32.2	39.26	1.78	2,028	23.5	32.8	38.7	1.6
<b>Total</b>	<b>2,581</b>	<b>21.9</b>	<b>32.2</b>	<b>39.24</b>	<b>1.77</b>	<b>2,028</b>	<b>23.5</b>	<b>32.8</b>	<b>38.7</b>	<b>1.6</b>
<b>West Star (60.72% Fortescue)</b>										
Measured	-	-	-	-	-	-	-	-	-	-
Indicated	-	-	-	-	-	-	-	-	-	-
Inferred	261	21.7	28.3	43.35	3.40	-	-	-	-	-
<b>Total</b>	<b>261</b>	<b>21.7</b>	<b>28.3</b>	<b>43.35</b>	<b>3.40</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Magnetite Mineral Resource</b>										
Measured	77	28.5	32.4	39.45	1.90	44	27.2	32.2	39.8	2.0
Indicated	1,051	25.9	32.0	39.61	1.92	679	28.0	32.2	39.6	1.9
Inferred	4,376	22.4	31.2	40.23	2.19	3,953	23.5	31.7	39.8	2.1
<b>Total</b>	<b>5,504</b>	<b>23.2</b>	<b>31.4</b>	<b>40.10</b>	<b>2.14</b>	<b>4,676</b>	<b>24.2</b>	<b>31.8</b>	<b>39.8</b>	<b>2.0</b>

<sup>1</sup> Magnetite Mineral Resource estimates, including the North Star, Glacier Valley and West Star deposits, are reported according to JORC 2012 standards.

<sup>2</sup> All reporting is based on Mass Recovery expressed as a 9 per cent Davis Tube Recovery (DTR) cut-off.

<sup>3</sup> All Mineral Resources are reported on a dry-tonnage basis.

<sup>4</sup> See Ore Reserves for product grades representing processing plant performance.



## Competent Persons Statement

The detail in this report that relates to Mineral Resources is based on information compiled by Mr Stuart Robinson, Mr Nicholas Nitschke, Mr David Frost-Barnes and Mr Lynn Widenbar. Messrs Robinson, Nitschke and Frost-Barnes are all full-time employees of Fortescue while Mr Widenbar is an independent consultant. Each provided technical input for Mineral Resources estimations and compilations of exploration results.

Estimated Ore Reserves for the Chichester and Solomon Hubs for fiscal year 2015 were compiled by Mr Martin Slavik, a full-time employee of Fortescue. Estimated Magnetite Ore Reserves for the Iron Bridge project for fiscal year 2015 were compiled by Mr Iain Cooper, an independent consultant for Golder Associates.

Mr Robinson is a Fellow of, and Messrs Nitschke, Slavik, Cooper and Widenbar are Members of, the Australasian Institute of Mining and Metallurgy. Mr Frost-Barnes is a member of the Institute of Materials, Minerals and Mining. Messrs Robinson, Nitschke, Slavik, Frost-Barnes, Cooper and Widenbar have sufficient experience relevant to the type of mineralisation and type of deposit under consideration to each be qualified as a Competent Person as defined in the JORC Code.

Messrs Robinson, Nitschke, Frost-Barnes, Widenbar, Cooper and Slavik have each consented to the inclusion in this report of the matters based on their information in the form and context in which it appears.



# TENEMENT REPORT AS AT 30 JUNE 2015

## Western Australia Tenure

**Holder: Chichester Metals Pty Ltd Status: Granted**

**FMG mineral rights status: 100% all mineral rights**

E 45/2497	E 45/2498	E 45/2499	E 45/2593	E 45/2651
E 45/2652	E 46/413	E 46/467	E 46/516	E 46/518
E 46/519	E 46/566	E 46/567	E 46/568	E 46/569
E 46/590	E 46/595	E 46/600	E 46/601	E 46/610
E 46/611	E 46/612	E 46/623	E 46/664	E 46/666
E 46/675	E 47/1320	E 47/1387	E 47/1388	E 47/1434
E 47/2177	M 45/1082	M 45/1083	M 45/1084	M 45/1085
M 45/1086	M 45/1087	M 45/1088	M 45/1089	M 45/1090
M 45/1091	M 45/1092	M 45/1093	M 45/1094	M 45/1102
M 45/1103	M 45/1104	M 45/1105	M 45/1106	M 45/1107
M 45/1124	M 45/1125	M 45/1126	M 45/1127	M 45/1128
M 45/1138	M 45/1139	M 45/1140	M 45/1141	M 45/1142
M 46/292	M 46/293	M 46/314	M 46/315	M 46/316
M 46/317	M 46/318	M 46/319	M 46/320	M 46/321
M 46/322	M 46/323	M 46/324	M 46/325	M 46/326
M 46/327	M 46/328	M 46/329	M 46/330	M 46/331
M 46/332	M 46/333	M 46/334	M 46/335	M 46/336
M 46/337	M 46/338	M 46/339	M 46/340	M 46/341
M 46/342	M 46/343	M 46/344	M 46/345	M 46/346
M 46/347	M 46/348	M 46/349	M 46/350	M 46/351
M 46/352	M 46/353	M 46/354	M 46/355	M 46/356
M 46/357	M 46/401	M 46/402	M 46/403	M 46/404
M 46/405	M 46/406	M 46/407	M 46/408	M 46/409
M 46/410	M 46/411	M 46/412	M 46/414	M 46/415
M 46/416	M 46/417	M 46/418	M 46/419	M 46/420
M 46/421	M 46/422	M 46/423	M 46/424	M 46/449
M 46/450	M 46/451	M 46/452	M 46/453	M 46/454
M 47/1461				

**Holder: Chichester Metals Pty Ltd Status: Granted**

**FMG mineral rights status: 100% iron ore rights**

E 46/413-I

**Holder: Chichester Metals Pty Ltd Status: Granted**

**FMG mineral rights status: n/a**

G 46/7	L 45/152	L 46/35	L 46/36	L 46/37
L 46/40	L 46/46	L 46/47	L 46/48	L 46/49
L 46/51	L 46/52	L 46/53	L 46/54	L 46/55
L 46/56	L 46/57	L 46/58	L 46/62	L 46/64
L 46/66	L 46/99	L 46/100	L 46/111	L 46/112
L 47/193	L 47/197	L 47/198	L 47/693	L 47/710
L 47/711				

**Holder: Chichester Metals Pty Ltd Status: Application**

**FMG mineral rights status: 100% all mineral rights**

M 45/1147 M 45/1148 M 45/1149 M 45/1150

**Holder: Chichester Metals Pty Ltd Status: Application**

**FMG mineral rights status: n/a**

L 46/60	L 47/204	L 47/653	L 47/654	L 47/655
L 47/656	L 47/657	L 47/658	L 47/659	L 47/660

**Holder: FMG Magnetite Pty Ltd Status: Granted**

**FMG mineral rights status: 100% all mineral rights (Note 1)**

E 45/2510 E 45/2535 M 45/1226

**Holder: FMG Magnetite Pty Ltd Status: Granted**

**FMG mineral rights status: n/a (Note 1)**

L 45/257 L 45/293 L 45/294 L 45/318 L 45/331

**Holder: FMG Magnetite Pty Ltd and Formosa Steel IB Pty Ltd**

**Status: Granted**

**FMG mineral rights status: n/a (Note 1 and Note 2)**

L 45/359 L 45/366 L 45/367 L 45/386

**Holder: FMG Magnetite Pty Ltd Status: Application**

**FMG mineral rights status: n/a (Note 1)**

L 45/317 L 45/319 L 45/320

**Holder: FMG North Pilbara Pty Ltd Status: Granted**

**FMG mineral rights status: 100% all mineral rights (Note 1)**

E 45/3084-I M 45/1244-I

**Holder: FMG Pilbara Pty Ltd Status: Granted**

**FMG Mineral rights status: 100% all mineral rights**

E 08/1432	E 08/1439	E 08/1440	E 08/1548	E 08/1550
E 08/1585	E 08/1623	E 08/1626	E 08/1627	E 08/1630
E 08/1633	E 08/1878	E 08/1933	E 08/1942	E 08/1943
E 08/1959	E 08/1961	E 08/1962	E 08/2004	E 08/2034
E 08/2063	E 08/2072	E 08/2118	E 08/2137	E 08/2157
E 08/2175	E 08/2200	E 08/2218	E 08/2284	E 08/2298
E 08/2353	E 08/2364	E 08/2398	E 08/2490	E 08/2497
E 08/2498	E 08/2512	E 08/2550	E 08/2557	E 08/2562
E 08/2577	E 08/2649	E 08/2658	E 45/2860	E 45/2861
E 45/2862	E 45/2867	E 45/2870	E 45/2920	E 45/2945
E 45/2946	E 45/2972	E 45/3191	E 45/3310	E 45/3318
E 45/3328	E 45/3414	E 45/3417	E 45/3426	E 45/3438
E 45/3445	E 45/3463	E 45/3473	E 45/3535	E 45/3536
E 45/3545	E 45/3561	E 45/3591	E 45/3641	E 45/3654
E 45/3659	E 45/3663	E 45/3664	E 45/3697	E 45/3698
E 45/3705	E 45/3746	E 45/3760	E 45/3767	E 45/3816
E 45/3817	E 45/3845	E 45/3866	E 45/4040	E 45/4083
E 45/4125	E 45/4126	E 45/4148	E 45/4191	E 45/4192
E 45/4202	E 45/4203	E 45/4204	E 45/4227	E 45/4239
E 45/4250	E 45/4253	E 45/4254	E 45/4265	E 45/4277
E 45/4304	E 45/4330	E 45/4338	E 45/4356	E 45/4373
E 45/4380	E 45/4384	E 45/4412	E 45/4418	E 45/4441
E 46/1000	E 46/1009	E 46/1010	E 46/1012	E 46/1013
E 46/1024	E 46/1034	E 46/517	E 46/621	E 46/706
E 46/708	E 46/711	E 46/727	E 46/728	E 46/735
E 46/741	E 46/743	E 46/776	E 46/799	E 46/859
E 46/861	E 46/862	E 46/958	E 46/964	E 46/965
E 46/967	E 46/986	E 46/991	E 46/994	E 47/1136
E 47/1155	E 47/1194	E 47/1195	E 47/1196	E 47/1299
E 47/1300	E 47/1301	E 47/1302	E 47/1319	E 47/1342
E 47/1349	E 47/1351	E 47/1355	E 47/1357	E 47/1361
E 47/1363	E 47/1370	E 47/1373	E 47/1383	E 47/1384
E 47/1390	E 47/1391	E 47/1392	E 47/1393	E 47/1396
E 47/1397	E 47/1404	E 47/1419	E 47/1420	E 47/1423
E 47/1433	E 47/1435	E 47/1446	E 47/1447	E 47/1448
E 47/1449	E 47/1453	E 47/1455	E 47/1461	E 47/1479
E 47/1480	E 47/1500	E 47/1532	E 47/1533	E 47/1535
E 47/1543	E 47/1578	E 47/1579	E 47/1611	E 47/1613
E 47/1614	E 47/1623	E 47/1668	E 47/1669	E 47/1670
E 47/1673	E 47/1674	E 47/1675	E 47/1679	E 47/1681
E 47/1682	E 47/1684	E 47/1685	E 47/1686	E 47/1687



# TENEMENT REPORT AS AT 30 JUNE 2015

## Western Australia Tenure (continued)

### Holder: FMG Pilbara Pty Ltd FMG Mineral rights status: 100% all mineral rights (continued)

E 47/1688	E 47/1690	E 47/1702	E 47/1703	E 47/1728
E 47/1741	E 47/1761	E 47/1762	E 47/1763	E 47/1764
E 47/1772	E 47/1809	E 47/1818	E 47/1821	E 47/1832
E 47/1843	E 47/1846	E 47/1855	E 47/1920	E 47/1921
E 47/1923	E 47/1927	E 47/1944	E 47/1988	E 47/2020
E 47/2037	E 47/2046	E 47/2062	E 47/2080	E 47/2085
E 47/2119	E 47/2137	E 47/2138	E 47/2143	E 47/2146
E 47/2160	E 47/2172	E 47/2173	E 47/2229	E 47/2234
E 47/2235	E 47/2237	E 47/2238	E 47/2239	E 47/2240
E 47/2241	E 47/2242	E 47/2243	E 47/2244	E 47/2285
E 47/2331	E 47/2333	E 47/2378	E 47/2379	E 47/2442
E 47/2465	E 47/2475	E 47/2476	E 47/2490	E 47/2496
E 47/2506	E 47/2507	E 47/2538	E 47/2546	E 47/2619
E 47/2632	E 47/2636	E 47/2637	E 47/2638	E 47/2664
E 47/2665	E 47/2666	E 47/2675	E 47/2729	E 47/2739
E 47/2759	E 47/2879	E 47/2914	E 47/2940	E 47/2941
E 47/2958	E 47/2960	E 47/2982	E 47/3001	E 47/3004
E 47/3056	E 47/3080	E 47/3081	E 47/3117	E 47/3133
E 47/3150	E 47/3179	E 47/3201	E 52/1788	E 52/1789
E 52/1790	E 52/2113	E 52/2114	E 52/2382	E 52/2486
E 52/2521	E 52/2522	E 52/2527	E 52/2731	E 52/2793
E 52/2890	E 52/2892	E 52/2917	E 52/2924	E 52/2928
E 52/2929	E 52/2933	E 52/2988	E 52/2989	E 52/2991
E 52/2995	E 52/3000	E 52/3016	E 52/3060	E 52/3085
E 52/3093	E 52/3097	E 52/3107	E 52/3108	E 52/3158
E 52/3159	E 52/3160	E 52/3163	E 52/3164	E 52/3175
E 59/1934	M 45/1177	M 47/1408	M 47/1409	M 47/1410
M 47/1411	M 47/1413	M 47/1417	M 47/1431	M 47/1433
M 47/1434	M 47/1453	M 47/1466	M 47/1473	M 47/1474
M 47/1475	M 47/1488	M 47/1489	M 47/1492	P 08/531
P 08/532	P 08/624	P 45/2748	P 45/2862	P 45/2863
P 45/2864	P 45/2865	P 45/2922	P 46/1812	P 46/1813
P 46/1814	P 46/1815	P 47/1237	P 47/1257	P 47/1269
P 47/1270	P 47/1278	P 47/1279	P 47/1280	P 47/1281
P 47/1282	P 47/1283	P 47/1284	P 47/1285	P 47/1286
P 47/1287	P 47/1304	P 47/1305	P 47/1306	P 47/1307
P 47/1308	P 47/1309	P 47/1315	P 47/1316	P 47/1317
P 47/1318	P 47/1390	P 47/1391	P 47/1392	P 47/1393
P 47/1394	P 47/1395	P 47/1396	P 47/1397	P 47/1398
P 47/1399	P 47/1400	P 47/1401	P 47/1402	P 47/1403
P 47/1404	P 47/1407	P 47/1408	P 47/1409	P 47/1410
P 47/1411	P 47/1412	P 47/1423	P 47/1427	P 47/1468
P 47/1469	P 47/1470	P 47/1545	P 47/1552	P 47/1553
P 47/1554	P 47/1581	P 47/1604	P 47/1605	P 47/1606
P 47/1607	P 47/1608	P 47/1609	P 47/1617	P 47/1623
P 47/1626	P 47/1633	P 47/1634	P 47/1638	P 47/1639
P 47/1640	P 47/1641	P 47/1642	P 47/1643	P 47/1644
P 47/1645	P 47/1646	P 47/1647	P 47/1649	P 47/1650
P 47/1663	P 47/1664	P 47/1665	P 47/1666	P 47/1667
P 47/1668	P 47/1669	P 47/1670	P 47/1671	P 47/1672
P 47/1673	P 47/1674	P 47/1675	P 47/1692	P 47/1693
P 47/1694	P 47/1696	P 47/1697	P 47/1719	P 47/1722
P 47/1734	P 47/1735	P 47/1736	P 52/1485	

### Holder: FMG Pilbara Pty Ltd FMG mineral rights status: 100% all mineral rights (Note 3)

E 46/694	E 46/695	E 46/696	E 46/697	E 46/698
E 46/699	E 46/700	E 46/701	E 46/702	E 46/703
E 46/715	E 46/716	E 46/729	E 46/799	E 46/805
E 46/870	E 46/871	E 46/878	E 46/882	E 46/889
E 46/966	E 46/974	E 46/975	E 46/980	E 46/989
E 52/1779	E 52/1937	E 52/1977	E 52/1984	E 52/2034
E 52/2035	E 52/2311	E 52/2347	E 52/2414	E 52/2415
E 52/2416	E 52/2470	E 52/2555	E 52/2576	E 52/2594
E 52/2620	E 52/2626	E 52/2637	E 52/2696	E 52/2699
E 52/2737	E 52/2738	E 52/2739	E 52/2745	E 52/2748
E 52/2749	E 52/2830	E 52/2854	E 52/2856	E 52/2857
P 52/1415	P 52/1421	P 52/1422		

### Holder: FMG Pilbara Pty Ltd FMG Mineral rights status: 100% iron ore rights, 40% non-iron (Note 4)

E 08/1628	E 08/1629	E 08/1631	E 08/1632	E 08/1741
E 08/1915	E 08/1916	E 08/1949	E 08/1950	E 08/1985
E 08/1986	E 08/2000	E 08/2003	E 08/2038	E 08/2039
E 08/2065	E 08/2067	E 08/2114	E 08/2250	E 08/2258
E 08/2293	E 08/2294	E 08/2295	E 08/2296	E 08/2354
E 47/1395	E 47/1549	E 47/1677	E 47/1735	E 47/1773
E 47/1833	E 47/1879	E 47/2035	E 47/2171	E 47/2236
E 47/2292	E 47/2587	E 52/2484	E 52/2730	E 52/2786

### Holder: FMG Pilbara Pty Ltd FMG Mineral rights status: 100% all mineral rights except diamonds

E 47/1333	E 47/1334	E 47/1352	E 47/1372	E 47/1398
E 47/1399	E 47/1436	E 47/1523	E 47/1524	

### Holder: FMG Pilbara Pty Ltd FMG Mineral rights status: 100% all mineral rights except tiger eye

P 47/1695

### Holder: FMG Pilbara Pty Ltd FMG mineral rights status: n/a

G 45/275	G 45/285	L 45/158	L 45/191	L 45/240
L 47/232	L 47/293	L 47/294	L 47/296	L 47/301
L 47/351	L 47/360	L 47/361	L 47/362	L 47/363
L 47/367	L 47/381	L 47/382	L 47/391	L 47/392
L 47/397	L 47/471	L 47/472	L 47/700	

### Holder: FMG Pilbara Pty Ltd FMG Mineral rights status: 100% all mineral rights

E 08/2088	E 08/2491	E 08/2513	E 08/2536	E 08/2594
E 08/2595	E 08/2609	E 08/2625	E 08/2626	E 08/2627
E 08/2652	E 08/2653	E 08/2662	E 08/2683	E 08/2686
E 08/2687	E 08/2688	E 08/2689	E 08/2690	E 08/2691
E 08/2696	E 08/2697	E 08/2698	E 08/2699	E 08/2700
E 08/2704	E 08/2705	E 08/2706	E 08/2721	E 08/2728
E 45/4337	E 45/4339	E 45/4369	E 45/4428	E 45/4429
E 45/4448	E 45/4450	E 45/4451	E 45/4466	E 45/4479
E 45/4481	E 45/4489	E 45/4491	E 45/4497	E 45/4498
E 45/4525	E 45/4526	E 45/4527	E 45/4528	E 45/4529
E 45/4530	E 45/4531	E 45/4532	E 45/4537	E 45/4542
E 45/4545	E 45/4549	E 45/4559	E 45/4575	E 45/4578
E 45/4579	E 45/4580	E 45/4581	E 45/4582	E 45/4583
E 45/4589	E 45/4590	E 45/4591	E 46/1006	E 46/1037
E 46/1039	E 46/1043	E 46/1045	E 46/1046	E 46/1047

# TENEMENT REPORT AS AT 30 JUNE 2015

## Western Australia Tenure (continued)

### Holder: FMG Pilbara Pty Ltd Status: Application FMG Mineral rights status: 100% all mineral rights (continued)

E 46/1048	E 46/1049	E 46/1053	E 46/1055	E 46/1059
E 46/1060	E 46/1061	E 46/1063	E 46/1068	E 46/1071
E 46/1072	E 46/1073	E 46/1074	E 46/1075	E 46/1076
E 46/1077	E 46/1078	E 46/1079	E 46/1080	E 46/1081
E 47/2061	E 47/2918	E 47/2919	E 47/2920	E 47/2921
E 47/2922	E 47/2975	E 47/2985	E 47/2986	E 47/3000
E 47/3009	E 47/3013	E 47/3014	E 47/3016	E 47/3051
E 47/3069	E 47/3097	E 47/3098	E 47/3125	E 47/3126
E 47/3153	E 47/3154	E 47/3155	E 47/3158	E 47/3159
E 47/3161	E 47/3162	E 47/3163	E 47/3171	E 47/3186
E 47/3194	E 47/3205	E 47/3206	E 47/3207	E 47/3209
E 47/3211	E 47/3218	E 47/3219	E 47/3220	E 47/3222
E 47/3223	E 47/3224	E 47/3225	E 47/3226	E 47/3227
E 47/3228	E 47/3230	E 47/3239	E 47/3242	E 47/3243
E 47/3244	E 47/3245	E 47/3246	E 47/3248	E 47/3250
E 47/3252	E 47/3253	E 47/3254	E 47/3255	E 47/3258
E 47/3262	E 47/3263	E 47/3264	E 47/3265	E 47/3268
E 47/3270	E 47/3277	E 47/3278	E 47/3279	E 47/3280
E 47/3281	E 47/3282	E 47/3283	E 47/3284	E 47/3286
E 47/3287	E 47/3291	E 47/3292	E 47/3296	E 47/3302
E 47/3303	E 47/3304	E 47/3306	E 47/3307	E 47/3311
E 47/3313	E 47/3315	E 47/3318	E 47/3321	E 47/3332
E 47/3333	E 47/3334	E 47/3335	E 47/3336	E 47/3337
E 52/3030	E 52/3134	E 52/3135	E 52/3143	E 52/3178
E 52/3184	E 52/3193	E 52/3194	E 52/3198	E 52/3204
E 52/3205	E 52/3206	E 52/3207	E 52/3208	E 52/3209
E 52/3210	E 52/3211	E 52/3212	E 52/3213	E 52/3233
E 52/3243	E 52/3244	E 52/3245	E 52/3247	E 52/3256
E 52/3261	E 52/3264	E 52/3294	E 52/3303	E 52/3309
E 52/3310	E 52/3312	E 52/3314	E 69/2722	E 69/3384
M 47/1456	M 47/1457	M 47/1458	M 47/1459	M 47/1476
M 47/1477	M 47/1478	M 47/1481	M 47/1493	M 47/1497
P 45/2932	P 45/2933	P 45/2934	P 47/1729	P 47/1731
P 47/1745	P 47/1746	P 47/1747	P 52/1515	

<b>Holder: FMG Pilbara Pty Ltd Status: Application</b>				
<b>FMG mineral rights status: n/a</b>				
L 47/713	L 47/714	L 47/716	L 47/718	L 47/719

<b>Holder: FMG Resources Pty Ltd Status: Granted</b>				
<b>FMG mineral rights status: 100% all mineral rights</b>				
E 08/2281	E 45/4150	E 45/4349	E 45/4350	E 52/2962
E 52/2963	E 52/2964	E 52/2965	E 52/2966	E 52/2967
E 52/2968	E 52/2979	E 52/2981	E 57/992	E 59/1275
E 59/1360	E 59/1956	E 69/2953	E 69/2993	E 69/3176
E 69/3177	E 69/3178	E 69/3198	E 69/3199	E 69/3201
E 69/3236	E 69/3237	E 69/3304	E 69/3305	E 77/2157
E 77/2158	E 77/2159	E 77/2262		

<b>Holder: FMG Resources Pty Ltd Status: Granted</b>				
<b>FMG mineral rights status: 100% all mineral rights (Note 3)</b>				
E 52/2621-I				

<b>Holder: FMG Resources Pty Ltd Status: Granted</b>				
<b>FMG Mineral rights status: 100% iron ore rights, 40% non-iron (Note 4)</b>				
E 08/2280-I E 08/2282-I				

<b>Holder: FMG Resources Pty Ltd Status: Granted</b>				
<b>FMG mineral rights status: 100% all mineral rights (Note 5)</b>				
E 57/738 E 57/756				

<b>Holder: FMG Resources Pty Ltd Status: Application</b>				
<b>FMG mineral rights status: 100% all mineral rights</b>				
E 04/2129	E 04/2322	E 04/2323	E 29/929	E 29/938
E 29/946	E 45/4576	E 45/4577	E 69/3296	E 69/3297
E 69/3299	E 69/3310	E 69/3324	E 69/3326	E 69/3382
E 69/3383	E 69/3385	E 77/2292	P 29/2359	

<b>Holder: Pilbara Gas Pipeline Pty Ltd Status: Granted</b>				
<b>FMG mineral rights status: n/a</b>				
L 45/334	L 45/336	L 45/339	L 45/342	L 45/343
L 45/344	L 45/345	L 45/346	L 45/347	L 45/349
L 45/352	L 45/353	L 47/696	L 47/697	

<b>Holder: Pilbara Gas Pipeline Pty Ltd Status: Application</b>				
<b>FMG mineral rights status: n/a</b>				
L 45/332	L 45/333	L 45/335	L 45/337	L 45/338
L 45/340	L 45/341	L 45/348	L 47/695	

<b>Holder: Pilbara Iron Ore Pty Ltd Status: Granted</b>				
<b>FMG mineral rights status: 50% all mineral rights (Note 6)</b>				
E 47/1191	E 47/1192	E 47/1224-I	E 47/1225-I	E 47/1235
E 47/1380-I	M 47/580-I	P 47/1414		

<b>Holder: Pilbara Iron Ore Pty Ltd Status: Application</b>				
<b>FMG mineral rights status: n/a (NB.6)</b>				
L 47/205				

<b>Holder: Pilbara Water and Power Pty Ltd Status: Granted</b>				
<b>FMG mineral rights status: n/a</b>				
L 45/272	L 45/289	L 45/291	L 45/292	L 45/325
L 45/360	L 45/361	L 45/364		

<b>Holder: The Pilbara Infrastructure Pty Ltd Status: Granted</b>				
<b>FMG mineral rights status: n/a</b>				
AL 70/1 (L 15A)	G 45/286	L 45/199	L 45/222	L 45/223
L 45/224	L 46/86	L 46/87	L 46/96	L 47/375

<b>Holder: The Pilbara Infrastructure Pty Ltd Status: Application</b>				
<b>FMG mineral rights status: n/a</b>				
L 47/661				

## Third Party Tenure (WA)

<b>Holder: Aldershot Resources Pty Ltd Status: Granted</b>				
<b>FMG mineral rights status: 100% all mineral rights</b>				
E 52/1763				

<b>Holder: Archipelago Nominees Pty Ltd Status: Application</b>				
<b>FMG mineral rights status: 100% all mineral rights except rock products</b>				
M 45/1229				

<b>Holder: Audax Minerals Pty Ltd Status: Granted</b>				
<b>FMG mineral rights status: Earning 80% interest all mineral rights</b>				
E 45/2763				

<b>Holder: BC Iron Ltd Status: Granted</b>				
<b>FMG mineral rights status: 25% iron ore rights</b>				
E 45/2717	E 46/522	E 46/523	E 46/651	E 46/652
E 46/653	E 46/654	E 46/655	E 46/656	E 46/663
M 46/515	M 46/522	M 46/523		

# TENEMENT REPORT AS AT 30 JUNE 2015

## Third Party Tenure (WA) (continued)

**Holder: BC Iron Ltd** **Status: Granted**

**FMG mineral rights status: n/a**

G 46/8      G 46/9      L 46/68      L 46/73      L 46/74  
L 46/75      L 46/76      L 46/79      L 46/80      L 46/81  
L 46/82

**Holder: BC Iron Nullagine Pty Ltd** **Status: Granted**

**FMG mineral rights status: 25% iron ore rights**

E 45/3790-I      E 46/928-I      E 46/929-I      E 46/930-I      E 46/931-I  
E 46/969-I      E 46/970-I

**Holder: BC Iron Nullagine Pty Ltd** **Status: Granted**

**FMG mineral rights status: n/a**

L 46/83      L 46/84      L 46/85      L 46/93      L 46/94  
L 46/95

**Holder: Blue Mist Enterprises Pty Ltd** **Status: Granted**

**FMG mineral rights status: 100% all mineral rights**

E 47/1861      E 47/1863

**Holder: Cullen Exploration Pty Ltd** **Status: Granted**

**FMG mineral rights status: 51% iron ore rights**

E 08/1393-I      E 47/1154-I      E 47/1649-I      E 47/1650-I      P 08/556-I

**Holder: Cullen Exploration Pty Ltd** **Status: Granted**

**FMG mineral rights status: Earning 51% iron ore rights**

E 52/1667-I

**Holder: Cullen Exploration Pty Ltd** **Status: Application**

**FMG mineral rights status: 51% iron ore rights**

M 08/502      M 47/1490

**Holder: David Ryan** **Status: Granted**

**FMG mineral rights status: Option for 100% all mineral rights**

P 47/1275

**Holder: Derek Ammon** **Status: Granted**

**FMG mineral rights status: 40% all mineral rights (Note 7)**

E 47/1140-I

**Holder: Derek Ammon** **Status: Application**

**FMG mineral rights status: 40% all mineral rights (Note 7)**

M 47/583

**Holder: Flinders Mines Ltd** **Status: Granted**

**FMG mineral rights status: 100% all mineral rights**

E 47/1011-I      E 47/1016-I      E 47/1306-I      M 47/1407-I

**Holder: Global Advanced Metals Wodgina Pty Ltd**

**Status: Granted**

**FMG mineral rights status: 100% iron ore rights**

E 45/4024      E 45/4025

**Holder: Livno Consolidated Pty Ltd** **Status: Granted**

**FMG mineral rights status: Beneficial right to earn 100% mineral rights**

E 45/4021

**Holder: Maincoast Pty Ltd** **Status: Application**

**FMG mineral rights status: 100% all mineral rights**

E 70/2596

## New South Wales Tenure

**Holder: Gold and Copper Resources Pty Ltd** **Status: Granted**

**FMG mineral rights status: Earning 51% metallic mineral rights (Note 8)**

EL 6040      EL 6588      EL 7194      EL 7599      EL 8330  
EL 8331      EL 8332

**Holder: Gosling Creek Pty Ltd** **Status: Granted**

**FMG mineral rights status: Earning 51% metallic mineral rights (Note 8)**

EL 6481

**Holder: Gum Ridge Mining Pty Ltd** **Status: Granted**

**FMG mineral rights status: Earning 51% metallic mineral rights (Note 8)**

EL 6249      EL 6562

**Holder: Lucknow Gold Limited** **Status: Granted**

**FMG mineral rights status: Earning 51% metallic mineral rights (Note 8)**

EL 6455 (partial)

**Holder: Tom's Waterhole Pty Ltd** **Status: Granted**

**FMG mineral rights status: Earning 51% metallic mineral rights (Note 8)**

EL 6456

## South Australia Tenure

**Holder: FMG Resources Pty Ltd** **Status: Granted**

**FMG mineral rights status: 100% all mineral rights**

EL 5023      EL 5063      EL 5024      EL 5197      EL 5025  
EL 5237      EL 5026      EL 5338      EL 5027      EL 5467  
EL 5028      EL 5029      EL 5030      EL 5031      EL 5032  
EL 5061      EL 5062      EL 5394      EL 5449      EL 5451  
EL 5600

## Notes

- 1 FMG Magnetite Pty Ltd, FMG North Pilbara Pty Ltd and Pilbara Water and Power Pty Ltd are subsidiaries of FMG Iron Bridge Limited which is owned 88 per cent by Fortescue Metals Group Ltd and 12 per cent by Baosteel Resources International Co. Ltd.
- 2 Joint Venture with FMG Magnetite Pty Ltd and Formosa Steel IB Pty Ltd. Formosa holds 31 per cent interest in title.
- 3 Joint Venture with Iron Bull Ashburton Pty Ltd. Iron Bull are farming-in to earn up to an 50 per cent interest in the non-iron mineral rights.
- 4 Joint Venture with Northern Star Resources Ltd. Northern Star Resources hold 60 per cent beneficial interest in non-iron mineral rights.
- 5 Exclusive Option of 6 months for Mabrouk Minerals Limited to purchase 100 per cent all mineral rights.
- 6 Unincorporated Joint Venture between Fortescue Metals Limited and Consolidated Minerals Limited.
- 7 Title has been contested and is currently being litigated.
- 8 Joint Venture with FMG Resources Pty Ltd and Gold and Copper Resources Pty Ltd, Gosling Creek Pty Ltd, Gum Ridge Mining Pty Ltd, Lucknow Gold Limited, Tom's Waterhole Pty Ltd. FMG are farming-in to earn up to a 51 per cent interest in the metallic mineral rights.



# CORPORATE SOCIAL RESPONSIBILITY

Overview | Operating and Financial Review | Reserves and Resources | **Corporate Social Responsibility** | Governance | Financial Report | Remuneration Report | Corporate Information







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## CORPORATE SOCIAL RESPONSIBILITY (CSR)

### What does CSR mean to Fortescue?

Fortescue aspires to be a corporate citizen of choice, welcomed by the communities that host its activities, generating long term value for all of its stakeholders.

To achieve its vision of being the safest, lowest cost, most profitable iron ore producer, Fortescue must operate in a way that integrates Corporate Social Responsibility (CSR) principles into all aspects of its operations. Fortescue does this by empowering communities, providing economic opportunity, behaving with respect and care for people and the environment, taking responsibility for its presence and doing what it says it will do. Fortescue's values, such as safety, integrity, empowerment and family, are aligned with these principles to ensure all Fortescue team members embrace the expectation to operate in a socially responsible manner.

### Approach to CSR

This report provides an overview of how Fortescue approaches and manages CSR.

The company draws on a number of global and national frameworks to guide business strategies and operations, as well as reporting requirements. In 2013, Fortescue became a signatory to the United Nations Global Compact (UNGC), and also aligns to the International Council on Mining and Metals (ICMM) Sustainable Development Principles. The CSR section of this report communicates progress against these principles to stakeholders as well as the UNGC.

This report contains Standard Disclosures from the GRI Sustainability Reporting Guidelines, which is also referenced in the ASX Corporate Governance Principles and Recommendations. A copy of the GRI index is available on Fortescue's website at [www.fmgil.com.au](http://www.fmgil.com.au).

The overall approach to audit and assurance is outlined in the Governance section of this report, with the data on greenhouse gas emissions, total energy consumption and total energy production independently assured. This information was the subject of a limited assurance by our auditors, PricewaterhouseCoopers, in accordance with the National Greenhouse and Energy Reporting (Audit) Determination 2009 and the Australian Standard on Assurance Engagements ASAE 3410: Assurance Engagements on Greenhouse Gas Statements (ASAE 3410).

### Business ethics and governance

Fortescue clearly articulates ethical business principles and practices and implements sound systems of corporate governance. Business risks are identified and managed, with CSR incorporated into decision making processes. Fortescue implements effective engagement and communication practices with key stakeholder groups and commits to transparently reporting on performance to stakeholders.

Fortescue is committed to ethical business practices, strong corporate governance and honest stakeholder engagement. Transparency, accountability, stewardship and integrity are essential elements of the approach. More detailed information can be found in the Corporate Governance section of this report.

Fortescue has a number of policies in place which are specific to its CSR agenda. These policies help govern business activities and clear expectations regarding business practices. They are supported by established management systems which assist the business in the day to day management of CSR issues and performance.





## Business ethics and governance (continued)

Fortescue's policies are available on its website including:

- Employee Code of Conduct
- Director's Code of Conduct
- Risk Management Policy
- Strategic Procurement and Supply Chain Policy
- Safety Policy
- Diversity Policy
- Anti-Bribery and Corruption Policy
- Environment Policy

The Employee Code of Conduct embraces the company's values and provides guidance on the standards of behaviour expected from the entire Fortescue family including directors, employees, contractors, suppliers and business partners. Fortescue has also established a separate Directors' Code of Conduct and directors are bound by both Codes. Fortescue is committed to achieving and maintaining a reputation as an employer of choice, an ethical business partner and a good corporate citizen, with both codes aligned with the UNGC principles on human rights.

Fortescue prides itself on an established reputation for acting with integrity, honesty and in compliance with all applicable laws and regulations. The company maintains a formal policy of zero-tolerance of corruption in all its forms, including bribery, and has established a Business Integrity and Ethics Committee and appointed a specialist Business Integrity Manager. In addition, Fortescue participates in voluntary anti-corruption initiatives including the Australian Business Integrity Council, and delivers role-specific anti-fraud and corruption training and certification.

The Anti-Bribery and Corruption compliance program includes regular and specialist fraud and corruption risk assessments that consider the potential fraud, bribery and corruption risks associated with the business, employees, third-party partners and geographic locations in which the company operates.

Fortescue has a process in place for investigating allegations as well as numerous channels for employees and others to confidentially report suspected or actual misconduct or violations of company policy, such as the whistleblower hotline and Speak Up program. This year, some employees and contractors were terminated following investigation.

## CSR reporting

Fortescue's CSR disclosures have been informed by:

- Review and prioritisation of issues identified in Fortescue's Risk Management Framework
- The content of public disclosure on key issues within the industry
- Fortescue's commitments and policies which guide its CSR agenda
- Requirements of relevant global frameworks such as the UNGC, ICMM and GRI
- Stakeholder interests and concerns based on Fortescue's existing stakeholder engagement programs.

Based on these considerations, the following environmental, social and broader economic issues ranked most highly this year:





- Economic performance
- Employee health and safety
- Workforce
- Local community development
- Local employment and business development
- Heritage and land use
- Biodiversity
- Land rehabilitation
- Resource management
- Compliance
- Bribery and corruption.

The aspect boundaries are within the narrative of this report.

## Engaging with stakeholders

Understanding the long term needs of stakeholders helps to better meet accepted social norms and needs over the long term so that Fortescue can continue to operate and share the value we create. While Fortescue did not undertake any specific stakeholder engagement for the purpose of preparing this report, key stakeholder concerns and how we regularly engage with them is outlined below.

### Engaging with stakeholders

	<b>Customers</b> <b>Stakeholders:</b> Steel mills in China and South East Asia
	<div> <div> <b>Interests and concerns:</b> <ul style="list-style-type: none"> <li>• Safe, reliable and consistent supply and delivery of quality products</li> <li>• Maintain strong technical and commercial relationships through open and honest communication and delivering on our promise</li> </ul> </div> <div> <b>Stakeholder engagement and response:</b> <ul style="list-style-type: none"> <li>• Regular communication</li> <li>• Shanghai and Singapore offices with in-country employees</li> <li>• Highly skilled and experienced marketing team</li> <li>• Quality control of Fortescue products</li> <li>• Targeted continuous improvement programs</li> <li>• Visits to operations</li> </ul> </div> </div>
	<b>Employees</b> <b>Stakeholders:</b> Employees working across Fortescue's operations
	<div> <div> <b>Interests and concerns:</b> <ul style="list-style-type: none"> <li>• Providing employees with a safe and rewarding work environment, where they feel empowered through career development and opportunities</li> <li>• Fostering a strong and unique culture through a values-driven approach</li> </ul> </div> <div> <b>Engagement:</b> <ul style="list-style-type: none"> <li>• Annual Future Forum with the CEO and executive leadership team</li> <li>• Leadership Excellence Pathway</li> <li>• Annual safety survey and monthly safety campaigns</li> <li>• Employee recognition program</li> <li>• Internal communications channels including prestart meetings, company emails, site notices, intranet, Fortescue TV and events</li> </ul> </div> </div>
	<b>Local and Aboriginal communities</b> <b>Stakeholders:</b> Local and Aboriginal communities in close proximity to Fortescue's operations and the broader Western Australian community
	<div> <div> <b>Interests and concerns:</b> <ul style="list-style-type: none"> <li>• Potential environmental and social impacts associated with Fortescue's operations</li> <li>• Sustainable community development through local content, employment, training and education, business development and opportunities, and investment in services and amenities</li> <li>• Culture and heritage impacts</li> </ul> </div> <div> <b>Engagement:</b> <ul style="list-style-type: none"> <li>• Dedicated community office</li> <li>• Community consultation and engagement</li> <li>• Fortescue-hosted community events</li> <li>• Fortescue Community Support program</li> <li>• Partnerships and investments in major projects</li> <li>• Fortescue Vocational Training and Employment Centres (VTEC)</li> <li>• Dedicated heritage, pastoralist and Aboriginal development teams</li> </ul> </div> </div>
	<b>Traditional Owners</b> <b>Stakeholders:</b> Traditional Owners and Native Title groups of the land on which Fortescue operates
	<div> <div> <b>Interests and concerns:</b> <ul style="list-style-type: none"> <li>• Compliance with Land Access agreements, including heritage and Native Title compliance</li> <li>• Strengthening cultural awareness and understanding and creating opportunities through training, employment, and business development</li> </ul> </div> <div> <b>Engagement:</b> <ul style="list-style-type: none"> <li>• Dedicated heritage and Aboriginal development teams</li> <li>• Regular communication and consultation with Native Title groups and prescribed working group committees</li> <li>• Fortescue Vocational Training and Employment Centres (VTEC)</li> <li>• Targeted and tailored business development meetings</li> <li>• Fortescue hosted business and employment expos and events</li> </ul> </div> </div>



## Engaging our stakeholders



### Government and regulators

**Stakeholders:** Federal, State and Local Government agencies and regulators

#### Interests and concerns:

- Environmental, social and fiscal performance and compliance
- Legislative and regulatory policy frameworks
- Land access and approvals
- Community development

#### Engagement:

- Regular engagement with Government and regulators at Federal, State and Local levels
- Regulatory information
- Public information including financial results and community reports



### Suppliers and contractors

**Stakeholders:** Businesses local to Fortescue's operations in the Pilbara, Western Australia and Australia, as well as international business.

#### Interests and concerns:

- Working closely with suppliers and contractors to achieve mutually beneficial outcomes
- Transparent communication throughout contract award process and meeting agreements and processes on an ongoing basis

#### Engagement:

- Regular meetings, communication and reviews with strategic suppliers and contractors
- Strategic relationships with contractors and suppliers
- Early engagement with key contractors and suppliers for major projects



### Educational institutions

**Stakeholders:** Local schools, universities, and other educational institutions

#### Interests and concerns:

- Creating career pathways and opportunities

#### Engagement:

- Scholarships, cadetships, traineeships and apprenticeships
- University graduate program
- Involvement in local career expos
- Site visits



### Non-government organisations

**Stakeholders:** Local, regional and international organisations concerning environmental, human rights, sustainability and corporate social responsibility

#### Interests and concerns:

- Risk management
- Community engagement
- Environmental performance
- Human rights
- Compliance

#### Engagement:

- Annual report
- Sustainability reporting
- State Agreement reporting,
- Media releases
- ASX announcements
- Environment and community departments



## SAFETY

Global safety leadership is inherent in Fortescue's vision to be the safest, lowest cost, most profitable iron ore producer





# safety

is the number one priority



## SAFETY

### A safe and healthy workforce

At Fortescue, safety is the number one priority. The focus on safety leadership and culture empowers everyone to take whatever action is required to ensure safe operations, including stopping production when necessary.

The health and wellbeing of all employees and contractors is never to be compromised, and Fortescue's people are committed to providing a safe workplace for themselves and each other as they work together to become global leaders in safety.

### Approach to safety

Fortescue recognises health and safety is inherent in the business and across the entire mining sector. Safety is identified in Fortescue's Risk Management Framework and the management system is focused on all operations that have potential to impact health and safety. Fortescue's people are committed to continually improve safety performance and provide a safe workplace for fellow employees, business partners and contractors.

Fortescue's health and safety program is represented as a tiered system which provides a common approach across the business.

- Global safety leadership is inherent in Fortescue's vision to be the safest, lowest cost, most profitable iron ore producer
- Safety is Fortescue's highest priority and one of its company values
- The Health and Safety Management System is the overarching framework which includes thousands of controls, processes and guidelines
- The Major Hazard Control Standards Management Program was built on eliminating fatality risk at all stages of the mine lifecycle and features 58 common and 14 site-specific critical controls
- Life Saving Choices, launched in 2013, empowers individuals to manage the safety risk where they have direct control on the job. They consist of a set of 12 memorable, simple rules for all employees and contractors and are the last line of defence, with suspected breaches investigated and disciplinary action applying to cases of serious misconduct. More than 16,000 employees and contractors have been trained in the Life Saving Choices program with another 10,620 receiving additional safety leadership training.

### Fortescue's Health and Safety Program



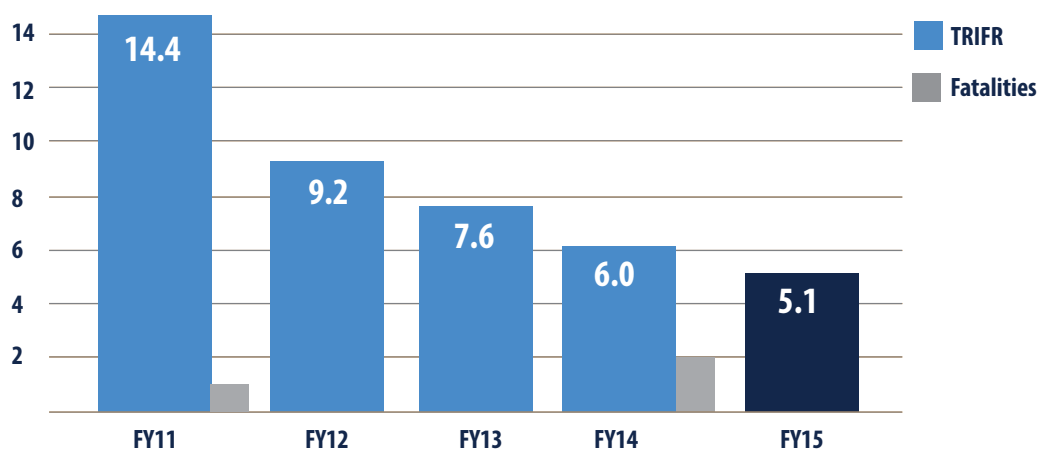




# TRIFR 5.1

↓ 15%

**Fortescue and contractor safety performance**



Fortescue's reporting on safety is aligned with the United States Government Occupational Safety and Health Administration (OSHA) guidelines for the recording and reporting of occupational injuries and illnesses.

In FY15, Fortescue's TRIFR reduced to 5.1 per million hours worked, a 15 per cent improvement compared to the previous year and a 65 per cent improvement in the past four years.

In 2014, an independent, external review of safety performance and management across Fortescue operations was conducted. In March this year, an independent, external safety survey of employees and contractors was again conducted with over 8,200 responses, identifying an improvement across all parameters achieved compared to the previous year.

Field interactions are a key component of Fortescue's safety program and are an integrated part of daily work at its operations. Leaders conduct daily field interactions to demonstrate the value Fortescue places on safety and to encourage safety awareness and a thoughtful approach to managing the risks.

Positive safety behaviour is commended and encouraged, while leaders take the time to discuss at risk behaviour which may compromise safety.

The tragic loss of two contractors in separate incidents at the Christmas Creek operations in FY14 prompted Fortescue to instigate an external third party review of safety systems, processes and culture. Employees were empowered to direct implementation of changes to reinforce the company's commitment to safety.

Following an investigation into the August 2013 fatal injury of electrician Kurt Williams in the ore processing facility, the WA Department of Mines and Petroleum charged Crushing Services International Pty Ltd (CSI) for failing to provide a safe working environment. CSI pleaded guilty and was fined A\$115,000 in October 2014. An investigation into the fatal injury of Alan Zuvela in an accident in the heavy vehicle workshop in December 2013 is yet to be concluded.





## CASE STUDY

### Safer, more efficient and accurate surveying at Fortescue

Surveying iron ore stockpiles using traditional methods is no easy task. At Fortescue's Cloudbreak operations, the survey team previously spent five days each month surveying more than 100 stockpiles, 85 per cent active with heavy machinery each day, by walking and scanning the stockpiles.

This task presented numerous risks to the team's health and safety including injury from tripping on uneven and loose material, falling from height, dehydration, fatigue, interaction with heavy vehicles and machinery, engulfment and crushing. Often

the crest of stockpiles would be too unsafe to walk, meaning the surveyor was unable to determine the accurate volume of the stockpile and had to rely on existing data to estimate and project its volume.

Safety controls were in place to minimise the risk to Fortescue's people such as dozers to flatten stockpiles, heavy machinery to cease working during surveying activities and the use of existing data to estimate volumes, however these presented new challenges including interruption to operations and inaccurate data.

Unmanned Aerial Vehicle systems have now revolutionised surveying at Fortescue's Cloudbreak mine, providing a safer, more efficient and more accurate method. The technology completely removes Fortescue's surveyors from the risks associated with traversing stockpiles and its successful application at Cloudbreak resulted in Fortescue being awarded first place in the Systems category at the 2015 Chamber of Minerals and Energy (CME) Safety and Health Innovation Awards.

### Step Right program

During FY15, Fortescue implemented a musculoskeletal injury prevention program for sprains and strains to reduce the number of injuries related to posture, lifting, lowering and twisting.

The program targets at risk behaviours and follows a set of five core principles:

#### 1 Manage your health

Fitness, sleep, hydration and diet

#### 2 Plan your work

Identify risks and plan breaks in repetitive tasks

#### 3 Operate tools and equipment safely

Adjust tools and seats, use the right tools for the job

#### 4 Work in a safe posture

Understand good posture and support

#### 5 Keep moving

Incorporate movement and stretching into the working day

Employees are encouraged to assess and manage their risks and discuss possible changes to work practices with their supervisors.



## PEOPLE

Fortescue's unique culture, shaped by its values, is the key to strong performance against stretch targets





## VALUES



### Safety

- Working together to be global safety leaders
- We care about the health and wellbeing of people
- I am my brothers' and sisters' keeper



### Family

- Care for your work mates
- Think of the whole business - not just your part
- Be committed as one
- Celebrate success



### Integrity

- Honesty in our words and actions
- Doing what we say we will do



### Determination

- Drive for outcomes
- Never give up



### Generating ideas

- Never accept the status quo
- Always be on the lookout for better ways



### Empowerment

- Always take action
- Authority to do what you said you would do
- Ability to act in the best interest of the business



### Frugality

- Use your brains not your cheque book
- Save every dollar you can
- Find a way to do the same job for less money



### Set yourself Stretch Targets



### Enthusiasm

- Be enthusiastic
- Be energetic
- Be positive

## PEOPLE

### Maintaining a high performance culture

In FY15, Fortescue maintained a strong focus on developing internal talent and leveraging its unique culture, shaped by its values, to support the delivery of high performance outcomes. The company recognises that the investment in its people and a strong leadership team is paramount for ongoing success.

Fortescue introduced a Leadership Excellence Pathway in early 2015 to expand the leadership development curriculum and strengthen the internal leadership pipeline. The Pathway comprises several core initiatives to provide leaders with critical skills and knowledge, including a 4-day Leadership Fundamentals Program, Leadership Development Program and external leader forums. During the year, 311 leaders completed formal leadership development training.

The performance review process was further embedded during the year to ensure all employees have clear objectives and are provided with performance feedback aligned to business targets, including the assessment of employees' behaviour against the values.

### Fortescue's workforce

As Fortescue has moved from the construction phase to steady state operations, at a time of volatility in the iron ore market, the Company has been focused on operating as efficiently and productively as possible. A thorough organisational review was performed, initiating a number of key projects.

Fortescue's predominant operational rosters moved from an eight days on, six days off cycle to a two weeks on, one week off cycle, with residential rosters moving to a seven and three, seven and four cycle. The roster was fully implemented by the end of May 2015, bringing work rosters across Fortescue's operations into line with the majority of Pilbara iron ore industry operations. Opportunities for internal transfers for those impacted by the roster change were prioritised for affected employees.

The decision to change the roster was particularly challenging and followed considerable work on a number of other changes across the business being implemented before this was considered.

However despite these changes, Fortescue's commitment to stretch targets for Aboriginal employment and supporting gender diversity was maintained.

As at 30 June 2015, Fortescue employed 4,057 direct employees, with contractors employing a further 4,436 people at operational sites. In total, 55 per cent of employees are covered by enterprise agreements.

Employee engagement is measured in a number of ways at Fortescue, with voluntary employee turnover rate recorded at 10.8 per cent, less than the industry average of 11.5 per cent. A number of internal channels are used to regularly communicate transparent, accurate and timely information to employees such as the intranet, digital TV screens, weekly town hall meetings, leadership forums and eNewsletters.





## New and emerging leaders

Online leader induction  
Cultural leadership framework



## Supervisors and superintendents

Leadership fundamentals  
Site leadership development



## Building diversity

Career resiliency  
Aboriginal leaders program



## High performance leaders

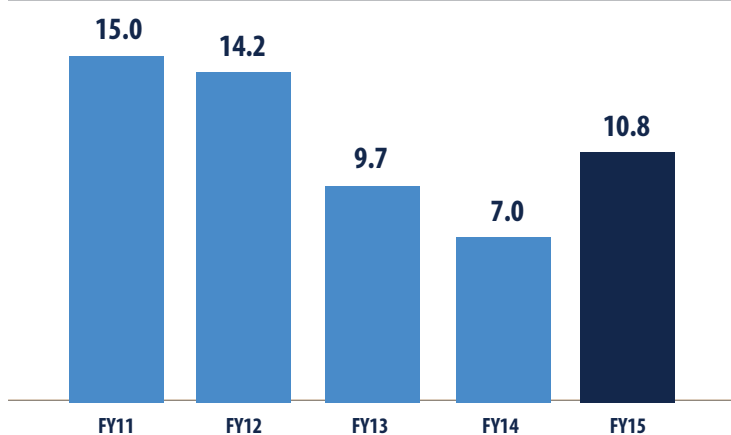
Stretch and challenge program  
Tertiary education support



## Ongoing learning

Ground breakers and company makers  
Mentoring program

Voluntary employee turnover (%)



## Graduate and apprenticeship program

Fortescue's graduate program has been running for five years with 100 per cent of graduates securing permanent employment at the end of the program.

Over the two year program, graduates experience working on at least four of the operational locations in a variety of teams to ensure they receive a thorough understanding of the business before they embark on their careers.

In addition, Fortescue has a three month vacation program, with 33 participants working FIFO at the operational sites in their field of study.

Fortescue has run an apprenticeship program for five years and to date, 17 successful tradespeople graduates have secured permanent employment on completion. In FY15, there were 67 apprentices with 35 per cent Aboriginal participation.

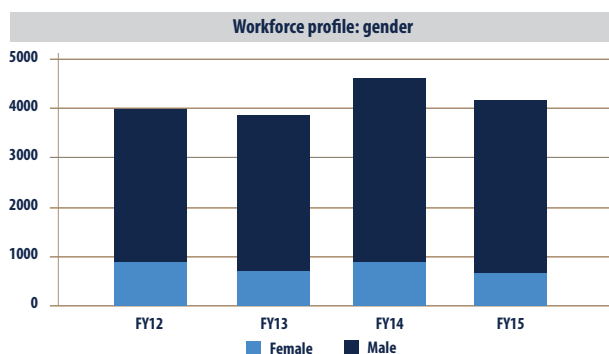
# Speak Up

## Speak Up program

During the year Fortescue launched its 'Speak Up' campaign as part of the commitment to living the values. The focus on ensuring Fortescue is a safe and happy workplace means everyone has to take responsibility for looking after themselves and their mates.

Whether it's about a safety breach, bullying and harassment or inappropriate use of alcohol and drugs, employees feel empowered to 'speak up'. The program provides a number of confidential channels for people to share their concerns in a fair, balanced and confidential manner. It's all about employees being their brother's and sister's keeper.

## Workforce equality and diversity



Fortescue is committed to providing a safe, balanced and fair working environment where core values drive behaviour and a strong culture. For example, the company's Diversity Policy and Plan not only supports employees and related initiatives, but also aligns with ASX requirements.

A breakdown of female representation across the whole of Fortescue, and at senior levels is listed below:

Group	Female		Female %		Male		Male %	
	FY14	FY15	FY14	FY15	FY14	FY15	FY14	FY15
All employees	793	657	17.4	16.2	3,770	3,400	82.6	83.8
Senior Executive*	4	5	10.0	16.0	36	26	90.0	84
Board	2	3	20.0	30.0	8	7	80.0	70.0

## Workforce equality and diversity (continued)

Each year the Board review and approve measurable diversity objectives. The objectives for FY15 and progress against these is summarised below, together with objectives for FY16:

\* Senior Executive means a leadership position title of Director, Group Manager or General Manager.

Measurable objectives for FY15	Progress
Highlight diversity in key company communications	Diversity initiatives and stories are regularly published on Fortescue's intranet site and shared across the company via email communications and site notices.
<b>Career Resiliency Program:</b> <ul style="list-style-type: none"> <li>Pilot a career resiliency program to provide mentoring support for women in professional and operational roles seeking to further their careers in technical roles or management positions.</li> <li>Communicate the outcomes of the pilot career resiliency program.</li> </ul>	A pilot career resiliency program was run in FY15 with feedback and results communicated to the Executive team, with support for the program to continue in FY16.
Include diversity in the online leadership induction program being implemented in FY15.	Online leadership induction program updated to include diversity.
Nominate women for industry recognition awards.	<p>Fortescue women were nominated for the Chamber of Minerals and Energy (CME) Women in Resources awards, with Linda O'Farrell, Group Manager Fortescue People, being awarded the 'WA Women in Resources Champion' for 2015. Other awards in FY15 included:</p> <ul style="list-style-type: none"> <li>Julie Shuttleworth, Solomon General Manager, awarded a scholarship at the Harvard Women's Leadership Forum in Boston, USA</li> <li>Sharon Warburton, Non-Executive Director, named WA's Telstra Business Woman of the Year 2014</li> </ul>
Report on diversity metrics on a quarterly basis and provide reports to leaders.	Female and Aboriginal participation rates are internally reported on a monthly basis.
Monitor tenure data and collect exit interview data to understand reasons for leaving the business.	Data on women leaving the business was regularly analysed, with key reasons related to personal circumstances, relocation and career development opportunities.
Monitor female participation in senior leadership roles through bi-annual talent reviews.	Talent reviews were completed in February 2015 and are on track for the next six month period. One new female Board member and one new female Group Manager have joined Fortescue, along with one female Manager promoted to General Manager.
Encourage women to participate in company leadership programs.	Female representation in the company leadership program was 16 per cent.
Participate in key diversity networking groups.	Fortescue participated in external diversity networking groups including sponsoring UWA Women in Engineering.
Target equal representation of women in the graduate/vacation student intake.	One third of the vacation student intake was female. Over half of the graduate program places were offered to female candidates.
Encourage women to participate in graduate and vacation programs, apprenticeships and traineeships.	Fortescue actively encouraged women to apply for its graduate and vacation, apprenticeship and traineeship programs, however saw low application rates for the apprenticeship program.
<b>Remuneration:</b> <ul style="list-style-type: none"> <li>Refresh workforce profile and job evaluation</li> <li>Complete a more detailed gender equity analysis</li> </ul>	A detailed review was completed with recommendations provided to the Board.
Increase the number of employees and contractors to complete Respect training.	<ul style="list-style-type: none"> <li>94 per cent completion of Respect for employees</li> <li>92 per cent completion of Respect for leaders</li> <li>4003 contractors completed Respect training</li> </ul>



Measurable objectives for FY15	Progress
<b>Job share:</b> <ul style="list-style-type: none"> <li>Assess the effectiveness of the pilot job share arrangements</li> <li>Identify further opportunities to extend flexible work arrangements</li> <li>Policy developed and implemented</li> <li>Evaluate job share arrangements increase and measure percentage of uptake</li> </ul>	The job share trial program has proven successful and will be expanded to include Christmas Creek, Port and Rail sites in FY16. Job share participation increased from 20 people in FY14 to 47 people in FY15.
Request feedback from employees on their priority areas for improving workplace flexibility.	During the transition to the 2/1 roster employees provided feedback about alternative options for workplace flexibility. The ability to access job share arrangements was the most requested option.
<b>Ongoing communication and training on the following:</b> <ul style="list-style-type: none"> <li>Respect</li> <li>Code of Conduct</li> <li>Equal opportunity, harassment and bullying</li> <li>Fair treatment</li> <li>Whistleblowing</li> </ul>	Ongoing training and communication on these key policies was provided in FY15.

## Gender initiatives for FY16

Identified opportunity	Desired state	Recommended measurable objectives
Build on female participation rates.	Improvement in overall participation rate and participation rates within identified departments.	<ul style="list-style-type: none"> <li>Establish a Diversity Stakeholder Group with representatives from senior management to provide guidance on the FY16 plan, monitor progress and champion actions.</li> <li>Further increase female participation through targeted recruitment and development practices ensuring female candidates are shortlisted for all roles.</li> <li>Establish a dedicated apprenticeship program to increase female and Aboriginal participation in trade roles. Target 25 per cent in apprenticeship, traineeship and graduate positions.</li> <li>Establish diversity targets for major contracting partners.</li> <li>Review recruitment practices to ensure female participation goals are set for hiring or insourcing programs.</li> </ul>
Improve retention rate of women.	Female voluntary turnover rate decreases to match or better the male turnover rate.	<ul style="list-style-type: none"> <li>Pilot a mentoring program for women with leadership potential.</li> <li>Increase the retention rate of women in the workforce, with particular focus on site-based women returning from parental leave, by identifying opportunities to extend flexible work arrangements.</li> <li>Identify women with leadership potential through talent reviews and ensure their participation in leadership development programs.</li> <li>Provide diversity updates, including participation and turnover rates, at bi-monthly leadership meetings and quarterly presentations.</li> </ul>
Continue to build awareness of the benefits of gender diversity within the business.	Increase awareness of the contribution females make to our workforce.	<ul style="list-style-type: none"> <li>Continue to nominate women for internal and industry awards focussed on: <ul style="list-style-type: none"> <li>Northern Spirits awards program</li> <li>CME Women in Resources awards</li> </ul> </li> <li>Ongoing diversity and equal opportunity communication and training including: <ul style="list-style-type: none"> <li>Respect</li> <li>Code of Conduct</li> <li>Equal Opportunity, Harassment and Bullying</li> <li>Fair Treatment</li> <li>Whistleblowing</li> </ul> </li> <li>Review and update Fortescue's Diversity Policy</li> <li>Obtain employee feedback on diversity via the annual values survey.</li> </ul>
Ensure remuneration outcomes are based on job value.	All employees are paid based on their skills and experience they bring to the role.	<ul style="list-style-type: none"> <li>Complete annual gender remuneration parity review and implement recommended actions.</li> </ul>



## ABORIGINAL DEVELOPMENT AND COMMUNITY

Creating training, employment and business development opportunities for Aboriginal people supports Fortescue's commitment to end Aboriginal disparity







**A\$1.8 billion**  
*Contracts to Aboriginal companies and JVs*



## ABORIGINAL DEVELOPMENT AND COMMUNITY

Fortescue is committed to creating economic opportunities for Aboriginal people through training, employment and business development. By providing training for guaranteed jobs and developing business capacity, Fortescue is partnering with the Traditional Owners of the Pilbara to end the disparity between Aboriginal and non-Aboriginal Australians in socio-economic outcomes.

Fortescue's approach to Aboriginal development is aligned with its policy on human rights within the Code of Conduct and is consistent with global frameworks including the United Nations Guiding Principles on Business and Human Rights, the United Nations Global Compact and the International Council on Mining and Metals (ICMM) Principles.

### Aboriginal Heritage and Native Title

Fortescue has active Land Access Agreements in place with seven Traditional Owner groups in the Pilbara region, specifically the Palyku, Kariyarra, Nyiyaparli, Banjima, Eastern Guruma, Puuti Kunti Kuruma Pinikura and Njama People, and works closely with the Wurlu-murra Yindjibarndi Aboriginal Corporation (WMYAC) representing the Yindjibarndi people of Western Australia. The company also provides production-based royalties to four Traditional Owner groups where its operations fall on their traditional land. The business takes a consultative approach to Native Title and places significant importance on the creation of long term employment opportunities for local Traditional Owner groups.

The identification and management of Aboriginal cultural heritage sites is fundamental to Fortescue's approach to sustainable operations and the company's commitment to protect and promote Aboriginal history and culture. Fortescue reviews the agreements and consults with the Traditional Owner groups to ensure effective heritage management and meet compliance requirements under the *Western Australian Aboriginal Heritage Act 1972 (AHA)*. Fortescue is proud to report there were no incidents impacting on Aboriginal heritage sites during the year.

The company works closely with its Traditional Owner partners to conduct heritage surveys and consult extensively on heritage approvals and compliance matters. In FY15, Fortescue ethnographically surveyed 300,000 hectares and archaeologically surveyed more than 11,900 hectares of tenure. Since establishment, Fortescue has ethnographically surveyed more than 1,230,000 hectares and archaeologically surveyed more than 160,000 hectares of land.

With more than 5,000 heritage places in the vicinity of Fortescue's developments and operations, the surveys ensure continued protection and promotion of Aboriginal history and culture in operations, such as protection of the Kakutangutanta rock shelter adjacent to a mining area at Christmas Creek and Satellite Springs ethnographic site at the Kings Valley mine.

In FY15, Fortescue finalised new Heritage Consultant Standards which apply to all heritage consultants working on Fortescue projects, developments and exploration areas. Since implementation, the Standards have resulted in an improvement in the quality and transparency of heritage survey outcomes, aligning with recent changes to the administration and application of the legislation.

In consultation with Native Title partners, Fortescue delivers a comprehensive program of cross cultural education for all employees and contractors. In FY15, close to 9000 employees and contractors participated in Fortescue's Aboriginal Engagement sessions provided in the Perth Training Centre and over 550 employees and contractors engaged in the Company's cross cultural awareness program. A review of the site-specific cross cultural awareness training program for the Solomon Hub was also completed this year in collaboration with Traditional Owner representatives, and Fortescue's first outdoor, interactive cultural heritage space was established. Similar spaces are proposed at Cloudbreak and Christmas Creek over the coming year.

Fortescue also works with Native Title partners on broader cultural, community and research projects. In August 2014 the Gamburlarna Project was launched with the Wurlu-murra Yindjibarndi Aboriginal Corporation to further identify, record and protect important Yindjibarndi cultural heritage. Fortescue's initial contribution of A\$1.2 million will be supplemented by a further commitment of A\$1.8 million over the coming years. Early phases of the project have resulted in significant outcomes achieved with the development of an interactive cultural map of Yindjibarndi Country, which will be made available to the wider community.

In April 2015 Fortescue stood alongside the Nyiyaparli People to celebrate the launch of an official publication – *Kakutungutanta to Warrie Outcamp: 40,000 years in Nyiyaparli Country*. The book is part of a wider cultural project, funded by Fortescue, researching heritage sites discovered in Nyiyaparli country during development at Fortescue's Christmas Creek and Cloudbreak operations.





*"It's my dream to become Fortescue's first female Aboriginal senior executive."*

*"This is a company making a difference to Western Australian and Aboriginal people's lives and I want to play a major role in that."*

**Paula Hicks**

## CASE STUDY

### CEO for a Day

Earlier this year a determined, young Aboriginal woman came one step closer to realising her dream of becoming a senior executive with Fortescue Metals Group as she shadowed Chief Executive Officer Nev Power as part of GenerationOne's CEO for a Day campaign.

Paula Hicks, a 31 year old Banyjima woman from Geraldton, Western Australia spent the day with Mr Power learning what it takes to

lead an S&P/ASX 50 listed company. Having worked her way up the career ladder, the mother and foster carer is taking the next step by undertaking a Bachelor of Business in Management at Murdoch University. She has also secured an Aboriginal cadetship through

Fortescue's FIVE STAR program, involving a paid work placement with Fortescue for

12 weeks each year over the next three years of her degree. Chief Executive Officer Nev Power said, "I am very proud to be involved in GenerationOne's CEO for a Day initiative.

Together we're helping to empower aspiring Aboriginal people to challenge the status quo and take positive steps towards becoming our future business leaders."

To assess the impact of all of its Aboriginal engagement programs, Fortescue engaged Deloitte Access Economics to conduct a socio-economic impact study. The report found that while all of the programs provide benefits to the Aboriginal community in terms of direct spend, those programs which focus on improving the employment prospects (supply side issues) have substantial flow-through benefits to Aboriginal communities. In particular, the VTEC and Billion Opportunities programs set a benchmark for a best practice approach in improving Indigenous quality of life. Through the Billion Opportunities program, for example, the community reaps 15 times more value from every dollar spent when compared to a dollar provided in the form of mining royalties.

### Creating employment opportunities through education and training

Fortescue strongly values the link between education and employment for Aboriginal people, demonstrated through the VTECs in Port Hedland and Roebourne. The Centres train and facilitate employment for Aboriginal people by delivering industry, company and job-specific pre-employment programs for Aboriginal people, and help to address personal barriers to employment such as health concerns, literacy and numeracy development and personal issues. For example, VTECs provide driving lessons with qualified instructors so Aboriginal people can obtain a drivers licence in order to operate mining equipment.

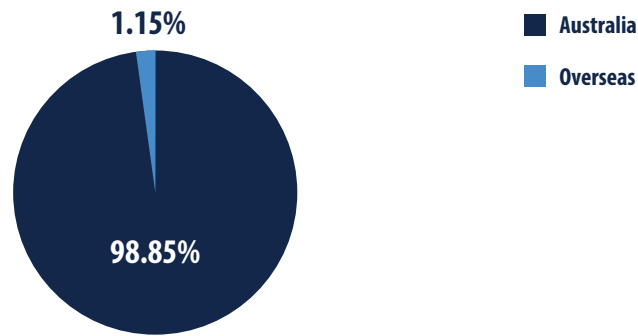
In FY15, Fortescue's VTECs trained 97 Aboriginal people with another 78 participants successfully gaining entry level employment at Fortescue's operations. In recognition of the program's success, the Federal Government committed to building 29 VTECs across Australia based on Fortescue's model.

Fortescue also runs a FIVE STAR program to provide a professional career pathway for Aboriginal employees. The program provides traineeships, secondary, tertiary and vocational scholarships, cadetships and leadership development and since its inception two years ago, 40 Aboriginal people have participated in the program including 22 in FY15.

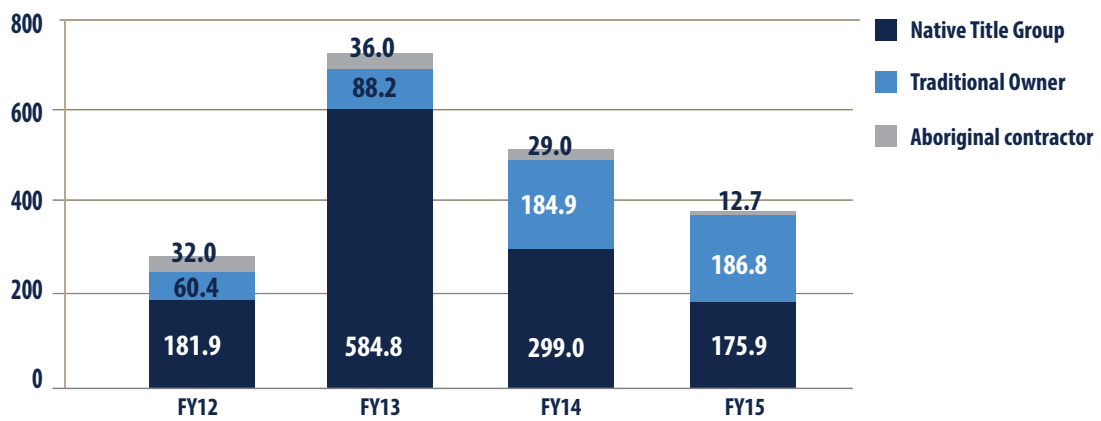
In FY15, there were 67 apprentices with 35 per cent Aboriginal participation. During FY16, Fortescue is implementing Trade Up – an innovative training program designed to increase the number of Aboriginal trades people in the workplace. Fortescue and its contracting partners will select up to 40 Aboriginal employees annually to take part in a 12 month traineeship providing a pathway into a four year apprenticeship program, further demonstrating Fortescue's commitment to creating training and employment opportunities for Aboriginal people.

In November 2014, Fortescue launched a Fresh Start program in partnership with the Department of Corrective Services to provide employment opportunities for Aboriginal prisoners. Under the Memorandum of Understanding signed by Fortescue Chairman Andrew Forrest and WA's Commissioner of Corrective Services James McMahon, low-risk Aboriginal prisoners at Roebourne Prison in the state's north-west complete vocational training courses while in prison to create future employment opportunities.

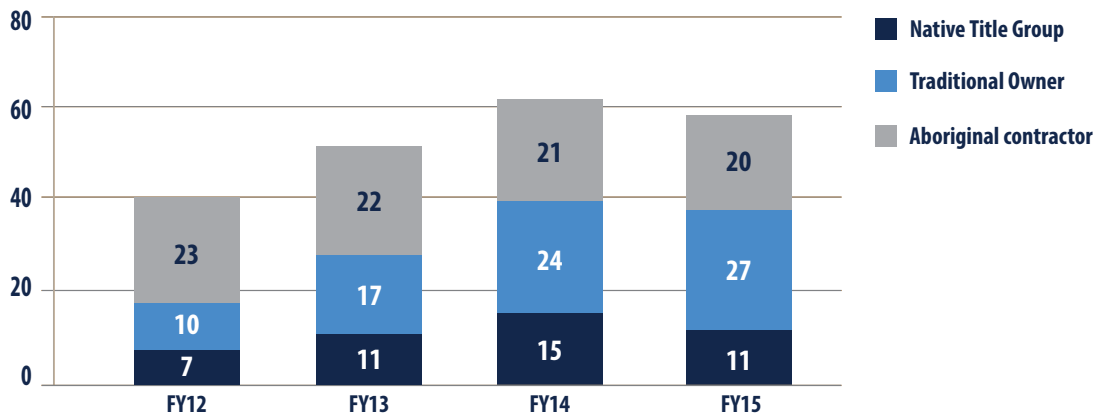
### Percentage spend Australia and overseas



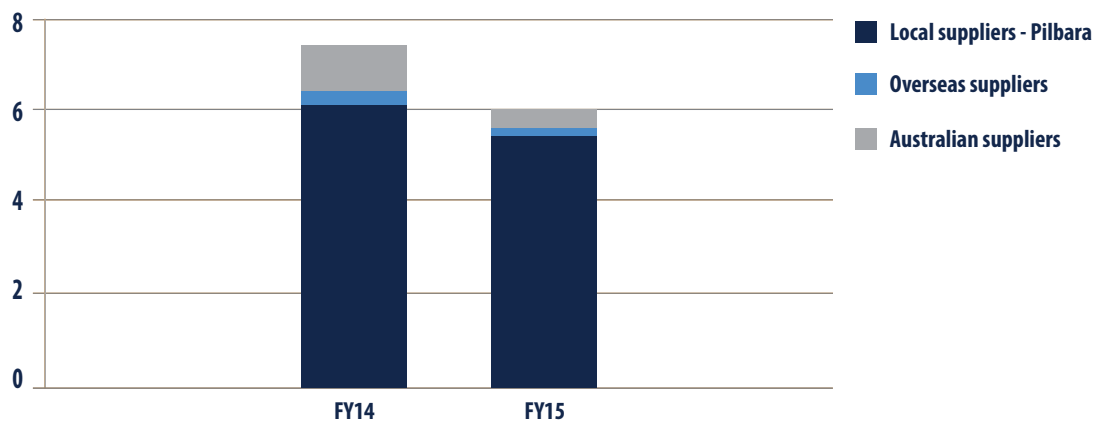
### Billion Opportunities contract value (A\$ millions)



### Billion Opportunities contracts awarded



### Fortescue supplier spend profile (A\$ billions)





## CASE STUDY

### Fortescue wins Supply Nation Corporate Member of the Year 2015

Fortescue was recognised for its achievements in Aboriginal Business Development, winning in the categories 'Corporate Member of the Year' and 'Supplier Diversity Advocate of the Year' at the annual Supply Nation Diversity Awards in May 2015. Fortescue's Billion Opportunities initiative has awarded 200 contracts and subcontracts worth

A\$1.8 billion to Aboriginal-owned businesses and joint ventures since 2011. The commitment of the entire Fortescue family has been embodied by Community Development Manager Heath Nelson, who was named Supplier Diversity Advocate of the Year at the awards. "It's incredibly rewarding to acknowledge how far Aboriginal businesses have come on this

journey with us – it's about giving a 'hand-up' instead of a 'hand-out'. To see Aboriginal business owners seizing those opportunities, delivering on their commitments, growing their businesses and employing local Aboriginal people demonstrates how those positive outcomes flow right through to the broader community," Mr Nelson said.

## Aboriginal Business Development

Fortescue's Billion Opportunities program has awarded 200 contracts and sub-contracts worth more than A\$1.8 billion to Aboriginal-owned businesses and joint ventures since December 2011, with a particular focus on traditional owner involvement.

The Company's commitment to Aboriginal business development forms a critical element of its approach to ensure economic opportunity is the key benefit to flow from Native Title agreements.

In FY15, Fortescue awarded 48 contracts and sub-contracts worth over A\$375 million to Aboriginal owned businesses and joint ventures.

## COMMUNITY

### Working with the community

Fortescue aspires to be a corporate citizen of choice, welcomed by the communities that host its activities, and believes in generating long term value for all of its stakeholders. Fortescue does this by empowering communities, providing economic opportunity, behaving with respect and care for people and the environment, taking responsibility for its presence and doing what it says it will do. This approach is underpinned by Fortescue's commitment to the Western Australian Government to contribute to sustainable community and social benefits as outlined in the company's Community Development Plans and Reports.

Fortescue actively encourages community feedback and consultation and engages with communities through a variety of activities, including maintaining a dedicated shop front in the South Hedland shopping centre, formal consultations, community open days, involvement in community events and conducting a bi-annual community survey. Understanding community views informs decision making processes and enables investment in projects and programs that deliver the greatest benefits to the community.

Fortescue has partnered with the Town of Port Hedland to deliver a South Hedland Youth Space, the largest skate park in Australia, and to support the operation of Wanangkura Stadium, a 24-hour gymnasium and recreation facility. Fortescue is also an operational sponsor of the Hedland Senior High School's Trade Training Centre, providing students with a pathway into the mining industry. In FY16, three new family day cares will be established under the Child Services Support Unit (CSSU) framework with financial assistance from Fortescue to support Fortescue families and the wider community.

Under the 'Helping Others' program, Fortescue provides a community support program which awards financial and in-kind support to community projects in the Pilbara. During the year Fortescue provided over A\$150,000 in community grants to local organisations in the Town of Port Hedland, Shire of East Pilbara and Tom Price area including the Marble Bar Museum, East Pilbara Softball Association, WA Country Health Service Pilbara - Newman Hospital, and Aboriginal Family Law Services. Eligibility is based on set criteria, which is outlined in the Community Support applications available on the Fortescue website.





## CASE STUDY

### A proud sponsor of the National Indigenous Hockey Program

Since 2011, Fortescue has partnered with Hockey Australia as the principal sponsor of the National Indigenous Hockey Program to bring the world's number one hockey team and Olympic gold medallists, the Kookaburras, to the Pilbara Aboriginal community and wider community.

The program is developing one of international sport's most inclusive games, hockey, in the Pilbara region while building leadership skills, encouraging active participation, engaging the community and identifying local talent.

Through the program, local kids are exposed to great role models and a game that encourages team work, a healthy lifestyle, initiative, determination and a strong sense of purpose. Four years into the program we continue to see positive outcomes in terms of participants developing confidence and individuality to stand on their own two feet and carve their own futures.

As part of Fortescue's ongoing support for the National Indigenous Hockey Program, the company helped 16 year old Indigenous student Hallee Collard from Kondinin

compete in the 19th International Youth Hockey Easter Tournament in Amsterdam in March 2015.

Leading up to the tournament, Fortescue arranged a mentor session for Hallee with Aboriginal representative hockey players, Brooke Peris and Joel Carroll.

**"It was really exciting," Hallee said. "I love playing hockey and coming to Perth has given me more opportunities. I hope to play for the Hockeyroos one day, it's my biggest dream."**

### Working with the community (continued)

Fortescue is committed to developing permanent, residential workforces in Port Hedland, Karratha and Roebourne. Through the Fortescue Home Ownership Assistance Scheme, the company has helped to increase the availability of affordable, local housing in the Pilbara.

To date, 141 houses in South Hedland have been constructed, 52 of which have been purchased through Fortescue's Pilbara Home Ownership Scheme available to Fortescue employees. An additional 30 homes have been purchased from the open market through the scheme, which together with 487 rental properties house Fortescue's residential workforce of over 500 employees.

The entire Fortescue team works hard to volunteer and raise funds within the communities in which it lives and operates, with a focus on ending Aboriginal disparity through events such as the annual Roebourne Working Bee. Other areas of focus include the 'Stronger Together' campaign for Ronald McDonald House and raising funds for the Royal Flying Doctor Service.

Fortescue is the proud Gold Sponsor of the national men's hockey team, the Kookaburras, and the principal sponsor of the National Indigenous Hockey Program. Fortescue is a jersey sponsor of the Western Force Rugby Union team, while on a local level the company's sponsorship of the South Hedland Swans Australian Rules Football Club enters its fifth year.



## ENVIRONMENT

Fortescue continues to invest in an innovative approach to minimise its environmental impact and contribute to sustainable environmental benefits

## ENVIRONMENT

### Reducing Fortescue's environmental impact

Fortescue is committed to responsibly managing its environmental impacts and meeting all of its licence requirements. The company takes a precautionary approach to environmental challenges and continues to invest in initiatives and technologies that minimise its environmental impacts and contribute to sustainable environmental benefits.

Central to Fortescue's steadfast approach to environmental management is the company's Environment Policy which focuses on minimising, mitigating and remediating the impacts of its operations from project exploration through to rehabilitation. As a responsible corporate citizen, compliance with all relevant environmental laws and obligations is the minimum standard to which Fortescue operates and the minimum requirement against which the Company measures environmental performance.

Fortescue's environmental management includes the development of impact assessments, management plans, monitoring programs and detailed reports and registers. An extensive library of these resources is available on the Fortescue website.

In FY15, Fortescue did not record any material off-site impact incidents and audits conducted on Ministerial Statements by the Western Australia Environmental Protection Authority did not identify any material non-compliances.

### Environmental management systems

Fortescue's Environment Policy outlines the Company's mission to maintain sound environmental management procedures to minimise its impact. The objectives of this Policy are achieved through effective implementation of the Company's environmental management system and subject matter specific management plans. Fortescue's environmental commitments also align with those required by the ICMM and UNGC principles.

The Company's operations are strongly aligned with the ISO 14001 standard for environmental management systems, which focuses on the principles of assessment, control, monitoring and review. Fortescue applies a project life cycle approach to environmental management and strives for continuous improvement in this area. The business has undertaken extensive internal audits of its environmental systems and will finalise the transition to third party audits by late 2015.

### Greenhouse gas emissions and energy

As an organisation operating in an energy intensive industry, Fortescue recognises its responsibility to actively improve energy use and minimise greenhouse gas (GHG) emissions to reduce its contribution to climate change and impact on the environment. The company continues its pursuit to identify and implement targeted initiatives to sustainably reduce its energy and emissions intensity for the benefit of the environment and the business.

Fortescue's operations are guided by its Climate Change and Energy Management Policy, and in compliance with the Australian Federal Government's National Greenhouse and *Energy Reporting (NGER) Act 2007*, the business reports on energy use and GHG emissions on a financial year basis. Each year the Company's total emissions, energy use and energy production are independently audited, to a limited scope, to ensure the business reports accurately and reliably. Data is collected according to Fortescue's Greenhouse Gas Emissions and Energy Reporting Management Plan, which is consistent with NGER requirements. The business also participates in the international Carbon Disclosure Project and the report is accessible at [www.cdp.net](http://www.cdp.net).

Fortescue's total scope one and two GHG emissions for the FY15 reporting period were 1.924 million tonnes of CO<sub>2</sub>e representing a net increase of 3.83 per cent compared with the previous 12 months, relative to an increase in production by 35 per cent. Although total emissions have increased, they have done so at a rate significantly less than the previous five year-on-year average of 40 per cent, representing a stabilised operation.

GHG and energy intensities associated with Fortescue's operations in FY15 have stabilised with a less than 1 per cent variation from intensities reported in FY14. Monitoring intensity provides a more practical indication of GHG performance as it takes into account the effects of the company's entire operations on energy consumption.

Fortescue's GHG and energy intensities are expected to improve, with the Company having completed its capital expansion program and transitioned into a phase of steady production, allowing for an even greater focus on energy efficiency and providing a consistent baseline to help determine overall GHG and energy intensity targets in the near future. Improvement in strip ratios across Fortescue's mines, meaning less energy consumed per tonne of material removed, is also expected to contribute to a reduction in emissions.

Diesel continues to be Fortescue's largest fuel source and is used across the company's mining fleet, heavy hauling locomotive fleet, processing plants and generators. The Company is committed to further reductions in diesel consumption and emissions and will continue to implement its strategy to target opportunities to replace diesel with gas.

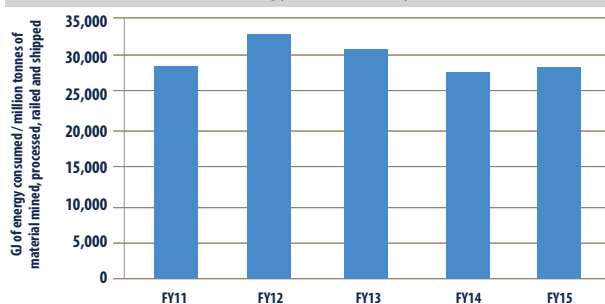
In May 2015 the Fortescue River Gas Pipeline, a 270km natural gas pipeline to the Solomon power station, was completed. Combined with the Dampier to Bunbury Natural Gas Pipeline, it is expected to reduce Fortescue's diesel consumption by 80 million litres per annum, representing a saving of US\$20 million annually. Today, the company's Solomon and Port operations are powered by natural gas. This is a key aspect of Fortescue's approach to reduce energy costs and GHG emissions and secure lower cost energy supply to the region.

Fortescue is also a founding partner in the Pilbara Power Project in which TransAlta will build a highly efficient 150 megawatt power station in South Hedland to supply electricity to residents and industry in the Pilbara for the next 25 years. The combined cycle gas power station will be fully commissioned in 2017.

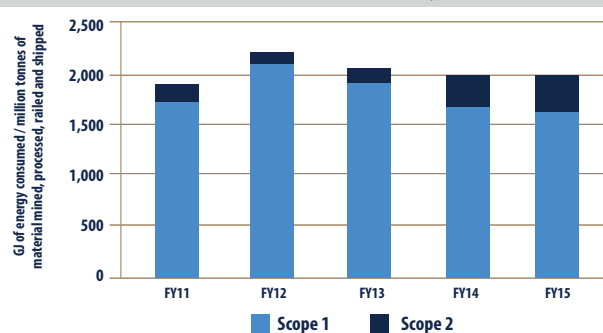




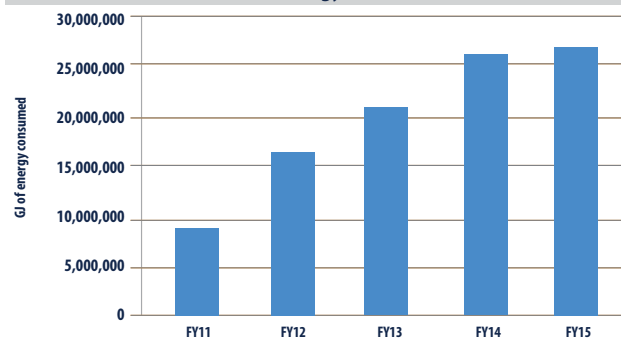
**Energy use intensity**



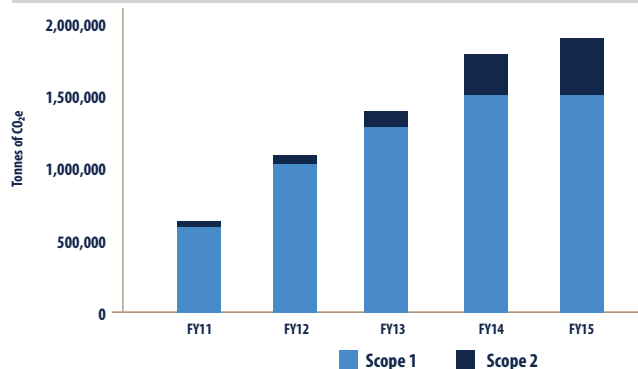
**GHG emissions intensity**



**Energy use**



**Total GHG Emissions**





## Climate change

Fortescue remains focused on addressing the impacts of climate change through taking positive action to reduce its emissions and investment in low-emission technology. The company is also committed to ensuring the resilience of its operations under various climate change scenarios.

Fortescue has undertaken considerable research on the exposure of existing infrastructure and planned projects to potential climate change impacts through to 2030. The findings determined that Fortescue's existing assets have limited exposure to interruptions arising from predicted outcomes such as extreme weather events, increasing average temperatures and water scarcity.

Changes in rainfall intensity and frequency have the potential to increase both the duration and frequency of downtime across Fortescue's operations. Each year the Company plans for lost time due to severe weather events including cyclones, storm surges, lightning, and flooding. To improve the accuracy of this process and validate current understanding of the effects of climate change, the Company utilises continuous weather monitoring and literature scans and conducts regular business impact and risk assessment studies.

The availability of suitable quality process water for plant and operations to sustain production is another key consideration in preparing the business for the potential physical effects of climate change. During planning and risk assessment work, the predicted volume and quality of water supply from dewatering is simulated for two year, five year and life of mine timeframes and compared against predicted and forecast demand growth.

Potential deficiencies in supply to meet demand are evaluated as part of the risk assessment process and financial analysis is completed on these options to mitigate this deficit. Alternative water management practices, such as improved efficiency measures or additional supply options, are incorporated into the planned development and construction schedules where cost effective to the Company's growth strategy.

Fortescue has ongoing programs in place to monitor the potential for any long term change in the local ecosystem and habitat health in the areas in which it operates. Groundwater monitoring has consistently shown that Fortescue manages its groundwater effectively with minimal impact on natural water sources in the region.

## Water management

Effective management of water resources is fundamental to the sustainability of Fortescue's operations, the environment and, most importantly, the communities within which the business operates. Fortescue takes a proactive approach to responsible water management and complies with all relevant water licensing requirements set by Government and industry regulators.

Managing water resources involves numerous challenges for mining operators, the dominant users of water in the Pilbara, with mining operations, dewatering and other related water uses accounting for the majority of all water abstracted or produced in the region. Fortescue continually assesses and manages its water risks applying adaptive responses to water excess, water scarcity, water quality and waste water treatment.

Fortescue's operations are guided by site-specific Groundwater Management Plans and informed by the *Department of Water 2013 Strategic Policy 2.09*. Use of mine dewatering surplus which recommends a hierarchical approach for dewatering. In line with this, Fortescue prioritises dewatering volumes, followed by fit for purpose applications on site such as ore processing, and any additional dewatering surplus is then re-injected into an aquifer as part of Fortescue's internationally recognised Managed Aquifer Recharge (MAR) program.

The MAR is focused on the injection of:

- Extracted groundwater into the original aquifer once it has been used
- Reducing Fortescue's net groundwater use
- Conserving process water
- Significantly reducing the company's impact on the natural groundwater table.

The MAR removes the requirement for surface discharge and minimises potential indirect impacts to neighbouring mines, groundwater dependent ecosystems and the Fortescue Marsh. The Fortescue Marsh is listed on the Directory of Important Wetlands of Australia as a wetland of national significance and is considered to be a unique wetland landform in Western Australia. Significant monitoring is in place to ensure that the groundwater returned to the aquifer is of acceptable quality.

Wherever possible, waste water treatment plant discharge is recycled for other on site applications including dust suppression and landscape irrigation.





## Water use

Site	Type	Volume (kL) 2014	Volume (kL) 2015	Use
Herb Elliott Port	Scheme water	Not tracked	7,636	Potable supply
	Groundwater abstraction	600,000	625,187	Process and dust suppression
	Desalination	n/a	280,457	
Railway	Groundwater abstraction	207,000	265,000	Fill compaction, dust suppression for rail construction and potable water supply to construction camps
Mining operations	Groundwater abstraction	138,613,000	169,074,323	Dewatering to allow for mining below water table, potable water supply and non-dewatering abstraction for mine use

## Returns to the environment

	Groundwater reinjection	101,776,000	115,954,853	Water is injected into aquifers to minimise environmental impacts and maintain water balance
	Surface water discharge	-	-	No excess groundwater was discharged to surface during FY15
	Evaporation and seepage	253,714	255,000	Evaporative losses from uncovered transfer ponds and seepage from unlined brackish ponds

## Groundwater use

	Ore processing facilities	20,415,274	27,641,559	Processing and refining ore
	Camp supply and construction	2,607,814	870,131	Potable supply includes water use during construction at Christmas Creek
	Dust suppression	24,995,755	8,845,326	Dust suppression on roads

## Wastewater data

Site	Wastewater discharge (kL)	
	2014	2015
Cloudbreak	123,234	134,552
Christmas Creek	242,158	276,899
Solomon	135,566	140,257



# NIGHT PARROT

## World's most mysterious bird



### CASE STUDY

#### Night Parrot research plan

The Night Parrot is commonly recognised as the world's most mysterious bird, native to the Australian continent and was until recently, considered likely to be extinct.

Following confirmed sightings in 2013, Fortescue has been implementing a Night Parrot Research Plan at an undisclosed site in south-west Queensland with significant progress made on all four key research objectives.

- 1 **Develop reliable survey methods**
- 2 **Describe key habitats**
- 3 **Describe threatening processes**
- 4 **Identify new populations**

In April 2015, a Night Parrot was successfully captured, fitted with a radio tracking device, and released back into the environment. The parrot was then followed for 21 days providing important insights including habitat range, roosting and ranging behaviour, and new vocalisations.

This data, together with ongoing vegetation surveys and archived imagery analysis, is helping to describe critical habitats, behaviours and threatening processes, such as wildfire frequency, to better understand this enigmatic bird.

The combination of newly developed survey protocols, plus a greater understanding of habitats and site histories allows more reliable surveys to be conducted throughout central Australia, which will continue to build an ecological picture of this most elusive species.

### Biodiversity and land rehabilitation

The Pilbara region is home to a diverse range of flora and fauna species including nationally listed wetlands and unique ecological systems. Across the business, Fortescue acknowledges the importance of conserving the biodiversity of plant and animal life in the regions that host its operations, and continually improving its sustainable management of land.

Fortescue seeks to ensure it understands and manages the full extent of its environmental impacts at all stages of operation. Extensive flora and fauna surveys catalogue the species present in the region prior to the development and construction of any mine site or individual operation with ongoing research and monitoring programs.

The company prioritises species which are classified as significant under the Commonwealth *Environment Protection and Biodiversity Conservation Act 1999*, the *Wildlife Conservation Act 1950* and the *International Union for Conservation of Nature (IUCN) Red List*. While there are currently no recorded observations of rare or threatened flora, there are 28 species of fauna recorded in, or likely to occur in, Fortescue's operational areas.

These include endangered, threatened or vulnerable species such as the Greater Bilby, Northern Quoll, Pilbara Leaf-nosed Bat and Night Parrot, which require site specific fauna management plans and, in some cases, offset or research plans developed in consultation with relevant state and federal agencies. Fortescue's offset programs are guided by the Company's Environment Policy through minimising and mitigating net environmental impacts. Such projects include invasive species management conducted in partnership with the Department of Parks and Wildlife and research funding to implement threatened species recovery programs.

Fortescue provides funding towards an external full time Conservation Officer dedicated to the protection and ongoing improvement of the current habitat and conservation values of the Fortescue Marsh. A key responsibility of this role is to identify and understand the key risks threatening biodiversity in the area and implement effective management and control programs to mitigate these risks.

Fortescue has also invested in two research projects through the Centre of Evolutionary Biology at the University of Western Australia, which focus on the reproductive biology of small Pilbara ground mammals.

## Biodiversity and land rehabilitation (continued)

Fortescue's support for important biodiversity research and conservation in the Fortescue Marsh continues. Part of an ancient and complex array of alluvial aquifers and groundwater systems and considered an area of high conservation value, the Marsh extends over approximately 1,048 square kilometres (km<sup>2</sup>) within a management area of 5,836 km<sup>2</sup> and a broader catchment area of the upper Fortescue River of 29,791 km<sup>2</sup>.

Fortescue's environmental assessment studies have played an important role in creating a greater understanding of the hydrology of the Marsh. The company also works closely with state agencies and academic institutions on dedicated research projects in the area, including surveying and mapping, to help the business better understand and responsibly manage the relationship between the Marsh and its activities. This cooperative approach has provided a framework for the Western Australian Environmental Protection Agency's (EPA) approach to assessing the cumulative impacts of development projects in the Pilbara.

Fortescue applies an integrated approach to land management to ensure responsible rehabilitation practices are reflected throughout every stage of the mining life cycle. Rehabilitation monitoring is conducted in accordance with the company's rehabilitation and revegetation monitoring procedure, which incorporates the assessment of various indices, such as species diversity and composition as well as nutrient cycling, infiltration and erosion assessments.

In FY15, rehabilitation monitoring of 87 sites (63 monitoring and 24 control) continued along the Hamersley and Main line to provide guidance on the recovery success of land disturbed during Fortescue's construction phase. Over 85 per cent of the impact sites monitored recorded a presence of the stabilising grass species *Triodia*, which given the relatively short timeframe between disturbance and rehabilitation, is very encouraging and demonstrates the company's ability to return disturbed lands back to functioning ecosystems.

Fortescue's data on land disturbance and rehabilitation is presented for 1 January 2014 to 31 December 2014.

### Land disturbance and rehabilitation in 2014

Site	Total area disturbed (ha)	2013 Rehabilitation (ha)	2014 Rehabilitation (ha)	Total rehabilitation to date (ha)
Herb Elliott Port	369	-	-	-
Railway corridor	3,613	-	148	1,037
Mining operations	17,186	75	13	88

## Waste and recycling

Fortescue generates various types of waste during exploration, construction, operation and closure activities across its mining, rail and port facilities. Non-product materials, including overburden, need to be removed to gain access to higher quality ores which are then processed into product. Both non-hazardous and hazardous waste is generated across Fortescue's operations, managed by Fortescue's Waste Management Plan and Hazardous Materials Management Procedure respectively. No hazardous wastes classified under the Basel Convention were generated or disposed of by Fortescue during FY15.

Site	Waste rock 2015 (tonnes)
Total overburden mined	299,953,840
Total ore mined	164,074,192
Total tailings	19,207,698

Wherever possible Fortescue segregates recyclable materials and engages specialist contractors for collection and reprocessing.

This year, the company's landfill (1,495 tonnes) to recycled waste (9,470 tonnes) ratio reduced considerably to 13 per cent. This result is a further reduction in the volume of waste going to landfill reported as 25 per cent in FY14 and has been achieved through an expansion in the types of waste streams recycled over the year, as well as large-scale waste reduction initiatives implemented at Fortescue's Cloudbreak and Christmas Creek landfill facilities. These facilities are managed in partnership with a joint venture between Pilbara Logistics Western Australia and Toxfree, which employs local Aboriginal people and is dedicated to continuous improvement in environmental compliance, recycling outcomes and general reduction of waste to landfill.

The Landfill Space Saved graphs depict the weight of materials recycled across the Chichester Hub, which is further explained in broad categories and volumes of materials recycled. In FY15, 9,771m<sup>3</sup> of space was saved in the Christmas Creek landfill, compared with 4,836 m<sup>3</sup> in FY14.

## CASE STUDY

### Controlling feral cats at Fortescue Marsh

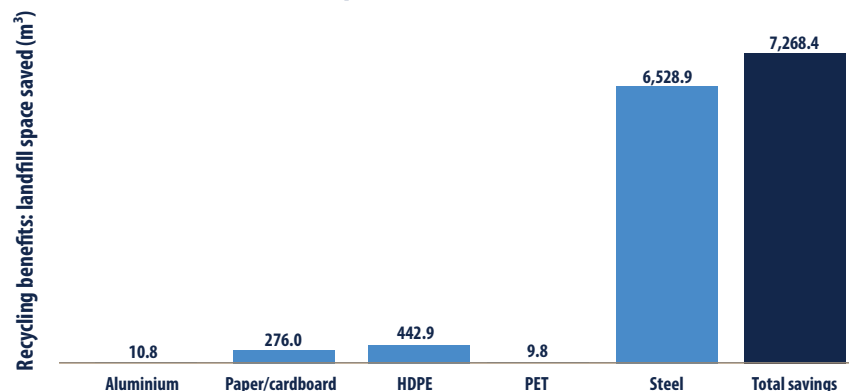
Fortescue continues to partner with Parks and Wildlife in a feral cat baiting program at the Fortescue Marsh, a program that the company has been involved in since 2012. The program is focused on the long term protection of species in the area that are listed in the Commonwealth Environment

Protection and Biodiversity Conservation Act including the Bilby, Night Parrot and migratory bird species.

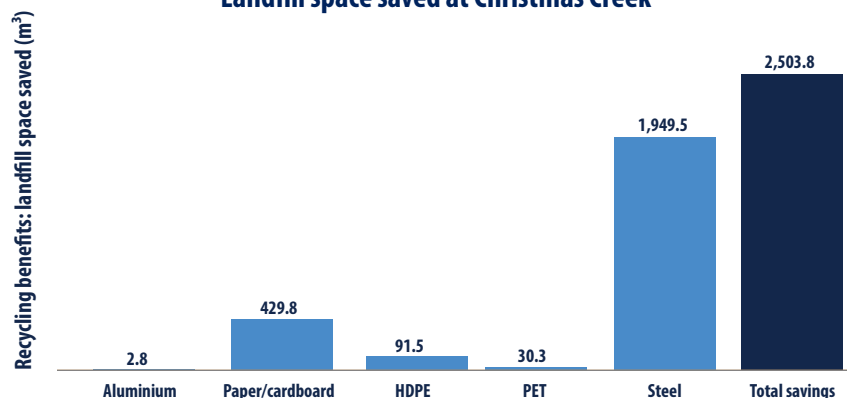
For a minimum of five years, the program will involve baiting by plane to predetermined drop locations across an area of approximately

1,000 km<sup>2</sup>. The impact of the program was initially monitored by camera traps alone, but today radio collars are also providing valuable information on the habits of feral cats in the Marsh and contributing to the long term conservation of the area and its native species.

### Landfill space saved at Cloudbreak



### Landfill space saved at Christmas Creek



### Closure planning

Closure plans and financial provisions to execute these plans are developed and maintained for all of Fortescue's operational sites. Closure planning plays an important role in the planning and development of Fortescue's projects and operations to ensure that the legacy impacts of its operations are minimised and mitigated.

A key component in the development and fulfilment of the Company's closure plans is the consultation and engagement of local stakeholders, including Traditional Owners, to ensure that land is returned in a state that supports future opportunity and long-term benefit.

Fortescue's closure plans, which are subject to external review and approval, are implemented progressively over time and are regularly updated with findings from targeted research and trials to ensure maximum effectiveness in rehabilitation and remediation activities.

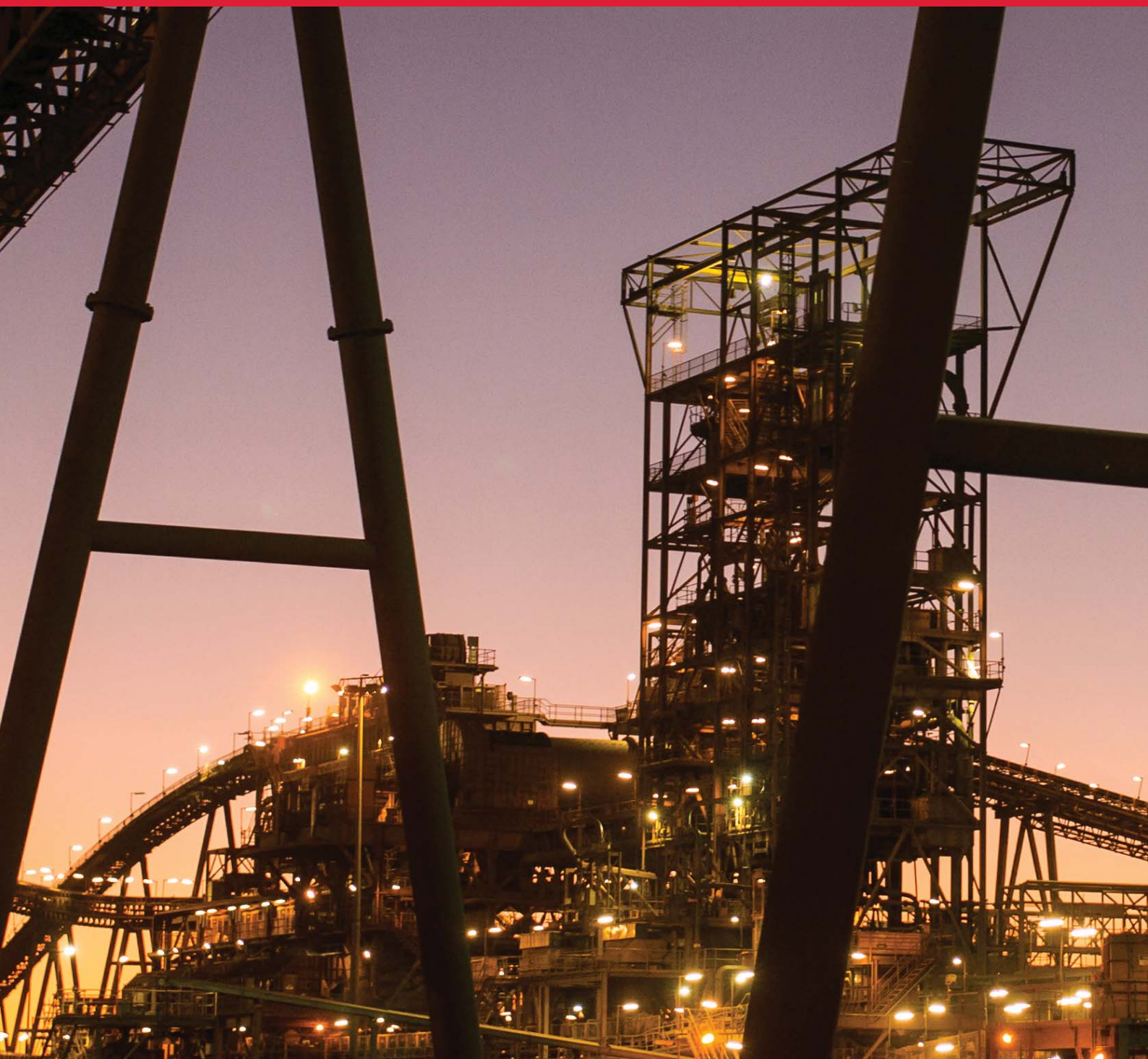
The Company has comprehensive rehabilitation and revegetation plans in place that focus on stabilising disturbed land and returning land to functioning ecosystems. The established infrastructure at these facilities is expected to retain value beyond the current mine life.





# GOVERNANCE

[Overview](#) | [Operating and Financial Review](#) | [Reserves and Resources](#) | [Corporate Social Responsibility](#) | **[Governance](#)** | [Financial Report](#) | [Remuneration Report](#) | [Corporate Information](#)





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# 1 OVERVIEW OF GOVERNANCE

Effective corporate governance is a critical element contributing to the longer term success of Fortescue. The Board and all levels of management are fully committed to maintaining and enhancing our corporate governance so that it continues to contribute to our vision to be the safest, lowest cost, most profitable iron ore producer.

Fortescue is committed to meeting the requirements of the ASX Corporate Governance Council Principles and Recommendations 3rd Edition (*Principles and Recommendations*). The cornerstone principles of corporate governance at Fortescue are:

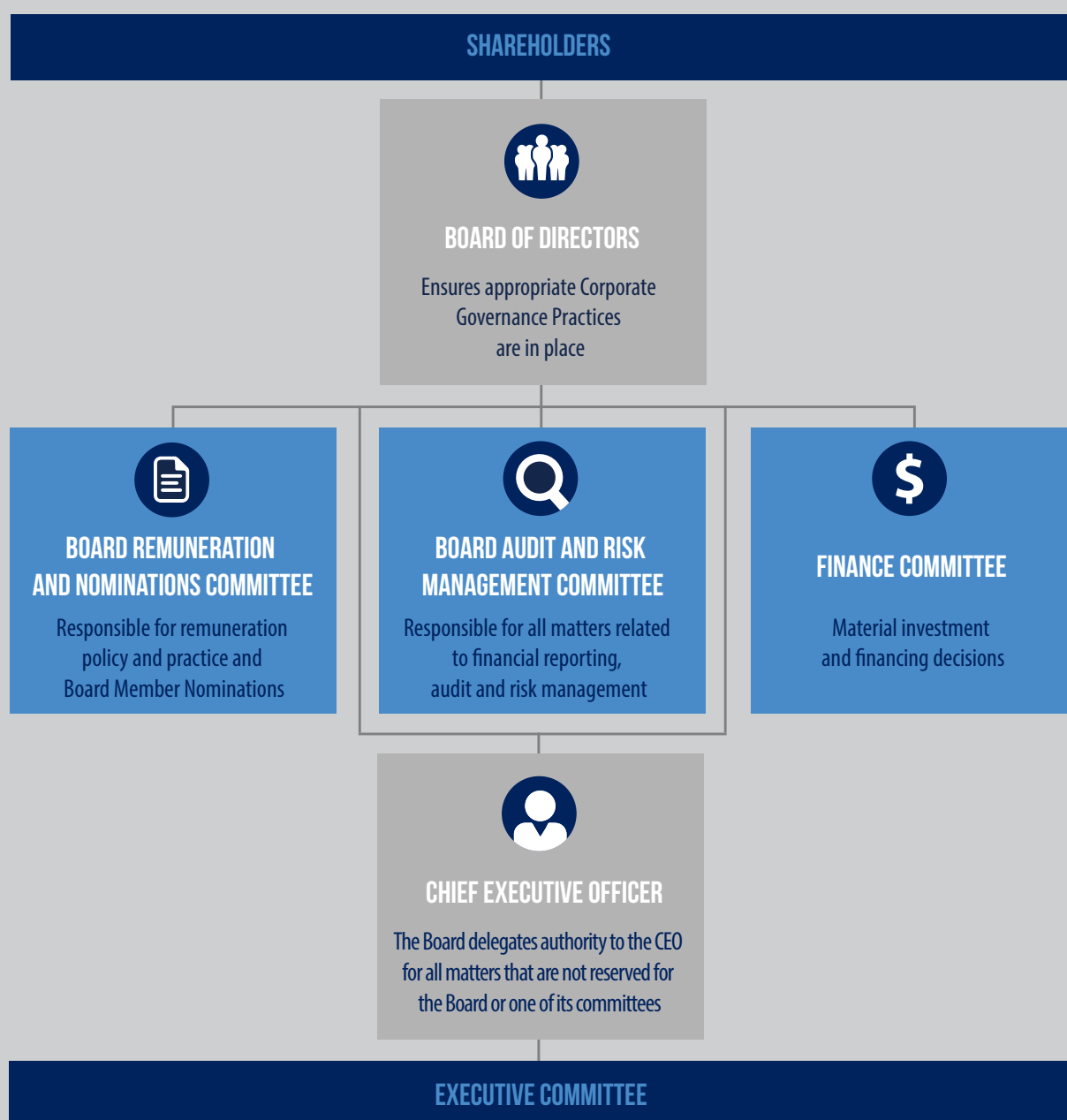
**Transparency:** Being clear and unambiguous about the Company's structure, operations and performance, both externally and internally, and maintaining a genuine dialogue with, and providing insight to, legitimate stakeholders and the market generally.

**Integrity:** Developing and maintaining a corporate culture committed to ethical behaviour and compliance with the law.

**Corporate accountability:** Ensuring that there is clarity of decision making within the Company, with processes in place to ensure that the right people have the right authority to make effective and efficient decisions, with appropriate consequences delivered for failures to follow those processes.

**Stewardship:** Developing and maintaining a company-wide recognition that the Group is managed for the benefit of its shareholders, taking reasonable account of the interests of other legitimate stakeholders.

Fortescue's governance framework is illustrated below.





## 2 BOARD OF DIRECTORS

### 2.1 Role and responsibilities

The Board is responsible to the shareholders for the performance of the Company. The Board's focus is to enhance and protect the interests of shareholders and other key stakeholders and to ensure that the Company is properly managed. The Board understands the critical importance of a strong and healthy working relationship between it and the executive management team and works hard to foster and grow that relationship.

The Board ensures that the management team is appropriately qualified and experienced to discharge their responsibilities.

The Board has established a Statement of Matters Reserved for the Board which states that the key responsibilities of the Board are as follows:

- Appointing, evaluating the performance of, rewarding and, if necessary, removing the Chief Executive Officer (CEO)
- Developing corporate objectives and strategies with management and approving plans, new investments, major capital and operating expenditures and major funding activities proposed by management
- Monitoring performance against defined performance expectations and reviewing operational information to understand at all times the state of health of the Company
- Overseeing management of business risks, including safety and occupational health risks, environmental management issues and community development issues arising from interaction with the several communities living or located in Fortescue's geographic areas of operation
- Satisfying itself that the annual financial statements of the Company fairly and accurately disclose its financial position and performance
- Satisfying itself that there are appropriate reporting systems and controls in place and gaining acceptable levels of assurance that proper operational, financial, compliance, risk management and internal control processes are in place and functioning appropriately. Further, approving and monitoring financial and other reporting
- Gaining assurance that appropriate audit arrangements are in place
- Ensuring that the Company acts legally and responsibly on all matters and gaining assurance that the Company has adopted an appropriate Code of Conduct and that Group practice is consistent with that Code
- Reporting to and advising shareholders.

The Board has also established Delegations of Authority for matters delegated to the authority of the CEO and hence the CEO remains accountable to the Board through those delegations for the performance of the Company. Whilst the CEO remains accountable to the Board, he is free to make whatever decisions he believes are appropriate for the business within the boundaries established by the Board.

A key focus of Board meetings is monitoring the decisions of the CEO. Appropriate time is allocated during Board meetings for consideration of the CEO's report to the Board on key operational issues and progress towards achievement of corporate objectives. The Board has established the Key Performance Indicators (KPI's) against which the performance of the CEO is evaluated. These KPI's are discussed in the Remuneration Report in this Annual Report.

Both the Statement of Matters Reserved for the Board and the Delegations of Authority are reviewed annually to assess continued relevance and to identify any areas requiring improvement or change. Where changes are required to these documents, such changes are approved by the Board.

### 2.2 Board composition

Under the Company's Constitution, the Board must have a minimum of three and a maximum of twelve directors. No director, other than a Managing Director, may retain office without re-election for more than three years or past the third annual general meeting following the director's appointment, whichever is the longer. Additionally, any new director, with the exception of the Managing Director, appointed by the Board must retire and may seek re-election in the year of appointment.

The Board believes that its composition represents an appropriate balance of executive and non-executive directors to achieve the promotion of shareholder interests and effective governance of the business.

The Board also has access to senior executives who attend Board meetings and Board Committee meetings by invitation and who are available at other times as required by Board members.

## 2 Board of Directors (continued)

The Directors of the Company during FY15:

Name	Date of Initial appointment	Period of office	Due for re-election		
			2015	2016	2017
A Forrest ( <i>Chairman</i> )	18 July 2013	Full year	No	No	Yes
O Hegarty ( <i>Deputy Chairman</i> )	14 October 2008	Full year	No	No	Yes
M Barnaba ( <i>Lead Independent Director</i> )	19 February 2010	Full year	No	No	Yes
N Power ( <i>Managing Director and Chief Executive Officer</i> )	2 September 2011	Full year	n/a - Managing Director		
P Meurs	22 February 2013	Full year	No	Yes	No
J Baderschneider	19 January 2015	Since 19 January 2015	Yes	No	No
E Gaines	22 February 2013	Full year	No	Yes	No
C Huiquan	27 February 2012	Full year	Yes	No	No
G Raby	18 August 2011	Full year	No	No	Yes
S Warburton	13 November 2013	Full year	No	Yes	No
H Elliott <sup>1</sup>	16 October 2003	Retired at the AGM	n/a - Retired		
G Rowley <sup>1</sup>	16 October 2003	Retired at the AGM	n/a - Retired		
H Scruggs <sup>1</sup>	26 August 2011	Retired at the AGM	n/a - Retired		

<sup>1</sup> Mr Herbert Elliott, Mr Graeme Rowley and Mr Herbert Scruggs retired from the Board and Committees at the AGM held on 12 November 2014.

### 2.3 Meeting attendance

The Board and its Committees meet as often as necessary to fulfil its role. Directors are required to allocate sufficient time to the Company to discharge their responsibilities effectively, including adequate time to prepare for Board and Committee meetings and in joining visits to the Company's operational sites.

Attendance at Board and committee meetings during FY15 is summarised below:

Director	Board		Audit and Risk Management Committee		Remuneration and Nominations Committee		Finance Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
A Forrest ( <i>Chairman</i> )	7	7	-	-	4	3	1	1
O Hegarty ( <i>Deputy Chairman</i> )	7	7	-	-	4	4	-	-
M Barnaba ( <i>Lead Independent Director</i> )	7	7	4	4	4	4	1	1
N Power ( <i>Managing Director and Chief Executive Officer</i> )	7	7	-	-	-	-	-	-
P Meurs	7	7	-	-	-	-	-	-
J Baderschneider <sup>3</sup>	7	4*	-	-	-	-	-	-
E Gaines	7	7	4	4	-	-	1	1
C Huiquan <sup>1</sup>	7	3	-	-	-	-	-	-
G Raby	7	6	-	-	4	4	-	-
S Warburton <sup>2</sup>	7	7	4	2*	4	4	-	-
H Elliott <sup>4</sup>	7	2	-	-	4	2*	-	-
G Rowley <sup>4</sup>	7	2	4	2*	4	2*	-	-
H Scruggs <sup>4</sup>	7	2	4	2*	-	-	1	-

\* Attendance rate reflects date of appointment/resignation during FY15.

<sup>1</sup> Mr Cao Huiquan was unable to attend numerous meetings during the year due to potential conflict of interests in his role as Chairman Valin Iron and Steel Co. Ltd.

<sup>2</sup> Ms Sharon Warburton was appointed as Chair of the Remuneration and Nominations Committee on 12 November 2014.

<sup>3</sup> Dr Jean Baderschneider was appointed as a Director on 19 January 2015.

<sup>4</sup> Mr Herbert Elliott, Mr Graeme Rowley and Mr Herbert Scruggs retired from the Board and Committees at the AGM held on 12 November 2014.

Generally Board meetings are of one day's duration and Board Committee meetings precede Board meetings on the previous day. At least once per year the Board visits each of the major operations prior to one of the Board meetings.

In addition, Board members hold meetings with management as required.

## 2 Board of Directors (continued)

### 2.4 Board Skills Matrix

The primary driver for the Board in seeking new directors has been, and continues to be, the skills, experience, knowledge and other important attributes which are relevant to the needs of the Board in discharging its responsibilities to shareholders. As with all roles in the company, our policy is to recruit the best person for each role regardless of race, gender, age, physical ability, sexuality, nationality, religious beliefs, or any other factor not relevant to their competence and performance. The Board is committed to ensuring that an environment of equal opportunity is in place and that all decisions are based on merit.

The Board believes that collectively the directors have a diverse and relevant range of skills, backgrounds, knowledge and experience to ensure effective governance of the business. The members of the Board contribute a range of industry knowledge, international experience perspectives and specific subject matter expertise in a range of strategic, operational and financial aspects that are critical to the long term success of Fortescue. This means that the Board maintains a focus on its composition, thereby working to ensure that the executive and non-executive directors continue to have an appropriate balance of skills, experience and independence.

The following table sets out the composition of skills and experience of the Board.

#### Leadership



- Successful history in business at a senior executive level
- Public listed company experience
- Understanding/influencing organisational culture

#### Capital projects



- Experience in the delivery of large-scale capital projects
- Experience in project governance and risk management

#### Strategy



- Experience in developing and implementing successful strategy
- Ability to provide oversight of management for the delivery of strategic objectives

#### Mining, resources and infrastructure



- Large mining organisation experience
- Large infrastructure organisation experience

#### International experience



- Experience in and exposure to multiple cultural, regulatory and business environments
- Experience with doing business in China and the Asian region

#### Financial acumen



- Experience in financial accounting and reporting, corporate finance and internal financial controls
- Experience in business analysis and financial forecasting

#### Governance



- Experience in governance with complex organisations
- Commitment to ensuring effective governance structures
- Maintaining effective risk management and internal control

#### Sales and marketing



- Senior executive experience in sales and marketing
- Building long-term, sustainable customer relations across a diverse customer base
- Detailed knowledge of the Company's strategy, markets and competitors

#### Health, safety and environment



- Experience related to workplace health and safety
- Experience with environmental and community issues in a large organisation

#### Stakeholder management



- Experience with community relations and government affairs
- Executive experience with industrial relations

#### Public policy and regulation



- Experience in managing how organisations adapt and respond to changing public policy settings
- Oversight and management of regulatory frameworks and processes designed to ensure that all regulatory obligations are met



## 2 Board of Directors (continued)

### 2.5 Diversity

Fortescue is committed to providing a balanced and inclusive working environment. Fortescue has a documented Diversity Policy and Plan that is built on our values. The Board has implemented a Diversity Policy and measurable objectives which reflect Fortescue's commitment to ensuring that there are no impediments to diversity at any level of the company. The policy sets targets and practices that promote diversity in both gender mix and Aboriginal employment across all areas of the business.

The policy can be accessed through the corporate governance section of the company's web site.

Further information on Fortescue's diversity outcomes is included in the Corporate Social Responsibility section of this report.

### 2.6 Appointment and induction of Directors

Directors, with the exception of the Managing Director, are required to retire by rotation at least once every three years and are able to offer themselves for re-election. The Board has adopted a letter of appointment that contains the terms on which directors are appointed, including the basis of remuneration. Prior to appointment, or offering themselves for re-election, non-executive directors are required to specifically acknowledge that they have the time available to fully discharge their responsibilities to the Company.

Prior to appointing a director, the Company undertakes a rigorous process of evaluation and checks to ensure their suitability and capacity to discharge their duties as a Board member. This evaluation covers matters such as:

- Skills and experience including the expected contribution to the collective skills and experience of the Board
- Current and prior directorships and/or executive roles
- Independence
- Any other matters (including interests, positions and associations) which could adversely affect their ability to effectively discharge their duties as a Board member.

Following appointment, directors are supported through a formal induction program that seeks to familiarise them with the operations of the business. This typically involves a combination of meetings with senior management, site visits and briefings on specific issues. This process continues throughout the tenure of the director.

Directors are expected to contribute to the Company primarily in relation to the matters set out in the Statement of Matters Reserved for the Board, which can also be accessed through the corporate governance section of the company's website.

In addition, directors are expected to contribute to the business of the Board Committees where they are members of a Board Committee. It is recognised that directors have a diverse range of skills, experience and knowledge and they are expected to contribute their considerable expertise at the boardroom table and at other times as required.

Directors are expected to act independently by challenging the status quo constructively, to act ethically in all dealings and assist in setting standards for the Company, as well as being involved and contributing to all important decisions before the Board.

Directors are expected to comply with all requirements imposed upon them by the *Corporations Act 2001*, ASX Listing Rules and the Company's Constitution, a copy of which can be obtained from the corporate governance section of the Company's website.

The letter of appointment also provides clear direction about the amount of time that directors are required to commit in order to adequately discharge their responsibilities as directors.

It is Fortescue practice to allow its non-executive directors to accept appointments outside the Company with prior approval of the Board. The commitments of non-executive directors are considered by the Board prior to a director's appointment to the Board and are reviewed annually.

### 2.7 Chairman

The Chairman of the Company has a primary responsibility to lead the Board and promote the interests of the Company, both internally and in the broader business context. A key part of the Chairman's role is to develop a cohesive Board which operates effectively in protecting shareholders' interests and maintaining strong relationships with the CEO and his executive team.

Mr Andrew Forrest, the founder of Fortescue, was appointed to the role of Non-Executive Chairman by the Board in August 2011. Mr Forrest succeeded Mr Herb Elliott as Chairman and was previously the CEO. Mr Forrest, whilst being a Non-Executive Director, is not an independent director due to his previous role as CEO and his significant shareholding in the company. Mr Owen Hegarty assumed the role of Vice Chairman on 12 November 2014.

Mr Mark Barnaba assumed the role of the Lead Independent Director on 12 November 2014. Both these roles were previously held by Mr Herb Elliott, who retired as a Director on the same date.

## 2 Board of Directors (continued)

### 2.8 Independence

All Fortescue Directors have an obligation to be independent in judgment and actions. The Board has a majority of independent directors to ensure that the interests of shareholders are always at the forefront when important decisions are made by the Board. Directors are considered to be independent if they satisfy established criteria, including the following:

- They are a non-executive director of the company and have not been a director for such a period that their independence may have been compromised. Any fees paid to them by the Company for services provided are not of such amounts that could make the director reliant on such remuneration. Directors must have no other material contractual relationships with the Company other than as directors of the Company
- They are not a substantial shareholder of the Company, or an officer of, or otherwise associated with, a substantial security holder of the entity
- They have not been employed in an executive capacity by the Company or there has been a period of three years between ceasing such employment and serving on the Board
- They have not, within the last three years, been a principal of a material adviser or consultant to the Company
- They have not, within the last three years, been in a material business relationship with the Company, or an officer of or otherwise associated directly or indirectly with, someone with such a relationship
- They are free from any interest which could reasonably be perceived to materially interfere with their ability to act in the best interests of the Company.

In essence the above guidance is designed to ensure that all directors are able to act in the best interests of the Company at all times.

Directors are required to disclose circumstances that may affect, or be perceived to affect, their ability to exercise independent judgement so that the Board can make regular assessments of independence. If a circumstance arises whereby a director may be required to consider a matter in which the director has a material personal interest, that director ceases to be involved in the decision making regarding that matter.

At the date of this report, the Board has eight non-executive directors. Of the eight non-executive directors, based on the above criteria, six are considered to be independent and two are considered to be non-independent. The Board believes that it has independent directors involved in all areas of Board activity where director independence is critical, including chairmanship via the deputy chair and involvement in the various Board committees. The table below shows directors who are considered to be independent and non-independent:

Director	Independent (Yes / No)
A Forrest	No
O Hegarty	Yes
M Barnaba	Yes
N Power	No
P Meurs	No
J Baderschneider	Yes
E Gaines	Yes
C Huiquan	No
G Raby	Yes
S Warburton	Yes

Mr Owen Hegarty assumed the role of Vice Chairman during the year. The Vice Chairman's role includes chairing the Board and shareholder meetings when the Chairman is unable to do so and approval of meeting agendas and quality of information provided to the board.

Mr Barnaba was appointed as the Lead Independent Director to represent the interests of shareholders where the Chairman is unable to do so due to his non-independent status. This role includes:

- Representing the Board as the senior independent director when the Chairman is unable to do so due to his non-independent status
- Acting as principal liaison between the Independent Directors and the Chairman
- The roles of Vice Chairman and Lead Independent Director have been separated to further strengthen the overall independence of the Board and to allow greater flexibility in responding to governance issues and in supporting the interests of all shareholders.

Transactions during the year which are classified as related party transactions with directors or director related entities pursuant to International Financial Reporting Standards are disclosed in the notes to the financial statements.



Board visit to Chinese steel mill

## 2 Board of Directors (continued)

### 2.9 Evaluating Board and Committee performance

The Board and each of its three primary committees have established a process to evaluate their performance annually. The process is based on a formal questionnaire and interview conducted by an independent consultant and supported by the Company Secretary. The most recent review was undertaken by Ernst & Young in April 2015.

The results and recommendations from the evaluation of the Board and committees are anonymised and reported to the full Board for further consideration and action where required. The entire Board agrees improvement actions where appropriate and these are acted upon utilising support from the Company Secretary.

The individual performance of directors is considered during the Board and Committee performance evaluation process in addition to ongoing consultation between the Chairman, Vice Chairman and the relevant directors as required.

### 2.10 Use of information

The Board has implemented a Code of Conduct designed to ensure that all directors and employees of the Company act ethically and do not use confidential information for personal gain.

### 2.11 Independent advice

Directors and Board committees, in connection with the discharge of their responsibilities, have the right to seek independent professional advice at the expense of the company. Prior written approval of the Chairman is required in these circumstances, but such approval cannot be unreasonable withheld.

### 2.12 Remuneration

Details of the remuneration policies and the remuneration paid to directors (executive and non-executive) are set out in the Remuneration Report in this annual report.

### 2.13 Company Secretary

The Company Secretary is directly accountable to the Board through the Chairman on all matters to do with the proper functioning of the Board. The Company Secretary is appointed and removed by the Board.

The Company Secretary is also responsible for ensuring that Board procedures are complied with and advising the Board on governance matters. All directors have access to the Company Secretary for advice and support services as required. In addition to these responsibilities, the Company Secretary is also responsible for oversight of the share registry services provided by Link Market Services.



### 3 BOARD COMMITTEES

The Board has established Committees to assist in the execution of its duties and to ensure that important and complex issues are given the detailed consideration they require. The primary Committees of the Board are the Remuneration and Nominations Committee, the Audit and Risk Management Committee and the Finance Committee.

These Committees have their own Charters<sup>1</sup> approved by the Board, and under which authority is delegated by the Board. Each Committee is required to report the outcomes of its deliberations to the Board so that the Board is fully informed on all important matters before matters are resolved.

Remuneration and Nominations Committee	Audit and Risk Management Committee	Finance Committee
<p>The role of the RNC is to assist the Board in its oversight of remuneration policy and practice and Board member nominations.</p> <p>The RNC considers a diverse range of matters related to its role, including:</p> <ul style="list-style-type: none"> <li>• Senior executive remuneration policy</li> <li>• Chief Executive Officer, non-executive and executive director remuneration policy</li> <li>• Short term and long term incentive plans</li> <li>• Recruitment, retention and termination policies</li> <li>• Succession planning</li> <li>• Nominations for Board positions and review of applicants for Board positions</li> <li>• Board Committee appointments.</li> </ul> <p>Full details of the committee's activities on behalf of the Board related to remuneration matters are set out in the Remuneration Report.</p>	<p>The role of the ARMC is to assist the Board in ensuring that there is effective oversight of published financial information, there are sound systems of internal control and effective management of risk.</p> <p>The ARMC considers a diverse range of matters related to its role including:</p> <ul style="list-style-type: none"> <li>• Assisting the Board in its oversight responsibilities for all matters related to financial management and reporting of the Company</li> <li>• Understanding and endorsing the Company's risk appetite</li> <li>• Reviews the extent to which management has established an effective system of risk management and internal control</li> <li>• Reviews the Company's risk profile by comparison to its risk appetite</li> <li>• Undertakes periodic review of the Company's most significant risks and whether risk management strategies are appropriate</li> <li>• Oversight and monitoring the activities of the corporate internal audit function and the external auditors. The role and responsibilities of the internal audit function are described more fully in Section 5.3 of this Corporate Governance Statement.</li> </ul>	<p>The purpose of the Committee is to assist the Board in considering matters associated with material investment and financing decisions, as delegated by the Board, affecting the Company.</p> <p>Material investment and financing decisions are those that have a potentially significant impact on the Company including (but not limited to):</p> <ul style="list-style-type: none"> <li>• Capital markets and other debt issues or repayment</li> <li>• Major acquisitions and disposals.</li> </ul> <p>Specifically, the Committee's role is to critically review and challenge any proposals presented by management that may significantly alter the Company's position in respect of the above areas. The Committee will also consider any specific matters as directed by the Board.</p> <p>These responsibilities have been allocated to the Committee on the basis that the primary responsibility for management of these matters sits with the Chief Executive Officer and the management team. Ultimate responsibility for oversight of these matters remains with the Board.</p>
Membership as at 30 June 2015		
Sharon Warburton (Chair) Mark Barnaba Andrew Forrest Owen Hegarty	Mark Barnaba (Chair) Elizabeth Gaines Sharon Warburton	Mark Barnaba (Chair) Andrew Forrest Elizabeth Gaines
The following members retired on 12 November 2014		
Graeme Rowley (Co Chair) Herbert Scruggs Herb Elliott	Graeme Rowley Herbert Scruggs	Herbert Scruggs

<sup>1</sup> Committee Charters are available in the Governance section of the Company's website.

#### 3.1 External Auditor

In accordance with the *Corporations Act 2001*, the Company has appointed an external auditor whose primary role is to form an opinion as to the truth and fairness of the annual financial statements.

The Group appoints an external auditor who demonstrates quality of service and independence.

PricewaterhouseCoopers (PwC) is the current external auditor of the Fortescue Group. It is PwC's policy to rotate audit engagement partners every five years in accordance with the *Corporations Act 2001*. PwC attend ARMC meetings by invitation and report annually to the Committee on its independence and the outcomes of its audit. The Committee reviews the scope of the annual audit plan and related audit fees.

The external auditor also attends the Annual General Meeting to answer questions from shareholders in relation to the audit.

## 4 SECURITY HOLDERS

The Board represents the Company's shareholders and is accountable to them for delivering value through achievement of strategic objectives and performance excellence.

Shareholders are encouraged to attend the Annual General Meeting, which is the forum for shareholders to vote on key business issues, including election of directors, changes to the Company's Constitution, adoption of the Company's annual financial statements and incentive arrangements.

The Company has implemented a Continuous Disclosure and Market Communications Policy which is available on the corporate governance section of the Company's website. The Board uses various formal and informal measures to ensure that it communicates effectively with shareholders and investors throughout the year including:

- A team of dedicated investor and media relations resources
- Regular briefings to the investment community and investor representatives
- Presentations and question and answer sessions at industry forums and conferences
- Periodic newsletters, production reports and media announcements that are available either through the ASX platform or through the Company's website
- An email alert system that allows interested parties to register for automated alerts of ASX lodgements and other information related to the Company.

## 5 RISK MANAGEMENT

### 5.1 Material risk exposures

Fortescue operates in a dynamic business environment that presents a range of uncertainties that have the potential to impact, both positively and negatively, on its corporate objectives. Fortescue acknowledges that risk is inherent in all aspects of its business and that effective management of risk and opportunity is essential to Fortescue's success and future growth. Fortescue is committed to managing all material risks within the tolerances set by the Board.

A range of material risks has been identified by management and the Board that could substantively impact Fortescue's ability to create or preserve value for all of its key stakeholders over the short, medium or long term.

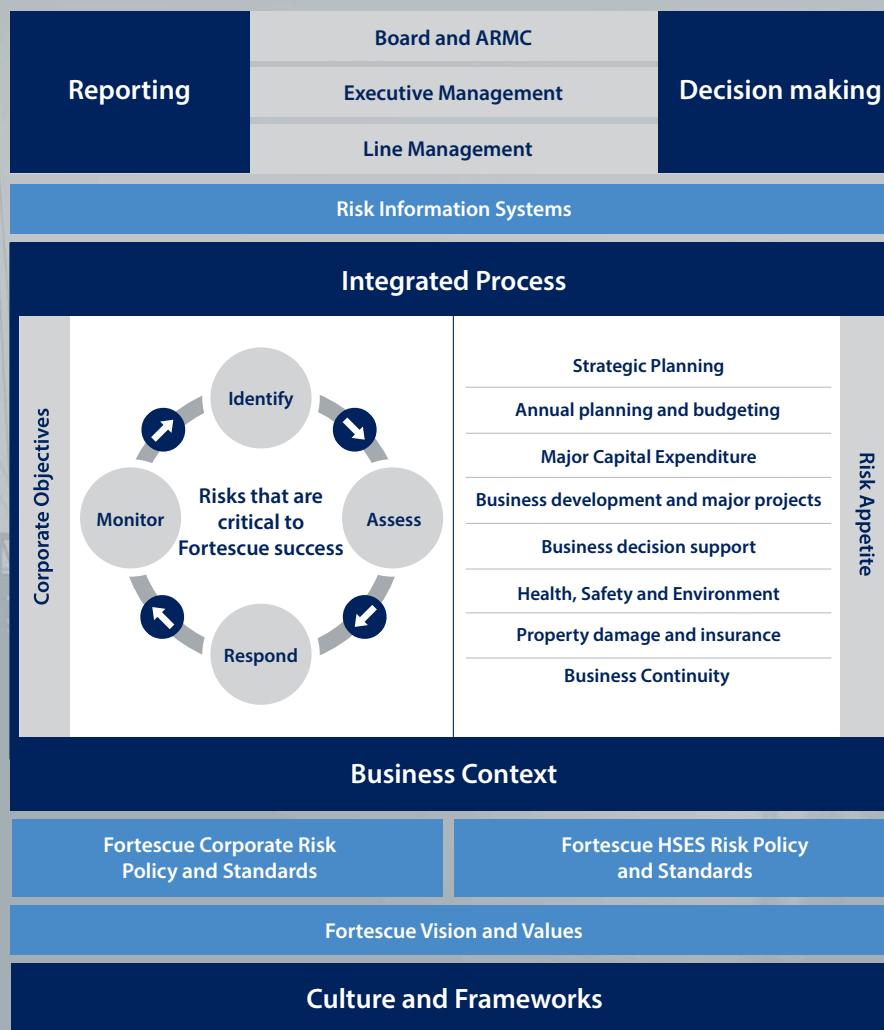
The following material risks to the Company and how these risks are managed are listed below.

Material risk	Risk management strategy
<b>Economic risk</b>	
Fluctuations in commodity prices (iron ore) may adversely impact the Company's results and future cash flows	Fortescue is subject to the prevailing market price of iron ore, which it has a limited ability to directly influence. During FY15 the Company continued its focus on strengthening the corporate balance sheet by repayment of debt and aggressively pursuing continued reduction of our cost base.
Competitor actions	Volume and pricing strategies adopted by other iron ore suppliers have the potential to impact both the spot and futures market of iron ore on recognised trading exchanges. Fortescue will continue to act in an economically rational manner and is actively engaged with all of its stakeholders to highlight the merit of the Company's strategy.
Deterioration in economic conditions in China could impact the demand for Fortescue's products	Fortescue's key trading partners are Chinese steel mills. Fortescue's significant efforts in supporting and enhancing Sino-Australian business relationships promote strong relationship with all levels of the Chinese government as a partner in supporting the ongoing economic development within China and resultant demand for the Company's products.
Estimates of reserves and resources	There is a range of inherent uncertainties associated with the identification and measurement of iron ore reserves and resources. Prior valid assumptions may change in light of new information which may result in changes to the economic viability of some ore reserves. Additionally, volatility in commodity prices may result in adjustments to Fortescue's recognition of ore reserves.

Material risk	Risk management strategy
<b>Operational risks</b>	
Productivity and cost pressures could impact profit margins and future cash flows	Fortescue is a global leader in a range of technical and operational solutions that have been deployed across our business to maximise the value we obtain from the Company's ore reserves. We adopt a risk based approach to the approval of major capital and operational expenditure that ensures the optimal allocation of financial resources to support the Company's business strategy.
Fortescue does not fully exploit existing reserves or discover new reserves that impacts on future results	Fortescue has a program of exploration and mining that identifies and exploits new ore bodies and supports the expansion of existing ore bodies. Fortescue has also developed innovative exploration techniques that have enabled us to commercialise previously unexploited tenements and invest in new sources of ore including magnetite deposits.
Major, unplanned disruptions to operations or supply chain	Any unplanned and sustained interruption to operations or supply chain has the potential to impact our financial performance. Such disruptions can arise from natural events such as cyclones and flooding, other accidents that result in damage to our port, rail or mine infrastructure or other factors such as labour disputes that could also disrupt operations. While the likelihood of many of these risks is considered rare, Fortescue has adopted a prudent approach that involves a combination of world-class engineering design, a comprehensive crisis management strategy, operational contingency planning and structured recovery process to mitigate the impact of such events should they occur. Our insurance coverage also provides an element of financial protection associated with loss or damage to our assets.
Major development projects experience delays to schedule or increased costs	Fortescue has a robust and agile framework for the identification, assessment and delivery of all major projects. This includes an uncompromising focus on operational and financial discipline supplemented by a comprehensive project management capability.
Performance of key business partners is not aligned with Fortescue expectations and they do not meet their obligations	Fortescue works collaboratively with its business partners to achieve superior safety, operational and financial performance. We have transitioned major elements of our mine sites to an owner/operator model to better control performance and introduced greater flexibility within our contractual arrangements, where appropriate. We have robust mechanisms in place to regularly review all major contracts with a focus on performance.
Information technology and security	The rapid pace of technological change and the sophistication of cyber security attacks pose ongoing and real risks requiring the business to maintain a constant vigil. Fortescue maintains a robust IT platform which provides resilience and recovery capability in the event of a system outage. The Company monitors and controls access to sensitive and private information maintained within its key systems.
Health and safety and environmental incidents and/or breaches of regulations could adversely affect our people, operations and reputation	Safety is one of Fortescue's core values and the Company has set the ambitious goal of being a global leader in safety and environmental performance. Fortescue has a very comprehensive HSES framework that promotes responsibility and accountability at all levels within the organisation. Fortescue has an active program of education, training, monitoring and reporting within the business that is focused on continuous improvements and learning from our experiences. The Company is actively engaged at both a local and global level to identify and implement leading safety and environmental practices operating within the mining and resources sector.
<b>Environmental risks</b>	
Climate change resulting in increased frequency and severity of extreme weather events	Climate change is recognised a real and evolving risk to our operations in the Pilbara. The physical impacts of climate change are most likely to manifest in increased frequency and severity of extreme weather events such as cyclones. Such events could negatively affect operations through production interruptions, asset loss or damage and the physical well-being of our employees and contractors. Fortescue has formal cyclone management plans, and incident and emergency response plans at all its operating sites.
Fortescue's operations have the potential to lead to adverse impact on local flora, fauna and indigenous heritage sites	Mining operations have the inherent potential to cause damage to flora, fauna and sites of significance to aboriginal people located in the vicinity of the Company's operations. This could include adverse impacts on local ecosystems, biodiversity, water resources and designated heritage sites. Fortescue has rigorous control and reporting processes to minimise the potential for any adverse impacts. Fortescue consults with local communities, regulators and other stakeholder groups to ensure that its operations are managed in an environmentally sustainable manner.
Further information on the Company's approach to managing environment risk is included in the CSR section of this annual report.	
<b>Social sustainability risks</b>	
Breaches in our legal and regulatory obligations may lead to fines and potential loss of licence to operate	Fortescue operates in a highly regulated industry with a complex regulatory environment at both Federal and State level. Failure to comply with obligations can have a serious impact on the business ranging from fines and reputation damage through to temporary or permanent loss of Fortescue's licence to operate. Compliance with the Company's obligations is seen as a collective responsibility at all levels of the organisation and there is clear accountability and responsibility for ongoing management.



# RISK MANAGEMENT FRAMEWORK



## 5 Risk management (continued)

### 5.2 Fortescue Risk Management Framework

The Fortescue Risk Management Framework (FRMF) explains the methodology, approach and responsibility for the effective management and oversight of risk within our business. The FRMF is aligned to ISO 31000, the international standard for risk management, and provides a consistent approach to the recognition, measurement and evaluation of risks across our business. It also supports Executive Management and the Board in meeting their corporate governance responsibilities.

Fortescue's approach to risk management is underpinned by its values and culture. This emphasises that management, employees and contractors are collectively responsible for managing all material business risks and there should be a clear understanding of responsibility and accountability for risk management. Everyone at Fortescue has a responsibility to be aware of the risks related to their activities at every level and to be accountable for ensuring those risks are effectively managed.

The FRMF sets a framework which aligns risk management activity at all levels of the business with a three tiered focus as follows:

- Achievement of the Company's strategic, operational, developmental and corporate objectives
- Maintaining a sustainable business that meets the Company's obligations for health and safety, the environment, heritage and community
- Building and maintaining a resilient business that is capable of achieving critical objectives in the face of extreme events which may impact business as usual conditions.



## 5 Risk management (continued)

Fortescue does this by:

- Embedding risk management into critical business activities and processes
- Understanding the threats to and opportunities for achievement of corporate objectives
- Application of a structured approach to risk management which establishes common understanding, definitions and methodologies
- Consideration of all types of risks and how robust risk analysis supports better informed decision making
- Using the outcomes of risk assessments to drive actions and activities that mitigate risks to an acceptable level
- Maintaining a strong focus on the resilience of the business through reliance on effective recovery plans for material adverse events
- Reporting regularly to the Executive Committee and the Board on the outcomes of risk management activity.

In addition, the Company's Group Risk & Assurance function is focussed on supporting each part of the business to assist them to better manage their risks and to align efforts across the business to facilitate a whole of business view of risk.

The ARMC conducted a review of the risk management framework during the year and is satisfied that it supports a sound system of risk management and internal control.

### 5.3 Internal audit

A robust and risk based internal audit function is a critical part of ensuring that a strong financial risk and control environment is maintained across the Company. Fortescue's Group Risk and Assurance function is responsible for the design and delivery of internal audit activity, tailored to provide assurance that the Company's risk management and internal control frameworks are appropriately designed and operating at the level expected by the Board. Deloitte, Chartered Accountants, has recently been appointed to provide the primary support for the delivery of its internal audit program. Other service providers are also used to support the internal audit program.

The Audit and Risk Management Committee approves the annual internal audit plan and monitors findings from internal audit reviews, including actions proposed by management to address issues reported by the internal auditors.

The primary focus of the Company's risk management governance structure and internal control systems is to identify, assess and mitigate material business risks with the aim of enhancing value to shareholders and protecting assets.

### 5.4 Annual Executive Declarations

In accordance with the requirements of ASX Principle 4 "Safeguard integrity in corporate reporting" and section 295(A) of the *Corporations Act 2001*, an extensive annual certification process is undertaken at executive level. The process requires declarations from the most senior executives in the business to support the certifications to the Board by the Chief Executive Officer and the Chief Financial Officer pursuant to ASX Principle 4 and Section 295(A) of the *Corporations Act 2001*.

The executive declarations are broad and consider the key elements of the control environment. In addition to providing the support for the CEO and CFO certifications as noted above, the Board, through the Audit and Risk Management Committee, uses this process as a means of identifying areas of the control environment where there are opportunities for improvement. Improvement actions identified through this process are monitored by the Committee until actions are completed.

The ASX Principle 4 and Section 295(A) *Corporations Act 2001* certifications by the CEO and CFO were received by the Board prior to consideration and approval of the annual financial statements for the year ended 30 June 2015.



## 6 BUSINESS ETHICS AND INTEGRITY

### 6.1 Code of Conduct

Fortescue prides itself on its reputation for acting with integrity, honesty and in compliance with all applicable laws and regulations wherever it does business. The Company maintains a publicly stated, formal policy of zero-tolerance of corruption in all its forms, including bribery. Fortescue's reputation is built on its values as a company, the professionalism of its employees and a collective commitment to acting with integrity, accountability and transparency at all times.

The Company actively promotes ethical and responsible decision making through its values and the Code of Conduct that embodies these values. The Code can be accessed on the corporate governance section of the Company's website. Everyone who works for or with Fortescue, including directors, employees, contractors, suppliers and business partners is expected to comply with the Code. In addition they are required to ensure that employees, contractors, suppliers and any other parties under their supervision or direction with whom Fortescue does business are aware of and comply with the Code. New employees are required to read and acknowledge the requirements of the Code in writing before they commence with the Company.

Further information on Fortescue's approach to business ethics and integrity is set out in the Corporate Social Responsibility section of this Annual Report.

### 6.2 Securities Trading

The Board has established a Securities Trading Policy which outlines the policy for directors and employees when trading in shares of the company. Under the policy certain people are identified as designated persons and they are required to comply with the policy with regard to explicit non-trading periods which are set around reporting periods. All other employees are subject to the normal insider trading restrictions with the policy containing a recommendation of the preferred trading periods.

The policy sets out a brief summary of the law on insider trading and other relevant laws and also sets out the restrictions on dealing in securities by people who work for, or who are associated with Fortescue.

## 7 MARKET DISCLOSURES

The Board understands the importance of keeping shareholders and other stakeholders fully informed of material information in relation to the Company's activities on a timely basis. For this purpose the Company has established a Continuous Disclosure and Market Communications Policy, a copy of which is available on the corporate governance section of the company's web site. This Continuous Disclosure and Market Communications Policy summarises the processes that have been adopted to ensure Fortescue complies with its disclosure obligations.

This policy applies to all directors, employees, contractors, suppliers and business partners and is reviewed annually to ensure that it remains effective in guiding disclosure in accordance with Fortescue's disclosure obligations.

With regard to general disclosures at media briefings or public presentations, only the Chairman, the CEO or their delegated persons are authorised to issue public comments on behalf of the Company or provide journalists and members of the investment community with information.

Copies of announcements to the ASX, investor briefings, half yearly financial statements, quarterly production results, the annual report and other relevant information are posted to the Company's website at [www.fmgl.com.au](http://www.fmgl.com.au).



## 8 COMPLIANCE WITH CORPORATE GOVERNANCE STANDARDS

The following table cross-references the *Principles and Recommendations* to the relevant sections of the Corporate Governance Statement and other areas of the annual report.

ASX Corporate Governance Council Recommendations checklist		Reference	Comply
<b>Principle 1: Lay solid foundations for management and oversight</b>			
1.1	Companies should disclose respective roles and responsibilities of its board and management particularly those reserved for the board and those delegated to management.	2.1	Yes
1.2	Companies should undertake appropriate checks prior to appointing a person, or putting forward to security holders a candidate for election as director. Company must provide material information to security holders to decide whether or not to elect as director.	2.6	Yes
1.3	Companies should have a written agreement with each director and senior executive setting out the terms of their appointment.	2.6	Yes
1.4	Company secretary should be accountable directly to the board through the Chairman on all matters to do with the proper functioning of the board.	2.13	Yes
1.5	Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board and relevant committees of the board to establish measurable objectives for achieving gender diversity for the board to assess annually both the objectives and progress in achieving them.	2.5 Corporate Social Responsibility section	Yes
1.6	Companies should disclose the process for evaluating the performance of the board, its committees and individual directors and whether an evaluation was undertaken in the reporting period.	2.9	Yes
1.7	Companies should disclose the process for evaluating the performance of senior executives and whether an evaluation was undertaken in the reporting period.	Remuneration Report	Yes
<b>Principle 2: Structure the board to add value</b>			
2.1	The board should have a nomination committee that: <ul style="list-style-type: none"> <li>• has at least three members and consists of a majority of independent directors</li> <li>• is chaired by an independent director and disclose</li> <li>• the charter of the committee</li> <li>• disclose members of the committee</li> <li>• number of times the committee met throughout the period and individual attendance of members at the meeting.</li> </ul>	3	Yes
2.2	Companies should disclose a board skills matrix setting out the mix of skills and diversity currently and in the future.	2.4	Yes
2.3	Companies should disclose: <ul style="list-style-type: none"> <li>• names of independent directors,</li> <li>• if a director has an interest, position, association or relationship that might cause doubts about the independence of that director and the nature of interest, position, association or relationship in question and an explanation of why the board is of that opinion</li> <li>• length of service of each director</li> </ul>	2.2, 2.8	Yes
2.4	A majority of the company's board should be independent directors.	2.8	Yes
2.5	The chair of the board should be an independent director and, in particular, should not be the same person as the CEO.	2.2, 2.7, 2.8	Partly
2.6	Companies should have a program for inducting new directors and provide appropriate professional development opportunities to develop and maintain the skills and knowledge needed.	2.6	Yes
<b>Principle 3: Act ethically and responsibly</b>			
3.1	Companies should establish a code of conduct for its directors, senior executives and employees and disclose the code or summary of the code.	6.1	Yes

## 8 Compliance with corporate governance standards (continued)

ASX Corporate Governance Council Recommendations checklist		Reference	Comply
<b>Principle 4: Safeguard integrity in corporate reporting</b>			
4.1	The board should establish an audit committee. The audit committee should be structured so that it: <ul style="list-style-type: none"> <li>• has at least three members and consists of a majority of independent directors</li> <li>• is chaired by an independent director who is not chair of the board and disclose</li> <li>• the charter of the committee</li> <li>• relevant qualifications and experience of the members of the committee</li> <li>• number of times the committee met throughout the period and individual attendance of members at the meeting.</li> </ul>	3  Overview section 2.3	Yes
4.2	Companies board should prior to approving the financial statements for a financial period, receive from its CEO and CFO a declaration that in their opinion, the financial records have been properly maintained and comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.	5.4	Yes
4.3	Companies should at the AGM ensure attendance of the external auditor to answer questions from security holders relevant to the audit.	3.1	Yes
<b>Principle 5: Make timely and balanced disclosure</b>			
5.1	Companies should have a written policy for complying with its continuous disclosure obligations under the Listing Rules and disclose that policy or a summary of it.	7	Yes
<b>Principle 6: Respect the rights of security holders</b>			
6.1	Companies should provide information about itself and its governance to investors via its website.	7	Yes
6.2	Companies should design and implement an investor relations program to facilitate effective communication with investors.	4	Yes
6.3	Companies should disclose the policies and processes in place to facilitate and encourage participation at meetings of security holders.	4	Yes
6.4	Companies should give security holders the option to send and receive communications to the entity and its security registry electronically.	4	Yes
<b>Principle 7: Recognise and manage risk</b>			
7.1	The board should establish a risk committee. The risk committee should be structured so that it: <ul style="list-style-type: none"> <li>• has at least three members who are independent directors</li> <li>• is chaired by an independent director and disclose</li> <li>• the charter of the committee</li> <li>• disclose members of the committee</li> <li>• number of times the committee met throughout the period and individual attendance of members at the meeting.</li> </ul>	3  2.3	Yes
7.2	A company's board or committee should review the risk management framework at least annually to satisfy itself that it is sound and disclose in each reporting period such a review has taken place.	5.2	Yes
7.3	Company should disclose the role and structure of their internal audit function.	5.3	Yes
7.4	Company should disclose whether it has any material exposure to economic, environmental and social sustainability risks.	5.1	Yes



## 8 Compliance with corporate governance standards (continued)

Principle 8: Remunerate fairly and responsibly			
8.1	<p>The remuneration committee should be structured so that it:</p> <ul style="list-style-type: none"> <li>• has at least three members and consists of a majority of independent directors</li> <li>• is chaired by an independent chair and disclose</li> <li>• the charter of the committee</li> <li>• disclose members of the committee</li> <li>• number of times the committee met throughout the period and individual attendance of members at the meeting.</li> </ul>	3	Yes
8.2	Companies should disclose the policies and practices regarding remuneration of non-executive directors', executive directors and senior executives.	2.3	Yes
8.3	Companies with equity based remuneration scheme should have a policy on whether participants are permitted to enter into transactions which limit the economic risk of participating in the scheme and disclose a policy or summary of it.	Remuneration Report	Yes





# FINANCIAL REPORT

Overview | Operating and Financial Review | Reserves and Resources | Corporate Social Responsibility | Governance | **Financial Report** | Remuneration Report | Corporate Information





## DIRECTORS' REPORT

Your Directors present their report on the Fortescue consolidated group, comprising the Company and its controlled entities, for the year ended 30 June 2015.

The information presented in sections Overview on pages 8 to 18, Operational and Financial Review on pages 19 to 32, Governance (sections 2.2 Board Composition and 2.3 Meeting Attendance) on pages 78 to 79, Financial Statements on pages 102 to 142 and Remuneration Report on pages 143 to 162, form part of the Directors' report.

### Directors

The Directors of the Company in office during the financial year and until the date of this report, their qualifications, experience and directorships held in listed companies at any time during the last three years, are set out on pages 11 to 18.

The details of the Directors' meetings held, including the number of meetings of the Company's Board of Directors and of each Board committee held during the year ended 30 June 2015 and the number of meetings attended by each Director are shown on page 79.

The relevant interest of each Director in the shares, options and performance rights issued by the Company as notified by the Directors to the Australian Securities Exchange in accordance with section 5205G(1) of the *Corporations Act 2001*, at the date of this report are as follows:

Director	Ordinary shares	Options	Performance rights
A Forrest	1,037,479,247	-	-
O Hegarty	40,000	-	-
M Barnaba	20,000	-	-
N Power	1,811,571	-	2,307,503
P Meurs	26,199,152	-	877,929
J Baderschneider	138,000	-	-
E Gaines	50,000	-	-
C Huiquan	-	-	-
G Raby	8,000	-	-
S Warburton	50,750	-	-

The remuneration of Directors and Key Management Personnel are detailed in the Remuneration Report on page 143 to 162.

### Operating and financial review

Fortescue's principal activities during the financial year were exploration, development, production, processing and sale of iron ore. There were no significant changes to the nature of the Group's principal activities during FY15.

The Company overview, including the discussion of Fortescue's strategic priorities and outlook, key aspects of operational and financial performance and key business risks are contained in the following sections of this report: Overview on pages 8 to 18, Operating and Financial Review on pages 19 to 32, Corporate Governance (sections 5.1 Material Risk Exposures and 5.2 Fortescue Risk Management Framework) on pages 85 to 88.

### Dividends

		2015	2014
NPAT	US\$m	316	2,740
Interim dividend	A\$ cents per share	3	10
Final dividend	A\$ cents per share	2	10

The following dividend payments have been completed during the year:

- Final fully franked dividend for the year ended 30 June 2014 of 10 Australian cents per share, paid in October 2014
- Interim fully franked dividend for the year ended 30 June 2015 of three Australian cents per share, paid in April 2015.



## Environmental regulation and compliance

Fortescue is committed to minimising the impact of its operations on the environment, with an appropriate focus placed on continuous monitoring of environmental matters and compliance with environmental regulations.

Fortescue's exploration, mining, rail and port activities are subject to various environmental regulations under both State and Commonwealth legislation.

Compliance with the environmental regulations is managed through the Environmental Management System, used to identify key risks associated with the environmental impact from the Company's operations, prioritisation of these risks and development of targets. The environmental performance is monitored against these targets with periodic internal environmental reviews, audits and inspections. These reviews are designed to minimise or mitigate any potential environmental impact and promote the culture of compliance. Fortescue's environmental performance, including the results of the internal reviews, is regularly reported to the Board.

During the financial year, Fortescue submitted a number of environmental reports and compliance statements to regulators detailing Fortescue's environmental performance and level of compliance with relevant instruments. This includes Fortescue's Compliance Audit and Milestones Report dated August 2014, which was provided to the Federal Department of the Environment, and the Annual Audit and Compliance Reports submitted to the Department of Environmental Regulation for Fortescue's prescribed premises. Fortescue also reported a small number of potential non-compliances to the Office of the Environmental Protection Authority in relation to Ministerial Conditions. All matters were minor in nature and have been cooperatively resolved with the regulator.

## Greenhouse gas and energy reporting

Fortescue complies with the Australian Government's *National Greenhouse and Energy Reporting Act 2007 (Cth)* and will be subject to the facility-level 'baselines' to be established under the Government's *Emissions Reduction Fund – Safeguard Mechanism (ERF-SM)* in 2016-17. Fortescue has been a keen participant this year in the Government's community development of the rules and regulation that will govern the ERF-SM baselines in years to come.

Fortescue is committed to proactively managing energy consumption and greenhouse gas emissions wherever practical and is guided by a formal internal policy and management plans. The total Scope 1 and Scope 2 greenhouse gas emissions for the most recent reporting period were 1.92 million tonnes of carbon dioxide equivalents.



## Unissued shares under options and performance rights

Details of the options and performance rights outstanding at 30 June 2015 are as follows:

	Exercise price A\$	Balance at the end of the year (number)	Vested and exercisable at the end of the year (number)	Remaining contractual life (months)
Long term performance rights 2013	-	2,497,299	-	3
Long term performance rights 2014	-	4,144,145	-	15
Short term performance rights 2015	-	1,439,173	-	3
Long term performance rights 2015	-	3,542,275	-	27
	-	<b>11,622,892</b>	-	

In FY15, 2,808,395 of the 2014 short term performance rights were converted to shares, while the remaining 842,860 of the 2014 short term performance rights lapsed during the year.

## Company secretaries

Ian Wells was appointed Company Secretary on 16 February 2015. Ian Wells and Mark Thomas are joint Company Secretaries of Fortescue. Details of their qualifications and experience are set out on page 15.

## Directors and officers indemnities and insurance

Since the end of the previous financial year, the Company has paid premiums to insure the Directors and Officers of Fortescue.

The liabilities insured are legal costs that may be incurred in defending civil proceedings that may be brought against the Officers in their capacity as Officers of Fortescue, and any other payments arising from liabilities incurred by the Officers in connection with such proceedings, other than where such liabilities arise out of conduct involving a wilful breach of duty by the Officers or the improper use by the Officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to Fortescue.

It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities. Conditions of the policy also preclude disclosure to third parties of the amount paid for the policy.

## Non-audit services

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor has relevant expertise and experience and where the auditor's independence is not compromised.

Details of the amounts paid or payable to the auditor PricewaterhouseCoopers Australia and related entities for audit and non-audit services provided during the year are set out in note 20 to the financial statements.

The Board of Directors has considered the position and, in accordance with advice received from the Audit and Risk Management Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001* and did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the Audit and Risk Management Committee to ensure they do not impact the impartiality and objectivity of the auditor
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

The auditor's independence declaration, as required under section 307C of the *Corporations Act*, is set out on page 98 and forms part of this report.

## Future developments

The Vision, Strategy and Outlook section set out on pages 8 to 10 and the Operating and Financial Review section set out on pages 19 to 32 of this Annual report, provide an indication of the Group's likely developments and expected results. In the opinion of the Directors, disclosure of any further information about these matters and the impact on Fortescue's operations could result in unreasonable prejudice to the Group and has not been included in this report.

## Significant changes in state of affairs

There have been no significant changes in the state of affairs of Fortescue, other than those disclosed in this report.

## Proceedings on behalf of the Group

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Group, or to intervene in any proceedings to which the Group is a party, for the purposes of taking responsibility on behalf of the Group for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001*.

## Rounding of amounts

The Company is of a kind referred to in Class order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the Directors' Report and the financial statements have been rounded off in accordance with that Class Order to the nearest million dollars, unless otherwise stated.

## Events occurring after the reporting period

On 24 August 2015, the Directors declared a final dividend of two Australian cents per ordinary share payable in October 2015.

This report is made in accordance with a resolution of the Directors.



**Andrew Forrest**  
Chairman

Dated in Perth this 24th day of August 2015.

## Auditor's Independence Declaration

As lead auditor for the audit of Fortescue Metals Group Limited for the year ended 30 June 2015, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Fortescue Metals Group Limited and the entities it controlled during the period.

A handwritten signature in blue ink, appearing to read 'Henry'.

Nick Henry  
Partner  
PricewaterhouseCoopers

Perth  
24 August 2015

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**PricewaterhouseCoopers, ABN 52 780 433 757**  
Brookfield Place, 125 St Georges Terrace, PERTH WA 6000, GPO Box D198, PERTH WA 6840  
T: +61 8 9238 3000, F: +61 8 9238 3999, [www.pwc.com.au](http://www.pwc.com.au)

Liability limited by a scheme approved under Professional Standards Legislation.



## Independent auditor's report to the members of Fortescue Metals Group Limited

### *Report on the financial report*

We have audited the accompanying financial report of Fortescue Metals Group Limited (the company), which comprises the consolidated statement of financial position as at 30 June 2015, the consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the Fortescue Metals Group Limited Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at year's end or from time to time during the financial year.

### *Directors' responsibility for the financial report*

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the consolidated entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

**PricewaterhouseCoopers, ABN 52 780 433 757**

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### *Auditor's opinion*

In our opinion:

- (a) the financial report of Fortescue Metals Group Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2015 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
- (b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

### ***Report on the Remuneration Report***

We have audited the remuneration report included in pages 143 to 162 for the year ended 30 June 2015. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

### *Auditor's opinion*

In our opinion, the remuneration report of Fortescue Metals Group Limited for the year ended 30 June 2015 complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Nick Henry

Nick Henry  
Partner

Perth  
24 August 2015

## DIRECTORS' DECLARATION

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 102 to 142 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
  - (ii) giving a true and fair view of the consolidated entity's financial position at 30 June 2015 and of its performance for the year ended on that date, and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable, and
- (c) at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed group identified in note 21 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 21.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the Directors.



**Andrew Forrest**  
Chairman

Dated in Perth this 24th day of August 2015.



## CONSOLIDATED INCOME STATEMENT

For the year ended 30 June 2015

	Notes	2015 US\$m	2014 US\$m
Operating sales revenue	3	8,574	11,753
Cost of sales	5	(7,427)	(7,002)
<b>Gross profit</b>		<b>1,147</b>	<b>4,751</b>
Other income	4	77	126
Other expenses	6	(175)	(244)
<b>Profit before income tax and net finance expenses</b>		<b>1,049</b>	<b>4,633</b>
Finance income		15	21
Finance expenses	7	(644)	(741)
<b>Profit before income tax</b>		<b>420</b>	<b>3,913</b>
Income tax expense	8	(104)	(1,173)
<b>Profit for the year after income tax</b>		<b>316</b>	<b>2,740</b>
<b>Profit for the year is attributable to:</b>			
Equity holders of the Company		317	2,730
Non-controlling interest		(1)	10
<b>Profit for the year after income tax</b>		<b>316</b>	<b>2,740</b>

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2015

		2015 US\$m	2014 US\$m
<b>Profit for the year after income tax</b>		<b>316</b>	<b>2,740</b>
<b>Other comprehensive income</b>			
<b>Items that may be reclassified to profit or loss</b>			
Gains on cash flow hedges taken to equity		-	23
Losses transferred to the initial carrying amount of hedged items		-	67
Foreign exchange gain on translation of foreign operations		-	2
<b>Total comprehensive income for the year, net of tax</b>		<b>316</b>	<b>2,832</b>
<b>Total comprehensive income for the year is attributable to:</b>			
Equity holders of the Company		317	2,822
Non-controlling interest		(1)	10
<b>Total comprehensive income for the year, net of tax</b>		<b>316</b>	<b>2,832</b>
	Notes	Cents	Cents
<b>Earnings per share for profit attributable to the ordinary equity holders of the Company:</b>			
Basic earnings per share	9	10.18	88.00
Diluted earnings per share	9	10.16	87.85

The above consolidated income statement and consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2015

	Notes	2015 US\$m	2014 US\$m
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	10(b)	2,381	2,398
Trade and other receivables	11(a)	291	585
Inventories	11(c)	773	1,467
Current tax receivable		35	-
Other current assets		49	27
<b>Total current assets</b>		<b>3,529</b>	<b>4,477</b>
<b>Non-current assets</b>			
Trade and other receivables	11(a)	6	5
Property, plant and equipment	13	17,729	18,068
Intangible assets		44	67
Other non-current assets		52	77
<b>Total non-current assets</b>		<b>17,831</b>	<b>18,217</b>
<b>Total assets</b>		<b>21,360</b>	<b>22,694</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	11(b)	739	1,338
Deferred income	11(d)	620	936
Borrowings and finance lease liabilities	10(a)	155	154
Provisions	14	174	176
Current tax payable		-	666
<b>Total current liabilities</b>		<b>1,688</b>	<b>3,270</b>
<b>Non-current liabilities</b>			
Trade and other payables	11(b)	69	101
Deferred income	11(d)	591	556
Borrowings and finance lease liabilities	10(a)	9,414	9,403
Provisions	14	428	467
Deferred joint venture contributions	23(b)	261	160
Deferred tax liabilities	15	1,372	1,154
<b>Total non-current liabilities</b>		<b>12,135</b>	<b>11,841</b>
<b>Total liabilities</b>		<b>13,823</b>	<b>15,111</b>
<b>Net assets</b>		<b>7,537</b>	<b>7,583</b>
<b>EQUITY</b>			
Contributed equity	10(d)	1,294	1,289
Reserves		46	69
Retained earnings		6,184	6,211
Equity attributable to equity holders of the Company		7,524	7,569
Non-controlling interest		13	14
<b>Total equity</b>		<b>7,537</b>	<b>7,583</b>

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2015

	Notes	2015 US\$m	2014 US\$m
<b>Cash flows from operating activities</b>			
Cash receipts from customers		8,537	12,618
Payments to suppliers and employees		(5,971)	(6,220)
Income tax paid		(529)	(150)
<b>Net cash inflow from operating activities</b>	10(c)(i)	<b>2,037</b>	<b>6,248</b>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment - Fortescue		(626)	(1,931)
Payments for property, plant and equipment - joint operations		(223)	(64)
Receipts of deposits and guarantees		-	160
Proceeds from disposal of plant and equipment		7	262
Contributions from joint venture partners		101	160
Interest received		15	21
<b>Net cash outflow from investing activities</b>		<b>(726)</b>	<b>(1,392)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		2,206	-
Repayment of borrowings and finance leases		(2,367)	(3,092)
Interest and finance costs paid		(605)	(853)
Dividends paid		(343)	(581)
Repayment of customer deposits		(96)	(82)
Purchase of shares by employee share trust		(30)	(17)
<b>Net cash outflow from financing activities</b>		<b>(1,235)</b>	<b>(4,625)</b>
Net increase in cash and cash equivalents		76	231
Cash and cash equivalents at the beginning of the financial year		2,398	2,158
Effects of exchange rate changes on cash and cash equivalents		(93)	9
<b>Cash and cash equivalents at the end of the financial year</b>	10(b)	<b>2,381</b>	<b>2,398</b>

Non-cash investing and financing activities are disclosed in Note 10(c)(ii).

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.



# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2015

	Attributable to equity holders of the Company				Non-controlling interest	Total equity
	Contributed equity	Reserves	Retained earnings	Total		
	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m
<b>Balance at 1 July 2013</b>	<b>1,291</b>	<b>(49)</b>	<b>4,043</b>	<b>5,285</b>	<b>4</b>	<b>5,289</b>
Profit for the year	-	-	2,730	2,730	10	2,740
Other comprehensive income	-	92	-	92	-	92
<b>Total comprehensive income for the year, net of tax</b>	<b>-</b>	<b>92</b>	<b>2,730</b>	<b>2,822</b>	<b>10</b>	<b>2,832</b>
<b>Transactions with owners in their capacity as owners, net of tax:</b>						
Purchase of shares under employee share plans	(17)	-	-	(17)	-	(17)
Employee share awards exercised net of employee contributions	15	(5)	-	10	-	10
Equity settled share-based payment transactions	-	31	-	31	-	31
Dividends paid	-	-	(562)	(562)	-	(562)
<b>Balance at 30 June 2014</b>	<b>1,289</b>	<b>69</b>	<b>6,211</b>	<b>7,569</b>	<b>14</b>	<b>7,583</b>
Profit (loss) for the year	-	-	317	317	(1)	316
<b>Total comprehensive income for the year, net of tax</b>	<b>-</b>	<b>-</b>	<b>317</b>	<b>317</b>	<b>(1)</b>	<b>316</b>
<b>Transactions with owners in their capacity as owners, net of tax:</b>						
Purchase of shares under employee share plans	(30)	-	-	(30)	-	(30)
Employee share awards exercised net of employee contributions	35	(13)	-	22	-	22
Equity settled share-based payment transactions	-	9	-	9	-	9
Expired options	-	(19)	19	-	-	-
Dividends paid	-	-	(363)	(363)	-	(363)
<b>Balance at 30 June 2015</b>	<b>1,294</b>	<b>46</b>	<b>6,184</b>	<b>7,524</b>	<b>13</b>	<b>7,537</b>

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.



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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS | BASIS OF PREPARATION

For the year ended 30 June 2015

## 1 Basis of preparation

These financial statements cover the consolidated group consisting of Fortescue Metals Group Limited (the Company) and its subsidiaries, together referred to as Fortescue or the Group.

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board (AASB), including Australian Interpretations, and the *Corporations Act 2001*.

### (a) Compliance with IFRS

The financial statements of the Group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

### (b) Historical cost convention

The financial statements have been prepared under the historical cost convention, except for certain financial instruments, which have been measured at fair value.

### (c) Functional and presentation currency

The financial statements are presented in United States dollars, which is the Group's reporting currency and the functional currency of the parent and the majority of its subsidiaries.

### (d) Critical accounting estimates

The preparation of financial statements requires management to use certain critical accounting estimates and to exercise their judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to these financial statements are:

- Iron ore reserve estimates
- Exploration and evaluation expenditure
- Development expenditure
- Property, plant and equipment - recoverable amount
- Rehabilitation estimates

The accounting estimates and judgements applied to these areas are disclosed in note 25.

### (e) Rounding of amounts

The Company is of a kind referred to in Class order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest million dollars, unless otherwise stated.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS | FINANCIAL PERFORMANCE

For the year ended 30 June 2015

## 2 Segment information

Fortescue's chief operating decision maker, identified as the Chief Executive Officer, reviews the Group's financial performance and makes significant operating decisions having regard to all aspects of the integrated operation, with the key financial information presented internally for management purposes on a consolidated basis. Accordingly, no reportable operating segments have been identified in presenting the Group's consolidated financial performance.

Fortescue uses Underlying EBITDA defined as earnings before interest, tax, depreciation and amortisation, exploration, development and other expenses, as a key measure of its financial performance. The reconciliation of Underlying EBITDA to the net profit after tax is presented below.

	Notes	2015 US\$m	2014 US\$m
<b>Underlying EBITDA</b>		<b>2,506</b>	<b>5,636</b>
Finance income <sup>1</sup>		15	21
Finance expenses	7	(644)	(741)
Depreciation and amortisation	5, 6	(1,405)	(965)
Exploration, development and other	6	(52)	(38)
<b>Net profit before tax</b>		<b>420</b>	<b>3,913</b>
Income tax expense	8	(104)	(1,173)
<b>Net profit after tax</b>		<b>316</b>	<b>2,740</b>

<sup>1</sup> Refer to the consolidated income statement.

### (a) Geographical information

Fortescue operates predominantly in the geographical location of Australia, and this is the location of the vast majority of the Group's assets. In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers.

	2015 US\$m	2014 US\$m
<b>Revenues from external customers</b>		
China	8,047	11,315
Other	527	438
	<b>8,574</b>	<b>11,753</b>

### (b) Major customer information

Revenue from one customer amounted to US\$3,563 million (2014: US\$2,347 million), arising from the sale of iron ore and related shipment of the product.

## 3 Operating sales revenue

	2015 US\$m	2014 US\$m
Sale of iron ore	8,323	11,485
Sale of joint venture iron ore	67	126
Other revenue	184	142
	<b>8,574</b>	<b>11,753</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS | FINANCIAL PERFORMANCE

For the year ended 30 June 2015

## 4 Other income

	2015 US\$m	2014 US\$m
Net foreign exchange gain	68	-
Gain on disposal of assets	3	109
Other	6	17
	<b>77</b>	<b>126</b>

## 5 Cost of sales

	2015 US\$m	2014 US\$m
Mining and processing costs	3,765	3,442
Rail costs	230	238
Port costs	274	252
Operating leases	80	74
Shipping costs	1,112	1,210
Government royalty	516	775
Depreciation and amortisation	1,376	924
Other operating expenses	74	87
	<b>7,427</b>	<b>7,002</b>

Total employee benefits expense included in cost of sales and administration expenses is US\$740 million (2014: US\$675 million).

## 6 Other expenses

	2015 US\$m	2014 US\$m
Administration expenses	94	112
Exploration, development and other	52	38
Net foreign exchange loss	-	53
Depreciation and amortisation	29	41
	<b>175</b>	<b>244</b>

## 7 Finance expenses

	2015 US\$m	2014 US\$m
Interest expense on borrowings and finance lease liabilities	590	747
Interest capitalised <sup>1</sup>	(7)	(75)
Loss on early redemption of borrowings and finance leases	45	53
Other	16	16
	<b>644</b>	<b>741</b>

<sup>1</sup> Borrowing costs capitalised in relation to major projects were determined using a weighted average capitalisation rate of 5.10 per cent (2014: 6.90 per cent) for general borrowings and nil for specific borrowings (2014: 6.88 per cent).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS | FINANCIAL PERFORMANCE

For the year ended 30 June 2015

## 8 Income tax expense

### (a) Income tax expense

	2015 US\$m	2014 US\$m
Current tax	(112)	824
Deferred tax	216	349
	<b>104</b>	<b>1,173</b>

### (b) Numerical reconciliation of income tax expense to prima facie tax payable

	2015 US\$m	2014 US\$m
Profit before income tax	420	3,913
Tax at the Australian tax rate of 30 per cent (2014: 30 per cent)	126	1,174
Research and development	(8)	(9)
Adjustments in respect of income tax expense of prior periods	6	(2)
Foreign exchange variations and other translation adjustments	(16)	11
Tax impact of overseas jurisdiction	1	9
Share-based payments	3	1
Other	(8)	(11)
<b>Income tax expense</b>	<b>104</b>	<b>1,173</b>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS | FINANCIAL PERFORMANCE

For the year ended 30 June 2015

## 9 Earnings per share

### (a) Earnings per share

	2015 Cents	2014 Cents
Basic	10.18	88.00
Diluted	10.16	87.85

### (b) Reconciliation of earnings used in calculating earnings per share

	US\$m	US\$m
Profit attributable to the ordinary equity holders of the Company used in calculating basic and diluted earnings per share	317	2,730

### (c) Weighted average number of shares used as denominator

	Number	Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	3,113,525,034	3,113,798,151
<b>Adjustments for calculation of diluted earnings per share:</b>		
Potential ordinary shares	6,371,996	5,133,166
Weighted average number of ordinary and potential ordinary shares used as the denominator in calculating diluted earnings per share	3,119,897,030	3,118,931,317

### (d) Information on the classification of securities

#### (i) Options and rights

Options and rights granted to employees under the Fortescue incentive plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. Details relating to the options and rights are set out in note 19.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS | CAPITAL MANAGEMENT

For the year ended 30 June 2015

## 10 Capital management

Fortescue's capital management policy supports its strategic objectives and provides a framework to maintain a strong capital structure to deliver consistent returns to its equity shareholders and sustain future developments and expansion of the business.

Fortescue's capital includes shareholders' equity, reserves and net debt. Net debt is defined as a combination of cash and cash equivalents, borrowings and finance lease liabilities.

	2015 US\$m	2014 US\$m
Borrowings and finance lease liabilities	9,569	9,557
Cash and cash equivalents	(2,381)	(2,398)
<b>Net debt</b>	<b>7,188</b>	<b>7,159</b>
Equity attributable to equity holders of the Company	7,524	7,569
Non-controlling interest	13	14
<b>Total equity</b>	<b>7,537</b>	<b>7,583</b>

Capital management involves a continuous process of:

- Monitoring and controlling the capital structure
- Evaluating capital requirements against the risks arising from Fortescue's activities and the environment it operates in
- Planning capital raisings and returning capital
- Raising, refinancing and repaying of debt
- Development, maintenance and implementation of the dividend policy, including the dividend reinvestment plan
- Ensuring adequate cover over any financial covenants.

To achieve its primary capital management objective of maintaining a strong capital structure, Fortescue has developed target ranges for a number of financial indicators. These indicators include gearing, debt to Underlying EBITDA and interest coverage ratio, and are monitored together with a number of other financial and non-financial indicators. Target ranges for the financial ratios vary upon the investment and commodity cycles. During periods of intensive investment, for example expansion programs or a commodity downturn, the capital management policy contemplates interim ratio levels moving to a targeted longer term level. Interim levels acknowledge and consider the requirements, in certain circumstances, for remedial action to be taken.

Fortescue's flexible debt profile does not contain any maintenance covenants and allows for voluntary debt repayments, refinancing of debt prior to maturity and facilitates the debt repayment strategy to lower its gearing levels.

### (a) Borrowings and finance lease liabilities

	2015 US\$m	2014 US\$m
Senior secured credit facility	80	73
Senior notes	70	79
Finance lease liabilities	5	2
<b>Total current borrowings and finance lease liabilities</b>	<b>155</b>	<b>154</b>
Senior secured credit facility	4,717	4,722
Senior notes	4,241	4,366
Finance lease liabilities	456	315
<b>Total non-current borrowings and finance lease liabilities</b>	<b>9,414</b>	<b>9,403</b>
<b>Total borrowings and finance lease liabilities</b>	<b>9,569</b>	<b>9,557</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS | CAPITAL MANAGEMENT

For the year ended 30 June 2015

## 10 Capital management (continued)

### (i) Summary of movements in borrowings and finance lease liabilities

	Senior secured credit facility US\$m	Senior secured / unsecured notes US\$m	Finance leases US\$m	Preference shares US\$m	Total US\$m
Balance at 1 July 2013	4,828	7,091	642	130	12,691
Initial recognition	-	-	13	-	13
Interest expense	248	437	57	5	747
Interest and finance lease repayments	(209)	(465)	(53)	(7)	(734)
Transaction costs	(22)	22	(59)	-	(59)
Foreign exchange (gain) loss	-	-	(10)	3	(7)
Repayment	(50)	(2,640)	(273)	(131)	(3,094)
<b>Balance at 30 June 2014</b>	<b>4,795</b>	<b>4,445</b>	<b>317</b>	<b>-</b>	<b>9,557</b>
Initial recognition	-	2,300	141	-	2,441
Interest expense	223	321	46	-	590
Interest and finance lease repayments	(171)	(321)	(43)	-	(535)
Transaction costs	-	(84)	-	-	(84)
Repayment	(50)	(2,350)	-	-	(2,400)
<b>Balance at 30 June 2015</b>	<b>4,797</b>	<b>4,311</b>	<b>461</b>	<b>-</b>	<b>9,569</b>

Information about Fortescue's exposure to interest rate risk and foreign exchange rate risk is disclosed in note 12.

### (ii) Refinancing

During the year ended 30 June 2015 Fortescue successfully completed a US\$2.3 billion senior secured notes issue with the proceeds applied as follows:

- Full redemption of the 2017 senior unsecured notes of US\$1,000 million
- Full redemption of the 2018 senior unsecured notes of US\$400 million
- Partial redemption of the 2019 senior unsecured notes of US\$450 million
- The residual proceeds of US\$320 million, following payment of the offering discounts, fees and commissions, are reserved for retirement of the 2019 senior unsecured notes.

The US\$2.3 billion senior secured notes have a seven year term maturing in April 2022 with a non-call period of three years and have a coupon interest of 9.75 per cent per annum.

During the year ended 30 June 2014 Fortescue successfully completed the refinancing of the US\$5.0 billion term loan, reducing the margin by one per cent to 3.25 per cent, and extending the maturity date by 21 months to 30 June 2019. The total coupon payable on this facility is calculated as LIBOR, with a LIBOR floor of 1.00 per cent, plus the margin. In May 2014, the margin reduced by a further 0.50 per cent, to 2.75 per cent.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS | CAPITAL MANAGEMENT

For the year ended 30 June 2015

## 10 Capital management (continued)

### (iii) Key terms of borrowings and finance lease liabilities

The key terms of borrowings and finance leases are summarised below.

#### Senior secured credit facility

Established in October 2012, a senior secured facility of US\$5.0 billion was refinanced in November 2013. The facility is repayable at Fortescue's option with key terms prior to and after refinancing summarised below.

From	To	Face value, US\$m	Interest rate <sup>1</sup>	Principal repayments	Maturity
October 2012	November 2013	5,000	LIBOR + 4.25%	0.25% quarterly	18 October 2017
November 2013	May 2014	4,950	LIBOR + 3.25%	0.25% quarterly	30 June 2019
May 2014	Current	4,925 <sup>2</sup>	LIBOR + 2.75%	0.25% quarterly	30 June 2019

<sup>1</sup> LIBOR with a floor of one per cent.

<sup>2</sup> Following principal repayments of 0.25 per cent made quarterly, the face value of the facility at 30 June 2015 was US\$4,863 million (2014: US\$4,913 million).

The facility is secured over principally all of the assets of the Company and its subsidiaries, subject to certain limited exceptions, with the security shared on a pari passu basis with the senior secured notes.

#### Senior notes

Fortescue's senior notes comprise a series of the following tranches which have early repayment options with interest payable bi-annually:

Date of issue	Date of maturity	Call date <sup>1</sup>	Secured/ unsecured	Face value US\$m	Carrying value US\$m	Interest rate	Currency
25 October 2011	1 November 2019	November 2015	Unsecured	1,050	1,054	8.250%	USD
19 March 2012	1 April 2022	April 2017	Unsecured	1,000	1,009	6.875%	USD
27 April 2015	1 March 2022	March 2018	Secured <sup>2</sup>	2,300	2,247	9.750%	USD
				<b>4,350</b>	<b>4,310</b>		

<sup>1</sup> The date when senior unsecured notes become repayable at Fortescue's option.

<sup>2</sup> The senior secured notes are secured over principally all of the assets of the Company and its subsidiaries, subject to certain limited exceptions, with the security shared on a pari passu basis with the senior secured credit facility.

#### Finance lease liabilities

Finance lease liabilities largely relate to contractual commitments associated with the Solomon Power Station and the Fortescue River Gas Pipeline. In the event of default, the assets revert to the lessor. Finance lease liabilities represent Fortescue's commitments in relation to the finance leases, incorporating the effect of discounting:

	Within one year US\$m	Between one year and five years US\$m	After five years US\$m	Total US\$m
<b>30 June 2014</b>				
Lease expenditure commitments	40	208	674	922
Effect of discounting	(40)	(199)	(366)	(605)
<b>Finance lease liabilities</b>	<b>-</b>	<b>9</b>	<b>308</b>	<b>317</b>
<b>30 June 2015</b>				
Lease expenditure commitments	65	256	1,004	1,325
Effect of discounting	(62)	(241)	(561)	(864)
<b>Finance lease liabilities</b>	<b>3</b>	<b>15</b>	<b>443</b>	<b>461</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS | CAPITAL MANAGEMENT

For the year ended 30 June 2015

## 10 Capital management (continued)

### (b) Cash and cash equivalents

	2015 US\$m	2014 US\$m
Cash at bank <sup>1</sup>	1,279	1,541
Short term deposits	1,102	857
	<b>2,381</b>	<b>2,398</b>

<sup>1</sup> Cash and cash equivalents include US\$320 million restricted for repayment, redemption, repurchase or other forms of retirement of the outstanding 2019 senior unsecured notes.

### (c) Cash flow information

#### (i) Reconciliation of profit after income tax to net cash inflow from operating activities

	2015 US\$m	2014 US\$m
Profit for the year after income tax	316	2,740
Income tax expense	104	1,173
Depreciation and amortisation	1,405	965
Exploration, development and other	52	38
Share-based payment expense	9	31
Net unrealised foreign exchange loss	72	34
Finance expenses disclosed within financing activities	644	741
Finance income disclosed within investing activities	(15)	(21)
Gain on disposal of assets	(3)	(109)
Other non-cash items	(6)	(10)
<b>Working capital adjustments:</b>		
(Decrease) increase in deferred income	(281)	1,123
(Decrease) increase in payables and provisions	(1,074)	250
Decrease (increase) in receivables	299	(302)
Decrease (increase) in inventories	515	(405)
Net cash inflow from operating activities	<b>2,037</b>	<b>6,248</b>

#### (ii) Non-cash investing and financing activities

Acquisition of plant and equipment by means of finance leases	(141)	(9)
Other	42	(42)
	<b>(99)</b>	<b>(51)</b>

### (d) Contributed equity

#### (i) Share capital

	30 June 2015 Number	30 June 2014 Number
Ordinary shares fully paid	3,113,798,151	3,113,798,151

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS | CAPITAL MANAGEMENT

For the year ended 30 June 2015

## 10 Capital management (continued)

### (ii) Movements in ordinary share capital

	Number of shares	US\$m
Opening balance 1 July 2013	3,113,798,151	1,291
Purchase of new shares under employee share plan	(3,605,211)	(17)
Employee share awards exercised net of employee contributions	3,605,211	15
<b>Balance 30 June 2014</b>	<b>3,113,798,151</b>	<b>1,289</b>
Purchase of new shares under employee share plan	(8,082,221)	(30)
Employee share awards exercised net of employee contributions	8,082,221	35
<b>Balance 30 June 2015</b>	<b>3,113,798,151</b>	<b>1,294</b>

### (iii) Ordinary shares

Ordinary shares are fully paid and entitle the holders to one vote per share and the rights to participate in dividends. Incremental costs directly attributable to the issue of shares are shown in equity as a deduction, net of tax, from the proceeds. Ordinary shares participate in the proceeds on winding up of the Company in proportion to the number of shares held.

## (e) Dividends

	2015 US\$m	2014 US\$m
<i>(i) Dividends paid during the year</i>		
Final fully franked dividend for the year ended 30 June 2014: A\$0.10 per share (30 June 2013: A\$0.10 per share)	290	282
Interim fully franked dividend for the half-year ended 31 December 2014: A\$0.03 per share (31 December 2013: A\$0.10 per share)	73	280
	<b>363</b>	<b>562</b>
<i>(ii) Dividends proposed and not recognised as a liability</i>		
Final fully franked dividend: A\$0.02 per share (2014: A\$0.10 per share)	46	290
	<b>46</b>	<b>290</b>

### (iii) Franking credits

At 30 June 2015, franking credits available were US\$829 million (2014: US\$539 million). The payment of the final dividend for the year ended 30 June 2015 will reduce the franking account balance by US\$20 million.

## 11 Working capital

### (a) Trade and other receivables

	2015 US\$m	2014 US\$m
Trade debtors - iron ore	242	486
Trade debtors - other	26	44
GST receivables	7	39
Other receivables	16	16
<b>Total current receivables</b>	<b>291</b>	<b>585</b>
Other receivables	6	5
<b>Total non-current receivables</b>	<b>6</b>	<b>5</b>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS | CAPITAL MANAGEMENT

For the year ended 30 June 2015

## 11 Working capital (continued)

The carrying value of the receivables approximates their fair value. Information about Fortescue's exposure to foreign currency risk, interest rate risk and price risk pertaining to the trade and other receivables balances is disclosed in note 12.

Disclosures relating to receivables from related parties are set out in note 18.

### (b) Trade and other payables

	2015 US\$m	2014 US\$m
Trade payables	178	397
Customer deposits	5	65
Other payables and accruals	556	876
<b>Total current payables</b>	<b>739</b>	<b>1,338</b>
Customer deposits	50	55
Other payables and accruals	19	46
<b>Total non-current payables</b>	<b>69</b>	<b>101</b>

### (c) Inventories

	2015 US\$m	2014 US\$m
Iron ore stockpiles	328	1,055
Warehouse stores and materials	445	412
	<b>773</b>	<b>1,467</b>

Iron ore stockpiles, warehouse stores and materials are stated at cost. Inventories expensed through cost of sales, including depreciation, during the year ended 30 June 2015 amounted to US\$5,725million (2014: US\$4,930 million). During the year, inventory write-offs of US\$22 million (2014: US\$22 million) were recognised in relation to specific items of warehouse stores and materials that were identified as obsolete.

### (d) Deferred income

	2015 US\$m	2014 US\$m
Iron ore prepayments	509	825
Port access prepayment	111	111
<b>Total current deferred income</b>	<b>620</b>	<b>936</b>
Iron ore prepayments	369	223
Port access prepayment	222	333
<b>Total non-current deferred income</b>	<b>591</b>	<b>556</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS | CAPITAL MANAGEMENT

For the year ended 30 June 2015

## 12 Financial risk management

Fortescue is exposed to a range of financial risks, including market risk, credit risk and liquidity risk. Fortescue established a risk management framework that provides a structured approach to the identification and control of risks across the business, sets the appropriate risk tolerance levels and incorporates active management of financial risks. The risk management framework has been approved by the Board of Directors, through the Audit and Risk Management Committee. The day-to-day management responsibility for execution of the risk management framework has been delegated to the CEO and the CFO. Periodically the CFO reports to the Audit and Risk Management Committee on risk management performance, including management of financial risks.

The key elements of financial risk are further explained below.

### (a) Market risk

Market risk arises from Fortescue's exposure to commodity price risk and the use of interest bearing and foreign currency financial instruments. It is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in iron ore price (commodity price risk), interest rates (interest rate risk) and foreign exchange rates (foreign currency exchange risk).

#### (i) Commodity price risk

Fortescue is exposed to the commodity price risk as its iron ore sales are predominantly subject to the prevailing market prices. Fortescue has limited ability to directly influence the market prices of iron ore and manages the commodity price risk through focus on improving of cash margins delivered by continued reductions in the cost base and strengthening corporate balance sheet through refinancing and early debt repayments.

The majority of Fortescue's iron ore sales contracts are structured on a provisional pricing basis, with the final sales price determined using the iron ore price indices on or after the vessel arrival to the port of discharge. The estimated consideration in relation to the provisionally priced contracts is marked to market using the spot iron ore price at the end of each reporting period with the impact of the iron ore price movements recorded as an adjustment to operating sales revenue. At 30 June 2015, Fortescue had 16 million tonnes of ore sales (2014: 18 million tonnes) that remained subject to provisional pricing, with the final price to be determined within the first half of the following financial year. A 20 per cent movement in the realised iron ore price on these provisionally priced sales would increase or reduce net earnings by US\$150 million (2014: US\$259 million), before the impact of taxation. This analysis assumes all other factors, including the foreign currency exchange rates, held constant.

#### (ii) Interest rate risk

The Group's interest rate risk arises from floating rates on the senior secured credit facility and, to a lesser extent, changes in rates applicable to the short term deposits forming part of cash and cash equivalents.

Fortescue's policy is to reduce interest rate risk over the cash flows on its long term debt funding through the use of fixed rate instruments whenever appropriate.

At 30 June 2015, Fortescue's variable rate financial assets and liabilities at the end of the financial year are summarised below:

	2015 US\$m	2014 US\$m
Cash and cash equivalents	2,381	2,393
Senior secured credit facility	(4,797)	(4,795)
	<b>(2,416)</b>	<b>(2,402)</b>

Management analyses the Group's interest rate exposure on a regular basis by simulation of various scenarios taking into consideration refinancing, renewal of existing positions, alternative financing options and hedging.

A change of 10 basis points in interest rates in variable instruments would have an impact on the Group's pre-tax profit and loss of US\$3 million (2014: US\$3 million). This analysis assumes that all other factor remain constant, including foreign currency rates.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS | CAPITAL MANAGEMENT

For the year ended 30 June 2015

## 12 Financial risk management (continued)

### (iii) Foreign exchange risk

Fortescue operates in Australia, and is exposed to the movements in the Australian dollar exchange rate, with a significant portion of its operating costs and capital expenditure incurred and paid in Australian dollars.

Fortescue's risk management policy is to target specific levels at which to convert United States dollars to Australian dollars by entering into either spot or short term forward exchange contracts. The Group does not enter into transactions that qualify as hedging for hedge accounting purposes, with the exception of a number of spot and short term forward exchange contracts in relation to the major expansion program completed in the financial year ended 30 June 2014.

The carrying amount of the financial assets and liabilities denominated in currency other than the United States dollar, which is the Group's functional and reporting currency, is set out below.

	2015 AUD US\$m	2014 AUD US\$m
<b>Financial assets</b>		
Cash and cash equivalents	99	288
Trade and other receivables	47	65
<b>Total financial assets</b>	<b>146</b>	<b>353</b>
<b>Financial liabilities</b>		
Borrowings and finance lease liabilities	151	9
Trade and other payables	407	822
<b>Total financial liabilities</b>	<b>558</b>	<b>831</b>

A change of 10 per cent in the Australian dollar would have a net impact on the above financial assets and liabilities of US\$42 million (2014: US\$48 million), before the impact of taxation. This analysis assumes that all other variables, including interest rates and iron ore price, remain constant.

### (b) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to Fortescue, and is managed on a consolidated basis. Credit risk arises from cash and cash equivalents, derivative financial instruments, deposits with banks and financial institutions and receivables from customers.

Fortescue is exposed to a concentration of risk with the majority of its iron ore customers located in China. This risk is mitigated by a policy of only trading with creditworthy counterparties and Fortescue further mitigates its credit risk by obtaining security in the form of letters of credit covering approximately 95 per cent of the value of iron ore shipped. Fortescue has not recognised any bad debt expense from trading counterparties in the financial years ended 30 June 2015 and 30 June 2014.

The exposure to the credit risk from cash and short-term deposits held in banks is managed by the treasury department and monitored by the Board of Directors. Fortescue minimises the credit risks by holding funds with a range of financial institutions with the credit ratings approved by the Board.

At 30 June 2015, Fortescue had US\$11 million (2014: US\$9 million) of trade receivables which have not been settled within the normal terms and conditions agreed with the customer. These past due receivables relate to a number of customers for whom there is no recent history of default and are not impaired.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS | CAPITAL MANAGEMENT

For the year ended 30 June 2015

## 12 Financial risk management (continued)

### (c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as and when they fall due. The Group manages liquidity risk by maintaining adequate cash reserves and banking facilities, by continuously monitoring actual and forecast cash flows and by matching the maturity profiles of financial assets and liabilities.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the period to the contracted maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows.

	Less than 6 months US\$m	Between 6 - 12 months US\$m	Between 1 and 2 years US\$m	Between 2 and 5 years US\$m	Over 5 years US\$m	Total contractual cash flows US\$m	Carrying amount US\$m
<b>30 June 2014</b>							
Non-interest bearing	1,376	-	55	-	-	1,431	1,431
Fixed rate	187	177	355	2,786	3,485	6,990	4,772
Variable rate	119	117	234	737	4,678	5,885	4,795
<b>Total</b>	<b>1,682</b>	<b>294</b>	<b>644</b>	<b>3,523</b>	<b>8,163</b>	<b>14,306</b>	<b>10,998</b>
<b>30 June 2015</b>							
Non-interest bearing	760	-	-	-	50	810	810
Fixed rate	223	221	445	2,335	4,890	8,114	4,772
Variable rate	118	135	269	5,284	-	5,806	4,797
<b>Total</b>	<b>1,101</b>	<b>356</b>	<b>714</b>	<b>7,619</b>	<b>4,940</b>	<b>14,730</b>	<b>10,379</b>

Management monitors rolling forecasts of the Group's cash and overall liquidity position on the basis of expected cash flows.

### (d) Fair values

All financial assets and financial liabilities, with the exception of derivatives, are initially recognised at the fair value of the consideration paid or received, net of directly attributable transaction costs. Subsequently, the financial assets and financial liabilities, other than derivatives, are measured at amortised cost. The carrying values of the financial assets and liabilities approximate their fair values, with the exception of the senior notes and senior secured credit facility with the fair values of US\$3,970 million (2014: US\$4,690 million) and US\$4,347 million (2014: US\$4,925 million) respectively. These fair values are based on quoted market prices at the end of the reporting period and as such are classified as level 1 financial instruments in the fair value hierarchy.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS | KEY BALANCE SHEET ITEMS

For the year ended 30 June 2015

## 13 Property, plant and equipment

	Notes	Plant and equipment US\$m	Land and buildings US\$m	Exploration and evaluation US\$m	Assets under development US\$m	Development US\$m	Total US\$m
<b>Year ended 30 June 2014</b>							
Opening net book value		8,547	632	264	5,290	2,426	17,159
Transfers of assets		4,885	345	50	(6,972)	1,624	(68)
Additions		12	-	99	1,842	2	1,955
Capitalised interest	7	-	-	-	75	-	75
Foreign exchange losses reclassified from reserves		-	-	-	67	-	67
Disposals		(139)	-	(1)	-	(14)	(154)
Depreciation		(847)	(47)	-	-	(136)	(1,030)
Changes in restoration and rehabilitation estimate	14	-	-	-	-	87	87
Assets written off		(22)	-	-	-	-	(22)
Other		(6)	3	(4)	11	(5)	(1)
<b>Closing net book value</b>		<b>12,430</b>	<b>933</b>	<b>408</b>	<b>313</b>	<b>3,984</b>	<b>18,068</b>
<b>At 30 June 2014</b>							
Cost		14,090	1,013	408	313	4,397	20,221
Accumulated depreciation		(1,660)	(80)	-	-	(413)	(2,153)
<b>Net book value</b>		<b>12,430</b>	<b>933</b>	<b>408</b>	<b>313</b>	<b>3,984</b>	<b>18,068</b>
<b>Year ended 30 June 2015</b>							
Opening net book value		12,430	933	408	313	3,984	18,068
Transfers of assets		536	1	71	(603)	24	29
Additions		139	-	291	539	(5)	964
Capitalised interest	7	-	-	-	7	-	7
Disposals		(1)	(4)	-	-	-	(5)
Depreciation		(995)	(58)	-	-	(207)	(1,260)
Changes in restoration and rehabilitation estimate	14	-	-	14	-	(59)	(45)
Other		(2)	-	(16)	(11)	-	(29)
<b>Closing net book value</b>		<b>12,107</b>	<b>872</b>	<b>768</b>	<b>245</b>	<b>3,737</b>	<b>17,729</b>
<b>At 30 June 2015</b>							
Cost		14,762	1,010	768	245	4,357	21,142
Accumulated depreciation		(2,655)	(138)	-	-	(620)	(3,413)
<b>Net book value</b>		<b>12,107</b>	<b>872</b>	<b>768</b>	<b>245</b>	<b>3,737</b>	<b>17,729</b>

Transfers of assets were made between the categories of property, plant and equipment, intangible assets and exploration and evaluation and development expenditure.

Property, plant and equipment includes assets held under finance leases of US\$403 million (2014: US\$300 million). The details of the finance leases under which these assets are held are disclosed in note 10(a).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS | KEY BALANCE SHEET ITEMS

For the year ended 30 June 2015

## 14 Provisions

	2015 US\$m	2014 US\$m
Employee benefits	168	166
Restoration and rehabilitation	6	10
<b>Total current provisions</b>	<b>174</b>	<b>176</b>
Employee benefits	4	4
Restoration and rehabilitation	424	463
<b>Total non-current provisions</b>	<b>428</b>	<b>467</b>

### (a) Provision for employee benefits

Movements in the provision for employee benefits during the financial year are set out below:

	2015 US\$m	2014 US\$m
Carrying amount at 1 July	170	127
Changes in employee benefits provision	110	167
Amounts paid	(108)	(124)
<b>Carrying amount at 30 June</b>	<b>172</b>	<b>170</b>

Provision for employee benefits include the Group's liability for long service leave and annual leave. The current portion includes all of the accrued annual leave and the portion of long service leave where employees have completed their required period of service. The Group does not expect all employees to take the full amount of accrued leave or require payment in the next 12 months. The amount to be taken or paid in the next 12 months is estimated at approximately US\$109 million.

### (b) Provision for restoration and rehabilitation

Movements in the provision for restoration and rehabilitation during the financial year are set out below:

	2015 US\$m	2014 US\$m
Carrying amount at 1 July	473	388
Changes in restoration and rehabilitation estimate <sup>1</sup>	(45)	87
Unwinding of discount	4	4
Payments for restoration and rehabilitation activities	(2)	(6)
<b>Carrying amount at 30 June</b>	<b>430</b>	<b>473</b>

<sup>1</sup> A provision for restoration and rehabilitation has been recognised in relation to Fortescue's iron ore operations. The provision has been made in full for all disturbed areas at the reporting date based on current estimates of costs to rehabilitate and for the costs of infrastructure removal, discounted to their present value based on expected timing of future cash flows.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS | KEY BALANCE SHEET ITEMS

For the year ended 30 June 2015

## 15 Deferred tax assets and liabilities

The composition and movement of deferred tax assets and (liabilities) is as follows:

	Balance 1 July 2013 US\$m	Charged/ (credited) to profit or loss US\$m	Balance 30 June 2014 US\$m	Charged/ (credited) to profit or loss US\$m	Balance 30 June 2015 US\$m
Exploration expenditure	(79)	(4)	(83)	(9)	(92)
Development	(193)	(270)	(463)	(48)	(511)
Property, plant and equipment	(585)	(93)	(678)	(232)	(910)
Inventories	(125)	(60)	(185)	23	(162)
Foreign exchange losses (gains)	(31)	22	(9)	7	(2)
Provisions	157	35	192	(12)	180
Other financial liabilities	36	28	64	50	114
Other items	15	(7)	8	3	11
	<b>(805)</b>	<b>(349)</b>	<b>(1,154)</b>	<b>(218)</b>	<b>(1,372)</b>

	Assets		Liabilities		Net assets (liabilities)	
	2015 US\$m	2014 US\$m	2015 US\$m	2014 US\$m	2015 US\$m	2014 US\$m
Exploration expenditure	-	-	(92)	(83)	(92)	(83)
Development	-	-	(511)	(463)	(511)	(463)
Property, plant and equipment	35	19	(945)	(697)	(910)	(678)
Inventories	-	-	(162)	(185)	(162)	(185)
Foreign exchange losses (gains)	1	-	(3)	(9)	(2)	(9)
Provisions	184	195	(4)	(3)	180	192
Other financial liabilities	137	92	(23)	(28)	114	64
Other items	40	33	(29)	(25)	11	8
	<b>397</b>	<b>339</b>	<b>(1,769)</b>	<b>(1,493)</b>	<b>(1,372)</b>	<b>(1,154)</b>

Deferred tax assets (liabilities) expected to be recovered (settled) within 12 months	81	76	(197)	(223)	(116)	(147)
Deferred tax assets (liabilities) expected to be recovered (settled) beyond 12 months	316	263	(1,572)	(1,270)	(1,256)	(1,007)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS | UNRECOGNISED ITEMS

For the year ended 30 June 2015

## 16 Commitments and contingencies

	Capital <sup>1</sup> US\$m	Operating leases <sup>2</sup> US\$m	Total US\$m
<b>30 June 2014</b>			
Within one year	519	79	598
Between one and five years	252	176	428
<b>Total</b>	<b>771</b>	<b>255</b>	<b>1,026</b>
<b>30 June 2015</b>			
Within one year	138	107	245
Between one and five years	438	174	612
<b>Total</b>	<b>576</b>	<b>281</b>	<b>857</b>

<sup>1</sup> At 30 June 2015 Fortescue had contractual commitments to capital expenditure not recognised as liabilities, including commitments associated with the construction of very large iron ore carriers of US\$62 million within 12 months and US\$438 million between one and five years, after the end of the financial year.

<sup>2</sup> Fortescue leases various offices and other premises under non-cancellable operating leases expiring within one to seven years. The leases have varying terms, escalation clauses and renewal rights. The terms of the leases are renegotiated on renewal. Fortescue also leases mobile equipment, plant and machinery and office equipment under non-cancellable operating leases. The leases have varying terms.

Fortescue had no material contingent liabilities or contingent assets at 30 June 2015 or at the date of this report. Fortescue occasionally receives claims arising from its activities in the normal course of business. In the opinion of the Directors, all such matters are covered by insurance or, if not covered, are without merit or are of such a kind or involve such amounts that would not have a material adverse impact on the operating results or financial position if settled unfavourably.

## 17 Events occurring after the reporting period

On 24 August 2015, the Directors declared a final dividend of two Australian cents per ordinary share payable in October 2015.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS | OTHER INFORMATION

For the year ended 30 June 2015

## 18 Related party transactions

### (a) Material subsidiaries

Interests in Fortescue's principal subsidiaries are set out in note 23(a).

### (b) Key management personnel remuneration

	2015 US\$'000	2014 US\$'000
Short term employee benefits	6,521	5,958
Share-based payments	5,984	10,534
Post employment benefits	169	193
	<b>12,674</b>	<b>16,685</b>

No termination benefits were paid to key management personnel during the financial year in addition to the above remuneration (2014: A\$277 thousand).

Detailed information about the remuneration received by each key management person is provided in the remuneration report on pages 143 to 162.

### (c) Transactions with other related parties

The following transactions occurred with joint operations partners:

	2015 US\$'000	2014 US\$'000
Revenue	61,388	96,102
Other income	9,504	22,026
Current receivables	19,318	19,376

### (d) Guarantees issued

The Minderoo Group Pty Ltd (formerly The Metal Group Pty Ltd), an entity controlled by Andrew Forrest, has entered into arrangements to provide financial assistance by way of guarantee to certain of Fortescue's executives to purchase the Company's shares. The arrangement, which constitutes a share-based payment transaction, has been measured with the reference to the fair value of the benefit received by the executives and is recognised as an expense on a straight-line basis over a four-year vesting period, in line with the service conditions. The fair value was determined at grant date using a Monte-Carlo simulation model. The total share-based payment expense in relation to the arrangement for the financial year ended 30 June 2015 was US\$985 thousand (2014: US\$985 thousand).

No other transactions have occurred with related parties other than subsidiaries, entities with joint control, Directors or Key Management Personnel as disclosed above.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS | OTHER INFORMATION

For the year ended 30 June 2015

## 19 Share-based payments

### (a) Employee options and Performance Rights Plans

During the financial year Fortescue issued 1,671,456 (2014: 3,917,818) short term performance rights and 3,752,129 (2014: 8,038,536) long term performance rights to employees and senior executives, convertible to one ordinary share per right. The short term rights vest over one year, and the long term rights vest over three years. Vesting of both the short term and long term plans are subject to non-market vesting conditions imposed on each individual participating in the performance rights plans.

	Weighted average exercise price 2015 A\$	Number of options and rights 2015 Number	Weighted average exercise price 2014 A\$	Number of options and rights 2014 Number
Outstanding at 1 July	1.95	19,226,320	3.89	10,603,847
Performance rights granted	-	5,423,585	-	11,956,354
Performance rights forfeited or lapsed	-	(2,718,618)	-	(1,360,433)
Performance rights converted	-	(2,808,395)	-	(973,448)
Options forfeited or expired during the year	5.00	(7,500,000)	5.69	(400,000)
Options exercised during the year	-	-	2.50	(600,000)
<b>Outstanding at 30 June</b>	<b>-</b>	<b>11,622,892</b>	<b>1.95</b>	<b>19,226,320</b>

The weighted average fair value of performance rights granted during the year ended 30 June 2015 was A\$2.49 per right (2014: A\$5.29 per right) for the short term performance rights and A\$2.37 per right (2014: A\$5.09 per right) for the long term performance rights. The estimated fair value was determined using a trinomial option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date, expected price volatility of the underlying share, the effect of additional market conditions, the expected dividend yield, estimated share conversion factor and the risk free interest rate for the term of the right.

The weighted average inputs used to determine the fair value of performance rights granted during the year ended 30 June 2015 were:

- (a) share price: A\$2.55 (2014: A\$5.35)
- (b) exercise price: nil (2014: nil)
- (c) volatility: 62 per cent (2014: 78 per cent)
- (d) option life: 23 months (2014: 21 months)
- (e) dividend yield: 3 per cent (2014: 2 per cent)
- (f) risk free interest rate: 2.5 per cent (2014: 2.5 per cent)

Details of options and performance rights outstanding at 30 June 2015 are presented in the following table:

	Exercise price A\$	Balance at the end of the year Number	Vested and exercisable at the end of the year Number	Remaining contractual life Months
Long term performance rights 2013	-	2,497,299	-	3
Long term performance rights 2014	-	4,144,145	-	15
Short term performance rights 2015	-	1,439,173	-	3
Long term performance rights 2015	-	3,542,275	-	27
	-	<b>11,622,892</b>	-	

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS | OTHER INFORMATION

For the year ended 30 June 2015

## 19 Share-based payments (continued)

### (b) Other share-based payments

The arrangement between certain of Fortescue's executives and The Minderoo Group Pty Ltd, as described in note 18, constitutes a share-based payment. The assessed fair value of this share-based payment at grant date was US\$3,941,996, including US\$985,499 expensed during the financial year (2014: US\$985,499). The fair value at each grant date was determined using a Monte-Carlo simulation model that takes into account the four-year life of the instruments, the share prices at each grant date, the expected price volatility of the underlying share, the expected dividend yield, risk free interest rate for the life of the instruments, the loan value per share, the loan interest rate and the terms of the margin call.

### (c) Employee expenses

Total expenses arising from share-based payments transactions recognised during the period as part of employee benefit expense were as follows.

	2015 US\$m	2014 US\$m
Share-based payment expense	9	31

## 20 Remuneration of auditors

### (a) PricewaterhouseCoopers Australia

	2015 US\$'000	2014 US\$'000
<b>Audit and other assurance services</b>		
Audit and review of financial statements	830	774
Other assurance services	501	140
<b>Total audit and assurance services</b>	<b>1,331</b>	<b>914</b>
<b>Other services</b>		
Consulting services	205	705
<b>Total remuneration of PricewaterhouseCoopers Australia</b>	<b>1,536</b>	<b>1,619</b>
<b>(b) Network firms of PricewaterhouseCoopers Australia</b>		
<b>Audit and other assurance services</b>		
Audit and review of financial statements	49	47
<b>Total remuneration of network firms of PricewaterhouseCoopers Australia</b>	<b>49</b>	<b>47</b>
<b>Total auditors' remuneration</b>	<b>1,585</b>	<b>1,666</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS | OTHER INFORMATION

For the year ended 30 June 2015

## 21 Deed of cross guarantee

Fortescue Metals Group Limited and certain of its subsidiaries are parties to a deed of cross guarantee under which each company guarantees the debts of the others. By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare a financial report and Directors' report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission.

### Holding entity

- Fortescue Metals Group Limited

### Group entities

- FMG Pilbara Pty Limited
- Chichester Metals Pty Limited
- FMG Resources (August 2006) Pty Limited
- FMG Resources Pty Limited
- International Bulk Ports Pty Limited
- The Pilbara Infrastructure Pty Limited
- FMG Solomon Pty Limited

### (a) Consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position and consolidated statement of changes in equity

The consolidated income statement, consolidated statement of comprehensive income and consolidated statement of changes in equity for the year ended 30 June 2015 along with the consolidated statement of financial position at 30 June 2015 for the closed group and the extended closed group represented by the above companies are materially the same as that of the consolidated group.

## 22 Parent entity financial information

### (a) Summary financial information

	2015 US\$m	2014 US\$m
Current assets	198	633
Non-current assets	9,395	8,070
<b>Total assets</b>	<b>9,593</b>	<b>8,703</b>
Current liabilities	31	765
Non-current liabilities	77	94
<b>Total liabilities</b>	<b>108</b>	<b>859</b>
<b>Net assets</b>	<b>9,485</b>	<b>7,844</b>
Contributed equity	1,294	1,289
Reserves	33	56
Retained earnings	8,158	6,499
<b>Total equity</b>	<b>9,485</b>	<b>7,844</b>
Profit for the year	2,002	2,960
<b>Total comprehensive income for the year</b>	<b>2,002</b>	<b>2,960</b>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS | OTHER INFORMATION

For the year ended 30 June 2015

## 22 Parent entity financial information (continued)

### (a) Summary financial information

The parent entity's financial information has been prepared using the same basis, including the accounting policies, as the consolidated financial information, except as outlined below:

- i) Investments in subsidiaries, associates and joint venture entities have been accounted for at cost; and
- ii) Profit for the year includes dividends received from subsidiaries of US\$2,045 million (2014: US\$3,200 million).

### (b) Guarantees entered into by the parent entity

The parent entity is a party to the following guarantees:

- Deed of cross guarantee, as described in note 21; and
- Guarantees forming part of the Fortescue's senior debt arrangements associated with the senior secured credit facility, the senior secured notes and the senior unsecured notes, which includes providing security to the secured debt holders with respect to the assets of the Company and certain of its subsidiaries, as described in note 10(a).

No liability was recognised by the parent entity or the Group in relation to these guarantees.

### (c) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities at 30 June 2015 or 30 June 2014.

## 23 Interests in other entities

### (a) Material subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following principal subsidiaries in accordance with the accounting policy described in note 24(a):

Controlled entities	Country of incorporation	Class of shares	Equity holding		Investment	
			2015 %	2014 %	2015 US\$	2014 US\$
The Pilbara Infrastructure Pty Limited	Australia	Ordinary	100	100	1	1
FMG Pilbara Pty Limited	Australia	Ordinary	100	100	1	1
Chichester Metals Pty Limited	Australia	Ordinary	100	100	1	1
FMG Resources (August 2006) Pty Limited	Australia	Ordinary	100	100	1	1
Karribi Developments Pty Limited	Australia	Ordinary	100	100	1	1
FMG Magnetite Pty Limited	Australia	Ordinary	88	88	1	1
FMG North Pilbara Pty Limited	Australia	Ordinary	88	88	1	1
FMG International Pte Limited	Singapore	Ordinary	100	100	209,053	209,053
FMG Solomon Pty Limited	Australia	Ordinary	100	100	1	1
FMG Iron Bridge Limited	Hong Kong	Ordinary	88	88	43,557,023	43,557,023
FMG Procurement Services	Australia	Ordinary	100	100	1	1
Pilbara Power Pty Limited	Australia	Ordinary	100	100	1	1
Pilbara Housing Services Pty Limited	Australia	Ordinary	100	100	1	1
FMG International Shipping Pte Ltd	Singapore	Ordinary	100	100	1	1

### (b) Joint operations

Fortescue, through its wholly owned subsidiary FMG Pilbara Pty Limited, holds a 25 per cent participating interest in the Nullagine Iron Ore Joint Venture. The principal activity of Nullagine Iron Ore Joint Venture is the production of iron ore in the Pilbara region of Western Australia, with Fortescue entitled to receive joint operation output consistent with its participating interest.

In October 2013 Fortescue, through its 88 per cent owned subsidiary FMG Magnetite Pty Ltd and FMG North Pilbara Pty Ltd, formed the Iron Bridge Joint Venture and Glacier Valley Joint Venture to develop and produce its magnetite assets in the Pilbara region of Western Australia. The Group is entitled to receive joint operation output consistent with its participating interest of 69 per cent.

During the year joint operation partners, other than Fortescue, contributed US\$146 million to the Iron Bridge Joint Venture, increasing the deferred joint venture contributions liability to US\$261 million (2014: \$160 million).

## 24 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below.

### (a) Principles of consolidation

#### (i) *Subsidiaries*

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries, being the entities controlled by the Company. Control exists when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

The financial statements of subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. All intercompany balances and transactions, including unrealised profits and losses arising from intra-group transactions, have been eliminated in full. Subsidiaries are consolidated from the effective date of acquisition to the effective date of disposal.

The acquisition method of accounting is used to account for the Group's business combinations.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, the consolidated statement of comprehensive income, statement of changes in equity and balance sheet respectively.

#### (ii) *Joint arrangements*

A joint arrangement is an arrangement when two or more parties have joint control. Joint control exists when the parties agree contractually to share control over the activities that significantly affect the entity's returns (relevant activities), and the decisions about relevant activities require the unanimous consent of the parties sharing joint control.

Joint arrangements are classified as either joint operations or joint ventures, based on the contractual rights and obligations between the parties to the arrangement.

To support operations and construction projects of some of the joint operations, Fortescue and other parties to the joint arrangements are required, from time to time, to contribute funds in the form of cash calls, in proportion to their respective interests in the joint arrangements. These funds, if contributed by the parties to the joint arrangements in different financial years, may give rise to deferred joint venture contribution assets or liabilities.

#### *Joint operations*

If the contractual arrangement specifies a right to the assets and the obligations for the liabilities for the parties, the arrangement is classified as joint operation. The Group recognises its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. These have been incorporated in the financial statements under the appropriate headings. Details of the joint operations are set out in note 23.

#### *Joint ventures*

If the contractual arrangement grants the parties the right to the arrangement's net assets, it is classified as a joint venture. Interests in joint ventures are accounted for using the equity method, after initially being recognised at cost in the consolidated balance sheet.

### (b) Foreign currency translation

Transactions in foreign currencies have been converted at rates of exchange ruling at the date of those transactions, with the resulting exchange gains and losses recognised in profit and loss. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the reporting date, with the resulting gains and losses recognised in profit and loss, except as set out below:

- For qualifying cash flow hedges, the gains and losses arising on foreign currency translations are deferred in other comprehensive income
- Translation differences on site rehabilitation provisions are capitalised as part of the development assets.

Gains and losses on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

### 24 Summary of significant accounting policies (continued)

#### (c) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Fortescue recognises revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below.

##### (i) *Sale of products*

Revenue from the sale of products is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, indicating that there has been a transfer of risks and rewards of ownership to the customer, no further work or processing is required by the Group, the quantity and quality of the products have been determined with reasonable accuracy, the price can be reasonably estimated and collectability is reasonably assured.

For iron ore sales, the above conditions are generally satisfied when title passes to the customer, typically on the bill of lading date when ore is delivered to the vessel. Accordingly, revenue from sales of iron ore is recognised on the bill of lading date at an invoiced amount.

For majority of Fortescue's contracts the sale price included in the original invoice is referred to as provisional price and is subsequently adjusted to reflect market prices over a quotation period stipulated in the sales contract, typically on or after the vessel arrival to the port of discharge. Refer to note 12(a)(i) for further information on provisionally priced contracts, including accounting for marking to market adjustments.

##### (ii) *Services revenue*

Revenue from the provision of services is recognised in the accounting period in which the services are rendered.

##### (iii) *Interest income*

Interest income is accrued using the effective interest rate method.

#### (d) Deferred income

Deferred income represents payments collected but not earned at the end of the reporting period. These payments are recognised as revenue when the goods are delivered or services are provided.

#### (e) Income tax

The income tax expense for the year is the tax payable on the current year's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the taxation laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which the applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the taxation authorities.

The Group is subject to income taxes in Australia and jurisdictions where it has foreign operations. Significant judgement is required in determining the provisions for income taxes. There are certain transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination may be subject to change. Fortescue estimates its tax liabilities based on the Group's understanding of the tax law at the time. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. However, the deferred income tax is not accounted for if it arises from the initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither the accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.



### 24 Summary of significant accounting policies (continued)

Deferred tax assets are recognised for future deductible temporary differences and carry forward of unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are not recognised for temporary differences between the carrying amounts and tax bases of investments in foreign operations where the Group is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not be reversed in the foreseeable future. Deferred tax assets and liabilities are offset when there is a legal right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the Group has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. Current and deferred tax is recognised in profit and loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Fortescue Metals Group Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation as of 1 July 2002, namely the FMG tax consolidated group, and are therefore taxed as a single entity from that date. FMG Iron Bridge (Aust) Pty Ltd and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation as of 28 September 2011, namely the FMG Iron Bridge tax consolidated group, and are therefore taxed as a single entity from that date.

The head entity and the controlled entities in both tax consolidated groups continue to account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in each tax consolidated group continues to be a standalone taxpayer in its own right. In addition to its own current and deferred tax amounts, the head entity of each group also recognises the current tax liabilities, or assets, and the deferred tax assets it has assumed from unused tax losses and unused tax credits from controlled entities in the each corresponding tax consolidated group.

Assets or liabilities arising within the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the tax consolidated group. Any differences between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to, or distribution from, wholly-owned tax consolidated entities.

All the entities in the FMG tax consolidated group have entered into a valid and current tax sharing agreement which, in the opinion of the Directors, limits the joint and several liability of the wholly-owned entities in the case of an income tax obligation default by the head entity.

#### (f) Cash and cash equivalents

Cash and cash equivalents include cash on hand, short term deposits and other short term highly liquid investments that are subject to an insignificant risk of changes in value, and are readily convertible to known amounts of cash.

#### (g) Trade receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. An allowance for impairment of trade receivables is established when there is objective evidence that Fortescue will not be able to collect all amounts due.

Collectibility of trade receivables is reviewed on a monthly basis. When there is objective evidence that Fortescue will not be able to collect all amounts due according to the original terms of the receivables, an allowance for impairment of trade receivables is raised. Total receivables which are known to be uncollectible are written off by reducing the carrying amount directly. Significant financial difficulties of the customer, probability that the customer will enter bankruptcy or financial re-organisation and default or delinquency in payments are considered indicators that the trade receivable may not be collected. The amount of the impairment allowance is the difference between the trade receivable's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short term receivables are not discounted if the effect of discounting is immaterial.

### 24 Summary of significant accounting policies (continued)

The amount of the impairment allowance is recognised in profit and loss within other administration expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other administration expenses.

#### (h) Inventories

Warehouse stores and materials, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost for raw materials and stores is determined as the purchase price. For partly processed and saleable iron ore, cost is based on the weighted average cost method and includes:

- labour costs, materials and contractor expenses which are directly attributable to the extraction and processing of iron ore
- production overheads, including attributable mining and manufacturing overheads
- the depreciation of mine development assets and of property, plant and equipment used in the extraction, processing and transportation of iron ore
- transportation expenditure in bringing such inventories to their existing location and condition, together with an appropriate portion of fixed and variable overhead expenditure.

Iron ore stockpiles represent iron ore that has been extracted and is available for further processing or sale. Quantities are assessed primarily through internal and third party surveys. Where there is an indication that inventories are obsolete or damaged, these inventories are written down to net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

#### (i) Financial assets

Fortescue classifies its financial assets into loans and receivables and financial assets at fair value through profit or loss. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

##### (i) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and include trade receivables. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are initially measured at fair value and subsequently carried at a revised cost. At the end of each reporting period loans and receivables are assessed whether there is objective evidence that they are impaired. The amount of loss is measured as the difference between its carrying amount and the present value of its estimated future cash flows and is recognised in profit and loss.

##### (ii) *Financial assets through profit or loss*

This category comprises only derivative financial instruments. They are carried in the balance sheet at fair value with changes in fair value recognised in profit or loss.

#### (j) Financial liabilities

##### (i) *Trade payables*

Trade and other payables are initially recognised at fair value and subsequently carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group has an obligation to make future payments in respect of the purchase of these goods and services.

##### (ii) *Borrowings*

Borrowings are initially recognised at fair value of the consideration received, less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised.

##### (iii) *Finance lease liabilities*

The Group has finance lease liabilities in relation to certain items of property, plant and equipment. Finance lease liabilities are initially recognised at the fair value of the underlying assets or, if lower, the estimated present value of the minimum lease payments. Each lease payment is allocated between the liability and finance cost and the finance cost is charged to profit and loss over the lease period to reflect a constant periodic rate of interest on the remaining balance of the liability for each period.

## 24 Summary of significant accounting policies (continued)

### (k) Derivatives and hedge accounting

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as hedges of foreign exchange risk associated with the cash flows of highly probable forecast transactions.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is immediately recognised in profit or loss within other income or other expense.

The Group documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

When the forecast transaction that is being hedged results in the recognition of a non-financial asset, the gains and losses previously deferred in other comprehensive income are transferred from equity and adjust the cost of the asset. When a hedging instrument expires, is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to profit or loss.

### (l) Property, plant and equipment

#### (i) Recognition and measurement

Each class of property, plant and equipment is stated at historical cost less, where applicable, any accumulated depreciation and impairment loss. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.

The cost of self-constructed assets includes the cost of materials and direct labour and any other costs directly attributable to bringing an asset to a working condition ready for its intended use. Assets under construction are recognised in assets under development. Upon commissioning, which is the date when the asset is in the location and condition necessary for it to be capable of operating in the manner intended by management, the assets are transferred into property, plant and equipment or development assets, as appropriate.

Cost may also include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Borrowing costs related to the acquisition or construction of qualifying assets are capitalised.

When separate parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalised as part of the equipment.

Gains and losses arising on disposal of property, plant and equipment are recognised in profit or loss and determined by comparing proceeds from the sale of the assets to their carrying amount.

#### (ii) Subsequent costs

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with these subsequent costs will flow to Fortescue and the cost of the item can be measured reliably. Ongoing repairs and maintenance are recognised as an expense in profit and loss during the financial period in which they are incurred.

#### (iii) Depreciation

Depreciation on assets, other than land which is not depreciated, is calculated using the straight-line method or units of production method, net of residual values, over estimated useful lives. Depreciation commences on the date when an asset is available for use, that is, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Assets acquired under finance leases are depreciated over the shorter of the individual asset's useful life and the lease term.



### 24 Summary of significant accounting policies (continued)

#### Straight-line method

Where the useful life is not linked to the quantities of iron ore produced, assets are generally depreciated on a straight-line basis over the estimated useful lives of the assets as follows:

• Buildings	20 – 25 years
• Rolling stock	25 – 30 years
• Plant and equipment	5 – 20 years
• Furniture, fittings and equipment	3 – 8 years
• Rail and port infrastructure assets	40 – 50 years

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period with the effect of any changes in estimate accounted for on a prospective basis.

#### Units of production method

Where the useful life of an asset is directly linked to the extraction of iron ore from a mine, the asset is depreciated using the units of production method. The units of production method is an amortised charge proportional to the depletion of the estimated proven and probable reserves at the mine.

#### (iv) Exploration, evaluation and development expenditure

Exploration and evaluation activities involve the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource. Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest.

Exploration and evaluation expenditure is capitalised and carried forward to the extent that:

- rights to tenure of the identifiable area of interest are current; and
- at least one of the following conditions is also met:
  - (i) the expenditure is expected to be recouped through the successful development of the identifiable area of interest, alternatively, by its sale; or
  - (ii) where activities in the identifiable area of interest have not, at the reporting date, reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and activities in, or in relation to, the area of interest, are continuing.

Exploration and evaluation assets are reviewed at each reporting date for indicators of impairment and tested for impairment where such indicators exist. If the test indicates that the carrying value might not be recoverable, the asset is written down to its recoverable amount. These charges are recognised as impairment expense in profit and loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in previous years.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified from exploration and evaluation expenditure to development expenditure.

Development expenditure includes capitalised exploration and evaluation costs, pre-production development costs, development studies and other expenditure pertaining to that area of interest. Costs related to surface plant and equipment and any associated land and buildings are accounted for as property, plant and equipment.

Development costs are accumulated in respect of each separate area of interest. Costs associated with commissioning new assets in the period before they are capable of operating in the manner intended by management, are capitalised. Development costs incurred after the commencement of production are capitalised to the extent they are expected to give rise to a future economic benefit.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS | OTHER INFORMATION

For the year ended 30 June 2015

## 24 Summary of significant accounting policies (continued)

When an area of interest is abandoned or the Directors decide that it is not commercially or technically feasible, any accumulated cost in respect of that area is written off in the financial period that the decision is made. Each area of interest is reviewed at the end of each accounting period and the accumulated costs written off to profit and loss to the extent that they will not be recoverable in the future.

Amortisation of development costs capitalised is charged on a unit of production basis over the life of estimated proven and probable reserves at the mine.

### (m) Stripping costs

#### (i) *Development stripping costs*

Overburden and other mine waste materials are often removed during the initial development of a mine in order to access the mineral deposit. This activity is referred to as development stripping and the directly attributable costs, inclusive of an allocation of relevant overhead expenditure, are capitalised as development costs. Capitalisation of development stripping costs ceases and amortisation of those capitalised costs commences upon commercial extraction of ore. Amortisation of capitalised development stripping costs is determined on a unit of production basis for each area of interest.

Development stripping costs are considered in combination with other assets of an operation for the purpose of undertaking impairment assessments.

#### (ii) *Production stripping costs*

Overburden and other mine waste materials continue to be removed throughout the production phase of the mine. This activity is referred to as production stripping, with the associated costs charged to the income statement, as operating cost, except when all three criteria below are met:

- production stripping activity provides improved access to the specific component of the ore body, and it is probable that economic benefit arising from the improved access will be realised in future periods;
- the Group can identify the component of the ore body for which access has been improved; and
- the costs relating to the production stripping activity associated with that component can be measured reliably.

If all of the above criteria are met, production stripping costs resulting in improved access to the identified component of the ore body are capitalised as part of development asset and are amortised over the life of the component of the ore body.

The determination of components of the ore body is individual for each mine. The allocation of costs between production stripping activity and the costs of ore produced is performed using relevant production measures, typically strip ratios. Changes to the mine design, technical and economic parameters affecting life of the components and strip ratios, are accounted for prospectively.

### (n) Leases

Leases of assets where Fortescue, as lessee, has substantially all the risks and rewards of ownership, are classified as finance leases. Assets acquired under finance leases are capitalised at the lower of the fair value of the underlying assets or the present value of the future minimum lease payments. The corresponding finance lease liability is classified as borrowings. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to Fortescue as lessee are classified as operating leases. Payments made under operating leases are recognised as an expense in profit and loss on a straight-line basis over the period of the lease.

### 24 Summary of significant accounting policies (continued)

#### (o) Rehabilitation provision

Provisions are recognised when Fortescue has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

The mining, extraction and processing activities of Fortescue give rise to obligations for site rehabilitation. Rehabilitation obligations can include facility decommissioning and dismantling, removal or treatment of waste materials, land rehabilitation and site restoration. The extent of work required and the associated costs are estimated using current restoration standards and techniques. Provisions for the cost of each rehabilitation program are recognised at the time that environmental disturbance occurs.

Rehabilitation provisions are initially measured at the expected value of future cash flows required to rehabilitate the relevant site, discounted to their present value using Australian Government bond market yields that match, as closely as possible, the timing of the estimated future cash outflows. The judgements and estimates applied for the estimation of the rehabilitation provisions are discussed in note 25.

When provisions for closure and rehabilitation are initially recognised, the corresponding cost is capitalised into the cost of mine development assets, representing part of the cost of acquiring the future economic benefits of the operation. The capitalised cost of closure and rehabilitation activities is recognised within development assets and is amortised based on the units of production method over the life of the mine. The value of the provision is progressively increased over time as the effect of discounting unwinds, creating an expense recognised in finance costs.

At each reporting date the rehabilitation liability is re-measured to account for any new disturbance, updated cost estimates, inflation, changes to the estimated reserves and lives of operations, new regulatory requirements, environmental policies and revised discount rates. Changes to the rehabilitation liability are added to or deducted from the related rehabilitation asset and amortised accordingly.

#### (p) Impairment of non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The Group conducts an internal review of asset values bi-annually, which is used as a source of information to assess for any indications of impairment. External factors, such as changes in expected future prices, costs and other market factors are also monitored to assess for indications of impairment. If any such indication exists, an estimate of the asset's recoverable amount is calculated, being the higher of fair value less direct costs to sell and the asset's value in use. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. Fair value for mineral assets is generally determined using independent market assumptions to calculate the present value of the estimated future cash flows expected to arise from the continued use of the asset, including any expansion prospects, and its eventual disposal. These cash flows are discounted using an appropriate discount rate to arrive at a net present value of the asset.

Value in use is determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset in its present form and its eventual disposal, discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. Value in use is determined by applying assumptions specific to the Group's continued use and does not take into account future development.

In testing for indications of impairment and performing impairment calculations, assets are considered as collective groups and referred to as cash generating units. Cash generating units are the smallest identifiable groups of assets and liabilities that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Impaired assets are reviewed for possible reversal of the impairment at each reporting date.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS | OTHER INFORMATION

For the year ended 30 June 2015

## 24 Summary of significant accounting policies (continued)

### (q) Intangible assets

Costs incurred in developing products or systems and costs incurred in acquiring software and licenses that will contribute to future period financial benefits through revenue generation or cost reduction are capitalised as software.

Costs capitalised include external direct costs of materials and consultants services, direct payroll and payroll related costs of employees' time spent on the project.

IT development costs include only those costs directly attributable to the development phase and are only recognised following completion of technical feasibility and where Fortescue has an intention and ability to use the asset.

Intangible assets are amortised on a straight-line basis over periods generally ranging from 3 to 5 years.

### (r) Finance costs

Finance costs comprise interest expense, excluding interest expenses incurred for the construction of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, unwinding of the discount on provisions and impairment losses recognised on financial assets.

Interest expense and other borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Where funds used to finance an asset form part of general borrowings, the amount capitalised is calculated using a weighted average of rates applicable to relevant general borrowings during the construction period.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

### (s) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

### (t) Employee benefits

#### (i) Wages and salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in other payables and accruals in respect of employee services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled.

#### (ii) Long service leave

The liability for long service leave is recognised in provisions and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, probability of employee departures and periods of service.

Expected future payments are discounted using market yields at the reporting date on Australian Corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows. The liability for long service leave for which settlement within 12 months of the reporting date cannot be deferred is recognised in the current provision for employee benefits. The liability for long service leave for which settlement can be deferred beyond 12 months from the reporting date is recognised in the non-current provision for employee benefits.



### 24 Summary of significant accounting policies (continued)

#### (u) Share-based payments

Share-based remuneration benefits are primarily provided to employees via the Fortescue Metals Group Incentive Option Scheme (FMGIOS) and Performance Rights Plan (PRP). Information relating to these schemes is set out in note 19.

The fair value of options granted under the FMGIOS and PRP are recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options or rights.

The fair value at grant date is independently determined using trinomial option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the effect of additional market conditions, the expected dividend yield and the risk free interest rate for the term of the option or right.

The fair value of the options and rights granted is measured to reflect expected market vesting conditions, but excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each reporting date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate. The impact of the revision to original estimates, if any, is recognised in profit and loss with a corresponding adjustment to equity.

#### (v) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the Company, on or before the end of the reporting period but not distributed at the end of the reporting period.

#### (w) Earnings per share

##### (i) Basic earnings per share

Basic earnings per share is calculated by dividing profit for the year after income tax attributable to the ordinary shareholders by the weighted average number of ordinary shares on issue during the financial year.

##### (ii) Diluted earnings per share

Diluted earnings per share is calculated by dividing profit for the year after income tax attributable to the ordinary shareholders by the weighted average number of ordinary shares on issue during the financial year, after adjusting for the effects of all potential dilutive ordinary shares that were outstanding during the financial year.

#### (x) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which is disclosed as an operating cash flow.

#### (y) Comparatives

Where applicable, certain comparatives have been adjusted to conform with current year presentation.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS | OTHER INFORMATION

For the year ended 30 June 2015

## 24 Summary of significant accounting policies (continued)

### (z) New accounting standards and interpretations

#### (i) *New and amended standards adopted by the Group*

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 July 2014:

- AASB 2013-3 *Amendments to AASB 136 - Recoverable Amount Disclosures for Non-Financial Assets*. AASB 2013-3 introduced some additional impairment disclosures where impairment losses or reversals have been recognised during the period, and the recoverable amount has been determined using 'fair value less cost of disposal'. No impairment losses or reversals of impairment losses were recognised for the year ended 30 June 2015 and the adoption of AASB 2013-3 had no impact on disclosures in Fortescue's financial statements.
- AASB 2013-4 *Amendments to Australian Accounting Standards - Novation of Derivatives and Continuation of Hedge Accounting*. AASB 2013-4 allows for the continuation of hedge accounting when a derivative is novated, provided specific conditions are met. Fortescue did not enter into transactions that qualify as hedging for hedge accounting purposes during the year ended 30 June 2015, and the adoption of the above amendments had no impact on Fortescue's financial statements.
- Interpretation 21 *Accounting for Levies*. Interpretation 21 confirms what the obligating event is and when a liability is recognised. The adoption of Interpretation 21 had no impact on the amounts recognised in Fortescue's financial statements.
- AASB 2014-1 *Amendments to Australian Accounting Standards*. AASB 2014-1 introduced annual improvements that resulted in changes to various standards. The adoption of AASB 2014-1 had no impact on the amounts recognised and disclosures in Fortescue's financial statements.

#### (ii) *New accounting standards and interpretations not yet adopted*

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2015 reporting periods. These standards and interpretations have not been early adopted.

- AASB 9 *Financial Instruments* (effective for annual reporting periods beginning on or after 1 January 2018). AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting. Fortescue has determined that AASB 9 will have no material impact on the way the Group accounts for its financial instruments.
- AASB 15 *Revenue from Contracts with Customers* (effective for annual reporting periods beginning on or after 1 January 2017). AASB 15 introduces new framework for accounting for revenue and will replace AASB 118 *Revenue* and AASB 111 *Construction Contracts*. The new standard is based on the principle that revenue is recognised when control over goods and services transfers to a customer, therefore the notion of control replaces the existing notion of risks and rewards. Management is continuing to assess the impact of the new standard on Fortescue's financial statements.

## 25 Critical accounting estimates and judgements

The preparation of the consolidated financial statements requires management to make judgements and estimates and form assumptions that affect how certain assets, liabilities, revenue, expenses and equity are reported. At each reporting period, management evaluates its judgements and estimates based on historical experience and on other factors it believes to be reasonable under the circumstances, the results of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Fortescue has identified the following critical accounting policies where significant judgements and estimates are made by management in the preparation of these financial statements.

### (a) Iron ore reserve estimates

Iron ore reserves are estimates of the amount of product that can be economically and legally extracted from Fortescue's current mining tenements. In order to calculate ore reserves, estimates and assumptions are required about a range of geological, technical and economic factors, including quantities, grades, production techniques, recovery rates, production costs, transport costs, commodity demand, commodity prices and exchange rates. Estimating the quantity and grade of ore reserves requires the size, shape and depth of ore bodies or fields to be determined by analysing geological data such as drilling samples. This requires complex and difficult geological judgements and calculations to interpret the data.

As economic assumptions used to estimate reserves change and as additional geological data is generated during the course of operations, estimates of reserves may vary from period to period. Changes in reported reserves may affect Fortescue's financial results and financial position in a number of ways, including the following:

- asset carrying values may be affected due to changes in estimated future cash flows
- depreciation and amortisation charges in profit and loss may change where such charges are determined by the units of production basis, or where the useful economic lives of assets change
- the carrying value of deferred tax assets may change due to changes in estimates of the likely recovery of tax benefits.

### (b) Exploration and evaluation expenditure

Fortescue's accounting policy for exploration and evaluation expenditure results in expenditure being capitalised for an area of interest where it is considered likely to be recoverable by future exploitation or sale or where the activities have not reached a stage which permits a reasonable assessment of the existence of reserves. This policy requires management to make certain estimates as to future events and circumstances, in particular whether an economically viable extraction operation can be established. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised the expenditure under the policy, a judgement is made that recovery of the expenditure is unlikely, the relevant capitalised amount will be written off to profit and loss.

### (c) Development expenditure

Development activities commence after commercial viability and technical feasibility of the project is established. Judgement is applied by management in determining when a project is commercially viable and technically feasible. In exercising this judgement, management is required to make certain estimates and assumptions as to the future events. If, after having commenced the development activity, a judgement is made that a development asset is impaired, the relevant capitalised amount will be written off to profit and loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS | OTHER INFORMATION

For the year ended 30 June 2015

## 25 Critical accounting estimates and judgements (continued)

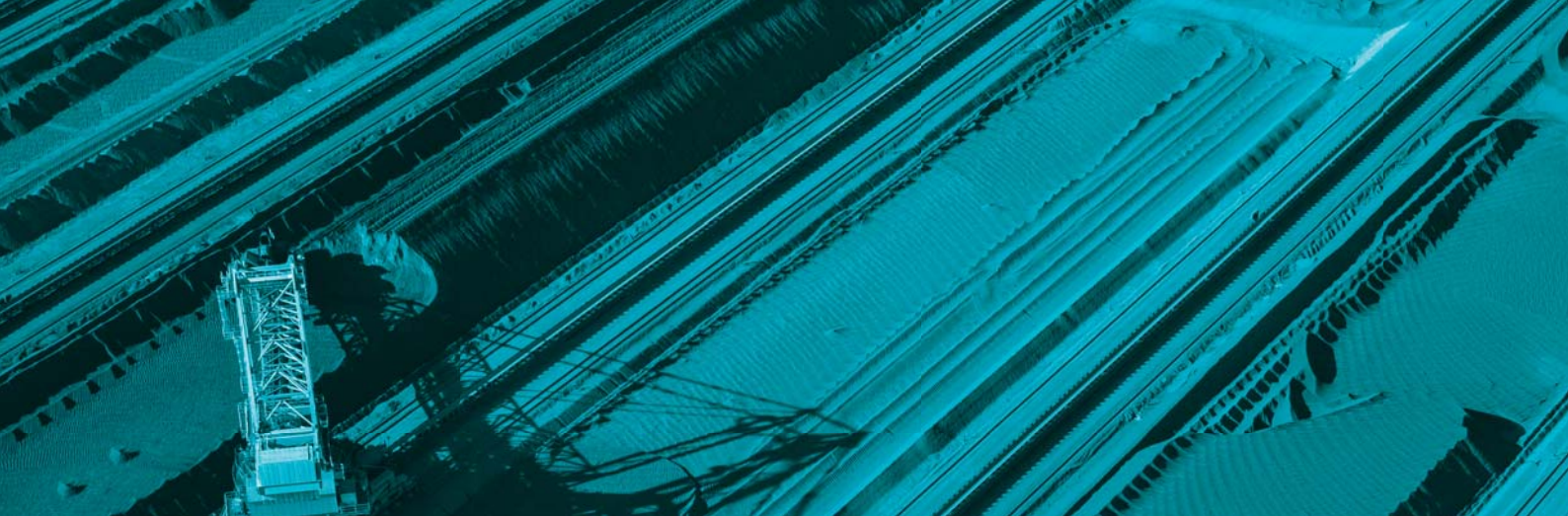
### (d) Property, plant and equipment – recoverable amount

The determination of fair value and value in use requires management to make estimates about expected production and sales volumes, commodity prices, reserves (see 'iron ore reserve estimates' above), operating costs, rehabilitation costs and future capital expenditure. Changes in circumstances may alter these projections, which may impact the recoverable amount of the assets. In such circumstances, some or all of the carrying value of the assets may be impaired and the impairment would be charged to profit and loss.

### (e) Rehabilitation estimates

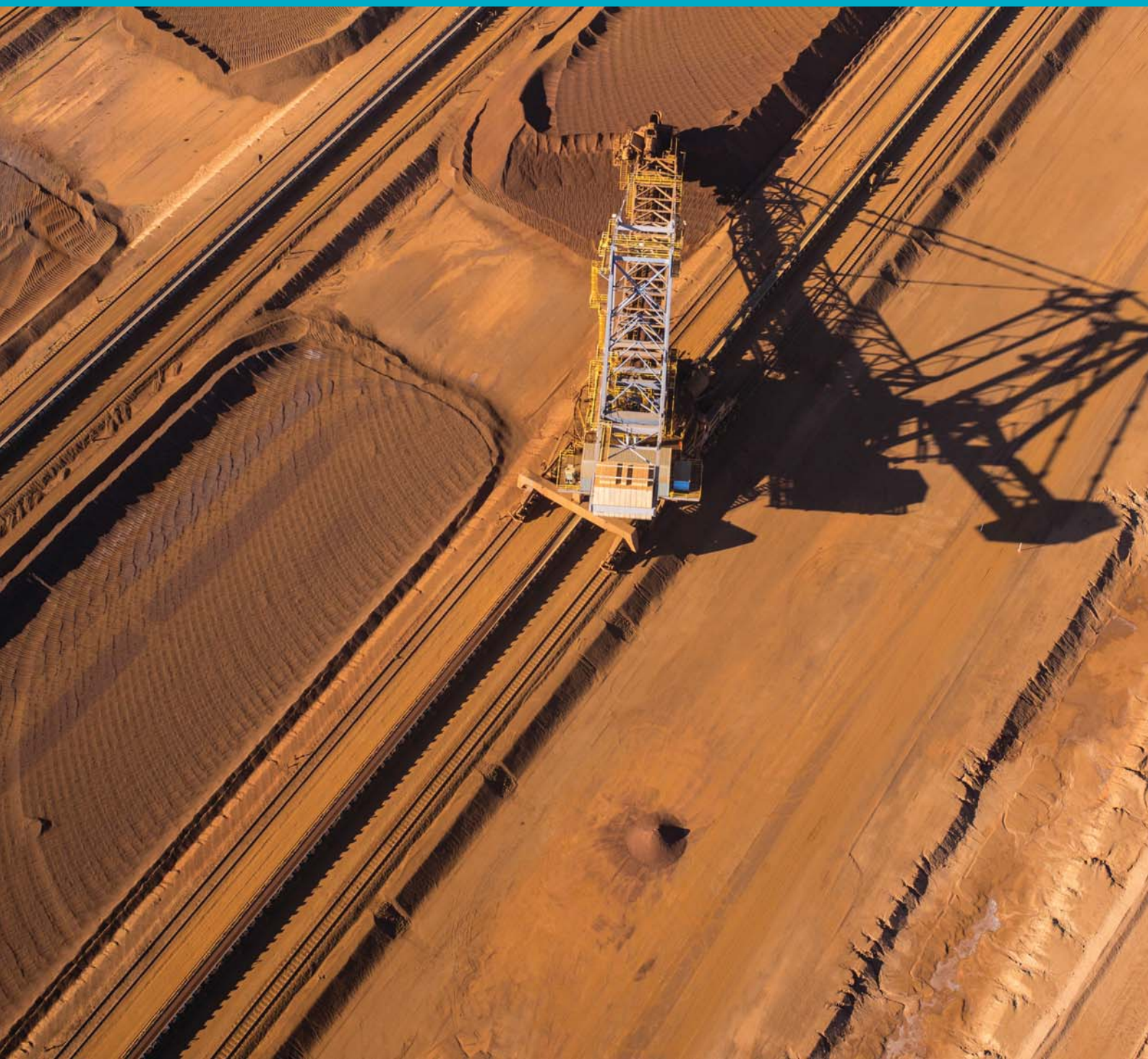
Fortescue's accounting policy for the recognition of rehabilitation provisions requires significant estimates including the magnitude of possible works required for the removal of infrastructure and of rehabilitation works, future cost of performing the work, the inflation and discount rates and the timing of cash flows. These uncertainties may result in future actual expenditure differing from the amounts currently provided.





# REMUNERATION REPORT

Overview | Operating and Financial Review | Reserves and Resources | Corporate Social Responsibility | Corporate Governance | Financial Report | **Remuneration Report** | Corporate Information







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# REMUNERATION REPORT

On behalf of the Directors of Fortescue Metals Group Limited I am pleased to present the Remuneration Report for the year ended 30 June 2015.

Our Remuneration Report is designed to provide you, our Shareholders, with information on key remuneration activities undertaken and details of remuneration paid to Directors and Key Management Personnel (KMP) in FY15 as well as demonstrate how reward outcomes link to Company strategy and performance.

It is also an opportunity to provide you with information on changes planned for the coming year.

In the current year the Committee and the Board have reviewed the executive long term incentive plan. This review involved considering the plan performance against its objectives, general market conditions, together with the performance hurdles utilised by leading resource companies both regionally and globally.

Arising from that review, the Board will propose to shareholders an amendment to the long term incentive plan. These proposed changes will be an extension of the existing plan, incorporating an additional two performance hurdles. In this context, it is the Board's intention to retain absolute return on equity as a key measure and improve the current program with the introduction of a relative total shareholder return measure and a strategic measure. The strategic measure will specifically relate to key milestones and strategic objectives that are fundamental to the organisation's sustainability, continuing development and delivery of shareholder returns.

It is the Committee and the Board's view that the broader focus under the amended long term incentive plan is consistent with market practice and will continue to focus management on a broader array of critical long term performance goals. The Board's key focus will be rewarding the leadership team of the Company for outperforming the market while driving the key levers relevant to the Company's success.

The information provided in the Remuneration Report has been prepared in accordance with requirements under the *Corporations Act 2001*, ASX Corporate Governance Principles and Recommendations (3rd edition) and Accounting Standards. Further details in regard to Company Directors can be found in the Governance section of this report.

Whilst the functional and reporting currency of Fortescue is US dollars, it is the Directors' view that presentation of the information in Australian dollars provides a more accurate and fair reflection of the remuneration practices of Fortescue, as all directors, executives and employees are remunerated in Australian dollars. This report forms part of the Directors' Report and has been audited in accordance with section 308(3c) of the *Corporations Act 2001*.

**Sharon Warburton**  
Remuneration and Nomination Committee Chair  
Non-Executive Director

## Who this report covers

This report outlines the remuneration arrangements for Fortescue's KMP. KMP are defined as 'those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity'.

The KMP of the Company for FY15 were:

## Non-Executive Directors

A Forrest	Chairman
O Hegarty	Vice Chairman
M Barnaba	Lead Independent Director
J Baderschneider	Non-Executive Director ( <i>appointed 19 January 2015</i> )
E Gaines	Non-Executive Director
C Huiquan	Non-Executive Director
G Raby	Non-Executive Director
S Warburton	Non-Executive Director
H Elliott	Deputy Chairman ( <i>retired 13 November 2014</i> )
G Rowley	Non-Executive Director ( <i>retired 13 November 2014</i> )
H Scruggs	Non-Executive Director ( <i>retired 13 November 2014</i> )

## Executive Directors (KMP)

N Power	Chief Executive Officer
P Meurs	Director Development

## Executives (KMP)

N Cernotta	Director Operations
S Pearce	Chief Financial Officer

Within this Remuneration Report reference to "KMP" includes Executive Directors and Executives as defined above.

There were no changes to KMP after the reporting date.

# 1 FY15 OVERVIEW AND YEAR AHEAD

Fortescue's remuneration strategy seeks to build a performance orientated culture by attracting and retaining the best possible people to align with driving increased shareholder value.

Fortescue's Board and the Remuneration and Nomination Committee (RNC) are committed to continued review and refinement of the remuneration strategy to ensure it meets the changing needs of the organisation, maintains market competitiveness and aligns to shareholder interests.

## 1.1 FY15 Remuneration outcomes - linking performance and pay

The Board takes into consideration both quantitative and qualitative assessments when deliberating on executive remuneration to ensure that reward outcomes reflect both company and individual performance. The following explains how fixed and variable remuneration outcomes were driven by performance in FY15.

Elements of remuneration	Outcome
<b>Total Fixed Remuneration (TFR)</b>	<p>As reported in the FY14 Remuneration Report, fixed remuneration for the CEO increased by 11 per cent with KMP fixed remuneration increasing (on average) by 3.3 per cent effective from 1 July 2014. Prior to that review, TFR levels had not increased since July 2011.</p> <p>A market review was conducted for the CEO and KMP in May 2015. In consideration of fixed remuneration levels and current business climate, no changes were made.</p>
<b>Executive and Senior Staff Incentive Plan (ESSIP)</b>	<p>Awards made in relation to the FY15 ESSIP reflect the achievement of:</p> <ul style="list-style-type: none"> <li>• All three company performance objectives delivering a reduction in Total Recordable Injury Frequency Rate (TRIFR), a significant reduction in C1 costs and above target production outcomes.</li> <li>• Company growth objectives</li> <li>• Individual performance objectives for executives other than the CEO.</li> </ul> <p>Refer to section 5 for further detail.</p> <p>The FY15 outcome represents an average payment of 81 per cent of maximum opportunity compared with an average payment of 76 per cent of maximum opportunity in FY14.</p>
<b>Long Term Incentive Plan (LTIP)</b>	<p>92.35 per cent vesting of the FY13 (performance period 1 July 2012 to 30 June 2015 reflecting Absolute Return on Equity performance of 28.47 per cent against a stretch target of 30 per cent.</p>

## 1.2 Executive total earnings in FY15

Details of remuneration received by the CEO and KMP prepared in accordance with statutory requirements and accounting standards are detailed in section 9. The table below sets out the total earnings for the CEO and KMP realised in FY15 sometimes referred to as 'actual' pay. The table includes fixed remuneration, the cash component of the ESSIP earnings for FY15 performance and the value of the share component of the FY15 ESSIP and FY13 LTIP was awarded.

	Fixed remuneration <sup>1</sup> A\$	FY15 ESSIP cash paid A\$	FY15 ESSIP <sup>2</sup> shares awarded A\$	FY13 LTIP <sup>3</sup> shares awarded A\$	Total actual remuneration earned in FY15 A\$
N Power	2,000,000	956,250	379,198	907,470	4,242,918
P Meurs	794,783	180,879 <sup>4</sup>	71,727 <sup>4</sup>	352,906	1,400,295
S Pearce	1,102,500	210,853	195,098	352,906	1,861,357
N Cernotta <sup>5</sup>	950,000	301,031	119,373	-	1,370,404

<sup>1</sup> Fixed remuneration includes cash salary, paid leave and superannuation.

<sup>2</sup> The actual share value to the individual is not realised until the shares are awarded. For the purpose of this report the nominal ESSIP share value for FY15 is the value of the participant's elected weighting in shares (minimum 50 per cent of the total award) divided by the VWAP of Fortescue Shares for the first five trading days of the plan year (A\$4.5397) multiplied by the five day VWAP of Fortescue shares for the first five trading days of FY16 (A\$1.8002).

<sup>3</sup> The nominal value of the FY13 LTIP is the value of the participant's award divided by the VWAP of Fortescue Shares for the first five trading days of the plan year (A\$4.9464) multiplied by the five day VWAP of Fortescue shares for the first five trading days of FY16 (A\$1.8002).

<sup>4</sup> FY15 ESSIP awarded on a pro-rata basis.

<sup>5</sup> Mr Cernotta was appointed on 24 March 2014 and accordingly, did not participate in the FY13 LTIP.



## 1 FY15 overview and year ahead (continued)

### 1.3 Details of Performance Grants to Executive Directors

At the 2013 AGM, shareholders approved a maximum grant of 5.5 million performance rights to executive directors over a three year period from 13 November 2013. To date, Mr Power has been granted 2,810,790 performance rights and Mr Meurs has been granted 1,073,652 performance rights with a total of 3,884,442 performance rights granted to executive directors during the approved three year period.

The issue of performance rights to participants will not have a diluting effect on the percentage interest of Shareholders holdings if the performance rights vest into shares acquired on market.

## 2 GOVERNANCE OF REMUNERATION

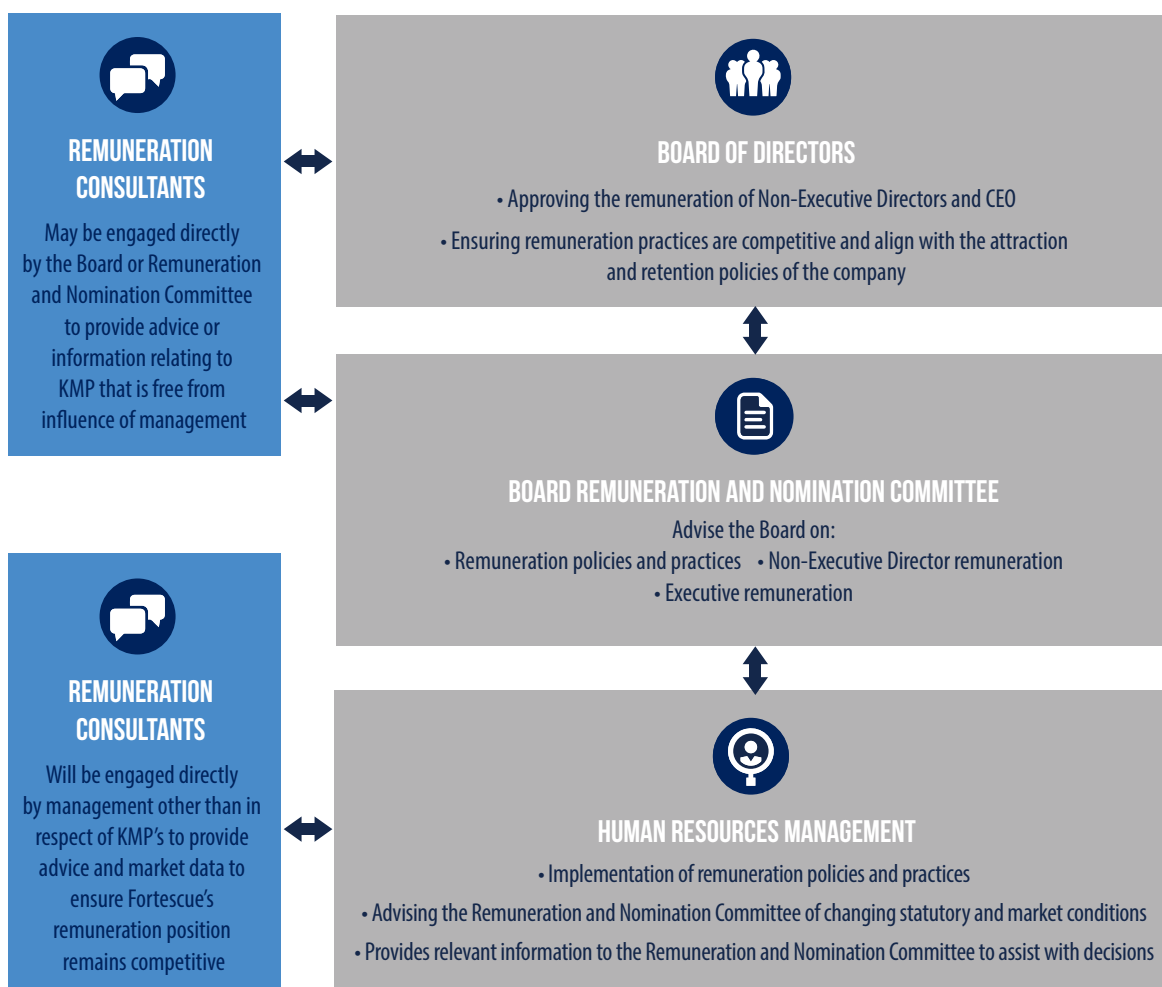
Fortescue believes that robust governance is critical to underpinning the effectiveness of its remuneration strategy.

The RNC operates under a Board-approved charter. This includes responsibility for reviewing and reporting to the Board on remuneration policy and practices such as remuneration levels and incentive plans.

It also includes recruitment, retention, performance management, succession planning and termination policies and managing Board nomination, including determining candidate criteria and addressing skills and experience requirements for Board position vacancies. A copy of the charter is available under the Governance section of the Fortescue website.

The RNC in FY15 consisted solely of non-executive directors. CEO and others may be invited to attend meetings by the Committee Chair as required, but have no vote on matters before the Committee.

The process and accountabilities in determining remuneration are shown below:



## 2 Governance of remuneration (continued)

### 2.1 Use of remuneration consultants

The Committee has the resources and authority appropriate to perform its duties and responsibilities, including the authority to engage external professionals on terms it deems appropriate.

During the year ended 30 June 2015, while the Committee retained Egan Associates, their engagement was in the review of policies and practices and the provision of information on market trends, it did not incorporate providing the Committee with any remuneration recommendations as defined by the *Corporations Act 2001*.

### 2.2 Clawback Policy

Fortescue operates a Clawback Policy. Clawback will be initiated where in the opinion of the Board:

- 1) an Award, which would not have otherwise vested, vests or may vest as a result directly or indirectly of:
  - a) the fraud, dishonesty or breach of obligations (including, without limitation, a material misstatement of financial information) of any person.
  - b) any other action or omission (whether intentional or inadvertent) of any person, the Board may make a determination to ensure that no unfair benefit is obtained by any Participant.
- 2) an Award, which may otherwise have vested, has not vested as a result directly or indirectly of any circumstance referred to in paragraphs 1) a) or b) above, the Board may reconsider the level of satisfaction of the applicable Conditions and reinstate and vest any Award that may have lapsed to the extent that the Board determines appropriate in the circumstances.

## 3 EXECUTIVE REMUNERATION STRATEGY

Fortescue's reward strategy and associated remuneration policies seek to build a performance orientated culture that supports the achievement of our strategic vision and to attract, retain and motivate its employees by providing market competitive fixed remuneration and incentives.

The reward strategy also supports Fortescue's growth and progression as one of the world's leading producers of iron ore through:

- being well positioned to deliver fair and market competitive rewards
- supporting a clear performance focus
- alignment to the long term goals of the Company.

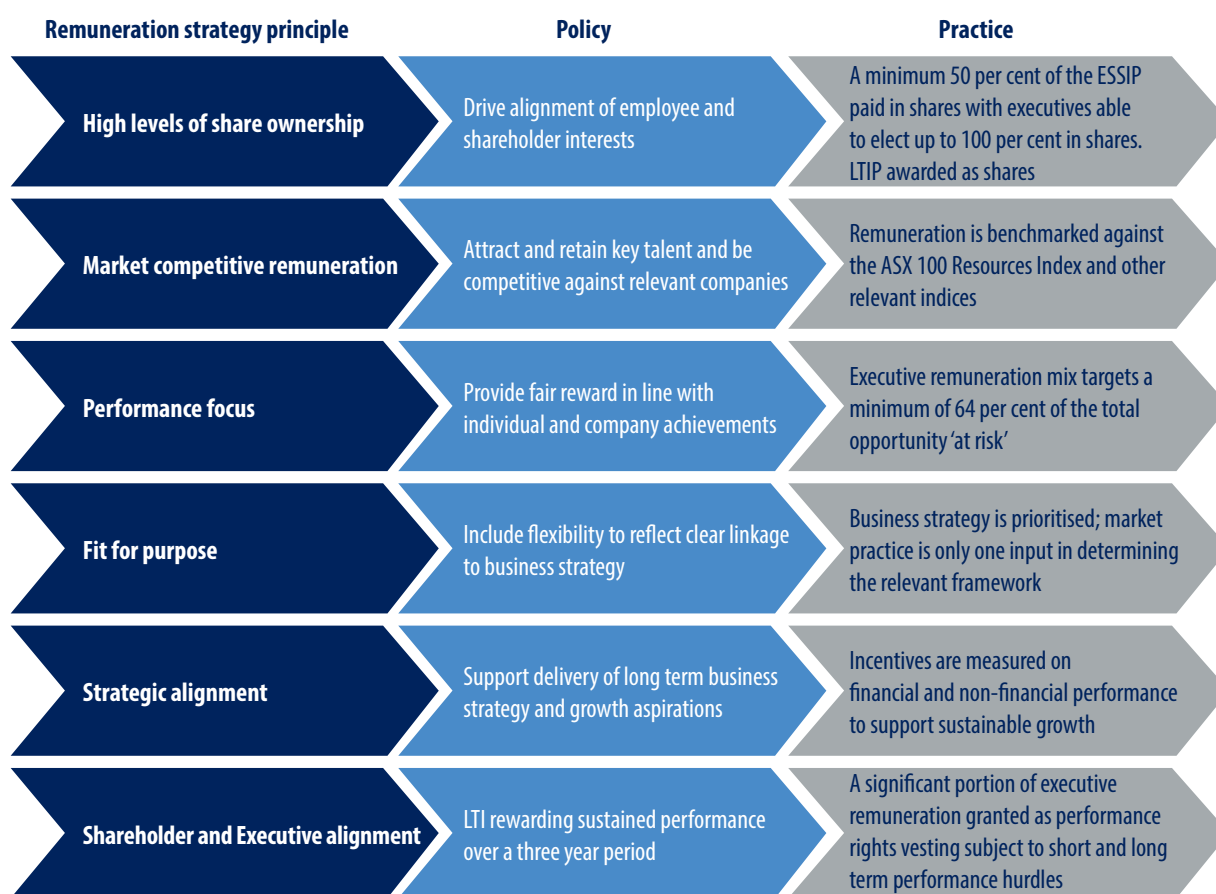
### 3.1 Remuneration Policy

Fortescue is committed to providing competitive remuneration packages to our executives and senior employees. Fortescue benchmarks remuneration components against major indices such as ASX 100 Resources Index and also seeks input from independent remuneration consultants regarding executive remuneration as and when required as detailed in section 2.

The overall intent is to ensure that executive remuneration is appropriately positioned to motivate, attract and retain key executives and senior employees to deliver on the current and long term strategic activities of the Company.

### 3 Executive remuneration strategy (continued)

#### How remuneration policy and practices align with reward strategy



## 4 EXECUTIVE REMUNERATION STRUCTURE

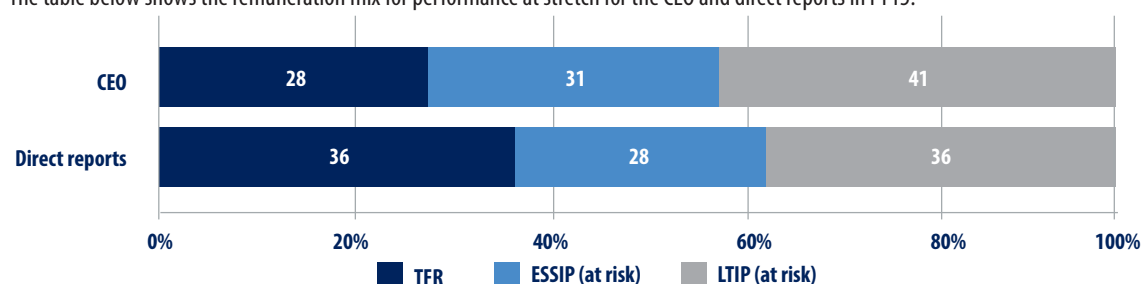
Executive remuneration has a fixed component and a variable 'at risk' component, the payment of which is dependent on the achievement of Company performance and growth targets and individual objectives. The key components of the executive remuneration structure for FY15 comprised:

- Total Fixed Remuneration (TFR)
- Executive and Senior Staff Incentive Plan (ESSIP)
- Long Term Incentive Plan (LTIP).

Remuneration may also include participation in the Salary Sacrifice Share Plan (SSSP). Total remuneration comprising each of these components is benchmarked against the market taking into account the Company's position as the world's fourth largest iron ore producer and its ranking on the Australian Securities Exchange. Remuneration is benchmarked against companies in the ASX 100 Resources Index, with total remuneration targeted at the third quartile. Total reward opportunities are intended to provide executives the opportunity to earn 75th percentile rewards for outstanding performance against stretch targets.

#### 4.1 Remuneration mix

The table below shows the remuneration mix for performance at stretch for the CEO and direct reports in FY15:



## 4 Executive remuneration structure (continued)

\* Note the table above represents the remuneration mix for stretch levels of performance for the CEO direct reports in FY15 and does not take into consideration options granted to Mr Peter Meurs at the start of his employment or any value that may be attributed to the guarantee provided by the Minderoo Group which supported certain senior executives in purchasing Fortescue shares on-market.

The above table clearly illustrates the significant proportion of 'at-risk' components of executive remuneration and reinforces the pay for performance policy alignment adopted by the Board. It will be noted later in this report, arising from the Company's share price performance in the current financial year, that management's reward has not delivered significant benefits under the performance aligned 'at-risk' elements.

## 5 KEY COMPONENTS OF EXECUTIVE REMUNERATION

### 5.1 Total Fixed Remuneration (TFR)

TFR comprises base salary, cash allowances (such as site-based or location allowances), employee benefits and superannuation. The level of TFR is based on the executive's responsibilities, experience and qualifications. Company and individual performance are considered during the annual remuneration review process.

### 5.2 Executive and Senior Staff Incentive Plan (ESSIP)

The purpose of the ESSIP is to incentivise and reward key Fortescue executives (including KMP) for achieving Company and individual performance objectives that drive shareholder value.

The CEO's ESSIP potential award is linked solely to Company objectives with executive's ESSIP potential award linked 50 per cent to Company objectives, and 50 per cent to individual performance, aligning CEO and executive remuneration with Company performance during the Plan Year.

The maximum ESSIP opportunity is established at the beginning of the financial year for each executive. The ESSIP is delivered as a minimum of 50 per cent in ordinary shares, and a maximum of 50 per cent in cash. The plan allows participants to elect to receive up to 100 per cent of the ESSIP in shares. Share rights are granted based on the election made by the participant and represent the maximum number of shares that may be awarded subject to performance.

ESSIP share rights are calculated based on the Volume Weighted Average Price (VWAP) of Fortescue shares traded over the first five trading days of the Plan Year (e.g. 1 July 2014 to 7 July 2014).

The maximum incentive opportunity for KMPs in FY15 is shown below:

Chief Executive Officer	112.5 per cent of TFR*	1 participant
KMP	75 per cent of TFR*	3 participants

\* Note that the actual award outcomes under the ESSIP will be determined by the number of objectives achieved and the value of the Fortescue shares at time of vesting.

Individuals who leave during the year (i.e. before 30 June) are not eligible to receive an ESSIP award, unless by specific RNC approval. On receipt of such approval, the ESSIP is pro-rated based on service during the period, and made at the usual payment date, which is around September of each year, post release of audited and approved full year results.

Individuals who commence during the year similarly will have awards under the ESSIP pro-rated based on service during the performance period.

### 5.3 ESSIP performance objectives

ESSIP awards are made based on an assessment of Company and individual performance. Company performance comprises company annual and growth measures designed to drive both a short and long term perspective on performance, and protect the long term interests of the shareholder by seeking to ensure efficient processing of reserves mined and that financial objectives are met.

The financial performance measures were chosen as they represent the key drivers for the short term success of the Company and provide a framework for delivering long term value. The non-financial component of the ESSIP is measured with reference to an assessment against a range of measures. A majority of the non-financial measures are quantitative-based.

A key element of our culture is to set challenging stretch targets and strive to outperform those targets. When deliberating on performance outcomes, the Board considers the level of achievement against stretch targets and in circumstances where above target performance is achieved, the Board may approve an above target award to reflect the degree of outperformance by the business.



## 5 Key components of executive remuneration (continued)

The performance objectives in FY15 are shown below:

The performance objectives in FY15 are shown below:		FY15 Results	CEO		Direct reports	
			Weighting Outcome		Weighting Outcome	
Company Annual Performance						
Safety <sup>2</sup>	Target percentage reduction (15 per cent) in Total Recordable Injury Frequency Rate (TRIFR)	Met	20	20	10	10
Production <sup>2</sup>	Target tonnes shipped	Met	20	20	10	10
Cost <sup>1</sup>	Target cost per tonne shipped	Met	20	20	10	10
Company Growth Performance						
Growth <sup>2</sup>	Achieve ultra stretch production and cost targets	Met	10	10	7	7
Financial <sup>1</sup>	Achieve target annual Absolute Return on Equity (AROE) of >20%	Not met	10	0	7	0
Physical <sup>2</sup>	Target percentage of reserves mined is converted (after processing losses) to product, inclusive of quality measurement (e.g. grade expectations and real mined tonnage)	Partially met	10	5	6	3
Culture <sup>2</sup>	Achieve agreed workforce culture and engagement targets	Met	10	10	Included in personal KPI's	
Individual Performance						
	Four objectives based on the business plan weighted according to business impact	Partially met	n/a	n/a	50	44

<sup>1</sup> Financial targets.

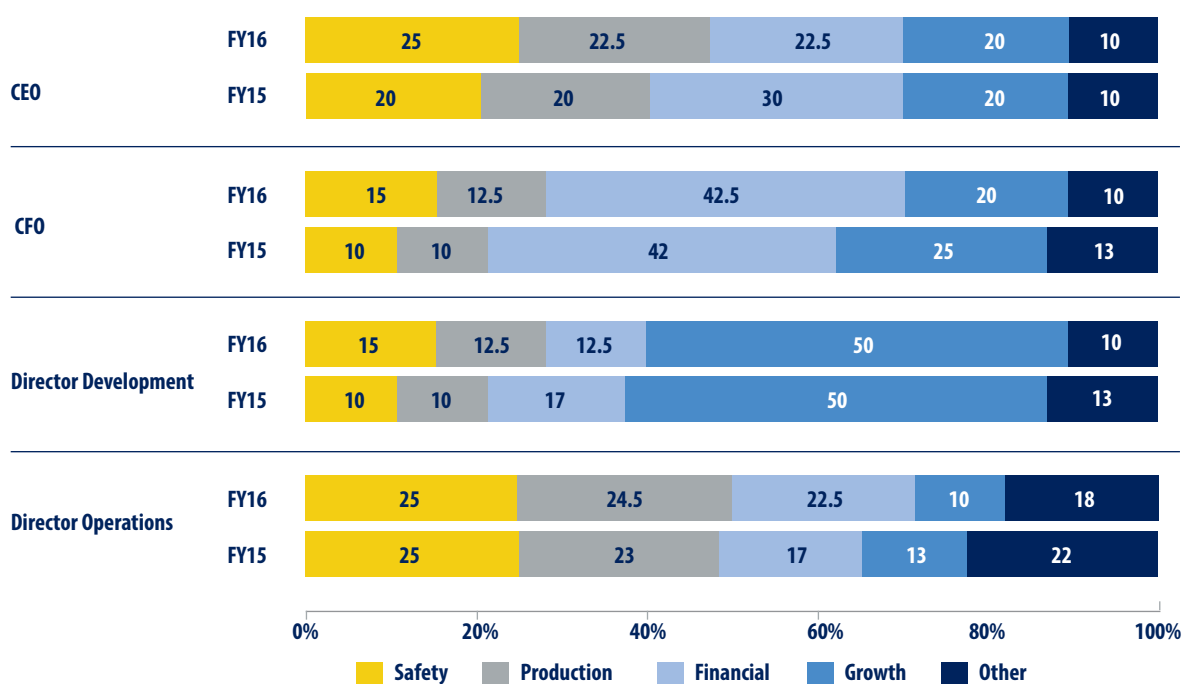
<sup>2</sup> Non-financial targets.

In FY15, the CEO was measured solely against Company performance outcomes thereby ensuring the alignment between Company performance, shareholder returns and CEO reward for the performance year. Payment of ESSIP awards are made in September after the release of the Company's audited results and with final approval from the Board.

### 5.4 How objectives and weightings are determined

ESSIP targets and measures are set on an annual basis and are linked to the annual stretch budget and Fortescue's strategic plan.

Personal objectives are set at stretch levels of performance with measures and weightings aligned to the individual's ability to influence outcomes and ensure focus on critical outcomes. The following table shows the relationship between the primary ESSIP performance measures for the CEO and other KMP.



\* Other includes measures associated with culture, engagement and functional objectives

## 5 Key components of Executive remuneration (continued)

### 5.5 How the ESSIP works: an example

ESSIP participant rewards are designed to reflect company performance and provide alignment with shareholder outcomes by linking a minimum of half the ESSIP to share price movement over the financial year.

#### Example:

The example below assumes that Executive A has an incentive opportunity of A\$100,000 and has elected to take 70 per cent of the incentive in shares.

#### Details of offer

Nominal value of full award	A\$100,000
VWAP at start of FY15 (1 to 7 July 2014)	A\$4.5397
Participant share weighting	70%

#### Potential award

Cash (30 per cent of opportunity)	A\$30,000
Nominal value of share rights (70 per cent)	A\$70,000
Share rights (70 per cent of opportunity) (ie A\$70,000 ÷ A\$4.5397)	15,419

#### Example outcome

Percentage of incentive opportunity achieved (company and personal performance)	80%
Cash paid (80 per cent of cash component)	A\$24,000
Shares Awarded (80 per cent of share rights convert to ordinary shares)	12,335

The actual value of shares awarded is subject to share price movement thereby ensuring alignment with shareholder interests.

### 5.6 ESSIP performance in FY15

Performance rights granted under the ESSIP at the beginning of FY15 are shown below. All the performance rights issued convert to ordinary shares if all ESSIP objectives are met. The deferred ESSIP performance shares, which reflect the value at the commencement of the performance year when shares are nominally allocated, incorporate at the time of award positive and negative movement in the Company's share price and in this way, the outcome of any management incentive is fully aligned with ordinary shareholder returns. That is, the nominal number of rights available are priced at the beginning of the period. The last column details the actual number of share rights converted to ordinary shares based on actual performance:

Executive	ESSIP performance rights granted	ESSIP performance rights lapsed	ESSIP performance rights forfeited	Performance rights to convert to shares for FY15 ESSIP performance
N Power	247,814	37,172	-	210,642
P Meurs <sup>1</sup>	91,072	51,228	-	39,844
S Pearce	127,501	19,125	-	108,376
N Cernotta	78,475	12,164	-	66,311

Unvested share rights lapse once the outcome of the ESSIP is determined.

<sup>1</sup> Mr Meurs FY15 ESSIP awarded on a pro-rata basis.

## 5 Key components of Executive remuneration (continued)

The table below details the maximum ESSIP cash and share awards against the actual outcomes for FY15. The share components are based on the share weighting election of each executive:

FY15	TFR A\$	Maximum ESSIP opportunity (per cent of TFR)	Weighting in shares (per cent)	Maximum cash ESSIP opportunity A\$	Maximum ESSIP shares opportunity - value at grant <sup>1</sup> A\$	ESSIP outcome (per cent)	ESSIP cash awarded A\$	ESSIP shares awarded value at award <sup>2</sup> A\$
<b>Executive Directors</b>								
N Power	2,000,000	112.5	50	1,125,000	1,125,000	85	956,250	379,198
P Meurs	1,102,500	75	50	413,438	413,438	88	180,879 <sup>3</sup>	71,727 <sup>3</sup>
<b>KMP</b>								
S Pearce	1,102,500	75	70	248,063	578,813	85	210,853	195,098
N Cernotta	950,000	75	50	356,250	356,250	85	301,031	119,373

<sup>1</sup> The value at grant is the participant's elected weighting in shares (minimum 50 per cent of the total award) divided by the strike price used to determine the number of share rights granted being the VWAP of Fortescue shares traded over the first five trading days of the Plan Year (A\$4.5397).

<sup>2</sup> The actual share value to the individual is not realised until the shares are awarded. For the purpose of this report the nominal ESSIP share value for FY15 is the number of shares awarded multiplied by the five day VWAP of Fortescue shares traded over the first five trading days of FY16 (A\$1.8002).

<sup>3</sup> Mr Meurs FY15 ESSIP awarded on a pro-rata basis.

### 5.7 Long Term Incentive Plan (LTIP)

LTIP awards to executives are made under the performance share plan rules and are delivered in the form of Performance Rights (Rights). Each Right entitles the holder (subject to achievement of the specified performance conditions) to one fully paid ordinary share in the Company for nil consideration.

The Company uses Absolute Return On Equity (AROE) as the performance measure for assessments of LTIP awards.

AROE was selected as the LTI performance measure for the following reasons:

- AROE is one of the most important value metrics reflecting profit earned relative to shareholders equity (the amount of capital invested by shareholders)
- AROE performance in excess of the Company's cost of equity capital will deliver shareholder value.

As with the ESSIP above, the LTIP is designed to provide alignment with shareholder outcomes by linking the value of the LTIP to share price movement over the performance period. A minimum 20 per cent annual AROE hurdle rate was selected for the following reasons:

- 20 per cent exceeds the Company's cost of equity
- The average AROE for the ASX 100 Resources Index from 2010 to 2014 is 9.2 per cent
- The 80th percentile AROE for the ASX 100 Resources Index from 2010 to 2014 is 15.6 per cent.

The vesting schedule is as follows:

Performance	Average AROE			Vesting
	FY13 %	FY14 %	FY15 %	
Below threshold	<15	<20	<20	Nil
Threshold	15	20	20	25 per cent of share rights vest
Target	>30	>30	>30	100 per cent of share rights vest

Vesting between threshold and target is calculated linearly.

## 5 Key components of Executive remuneration (continued)

The performance period for the FY15 LTIP is from 1 July 2014 to 30 June 2017. Share Rights will convert to shares at the end of the three year performance period subject to performance against the AROE performance measure. The average AROE over three years will be measured as the sum of AROE for years 1, 2 and 3 divided by three. Average AROE less than Threshold Performance will result in no award.

In the event of a change of control of the Company, the performance period end date will generally be brought forward to the date of the change of control and awards will vest over this shortened period, subject to ultimate Board discretion. The Clawback Policy also applies to this plan.

### 5.8 FY13 LTIP performance

At the end of FY15, the FY13 LTIP grant completed its performance period (1 July 2012 to 30 June 2015).

Performance rights granted under the LTIP at the beginning of FY13 are shown below. All the performance rights issued convert to ordinary shares if the LTIP measure is met in full.

The last column details the actual number of share rights converted to ordinary shares based on actual performance.

Unvested share rights lapse once the outcome of the LTIP is determined.

FY13 LTIP	LTIP performance rights issued	LTIP performance rights lapsed	LTIP performance rights forfeited	Performance rights to convert to shares for FY13 LTIP performance
N Power	545,852	41,758	-	504,094
P Meurs	212,276	16,239	-	196,037
S Pearce	212,276	16,239	-	196,037
N Cernotta <sup>1</sup>	-	-	-	-

<sup>1</sup> Mr Cernotta was appointed on 24 March 2014 and accordingly, did not participate in the FY13 LTIP.

The table below details the maximum LTIP share awards against the actual outcomes for FY15.

FY13 LTIP	TFR at grant A\$	Maximum LTIP opportunity (per cent of TFR)	Maximum LTIP shares opportunity - value at grant <sup>1</sup> A\$	LTIP shares awarded	LTIP shares awarded value at award <sup>2</sup> A\$
<b>Executive Directors</b>					
N Power	1,800,000	150	2,700,000	504,094	907,470
P Meurs	1,050,000	100	1,050,000	196,037	352,906
<b>Executives</b>					
S Pearce	1,050,000	100	1,050,000	196,037	352,906
N Cernotta <sup>3</sup>	-	-	-	-	-

<sup>1</sup> The value at grant is the participant's TFR at grant multiplied by the maximum LTIP opportunity.

<sup>2</sup> The actual share value to the individual is not realised until the shares are awarded. For the purpose of this report the nominal LTIP share value for FY15 is the number of shares awarded multiplied by the five day VWAP of Fortescue shares traded over the first five trading days of FY16 (A\$1.8002).

<sup>3</sup> Mr Cernotta was appointed on 24 March 2014 and accordingly, did not participate in the FY13 LTIP.

### 5.9 Salary Sacrifice Share Plan

Executives may nominate an amount (up to A\$5,000 per annum) of pre-tax salary to acquire ordinary shares under the Salary Sacrifice Share Plan (SSSP). Provided ordinary shares are kept in the SSSP, income tax on the acquisition of these ordinary shares can be deferred by the executive for up to seven years.

Disposal restrictions apply while the shares remain in the SSSP. Shares acquired under this plan are not subject to performance conditions because they are issued in lieu of salary which would otherwise be payable and are subject to a monetary limit of A\$5,000 per annum.



## 6 HOW FORTESCUE PERFORMED OVER THE PAST FIVE YEARS

Fortescue continues to build on its performance over the past five years, showing strong growth in revenue and net profit to deliver shareholder wealth.

In considering Fortescue's performance and benefits for shareholder wealth, the Board have regard to the following indices in respect of the current financial year and the previous four financial years.

In FY15, Fortescue's share price decreased from the FY14 closing price of A\$4.35 to A\$1.91 at the end of FY15.

This represents a 56 per cent decrease compared with the ASX 100 Resources Index which decreased 19.9 per cent over the corresponding period.

	FY15	FY14	FY13	FY12	FY11
Revenue from iron ore operations - US\$million	8,390	11,611	8,057	6,681	5,442
Net profit/(loss) - US\$million	316	2,740	1,746	1,559	1,022
A\$ dividends paid	0.13	0.20	0.04	0.08	0.03
A\$ change in share price	(2.44)	1.31	(1.81)	(1.45)	2.23
Per cent change in share price	(56)	43	(37)	(23)	54

An explanation of how fixed and variable remuneration outcomes were driven by company performance in FY15 is included in section 1.

## 7 SECURITIES TRADING POLICY

Fortescue's Securities Trading Policy provides clear guidance on how company securities may be dealt with.

The Securities Trading Policy details acceptable and unacceptable periods for trading in Company Securities including detailing potential civil and criminal penalties for misuse of confidential information.

Fortescue's Security Trading Policy provides guidance on acceptable transactions in dealing in the Company's various securities, including shares, debt notes and options.

The policy also sets out a specific governance approach for how the Chairman and Directors can deal in Company Securities. The Company's Security Trading Policy was updated in August 2015 and can be accessed from the Governance section of the Fortescue website.

## 8 EXECUTIVE CONTRACT TERMS

Remuneration and other terms of employment for executives are formalized in a service agreement.

The CEO and KMP are employed on a rolling basis with no specified fixed term. The CEO and KMP are remunerated on a total fixed remuneration (TFR) basis inclusive of superannuation and allowances.

The major terms of the agreements relating to remuneration are set out in the table below:

Position	Executive	TFR <sup>1</sup> (A\$)	Maximum ESSIP opportunity (% of TFR)	Maximum LTIP opportunity (% of TFR)	Termination clause
Chief Executive Officer	N Power	2,000,000	112.5	150	Three months written notice (or three months TFR in lieu)
Director Development	P Meurs	1,102,500	75	100	Three months written notice (or three months TFR in lieu)
Chief Financial Officer	S Pearce	1,102,500	75	100	Three months written notice (or three months TFR in lieu)
Director Operations	N Cernotta	950,000	75	100	Three months written notice (or three months TFR in lieu)

<sup>1</sup> Total Fixed Remuneration as at 30 June 2015. Reviewed annually by the RNC.

## 8 Executive contract terms (continued)

All executives are required to provide written notice of three months to terminate their service agreement. Should executives not provide sufficient notice they will forfeit the monetary equivalent (calculated based on TFR) of any shortfall in the notice period.

If an executive resigns and leaves the Company prior to 30 June in any year, the executive will forfeit all entitlement to any award under the ESSIP. If an executive retires, is made redundant or leaves the Company as a result of a negotiated termination, the RNC at its sole discretion may elect to make a pro-rata ESSIP payment based on service up to the termination date.

If the executive resigns and leaves the Company prior to 30 June in the year of vesting under the LTIP, the executive will forfeit all entitlement to any award under the LTIP.

If an executive retires, is made redundant or leaves the Company as a result of a negotiated termination prior to 30 June in the year of vesting under the LTIP, the RNC at its sole discretion may elect to make a pro-rata LTIP award based on service up to the termination date.

Termination benefits for KMP comply with the limits set by the *Corporations Act 2001* that do not require shareholder approval.

## 9 DETAILED REMUNERATION FOR EXECUTIVES

The table below details the remuneration received by the CEO and KMP prepared in accordance with statutory requirements and accounting standards. For details on 'actual pay' for the CEO and KMP realised in FY15 refer to section 1.

### Executive remuneration for year ending 30 June 2015

	Short-term employee benefits			Post employment benefits	End of service	Share-based payments				
	Cash salary and fees	ESSIP cash value for 2015 Plan Year <sup>1</sup>	Non-monetary benefits	Superannuation	Termination benefits	ESSIP share value <sup>2</sup>	LTIP share value <sup>2</sup>	Options	Other share based payments <sup>3</sup>	Total
FY15	A\$	A\$	A\$	A\$	A\$	A\$	A\$	A\$	A\$	A\$
<b>Executive Directors</b>										
N Power	1,972,500	956,250	4,205	27,500	-	524,499	2,507,263	-	-	5,992,217
P Meurs	767,283	180,879	3,168	27,500	-	99,212 <sup>4</sup>	963,897	-	853,272	2,895,211
<b>KMP</b>										
S Pearce	1,076,100	210,853	4,205	26,400	-	269,856	963,897	-	-	2,351,311
N Cernotta <sup>5</sup>	906,931	301,031	-	27,500	-	165,114	165,169	-	-	1,565,745

<sup>1</sup> ESSIP cash value payable in respect to FY15 to be paid in September 2015.

<sup>2</sup> The value of ESSIP and LTIP performance rights was assessed using trinomial pricing model that takes into account the price of Fortescue shares at the grant date, expected price volatility of the underlying share, the term of the right, the expected dividend yield and the risk-free interest rate for the term of the right and represents the accounting value expensed in FY15.

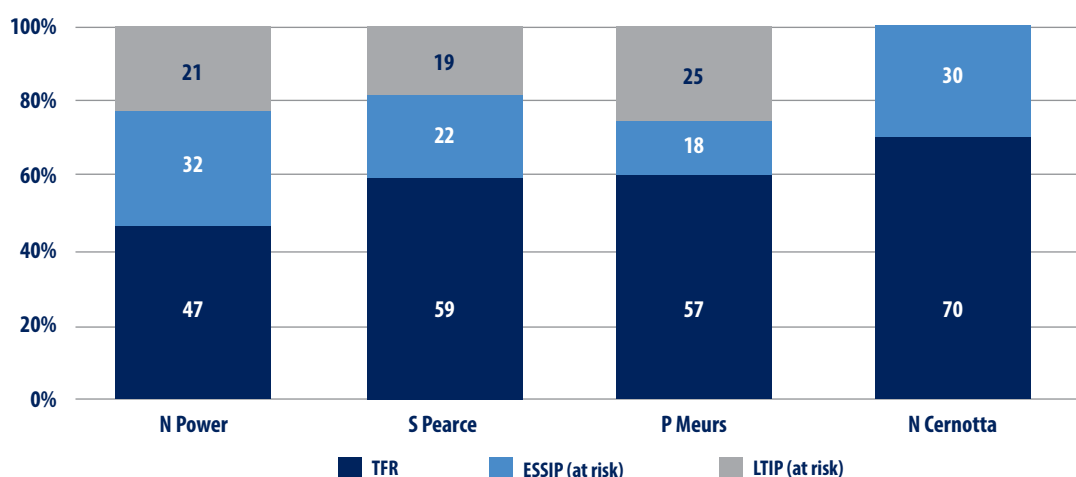
<sup>3</sup> Other share based payments relate to financial assistance by way of guarantee to Mr Meurs by The Minderoo Group Pty Ltd to purchase Fortescue shares under an approved arrangement. The fair value at grant date was determined using a Monte Carlo simulation model, which takes into account the following inputs: the life of the instruments, the price of the underlying share, the expected volatility of the underlying share price, the dividends expected on the underlying share, the risk free interest rate for the life of the instruments, the loan value per share, the interest, fees and charges on the loan and the terms of the margin call.

<sup>4</sup> Mr Meurs FY15 ESSIP was awarded on a pro-rata basis.

<sup>5</sup> Mr Cernotta was appointed on 24 March 2014 and accordingly, did not participate in the FY13 LTIP.

## 9 Detailed remuneration for Executives (continued)

The graph below represents the actual remuneration mix for KMP in FY15:



Mr Cernotta was appointed on 24 March 2014 and accordingly did not participate in the FY13 LTIP.

### Executive remuneration for year ending 30 June 2014

	Short-term employee benefits			Post employment benefits	End of service	Share-based payments				Total A\$
	Cash salary and fees A\$	ESSIP cash value for 2014 plan Year <sup>1</sup> A\$	Non-monetary benefits A\$	Superannuation A\$	Termination benefits A\$	ESSIP share value <sup>2</sup> A\$	LTIP share value <sup>2</sup> A\$	Options <sup>3</sup> A\$	Other share-based payments <sup>4</sup> A\$	
<b>FY14</b>										
<b>Executive Directors</b>										
N Power	1,775,000	-	4,633	25,000	-	2,415,361	2,147,767	-	-	6,367,761
P Meurs	1,025,000	-	4,633	25,000	-	1,016,511	835,244	2,157,179 <sup>7</sup>	853,272	5,916,839
<b>KMP</b>										
S Pearce	1,025,000	-	45,155	25,000	-	1,115,217	835,244	-	-	3,045,616
N Cernotta <sup>5</sup>	251,524	57,721	-	10,417	-	96,468	-	-	-	416,130
D Woodall <sup>6</sup>	393,350	-	37,884	16,667	277,914	-	-	-	-	725,815

<sup>1</sup> ESSIP cash value payable in respect to FY14 to be paid in September 2014.

<sup>2</sup> The value of ESSIP and LTIP performance rights was assessed using trinomial pricing model that takes into account the price of Fortescue shares at the grant date, expected price volatility of the underlying share, the term of the right, the expected dividend yield and the risk-free interest rate for the term of the right and represents the accounting value expensed in FY14.

<sup>3</sup> The estimated fair value was determined using a trinomial option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date, expected price volatility of the underlying share, the effect of additional market conditions, the expected dividend yield, estimated share conversion factor and the risk free interest rate for the term of the right.

<sup>4</sup> Other share based payments relate to financial assistance by way of guarantee to Mr Meurs by The Minderoo Group Pty Ltd to purchase Fortescue shares under an approved arrangement. The fair value at grant date was determined using a Monte Carlo simulation model, which takes into account the following inputs: the life of the instruments, the price of the underlying share, the expected volatility of the underlying share price, the dividends expected on the underlying share, the risk free interest rate for the life of the instruments, the loan value per share, the interest, fees and charges on the loan and the terms of the margin call.

<sup>5</sup> Mr Cernotta was appointed on 24 March 2014.

<sup>6</sup> Mr Woodall resigned on 12 December 2013.

<sup>7</sup> Once vested, the options are subject to a further share price performance condition. Half of the options require a share price of A\$7.00 with the second half requiring a minimum share price of A\$8.00 before they can be exercised. The exercise price of each option is A\$5.00 and the expiry date is May 2015.

## 9 Detailed remuneration for Executives (continued)

### 9.1 Share-based remuneration

#### Options over equity instruments granted as remuneration

During the year ending 30 June 2012, the Board of Fortescue Metals Group Limited consented to The Minderoo Group Pty Ltd (formerly the Metal Group Pty Ltd), an entity controlled by the Chairman, to offer an arrangement to provide financial assistance to allow certain senior executives of Fortescue to purchase the Company's shares on market. The arrangement was effected through a number of separate transactions and appropriate disclosures made via lodgement of an Appendix 3Y as required by the ASX Listing Rules.

The arrangement constitutes a share-based payment transaction and has been measured with reference to the fair value of the benefit received by the executives and is recognised as an expense on a straight-line basis over a four-year vesting period, in line with the service conditions. The fair value was determined at grant date using Monte-Carlo simulation model. Total share-based payment expense in relation to the arrangement for the financial year ended 30 June 2015 was A\$925,453 (2014: A\$925,453).

The purpose was to provide an opportunity for a limited number of senior individuals critical to Fortescue's performance to be incentivised and remunerated through increased direct share ownership (reinforcing alignment with shareholder interests), and further enhance Fortescue's ability to retain these individuals over the long term. The offer is provided at no cost to Fortescue and the executive is required to arrange their own finance through a third party and is responsible for all repayments and associated costs.

Mr Meurs is a participant in the above financial arrangement. Under this arrangement The Minderoo Group Pty Limited provided Mr Meurs with financial assistance by way of a guarantee for the acquisition of 16,632,614 ordinary shares in the Company. The fair value attributed to Mr Meurs in relation to this arrangement for the financial year ended 30 June 2015 was A\$853,272 (2014: A\$853,272).

There are no current plans to offer this arrangement to any additional employees.

#### Details of share based payments relating to LTIP

The following table provides details of the number of share rights granted under the LTIP during the financial years ended 30 June 2015 and 30 June 2014. The value of the rights has been determined using the amount of the grant date fair value.

				No. share rights granted	Value per share right granted <sup>1</sup> A\$	Value of rights granted at grant date A\$	Performance achieved %	Vested	For- feited lapsed
	LTIP	Grant date	Performance period						
N Power	FY15	9/12/2014	1/7/14 to 30/6/17	660,837	2.37	1,566,184	Determined in 2017	n/a	-
	FY14	16/12/2013	1/7/13 to 30/6/16	853,000	5.09	4,341,770	Determined in 2016	n/a	-
	FY13	10/12/2012	1/7/12 to 30/6/15	545,852	3.85	2,101,530	92.5	504,094	41,758
P Meurs	FY15	9/12/2014	1/7/14 to 30/6/17	242,858	2.37	575,573	Determined in 2017	n/a	-
	FY14	16/12/2013	1/7/13 to 30/6/16	331,723	5.09	1,688,470	Determined in 2016	n/a	-
	FY13	10/12/2012	1/7/12 to 30/6/15	212,276	3.85	817,263	92.5	196,037	16,239
S Pearce	FY15	9/12/2014	1/7/14 to 30/6/17	242,858	2.37	575,573	Determined in 2017	n/a	-
	FY14	16/12/2013	1/7/13 to 30/6/16	331,723	5.09	1,688,470	Determined in 2016	n/a	-
	FY13	10/12/2012	1/7/12 to 30/6/15	212,276	3.85	817,263	92.5	196,037	16,239
N Cernotta <sup>2</sup>	FY15	9/12/2014	1/7/14 to 30/6/17	209,265	2.37	495,958	Determined in 2017	n/a	-

<sup>1</sup> The estimated fair value was determined using a trinomial option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date, expected price volatility of the underlying share, the effect of additional market conditions, the expected dividend yield, estimated share conversion factor and the risk free interest rate for the term of the right.

<sup>2</sup> Mr Cernotta was appointed on 24 March 2014 and accordingly, did not participate in the FY13 or FY14 LTIP.

#### Legacy Incentive Option Scheme (IOS)

Details of options over ordinary shares in the Company that were granted under the legacy Incentive Option Scheme (IOS) as remuneration to KMP are set out below. The plan has now been discontinued and there are no current plans to offer any further grants under this plan. All remaining grants expired in FY15.

All options refer to options over ordinary shares of the Company, which were exercisable on a one for one basis under the IOS. Options granted under the plan carried no dividend or voting rights. When exercisable, each option was convertible into one ordinary share.



## 9 Detailed remuneration for executives (continued)

The IOS provided eligible employees with options subject to share price performance and time conditions determined by the Board. These awards were typically targeted at KMP at the time of appointment, or to retain selected individuals critical to the Company's development. The options typically vested in three tranches over a 36 month period.

The options were provided at no cost to the recipients. Once performance hurdles (share price performance and time conditions) were met, the options were exercisable evenly on an annual basis over the four years from grant date. All unexercised options expired on the earlier of their expiry date or termination of the individual's employment. When exercisable, each option was convertible into one ordinary share of Fortescue Metals Group Limited.

	Number of options vested	
	FY15	FY14
<b>Directors of Fortescue Metals Group Limited</b>		
<b>KMP</b>		
P Meurs <sup>1</sup>	-	937,500

<sup>1</sup> Once vested, options granted to Mr Meurs were subject to a further share price performance hurdle before they could be exercised. Half of the options required a share price of A\$7.00 with the second half requiring a share price of A\$8.00 before they can be exercised. Options granted to Mr Meurs did not meet the share price performance hurdle and accordingly, expired in May 2015.

The assessed fair value of options at grant date has been included in the remuneration tables in section 9.

### Exercise of options granted as remuneration

No options were exercised by KMP in FY15.

## 10 NON-EXECUTIVE DIRECTOR REMUNERATION

Fortescue's policy on non-executive director remuneration requires that non-executive director fees are:

- Not 'at-risk', to reflect the nature of their responsibilities and safeguard their independence
- Market competitive with fees set at levels comparable with non-executive director remuneration of comparable companies

Non-Executive Directors receive fees for both Board and Committee membership. The payment of additional fees for serving on a Committee recognises the additional time commitment required by non-executive directors who serve on a Committee. The Board Chairman attends all Committee meetings but does not receive any additional fees in addition to Board fees.

The maximum aggregate remuneration payable to Non-Executive Directors is A\$2.0 million, which was approved by shareholders at the annual general meeting on 19 November 2010. There have been no changes to the aggregate fee pool since November 2010. The Board will not seek any increase to this fee pool at the 2015 AGM.

The current fees (inclusive of superannuation) are outlined in the table below:

Position	Fee (A\$)
Board Chairman*	120,000
Board Deputy Chairman**	210,000
Vice Chairman	170,000
Lead Independent Director	170,000
Non-Executive Director	140,000
Audit & Risk Management Committee Chairman	40,000
Audit & Risk Management Committee Member	15,000
Remuneration & Nomination Committee Chairman	15,000
Remuneration & Nomination Committee Member	7,500
China Advisory Group Board of Representatives	60,000
Finance Sub-Committee Member	6,000

\* The Board Chairman has elected to receive an annual fee significantly below market and other Fortescue director norms.

\*\* Mr Elliott held the role of Deputy Chairman and Lead Independent Director. Upon Mr Elliott's retirement, Mr Hegarty was appointed Vice Chairman and Mr Barnaba was appointed Lead Independent Director.

## 10 Non-executive director remuneration (continued)

Non-executive directors do not receive retirement benefits, nor do they participate in any incentive programs of the Company.

The remuneration of non-executive directors for the year ended 30 June 2015 and 30 June 2014 is detailed on the following page.

<b>FY15</b>	<b>Base fees A\$</b>	<b>Committee fees A\$</b>	<b>Other benefits A\$</b>	<b>Superannuation A\$</b>	<b>Total A\$</b>
A Forrest	108,687	10,247	16,075	12,488	147,497
O Hegarty	144,071	6,793	-	15,841	166,705
M Barnaba	144,071	48,456	-	20,215	212,742
J Baderschneider <sup>1</sup>	63,320	-	-	-	63,320
E Gaines	126,801	19,021	-	15,311	161,133
C Huiquan	140,000	-	-	-	140,000
G Raby	140,000	60,000	-	-	200,000
S Warburton	126,801	22,221	-	15,647	164,669
H Elliott <sup>2</sup>	69,754	2,491	-	7,586	79,831
G Rowley <sup>2</sup>	46,502	9,965	30,456	5,929	92,852
H Scruggs <sup>2</sup>	51,269	7,690	17,499	-	76,458

<sup>1</sup> J Baderschneider was appointed on 19 January 2015.

<sup>2</sup> H Elliott, G Rowley and H Scruggs retired on 13 November 2014.

<b>FY14</b>	<b>Base fees A\$</b>	<b>Committee fees A\$</b>	<b>Other benefits A\$</b>	<b>Superannuation A\$</b>	<b>Total A\$</b>
A Forrest	108,884	6,806	8,250	11,858	135,798
O Hegarty	127,032	6,806	-	13,718	147,556
M Barnaba	127,032	47,253	-	17,864	192,149
E Gaines	126,332	15,873	-	14,648	156,853
C Huiquan	140,000	-	-	-	140,000
G Raby	140,000	60,000	-	-	200,000
S Warburton <sup>1</sup>	80,336	8,608	-	9,117	98,061
H Elliott	195,159	6,806	-	21,118	223,083
G Rowley	127,032	22,228	2,323	15,299	166,882
H Scruggs	133,098	17,750	-	-	150,848
G Brayshaw <sup>2</sup>	52,958	11,732	-	4,136	68,826

<sup>1</sup> S Warburton was appointed on 13 November 2013.

<sup>2</sup> G Brayshaw retired on 13 November 2013.

# 11 EQUITY INSTRUMENT DISCLOSURES RELATING TO KMP

## 11.1 Options and performance rights

The movement during the reporting period in the number of options and performance rights over ordinary shares in the Company held directly, indirectly or beneficially, by each of the KMP, including their related parties is as follows:

FY15	Balance at the start of the year	Granted <sup>1</sup>	Exercised/ converted	Forfeited/ lapsed	Balance at the end of the year	Vested	Unvested	Vested and not exercisable
<b>Directors</b>								
A Forrest	-	-	-	-	-	-	-	-
O Hegarty	-	-	-	-	-	-	-	-
M Barnaba	-	-	-	-	-	-	-	-
N Power	2,038,602	908,651	(456,590)	(183,160)	2,307,503	-	2,307,503	-
P Meurs	8,292,791	333,930	(192,157)	(7,556,635) <sup>2</sup>	877,929	-	877,929	-
J Baderschneider <sup>3</sup>	-	-	-	-	-	-	-	-
E Gaines	-	-	-	-	-	-	-	-
C Huiquan	-	-	-	-	-	-	-	-
G Raby	-	-	-	-	-	-	-	-
S Warburton	-	-	-	-	-	-	-	-
H Elliott <sup>4</sup>	-	-	-	-	-	-	-	-
G Rowley <sup>4</sup>	-	-	-	-	-	-	-	-
H Scruggs <sup>4</sup>	-	-	-	-	-	-	-	-
<b>KMP</b>								
S Pearce	792,791	370,359	(210,816)	(37,976)	914,358	-	914,358	-
N Cernotta	30,527	287,740	(18,236)	(12,291)	287,740	-	287,740	-

<sup>1</sup> Performance Rights were granted in accordance with the short term and long term performance rights plans, as disclosed in note 19 of the financial statements.

<sup>2</sup> Includes 7,500,000 options which expired in May 2015.

<sup>3</sup> J Baderschneider was appointed on 19 January 2015.

<sup>4</sup> H Elliott, G Rowley and H Scruggs retired on 13 November 2014.

FY14	Balance at the start of the year	Granted <sup>1</sup>	Exercised/ converted	Forfeited/ lapsed	Balance at the end of the year	Vested	Unvested	Vested and not exercisable
<b>Directors</b>								
A Forrest	-	-	-	-	-	-	-	-
O Hegarty	-	-	-	-	-	-	-	-
M Barnaba	-	-	-	-	-	-	-	-
N Power	341,158	1,902,138	(143,291)	(61,403)	2,038,602	-	2,038,602	-
P Meurs	7,664,514	739,722	(82,472)	(28,973)	8,292,791	7,500,000	792,791	7,500,000
E Gaines	-	-	-	-	-	-	-	-
C Huiquan	-	-	-	-	-	-	-	-
G Raby	-	-	-	-	-	-	-	-
S Warburton	-	-	-	-	-	-	-	-
H Elliott	-	-	-	-	-	-	-	-
G Rowley	-	-	-	-	-	-	-	-
H Scruggs	-	-	-	-	-	-	-	-
G Brayshaw <sup>2</sup>	-	-	-	-	-	-	-	-
<b>KMP</b>								
S Pearce	132,673	739,721	(55,923)	(23,680)	792,791	-	792,791	-
N Cernotta	-	30,527	-	-	30,527	-	30,527	-
D Woodall <sup>2</sup>	52,032	453,395	(20,566)	(484,861)	-	-	-	-

<sup>1</sup> Performance Rights were granted in accordance with the short term and long term performance rights plans, as disclosed in note 19 of the financial statements.

<sup>2</sup> Mr Brayshaw retired and Mr Woodall resigned during FY14.

## 11 Equity Instrument disclosures relating to KMP (continued)

### 11.2 Share holdings (ordinary shares)

The numbers of shares in the Company held during the financial year by each KMP, including their related parties, are set out below:

FY15	Held at 1 July 2014	Received on conversion of rights	Issued	Purchases	Sales	Transfers	Other <sup>1</sup>	Held at 30 June 2015
<b>Directors</b>								
A Forrest	1,033,479,247	-	-	4,000,000	-	-	-	1,037,479,247
O Hegarty	40,000	-	-	-	-	-	-	40,000
M Barnaba	-	-	-	20,000	-	-	-	20,000
N Power	1,254,981	456,590	-	100,000	-	-	-	1,811,571
P Meurs	26,006,995	192,157	-	-	-	-	-	26,199,152
E Gaines	50,000	-	-	-	-	-	-	50,000
C Huiquan	-	-	-	-	-	-	-	-
G Raby	8,000	-	-	-	-	-	-	8,000
S Warburton	-	-	-	50,750	-	-	-	50,750
J Baderschneider <sup>2</sup>	-	-	-	138,000	-	-	-	138,000
H Elliott <sup>3</sup>	2,167,938	-	-	-	-	-	(2,167,938)	-
G Rowley <sup>3</sup>	17,644,951	-	-	-	-	-	(17,644,951)	-
H Scruggs <sup>3</sup>	-	-	-	-	-	-	-	-
<b>KMP</b>								
S Pearce	284,972	210,816	-	1,860	(390,071)	-	-	107,577
N Cernotta	-	18,236	-	-	-	-	-	18,236

<sup>1</sup> Negative amounts reflect the result of retiring during the year.

<sup>2</sup> J Baderschneider was appointed on 19 January 2015.

<sup>3</sup> H Elliott, G Rowley and H Scruggs retired on 13 November 2014.

FY14	Held at 1 July 2013	Received on conversion of rights	Issued	Purchases	Sales	Transfers	Other <sup>1</sup>	Held at 30 June 2014
<b>Directors</b>								
A Forrest	1,020,690,915	-	-	12,788,332	-	-	-	1,033,479,247
O Hegarty	40,000	-	-	-	-	-	-	40,000
M Barnaba	-	-	-	-	-	-	-	-
N Power	1,111,690	143,291	-	-	-	-	-	1,254,981
P Meurs	25,924,523	82,472	-	-	-	-	-	26,006,995
E Gaines	-	-	-	50,000	-	-	-	50,000
C Huiquan	-	-	-	-	-	-	-	-
G Raby	8,000	-	-	-	-	-	-	8,000
S Warburton	-	-	-	-	-	-	-	-
H Elliott	2,167,938	-	-	-	-	-	-	2,167,938
G Rowley	17,644,951	-	-	-	-	-	-	17,644,951
H Scruggs	-	-	-	-	-	-	-	-
G Brayshaw <sup>2</sup>	52,149	-	-	-	-	-	(52,149)	-
<b>KMP</b>								
S Pearce	382,304	55,923	-	21,745	(175,000)	-	-	284,972
N Cernotta	-	-	-	-	-	-	-	-
D Woodall <sup>2</sup>	-	20,566	-	-	-	-	(20,566)	-

<sup>1</sup> Negative amounts reflect the result of retiring during the year.

<sup>2</sup> Mr Brayshaw retired and Mr Woodall resigned during FY14.





# CORPORATE INFORMATION

[Overview](#) | [Operating and Financial Review](#) | [Reserves and Resources](#) | [Corporate Social Responsibility](#) | [Governance](#) | [Financial Report](#) | [Remuneration Report](#) | **[Corporate Information](#)**

## SHAREHOLDER INFORMATION

as at 31 July 2015

### Top 20 holders of ordinary shares

Rank	Name	Units	% of issued capital
1	Minderoo Group Pty Ltd	917,485,795	29.46
2	J P Morgan Nominees Australia Limited	307,260,776	9.87
3	Valin Investments (Singapore) Pte Ltd	228,007,497	7.32
4	HSBC Custody Nominees (Australia) Limited	215,880,054	6.93
5	HSBC Custody Nominees (Australia) Limited	155,799,857	5.00
6	Valin Resources Investments (Singapore) Pte Ltd	154,267,590	4.95
7	National Nominees Limited	146,792,017	4.71
8	Citicorp Nominees Pty Limited	106,465,685	3.42
9	Emichrome Pty Ltd	94,685,358	3.04
10	AMNL Financing Pty Ltd	71,365,581	2.29
11	Valin Mining Investments (Singapore) Pte Ltd	70,546,904	2.27
12	AMNL Financing Pty Ltd	30,365,261	0.98
13	UOB Kay Hian Private Limited	20,711,054	0.67
14	BNP Paribas Noms Pty Ltd	15,770,940	0.51
15	The Minderoo Foundation Pty Ltd	11,310,500	0.36
16	HSBC Custody Nominees (Australia) Limited - A/C 3	10,283,717	0.33
17	WWB Investments Pty Ltd	9,534,597	0.31
18	Bainpro Nominees Pty Limited	8,000,000	0.26
19	Mr William Graeme Rowley	7,144,951	0.23
20	Ms Judith Mary Street	6,826,348	0.22
<b>Total</b>		<b>2,588,504,482</b>	<b>83.13</b>

### Substantial shareholders

Name	Total shares	% of issued capital
Minderoo Group Pty Ltd and John Andrew Forrest	1,037,479,247	33.32
Hunan Valin Iron and Steel	458,405,492	14.72
Capital Research Global Investors	220,488,581	7.08

### Range of shares

Range	Total holders	Units	% of issued capital
1 to 1,000	24,449	12,021,549	0.39
1,001 to 5,000	25,572	66,378,036	2.13
5,001 to 10,000	7,308	56,245,211	1.81
10,001 to 100,000	6,401	165,686,484	5.32
100,001 and over	464	2,813,466,871	90.35
<b>Total</b>	<b>64,194</b>	<b>3,113,798,151</b>	<b>100.00</b>

### Unmarketable parcels

There were 8,188 members holding less than a marketable parcel of shares in the company.



## BUSINESS DIRECTORY

### Australian Business Number

ABN 57 002 594 872

### Registered Office Australia

Level 2, 87 Adelaide Terrace

East Perth, WA 6004

T: +61 8 6218 8888

F: +61 8 6218 8880

W: [www.fmgil.com.au](http://www.fmgil.com.au)

E: [fmgil@fmgil.com.au](mailto:fmgil@fmgil.com.au)

### Auditor

PricewaterhouseCoopers

Level 15, 125 St Georges Terrace

Perth, WA 6000

### Stock Exchange Listings

Fortescue Metals Group Limited shares are listed on the Australian Securities Exchange (ASX)

ASX Code: FMG

### Fortescue Share Registry

Link Market Services Limited

Level 4, Central Park

152 St Georges Terrace

Perth, WA 6000

Locked Bag A14

Sydney South, NSW 1235

T: 1300 733 136

T: +61 2 8280 7603 (International)

F: +61 2 9287 0309

W: [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au)

### Prefer email?

If you would prefer to receive information such as annual reports, notices of meetings and announcements via email, you can change your communication preferences on the Registry website:

[www.linkmarketservices.com.au](http://www.linkmarketservices.com.au)

## EVENT CALENDAR 2015

Key dates for Fortescue shareholders in 2015.

Please note dates are subject to review.

### Full Year Results Announcement

24 August 2015

### September Quarter Production Report

15 October 2015

### Annual General Meeting

11 November 2015

## FY15 KEY ANNOUNCEMENTS

### April 2015

- Fortescue Issues US\$2,300 million of Senior Secured Notes
- Launch of High Yield Bond Offering

### March 2015

- Fortescue Refinancing Update
- Fortescue announces multi-billion dollar refinancing

### February 2015

- Appointment of Company Secretary – Ian Wells
- Consolidation of mining services contract

### January 2015

- Chichester Range Mineral Resource Update
- Appointment of Non-Executive Director – Dr. Jean Baderschneider

### November 2014

- Maintaining Outstanding Operational Performance and Further Reducing Capital
- Appointment of Vice Chairman – Owen Hegarty
- Appointment of Lead Independent Director – Mark Barnaba
- Retirement of three Directors – Herb Elliott, Graeme Rowley, Herbert Scruggs

### August 2014

- Fortescue continues debt reduction program with repayment of US\$0.5 billion of Senior Unsecured Notes

## FY15 AWARDS

### 2015 Supply Nation Supplier Diversity Awards

- Corporate Member of the Year

### 2015 Supply Nation Supplier Diversity Awards

- Supplier Diversity Advocate of the Year, Heath Nelson

### 2015 CME Safety and Health Innovation Awards

- Systems category

### 2015 CME Women in Resources Awards

- Women in Resources Champion, Linda O'Farrell

### 2015 Australasian Reporting Awards (ARA)

- Silver award

### Women's Leadership Forum

### Scholarship to Harvard Business School

- Julie Shuttleworth

## FY15 FINALIST AWARDS

### 2015 CME Women in Resources Awards

- Women in Resources Champion Finalist, Sharon Warburton

### 2014 Telstra Women in Business Awards

- Finalist, Sharon Warburton

## GLOSSARY

### Aboriginal owned businesses

Contractors, joint ventures, sub-contractors or other legal entities owned by Aboriginal people.

### Australian Accounting Standards

Australian accounting standards are developed, issued and maintained by the Australian Accounting Standards Board, an Australian Government agency under the *Australian Securities and Investments Commission Act 2001*.

### ASX

The Australian Securities Exchange.

### ASX Corporate Governance Principles and Recommendations (Third Edition)

Principles and recommendations developed and released by the ASX Corporate Governance Council on the corporate governance practices to be adopted by ASX listed entities and which are designed to promote investor confidence and to assist listed entities to meet shareholder expectations.

### Beneficiation

Beneficiation is a process whereby ore is pulverised into fine particles and the higher grade material is separated, often magnetically, from the gangue (waste).

### BID

Bedded Iron Deposit.

### bt

Billion tonnes.

### C1 Cost

Operating costs of mining, processing rail and port. The reconciliation of C1 to the amounts disclosed in the financial statements prepared under the Australian Accounting Standards.

### CFR

A delivery term that indicates that the shipment price includes the cost of goods, freight costs and marine costs associated with a particular delivery.

### Chichester Hub

Fortescue's mining hub with two operating iron ore mines, Cloudbreak and Christmas Creek, located in the Pilbara, approximately 250 kilometres south east of Fortescue's Herb Elliott Port in Port Hedland.

### CID

Channel Iron Deposit.

### CO<sub>2</sub>e

Carbon dioxide equivalent which is the internationally recognised measure of greenhouse gas emissions.

### Contractors

Non-Fortescue employees, working with the company to support specific business activities.

### Corporations Act

*Corporations Act 2001* of the Commonwealth of Australia.

### DID

Detrital Iron Deposit.

### Direct employees

Total number of employees including permanent, fixed term and part-time. Does not include contractors.

### dmt

Dry metric tonnes.

### dmtu

Dry metric tonne unit.

### Fe

The chemical symbol for iron.

### FIFO

Fly-in Fly-out is defined as circumstances of work where the place of work is sufficiently isolated from the worker's place of residence to make daily commute impractical.

### Fortescue

Fortescue Metals Group Limited (ACN 002 594 872) and its subsidiaries.

### Fortescue River Gas Pipeline

A 270 kilometre gas pipeline which delivers natural gas from the Dampier to Bunbury Pipeline to the main power station in the Solomon Hub.

### FY

Refers to a Financial Year.

### GJ

Gigajoules.

### GRI

The Global Reporting Initiative (GRI) is an international independent organisation which has developed a standard for sustainability reporting and disclosure.

### Ha

Hectares.

### Hematite

An iron ore compound with an average iron ore content of between 57% and 63% Fe.

Hematite deposits are typically large, close to the surface and mined via open pits.



## GLOSSARY

### HSES

Health, safety, environment and security.

### ICMM

The International Council on Mining and Metals was established in 2001 to act as a catalyst for performance improvement in the mining and metals industry.

### Indicated Resource

As defined in the JORC Code, that part of a mineral resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are too widely or inappropriately spaced to confirm geological and/or grade continuity but are spaced closely enough for continuity to be assumed.

### Inferred Resource

As defined in the JORC Code, that part of a mineral resource for which tonnage, grade and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified geological and/or grade continuity. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes which may be limited or of uncertain quality and reliability.

### International Financial Reporting Standards

International Financial Reporting Standards (IFRS) is a single set of accounting standards, developed and maintained by the IASB with the intention of those standards being capable of being applied on a globally consistent basis.

### Iron Bridge Joint Venture

Unincorporated joint venture between FMG Iron Bridge Limited (69%) and a subsidiary of Formosa Plastics Group (31%) to develop the Iron Bridge magnetite project. FMG Iron Bridge Limited is jointly owned by Fortescue (88%) and a subsidiary of Baosteel (12%).

### IUCN

International Union for Conservation of Nature.

### JORC Code

The Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves 2004 or 2012 Edition, as the case may be, each prepared by the Joint Ore Reserves Committee of the Australian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Mineral Council of Australia, as amended or supplemented from time to time.

### Key Management Personnel

Key Management Personnel (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

### Kings CID Fines

Fortescue's stand-alone product produced from Channel Iron Deposit Ore from its Kings mine in the Solomon Hub, with an iron grade of 57.3% Fe.

### kL

Kilolitre.

### Local supplier

Suppliers based in the Pilbara region.

### LOM

Life of Mine, being the number of years over which available reserves will be extracted.

### m<sup>3</sup>

Cubic metres.

### Magnetite

An iron ore compound that is typically a lower grade ore than hematite iron ore because of a lower iron content.

Magnetite ore requires significant beneficiation to form a saleable concentrate. After beneficiation, magnetite ore can be pelletised for direct use as a high-grade raw material for steel production.

### Measured Resource

As defined in the JORC Code, that part of a mineral resource for which tonnage densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are spaced closely enough to confirm geological and grade continuity.

### mt

Million tonnes.

### mtpa

Million tonnes per annum.

### NGER

The National Greenhouse and Energy Reporting (NGER) Scheme was introduced in 2007 to provide data and accounting in relation to greenhouse gas emissions and energy consumption and production. The NGER Scheme operates under the National Greenhouse and Energy Reporting Act 2007 (NGER Act).

### OPF

Ore processing facility.

### Pilbara

The Pilbara region in the North West of Western Australia.

## GLOSSARY

### Probable Reserve

As defined in the JORC Code, the economically mineable part of an indicated mineral resource, and in some circumstances, a measured mineral resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified.

### Proved Reserve

As defined in the JORC Code, the economically mineable part of a measured mineral resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified.

### Reserves or Ore Reserves

As defined in the JORC Code, the economically mineable part of a measured mineral resource and/or an indicated mineral resource. It includes diluting materials and allowances for losses, which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified. Mineral reserves are sub-divided in order of increasing confidence into probable mineral reserves and proven mineral reserves. Where capitalised, this term refers to Fortescue's estimated reserves.

### Resources or Mineral Resources

As defined in the JORC Code, a concentration or occurrence of material of intrinsic economic interest in or on the Earth's crust in such form, quantity and quality that there are reasonable prospects for eventual economic extraction. The location, quantity, grade, geological characteristics and continuity of a mineral resource are known, estimated or interpreted from specific geological evidence and knowledge. Mineral resources are sub-divided, in order of increasing geological confidence, into inferred, indicated and measured categories. Where capitalised, this term refers to Fortescue's estimated resources.

### Rocket Fines

A product containing approximately 59% Fe upon shipment and produced by Fortescue from the Chichester Hub.

### Senior Executive

Leadership position title of Director, Group Manager or General Manager.

### Solomon Hub

A mining hub with two operating iron ore mines, Firetail and Kings. The Hub is located approximately 60 kilometers north of the township of Tom Price and 120 kilometers west of the railway that links the Chichester Hub to Port Hedland.

### Super Special Fines

Fortescue's flagship iron ore product from the Chichester Hub, with an iron grade of 56.4% Fe.

### TRIFR

Total Recordable Injury Frequently Rate per million man hours worked, comprising lost time injuries, restricted work and medical treatments.

### Underlying EBITDA

Underlying EBITDA is defined as earnings before interest, tax, depreciation and amortisation, exploration, development and other expenses. The reconciliation of Underlying EBITDA to the financial metrics reported in the financial statements under Australian Accounting Standards is presented on page 28.

### UNGC

United Nations Global Compact provides a leadership platform for business that are committed to aligning their strategies and operations with ten universally accepted principles in human rights, labour, environment and anti-corruption.

### Voluntary employee turnover

Permanent and fixed term employees who left Fortescue voluntarily for reasons not initiated by the company.

### VTEC

Vocational Training and Employment Centre.

### wmt

Wet metric tonnes.

### WMYAC

Wiru-murra Yindjibarndi Aboriginal Corporation.



**Vision** is to be the safest, lowest cost,  
most profitable iron ore producer



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