IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QUALIFIED INSTITUTIONAL BUYERS ("QIBs") UNDER RULE 144A OR (2) NON-U.S. PERSONS OUTSIDE OF THE U.S. (AND, IF INVESTORS ARE RESIDENT IN A MEMBER STATE OF THE EUROPEAN ECONOMIC AREA, A QUALIFIED INVESTOR)

IMPORTANT: You must read the following before continuing. The following applies to the Preliminary Offering Circular following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of the Preliminary Offering Circular. In accessing the Preliminary Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OF THE U.S. OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE U.S. OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE LAWS OF OTHER JURISDICTIONS.

THE FOLLOWING PRELIMINARY OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

Confirmation of your Representation: In order to be eligible to view this Preliminary Offering Circular or make an investment decision with respect to the securities, investors must be either (1) Qualified Institutional Buyers ("QIBs") (within the meaning of Rule 144A under the Securities Act) or (2) non-U.S. persons (within the meaning of Regulation S under the Securities Act) outside the U.S.; provided that investors resident in a Member State of the European Economic Area must be a qualified investor (within the meaning of Article 2(1)(e) of Directive 2003/71/EC and any relevant implementing measure in each Member State of the European Economic Area). This Preliminary Offering Circular is being sent at your request and by accepting the e-mail and accessing this Preliminary Offering Circular, you shall be deemed to have represented to us that (1) you and any customers you represent are either (a) QIBs or (b) not a U.S. person and that the electronic mail address that you gave us and to which this Preliminary Offering Circular has been delivered is not located in the U.S. (and if you are resident in a Member State of the European Economic Area, you are a qualified investor) and (2) that you consent to delivery of such Preliminary Offering Circular by electronic transmission.

You are reminded that this Preliminary Offering Circular has been delivered to you on the basis that you are a person into whose possession this Preliminary Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorized to, deliver this Preliminary Offering Circular to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the initial purchaser or any affiliate of the initial purchaser is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the initial purchaser or such affiliate on behalf of the Issuer in such jurisdiction.

This Preliminary Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently neither J.P. Morgan Securities LLC ("JPMorgan") nor any person who controls it nor any director, officer, employee nor agent of it or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Preliminary Offering Circular distributed to you in electronic format and the hard copy version available to you on request from JPMorgan.

The information in this offering circular is not complete and may be changed. This offering circular is not an offer to sell these securities and we are not soliciting offers to buy these securities in any state where the offer or sale is not permitted.

Subject to completion, dated March 1, 2018

Preliminary offering circular **Strictly confidential**

FMG Resources (August 2006) Pty Ltd

(ACN 118 887 835)

US$500,000,000

% Senior Notes due 2023

Interest payable and

Issue price: %

FMG Resources (August 2006) Pty Ltd (the "Issuer"), a direct wholly-owned subsidiary of Fortescue Metals Group Ltd (ACN 002 594 872) ("Fortescue"), is offering US$500,000,000 aggregate principal amount of % senior notes due 2023 (the "Notes"). The Notes will bear interest at the rate of % per annum and will mature on , 2023. The Issuer will pay interest in cash on the Notes semiannually in arrears on and of each year, beginning on , 2018. Interest will accrue from , 2018.

The Notes will be general unsecured senior obligations of the Issuer, will be senior in right of payment to any future obligations of the Issuer expressly subordinated in right of payment to the Notes and will rank *pari passu* in right of payment among themselves and with all other senior indebtedness of the Issuer, except indebtedness mandatorily preferred by law. The Notes will be structurally subordinated to all existing and future obligations of Fortescue's subsidiaries (other than the Issuer) and will be effectively subordinated to all existing and future secured obligations of the Issuer, including any outstanding 2022 Senior Secured Notes (as defined herein) and any indebtedness under the Revolving Credit Facility (as defined herein) and the Syndicated Term Loan (as defined herein), to the extent of the value of the collateral securing such indebtedness (subject to any priority rights of any unsecured obligations mandatorily preferred by applicable law). The payment obligations under the Notes will be guaranteed on a senior unsecured basis (the "Parent Guarantee") by Fortescue, which is referred to herein as the "Parent Guarantor," when acting in such capacity. The Parent Guarantee will be a general unsecured senior obligation of the Parent Guarantor, will be senior in right of payment to all future obligations of the Parent Guarantor expressly subordinated in right of payment to the Parent Guarantee and will rank *pari passu* in right of payment with all other senior indebtedness of the Parent Guarantor, except indebtedness mandatorily preferred by law. The Parent Guarantee will be effectively subordinated to all existing and future secured obligations of the Parent Guarantor, including its guarantee of any outstanding 2022 Senior Secured Notes and any indebtedness under the Revolving Credit Facility and the Syndicated Term Loan, to the extent of the value of the collateral securing such indebtedness (subject to any priority rights of any unsecured obligations mandatorily preferred by law). The Issuer and the Parent Guarantor are each organized under the laws of the Commonwealth of Australia.

The Issuer may redeem the Notes in whole at any time or in part from time to time at the redemption prices described in this offering circular, plus accrued and unpaid interest to the applicable redemption date. The Issuer may also redeem all, but not less than all, of the Notes upon the occurrence of certain changes in applicable tax law. Upon certain change of control events, the Issuer may be required to offer to repurchase the Notes. See "Description of the notes."

See "Risk factors" on page 12 for a discussion of certain risks that you should consider in connection with an investment in the Notes.

The Notes have not been registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"). The Notes may not be offered or sold within the United States or to U.S. persons, except to persons reasonably believed to be qualified institutional buyers in reliance on Rule 144A and to certain non-U.S. persons in offshore transactions in reliance on Regulation S. You are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

We expect that delivery of the Notes will be made to investors in book-entry form through the facilities of The Depository Trust Company ("DTC") on or about , 2018.

Sole global coordinator

J.P. Morgan

, 2018

In making your investment decision, you should rely only on the information contained in this offering circular. The Issuer, Fortescue and the initial purchaser have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. You should assume that the information appearing in this offering circular is accurate as of the date on the front cover of this offering circular only. The business, financial condition, results of operations and prospects of Fortescue and its subsidiaries may have changed since that date. Neither the delivery of this offering circular nor any sale made hereunder shall under any circumstances imply that the information herein is correct as of any date subsequent to the date on the cover of this offering circular.

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As used in this offering circular, except as otherwise indicated or the context otherwise requires, the terms "Fortescue," the "Company," "we" and "our" refers to Fortescue Metals Group Ltd. The term "Issuer" refers to FMG Resources (August 2006) Pty Ltd. The term "Group" refers to Fortescue together with its consolidated subsidiaries, including the Issuer. The term "Parent Guarantor" refers to Fortescue in its capacity as Parent Guarantor. References to "initial purchaser" refer to the firm listed on the front cover of this offering circular.

Fortescue's fiscal year ends on June 30 of each year. In this offering circular, "fiscal 2017" means the 12-month period ended June 30, 2017, and other fiscal years are referred to in a corresponding manner, "first half of fiscal 2018" means the six months ended December 31, 2017, and "first half of fiscal 2017" means the six months ended December 31, 2016 and "calendar 2017" means the 12-month period ended December 31, 2017, and other calendar years are referred to in a corresponding manner. See "Appendix A—Glossary" for certain mining and other defined terms.

Important information for investors

Because of the following restrictions, investors are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of the Notes offered hereby.

The Notes and the Parent Guarantee have not been registered with, recommended by, or approved or disapproved by, the U.S. Securities and Exchange Commission (the “SEC”) or any other securities commission or regulatory authority, nor has the SEC or any other securities commission or authority passed upon or endorsed the merits of the offering or the accuracy or adequacy of this offering circular. Any representation to the contrary is a criminal offense.

The distribution of this offering circular and the offering and sale of the Notes in certain jurisdictions may be restricted by law. The Issuer, the Parent Guarantor and the initial purchaser require persons into whose possession this offering circular comes to inform themselves about and to observe any such restrictions. This offering circular does not constitute an offer of, or an invitation to purchase, any of the Notes in any jurisdiction in which such offer or invitation would be unlawful. For a description of the restrictions on offers, sales and resales of the Notes and distribution of this offering circular, see “Transfer restrictions.” None of the Issuer, the Parent Guarantor, the initial purchaser or The Bank of New York Mellon, as trustee, under the indenture that will govern the Notes (the “Trustee”) are making any representation to any offeree or purchaser under any applicable law.

The Notes are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the Securities Act and any other applicable securities laws pursuant to registration or exemption therefrom. As a prospective purchaser, you should be aware that you may be required to bear the financial risks of this investment for an indefinite period of time. Please refer to the sections in this offering circular entitled “Plan of distribution” and “Transfer restrictions.”

In making an investment decision, prospective investors must rely on their own examination of the Group and the terms of the offering, including the merits and risks involved. Prospective investors should not construe anything in this offering circular as legal, business or tax advice. Each prospective investor should consult its own advisors as needed to make its investment decision and to determine whether it is legally permitted to purchase the securities under applicable legal investment or similar laws or regulations.

This offering circular is being provided on a confidential basis for informational use solely in connection with consideration of a purchase of the Notes (i) to persons reasonably believed to be “qualified institutional buyers” as defined in Rule 144A under the Securities Act and (ii) to other investors in offshore transactions complying with Rule 903 or Rule 904 of Regulation S under the Securities Act. Its use for any other purpose is not authorized. This offering circular may not be copied or reproduced in whole or in part, nor may it be distributed or any of its contents be disclosed to anyone other than the prospective investors to whom it is being provided.

This offering is being made in reliance upon an exemption from registration under the Securities Act for an offer and sale of the Notes that do not involve a public offering. Prospective purchasers are hereby notified that sellers of the Notes may be relying upon the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A thereunder. In making your purchase, you will be deemed to have made certain acknowledgments, representations and agreements as set forth under “Transfer restrictions.”

This offering circular is not, and is not intended to be a disclosure document within the meaning of Section 9 of the Corporations Act 2001 (Cth) (the “Corporations Act”) or a product disclosure statement for the purposes of Chapter 7 of the Corporations Act and is not required to, and does not, contain all the information which would be required in a disclosure document (within the meaning of Section 9 of the Corporations Act and other applicable provisions of Australian law). No action has been taken by us that would permit a public offering of the Notes in Australia. In particular, no prospectus or other disclosure document in relation to the Notes or the Parent Guarantee has been, or will be, lodged with the Australian Securities and Investments Commission ("ASIC"), the ASX Limited (operator of the Australian Securities Exchange) (the "ASX") or any other regulatory body or agency in Australia. In addition: (1) no offers or applications will be made or invited for the purchase of any Notes (including an offer or invitation which is received by a person in Australia); and (2) this offering circular or any other offering material or advertisement relating to this offering will not be distributed or published in Australia, unless in either case (1) or (2), (i) the minimum aggregate consideration payable by each offeree or invitee is at least A$500,000 (or the equivalent in another currency, in either case disregarding moneys lent by the offeror or its associates) or the offer otherwise does not require disclosure to investors in accordance with Part 6D.2 or Chapter 7 of the Corporations Act, (ii) the offer or invitation is not to a "retail client" for the purposes of Section 761G of the Corporations Act and (iii) such action complies with all applicable laws, regulations and directives in relation to the offer, invitation or distribution and does not require any document to be lodged with, or registered by, ASIC. Notes issued pursuant to this offering circular may not be offered for sale (or transferred, assigned or otherwise alienated) to any person located in, or a resident of, Australia for at least 12 months after their issue, except in circumstances where the person is a person to whom a disclosure document or product disclosure statement is not required to be given under Chapter 6D or Chapter 7 of the Corporations Act.

In addition, it is intended that the initial purchaser will not sell any Notes (or any interest in any Notes) to any person if, at the time of sale, its employees directly involved in the sale knew or had reasonable grounds to suspect that as a result of such sale, such Notes would be acquired (directly or indirectly) by an "Offshore Associate" (being a party identified as such in writing by the Issuer to the initial purchaser not later than the date of the purchase agreement), other than one acting in the capacity of a dealer, manager or underwriter in relation to the placement of the Notes or in the capacity of a clearing house, custodian, funds manager or responsible entity of an Australian registered scheme.

The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("EEA"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "MiFID II"); or (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the "Insurance Mediation Directive"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the "Prospectus Directive"). Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "PRIIPs Regulation") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPS Regulation.

In the United Kingdom, this offering circular and any other material in relation to the Notes are being distributed only to, and are directed only at, persons who are "qualified investors" (as defined in the Prospectus Directive) who are (i) persons having professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order"), (ii) high net worth entities falling within Article 49(2)(a) to (d) of the Order or (iii) persons to whom it would otherwise be lawful to distribute them, all such persons together being referred to as "Relevant Persons". The Notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Notes will be engaged in only with, Relevant Persons. This offering circular and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by any recipients to any other person in the United Kingdom. Any person in the United Kingdom that is not a Relevant

Person should not act or rely on this offering circular or its contents. The Notes are not being offered to the public in the United Kingdom.

The Issuer reserves the right to withdraw this offering at any time. The Issuer and the initial purchaser also reserve the right to reject any offer to purchase the Notes in whole or in part for any reason or no reason and to allot to any prospective purchaser less than the full amount of the Notes sought by it. The initial purchaser and certain of its related entities may acquire, for their own accounts, a portion of the Notes.

It is expected that delivery of the Notes will be made against payment therefor on or about , 2018, which is the business day following the date hereof (such settlement cycle being referred to as "T+ "). Under Rule 15c6-1 under the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"), trades in the secondary market generally are required to settle in two business days unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the Notes on any date prior to the second business day before delivery will be required, by virtue of the fact that the Notes initially will settle in T+ , to specify an alternative settlement cycle at the time of any such trade to prevent failed settlement. Purchasers of the Notes who wish to trade the Notes on the date of pricing or the next business days should consult their own advisors.

Enforcement of civil liabilities

The Issuer and Fortescue are corporations organized under the laws of Australia. Additionally, most of the directors and officers of most members of the Issuer and Fortescue reside, and substantially all of the assets of such persons are located, outside the United States. As a result, it may not be possible for investors to effect service of process for a lawsuit within the United States upon such persons, including with respect to matters arising under the Securities Act, or to enforce against any of them, judgments in non-U.S. courts obtained in courts of the United States predicated upon, among other things, the civil liability provisions of the U.S. federal securities laws. The Issuer and Fortescue have been advised by its Australian legal counsel, Allen & Overy LLP, that there is doubt as to the enforceability in Australia, in original actions or in actions for enforcement of judgments of U.S. courts, of civil liabilities based on U.S. federal securities laws. Also, judgments of U.S. courts (whether or not such judgments relate to U.S. federal securities laws) will not be enforceable in Australia in certain other circumstances, including, among others, where such judgments contravene local public policy, breach the rules of natural justice or general principles of fairness or are obtained by fraud, are not for a fixed or readily ascertainable sum, are subject to appeal, dismissal, stay of execution or otherwise not final and conclusive, or involve multiple or punitive damages or where the proceedings in such courts were of a revenue or penal nature. See "Risk factors—Risks relating to the Notes—Service of process, enforcement of judgments and bringing of original actions against the Issuer or Fortescue or their respective directors, executive officers and managers may be difficult."

The Issuer and Fortescue have each appointed Corporation Service Company, New York, New York, as its agent for service of process in the U.S. in respect of any civil suit or action brought against or involving it in a U.S. federal or state court located in the Borough of Manhattan of the City of New York arising out of, related to or concerning this offering.

The liability of PricewaterhouseCoopers, an Australian partnership ("PwC Australia"), with respect to claims arising out of its respective audit reports is subject to the limitations set forth in the Chartered Accountants Australia and New Zealand Professional Standards Scheme (WA) approved by the Western Australia Professional Standards Council (the "WA Accountants Scheme") or such other applicable scheme approved pursuant to the *Professional Standards Act 1997* (WA) (the "WA Professional Standards Act"). The WA Professional Standards Act and the WA Accountants Scheme limit PwC Australia's civil liability arising in tort, contract or otherwise directly or vicariously from anything done or omitted by PwC Australia in the performance of its professional services to Fortescue including, without limitation, audits of Fortescue's financial statements. The limit does not apply to liability for breach of trust or fraud or dishonesty. The WA Professional Standards Act and the WA Accountants Scheme have not been subject to judicial consideration and therefore how the limitation will be applied by the courts and the effect of limitations on the enforcement of foreign judgments are untested. The current WA Accountants Scheme limits the liability of participating members of the Chartered Accountants Australia and New Zealand arising from services provided on or after October 8, 2014 (with previous liability capping schemes continuing to apply to services provided from October 8, 2007 up to this date).

The WA Accountants Scheme limits the liability of participating members for damages arising from a claim to the extent to which the liability results in damages exceeding A$2 million. Such liability for damages is limited to a monetary ceiling determined by reference to: (a) the category in which the relevant service falls under the WA Accountants Scheme; and (b) the fee charged in respect of the service. The maximum monetary ceiling under the WA Accountants Scheme is A$75 million, which applies to Category 1 services (including financial statement audits) in respect of which the fee is A$2.5 million or more. In order for a monetary ceiling to apply to a claim, the participating member must have an insurance policy under which the amount payable in respect of the claim is not less than the monetary ceiling applicable to the claim and/or business assets the market value of which is not less than that amount. The WA Accountants Scheme is scheduled to expire on October 8, 2019.

In addition, there is equivalent professional standards legislation in place in each state and territory in Australia and amendments have been made to a number of Australian federal statutes to limit liability under those statutes to the same extent as liability is limited under state and territory laws by professional standards legislation. Pursuant to such professional standards legislation, each state and territory in Australia (except Tasmania, where its introduction has been deferred) has implemented similar schemes to the WA Accountants Scheme. As with the WA Accountants Scheme, all of these similar schemes are scheduled to expire on October 8, 2019.

In addition, amendments have been made to the *Competition and Consumer Act 2010* (Cth) (the "Competition and Consumer Act 2010") to limit liability of participating members of The Institute of Chartered Accountants in Australia under the WA Accountant Scheme for misleading and deceptive conduct arising under the Competition and Consumer Act 2010 to the same extent as liability is limited under the WA Accountants Scheme.

Cautionary note regarding forward-looking statements

Certain statements in this offering circular, including, but not limited to, certain statements set forth under the captions "Risk factors," "Management's discussion and analysis of financial condition and results of operations" and "Business," are based on the beliefs of management of the Group as well as assumptions made by, and information currently available to them. The statements included in this offering circular regarding future financial performance and results and the other statements that are not historical facts including, without limitation, statements relating to Ore Reserves (as defined under "Ore Reserves and Mineral Resources") and Mineral Resources (as defined under "Ore Reserves and Mineral Resources"), the Group's expectations of future performance, schedules and other construction cost estimates, are forward-looking statements. The words "may," "could," "believes," "intends," "expects," "anticipates," "projects," "estimates," "predicts," "plan," "assume," "contingency," "allowance" and similar expressions are also intended to identify forward-looking statements.

The forward-looking statements included in this offering circular are subject to risks and uncertainties that could cause actual results to differ materially from those which may be forecast and projected. Under no circumstances should the inclusion of such information in this offering circular be regarded as a representation, warranty or prediction with respect to the accuracy of the underlying assumptions by the initial purchaser, Fortescue, the Issuer or any other person. Investors are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this offering circular. These forward-looking statements are subject to various factors that could cause the actual results of the Group to differ materially from the results expressed or anticipated in these statements. These factors include, without limitation:

- variations in demand for, and price of, iron ore, particularly in the People's Republic of China ("China"), or imbalances in global iron ore supply and demand;
- adverse developments in China and declines in demand for seaborne iron ore in the Chinese markets;
- changes in the Group's competitive environment and in the supply of iron ore;
- cost pressure and the ability of the Group to successfully implement cost-saving initiatives;
- unavailability and inaccessibility of key inputs to the production process, including natural gas, diesel fuel, electric power, water, tires, etc.;
- changes in global economic activity;
- the performance of the Group's mines, rail infrastructure and port facilities;
- risks and hazards inherent to the mining industry;
- failure to realize or recover reserve and resource estimates and anticipated lives of the Group's operations and mines;
- changes in labor costs and incidence of labor disruptions or industrial actions;
- inability to obtain the necessary permits, licenses or approvals from government authorities;
- changes in the regulatory environment, industrial disputes, labor shortages, political and other factors;
- appreciation of the Australian dollar against the U.S. dollar, which increases the Group's operating costs, or prolonged periods of exchange rate volatility;
- changes in Australian taxation;
- unforeseen geological, physical or meteorological conditions, climate change, natural disasters or cyclones;
- inability to obtain insurance or insurance on commercially acceptable terms;
- changes in the feasibility of new mineral projects;
- inability to obtain additional financing on commercially suitable terms; and
- the other factors identified in the section entitled "Risk factors."

These and other factors, which may not be discussed herein, could cause actual results to differ materially from those expressed in any forward-looking statement made by, or on behalf of, the Group.

Cautionary note regarding industry data

Unless otherwise indicated, all sources for industry data and statistics are estimates or forecasts contained in or derived from internal or industry sources believed by the Group to be reliable. Industry data used throughout this offering circular was obtained from independent experts, independent industry publications and other publicly-available information, including information in the independent assessment of the iron ore market and the Group's iron ore products provided by CRU International Ltd ("CRU"), an economics consulting company in the metals and mineral resources sector. Although the Group believes that these sources are reliable, they have not been independently verified, and the Group does not guarantee the accuracy and completeness of this information.

Industry data and statistics are inherently predictive and speculative and are not necessarily reflective of actual market conditions. Such statistics are based on market research, which itself is based on sampling and subjective judgments by both the researchers and the respondents, including judgments about what types of products and transactions should be included in the relevant market. In addition, the value of comparisons of statistics for different markets is limited by many factors, including that (i) the markets are defined differently, (ii) the underlying information was gathered by different methods and (iii) different assumptions were applied in compiling the data. Accordingly, the market statistics included in this offering circular should be viewed with caution and no representation or warranty is given by any person as to their accuracy.

Cautionary note regarding Ore Reserves and Mineral Resources

In the Australian mining industry, the reporting of exploration results, Ore Reserves and Mineral Resources, are defined in and governed by the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the "JORC Code"). Ore Reserves are sub-divided, in order of increasing confidence, into Probable Ore Reserves and Proved Ore Reserves. Mineral Resources are sub-divided, in order of increasing confidence, into Inferred Mineral Resources, Indicated Mineral Resources and Measured Mineral Resources. See "Ore Reserves and Mineral Resources" for a description of Ore Reserves and Mineral Resources and their respective subcategories. Fortescue's estimated Ore Reserves are reported on a dry product tonnes basis and Mineral Resources (including both the Chichester Hub (as defined herein) and the Solomon Hub (as defined herein)) are reported on a dry in-situ basis under the JORC Code.

The Ore Reserves and Mineral Resources for operating properties referred to in this offering circular are reported in accordance with the JORC Code, 2012 Edition (the "JORC 2012 Code"). The Mineral Resources for developing properties referred to in this offering circular are reported in accordance with the JORC 2012 Code or the JORC Code, 2004 Edition (the "JORC 2004 Code"), as indicated herein. The successive versions of the JORC Code have been incorporated into the listing rules of the ASX (the "ASX Listing Rules"). When Ore Reserves and Mineral Resources are reported under the JORC Code, the Ore Reserve figures (tonnage and grade) are included within the Mineral Resource figures (tonnage and grade).

Information contained in this offering circular relating to Fortescue's estimated Ore Reserves and Mineral Resources were prepared by employees and independent consultants of Fortescue. Estimates of Ore Reserves, Mineral Resources, recoveries and operating costs are largely dependent on the interpretation of geological data obtained from drill holes and other sampling techniques, and feasibility studies which derive estimates of operating costs based on anticipated tonnage, expected recovery rates, equipment operating costs and other factors. No assurance can be given that the Ore Reserves and Mineral Resources presented in this offering circular will be recovered at the quantity, quality or yield presented. In addition, investors should not assume that resource estimates are capable of being directly reclassified as Ore Reserves under the JORC Code. The inclusion of Mineral Resources estimates should not be regarded as a representation that these amounts can be economically exploited, particularly Inferred Mineral Resources, and you are cautioned not to place undue reliance on those estimates.

Furthermore, as explained in the section captioned "Ore Reserves and Mineral Resources," attention is drawn to the difference between reporting regimes for reserve estimates in the United States and in Australia. The principal difference between the reporting regimes in Australia under the JORC Code and in the United States under the requirements as adopted by the SEC in its Industry Guide 7 is the absence in the United States of any provision for the reporting of estimates other than proven (measured) or probable (indicated) reserves. There is, therefore, no equivalent for reporting of "Mineral Resources" under the SEC Industry Guide 7 and such reporting is not generally permitted in SEC filings.

Currency of presentation and exchange rates

Fortescue has adopted U.S. dollars as the functional currency of the Group and publishes its consolidated financial statements in U.S. dollars. While revenue from iron ore sales and a majority of the Group's financing arrangements are denominated in U.S. dollars, a large portion of Fortescue's operating and capital expenditures are denominated in Australian dollars. Fluctuations in the Australian dollar/U.S. dollar exchange rate thus can have significant effects on Fortescue's financial results with a stronger Australian dollar resulting in increased operating costs. See "Risk factors—Operational risks relating to the business of the Group—The Group is subject to exchange rate risks."

For your convenience, Fortescue has translated some Australian dollar amounts into U.S. dollar amounts at the noon buying rate for Australian dollars in New York City for cable transfers in Australian dollars as certified for customs purposes by the Federal Reserve Bank of New York (the "noon buying rate"), as set forth in the table below. In providing these translations, Fortescue is not representing that the Australian dollar amounts actually represent these U.S. dollar amounts or that it could have converted those Australian dollars into U.S. dollars at the rates indicated. The noon buying rate on February 23, 2018 was A$1.00 = US$0.7827.

(US$ dollars)	At period end	Average rate(1)	High	Low
Year ended				
June 30, 2013	0.9165	1.0222	1.0591	0.9165
June 30, 2014	0.9427	0.9140	0.9705	0.8715
June 30, 2015	0.7704	0.8275	0.9488	0.7566
June 30, 2016	0.7432	0.7274	0.7817	0.6855
June 30, 2017	0.7676	0.7542	0.7733	0.7174
Six months ended				
December 31, 2016	0.7230	0.7541	0.7733	0.7174
December 31, 2017	0.7815	0.7795	0.8071	0.7507

	At period end	Average rate	High	Low
Month ended				
September 2017	0.7840	0.7974	0.8071	0.7831
October 2017	0.7668	0.7788	0.7885	0.7660
November 2017	0.7572	0.7620	0.7722	0.7551
December 2017	0.7815	0.7648	0.7815	0.7507
January 2018	0.8069	0.7956	0.8105	0.7822
February 2018 (as of February 23)	0.7827	0.7876	0.8028	0.7789

Notes:

(1) For the fiscal years indicated, the average of the noon buying rates on the last day of each month during the year. For the six months ended December 31, 2016 and 2017, the average of the noon buying rates on the last day of each month during the six-month period. For the months indicated, the average of the noon buying rates on each day of the month.

The Australian dollar is convertible into U.S. dollars at freely floating rates and there are currently no restrictions on the flow of Australian currency between Australia and the United States (except as described in "Australian exchange control restrictions" below).

Australian exchange control restrictions

The Australian dollar is convertible into U.S. dollars at freely floating rates. However, the *Autonomous Sanctions Regulations 2011* promulgated under the *Autonomous Sanctions Act 2011* (Cth), the *Charter of the United Nations Act 1945* (Cth) of Australia and other legislation and regulations in Australia restrict or prohibit payments, transactions and dealings with assets having a proscribed connection with certain countries or named individuals or entities subject to international sanctions or associated with terrorism or money laundering.

The DFAT maintains a list of all persons and entities that are subject to targeted financial sanctions under Australian sanctions laws which is available to the public at http://www.dfat.gov.au/international-relations/security/sanctions/Pages/consolidated-list.aspx. This website and the information contained on, or accessible through, the website, is not part of this offering circular, and you should rely only on the information contained in this offering circular when making a decision as to whether to invest in the Notes.

Presentation of financial information

The Group's consolidated financial statements for the first half of fiscal 2018 and 2017, and for fiscal 2017, 2016, and 2015, which are included elsewhere in this offering circular, have been prepared in accordance with Australian Accounting Standards ("AAS") and also comply with the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. Consequently, the Group's consolidated annual financial statements are not comparable to the financial statements of U.S. companies prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"). There are differences between AAS and IFRS and U.S. GAAP that may be material, and no quantitative reconciliation or narrative discussion of these differences is included in this offering circular. Investors should therefore consult their own professional advisor for an understanding of the differences between AAS and IFRS and U.S. GAAP and how those differences might affect such financial information.

In this offering circular, where information has been presented in percentages or millions of units, amounts may have been rounded up or down. Accordingly, totals of columns or rows of numbers in tables may not be equal to the apparent total of the individual items and actual numbers may differ from those contained herein due to rounding.

In addition to reporting the Company's financial results under AAS and IFRS, an internal financial measure, "Adjusted EBITDA," is used by management to report the operating performance of the business. Adjusted EBITDA is defined as Underlying EBITDA before the impact of gains on disposal of assets and interest in joint ventures and net foreign exchange gains or losses. Underlying EBITDA is defined as earnings before interest, tax, depreciation and amortization, exploration, development and other expenses. Although Adjusted EBITDA and Underlying EBITDA are not measures of performance that are recognized under AAS or IFRS, management believes that they are useful to an investor in evaluating Fortescue. For instance, Adjusted EBITDA eliminates exceptional items considered by management to be outside the core operating activity of the business and subject to volatility that may distort a year to year comparison of the operating results of the business. In particular, management considers the gains on disposal of joint venture assets and interests and foreign exchange gains and losses to be outside the core operations of the Company and, as such, they are considered not to be reflective of operating performance. Adjusted EBITDA and Underlying EBITDA, as calculated by

Fortescue, may differ from similarly titled measures reported by other companies. Adjusted EBITDA and Underlying EBITDA do not purport to represent operating income, net income or cash generated by operating activities and should not be considered in isolation or as a substitute for measures of performance in accordance with AAS or IFRS.

Available information

You should rely only upon the information provided in this document. None of the Issuer, Fortescue or the initial purchaser have authorized anyone to provide you with different information. You should not assume that the information in this document is accurate as of any date other than that on the front cover of the document. This document may only be used where it is legal to offer and sell the Notes.

None of the Issuer or Fortescue is subject to the periodic reporting and other information requirements of the Exchange Act, or expects to become subject to such requirements. To permit compliance with the Securities Act in connection with resales of the Notes, the Issuer agrees that, for so long as the Notes outstanding are "restricted securities" within the definition of Rule 144(a)(3) under the Securities Act, the Issuer will furnish, upon the request of any holder or beneficial owner of the Notes, such information as is specified in paragraph (d)(4) of Rule 144A under the Securities Act to such holder or beneficial owner or to a prospective purchaser of such Notes that is reasonably believed to be a "qualified institutional buyer," in order to permit compliance by such holder or beneficial owner with Rule 144A in connection with the resale of such Notes unless, at the time of such request, the Issuer is subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act, or is included in the list of foreign private issuers that claim exemption from the registration requirements of Section 12(g) of the Exchange Act (and therefore is required to furnish the SEC with certain information pursuant to Rule 12g3-2(b) under the Exchange Act).

Summary

The following is a summary of certain information contained elsewhere in this offering circular. It does not contain all the information that may be important to you and is qualified in its entirety by the more detailed information appearing elsewhere in this offering circular. You should read this entire offering circular, including the sections entitled "Risk factors," "Management's discussion and analysis of financial condition and results of operations," "Business" and the financial statements and related notes included in this offering circular, before making an investment decision. Any technical terms not defined in this offering circular are defined in Appendix A to this offering circular.

Business overview

Fortescue is engaged in the production and export of iron ore in the Pilbara region of Western Australia (the "Pilbara") and is focused on achieving its vision of being the world's safest, lowest cost and most profitable iron ore producer. Fortescue is the third largest iron ore producer in Australia and the world's fourth largest exporter into the seaborne iron ore market (the market for iron ore which is transported by ocean bulk vessels), based on CRU export statistics for calendar 2017. The Company is a significant supplier to steel mills in Asia, principally China.

Fortescue currently produces iron ore from five mines, including one at Cloudbreak and two at Christmas Creek, which are collectively referred to as the "Chichester Hub," and one mine at each of Firetail and Kings, which are jointly referred to as the "Solomon Hub." Each of the five mines has its own ore processing facility ("OPF").

The Chichester Hub comprises two operating sites (Cloudbreak and Christmas Creek) and three OPFs, which process ore from multiple pits. Iron ore was first shipped from the Chichester Hub through Cloudbreak in May 2008. Since then, mining and processing from Cloudbreak has increased significantly, with approximately 44.4Mt mined from Cloudbreak in calendar 2017. Mining at Christmas Creek began in April 2009, with approximately 66.1Mt mined in calendar 2017.

The Solomon Hub comprises two operating mines (Firetail and Kings), each with its own OPF, which process ore from multiple pits. The development of the Solomon Hub was announced in November 2010 as part of the US$9.2 billion expansion of port, rail and mining operations to expand the Company's production capacity from 55Mtpa to 155Mtpa (the "155Mtpa Expansion"). At the Solomon Hub, mining operations commenced at Firetail in October 2012 with the Firetail OPF commissioned in May 2013. Mining operations commenced at Kings in May 2012, with the Kings OPF commissioned in March 2014. The Company mined approximately 80.8Mt from the Solomon Hub in calendar 2017.

The ramp-up of the Firetail mine enabled Fortescue to realize the benefits of blending lower impurity Chichester Hub ore with higher grade Firetail ore. This, together with the upgrades achieved through the new processing facilities and beneficiation plants, improves iron recovery enabling reduction in the iron cut-off grades and therefore lower strip ratios at the Chichester Hub mines. In addition, the transition of operational responsibilities from the contracting parties for two Christmas Creek OPFs and two Solomon Hub OPFs during fiscal 2014 gave Fortescue operational responsibility over all five of its OPFs, enabling shared expertise, synergies, economies of scale and efficiencies across the business.

Integral to Fortescue's growth and ongoing operations has been the development of its rail and port infrastructure. Fortescue's railway is comprised of more than 620 kilometers of track, with an average of 14 trains operating to facilitate continuous hauling of iron ore from the Chichester and Solomon Hubs to

Fortescue's Herb Elliott Port, which is located in Port Hedland. The port consists of five berths and three in-load and out-load circuits. See "Business—Rail and port transportation infrastructure—Port infrastructure" for more details.

All components of Fortescue's expanded Chichester and Solomon Hubs, as well as its integrated rail and port infrastructure, are now operating above the initial targeted capacity of 155Mtpa. Fortescue has capitalized on its expanded operations, rail and port infrastructure with a consistent annual production rate of 165-170Mt since achieving its rated capacity in 2014. With an ongoing focus on sustainable cost reductions and operational efficiency, Fortescue is positioned as one of the lowest cost seaborne iron ore producers.

Fortescue's tenement holdings (including both granted tenements and applications for tenements) in the Pilbara cover an area of more than 39,000 square kilometers, representing the largest tenement holding in the Pilbara. As of June 30, 2017, Fortescue had estimated Ore Reserves at the Chichester Hub of approximately 1,517Mt (of which 631Mt were Proved Ore Reserves and 886Mt were Probable Ore Reserves) and estimated Ore Reserves at the Solomon Hub of approximately 674Mt (of which 116Mt were Proved Ore Reserves and 558Mt were Probable Ore Reserves). In addition, as of June 30, 2017, Fortescue had estimated Magnetite Ore Reserves of approximately 705Mt at the Iron Bridge Joint Venture Magnetite project, all of which were Probable Ore Reserves. For more information, see "Ore Reserves and Mineral Resources."

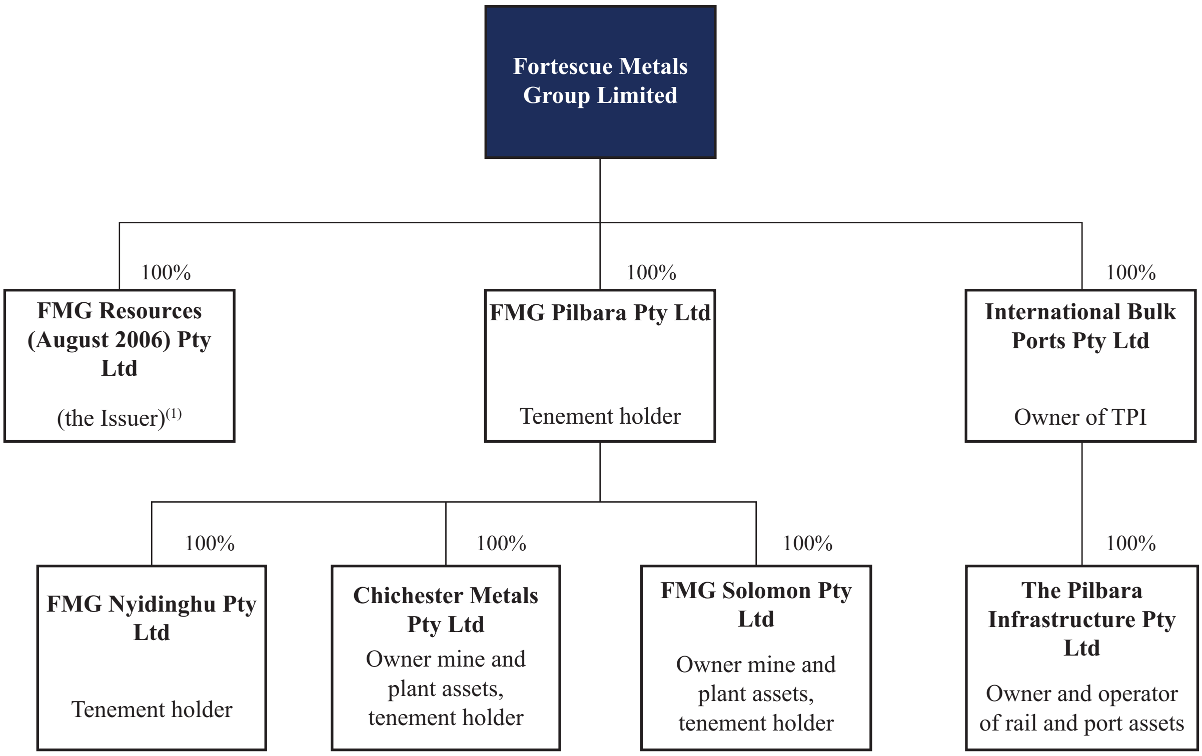
Fortescue is a low cost exporter of iron ore, principally to China. Fortescue shipped approximately 84.5Mt of Fortescue mined ore in the first half of fiscal 2018, representing an annualized rate of approximately 169Mtpa, and 170.4Mt in fiscal 2017, substantially all of which was sold to customers in China.

For the first half of fiscal 2018 Fortescue reported revenue of US$3.7 billion, net profit after income tax of US$0.7 billion and Adjusted EBITDA of US$1.8 billion, respectively. For a reconciliation of net profit after income tax to Adjusted EBITDA, see "Management's discussion and analysis of financial condition and results of operations—Results of operations."

Fortescue is listed on the ASX (ASX: FMG) with a market capitalization of approximately A$15.4 billion (US$12.0 billion) as of February 28, 2018 and is a constituent of the S&P/ASX 50 index. As of December 31, 2017, Fortescue had a workforce of 7,931 including direct employees and contractors.

Corporate structure

The following chart sets forth the corporate organization of the Group as of the date of this offering circular. This chart is summary in nature and does not display all subsidiaries of Fortescue. All entities in this chart have been incorporated in Australia.



Notes:

(1) The Notes will not be guaranteed by any subsidiaries of Fortescue or of the Issuer.

Fortescue is an ASX listed company domiciled in Australia. Its registered business address is Level 2, 87 Adelaide Terrace, East Perth, Western Australia, 6004.

Recent developments

Tender offer

On February 21, 2018, the Issuer announced that it was making an offer to the holders of the 2022 Senior Secured Notes to purchase for cash up to US$1.4 billion aggregate principal of the 2022 Senior Secured Notes (the "Tender Offer"). Fortescue may modify or terminate the Tender Offer and may extend any payment date with respect to the Tender Offer.

As of the date hereof, there was US$2,160 million of 2022 Senior Secured Notes outstanding. To the extent that any 2022 Senior Secured Notes are not tendered in the Tender Offer, we intend to redeem a portion of such notes with the proceeds from this offering.

Syndicated term loan

On February 20, 2018, Fortescue, the Issuer and certain subsidiary guarantors entered into a US$1.4 billion syndicated facility agreement (the "Syndicated Term Loan") with key Chinese, Australian and European financial institutions. The Syndicated Term Loan will mature on the date falling 4 years from the date of the agreement and has an option to extend (by mutual agreement) for a further year. The Syndicated Term Loan contains certain affirmative and negative covenants, which are subject to a number of important exceptions and qualifications as specified in the Syndicated Term Loan.

The Syndicated Term Loan is secured over all of the assets of the Issuer, Fortescue and each of the note guarantors under the 2022 Senior Secured Notes until the 2022 Senior Secured Notes are repaid in full. Once all obligations under the 2022 Senior Secured Notes are discharged in full, Fortescue may request a step-down in security to "share specific security" over the capital stock in each obligor which is a subsidiary of another obligor. The obligors under the Syndicated Term Loan, following the discharge of the 2022 Senior Secured Notes, will be Fortescue, the Issuer and any subsidiary of Fortescue which represents 5% or more of the group's consolidated total assets or 5% or more of the Group's consolidated EBITDA.

Appointment of KOTUG as towage service operator for Port Hedland

In December 2017, Fortescue announced that it appointed Kotug Australia Pty Ltd ("KOTUG") as its towage services operator for the Port of Port Hedland. The appointment has meant that KOTUG has agreed to supply an additional three tug boats to complement Fortescue's six tugs currently under construction, providing a total fleet of nine tugs for the towage operations. KOTUG will operate the nine strong tugboat fleet and has appointed local towage service provider Westug Pty Ltd as its key subcontractor to manage operations in Port Hedland. Operational commencement is scheduled for 2019.

Solomon power arrangements

In November 2017, Fortescue repurchased the Solomon power station from TEC Pipe Pty Ltd, a wholly-owned subsidiary of TransAlta Corporation ("TransAlta"). The power station was previously treated as a lease liability and recognized as debt on Fortescue's balance sheet. Since the repurchase, Fortescue has resumed full operation and control of the gas-fired power station providing power to Fortescue's Solomon Hub operation.

Revolving credit facility

On July 28, 2017, Fortescue, the Issuer and certain subsidiary guarantors entered into a syndicated facility agreement with various financial institutions and Australia and New Zealand Banking Group Limited, as facility agent, for a US$525 million senior revolving facility (the "Revolving Credit Facility"). The Revolving Credit Facility is intended to be used for general corporate purposes. The Revolving Credit Facility will mature on the date falling 3 years from the date of the agreement and has an option to extend (by mutual agreement) for successive periods of 12 months. The Revolving Credit Facility contains certain covenants, including a negative pledge, which are subject to a number of important exceptions and qualifications as specified in the Revolving Credit Facility.

The Revolving Credit Facility is secured over all of the assets of the Issuer, Fortescue and each of the note guarantors under the 2022 Senior Secured Notes until the 2022 Senior Secured Notes are repaid in full to the full value of the amount drawn, subject to certain agreed upon exceptions. Once all obligations under the 2022 Senior Secured Notes are discharged in full, Fortescue may request a step-down in security to "share specific security" over the capital stock in each obligor which is a subsidiary of another obligor.

As at the date of this offering circular, the Revolving Credit Facility remains undrawn.

Changes to key management personnel and board of directors

On September 15, 2017, Fortescue announced the resignation of Mr. Nev Power, formerly Chief Executive Officer. Mr. Power had commenced employment with Fortescue as Chief Executive Officer on July 18, 2011. Mr. Power's resignation was effective from February 16, 2018.

On November 30, 2017, Fortescue announced the establishment of the core leadership team which included the appointment of Ms. Elizabeth Gaines as Chief Executive Officer, Ms. Julie Shuttleworth as Deputy Chief Executive Officer, Mr. Greg Lilleyman as Chief Operating Officer and Mr. Ian Wells as Chief Financial Officer. The changes were effective as of February 16, 2018.

Ms. Gaines has served as a Non-Executive Director on Fortescue's board of directors (the "Board") since February 2013 and in February 2017 was appointed as Chief Financial Officer. Ms. Gaines continues to serve as an Executive Director on Fortescue's Board. Ms. Shuttleworth joined Fortescue in 2013 as the General Manager at the Cloudbreak mine site before transferring to the Solomon mine site in 2015. Mr. Lilleyman joined Fortescue on January 1, 2017 as Director of Operations. Mr. Wells joined Fortescue in 2010 and has held positions of Group Manager Funding, Company Secretary and most recently Group Manager Corporate Finance.

Mr. Mark Barnaba AM was appointed Co-Deputy Chair of the Board in November 2017 with Sharon Warburton and continues to serve as the Lead Independent Director. Mr. Barnaba AM has been a member of the Board since 2010, and Ms. Warburton has been a member of the Board since 2013. On January 18, 2018, Mr. Cao Zhiqiang, Chairman of Hunan Valin Iron and Steel Group Company Ltd was appointed to Fortescue's Board of Directors, replacing Mr. Cao Huiquan. On February 25, 2018, Lord Sebastian Coe CH, KBE was appointed as a Non-Executive Director.

On February 21, 2018, Fortescue announced that Mr. Cameron Wilson was appointed as Company Secretary.

Solomon Hub development—Firetail replacement project

Development planning is underway for replacement of Firetail. This replacement strategy involves progressive steps to develop satellite ore bodies at the Solomon Hub and, in the medium to long term, will require the development of alternative ore bodies and the extension of rail infrastructure. Feasibility studies and approval processes on the Eliwana mining project are scheduled for the end of June 2018. Initial capital cost estimates of this development are expected to range between US$1.0 to US$1.5 billion and, depending on the preferred strategy, are likely to be predominantly incurred in the period from fiscal 2019 to fiscal 2021.

Summary historical consolidated financial and operating data

The following tables present summary historical consolidated financial and operating data of the Group for the most recent fiscal half-year and corresponding prior period, as well as the three most recent fiscal years. The results of operations are not necessarily indicative of the results to be expected for any future period. The summary historical consolidated financial data as of, and for the six months ended December 31, 2017 and 2016 have been derived from, and are qualified in entirety by reference to, the Company's unaudited consolidated interim financial statements included elsewhere in this offering circular and the summary historical consolidated financial data as of, and for the fiscal years ended, June 30, 2017, 2016 and 2015 have been derived from, and are qualified in entirety by reference to, the Company's audited consolidated financial statements included elsewhere in this offering circular. The summary historical consolidated financial and operating data of the Group set forth below is not necessarily indicative of the Group's future results of operations or financial position.

The summary historical consolidated financial information of the Group presented below has been prepared in a manner consistent with the Group's accounting policies in accordance with AAS and IFRS. AAS and IFRS differ in certain respects from U.S. GAAP. See "Presentation of financial information." The summary historical consolidated financial and operating data presented below is in U.S. dollars, which is the functional currency of the Group.

The summary historical consolidated financial and operating data of the Group presented below should be read in conjunction with the section in this offering circular captioned "Management's discussion and analysis of financial condition and results of operations," "Selected historical consolidated financial and operating data" and the audited and unaudited consolidated financial statements and the accompanying notes thereto included elsewhere in this offering circular. The results of operations for the historical periods included in the following tables are not necessarily indicative of the results to be expected for future periods. In addition, see "Risk factors" for a discussion of risk factors that could impact the Group's future financial condition and results of operations.

Where information has been presented in percentages or millions of units, amounts may have been rounded up or down. Accordingly, totals of columns or rows of numbers in tables may not be equal to the apparent total of the individual items and actual numbers may differ from those contained herein due to rounding.

Summary financial information

	Six months ended December 31,		Year ended June 30,		
	2017	2016	2017	2016	2015
Operating data					
Ore shipped—Fortescue mined ore (million wmt)	84.5	86.1	170.4	166.8	160.2
Ore shipped—Fortescue equity ore (million wmt)	84.5	86.1	170.4	167.4	161.4
Ore shipped—Total (million wmt)	84.5	86.1	170.4	169.4	165.4
Average revenue per wmt of Fortescue mined ore shipped (US$ per wmt)	42.88	51.52	48.91	41.50	51.95
Average cash cost per wmt of Fortescue mined ore shipped (US$ per wmt)	12.11	13.06	12.82	15.43	27.15
Income statement (US$ in millions)					
Operating sales revenue	3,679	4,492	8,447	7,083	8,574
Adjusted EBITDA(1)	1,827	2,596	4,731	3,197	2,438
Adjusted EBITDA margin (%)(1)	50%	58%	56%	45%	28%
Net profit after income tax	681	1,222	2,093	985	316
Cash flows (US$ in millions)					
Net cash inflows from operating activities(2),(3)	411	1,857	4,256	2,446	1,519
Net cash outflows from investing activities(2)	(404)	(313)	(715)	(358)	(741)
Net cash outflows from financing activities(3)	(938)	(1,965)	(3,282)	(2,863)	(702)

Notes:

(1) For a reconciliation of net profit after income tax to Adjusted EBITDA see "Management's discussion and analysis of financial condition and results of operations—Results of operations."

(2) Net cash inflows from operating activities for the fiscal 2016 and 2015 includes interest received of US$22 million and US$15 million, respectively, which was presented within "Cash flows from investing activities" in the Group's consolidated statement of cash flows for each corresponding period.

(3) Net cash inflows from operating activities for fiscal 2016 and 2015 includes interest paid of US$599 million and US$533 million, respectively, which was presented within "Cash flows from financing activities" in the Group's consolidated statement of cash flows for each corresponding period.

(US$ in millions)	As of December 31, 2017	As of June 30, 2017	2016	2015
Balance sheet				
Cash and cash equivalents	892	1,838	1,583	2,381
Property, plant and equipment	16,281	16,493	16,867	17,729
Total assets	18,153	19,115	19,337	21,360
Borrowings and finance lease liabilities	(4,181)	(4,471)	(6,771)	(9,569)
Total equity	9,799	9,734	8,406	7,537

For more information see "Selected historical consolidated financial and operating data" and "Management's discussion and analysis of financial condition and results of operations."

The Offering

The summary below describes the principal terms of the Notes and the Parent Guarantee. Certain of the terms and conditions described below are subject to important limitations and exceptions. The "Description of the notes" section of this offering circular contain a more detailed description of the terms and conditions of the Notes and the Parent Guarantee. Capitalized terms used but not otherwise defined below take the meanings set out in the "Description of the notes."

Issuer	FMG Resources (August 2006) Pty Ltd
Securities offered	US$500,000,000 aggregate principal amount of % senior notes due 2023.
Maturity	, 2023.
Interest rate	The Notes will bear interest at the rate of % per annum, accruing from , 2018.
Interest payment dates . . .	Semi-annually on and of each year, beginning on , 2018.
Ranking of the notes	The Notes will be general unsecured senior obligations of the Issuer, will be senior in right of payment to any future obligations of the Issuer expressly subordinated in right of payment to the Notes and will rank *pari passu* in right of payment among themselves and with all other senior indebtedness of the Issuer, except indebtedness mandatorily preferred by law. The Notes will be structurally subordinated to all of the existing and future obligations of the subsidiaries of Fortescue (other than the Issuer) and will be effectively subordinated to all existing and future secured obligations of the Issuer, including any outstanding 2022 Senior Secured Notes and any indebtedness under the Revolving Credit Facility and the Syndicated Term Loan, to the extent of the value of the collateral securing such indebtedness (subject to any priority rights of any unsecured obligations mandatorily preferred by law). The Issuer has no revenue-generating operations of its own. To make payments on the Notes, the Issuer will depend upon payments from Fortescue. As of December 31, 2017, after giving effect to this offering of the Notes, the Syndicated Term Loan and the use of proceeds therefrom, the Issuer would have had US$4,180 million of total borrowings and finance lease liabilities. See "Use of proceeds" and "Capitalization" for further information.
Parent Guarantor	The Notes will be guaranteed on a senior unsecured basis by Fortescue. See "Description of the notes—Brief description of the notes and the Parent Guarantee—The Parent Guarantee."
Ranking of the parent guarantee	The Parent Guarantee will be a general unsecured senior obligation of the Parent Guarantor, will be senior in right of payment to all future obligations of the Parent Guarantor expressly subordinated in right of payment to the Parent Guarantee and will rank *pari passu* in right of payment with all other senior

	indebtedness of the Parent Guarantor, except indebtedness mandatorily preferred by law. The Parent Guarantee will be effectively subordinated to all existing and future secured obligations of the Parent Guarantor, including its guarantee of any outstanding 2022 Senior Secured Notes and any indebtedness under the Revolving Credit Facility and the Syndicated Term Loan, to the extent of the value of the collateral securing such indebtedness (subject to any priority rights of any unsecured obligations mandatorily preferred by law).
Trustee	The Bank of New York Mellon.
Optional redemption	Prior to , 2022, being three months prior to the maturity date of the Notes, we may redeem the Notes in whole at any time or in part from time to time, at our option, at a redemption price equal to 100% of the principal amount of the notes to be redeemed, plus accrued and unpaid interest, if any, to, but not including, the date of redemption, plus a "make-whole" premium. In addition, on or after , 2022, being three months prior to the maturity date of the Notes, we may redeem the Notes in whole at any time or in part from time to time, at our option, at a redemption price equal to 100% of the principal amount of the notes to be redeemed, plus accrued and unpaid interest, if any, to, but not including, the date of redemption. See "Description of the notes—Optional redemption."
Change of control	If a Change of Control occurs, as that term is defined in "Description of the notes—Certain definitions," holders will have the right to require the Issuer to repurchase the Notes at 101% of the aggregate principal amount of the Notes repurchased, plus accrued and unpaid interest and additional amounts, if any, as of the date of repurchase, as described under the heading, "Description of the notes—Repurchase at the option of holders—Change of Control." The Issuer will have the right to redeem the Notes at 101% of the aggregate principal amount thereof following the consummation of a Change of Control if at least 90% of the Notes outstanding prior to such consummation are purchased pursuant to a Change of Control Offer with respect to such Change of Control. See "Description of the notes—Optional redemption—Optional redemption of the notes upon Change of Control."
Withholding taxes	All payments by the Issuer in respect of the Notes, and by Parent Guarantor in respect of the Parent Guarantee, will be made without withholding or deduction for any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the government of Australia, any other jurisdiction in which the Issuer or the Parent Guarantor is resident for tax purposes or any jurisdiction through which the payments are made, unless such withholding or deduction is required by law or by regulation or governmental policy having the force of law. In that event, the Issuer or the Parent Guarantor, as the case may be, will, with certain exceptions as further described in "Description of the notes," pay such additional amounts that will result in receipt by the holder of each Note or the

	Parent Guarantee, as the case may be, of such amounts as would have been received by such holder had no such withholding or deduction been required.
Certain indenture provisions	The indenture that will govern the Notes (the "indenture") will contain covenants limiting Fortescue's and its subsidiaries' (including the Issuer) ability to, among other things: • create or incur liens; • enter into sale and leaseback transactions; and • merge, consolidate or sell all or substantially all of the Issuer's or the Parent Guarantor's assets. These covenants will be subject to a number of important exceptions and qualifications (including the ability to incur a significant amount of new and secured indebtedness) and are described in more detail in "Description of the notes—Certain covenants."
Transfer restrictions	The Issuer and Parent Guarantor have not registered and do not intend to register the Notes or the Parent Guarantee under the Securities Act, and the Notes and the Parent Guarantee are subject to restrictions on transfer. For a discussion of these restrictions, see "Transfer restrictions."
Absence of public market for the Notes	The Notes are a new issue of securities and there is currently no established trading market for the Notes. We do not intend to apply for a listing of the Notes on any securities exchange or an automated dealer quotation system. Accordingly, there can be no assurance as to the development or liquidity of any market for the Notes. The initial purchaser has advised us that it currently intends to make a market in the Notes. However, it is not obligated to do so, and any market making with respect to the Notes may be discontinued without notice.
Form and denomination . .	The Notes will be issued only in fully registered form, without coupons, in denominations of US$2,000 of principal amount and integral multiples of US$1,000 in excess thereof. The Notes will be issued initially in the form of two or more global notes, including a Rule 144A global note and a Regulation S global note (the "global notes"), which will collectively represent the aggregate principal amount of the Notes being offered under this offering circular and will be in fully registered form without coupons. The global notes representing the Notes will be deposited with the custodians for the book-entry depositaries. The book-entry depositaries will issue depositary interests in respect of each global note representing the Notes to DTC and will then record such interests in their respective books and records in the name of DTC's nominee. Ownership of book-entry interests in the depositary interests will be limited to persons who have accounts with DTC and

	transfers will be effected only through records maintained in book-entry form by DTC and its respective participants. Except as set out under the section "Description of the notes—Book-entry, delivery and form," participants or indirect participants in DTC will not be entitled to receive physical delivery of Notes in definitive form or to have Notes issued and registered in their names and, while the Notes are in global form will not be considered the owners or holders thereof under the indenture that will govern the Notes.
Use of proceeds	The Issuer will use the proceeds from this offering of the Notes to redeem a portion of the remaining outstanding 2022 Senior Secured Notes. See "Use of proceeds" for further information.
Governing law	The indenture, the Notes and the Parent Guarantee will be governed by the laws of the State of New York.
Risk factors	In evaluating an investment in the Notes, prospective investors should carefully consider, along with the other information in this offering circular, the specific factors set forth under "Risk factors" for risks involved with an investment in the Notes.

Risk factors

An investment in the Notes involves a high degree of risk. In addition to the other information contained in this offering circular, the following risk factors, certain of which are not typically associated with investing in securities of companies located in the United States, should be carefully considered by prospective investors in evaluating an investment in the Notes.

Operational risks relating to the business of the Group

The Group's business is highly dependent on the demand for, and the price of, iron ore, which may face downward pressure as a result of a supply and demand imbalance in the global seaborne iron ore industry which may negatively affect the Group's results.

The Group's business is highly dependent on the sale of a single product, iron ore, which, including sales of joint venture iron ore, constituted 98.5%, 98.7%, 98.1%, 97.9% and 98.8% of the Group's total operating sales revenue in the first half of fiscal 2018 and fiscal 2017, 2016, 2015 and 2014, respectively. Consequently, fluctuations in the market price of iron ore directly affect the pricing of iron ore and the Group's business, results of operations, profitability and financial position. The price of iron ore has demonstrated considerable volatility in recent years. For instance, after reaching an all-time high of US$193.00 per dmtu on February 15, 2011, the 62% Platts CFR Index fell to a low of US$38.50 per dmtu on December 15, 2016. As of February 26, 2018, the 62% Platts CFR Index was US$79.95 per dmtu.

Global prices for iron ore, like other commodity prices, can fluctuate widely and are affected by many factors beyond the control of the Group, such as cyclicality of Chinese and global economic and industrial activity and corresponding iron ore production and inventory levels, imbalance in the supply and demand for iron ore and steel in local, national and global markets, actual and expected global macroeconomic and political conditions, inflation rates, exchange rates, consolidation in the steel industry (which could lead to a weaker position for iron ore suppliers in price negotiations), investments by commodity funds and others and actions of participants in the commodity markets. Global prices for iron ore are directly impacted by changes in the performance of the global steel industry, which is highly cyclical and volatile and may be impacted by vertical backward integration and the use of scrap in the future, each of which could reduce demand for, and the price of, global seaborne iron ore. Any imbalance between supply and demand may have a downward pressure on iron ore prices that, in turn, may materially and adversely affect the production, earnings, asset values, financial position and growth prospects of the Group. See "—Competition could adversely affect the Group's financial performance" below.

Any sustained downward movement in the global price of iron ore in the future will have a material adverse effect on the Group's business, particularly if the market prices for iron ore fall below the Group's production costs and remain at such levels for an extended period of time. Such conditions could result in the cessation of uneconomic mining activities, which would also materially and adversely affect the Group's business, results of operations, profitability and financial position.

Adverse developments in China could have a negative impact on the Group's business, which relies heavily on demand for seaborne iron ore from China-based purchasers.

China has been the main driver of global demand for iron ore over the last several years. According to CRU, in the year ended December 31, 2017, China accounted for approximately 70% of global seaborne iron ore imports. Chinese-based purchasers of the Group's iron ore constituted 93%, 95%, 96%, 94% and 96% of the Group's total operating sales revenue in the first half of fiscal 2018 and fiscal 2017, 2016, 2015 and 2014, respectively. Consequently, the Group's business is highly dependent on, and highly exposed to changes in, demand for iron ore in China. Changes in demand for iron ore could result from adverse economic or regulatory developments in China. For example, recent government efforts to control pollution have affected demand for low-grade iron ore.

According to the World Bank, between calendar 2001 and 2016, China had an average annual gross domestic product ("GDP") growth rate of approximately 9.5%. China's economic growth has slowed in recent years, with an annual GDP growth rate of approximately 6.7% in calendar 2016, improving to approximately 6.9% in calendar 2017. Slowing of Chinese economic growth as a result of deteriorating general economic conditions or otherwise, particularly if such contraction impacts sectors of the Chinese economy, such as the real estate sector, which is one of the principal consumers of steel in China, may result in lower demand for the Group's iron ore and lower iron ore prices, which could have a material adverse effect on the Group's business, results of operations, profitability and financial position.

The Group is subject to exchange rate risks.

The Group's functional currency is the U.S. dollar and revenue from iron ore sales and a majority of the Group's financing arrangements are denominated in U.S. dollars. However, a significant portion of operating expenses for the Group, including expenses for the Group's current or future initiatives and projects to enhance operational efficiency, are incurred in Australian dollars. From a high of A$1.00 = US$0.9705 as of October 22, 2013, the Australian dollar reached a low of A$1.00 = US$0.6855, as of January 20, 2016. As of February 23, 2018, the noon buying rate was A$1.00 = US$0.7827. The Group has not historically had a policy of entering into long-term hedging arrangements relating to changes or fluctuations in foreign exchange rates. Accordingly, appreciation of the Australian dollar against the U.S. dollar or prolonged periods of exchange rate volatility could materially and adversely affect the Group's profitability and financial position and increase the effective costs of the Group's initiatives and projects to enhance operational efficiency. Even if the Group enters into hedging arrangements in the future, there can be no assurance that it will be successful in managing its exposure to exchange rate fluctuations.

The Group may not be able to adjust production volume in a timely or cost-efficient manner in response to changes in demand for iron ore.

During periods of high demand, the Group's ability to quickly increase production capacity is limited, which could limit its ability to meet demand for iron ore from customers. Moreover, the Group may be unable to complete any planned expansions and greenfield and brownfield projects in time to take advantage of rising demand for iron ore. When demand exceeds the Group's production capacity and it is unable to satisfy excess customer demand, customers may be lost. In addition, operating close to full capacity may expose the Group to higher costs, including demurrage fees due to capacity restraints in logistics systems.

Conversely, operating at significant idle capacity during periods of weak demand may expose the Group to higher unit production costs. In addition, efforts to reduce costs during periods of weak demand could be limited by fixed costs and labor regulations.

Competition could adversely affect the Group's financial performance.

In addition to the Group, the supply of seaborne iron ore to the global market is dominated by three other major suppliers (BHP Billiton, Rio Tinto and Vale). According to CRU the four major suppliers collectively had a market share of approximately 80% as of December 31, 2017. These major competitors all have substantial existing infrastructure, leverage from scale and substantially greater financial resources and higher grade iron ore resources than the Group. As a result, they generally have a greater capacity than the Group to respond to competitive pressures and market dynamics in the seaborne iron ore market.

In addition, if the Chinese market is able to source more of its iron ore requirements domestically, the Group may experience weakened demand for its iron ore. Over the past couple of years, domestic iron ore production in China has declined as the iron ore price declined, however with a rising iron ore price this may increase Chinese production of domestic iron ore. The occurrence of such circumstance could have a material adverse effect on the Group's business, results of operations, profitability and financial position.

There can be no assurance that the Group will be able to respond successfully to such competitive pressures or the competitive activities of the other major suppliers in its markets, which could drive down iron ore prices generally or the prices of iron ore at the same grade as those iron ore products principally sold by the Group, and materially and adversely affect the Group's financial results and growth prospects.

Cost pressure and inaccessibility of natural gas, diesel fuel, electric power, water, tires or other key inputs could negatively impact the Group's operating margins

The Group's operations are resource intensive and, as a result, its costs and operating margins could be materially and adversely affected by the lack of availability or increased cost of energy (including electric power), water, fuel (including natural gas and diesel fuel), tires or other key inputs. The Group's operations are located in a remote part of the Pilbara and, as a result, sources of power and water are not readily available. Because of the remote location of the site of the existing operations and the Group's limited ability to procure alternative sources for utilities, Fortescue may experience interruptions to the supply or increases in prices of electric power, water, diesel fuel or natural or compressed natural gas due to a variety of factors beyond the Group's control, including fluctuations in climate, inadequate infrastructure capacity, interruptions in supply due to equipment failure or other causes and the inability to extend contracts with the Group's suppliers on acceptable terms or at all. As the prices for global seaborne iron ore are determined by the global commodity markets in which the Group operates, Fortescue does not generally have the ability to offset any increase in cost pressure through corresponding price increases on the iron ore sold by the Group. The inability to reduce costs sufficiently or expeditiously, or to obtain alternative inputs, could have a material adverse impact on the Group's operating margins for an extended period.

The Group's mining operations are subject to risks and hazards inherent to the mining industry.

The exploration for and the development of mineral deposits involve significant risks that cannot be completely eliminated. The Group's production and exploration activities may be hampered by technical difficulties and failures, industrial and environmental accidents, industrial disputes, cost overruns, late delivery of supplies, unexpected shortages or increases in the cost of consumables, spare parts, plant and equipment, unanticipated metallurgical problems that affect extraction costs, unusual or unexpected geological formations or pressures, power interruption, critical equipment or transportation infrastructure failure, information technology failure, fire, explosions or other accidents, major weather events or acts of force majeure, land claims and compensation and other unforeseen contingencies. The Pilbara is particularly exposed to adverse weather events, including cyclones, which could cause the shutdown of existing mining activities and the ship-loading facilities at Port Hedland or interruptions to rail operations, and could result in delays or increased costs for the Group's operations. These factors, and any prolonged downtime or shutdowns of the Group's production or transportation facilities, could materially adversely affect the Group's ability to produce and ship iron ore, its ability to satisfy its contractual obligations under various supply contracts, its financial performance, reputation and its ability to pay the principal and interest on the Notes when due.

The Group's Ore Reserves and Mineral Resources estimates are estimates only and may not be recoverable in full.

No assurance can be given that the Ore Reserves and Mineral Resources estimates presented in this offering circular will be recovered at the quality or yield presented. In addition, you should not assume that Mineral

Resources estimates are capable of being directly reclassified as Ore Reserves under the JORC Code. Mineral Resources that are not Ore Reserves are assumed to be economically viable, but this has yet to be conclusively demonstrated. A Mineral Resource is not the equivalent of a commercially mineable ore body or a reserve.

The Group's estimates of Ore Reserves and Mineral Resources included in this offering circular are estimates only and are based on limited samples and interpretations, which may not be representative of realizable tonnes or grades. The Group cannot give any assurance that the estimated Ore Reserves and Mineral Resources detailed in this offering circular will be recovered or that they will be recovered at the rates estimated herein. Furthermore, Ore Reserves and Mineral Resources estimates which were valid when originally estimated may change significantly over time as new information or techniques become available. Failure of the Group to achieve its production estimates could have a material and adverse effect on any or all of its future cash flows, profitability, results of operations and financial condition and result in write-downs of the Group's investment in mining properties and increased amortization charges. These production estimates are dependent on, among other things, the accuracy of Ore Reserves and Mineral Resources estimates, the accuracy of assumptions regarding ore grades and recovery rates, ground conditions (including hydrology), physical characteristics of ores (such as hardness), the presence or absence of particular metallurgical characteristics and the accuracy of estimated rates and costs of mining, ore haulage and processing. In addition, market fluctuations in the price of iron ore, as well as increased production costs or reduced recovery rates, may render the exploitation of certain Ore Reserves and Mineral Resources uneconomic and may ultimately result in a restatement of Ore Reserves, Mineral Resources or both.

Also, Ore Reserves and Mineral Resources referred to in this offering circular are reported in accordance with the JORC Code. One principal difference between the reporting regimes in Australia under the JORC Code and in the United States under the requirements as adopted by the SEC in its Industry Guide 7 is the absence in the United States of any provision for the reporting of estimates other than proven (measured) or probable (indicated) reserves. There is, therefore, no equivalent for "Mineral Resources" under the SEC Industry Guide 7.

In addition, see "Cautionary note regarding Ore Reserves and Mineral Resources."

Labor disputes or disruptions could affect the Group's production levels and lead to increased costs.

The terms and conditions of employment of the Group's operational employees engaged in site based port, rail and mining are currently covered by either one of two enterprise agreements made under the Fair Work Act 2009 (Cth). These agreements are the Fortescue Team Member Agreement 2013 (the "FTMA") and the CSRP Agreement 2016 (the "CSRPA"). The FTMA reached its nominal expiry date in May 2017 but continues to operate, providing a basis for the terms and conditions of employment of the employees it covers. This is also the case for the CSRPA for the employees it covers up to and beyond its nominal expiry date in December 2020. It is unlawful for employees to take industrial action until after an enterprise agreement reaches its nominal expiry date. However, there can be no assurance that either enterprise agreement will be renewed on the same terms, or at all, after reaching nominal expiry and that there will be no basis for lawful industrial action to be taken in the form of a work slowdown, work ban, work limitation, work stoppage or related disruption that could materially and adversely affect the Group's business, operational results, profitability and financial position. Unlawful industrial action, or industrial action in response to an imminent safety risk, with the same impact can be taken regardless of the expiry date of an enterprise agreement.

For example, in calendar 2014, Teekay Shipping (Australia) Pty Ltd ("Teekay"), which provides towage services at Port Hedland under a license from BHP Billiton, undertook negotiations with its union employees in connection with a new enterprise agreement. As a result of protracted negotiations and the expiry of the previous enterprise agreement, unions that represent Teekay's tug boat employees threatened to engage in lawful industrial action between April and December 2014, while certain of Teekay's marine engineer employees threatened to strike in November 2014. Although such strikes were averted when the unions and Teekay reached an agreement, any industrial action could have had a material and adverse impact on the Group's operations and financial position. Additionally, in the case of any prolonged strikes, the Group may be forced to take action to reduce costs, including standing down operations and associated workforces or engaging new contractors.

The Group relies on contractors to conduct aspects of its operations and projects and is exposed to risks related to their activities.

Some aspects of the Group's operations and construction projects are conducted by contractors. As a result, the Group's operations are subject to a number of risks, some of which are outside its control, including:

- negotiating agreements with contractors on acceptable terms;
- reduced control over those aspects of operations which are the responsibility of contractors;
- failure of contractors to perform under their agreements, including failure to comply with safety systems and standards;
- failure of contractors to comply with applicable legal and regulatory requirements; and
- problems with contractors in connection with management of their workforce, labor unrest or other employment issues.

The Group may incur liability to third parties as a result of the actions of its contractors. If such contractors and suppliers do not enter into or perform their contracts in a manner that is consistent with the Group's values and business strategy, the Group will be exposed to increased cost, disruption to operations, or another adverse impact that could materially and adversely affect the financial performance of the Group.

The Group may take over aspects of operations and projects from contractors in response as a result of these, and other factors. Previously, the Group has taken over aspects of iron ore mining, processing and power generation.

Information technology disruption could impact operations and cyber security attacks could impact data privacy.

The Group relies on information technology to support the efficient and effective operation of its business. The Group faces a range of risks associated with extended outages of its key information technology systems and breaches in the security and privacy of digital information which it retains and manages.

Any sustained disruption to the availability and/or the performance of information technology systems, including those resulting from a cyber attack, could have a material adverse impact on the operations, financial performance and the reputation of the group. In addition, a cyber attack has the potential to compromise the privacy of digital information retained by the Group, which could result in increased exposure to litigation, fines and/or reputation damage.

Mining, rail, port, construction, power generation, shipping and business operations are subject to extensive regulations, including environmental, health and safety, taxation, land access and other regulations.

Mining, rail, port, construction, power generation, shipping and business operations in Australia are subject to a variety of general and industry-specific regulations concerning mining and processing, environmental requirements (including submission of impact statements, design and use requirements, site specific environmental licenses, permits and statutory authorizations, limits on air emissions and water use and discharge, as well as rehabilitation requirements and associated costs), the health and safety of employees, social impacts, land tenure and use, infrastructure creation and access, trade and export, royalties, taxation, antibribery, anti-money laundering, accounting policies and other matters. Shipping operations are also subject to international laws and regulations.

Environmental laws and regulations have become increasingly stringent over time in line with community and stakeholder expectations. Such laws and regulations and the resulting license conditions govern many aspects of the Group's operations, and compliance with such requirements could cause delays or require capital outlays in excess of those anticipated, causing a material adverse effect on the Group's results of operations and cash flows. For instance, the Group's mining operations are relatively isolated, and rely on groundwater sourced from the surrounding area. The Group is subject to restrictions on the amount of groundwater that may be withdrawn, and on mine dewatering and the return of water to the environment through groundwater reinjection and surface water discharge. Operations at Group facilities may sometimes be curtailed to comply with groundwater withdrawal restrictions. The Group must also ensure that air quality is not adversely impacted by dust resulting from, or other pollutants emitted by, mining operations and operations at Port Hedland. The Group's operations also generate wastes that must be managed, and occasionally result in spills or releases of materials such as saline water or petroleum products that must be contained and remediated. In addition, some of the Group's operations are at sites that support species that are endangered or of conservation significance, and the Group must conduct assessments and prepare management and monitoring plans to protect species and habitat.

The Group may be subject to potential fraud, bribery, corruption and money laundering risks associated with the business, employees, third party suppliers and customers in the geographic locations in which the Group operates. Australian, Chinese and other anti-fraud, anti-bribery, anti-corruption and anti-money laundering laws, conventions, regulations, and enforcement procedures, and corresponding compliance obligations, have become more stringent in recent years. Refusal to pay facilitation payments could result in disruption or delay to the Group's operations and restriction on its ability to complete projects and secure further growth opportunities. Failure to comply with applicable legal and regulatory requirements and to maintain appropriate management and internal control frameworks to address such compliance risks could expose the Group to potential fines, penalties and other civil and/or criminal litigation.

In addition, the Group is subject to royalty fee payments to the Western Australian State government. The Group pays 7.5% royalty for the majority of its products, with a concession royalty rate of 5% applicable for beneficiated fines. There is a risk that the nature or total amount of royalty fee payments could change or increase over time.

Changes to these laws and regulations could result in increased compliance costs and increased exposure to litigation, the imposition of fines and penalties or the suspension or closure of mining operations or associated infrastructure, any of which could materially and adversely affect the Group's operations, financial performance and reputation. If material additional expenditures are required to comply with laws and regulations, this could materially and adversely affect the Group's existing business or any future expansion activities and the financial condition of the Group, including its ability to pay interest and principal on the Notes.

Exploration and business development in foreign jurisdictions present a range of risks that differ from those in Australia.

Fortescue is evaluating exploration and business development opportunities outside Australia that may present a range of risks that are not present or more pronounced than with respect to similar activities undertaken in Australia. Risks in emerging markets could include terrorism, industrial and civil unrest, judicial activism, changes to laws and regulation related to mining activities, community opposition, onerous regulatory obligations, inadequate civil and transport infrastructure, asset nationalization, renegotiation or nullification of existing leases, permits or other agreements, prohibitions on the production or use of certain products, restrictions on repatriation of earnings or capital, as well as other unforeseeable risks. Risks relating to bribery, fraud and corruption may be elevated in some of the countries where exploration and development activities are being undertaken.

The Group may be particularly vulnerable to the physical and regulatory impacts of climate change.

Several respected research publications have highlighted Australia's particular vulnerability to the impacts of climate change. These publications forecast increased variability in severe weather events, including higher temperatures leading to longer drought periods, interspersed with storm surges and severe rainfall. The Group operates in the hot, dry climate of the Pilbara. Climate change may place increasing stress on groundwater supplies that will not be able to replenish at current rates. While the Group is taking an active approach to groundwater management at its operations and conducting extensive de-watering programs required to provide dry accessibility to its Ore Reserves, future groundwater shortages may require the curtailment of some operations or the costly importation of necessary water. Port facilities could be flooded by storm surges, and all Group facilities could be subject to damage from heavy rainfall and storm water runoff. Shipping operations could be disrupted by cyclones.

Regulation of greenhouse gas emissions in Australia, China and other jurisdictions in which the Group's customers are located, as well as regulations passed in relation to international shipping, could also have a material adverse effect on the Company's operations and the demand for the Group's products, particularly as the production of steel from iron ore is a carbon intensive process.

The Group may be involved from time to time in legal proceedings that, if resolved to its detriment, could negatively affect its business, results of operations, profitability and financial position.

The Group is exposed to potential legal and other claims or disputes in the course of its business, including contractual disputes, property damage disputes, personal liability claims and regulatory actions. The Group's business, results of operations, financial condition and reputation could be materially and adversely affected by legal proceedings, the outcome of which cannot be predicted with certainty.

Insurance coverage held by the Group does not cover all of the potential losses, liabilities and damage related to the Group's existing operations and certain risks are uninsured or uninsurable.

Exploration, development and production operations on mineral properties involve numerous risks, including unexpected or unusual geological operating conditions, ground or slope failures, fires, floods, earthquakes, cyclones and other environmental occurrences that could result in damage to or destruction of mineral properties or production equipment or facilities, personal injury or death, environmental damage, delays in mining caused by industrial accidents or labor disputes, or changes in regulatory environment, monetary losses and possible legal liability. It is not always possible to obtain insurance against all such risks and the Group may decide not to insure against certain risks because of high premiums associated with insuring against those risks or for other reasons. Moreover, insurance against risks such as environmental pollution or other hazards as a result of exploration and production is not generally available to the Group or to other companies in the mining industry on acceptable terms.

Although the Group maintains insurance to protect against certain risks in such amounts as it considers reasonable in light of the circumstances surrounding such risks, its insurance will not cover all potential risks associated with its operations and insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Losses from these events may cause the Group to incur significant costs that could have a material adverse effect on its financial performance and results of operations. To the extent that the Group incurs losses not covered by its insurance policies, the funds available for sustaining the Group's current operations and for any future expansion activities will be reduced. Such increase in costs could result in the Group's inability to pay principal and interest on the Notes when due, or at all.

The Group may not be able to successfully complete planned or future development projects and expansion activities or replenish Ore Reserves as and when required, which could adversely affect the Group's mining prospects and results of operations.

The Group's current development projects include the construction of eight VLOCs. See "Business—Sales and marketing—Shipping."

It is possible the Group may implement future development activities while it operates its existing business. Although the Group implements rigorous protocols designed to minimize disruption of its existing operations and ensure the safety of its staff, equipment and shipping customers during such activities, no assurance can be given that such measures will be successful. If the operations of its existing business are disrupted or if the Group is subject to liability for industrial accidents during future development projects and expansion activities, the Group's results of operations and cash flows could be materially and adversely affected, which may impair the Group's ability to make payments of principal and interest on the Notes when due.

The Group expects to fund its future development projects and expansion activities through cash flows from operations. However, if such cash flows are insufficient to meet the actual capital cost requirements of the Group's current or future activities, as a result of delays or other factors that may cause cost overruns, the Group may be required to secure additional financing. There can be no assurance that the Group will be able to obtain any such additional financing on terms favorable to it, or at all.

Any planned or future activities of the Group will also be subject to obtaining relevant regulatory and other approvals, which may impede the Group's ability to proceed with such activities on schedule or at all.

Additionally, the Group engages in mineral exploration, which can involve significant expenditures, is highly uncertain in nature, involves many risks and frequently is non-productive. If the Group is unable to develop new Ore Reserves, it may not be able to sustain its current level of production beyond the remaining lives of its existing mines.

The feasibility of new mineral projects may change over time.

Once mineral deposits are discovered, it can take a number of years from the initial phases of drilling until production, during which the economic feasibility of production may change. Substantial time and expenditures are required to establish Mineral Resources and Ore Reserves through drilling, determine appropriate mining and metallurgical processes for optimizing the recovery of metal from ore, obtain environmental and other licenses, construct mining and processing facilities and other infrastructure required for greenfield properties and ultimately extract the ore and process it to maximize the final product value.

If a project proves not to be economically feasible by the time the Group is able to exploit it, the Group may incur substantial losses and take write-downs of its assets. In addition, potential change or complications involving metallurgical and other technological processes arising during the life of a project may result in delays and cost overruns that may render the project not economically viable.

Risks relating to the Notes

The level of indebtedness of the Group may adversely affect the financial condition of the Group and prevent it from fulfilling its obligations under the Notes.

The Group has substantial financial indebtedness and debt service obligations and cannot assure you that it will have sufficient cash flow to pay the interest expenses or principal associated with its outstanding indebtedness. As of December 31, 2017, the Group had an aggregate principal amount of US$4,180 million of borrowings and finance lease liabilities outstanding (carrying value of US$4,181 million, which is net of borrowing costs and inclusive of accrued and unpaid interest as of December 31, 2017) and, after giving effect to this offering of the Notes, the Syndicated Term Loan and the use of proceeds therefrom, the Group would have had US$4,180 million of total borrowings and finance lease liabilities as of December 31, 2017. Additionally, the Group may be able to incur a significant amount of additional indebtedness pursuant to the indenture that will govern the Notes in the future, including additional secured indebtedness. See the section entitled "Description of the notes."

The degree to which the Group is leveraged could have important adverse consequences to holders of the Notes, including the following: (i) limiting the ability of the Group to obtain additional financing for its working capital, capital expenditures, acquisitions or general corporate purposes; (ii) requiring a portion of the expected cash flow from operations of the existing business to be dedicated to the payment of interest on the Group's outstanding indebtedness, thereby reducing the funds available to the Group for other purposes, including the operation of the existing business; (iii) the Group may be hindered in its ability to adjust rapidly to changing market conditions; (iv) the Group's degree of leverage could make it more vulnerable in the event of a downturn in general economic conditions, the global seaborne iron ore industry or its business; (v) exposing the Group to the risk of increased rates; (vi) increasing the Group's cost of borrowing; and (viii) making it more difficult for the Group to satisfy its obligations with respect to the Notes and its other debt.

If the Group cannot make scheduled payments on its indebtedness and is unable to adopt one or more alternatives, such as refinancing or restructuring its indebtedness, selling assets or seeking to raise additional debt or equity capital, holders of the Notes could declare all outstanding principal and interest to be due and payable, causing a cross-acceleration or cross-default under certain of its debt agreements, if any, and the Group's other creditors could foreclose against any collateral securing its obligations and the Group could be forced into bankruptcy or liquidation. All of these events could result in your losing your investment in the Notes.

The Notes will be effectively subordinated to any current or future secured indebtedness of the Issuer or the Parent Guarantor to the extent of the value of the property securing that indebtedness.

The Notes will not be secured by any of the Issuer's or the Parent Guarantor's assets. As a result, the Notes and the Parent Guarantee will be effectively subordinated to any of the Issuer's and the Parent Guarantor's existing and future secured indebtedness with respect to the collateral that secure such indebtedness, including any outstanding 2022 Senior Secured Notes and any indebtedness under the Revolving Credit Facility and the Syndicated Term Loan, to the extent of the value of the collateral securing such indebtedness (subject to any priority rights of any unsecured obligations mandatorily preferred by law). As of December 31, 2017, after giving effect to this offering of the Notes, the Syndicated Term Loan and the use of proceeds therefrom, the Group would have had, on a consolidated basis, US$2,180 million of secured indebtedness, including finance lease liabilities, which could be increased, subject to certain conditions. The effect of this subordination is that upon a default in payment on, or the acceleration of, any of our secured indebtedness, or in the event of bankruptcy, insolvency, liquidation, dissolution or reorganization of the Issuer or the Parent Guarantor, the proceeds from the sale of assets securing such secured indebtedness will be available to pay obligations on the Notes only after all indebtedness under the such secured indebtedness has been paid in full. As a result, the holders of the Notes may receive less, ratably, than the holders of secured debt in the event of the Issuer's or the Parent Guarantor's bankruptcy, insolvency, liquidation, dissolution or reorganization.

Insolvency proceedings with respect to the Issuer and the Parent Guarantor will be governed by Australian insolvency laws, which are different from the insolvency laws of certain other jurisdictions.

The insolvency laws applicable in Australia are different from the insolvency laws of the United States and certain other jurisdictions. In particular, the voluntary administration procedure under the Corporations Act, which provides for the potential re-organization of an insolvent company, differs significantly from Chapter 11 under the U.S. Bankruptcy Code. If the Issuer becomes insolvent, the treatment and ranking of holders of the Notes, its other creditors and shareholders under Australian law may be different than the treatment and ranking of holders of the Notes, its other creditors and shareholders if it were subject to the bankruptcy laws of the United States or certain other jurisdictions. For instance, the High Court of Australia has ruled that shareholders may, in certain circumstances, rank alongside unsecured creditors in a winding-up where shareholders have an independent damages claim against the debtor company arising out of the purchase of their shares.

The Parent Guarantee will be subject to certain limitations on enforcement and may be limited by applicable law or subject to certain defenses that may limit their validity and enforceability.

The Parent Guarantor will guarantee the payment of the Notes on a senior unsecured basis, which will provide the holders of the Notes with a direct claim against the Parent Guarantor. However, enforcement of the Parent Guarantee will be subject to certain generally available defenses. These laws and defenses include those that relate to corporate benefit, fraudulent conveyance or transfer, voidable preference or similar laws, regulations or defenses affecting the rights of creditors generally.

Under Australian law, if a liquidator were to be appointed to any Australian guarantor, the liquidator would have the power to investigate the validity of past transactions and may seek various court orders, including orders to void certain transactions entered into prior to the winding-up of such guarantor and for the repayment of money. These transactions are known as “voidable transactions” and include transactions which:

- are insolvent transactions;
- are uncommercial transactions;
- result in an unfair preference being given to a creditor; or
- are for the purpose of defeating, delaying or interfering with the rights of creditors.

There are various time periods within which a liquidator can take such action depending on the nature of the transaction being challenged. The test for insolvency in Australia in this context is whether the relevant company is able to pay its debts as and when they become due and payable.

Under Australian law, a guarantee given by a company may also be set aside on a number of additional grounds. For example, a guarantee may be unenforceable against a guarantor if the directors of the guarantor did not comply with their duties to act in good faith for the benefit of the guarantor and for a proper purpose in giving the guarantee. The issue is particularly relevant where a company provides a guarantee in relation to the obligations of another member of its corporate family, as is the case for the Parent Guarantee with respect to the Notes. In determining whether there is sufficient benefit, all relevant facts and circumstances of the transaction need to be considered by the directors, including the benefits and detriments to the guarantor in giving the guarantee, and the respective benefits to the other parties involved in the transaction.

Whether a guarantee entered into in breach of directors’ duties can be avoided against a party relying on the guarantee depends on certain factors, including the state of knowledge of that party, and whether the party knew of or suspected the breach. Also, under Australian law, a person is entitled to assume that the directors have properly performed their duties to the company unless that person knows or suspects that they have not done so. In addition, other debts and liabilities of the Parent Guarantor and the Issuer, such as certain employee entitlements or amounts owed to tax authorities, may rank ahead of claims under the Parent Guarantee in the event of insolvency, administration or similar proceedings.

These contractual and/or statutory limitations could significantly reduce the amount that can be claimed or recovered from the Parent Guarantee. If the Parent Guarantee is avoided, it is possible that you will be left with a claim solely against the Issuer.

Restrictions and covenants in the indenture that will govern the Notes will limit the ability of the Issuer and the Parent Guarantor to take certain actions and impose consequences in the event of a failure to comply with such restrictions and covenants.

The indenture that will govern the Notes will contain restrictive covenants that will limit the discretion of management with respect to certain business matters. These covenants will, among other things, restrict the Issuer's and the Parent Guarantor's ability to:

- create or incur liens;
- enter into sale and leaseback transactions; and
- merge, consolidate or sell substantially all of the Issuer's or the Parent Guarantor's assets.

You should read the discussion in the section entitled "Description of the notes—Certain covenants" for further information about these covenants. A failure to comply with the obligations contained in the indenture that will govern the Notes could result in an event of default, which would permit acceleration of payment of the Notes, and could permit acceleration of the Issuer's and the Parent Guarantor's indebtedness under other instruments and facilities that contain cross acceleration or cross default provisions. In the event any such acceleration occurs, the Issuer and the Parent Guarantor cannot assure you that it will have sufficient assets to repay such indebtedness. As a result of these restrictions, the Group may be:

- limited in how it conducts its business;
- unable to raise additional debt or equity financing to operate during general economic or business downturns; or
- unable to compete effectively or to take advantage of new business opportunities.

These restrictions may affect the Group's ability to grow in accordance with its strategy.

Service of process, enforcement of judgments and bringing of original actions against the Issuer or Fortescue or their respective directors, executive officers and managers may be difficult.

Your ability to bring an action against a member of the Group may be limited. Each of the Issuer and Fortescue is a corporation incorporated outside the United States.

You may not be able to enforce a judgment against some or all of the directors and executive officers of the Issuer and Fortescue. Most of the directors, executive officers and managers of the Issuer and Fortescue reside in Australia. In addition, substantially all of the Issuer's and Fortescue's assets and most of the assets of their directors, executive officers and managers are located outside of the United States. As a result, it may be difficult or impossible for you to effect service of process for a lawsuit within the United States upon such persons, including with respect to matters arising under the Securities Act, or to enforce against any of them judgments in non-U.S. courts obtained in courts of the United States predicated upon, among other things, the civil liability provisions of the federal securities laws of the United States or state securities laws. There can be no assurance that you will be able to enforce any judgments in civil and commercial matters or any judgments under the securities laws of countries other than Australia against the directors, executive officers and managers of a the Issuer or Fortescue who are residents of Australia or countries other than those in which a judgment is made.

There is doubt as to the enforceability in Australia, in original actions or in actions for enforcement of judgments of U.S. courts, of civil liabilities based on U.S. federal securities laws. Also, judgments of U.S. courts (whether or not such judgment relates to U.S. federal securities laws) will not be enforceable in Australia in certain other circumstances, including where such judgments contravene local public policy, breach the rules of natural justice or general principles of fairness or are obtained by fraud, are not for a fixed or readily ascertainable sum, are subject to appeal, dismissal, stay of execution or are otherwise not final and conclusive, or involve multiple or punitive damages or where the proceedings in such courts were of a revenue or penal nature.

In addition, your ability to bring action against the accountants of the Issuer and Fortescue may be limited. As described under "Independent accountants," the liability of the Group's accountant is subject to certain limitations under Australian law.

The Issuer may be unable to repurchase the Notes or repay or repurchase its other outstanding debt upon a change of control or asset sale.

Upon the occurrence of specified kinds of change of control events, the Issuer will be required to offer to repurchase all outstanding Notes at a price equal to 101% of the aggregate principal amount of such Notes, together with accrued and unpaid interest, if any, to the date of repurchase.

It is possible that the Group will not have sufficient funds when required under the indenture that will govern the Notes to make the required repurchases and repayments. If the Issuer fails to make such repurchases and/or repayments in those circumstances, it will be in default under the indenture that will govern the Notes. If the Issuer is required to repurchase a significant portion of the Notes, the Group may require third-party financing. The Group may not be able to obtain third-party financing on acceptable terms, or at all.

Other agreements governing the Group's indebtedness may contain similar covenants that require the Issuer to make an offer to repurchase such indebtedness or prohibitions of certain events, including events that would constitute a change of control or an asset sale and including repurchases of or other prepayments in respect of the Notes. The exercise by the holders of the Notes of their right to require the Issuer to repurchase the Notes pursuant to a change of control offer could cause a default under these other agreements, even if the change of control itself does not, due to the financial effect of such repurchases on the Group. In the event a change of control offer is required to be made at a time when the Issuer is prohibited from purchasing Notes, the Group could attempt to refinance the borrowings that contain such prohibition. If the Group does not obtain consent or repay those borrowings, the Issuer will remain prohibited from purchasing Notes. In that case, the Issuer's failure to purchase tendered Notes would constitute an event of default under the indenture that will govern the Notes which could, in turn, constitute a default under the Group's other indebtedness. Finally, the Group's ability to pay cash to the holders of the Notes upon a repurchase may be limited by its then existing financial resources.

Holders of the Notes may not be able to determine when a change of control giving rise to their right to have the Notes repurchased has occurred following a sale of "substantially all" of the Group's assets.

The definition of the triggering condition for a "Change of Control" in the indenture that will govern the Notes will include a phrase relating to the sale of "all or substantially all" of the Group's assets. There is no precise established definition of the phrase "substantially all" under applicable law. Accordingly, the ability of a holder of Notes to require the Issuer to repurchase its Notes as a result of a sale of less than all of the Group's assets to another person may be uncertain.

There are significant restrictions on your ability to transfer or resell the Notes.

The Notes are being offered and sold pursuant to an exemption from registration under U.S. and applicable state securities laws, and we do not currently intend to register the Notes in the United States. The holders of the Notes will not be entitled to require us to register the Notes in the United States for resale. Therefore, you may transfer or resell the Notes in the United States only in a transaction registered under or exempt from the registration requirements of the United States and applicable state securities laws. Accordingly, you may be required to bear the risk of your investment for an indefinite period of time. See the section entitled "Transfer restrictions" in this offering circular.

There is no established trading market for the Notes, and one may not develop.

The Notes will be new securities for which there currently is no established trading market. There can be no assurance regarding the future development of a market for the Notes, the ability of holders of the Notes to sell their Notes or the price at which such holders may be able to sell their Notes. If such a market were to develop, the Notes could trade at prices that may be higher or lower than the initial offering price depending on many factors, including prevailing interest rates, Fortescue's operating results and the market for similar securities. Therefore, there can be no assurance as to the liquidity of any trading market for the Notes or that an active public market for the Notes will develop. See "Plan of distribution."

A lowering or withdrawal of the ratings assigned to the Group's debt securities by rating agencies may increase future borrowing costs and reduce the Group's access to capital.

The Issuer's credit ratings for senior unsecured debt were rated Ba2, BB and BB+ by Moody's, S&P and Fitch as of January 19, 2017, August 31, 2017 and August 29, 2016, respectively. Any rating assigned could be lowered or withdrawn entirely by a rating agency if, in that rating agency's judgment, future circumstances relating to the basis of the rating, such as adverse changes, so warrant. Consequently, real or anticipated changes in the Group's credit rating will generally affect the market value of the Notes. Credit ratings are not recommendations to purchase, hold or sell the Notes. Additionally, credit ratings may not reflect the potential effect of risks relating to the structure or marketing of the Notes.

Use of proceeds

The Issuer will use the proceeds from this offering of the Notes to redeem a portion of the remaining outstanding 2022 Senior Secured Notes. As of the date hereof, there was US$2,160 million of 2022 Senior Secured Notes outstanding.

Pending the use of proceeds from this offering of the Notes, such proceeds may be invested temporarily in short-term, interest bearing, investment-grade securities or similar assets. The partial redemption of the 2022 Senior Secured Notes with the proceeds from this offering will be effected by an irrevocable redemption notice. We intend to deliver the redemption notice to the Trustee of the 2022 Senior Secured Notes upon or following the closing of this offering, with the redemption date approximately 30 days after such delivery.

The initial purchaser and/or its affiliates may hold a portion of the 2022 Senior Secured Notes and may, upon consummation of the repurchase and the redemption of the 2022 Senior Secured Notes, receive a portion of the proceeds from this offering as described elsewhere in this offering circular. See “Plan of distribution.”

Capitalization

The financial data presented below represent historical consolidated financial information for the Group as of December 31, 2017, which has been derived from and is qualified in its entirety by reference to, the unaudited consolidated interim financial statements included in this offering circular and prepared in accordance with AAS and IFRS. The following table sets forth: (i) the Group's total borrowings and finance lease liabilities and total capitalization, as of December 31, 2017 and (ii) the Group's total borrowings and finance lease liabilities and total capitalization, after giving effect to this offering of the Notes, the Syndicated Term Loan and the use of proceeds therefrom, as specified in "Use of proceeds."

This table should be read in conjunction with "Selected historical consolidated financial and operating data," "Management's discussion and analysis of financial condition and results of operations," "Description of other indebtedness," Fortescue's audited consolidated financial statements and the related notes thereto and other information included elsewhere in this offering circular.

	As of December 31, 2017	
(US$ in millions)	**Historical**	**As adjusted**
Borrowings and finance lease liabilities:		
Notes offered hereby(1)	–	500
Secured		
2022 Senior Secured Notes(1)(2)	2,160	260
Revolving Credit Facility(3)	–	–
Syndicated Term Loan	–	1,400
Unsecured		
2022 Senior Unsecured Notes(1)	750	750
2024 Senior Unsecured Notes(1)	750	750
Finance lease liabilities(1)(4)	520	520
Total borrowings and finance lease liabilities(1)	4,180	4,180
Shareholders' equity:		
Contributed equity	1,287	1,287
Reserves	39	39
Retained earnings(5)	8,459	8,290
Non-controlling interest	14	14
Total equity	**9,799**	**9,630**
Total capitalization(6)	**13,979**	**13,810**

Notes:

(1) Represents aggregate principal amount of the Notes outstanding. As of December 31, 2017, the Group had an aggregate principal amount of US$4,180 million of borrowing and finance lease liabilities outstanding (carrying value of US$4,181 million, which is net of borrowing costs and inclusive of accrued and unpaid interest as of December 31, 2017). See "Description of other indebtedness" for further information about the 2022 Senior Secured Notes, the 2022 Senior Unsecured Notes and the 2024 Senior Unsecured Notes.

(2) The adjustment of US$1,900 million reflects the early repayment of the 2022 Senior Secured Notes.

(3) Represents US$525 million facility that remains undrawn as of the date of this offering circular.

(4) Represents present value of minimum lease payments, as calculated in accordance with AAS and IFRS. See note 10(a)(iv) to the Company's unaudited consolidated interim financial statements for the first half of fiscal 2018, and "Description of other indebtedness—Finance lease liabilities" for a description of Fortescue's finance lease liabilities.

(5) The adjustment of US$169 million reflects the fees written off and the premium on redemption of the 2022 Senior Secured Notes.

(6) Total capitalization represents total borrowings and finance lease liabilities plus total equity.

Selected historical consolidated financial and operating data

The following tables present selected historical consolidated financial and operating data of the Group for the most recent fiscal half-year and corresponding prior period, as well as the four most recent fiscal years. The results of operations are not necessarily indicative of the results to be expected for any future period. The selected historical consolidated financial data as of, and for the six months ended December 31, 2017 and 2016 have been derived from, and are qualified in entirety by reference to, the Company's unaudited consolidated interim financial statements included elsewhere in this offering circular and the selected historical consolidated financial data as of, and for the fiscal years ended, June 30, 2017, 2016, and 2015 have been derived from, and are qualified in entirety by reference to, the Company's audited consolidated financial statements included elsewhere in this offering circular. The selected historical consolidated financial and operating data of the Group as of, and for the year ended, June 30, 2014 have been derived from audited consolidated financial statements of the Group, which have been filed with the ASX, through which they are publicly available. The selected historical consolidated financial and operating data of the Group set forth below is not necessarily indicative of the Group's future results of operations or financial position.

The selected historical consolidated financial information of the Group presented below has been prepared in a manner consistent with the Group's accounting policies in accordance with AAS and IFRS. AAS and IFRS differ in certain respects from U.S. GAAP. See "Presentation of financial information." The selected historical consolidated financial and operating data presented below is in U.S. dollars, which is the functional currency of the Group.

The selected historical consolidated financial and operating data of the Group presented below should be read in conjunction with the section in this offering circular captioned "Management's discussion and analysis of financial condition and results of operations" and the audited and unaudited consolidated financial statements and the accompanying notes thereto included elsewhere in this offering circular. The results of operations for the historical periods included in the following tables are not necessarily indicative of the results to be expected for future periods. In addition, see "Risk factors" for a discussion of risk factors that could impact the Group's future financial condition and results of operations.

Where information has been presented in percentages or millions of units, amounts may have been rounded up or down. Accordingly, totals of columns or rows of numbers in tables may not be equal to the apparent total of the individual items and actual numbers may differ from those contained herein due to rounding.

	Six months ended December 31,		Year ended June 30,			
(US$ in millions)	**2017**	**2016**	**2017**	**2016**	**2015**	**2014**
Consolidated income statement:						
Operating sales revenue	3,679	4,492	8,447	7,083	8,574	11,753
Cost of sales	(2,445)	(2,482)	(4,888)	(5,064)	(7,427)	(7,002)
Gross profit	1,234	2,010	3,559	2,019	1,147	4,751
Other income	1	49	14	7	77	126
Other expenses	(59)	(79)	(123)	(211)	(175)	(244)
Profit before income tax and net finance expenses	1,176	1,980	3,450	1,815	1,049	4,633
Finance income	12	8	19	214	15	21
Finance expense	(214)	(256)	(502)	(675)	(644)	(741)
Profit before income tax	974	1,732	2,967	1,354	420	3,913
Income tax expense	(293)	(510)	(874)	(369)	(104)	(1,173)
Profit after income tax	**681**	**1,222**	**2,093**	**985**	**316**	**2,740**

(US$ in millions)	As of December 31, 2017	As of June 30, 2017	2016	2015	2014
Consolidated balance sheet:					
Current assets					
Cash and cash equivalents	892	1,838	1,583	2,381	2,398
Trade and other receivables	363	141	241	291	585
Inventories	551	588	554	773	1,467
Other current assets	52	38	45	49	27
Current tax receivable	–	–	–	35	–
Total current assets	**1,858**	**2,605**	**2,423**	**3,529**	**4,477**
Non-current assets					
Trade and other receivables	3	3	4	6	5
Property, plant and equipment	16,281	16,493	16,867	17,729	18,068
Intangible assets	5	7	15	44	67
Other non-current assets	6	7	28	52	77
Total non-current assets	**16,295**	**16,510**	**16,914**	**17,831**	**18,217**
Total assets	**18,153**	**19,115**	**19,337**	**21,360**	**22,694**
Current liabilities					
Trade and other payables	593	708	622	739	1,338
Deferred income	55	461	485	620	936
Borrowings and finance lease liabilities	125	121	93	155	154
Provisions	207	227	167	174	176
Current tax payable	145	685	267	–	666
Total current liabilities	**1,125**	**2,202**	**1,634**	**1,688**	**3,270**
Non-current liabilities					
Trade and other payables	50	50	69	69	101
Deferred income	794	447	308	591	556
Borrowings and finance lease liabilities	4,056	4,350	6,678	9,414	9,403
Provisions	504	509	489	428	467
Deferred joint venture contributions	270	266	253	261	160
Deferred tax liabilities	1,555	1,557	1,500	1,372	1,154
Total non-current liabilities	**7,229**	**7,179**	**9,297**	**12,135**	**11,841**
Total liabilities	**8,354**	**9,381**	**10,931**	**13,823**	**15,111**
Net assets	**9,799**	**9,734**	**8,406**	**7,537**	**7,583**
Equity					
Contributed equity	1,287	1,289	1,301	1,294	1,289
Reserves	39	39	33	46	69
Retained earnings	8,459	8,392	7,058	6,184	6,211
Total equity attributable to equity holders of the Company	**9,785**	**9,720**	**8,392**	**7,524**	**7,569**
Non-controlling interest	14	14	14	13	14
Total equity	**9,799**	**9,734**	**8,406**	**7,537**	**7,583**

(US$ in millions)	Six months ended December 31, 2017	2016	Year ended June 30, 2017	2016	2015	2014
Consolidated statement of cash flows						
Cash flows from operating activities:						
Cash receipts from customers	3,289	4,247	8,768	6,693	8,537	12,618
Payments to suppliers and employees	(1,898)	(1,915)	(3,744)	(3,736)	(5,971)	(6,220)
Cash generated from operations	1,391	2,332	5,024	2,957	2,566	6,398
Interest received(1)	12	8	19	22	15	21
Interest paid(2)	(181)	(218)	(412)	(599)	(533)	(736)
Income tax (paid) received	(811)	(265)	(375)	66	(529)	(150)
Net cash inflow from operating activities	**411**	**1,857**	**4,256**	**2,446**	**1,519**	**5,533**
Cash flows from investing activities:						
Payments for property, plant and equipment—Fortescue	(413)	(312)	(716)	(304)	(626)	(1,931)
Payments for property, plant and equipment—joint operations	(7)	(8)	(13)	(56)	(223)	(64)
Contributions from joint venture partners	4	6	12	–	101	160
Proceeds from disposal of plant and equipment and sale of jointly controlled assets	12	1	2	2	7	262
Receipt of deposits and guarantees	–	–	–	–	–	160
Net cash outflow from investing activities	**(404)**	**(313)**	**(715)**	**(358)**	**(741)**	**(1,413)**
Cash flows from financing activities:						
Proceeds from borrowings and finance leases	57	59	1,734	–	2,206	–
Repayment of borrowings and finance leases	(352)	(1,706)	(4,187)	(2,695)	(2,367)	(3,092)
Dividends paid	(610)	(284)	(755)	(114)	(343)	(581)
Purchase of shares under employee share trust	(24)	(27)	(27)	(21)	(30)	(17)
Finance costs paid(3)	(9)	(7)	(47)	(28)	(72)	(117)
Repayment of customer deposits	–	–	–	(5)	(96)	(82)
Transactions with non-controlling interests	–	–	–	–	–	–
Net cash (outflow)/inflow from financing activities	**(938)**	**(1,965)**	**(3,282)**	**(2,863)**	**(702)**	**(3,889)**
Net (decrease)/increase in cash and cash equivalents	**(931)**	**(421)**	**259**	**(775)**	**76**	**231**
Cash and cash equivalents at the beginning of the period	1,838	1,583	1,583	2,381	2,398	2,158
Effect of exchange rate changes on cash and cash equivalents	(15)	(2)	(4)	(23)	(93)	9
Cash and cash equivalents at the end of the period	**892**	**1,160**	**1,838**	**1,583**	**2,381**	**2,398**

Notes:

(1) "Interest received" for fiscal 2016, 2015 and 2014 was presented within "Cash flows from investing activities" in the Group's consolidated statement of cash flows for each corresponding period.

(2),(3) "Interest paid" for fiscal 2016, 2015 and 2014 were presented within "Cash flows from financing activities" under "Interest paid" in the Group's consolidated statement of cash flows for each corresponding period.

	Six months ended December 31,		Year ended June 30,			
	2017	2016	2017	2016	2015	2014
Operating data:						
Ore mined (million wmt)	93.1	99.6	197.8	181.1	164.1	140.4
Overburden and other waste removed (million wmt)	133.0	107.5	204.9	195.9	300.0	404.5
Ore shipped—Fortescue-mined ore (million wmt)(1)	84.5	86.1	170.4	166.8	160.2	118.4

Notes:

(1) "Ore shipped—Fortescue mined ore" includes total wmt of ore mined, processed and shipped by Fortescue. "Ore shipped—Fortescue mined ore" does not include ore that Fortescue ships, but does not own or take title to, pursuant to third-party access agreements, as part of its provision of shipping services (*i.e.*, access to its port infrastructure) to third parties, or joint venture ore shipped (attributable to BC Iron Limited). "Fortescue's share of joint venture ore" represents the portion of ore mined by the Nullagine Joint Venture and shipped by Fortescue which is attributable to Fortescue. A reconciliation of total ore shipped to "Ore shipped—Fortescue mined ore" for first half fiscal 2018 and fiscal 2017, 2016, 2015 and 2014, is provided in the table below:

	Six months ended December 31,		Year ended June 30,			
(million wmt)	2017	2016	2017	2016	2015	2014
Total ore shipped	84.5	86.1	170.4	169.4	165.4	124.2
Ore shipped pursuant to third-party access agreements	–	–	–	(2.0)	(4.0)	(4.3)
Fortescue's share of joint venture ore	–	–	–	(0.6)	(1.2)	(1.5)
Ore shipped—Fortescue mined ore	**84.5**	**86.1**	**170.4**	**166.8**	**160.2**	**118.4**

Management's discussion and analysis of financial condition and results of operations

Prospective investors should read the following discussion together with Fortescue's financial statements and the accompanying notes thereto included elsewhere in this offering circular. Figures presented in tables in this section of the offering circular have been rounded (to US$ millions) and have not been adjusted to correct rounding differences. The presentation in this section contains forward-looking statements that involve risks, uncertainties and assumptions. Fortescue's actual results may differ materially from those anticipated in these forward-looking statements as a result of a number of factors, including those set forth under the captions "Cautionary note regarding forward-looking statements" and "Risk factors" in this offering circular.

Key drivers of the business and trends

For the first half of fiscal 2018, Fortescue reported revenue of US$3.7 billion, net profit after income tax of US$0.7 billion and Adjusted EBITDA of US$1.8 billion, respectively. For a reconciliation of net profit after income tax to Adjusted EBITDA, see "—Results of operations." The key drivers of Fortescue's business performance are the volume of ore mined, processed, railed and shipped, global iron ore prices and mining, and processing, rail and port costs. Capital expenditures have been and are expected to remain an important factor affecting the Company's business.

Higher volumes of ore shipped generate higher revenues for the Company. In addition, higher volumes of ore mined, processed, railed and shipped decrease cost per tonne for mining, processing, rail and shipping cost respectively as a result of economies of scale, thus improving the Company's profitability.

Fortescue prices its iron ore products with a reference to the global iron ore price, typically the 62% Platts CFR Index. Volatility in the 62% Platts CFR Index can therefore have a significant impact on the Company's revenues.

By reducing mining, processing, rail and shipping costs, Fortescue has been able to generate and improve operating margins and cash flow in a period of iron ore price volatility.

Production at the existing operations

Following completion of the 155Mtpa Expansion in fiscal 2014, Fortescue's operations ramped up to full production and have been operating at full capacity over the last three and a half fiscal years.

Production data for the first half of fiscal 2018 and the first half of fiscal 2017, and for fiscal 2017, 2016 and 2015, is summarized in the table below.

	Six months ended December 31,		Year ended June 30,		
(million wmt)	**2017**	**2016**	**2017**	**2016**	**2015**
Ore mined	93.1	99.6	197.8	181.1	164.1
Ore processed	82.5	86.0	172.2	167.6	153.6
Ore shipped—Fortescue mined ore(1)	84.5	86.1	170.4	166.8	160.2

Notes:

(1) Excludes third-party ore shipped by Fortescue.

Cost of sales

Cost of sales, which Fortescue reports as consisting of operating expenses and depreciation and amortization, is a key factor in the Company's competitive position as a low-cost iron ore producer. The Company's reported cost of sales for the first half of fiscal 2018 and 2017, and for fiscal 2017, 2016 and 2015, are set forth in the table below.

	Six months ended December 31,		Year ended June 30,		
(US$ in millions)	**2017**	**2016**	**2017**	**2016**	**2015**
Operating expenses:					
Mining costs	844	913	1,780	2,092	3,765
Rail costs	94	96	192	201	230
Port costs	86	91	183	204	274
Operating leases	–	23	29	76	80
Shipping costs	567	448	929	781	1,112
Government royalty	229	295	545	446	516
Other operating expenses(1)	1	2	3	41	74
Total operating expenses	**1,821**	**1,868**	**3,661**	**3,841**	**6,051**
Depreciation and amortization expense:					
Depreciation and amortization(2)	624	614	1,227	1,223	1,376
Cost of sales	**2,445**	**2,482**	**4,888**	**5,064**	**7,427**

Notes:

(1) Other operating expenses include the cost of purchasing third-party product, infrastructure services and Fortescue's share of joint venture cost of sales.

(2) Excludes depreciation and amortization expense included in "other expenses" in the Group's consolidated income statement.

Operating expenses for mining, rail and port costs are related to the Company's levels of iron ore production and are also affected by other factors, including labor, foreign exchange (US$:AU$) and oil prices. In addition, Fortescue is required to pay certain government royalties, which are calculated as a percentage of cash received from the sale of iron ore. Operating expenses for mining are also affected by levels of overburden and other waste, and the Company's total waste to ore ratio (or "strip ratio"). The Company's strip ratio has generally decreased over the period from fiscal 2015 through the fiscal 2017, primarily due to the commencement of mining at the Solomon Hub, the introduction of the Fortescue Blend Fines product which reduces the strip ratio at the Chichester Hub, and improvements in the OPF metallurgical upgrades yielding a reduction in cut-off grades. Overburden and strip ratio for the first half of fiscal 2018 and 2017, and for fiscal 2017, 2016 and 2015, are summarized in the table below.

	Six months ended December 31,		Year ended June 30,		
	2017	**2016**	**2017**	**2016**	**2015**
Overburden and other waste removed (Mt)	133.0	107.5	204.9	195.9	300.0
Strip ratio	1.4x	1.1x	1.0x	1.1x	1.8x

The Company is party to plant and machinery operating leases under which it leases certain key equipment used in its mining, rail and port operations, including surface miners, trucks, loaders, tractors, graders, locomotives, ore cars, reclaimers, stackers, shiploaders, train loadout equipment and conveyors. See "Description of other indebtedness—Operating lease facilities." Operating lease payments have decreased over the period from fiscal 2015 to the first half of fiscal 2018, as leases have been terminated or been refinanced as finance leases.

Shipping costs reflect the cost of transporting ore from the Herb Elliott Port to Fortescue's predominantly Chinese customer base. The Company currently has a portfolio of shipping contracts in place with the remaining tenure of such contracts ranging from three months to five years across a mix of vessel segments ranging from 170,000 tonne capesize vessels up to 263,000 tonne ore carriers. Fortescue manages its contractual obligations by using these ships to move its own product or re-letting vessels to third parties. The Company also charters additional vessels as necessary, based on negotiations with customers and ship owners at market rates. The Company's policy is to control shipping at the Herb Elliott Port in order to maximize iron ore through-put and the efficient use of its port infrastructure. For this reason, Fortescue seeks to enter into iron ore sales agreements on a delivered (CFR) basis, rather than allowing customers to arrange for their own shipping. Further efficiency through the port is targeted through the optimization of the shipping fleet, including the introduction of Fortescue's Ore Carriers into the portfolio, with the first six ore carriers having been delivered over the past 15 months. See "—Sales and marketing—Shipping."

Depreciation and amortization was consistent from fiscal 2016 to fiscal 2017 as operations remained steady with the Company shipping 165-170Mt of iron ore. Depreciation and amortization decreased from fiscal 2015 to fiscal 2016 as certain assets with relatively short term lives were fully depreciated and not replaced. Construction costs are not depreciated until the associated project is available for use. As of December 31, 2017, the carrying value of property, plant and equipment, development assets and assets under development totaled US$16,281 million.

Depreciation is calculated using a "units of production" method for majority of Fortescue's mining assets, including construction costs associated with mine development and the OPFs. Depreciation for these assets is impacted by the volumes of ore mined, processed and shipped for the period, and is further impacted by changes in the Company's Ore Reserves estimation that determine life of mine used in the calculation of depreciation and amortization charges. Certain of Fortescue's assets, including but not limited to rail and port infrastructure, mining fleet, dewatering infrastructure and certain components of the OPFs are depreciated on a straight line basis over the useful life of the underlying assets.

Additional discussion of operating expenses and depreciation and amortization is included under the section entitled "—Results of operations."

Average cash cost per wmt of Fortescue mined ore shipped is calculated as total direct costs divided by wmt of Fortescue mined iron ore shipped. Direct costs consist of operating cost of sales and operating leases. Operating cost of sales consists of mining costs and rail and port operating expenses. Total direct costs and average cash cost per wmt of Fortescue mined ore shipped for the first half of fiscal 2018 and 2017, and for fiscal 2017, 2016 and 2015, are summarized in the table below:

	Six months ended December 31,		Year ended June 30,		
	2017	2016	2017	2016	2015
Operating cost of sales (US$ in millions)	1,024	1,100	2,155	2,497	4,269
Operating leases (US$ in millions)	—	23	29	76	80
Total direct costs for Fortescue mined ore (US$ in millions)	**1,024**	**1,123**	**2,184**	**2,573**	**4,349**
Ore shipped—Fortescue mined ore (million wmt)(1)	84.5	86.1	170.4	166.8	160.2
Average cash cost per wmt of Fortescue mined ore shipped (US$ per wmt)(2)	**12.11**	**13.06**	**12.82**	**15.43**	**27.15**

Notes:

(1) Excludes third-party ore shipped by Fortescue.

(2) Average cash cost per wmt of Fortescue mined ore shipped may differ immaterially from an equivalent calculation of “C1 cash cost” using the operating expenses disclosed in the Company’s quarterly reports announced to the ASX. In addition, although average cash cost per wmt is not a measure of performance recognized under AAS or IFRS, management believes that it is useful to an investor in evaluating Fortescue’s performance because it is a measure commonly used in the resources industry. Average cash cost per wmt should not be considered in isolation or as a substitute for measures of performance in accordance with AAS or IFRS. Moreover, because average cash cost per wmt is not calculated identically by all companies, the presentation here may not be comparable to other similarly titled measures of other companies.

Capital expenditures

Capital expenditures to maintain, develop and expand the Company’s operations are an important factor in the Company’s production capacity that have had a material impact on the Company’s financial performance and are expected to have a material impact on the Company’s liquidity and funding requirements for the foreseeable future. Capital expenditures in fiscal 2017 and fiscal 2016 and the first half of fiscal 2018 related principally to optimizing and sustaining capital, instalment payments for the ore carriers, ongoing development, feasibility studies and exploration expenditure. Capital expenditures in fiscal 2015 principally related to capital in connection with completion of the 155Mtpa Expansion. See “—Liquidity and capital resources—Capital expenditures.”

Other factors that affect reported financial performance

In addition to the key business drivers discussed above, other factors affecting the Company’s reported financial results include foreign exchange rate fluctuations and net finance expenses.

Foreign exchange rate fluctuation

The Company’s operations and assets are concentrated in Australia and as such, its operating costs and a significant portion of its capital expenditures are influenced by movements in the Australian dollar relative to the U.S. dollar.

In addition, translation of the monetary balances including but not limited to trade and other payables, payroll provisions, current tax liabilities and Australian dollar-denominated finance lease liabilities at the rates prevailing at the end of each reporting period gives rise to gains and losses for the respective periods. A summary of the sensitivity of the Group's financial assets and liabilities to foreign exchange risk is shown in note 11 "Financial risk management" to the audited consolidated financial statements for fiscal 2017. See "Risk factors—Operational risks relating to the business of the Group—The Group is subject to exchange rate risks."

Foreign exchange gains and losses recorded in the income statement reflect the impact of changes in the Australian dollar to the U.S. dollar, primarily on account of translation of monetary assets and liabilities, including but not limited to trade and other payables, payroll provisions, current tax liabilities and Australian-dollar denominated finance lease liabilities.

Net finance expenses

Net finance expenses include interest expense, net of interest capitalized in relation to the long lead construction projects, gains and losses on early debt redemption of borrowings and finance lease liabilities and interest income. Net finance expenses for the first half of fiscal 2018 and 2017, and for fiscal 2017, 2016 and 2015 are summarized below.

	Six months ended December 31,		Year ended June 30,		
	2017	2016	2017	2016	2015
	(US$ in millions)		(US$ in millions)		
Finance income:					
Interest income	12	8	19	22	15
Gain on early debt redemption	–	–	–	192	–
Total finance income	**12**	**8**	**19**	**214**	**15**
Finance expenses:					
Interest expense on borrowings and finance lease liabilities	183	228	430	621	590
Interest capitalized	–	–	–	(2)	(7)
Loss on early debt redemption	18	22	59	42	45
Other	13	6	13	14	16
Total finance expenses	**214**	**256**	**502**	**675**	**644**
Net finance expenses	**202**	**248**	**483**	**461**	**629**

Interest expense on borrowings and finance leases for each reporting period is consistent with the Company's debt position during these periods.

Gains on early debt redemption reflect the impact of on-market debt repurchases below par value. Loss on early debt redemption include write-off of previously capitalized borrowing costs, early call premiums and costs associated with early debt repayments.

See "—Results of operations" for year by year comparison.

Critical accounting policies

The preparation of the Company's audited consolidated financial statements requires that management makes estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities at the date of the financial statements and the reported revenue and costs for each reporting period contained in the financial statements. These estimates and assumptions are based on management's best knowledge of the relevant facts or circumstances, taking into account previous relevant experience. Management reviews and evaluates its estimates in relation to assets, liabilities, contingent liabilities, revenues and costs on an ongoing basis, however, actual results may differ from the amounts included in the financial statements.

Management has identified the following critical accounting policies where estimates and assumptions are made and where actual results may materially differ from these estimates under different assumptions and conditions:

- iron ore reserve estimates;
- exploration and evaluation expenditure;
- development expenditure;
- property, plant and equipment—recoverable amount; and
- rehabilitation estimates.

Information about these estimates and assumptions is contained in note 24 "Critical accounting estimates and judgments" to the audited consolidated financial statements for fiscal 2017 included elsewhere in this offering circular.

Results of operations

The income statements for the first half of fiscal 2018 and fiscal 2017 are sourced from the unaudited consolidated interim financial statements, the income statements for the fiscal years ended June 30, 2017 and 2016 are sourced from the audited consolidated financial statements for fiscal 2017 and the income statement for the fiscal year ended June 30, 2015 is sourced from the audited consolidated financial statements for fiscal 2015.

The income statements reported by the Company for the first half of fiscal 2018 and 2017, and for fiscal 2017, 2016 and 2015 are summarized in the table below.

	Six months ended December 31,		Year ended June 30,		
(US$ in millions)	**2017**	**2016**	**2017**	**2016**	**2015**
Operating sales revenue	3,679	4,492	8,447	7,083	8,574
Cost of sales	(2,445)	(2,482)	(4,888)	(5,064)	(7,427)
Gross profit	**1,234**	**2,010**	**3,559**	**2,019**	**1,147**
Other income	1	49	14	7	77
Other expenses	(59)	(79)	(123)	(211)	(175)
Profit before income tax and net finance expenses	**1,176**	**1,980**	**3,450**	**1,815**	**1,049**
Finance income	12	8	19	214	15
Finance expenses	(214)	(256)	(502)	(675)	(644)
Profit before income tax	**974**	**1,732**	**2,967**	**1,354**	**420**
Income tax expense	(293)	(510)	(874)	(369)	(104)
Profit after income tax	**681**	**1,222**	**2,093**	**985**	**316**

In addition to reporting the Company's financial results under AAS and IFRS, an internal financial measure, "Adjusted EBITDA," is used by management to report the operating performance of the business. Adjusted EBITDA is defined as Underlying EBITDA before the impact of any net foreign exchange gains or losses. Underlying EBITDA is defined as earnings before interest, tax, depreciation and amortization, exploration, development and other expenses. Adjusted EBITDA and Underlying EBITDA are not measures that are recognized under AAS or IFRS and they may differ from similarly titled metrics reported by other companies. Adjusted EBITDA and Underlying EBITDA do not purport to represent operating income, net income or cash generated by operating activities and should not be considered in isolation or as a substitute for measures of performance in accordance with AAS or IFRS.

This measure is used because it eliminates exceptional items considered by management to be outside the core operating activity of the business and subject to volatility that may distort a year to year comparison of the operating results of the business. In particular, management considers the foreign exchange gains and losses to be outside the core operations of the Company and, as such, they are considered to not be reflective of operating performance. Adjusted EBITDA increased from US$2,438 million in fiscal 2015 to US$3,197 million in fiscal 2016 (an increase of US$759 million, or 31%, over fiscal 2015) and increased to US$4,731 million in fiscal 2017 (an increase of US$1,534 million, or 48%, over fiscal 2016). Adjusted EBITDA decreased to US$1,827 million in the first half of fiscal 2018 from US$2,596 million in the first half of fiscal 2017.

The following table reconciles reported net profit after income tax to Underlying EBITDA and to Adjusted EBITDA for the first half of fiscal 2018 and 2017, and for fiscal 2017, 2016 and 2015.

	Six months ended December 31,		Year ended June 30,		
(US$ in millions)	**2017**	**2016**	**2017**	**2016**	**2015**
Net profit after income tax	681	1,222	2,093	985	316
Add back: income tax expense.	293	510	874	369	104
Deduct: finance income	(12)	(8)	(19)	(214)	(15)
Add back: finance expenses	214	256	502	675	644
Add back: depreciation and amortization(1)	630	622	1,243	1,244	1,405
Add back: exploration, development and other expenses(2)	22	43	51	136	52
Underlying EBITDA	**1,828**	**2,645**	**4,744**	**3,195**	**2,506**
Foreign exchange (gain)/loss	(1)	(49)	(13)	2	(68)
Adjusted EBITDA	**1,827**	**2,596**	**4,731**	**3,197**	**2,438**

Notes:

(1) Depreciation and amortization includes aggregate depreciation and amortization expense included in "cost of sales" and "other expenses" in the Group's consolidated income statement for the applicable periods.

(2) Exploration, development and other expenses includes provisions for obsolete inventory, write-offs of certain specifically identified assets and write-offs of previously capitalized exploration expenditure on relinquished tenements during the applicable periods.

Comparison of performance for the first half of fiscal 2018 to the first half of fiscal 2017

Fortescue's strong performance during the first half of fiscal 2018 delivered a consistent volume of of iron ore shipped while improved costs of production were offset by lower iron prices realized by the Company compared with the first half of fiscal 2017. The Company's focus on productivity and efficiency improvements across its mines, rail and port infrastructure offset the impacts of a stronger Australian dollar and higher fuel prices.

Total Fortescue mined ore shipped in the first half of fiscal 2018 was 84.5Mt, a decrease of 1.6Mt or 2% over total Fortescue mined ore shipped in the first half of fiscal 2017. Profit after tax decreased by 44%, from US$1,222 million for the first half of fiscal 2017 to US$681 million for the first half of fiscal 2018 primarily due to lower iron ore prices realized by the Company during the period. Adjusted EBITDA decreased by 30%, from US$2,596 million for the first half of fiscal 2017 to US$1,827 million for the first half of fiscal 2018.

Operating sales revenue

Operating sales revenue decreased from US$4,492 million in the first half of fiscal 2017 to US$3,679 million in the first half of fiscal 2018, a decrease of US$813 million, or 18%, primarily as a result of a decrease in the iron ore price realized by the Company. See "Business—Industry overview—Prices for iron ore on world markets" for a description of recent price movements. See also "Business—Sales and marketing—Customer base and sales agreements."

Cost of sales

Cost of sales, which comprise operating leases, mining costs, rail costs, port costs, shipping costs, government royalty, other operating expenses and depreciation and amortization, decreased by US$37 million, or 1%, from US$2,482 million in the first half of fiscal 2017 to US$2,445 million in the first half of fiscal 2018. The decrease was the result of a 7% decrease in average cash cost per wmt of Fortescue mined ore shipped from US$13.06 per wmt in the first half of fiscal 2017 to US$12.11 per wmt in the first half of fiscal 2018, a decrease in the volume of iron ore mined, processed and shipped and a decrease in government royalties consistent with the decreased revenue. The reduction in operating costs per wmt of Fortescue mined ore shipped was driven by the Company's focus on efficiencies and productivity improvements across all mine sites and infrastructure, including but not limited to mine planning, design and mining methodology, cross-site operational collaboration, procurement initiatives to maximize the value of products and services purchased, efficiency of mining equipment and labor productivity, and the use of autonomous technology.

Operating lease expenses: Operating lease expenses decreased by US$23 million in the first half of fiscal 2018, from US$23 million in the first half of fiscal 2017 to nil in the first half of fiscal 2018, as a result of Fortescue's re-negotiation of its operating lease arrangements. See "Description of other indebtedness—Operating lease facilities."

Mining and processing costs: Mining costs, which include related processing costs, decreased by US$69 million, or 8%, from US$913 million in the first half of fiscal 2017 to US$844 million in the first half of fiscal 2018, as the result of a decrease in the volume of iron ore mined and processed. The mining and processing cash costs per tonne (excluding allocated operating lease costs) averaged US$9.98 per tonne of ore shipped for the first half of fiscal 2018, as compared to an average cost of US$10.60 per tonne in the first half of fiscal 2017, a decrease of 7%. This was primarily attributable to the sustained productivity and efficiency improvements across all mines and OPFs. The Company mined 93.1Mt of ore in the first half of fiscal 2018, a decrease of 6.5Mt over the 99.6Mt of ore mined in the first half of fiscal 2017, and processed 82.5Mt in the first half of fiscal 2018, a decrease of 3.5Mt over the 86.0Mt of ore processed in the first half of fiscal 2017. Levels of overburden and other waste removal increased to 133.0Mt in the first half of fiscal 2018, from 107.5Mt in the first half of fiscal 2017. The Company's strip ratio averaged 1.4:1 in the first half of fiscal 2018 and 1.1:1 in the first half of fiscal 2017.

Rail costs: Rail costs decreased by US$2 million, or 2%, from US$96 million in the first half of fiscal 2017 to US$94 million in the first half of fiscal 2018, primarily as a result of a decrease in volume of the iron ore railed.

The Company delivered 83.4Mt of Fortescue mined ore to port via its rail infrastructure in the first half of fiscal 2018, as compared to 84.6Mt in the first half of fiscal 2017. On a per tonne basis, rail cash costs per tonne (excluding allocated operating lease costs) were consistent at US$1.13 per tonne in both the first half of fiscal 2018 and the first half of fiscal 2017.

Port costs: Port costs decreased by US$5 million, or 5%, from US$91 million for the first half of fiscal 2017 to US$86 million in the first half of fiscal 2018, primarily as a result of a decrease in the volume of iron ore shipped. Port cash costs per tonne (excluding allocated operating lease costs) decreased by US$0.04 to US$1.02 per tonne of iron ore shipped for the first half of fiscal 2018 from US$1.06 per tonne in the first half of fiscal 2017, mainly attributable to productivity and efficiency improvements. The Company shipped 84.5Mt of Fortescue mined ore from the port in the first half of fiscal 2018, as compared to 86.1Mt shipped in the first half of fiscal 2017.

Shipping costs: Shipping costs increased by US$119 million, or 27%, from US$448 million in the first half of fiscal 2017 to US$567 million in the first half of fiscal 2018, primarily as a result of a higher BCI 5 index for the period.

Government royalties: Government royalty expenses decreased by US$66 million, or 22%, from US$295 million in the first half of fiscal 2017 to US$229 million in the first half of fiscal 2018. This decrease in royalties was consistent with the decrease in revenues from sales of iron ore during the same period.

Depreciation and amortization: Depreciation and amortization expense increased marginally by US$10 million, or 2%, from US$614 million in the first half of fiscal 2017 to US$624 million in the first half of fiscal 2018.

Other income

Other income decreased from US$49 million in the first half of fiscal 2017 to US$1 million in the first half of fiscal 2018. This decrease is a result of the impact of fluctuations in the U.S. dollar to Australian dollar exchange rate on the Group’s monetary assets and liabilities, and realized foreign exchange gains and losses on settlement of costs denominated in Australian dollars.

Other expenses

Other expenses decreased from US$79 million in the first half of fiscal 2017 to US$59 million in the first half of fiscal 2018, primarily as a result of a US$21 million decrease in exploration, development and other expenses as a result of lower write-off of inventory items.

Finance income

Finance income in the first half of fiscal 2018 increased by US$4 million, or 50%, to US$12 million from US$8 million in the first half of fiscal 2017.

Finance expenses

Finance expenses in the first half of fiscal 2018 decreased by US$42 million, or 16%, to US$214 million from US$256 million in the first half of fiscal 2017, primarily as a result of a decrease in total borrowings and finance lease liabilities. See “—Liquidity and capital resources.”

Taxes

In the first half of fiscal 2018, income tax expense was US$293 million compared to US$510 million in the first half of fiscal 2017. The effective tax rate in the first half of fiscal 2017 was 30% compared to an effective tax rate in the first half of fiscal 2017 of 29% and consistent with the Australian corporate tax rate.

Comparison of performance for fiscal 2017 to fiscal 2016

Fortescue achieved production records across mining, shipping and processing while continuing to lower costs during fiscal 2017 with increased production rates and lower production costs as compared to fiscal 2016. This primarily resulted from productivity and efficiency improvements across all mines, rail and port infrastructure.

Total Fortescue mined ore shipped in fiscal 2017 was 170.4Mt, an increase of 2% over the 166.8Mt total Fortescue mined ore shipped in fiscal 2016. Net profit after income tax increased by 112%, from US$985 million for fiscal 2016 to US$2,093 million for fiscal 2017 primarily as a result of higher iron ore prices and lower operating costs. Adjusted EBITDA increased by 48%, from US$3,197 million for fiscal 2016 to US$4,731 million for fiscal 2017.

Operating sales revenue

Operating sales revenue was US$8,447 million in fiscal 2017 compared to US$7,083 million in fiscal 2016, an increase of US$1,364 million, or 19%, primarily due to a 18% increase in the average realized iron ore price per dry tonne shipped, and the increase in the volume of iron ore mined, processed and shipped.

Cost of sales

Cost of sales decreased by US$176 million, or 3%, from US$5,064 million in fiscal 2016 to US$4,888 million in fiscal 2017. This was the result of a 17% decrease in average cash cost per wmt of Fortescue mined ore shipped from US$15.43 per wmt in fiscal 2016 to US$12.82 per wmt in fiscal 2017. The lower average cash cost was primarily attributable to efficiencies and productivity improvements across all mine sites and infrastructure, including but not limited to mine planning, design and mining methodology, cross-site operational collaboration, procurement initiatives to maximize the value of products and services purchased, efficiency of mining equipment and labor productivity, and the use of autonomous technology, as well as the impact of the weaker Australian dollar relative to the U.S. dollar.

Operating lease expenses: Operating lease expenses decreased by US$47 million in fiscal 2017, from US$76 million in fiscal 2016 to US$29 million in fiscal 2017, as a result of Fortescue's re-negotiation of certain of its lease arrangements. See "Description of other indebtedness—Operating lease facilities."

Mining and processing costs: Mining costs, which include related processing costs, decreased by US$312 million, or 15%, from US$2,092 million in fiscal 2016 to US$1,780 million in fiscal 2017, as a result of mining and processing cash costs per tonne (excluding allocated operating lease costs) reducing to an average of US$10.45 per tonne of ore shipped for fiscal 2017, as compared to an average costs of US$12.54 per tonne in fiscal 2016. The Company mined 197.8Mt of ore in fiscal 2017, an increase of 16.7Mt over the 181.1Mt of ore mined in fiscal 2016, and processed 172.2Mt in fiscal 2017, as compared to 167.6Mt of ore processed in fiscal 2016. Levels of overburden and other waste removal increased to 204.9Mt in fiscal 2017, from 195.9Mt in fiscal 2016.

Rail costs: Rail costs decreased by US$9 million, or 4%, from US$201 million for fiscal 2016 to US$192 million in fiscal 2017, primarily as a result of productivity and efficiency improvements. The Company delivered 170.4Mt of Fortescue mined ore to port via its rail infrastructure in fiscal 2017, as compared to 168.4Mt in fiscal 2016. On a per tonne basis, rail cash costs per tonne (excluding allocated operating lease costs) decreased by US$0.08 per tonne in fiscal 2017, averaging US$1.13 per tonne compared to US$1.21 per tonne in fiscal 2016.

Port costs: Port costs decreased by US$21 million, or 10%, from US$204 million for fiscal 2016 to US$183 million in fiscal 2017, primarily as a result of productivity and efficiency improvements. On a per tonne basis, port cash costs per tonne (excluding allocated operating lease costs) decreased by US$0.15 per tonne in fiscal 2017, averaging US$1.07 per tonne, compared to US$1.22 per tonne in fiscal 2016.

Shipping costs: Shipping costs increased by US$148 million, or 19%, from US$781 million in fiscal 2016 to US$929 million in fiscal 2017, primarily as a result of a decrease in the BCI 5 index. The Company shipped nil third-party ore in fiscal 2017. Average shipping cash costs per tonne of Fortescue mined ore shipped (excluding third-party ore, Fortescue's share of joint venture ore and allocated operating lease costs) increased to US$5.45 in fiscal 2017, as compared to an average cost of US$4.68 per tonne for fiscal 2016.

Government royalties: Government royalty expenses increased by US$99 million, or 22%, from US$446 million in fiscal 2016 to US$545 million in fiscal 2017. This increase in royalties was consistent with the increase in revenues from sales of iron ore during the same period.

Depreciation and amortization: Depreciation and amortization expense increased by US$4 million, or 0%, from US$1,223 million in fiscal 2016 to US$1,227 million in fiscal 2017.

Other income

Other income increased from US$7 million in fiscal 2016 to US$14 million in fiscal 2017. This increase primarily resulted from a net foreign exchange gain of US$13 million in fiscal 2017, compared to a net foreign exchange loss of US$2 million in fiscal 2016 (recorded in other expenses) as a result of the impact of fluctuations in the U.S. dollar to Australian dollar exchange rate on the Group's monetary assets and liabilities, and realized foreign exchange gains and losses on settlement of costs denominated in Australian dollars.

Other expenses

Other expenses decreased from US$211 million in fiscal 2016 to US$123 million in fiscal 2017, primarily as a result of an impairment provision of US$32 million following suspension of the Nullagine Joint Venture operations and a provision of US$59 million related to specific assets and capital projects deferred pending market conditions in fiscal 2016.

Finance income

Finance income in fiscal 2017 decreased by US$195 million, or 91%, to US$19 million from US$214 million in fiscal 2016, primarily as a result of a gain on early redemption of debt of US$192 million in fiscal 2016, compared to none in fiscal 2017.

Finance expenses

Finance expenses in fiscal 2017 decreased by US$173 million, or 26%, to US$502 million from US$675 million in fiscal 2016, primarily as a result of lower interest expense on borrowings following the early redemption of debt.

Taxes

In fiscal 2017, income tax expense was US$874 million, compared to US$369 million in fiscal 2016. The effective tax rate in fiscal 2017 was 29% compared to an effective tax rate in fiscal 2016 of 27%.

Comparison of performance for fiscal 2016 to fiscal 2015

Fortescue achieved strong operational performance during fiscal 2016 with increased mined ore shipped, and improved processing and shipping rates as compared to fiscal 2015. This primarily resulted from productivity and efficiency improvements across all mines, rail and port infrastructure.

Total Fortescue mined ore shipped in fiscal 2016 was 166.8Mt, an increase of 4% over the 160.2Mt total Fortescue mined ore shipped in fiscal 2015. Net profit after income tax increased by 212%, from US$316 million for fiscal 2015 to US$985 million for fiscal 2016 primarily as a result of lower operating costs. Adjusted EBITDA increased by 31%, from US$2,438 million for fiscal 2015 to US$3,197 million for fiscal 2016.

Operating sales revenue

Operating sales revenue was US$8,574 million in fiscal 2015 compared to US$7,083 million in fiscal 2016, a decrease of US$1,491 million, or 17%, primarily due to a 21% decrease in the average realized iron ore price per dry tonne shipped, which was partially offset by the increase in the volume of iron ore mined, processed and shipped.

Cost of sales

Cost of sales decreased by US$2,363 million, or 32%, from US$7,427 million in fiscal 2015 to US$5,064 million in fiscal 2016. This was the result of a 43% decrease in average cash cost per wmt of Fortescue mined ore shipped from US$27.15 per wmt in fiscal 2015 to US$15.43 per wmt in fiscal 2016. The lower average cash cost was primarily attributable to lower strip ratios and efficiency and productivity measures, including, but not limited to, mine planning and design, mining methodology, cross-site operational synergies, contractor insourcing programs, mining equipment and labor productivity, autonomous haulage, procurement initiatives, as well as the impact of the lower Australian dollar relative to the U.S. dollar and declining oil prices. The Company's strip ratio decreased from 1.8:1 in fiscal 2015 to 1.1:1 in fiscal 2016, primarily due to optimization of the ore body modelling and OPF performance, including enhanced metallurgical upgrades and reduction of impurities, which allowed lower product cut-off grades.

Operating lease expenses: Operating lease expenses decreased by US$4 million in fiscal 2016, from US$80 million in fiscal 2015 to US$76 million in fiscal 2016, as a result of Fortescue's re-negotiation of certain of its lease arrangements. See "Description of other indebtedness—Operating lease facilities."

Mining and processing costs: Mining costs, which include related processing costs, decreased by US$1,673 million, or 44%, from US$3,765 million in fiscal 2015 to US$2,092 million in fiscal 2016, as a result of mining and processing cash costs per tonne (excluding allocated operating lease costs) reducing to an average of US$12.54 per tonne of ore shipped for fiscal 2016, as compared to an average cost of US$23.50 per tonne in fiscal 2015. The Company mined 181.1Mt of ore in fiscal 2016, an increase of 17.0Mt over the 164.1Mt of ore mined in fiscal 2015, and processed 167.6Mt in fiscal 2016, as compared to 153.6Mt of ore processed in fiscal 2015. The increase in mined ore in fiscal 2016 relative to fiscal 2015 was primarily driven by ramp up of operations through fiscal 2015 following completion of the 155Mtpa Expansion towards the end of fiscal 2014. Notwithstanding the increase in mined ore, mining costs decreased primarily due to the Company's focus on productivity and efficiency improvements. Levels of overburden and other waste removal decreased to 195.9Mt in fiscal 2016, from 300.0Mt in fiscal 2015 primarily due to a decrease in the strip ratio from 1.8:1 in fiscal 2015 to 1.1:1 in fiscal 2016 which was mainly attributable to optimization of the ore body modelling and OPF performance, including enhanced metallurgical upgrades and reduction of impurities, leading to lower product cut-off grades.

Rail costs: Rail costs decreased by US$29 million, or 13%, from US$230 million for fiscal 2015 to US$201 million in fiscal 2016, primarily as a result of productivity and efficiency improvements. The Company delivered 168.4Mt of Fortescue mined ore to port via its rail infrastructure in fiscal 2016, as compared to 158.5Mt in fiscal 2015. On a per tonne basis, rail cash costs per tonne (excluding allocated operating lease costs) decreased by US$0.23 per tonne in fiscal 2016, averaging US$1.21 per tonne compared to US$1.44 per tonne in fiscal 2015, largely due to the Company's focus on productivity and operational efficiencies.

Port costs: Port costs decreased by US$70 million, or 26%, from US$274 million for fiscal 2015 to US$204 million in fiscal 2016, primarily as a result of productivity and efficiency improvements. On a per tonne basis, port cash costs per tonne (excluding allocated operating lease costs) decreased by US$0.49 per tonne in fiscal 2016, averaging US$1.22 per tonne, compared to US$1.71 per tonne in fiscal 2015, largely due to the Company's focus on productivity and operational efficiencies.

Shipping costs: Shipping costs decreased by US$331 million, or 30%, from US$1,112 million in fiscal 2015 to US$781 million in fiscal 2016, primarily as a result of a decrease in the BCI 5 index. The Company shipped 2.0Mt of third-party ore in fiscal 2016, compared to 4.0Mt of third-party ore in fiscal 2015, which contributed in part to the decrease in shipping costs in fiscal 2016 relative to fiscal 2015. Average shipping cash costs per tonne of Fortescue mined ore shipped (excluding third-party ore, Fortescue's share of joint venture ore and allocated operating lease costs) decreased to US$4.68 in fiscal 2016, as compared to an average cost of US$6.94 per tonne for fiscal 2015, primarily due to the decrease in the BCI 5 index from an annual average of US$6.32 per tonne to US$4.40 per tonne and partially offset by the redelivery of several expensive legacy vessels and the impact of increased discounted index linked contracts.

Government royalties: Government royalty expenses decreased by US$70 million, or 14%, from US$516 million in fiscal 2015 to US$446 million in fiscal 2016. This decrease in royalties was consistent with the decrease in revenues from sales of iron ore during the same period.

Depreciation and amortization: Depreciation and amortization expense decreased by US$153 million, or 11%, from US$1,376 million in fiscal 2015 to US$1,223 million in fiscal 2016. The decrease in fiscal 2016 was primarily driven by cessation of depreciation on fully depreciated assets that were depreciated using straight-line method and changes in the Company's Ore Reserves and Mineral Resources impacting depreciation for assets using the "units of production" method.

Other income

Other income decreased from US$77 million in fiscal 2015 to US$7 million in fiscal 2016. This decrease primarily resulted from a net foreign exchange gain of US$68 million in fiscal 2015, compared to a net foreign exchange loss of US$2 million in fiscal 2016 (recorded in other expenses) as a result of the impact of fluctuations in the U.S. dollar to Australian dollar exchange rate on the Group's monetary assets and liabilities, and realized tax gains and losses on settlement of costs denominated in Australian dollars.

Other expenses

Other expenses increased from US$175 million in fiscal 2015 to US$211 million in fiscal 2016, primarily as a result of an impairment provision of US$32 million following suspension of the Nullagine Joint Venture operations and a provision of US$59 million related to specific assets and capital projects deferred pending market conditions in fiscal 2016, partially offset by lower administration expenses of US$52 million in fiscal 2016 compared to US$94 million in fiscal 2015 primarily as a result of organizational restructure costs incurred in fiscal 2015.

Finance income

Finance income in fiscal 2016 increased by US$199 million, or 1,327%, to US$214 million from US$15 million in fiscal 2015, primarily as a result of a gain on early redemption of debt of US$192 million in fiscal 2016, compared to none in fiscal 2015.

Finance expenses

Finance expenses in fiscal 2016 increased by US$31 million, or 5%, to US$675 million from US$644 million in fiscal 2015, primarily as a result of higher interest expense on borrowings. The interest terms underlying the interest expense for the Company's borrowings are contained in note 10(a) "Borrowings and finance lease liabilities" to the Company's audited consolidated financial statements for fiscal 2016 included elsewhere in this offering circular.

Taxes

In fiscal 2016, income tax expense was US$369 million, compared to US$104 million in fiscal 2015. The effective tax rate in fiscal 2016 was 27% compared to an effective tax rate in fiscal 2015 of 25%. The increase reflects the impact of permanent tax differences, primarily gains and losses on revaluation of income tax liabilities and research and development expenditures.

Liquidity and capital resources

The cash flow statements reported by the Company for the first half of fiscal 2018 and 2017, and for fiscal 2017, 2016 and 2015, are summarized in the table below.

	Six months ended December 31,		Year ended June 30,		
(US$ in millions)	**2017**	**2016**	**2017**	**2016**	**2015**
Net cash inflows from operating activities(1)	**411**	**1,857**	**4,256**	**2,446**	**1,519**
Net cash (outflows) from investing activities(2)	**(404)**	**(313)**	**(715)**	**(358)**	**(741)**
Net cash flows from financing activities:					
Proceeds from borrowings and finance leases	57	59	1,734	–	2,206
Repayment of borrowings and finance leases	(352)	(1,706)	(4,187)	(2,695)	(2,367)
Dividends paid	(610)	(284)	(755)	(114)	(343)
Purchase of shares by employee share trust	(24)	(27)	(27)	(21)	(30)
Finance costs paid(3)	(9)	(7)	(47)	(28)	(72)
Repayment of customer deposits	–	–	–	(5)	(96)
Net cash outflow from financing activities	**(938)**	**(1,965)**	**(3,282)**	**(2,863)**	**(702)**
Net (decrease)/increase in cash and cash equivalents	(931)	(421)	259	(775)	76
Cash and cash equivalents at the beginning of the period	1,838	1,583	1,583	2,381	2,398
Effect of exchange rate changes on cash and cash equivalents	(15)	(2)	(4)	(23)	(93)
Cash and cash equivalents at the end of the period	**892**	**1,160**	**1,838**	**1,583**	**2,381**

Notes:

(1) "Interest received" for fiscal 2016 and 2015 was presented within "Cash flows from investing activities" in the Group's consolidated statement of cash flows for each corresponding period.

(2),(3) "Interest paid" for fiscal 2016 and 2015 was within "Cash flows from financing activities" under "Interest costs paid" in the Group's consolidated statement of cash flows for each corresponding period.

Cash flow from operating activities

Net cash flows from operating activities increased from a cash inflow of US$1,519 million in fiscal 2015 to a cash inflow of US$2,446 million in fiscal 2016 and increased to a cash inflow of US$4,256 million in fiscal 2017. Net cash flows from operating activities decreased from a cash inflow of US$1,857 million in the first half of fiscal 2017 to a cash inflow of US$411 million in the first half of fiscal 2018. In general, movements in operating cash flows are consistent with revenue driven by market iron ore prices, reduction in cost of sales and lower interest payments following debt repayments. Operating cash flows are primarily impacted by proceeds from iron ore prepayments and port access prepayments. Operating cash inflows included proceeds from iron ore prepayments of US$496 million in fiscal 2015 and US$100 million in fiscal 2016. Operating cash inflows included proceeds from iron ore prepayments of US$500 million in the first half of fiscal 2017 compared to US$79 million in the first half of fiscal 2018.

Cash flow from investing activities

Cash flows from investing activities primarily consist of payments for exploration and development activities and purchases of property, plant and equipment. Cash outflows from investing activities decreased from US$741 million in fiscal 2015 to US$358 million in fiscal 2016, consistent with the completion of the 155Mtpa Expansion. The increase in cash outflows from investing activities from US$358 million in fiscal 2016 to US$715 million in fiscal 2017 is largely due to payments made for the construction of ships and increased operating capital. Increased expenditure in the first half of fiscal 2018 compared to the first half of fiscal 2017 is largely due to increased operating capital. Further information on capital expenditure is provided under "—Capital expenditures" below.

Cash flow from financing activities

Cash outflows from financing activities increased from US$702 million in fiscal 2015 to US$2,863 million in fiscal 2016 and increased to US$3,282 million in fiscal 2017. Cash outflows for the first half of fiscal 2018 decreased to US$938 million compared to US$1,965 million in first half of fiscal 2017. In general, financing activities comprise repayments of borrowings and finance lease liabilities, dividend payments, purchase of shares by employee trust, finance costs paid and repayment of customer deposits. Proceeds from borrowings and finance leases resulted from refinancing and ore carrier funding as described in "—Other factors that affect reported financial performance—Net finance expenses."

Capital expenditures

Total capital expenditures (cash flows) decreased from US$849 million during fiscal 2015, to US$360 million in fiscal 2016, principally as a result of completion of the 155Mtpa Expansion. Total capital expenditures (cash flows) increased to US$729 million in 2017 largely due to payments for construction of ships and increased operating capital. Total capital expenditures in the first half of fiscal 2018 increased to US$420 million, compared to US$320 million in the first half of fiscal 2017. Capital expenditures in the first half of fiscal 2018 include largely operating capital, exploration and development expenditures and capital costs associated with the construction of ships. Total capital expenditures for the first half of fiscal 2018 and fiscal 2017, 2016 and 2015 are shown in the table below:

	Six months ended December 31,	Year ended June 30,		
(US$ in millions)	**2017**	**2017**	**2016**	**2015**
Total capital expenditures(1)(2)	420	729	360	849

Notes:

(1) Total capital expenditure for the first half of fiscal 2018, for fiscal 2017, 2016 and 2015 include US$7 million, US$13 million, US$56 million and US$223 million, respectively, of capital expenditure in connection with the joint operations, largely the Iron Bridge Joint Venture. See "Business—Optimization and other development activities—Iron Bridge Joint Venture."

(2) Capital expenditures are translated at the spot rate on the date of acquisition, typically being the invoice date. Total capital expenditures include expenditures for optimization and sustaining capital, ongoing development and feasibility studies, expenditures in connection with the Company's expansion activities, including the 155Mtpa Expansion in fiscal 2015, and amounts incurred for exploration and evaluation expenditures.

The Group currently maintains plant and machinery operating leases in which a significant portion of the risks and rewards of ownership are not transferred to Fortescue as lessee. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease. See "Description of other indebtedness—Operating lease facilities."

Contractual obligations

The following table sets forth the scheduled maturities of the Group's contractual obligations as of December 31, 2017.

(US$ in millions)	Less than 1 year	1 to 5 years	More than 5 years	Total
Operating lease commitments	26	33	–	59
Capital commitments—vessel construction(1)	133	–	–	133
Capital commitments—other(2)	190	45	–	235
Total	**349**	**78**	**–**	**427**

Notes:

(1) See "Business—Sales and marketing—Shipping."

(2) Represents amounts payable under contracts and purchase orders.

Off balance sheet arrangements

The Company's off balance sheet arrangements include lease commitments, commitments for capital expenditures and contingent liabilities. The Company expects that these contractual commitments for expenditures will be met from internal cash flows. Information in relation to the Company's material off balance arrangements as of December 31, 2017 is provided in note 8 "Commitments and contingencies" to the unaudited consolidated interim financial statements included elsewhere in this offering circular.

Quantitative and qualitative disclosures about market risk

As is the case with all other businesses, Fortescue is exposed to financial risks. The Company's objectives and policies to manage these risks are disclosed in note 11 "Financial risk management" to the audited consolidated financial statements for fiscal 2017 included elsewhere in this offering circular.

Ore Reserves and Mineral Resources

In the Australian mining industry, mineral holdings are divided into three categories, exploration results, Ore Reserves and Mineral Resources, which are defined and reported in accordance with the JORC Code. Ore Reserves and Mineral Resources are further divided into prescribed sub-categories based on the level of confidence in the estimate.

A "Mineral Resource" is a concentration or occurrence of solid material of economic interest in or on the Earth's crust in such form, grade (or quality) and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, grade (or quality), continuity and other geological characteristics of a Mineral Resource are known, estimated or interpreted from specific geological evidence and knowledge, including sampling. Mineral Resources are sub-divided, in order of increasing geological confidence, into Inferred, Indicated and Measured Mineral Resources.

An "Inferred Mineral Resource" is that part of a Mineral Resource for which quantity and grade (or quality) are estimated on the basis of limited geological evidence and sampling. Geological evidence is sufficient to imply but not verify geological and grade (or quality) continuity. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. An Inferred Mineral Resource has a lower level of confidence than that applying to an Indicated Mineral Resource (see below) and must not be converted to an Ore Reserve. It is reasonably expected that the majority of Inferred Mineral Resources could be upgraded to Indicated Mineral Resources with continued exploration.

An "Indicated Mineral Resource" is that part of a Mineral Resource for which quantity, grade (or quality), densities, shape and physical characteristics are estimated with sufficient confidence to allow application of considerations used to convert Mineral Resources to Ore Reserves, which include, but are not limited to, mining, processing, metallurgical, infrastructure, economic, marketing, legal, environmental, social and governmental factors ("Modifying Factors") in sufficient detail to support mine planning and evaluation of the economic viability of the deposit. Geological evidence is derived from adequately detailed and reliable exploration, sampling and testing gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes, and is sufficient to assume geological and grade (or quality) continuity between points of observation where data and samples are gathered. An Indicated Mineral Resource has a lower level of confidence than that applying to a Measured Mineral Resource and may only be converted to a Probable Ore Reserve.

A "Measured Mineral Resource" is that part of a Mineral Resource for which quantity, grade (or quality), densities, shape and physical characteristics are estimated with confidence sufficient to allow the application of Modifying Factors to support detailed mine planning and final evaluation of the economic viability of the deposit. Geological evidence is derived from detailed and reliable exploration, sampling and testing gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes, and is sufficient to confirm geological and grade (or quality) continuity between points of observation where data and samples are gathered. A Measured Mineral Resource has a higher level of confidence than that applying to either an Indicated Mineral Resource or an Inferred Mineral Resource. It may be converted to a Proved Ore Reserve or under certain circumstances to a Probable Ore Reserve.

An "Ore Reserve" is the economically mineable part of a Measured Mineral Resource and/or an Indicated Mineral Resource. Ore Reserve estimates include diluting materials and allowances for losses, which may occur when the material is mined or extracted and is defined by studies at pre-feasibility or feasibility level as appropriate that include application of Modifying Factors. Such studies demonstrate that, at the time of reporting, extraction could reasonably be justified. The reference point at which Ore Reserves are defined, usually the point where the ore is delivered to the processing plant, must be stated. It is important that, in all situations where the reference point is different, such as for a saleable product, a clarifying statement is included to ensure that the reader is fully informed as to what is being reported. Ore Reserves are sub-divided, in order of increasing confidence, into Probable Ore Reserves and Proved Ore Reserves.

A "Probable Ore Reserve" is the economically mineable part of an Indicated Mineral Resource, and in some circumstances, a Measured Mineral Resource. The confidence in the Modifying Factors applying to a Probable Ore Reserve is lower than that applying to a Proved Ore Reserve. A "Proved Ore Reserve" is the economically mineable part of a Measured Mineral Resource. A Proved Ore Reserve implies a high degree of confidence in the Modifying Factors.

Mineral Resources may therefore be viewed as the estimation stage prior to the application of more stringent economic criteria for reserve definition, such as a rigorously defined cut-off grade and mine design outlines, along with allowances for dilution and losses during mining. Under this system of reporting, it is common practice for companies to include in the Mineral Resource category material with a high expectation of conversion to Ore Reserves, but for which final technical and economic viability has not been determined.

JORC reporting

Ore Reserves and Mineral Resources estimates as at June 30, 2017 reported in this offering circular are reported in accordance with the JORC 2012 Code or, in the case of in the Nyidinghu project only, the JORC 2004 Code. The successive versions of the JORC Code have been incorporated into the ASX Listing Rules.

Except in respect of the Nyidinghu project, the latest estimates of Ore Reserves and Mineral Resources in this offering circular are all reported in accordance with the JORC 2012 Code. The latest estimates of the Mineral Resources for Nyidinghu (as first reported in the market announcement entitled "Increase in Nyidinghu Resource to 2.46 Billion Tonnes" and released to ASX on March 13, 2013) are reported to JORC 2004 Code standards and have not been updated to comply with the JORC 2012 Code on the basis that the information has not materially changed since those latest estimates were first reported. The Nyidinghu estimate will be updated to meet JORC 2012 Code standards according to Fortescue's development priorities. Ore Reserves and Mineral Resources in this offering circular are reported "as at June 30, 2017" in accordance with when the current estimates were last publicly reported by Fortescue.

The definitions of "Ore Reserve" and "Mineral Resource" (and their corresponding sub-definitions) were amended and clarified in the JORC 2012 Code for consistency with the Committee for Mineral Reserves International Reporting Standards standard definitions. Therefore, whilst substantially similar, Ore Reserves and Mineral Resources reported below under the JORC 2004 Code are not entirely commensurate with the latest standards under the JORC 2012 Code, which requires, among other things, disclosure of more detail regarding the parameters and assumptions used when making estimates.

The Ore Reserves and Mineral Resources estimates provided in this offering circular comply with the relevant definitions and sub-definitions in the version of the JORC Code in respect of which they have been reported. The Mineral Resources estimates shown include that portion separately assigned to, and presented as, Proved and Probable Ore Reserves.

Tonnage and quality information provided in this offering circular has been rounded and as a result the figures may not add up to the total quoted.

Ore Reserves

As of June 30, 2017, Ore Reserve estimates for the Chichester Hub were 1,517Mt, of which 631Mt were Proved Ore Reserves and 886Mt were Probable Ore Reserves, with an average iron grade of approximately 57.2% and reported on a dry product tonnes basis. Ore Reserve estimates for the Solomon Hub were 674Mt as of June 30, 2017, of which 116Mt were Proved Ore Reserves and 558Mt were Probable Ore Reserves with an average iron grade of approximately 57.3%, as reported on a dry product tonnes basis. There are no current Ore Reserves for Hematite deposits outside of the Chichester and Solomon Hubs.

In addition, as of June 30, 2017, Fortescue had estimated Magnetite Ore Reserves of approximately 705Mt at the Iron Bridge Joint Venture Magnetite project, all of which were Probable Ore Reserves. There are no current Ore Reserves for Magnetite deposits outside of the Iron Bridge Joint Venture Magnetite project.

Detailed information regarding the Proved Ore Reserves and Probable Ore Reserves for each of these locations as of June 30, 2017 are set forth below.

Hematite Ore Reserves

(As of June 30, 2017)(1)

Mine/Hub by category	Tonnes (Mt)	Iron (Fe %)	Silica (SiO_2 %)	Aluminum oxide (Al_2O_3 %)	Phosphorus (P %)	Loss on ignition (LOI %)
Cloudbreak						
Proved(2)	304	57.5	5.21	2.81	0.052	8.49
Probable	289	57.2	5.97	2.75	0.058	8.00
Total	**593**	**57.4**	**5.58**	**2.78**	**0.055**	**8.25**
Christmas Creek						
Proved(2)	326	57.1	5.86	2.81	0.043	7.81
Probable	597	57.0	5.96	3.03	0.047	7.57
Total	**924**	**57.0**	**5.93**	**2.95**	**0.046**	**7.66**
Combined Chichester Hub						
Proved(2)	631	57.3	5.54	2.81	0.047	8.14
Probable	886	57.1	5.96	2.94	0.051	7.71
Total Chichester Hub Ore Reserves(2)	**1,517**	**57.2**	**5.79**	**2.88**	**0.049**	**7.89**
Firetail						
Proved(2)	13	59.0	5.57	2.40	0.114	7.18
Probable	112	59.3	5.75	2.53	0.107	6.38
Total	**125**	**59.2**	**5.73**	**2.51**	**0.107**	**6.46**
Kings and Queens						
Proved(2)	103	56.3	6.60	2.40	0.073	9.95
Probable	446	56.9	6.36	2.61	0.064	9.13
Total	**548**	**56.8**	**6.40**	**2.57**	**0.065**	**9.29**
Combined Solomon Hub						
Proved(2)	116	56.6	6.48	2.40	0.078	9.64
Probable	558	57.4	6.23	2.59	0.072	8.58
Total Solomon Hub Ore Reserves	**674**	**57.3**	**6.28**	**2.56**	**0.073**	**8.76**

Mine/Hub by category	Tonnes (Mt)	Iron (Fe %)	Silica (SiO_2 %)	Aluminum oxide (Al_2O_3 %)	Phosphorus (P %)	Loss on ignition (LOI %)
Combined Chichester Hub and Solomon Hub Ore Reserves						
Proved(2)	746	57.2	5.69	2.75	0.052	8.37
Probable	1,444	57.2	6.07	2.80	0.059	8.05
Total Hematite Ore Reserves(3)	**2,191**	**57.2**	**5.94**	**2.78**	**0.057**	**8.16**

Notes:

(1) As disclosed in the market announcement entitled "Fortescue Ore Reserves and Mineral Resources Update: Operating Properties" released to the ASX on August 18, 2017. Due to opportunistic blending and stockpiling Ore Reserves are not reported at a fixed cut-off grade, however the Ore Reserves quantity and quality reported here are quoted at iron cut-off grades of approximately 53-53.5% for bedded iron deposits ("BID") and 52.5-53.5% for channel iron deposits ("CID").

(2) Proved Ore Reserves are quoted inclusive of mine and port ore stockpiles of approximately 20.8Mt on a dry product basis.

(3) Chichester Hub Ore Reserves are inclusive of the Cloudbreak and Christmas Creek and BID deposits. Christmas Creek Ore Reserves are inclusive of the Kutayi deposit Ore Reserves. Selected Christmas Creek Ore Reserves will be directed to the Cloudbreak OPF to optimize upgrade performance and balance Cloudbreak and Christmas Creek OPF lives.

As of June 30, 2017, estimated Magnetite Ore Reserves at the Iron Bridge Joint Venture Magnetite project were approximately 705Mt dry in-situ tonnes, with an average mass recovery of 27.2% using Davis Tube Recovery ("DTR").

Magnetite Ore Reserves

(As of June 30, 2017)(1)(2)

Mine/Hub by category	In-Situ Tonnes (Mt)	DTR(3) mass recovery %	Product Iron (Fe %)	Product Silica (SiO_2 %)	Product Aluminum oxide (Al_2O_3 %)
Northstar					
Proved	–	–	–	–	–
Probable	705	27.2	67.2	5.52	0.25
Total	**705**	**27.2**	**67.2**	**5.52**	**0.25**
Glacier Valley					
Proved	–	–	–	–	–
Probable	–	–	–	–	–
Total	**–**	**–**	**–**	**–**	**–**
West Star					
Proved	–	–	–	–	–
Probable	–	–	–	–	–
Total	**–**	**–**	**–**	**–**	**–**
Combined Magnetite Reserve					
Proved	–	–	–	–	–
Probable	705	27.2	67.2	5.52	0.25
Total Magnetite Ore Reserves(2)	**705**	**27.2**	**67.2**	**5.52**	**0.25**

Notes:

(1) As disclosed in the market announcement entitled "Fortescue Ore Reserves and Mineral Resources Update: Operating Properties" released to the ASX on August 18, 2017.

(2) All Ore Reserves are reported on a dry-tonnage basis.

(3) All reporting is based on mass recovery expressed as a 9% DTR cut-off.

Mineral Resources

Mineral Resources of Hematite ore are estimated using a range of iron cut-off grades between 50% and 54% Fe. All of Fortescue's Mineral Resource estimates are reported on a dry "in situ" basis.

As of June 30, 2017, total Mineral Resources at Fortescue's operating properties in the Chichester Hub (Cloudbreak and Christmas Creek) were estimated at 3,170Mt with an average iron ore grade of approximately 56.2% while total Mineral Resources at development properties in the Chichester Hub ("Greater Chichester") were estimated at 433Mt with an average iron ore grade of approximately 56.4%.

As of June 30, 2017, total Mineral Resources at Fortescue's operating properties in the Solomon Hub (Firetail and Kings and Queens) were estimated at 2,109Mt with an average iron ore grade of approximately 55.5% while total Mineral Resources at development properties in the Solomon Hub ("Greater Solomon") were estimated at 2,658Mt with an average iron ore grade of approximately 56.8%.

As of June 30, 2017, total Inferred Mineral Resources for the Western Hub deposits were estimated at 2,125Mt with an average iron ore grade of approximately 57.9%. Total Mineral Resources for the Nyidinghu project were estimated at 2,463Mt, with an average iron ore grade of approximately 57.4%.

The Mineral Resources at the Chichester Hub, Greater Chichester, Solomon Hub, Greater Solomon, the Western Hub deposits and Nyidinghu each contain Hematite iron ore.

In addition, Fortescue has Magnetite Mineral Resources located in the deposits at North Star, Eastern Limb, Glacier Valley and West Star. Together these deposits comprise the Iron Bridge Joint Venture Magnetite project. North Star plus Eastern Limb (immediately adjacent deposits) have total Magnetite Mineral Resources of 4,297Mt, with an average mass recovery of approximately 25.1%. Glacier Valley has total Magnetite Mineral Resources of 3,321Mt with an average mass recovery of approximately 21.1%. West Star has total Magnetite Mineral Resources of 274Mt with an average mass recovery of approximately 23.5%. In each case, such resources are based on a mass recovery above a DTR cut-off of 9%. See "Business—Optimization and other development activities—Iron Bridge Joint Venture."

Detailed information regarding the amount of Measured, Indicated and Inferred Mineral Resources for each of these locations, as applicable, as of June 30, 2017 are set forth in the tables below.

Mineral Resources (Chichester Hub)

(As of June 30, 2017)(1)

Chichester Hub

Mineral Resources by category(2)	Tonnes (Mt)	Iron (Fe %)	Silica (SiO_2 %)	Aluminum oxide (Al_2O_3 %)	Phosphorus (P %)	Loss on ignition (LOI %)
Cloudbreak						
Measured(3)	478	56.7	5.60	3.45	0.056	8.6
Indicated	438	56.1	6.70	3.46	0.059	8.1
Inferred	138	56.3	6.46	3.53	0.052	7.8
Total	**1,055**	**56.4**	**6.17**	**3.46**	**0.057**	**8.3**
Christmas Creek						
Measured(3)	522	56.9	6.12	3.12	0.047	8.0
Indicated	1,088	56.1	6.74	3.67	0.050	7.8
Inferred	505	55.6	7.09	3.74	0.054	7.8
Total	**2,115**	**56.2**	**6.67**	**3.55**	**0.050**	**7.9**
Combined Chichester Hub						
Measured(3)	1,000	56.8	5.87	3.28	0.051	8.3
Indicated	1,526	56.1	6.73	3.61	0.053	7.9
Inferred	643	55.8	6.95	3.69	0.054	7.8
Total	**3,170**	**56.2**	**6.50**	**3.52**	**0.052**	**8.0**

Notes:

(1) As disclosed in the market announcement entitled "Fortescue Ore Reserves and Mineral Resources Update: Operating Properties" released to the ASX on August 18, 2017.

(2) Chichester Hub Mineral Resources are quoted at an iron cut-off grade of 53.5% and now include those at Kutayi.

(3) Measured Mineral Resource estimates include mine and port ore stockpiles.

Greater Chichester

Mineral Resources by category(1)	Tonnes (Mt)	Iron (Fe %)	Silica (SiO_2%)	Aluminum oxide (Al_2O_3%)	Phosphorus (P %)	Loss on ignition (LOI %)
Combined Greater Chichester(2)						
Indicated						
Inferred	433	56.4	7.10	3.77	0.058	7.0
Total Greater Chichester	433	56.4	7.10	3.77	0.058	7.0

Notes:

(1) Greater Chichester Hub Mineral Resources are quoted at an iron cut-off grade of 54%.

(2) Greater Chichester Mineral Resources include the Investigator, White Knight and Mt. Lewin deposits. In prior years, the Greater Chichester Mineral Resources included the Mineral Resources for the Kutayi deposit, which has now been transferred to the Chichester Hub. The Mineral Resources estimate for the Mt. Lewin deposit of Greater Chichester was prepared and reported in accordance with the JORC 2012 Code for the first time in the market announcement entitled "Chichester Range Mineral Resource Update" released to the ASX on January 8, 2015. Mineral Resources estimates for the White Knight and Investigator deposits of Greater Chichester were reported under the JORC 2012 Code for the first time in the market announcement entitled "Fortescue Mineral Resources Update: Development Properties" released to ASX on August 18, 2017.

Mineral Resources (other than Chichester Hub)

(As of June 30, 2017)(1)

Solomon Hub

Mineral Resources by category(2)	Tonnes (Mt)	Iron (Fe %)	Silica (SiO_2 %)	Aluminum oxide (Al_2O_3 %)	Phosphorus (P %)	Loss on ignition (LOI %)
Firetail						
Measured(3)	21	58.1	5.43	2.93	0.128	7.9
Indicated	193	58.3	6.62	2.78	0.113	6.6
Inferred	134	57.2	7.34	3.36	0.107	7.0
Total	**348**	**57.9**	**6.83**	**3.01**	**0.111**	**6.8**
Kings and Queens						
Measured(3)	196	55.0	7.81	2.92	0.086	9.9
Indicated	893	55.2	8.00	3.37	0.073	9.1
Inferred	671	54.9	8.22	3.60	0.079	9.0
Total	**1,761**	**55.1**	**8.06**	**3.41**	**0.076**	**9.2**
Combined Solomon Hub						
Measured(3)	217	55.3	7.59	2.92	0.090	9.7
Indicated	1,087	55.7	7.75	3.27	0.080	8.7
Inferred	805	55.3	8.07	3.56	0.083	8.7
Total	**2,109**	**55.5**	**7.86**	**3.34**	**0.082**	**8.8**

Notes:

(1) As disclosed in the market announcement entitled “Fortescue Ore Reserves and Mineral Resources Update: Operating Properties” released to the ASX on August 18, 2017.

(2) Solomon Hub Mineral Resources are quoted at an iron cut-off grade of 51.5%.

(3) Measured Mineral Resource estimates include mine and port ore stockpiles.

Development properties

Hematite mineral resources

Development Property Hematite Mineral Resources by location	Tonnes (Mt)	Iron (Fe %)	Silica (SiO_2 %)	Aluminum oxide (Al_2O_3 %)	Phosphorus (P %)	Loss on ignition (LOI %)
Greater Solomon(1)						
Indicated	254	56.6	6.70	3.45	0.083	8.3
Inferred	2,404	56.8	6.93	3.71	0.081	7.2
Total	**2,658**	**56.8**	**6.91**	**3.69**	**0.082**	**7.3**
Western Hub(2)						
Indicated	–	–	–	–	–	–
Inferred	2,125	57.9	5.53	2.93	0.094	7.9
Total	**2,125**	**57.9**	**5.53**	**2.93**	**0.094**	**7.9**
Nyidinghu(3)						
Measured	23	59.6	3.56	2.21	0.139	8.0
Indicated	580	58.1	4.52	2.95	0.148	8.6
Inferred	1,860	57.2	5.00	3.36	0.147	8.8
Total	**2,463**	**57.4**	**4.87**	**3.25**	**0.147**	**8.8**

Notes:

(1) Greater Solomon Mineral Resources include the Serenity, Sheila Valley, Mount MacLeod, Queens Extension, Cerberus, Stingray and Raven deposits. The Indicated Mineral Resource is located at the Serenity deposit. Mineral Resources for Greater Solomon deposits are reported to JORC 2012 Code standards.

(2) Formerly known as the Eliwana and Flying Fish deposits, Western Hub was updated to JORC 2012 standards on August 18, 2017 and includes Eliwana, Flying Fish, Cobra, Lora, Zorb, Farquhar, Elevation, Boolgeeda CID and Wyloo North deposits.

(3) Mineral Resources for Nyidinghu are reported to and were prepared under the JORC 2004 Code and first disclosed in the market announcement entitled "Increase in Nyidinghu Resource to 2.46 Billion Tonnes" and released to ASX on March 13, 2013. The information has not been updated since to comply with the JORC 2012 Code on the basis that the information has not materially changed since it was last reported. It will be updated to meet JORC 2012 Code standards according to Fortescue's development priorities.

Magnetite Mineral Resources[(1)]

Magnetite Mineral Resources by location(2)	In-situ Tonnes (Mt)	Mass Recovery (%)	In-situ Iron (Fe %)	In-situ Silica (SiO_2 %)	In-situ Aluminum oxide (Al_2O_3 %)
North Star and Eastern Limb					
Measured	77	28.6	32.4	39.44	1.91
Indicated	989	27.8	31.1	40.48	2.28
Inferred	3,231	24.1	29.6	41.80	2.88
Total	**4,297**	**25.1**	**30.0**	**41.46**	**2.73**
Glacier Valley					
Measured	–	–	–	–	–
Indicated	477	24.1	32.4	39.33	1.74
Inferred	2,844	20.5	30.7	40.69	2.19
Total	**3,321**	**21.1**	**30.9**	**40.50**	**2.13**
West Star					
Measured	–	–	–	–	–
Indicated	–	–	–	–	–
Inferred	274	23.5	28.3	43.43	3.43
Total	**274**	**23.5**	**28.3**	**43.43**	**3.43**
Combined Development Property Magnetite Mineral Resources					
Measured	77	28.6	32.4	39.44	1.91
Indicated	1,466	26.6	31.5	40.11	2.11
Inferred	6,350	22.5	30.00	41.38	2.60
Total	**7,892**	**23.3**	**30.3**	**41.12**	**2.50**

Notes:

(1) As disclosed in the market announcement entitled "Fortescue Ore Reserves and Mineral Resources Update: Operating Properties" released to the ASX on August 18, 2017. Tonnes and grades are reported on an in-situ basis and mass recovery is based on DTR results, using a 9% mass recovery cut off.

(2) Mineral Resources for the Iron Bridge Magnetite deposits are reported to JORC 2012 Code standards. Average concentrate quality based on DTR results achieve product grades above 66% Fe and less than 6% SiO_2.

Reported Ore Reserves and Mineral Resources

The table below sets forth the Group's Ore Reserves and Mineral Resources as of June 30 of each of the relevant fiscal years listed in the table below, as it has been disclosed in the Group's annual report in respect of the corresponding fiscal year, as well as the Group's related Ore Reserves and Mineral Resources market announcements released to the ASX.

As noted above under "JORC reporting", with the exception of the Nyidinghu project for which the latest estimates are still reported to JORC 2004 Code standards, all estimates previously reported to JORC 2004 Code standards have been updated to JORC 2012 Code standards during the comparison period reported below. Whilst substantially similar, Ore Reserves and Mineral Resources reported under the JORC 2004 Code are not entirely commensurate with the latest standards under the JORC 2012 Code.

Ore Reserves	2009	2010	2011	2012	2013	2014	2015	2016	2017
Chichester Hub (Proved)	126	98	38	31	449	444	615	616	631
Chichester Hub (Probable)	1,459	1,441	1,509	1,464	1,069	1,026	994	828	886
Chichester Hub (Proved & Probable)	**1,585**	**1,540**	**1,547**	**1,495**	**1,517**	**1,470**	**1,609**	**1,444**	**1,517**
Solomon Hub (Proved)	–	–	–	–	98	143	111	138	116
Solomon Hub (Probable)	–	–	716	716	729	760	680	590	558
Solomon Hub (Proved & Probable)	**–**	**–**	**716**	**716**	**827**	**903**	**791**	**728**	**674**
Total Hematite Ore Reserves(1)	**1,585**	**1,540**	**2,263**	**2,211**	**2,344**	**2,373**	**2,400**	**2,173**	**2,191**
North Star (Proved)	–	–	–	–	–	–	–	–	–
North Star (Probable)	–	–	–	–	–	–	705	705	705
North Star (Proved & Probable)	**–**	**–**	**–**	**–**	**–**	**–**	**705**	**705**	**705**
Total Magnetite Ore Reserves(2)	**–**	**–**	**–**	**–**	**–**	**–**	**705**	**705**	**705**

Mineral Resources	2009	2010	2011	2012	2013	2014	2015	2016	2017
Measured	134	167	240	420	668	790	885	1,048	1,000
Indicated	1,627	1,588	1,724	1,891	1,569	1,484	1,610	1,492	1,526
Inferred	467	389	586	1,068	985	947	785	619	643
Chichester Hub total	**2,227**	**2,143**	**2,550**	**3,379**	**3,222**	**3,222**	**3,280**	**3,159**	**3,170**
Measured	–	–	–	–	–	–	–	–	–
Indicated	222	222	222	222	222	–	82	82	–
Inferred	473	473	473	473	473	303	409	409	433
Greater Chichester total	**695**	**695**	**695**	**695**	**695**	**303**	**491**	**491**	**433**
Measured		108	108	108	133	167	150	254	217
Indicated	543	750	791	791	1,053	973	970	876	1,087
Inferred	1,680	2,000	2,171	2,348	818	1,079	1,015	968	805
Solomon Hub total	**2,223**	**2,858**	**3,070**	**3,247**	**2,003**	**2,219**	**2,135**	**2,097**	**2,109**
Measured	–	–	–	–	–	–	–	–	–
Indicated	–	–	–	–	–	254	254	254	254
Inferred	–	–	–	–	1,501	2,404	2,404	2,404	2,404
Greater Solomon total	**–**	**–**	**–**	**–**	**1,501**	**2,658**	**2,658**	**2,658**	**2,658**
Measured	–	–	–	–	–	–	–	–	–
Indicated	–	–	–	–	–	–	–	–	–
Inferred	–	–	624	624	624	740	740	740	2,125

Mineral Resources	2009	2010	2011	2012	2013	2014	2015	2016	2017
Western Hub total(3)	**–**	**–**	**624**	**624**	**624**	**740**	**740**	**740**	**2,125**
Measured	–	–	–	–	23	23	23	23	23
Indicated	–	–	–	–	580	580	580	580	580
Inferred	–	–	1,032	2,013	1,860	1,860	1,860	1,860	1,860
Nyidinghu total	**–**	**–**	**1,032**	**2,013**	**2,463**	**2,463**	**2,463**	**2,463**	**2,463**
Total Hematite Mineral Resources	**5,145**	**5,696**	**7,971**	**9,958**	**10,508**	**11,605**	**11,767**	**11,608**	**12,959**
Measured	–	–	–	102	–	44	77	76	77
Indicated	–	310	311	672	720	679	1,051	1,286	1,466
Inferred	1,230	2,150	2,154	2,463	4,484	3,953	4,376	5,344	6,350
Total Magnetite Mineral Resources	1,230	2,460	2,465	3,237	5,205	4,676	5,504	6,706	7,892

Notes:

(1) Reported on a Product Tonnes basis

(2) Reported on an In-situ tonnes basis

(3) Formerly referred to as Eliwana and Flying Fish

Competent persons

The detail in this offering circular that relates to Hematite Mineral Resources is based on information compiled by Mr Stuart Robinson, Mr Nicholas Nitschke, Mr David Frost-Barnes and Ms Erin Retz. Messrs Robinson, Nitschke, Frost-Barnes and Ms Retz are all fulltime employees of Fortescue. Each provided technical input for Mineral Resources estimations and compilations of exploration results. The detail in this report that relates to Magnetite Mineral Resources is based on information compiled by Mr Lynn Widenbar, an independent consultant for Widenbar and Associates. He supplied technical input for Magnetite Mineral Resources estimations and compilation of exploration results.

Estimated Ore Reserves for the Chichester and Solomon Hubs for fiscal 2017 were compiled by Mr Martin Slavik, Mr Oliver Wang and Mr Chris Fowers, full-time employees of Fortescue. Estimated Magnetite Ore Reserves for the Iron Bridge Joint Venture project for fiscal 2017 were compiled by Mr Glenn Turnbull, an independent consultant for Golder Associates. Mr Robinson is a Fellow of, and Messrs Nitschke, Slavik, Wang, Fowers, Widenbar,Turnbull and Ms Retaz 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, Frost-Barnes, Widenbar and Ms Retz have sufficient experience relevant to the type of mineralization and type of deposit under consideration to each be qualified as a Competent Person as defined in the JORC Code. Messrs Slavik, Wang, Fowers and Turnbull have sufficient experience that is relevant to the estimation, assessment, evaluation and economic extraction of Ore Reserves, and to the activity for which they are accepting responsibility to be qualified as Competent Persons as defined in the JORC code.

Messrs Robinson, Nitschke, Frost-Barnes, Slavik, Wang, Fowers, Widenbar, Turnbull and Ms Retz have each consented to the inclusion in this offering circular of the matters based on their information in the form and context in which it appears.

The information relating to estimates of Ore Reserves and Mineral Resources at the Chichester Hub and Solomon Hub as at June 30, 2017 in this offering circular is extracted from the market announcement entitled “Fortescue Ore Reserves and Mineral Resources Update: Operating Properties” released on August 18, 2017 and available at http://asx.com.au. The information relating to estimates of Ore Reserves and Mineral

Resources for the years prior to 2017 (which for the years to 2013 were prepared under the JORC 2004 Code), was extracted from Fortescue's annual report for the relevant year which is available at http://asx.com.au. Fortescue confirms that it is not aware of any new information or data that materially affects the information included in the original market announcements and that all material assumptions and technical parameters underpinning the estimates of Ore Reserves and Mineral Resources in the August 18, 2017 market announcement and in Fortescue's annual reports to 2017 as at the date of each of those annual reports, continue to apply and have not materially changed. Fortescue confirms that the form and context in which the Competent Person's findings are presented have not been materially modified from the original market announcement.

The information relating to estimates of Mineral Resources for the development properties (Greater Chichester, Greater Solomon, Western Hub and Nyidinghu) as at June 30, 2017 in this offering circular is extracted from the market announcement entitled "Fortescue Mineral Resources Update: Development Properties" released to ASX on August 18, 2017 and available at http://asx.com.au. The information relating to estimates of Mineral Resources for the years prior to 2017 (which for the years to 2013 were prepared under the JORC 2004 Code) was extracted from Fortescue's annual report for the relevant year which is available at http://asx.com.au. Fortescue confirms that it is not aware of any new information or data that materially affects the information included in the original market announcements and that all material assumptions and technical parameters underpinning the estimates of Mineral Resources in the August 18, 2017 market announcement and in Fortescue's annual reports to 2017 as at the date of each of those annual reports, continue to apply and have not materially changed. Fortescue confirms that the form and context in which the Competent Person's findings are presented have not been materially modified from the original market announcement.

Neither the ASX website nor the information contained on, or accessible through, that website are part of this offering circular and you should rely only on the information contained in this offering circular when making a decision as to whether to invest in the Notes.

U.S. definitions

The reporting of Ore Reserves and Mineral Resources in Australia under the JORC Code and in the United States under the requirements adopted by the SEC in its Industry Guide 7 differ. One principal difference is the absence in the United States of any provision for the reporting of estimates other than Proven (Measured) or Probable (Indicated) Reserves. There is, therefore, no equivalent for "Mineral Resources" under the SEC Industry Guide 7. See "Cautionary note regarding Ore Reserves and Mineral Resources."

Under the current United States requirements as adopted by the SEC in its Industry Guide 7, a "reserve" is defined as "that part of a mineral deposit which could be economically and legally extracted or produced at the time of the reserve determination."

"Proven (Measured) Reserves" are defined as reserves for which (a) the quantity is computed from dimensions revealed in outcrops, trenches, workings or drill holes and grade or quality is computed from the results of detailed sampling; and (b) the sites for inspection, sampling and measurement are spaced so closely and the geologic character is so well defined that size, shape, depth and mineral content of reserves are well established.

"Probable (Indicated) Reserves" are defined as reserves for which quantity and grade or quality are computed from information similar to that used for Proven (Measured) Reserves, but the sites for inspection, sampling and measurement are farther apart or are otherwise less adequately spaced. The degree of assurance, although lower than that for Proven (Measured) Reserves, is high enough to assume continuity between points of observation.

Business

Overview

Fortescue is engaged in the production and export of iron ore in the Pilbara and is focused on achieving its vision of being the world's safest, lowest cost and most profitable iron ore producer. Fortescue is the third largest iron ore producer in Australia and the world's fourth largest exporter into the seaborne iron ore market (the market for iron ore which is transported by ocean bulk vessels), based on CRU's export statistics for calendar 2017. The Company is a significant supplier to steel mills in Asia, principally China.

Fortescue currently produces iron ore from five mines, including one at Cloudbreak and two at Christmas Creek, which are collectively referred to as the "Chichester Hub," and one mine at each of Firetail and Kings, which are jointly referred to as the "Solomon Hub." Each of the five mines has its own OPF. The map below shows the locations of Fortescue's operations as of February 28, 2018.

The Chichester Hub comprises two operating sites (Cloudbreak and Christmas Creek) and three OPFs which process ore from multiple pits. Iron ore was first shipped from the Chichester Hub through Cloudbreak in May 2008. Since then, mining and processing from Cloudbreak has increased significantly, with approximately 44.4Mt mined from Cloudbreak in calendar 2017. Mining at Christmas Creek began in April 2009, with approximately 66.1Mt mined in calendar 2017.

The Solomon Hub comprises two operating mines (Firetail and Kings), each with its own OPF which process ore from multiple pits. The development of the Solomon Hub was announced in November 2010 as part of the 155Mtpa Expansion. At the Solomon Hub, mining operations commenced at Firetail in October 2012 with the Firetail OPF commissioned in May 2013. Mining operations commenced at Kings in May 2012, with the Kings OPF commissioned in March 2014. The Company mined approximately 80.8Mt from the Solomon Hub in calendar 2017.

The ramp-up of the Firetail mine enabled Fortescue to realize the benefits of blending lower impurity Chichester Hub ore with higher grade Firetail ore. This, together with the upgrades achieved through the new processing facilities and beneficiation plants, improves iron recovery enabling reduction in the iron cut-off grades and therefore lower strip ratios at the Chichester Hub mines. In addition, the transition of operational responsibilities from the contracting parties for two Christmas Creek OPFs and two Solomon Hub OPFs during fiscal 2014 gave Fortescue operational responsibility over all five of its OPFs, enabling shared expertise, synergies, economies of scale and efficiencies across the business.

Integral to Fortescue's growth and ongoing operations has been the development of its state of the art owned and operated rail and port infrastructure. Fortescue's railway is comprised of more than 620 kilometers of track, with an average of 14 trains operating to facilitate continuous hauling of iron ore from the Chichester and Solomon Hubs to Fortescue's Herb Elliott Port, which is located in Port Hedland. Construction of the port commenced in February 2006 and shipping began from a single berth facility in May 2008. The port now consists of five berths and three in-load and out-load circuits. See "—Rail and port transportation infrastructure—Port infrastructure" for more details.

With the official completion of its 155Mtpa Expansion in March 2014, all components of Fortescue's expanded Chichester and Solomon Hubs, as well as its integrated rail and port infrastructure, are now operating above the initial targeted capacity of 155Mtpa. Fortescue has capitalized on its expanded operations, rail and port infrastructure with a consistent annual production rate of 165-170Mt since achieving its rated capacity in 2014.

Fortescue's tenement holdings (including both granted tenements and applications for tenements) in the Pilbara cover an area of more than 39,000 square kilometers, representing the largest tenement holding in the Pilbara. As of June 30, 2017, Fortescue had estimated Ore Reserves at the Chichester Hub of approximately 1,517Mt (of which 631Mt were Proved Ore Reserves and 886Mt were Probable Ore Reserves) and estimated Ore Reserves at the Solomon Hub of approximately 674Mt (of which 116Mt were Proved Ore Reserves and 558Mt were Probable Ore Reserves). In addition, as of June 30, 2017, Fortescue had estimated Magnetite Ore Reserves of approximately 705Mt at the Iron Bridge Joint Venture Magnetite project, all of which were Probable Ore Reserves. For more information, see "Ore Reserves and Mineral Resources."

Fortescue's significant Ore Reserve and Mineral Resource position underpins the long life nature of its operations, with the ability to further extend life through continued exploration and expansion as required. The Chichester Hub currently has approximately 15 years of mine life remaining based on Ore Reserves, while the Solomon Hub currently has approximately 10 years of mine life remaining based on Ore Reserves, assuming a combined production rate of 165Mtpa. Although not currently in production, the Iron Bridge Joint Venture Magnetite project currently has a mine life of more than 20 years, assuming a production rate of 10Mtpa of Magnetite concentrate from these deposits.

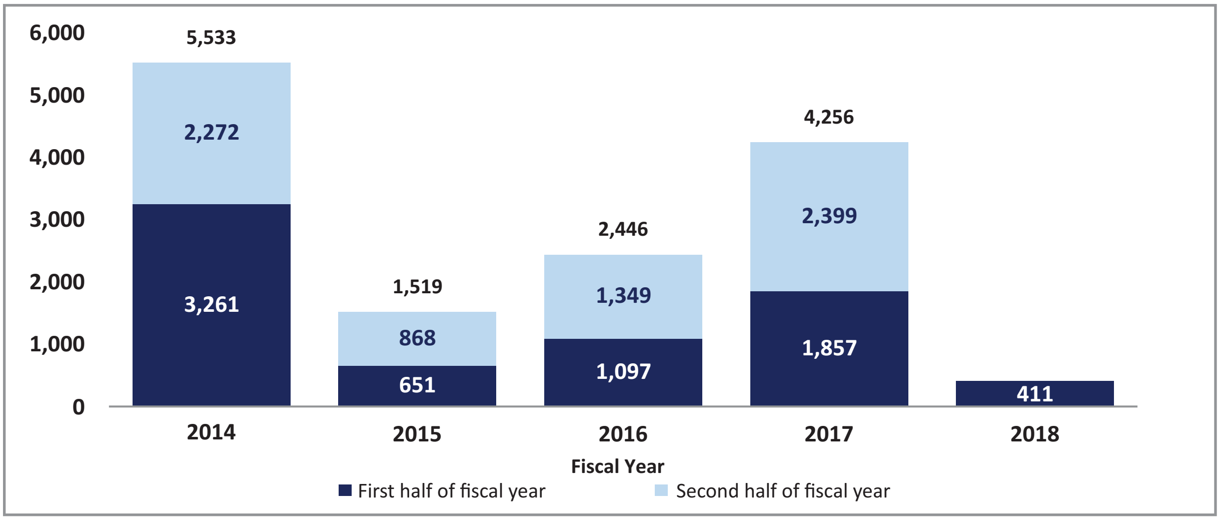
Company strengths and strategy

Strong cash flows from operations

Fortescue has been able to deliver rapid production growth with low operating costs, and has efficiently managed the capital expenditures required to construct the Chichester and Solomon Hubs and associated rail and port infrastructure. Since completion of the construction of these assets, Fortescue has consistently shipped ore at a rate of between 165-170Mtpa. Over this period, Fortescue has focused on consistent production while lowering operating costs through delivery of productivity and efficiency initiatives in a manner that it expects will be sustainable.

Fortescue's transition to full scale operations, together with the significant reduction in its cost base, has resulted in operating cash inflows in the period since July 2015. Fortescue's strong cash inflows from operating activities were supported historically by expansion of production and increasing iron ore prices.
The below table shows Fortescue's cash flow from operating activities between fiscal 2014 and the first half of fiscal 2018.

Cash flows from operating activities (US$ millions)

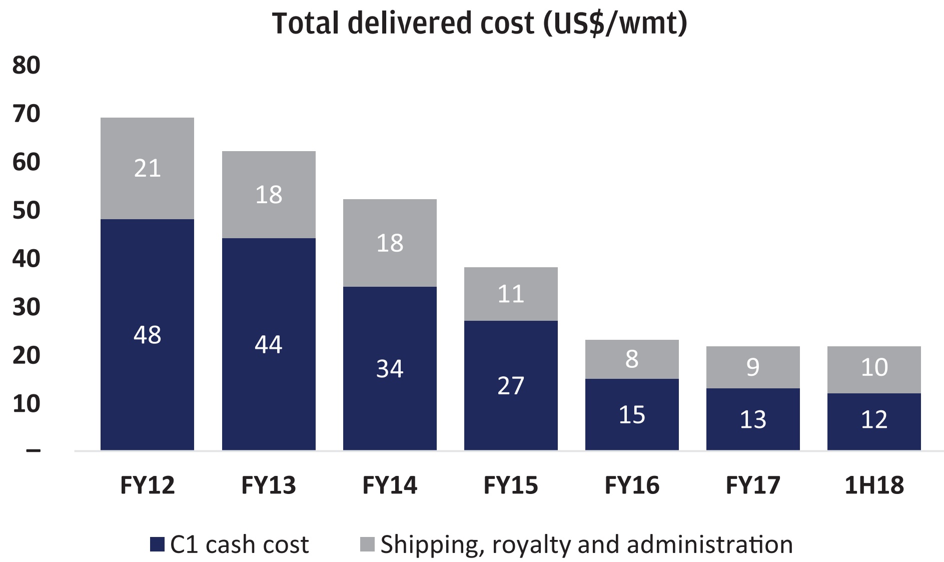


Source: Fortescue.

Low cost producer

Fortescue remains focused on being a low cost exporter of iron ore through its efficient mining operations and integrated modern rail and port transportation infrastructure. The development and control of Fortescue's rail, port and mining infrastructure, together with an ongoing focus on productivity and efficiency, has been integral to the Company's growth and profitability.

The following chart provides an overview of Fortescue's total delivered cost per wmt to deliver ore to China in fiscal 2012, fiscal 2013, fiscal 2014, fiscal 2015, fiscal 2016, fiscal 2017 and the first half of fiscal 2018, including "C1 cash costs," shipping costs, government royalties and administrative expenses.



Source: Fortescue.

Notes:

(1) "C1 cash cost" includes mining costs, rail costs, port costs and operating lease expenses, reported on a per wmt basis. Average cash cost per wmt of Fortescue mined ore shipped reported elsewhere in this offering circular may differ immaterially from the "C1 cash cost" noted in the chart above. In addition, although neither "C1 cash cost" nor average cash cost per wmt are measures of performance recognized under AAS or IFRS, management believes that they are useful to an investor in evaluating Fortescue's performance as they are measures commonly used in the resources industry. Neither "C1 cash cost" nor average cash cost per wmt should be considered in isolation or as a substitute for measures of performance in accordance with AAS or IFRS. Moreover, because "C1 cash cost" is not calculated identically by all companies, the presentation here may not be comparable to other similarly titled measures of other companies.

(2) "FY" denotes fiscal year ending June 30 and "1H" denotes fiscal first half year ended December 31.

Fortescue has continued to focus on optimizing its operations and sought to further lower its operating costs through a number of initiatives, including:

- additional improvement in mining and processing operations, including blending of products, optimizing mine scheduling, improving OPF metallurgical performance to improve iron recovery and reduce cut-off grades, thereby allowing Fortescue to lower its strip ratio during the period from fiscal 2015 through fiscal 2017. The chart below shows the Group's strip ratios during each of fiscal 2015, 2016 and 2017 and the first half of fiscal 2017 and 2018:

	Six months ended December 31,		Year ended June 30,		
	2017	2016	2017	2016	2015
Strip ratios	1.4x	1.1x	1.0x	1.1x	1.8x

- utilization of autonomous trucks at the Kings mine and introduction of autonomous trucks at the Firetail mine;
- optimization of the Group's rail operations, including increasing the number of ore cars per train set and the reduction of cycle times and average loadout times;

- efficiencies in the Group's port operations, including improved load and unload times following the construction of a fifth ship loading berth at Anderson Point in Port Hedland; and
- the Fortescue River Gas Pipeline was commissioned in March 2015 and supplies gas to the Solomon power station. The Solomon power station generates power for the Solomon operations and is intended to lower energy costs and the Group's carbon footprint.

Fortescue aims to continue to lower its costs by continuing to improve its operating efficiencies, leveraging economies of scale, and continuing to focus on innovation and technology to deliver sustainable cost savings. Fortescue benchmarks itself against its industry peers and continues to pursue improvement opportunities in the areas of mine planning, ore haulage, ore processing, rail haulage and port operations, to identify and implement industry best practice.

The following outlines a number of initiatives that Fortescue is implementing to target further reductions of its operating costs at minimal capital expense.

Mining and processing operations

Fortescue is focused on sustainable improvement, capturing operational synergies and shared learnings to identify performance improvement opportunities. This ongoing process has resulted in cost reductions from a number of initiatives, including among other things, blending of products, optimizing mine scheduling and improving OPF metallurgical performance and iron recoveries. This has enabled the reduction of cut-off grades, thereby allowing Fortescue to lower its strip ratio. Furthermore, synergies are being captured across the business including the alignment of maintenance strategies to improve utilization rates of infrastructure, fleet and equipment.

Autonomous Haulage System

Fortescue currently has 57 autonomous trucks in operation at the Solomon Hub, which has delivered improved safety, as well as operational efficiencies. The system continues to be tested for optimization and efficiencies, with the Company undertaking a conversion to autonomous haulage technology at the Chichester Hub.

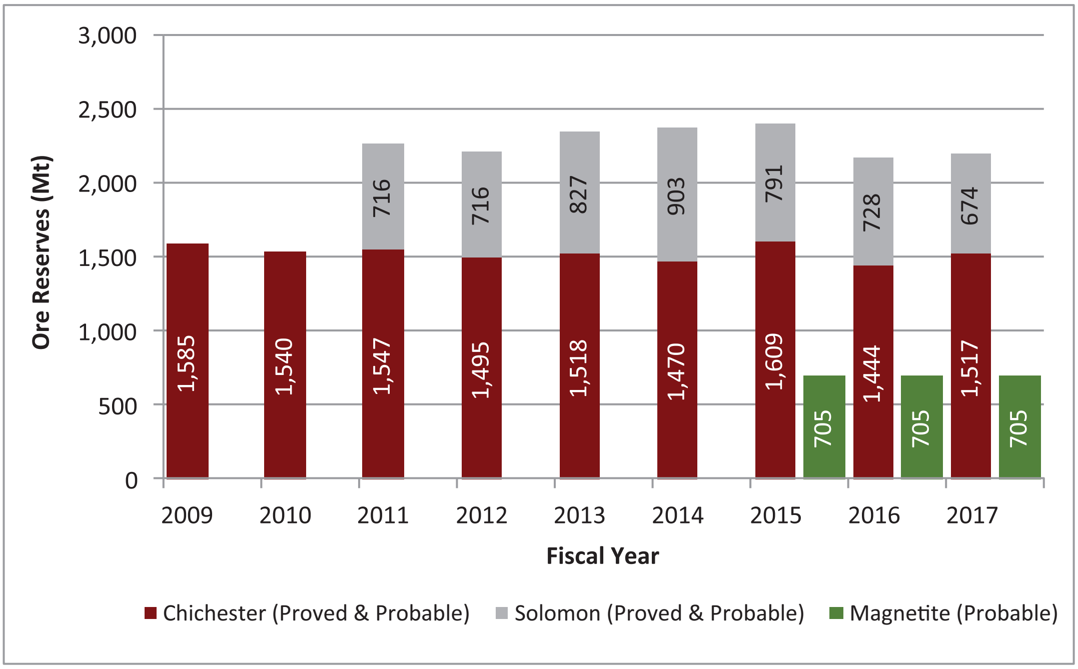
Port efficiencies

Fortescue completed construction of a fifth ship loading berth at Anderson Point in Port Hedland in March 2015 and since then has been focused on optimizing efficiency of the five berth, three shiploader configuration. Further efficiency through the port is targeted through the optimization of the shipping fleet, including the introduction of Fortescue's new VLOCs into the portfolio. See "—Sales and marketing—Shipping."

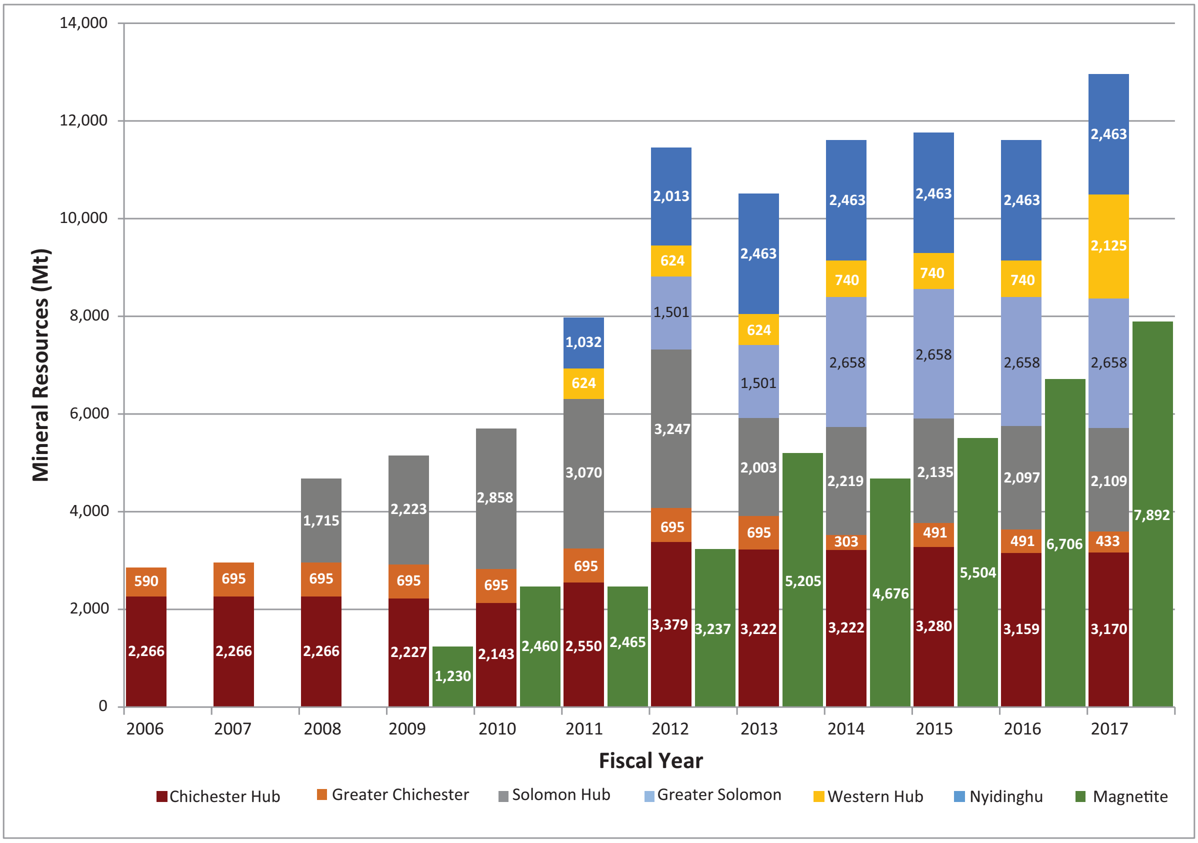
Replace and expand Ore Reserves and Mineral Resources

The following charts demonstrate the success of Fortescue's historical exploration efforts, which have resulted in an increase in Ore Reserves and Mineral Resources over the period from fiscal 2009 to fiscal 2017.

Ore Reserve history, by location as at June 30 in the relevant year



Mineral Resource history, by location, as at June 30 in the relevant year



Notes:

(1) The estimates recorded in these graphs were prepared in accordance with JORC 2004 Code or the JORC 2012 Code . For further information, including a breakdown of the categories of Ore Reserves and Mineral Resources for 2017, refer to "Ore Reserves and Mineral Resources."

(2) As of June 30, 2017, Fortescue had total Magnetite Mineral Resources of 7,892Mt (fiscal 2016: 6,706Mt). See "Business—Optimization and other development activities—Iron Bridge Joint Venture" and "Ore Reserves and Mineral Resources" for further information and a breakdown of categories of the Mineral Resources.

(3) As of June 30, 2017, Chichester Hub had total Measured Mineral Resources of 1,000Mt, total Indicated Mineral Resources of 1,526Mt and total Inferred Mineral Resources of 643Mt. For further information refer to "Ore Reserves and Mineral Resources."

Fortescue remains committed to the replacement of its Ore Reserves and Mineral Resources in the long term to further extend its mine life. For more information, see "Ore Reserves and Mineral Resources—Ore Reserves" and "Ore Reserves and Mineral Resources—Mineral Resources."

Location

Fortescue's tenements and operations are located in the Pilbara. The Pilbara has one of the world's largest contained iron ore resource bases within the mineral province known as the Hamersley Basin. Within the Pilbara, Fortescue operates its five mines out of two mining "hubs," which are the Chichester Hub and the Solomon Hub.

The Chichester Hub is located approximately 110 kilometers north of the township of Newman and approximately 250 kilometers southeast of the township of Port Hedland, where the Company operates its Herb Elliott Port facility. The Chichester Hub currently consists of three iron ore mines:

- One mine at Cloudbreak, which is accessible by land or air, with Fortescue operating its own sealed airstrip. Road access is available through the Great Northern Highway (a sealed road) from the town of Newman in Western Australia and a 60-kilometer unsealed access road; and
- Two mines at Christmas Creek, which are situated approximately 50 kilometers east of Cloudbreak. Currently, access to Christmas Creek is available through an unsealed Marble Bar/Newman Road, in addition to Fortescue operating its own sealed airstrip.

The Solomon Hub is located in the Hamersley Ranges in the Pilbara, approximately 300 kilometers southwest of the township of Port Hedland and 60 kilometers north of the township of Tom Price. It is connected to the mainline by the 130-kilometer Fortescue Hamersley Line, which was completed in December 2012. The Solomon Hub is accessible by plane, with Fortescue operating its own sealed airstrip, or by road from the township of Tom Price, and currently consists of two iron ore mines:

- The Firetail mine, which is accessible by road; and
- The Kings mine, which is situated approximately 5 kilometers south-west of Firetail.

History

Fortescue was constituted in its current form in mid-2003 and has since been focused on the development of its iron ore tenements in the Pilbara. Fortescue began an exploration and drilling program in the Chichester range of the Pilbara in 2003 and, during the course of 2004, discovered the Cloudbreak and Christmas Creek ore bodies.

Fortescue commenced construction of the port, rail and mine projects with respect to the Chichester Hub in February 2006, with the breaking of ground at the port site at Anderson Point in Port Hedland. In 2008, Fortescue completed its rail infrastructure, and operations commenced at the Herb Elliott Port and at Fortescue's first mine, Cloudbreak.

In May 2008, Fortescue commenced loading its first commercial shipment of 180,000 tonnes of Rocket Fines from the Herb Elliott Port at Port Hedland for delivery to Baosteel, a major Chinese steel group. Two months later, in July 2008, Fortescue received independent sign off certifying the achievement of "Project Completion," which included the mining, railing and shipment of two million tonnes within a four week period. In its first 12 months of operations, Fortescue mined, railed and shipped more than 27Mt to customers in China.

In June 2011, Fortescue completed the first of two planned expansions, which increased total production capacity at the Chichester Hub to 55Mtpa and principally involved the opening of four new mine pits and construction of an OPF at Christmas Creek and the build-out of its existing railway to connect Christmas Creek to Cloudbreak.

In May 2012, at the Solomon Hub, operations commenced at Kings as part of the second planned expansion to increase total production capacity to 155Mtpa. In December 2012, Fortescue completed the further expansion of the Chichester Hub, increasing production capacity at the Chichester Hub to 95Mtpa.

In March 2014, the Company officially completed its 155Mtpa Expansion on budget with the commissioning of the Kings OPF at the Solomon Hub. The 155Mtpa Expansion also involved the expansion and build-out of the Company's rail and port transportation infrastructure, including the construction of a third and fourth berth and a second and third shiploader at the Herb Elliott Port and of the 130-kilometer Fortescue Hamersley Line from the Solomon Hub OPFs to the mainline.

Since the completion of the expansion, Fortescue has been focused on achieving its vision of being the safest, lowest cost, most profitable iron ore producer. Since achieving its rated capacity in 2014, the Company has continued to consistently meet its safety, production and cost guidance, and it has consistently shipped ore at a rate of between 165-170Mtpa.

Industry overview

Iron ore consumption

The majority of iron ore consumed worldwide is smelted in blast furnaces with coking coal and limestone to produce pig iron, an intermediate product that is ultimately used to produce steel. Iron ore imports are predominantly in the form of iron ore fines, contributing two-thirds of the world's iron ore imports. This is primarily driven by the high demand for fines by the steel mills in China, the largest importer of iron ore globally, which use sinter feed produced from fines as a dominant burden charge in their blast furnaces.

According to CRU, in the year ended December 31, 2017, China accounted for approximately 70% of global iron ore consumption. According to China customs data, China imported a record 1.075bn of iron ore, in the year ended December 31, 2017.

China's actual demand for iron ore is still growing, as low cost seaborne iron ore displaces higher cost domestic iron ore, although the pace of growth in China's iron ore imports is slowing. During 2016 and in 2017, the Chinese economy focused on stabilization and moving towards a more balanced growth model from its previous mainly investment-driven growth. According to the World Bank, although China had an average annual GDP growth rate of approximately 9.5% between calendar 2001 and 2016, the rate of its economic growth has slowed in recent years to a rate of approximately 6.9% in calendar year 2017. The economic growth of China and other developing countries and resultant demand for iron ore resources is forecast to underpin future growth in global production and export of iron ore. See "Risk factors—Operational risks relating to the business of the Group—Adverse developments in China could have a negative impact on the Group's business, which relies heavily on demand for seaborne iron ore from China-based purchasers."

Iron ore production

Total iron ore production has grown significantly over the last ten years, primarily as a result of demand for, and the production of, steel in China and other emerging economies. China has undergone a steel-intensive phase of growth over this period which increased demand for iron ore to support its domestic steel manufacturing industry, although the rate of growth in the demand for iron ore in China slowed in recent years.

The seaborne iron ore market represents more than half of the global iron ore market and is dominated by producers in Australia and Brazil and is highly consolidated, with the top four industry participants (BHP Billiton, Fortescue, Rio Tinto and Vale) collectively accounting for an estimated 80% of global seaborne iron ore trade in the year ended December 31, 2017, according to CRU. CRU estimates that Fortescue represented approximately 11% of the global seaborne iron ore trade in calendar 2017, making Fortescue the fourth largest participant in the seaborne market.

BHP Billiton, Rio Tinto and Vale have recently reaffirmed their iron ore production targets in the short-to-medium term. BHP Billiton announced a half-year Pilbara production figure of 117Mt for the first half of their fiscal year ended December 31, 2017. Its market guidance for the full year ending June 30, 2018 was

275-280Mt, with plans to increase production to 290Mtpa by the year ending June 30, 2019. Rio Tinto iron ore production was 330.1Mt for the year ended December 31, 2017, which was 1% higher than the year ended December 31, 2016. Rio Tinto has indicated that it will maintain production of 330-340Mtpa from its operations in the Pilbara. Vale has recently commenced commissioning of its 90Mtpa S11D project. For the year ended December 31, 2017 Vale produced 366.5Mt. Vale is guiding 390Mt of production for 2018. Additionally, Roy Hill has ramped up production to an annualized rate of 55Mtpa. See "Risk factors—Operational risks relating to the business of the Group—Competition could adversely affect the Group's financial performance."

Australia is the world's largest producer of high-grade iron ore for the seaborne market, having significant iron ore resources, predominantly in the Pilbara. Brazil is currently the world's second largest producer of high-grade iron ore for the seaborne market. While many countries other than Australia and Brazil have iron ore resources they face limitations in accessing the seaborne market in the near-term. For example, despite its large potential, most projects in Africa are still at the early stage, Canada's cold climate and sea ice prevents shipments during winter and India has seen a decrease in exports due to the implementation of policies to conserve resources for future domestic steel production and eliminate illegal mining and exporting. Additionally, while China is the world's largest iron ore producer as measured by tonnes of ore mined, Chinese iron ore reserves are mostly low-grade, transporting low-grade iron ore in the seaborne market is usually not competitive and most Chinese iron ore mines do not have access to the infrastructure necessary to deliver iron ore to the export market. Consequently, China retains most of its iron ore production for use by its domestic steel mills, where it competes against higher quality iron ore from the seaborne market.

Fortescue believes Australia's geographic proximity to developing Asian markets gives its major producers, BHP Billiton, Fortescue, Rio Tinto and Roy Hill, a shipping cost (and time) advantage in comparison to their major seaborne competitors such as Vale, which exports the majority of its iron ore from Brazil (although Vale has invested in a trans-shipment hub in Malaysia and the Philippines), and Anglo American, which exports from South Africa and Brazil.

Fortescue currently produces Hematite iron ore, which is an abundant form of low cost extractable iron ore and is found in large quantities in some areas of the world, especially Africa, Australia, Brazil and India. Hematite deposits are typically large, close to the surface and mined via open pits, and in Australia, the average grade of mined Hematite resources varies between approximately 56% and 62% Fe.

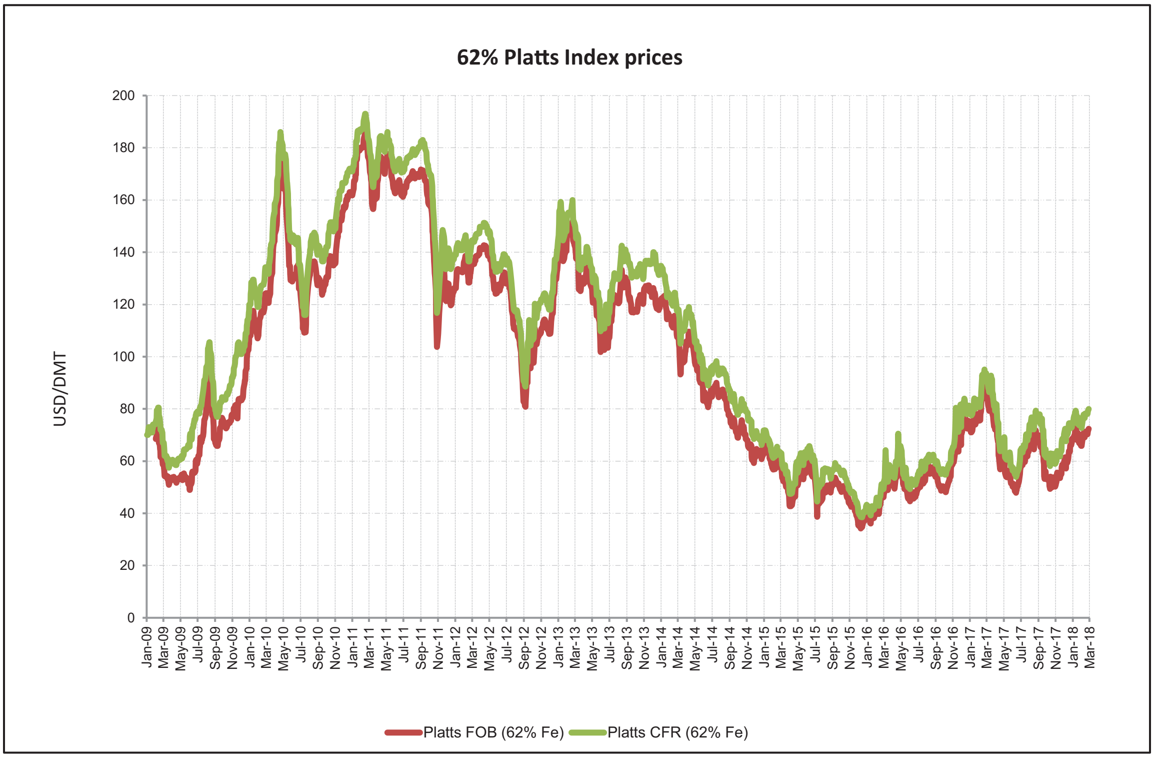
Prices for iron ore on world markets

In addition to volumes of ore shipped, global prices for iron ore are a key driver of the Company's performance. In recent years, iron ore prices have been strongly aligned with China's economic growth, as it accounts for a substantial majority of global iron ore trade volume, as well as available iron ore supply and steel consumption. Fundamentals such as iron ore stockpiles at Chinese ports, steel production and Chinese domestic iron ore production are being watched closely to monitor the trend.

The key iron ore pricing references applicable to major Australian producers are the Platts IODEX 62% Fe index (the "62% Platts Index") and the MBIO (Premium) 58% Fe index (the "58% MBIO (P) Index"). These indices are essentially determined by reference to the spot market created by the sales price achieved for Rio Tinto's Pilbara Blend Fines, BHP Billiton's MAC and Newman Fines (in respect of the 62% Platts Index), and BHP Billiton's Yandi (in respect of the 58% MBIO (P) Index). The large majority of Fortescue's suite of products is sold with reference to the 62% Platts Index with a market price comparable to other products which have similar "value in use" properties for steel production. Fortescue realizes approximately 70%-75% of the 62% Platts CFR Index. While Fortescue prices its products relative to the 62% Platts CFR Index, which is now the predominant basis for pricing in the seaborne iron ore market, the 58% Indexes as well as product pricing in China ports (RMB/WMT) more approximates Fortescue's realized price across its products which range in grade from 56.5% to 58.2%. Fortescue's customer agreements are generally based on an index price with reference to the 62% Platts Index FOB price (per dmtu), derived from the 62% Platts CFR Index price, averaged over an agreed period and adjusted for Fe grade and impurities. Under the 62% Platts CFR Index, iron ore prices in the Asian seaborne market are quoted as including freight to China. The 58% MBIO (P) Index is used to price some of Fortescue's Non-China sales for Kings Fines.

Since 2009, market prices for seaborne ore have fluctuated significantly, primarily as a result of changes in demand from Chinese steel manufacturers, the high cost of Chinese domestic ore product and increases in supply in the global seaborne iron ore industry. For instance, after rising from a low of US$57.50 per dmt on March 20, 2009 to reach an all-time high of US$193.00 per dmt on February 15, 2011, the 62% Platts CFR Index fell to a low of US$38.50 per dmt on December 15, 2016. As of February 26, 2018, the 62% Platts CFR Index was US$79.95 per dmt. See "Risk factors—Operational risks relating to the business of the Group—The Group's business is highly dependent on the demand for, and the price of, iron ore, which may face downward pressure as a result of a supply and demand imbalance in the global seaborne iron ore industry which may negatively affect the Group's results."

The chart below shows the 62% Platts Index prices between January 1, 2009 and February 26, 2018, quoted for both FOB and CFR.



Source: Fortescue.

Fortescue's average sales price was US$47 per dmt for the first half of fiscal 2018, as compared to US$56 per dmt for the first half of fiscal 2017, and was US$53 per dmt for fiscal 2017, US$45 per dmt for fiscal 2016, and US$57 per dmt for fiscal 2015.

Mining operations at the Chichester Hub

Overview

Mining operations within the Chichester Hub consist of the Cloudbreak and Christmas Creek mines:

Cloudbreak Mine—Cloudbreak is Fortescue's first mine, and is the closest known major deposit of Hematite iron ore to Port Hedland. Approximately 44.4Mt and 51.4Mt were mined at Cloudbreak in calendar 2017 and calendar 2016, respectively.

Christmas Creek—Christmas Creek, which has two mines, is located 50 kilometers east of Cloudbreak. Approximately 66.1Mt and 64.8Mt were mined at Christmas Creek in calendar 2017 and calendar 2016, respectively.

Mining method

The ore bodies at the Chichester Hub are gently undulating sheets of mineralization which are easily accessible from multiple open pit operations at each location. The position and structure of the iron ore mineralization in the Chichester Range allow for a strip mining process with the ability to backfill mined areas as excavations move along the mine length. The Chichester Hub deposits dip flatly to the south and overburden depth does not exceed 80 meters. The overburden is removed first, followed by hardcap material, then ore.

Originally, the majority of ore mining at both Cloudbreak and Christmas Creek was carried out by a fleet of surface miners owned by Fortescue. In recent years a more conventional drill and blast method has been implemented. Surface miners have been transitioned out of the Cloudbreak and Christmas Creek operations during calendar 2017.

Mining services agreements

On April 4, 2016, Fortescue announced that it would transition to a full owner operator model at its Christmas Creek mining operations with a focus on safety, production and costs. The owner operator model allows Fortescue to further reduce its costs through ongoing improvement of the efficiency and productivity of the operations. The transition took effect from September 30, 2016.

Ore haulage

Transportation of the ore to the OPFs at each mine is achieved using a combination of regular haul trucks for shorter distances and overland conveyor systems.

Water management

The Chichester Hub operations are hosted by the Marra Mamba Formation aquifer, which contains a lens of fresh to brackish groundwater underlain by a hypersaline groundwater system. This hypersaline groundwater system extends beneath the Fortescue Marsh, an internally-draining wetland of national significance, situated to the south of the operations. Approximately 90% of the Cloudbreak ore body and 60% of the Christmas Creek ore body are situated below the water table ("BWT") and as a result, the dewatering yields are high and far exceed site process water requirements. As such, dewatering and effective water management are integral to the success of Fortescue's mining operation. Fortescue has successfully operated an integrated Managed Aquifer Recharge ("MAR") scheme as its primary water management tool since mid-2008.

The MAR scheme employs a complex, integrated, multiple water quality solution to facilitate mining whilst managing environmental impacts. Brackish water is separated at source for use in processing with surplus water injected laterally along the orebody. Saline water is conveyed in a separate system and injected to the south of operations into a highly permeable, saline calcrete aquifer. There are a number of drivers for injection of the excess dewatering draw. The first is the preservation of the brackish water resource for ore processing over the life of the mine, without which Chichester operations would have to establish a large external water source relatively early in the mine life. The second benefit of injection is the minimization of the drawdown footprint of the dewatering operations, particularly toward the Fortescue Marsh where ecological functioning is poorly understood but ecological values are known to be high. A third and important driver is the prevention of environmental and cultural concerns associated with the surface discharge of excess water.

At Cloudbreak, dewatering for BWT operation and reinjection of the excess water began in August 2008 and the dewatering abstraction is currently 120 gigaliters ("GL") per year. The site requires 12GL per year for ore processing and dust suppression, and the remaining 110GL (approximately 90% of dewatering) is returned to hydrochemically-similar aquifers through injection bores.

At Christmas Creek, dewatering for BWT operation and reinjection of the excess water began in June 2012 and the dewatering abstraction is currently 45GL per year. The site requires 18GL per year for ore processing and dust suppression, and the remaining 27GL (approximately 55% of dewatering) is returned to hydrochemically-similar aquifers through injection bores.

The same water management principles will continue to be applied and the waters of the two operations will be managed together through the combined Chichester MAR Scheme with associated operational and cost efficiencies.

Processing

In order to maximize the quality of mined iron ore product, processing is typically carried out on all ore mined. This is a relatively simple process compared to other commodities.

Fortescue believes that the OPF at Cloudbreak is one of the largest of its kind in the Pilbara. It consists of a separate screen house linked by conveyors to a crushing house, a beneficiation facility (referred to as the "desand" plant) and three large capacity product surge piles which feed a below-ground vault that supplies the train loader with product. The crushing, desanding, screening and other OPFs were obtained under a lease agreement. The facility was modified during the first half of 2013 to include a "wet front end processing" plant.

The Cloudbreak OPF is capable of producing either fines only or both lump and fines. The fines product itself can be produced for direct shipping, beneficiated or a combination of both. To date, fines have been the main product from the Cloudbreak OPF.

The desand plant is capable of processing 22Mtpa of fines and is designed to upgrade the low-grade ROM to reduce impurities (e.g., aluminum oxide (Al_2O_3) content reduced from 2.5% to 1.9%) in the final product by removing fine clays as well as sand-sized shale and chert particles.

The desand concentrate is mixed with fines generated from dry crushing and screening, then discharged onto the final product surge pile over the vault. Twin apron feeders in each below-ground vault feed a conveyor which discharges into a twin cell, clam shell-type rail wagon loader. Each train can be loaded in approximately two hours at approximately 16,000 tonnes per hour. The train loader station also includes an ISO-compliant cross-stream sampler. Chemical analysis by the onsite contractor laboratory of Intertek Robotic Laboratories ensures that a chemical analysis of a representative sample is obtained for each train before it reaches the port.

There are two OPFs at Christmas Creek, one at each of the Christmas Creek mines. The Christmas Creek OPFs consist of a separate screen house with scrubber-trommels and screens linked by conveyors to a crushing house, and a beneficiation facility referred to as the “desand” plant. The desand plant is similar to the one at Cloudbreak with OPF1 consisting of two modules and OPF2 consisting of three modules. This wet front-end feature processes wet ore more efficiently while simultaneously reducing the moisture in the final product to levels that lie within customer requirements through the use of de-watering screens. The Christmas Creek OPFs are only capable of producing fines product. Processing capabilities are supplemented as required by ancillary crushing.

Following processing, the product from both OPFs is conveyed to the stockyard via a stacker. Product is subsequently reclaimed through the use of a bucket wheel reclaimer and conveyed to the train loader. The stockyard has the ability to load product directly from either of the two OPFs to the train loader, providing flexibility in operations and product loadout.

In January 2014, Fortescue assumed full ownership and operational responsibility for the two Christmas Creek OPFs by purchasing the plants from Crushing Services International Pty Ltd, a wholly-owned subsidiary of Mineral Resources Limited. In September 2016, Christmas Creek transitioned to a full owner operator model.

Geology

The Chichester Range trends west-northwest along the northern edge of the Fortescue Valley for approximately 200 kilometers and is known to be underlain predominately by the Marra Mamba Iron Formation. The Chichester Hub deposits are a single, 80-kilometer long deposit, locally dissected by erosion caused by subsequent drainage channels.

Chichester Hub—In the Chichester Range, the Marra Mamba Iron Formation dips less than five degrees south and trends west-northwest. In the Christmas Creek area, iron ore outcrops sporadically along with hardcap and detritals. However, further west at Cloudbreak, virtually no iron ore outcrops and surface material is predominately hardcap, unmineralized Nammuldi member rocks and/or detritals.

At the Chichester Hub, the zone of enrichment follows the Nammuldi Member of the Marra Mamba Iron Formation and varies from five kilometers to nine kilometers wide and 80 kilometers long (with a 10-kilometer break where it has been significantly eroded by drainages). Ore grade material can range from about one to 25 meters thick with an average approximately seven meters in thickness. Better mineralized areas average between eight and 15 meters in thickness. All mineralization dips approximately two to five degrees south.

Within the areas of enrichment, the shape and size of individual ore zones can vary widely because they have been formed largely by supergene processes that are greatly influenced by structures that have guided descending meteoric water. Much of the mineralization is located in zones sufficiently large and connected to be well suited to large scale, bulk mining methods. However, significant tonnage may occur in ore zones whose size and shape require drill and blasting, followed by loader and truck mining.

Mineralization in the Christmas Creek deposit occurs over an area approximately 39 kilometers along strike and up to nine kilometers in width, from the surface to a depth of 117 meters. There are four types of mineralization at Christmas Creek: hardcap mineralization, Nammuldi Member mineralization (greater than 50% iron cut-off grade), higher grade Nammuldi Member mineralization (greater than 57% iron cut-off grade) and CID.

Mineralization in the Cloudbreak deposit covers an area approximately 37 kilometers along strike by five kilometers in width, from the surface to a depth of 90 meters below surface. Mineralization ranges from one to 28 meters thick and is seven meters thick on average. There are three types of mineralization at Cloudbreak: Nammuldi Member mineralization (50% iron cut-off grade), higher grade Nammuldi Member mineralization (greater than 56% iron cut-off grade) and CID.

In addition to the Chichester Hub, the Company has identified other potential mining areas in the Chichester Range, at Mt. Lewin, White Knight and Investigator, which are referred to by the Company as "Greater Chichester." In prior years, Greater Chichester also included the Kutayi deposit, which has now been transferred to the Chichester Hub. In general, the geology of the mining areas within Greater Chichester is similar to that of Christmas Creek and Cloudbreak.

Mining operations at the Solomon Hub

Overview

Mining operations within the Solomon Hub consist of the Firetail and Kings mines which are owned and operated by Fortescue:

Firetail Mine—Approximately 29.8Mt and 28.0Mt of ore was mined at Firetail in calendar 2017 and calendar 2016, respectively.

Kings Mine—Approximately 51.1Mt and 46.6Mt of ore was mined at Kings in calendar 2017 and calendar 2016, respectively.

Mining method

Fortescue employs drill and blast, followed by load and haul, mining methods at the Solomon Hub. Fortescue considers the conventional drill and blast, and load and haul, mining method to be optimal from a cost perspective for the Solomon Hub mines.

Mining occurs at multiple, spatially separate pits, each working multiple faces simultaneously, and hydraulic excavators are employed to dig the material from working mine faces using a terrace mining development strategy. The excavators load the iron ore and waste material into haul trucks for transport to either waste or ore dumping locations. Waste dumping locations are located adjacent to the mine pits. Such locations are intended to be utilized as in-pit backfill in later years. Filling the adjacent empty pits with the overburden is an integral part of the mining process and ensures the creation of post-mining landforms and reduces haulage distances. When conducted concurrently with the mining process, it provides a considerable advantage as it leaves the mining areas in a substantially rehabilitated state.

At the Solomon Hub, Fortescue has implemented Caterpillar Autonomous 793F trucks, with approximately 57 such trucks currently in operation. The autonomous trucks are supported by the Cat Minestar and Command system, which enables haul trucks to be in operation and controlled remotely without the requirement of haul truck operators in the trucks. Since being implemented in March 2013, the autonomous haulage system has moved more than 500Mt through to January 2018.

Ore haulage

Transportation of the ore to the OPFs' elevated pads ("ROM pads") in each area is achieved using autonomous haul trucks. Material is transported between Firetail and Kings to enhance blending as required.

Water management

The primary aquifer in the Solomon area is interpreted to be associated with secondary porosity of the ochreous goethite lower CID. The enhancement of secondary porosity is predominantly linked to the occurrence of interconnected vuggy and cavity fabrics within altered and weathered lower CID.

Groundwater in the Solomon area is also associated with:

- Alluvium, colluvium and detrital deposits including the BID and DID sequence within Tertiary palaeochannel sediments which overlie the CID. Commonly the BID and DID successions occur above the water table.
- Deposits of calcrete in historical and current water table settings within the Tertiary palaeochannel successions. The occurrence, extent and thickness of calcrete deposits are widely variable.
- Upper CID which overlies the lower CID and is interpreted to be typically characterized by comparatively low-transmissivity. There may be increased transmissivity and groundwater flow at the contact between the Upper and lower CID.

The lower CID is partially connected to the underlying, low permeability weathered bedrock unit.

The current dewatering rate is 14GL per year and site water requirements are currently around 16GL per year. The dewatering rate fluctuates over the life of the project between 1.7GL and 21 GL per year, but is heavily influenced by the mine plan.

To meet the site water requirements an external borefield can currently supply 5.1 GL per year from the Southern Fortescue Palaeochannel.

There are a number of groundwater fed pools around the Solomon area which require protection from drawdown impacts. Currently reinjection and direct supplementation are being used to protect the groundwater fed pools, in the future hydraulic barriers and other protection options may be used.

Processing

The mined run-of-mine (“ROM”) ore from both the Kings and Firetail mines are transported to ROM pads for tipping into a ROM feed bin at the primary crushing hubs. Two primary crushing hubs are required, with one for the Firetail mine, operating two lines, and one for the Kings mine. The primary crusher system consists of a feed hopper, apron feeder, primary sizer, secondary sizer and product conveyors. The ROM ore is blended at the crushing hubs to ensure a consistent mix of ore in order to achieve the required blend and contaminant levels. In some cases, stockpiles of ROM ore have been employed to further enhance the degrees of blending. Processing capabilities are supplemented as required by ancillary crushing.

The Solomon Hub is comprised of two OPFs: the Firetail OPF processes Brockman Iron Formation (“Brockman”) BID and DID from the Firetail and Kings mine, and the Kings OPF wet processes CID and DID from the Kings mine. The OPF at Firetail is designed to treat a 90:10 BID:DID blend of ore at a nominal feed rate of approximately between 25-27Mtpa while the OPF at the Kings mine is designed to treat CID ore at a nominal feed rate of approximately 45Mtpa.

The Firetail OPF is designed to produce a fines product only and comprises a separate screen house with screens linked by conveyors to a crushing house. The plant is fed by overland conveyors connected to a primary crushing hub.

The Kings OPF is designed to produce a fines product only and comprises a separate screen house with scrubbers and screens linked by conveyors to a crushing house, and a desand plant. The plants are fed by overland conveyors connected to primary crushing hubs. Low grade material is delivered to the desanding unit via a series of screens for upgrade.

Following processing, the products from both OPFs are conveyed to the stockyard via a stacker. Two independent ore stockpiles are required for each of the Kings and Firetail OPFs and are serviced by two separate stacking systems at each site. The stockpiles are designed to provide five operating day storage, equating to a total capacity of 1.2Mt from the Firetail and Kings OPFs. A bucket wheel reclaimer, operating at a nominal 17,000 tonnes per hour has been installed to reclaim ore from each of the stockpiles and feed it into an automated train loading facility.

Geology

Solomon Hub—The Solomon Hub project mining areas and rail corridor are located on unallocated Crown Land, native title claim areas and active pastoral leases (Hamersley, Mt. Florance, Hooley and Mulga Downs). The rail corridor passes through Yandeyarra Aboriginal Reserve to the west of the Great Northern Highway.

Outcropping geology in the region is the Dales Gorge, Whaleback Shale and Joffre Members of the Brockman Iron Formation which are known to host large iron ore deposits within other regions of the Hamersley Ranges, referred to as BID. Incised into this bedrock geology are large channel systems, predominantly one to two kilometers in width, which stretch for tens of kilometers. During the Tertiary period, weathering and erosion of the surrounding bedded material deposited iron rich material into these channels, creating CID, and this material has subsequently been buried and preserved. Through Fortescue's interpretation of drill hole results, the CIDs can be subdivided into upper, hard ore CID and a lower, ochreous CID. Clay lenses are observed as semi-discrete bands often several meters thick, sometimes of a poddy nature, although some are traceable between drill holes.

The material overlying the CID material is of younger age and has also been eroded from iron rich material. Some of this clastic material is concentrated into horizons of elevated iron grade DID which form part of the sequence of overlying later Tertiary aged alluvials.

Exploration operations by Fortescue within the Solomon Hub have focused on exploring these valley systems and have discovered large tonnages of all three classic Hamersley Province Iron deposit types (DID, CID and BID). In certain areas the DIDs will overlay a thick sequence of CID material which in turn may be underlain by BID material.

The Solomon Hub is comprised of the Firetail and Kings mines, each of which is further described below.

Firetail—The majority of the Mineral Resources at Firetail are high grade BID located within the Brockman Iron Formation, well known for its premium quality iron ore. Throughout the Hamersley Province, the Brockman Iron Formation hosts the majority of bedded mineralization. Thickness of mineralization units averages around 20 meters, but can extend up to 60 meters in places.

Kings—Kings occupies the majority of the Solomon region and is 35 kilometers in total length, running in a general east-west direction.

The Probable Ore Reserves and Mineral Resources at Kings predominantly consist of buried CID, with lesser amounts of BID and DID. CID of economic grades and large tonnages is a unique type of iron mineralization found nowhere else in the world apart from the Hamersley Ranges in Western Australia.

Greater Solomon—In addition to the Solomon Hub, the Company has identified other potential mining areas in the Solomon region, referred to as "Greater Solomon," all of which are within 50 kilometers of the Solomon Hub. In general, the geology of the mining areas within Greater Solomon is similar to that of Firetail and Kings.

Rail and port transportation infrastructure

Fortescue's existing rail and port assets are owned by TPI, a wholly-owned subsidiary of Fortescue. TPI constructed the rail line using proven operating experience gained by Fortescue's executive management team in both the local and overseas heavy haul iron ore industry. The design philosophy of both the rail and port operations has been established from extensive operating experience in both the iron ore industry and, more importantly, the Pilbara.

Rail infrastructure

The existing railway infrastructure includes approximately 620 kilometers of mainline track, which is comprised of 256 kilometers of track between Cloudbreak and Port Hedland, 46 kilometers of track between Christmas Creek and Cloudbreak, 130 kilometers of track between the Solomon Hub and the main track between Cloudbreak and Port Hedland, and more than 130 kilometers of mainline duplication and sidings. The infrastructure includes 13 bridges which cross a combination of rail corridors and waterways. Expansion of the rail infrastructure as part of the 155Mtpa Expansion included the construction of a fuel unloading facility at the Solomon Hub and upgrades to Fortescue's fuel loading depot, rail yards and workshop facilities. An automated ore car maintenance workshop was commissioned during the June 2013 quarter, significantly improving ore car maintenance efficiency.

The train fleet consisting of 21 SD70, 15 General Electric Dash 9—44CW, nine SD90 4300 and eight EMD SD90 6000 MAC diesel locomotives and 3,384 ore cars, plus 30 fuel tankers, 37 ballast cars, 10 side tippers, 19 rail carrying cars and eight compressor cars. The fuel and ballast cars play vital roles in the productivity and efficiency of the railway and its maintenance, as well as provide a fuel service to the mine. The average age of the fleet is ten years, which typically has a useful economic life of 20-30 years based on management estimates. As of December 31, 2016, approximately 95% of the rolling stock was owned, with the balance leased under operating leases which are due to expire in July 2017.

Each of the 13 train sets has the capacity to haul up to 35,250 tonnes of iron ore in approximately 250 ore cars and is approximately 2.7 kilometers in length. At present, an average of seven trains make the journey each day hauling iron ore from the Cloudbreak and Christmas Creek mines to the Herb Elliott Port, where they are unloaded before their return journey to the mines. In addition, an average of seven trains make the journey each day hauling iron ore from the Firetail and Kings mines to the Herb Elliott Port, where they are unloaded before their return journey to the mines. Fortescue's railway supports axle loads that are among the highest of any heavy haul railway globally (42 tonnes), which allows the Company to transport more of its product using fewer trains than its major competitors in Australia.

Upon arrival at Port Hedland, the ore is unloaded and stacked into stockpiles ready for shipment. The train unloaders at the port are designed for simultaneous unloading of two rail wagons over the course of 90 seconds, which enables a full 250 wagon train to be unloaded every 2-3 hours. Ore from the wagons is dumped into a surge hopper and emptied by two apron feeders onto a conveyor to be taken to the stockpile area.

A number of innovative design features were used to maximize the cost efficiency of the railway. For example, the unloading loop at Port Hedland allows a full train to arrive and commence unloading before the emptied train departs and is also constructed in a manner that allows multiple future duplications of the unloading circuit to enable expansion. Fortescue designed a track layout with large radius curves which permits higher train speeds, and the trains have been fitted with electro-pneumatic braking systems, which enable faster stopping times and reduce maintenance requirements, thereby increasing both the number of trains that can operate on the track simultaneously and the transportation volumes to the port.

Train movements are controlled from Perth. Fortescue believes it was the first miner in Western Australia to control a railway from outside the region of operation. The center was purpose-designed for Fortescue's rail requirements and uses a dedicated communications link to connect Perth, Port Hedland and the Chichester Hub and Solomon Hub operations. The GE RailEdge Incremental Train Control System, which has been fully implemented across Fortescue's rail system, provides Fortescue with improved train scheduling and optimization of the rail network as well as increased network safety and capacity through the introduction of in-cab signaling, virtual signals, digital communications and GPS tracking.

Port infrastructure

Construction of Herb Elliott Port, located in Port Hedland, commenced in February 2006 and shipping began at the port in May 2008. The port now consists of five ship loading berths and three shiploaders, each capable of accommodating between 170,000 dead weight tonnes ("DWT") to 270,000 DWT vessels, and a stockpile area consisting of five separate live canyons each having six footprints for stockpiles and each stockpile able to hold 220,000 tonnes. The stockpile has three stackers, each capable of running at 12,500 tonnes per hour, three reclaimers, each capable of reclaiming at 15,000 tonnes per hour, a surge bin with a capacity of 2,500 tonnes, connecting conveyors and a fully automated sampling system.

Herb Elliott Port is situated on 2.15 million square meters of reclaimed land. More than 4.6 million cubic meters of material was dredged from the harbor and piped back onshore as landfill to create the 19.8 meter deep four berthing pockets of the wharf.

The channel depths of Port Hedland vary from 14.0 meters to 14.8 meters to make maximum use of the tidal range. The turning basin in the inner harbor is dredged to 14.8 meters. Because of the very large tidal range, which at times can exceed six meters, Port Hedland's Port Authority has implemented a clearance system that ensures that the deeply laden, large iron ore carriers can obtain maximum use of the tide. Ships entering the harbor are ballasted to minimize impact from possible strong winds and enter assisted by tugs. The ships proceed to the port turning basin where they are turned 180 degrees before berthing.

The wharf consists of five vessel berths, providing flexibility in the management of ship movements, thereby reducing potential demurrage related costs. See "—Optimization and other development activities." Empty vessels may berth or a loaded vessel may move out on the high tide while the other is alongside loading, reducing costly "waiting" time associated with single berth port configurations.

The port infrastructure consists of train unloading and ship loading facilities, all centrally located within the port. The port was engineered for scale and expandability to support increased production levels in the future. Trains arriving at this facility from the mines are unloaded using one of three rotary dumpers, which unloads a pair of wagons at a time, in a continuous process. The ore passes from the dumpers via a conveyor to a transfer point, then to a travelling stacker for stock pile blending and quality analysis. The product stockpile configuration and equipment afford greater flexibility in the manner in which ore product is arranged in stock piles and reclaimed. Currently, chevron stacking is used together with a bucket wheel reclaimer to improve blending capabilities; however, the design allows for other modes of stacking to be adopted, if required.

Safety

Fortescue is committed to being a global leader in safety and believes it is everyone's responsibility to be their brothers' and sisters' keeper. Fortescue recognizes that health and safety is inherent to productive mining and adopts a continuous improvement approach to health and safety performance.

Following the deaths of two contractor employees at its Christmas Creek operations in August 2013 and December 2013 and the serious injury to another contractor employee in October 2013, Fortescue undertook a number of initiatives to reinforce safety as its highest priority. During fiscal 2014, Fortescue undertook a comprehensive review of safety standards, systems and processes across all its sites (with input from approximately 6,000 employees and contractors) and commenced its "Safety Excellence" project in the third quarter of fiscal 2014. In June 2017, the independent Safety Excellence Survey was conducted for a fourth consecutive year and is a key tool for engaging with team members. The project has continued to deliver results through embedding safety as a value, enhancing safety leadership, improving safety outcomes among contracting partners and improved sharing of incident lessons.

The TRIFR per million hours worked was 2.9 as of January 31, 2018, a 9% improvement over the result as of January 31, 2017.

Optimization and other development activities

Solomon Hub Development—Firetail Replacement Project

Development planning is underway for replacement of Firetail. This replacement strategy involves progressive steps to develop satellite ore bodies at the Solomon Hub and, in the medium to long term, will require the development of alternative ore bodies and the extension of rail infrastructure. Feasibility studies and approval processes on the Eliwana mining project are scheduled for the end of June 2018. High level capital cost estimates of this development are expected to range between US$1.0 to US$1.5 billion and, depending on the preferred strategy, are likely to be incurred between fiscal 2019 and fiscal 2021.

Iron Bridge Joint Venture

Construction, mining and processing operations for the first stage of the project (Stage-1) were carried out from early 2014 to early 2016. This involved the processing of 1 million tonnes of mined material through the on-site facility, producing over 250,000 tonnes of Magnetite concentrate (which has been stockpiled and not sold). The main purpose of this exercise was to prove that dry-processing techniques (energy efficient process) were viable on a production scale for these deposits, thereby reducing future technical risk to the project. Further development, subject to market conditions and approval by joint venture partners expected towards the end of FY18, will see an expansion of current operations (Stage-2) to meet the most economical scale of operations. This will involve construction of a larger on-site processing facility, as well as a pipeline to storage and handling facilities at Port Hedland.

North Star plus Eastern Limb—These are adjacent magnetic anomalies (Eastern Limb to the east of North Star) with strike extent of approximately 5000 meters north-south by 1000 meters west-east. Drilling has established continuity of the orebody to depths of more than 600 meters. Both orebodies have a central zone, approximately 400 meters wide, of higher magnetic BIF, and are separated by a zone, approximately 200 meters wide, of lower magnetic banded iron formations (“BIF”) plus shales.

Glacier Valley—This deposit is a southern continuation of the North Star and Eastern Limb deposits, with strike extent of approximately 3500 meters north-south by 800 meters west-east. Drilling has established continuity of the orebody to depths of more than 400 meters. The orebody has a central zone, approximately 400 meters wide of higher magnetic BIF, with an eastern region of mixed BIF and shale.

West Star—This deposit lies to the west of North Star being separated by a valley. It has a strike extent of approximately 2000 meters north-west to south-east by 500 meters south-west to north-east. Drilling has established continuity of the orebody to depths of more than 400 meters. The orebody has a central zone, approximately 400 meters wide of higher magnetic BIF, with mixed BIF to shale units surrounding it.

Exploration activities

Fortescue has instigated brownfield drilling programs in Cloudbreak and Christmas Creek, and is also continuing its efforts to identify and define new targets for bedded mineralization in and around the existing Chichester Hub and the Solomon Hub.

The Company is undertaking early stage, low cost exploration on copper-gold prospective tenements in New South Wales and South Australia and is assessing high potential, early stage exploration tenements in highly prospective areas of Argentina, Columbia and Ecuador. This exploration is in line with Fortescue's strategy of focusing on its core iron ore business while creating low cost future optionality.

Exploration at Western Hub

Geology

The Western Hub deposits are located in the Hamersley Ranges region of Western Australia, approximately 90 kilometers north-west of the Tom Price township. Outcropping geology extends from the Dales Gorge, Whaleback Shale and Joffre Members of the Brockman Iron Formation, to the Newman, Mt. MacLeod and Nammuldi Members of the Marra Mamba Iron Formation. Mineralization on the outcropping or buried extents of these BID is the primary focus for ore deposits in the Western Hub, however outcropping and drilled mineralized intercepts of CID and DID have also been recognized through this region.

Within the Western Hub, the BID mineralization covers a series of zones that follow the outcrop of mineralised Marra Mamba and Brockman Iron Formations. Mineralization is predominantly hosted by BID with some CID and DID. BID mineralization is distributed variably within zones up to 60 kilometers along strike and 3.5 kilometers across strike. Mineralization occurs at surface and extends to depths up to 300 meters below the surface. CID mineralization is distributed within two distinct channels up to 25 kilometers in length. Throughout these areas mineralization is found from surface and extends to depths of 80 meters. As of June 30, 2017, the Western Hub project has Inferred Mineral Resources of 2125Mt, with an average in-ground iron ore grade of approximately 57.9%.

Exploration at Nyidinghu

Geology

The Nyidinghu project is located 35 kilometers south of the Cloudbreak on the northern edge of the Hamersley Ranges.

The majority of the Nyidinghu deposit is composed of BID hosted within the Brockman Iron Formation. Mineralization is hosted in the Dales Gorge, Whaleback and Joffre Members of this formation, and is overlain in some areas by CID. The material overlying the CID is younger and has been eroded from iron rich material and redeposited. In one small area, clastic material is concentrated into a zone of elevated iron grade termed DID.

The Nyidinghu Mineral Resources are contained within an area of approximately 14 square kilometers. The mineralization trends to the north east following the axis of gentle folding, and covers an area of 6,500 meters north and 3,500 meters in width and thickness of up to 220 meters. Mineralization is substantial, with overburden ranging from zero to 80 meters.

Sales and marketing

Fortescue's sales and marketing program has been principally targeted at the Chinese market, including both state-owned steel mills and larger and medium-sized privately-owned steel mills. Fortescue's principal marketing office is based in Perth, Australia, and additional sales and marketing staff are based in the Company's Shanghai office. Shipping support for the CFR sales strategy is based in Perth as well as Singapore. Most sales and marketing efforts to date for Fortescue's iron ore products have been focused on the Chinese steel industry. Management believes this marketing effort has been extremely successful considering that Fortescue's product has achieved widespread acceptance in the Chinese market and its customer base has been expanded.

A key feature of Fortescue's marketing effort has been to build its knowledge and understanding of the technical blast furnace and sintering needs of the Chinese steel mills. To this end, Fortescue entered into a strategic alliance with Central South University in Changsha, China to facilitate the testing of Fortescue's products for its suitability in Chinese sintering blends.

While China is the driver of continuing growth in world demand for seaborne traded iron ore and the main customer at present for Fortescue ore, Fortescue also recognizes the need for sales diversification. Given Fortescue's competitive advantage of proximity to the Asian markets, the Company has also recently focused marketing efforts on steel mills in Taiwan, Japan and Korea, India and Europe. This has led to a number of trial shipments to other large Asian (non-Chinese) and U.K. steel mills. Fortescue has increased its non-China sales from less than 2 million tonnes per year to 6 million tonnes per year in fiscal 2017. Projections for fiscal 2018 are for non-China sales to exceed 10 million tonnes. Fortescue has off-take agreements with the two major Korean steel mills, which Fortescue supplies both Kings Fines and Fortescue Blend Fines, as well as an offtake agreement with a major Japanese mill and Indonesia mill, which Fortescue supplies to both Kings Fines. Fortescue has also made shipments to mills in India, Vietnam and Australia as well as Europe during the past twelve months.

Product range

While the Company's existing operations have the capability of producing an un-screened lump ore product with minor modification, Fortescue has chosen to focus on producing and marketing various fines products, including Super Special Fines (56.5% Fe) from the Chichester Hub, Kings Fines (57.3% Fe) and Brockman Fines (59% Fe) from the Solomon Hub (Kings mine and Firetail mine, respectively) and Fortescue Blend Fines (58.2% Fe), which is blend of Brockman Fines and Chichester Special Fines (58% Fe) from the Chichester Hub. The decision to focus on these products is driven largely by the relatively strong demand for fines product from the Chinese steel mills. Fortescue understands that its steel mills customers are typically using Fortescue Blend Fines as a base loading (15-40%) of their sinter blend, primarily due to its acceptable silica, aluminum oxide and phosphorus content and the positive sintering characteristics, which include coarse fines, low ultra fines, fast sintering speed and reduced fuel requirements. Super Special Fines complement and share similar sintering and metallurgical characteristics to Fortescue Blend Fines.

Following the completion of the 155Mtpa Expansion, Fortescue has consistently shipped ore at a rate of between 165-170Mtpa. The major product by volume is Fortescue Blend Fines (85Mtpa), Super Special Fines (70Mtpa) and Kings Fines (15Mtpa).

Brockman Fines have historically been the basis for Pilbara ore sales and steelmaking blends. Brockman Fines from the Firetail deposit in the Solomon Hub has an Fe grade of approximately 59% but is also slightly higher in phosphorus content than other ores. When blended with Fortescue's existing Chichester Special Fines, the overall iron grade improves to approximately 58.2% Fe and the resulting product, known as Fortescue Blend Fines, offers a higher grade product offering compared with existing average ore grades from the Chichester Hub. In both Fortescue and customer-based test work and customer plant usage Fortescue Blend Fines has demonstrated improvement in both iron-making cost and plant performance.

Super Special Fines contains approximately 56.5% Fe and levels of silica, aluminum oxide and phosphorus that are acceptable to Fortescue's customers. Compared with Fortescue Blend Fines, Super Special Fines have lower iron content and higher levels of silica, aluminum oxide and manganese. Super Special Fines has generally been in high demand from steel mills in China particularly those that have smaller (1000m^3) to mid-sized (2000-3000m^3) blast furnaces. Super Special Fines are low in ultra and intermediate (-1 to + 0.1 millimeter) sized fines, which is a product advantage and results in positive sintering and metallurgical characteristics.

Kings Fines are similar in specification and metallurgical properties to other Pilbara CID ores of the same type, namely BHP Billiton Yandi and Rio Tinto Yandi. CID ore products have increased in market share in the last decade due to the complementary effect on other ores, and largely form the basis of current expansions and mining developments at other major Australian producers due to increasing market demand. Kings Fines has low aluminum oxide and phosphorus content and contributes to improved metallurgical properties of sintered products. Test work results from Fortescue and plant usage results has confirmed that Kings Fines is a suitable replacement for competitor CID fines in the sinter blend as it improves steel mill plant performance and metallurgical quality of the sinter. Kings Fines is in high demand from steel mills in Japan, Korea and in China those mills with large-sized (+4000m^3) blast furnaces.

Customer base and sales agreements

During the past several years, Fortescue has successfully expanded its customer base in China and other parts of Asia and established itself as a compelling alternative for steel mills through the provision of high "value in use" iron ore products at competitive prices. Fortescue has shipped product to a high proportion of the top Chinese steel mills as ranked by MySteel based on calendar year 2017 production and, as of the date of this offering circular, continues to sign contracts, generally on an annual basis, with Chinese steel mills and iron ore distributors, which on-sell to Chinese steel mills, for the purchase of more than 80 Mtpa. During the first half of fiscal 2018, revenue from sales of iron ore to two China-based iron ore distributors, with whom Fortescue has developed important relationships, accounted for US$1,566 million and US$395 million, or 43% and 11%, respectively of the Group's total operating sales revenue.

Certain of Fortescue's long-term agreements have flexibility to increase or decrease volume to cater to changed circumstances.

Sales agreements with each of Fortescue's customers are based on supply terms primarily of two or more years. Fortescue's customer agreements in China are based on the published 62% Platts CFR Index price, adjusted for Fe grade on a dmtu basis and with reference to comparable ores in the Pilbara. See "—Industry overview—Prices for iron ore on world markets." Going forward, Fortescue's pricing arrangements are expected to remain index-based.

Shipping

Fortescue's shipping strategy is to implement flexible arrangements that support iron ore sales and maximize the efficiency of its supply chain. Key principles include:

- portfolio of flexible shipping contracts with rolling expiration dates;
- the use of spot market vessels to add short-term flexibility and better position the Company to take advantage of market volatility;
- specific vessels targeted to maximize efficiency of port infrastructure; and
- the development of relationships with respected owners, operators and ship yards.

Fortescue continues to contract shipments to the majority of its customers on a CFR basis. This policy, which enables Fortescue to control the type and arrival dates of vessels into Port Hedland, is implemented primarily to facilitate the maximum throughput of iron ore at Herb Elliott Port by ensuring the most efficient use of port and rail infrastructure and providing a greater degree of control over its port operations and shipping schedules. The control of vessels under CFR sales terms results in Fortescue being able to process vessels through Herb Elliott Port as quickly and efficiently as possible and to potentially reduce exposure to the cost of demurrage often associated with FOB load ports.

As the owner and operator of the port facility, Fortescue is exposed to the potential costs of demurrage regardless of sales terms. However, it can manage this exposure by tightly controlling the movement of vessels using the port, which is best managed through a high level of CFR sales terms. In this way, Fortescue is able to ensure the overall efficient use of its port and logistics chain infrastructure.

Fortescue currently has around 50 shipping contracts on foot, excluding Fortescue's own vessels, across a number of vessel segments with rolling contract tenure noting this number may vary from month to month as existing contracts end and new contracts commence. The existing contracts include around:

- Six ore carriers on long term, bareboat charter with two additional vessels under construction and anticipated to be commissioned by mid 2018;
- Six vessels on time charter ranging from one month to thirty months remaining duration;
- 29 vessels on consecutive voyage contracts ranging from three months to five years remaining duration; and
- 12 contracts of affreightment for 22 shipments per month ranging from ten months to three years remaining duration.

These contracts include vessels from a number of market segments including standard 180,000 deadweight tonne capesize vessels, Newcastlemax vessels around 206,000 tonne deadweight and large ore carriers.

Fortescue has identified that utilization of large, shallow drafted ore carriers could optimize port infrastructure and increase total throughput at the Herb Elliott Port by maximizing loadable cargo across the natural tidal cycle. During the June-July 2014 period, Fortescue entered into arrangements for the construction of eight ore carriers. The investment will initially be funded by existing operating cash flows and on delivery of each vessel, the Company will draw on VLOC Lease Facilities with China Development Bank Financial Leasing Co., Ltd. Fortescue's total commitment for the purchase of these VLOCs is approximately US$556 million, with the majority of payments due shortly before the delivery of each vessel, after which 85% will be funded by the finance lease through bareboat charters. The first six ore carriers, FMG Nicola, FMG Grace, FMG Sophia, FMG Sydney, FMG Matilda and FMG David were delivered between December 2016 and February 2018, with the remaining two vessels scheduled for delivery by mid 2018.

Revenue collection

Shipments to China are based on letters of credit which are opened by the customer in favor of Fortescue. The Company's policy is to have an irrevocable letter of credit opened by the customer for a particular shipment before cargo is transferred to the customer at the discharge port. Each letter of credit covers approximately 95% of the provisional invoice amount for the cargo and 100% of CFR vessel costs, which entitles Fortescue to receive payment from the bank within one business day, with the remainder due after cargos are verified at the discharge port. For fiscal 2017 and the first half of fiscal 2018, Fortescue had average debtor days of less than 30 days.

Employees

As of December 31, 2017, the Group employed a total of 5,138 persons, which consisted of 4,238 permanent employees and 900 labor hire workers. This number includes 2,406 persons employed at the two mining operations within the Chichester Hub, 793 persons employed within the Solomon hub, and 668 persons engaged in port and rail activities. The Group's operational employees, save those in leadership positions, engaged in port, rail and mining are covered by the CSRPA or an enterprise agreement established in May 2013. While the enterprise agreement passed its nominal expiry date in May 2017 it continues to operate providing competitive benefits to employees. The CSRPA covers employees up to and beyond its nominal expiry date in December 2020. The Group considers its highly competitive remuneration arrangements, excellent quality accommodation facilities, innovative leadership development programs and good employee work conditions will mitigate risks associated with the possibility of lawful or unlawful industrial action, although no assurance can be provided. See "Risk factors—Operational risks relating to the business of the Group—Labor disputes or disruptions could affect the Group's production levels and lead to increased costs."

Aboriginal engagement

As part of its vision to create partnerships which deliver lasting benefits to Aboriginal communities, Fortescue has developed initiatives to provide training and employment opportunities to Aboriginal Australians. Through the Company's Vocational Training and Employment Centers ("VTECs"), Fortescue provides Aboriginal people with a pathway towards guaranteed employment with the Company. The VTECs run a program designed to equip local Aboriginal people with the skills to gain employment in the mining sector and guarantee graduates employment with Fortescue. In fiscal 2017, the Company's VTECs trained and provided jobs for 45 Aboriginal people.

In addition, the company runs a Graduate and Apprenticeship program together with Fortescue's Trade Up. 66 Apprentices and 24 Trade Up trainees were employed during fiscal 2017.

Supporting the next generation of leaders, Fortescue has had more than 532 emerging leaders participate in the Leadership Fundamentals program. In late 2015, the Leadership and Excellence in Aboriginal People ("LEAP") program was launched to give motivated and high performing Aboriginal employees the opportunity to be coached for future leadership roles. Since inception, 55 Aboriginal people have participated in LEAP.

As at December 31, 2017 Fortescue had a 15.8% Aboriginal participation rate. It is committed to a target increasing the participation rate to 20% by 2020.

Fortescue is also committed to providing Aboriginal communities with economic development opportunities. Fortescue's Billion Opportunities program provides sustainable business opportunities for Aboriginal people.

Insurance

The Company maintains insurance coverage appropriate for a business operating in the mining and infrastructure sector, including: property coverage (covering existing mine, railway and port areas, and mobile equipment including but not limited to surface miners and rolling stock); motor vehicle coverage; aviation coverage (relating to aircraft and the landing strip at the Chichester and Solomon Hubs); public and products liability; public umbrella liability (covering death, injury or property damage); directors and officers liability (including liability relating to prospectus disclosures); professional indemnity for medical officers on site; marine coverage; workers compensation; industrial diseases; travel; and construction insurance.

Environmental policy and reporting

The Company demonstrates its commitment to its environmental policy and a summary of environmental indicators in its "Corporate Social Responsibility" section of its annual reports. Reporting on the Company's environmental performance has been undertaken on an annual basis since 2008. The range of environmental indicators which Fortescue monitors and publishes in its annual reports include waste management and recycling methods, direct and indirect greenhouse emissions, water usage and recycling, and the extent of flora and fauna habitats protected or restored. Fortescue continues to develop and implement an Environmental Management System that sets forth guidelines in managing environmental issues and promoting environmental excellence. The Environmental Management System is consistent with the ISO 14001.

Legal proceedings

Port Hedland power supply dispute

On November 13, 2017, Fortescue terminated its intended new power supply contract (the "TransAlta Power Supply Contract") with TEC Hedland Pty Ltd, a subsidiary of TransAlta, for the future supply of electricity to Fortescue's operations in Port Hedland. Fortescue terminated the TransAlta Power Supply Contract due to the failure of performance by TransAlta. On December 4, 2017, TransAlta commenced Supreme Court of Western Australia proceedings against Fortescue for specific performance (i.e., enforcement) of the TransAlta Power Supply Contract. TransAlta claims that Fortescue did not have valid grounds to terminate the TransAlta Power Supply Contract. Fortescue denies that claim and filed its defense and counter claim (for liquidated damages) against TransAlta with the Supreme Court of Western Australia on January 29, 2018. Fortescue's power supplies at Port Hedland continue to be met by other suppliers.

Yindjibarndi appeal

On July 20, 2017, the Federal Court of Australia handed down its reasons for judgment on the matter of Warrie (formerly TJ) (on behalf of the Yindjibarndi People) v. State of Western Australia, in which Fortescue is the second respondent. The judgment was finalized, and a native title determination was made by the court on November 13, 2017, granting the Yindjibarndi people exclusive possession over land in the Solomon Hub. On December 4, 2017, Fortescue, The Pilbara Infrastructure Pty Ltd and FMG Pilbara Pty Ltd lodged their notice of appeal in relation to the judgment. A hearing date for the appeal is yet to be set. See also "Description of Australian legal matters—Native title and Aboriginal heritage law."

Description of Australian legal matters

The Group's operations are subject to numerous legislative and regulatory requirements under Australian federal and state laws. The Australian mining industry is highly regulated and is also dependent upon the grant and maintenance of required approvals, licenses and permits. Complying with these provisions is an important priority for the Group and it actively manages its responsibilities under the relevant legislative, regulatory and other standards.

The Group's commitment to these priorities is supported by the comprehensive management systems it has in place to ensure the Group's operations work within this regulatory regime and, that when necessary, the Group seeks any further approvals, licenses and permits that may be required.

Below is a summary of some of the material legislative and regulatory requirements applicable to the Group's operations.

Mining law and approvals

The Group must ensure that all mining tenements required for its activities have been granted under the *Mining Act of 1978* (WA) (the "Mining Act") or the Mining State Agreement (as defined below).

Mining Act

The Mining Act regulates the assessment, development and utilization of mineral resources in Western Australia. In Western Australia, the State owns all minerals on or below the surface of the land, except in certain limited circumstances. As the owner of the minerals, the State is entitled to grant mining tenements which confer rights on lessees or licensees to explore for and mine minerals. The main types of tenements granted under the Mining Act are:

- *exploration licenses*—permitting entry on the land and undertaking operations for the purposes of exploration for minerals. The holder of an exploration license in which an economic discovery has been made generally has a priority right to apply to convert the license to a mining lease, provided they have complied with the Mining Act and tenement conditions and obtained the necessary approvals, by filing a conversion application during the term of the exploration license. No legal or equitable interest in an exploration license can be transferred or otherwise dealt with during the first year of its term without the prior written consent of the Minister for Mines and Petroleum;

- *mining leases*—the holder of a mining lease is entitled, subject to the Mining Act, to work and mine the land, take and remove any minerals and do all things necessary to effectively carry out mining operations in, on or under the land. However, the grant of a mining lease does not in itself confer authority to produce minerals. Further approvals are generally required before production may commence, including approvals with respect to environmental impact. The holder of a mining lease owns all minerals lawfully mined from the land in accordance with the mining lease. A royalty is required to be paid to the State with respect to all minerals recovered from a mining lease at the rate prescribed for the relevant commodity in the *Mining Regulations 1981* (WA) ("Mining Regulations"); and

- *miscellaneous licenses*—a miscellaneous license may be granted pursuant to the Mining Act over any land where the purpose of the licence is directly connected with mining operations and is for a prescribed purpose under the Mining Regulations (e.g., a road or pipeline). The holder of a miscellaneous license does not have exclusive rights to the land over which the miscellaneous license is granted for mining purposes. The Group's Special Railway License has been granted as a miscellaneous license under the Mining Act, as varied in accordance with the Infrastructure State Agreement (as defined below).

The grant of a mining tenement is generally at the discretion of the Western Australian Minister for Mines and Petroleum or a mining registrar appointed under the Mining Act. The grant of a mining tenement on or before December 1, 2016 will only authorize the holder to undertake activities in relation to iron ore if the tenement has been endorsed for iron ore by the Minister for Mines and Petroleum. Mining tenements granted after December 1, 2016 authorize the holder to undertake activities in relation to all minerals including iron ore, without any additional endorsement.

Conditions are imposed on the grant of tenements pursuant to the Mining Act. These can include conditions relating to the environment, payment of annual rent, required minimum expenditure and a standard schedule of general exclusions and conditions established pursuant to the Mining Act. If any of the tenement conditions are not complied with, the tenement may be subject to forfeiture.

Chichester and FMG Pilbara currently hold a number of exploration licenses and mining leases with respect to the Chichester Hub and the Solomon Hub, respectively as well as numerous mining tenements with respect to other areas in the Pilbara.

Mining State Agreement

The application of the Mining Act, including the statutory conditions imposed on the grant of a tenement pursuant to the Mining Act, can be varied by entering into an agreement with the State of Western Australia which is then ratified by a statute of the Western Australian Parliament. This ratification ensures that its provisions override any inconsistent provisions under the Mining Act or any other legislation at the time the agreement is entered into.

A State Agreement between Chichester, Fortescue and the State was signed in December 2005 ("Mining State Agreement"). The *Iron Ore (FMG Chichester Pty Ltd) Agreement Act 2006* (WA), an act to ratify and authorize the implementation of the Mining State Agreement, subsequently commenced on October 3, 2006.

The term of the Mining State Agreement is 50 years from the commencement of the Mining State Agreement. The Mining State Agreement:

- sets out the procedures for Chichester to obtain approvals from the Minister necessary to commence mining operations;
- modifies the application of certain provisions of the Mining Act to Chichester's tenements governed by the Mining State Agreement; and
- places obligations on Chichester to implement measures to achieve various community and social benefits.

The Mining State Agreement applies to the Group's Christmas Creek and Cloudbreak tenements relating to its existing operations, and several exploration projects. Chichester remains responsible for a number of obligations under the Mining Act including reporting requirements and requirements to pay royalties prescribed by the Mining Act. The tenements the subject of the Mining State Agreement are exempt from the expenditure obligations which would ordinarily apply under the Mining Act. The Mining State Agreement modifies the application of the Mining Act to remove the ability of any person to object to the grant of certain tenement applications relating to the area covered by the Mining State Agreement and made after the commencement of the Mining State Agreement.

The Mining State Agreement provides that the approval of the Minister is required to increase the amount of iron ore produced from the project site above previously approved limits.

Chichester may assign, mortgage, charge, sublet or dispose of all or any part of its rights under the Mining State Agreement or in a tenement governed by the Mining State Agreement, provided that it first obtains the consent of the Minister and, in the case of assignment, subletting or disposition, it procures execution of a deed of covenant from the third party in favor of the State in a form approved by the Minister.

The mining leases relating to the Solomon Hub have been applied for pursuant to the Mining Act. Such mining leases will not fall within the ambit of the Mining State Agreement and are simply subject to the relevant provisions of the Mining Act.

Port and rail approvals and regulations

Infrastructure State Agreement

On November 10, 2004, TPI and Fortescue entered into an Infrastructure State Agreement with the State in relation to the development of a multi-user railway (the "Railway") and multi-user port facilities (the "Port") in the Pilbara ("Infrastructure State Agreement"). The Infrastructure State Agreement was ratified by the State Parliament of Western Australia in the *Railway and Port (The Pilbara Infrastructure Pty Ltd) Agreement Act 2004* (WA). The Infrastructure State Agreement was amended with effect from December 11, 2010 to permit the Minister to approve of proposals to accommodate expansions of the port facilities, rail spur lines and train loading and unloading facilities.

The purpose of the Infrastructure State Agreement is to facilitate the construction and operation of the Railway by TPI from Cloudbreak to the Port and the construction of port infrastructure on land of the Pilbara Ports Authority ("PPA") (formerly, the Port Hedland Port Authority), on the proviso that TPI receives the necessary consents from the Minister and otherwise complies with its obligations under the Infrastructure State Agreement.

Subject to TPI's compliance with its obligations under the Infrastructure State Agreement, the State agreed to facilitate the following:

- *Special Railway License*—a miscellaneous license under the Mining Act which will enable TPI to conduct within the Railway corridor all activities necessary for the planning, design, construction, commissioning, operation and maintenance of those parts of the Railway that are outside of the Port, access roads and any additional infrastructure required to be constructed outside the Port. The Minister granted a Special Railway License to TPI in November of 2006;
- *Port Railway License*—a license granted by the PPA under the *Port Authorities Act 1999* (WA) (the "Port Authorities Act") for the construction, operation and maintenance of any part of the Railway which is located within the Port (if required);
- *Lateral Access Roads License*—a miscellaneous license under the Mining Act which enables TPI to construct, use and maintain roads outside the Railway corridor for access to construct the Railway. These were granted in November of 2006, and have since expired as the Railway can presently be accessed by vehicles via the rail maintenance track and intersections with existing roads;
- *Port lease*—a lease with the PPA under the Port Authorities Act over the area required for the necessary Port facilities, which was entered into by the PPA, TPI and Fortescue in the form of a lease and licence deed on October 14, 2010 ("Port Land Tenure Deed"). The facilities covered under the lease are those required for the construction, operation and maintenance of a ship loading terminal and include a train unloading conveyor, stockpiles, ore blending, screening and loading facilities and a wharf (the "Port Facilities"); and
- *Port additional infrastructure license*—a license granted by the PPA under the Port Authorities Act for the construction, operation and maintenance of additional infrastructure and access roads including any train unloader, conveyor or other infrastructure ("Port Additional Infrastructure") to transport iron ore from the

Railway (which is outside the Port lease area) to the Port Facilities the subject of the lease under the Port Land Tenure Deed. This licence is included in the Port Land Tenure Deed.

The relevant terms of the Infrastructure State Agreement provide that TPI cannot, without the prior consent of, and approval of detailed proposals from, the Minister:

- increase the capacity of the Port Facilities, the Port Additional Infrastructure or any part of the Railway within the Port beyond that specified in approved proposals;
- change the nature and characteristics of the Port Facilities and/or the Port Additional Infrastructure from that specified in approved proposals; or
- significantly modify, expand or vary its activities within the Port that are the subject of the Infrastructure State Agreement beyond those specified in approved proposals.

Port lease

On October 14, 2010 the PPA, TPI and Fortescue executed the Port Land Tenure Deed for leases of the Port Facilities and licenses for the Additional Port Infrastructure. The Port Land Tenure Deed is for a term expiring on November 28, 2056. The Port Land Tenure Deed has been amended by variation deeds dated September 6, 2013 and July 3, 2015. These variation deeds provide for leases of areas for additional Port Facilities and licenses of areas for further Port Additional Infrastructure to accommodate additional works and expansions carried out by TPI.

The rent and licence fees payable under the Port Land Tenure Deed are based on a fair market rental valuation that was carried out on the June 30, 2009. The rent and licence fees are subject to annual reviews and adjustment for increases in the Consumer Price Index Number published for the City of Perth (All Groups), except that every third year the rent and licence fees are adjusted on the basis of a fair market rental assessment, with the next review due June 30, 2020.

Open access to port facilities

The Pilbara Infrastructure Port Access Regime was approved by the Minister for State Development in 2009. TPI is obligated to use all reasonable endeavors to promote access to, and attract customers for, the Railway and the Port Facilities and any additional infrastructure. TPI is required to invest in additional infrastructure to expand the capacity of the Port Facilities and additional infrastructure to accommodate demand for access, provided such investment can be justified commercially. TPI is required to assess port capacity on an annual basis as part of a ten (10) year Port Infrastructure Master Plan. The Port Infrastructure Master Plan is provided to the Minister for State Development and contemplates future capacity for TPI and potential third party port users. If there is a disagreement between the Minister and TPI as to whether any particular proposed investment can be justified commercially, either party may refer the dispute to arbitration.

Native title and Aboriginal heritage law

Native title law

The common law of Australia recognizes a form of native title which, in circumstances where it has not been extinguished, is based on the continuing connection of the Aboriginal inhabitants, in accordance with their traditional laws and customs, to specific areas of land. Native title is essentially a bundle of rights which may include the mere right to pass through an area for hunting or could include the right to permanently occupy land to the exclusion of all others.

The *Native Title Act 1993* (Cth) (the "Native Title Act") sets out the procedures which must be followed when filing an application for a determination of native title. When native title is determined to exist, the native title holders may file an application to the Federal Court for a determination of what, if any, compensation may be payable for actions that have impacted their native title rights in the past.

The grant of a mining tenement is an act that may affect native title and (unless the mining tenement is wholly over land not subject to a native title claim or native title determination, land over which native title has been determined not to exist or land over which native title has been extinguished) will attract the right to negotiate or other applicable "future act" procedures under the Native Title Act. Native title may in certain circumstances be extinguished by a grant of an interest in land which is wholly inconsistent with native title rights and interests (e.g., freehold land). Subject to certain exceptions, the right to negotiate procedure under the Native Title Act requires a State or Territory to give written notice of its intention to grant a mining tenement. Under the Native Title Act only registered native title parties (i.e., who have passed the registration test) are entitled to the right to negotiate. The State or Territory, the registered native title parties and the applicant for the tenement must negotiate in good faith with a view toward agreeing to terms upon which the tenement can be granted. The applicant for the tenement is usually liable for any compensation that the parties agree to pay to the registered native title claimants and holders of native title. The parties may also agree on conditions that will apply to activities carried out on the tenement (e.g., in relation to heritage surveys).

If within six months the parties fail to reach an agreement, any party may apply to the Australian National Native Title Tribunal for a determination as to whether the tenement may be granted and if so, the conditions on which it is to be granted.

If further tenements are required, or there are amendments to existing tenements which may affect native title, then the applicant will need to comply with the right to negotiate process or any other applicable 'future act' process prior to the relevant grant or amendment.

Land access agreements

Fortescue, TPI and Chichester have entered into land access agreements with six native title claimant groups, namely the Nyiyaparli, Palyku and Kariyarra native title claimant groups; and, the Martu Idja Banyjima, Puutu Kunti Kurrama and Pinikura ("PKKP") and Eastern Guruma native title holders. Additionally, the Group entered into Indigenous Land Use Agreements in 2016 and 2017 with the Nyiyaparli People and the Palyku People, respectively, over a large area including the Chichester Hub.

With the exception of the agreement with the PKKP native title holders, the Group's native title agreements relate to tenements comprising the Group's Chichester Hub and Solomon Hub and tenure required for the Group's existing railway and port facilities. The remaining agreement with the PKKP native title holders relates to tenements affected by the proposed development of the Western Hub deposits (formerly known as Eliwana & Flying Fish).

Pursuant to these agreements, the native title groups consent and agree not to object to future acts pertaining to the land that is the subject of the agreement, including the grant of all tenure relating to mining or associated infrastructure including port and rail infrastructure and any other interest in land necessary for the Groups' current and future mining projects within the agreement area.

The Group also has a project area agreement with the Njamal native title claimants in relation to the North Star project.

TPI has also complied with the procedure outlined in the Native Title Act in respect of the Special Railway License and Lateral Access Road Licenses.

The Group monitors any registered native title claimants with respect to the areas it operates within and at all times complies with the relevant procedures under the Native Title Act.

Aboriginal heritage sites and objects affecting the Group's tenements

Under the *Aboriginal Heritage Act 1972 WA* ("AHA"), it is an offense for the Group to conduct operational or expansion activities, if the activities would damage or in any way alter an Aboriginal site or object, as defined under the AHA, unless the Group is acting with the authorization of the Registrar under section 16 of the AHA or the consent of the Minister for Aboriginal Affairs under section 18 of the AHA. Where required, should land containing sites or objects be proposed for use, the Group consults with the relevant Aboriginal stakeholders and applies for the required state government approvals.

To determine whether there are Aboriginal heritage sites or objects, to which the AHA applies, on its tenements the Group ensures sufficient and appropriate assessments and consultation have been conducted, usually including the completion of archaeological and ethnographic heritage surveys.

Under the *Aboriginal and Torres Strait Island Heritage Protection Act 1984* (Cth), it is an offence for the Group to conduct operational or expansion activities which impact an area or object of particular significance to Aboriginal people:

- as determined by and subject to the specific information in any Ministerial declaration; or
- that would result, or is likely to result, in the injury or desecration of such areas and sites by being used or treated in a manner inconsistent with Aboriginal tradition.

As of the date of this offering circular, Fortescue is not aware of any Ministerial declaration that affects the Group's activities.

Environmental approvals and law

Environmental law

Environmental law in Western Australia is sourced in both legislation and common law. The environmental impacts of mining activities in Western Australia are principally regulated through the *Mining Act 1978* and the *Environmental Protection Act 1986* (WA) (the "Environmental Protection Act") although a number of material obligations arise under other State and Commonwealth legislation.

It is generally a requirement that a company, before it can start mining, have processes in place to manage and minimize the environmental impact or for environmental protection. If a proposed industrial, mining or infrastructure activity presents a risk of significant impact on the environment, a company is required to undertake, in advance of commencing operations, an environmental impact assessment. This document will be reviewed by the Environmental Protection Authority ("EPA"), which will forward recommendations to the State Environment Minister. If satisfied that the proposal may be implemented, the State Environment Minister will subsequently issue a Ministerial approval and statement of conditions that is binding on the company.

An action which is part of a proposal that has been referred to the EPA may also require referral to the Australian Federal Minister for the Environment and Energy under the *Environment Protection and Biodiversity Conservation Act 1999* (Cth) ("EPBC Act"). The Commonwealth government may accredit and defer the environmental assessment procedures to the State government, in order to avoid duplication of environmental assessment procedures at both State and federal level. However, each jurisdiction will still come to its own conclusion regarding approval.

The Environmental Protection Act also provides for the grant of works approvals and licenses to enable the conduct of activities that may result in an emission or contribute to environmental harm in contravention of that Act. Failure to comply with the conditions in a Ministerial approval, or with conditions in a works approval or license, may lead to monetary penalties or criminal liability (with up to 5 years imprisonment) in addition to various court orders or other enforcement action.

The Mining Act, the relevant state agreement acts and the conditions imposed under the tenements and other approvals and licenses require mining companies to ensure that upon cessation of their activities, the mine is returned as far as possible to its pre–mining condition. Many conditions are standard to all mining tenements and usually require a proposal be submitted to the Environment Branch of the Western Australian Department of Mines, Industry Regulation and Safety for management under the Mining Act or the Department of Jobs, Tourism, Science and Innovation for management under the relevant state agreement act. Adherence to the commitments within such proposals is often listed as a condition of the tenements. Failure to comply with these conditions may result in forfeiture of the tenure.

Under the Port Authorities Act, one of the functions of Port Authorities (including the PPA) is to protect the environment and minimize the impact of port activities on the environment. As a result, the EPA will work in conjunction with the PPA and any other relevant government agencies to regulate any necessary environmental management conditions on port land.

Environmental approvals required for the Group's operations

The Group has to date obtained numerous key authorizations in accordance with the Environmental Protection Act, the Mining Act, the EPBC Act, the *Rights in Water and Irrigation Act 1914* (WA) and other applicable legislation. Further approvals will be required with respect to the Group's continued operations of the mine, power station, port and rail and in relation to any expansions or new development. The Group will apply for such further authorizations as and when they are required.

Foreign Investment Review Board

The Foreign Investment Review Board is a non-statutory body established in 1976 to advise the Australian government on foreign investment policy and its administration. The Australian *Foreign Acquisitions and Takeovers Act 1975* (Cth) ("FATA") provides that a foreign person or company may not acquire an interest in "Australian land" unless prior notification of the proposed acquisition is given to the Treasurer of Australia (the "Treasurer") and the Treasurer indicates that he has no objection to the acquisition.

Depending on the level and nature of foreign ownership of Fortescue's shares from time to time, Fortescue may be a "foreign person as defined in the FATA." If Fortescue is a "foreign person" and depending on the availability of certain exemptions, notifications may be required in relation to any future acquisitions of mining tenements under the Mining Act and other leases or licenses of land. If the Treasurer considers the acquisition to be contrary to the national interest, then he may prevent or unwind the acquisition.

However, a reference to the acquisition of an interest in Australian land in the FATA does not include a reference to the acquisition of an interest in Australian land from the Commonwealth, State or Territory governments of Australia. Therefore, where a mineral right, mining lease, mining tenement or production license is granted to Fortescue by the Commonwealth or a State or Territory government, this will not constitute an acquisition of Australian land and will not require notification.

Australian corporate tax

Fortescue and each of its wholly owned Australian-incorporated subsidiaries are members of an Australian income tax consolidated group (the “Tax Consolidated Group”), which was created on July 1, 2002. The Issuer joined the Tax Consolidated Group when it was incorporated on March 20, 2006.

Fortescue, as head company of the Tax Consolidated Group, is liable in the first instance for all of the Australian income tax liabilities of the Tax Consolidated Group. Fortescue will be subject to Australian corporate tax at the current rate of 30% in respect of the taxable income of the Tax Consolidated Group. The Tax Consolidated Group’s taxable income will take into account sales income, interest, hedging profits, rent and royalties, as well as allowable deductions such as operating expenses and the depreciation of plant or equipment.

Management

Board of directors

The following table sets forth information regarding the directors serving on the Board as of the date of this offering circular.

Name	Age	Position
Andrew Forrest AO	56	Non-Executive Chairman
Elizabeth Gaines	54	Chief Executive Officer and Executive Director
Mark Barnaba AM	54	Co-Deputy Chair, Lead Independent Director
Sharon Warburton	47	Co-Deputy Chair, Non-Executive Director
Cao Zhiqiang	42	Non-Executive Director
Jean Baderschneider	65	Non-Executive Director
Jennifer Morris OAM	45	Non-Executive Director
Penny Bingham-Hall	58	Non-Executive Director
Lord Sebastian Coe CH, KBE	61	Non-Executive Director

Mr. Andrew Forrest AO, Non-Executive Chairman

Mr. Forrest was the founding Executive Chairman of the Company in 2003, and was appointed Chief Executive Officer in 2005. He was appointed Non-Executive Chairman on August 18, 2011. Since the inception of Fortescue in 2003, Mr. Forrest led the Company to its status as the fourth largest global iron ore exporter.

Mr. Forrest is the founder, Chairman and Chairman of the Company's Finance Committee.

In 2001, Mr. Forrest co-founded the Minderoo Foundation with his wife Nicola, which has supported over 230 initiatives across Australia and internationally in pursuit of a range of causes including education, ending slavery, research, indigenous disadvantage, disaster response and the arts. The Foundation operates GenerationOne, which strives to end Indigenous disparity in Australia, and the Walk Free Foundation, which is working globally to eliminate modern day slavery.

In 2013, he was appointed by the Prime Minister of Australia to Chair the Review of Indigenous Training and Employment Programmes, with the specific aim of ending Indigenous disparity through employment.

In 2014, Mr. Forrest was named Business Leader of the Year at the Australian Institute of Management Western Australia Pinnacle Awards and was awarded an honorary doctorate by The University of Western Australia for outstanding service to the community, to his nation and beyond.

In 2017, he was named West Australian of the Year for his outstanding contribution to the community. In the same year, he was also a national finalist for the Australian of the Year.

One of Mr. Forrest's proudest achievements is the facilitation of the coming together of the world's major faith and spiritual leaders in the Vatican in December 2014 and in New Delhi and Canberra in December 2015 to produce a global religious proclamation against modern slavery.

An Adjunct Professor of the China Southern University and a longstanding Fellow of the Australian Institute of Mining and Metallurgy, Mr. Forrest is a leading representative of and advocate for the resources sector globally. He is Co-Chairman of the Senior Business Leaders' Forum, the leading formal dialogue for China and Australia's most senior business leaders.

Mr. Forrest is Vice-Patron of the SAS Resources Fund and a Councillor of the Global Citizen Commission, which reported to and made a series of human rights recommendations to the United Nations Secretary General in

April 2016. He is Commonwealth Ambassador for employment and engagement with disadvantaged communities and Chair of the Foundation of the Art Gallery of Western Australia.

In 2017, Mr. Forrest was appointed as Officer of the Order of Australia (OA) for distinguished service to the mining sector, to the development of employment and business opportunities, as a supporter of sustainable foreign investment and to philanthropy.

Ms. Elizabeth Gaines, Chief Executive Officer

Ms. Elizabeth Gaines commenced as Chief Executive Officer of Fortescue in February 2018.

A highly experienced business leader with extensive international experience as a Chief Executive Officer and group executive, Ms. Gaines has a proven track record in financial and operational leadership across a number of industries, including resources, construction and infrastructure, financial services and travel and hospitality.

After joining Fortescue as a Non-Executive Director in February 2013, Ms. Gaines was appointed Chief Financial Officer and Executive Director in February 2017. She is a former Chief Executive Officer of Helloworld Limited and Heytesbury Pty Limited and has also held the position of Chief Financial Officer at Stella Group and Entertainment Rights Plc.

Ms. Gaines has significant exposure to the impact of the growth in Asian economies, particularly China, on the Australian business environment and economy as well as a deep understanding of all aspects of financial and commercial management at a senior executive level in both listed and private companies.

A member of Chartered Accountants Australia and New Zealand, the Australian Institute of Company Directors and Chief Executive Women, Ms. Gaines holds a Bachelor of Commerce degree and Master of Applied Finance degree.

Ms. Gaines has previously held Non-Executive Director roles with NEXTDC Limited, Mantra Group Limited, Nine Entertainment Co. Holdings Limited and ImpediMed Limited.

Mr. Mark Barnaba AM, Co-Deputy Chair and Lead Independent Director

Mr. Barnaba was appointed as Co-Deputy Chair in November 2017, having served as Lead Independent Director since November 2014 and as a Non-Executive Director since February 2010. Mr. Barnaba joined the Audit and Risk Management Committee in June 2011 and has since been appointed as the Chairman of the Audit and Risk Committee. Mr. Barnaba has also served as a member of the Remuneration and Nomination Committee since August 18, 2011.

Effective August 31, 2017, Mr, Barnaba is a member of the Board of the Reserve Bank of Australia. Prior to his appointment, he worked for McKinsey and Company and also recently held several senior executive roles at Macquarie Group, where until August 30, 2017, Mr. Barnaba served as Chairman and Global Head of Natural Resources for Macquarie Capital.

He is Chairman of The University of Western Australia's Business School Board and is an Adjunct Professor of Finance and Investment Banking at the University of WA, is co-founder (and previously co-executive Chairman) of Azure Capital and has previously served as the Chairman of Western Power, Edge Employment Solutions, the West Coast Eagles Football Club and Alinta Infrastructure Holdings. In 2011, he was appointed by the Premier to chair the WA Steering Committee of the Commonwealth Business Forum for CHOG

Mr. Barnaba is the Chairman of Black Swan State Theatre Company and a member of the Advisory Council for The Hugh Jackman Deborah-lee Furness Foundation for the Performing Arts.

After graduating from The University of Western Australia with a Bachelor of Commerce (first class honors; University medal), Mr. Barnaba entered Harvard Business School receiving an MBA (high distinction; Baker

Scholar). Post business school, he spent the majority of his time with McKinsey and Company, overseas, before returning to Australia in the mid-1990s.

Mr. Barnaba was the recipient of the WA Citizen of the Year Award in Industry and Commerce in 2009.

In 2015, Mr. Barnaba was named a Member in the General Division of the Order of Australia (AM) for significant service to the investment banking and financial sectors, to business education, and to sporting and cultural organizations.

He received an Honorary Doctor of Commerce from The University of Western Australia in 2012 and was granted the Honorary designation FCPA from CPA Australia. He is a Fellow of the Australian Institute of Company Directors.

Ms. Sharon Warburton, Co-Deputy Chair, Non-Executive Director

Ms. Warburton was appointed as Co-Deputy Chair in July 2017 having been a Non-Executive Director since November 2013.

Ms. Warburton has extensive experience in the mining, infrastructure and construction sectors. She gained substantial operational, commercial and risk management experience in the global resources sector through her time as an executive at Rio Tinto. She has also previously held senior executive positions at Brookfield Multiplex, ALDAR Properties PJSC, Multiplex and Citigroup.

In recognition of her experience, she was awarded Western Australian Telstra Business Woman of the Year in 2014 and was a finalist in The Financial Review's Westpac 100 Women of Influence (2015).

In 2016, Ms. Warburton was appointed Chairman of the Northern Australia Infrastructure Facility, which is a major long-term initiative of the Commonwealth Government's White Paper on Developing Northern Australia. She is on the boards of Gold Road Resources Limited, NEXTDC Limited, not-for-profit organization Perth Children's Hospital Foundation and was formerly a Director of Western Power and Wellard Limited.

Ms. Warburton is regarded as a financial, governance and remuneration expert and is a Fellow of the Institute of Chartered Accountant Australia and New Zealand and Australian Institute of Building. She is a graduate of the Australian Institute of Company Directors, a member of Chief Executive Women and a part-time member of the Australian Takeovers Panel.

She holds a Bachelor of Business (Accounting and Business Law) from Curtin University.

Ms. Warburton is the Chairperson of Fortescue's Remuneration and Nomination Committee and a member of Fortescue's Finance Committee and Audit and Risk Management Committee.

Mr. Cao Zhiqiang, Non-Executive Director

Mr. Cao was appointed as a Non-Executive Director on January 18, 2018, pursuant to the terms of the Subscription Agreement, dated February 24, 2009, between Hunan Valin Iron & Steel Group Co., Ltd and Fortescue.

Mr. Cao is Chairman of Hunan Valin Iron & Steel Group Co., Ltd. Mr Cao joined Xiangtan Steel in 1997 and most recently held the position of Executive Director and CEO of Valin Xiangtan Steel. Previous positions include CEO, Vice General Manager, Assistant General Manager and Director of R&D. Chairman Cao brings extensive operational experience to the Board having held managerial positions at Wire Rod and Bar Mills.

Dr. Jean Baderschneider, Non-Executive Director

Dr. Baderschneider was appointed a Non-Executive Director in January 19, 2015.

A highly regarded leader in both business and civil society, Dr Baderschneider brings 35 years of extensive international experience in procurement, strategic sourcing and supply chain management along with a deep understanding of high-risk operations and locations and complex partnerships

Dr. Baderschneider retired from ExxonMobil in 2013 where she was Vice-President of Global Procurement. During her 30-year career, she was responsible for operations all over the world, including Africa, the Middle East and Asia.

A past member of the Board of Directors of the Institute for Supply Management and the Executive Board of the National Minority Supplier Development Council, Dr. Baderschneider also served on the boards of The Center of Advanced Purchasing Studies and the Procurement Council of both The Conference Board and the Corporate Executive Board. In February 2011, she was the Presidential appointee to the US Department of Commerce's National Advisory Council of Minority Business Enterprises.

Dr. Baderschneider is a member of the Site Council and Executive Committee of President Lincoln's Cottage—a Historic Site of the National Trust for Historic Preservation. She is also a member of the Advisory Council of the Ford's Theatre and The ILR School at Cornell University, a member of the Maret School's Board of Trustees and a long-time member of Cornell's President's Council of Cornell Women.

She holds a Master's Degree from the University of Michigan and a Ph.D. from Cornell University.

Ms. Jennifer Morris OAM, Non-Executive Director

Ms. Morris was appointed a Non-Executive Director on November 9, 2016.

Ms. Morris is a former Partner in the Consulting Division of Deloitte, where she specialized in complex large-scale business transformation programs and strategy development. She currently holds a senior position at the Minderoo Foundation as Chief Executive Officer of the Walk Free Foundation.

She has senior corporate governance experience and is currently a Commissioner of the Board of Australian Sports Commission. A former Director of the Fremantle Football Club and Western Australian Institute of Sport, Ms. Morris also served as Chairperson of the Board of Healthway—the WA Government's peak health promotion body.

A former member of the Australian Women's Hockey Team, Ms. Morris won Olympic gold medals at the Atlanta 1996 and Sydney 2000 Olympic Games. In 1997, she was awarded a Medal of the Order of Australia (OAM).

Ms. Morris is a Member of the Australian Institute of Company Directors, a Fellow of Leadership WA, an affiliate member of Chartered Accountants Australia and New Zealand, and a member of the Vice Chancellor's List, Curtin University.

She holds a Bachelor of Arts (Psychology and Journalism) received with Distinction and completed the Finance for Executives at INSEAD.

Ms. Morris is a member of Fortescue's Audit and Risk Management Committee and Remuneration and Nomination Committee.

Ms. Penny Bingham-Hall, Non-Executive Director

Ms. Bingham-Hall was appointed a Non-Executive Director on November 9, 2016.

Ms. Bingham-Hall brings significant operational skills and experience from executive roles including Head of Strategy at Leighton Holdings (now CIMIC)—Australia's largest construction, contract mining, infrastructure and property development group—together with 20 years' experience as a company director.

Ms. Bingham-Hall is a Fellow of the Australian Institute of Company Directors, a Senior Fellow of the Financial Securities Institute of Australasia and a member of Chief Executive Women and WomenCorporateDirectors Foundation. She is a director of BlueScope Steel Limited and DEXUS Property Group.

She holds a Bachelor of Arts (Industrial Design).

Ms. Bingham-Hall is a member of Fortescue's Audit and Risk Management Committee and Finance Committee.

Lord Sebastian Coe CH, KBE, Non-Executive Director

Lord Coe was appointed a Non-Executive Director on February 25, 2018.

Lord Coe is currently a senior advisor with Morgan Stanley & Co International plc and a non-executive director of the Vitality Group of health and life insurance companies. In 2017, he became Chancellor of Loughborough University having previously served as Pro Chancellor of the University. Lord Coe is the Executive Chairman of CSM Sport and Entertainment, within the Chime Communications group. He was elected President of the International Association of Athletics Federations in 2015.

Lord Coe previously served as Chairman of the British Olympic Association and was Chairman of the Organizing Committee for the London 2012 Olympic Games and Paralympic Games . He was a member of the British athletics team at the 1980 and 1984 Olympic Games where he won two gold and two silver medals, as well as breaking four world records. In 1992, Lord Coe became a Member of Parliament and during his political career served as Private Secretary to William Hague, Leader of the Opposition and Leader of the Conservative Party. He was appointed to The House of Lords in 2000.

Lord Coe previously served as Non-Executive Director of Fortescue from 2003 to 2004.

Executive officers

The following table sets forth information regarding Fortescue's executive officers as of the date of this offering circular.

Name	Age	Position
Elizabeth Gaines(1)	54	Chief Executive Officer and Executive Director
Julie Shuttleworth	44	Deputy Chief Executive Officer
Ian Wells	48	Chief Financial Officer
Greg Lilleyman	51	Chief Operating Officer
Peter Huston	61	Chief General Counsel
Cameron Wilson	51	Company Secretary
Alison Terry	56	Joint Company Secretary and Group Manager Corporate Affairs

Notes:

(1) See "—Board of directors" for the biography of Ms. Gaines.

Ms. Julie Shuttleworth, Deputy Chief Executive Officer

Julie Shuttleworth has over 23 years' experience in the mining industry in Australia, China and Tanzania, including 19 years in gold/copper working for Newcrest Mining, Sino Mining and Barrick Gold, and iron ore experience with Fortescue Metals Group. She commenced with Fortescue as General Manager at Cloudbreak Mine in 2013, and transferred to General Manager at Fortescue's Solomon Mine in 2015.

Julie has received numerous accolades including 2011 Australian Mine Manager of the Year, 2012 West Australian Business Woman of the Year, she is listed in the 2013 WIM(UK) 100 Global Inspirational Women in Mining, and one of the 2014 Australian Women of Influence.

Julie holds a double major in Extractive Metallurgy & Chemistry from Murdoch University and is a Fellow and Chartered Professional of the Australian Institute of Mining and Metallurgy (AusIMM), is a Graduate Member of the Australian Institute of Company Directors (AICD), and on the International Committee of the Society of Mining Metallurgy & Exploration (SME). She has attended Harvard Business School, holds several Diplomas in Financial Markets and Management, and sponsors the Julie Shuttleworth Prize in Mineral Processing at Murdoch University.

Mr. Ian Wells, Chief Financial Officer

Mr. Wells joined Fortescue in 2010 and has held multiple senior executive roles in the Finance team, including funding, treasury, planning and analysis as well as Company Secretary. Most recently, he has held the position of Group Manager Corporate Finance leading Fortescue's capital management strategy with group responsibility for Treasury and Funding.

With more than 20 years' experience as a senior executive in leading ASX listed and private companies in the mining, energy infrastructure and healthcare industries, Mr Wells' prior positions include Chief Financial Officer of Singapore Power subsidiary Jemena Limited, one of Australia's largest owners and operators of energy infrastructure and Acting CFO of Alinta Limited when it was acquired through an on-market acquisition by the Babcock and Brown, Singapore Power Consortium in 2007.

Mr. Wells holds a Bachelor of Business in Accounting, is a Fellow of CPA Australia, a Certified Finance and Treasury Professional and a Graduate Member of the Australian Institute of Company Directors. Mr. Wells is also a director of not-for-profit Alzheimer's WA and the chairman of the Salvation Army business advisory committee.

Mr. Greg Lilleyman, Chief Operating Officer

Mr. Lilleyman joined Fortescue in January 2017 as Director of Operations and in February 2018 was appointed to the role of Chief Operating Officer. Mr Lilleyman has over 28 years' experience in the mining sector across multiple commodities including over 20 years in the iron ore sector, has a wealth of industry knowledge and experience.

Mr. Lilleyman holds a degree in Construction Engineering from Curtin University and has completed the Vincent Fairfax Fellowship in Ethical Leadership at the University of Melbourne as well as the prestigious Wharton Business School's Advanced Management Program.

Mr Lilleyman was a board member and past President of the Chamber of Minerals and Energy WA and has served on the boards of Australian Institute of Management WA, Curtin University Foundation and the Energy and Minerals Institute of UWA. He is a member of the Australian Institute of Mining and Metallurgy (AusIMM), Australian Institute of Company Directors (AICD) and Fellow of the Australian Institute of Management (AIM).

Mr Lilleyman brings extensive international experience across Australia, India, Japan, China, Canada, USA, Peru, South Africa, Guinea and Mongolia in large scale project development and construction, operational and business leadership, JV management and technology deployment.

Mr. Peter Huston, Chief General Counsel

Mr. Huston joined Fortescue in 2005 and has over 20 years' experience in legal and advisory roles. Prior to joining Fortescue, Mr. Huston spent 12 years as a Partner of the law firm now known as Norton Rose Fulbright. He then spent over a decade in "Activism Private Equity" as an Executive Director at Troika Securities Limited. Mr. Huston is a well-regarded corporate lawyer in Perth.

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 Honors), Bachelor of Commerce and a Master of Laws.

Mr. Cameron Wilson, Company Secretary

Mr. Wilson was appointed Joint Company Secretary on February 21, 2018.

Mr. Wilson brings over 20 years' mining industry experience across a number of commercial, legal and governance roles in the gold, nickel, coal and mineral sands sectors, most recently as General Counsel and Company Secretary at Iluka Resources Limited. He started his career as a lawyer in private practice with Clayton Utz and subsequently held a number of senior legal positions with WMC Resources Limited.

Mr. Wilson holds a Bachelor of Laws from the University of Western Australia and is a Graduate of the Australian Institute of Company Directors.

Ms. Alison Terry, Joint Company Secretary and Group Manager Corporate Affairs

Ms. Terry serves as Joint Company Secretary, having been appointed to the role in February 2017 after joining Fortescue in 2014 as Group Manager—Corporate Affairs.

With significant experience in corporate affairs, legal, company secretarial and general management Ms. Terry has previously held a number of senior executive positions at GM Holden, including General Counsel and Company Secretary and Executive Director, Corporate Affairs. Her prior roles also include Head of Corporate Affairs at innovative electric car network company, Better Place Australia, and Managing Director and Chief Operating Officer of leading not-for-profit, The Foundation for Young Australians.

Ms. Terry has held a number of Non-Executive positions including on the Board of Directors of industry superannuation fund AustralianSuper and NBN Tasmania Limited. She holds a Bachelor of Economics, a Bachelor of Laws with Honours from the Australian National University and a Graduate Diploma of Business (Accounting).

Board structure

Pursuant to Fortescue's Constitution, its Board must consist of at least three directors and no more than 12 directors. Fortescue's Constitution also requires that at each annual general meeting, one third of the directors must resign with those directors who have served the longest being subject to rotation first.

Additionally, pursuant to Fortescue's Constitution, any new director appointed by the Board within a year must retire at the next annual general shareholders meeting to be then offered for re-election.

Fortescue's Board is responsible for the overall corporate governance of Fortescue and its wholly owned subsidiaries.

The key responsibilities of the Board include:

- appointing, evaluating, rewarding, and if necessary, removing the Chief Executive Officer;
- developing corporate objectives and strategy with management and approving plans, new investments, major capital and operating expenditures and major funding activities proposed by management;
- monitoring actual performance against defined performance expectations and reviewing operating information to understand at all times the state of health of the Company;
- overseeing the management of business risks, safety and occupational health, environmental issues and community development;

- satisfying itself that the financial statements of the Company fairly and accurately set out the financial position and financial performance of the Company for the period under review;
- satisfying itself that there are appropriate reporting systems and controls in place to assure the Board that proper operational, financial, compliance, risk management and internal control process are in place and functioning appropriately. Further, approving and monitoring financial and other reporting;
- assuring itself that appropriate audit arrangements are in place;
- ensuring that the Company acts legally and responsibly on all matters and assuring itself that the Company has adopted a code of conduct and that the Company practice is consistent with such code of conduct; and
- reporting to and advising shareholders.

The Board currently consists of eight directors, of which seven are Non-Executive Directors and one Executive Director. The Lead Independent Director and three of the other Non-Executive Directors are considered to be independent. As a result of his substantial shareholdings in Fortescue, Mr. Forrest AO is not independent. Mr. Cao is not independent, as he represents Hunan Valin Iron & Steel Group Co., Ltd, which is a material customer and shareholder of Fortescue. Regardless, all directors are required to bring independent judgment to bear in their board decision making. The Chairman is elected by the full Board.

The Board has established an Audit and Risk Management Committee, a Remuneration and Nominations Committee and a Finance Committee, each of which is described below.

Audit and Risk Management Committee

The Audit and Risk Management Committee must consist of at least three Non-Executive Directors with an independent Director as the Chairman of the Committee. Current members of the Audit and Risk Committee are Mark Barnaba AM (Chairman), Jennifer Morris OAM, Sharon Warburton and Penny Bingham-Hall. The Audit and Risk Management Committee meets and reports to the Board.

The Audit and Risk Management Committee reviews the Company's audited consolidated financial statements, adequacy of financial controls and the annual audit arrangement. It monitors controls and financial reporting systems, applicable Company policies, national and international accounting standards, and other regulatory or statutory requirements.

The Audit and Risk Management Committee liaises with Fortescue's external auditors, reviews the scope of their activities, reviews the external auditors' remuneration and advises the Board on their appointment. The lead audit partner and review partner are not permitted to serve for more than five consecutive years. The Audit and Risk Management Committee reviews the processes in place for the identification, management and reporting of business risk, and reviews the findings reported.

The Chief Executive Officer, Chief Financial Officer, Group Accountant and Fortescue's external auditors are normal attendees at any meeting of the Audit and Risk Committee. However, the committee can, at the discretion of the Chairman, choose to meet without any one of the aforementioned present. The Company Secretary acts as administrator and secretary to the committee.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee must consist of at least three Non-Executive Directors (including a majority of independent Directors). Current members of the Remuneration and Nomination Committee are

Sharon Warburton (Chair), Mark Barnaba AM and Jennifer Morris OAM. The duties of this committee include advising the Board with respect to:

- remuneration of the Chief Executive Officer and the Executive Directors;
- remuneration of other executive officers;
- short-term and long-term incentive plans;
- recruitment, retention and termination policies;
- CEO succession planning;
- nomination and review of applicants for a directorship on the Board; and
- recommendation of appointments to Board committees.

Finance Committee

The Finance Committee must consist of at least three Directors (including a majority of independent Directors). Current members of the Finance Committee are Andrew Forrest AO (Chair), Sharon Warburton and Penny Bingham-Hall. The duties of this committee include advising the Board with respect to considering matters associated with material investment and financing decisions, as delegated by the Board, with the potential to significantly impact the Group, including debt issuance, debt repayment and major acquisitions and disposals.

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.

Employment agreements

Compensation and other terms of employment for the Executive Directors, other key management personnel and other executives are formalized in service agreements. These service agreements set out the salary and superannuation (retirement) benefits of employment, as well as basic terms and conditions of employment and an employees' code of conduct. Under the terms of these agreements, Fortescue or the employee may terminate the employment at any time upon giving between one and three month's written notice. Information on the terms of the service agreements relating to Fortescue's key management and personnel in fiscal 2017 is included in the Remuneration Report included elsewhere in this offering circular.

Compensation of directors and executive officers

For information on the compensation of Fortescue's directors and Fortescue's key management personnel in fiscal 2017, please see the Remuneration Report included elsewhere in this offering circular.

Principal shareholders and related party transactions

Principal shareholders

The following table sets out, as of January 31, 2018, persons known to Fortescue to be the beneficial owner of at least 5% of its shares. All of the fully paid ordinary shares of each member of the Group are owned, directly or indirectly, by Fortescue.

Title of class	Name of beneficial owner	Number of shares beneficially owned	Percent of class
Ordinary Shares.	Andrew Forrest	1,038,800,000(1)	33.36%
Ordinary Shares.	Hunan Valin Iron & Steel Group Co., Ltd	434,914,118	13.97%

Notes:

(1) Of the 1,038,800,000 shares, Mr. Forrest beneficially owns (a) 918,806,548 shares, or 29.51% of Fortescue's shares, through his interest in The Minderoo Group Pty Ltd., (b) 101,730,842 shares, or 3.27% of Fortescue's shares, through AML Financial Pty Ltd (TATTARANG INVESTMENT), (c) 18,029,247 shares, or 0.58% of Fortescue's shares, through HSBC Custody Nominees (Australia) Limited and (d) 233,363 shares, or 0.01% of Fortescue's shares, directly.

Share ownership of directors and executive officers

Except for Andrew Forrest, whose shareholding in Fortescue is described in the table above, each of Fortescue's directors and executive officers owns less than 1% of Fortescue's shares.

Material related party transactions

Other than as disclosed in the note 17 to the 2017 Annual Report for fiscal 2017 and 2016 included as part of this offering circular, the Group has not entered into any material related party transaction during the period from and including fiscal 2014 through to the date of this offering circular.

Description of other indebtedness

As of December 31, 2017, the Company's long-term debt consisted of the 2022 Senior Secured Notes, the 2022 Senior Unsecured Notes and the 2024 Senior Unsecured Notes, each of which are summarized below. In addition, the Group is a party to certain finance and operating leases and certain credit agreements, which are also summarized below.

2022 Senior secured notes

On April 27, 2015, the Issuer completed an offering of US$2,300 million aggregate principal amount of 9.750% Senior Secured Notes due 2022 (the "2022 Senior Secured Notes"), of which US$2,160 million was outstanding as of December 31, 2017. The 2022 Senior Secured Notes mature on March 1, 2022, and are guaranteed by Fortescue and certain of its subsidiaries specified in the indenture governing the 2022 Senior Secured Notes. The indenture governing the 2022 Senior Secured Notes contains certain negative and affirmative covenants, which are subject to a number of important exceptions and qualifications as specified in the indenture governing the 2022 Senior Secured Notes.

The 2022 Senior Secured Notes are secured by security over all of the assets of the Issuer, Fortescue and certain of Fortescue's subsidiaries, subject to certain agreed upon exceptions, which security will be shared on a *pari passu* basis with the Revolving Credit Facility and the Syndicated Term Loan.

The Issuer will use the proceeds from this offering and the Syndicated Term Loan to redeem a portion of the 2022 Senior Secured Notes outstanding. See "Use of proceeds."

2022 Senior unsecured notes

On May 12, 2017, the Issuer completed an offering of US$750 million aggregate principal amount of 4.750% Senior Unsecured Notes due 2022 (the "2022 Senior Unsecured Notes"), all of which was outstanding as of December 31, 2017. The 2022 Senior Unsecured Notes mature on May 15, 2022, and are guaranteed by Fortescue and certain of its subsidiaries specified in the indenture governing the 2022 Senior Unsecured Notes. The indenture governing the 2022 Senior Unsecured Notes contains certain negative and affirmative covenants, which are subject to a number of important exceptions and qualifications as specified in the indenture governing the 2022 Senior Unsecured Notes.

2024 Senior unsecured notes

On May 12, 2017, the Issuer completed an offering of US$750 million aggregate principal amount of 5.125% Senior Unsecured Notes due 2024 (the "2024 Senior Unsecured Notes"), all of which was outstanding as of December 31, 2017. The 2024 Senior Unsecured Notes mature on May 15, 2024, and are guaranteed by Fortescue and certain of its subsidiaries specified in the indenture governing the 2024 Senior Unsecured Notes. The indenture governing the 2024 Senior Unsecured Notes contains certain negative and affirmative covenants, which are subject to a number of important exceptions and qualifications as specified in the indenture governing the 2024 Senior Unsecured Notes.

Finance lease liabilities

On April 1, 2016, Chichester Metals Pty Limited entered into a master finance lease with Caterpillar Financial Australia Leasing Pty Limited in respect of heavy mobile equipment, which is guaranteed by Fortescue (the "Master Finance Lease").

On November 11, 2016, the Group entered into lease agreements with China Development Bank Financial Leasing Co., Ltd. in respect of financing of eight VLOCs (the "VLOC Lease Facilities"). Six new VLOCs were introduced into Fortescue's portfolio over the last 15 months and the Group expects the remainder to be delivered over the period from the date of this offering circular to June 2018.

As at December 31, 2017, the Group reported US$520 million of finance lease liabilities. The Group's finance lease liabilities largely consist of liabilities in respect of the Fortescue River Gas Pipeline, heavy mobile equipment and VLOCs as discussed above.

Operating lease facilities

As of the date of this offering circular, the Group has one operating lease facility relating to light vehicles, with remaining rental costs totaling approximately US$49 million. The existing operating leases have terms ranging from 12 months to 84 months and expire at varying dates up to Aug 2023.

The obligations of the lessees under each of the operating leases have been guaranteed by Fortescue.

Revolving Credit Facility

On July 28, 2017, Fortescue, the Issuer and certain subsidiary guarantors entered into the Revolving Credit Facility with various financial institutions and Australia and New Zealand Banking Group Limited, as facility agent, for a US$525 million senior revolving facility. The Revolving Credit Facility is intended to be used for general corporate purposes. The Revolving Credit Facility will mature on the date falling 3 years from the date of the agreement and has an option to extend (by mutual agreement) for successive periods of 12 months. The Revolving Credit Facility contains certain affirmative and negative covenants, including a negative pledge, which are subject to a number of important exceptions and qualifications as specified in the Revolving Credit Facility.

The Revolving Credit Facility is secured over all of the assets of the Issuer, Fortescue and each of the note guarantors under the 2022 Senior Secured Notes until the 2022 Senior Secured Notes are repaid in full. Once all obligations under the 2022 Senior Secured Notes are discharged in full, Fortescue may request a step-down in security to "share specific security" over the capital stock in each obligor which is a subsidiary of another obligor. The obligors under the Revolving Credit Facility, following the discharge of the 2022 Senior Secured Notes, will be Fortescue, the Issuer and any subsidiary of Fortescue which represents 5% or more of the group's consolidated total assets or 5% or more of the Group's consolidated EBITDA.

As at the date of this offering circular, the Revolving Credit Facility remains undrawn.

Syndicated Term Loan

On February 20, 2018, Fortescue, the Issuer and certain subsidiary guarantors entered into the US$1.4 billion Syndicated Term Loan with key Chinese, Australian and European financial institutions and Australia and New Zealand Banking Group Limited, as facility agent. The Syndicated Term Loan will mature on the date falling 4 years from the date of the agreement and has an option to extend (by mutual agreement) for a further year. The Syndicated Term Loan contains certain affirmative and negative covenants, including a negative pledge, which are subject to a number of important exceptions and qualifications as specified in the Syndicated Term Loan.

The Syndicated Term Loan is secured over all of the assets of the Issuer, Fortescue and each of the note guarantors under the 2022 Senior Secured Notes until the 2022 Senior Secured Notes are repaid in full. Once all obligations under the 2022 Senior Secured Notes are discharged in full, Fortescue may request a step-down in security to "share specific security" over the capital stock in each obligor which is a subsidiary of another obligor. The obligors under the Syndicated Term Loan, following the discharge of the 2022 Senior Secured Notes, will be Fortescue, the Issuer and any subsidiary of Fortescue which represents 5% or more of the group's consolidated total assets or 5% or more of the Group's consolidated EBITDA.

The proceeds from the Syndicated Term Loan will be used to refinance the 2022 Senior Secured Notes accepted for purchase pursuant to the Tender Offer or redemption.

The Issuer, as borrower, may voluntarily prepay any loan at any time in whole or in part in minimum amounts of US$5 million upon 5 business days' prior notice. Mandatory prepayments may be required by the lenders upon a change of control.

Description of the notes

You can find the definitions of certain terms used in this description under the subheading "—Certain definitions." In this description, the term "Issuer" refers only to FMG Resources (August 2006) Pty Ltd, a corporation organized under the laws of the Commonwealth of Australia, and not to any of its subsidiaries. In this description, the term "Fortescue" or "Parent Guarantor" refers only to Fortescue Metals Group Limited, a corporation organized under the laws of the Commonwealth of Australia, and not to any of its subsidiaries.

The Issuer will issue the % Senior Notes due 2023 (the "*notes*") and under an indenture, dated May 12, 2017 (as supplemented by any supplemental indenture and/or officer's certificate, the "*indenture*"), among itself, the Parent Guarantor and The Bank of New York Mellon, as trustee (the "*Trustee*"), in a private transaction that is not subject to the registration requirements of the Securities Act. See "Transfer restrictions."

The following description is a summary of the material provisions of the indenture, the notes and the Parent Guarantee. It does not restate those agreements in their entirety. We urge you to read the indenture governing the notes in which you are considering making an investment because it, and not this description, defines your rights as holders of such notes and the rights and obligations of the Trustee. Copies of the indenture are available upon request to Fortescue. Certain defined terms used in this description but not defined below under "—Certain definitions" have the meanings assigned to them in the indenture.

The registered holder of a note will be treated as the owner of it for all purposes. Only registered holders will have rights under the indenture.

Brief description of the notes and the Parent Guarantee

The notes

The notes will:

- be general unsecured senior obligations of the Issuer;
- be senior in right of payment to any future obligations of the Issuer expressly subordinated in right of payment to the notes;
- rank *pari passu* in right of payment among themselves and with all other senior Indebtedness of the Issuer, except Indebtedness mandatorily preferred by law;
- be guaranteed by the Parent Guarantor on a senior unsecured basis;
- be structurally subordinated to all existing and future obligations of the Parent Guarantor's Subsidiaries (other than the Issuer); and
- be effectively subordinated to all existing and future secured obligations of the Issuer, including any outstanding Senior Secured Notes and any Indebtedness under the Revolving Credit Facility and the Syndicated Term Loan, to the extent of the value of the collateral securing such Indebtedness (subject to any priority rights of such unsecured obligations pursuant to applicable law).

The Parent Guarantee

The Issuer's payment Obligations under the indenture and the notes will be guaranteed by the Parent Guarantor on an unconditional basis.

The Parent Guarantee will:

- be a general unsecured senior obligation of the Parent Guarantor;

- be senior in right of payment to all future obligations of the Parent Guarantor expressly subordinated in right of payment to the Parent Guarantee;
- rank *pari passu* in right of payment with all other senior Indebtedness of the Parent Guarantor, except Indebtedness mandatorily preferred by law; and
- be effectively subordinated to all existing and future secured obligations of the Parent Guarantor, including its guarantee of Indebtedness under any outstanding Senior Secured Notes and any Indebtedness under the Revolving Credit Facility and the Syndicated Term Loan, to the extent of the value of the collateral securing such Indebtedness (subject to any priority rights of such unsecured obligations pursuant to applicable law).

None of the Parent Guarantor's Subsidiaries will guarantee the notes. In the event of a bankruptcy, liquidation or reorganization of any Subsidiary of the Parent Guarantor (other than the Issuer), the Subsidiary will pay the holders of its indebtedness and other liabilities before it will be able to distribute any of its assets to the Parent Guarantor.

The Parent Guarantee will be subject to certain limitations on enforcement and may be limited by applicable law or subject to certain defenses that may limit its validity and enforceability.

The notes will be structurally subordinated to all of the existing and future obligations of the Subsidiaries of the Parent Guarantor (other than the Issuer), including, with respect to certain of such Subsidiaries, their guarantee of Indebtedness under the Senior Secured Notes. As of December 31, 2017, the Parent Guarantor's Subsidiaries (other than the Issuer) had US$4,180 million of Indebtedness (comprising finance lease liabilities).

Principal, maturity and interest

The notes will be unlimited in aggregate principal amount, of which US$500 million in aggregate principal amount will be issued by the Issuer in this offering. The Issuer may issue additional notes (the "*additional notes*") under the indenture from time to time after this offering. Any issuance of additional notes is subject to all of the covenants in the indenture. The notes and any additional notes subsequently issued under the indenture will be substantially identical other than the offering price, the issuance dates and the dates from which interest will accrue. Unless the context otherwise requires, for all purposes of the indenture and this "Description of the notes," references to the notes include any additional notes actually issued. Because, however, any additional notes may not be fungible with the notes for federal income tax purposes, they may have a different CUSIP number or numbers, be represented by a different global note or notes and otherwise be treated as a separate class or classes of notes for other purposes.

Interest on the notes will accrue at the rate of   % per annum and will be payable in cash semi-annually in arrears on   and   , commencing on   , 2018. The Issuer will make each interest payment to the holders of record on the immediately preceding   and   . The notes will mature on   , 2023.

The Issuer will issue the notes in denominations of US$2,000 and integral multiples of US$1,000 in excess thereof.

Interest on the notes will accrue from the date of original issuance or, if interest has already been paid, from the date it was most recently paid. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months. Interest on overdue principal, premium, if any, and interest on the notes will accrue at a rate that is 1.00% higher than the then-applicable interest rate on such notes.

Paying agent and registrar for the notes

The Trustee will initially act as paying agent and registrar. The Issuer may change the paying agent or registrar without prior notice to the holders of the notes, and the Issuer or any of the Parent Guarantor may act as paying agent or registrar.

Transfer and exchange

A holder may transfer or exchange notes in accordance with the provisions of the indenture. The registrar and the Trustee may require a holder, among other things, to furnish appropriate endorsements and transfer documents in connection with a transfer of notes. Holders will be required to pay all taxes due on transfer. Neither the Issuer nor the Trustee will be required to transfer or exchange any note selected for redemption. Also, neither the Issuer nor the Trustee will be required to transfer or exchange any note for a period of 15 days before a selection of notes to be redeemed.

Additional Amounts

All payments made of, or in respect of, principal, interest or premium, if any, with respect to the notes or the Parent Guarantee shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or other governmental charges of whatever nature (including related penalties, interest and other liabilities) ("*Taxes*") imposed or levied by or on behalf of the government of Australia or any political subdivision or any authority or agency therein or thereof having power to tax, or any other jurisdiction in which the Issuer or the Parent Guarantor is organized or is otherwise resident for tax purposes, or any jurisdiction from or through which payment is made (each, a "*Relevant Taxing Jurisdiction*"), unless the Issuer or the Parent Guarantor is required to withhold or deduct Taxes by law or by regulation or governmental policy having the force of law or by the interpretation or administration thereof.

If the Issuer or the Parent Guarantor is so required by law or by regulation or governmental policy having the force of law or by the interpretation or administration thereof to withhold or deduct any amount for or on account of Taxes imposed by a Relevant Taxing Jurisdiction from any payment made under or with respect to the notes, the Issuer or the Parent Guarantor shall pay such additional amounts ("*Additional Amounts*") as may be necessary so that the net amount received by the holders and beneficial owners of the notes (including Additional Amounts) after such withholding or deduction will not be less than the amount the holders and beneficial owners would have received if such Taxes had not been withheld or deducted; provided, however, that the foregoing obligation to pay Additional Amounts does not apply to:

(1) any Taxes that would not have been so imposed but for:

(A) the existence of any present or former connection between the holder or beneficial owner of such note or the Parent Guarantee and the Relevant Taxing Jurisdiction other than merely holding such note or the Parent Guarantee, including such holder or beneficial owner being or having been a national, domiciliary or resident of or treated as a resident thereof or being or having been physically present or engaged in a trade or business therein or having or having had a permanent establishment therein;

(B) the presentation of such note (in cases in which presentation is required) more than 30 days after the later of the date on which the payment of the principal of, or interest or premium, if any, on, such note became due and payable pursuant to the terms thereof or was made or duly provided for, except to the extent that the holder or beneficial owner thereof would have been entitled to such Additional Amounts if it had presented such note for payment on any date within such 30-day period;

(C) the failure of the holder or beneficial owner to comply with any certification, identification or other reporting requirement concerning nationality, residence, identity or connection with the Relevant Taxing Jurisdiction of the holder or beneficial owner of such note if compliance is required by law, regulation or by an applicable income tax treaty to which the Relevant Taxing Jurisdiction is a party, as a precondition to exemption for, or reduction in the rate of tax, assessment or other governmental charge;

(D) the failure of the holder or beneficial owner of such note to respond to a timely request of the Issuer, the Trustee, the paying agent or the Parent Guarantor, as the case may be, addressed to the holder or beneficial owner to furnish information to the Issuer, the Trustee, the paying agent or the Parent Guarantor, as the case may be, concerning such holder's or beneficial owner's nationality, residence or identity, in each case, if and to the extent that furnishing such information to the Issuer, the Trustee, the paying agent or the Parent Guarantor, as the case may be, would have reduced or eliminated any taxes as to which Additional Amounts would have otherwise been payable to such holder or beneficial owner; provided that, for this purpose, the holder or beneficial owner shall be deemed to have furnished such information to the Issuer, the Trustee, the paying agent or the Parent Guarantor, as the case may be, upon facsimile transmission of such information to the Issuer or the Parent Guarantor, as the case may be; or

(E) the presentation of such note for payment in the Relevant Taxing Jurisdiction, unless such note could not have been presented for payment elsewhere;

(2) any Taxes which are Australian Withholding Tax in respect of any interest paid to an Offshore Associate of the Issuer or the Parent Guarantor, as the case may be;

(3) any estate, inheritance, gift, sales, excise, transfer, personal property Tax or similar Tax;

(4) any Taxes which are payable otherwise than by withholding from payments of (or in respect of) principal of, or any premium or interest on, the notes;

(5) any payment under or with respect to a note to any holder who is a fiduciary or partnership or any Person other than the sole beneficial owner of such payment, to the extent that a beneficiary or settlor with respect to such fiduciary, a member of such a partnership or the beneficial owner of such payment would not have been entitled to the Additional Amounts had such beneficiary, settlor, member or beneficial owner been the actual holder of such note;

(6) any withholding or deduction that is imposed on a note presented for payments by or on behalf of a holder or beneficial owner who would be able to avoid a withholding or deduction by presenting the relevant note to another paying agent in a member state of the European Economic Area; or

(7) any combination of items (1) through (6) above.

In addition, any amounts to be paid by the Issuer or the Parent Guarantor on the Notes or the Parent Guarantee will be paid net of any deduction or withholding imposed or required pursuant to Sections 1471 through 1474 of the U.S. Internal Revenue Code (the "*Code*"), any current or future regulations or official interpretations thereof, any agreement entered into pursuant to Section 1471(b) of the Code, or any fiscal or regulatory legislation, rules or practices adopted pursuant to any intergovernmental agreement entered into in connection with the implementation of such Sections of the Code ("*FATCA Withholding*"). Neither the Issuer nor the Parent Guarantor will be required to pay Additional Amounts on account of any FATCA Withholding.

If the Issuer or the Parent Guarantor will be obligated to pay Additional Amounts with respect to any payment under or with respect to the notes or the Parent Guarantee, as applicable, the Issuer or the Parent Guarantor, as applicable, will deliver to the Trustee at least 30 days prior to the date of that payment (unless the obligation to pay Additional Amounts arises after the 30th day prior to that payment date, in which case the Issuer or the Parent Guarantor, as applicable, shall notify the Trustee promptly thereafter but in no event later than two

Business Days prior to the date of payment) notice of payment in the form of an officer's certificate. In either circumstance, the officer's certificate must state that Additional Amounts will be payable and the amount so payable. The officer's certificate must also set forth any other information necessary to enable the paying agent to pay Additional Amounts to holders and beneficial owners on the relevant payment date.

The Issuer will provide the Trustee with official receipts or other documentation evidencing the payment of the Taxes with respect to which Additional Amounts are paid within 60 days of such payment. Copies of such documentation will be made available to the holders of the notes, beneficial owners of the notes or the paying agent, as applicable, upon request therefor.

Whenever there is mentioned, in any context, the payment of principal, interest, premium, if any, Additional Amounts, if any, or any other amount payable on or with respect to any of the notes, that reference shall be deemed to include payment of Additional Amounts provided for in this section to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

The Issuer or the Parent Guarantor will pay any present or future stamp, court or documentary taxes or any other excise or property taxes, charges or similar levies that arise in any jurisdiction from the execution, delivery, enforcement or registration of the notes, the Parent Guarantee, the indenture or any other related document or instrument, or the receipt of any payments with respect to the notes or the Parent Guarantee, excluding, in the case of the Trustee and paying agent, any income or similar tax imposed on the Trustee, and in the case of the holders, taxes, charges or similar levies imposed by any jurisdiction outside of Australia, the United States, the jurisdiction of incorporation of any successor of the Issuer or any jurisdiction in which a paying agent is located, and the Issuer will agree to fully indemnify the holders or the Trustee for any such taxes paid by the holders or the Trustee.

Optional redemption

Except as otherwise described below, the notes will be redeemable in whole at any time or in part from time to time, at our option, upon not less than 10 nor more than 60 days' notice, prior to , 2022 (three months prior to their maturity date) at a redemption price equal to the greater of:

- 100% of the principal amount of the notes of that series to be redeemed; and
- the sum of the present values of the remaining scheduled payments of principal and interest on the notes to be redeemed (exclusive of interest accrued to the date of redemption) discounted to the date of redemption on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the then-current Treasury Rate plus 50 basis points for the notes.

In each case, the Issuer will also pay accrued and unpaid interest on the principal amount being redeemed to, but not including, the date of redemption.

In addition, the notes will be redeemable in whole at any time or in part from time to time, at our option, upon not less than 10 nor more than 60 days' notice, on or after , 2022 (three months prior to their maturity date), at a redemption price equal to 100% of the principal amount of the notes redeemed. The Issuer will also pay accrued and unpaid interest on the principal amount being redeemed to, but not including, the date of redemption.

For purposes of the foregoing discussion of optional redemption, the following definitions are applicable:

"*Comparable Treasury Issue*" means, with respect to the notes to be redeemed, the United States Treasury security selected by an Independent Investment Banker as having a maturity comparable to the remaining term, which is referred to as the "*Remaining Life*," of the notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of a comparable maturity to the remaining term of such notes.

"*Comparable Treasury Price*" means, with respect to any redemption date, (1) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations or (2) if the Independent Investment Banker obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such Reference Treasury Dealer Quotations as determined by the Issuer.

"*Independent Investment Banker*" means one of the Reference Treasury Dealers selected by Fortescue to act as the Independent Investment Banker.

"*Reference Treasury Dealer*" means any three nationally recognized investment banking firms selected by Fortescue that are primary dealers of Government Securities.

"*Reference Treasury Dealer Quotations*" means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Independent Investment Banker, of the bid and asked prices for the Comparable Treasury Issue with respect to the applicable series of notes, expressed in each case as a percentage of its principal amount, quoted in writing to the Independent Investment Banker by such Reference Treasury Dealer at 5:00 p.m., New York City time, on the third Business Day immediately preceding the redemption date.

"*Treasury Rate*" means, with respect to any redemption date, the rate per year equal to: (1) the yield, under the heading which represents the average for the immediately preceding week, appearing in the most recently published statistical release designated "H.15 (519)" or any successor publication which is published weekly by the Board of Governors of the Federal Reserve System and which establishes yields on actively traded United States Treasury securities adjusted to constant maturity under the caption "Treasury Constant Maturities," for the maturity corresponding to the Comparable Treasury Issue; provided that, if no maturity is within three months before or after the Remaining Life of the notes to be redeemed, yields for the two published maturities most closely corresponding to the Comparable Treasury Issue shall be determined and the Treasury Rate shall be interpolated or extrapolated from those yields on a straight-line basis, rounding to the nearest month; or (2) if such release (or any successor release) is not published during the week preceding the calculation date or does not contain such yields, the rate per year equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, calculated using a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date. The Treasury Rate shall be calculated on the third Business Day preceding the redemption date.

Optional redemption of the notes upon Change of Control. The Issuer will have the right to redeem the notes at 101% of the principal amount thereof following the consummation of a Change of Control if at least 90% of the notes outstanding prior to such consummation are purchased pursuant to a Change of Control Offer with respect to such Change of Control.

Redemption for changes in withholding taxes

The Issuer may, at its option, redeem all, but not less than all, of the then outstanding notes at any time upon giving prior written notice to the Trustee and giving not less than 10 nor more than 60 days' notice to the holders (which notice shall be irrevocable), at a redemption price equal to 100% of the aggregate principal amount thereof, plus accrued and unpaid interest and premium, if any, thereon to the date fixed by the Issuer for redemption (a "*Tax Redemption Date*") and all Additional Amounts, if any, that will become due on the Tax Redemption Date as a result of such redemption or otherwise (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date), if the Board of Directors of

Fortescue determines in good faith that (a) the Issuer or the Parent Guarantor has become obligated or on the occasion of the next interest payment date in respect of the notes, will be obligated to pay Additional Amounts and (b) the payment obligation cannot be avoided by the Issuer or the Parent Guarantor taking reasonable measures available to it (including making payment through a paying agent located in another jurisdiction), as a result of:

(1) any change in, repeal of, or amendment to, the laws or treaties (or any regulations, protocols or rulings promulgated thereunder) of Australia or any other Relevant Taxing Jurisdiction affecting taxation, which change or amendment becomes effective on or after the Issue Date (or, if the Relevant Taxing Jurisdiction has changed since the Issue Date, the date on which the then current Relevant Taxing Jurisdiction became the applicable Relevant Taxing Jurisdiction under the indenture),

(2) any change in the existing official position regarding the application, administration or interpretation of such laws, treaties, regulations or rulings (including a holding, judgment or order by a court of competent jurisdiction), which change, amendment, application or interpretation becomes effective on or after the Issue Date (or, if the Relevant Taxing Jurisdiction has changed since the Issue Date, the date on which the then current Relevant Taxing Jurisdiction became the applicable Relevant Taxing Jurisdiction under the indenture), or

(3) the issuance of definitive notes due to the notification by DTC or each of Euroclear and Clearstream that it is unwilling or unable to continue to act as, or ceases to be, a clearing agency in respect of the notes, if no successor is able to be appointed by the Issuer within 120 days of the notification.

The notice of redemption may not be given earlier than 180 days prior to the earliest date on which the Issuer or the Parent Guarantor, as the case may be, would be obligated to pay Additional Amounts if a payment in respect of the notes were then due 10 days prior to the publication or, where relevant, mailing of any notice of redemption of the notes pursuant to the foregoing, the Issuer will deliver to the Trustee (1) an officer's certificate stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer to so redeem have occurred and (2) an opinion of counsel or written advice of a qualified tax expert, such counsel or tax expert being from an internationally recognized law or accounting firm satisfactory to the Trustee, that the Issuer has or will become obliged to pay Additional Amounts as a result of the circumstances referred to in clause (1), (2) or (3) in the preceding paragraph.

The Trustee shall accept and shall be entitled to conclusively rely upon the officer's certificate and opinion or such written advice as sufficient evidence of the satisfaction of the conditions precedent described above.

Mandatory redemption

The Issuer will not be required to make mandatory redemption or sinking fund payments with respect to the notes. However, under certain circumstances, the Issuer may be required to offer to purchase the notes as described under the caption "—Repurchase at the option of holders." The Issuer, Fortescue or any of their respective Subsidiaries or Affiliates may at any time and from time to time purchase the notes in the open market or otherwise.

Repurchase at the option of holders

Change of Control

If a Change of Control occurs, each holder of notes will have the right to require the Issuer to repurchase all or any part (equal to US$2,000 or an integral multiple of US$1,000) of that holder's notes pursuant to an offer (a

“*Change of Control Offer*”) on the terms set forth in the indenture. In the Change of Control Offer, the Issuer will offer a payment (a “*Change of Control Payment*”) in cash equal to 101% of the aggregate principal amount of notes repurchased plus accrued and unpaid interest on the notes repurchased to the date of purchase, subject to the rights of holders of notes on the relevant record date to receive interest due on the relevant interest payment date. Within 30 days following any Change of Control, the Issuer will mail a notice to each holder, with a copy in writing to the Trustee, describing the transaction or transactions that constitute the Change of Control and offering to repurchase notes on the date (the “*Change of Control Payment Date*”) specified in the notice, which date will be no earlier than 30 days and no later than 60 days from the date such notice is mailed, pursuant to the procedures required by the indenture and described in such notice. The Issuer will comply with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent those laws and regulations are applicable in connection with the repurchase of the notes as a result of a Change of Control. To the extent that the provisions of any securities laws or regulations conflict with the Change of Control provisions of the indenture, the Issuer will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Change of Control provisions of the indenture by virtue of such compliance.

A Change of Control Offer may be made in advance of a Change of Control, and conditioned upon such Change of Control, if a definitive agreement is in place for the Change of Control at the time of making the Change of Control Offer.

On the Change of Control Payment Date, the Issuer will, to the extent lawful:

(1) accept for payment all notes or portions of notes properly tendered pursuant to the Change of Control Offer;

(2) deposit by 10:00 a.m. Eastern Time with the paying agent an amount equal to the Change of Control Payment in respect of all notes or portions of notes properly tendered; and

(3) deliver or cause to be delivered to the Trustee the notes properly accepted together with an officer’s certificate stating the aggregate principal amount of notes or portions of notes being purchased by the Issuer.

The paying agent will promptly deliver to each holder of notes properly tendered pursuant to the Change of Control Offer the Change of Control Payment for such notes, and the Trustee will promptly authenticate and mail (or cause to be transferred by book entry) to each holder a new note equal of the applicable series in principal amount to any unpurchased portion of the notes of such series surrendered by such holder, if any. The Issuer will publicly announce the results of the Change of Control Offer on or as soon as practicable after the Change of Control Payment Date. Notes (or portions thereof) purchased by the Issuer pursuant to a Change of Control Offer will be cancelled and cannot be reissued. Notes purchased by a third party (described below) will have the status of notes issued and outstanding.

The provisions described above that require the Issuer to make a Change of Control Offer following a Change of Control will be applicable whether or not any other provisions of the indenture are applicable, except as set forth under the captions “—Legal Defeasance and Covenant Defeasance” and “—Satisfaction and discharge.” Except as described above with respect to a Change of Control, the indenture does not contain provisions that permit the holders of the notes to require that the Issuer repurchase or redeem the notes in the event of a takeover, recapitalization or similar transaction.

The Issuer will not be required to make a Change of Control Offer upon a Change of Control if (1) a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the indenture applicable to a Change of Control Offer made by the Issuer and purchases all notes properly tendered and not withdrawn under the Change of Control Offer or (2) notice of redemption in respect of all of the outstanding notes has been given pursuant to the indenture as described above under the caption "—Optional redemption," unless and until there is a default in payment of the applicable redemption price, plus accrued and unpaid interest to the proposed date of redemption.

The definition of Change of Control includes a phrase relating to the direct or indirect sale, lease, transfer, conveyance or other disposition of "all or substantially all" of the properties or assets of Fortescue and its Subsidiaries taken as a whole. Although there is a limited body of case law interpreting the phrase "substantially all," there is no precise established definition of the phrase under the laws of the State of New York, which is the applicable law that governs the indenture. Accordingly, the ability of a holder of notes to require the Issuer to repurchase its notes as a result of a sale, lease, transfer, conveyance or other disposition of less than all of the assets of Fortescue and its Subsidiaries taken as a whole to another Person or Group may be uncertain.

The provisions of the indenture relating to the Issuer's obligation to make an offer to repurchase a series of notes as a result of a Change of Control may be waived or modified with the written consent of the holders of a majority in outstanding principal amounts of the applicable series of notes.

Selection and notice

If less than all of the notes are to be redeemed at any time, such notes will be redeemed on a pro rata basis unless otherwise required by law or applicable stock exchange or depository requirements.

No notes of US$2,000 or less can be redeemed in part. Notices of redemption will be mailed by first class mail at least 10 but not more than 60 days before the redemption date to each holder of notes to be redeemed at its registered address, except that redemption notices may be mailed more than 60 days prior to a redemption date if the notice is issued in connection with a defeasance of the notes or a satisfaction and discharge of the indenture. Notices of redemption may not be conditional.

If any note is to be redeemed in part only, the notice of redemption that relates to that note will state the portion of the principal amount of that note that is to be redeemed. A new note in principal amount equal to the unredeemed portion of the original note will be issued in the name of the holder of notes upon cancellation of the original note. Notes called for redemption become due on the date fixed for redemption. On and after the redemption date, interest ceases to accrue on notes or portions of notes called for redemption.

Certain covenants

The indenture will contain covenants including, among others, those summarized below.

Liens

Fortescue will not, and will not permit any of its Subsidiaries to create, incur, issue, assume or guarantee any Indebtedness secured by a Lien upon (a) any of the property or assets of Fortescue or any of its Subsidiaries or (b) any shares of Capital Stock or Indebtedness issued by any Subsidiary of Fortescue and owned by Fortescue or any of its Subsidiaries, whether owned on the Issue Date or thereafter acquired, without effectively providing concurrently that the notes then outstanding under the indenture are secured equally and ratably with such Indebtedness so long as such Indebtedness shall be so secured.

The first paragraph of this covenant will not prohibit the incurrence of any of the following items (collectively, the "*Permitted Liens*"):

(1) Liens on the assets or property of Fortescue or any Subsidiary of Fortescue securing Indebtedness (including the Permitted Credit Facilities); provided that such Indebtedness does not exceed the greater of (x) US$5,000 million and (y) 20% of the Consolidated Net Tangible Assets of Fortescue and its Subsidiaries;

(2) Liens existing on the Issue Date (excluding Liens securing Indebtedness under the Permitted Credit Facilities);

(3) Liens in favor of Fortescue or a Subsidiary of Fortescue;

(4) Liens on property (including Capital Stock) of a Person existing at the time such Person is merged with or into or consolidated or amalgamated with, or existing at the time of acquisition of such property by, Fortescue or any Subsidiary of Fortescue; provided that such Liens were in existence prior to the contemplation of such merger, consolidation, amalgamation or acquisition, and do not extend to any assets other than those of the Person merged into, consolidated or amalgamated with, or the property acquired by, Fortescue or such Subsidiary;

(5) Liens or deposits to secure the performance of statutory or regulatory obligations, or surety or appeal, indemnity or performance bonds, warranty and contractual requirements or good faith deposits in connection with bids, tenders, contracts or leases or Liens over cash collateral provided in connection with any performance bonds issued to any government department or regulatory authority or similar party in accordance with any laws, regulations or conditions applying to any real property, mining tenements, permits, licenses or rights held by Fortescue or any Subsidiary of Fortescue or other obligations of a like nature incurred in the ordinary course of business;

(6) Liens securing reimbursement obligations with respect to commercial letters of credit with encumber documents and other assets relating to such letters of credit and products and proceeds thereof;

(7) Liens for taxes, assessments or governmental charges or claims that are not yet delinquent or that are being contested in good faith by appropriate proceedings promptly instituted and diligently concluded; provided that any reserve or other appropriate provision as is required in conformity with A-IFRS has been made therefor;

(8) Liens arising by operation of law (or by an agreement to the same effect) and in the ordinary course of business, including (but not limited to) any Lien that attaches by operation of the Personal Property Securities Act 2009 (Cth) or by an agreement to the same effect) to proceeds of another property to which the Lien originally attached or to any commingled mass of which such other property becomes part and so long as the debt is not yet due and payable, is paid within 60 days of becoming due or is being contested in good faith and is adequately provisioned;

(9) Liens imposed by law, such as carriers', warehousemen's, landlord's, lessor's, suppliers, banks, repairmen's and mechanics' Liens, and Liens of landlords securing obligations to pay lease payments that are not yet due and payable or in default, in each case, incurred in the ordinary course of business;

(10) contract mining agreements and leases or subleases granted to others that do not materially interfere with the ordinary conduct of business of Fortescue or any of its Subsidiaries;

(11) Liens securing Hedging Obligations entered into in the ordinary course of business (and not for speculative purposes);

(12) Liens securing Permitted Refinancing Indebtedness (excluding Indebtedness under the Permitted Credit Facilities); provided, however, that the Indebtedness secured by the new Lien is not increased to any amount greater than the sum of (x) the outstanding principal amount, or, if greater, committed amount of such Indebtedness and (y) an amount necessary to pay any fees and expenses, including premiums, related to such renewal, refunding, refinancing, replacement, defeasance or discharge;

(13) any netting or set-off arrangement entered into by Fortescue or any of its Subsidiaries in the ordinary course of business for the purpose of netting debit and credit balances;

(14) any conditional sale, title retention, consignment or similar arrangements entered into by Fortescue or any of its Subsidiaries in the ordinary course of business on the supplier's usual terms of sale;

(15) any cross charge between members of a joint venture over joint venture assets or the interest of the joint venturer in such joint venture securing obligations to contribute to that joint venture or to repay other joint venturers who contribute to the joint venture in default of the chargor doing so;

(16) Liens encumbering customary initial deposits and margin deposits and similar encumbrances attaching to commodity trading accounts or other brokerage accounts incurred in the ordinary course of business; and

(17) Liens to secure Project Debt over the project assets and, if the project assets comprise all or substantially all of the business of the relevant Subsidiary, the shareholding or other interest of such Subsidiary held by any of Fortescue or any Subsidiary of Fortescue.

Limitation on Sale and Leaseback Transactions

Fortescue will not, and will not permit any of its Subsidiaries to, enter into any Sale and Leaseback Transaction unless any of the following apply:

(1) the lease is for a period not in excess of 24 months, including renewals; and

(2) Fortescue or such Subsidiary would (at the time of entering into such arrangement) be entitled as described in clauses (1) through (17) of the second paragraph under the heading "—Liens," without equally and ratably securing the notes then outstanding under the indenture, to create, incur, issue, assume or guarantee Indebtedness secured by a Lien on such property or assets in the amount of the Attributable Debt arising from such Sale and Leaseback Transaction.

Merger, consolidation or sale of assets

Fortescue. Fortescue will not, directly or indirectly: (1) consolidate, amalgamate or merge with or into another Person (whether or not Fortescue is the surviving corporation); or (2) sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of the properties or assets of Fortescue and its Subsidiaries, taken as a whole, in one or more related transactions, to another Person, unless:

(1) either (A) Fortescue is the surviving corporation; or (B) the Person formed by or surviving any such consolidation, amalgamation or merger (if other than Fortescue) or to which such sale, assignment, transfer, conveyance or other disposition has been made is a corporation, partnership or limited liability company organized or existing under the laws of Australia or any state thereof, the United States, any state thereof or the District of Columbia;

(2) in the case of clause (B) above, the Person formed by or surviving any such consolidation, amalgamation or merger or the Person to which such sale, assignment, transfer, conveyance or other disposition has been made assumes all the obligations of Fortescue under the Parent Guarantee and the indenture pursuant to a supplemental indenture thereto; and

(3) if the Person formed by or surviving such any such consolidation, amalgamation or merger is a Person other than Fortescue, the Trustee is provided with an opinion of counsel stating that such consolidation, amalgamation or merger is permitted by the terms of the indenture.

The Issuer. The Issuer will not, directly or indirectly: (1) consolidate, amalgamate or merge with or into another Person (whether or not the Issuer is the surviving corporation); or (2) sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of the properties or assets of the Issuer and its Subsidiaries taken as a whole, in one or more related transactions, to another Person, unless:

(1) either (A) the Issuer is the surviving corporation; or (B) the Person formed by or surviving any such consolidation, amalgamation or merger (if other than the Issuer) or to which such sale, assignment, transfer, conveyance or other disposition has been made is a corporation, partnership or limited liability company organized or existing under the laws of Australia or any state thereof, the United States, any state thereof or the District of Columbia;

(2) in the case of clause (B), the Person formed by or surviving any such consolidation, amalgamation or merger (if other than the Issuer) or the Person to which such sale, assignment, transfer, conveyance or other disposition has been made assumes all the obligations of the Issuer under the notes and the indenture pursuant to a supplemental indenture thereto; and

(3) the Trustee is provided with an opinion of counsel stating that such consolidation, amalgamation or merger complies with the provisions of the indenture.

Upon any consolidation, amalgamation, merger, sale, assignment, transfer, lease, conveyance or other disposition of all or substantially all of the properties or assets of Fortescue or the Issuer in accordance with this covenant, Fortescue or the Issuer, as the case may be, will be released from its obligations under the indenture and the notes or its Parent Guarantee, as the case may be, and the surviving corporation will succeed to, and be substituted for, and may exercise every right and power of, Fortescue or the Issuer, as the case may be, under the indenture, the notes and the Parent Guarantee, as the case may be; provided that, in the case of a lease of all or substantially all its assets, the Issuer will not be released from the obligation to pay the principal of and interest on the notes, and the Parent Guarantor will not be released from its obligations under its Parent Guarantee.

Reports

Fortescue will provide to the Trustee and each holder of notes or will provide to the Trustee for forwarding to each holder of notes upon request, without cost to such holder of notes or to the Trustee: (i) as soon as available after the end of each fiscal year (and, in any event, within 120 days after the close of such fiscal year), annual reports in English, including financial statements (containing a consolidated balance sheet as of the end of such fiscal year and immediately preceding fiscal year and consolidated statements of income, retained earnings and cash flows for such fiscal year and the immediately preceding fiscal year) with a report thereon by an internationally recognized independent firm of chartered accountants, (ii) as soon as available (and, in any event, within 60 days after the close of the first six months in each fiscal year) interim semi-annual reports in English, containing a condensed consolidated balance sheet as of the end of each interim period covered thereby and as of the end of the immediately preceding fiscal year and condensed consolidated statements of earnings and cash flows for each interim period covered thereby and for the comparable period of the immediately preceding fiscal year and (iii) as soon as available quarterly reports required to be filed under the rules of the ASX. Fortescue need not provide those annual or interim reports to the Trustee and each holder of notes if and to the extent that Fortescue files or furnishes those reports with the ASX and those reports are available on the ASX website within the time periods referred to in clauses (i), (ii) and (iii) above.

Fortescue will also, for so long as any notes remain "restricted" securities, furnish or cause to be furnished to the holders of the notes, beneficial owners of the notes, securities analysts and prospective investors upon request the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

Events of Default and remedies

Each of the following is an "*Event of Default*":

(1) default for 30 days in the payment when due of interest on the notes;

(2) default in the payment when due (at maturity, upon redemption or otherwise) of the principal of, or premium, if any, on, the notes;

(3) failure by Fortescue or the Issuer for 30 days after written notice to Fortescue by the Trustee or the holders of at least 25% in aggregate principal amount of the notes then outstanding voting as a single class to comply with the provisions described under the captions "—Repurchase at the option of holders—Change of Control" or "—Certain covenants—Merger, consolidation or sale of assets";

(4) failure by Fortescue or the Issuer for 60 days after written notice to Fortescue by the Trustee or the holders of at least 25% in aggregate principal amount of the notes then outstanding voting as a single class to comply with any of the other agreements in the indenture or any other Notes Document;

(5) default under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Indebtedness by Fortescue, the Issuer or any Significant Subsidiary of Fortescue (or the payment of which is guaranteed by Fortescue, the Issuer or any Significant Subsidiary of Fortescue), whether such Indebtedness or Guarantee now exists, or is created after the Issue Date, if that default:

   (a) is caused by a failure to pay principal of, or interest or premium, if any, on, such Indebtedness after the expiration of the grace period provided in such Indebtedness on the date of such default (a "*Payment Default*"); or

   (b) results in the acceleration of such Indebtedness prior to its express maturity,

   and, in each case, the principal amount of any such Indebtedness, together with the principal amount of any other such Indebtedness under which there has been a Payment Default or the maturity of which has been so accelerated, aggregates US$150.0 million or more;

(6) failure by Fortescue, the Issuer or any Significant Subsidiary of Fortescue to pay final judgments (other than any judgment as to which a reputable and solvent third-party insurer has accepted full coverage) entered by a court or courts of competent jurisdiction aggregating in excess of US$150.0 million, which judgments are not paid, discharged or stayed for a period of 60 days;

(7) certain events of bankruptcy or insolvency described in the indenture with respect to the Issuer, Fortescue, any Significant Subsidiary of Fortescue or any group of Subsidiaries of Fortescue that, taken together, would constitute a Significant Subsidiary; and

(8) the Parent Guarantee is held in any judicial proceeding to be unenforceable or invalid or ceases for any reason to be in full force and effect, or the Parent Guarantor, the Issuer, or any Person acting on behalf of the Parent Guarantor or the Issuer, denies or disaffirms its obligations under the Parent Guarantee to which it is a party.

In the case of an Event of Default arising from certain events of bankruptcy or insolvency, with respect to Fortescue or any Significant Subsidiary of Fortescue or any group of Subsidiaries of Fortescue that, taken together, would constitute a Significant Subsidiary, all outstanding notes will become due and payable immediately without further action or notice. If any other Event of Default occurs and is continuing, a Responsible Officer of the Trustee, if it has written notice of such event may, and at the written direction of the holders of at least 25% in aggregate principal amount of the then outstanding notes shall, declare all the notes to be due and payable immediately.

Subject to certain limitations, holders of a majority in aggregate principal amount of the then outstanding notes may direct the Trustee in its exercise of any trust or power. The Trustee may withhold, but is not obligated to withhold, from holders of the notes notice of any continuing Default or Event of Default if it determines that withholding notice is in their interest, except a Default or Event of Default relating to the payment of principal, interest or premium, if any.

In case an Event of Default occurs and is continuing, the Trustee will be under no obligation to exercise any of the rights or powers under the indenture at the request or direction of any holders of notes unless such holders have offered to the Trustee indemnity or security satisfactory to it against any claim, loss, liability or expense. Except to enforce the right to receive payment of principal, interest or premium, if any, when due, no holder of a note may pursue any remedy with respect to the indenture or the notes unless:

(1) such holder has previously given a Responsible Officer of the Trustee written notice that an Event of Default is continuing;

(2) holders of at least 25% in aggregate principal amount of the then outstanding notes have requested the Trustee in writing to pursue the remedy;

(3) such holders have offered the Trustee security or indemnity satisfactory to it against any claim, loss, liability or expense;

(4) the Trustee has not complied with such request within 60 days after the receipt of the request and the offer of security or indemnity; and

(5) holders of a majority in aggregate principal amount of the then outstanding notes have not given the Trustee a direction inconsistent with such request within such 60-day period.

The indenture will provide that, at any time after a declaration of acceleration with respect to the notes as described in the first paragraph under the caption "—Events of Default and remedies," the holders of a majority in principal amount of the notes may rescind and cancel such declaration and its consequences:

(1) if the rescission would not conflict with any judgment or decree;

(2) if all existing Events of Default have been cured or waived (except nonpayment of principal, interest or premium, if any, that has become due solely because of the acceleration);

(3) to the extent the payment of such interest is lawful, interest on overdue installments of interest and overdue principal and premium, if any, which has become due otherwise than by such declaration of acceleration, has been paid; and

(4) in the event of the cure or waiver of an Event of Default of the type described in clause (5) of the description above of Events of Default, the Trustee shall have received an officer's certificate and an opinion of counsel that such Event of Default has been cured or waived.

No such rescission shall affect any subsequent Default or impair any right consequent thereto.

The holders of a majority in aggregate principal amount of the then outstanding notes by written notice to the Trustee may, on behalf of the holders of all of the notes, waive any existing Default or Event of Default and its consequences under the indenture except a continuing Default or Event of Default in the payment of interest or premium, if any, on, or the principal of, the notes.

The Issuer is required to deliver to the Trustee annually an officer's certificate regarding compliance with the indenture. Upon becoming aware of any Default or Event of Default, the Issuer is required to deliver to the Trustee an officer's certificate specifying such Default or Event of Default.

No personal liability of directors, officers, employees and stockholders

No past, present or future director, officer, employee, incorporator or stockholder of the Issuer or the Parent Guarantor, as such, will have any liability for any obligations of the Issuer or the Parent Guarantor under the notes, the indenture, the Parent Guarantee or the other Notes Documents or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each holder of notes by accepting a note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the notes. The waiver may not be effective to waive liabilities under the federal securities laws.

Legal Defeasance and Covenant Defeasance

The Issuer may at any time, at the option of its Board of Directors evidenced by a resolution set forth in an officer's certificate, elect to have all of its obligations discharged with respect to the outstanding notes and all obligations of the Parent Guarantor discharged with respect to its Parent Guarantee ("*Legal Defeasance*") except for:

(1) the rights of holders of outstanding notes to receive payments in respect of the principal of, or interest or premium, if any, on, such notes when such payments are due from the trust referred to below;

(2) the Issuer's obligations with respect to the notes concerning issuing temporary notes, mutilated, destroyed, lost or stolen notes and the maintenance of an office or agency for payment and money for security payments held in trust;

(3) the rights, powers, trusts, duties and immunities of the Trustee, and the Issuer's and the Parent Guarantor's obligations in connection therewith; and

(4) the Legal Defeasance and Covenant Defeasance provisions of the indenture.

In addition, the Issuer may, at its option and at any time, elect to have the obligations of the Issuer and the Parent Guarantor released with respect to certain covenants (including its obligation to make Change of Control Offers) that are described in the indenture ("*Covenant Defeasance*") and thereafter any omission to comply with those covenants will not constitute a Default or Event of Default with respect to the notes. In the event Covenant Defeasance occurs, certain events (not including nonpayment, bankruptcy, receivership, conservatorship and insolvency events) described under "—Events of Default and remedies" will no longer constitute an Event of Default with respect to the notes.

In order to exercise either Legal Defeasance or Covenant Defeasance:

(1) the Issuer must irrevocably deposit with the Trustee, in trust, for the benefit of the holders of the notes, cash in U.S. dollars, non-callable Government Securities, or a combination of cash in U.S. dollars and non-callable Government Securities, in amounts as will be sufficient, in the opinion of a nationally recognized independent investment bank, appraisal firm or firm of public accountants, to pay the principal of, and interest and premium, if any, on, the outstanding notes on the stated date for payment thereof or on the applicable redemption date, as the case may be, and to cover all amounts payable to the Trustee, and the Issuer must specify whether the notes are being defeased to such stated date for payment or to a particular redemption date;

(2) in the case of Legal Defeasance, the Issuer must deliver to the Trustee an opinion of counsel reasonably acceptable to the Trustee confirming that (a) the Issuer has received from, or there has been published by, the Internal Revenue Service a ruling or (b) since the Issue Date, there has been a change in the applicable federal income tax law, in either case to the effect that, and based thereon such opinion of counsel will confirm that, the holders of the outstanding notes will not recognize income, gain or loss for federal income tax purposes as a result of such Legal Defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred;

(3) in the case of Covenant Defeasance, the Issuer must deliver to the Trustee an opinion of counsel reasonably acceptable to the Trustee confirming that the holders of the outstanding notes will not recognize income, gain or loss for federal income tax purposes as a result of such Covenant Defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred;

(4) no Default or Event of Default has occurred and is continuing on the date of such deposit (other than a Default or Event of Default resulting from the borrowing of funds to be applied to such deposit or the granting of any Lien to secure such borrowings) and the deposit will not result in a breach or violation of, or constitute a default under, any other instrument to which the Issuer or the Parent Guarantor is a party or by which the Issuer or the Parent Guarantor is bound;

(5) such Legal Defeasance or Covenant Defeasance will not result in a breach or violation of, or constitute a default under, any material agreement or instrument (other than the indenture) to which Fortescue or any of its Subsidiaries is a party or by which Fortescue or any of its Subsidiaries is bound;

(6) the Issuer must deliver to the Trustee an officer's certificate stating that the deposit was not made by the Issuer with the intent of preferring the holders of notes over the other creditors of the Issuer with the intent of defeating, hindering, delaying or defrauding any creditors of the Issuer or others; and

(7) the Issuer must deliver to the Trustee an officer's certificate and an opinion of counsel, each stating that all conditions precedent relating to the Legal Defeasance or the Covenant Defeasance have been complied with.

Satisfaction and discharge

The indenture will be discharged and will cease to be of further effect as to all notes issued thereunder, when:

(1) either:

(a) all notes that have been authenticated, except lost, stolen or destroyed notes that have been replaced or paid and notes for whose payment money has been deposited in trust and thereafter repaid to the Issuer, have been delivered to the Trustee for cancellation; or

(b) all notes that have not been delivered to the Trustee for cancellation have become due and payable by reason of the mailing of a notice of redemption or otherwise or will become due and payable within one year and the Issuer or the Parent Guarantor has irrevocably deposited or caused to be deposited with the Trustee as trust funds in trust solely for the benefit of the holders, cash in U.S. dollars, non-callable Government Securities, or a combination of cash in U.S. dollars and non-callable Government Securities, in amounts as will be sufficient, without consideration of any reinvestment of interest, to pay and discharge the entire Indebtedness on the notes not delivered to the Trustee for cancellation for principal and premium, if any, and accrued interest to the date of maturity or redemption;

(2) no Default or Event of Default has occurred and is continuing on the date of the deposit (other than a Default or Event of Default resulting from the borrowing of funds to be applied to such deposit) and the deposit will not result in a breach or violation of, or constitute a default under, any other instrument to which the Issuer or the Parent Guarantor is a party or by which the Issuer or the Parent Guarantor is bound;

(3) the Issuer or the Parent Guarantor has paid or caused to be paid all sums payable by it under the indenture, including all amounts (which shall include fees, expenses, and indemnities) payable to the Trustee; and

(4) the Issuer has delivered irrevocable instructions to the Trustee under the indenture to apply the deposited money toward the payment of the notes at maturity or on the redemption date, as the case may be. In addition, the Issuer must deliver an officer's certificate and an opinion of counsel to the Trustee stating that all conditions precedent to satisfaction and discharge have been satisfied.

Amendment, supplement and waiver

Except as provided in the next three succeeding paragraphs, the indenture, the notes or the Parent Guarantee may be amended or supplemented with the consent of the holders of at least a majority in aggregate principal amount of the notes then outstanding (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, notes), and any existing Default or Event of Default or compliance with any provision of the indenture or the notes, the Parent Guarantee or any other Notes Document may be waived with the consent of the holders of a majority in aggregate principal amount of the then outstanding notes (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, notes).

Without the consent of each holder of notes affected, an amendment, supplement or waiver may not (with respect to any notes held by a non-consenting holder):

(1) reduce the principal amount of notes whose holders must consent to an amendment, supplement or waiver;

(2) reduce the principal of or change or have the effect of changing the fixed maturity of any notes, or change the date on which any notes may be subject to redemption or reduce the redemption price therefor;

(3) reduce the rate of or change the time for payment of interest, including default interest, on any note;

(4) waive a Default or Event of Default in the payment of principal of, or interest or premium, if any, on, the notes (except a rescission of acceleration of the notes by the holders of at least a majority in aggregate principal amount of the then outstanding notes and a waiver of the Payment Default that resulted from such acceleration as contemplated in the fifth paragraph under the caption "—Events of Default and remedies");

(5) make any note payable in money other than that stated in the notes;

(6) make any change in the provisions of the indenture relating to waivers of past Defaults or the rights of holders of notes to receive payments of principal of, or interest or premium, if any, on, the notes;

(7) amend, change or modify in any material respect the obligation of the Issuer to make and consummate a Change of Control Offer after the occurrence of a Change of Control or modify any of the provisions or definitions with respect thereto;

(8) release the Parent Guarantor from any of its obligations under the Parent Guarantee or the indenture, except in accordance with the terms of the indenture; or

(9) make any change in the preceding and succeeding amendment and waiver provisions.

Notwithstanding the preceding, the Issuer, the Parent Guarantor and/or the Trustee, as applicable, may, without the consent of any holder, amend or supplement the indenture, the notes or the Parent Guarantee:

(1) to cure any ambiguity, defect or inconsistency;

(2) to provide for uncertificated notes in addition to or in place of Certificated Notes;

(3) to provide for the assumption of the Issuer's or the Parent Guarantor's obligations to holders of notes and the Parent Guarantee in the case of a merger or consolidation or sale of all or substantially all of the Issuer's or the Parent Guarantor's assets, as applicable;

(4) to make any change that would provide any additional rights or benefits to the holders of notes or that does not adversely affect the legal rights under the indenture of any such holder;

(5) to conform the text of the indenture, the notes, the Parent Guarantee, or the Notes Documents to any provision of this "Description of the notes" to the extent that such provision in this "Description of the notes" was intended to be a verbatim recitation of a provision of the indenture, the notes, the Parent Guarantee or the Notes Documents;

(6) to provide for the issuance of additional notes in accordance with the limitations and conditions set forth in the indenture; or

(7) to release the Parent Guarantor from the Parent Guarantee as provided by the terms of the indenture and the Parent Guarantee.

The consent of the holders of the notes will not be necessary under the indenture to approve the particular form of any proposed amendment. It will be sufficient if such consent approves the substance of the proposed amendment.

In executing any amendment to the indenture, the notes or the Parent Guarantee, the Trustee will be entitled to receive and shall be fully protected in relying upon an officer's certificate and an opinion of counsel stating that the execution of such amendment or supplemental indenture is authorized and permitted by the indenture and that all conditions precedent with respect to such amendment or supplemental indenture have been complied with.

No immunity

The Notes Documents will provide that to the extent that the Issuer or the Parent Guarantor may be entitled, in any jurisdiction in which judicial proceedings may at any time be commenced with respect to the indenture or any other Notes Document, to claim for itself or its revenues, assets or properties any immunity from suit, the jurisdiction of any court, attachment prior to judgment, attachment in aid of execution of judgment, set-off, execution of a judgment or any other legal process, and to the extent that in any such jurisdiction there may be attributed to such Person such an immunity (whether or not claimed), each of the parties to the indenture hereby irrevocably agrees not to claim and hereby irrevocably waives such immunity to the fullest extent permitted by the law of the applicable jurisdiction.

Judgment currency

The Notes Documents will provide that the transactions contemplated thereby are part of an international transaction in which the specification of U.S. dollars and payment in the United States is of the essence, and the obligations of each of the parties to the indenture under the indenture and under the other Notes Documents to make payment to (or for the account of) the Trustee and each holder of the notes (each, an "*Entitled Person*") in U.S. dollars shall not be discharged or satisfied by any tender or recovery pursuant to any judgment expressed in or converted into any other currency or in another place except to the extent that such tender or recovery results in the effective receipt by the Entitled Persons in the United States of the full amount of U.S. dollars payable to the Entitled Persons under the Notes Documents. If for the purpose of obtaining or enforcing judgment in any court it is necessary to convert a sum due under any Notes Document in U.S. dollars into another currency (for the purposes of this "Judgment currency" provision, hereinafter the "*judgment currency*"), the rate of exchange which shall be applied shall be that at which, in accordance with normal banking procedures, the Entitled Persons could purchase such U.S. dollars in the United States with the judgment currency on the Business Day next preceding the day on which such judgment is rendered. The obligation of each of the parties to the indenture in respect of any such sum due from it to the Entitled Persons hereunder shall, notwithstanding the rate of exchange actually applied in rendering such judgment, be discharged only to the extent that on the Business Day following the receipt by such Entitled Person of any sum adjudged to be due hereunder in the judgment currency such Entitled Person may in accordance with normal banking procedures purchase and transfer U.S. dollars to the United States with the amount of the judgment currency so adjudged to be due; and each of the parties to the indenture will, as a separate obligation and notwithstanding any such judgment, agree to indemnify such Entitled Person on demand, in U.S. dollars, for the amount (if any) by which the sum originally due to such Entitled Person in U.S. dollars hereunder exceeds the amount of the U.S. dollars so purchased and transferred.

Agent for service of process

The Issuer and the Parent Guarantor will irrevocably (1) submit to the non-exclusive jurisdiction of any U.S. federal or New York State court located in the Borough of Manhattan, the City of New York in connection with any suit, action or proceeding arising out of, or relating to the notes, the Parent Guarantee and the indenture or any transaction contemplated thereby and (2) designate and appoint Corporation Service Company, 1180 Avenue of the Americas, Suite 210, New York, NY 10036, as its authorized agent for receipt of service of process in any such suit, action or proceeding.

English language

The indenture and all other Notes Documents shall be in the English language, except as required by applicable law (in which event certified English translations thereof shall be provided by the Issuer to the Trustee). All documents, certificates, reports or notices to be delivered or communications to be given or made by any party thereto pursuant to the terms of the indenture or any other Notes Document shall be in the English language or, if originally written in another language, shall be accompanied by an accurate English translation upon which the parties thereto shall have the right to rely for all purposes of the indenture and the other Notes Documents.

Governing law

The indenture, the notes and the Parent Guarantee will be governed by, and construed in accordance with, the laws of the State of New York, without regard to the conflict of laws principles thereof.

Concerning the Trustee

The holders of a majority in aggregate principal amount of the then outstanding notes will have the right to direct the time, method and place of conducting any proceeding for exercising any remedy available to the Trustee, subject to certain exceptions and conditions as stated in the indenture. The indenture provides that in case an Event of Default occurs and is continuing of which a Responsible Officer of the Trustee has received written notice, the Trustee will be required, in the exercise of its power, to use the degree of care of a prudent person in the conduct of his own affairs. The Trustee will be under no obligation to exercise any of its rights or powers under the indenture at the request of any holder of notes, unless such holder has offered to the Trustee security and indemnity satisfactory to it against any claim, loss, liability or expense.

Additional information

Anyone who receives this offering circular may obtain a copy of the indenture without charge by writing to Fortescue Metals Group Limited, Level 2, 87 Adelaide Terrace, East Perth, WA 6004, Australia, Attention: Company Secretary.

Book-entry, delivery and form

The notes are being offered and sold to qualified institutional buyers in reliance on Rule 144A ("*Rule 144A Notes*"). The notes also may be offered and sold in offshore transactions in reliance on Regulation S ("*Regulation S Notes*"). Except as set forth below, the notes will be issued in registered, global form in minimum denominations of US$2,000 and integral multiples of US$1,000 in excess thereof. Notes will be issued at the closing of this offering only against payment in immediately available funds.

Rule 144A Notes initially will be represented by one or more notes in registered, global form without interest coupons (collectively, the "*Rule 144A Global Notes*"). Regulation S Notes initially will be represented by one or more notes in registered, global form without interest coupons (collectively, the "*Regulation S Global Notes*" and, together with the Rule 144A Global Notes, the "*Global Notes*"). The Global Notes will be deposited upon issuance with the Trustee as custodian for DTC, and registered in the name of DTC or its nominee, in each case, for credit to an account of a direct or indirect participant in DTC as described below. Through and including the 40th day after the later of the commencement of this offering and the closing of this offering (such period through and including such 40th day, the "*Restricted Period*"), beneficial interests in the Regulation S Global Notes may be held only through the Euroclear System ("*Euroclear*") and Clearstream Banking, S.A. ("*Clearstream*") (as indirect participants in DTC), unless transferred to a person that takes delivery through a Rule 144A Global Note in accordance with the certification requirements described below. Beneficial interests in the Global Notes may not be exchanged for beneficial interests in the other Global Notes at any time except in the limited circumstances described below. See "—Exchanges between Regulation S Notes and Rule 144A Notes."

Except as set forth below, the Global Notes may be transferred, in whole and not in part, only to another nominee of DTC or to a successor of DTC or its nominee. Beneficial interests in the Global Notes may not be exchanged for definitive notes in registered certificated form ("*Certificated Notes*") except in the limited circumstances described below. See "—Exchange of Global Notes for Certificated Notes." Except in the limited circumstances described below, owners of beneficial interests in the Global Notes will not be entitled to receive physical delivery of notes in certificated form.

The notes (including beneficial interests in the Global Notes) will be subject to certain restrictions on transfer and will bear a restrictive legend as described under "Transfer restrictions." In addition, transfers of beneficial interests in the Global Notes will be subject to the applicable rules and procedures of DTC and its direct or indirect participants (including, if applicable, those of Euroclear and Clearstream), which may change from time to time.

Depository procedures

The following description of the operations and procedures of DTC, Euroclear and Clearstream are provided solely as a matter of convenience. These operations and procedures are solely within the control of the respective settlement systems and are subject to changes by them. Neither the Issuer nor the Trustee takes responsibility for these operations and procedures and urges investors to contact the system or their participants directly to discuss these matters.

DTC has advised the Issuer that DTC is a limited-purpose trust company created to hold securities for its participating organizations (collectively, the "*Participants*") and to facilitate the clearance and settlement of transactions in those securities between the Participants through electronic book-entry changes in accounts of its Participants. The Participants include both U.S. and non-U.S. securities brokers and dealers (including the initial purchaser), banks, trust companies, clearing corporations and certain other organizations. Access to DTC's system is also available to other entities such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Participant, either directly or indirectly (collectively, the "*Indirect Participants*"). Persons who are not Participants or Indirect Participants may beneficially own securities held by or on behalf of DTC only through the Participants or the Indirect Participants. The ownership interests in, and transfers of ownership interests in, each security held by or on behalf of DTC are recorded on the records of the Participants and Indirect Participants.

DTC has also advised the Issuer that, pursuant to procedures established by it:

(1) upon deposit of the Global Notes, DTC will credit the accounts of the Participants designated by the initial purchaser with portions of the principal amount of the Global Notes; and

(2) ownership of these interests in the Global Notes will be shown on, and the transfer of ownership of these interests will be effected only through, records maintained by DTC (with respect to the Participants and the Indirect Participants) or by the Participants and the Indirect Participants (with respect to other owners of beneficial interest in the Global Notes).

Investors in the Rule 144A Global Notes who are Participants may hold their interests therein directly through DTC. Investors in the Rule 144A Global Notes who are not Participants may hold their interests therein indirectly through organizations (including Euroclear and Clearstream) which are Participants. Upon issuance we intend to deliver beneficial interests in the Regulation S Global Notes solely through Euroclear or Clearstream. Euroclear and Clearstream will hold interests in the Regulation S Global Notes on behalf of their participants through customers' securities accounts in their respective names on the books of their respective depositories, which are Euroclear Bank S.A./N.V., as operator of Euroclear, and Citibank, N.A., as operator of Clearstream. All interests in a Global Note, including those held through Euroclear or Clearstream, may be subject to the procedures and requirements of DTC. Those interests held through Euroclear or Clearstream may also be subject to the procedures and requirements of such systems. The laws of some states require that certain Persons take physical delivery in definitive form of securities that they own. Consequently, the ability to transfer beneficial interests in a Global Note to such Persons will be limited to that extent. Because DTC can act only on behalf of the Participants, which in turn act on behalf of the Indirect Participants, the ability of a Person having beneficial interests in a Global Note to pledge such interests to Persons that do not participate in the DTC system, or otherwise take actions in respect of such interests, may be affected by the lack of a physical certificate evidencing such interests.

Except as described below, owners of interests in the Global Notes will not have notes registered in their names, will not receive physical delivery of notes in certificated form and will not be considered the registered owners or "holders" thereof under the indenture for any purpose.

Payments in respect of the principal of, and interest and premium, if any, on, a Global Note registered in the name of DTC or its nominee will be payable to DTC in its capacity as the registered holder under the indenture. Under the terms of the indenture, the Issuer and the Trustee will treat the Persons in whose names the notes, including the Global Notes, are registered as the owners of the notes for the purpose of receiving payments and for all other purposes. Consequently, none of the Issuer, the Parent Guarantor, the Trustee or any agent of the Issuer or the Trustee has or will have any responsibility or liability for:

(1) any aspect of DTC's records or any Participant's or Indirect Participant's records relating to or payments made on account of beneficial ownership interest in the Global Notes or for maintaining, supervising or reviewing any of DTC's records or any Participant's or Indirect Participant's records relating to the beneficial ownership interests in the Global Notes; or

(2) any other matter relating to the actions and practices of DTC or any of its Participants or Indirect Participants.

DTC has advised the Issuer that its current practice, upon receipt of any payment in respect of securities such as the notes (including principal and interest), is to credit the accounts of the relevant Participants with the payment on the payment date unless DTC has reason to believe that it will not receive payment on such payment date. Each relevant Participant is credited with an amount proportionate to its beneficial ownership of an interest in the principal amount of the relevant security as shown on the records of DTC. Payments by the Participants and the Indirect Participants to the beneficial owners of notes will be governed by standing instructions and customary practices and will be the responsibility of the Participants or the Indirect Participants and will not be the responsibility of DTC, the Trustee or the Issuer. None of the Issuer, the Parent Guarantor or the Trustee will be liable for any delay by DTC or any of the Participants or the Indirect Participants in identifying the beneficial owners of the notes, and the Issuer and the Trustee may conclusively rely on and will be protected in relying on instructions from DTC or its nominee for all purposes.

Subject to the transfer restrictions set forth under "Transfer restrictions" transfers between the Participants will be effected in accordance with DTC's procedures, and will be settled in same-day funds, and transfers between participants in Euroclear and Clearstream will be effected in accordance with their respective rules and operating procedures.

Subject to compliance with the transfer restrictions applicable to the notes described herein, cross-market transfers between the Participants, on the one hand, and Euroclear or Clearstream participants, on the other hand, will be effected through DTC in accordance with DTC's rules on behalf of Euroclear or Clearstream, as the case may be, by their respective depositaries; however, such cross-market transactions will require delivery of instructions to Euroclear or Clearstream, as the case may be, by the counterparty in such system in accordance with the rules and procedures and within the established deadlines (Brussels time) of such system. Euroclear or Clearstream, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its respective depositary to take action to effect final settlement on its behalf by delivering or receiving interests in the relevant Global Note in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Euroclear participants and Clearstream participants may not deliver instructions directly to the depositories for Euroclear or Clearstream.

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of notes only at the direction of one or more Participants to whose account DTC has credited the interests in the Global Notes and only in respect of such portion of the aggregate principal amount of the notes as to which such Participant or Participants has or have given such direction. However, if there is an Event of Default under the notes, DTC reserves the right to exchange the Global Notes for legended notes in certificated form, and to distribute such notes to its Participants.

Although DTC, Euroclear and Clearstream have established procedures to facilitate transfers of interests in the Global Notes among participants in DTC, Euroclear and Clearstream, they are under no obligation to perform or to continue to perform such procedures, and may discontinue such procedures at any time. None of the Issuer, the Trustee and any of their respective agents will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

Exchange of Global Notes for Certificated Notes

A Global Note is exchangeable for Certificated Notes if:

(1) DTC (a) notifies the Issuer that it is unwilling or unable to continue as depositary for the Global Notes or (b) has ceased to be a clearing agency registered under the Exchange Act and, in either case, the Issuer fails to appoint a successor depositary;

(2) the Issuer, at its option, notifies the Trustee in writing that it elects to cause the issuance of the Certificated Notes; or

(3) there has occurred and is continuing a Default or Event of Default with respect to the notes and any holder of the notes or any beneficial interest therein requests that Certificated Notes be issued.

In addition, beneficial interests in a Global Note may be exchanged for Certificated Notes upon prior written notice given to the Trustee by or on behalf of DTC in accordance with the indenture. In all cases, Certificated Notes delivered in exchange for any Global Note or beneficial interests in Global Notes will be registered in the names, and issued in any approved denominations, requested by or on behalf of the depositary (in accordance with its customary procedures) and will bear the applicable restrictive legend referred to in “Transfer restrictions,” unless that legend is not required by applicable law.

Exchange of Certificated Notes for Global Notes

Certificated Notes may not be exchanged for beneficial interests in any Global Note unless the transferor first delivers to the Trustee a written certificate (in the form provided in the indenture) to the effect that such transfer will comply with the appropriate transfer restrictions applicable to such notes. See “Transfer restrictions.”

Exchanges between Regulation S Notes and Rule 144A Notes

Prior to the expiration of the Restricted Period, beneficial interests in the Regulation S Global Note may be exchanged for beneficial interests in the Rule 144A Global Note only if:

(1) such exchange occurs in connection with a transfer of the notes pursuant to Rule 144A; and

(2) the transferor first delivers to the Trustee a written certificate (in the form provided in the indenture) to the effect that the notes are being transferred to a Person:

    (a) who the transferor reasonably believes to be a qualified institutional buyer within the meaning of Rule 144A;

    (b) purchasing for its own account or the account of a qualified institutional buyer in a transaction meeting the requirements of Rule 144A; and

    (c) in accordance with all applicable securities laws of the states of the United States and other jurisdictions.

Beneficial interests in a Rule 144A Global Note may be transferred to a Person who takes delivery in the form of an interest in the Regulation S Global Note, whether before or after the expiration of the Restricted Period, only if the transferor first delivers to the Trustee a written certificate (in the form provided in the indenture) to the effect that such transfer is being made in accordance with Rule 903 or 904 of Regulation S or Rule 144 (if available) and that, if such transfer occurs prior to the expiration of the Restricted Period, the interest transferred will be held immediately thereafter through Euroclear or Clearstream.

Transfers involving exchanges of beneficial interests between the Regulation S Global Notes and the Rule 144A Global Notes will be effected by DTC by means of an instruction originated by the Trustee through the DTC Deposit/Withdrawal at Custodian system. Accordingly, in connection with any such transfer, appropriate adjustments will be made to reflect a decrease in the principal amount of the Regulation S Global Note and a corresponding increase in the principal amount of the Rule 144A Global Note or vice versa, as applicable. Any beneficial interest in one of the Global Notes that is transferred to a Person who takes delivery in the form of an interest in the other Global Note will, upon transfer, cease to be an interest in such Global Note and will become an interest in the other Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in such other Global Note for so long as it remains such an interest. The policies and practices of DTC may prohibit transfers of beneficial interests in the Regulation S Global Note prior to the expiration of the Restricted Period.

Same day settlement and payment

The Issuer will make payments in respect of the notes represented by the Global Notes (including principal, interest and premium, if any) by wire transfer of immediately available funds to the paying agent, who in turn will deposit such funds in the accounts specified by DTC or its nominee. The paying agent will make all payments of principal, interest and premium, if any, with respect to Certificated Notes by wire transfer of immediately available funds to the accounts specified by the holders of the Certificated Notes. The notes represented by the Global Notes are expected to be eligible to trade in DTC's Same-Day Funds Settlement System, and any permitted secondary market trading activity in such notes will, therefore, be required by DTC to be settled in immediately available funds. The Issuer expects that secondary trading in any Certificated Notes will also be settled in immediately available funds.

Because of time zone differences, the securities account of a Euroclear or Clearstream participant purchasing an interest in a Global Note from a Participant will be credited, and any such crediting will be reported to the relevant Euroclear or Clearstream participant, during the securities settlement processing day (which must be a business day for Euroclear and Clearstream) immediately following the settlement date of DTC. DTC has advised the Issuer that cash received in Euroclear or Clearstream as a result of sales of interests in a Global Note by or through a Euroclear or Clearstream participant to a Participant will be received with value on the settlement date of DTC but will be available in the relevant Euroclear or Clearstream cash account only as of the business day for Euroclear or Clearstream following DTC's settlement date.

Certain definitions

Set forth below are certain defined terms used in the indenture. Reference is made to the indenture for a full disclosure of all such terms, as well as any other capitalized terms used herein for which no definition is provided.

"*A-IFRS*" means Australian equivalents of the International Financial Reporting Standards as in effect on the Issue Date.

"*Affiliate*" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For purposes of this definition, "*control*," as used with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by agreement or otherwise. For purposes of this definition, the terms "*controlling*," "*controlled by*" and "*under common control with*" have correlative meanings.

"*Associate*" has the meaning given to it in Section 128F(9) of the *Income Tax Assessment Act 1936* (Commonwealth).

"*ASX*" means ASX Limited or any successor thereof.

"*Attributable Debt*" in respect of a Sale and Leaseback Transaction means, at the time of determination, the present value of the obligation of the lessee for net rental payments during the remaining term of the lease included in such Sale and Leaseback Transaction including any period for which such lease has been extended or may, at the option of the lessor, be extended. Such present value shall be calculated using a discount rate equal to the rate of interest implicit in such transaction, determined in accordance with A-IFRS; provided, however, that if such Sale and Leaseback Transaction results in a Capital Lease Obligation, the amount of Indebtedness represented thereby will be determined in accordance with the definition of "Capital Lease Obligation."

"Australian Withholding Tax" means any Australian Tax required to be withheld or deducted from any interest or other payment under Division 11A of Part III of the *Income Tax Assessment Act 1936* (Commonwealth) or Subdivision 12-F of Schedule 1 to the *Taxation Administration Act 1953* (Commonwealth).

"*Bankruptcy Code*" means the Bankruptcy Reform Act of 1978, as amended, and codified as 11 U.S.C. §§ 101 et seq.

"*beneficial owner*" has the meaning assigned to such term in Rule 13d-3 and Rule 13d-5 under the Exchange Act, except that in calculating the beneficial ownership of any particular "person" (as that term is used in Section 13(d)(3) of the Exchange Act), such "person" will be deemed to have beneficial ownership of all securities that such "person" has the right to acquire by conversion or exercise of other securities, whether such right is currently exercisable or is exercisable only after the passage of time. The terms "*beneficially owns*" and "*beneficially owned*" have a corresponding meaning.

"*Board of Directors*" means:

(1) with respect to a corporation, the board of directors of the corporation or any committee thereof duly authorized to act on behalf of such board;

(2) with respect to a partnership, the board of directors of the general partner of the partnership;

(3) with respect to a limited liability company, the managing member or members or any controlling committee of managing members thereof; and

(4) with respect to any other Person, the board or committee of such Person serving a similar function.

"*Business Day*" means a day other than a Saturday, Sunday or other day on which banking institutions are authorized or required by law to close in New York, New York, Perth or Sydney, Australia.

"*Capital Lease Obligation*" means, at the time any determination is to be made, the amount of the liability in respect of a capital lease that would at that time be required to be capitalized on a balance sheet prepared in accordance with A-IFRS, and the Stated Maturity thereof shall be the date of the last payment of rent or any other amount due under such lease prior to the first date upon which such lease may be prepaid by the lessee without payment of a penalty; provided that Capital Lease Obligations shall not include any Commercial Leases.

For the avoidance of doubt, any lease that would be characterized as an operating lease in accordance with A-IFRS on the Issue Date (whether or not such operating lease was in effect on the Issue Date) shall continue to be accounted for as an operating lease (and not as a capital lease), regardless of any change in A-IFRS following the Issue Date that would otherwise require such lease to be re-characterized) on a prospective or retroactive basis or otherwise) as a capitalized lease.

"*Capital Stock*" means:

(1) in the case of a corporation, ordinary shares or corporate stock;

(2) in the case of an association or business entity, any and all shares, interests, participations, rights or other equivalents (however designated) of corporate stock;

(3) in the case of a partnership or limited liability company, partnership interests (whether general or limited) or membership interests; and

(4) any other interest or participation that confers on a Person the right to receive a share of the profits and losses of, or distributions of assets of, the issuing Person, but excluding from all of the foregoing any debt securities convertible into Capital Stock, whether or not such debt securities include any right of participation with Capital Stock.

"*Change of Control*" means the occurrence of any of the following:

(1) any direct or indirect sale, lease, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one transaction or a series of related transactions, of all or substantially all of the assets of Fortescue and its Subsidiaries, taken as a whole, to any Person or group of related Persons for purposes of Section 13(d) of the Exchange Act (a "*Group*"), other than a transaction in which the transferee is controlled by one or more Permitted Holders;

(2) the adoption of a plan relating to the liquidation or dissolution of Fortescue or the Issuer or, following the occurrence of a transaction permitted under the caption "—Merger, consolidation or sale of assets," any successor thereof;

(3) any Person or Group (other than one or more Permitted Holders) is or becomes the beneficial owner, directly or indirectly, in the aggregate of more than 50% of the total voting power of the Voting Stock of Fortescue; or

(4) Fortescue shall cease to own, directly or indirectly, all of the outstanding Capital Stock of the Issuer or, following the occurrence of a transaction permitted under the caption "—Merger, consolidation or sale of assets," any successor thereof.

"*Commercial Leases*" means, with respect to any property, contractual arrangements between Fortescue and/or any of its Subsidiaries on the one hand and commercial counterparties that are not financial institutions on the other, which under A-IFRS are required to be accounted for as finance leases on Fortescue's consolidated balance sheet because Fortescue or its Subsidiaries are the sole users of such property, but which not be required to be accounted for as finance leases if there were multiple users of such property. For the avoidance of doubt, Commercial Leases shall include contractual arrangements in connection with the Fortescue River Gas Pipeline.

"*Consolidated Net Tangible Assets*" means, with respect to any specified Person as at any date of determination, the aggregate amount of total assets of such Person and its Subsidiaries included in such Person's balance sheet for the most recent fiscal period for which financial statements are available, on a consolidated basis, determined in accordance with A-IFRS, less the aggregate amount of cash and cash equivalents of such Person and its Subsidiaries set forth on such balance sheet.

"*Default*" means any event that is, or with the passage of time or the giving of notice (or both) would be, an Event of Default.

"*Disqualified Stock*" means any Capital Stock that, by its terms (or by the terms of any security into which it is convertible, or for which it is exchangeable, in each case, at the option of the holder of the Capital Stock), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or redeemable at the option of the holder of the Capital Stock, in whole or in part, on or prior to the date that is 91 days after the date on which the notes mature. Notwithstanding the preceding sentence, any Capital Stock that would constitute Disqualified Stock solely because the holders of the Capital Stock have the right to require its issuer to repurchase such Capital Stock upon the occurrence of a change of control or an asset sale will not constitute Disqualified Stock if the terms of such Capital Stock provide that such issuer may not repurchase or redeem any such Capital Stock pursuant to such provisions. The amount of Disqualified Stock deemed to be outstanding at any time for purposes of the indenture will be the maximum amount that Fortescue and its Subsidiaries may become obligated to pay upon the maturity of, or pursuant to any mandatory redemption provisions of, such Disqualified Stock, exclusive of accrued dividends.

"*Exchange Act*" means the *U.S. Securities Exchange Act of 1934*, as amended.

"*Fortescue River Gas Pipeline*" means the pipeline supplying gas to the Solomon Power Station.

"*Government Securities*" means securities that are:

(1) direct obligations of the United States of America for the timely payment of which its full faith and credit is pledged; or

(2) obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the United States of America the timely payment of which is unconditionally guaranteed as a full faith and credit obligation by the United States of America,

which, in either case, are not callable or redeemable at the option of the issuers thereof, and shall also include a depository receipt issued by a bank (as defined in Section 3(a)(2) of the Securities Act), as custodian with respect to any such Government Securities or a specific payment of principal of or interest on any such Government Securities held by such custodian for the account of the holder of such depository receipt; provided that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depository receipt from any amount received by the custodian in respect of the Government Securities or the specific payment of principal of or interest on the Government Securities evidenced by such depository receipt.

"*Guarantee*" means a guarantee other than by endorsement of negotiable instruments for collection in the ordinary course of business, direct or indirect, in any manner including, without limitation, by way of a pledge of assets or through letters of credit or reimbursement agreements in respect thereof, of all or any part of any Indebtedness (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take or pay or to maintain financial statement conditions or otherwise).

"*Hedging Obligations*" means, with respect to any specified Person, the obligations of such Person under:

(1) interest rate swap agreements (whether from fixed to floating or from floating to fixed), interest rate cap agreements and interest rate collar agreements;

(2) other agreements or arrangements designed to manage interest rates or interest rate risk; and

(3) other agreements or arrangements designed to protect such Person against fluctuations in currency exchange rates or commodity prices.

"*Indebtedness*" means, with respect to any specified Person, any indebtedness of such Person (excluding accrued expenses and trade payables), whether or not contingent:

(1) in respect of borrowed money;

(2) evidenced by bonds, notes, debentures or similar instruments;

(3) representing all Obligations for the reimbursement of any obligor on any letter of credit, banker's acceptance or similar credit transaction, whether or not then due;

(4) representing Capital Lease Obligations or Attributable Debt in respect of Sale and Leaseback Transactions; or

(5) representing the termination value of any Hedging Obligations,

if and to the extent any of the preceding items (other than letters of credit, Attributable Debt and Hedging Obligations) would appear as a liability upon a balance sheet of the specified Person prepared in accordance with A-IFRS.

In addition, the term "Indebtedness" includes all Indebtedness of others secured by a Lien on any asset of the specified Person (whether or not such Indebtedness is assumed by the specified Person) and, to the extent not otherwise included, the Guarantee by the specified Person of any Indebtedness of any other Person.

Notwithstanding the foregoing, "Indebtedness" shall not include (i) accrued expenses and royalties arising in the ordinary course of business, (ii) obligations to satisfy customer prepayment arrangements arising in the ordinary course of business, (iii) asset retirement obligations, (iv) obligations in respect of reclamation, mine or site rehabilitation and (v) workers compensation obligations (including unemployment insurance, superannuation, pensions and retiree medical care) that are not overdue by more than 90 days.

"*Insolvency or Liquidation Proceeding*" means:

(1) any case commenced by or against the Issuer or the Parent Guarantor under the Bankruptcy Code or any similar U.S. federal, state or foreign law for the relief of debtors, any other proceeding for the reorganization, recapitalization or adjustment or marshalling of the assets or liabilities of the Issuer or the Parent Guarantor, any receivership, administration or assignment, arrangement, moratorium or composition with or for the benefit of creditors relating to the Issuer or the Parent Guarantor or any similar case or proceeding relative to the Issuer or the Parent Guarantor or its creditors, as such, in each case whether or not voluntary;

(2) any liquidation, provisional liquidation, dissolution, marshalling of assets or liabilities or other winding up of or relating to the Issuer or the Parent Guarantor, in each case whether or not voluntary and whether or not involving bankruptcy or insolvency; or

(3) any other proceeding of any type or nature (a) having a substantially similar effect to clauses (1) or (2) above or (b) in which substantially all claims of creditors of the Issuer or the Parent Guarantor are determined and any payment or distribution is or may be made on account of such claims.

"*Issue Date*" means   , 2018, the first date on which the notes were issued, authenticated and delivered under the indenture.

"*Lien*" means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such asset, whether or not filed, recorded or otherwise perfected under applicable law, including any conditional sale or other title retention agreement, any lease in the nature thereof and any option or other agreement to sell or give a security interest in.

"*Notes Documents*" means the indenture, the notes and the Parent Guarantee, and any document or agreement entered into or provided under or in connection with, or for the purpose of amending, supplementing or novating, any of the above.

"*Obligations*" means any principal (including reimbursement obligations with respect to letters of credit whether or not drawn), interest (including in the case of the notes, all interest accrued thereon after the commencement of any Insolvency or Liquidation Proceeding, even if such interest is not enforceable, allowable or allowed as a claim in such proceeding), premium (if any), fees, indemnifications, reimbursements, expenses, damages and other liabilities payable under the documentation governing any Indebtedness.

"*Offshore Associate*" means an Associate:

(1)

- (a) which is a non-resident of Australia and does not become a registered holder of a note or receive a payment in carrying on a business in Australia at or through a permanent establishment of the Associate in Australia; or

- (b) which is a resident of Australia and which becomes a registered holder or receives a payment in carrying on a business in a country outside Australia at or through a permanent establishment of the Associate in that country; and

(2) which does not become a registered holder of a note and receive payment in the capacity of a clearing house, custodian, funds manager or responsible entity of a registered scheme.

"*Parent Guarantee*" means the Guarantee by the Parent Guarantor of the Issuer's payment Obligations under the indenture and the notes, executed pursuant to the provisions of the indenture.

"*Permitted Credit Facilities*" means one or more debt facilities (including, without limitation, one or more credit agreements or export credit facilities), in each case, with banks or other institutional lenders providing for revolving credit loans, term loans, receivables financing (including through the sale of receivables to such lenders or to special purpose entities formed to borrow from such lenders against such receivables), letters of credit and/or notes or bond financings, including under the Senior Secured Notes, the Revolving Credit Facility and the Syndicated Term Loan, in each case, as amended, restated, modified, renewed, refunded, replaced (whether upon or after termination or otherwise) or refinanced in whole or in part from time to time that extend the maturity of, refinance, replace or otherwise restructure (including increasing the amount of available borrowings thereunder provided that, to the extent that such debt facility is secured, such debt facility is secured by a Permitted Lien) all or any portion of the Indebtedness under such agreement or any successor or replacement agreement and whether by the same or any other agent, lender or group of lenders.

"*Permitted Holders*" means, collectively, (1) Andrew Forrest, (2) his immediate family members, (3) each trust and other estate planning vehicle (A) established for the benefit of Andrew Forrest or the benefit of any of his immediate family members and (B) in respect of which Andrew Forrest or any of his immediate family members controls and (4) each controlled Affiliate of Andrew Forrest or any of his immediate family members.

"*Permitted Refinancing Indebtedness*" means any Indebtedness of Fortescue or any of its Subsidiaries issued in exchange for, or the net proceeds of which are used to renew, refund, refinance, replace, supplement, extend, substitute, defease or discharge Indebtedness of Fortescue or any of its Subsidiaries; provided that:

(1) the principal amount (or accreted value, if applicable) of such Permitted Refinancing Indebtedness does not exceed the principal amount (or accreted value, if applicable) of the Indebtedness renewed, refunded, refinanced, replaced, supplemented, extended, substituted, defeased or discharged plus all accrued

interest on the Indebtedness and the amount of all fees and expenses, including premiums, incurred in connection therewith;

(2) such Permitted Refinancing Indebtedness has a final maturity date equal to or later than the final maturity date of, and has a Weighted Average Life to Maturity equal to or greater than the remaining Weighted Average Life to Maturity of, the Indebtedness being renewed, refunded, refinanced, replaced, supplemented, extended, substituted, defeased or discharged; provided, however, that if such Permitted Refinancing Indebtedness constitutes Existing Indebtedness, then such Permitted Refinancing Indebtedness may have (a) a final maturity date equal to or later than the first anniversary of the final maturity date of the notes and (b) a Weighted Average Life to Maturity equal to or greater than the remaining Weighted Average Life to Maturity of the notes as if the final maturity date of the notes was actually on the first anniversary thereof; and

(3) the Permitted Refinancing Indebtedness is not secured by any Liens except on assets to the same extent (or to any lesser extent) than that which secured the Indebtedness being renewed, refunded, refinanced, replaced, supplemented, extended, substituted, defeased or discharged.

"*Person*" means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization, limited liability company or government or other entity.

"*Project Debt*" means Indebtedness incurred by a Subsidiary of Fortescue in connection with a project of such Subsidiary for the ownership, creation, development or exploitation of any of its assets where the recourse of the provider of such Indebtedness is substantially limited to (1) the assets of such project and (2) the shares or other equity interests or other interests in such Subsidiary.

"*Responsible Officer*" means any managing director, director, associate, principal, vice president, assistant vice president, assistant secretary, assistant treasurer, trust officer, authorized signer or any other officer of the Trustee customarily performing functions similar to those performed by any of the above-designated officers and also means, with respect to a particular corporate trust matter, any other officer to whom such matter is referred because of his knowledge of and familiarity with the particular subject and, in each case, having direct responsibility for the administration of the indenture.

"*Revolving Credit Facility*" means the US$525 million senior secured revolving facility established pursuant to a syndicated facility agreement, dated July 28, 2017, made between the Parent Guarantor, the Issuer as borrower, certain subsidiary guarantors, various financial institutions, and Australia and New Zealand Banking Group Limited, as facility agent.

"*Sale and Leaseback Transaction*" means any arrangement with any Person providing for the leasing to Fortescue and any Subsidiary of Fortescue of any property or assets, which property or assets have been or are to be sold or transferred by Fortescue or any Subsidiary of Fortescue to such Person; provided that Sale and Leaseback Transactions shall not include any Commercial Leases.

"*Securities Act*" means the *U.S. Securities Act of 1933*, as amended.

"*Senior Secured Notes*" means the US$2,300 million aggregate principal amount of 9.750% Senior Secured Notes due 2022, issued by the Issuer in April 2015.

"*Significant Subsidiary*" means any Subsidiary that would be a "significant subsidiary" as defined in Article 1, Rule 1-02 of Regulation S-X, promulgated pursuant to the Securities Act, as such Regulation is in effect on the Issue Date.

"*Solomon Power Station*" means the power station previously owned by TEC PIPE Pty Ltd which supplied power to the operations of Fortescue and its Subsidiaries under that certain Power Purchase Agreement, dated September 4, 2012, between TEC PIPE Pty Ltd, TransAlta Corporation, FMG Solomon Pty Ltd and Fortescue, and which is now owned and operated by Fortescue pursuant to a termination notice that FMG Solomon Pty Ltd delivered on August 1, 2017 and which became effective November 1, 2017.

"*Stated Maturity*" means, with respect to any installment of interest or principal on any series of Indebtedness, the date on which the payment of interest or principal was scheduled to be paid in the documentation governing such Indebtedness as of the Issue Date, and will not include any contingent obligations to repay, redeem or repurchase any such interest or principal prior to the date originally scheduled for the payment thereof.

"*Subsidiary*" means, with respect to any specified Person:

(1) any corporation, partnership, limited liability company or other entity of which shares of stock or other ownership interests having ordinary voting power (other than stock or such other ownership interests having such power only by reason of the happening of a contingency) to elect a majority of the Board of Directors or other managers of such corporation, partnership or other entity are at the time owned, or the management of which is otherwise controlled, directly or indirectly through one or more intermediaries, or both, by such Person; and

(2) any partnership (a) the sole general partner or the managing general partner of which is such Person or a Subsidiary of such Person, or (b) the only general partners of which are that Person or one or more Subsidiaries of that Person (or any combination thereof).

For the avoidance of doubt, unless otherwise qualified, all references to a "Subsidiary" or to "Subsidiaries" in the indenture shall refer to a Subsidiary or Subsidiaries of Fortescue.

"*Syndicated Term Loan*" means the US$1.4 billion senior secured term loan facility entered into pursuant to a syndicated facility agreement, dated February 20, 2018, between the Parent Guarantor, the Issuer as borrower, certain subsidiary guarantors, various financial institutions, and Australia and New Zealand Banking Group Limited, as facility agent.

"Voting Stock" of any specified Person as of any date means the Capital Stock of such Person that is at the time entitled to vote in the election of the Board of Directors of such Person.

"*Weighted Average Life to Maturity*" means, when applied to any Indebtedness at any date, the number of years obtained by dividing:

(1) the sum of the products obtained by multiplying (a) the amount of each then remaining installment, sinking fund, serial maturity or other required payments of principal, including payment at final maturity, in respect of the Indebtedness, by (b) the number of years (calculated to the nearest one-twelfth) that will elapse between such date and the making of such payment; by

(2) the then outstanding principal amount of such Indebtedness.

Tax considerations

United States taxation

This section describes the material United States federal income tax consequences of owning the Notes we are offering. It applies to you only if you acquire Notes in this offering at the offering price and you hold your Notes as capital assets for tax purposes. This section does not apply to you if you are a member of a class of holders subject to special rules, such as:

- a dealer in securities or currencies,
- a trader in securities that elects to use a mark-to-market method of accounting for your securities holdings,
- a bank,
- a regulated investment company,
- a real estate investment trust,
- an insurance company,
- a tax-exempt organization,
- a partnership or other pass-through entity (or an investor in such an entity),
- a "controlled foreign corporation,"
- a "passive foreign investment company,"
- a United States expatriate,
- a person required to accelerate the recognition of any item of gross income with respect to the Notes as a result of such income being recognized on an applicable financial statement;
- a person liable for alternative minimum tax,
- a person that owns Notes that are a hedge or that are hedged against interest rate risks,
- a person that owns Notes as part of an integrated, straddle. conversion, or constructive sale transaction for tax purposes,
- a person that purchases or sells Notes as part of a wash sale for tax purposes, or
- a United States holder (as defined below) whose functional currency for tax purposes is not the U.S. dollar.

If you purchase Notes at a price other than the offering price, the amortizable bond premium or market discount rules may also apply to you. You should consult your tax advisor regarding this possibility.

This section is based on the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations under the Internal Revenue Code, published rulings and court decisions, all as currently in effect. These laws are subject to change, possibly on a retroactive basis.

If a partnership holds the Notes, the United States federal income tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. A partner in a partnership holding the Notes should consult its tax advisor with regard to the United States federal income tax treatment of an investment in the Notes.

Please consult your own tax advisor concerning the consequences of owning these Notes in your particular circumstances under the Internal Revenue Code and the laws of any other taxing jurisdiction.

United States holders

This subsection describes the tax consequences to a United States holder. You are a United States holder if you are a beneficial owner of a Note and you are:

- an individual who is a citizen or resident of the United States,
- a domestic corporation,
- an estate whose income is subject to United States federal income tax regardless of its source, or
- a trust if a United States court can exercise primary supervision over the trust's administration and one or more United States persons are authorized to control all substantial decisions of the trust.

If you are not a United States holder, this subsection does not apply to you and you should refer to "—United States alien holders" below.

Certain Contingent Payments. Although the matter is not free from doubt, we believe, and intend to take the position, that the Notes should not be characterized as contingent payment debt instruments under United States federal income tax law even though the Notes provide for certain contingent payments (see "Description of the notes—Repurchase at the option of holders—Change of Control") because such contingency should be treated as a remote and/or incidental contingency. Our determination that the Notes are not contingent payment debt instruments is binding on you, unless you explicitly disclose in the manner required by applicable United States Treasury regulations that your determination is different from ours. If the Internal Revenue Service takes a contrary position, a United States holder may be required (i) to accrue interest income at a rate higher than the stated interest rate on the Notes, and (ii) to treat as ordinary income, rather than capital gain, any gain on the sale or retirement of the Notes. You should consult your tax advisor about the risk of the Notes being treated as contingent payment debt instruments. The remainder of this discussion assumes that the Notes are not contingent payment debt instruments.

Payments of interest. You will be taxed on interest on your Notes, including any additional amounts with respect thereto as described under "Description of the notes—Additional Amounts," as ordinary income at the time you receive the interest or when it accrues, depending on your method of accounting for tax purposes.

You must include any tax withheld from the interest payment as ordinary income even though you do not in fact receive it. You may be entitled to deduct or credit this tax, subject to applicable limits. Interest paid by the Issuer on the Notes is income from sources outside the United States for purposes of the rules regarding the foreign tax credit allowable to a United States holder and will generally be "passive" income for purposes of computing the foreign tax credit. The rules governing foreign tax credits are complex and you should consult your tax advisor regarding the availability of the foreign tax credit in your situation.

Purchase, sale and retirement of the Notes. You will generally recognize capital gain or loss on the sale, exchange, redemption, retirement, or other taxable disposition of your Notes equal to the difference between the amount you realize on such disposition, excluding any amounts attributable to accrued but unpaid interest which will be treated as interest payments, and your tax basis in your Notes. Your tax basis in your Notes generally will be their cost. Capital gain of a non-corporate United States holder is generally taxed at preferential rates where the property is held for more than one year. The deductibility of capital losses is subject to limitations.

Medicare tax. A United States holder that is an individual or estate, or a trust that does not fall into a special class of trusts that is exempt from such tax, is subject to a 3.8% tax (the "Medicare tax") on the lesser of (1) the United States holder's "net investment income" (or "undistributed net investment income" in the case of an estate and trust) for the relevant taxable year and (2) the excess of the United States holder's modified adjusted gross income (or adjusted gross income for estates and trusts) for the taxable year over a certain threshold (which in the case of individuals is between US$125,000 and US$250,000, depending on the individual's circumstances). A holder's net investment income generally includes its interest income and its net gains from the disposition of Notes, unless such interest income or net gains are derived in the ordinary course of the conduct of a trade or business (other than a trade or business that consists of certain passive or trading activities). If you are a United States holder that is an individual, estate or trust, you are urged to consult your tax advisors regarding the applicability of the Medicare tax to your income and gains in respect of your investment in the Notes.

United States alien holders

This subsection describes the tax consequences to a United States alien holder. You are a United States alien holder if you are a beneficial owner of a Note and you are, for United States federal income tax purposes:

- a nonresident alien individual,
- a foreign corporation, or
- an estate or trust that in either case is not subject to United States federal income tax on a net income basis on income or gain from a Note.

If you are a United States holder, this subsection does not apply to you.

Under United States federal income and estate tax law, and subject to the discussion of backup withholding below, if you are a United States alien holder of Notes, interest on Notes paid to you is exempt from United States federal income tax, including withholding tax, whether or not you are engaged in a trade or business in the United States, unless:

- you are an insurance company carrying on a United States insurance business to which the interest is attributable, within the meaning of the Internal Revenue Code, or
- you both
  - have an office or other fixed place of business in the United States to which the interest is attributable, and
  - derive the interest in the active conduct of a banking, financing or similar business within the United States, or are a corporation with a principal business of trading in stocks and securities for its own account.

Purchase, sale, retirement and other disposition of the Notes. If you are a United States alien holder of Notes, you generally would not be subject to United States federal income tax on gain realized on the sale, exchange or retirement of Notes unless:

- the gain is effectively connected with your conduct of a trade or business in the United States, or
- you are an individual, you are present in the United States for 183 or more days during the taxable year in which the gain is realized and certain other conditions exist.

For purposes of the United States federal estate tax, the Notes will be treated as situated outside the United States and will not be includible in the gross estate of a holder who is neither a citizen nor a resident of the United States at the time of death.

Information with respect to foreign financial assets

Owners of “specified foreign financial assets” with an aggregate value in excess of US$50,000 (and in some circumstances, a higher threshold) may be required to file an information report with respect to such assets with their tax returns. “Specified foreign financial assets” may include any financial accounts maintained by foreign financial institutions, as well as the following, but only if they are held for investment and not held in accounts maintained by financial institutions: (i) stocks and securities issued by non-U.S. persons, (ii) financial instruments and contracts that have non-U.S. issuers or counterparties and (iii) interests in foreign entities. Holders are urged to consult their tax advisors regarding the application of this reporting requirement to their ownership of the Notes.

Backup withholding and information reporting

If you are a noncorporate United States holder, information reporting requirements, on IRS Form 1099, generally would apply to payments of principal and interest on a note within the United States, and the payment of proceeds to you from the sale of Notes effected at a United States office of a broker.

Additionally, backup withholding may apply to such payments if you fail to provide your taxpayer identification number, fail to comply with applicable certification requirements or are notified by the IRS that you have failed to report all interest and dividends required to be shown on your federal income tax returns.

If you are a United States alien holder, you are generally exempt from backup withholding and information reporting requirements with respect to payments of principal and interest made to you outside the United States by us or another non-United States payor. You are also generally exempt from backup withholding and information reporting requirements in respect of payments of principal and interest made within the United States and the payment of the proceeds from the sale of Notes effected at a United States office of a broker, as long as either (i) the payor or broker does not have actual knowledge or reason to know that you are a United States person and you have furnished a valid IRS Form W-8 or other documentation upon which the payor or broker may rely to treat the payments as made to a non-United States person, or (ii) you otherwise establish an exemption.

Payment of the proceeds from the sale of Notes effected at a foreign office of a broker generally will not be subject to information reporting or backup withholding. However, a sale effected at a foreign office of a broker could be subject to information reporting in the same manner as a sale within the United States (and in certain cases may be subject to backup withholding as well) if (i) the broker has certain connections to the United States, (ii) the proceeds or confirmation are sent to the United States or (iii) the sale has certain other specified connections with the United States.

You generally may obtain a refund of any amounts withheld under the backup withholding rules that exceed your income tax liability by filing a refund claim with the IRS.

Australian taxation

The following taxation summary is of a general nature only and addresses only some of the key Australian tax implications that may arise for a holder of a Note as a result of acquiring or holding the Note. The following is not intended to be and should not be taken as a comprehensive taxation summary for a prospective holder of a

Note. This Australian taxation summary is not exhaustive and should be treated with appropriate caution. In particular, the Australian taxation summary does not deal with the position of certain classes of holders (including, dealers in securities, custodians or other third parties who hold instruments on behalf of other persons). This Australian taxation summary only applies to non-resident holders of the Notes, other than those persons holding the Notes in carrying on a business in Australia at or through a permanent establishment.

The Australian taxation summary is based on the Australian taxation laws in force and the administrative practices of the ATO generally accepted as of the date of this offering circular. Any of these may change in the future without notice and legislation introduced to give effect to announcements may contain provisions that are currently not contemplated and may have retrospective effect.

This Australian taxation summary is not intended to be, nor should it be construed as legal or tax advice to any particular investor. Holders of the Notes should consult their professional advisers in relation to their tax position. Holders of the Notes who may be liable to taxation in jurisdictions other than Australia in respect of their acquisition, holding or disposal of Notes are particularly advised to consult their professional advisers as to whether they are so liable (and, if so, under the laws of which jurisdictions), since the following comments relate only to certain Australian taxation aspects of the Notes. In particular, holders of the Notes should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the Notes even if such payments may be made without withholding or deduction for or on account of taxation under the laws of Australia.

In the opinion of Allen & Overy LLP, the following presents a summary of the material Australian income tax consequences as of the date of this offering circular arising under the *Income Tax Assessment Act 1936* (Cth) ("1936 Act"), the *Taxation Administration Act 1953* ("TA Act"), the *Income Tax Assessment Act 1997* (together with the 1936 Act and the TA Act, the "Tax Acts") regulations, rulings and judicial interpretations now in effect, all of which are subject to change, possibly with retrospective effect with respect to an investment in the Notes by any investor who is not a resident of Australia for the purposes of the Tax Acts and does not hold the Notes in connection with carrying on a business at or through a permanent establishment in Australia.

Allen & Overy LLP has not reviewed and expresses no opinion with respect to any financial projections or other tax assumptions used within this document.

Interest on the Notes

Under current Australian law, payments of interest from, broadly speaking, an Australian resident to a non-resident of Australia are subject to a 10% withholding tax unless an exemption applies, or the interest is attributable to a permanent establishment of the non-resident in Australia. If the interest is attributable to a permanent establishment of the non-resident in Australia, subject to any relevant double tax agreement ("DTA"), normal Australian income tax rates apply.

Interest, for the purpose of withholding tax, is defined in section 128A(1AB) of the 1936 Act to include amounts in the nature of, or in substitution for, interest and certain other amounts. It would also include any original issue discount on the Notes.

There are a number of possible exemptions from withholding tax contained in the Tax Acts including the "public offer" exemption, tax treaty exemptions, and pension fund exemption (each discussed further below).

Public offer exemption

Under section 128F of the 1936 Act, interest payments made by a resident Australian company to a non-resident are exempt from interest withholding tax in the following circumstances:

(a) the company was a resident of Australia when it issued the debenture; and

(b) the company is a resident of Australia when the interest is paid; and

(c) the issue of the debenture satisfies the public offer test set out in subsections (3) or (4) of section 128F of the 1936 Act.

The “public offer test” will be satisfied if the issue of the Notes resulted from the Notes being offered for issue:

(a) to at least 10 persons each of whom:

  (i) was carrying on a business of providing finance, or investing or dealing in securities, in the course of operating in financial markets; and

  (ii) was not known, or suspected, by the company to be an associate (see subsection (9) of section 128F of the 1936 Act)) of any of the other persons covered by this paragraph; or

(b) to at least 100 persons whom it was reasonable for the company to have regarded as either:

  (i) having acquired debentures or debt interests in the past; or

  (ii) being likely to be interested in acquiring debentures or debt interests; or

(c) as a result of being accepted for listing on a stock exchange, where the company had previously entered into an agreement with a dealer, manager or underwriter, in relation to the placement of the Notes, requiring the company to seek such listing; or

(d) as a result of negotiations being initiated publicly in electronic form, or in another form, that was used by financial markets for dealing in debentures or debt interests; or

(e) to a dealer, manager or underwriter, in relation to the placement of the Notes, who, under an agreement with the company, offered the Notes for sale within 30 days in a way covered by any of paragraphs (a) to (d).

The issue of the Notes by the Issuer also satisfies the public offer test if the Notes are classified as “global bonds” for the purposes of the 1936 Act.

A Note will be a global bond if:

(a) it describes itself as a global bond or a global note; and

(b) it is issued to a clearing house or to a person as trustee or agent for, or otherwise on behalf of, one or more clearing houses; and

(c) in connection with the issue, the clearing house or houses:

  (i) confer rights in relation to the debenture or debt interest on other persons; and

  (ii) record the existence of the rights; and

(d) before the issue:

  (i) the company; or

  (ii) a dealer, manager or underwriter, in relation to the placement of debentures or debt interests, on behalf of the company; announces that, as a result of the issue, such rights will be able to be created; and

(e) the announcement is made in a way or ways covered by any of paragraphs (3)(a) to (e) of section 128F of the 1936 Act (reading a reference in those paragraphs to “debentures or debt interests” as if it were a reference to such a right, and a reference to the “company” as if it included a reference to the dealer, manager or underwriter); and

(f) under the terms of the debenture or debt interest, interests in the debenture or debt interest are able to be surrendered, whether or not in particular circumstances, in exchange for other debentures or debt interests issued by the company that are not themselves global bonds.

The public offer test will not be satisfied in relation to the issue of the Notes if, at the time of issue, the Issuer knew or had reasonable grounds to suspect that a Note or an interest in a Note was being, or would later be, acquired directly or indirectly by an “Offshore Associate” of the Issuer. A person is an Offshore Associate of the Issuer if the person is an “associate” (within the meaning of section 128F(9) of the 1936 Act) of the Issuer (other than in the capacity of a dealer, manager or underwriter in relation to the placement of the Notes, or a clearing house, custodian, funds manager or responsible entity of a registered scheme) and the associate of the Issuer is either:

- a non-resident and the Note or an interest in the Notes is not acquired in carrying on a business at or through a permanent establishment in Australia; or
- an Australian resident and the Note or an interest in the Notes is acquired in carrying on a business in a country outside Australia at or through a permanent establishment of the associate in that country.

Accordingly, the Notes should not be acquired by any Offshore Associate of the Issuer, subject to the exceptions referred to above.

Even if the public offer test is initially satisfied in respect of the Notes, if the Notes later come to be held by an Offshore Associate of the Issuer, and at the time of payment of interest on the Note, the Issuer knows or has reasonable grounds to suspect that such person is an Offshore Associate, the exemption under section 128F does not apply to interest paid by the Issuer to the Offshore Associate in respect of those Notes, unless the Offshore Associate receives the payment in the capacity of a clearing house, paying agent, custodian, funds manager or responsible entity of a registered scheme.

The definition of “associate” includes, among other things, persons who have a majority voting interest in the Issuer, or who are able to influence or control the Issuer, and persons in whom the Issuer has a majority voting interest, or whom the Issuer is able to influence or control (however this is not a complete statement of the definition).

Apart from payments of interest made to a non-resident’s Australian permanent establishment discussed above (to which Australian interest withholding tax will not apply), when the tests in section 128F of the 1936 Act have been satisfied (including the requirements in relation to Offshore Associates), payments of interest made by the Issuer with respect to the Notes to a person who is not a resident of Australia within the meaning of the 1936 Act who has acquired or thereafter acquires any of the Notes will not incur any Australian interest withholding tax.

The Issuer intends to issue the Notes in a manner which will satisfy the requirements of section 128F.

Treaty exemption

If the Notes do not meet the public offer test then another exemption may potentially apply. Under certain DTAs, including those with the United States of America, the United Kingdom, Norway, Finland, Germany, the

Republic of France, Japan, the Republic of South Africa, New Zealand and Switzerland (each, a "Specified Country"), an exemption from interest withholding tax may apply for interest derived by:

(a) the government of the relevant Specified Country and certain governmental authorities and agencies in the Specified Country; and

(b) certain unrelated banks, and financial institutions which substantially derive their profits by carrying on a business of raising and providing finance, which are resident in the Specified Country, and which are dealing wholly independently with the Issuer (interest paid under a back-to-back loan or economically equivalent arrangement will not qualify for this exemption).

The Australian government is progressively amending its other DTAs to include similar kinds of interest withholding tax exemptions. Prospective investors should obtain their own independent tax advice as to whether any of the exemptions under the relevant DTAs may apply to their particular circumstances.

Pension fund exemption

An exemption is available in respect of interest paid to a non-resident superannuation fund where that fund is a superannuation fund maintained solely for foreign residents and the interest arising from the Notes is exempt from income tax in the country in which such superannuation fund is resident.

Payments under Parent Guarantee

In the event of default by the Issuer, the Parent Guarantor may be required to make certain payments under the Parent Guarantee. The Australian withholding taxation implications of any such payments will depend on whether the amounts paid under the Parent Guarantee in respect of the Notes constitute payments of interest (as defined in section 128A(1AB) of the 1936 Act).

To the extent that a payment made by the Parent Guarantor does not constitute interest, the Parent Guarantor would not have an obligation to deduct interest withholding tax. Whether such payments would be interest for Australian withholding tax purposes is not clear.

To the extent that the Parent Guarantee amounts do constitute interest, withholding tax may be payable. However, even if payments under the Parent Guarantee do constitute interest, the Commissioner of Taxation ("Commissioner") in Australia has issued a Taxation Determination stating that guarantee payments would be treated as exempt from withholding tax under section 128F of the 1936 Act if the requirements of that section are satisfied with respect to the underlying notes. Provided that the guarantee arrangement ruled on in the Taxation Determination is not materially different to the arrangement under the Parent Guarantee, the Commissioner will be required to apply the principles in the Taxation Determination to any payments under the Parent Guarantee unless and until the Taxation Determination is withdrawn.

Gains on disposition or redemption of the Notes

Under current Australian tax law, non-resident holders of the Notes who have never held the Notes in carrying on business at or through a permanent establishment in Australia will not be subject to Australian income tax on profits derived from the sale or disposal of the Notes where the profits do not have an Australian source.

The source of any profit on the disposal of the Notes will depend on the factual circumstances of the actual disposal. Generally, where the Notes are acquired and disposed of pursuant to contractual arrangements entered into and concluded outside Australia, and the seller and the purchaser are non-residents of Australia and do not transact at or through an Australian permanent establishment, the profits should not have an Australian source.

In addition, any gain realized on disposal of Notes by non-resident holders that are entitled to the benefit of a double tax treaty between Australia and the country in which they are resident should generally not be subject to tax in Australia in any event provided that they do not hold the Notes in carrying on business at or through a permanent establishment in Australia.

Where a holder of Notes who is not a resident of Australia and who does not hold the Notes in carrying on a business at or through a permanent establishment in Australia sells the Notes to either:

(1) a resident of Australia (not in connection with that resident carrying on a business at or through a permanent establishment outside Australia); or

(2) to a non-resident of Australia carrying on business in Australia at or through a permanent establishment in Australia where the purchase is in connection with that permanent establishment,

then the gain may be deemed to be interest and may be subject to a 10% withholding tax, unless section 128F applies to the Notes as outlined above or one of the other exemptions applies.

TFN withholding taxes—Notes

Assuming the requirements of section 128F are satisfied with respect to the Notes, then the tax file number ("TFN") requirements under the Tax Act do not apply to payments to a holder of Notes who is not a resident of Australia and does not hold those Notes in the course of carrying on a business at or through a permanent establishment in Australia. Payments to other persons in respect of the Notes may be subject to withholding where that person does not quote a TFN or Australian Business Number or provide proof of an appropriate exemption.

Garnishee directions by the Commissioner of Taxation (Commissioner)

The Commissioner may give a direction under section 255 of the 1936 Act or section 260-5 of Schedule 1 of the TA Act (or any other analogous provision under another statute) requiring the Issuer to deduct from any payment to any other entity (including any holder) any amount in respect of tax payable by that other entity. If the Issuer is served with such a direction in respect of a holder, then the Issuer will comply with that direction and, accordingly, will make any deduction or withholding in connection with that direction. For example, in broad terms, if an amount was owing by the Issuer to a holder and that holder had an outstanding Australian tax-related liability owing to the Commissioner, the Commissioner may issue a notice to the Issuer requiring it to pay the Commissioner the amount owing to the holder.

Other taxes

There are no ad valorem stamp, issue, registration or similar taxes payable in Australia on the issue or transfer of any Notes.

Neither the issue nor receipt of the Notes will give rise to a liability for goods and services tax ("GST") in Australia because the supply of Notes will consist of either an input taxed financial supply or a GST-free supply. Further, the payment of principal or interest by the Issuer would not give rise to any GST liability in Australia.

Certain ERISA considerations

The following is a summary of certain considerations associated with the purchase of the Notes by employee benefit plans that are subject to Title I of the U.S. Employee Retirement Income Security Act of 1974, as amended (“ERISA”), plans, individual retirement accounts (“IRAs” and each, an “IRA”) and other arrangements that are subject to Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the “Code”) or provisions under any other federal, state, local, non-U.S. or other laws or regulations that are similar to such provisions of ERISA or the Code (collectively, “Similar Laws”), and entities whose underlying assets are considered to include “plan assets” of any such plan, account or arrangement (each, a “Plan”).

General fiduciary matters

ERISA and the Code impose certain duties on persons who are fiduciaries of a Plan subject to Title I of ERISA or Section 4975 of the Code (an “ERISA Plan”) and prohibit certain transactions involving the assets of an ERISA Plan and its fiduciaries or other interested parties. Under ERISA and the Code, any person who exercises any discretionary authority or control over the administration of such an ERISA Plan or the management or disposition of the assets of such an ERISA Plan, or who renders investment advice for a fee or other compensation to such an ERISA Plan, is generally considered to be a fiduciary of the ERISA Plan.

In considering an investment in the Notes of a portion of the assets of any Plan, a fiduciary should determine whether the investment is in accordance with the documents and instruments governing the Plan and the applicable provisions of ERISA, the Code or any Similar Law relating to a fiduciary’s duties to the Plan including, without limitation, the prudence, diversification, delegation of control and prohibited transaction provisions of ERISA, the Code and any other applicable Similar Laws.

Prohibited transaction issues

Section 406 of ERISA and Section 4975 of the Code prohibit ERISA Plans from engaging in specified transactions involving plan assets with persons or entities who are “parties in interest,” within the meaning of ERISA, or “disqualified persons,” within the meaning of Section 4975 of the Code, unless an exemption is available. A party in interest or disqualified person who engaged in a non-exempt prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and the Code. In addition, the fiduciary of the ERISA Plan that engaged in such a non-exempt prohibited transaction may be subject to penalties and liabilities under ERISA and the Code. The acquisition and/or holding of Notes by an ERISA Plan with respect to which the issuer, the initial purchaser or the Parent Guarantor are considered a party in interest or a disqualified person may constitute or result in a direct or indirect prohibited transaction under Section 406 of ERISA and/or Section 4975 of the Code, unless the investment is acquired and is held in accordance with an applicable statutory, class or individual prohibited transaction exemption.

In this regard, the U.S. Department of Labor has issued prohibited transaction class exemptions, or “PTCEs,” that may provide exemptive relief for direct or indirect prohibited transactions resulting from the sale, purchase or holding of the Notes. These class exemptions include, without limitation, PTCE 84-14 respecting transactions determined by independent qualified professional asset managers, PTCE 90-1 respecting insurance company pooled separate accounts, PTCE 91-38 respecting bank collective investment funds, PTCE 95-60 respecting life insurance company general accounts, and PTCE 96-23 respecting transactions determined by in-house asset managers. In addition, Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code provide relief from the prohibited transaction provisions of ERISA and Section 4975 of the Code for certain transactions, provided that neither the issuer of the notes nor any of its affiliates (directly or indirectly) has or exercises any discretionary authority or control or renders any investment advice with respect to the assets of any ERISA Plan involved in the transaction and provided further that the ERISA Plan receives no less, nor pays no more than adequate consideration in connection with the transaction. There can be no assurance that all of the conditions of any such exemptions will be satisfied.

Because of the foregoing, the Notes should not be purchased or held by any person investing "plan assets" of any Plan, unless such purchase and holding will not constitute a non-exempt prohibited transaction under ERISA and the Code or similar violation of any applicable Similar Laws.

Representation

Accordingly, by acceptance of a Note each purchaser and subsequent transferee will be deemed to have represented and warranted that either (i) no portion of the assets used by such purchaser or transferee to acquire or hold the Notes constitutes assets of any Plan or (ii) the purchase and holding of the Notes by such purchaser or transferee will not constitute a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or similar violation under any applicable Similar Laws.

Each purchaser of the Notes in this offering that is a Plan and that acquires Notes in connection with this offering will be deemed to represent by its acquisition of the Notes offered hereby that a fiduciary (the "Fiduciary") independent of the issuer, the initial purchaser and any of their affiliates (collectively, the "Transaction Parties") acting on the Plan's behalf is responsible for the Plan's decision to acquire the Notes in this offering and that such Fiduciary:

(i) is either a U.S. bank, a U.S. insurance carrier, a U.S. registered investment adviser, a U.S. registered broker-dealer or an independent fiduciary with at least $50 million of assets under management or control, in each case under the requirements specified in the U.S. Code of Federal Regulations, 29 C.F.R. Section 2510.3-21(c)(1)(i), as amended from time to time,

(ii) in the case of a Plan that is an IRA, is not the IRA owner, beneficiary of the IRA or relative of the IRA owner or beneficiary,

(iii) is capable of evaluating investment risks independently, both in general and with regard to the prospective investment in the Notes,

(iv) is a fiduciary under ERISA or the Code, or both, with respect to the decision to acquire the Notes,

(v) has exercised independent judgment in evaluating whether to invest the assets of the Plan in the Notes,

(vi) understands and has been fairly informed of the existence and the nature of the financial interests of the Transaction Parties in connection with the Plan's acquisition of the Notes,

(vii) understands that the Transaction Parties are not undertaking to provide impartial investment advice, or to give advice in a fiduciary capacity to the Plan, in connection with the Plan's acquisition of the Notes, and

(viii) confirms that no fee or other compensation will be paid directly to any of the Transaction Parties by the Plan, or any fiduciary, participant or beneficiary of the Plan, for the provision of investment advice (as opposed to other services) in connection with the Plan's acquisition of the Notes.

The foregoing discussion is general in nature and is not intended to be all-inclusive. Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is particularly important that fiduciaries, or other persons considering purchasing or holding the Notes with the assets of any Plan, consult with their counsel regarding the potential applicability of ERISA, Section 4975 of the Code and any Similar Laws to such investment and whether an exemption would be applicable to the purchase and holding of the Notes.

Purchasers of the Notes have the exclusive responsibility for ensuring that their purchase and holding of the Notes comply with the fiduciary responsibility rules of ERISA and do not violate the prohibited transaction rules of ERISA, the Code or applicable Similar Laws.

Plan of distribution

Subject to the terms and conditions stated in the purchase agreement among the Issuer, the Parent Guarantor and the initial purchaser, the Issuer has agreed to sell to the initial purchaser, and the initial purchaser has agreed to purchase from the Issuer, the entire principal amount of the Notes.

The purchase agreement provides that the initial purchaser will purchase all of the Notes pursuant to the purchase agreement if any of the Notes are purchased.

The initial purchaser initially proposes to offer the Notes for resale at the issue price that appears on the cover page of this offering circular. After the initial offering, the initial purchaser may change the offering price and any other selling terms. The initial purchaser may offer and sell Notes through certain of its affiliates.

The initial purchaser will receive the aggregate value of the difference between the issue price stated on the cover page of this offering circular and the purchase price. No other selling concession, management commission or underwriting commission will be payable by the Issuer with respect to this offering.

In the purchase agreement, Fortescue and the Issuer have agreed that:

- they will not offer, sell, contract to sell or otherwise dispose of any of their debt securities (other than the Notes) for a period of 30 days after the date of this offering circular without the prior consent of J.P. Morgan Securities LLC.
- they will indemnify the initial purchaser against certain liabilities, including liabilities under the Securities Act, or contribute to payments that the initial purchaser may be required to make in respect of those liabilities.

The Notes have not been and will not be registered under the Securities Act or the securities laws of any other place. In the purchase agreement, the initial purchaser has agreed that:

- the Notes may not be offered or sold within the United States or to U.S. persons except pursuant to an exemption from the registration requirements of the Securities Act or in transactions not subject to those requirements.
- during the initial distribution of the Notes, it will offer or sell Notes only to persons reasonably believed to be qualified institutional buyers in compliance with Rule 144A and outside the United States in compliance with Regulation S.

In addition, until 40 days following the commencement of this offering, an offer or sale of Notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act unless the dealer makes the offer or sale in compliance with Rule 144A or another exemption from registration under the Securities Act.

No prospectus or other disclosure document in relation to the Notes or the Parent Guarantee has been, or will be, lodged with ASIC or the ASX.

In addition:

(1) no offers or applications will be made or invited for the purchase of any Notes (including an offer or invitation which is received by a person in Australia); and

(2) this offering circular or any other offering material or advertisement relating to this offering will not be distributed or published in Australia,

unless in either case (1) or (2):

(i) the minimum aggregate consideration payable by each offeree or invitee is at least A$500,000 (or the equivalent in another currency, in either case disregarding moneys lent by the offeror or its associates) or the offer or invitation otherwise does not require disclosure to investors in accordance with Part 6D.2 or Chapter 7 of the Corporations Act;

(ii) the offer or invitation is not to a "retail client" for the purposes of Section 761G of the Corporations Act; and

(iii) such action complies with all applicable laws, regulations and directives in relation to the offer, invitation or distribution and does not require any document to be lodged with, or registered by, ASIC.

Notes issued pursuant to this offering circular may not be offered for sale (or transferred, assigned or otherwise alienated) to any person located in, or a resident of, Australia for at least 12 months after their issue, except in circumstances where the person is a person to whom a disclosure document or product disclosure statement is not required to be given under Chapter 6D or Chapter 7 of the Corporations Act.

In addition, it is intended that the initial purchaser will not sell any Notes (or any interest in any Notes) to any person if, at the time of sale, its employees directly involved in the sale knew or had reasonable grounds to suspect that as a result of such sale, such Notes would be acquired (directly or indirectly) by an "Offshore Associate" (being a party identified as such in writing by the Issuer to the initial purchaser not later than the date of the purchase agreement), other than one acting in the capacity of a dealer, manager or underwriter in relation to the placement of the Notes or in the capacity of a clearing house, custodian, funds manager or responsible entity of an Australian registered scheme.

The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II); or (ii) a customer within the meaning of the Insurance Mediation Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Directive. Consequently no key information document required by the PRIIPs Regulation for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

The initial purchaser has represented and agreed that:

(i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the "FSMA")) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to us; and

(ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

The Notes may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 *Prospectus Exemptions* or subsection 73.3(1) of the *Securities Act* (Ontario), and are permitted clients, as defined in National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*. Any resale of the Notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this offering circular (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 of National Instrument 33-105 *Underwriting Conflicts* (NI 33-105), the initial purchaser is not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

We hereby notify prospective Canadian purchasers that: (a) we may be required to provide personal information pertaining to the purchaser as required to be disclosed in Schedule I of Form 45-106F1 under NI 45-106 (including its name, address, telephone number and the aggregate purchase price of any Notes purchased) ("personal information"), which Form 45-106F1 may be required to be filed by us under NI 45-106, (b) such personal information may be delivered to the Ontario Securities Commission (the "OSC") in accordance with NI 45-106, (c) such personal information is collected indirectly by the OSC under the authority granted to it under the securities legislation of Ontario, (d) such personal information is collected for the purposes of the administration and enforcement of the securities legislation of Ontario, and (e) the public official in Ontario who can answer questions about the OSC's indirect collection of such personal information is the Administrative Support Clerk at the OSC, Suite 1903, Box 55, 20 Queen Street West, Toronto, Ontario M5H 3S8, Telephone: (416) 593-3684. Prospective Canadian purchasers that purchase Notes in the offer will be deemed to have authorized the indirect collection of the personal information by the OSC, and to have acknowledged and consented to its name, address, telephone number and other specified information, including the aggregate purchase price paid by the purchaser, being disclosed to other Canadian securities regulatory authorities, and to have acknowledged that such information may become available to the public in accordance with requirements of applicable Canadian laws.

Upon receipt of this offering circular, each Canadian purchaser hereby confirms that it has expressly requested that all documents evidencing or relating in any way to the sale of the securities described herein (including for greater certainty any purchase confirmation or any notice) be drawn up in the English language only. *Par la réception de ce document, chaque acheteur canadien confirme par les présentes qu'il a expressément exigé que tous les documents faisant foi ou se rapportant de quelque manière que ce soit à la vente des valeurs mobilières décrites aux présentes (incluant, pour plus de certitude, toute confirmation d'achat ou tout avis) soient rédigés en anglais seulement.*

Fortescue has agreed to indemnify the initial purchaser against liabilities or to contribute to payments which they may be required to make in that respect.

The Notes are a new issue of securities, and there is currently no established trading market for the Notes. In addition, the Notes are subject to certain restrictions on resale and transfer as described under "Transfer restrictions." We do not intend to apply for the Notes to be listed on any securities exchange or to arrange for the Notes to be quoted on any quotation system. The initial purchaser has advised Fortescue that it intends to make a market in the Notes, but it is not obligated to do so. The initial purchaser may discontinue any market making in the Notes at any time in its sole discretion. Accordingly, Fortescue cannot assure you that a liquid trading market will develop for the Notes, that you will be able to sell your Notes at a particular time or that the prices that you receive when you sell will be favorable.

You should be aware that the laws and practices of certain countries require investors to pay stamp taxes and other charges in connection with purchase of securities.

In connection with this offering, the initial purchaser may engage in overallotment, stabilizing transactions and syndicate covering transactions. Overallotment involves sales in excess of the offering size, which creates a short position for the initial purchaser. Stabilizing transactions involve bids to purchase the Notes in the open market for the purpose of pegging, fixing or maintaining the price of the Notes. Syndicate covering transactions involve purchases of the Notes in the open market after the distribution has been completed in order to cover short positions. Stabilizing transactions and syndicate covering transactions may have the effect of preventing or retarding a decline in the market price of the Notes or cause the price of the Notes to be higher than it would otherwise be in the absence of those transactions. If the initial purchaser engages in stabilizing or syndicate covering transactions, it may discontinue them at any time.

The initial purchaser and its affiliates have engaged, and may in the future engage, in investment banking, commercial banking and other financial advisory and commercial dealings with Fortescue and its affiliates in the ordinary course of business. It has received or may receive customary fees and commissions for these transactions. For example, J.P. Morgan Securities LLC is acting as the dealer manager for the Tender Offer. The initial purchaser or its affiliates may also hold equity or debt securities of Fortescue from time to time, including the 2022 Senior Secured Notes, for its own account or for the account of customers. The initial purchaser or its affiliates that hold a portion of the 2022 Senior Unsecured Notes may, upon consummation of the repurchase and the redemption of the 2022 Senior Secured Notes, receive a portion of the proceeds from this offering. See "Use of proceeds."

It is expected that delivery of the Notes will be made against payment therefor on or about , 2018, which is the business day following the date hereof (such settlement cycle being referred to as "T+ "). Under Rule 15c6-1 under the Exchange Act, trades in the secondary market generally are required to settle in two business days unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the Notes on any date prior to the second business day before delivery will be required, by virtue of the fact that the Notes initially will settle in T+ , to specify an alternative settlement cycle at the time of any such trade to prevent failed settlement. Purchasers of the Notes who wish to trade the Notes on the date of pricing or the next business days should consult their own advisors.

Transfer restrictions

Neither the Notes nor the Parent Guarantee have been nor will be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act) except to (a) qualified institutional buyers in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A and (b) persons in offshore transactions in reliance on Regulation S.

Each purchaser of Notes offered otherwise than in reliance on Regulation S (the "Restricted Notes") will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Rule 144A or Regulation S under the Securities Act are used herein as defined therein):

(1) The purchaser (A) (i) is a qualified institutional buyer, (ii) is aware that the sale to it is being made in reliance on Rule 144A and (iii) is acquiring such Notes for its own account or for the account of a qualified institutional buyer or (B) is not in the United States or a U.S. person and is purchasing such Notes in an offshore transaction pursuant to Regulation S.

(2) The purchaser understands that the Restricted Notes are being offered in a transaction not involving any public offering in the United States within the meaning of the Securities Act, that such Notes have not been and, except as described in this offering circular, will not be registered under the Securities Act and that (A) if in the future it decides to offer, resell, pledge or otherwise transfer any of the Notes, such Notes may be offered, resold, pledged or otherwise transferred only (i) in the United States to a person whom the seller reasonably believes is a qualified institutional buyer in a transaction meeting the requirements of Rule 144A, (ii) outside the United States in a transaction complying with the provisions of Rule 903 or Rule 904 under the Securities Act, (iii) pursuant to an exemption from registration under the Securities Act provided by Rule 144 (if available) or (iv) pursuant to an effective registration statement under the Securities Act, in each of cases (i) through (iv) in accordance with any applicable securities laws of any State of the United States, and that (B) the purchaser will, and each subsequent holder is required to, notify any subsequent purchaser of the Notes from it of the resale restrictions referred to in (A) above.

(3) The purchaser understands that the Restricted Notes will, until the expiration of the applicable holding period with respect to the Notes set forth in Rule 144 of the Securities Act, unless otherwise agreed by Fortescue and the holder thereof, bear a legend substantially to the following effect (the "Restricted Legend"):

THIS NOTE (OR ITS PREDECESSOR) WAS ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED, (THE "SECURITIES ACT"), AND THIS NOTE MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. EACH PURCHASER OF THIS NOTE IS HEREBY NOTIFIED THAT THE SELLER OF THIS NOTE MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A THEREUNDER.

THE HOLDER OF THIS NOTE AGREES FOR THE BENEFIT OF THE COMPANY AND THE TRUSTEE THAT (A) THIS NOTE MAY BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED, ONLY (I) IN THE UNITED STATES TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (II) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 UNDER THE SECURITIES ACT, (III) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY

> RULE 144 THEREUNDER (IF AVAILABLE) OR (IV) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH OF CASES (I) THROUGH (IV) IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES, AND (B) THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THIS NOTE FROM IT OF THE RESALE RESTRICTIONS REFERRED TO IN (A) ABOVE.

Each purchaser of Notes offered in reliance on Regulation S will be deemed to have represented and agreed that it is not a U.S. person and is purchasing such Notes in an offshore transaction (as such terms are defined in Regulation S) pursuant to Regulation S and understands that such Notes will, unless otherwise agreed by the Issuer and the holder thereof, bear a legend substantially to the following effect (the “Regulation S Legend”):

> THIS NOTE (OR ITS PREDECESSOR) WAS ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), AND MAY NOT BE TRANSFERRED IN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY U.S. PERSON EXCEPT PURSUANT TO AN AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND ALL APPLICABLE STATE SECURITIES LAWS. TERMS USED ABOVE HAVE THE MEANINGS GIVEN TO THEM IN REGULATION S UNDER THE SECURITIES ACT.

Restricted Notes may be exchanged for Notes not bearing the Restricted Notes Legend but bearing the Regulation S Legend upon certification by the transferor in the form set forth in the indenture that will govern the Notes that the transfer of any such Restricted Notes has been made in accordance with Rule 903 or Rule 904 under the Securities Act. We understand that under current market practices settlement of the transfer of any such Notes may be effected through the facilities of DTC, but that prior to the 40th day after the latest of the commencement of this offering and the last original issue date of the Notes, any such transfer may only occur through the facilities of Euroclear and/or Clearstream, Luxembourg.

Each purchaser of the Notes will be deemed to have represented and warranted that either (A) no portion of the assets used by such purchaser to acquire or hold the Notes constitutes assets of any Plan or (B) the purchase and holding of the Notes by such purchaser will not constitute a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or similar violation under any applicable Similar Laws.

Each purchaser of the Notes that is a Plan will be deemed to represent by its acquisition of the Notes that a Fiduciary independent of the Transaction Parties acting on the Plan’s behalf is responsible for the Plan’s decision to acquire the Notes and that such Fiduciary: (i) is either a U.S. bank, a U.S. insurance carrier, a U.S. registered investment adviser, a U.S. registered broker-dealer or an independent fiduciary with at least $50 million of assets under management or control, in each case under the requirements specified in the U.S. Code of Federal Regulations, 29 C.F.R. Section 2510.3-21(c)(1)(i), as amended from time to time; (ii) in the case of a Plan that is an IRA, is not the IRA owner, beneficiary of the IRA owner or relative of the IRA owner or beneficiary; (iii) is capable of evaluating investment risks independently, both in general and with regard to the prospective investment in the Notes; (iv) is a fiduciary under ERISA or the Code, or both, with respect to the decision to acquire the Notes; (v) has exercised independent judgment in evaluating whether to invest the assets of the Plan in the Notes; (vi) understands and has been fairly informed of the existence and the nature of the financial interests of the Transaction Parties in connection with the Plan’s acquisition of the Notes; (vii) understands that the Transaction Parties are not undertaking to provide impartial investment advice, or to give advice in a fiduciary capacity to the Plan, in connection with the Plan’s acquisition of the Notes; and (viii) confirms that no fee or other compensation will be paid directly to any of the Transaction Parties by the Plan, or any fiduciary, participant or beneficiary of the Plan, for the provision of investment advice (as opposed to other services) in connection with the Plan’s acquisition of the Notes.

Each purchaser acknowledges that if any of the acknowledgements, representations or warranties deemed to have been made by its purchase of the Notes are no longer accurate, it shall promptly notify us and the initial purchaser. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing representations, warranties and agreements on behalf of each such account. Each purchaser also acknowledges that any purported transfer of a Note in violation of any transfer restrictions stated herein is void *ab initio* and of no legal force or effect.

Legal matters

Certain legal matters in connection with the offering will be passed upon for us by Sullivan & Cromwell, Sydney, Australia, as to matters of U.S. federal and New York state law, and by Allen & Overy, Perth, Western Australia, as to matters of Australian law. The validity of the Notes will be passed upon for the initial purchaser by Simpson Thacher & Bartlett LLP, New York, New York, as to certain matters of U.S. federal and New York state law and by Gilbert + Tobin, Sydney, New South Wales, as to matters of Australian law.

Independent accountants

The audited consolidated financial statements of Fortescue and its subsidiaries as of and for the fiscal years ended June 30, 2017, 2016 and 2015 included elsewhere in this offering circular have been audited by PwC Australia, independent accountants, as stated in their report appearing elsewhere in this offering circular.

With respect to the financial information of the Group as at, and for each of the half years ended, December 31, 2017 and 2016, PwC Australia, the Group's independent auditors, have reported that they have applied limited procedures in accordance with professional standards for a review of such information. As stated in PwC Australia's report in respect of the Group's historical consolidated financial data as of, and for the six months ended December 31, 2017 and 2016, which is included elsewhere in this offering circular, PwC Australia did not audit and they do not express an audit opinion on such financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied.

For a discussion of limitations on liability of PwC Australia, please see "Enforcement of civil liabilities" included elsewhere in this offering circular.

Appendix A—Glossary

155Mtpa expansion	A US$9.2 billion expansion of port, rail and mining operations to extend the Company's production capacity from 55Mtpa to 155Mtpa, which was announced in November 2010 and completed in March 2014.
AAS	Australian Accounting Standards.
Adjusted EBITDA	Underlying EBITDA before the impact of any gains on disposal of assets and interest in joint ventures and net foreign exchange gains or losses.
Adjusted EBITDA Margin	Adjusted EBITDA divided by operating sales revenue.
AP5	Fifth ship loading berth at Anderson Point in Port Hedland.
ASIC	The Australian Securities and Investments Commission.
ASX	ASX Limited (ACN 008 624 691), the operator of the Australian Securities Exchange.
ASX Listing Rules	The Listing Rules of the ASX.
Baosteel	Baosteel Group Corporation.
BCI 5 index	Baltic Capesize Index, Route 5. The BCI 5 index refers to the market price of moving raw materials by sea by capesize vessels between Western Australia and Qingdao, China.
beneficiation	Beneficiation is a process whereby ore is pulverized into fine particles and the higher grade material is separated, often magnetically, from the gangue (waste).
BID	Bedded Iron Deposit.
BIF	Banded Iron Formation.
Brockman Fines	A standalone Brockman type product containing approximately 60% Fe upon shipment and produced by Fortescue from the Firetail mine. Brockman Fines are higher grade coarse fines material and have a relatively low silica, aluminum oxide, positive sintering characteristics but slightly higher phosphorus content compared with other ores.
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	Chichester Metals Pty Ltd (ACN 109 264 262) (formerly known as FMG Chichester Pty Ltd).
Chichester Hub	Two of the Group's operating iron ore mines, Cloudbreak and Christmas Creek, located in the Pilbara, approximately 250 kilometers south east of Fortescue's Herb Elliott Port at Port Hedland.
Chichester Special Fines	A product containing approximately 58% Fe upon shipment and produced by Fortescue from the Chichester Hub. Chichester Special Fines are lower impurity coarse fines material and have a relatively low silica, aluminum oxide and phosphorus content and positive sintering characteristics but slightly higher fuel rate and lower sintering yields compared with other ores.

CID . . . . Channel Iron Deposit.

Competition and Consumer Act 2010 . . . . *Competition and Consumer Act 2010* (Cth).

Corporations Act . . . . *Corporations Act 2001* (Cth).

DFAT . . . . Australian Department of Foreign Affairs and Trade.

DID . . . . Detrital Iron Deposit.

dmtu . . . . Dry metric tonne unit.

DTR . . . . Davis Tube Recovery, a quantitative analysis used to measure magnetic content in iron ore samples.

DWT . . . . Dead weight tonnes.

Environmental Protection Act . . . . *Environmental Protection Act 1986* (WA).

ERA . . . . Economic Regulation Authority.

exploration license . . . . . . An area over which the holder has the exclusive right to explore for minerals beneath the surface. An exploration license must be converted to Mining Lease for extractive mining to occur. See "Description of Australian legal matters."

Fe . . . . The chemical symbol for iron.

FMG Pilbara . . . . FMG Pilbara Pty Ltd (ACN 106 943 828).

FMG Solomon . . . . FMG Solomon Pty Ltd (ACN 128 959 179).

FOB . . . . A delivery term that indicates that the shipment is "free on board," and the price payable for the iron ore at its port of origin, excluding shipping arrangements.

Formosa . . . . Formosa Plastics Group.

Fortescue . . . . Fortescue Metals Group Limited (ACN 002 594 872).

Fortescue Blend Fines . . . . Fortescue's main Hematite fines iron ore product containing approximately 58.3% Fe and 2.4% Al_2O_3 upon shipment and produced by Fortescue by blending Chichester Special Fines with higher grade Brockman Fines. Fortescue Blend Fines are coarse fines material and combine the benefits of low impurity Chichester Special Fines and higher iron content of Firetail Brockman Fines. They have a relatively low silica, aluminum oxide and phosphorus content and positive sintering characteristics.

GL . . . . Gigaliters (one billion liters).

Greater Chichester . . . . Fortescue's development properties in the Chichester Range, including the Investigator, White Knight and Mt. Lewin deposits.

Greater Solomon . . . . Fortescue's development properties in the Solomon region, including the Sheila Valley, Serenity, Mt. MacLeod, Queens Extension, Cerberus, Stingray and Raven deposits.

Group . . . . Fortescue and its consolidated subsidiaries.

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.

high-grade . . . . A product containing greater than 60.2% Fe.

IFRS . . . . International Financial Reporting Standards.

Indicated Mineral Resource . . . . As defined in the JORC Code, that part of a Mineral Resource for which quantity, grade, densities, shape and physical characteristics are estimated with sufficient confidence to allow application of Modifying Factors in sufficient detail to support mine planning and evaluation of the economic viability of the deposit. Geological evidence is derived from adequately detailed and reliable exploration, sampling and testing gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes, and is sufficient to assume geological and grade continuity between points of observation where data and samples are gathered. An Indicated Mineral Resource has a lower level of confidence than that applying to a Measured Mineral Resource and may only be converted to a Probable Ore Reserve.

Inferred Mineral Resource . . . . As defined in the JORC Code, that part of a Mineral Resource for which quantity and grade are estimated on the basis of limited geological evidence and sampling geological evidence is sufficient to imply but not verify geological and grade (or quality) continuity. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. An Inferred Mineral Resource has a lower level of confidence than that applying to an Indicated Mineral Resource and must not be converted to an Ore Reserve. It is reasonably expected that the majority of Inferred Mineral Resources could be upgraded to Indicated Mineral Resources with continued exploration.

Iron Bridge Joint Venture . . . . A joint venture established in October 2013 by Fortescue and Formosa to develop FMG Iron Bridge Ltd's Magnetite assets in North Star and Glacier Valley in northern Pilbara. The Iron Bridge Joint Venture comprises the Iron Bridge joint venture and the Glacier Valley joint venture.

Issuer . . . . FMG Resources (August 2006) Pty Ltd (ACN 118 887 835) (formerly known as FMG Finance Pty Ltd).

JORC 2004 Code . . . . The Australalasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves 2004 Edition prepared by the Joint Ore Reserves Committee of the Australian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Mineral Council of Australia.

JORC 2012 Code . . . . The Australalasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves 2012 Edition prepared by the Joint Ore Reserves Committee of the Australian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Mineral Council of Australia.

JORC Code . . . . The JORC 2004 Code and/or the JORC 2012 Code, as applicable.

Kings Fines . . . . A standalone low-alumina product containing approximately 57.3% Fe and 1.8% Al_2O_3 produced from the Kings mine. Kings Fines are coarse fines material and have a relatively low silica, aluminum oxide and phosphorus content and positive sintering characteristics.

Leighton . . . . Leighton Contractors Pty Ltd.

Low-grade . . . . A product typically containing less than 60% Fe but at least 25% Fe content.

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 pelletized for direct use as a high-grade raw material for steel production.

Measured Mineral Resource . . . . As defined in the JORC Code, that part of a Mineral Resource for which quantity, grade, densities, shape and physical characteristics are estimated with confidence sufficient to allow the application of Modifying Factors to support detailed mine planning and final evaluation of the economic viability of the deposit. Geological evidence is derived from detailed and reliable exploration, sampling and testing gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes, and is sufficient to confirm geological and grade continuity between points of observation where data and samples are gathered. A Measured Mineral Resource has a higher level of confidence than that applying to either an Indicated Mineral Resource or an Inferred Mineral Resource. It may be converted to a Proved Ore Reserve or under certain circumstances to a Probable Ore Reserve.

Metalytics . . . . Metalytics Pty Limited.

Mineral Resource . . . . As defined in the JORC Code, a concentration or occurrence of solid material of economic interest in or on the Earth's crust in such form, grade (or quality), and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, grade (or quality), continuity and other geological characteristics of a Mineral Resource are known, estimated or interpreted from specific geological evidence and knowledge, including sampling. Mineral Resources are sub-divided, in order of increasing geological confidence, into Inferred, Indicated and Measured Mineral Resources.

Mining Act . . . . *Mining Act 1978* (WA).

Mining Lease . . . . Authorization granted by state mining authorities entitling the holder to mine for and dispose of any minerals on the land in respect of which the Mining Lease is granted. See "Description of Australian legal matters."

Minister . . . . In relation to the applicable legislation, the Minister responsible for such legislation.

Modifying Factors . . . . As defined in the JORC Code, considerations used to convert Mineral Resources to Ore Reserves. These factors include, but are not restricted to, mining, processing, metallurgical, infrastructure, economic, marketing, legal, environmental, social and governmental factors.

Mt . . . . Million tonnes of iron ore.

Mtpa . . . . Million tonnes of iron ore per annum.

Native Title Act . . . . *Native Title Act 1993* (Cth).

Nullagine Joint Venture . . . A joint venture in which Fortescue's wholly-owned subsidiary, FMG Pilbara, initially held a 25% participating interest, with the remaining 75% participating interest held by BC Iron Limited. FMG Pilbara acquired the remaining 75% interest it did not previously hold on March 11, 2017.

OPF . . . . Ore Processing Facility.

Ore Reserves . . . . As defined in the JORC Code, the economically mineable part of a Measured and/or Indicated Mineral Resource. Ore Reserve estimates include diluting materials and allowances for losses, which may occur when the material is mined or extracted and is defined by studies at pre-feasibility or feasibility level as appropriate that include application of Modifying Factors. These studies demonstrate that, at the time of reporting, extraction could reasonably be justified. The reference point at which Ore Reserves are defined, usually the point where the ore is delivered to the processing plant, must be stated. It is important that, in all situations where the reference point is different, such as for a saleable product, a clarifying statement is included to ensure that the reader is fully informed as to what is being reported. Ore Reserves are sub-divided in order of increasing confidence into Probable Ore Reserves and Proved Ore Reserves.

Pilbara . . . . The Pilbara region of Western Australia.

Probable Ore Reserve . . . . As defined in the JORC Code, the economically mineable part of an Indicated Mineral Resources, and in some circumstances, a Measured Mineral Resource. The confidence in the Modifying Factors applying to a Probable Ore Reserve is lower than that applying to a Proved Ore Reserve.

Proved Ore Reserve . . . . . . As defined in the JORC Code, the economically mineable part of a Measured Mineral Resource. A Proved Ore Reserve implies a high degree of confidence in the Modifying Factors.

Railways Code . . . . *Railways (Access) Code 2000* (WA).

Rocket Fines . . . . A product containing approximately 59% Fe and 1.9% Al_2O_3 upon shipment and produced by Fortescue from the Chichester Hub. Rocket Fines are coarse fines material and have a relatively low silica, aluminum oxide and phosphorus content and positive sintering characteristics.

ROM . . . . Run-of-mine, or ore that is produced from Fortescue's mine and refined through further processing.

Solomon Hub . . . . Two of the Group’s operating iron ore mines, Firetail and Kings.

Strip ratio . . . . Company’s total waste to ore ratio.

Super Special Fines . . . . . . A product containing approximately 56.4% Fe upon shipment and produced by Fortescue from the Chichester Hub with acceptable silica, aluminum oxide and phosphorus content and positive sintering characteristics.

TPI . . . . The Pilbara Infrastructure Pty Ltd (ACN 103 096 340).

Underlying EBITDA . . . . . . Earnings before interest, tax, depreciation and amortization, exploration, development and other expenses.

VLOC . . . . Very large ore carrier.

wmt . . . . Wet metric tonnes.

FINANCIAL STATEMENTS

The following excerpts have been extracted from Fortescue's annual financial reports as filed with the ASX. Pagination within these reports may not correspond to the "F-page" designation in this offering circular.

Auditor’s independence declaration

pwc

As lead auditor for the review of Fortescue Metals Group Limited for the half-year ended 31 December 2017, 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 review; and

(b) no contraventions of any applicable code of professional conduct in relation to the review.

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

Justin Carroll
Partner
PricewaterhouseCoopers

Perth
21 February 2018

Directors’ Report

Financial Statements

Directors’ Declaration

Independent Auditor’s Review Report

Auditor’s Independence Declaration

Corporate Directory

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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

Consolidated income statement

For the half year ended 31 December 2017

	Note	31 December 2017 US$m	31 December 2016 US$m
Operating sales revenue	3	3,679	4,492
Cost of sales	3	(2,445)	(2,482)
Gross profit		**1,234**	**2,010**
Other income	3	1	49
Other expenses	3	(59)	(79)
Profit before income tax and net finance expenses		**1,176**	**1,980**
Finance income	3	12	8
Finance expenses	3	(214)	(256)
Profit before income tax		**974**	**1,732**
Income tax expense		(293)	(510)
Profit after income tax		**681**	**1,222**
Profit is attributable to:			
Equity holders of the Company		681	1,222
Profit after income tax		**681**	**1,222**

Consolidated statement of comprehensive income

For the half year ended 31 December 2017

	31 December 2017 US$m	31 December 2016 US$m
Profit after income tax	**681**	**1,222**
Other comprehensive income:		
Exchange differences on translation of foreign operations	-	(2)
Total comprehensive income for the period, net of tax	**681**	**1,220**
Total comprehensive income for the period attributable to:		
Equity holders of the Company	681	1,220
Total comprehensive income for the period, net of tax	**681**	**1,220**
	Cents	**Cents**
Earnings per share for profit attributable to the equity holders of the Company:		
Basic earnings per share	21.9	39.3
Diluted earnings per share	21.8	39.1

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 31 December 2017

	Note	31 December 2017 US$m	30 June 2017 US$m
ASSETS			
Current assets			
Cash and cash equivalents		892	1,838
Trade and other receivables		363	141
Inventories		551	588
Other current assets		52	38
Total current assets		**1,858**	**2,605**
Non-current assets			
Trade and other receivables		3	3
Property, plant and equipment		16,281	16,493
Intangible assets		5	7
Other non-current assets		6	7
Total non-current assets		**16,295**	**16,510**
Total assets		**18,153**	**19,115**
LIABILITIES			
Current liabilities			
Trade and other payables		593	708
Deferred income	5	55	461
Borrowings and finance lease liabilities	4	125	121
Provisions		207	227
Current tax payable		145	685
Total current liabilities		**1,125**	**2,202**
Non-current liabilities			
Trade and other payables		50	50
Deferred income	5	794	447
Borrowings and finance lease liabilities	4	4,056	4,350
Provisions		504	509
Deferred joint venture contributions		270	266
Deferred tax liabilities		1,555	1,557
Total non-current liabilities		**7,229**	**7,179**
Total liabilities		**8,354**	**9,381**
Net assets		**9,799**	**9,734**
EQUITY			
Contributed equity	6	1,287	1,289
Reserves		39	39
Retained earnings		8,459	8,392
Equity attributable to equity holders of the Company		9,785	9,720
Non-controlling interest		14	14
Total equity		**9,799**	**9,734**

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

Consolidated statement of cash flows

For the half year ended 31 December 2017

	31 December 2017 US$m	31 December 2016 US$m
Cash flows from operating activities		
Cash receipts from customers	3,289	4,247
Payments to suppliers and employees	(1,898)	(1,915)
Cash generated from operations	1,391	2,332
Interest received	12	8
Interest paid	(181)	(218)
Income tax paid	(811)	(265)
Net cash inflow from operating activities	**411**	**1,857**
Cash flows from investing activities		
Payments for property, plant and equipment - Fortescue	(413)	(312)
Payments for property, plant and equipment - joint operations	(7)	(8)
Contributions from joint venture partners	4	6
Proceeds from disposal of plant and equipment	12	1
Net cash outflow from investing activities	**(404)**	**(313)**
Cash flows from financing activities		
Proceeds from finance leases	57	59
Repayment of borrowings and finance leases	(352)	(1,706)
Finance costs paid	(9)	(7)
Dividends paid	(610)	(284)
Purchase of shares by employee share trust	(24)	(27)
Net cash outflow from financing activities	**(938)**	**(1,965)**
Net decrease in cash and cash equivalents	(931)	(421)
Cash and cash equivalents at the beginning of the period	1,838	1,583
Effects of exchange rate changes on cash and cash equivalents	(15)	(2)
Cash and cash equivalents at the end of the period	**892**	**1,160**

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

Consolidated statement of changes in equity

For the half year ended 31 December 2017

	Attributable to equity holders of the Company					
	Contributed equity	Reserves	Retained earnings	Total	Non-controlling interest	Total equity
	US$m	US$m	US$m	US$m	US$m	US$m
Balance at 1 July 2016	**1,301**	**33**	**7,058**	**8,392**	**14**	**8,406**
Profit for the period	-	-	1,222	1,222	-	1,222
Other comprehensive income for the period	-	(2)	-	(2)	-	(2)
Total comprehensive income for the period, net of tax	**-**	**(2)**	**1,222**	**1,220**	**-**	**1,220**
Transactions with owners						
Purchase of shares under employee share plans	(27)	-	-	(27)	-	(27)
Employee share awards exercised net of employee contributions	9	(9)	-	-	-	-
Equity settled share-based payment transactions	-	18	-	18	-	18
Dividends paid	-	-	(285)	(285)	-	(285)
Other	-	(3)	4	1	-	1
Balance at 31 December 2016	**1,283**	**37**	**7,999**	**9,319**	**14**	**9,333**
Balance at 1 July 2017	**1,289**	**39**	**8,392**	**9,720**	**14**	**9,734**
Profit for the period	-	-	681	681	-	681
Total comprehensive income for the period, net of tax	**-**	**-**	**681**	**681**	**-**	**681**
Transactions with owners						
Purchase of shares under employee share plans	(24)	-	-	(24)	-	(24)
Employee share awards exercised net of employee contributions	22	(12)	-	10	-	10
Equity settled share-based payment transactions	-	12	-	12	-	12
Dividends paid	-	-	(614)	(614)	-	(614)
Balance at 31 December 2017	**1,287**	**39**	**8,459**	**9,785**	**14**	**9,799**

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.

(a) Statement of compliance

These general purpose consolidated interim financial statements have been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the annual financial report for the year ended 30 June 2017, and any public announcements made by the Company during the half year ended 31 December 2017 in accordance with the continuous disclosure requirements of the *Corporations Act 2001* and the *ASX Listing Rules*.

The financial statements were approved by the Board of Directors on 21 February 2018.

All amounts in the financial statements have been rounded to the nearest million dollars, except as indicated, in accordance with the ASIC Corporations Instrument 2016/191.

(b) Significant accounting policies

The accounting policies applied by the Group in the financial statements are consistent with those applied by the Group in its 30 June 2017 consolidated financial statements.

Certain new accounting standards and interpretations have been published that are not mandatory for the 31 December 2017 interim reporting period and have not been applied in these financial statements. New, amended and revised standards that are mandatory for the interim period ended 31 December 2017 have been applied in these financial statements and did not have a significant impact on the reported results.

Where applicable, certain comparatives have been adjusted to conform with current period presentation.

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 to measure of its financial performance. The reconciliation of Underlying EBITDA to the net profit after tax is presented below.

	Note	31 December 2017 US$m	31 December 2016 US$m
Underlying EBITDA		**1,828**	**2,645**
Finance income	3	12	8
Finance expenses	3	(214)	(256)
Depreciation and amortisation	3	(630)	(622)
Exploration, development and other	3	(22)	(43)
Profit before income tax		**974**	**1,732**
Income tax expense[1]		(293)	(510)
Profit after income tax		**681**	**1,222**

[1] 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.

	31 December 2017 US$m	31 December 2016 US$m
Revenue from external customers		
China	3,406	4,311
Other	273	181
	3,679	**4,492**

(b) Major customer information

Revenue from two customers amounted to US$1,566 million and US$395 million for the half year ended 31 December 2017 respectively (31 December 2016: US$1,821 million and US$266 million) arising from the sale of iron ore and the related shipment of product.

3 Revenue and expenses

	31 December 2017 US$m	31 December 2016 US$m
Sale of iron ore	3,623	4,436
Other revenue	56	56
Operating sales revenue	**3,679**	**4,492**
Mining and processing costs	(844)	(913)
Rail costs	(94)	(96)
Port costs	(86)	(91)
Operating leases	-	(23)
Shipping costs	(567)	(448)
Government royalty	(229)	(295)
Depreciation and amortisation	(624)	(614)
Other operating expenses	(1)	(2)
Cost of sales	**(2,445)**	**(2,482)**
Net foreign exchange gain	1	49
Other income	**1**	**49**
Administration expenses	(31)	(28)
Exploration, development and other	(22)	(43)
Depreciation and amortisation	(6)	(8)
Other expenses	**(59)**	**(79)**
Interest income	12	8
Finance income	**12**	**8**
Interest expense on borrowings and finance lease liabilities	(183)	(228)
Loss on early debt redemption	(18)	(22)
Other	(13)	(6)
Finance expenses	**(214)**	**(256)**

4 Borrowings and finance lease liabilities

	31 December 2017 US$m	30 June 2017 US$m
Senior secured notes	70	70
Senior unsecured notes	9	9
Finance lease liabilities	46	42
Total current borrowing and finance lease liabilities	**125**	**121**
Senior secured notes	2,099	2,093
Senior unsecured notes	1,483	1,481
Finance lease liabilities	474	776
Total non-current borrowing and finance lease liabilities	**4,056**	**4,350**
Total borrowings and finance lease liabilities	**4,181**	**4,471**

During the half year ended 31 December 2017, Fortescue repurchased the Solomon Power Station for a total of US$324 million.

5 Deferred income

	31 December 2017 US$m	30 June 2017 US$m
Port access prepayment	55	111
Iron ore prepayments	-	350
Total current deferred income	**55**	**461**
Iron ore prepayments	794	447
Total non-current deferred income	**794**	**447**

For the half year ended 31 December 2017

6 Contributed equity

(a) Share capital

	Issued shares Number	Treasury shares Number	Contributed equity Number	Issued shares US$m	Treasury shares US$m	Contributed equity US$m
At 1 July 2016	3,113,798,151	(362,674)	3,113,435,477	1,296	5	1,301
Purchase of shares under employee share plans	-	(7,214,860)	(7,214,860)	-	(27)	(27)
Employee share awards exercised net of employee contributions	-	5,118,613	5,118,613	-	15	15
At 30 June 2017	**3,113,798,151**	**(2,458,921)**	**3,111,339,230**	**1,296**	**(7)**	**1,289**
Purchase of shares under employee share plans	-	(5,115,446)	(5,115,446)	-	(24)	(24)
Employee share awards exercised net of employee contributions	-	6,346,506	6,346,506	-	22	22
At 31 December 2017	**3,113,798,151**	**(1,227,861)**	**3,112,570,290**	**1,296**	**(9)**	**1,287**

(b) Issued shares

Issued shares are fully paid and entitle the holders to one vote per share and the rights to participate in dividends. Ordinary shares participate in the proceeds on winding up of the Company in proportion to the number of shares held.

(c) Treasury shares

Movements in treasury shares represent acquisition of the Company's shares on market and allocation of shares to the Company's employees from the vesting of awards and exercise of rights under the employee share-based payment plans.

7 Dividends

(a) Dividends paid during the half year

	31 December 2017 US$m	31 December 2016 US$m
Final fully franked dividend for the year ended 30 June 2017: A$0.25 per share (30 June 2016: A$0.12 per share)	614	285
	614	**285**

(b) Dividends declared and not recognised as a liability

	31 December 2017 US$m	31 December 2016 US$m
Interim fully franked dividend for the half-year ended 31 December 2017: A$0.11 per share (31 December 2016: A$0.20 per share)	271	477
	271	**477**

8 Commitments and contingencies

(a) Capital commitments

At 31 December 2017, Fortescue had contractual commitments to capital expenditure of US$368 million (30 June 2017: US$343 million), including commitments associated with the construction of ore carriers of US$133 million (30 June 2017: US$196 million).

(b) Operating lease commitments

At 31 December 2017, Fortescue's commitments under non-cancellable operating leases were US$59 million (30 June 2017: US$88 million).

(c) Contingent assets and liabilities

Fortescue had no material contingent liabilities or contingent assets at 31 December 2017 or at the date of this report. Fortescue occasionally receives claims arising from its activities in the normal course of business. It is expected that any liabilities arising from such claims would not have a material effect on the Group's operating results or financial position.

9 Subsequent events

On 20 February 2018, the Company completed a US$1.4 billion Syndicated Facility Agreement including participation by key Chinese, Australian and European financial institutions. Proceeds will be used to redeem a portion of the Senior Secured Notes due to mature in November 2022.

On 21 February 2018, the Directors declared an interim dividend of 11 Australian cents per ordinary share payable on 5 April 2018.

Directors' declaration

In the Directors' opinion:

(a) the interim financial statements and notes set out on pages 14 to 23 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 as at 31 December 2017 and of its performance for the half 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.

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

Andrew Forrest AO
Chairman

Dated in Perth on this 21st day of February 2018.

Independent auditor's review report

Report on the half-year financial report

We have reviewed the accompanying half-year financial report of Fortescue Metals Group Limited (the Company), which comprises the consolidated statement of financial position as at 31 December 2017, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for Fortescue Metals Group Limited Group (the consolidated entity). The consolidated entity comprises the Company and the entities it controlled from time to time during the half-year.

Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting and the Corporations Regulations 2001*. As the auditor of Fortescue Metals Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

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

Independent auditor's review report

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Fortescue Metals Group Limited is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the half-year ended on that date;
2. complying with Accounting Standard AASB 134 *Interim Financial Reporting and the Corporations Regulations 2001*.

PricewaterhouseCoopers

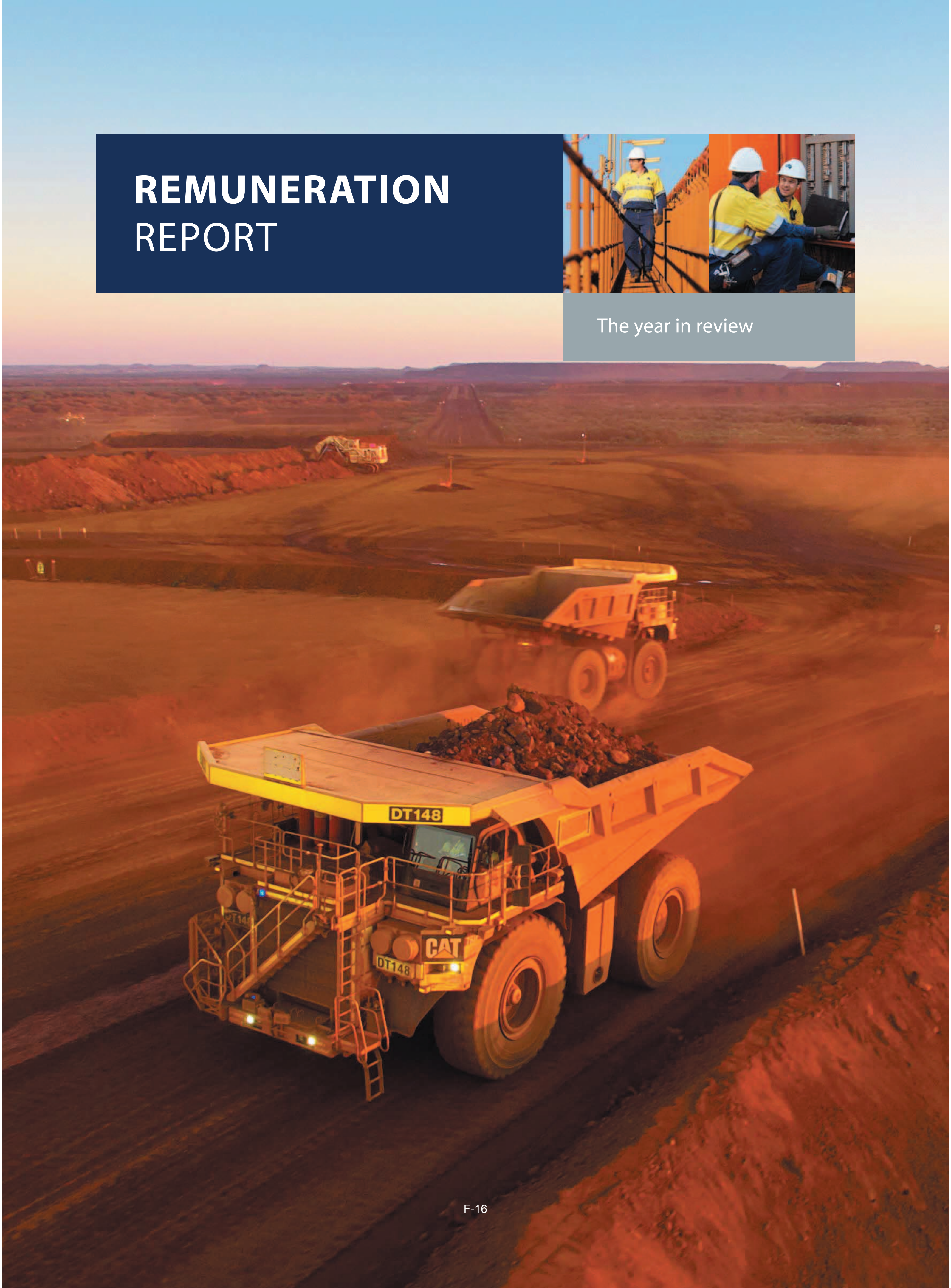
PricewaterhouseCoopers

Justin Carroll
Partner
PricewaterhouseCoopers

Perth
21 February 2018

REMUNERATION REPORT

The year in review



Remuneration and Nomination Committee Chair

Sharon Warburton

On behalf of the Directors of Fortescue Metals Group Limited I am pleased to present the Remuneration and Nomination Report for the year ended 30 June 2017.

Improved Safety
↑ **33%**
2.9 Total Recordable Injury Frequency Rate

Consistent Production
↑ **1%**
170.4 mt

Reduced Cost
↓ **17%**
US$12.82 /wmt

Culture 92% participation in Safety Excellence and Culture Survey

During FY17, the Company has achieved outstanding results. Shareholders continued to benefit from the excellent and world leading performance being delivered by our Executives and all of their teams in safety, production and operating cost improvement.

Now recognised as the lowest cost provider of seaborne iron ore to China, the outcomes delivered by Fortescue across all key measures underpin the US$2,093 million net profit achieved, an 112 per cent increase over FY16.

Culture driving remuneration strategy

Fortescue's remuneration strategy is underpinned by its strong performance culture of setting stretch targets, striving to achieve them and rewarding success. Short and long-term incentive targets are set at challenging levels designed to drive innovation, continual value creation and long-term business sustainability and growth. The Board exercises its discretion to recognise outstanding levels of achievement, including where Fortescue's challenging stretch targets may have been missed by a very small margin, yet are market leading against global peers.

The Company's values-driven culture continues to deliver high levels of engagement demonstrated by the annual safety and culture survey with substantial improvement across all key survey metrics. Diversity is recognised as a fundamental driver of business success.

The Fortescue culture is unique, powerful and drives success.

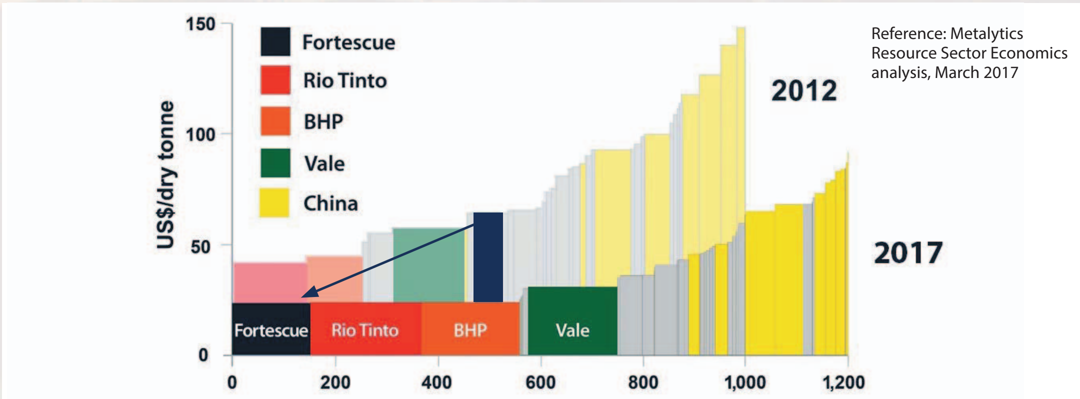
FY17 Performance

The share price increased 49 per cent from the FY16 closing price of A$3.50 to A$5.22 at the end of FY17.

During FY17, Fortescue achieved exceptional results against all of its stretch targets, specifically:

- **Outstanding financial performance** including:
  - **92 per cent** increase in Return on Equity
  - **112 per cent** increase in Net Profit from US$985m to US$2,093m
  - **48 per cent** increase in EBITDA from US$3,195m to US$4,744m
  - **20 per cent** increase in revenue from iron ore operations from US$6,947m to US$8,335m
  - **Consistent production** from the Company's world class assets, with 170.4mt of iron ore shipped
  - **Substantial cost reductions** including a **17 per cent** reduction in C1 costs and a June 2017 monthly cost of production of **less than US$10/wmt** with Fortescue now the lowest cost provider of seaborne iron ore to China.
- **Significant improvement in safety performance** across all sites, a 33 per cent reduction in TRIFR.
- **Mine life** maintained at target production rate and quality.

Remuneration and Nomination Committee Chair



FY17 Remuneration Outcomes

The Board is committed to a Remuneration Framework that drives superior performance, attracts and appropriately rewards and retains high performing Executives, delivers shareholder value and encourages decision-making focused on the longer term.

For FY17:

- Fixed Remuneration levels were maintained and there was no annual salary increase in FY17
- FY17 Short Term Incentive stretch targets were all rewarded with Board discretion used only on the cost target. While the team's cost reductions were world class, they fell just short of the defined aggressive C1 stretch target set 12 months ago
- The Board has made the decision to award the C1 cost component for the Executive and Senior Staff Incentive Plan (ESSIP) on the basis of a 17 per cent annual reduction in C1 costs. This is an outstanding achievement. The Board also acknowledged the milestone recognition of Fortescue becoming the lowest cost provider of seaborne iron ore to China in November 2016, a position that has been maintained for the balance of FY17. A cost of production for the month of June 2017 of <US$10/wmt was also rewarded
- FY15 Long Term Incentive reached the end of its performance period. As the minimum Absolute Return on Equity (AROE) performance threshold of 20 per cent was not met, none of the FY15 Long Term Incentive Plan (LTIP) will vest.

Notwithstanding strong Company performance over the three year performance period, the ability to achieve the required performance target of the FY15 LTIP has been heavily influenced by the iron ore price. This anomaly highlights the inadequacy of a single performance measure for the Company where the non-controllable iron ore price has a material impact on shareholder value. The FY16 and FY17 LTIP performance periods remain open.

This is the last vesting year of the single measure LTIP. From next year long term performance will be assessed using three measures to ensure alignment of remuneration strategies throughout all parts of the iron ore cyclical market.

Our report is designed to provide you with clear information on our strategy to ensure that remuneration paid to Executives and Directors is aligned to deliver the best outcomes to you, our shareholder.

Fortescue continues to work towards its vision to be the world's safest, lowest cost, most profitable iron ore producer.

Sharon Warburton
Remuneration and Nomination Committee Chair

Contents

Remuneration Report

Who this report covers

This report outlines the remuneration arrangements for Fortescue's key management personnel (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'.

Within this Remuneration Report reference to 'executive(s)' includes Executive Directors and other key management personnel. There have been no changes to Key Management Personnel after the reporting date.

The information provided in this Remuneration Report has been prepared in accordance with requirements under the *Corporations Act 2001* and Accounting Standards.

Further details in regard to Company Directors can be found in the Overview Section of the Annual Report.

Whilst the functional and reporting currency of Fortescue is US dollars, it is the Directors' view that presentation of remuneration 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 unless otherwise indicated the following sections have been audited in accordance with section 308 (3c) of the *Corporations Act 2001*.

The KMP of the Group for FY17

Non-Executive Directors

Current

A Forrest	Chairman
M Barnaba	Lead Independent Director
C Huiquan	Non-Executive Director
S Warburton	Non-Executive Director *(Appointed as Vice Chair 19 July 2017)*
J Baderschneider	Non-Executive Director
J Morris	Non-Executive Director *(Appointed 16 November 2016)*
P Bingham-Hall	Non-Executive Director *(Appointed 16 November 2016)*

Former

O Hegarty	Vice Chair *(Retired 5 December 2016)*
E Gaines	Non-Executive Director (*Commenced as CFO and Executive Director on 6 February 2017)*
G Raby	Non-Executive Director *(Retired 5 December 2016)*

Executive Directors

Current

N Power	Chief Executive Officer
E Gaines	Chief Financial Officer (*Commenced as CFO and Executive Director on 6 February 2017)*

Former

S Pearce	Chief Financial Officer *(Ceased employment 31 December 2016)*

Other key management personnel

Current

G Lilleyman	Director Operations (*Commenced employment 1 January 2017)*

Former

N Cernotta	Director Operations *(Ceased employment 31 January 2017)*

1 FY17 overview and year ahead

Fortescue's remuneration strategy seeks to build a performance oriented culture by attracting and retaining the best people to align with driving increased shareholder value.

Fortescue's Board and Remuneration and Nomination Committee (RNC) are committed to the 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 FY17 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 FY17.

Total Fixed Remuneration (TFR)

Further details are provided on page 128

Delivery

Cash, superannuation and optional salary sacrifice benefits.

Performance measures

An individual's TFR is a fixed/guaranteed element of remuneration.

Outcomes

- In consideration of fixed remuneration levels and business climate, there was no annual salary increase across the Company in FY17
- TFR for the CEO and executives is benchmarked against companies in the ASX 100 Resources Index
- CEO and CFO TFR is also benchmarked against the ASX 30, ASX 50 Indices as well as global listed resources companies.

Short Term Incentive Plan - Executive and Senior Staff Incentive Plan (ESSIP)

Further details are provided on page 112

Delivery

A minimum of 50 per cent of the incentive value (up to 100 per cent on election) is granted in share rights with the balance in cash.

Share rights are granted based on the share price at the beginning of the performance period with value realised at the time of award at the end of the performance period.

Movement in share price over the performance period directly affects the value received ensuring full alignment with returns to shareholders over the performance period.

In FY17, the Board introduced an additional stretch objective designed to drive outperformance against the FY17 budgeted cost of production stretch target (FY17 ESSIP Additional Stretch Objective).

100 per cent of the awards in respect of the FY17 ESSIP Additional Stretch Objective are payable in cash.

The FY17 ESSIP Additional Stretch Objective is for the FY17 year only. It is not applicable to future years.

1 FY17 overview and year ahead (continued)

1.1 FY17 Remuneration outcomes - linking performance and pay (continued)

Short Term Incentive Plan - Executive and Senior Staff Incentive Plan (ESSIP) (continued)

Further details are provided on page 112

Performance measures

A balanced scorecard of performance measures including financial and non-financial measures, all of which are fundamental to value creation for a resources company. Financial measures represent the key drivers of financial performance.

Targets are set at stretch levels of performance with each target either met (resulting in 100 per cent of maximum opportunity) or not met (resulting in no payment).

The Board may exercise its discretion to vary the level of award (positive or negative) when considering overall shareholder value generated over the performance period. The Board will consider overall company performance including the degree of stretch in the measures, operating environment, level of improvement on the prior year and performance versus global competitors.

CEO Performance

- Measured on Company Annual plus Growth Targets

Other KMP Performance

- As per the CEO plus an additional four to five Personal KPIs aligned to business plan and set at stretch levels of performance

Company Financial Targets

- AROE
- Production
- Cost

Company Growth Targets

- Safety
- Mine Life
- Culture and engagement

Additional Stretch Objective

- Outperformance of June 2017 cost of production stretch target

Outcomes

During FY17, the Company has achieved outstanding results against all stretch targets (including outperformance of the Cost of Production stretch target in respect of the FY17 ESSIP Additional Stretch Objective). The specific C1 cost stretch target of US$12.16 per tonne was a 21 per cent reduction on the FY16 outcome of US$15.43.

The aggressive C1 stretch target was almost achieved with C1 costs reduced by 17 per cent.

On the basis of overall performance against all other FY17 stretch targets, the Board has exercised its discretion to award the C1 cost component for the ESSIP based on the 17 per cent reduction in C1 costs achieved and becoming the lowest cost provider of seaborne iron ore to China in FY17.

The June 2017 cost of production was US$9.20/wmt against a stretch target of <US$10/wmt.The outcome represents an average payment of 96 per cent of maximum opportunity compared with an average payment of 104 per cent of maximum opportunity in FY16 Refer to section 5 for further detail.

Long Term Incentive Plan (LTIP)

Further details are provided on page 118

Delivery

- Share rights are granted based on the share price at the beginning of the performance period with value realised at the time of award at the end of the performance period
- Movement in share price over the performance period directly affects the value received ensuring strong correlation with returns to shareholders over the course of the same period.

Performance measures

FY15 LTIP for the period 1 July 2014 to 30 June 2017:

- Measured solely against single financial AROE Targets.

FY16 and FY17 LTIP measured against:

- AROE (33 per cent)
- Relative TSR (33 per cent)
- Strategic Measures (34 per cent).

Outcomes

FY15 LTIP

Threshold AROE performance of 20 per cent was not met and no share rights vested under this plan. Notwithstanding strong Company performance over the three year performance period, the ability to achieve the required performance target of the FY15 LTIP has been heavily influenced by the iron ore price.

This anomaly highlights the inadequacy of a single performance measure for the company where the non-controllable iron ore price has a material impact on shareholder value.

The FY16 and FY17 LTIP performance periods remain open.

2 Remuneration Governance

Fortescue believes that robust governance is critical to underpinning the effectiveness of the remuneration strategy.

2.1 The Remuneration and Nomination Committee

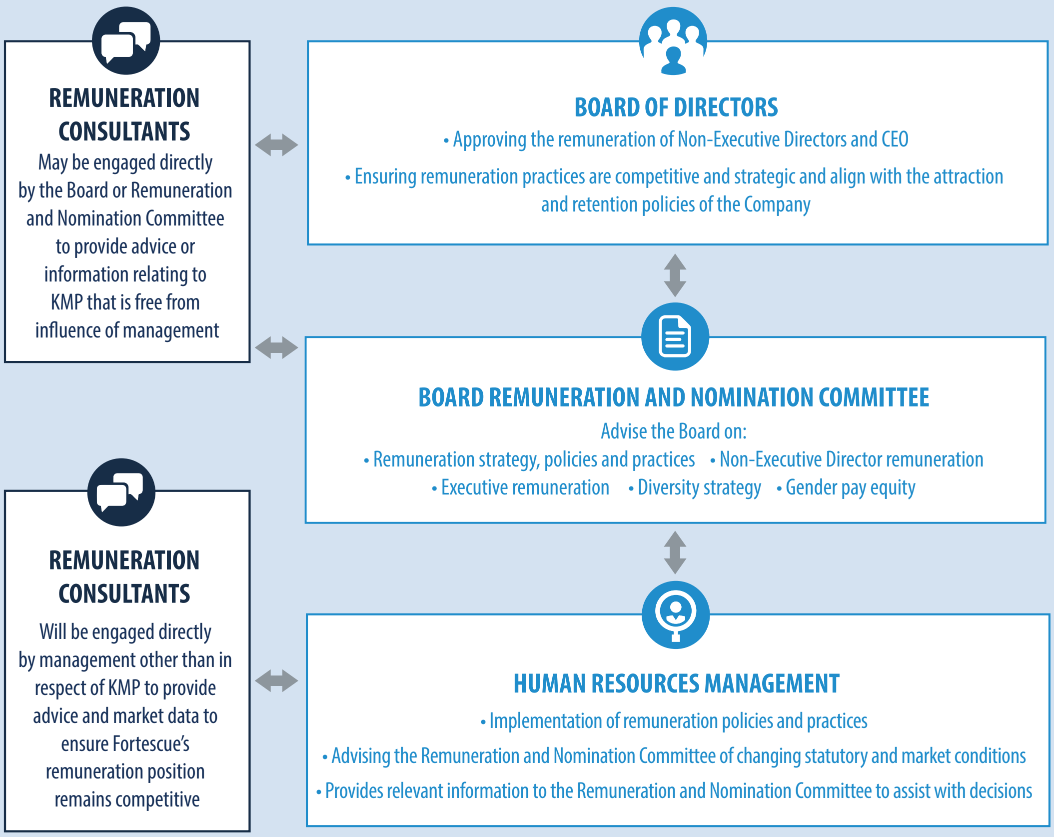
The Remuneration and Nomination Committee (RNC) operates under a Board-approved Charter. The purpose of the RNC is to provide assistance and recommendations to the Board to ensure that it is able to fulfil its responsibilities relating to the following:

- Remuneration strategy
- Non-Executive Director remuneration
- Chief Executive Officer and Executive Director remuneration
- Senior executive remuneration
- Short term and long term incentive plans
- CEO recruitment
- Annual performance review of the CEO
- Succession planning and talent management
- Diversity strategy
- Gender pay equity
- Matters relating to the Company's recruitment, retention and termination policies
- Nomination and review of applicants for Board Director positions
- Committee member appointments.

A copy of the Charter is available under the Corporate Governance section at www.fmgl.com.au

The RNC in FY17 consisted solely of Non-Executive Directors. The Chief Executive Officer and others may be invited to attend all or part of 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 Remuneration Governance (continued)

2.2 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 2017, the Committee retained Egan Associates and PwC in relation to the review of policies and practices and the provision of general information on market trends. This did not incorporate providing the Committee with any remuneration recommendations as defined by the *Corporations Act 2001*.

2.3 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 or

   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 or

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.

2.4 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 Securities 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 Securities Trading Policy can be accessed from the Corporate Governance section at www.fmgl.com.au

2.5 Minimum shareholding and holding conditions

All Directors and employees are encouraged to own Fortescue shares and the Company enables employee participation as a shareholder through short and long term incentives, salary sacrifice and dividend reinvestment programs.

Fortescue does not have a formal minimum shareholding policy or mandatory holding condition on awarded shares however it is important to note for executives:

- A minimum of 79 per cent of the 'at risk' component of Executive remuneration is granted in share rights
- The number of share rights granted is based on the face value share price at the commencement of the performance period motivating executives to hold shares and grow shareholder value
- The combined number of share rights granted and shares awarded exceeds TFR
- All Fortescue incentives (both short and long term) offered from FY16 onwards are awarded as vested rights. Participants have up to 15 years to exercise their vested rights into shares and income tax is deferred until exercise.

3 Executive remuneration strategy

Fortescue's reward strategy seeks to build a performance oriented culture that supports the achievement of the Company's strategic vision and to attract, retain and motivate 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 and acknowledging global industry outperformance
- Alignment to the long term goals of the Company.

3.1 Remuneration Policy

Fortescue is committed to providing competitive remuneration packages to its executives and senior employees. Fortescue benchmarks remuneration components against major indices such as the ASX 30, ASX 50 and ASX 100 Resources Indices as well as comparable roles in global peer group companies.

The Board acknowledges that market conditions (including material conditions outside the control of the Company), share price and market capitalisation may change the Company's relative comparator group from time to time.

The Board, however, has a long term strategy to ensure that executive remuneration is appropriately positioned to motivate, attract and retain key executives and senior employees through the commodity cycles to deliver on the current and long term strategic activities of the Company. Rewarding and retaining executives throughout the commodity cycle is critical to long term shareholder value.

In FY16 Fortescue was ranked number 32 on the ASX 100 by market capitalisation and improved to number 22 at 30 June 2017.

Information may also be sought from independent remuneration consultants regarding Executive remuneration as and when required as detailed in section 2.2.

3.2 How remuneration practices align with Fortescue's reward strategy

Remuneration strategy principle	Policy	Practice
High levels of share ownership	Drive alignment of employee and shareholder interests	A minimum 50 per cent of the ESSIP paid in shares with executives able to elect up to 100 per cent in shares. LTIP awarded as shares
Market competitive remuneration	Attract and retain key talent and be competitive against relevant companies	Remuneration is benchmarked against the ASX 100 Resources Index and other relevant indices
Performance focus	Provide fair reward in line with individual and company achievements	Executive remuneration mix targets a minimum of 64 per cent of the total opportunity 'at risk'
Fit for purpose	Include flexibility to reflect clear linkage to business strategy	Business strategy is prioritised; market practice is only one input in determining the relevant framework
Strategic alignment	Support delivery of long term business strategy and growth aspirations	Incentives are measured on strategic growth performance being a combination of financial and non-financial measures to support sustainable growth
Shareholder and executive alignment	LTIP rewarding sustained performance over a three year period	A significant portion of executive remuneration granted as performance rights vesting subject to short and long term performance hurdles

4 Executive remuneration structure

Executive remuneration has a fixed component and variable 'at risk' components, 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 comprise:

- TFR
- ESSIP
- 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. Fixed Remuneration is benchmarked against the market median (50th percentile) with the ability to earn third quartile (75th percentile) or above total remuneration for outstanding performance against stretch targets.

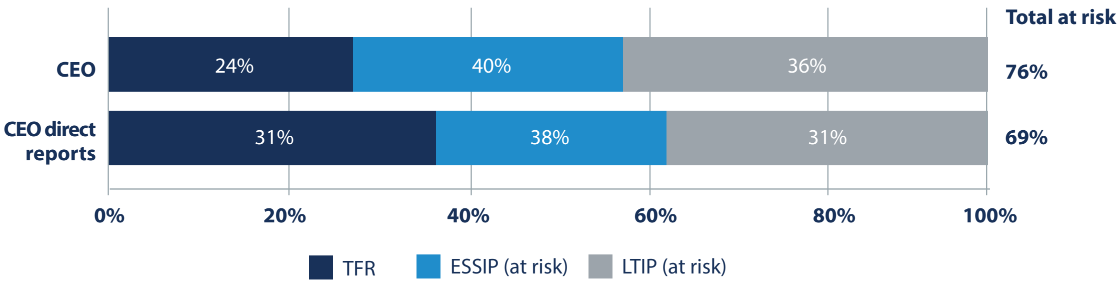
Remuneration is benchmarked against companies in both the ASX 100 Resources Index, ASX 30, ASX 50 and comparable roles in global peer group companies.

The number of share rights granted under both ESSIP (which generally account for a minimum of half the incentive) and LTIP (which is granted solely in share rights) are determined based on the face value share price at the start of the relevant performance period. This means that the movement in share price over the performance period directly affects the value received by executives and ensures full alignment with returns to shareholders over the course of the same period.

The remuneration mix (shown in the section below) clearly illustrates the significant proportion of 'at risk' components of executive remuneration and reinforces the pay for performance policy alignment adopted by the Board. Further, a minimum 79 per cent (up to a maximum of 100 per cent) of the total 'at risk' component is offered in the form of share rights and subject to share price movement fully aligned with shareholders calculated based on the face value share price at the commencement of the performance year. This means that over three quarters of the value to the individual of the combined ESSIP and LTIP is tied directly to the share price at the time of award ensuring that executive reward is aligned to shareholder value.

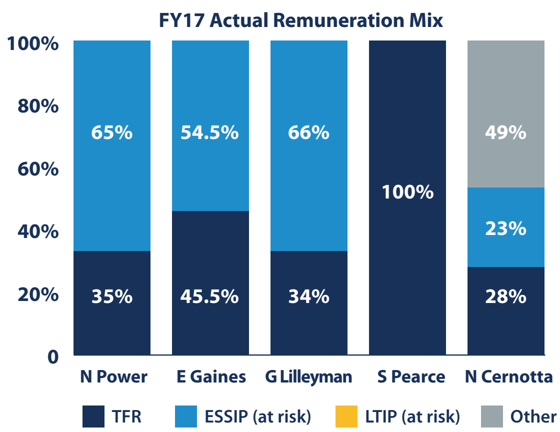
4.1 Remuneration mix

The table below shows the remuneration mix for superior performance when stretch hurdles have been met for both the CEO and his direct reports in FY17:



The chart below represents the actual remuneration mix for KMP in 2017:

- The value of the Short Term Incentive (STI) reflects the share price growth of the equity component from A$3.759 to A$5.2591 over the performance period
- Mr Pearce did not participate in the STI due to the timing of his cessation of employment
- Mr Cernotta's STI reflects the pro-rata accrued benefit up to the date he ceased employment
- Other relates to Mr Cernotta's ex-gratia termination payment
- The FY15 LTIP did not meet the minimum performance threshold and no awards were made under this plan.



The non-IFRS information included in the graph above has not been subject to audit.

5 Incentive plan operation and performance

5.1 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 60 per cent to Company objectives, and 40 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. Generally, 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 performance period (e.g. 1 July 2016 to 7 July 2016).

The maximum incentive opportunity for KMPs in FY17 is shown below.

Maximum General ESSIP opportunity

Chief Executive Officer	
112.5 per cent of TFR*	1 participant
CEO direct reports	
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.

In addition to those awards that are generally granted under the ESSIP, the Board has the ability to introduce additional awards that are aligned with and support the Company's business strategy. Additional awards may be comprised of cash, shares or a combination of both and are granted at the discretion of the Board.

In FY17, the Board introduced the FY17 ESSIP Additional Stretch Objective, an additional stretch target designed to drive outperformance against the FY17 budgeted June 2017 month cost of production stretch target. Cost of production is a significant driver of profitability given the inability to influence iron ore pricing and even more critical in a declining iron ore price environment.

The value of awards made in respect of the FY17 ESSIP additional stretch objective reflect the individual's ability to influence the cost reductions required to achieve this target and represent an outperformance payment under the FY17 ESSIP. 100 per cent of the awards in respect of the FY17 ESSIP additional stretch objective are payable in cash.

Maximum FY17 ESSIP Additional Stretch Objective Opportunity

Chief Executive Officer	
50 per cent of TFR	1 participant
CEO direct reports	
50 per cent of TFR	2 participants

Unless the Board exercises its discretion otherwise in accordance with the ESSIP plan rules, for individuals who leave during the year (i.e. before 30 June), 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 general ESSIP pro-rated based on service during the performance period.

5.2 How ESSIP objectives and weightings are determined

Generally, ESSIP targets and measures are set on an annual basis and are linked to the annual stretch budget and Fortescue's strategic plan focusing on core drivers of shareholder value result in well balanced financial and non-financial targets.

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 deliverables.

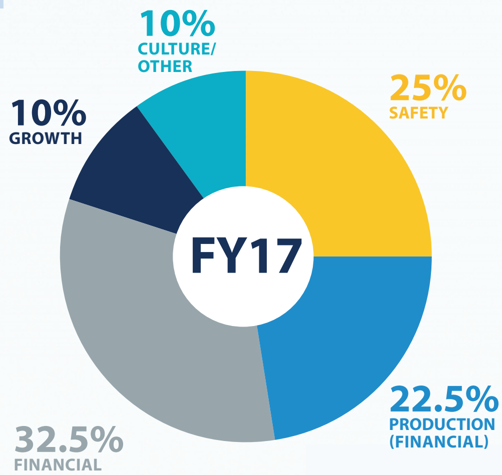
The following charts show the relationship between the primary ESSIP performance measures for the CEO and other KMP:

- The CEO has 55 per cent financial and 45 per cent non-financial targets
- Financial and non-financial targets are aligned specifically to the executive's respective roles and responsibilities and financial targets range from 53 per cent to 65 per cent
- **Financial includes** cost, production, AROE and balance sheet management measures
- **Non-Financial includes** safety, growth, culture and community measures.

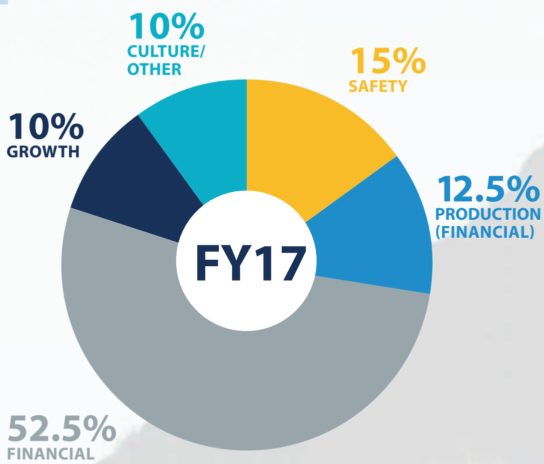
5 Incentive plan operation and performance (continued)

5.2 How ESSIP objectives and weightings are determined (continued)

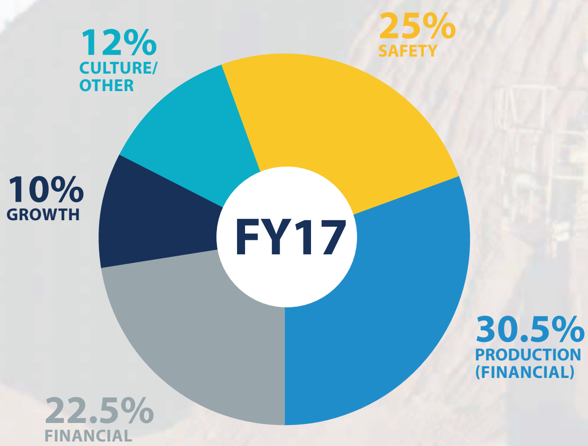
Chief Executive Officer



Chief Financial Officer



Director Operations



5 Incentive plan operation and performance (continued)

5.3 How the ESSIP works: a general example

ESSIP participant rewards are designed to reflect Company performance and provide alignment with shareholder outcomes by generally 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 $100,000 and has elected to take 70 per cent of the incentive in shares.

Details of offer	
Nominal Value of full award	**$100,000**
VWAP at start of FY17 (1 to 7 July 2016)	**$3.759**
Participant Share Weighting	**70%**
Potential award	
Cash (30 per cent of opportunity)	**$30,000**
Nominal value of share rights (70 per cent)	**$70,000**
Share Rights (70 per cent of opportunity) (ie $70,000 ÷ $3.759)	**18,622**
Example outcome	
Percentage of incentive opportunity achieved (company and personal performance)	**80%**
Cash paid (80% of cash component)	**$24,000**
Shares Awarded (80% of share rights convert to ordinary shares)	**14,898**

The number of share rights granted in respect to the FY17 ESSIP is determined based on the VWAP at the start of the performance period which was A$3.759:

- If the share price at the time of award is higher, executives will receive higher value per share right
- If the share price at the time of award is lower, the value to executives is decreased.

The value of share rights is therefore aligned with shareholder interests as executives receive value consistent with share price movements. Value is not realised until the vested rights are exercised into shares and then sold.

As noted above, in FY17 the Board introduced the FY17 ESSIP additional stretch objective. The value of awards made in respect to this measure reflect the individual's ability to influence the cost reductions required to achieve this target and represent an outperformance payment under the FY17 ESSIP. 100 per cent of the awards granted in respect of the FY17 ESSIP additional stretch objective are payable in cash.

5.4 How Fortescue performed over the past five years

Fortescue continues to build on its performance over the past five years, showing strong performance in safety, culture, production and costs to deliver shareholder value. In considering Fortescue's performance and benefits for shareholder value, the Board has regard to the following indices in respect of the current financial year and the previous four financial years.

Over the performance period the share price increased by 49 per cent (opening share price A$3.50 versus closing share price A$5.22) and total shareholder return for one year was 57.46 per cent including (A$0.32 cents dividend). This ranked Fortescue number three, relative to other constituents of the ASX 100 Resources Index.

	2017	2016	2015	2014	2013
Total tonnes shipped (wmt)	170.4	169.4	165.4	124.2	80.9
Revenue from iron ore operations - US$millon	8,335	6,947	8,390	11,611	8,057
EBITDA – US$million	4,744	3,195	2,506	5,636	3,575
Net profit US$million	2,093	985	316	2,740	1,746
Return on equity %	23	12	4	43	39
Gearing (Book value of debt/debt + equity)	31	45	56	56	71
Dividends paid A$ per share	0.32	0.05	0.13	0.2	0.04
Share price A$	5.22	3.50	1.91	4.35	3.04
Change in share price A$	1.72	1.59	(2.44)	1.31	(1.81)
Change in share price %	49	83	(56)	43	(37)

The non-IFRS information included in the table above has not been subject to audit.

5 Incentive plan operation and performance (continued)

5.5 FY17 ESSIP performance outcomes

ESSIP awards are based on an assessment of Company and individual performance. Company performance comprises company financial and non-financial based measures designed to drive both a short and long term perspective on performance, and protect the long term interests of shareholders by seeking to ensure efficient processing of reserves mined and that financial objectives are met.

Performance objectives are set by the Fortescue Board in line with the annual business planning and budgeting process and are established in line with a culture of stretch targets. The weighting for each target is reviewed annually and may vary from year to year to reflect its criticality, effort to achieve and impact on the business.

In FY17, financial targets account for 55 per cent of the Company (and CEO) performance objectives with non-financial targets accounting for the remaining 45 per cent. The mix of financial and non-financial objectives for other executives varies and are specific to their roles and responsibilities.

The financial performance measures were chosen as they represent the key drivers of financial performance of the Company and provide a framework for delivering long term shareholder value, irrespective of the iron ore price. 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 Fortescue's culture is to set challenging stretch targets and strive to outperform those targets. When deliberating on performance outcomes, the Board follows a rigorous assessment process when considering performance outcomes including:

- The degree of stretch in the measures and targets and the context in which the targets were set
- The level of achievement against the stretch targets
- The operating environment over the performance period and management's ability to respond to unforeseen events
- Financial performance and shareholder value generated
- Global competitiveness and level of improvement compared to global peers during the period
- The level of improvement across key business drivers on the prior year
- Any other relevant under or over performance or other criteria not stated above.

In circumstances where performance against stretch targets is not accurately reflected in the level of achievement against stretch targets (whether under or over), the Board may exercise its discretion to increase or decrease the vesting level of the incentive and therefore the value awarded.

In FY17, the Board set a number of key targets in respect of cost reduction across all operating and support functions and challenging production targets.

The Board determined the relative weighting and mix of performance objectives for the CEO and executives in order to deliver long term sustainable shareholder value.

5 Incentive plan operation and performance (continued)

5.5 FY17 ESSIP performance outcomes (continued)

The ESSIP performance objectives in 2017 are shown below:

FY17 Short Term Incentive Outcomes				
	Weighting (% of STI)			
Objective and measurement	CEO	Executives	Result	Achievement
Company financial performance				
Financial • AROE **> 15%**	10	10	23	Continued focus on cost reduction, innovation, technology and process efficiency have had a positive impact on profitability and return on equity with an 92% increase to AROE compared to FY16.
Production • Tonnes Shipped **≥ 170 million wmt**	22.5	12.5	170.4	Full year production target marginally exceeded with 170.4 million wmt iron ore shipped in FY17 notwithstanding very challenging weather conditions during Q3.
C1 Cost • C1 cost **≤ US$12.16/wmt**	22.5	12.5	12.82	Although the C1 cost stretch target was not met the outcome represents a 17% reduction in C1 costs over the FY17 performance year contributing to an overall 73% reduction in C1 costs since 2012. In light of the substantial cost savings delivered in FY17 and overall company performance, the Board has determined that this performance measure has been met.
Company growth performance				
Safety [1] • TRIFR **< 3.9**	25	15	2.9	Keeping people safe is Fortescue's highest priority and in FY17 Fortescue achieved outstanding results achieving a 33% reduction in TRIFR from 4.3 to 2.9.
Physical • Target tonnes and quality achieved whilst maintaining mine life	10	10	Met	FY17 target production rate of 170mtpa, design strip ratio and production specifications have been achieved whilst maintaining the mine life for each site.
Culture • Safety Survey participation rate **≥75%** • Voluntary Turnover Rate **≤10%**	10	Included in personal KPIs	92 7	Safety survey participation rate of 92% exceeded target which is an exceptional result for a global miner. Positive impact on employee retention which saw a reduction in voluntary turnover to 7%.
Personal objectives				
Personal Objectives • 4 to 5 Personal Objectives set at Stretch Levels of performance against the FY17 Business Plan	n/a	40	Partially met	Personal objectives are assessed by the CEO and recommended outcomes approved by the Board.

[1] In the event of a fatality no award is made for the Safety KPI.

In FY17, the Board also introduced the FY17 ESSIP Additional Stretch Objective, designed to drive outperformance against the FY17 budgeted cost of production stretch target.

Cost of production stretch opportunity			
• COP of <US$10/wmt for the month June 2017	50% of TFR	US$9.20	Cost of production of US$9.20 (after June one-off adjustments) achieved.

The non-IFRS information included in the table above has not been subject to audit. In FY17, the CEO was measured solely against Company performance and Cost of Production Stretch Opportunity outcomes thereby ensuring the alignment between Company performance, shareholder value and CEO reward for the performance year. Payment of ESSIP awards are made in September 2017 after the release of the Company's audited full year results and with final approval from the Board. Further details in regard to the Company's full year results are set out in the Director's Report on page 50 to 52.

5 Incentive plan operation and performance (continued)

5.6 FY17 ESSIP awards

Share rights granted under the ESSIP at the beginning of FY17 are shown below. All share rights vest if all ESSIP objectives are met. ESSIP share rights reflect the face value share price at the commencement of the performance year when share rights are granted. The ultimate value of these share rights to the Executives will reflect either an improvement or decline in the Company's share price over the performance period. The adoption of this approach is specifically to ensure that awards made to executives have a value which reflects sustainable value of shareholder's investment in the Company.

Over the performance period the share price increased by 49 per cent and total shareholder return for one year was 57 per cent. The ESSIP has awarded on average 96 per cent of maximum opportunity to executives.

The last column in the table below details the actual number of share rights that vested based on actual performance:

Executive	ESSIP share rights granted	ESSIP share rights lapsed	ESSIP share rights forfeited	ESSIP share rights vested
N Power	299,282	-	-	299,282
E Gaines[1]	-	-	-	-
S Pearce[2]	-	-	-	-
G Lilleyman[3]	99,761	(7,981)	-	91,780
N Cernotta[4]	94,773	-	(94,773)	-

Unvested share rights lapse once the total at risk outcome of the ESSIP is determined.

1 Ms Gaines is eligible to participate in the FY17 ESSIP on a pro-rata basis, however no share rights have been granted as the grant of the share rights is subject to shareholder approval which will be sought at the AGM in November 2017.

2 Mr Pearce did not participate in the FY17 ESSIP due to the timing of his resignation.

3 Mr Lilleyman participated in the ESSIP on a pro-rata basis aligned to his commencement date of 1 January 2017.

4 Mr Cernotta's ESSIP share rights were forfeited on cessation of employment on 31 January 2017. Mr Cernotta's ESSIP share rights accrued entitlement up to cessation of employment was paid in cash (see section 6).

The table on the following page details the maximum ESSIP cash and share awards against the actual outcomes for FY17. The share components are based on the share weighting election of each executive.

- Ms Gaines' ESSIP cash award reflects the cash payment in respect of the FY17 ESSIP additional stretch objective. No share rights have been granted as the grant of the share rights is subject to shareholder approval which will be sought at the AGM in November 2017
- Mr Lilleyman's ESSIP participation is on a pro-rata basis from date of commencement
- Mr Cernotta's ESSIP participation is on a pro-rata basis and represents his accrued entitlement up to the cessation of employment which was paid in cash
- The actual share value to the individual is not realised until vested rights are exercised by the participant. For the purpose of this report the nominal ESSIP value of vested rights is shown:
  - o Based on the share price at grant (A$3.759)
  - o Based on the share price at vesting (A$5.2591)

demonstrating the alignment between Company performance, Executive reward and Shareholder value.

5 Incentive plan operation and performance (continued)

5.6 FY17 ESSIP awards (continued)

2017 A$	TFR	Maximum ESSIP oppor-tunity (% of TFR)	Weighting in shares (per cent)	Maximum ESSIP cash oppor-tunity	Maximum ESSIP shares oppor-tunity - value at grant[1]	ESSIP outcome	Maximum FY17 ESSIP additional stretch objective oppor-tunity (% of TFR)	ESSIP additional stretch objective outcome	ESSIP cash awarded	Nominal value of ESSIP vested rights: Share price at grant $3.759[1]	Nominal value of ESSIP vested rights: Share price at vesting $5.259[2]
Executive Directors											
N Power	2,000,000	112.5	50	1,125,000	1,125,000	100%	50	100%	2,125,000	1,125,000	1,573,954
E Gaines[3]	1,102,500	75	100	-	-	-	50	100%	551,250	-	-
S Pearce[4]	1,102,500	75	-	-	-	-	-	-	-	-	-
Executives											
G Lilleyman[5]	1,000,000	75	100	-	375,000	92%	50	100%	500,000	345,001	482,680
N Cernotta[6]	950,000	75	50	356,250	356,250	90%	-	-	448,702[7]	-	-

[1] Based on the strike price at grant being the VWAP of Fortescue shares traded over the first five trading days of the FY17 Plan year ($3.759).

[2] Based on the nominal value at vesting being the VWAP of Fortescue shares traded over the first five trading days of FY18 ($5.2591).

[3] Ms Gaines commenced as CFO and Executive Director on 6 February 2017.

[4] Mr Pearce ceased employment on 31 December 2016.

[5] Mr Lilleyman commenced employment on 1 January 2017.

[6] Mr Cernotta ceased employment on 31 January 2017.

[7] Representing Mr Cernotta's accrued entitlement under the ESSIP (both the Cash opportunity and ESSIP share rights opportunity), which was paid in cash.

5.7 Long Term Incentive Plan

The LTIP is granted in the form of share rights at the commencement of the three year performance period with awards vesting subject to the achievement of the specified performance conditions. The three year performance period, performance measures and date of assessment and award for each of the LTIPs are as follows:

Plan	Performance Period	Performance Measure	Assessment and Award
FY15 LTIP	1 July 2014 to 30 June 2017	AROE	September 2017
FY16 LTIP	1 July 2015 to 30 June 2018	AROE, TSR and strategic measures	September 2018
FY17 LTIP	1 July 2016 to 30 June 2019	AROE, TSR and strategic measures	September 2019

5.7.1 FY15 Long Term Incentive Plan

FY15 LTIP awards to Executives are made under the Performance Share Plan Rules and are granted initially in the form of share rights. Each share 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 used absolute return on equity (AROE) as the sole performance measure for the FY15 LTIP assessed over the three year performance period.

AROE was selected in 2015 as the performance measure for the FY15 LTIP 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

Consistent with the ESSIP, 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 FY15 LTIP for the following reasons:

- 20 per cent exceeded the Company's cost of equity at that time
- The average AROE for the ASX 100 Resources Index from 2010 to 2014 was 9.2 per cent
- The 80th percentile AROE for the ASX 100 Resources Index from 2010 to 2014 was 15.6 per cent
- 20 per cent was considered a challenging stretch target, a core theme of Fortescue's culture.

5 Incentive plan operation and performance (continued)

5.7.1 FY15 Long Term Incentive Plan (continued)

The vesting schedule is as follows:

Average AROE

Performance	FY15	Vesting
Below threshold	<20%	Nil
Threshold	20%	25 per cent of share rights vest
Target	30+%	100 per cent of share rights vest

Vesting between threshold and target is calculated linearly

The performance period for the FY15 LTIP was from 1 July 2014 to 30 June 2017. Share rights 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 is measured as the sum of AROE for years one, two and three 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.

5.7.2 FY15 LTIP performance outcomes

The AROE average for the three year performance period did not meet the 20 per cent minimum threshold (as shown in the table below) and accordingly no share rights vested under this plan.

FY15 LTIP performance outcomes

Year ending	ROE performance (%)
30 June 2015	4
30 June 2016	12
30 June 2017	23
Average ROE	**13**
Vesting level	**Nil**

5.7.3 FY15 LTIP awards

Share rights granted under the LTIP at the beginning of FY15 are shown below. No share rights vested under this plan and were either forfeited on cessation of employment or lapsed.

- Unvested share rights lapse once the outcome of the LTIP is determined
- Ms Gaines commenced as CFO and Executive Director on 6 February 2017 and Mr Lilleyman commenced employment on 1 January 2017 and accordingly, did not participate in the FY15 LTIP
- Mr Cernotta's and Mr Pearce's share rights were forfeited on cessation of employment.

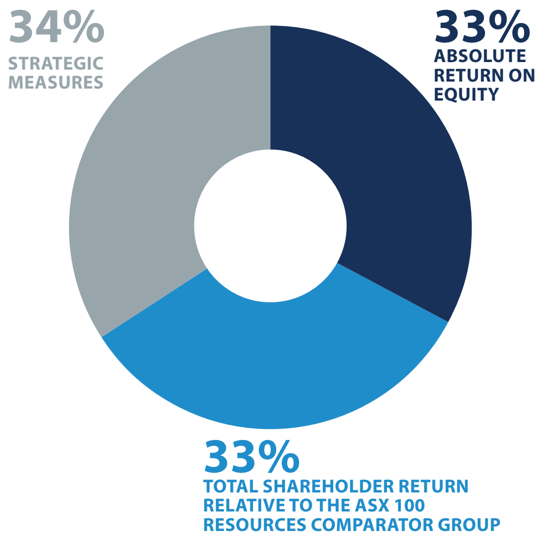
FY15 LTIP

Executive	LTIP share rights issued	LTIP share rights lapsed	LTIP share rights forfeited	LTIP share rights vested
N Power	660,837	(660,837)	-	-
E Gaines	-	-	-	-
S Pearce	242,858	-	(242,858)	-
G Lilleyman	-	-	-	-
N Cernotta	209,265	-	(209,265)	-

5 Incentive plan operation and performance (continued)

5.7.4 FY16 and FY17 LTIP operation

The performance period for the FY16 LTIP is from 1 July 2015 to 30 June 2018 and the performance period for the FY17 LTIP is from 1 July 2016 to 30 June 2019. The FY16 and FY17 LTIP plans operate under the performance rights plan rules as approved by Shareholders at the Company's Annual General Meeting on 11 November 2015 and are granted in the form of share rights. Each share 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 FY16 and FY17 LTIP is assessed against multiple performance measures weighted as follows:

- Absolute Return on Equity (33 per cent)
- Total shareholder return relative to the ASX 100 Resources comparator group (33 per cent)
- A basket of strategic measures (34 per cent).

The relative weighting between financial and strategic measures provides the ability to assess performance across a cyclical market. Retaining AROE and adding relative TSR ensure continued alignment with delivering shareholder value.

Each of the performance measures provide for a determination by the Board that the Company has performed at a threshold, target or stretch level. These graduated levels of performance have been included in order to align and reward executives through market cycles. In the event that performance is at the target level in respect of the relevant performance measure, executives will be entitled to 100 per cent of the tranche of LTIP share rights to which the performance measure relates. Where performance is at the stretch level, executives will be entitled to 150 per cent of the tranche of LTIP share rights to which the performance measure relates.

Nevertheless, if the target for any individual performance measure is exceeded, so that up to 150 per cent of the relevant number of LTIP share rights may vest, the maximum number of LTIP share rights that may vest across the three performance measures is capped in aggregate at 100 per cent of share rights granted under the plan.

The Board believes that by incorporating the stretch level of performance into the vesting schedule, the Company will be better able to effectively reward and recognise executives in years where outstanding performance is achieved.

This will serve as further motivation and assist in retention through more challenging periods.

Absolute Return on Equity (AROE)
AROE performance is measured over the relevant three year performance period.

As part of the Board's consideration when determining AROE targets, consideration was given to the minimum AROE threshold. This consideration included the current market cycle and historical performance of the ASX 100 Resources comparator group.

Historical performance of the ASX 100 Resources:

- Average AROE for FY11 to FY15 was 7 per cent
- Average AROE for FY15 was 2.6 per cent, down from 7 per cent in FY14.

In light of this assessment, the Board lowered the minimum threshold from 20 per cent to 15 per cent based on the following:

- 15 per cent is an aggressive target which exceeds the Company's cost of equity
- An annual 15 per cent AROE would be at least the 70th quartile of performance of the ASX 100 Resources index in any of the past five years
- The stretch target of >30 per cent would be at least the 80th percentile of the ASX 100 Resources index in any of the past five years.

5 Incentive plan operation and performance (continued)

5.7.4 FY16 and FY17 LTIP operation (continued)

The AROE vesting schedule is as follows:

FY16 and FY17 LTIP AROE target and vesting schedule

Performance	Average ROE	Portion of tranche that vests
Below threshold	<15%	Nil
Threshold	15%	25 per cent of share rights vest
Target	30%	100 per cent of share rights vest
Stretch	>30%	150 per cent of share rights vest

Vesting between threshold and target performance levels is calculated on a linear basis with the stretch element considered together with the achievement of all performance measures and subject to the aggregate performance cap.

Relative Total Shareholder Return (RTSR)
RTSR is a measure of the performance of the Company's shares over a three year period against the ASX 100 Resources Index (noted below). It combines share price appreciation and dividends paid to show the total return to the shareholder expressed as a percentage.

Relative TSR hurdles are valuable because the Company needs to outperform a peer group of participants to receive any reward and therefore, is aligned to relative market performance. The ASX 100 Resources Index has been chosen as the comparator group because this is a transparent market indicator, includes Fortescue's ASX Listed commodity market peers and represents the peer group that Fortescue competes with for investment.

When formulating the vesting schedule for the TSR performance measure, the Board considered both local and international market practice. In line with the Company's approach to setting stretch targets, the Board determined that a vesting schedule more aggressive than standard market practice was required in order to align executive reward for this performance measure with superior shareholder returns. The vesting criteria for both threshold and target have been set at the 60th percentile and 80th percentile (respectively) higher than standard market practice. The plan also provides for a premium grant of awards where Fortescue delivers the market leading total shareholder return over the performance period.

The TSR vesting schedule is as follows:

FY16 and FY17 LTIP TSR target and vesting schedule

Performance	Average TSR	Portion of tranche that vests
Below Threshold	Below the 60th percentile	Nil
Threshold	At the 60th percentile	25 per cent of share rights vest
Target	At the 80th percentile	100 per cent of share rights vest
Stretch	At the 100th percentile	150 per cent of share rights vest

Vesting between performance levels is calculated on a linear basis with the stretch element considered together with the achievement of all performance measures and subject to the aggregate performance cap

The Board acknowledge that a relative TSR hurdle can result in unintended outcomes. The intent is to ensure no windfall gains or undue penalty. In the event that TSR is negative but the relative TSR hurdle is achieved, the Board will consider overall performance and circumstances and may, at its absolute discretion, reduce the level of vesting or determine that no award will be made in respect to the TSR measure.

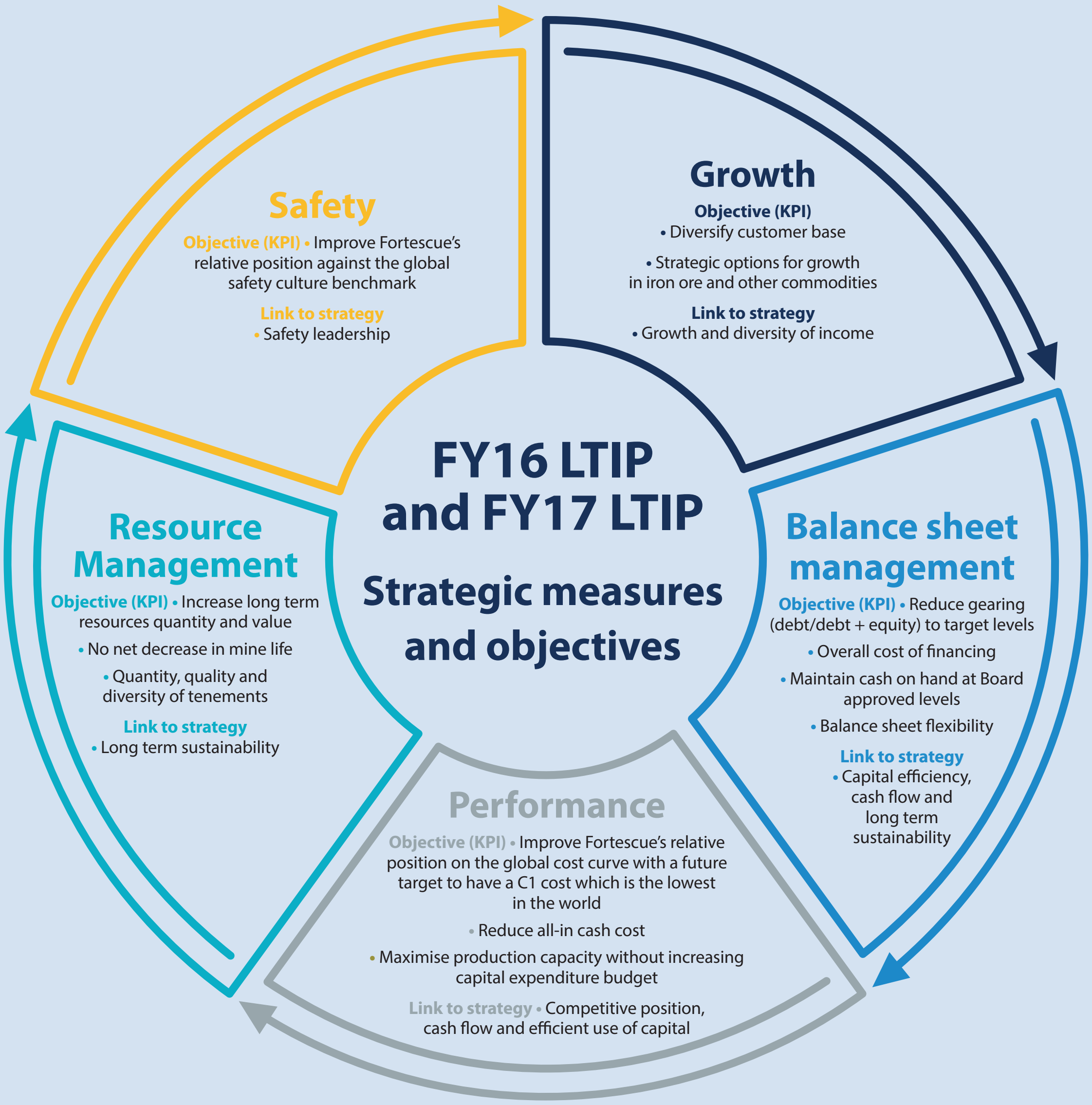
Strategic Measures
As part of the enhancements made to the LTIP, the Company has introduced a basket of five strategic measures with associated key performance indicators aimed at directing performance toward the achievement of the Company's long term objectives (strategic objectives).

The strategic objectives devised by the Board specifically relate to key milestones and objectives that are fundamental to the Company's sustainability, continuing development and growth and delivery of shareholder value. The balanced scorecard approach ensures that executives continue to focus on the delivery of key milestones that drive long term value and that the Board has the ability to reward these achievements even in times when external factors outside the control of executives may impact shareholder returns.

5 Incentive plan operation and performance (continued)

5.7.4 FY16 and FY17 LTIP operation (continued)

FY16 and FY17 LTIP annual strategic measures and objectives are as follows:



Strategic measures and their performance targets for each strategic objective are set and assessed annually for each financial year of the relevant three year performance period.

This approach provides the Company with the flexibility to respond to economic and industry challenges as they occur to ensure that performance targets are always relevant and drive long term shareholder value.

Whether a strategic objective has been achieved is measured at the end of the relevant financial year on an outcome basis as follows:

Outcome	Score
Did not meet	0
Threshold	1
Target	2
Exceeded	3

5 Incentive plan operation and performance (continued)

5.7.4 FY16 and FY17 LTIP operation (continued)

FY17 annual strategic measures and objectives are as follows:

FY16 and FY17 LTIP Strategic measure target and vesting schedule

Performance	Score	Portion of tranche that vests
Below Threshold	<5	Nil
Threshold	5	25 per cent of share rights vest
Target	10	100 per cent of share rights vest
Stretch	15	150 per cent of share rights vest

Vesting between performance levels is calculated on a linear basis with the stretch element considered together with the achievement of all performance measures and subject to the aggregate performance cap.

The performance period for the FY16 LTIP is from 1 July 2015 to 30 June 2018 and the FY17 LTIP is from 1 July 2016 to 30 June 2019. Share rights vest at the end of the three year performance period subject to performance against the three measures.

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.

Performance outcomes of the FY16 LTIP will be reported in the Company's FY18 Remuneration Report.

The balanced scorecard approach ensures that executives continue to focus on the delivery of key milestones that drive long term value and that the Board has the ability to reward these achievements even in times when external factors outside the control of executives may impact shareholder returns.

5.8 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.

The balanced scorecard approach ensures that executives continue to focus on the delivery of key milestones that drive long term value and that the Board has the ability to reward these achievements even in times when external factors outside the control of executives may impact shareholder returns.

6 How executive remuneration is reported

Executive remuneration is reported in a number of ways throughout this report, differences of which are driven by the following:

- **Total remuneration package** – represents the current remuneration package at stretch target comprising fixed remuneration plus the nominal value of the ESSIP and LTIP at the applicable participating percentage. There was no increase to total fixed remuneration in FY17. Refer to section 7 for further information
- **Actual remuneration paid** – represents the nominal value to the individual and includes fixed remuneration, any cash incentives paid and the nominal value of equity at the time share rights vest
  - Value received by Executives is subject to performance and share price movement aligned with shareholder value. Refer to the table below for further information.
- **Statutory remuneration** – represents remuneration including share based payments calculated in accordance with Australian Accounting Standards including the fair value attributed to the FY17 ESSIP share component plus one year each of the FY15, FY16 and FY17 LTIP. In FY17, total statutory remuneration is higher than the prior year due to a negative accounting expense for share based payments in FY16. Refer to section 6.2 for further information.

6.1 Actual remuneration paid in FY17

The Board follows a structured process for ensuring that executive remuneration is aligned to shareholder value and stretch targets are set for the incentive plans which are reflective of market conditions and other challenges facing the industry. The nominal value of actual pay realised by executives is reflective of the following:

FY17 ESSIP is generally awarded partly as vested rights (minimum 50 up to 100 per cent determined on election) with the balance (0-50 per cent) awarded in cash:

- FY17 ESSIP share rights granted at the beginning of the performance period at a face value share price of **A$3.759**
- FY17 ESSIP vested rights awarded have a nominal value based on **A$5.2591** being the five day VWAP at the beginning of FY18. The increase in share price over the respective performance periods has resulted in an increase in equity value to executives in respect to these plans
- FY17 ESSIP additional stretch objective was awarded in cash
- FY15 LTIP did not vest.

The following table shows the nominal remuneration value realised by the individual and includes fixed remuneration, any cash incentives paid and the nominal value of equity at the time the share rights vest or shares are awarded. The following key points should be read in conjunction with the table below:

- Mr Pearce did not participate in the FY17 ESSIP
- Mr Cernotta's FY17 ESSIP award represents his pro-rata accrued entitlements paid as a cash payment
- Mr Cernotta's other payment relates to an ex-gratia payment of A$947,596 (inclusive of notice).

FY17 A$	Fixed[1] remuneration	FY17 ESSIP cash paid (including the FY17 ESSIP additional stretch objective)	Nominal value of FY17 ESSIP vested rights	FY15 LTIP shares awarded	Other payment	Nominal total remuneration earned in FY17
N Power	2,000,000	2,125,000	1,573,954	-	-	5,698,954
E Gaines[2]	459,375[3]	551,250	-[10]	-	-	1,010,625
G Lilleyman[4]	500,000[5]	500,000	482,680	-	-	1,482,680
S Pearce[6]	551,250[7]	-	-	-	-	551,250
N Cernotta[8]	554,167[9]	448,702	-	-	947,596	1,950,465

(1) Fixed remuneration includes cash salary, paid leave and superannuation.
(2) Ms Gaines commenced as CFO and Executive Director on 6 February 2017.
(3) Pro-rata entitlement.
(4) Mr Lilleyman commenced employment on 1 January 2017.
(5) Pro-rata entitlement.
(6) Mr Pearce ceased employment on 31 December 2016.
(7) Pro-rata entitlement.
(8) Mr Cernotta ceased employment on 31 January 2017.
(9) Pro-rata entitlement.
(10) Ms Gaines is eligible to participate in the FY17 ESSIP on a pro-rata basis and has elected to receive a 100 per cent of the FY17 ESSIP in vested rights subject to shareholder approval as detailed in Section 6.3.

The non IFRS information included in the table above has not been subject to audit.

6 How executive remuneration is reported (continued)

6.2 Statutory remuneration disclosures for executives

Statutory remuneration disclosures are prepared in accordance with Australian Accounting Standards and include share based payments expensed during the financial year, calculated in accordance with AASB 2 *Share based payments*.

The estimated fair value of the short term performance rights was determined using a trinomial option pricing model and the estimated fair value of the long term performance rights was determined using a combination of analytical approaches, binomial tree and Monte-Carlo simulation. The fair value estimation takes into account the exercise price, the effective life of the right, 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.

Statutory remuneration differs significantly from actual remuneration paid to executives due to the accounting treatment of share based payments. For details of remuneration actually paid to the Chief Executive Officer and executives in FY17 refer to section 6.1.

Statutory remuneration disclosures for year ending 30 June 2017

- Mr Pearce's ESSIP and LTIP share rights were forfeited on resignation
- Mr Pearce's other payment relates to accrued annual leave and long service leave entitlements paid out on resignation
- Mr Cernotta's ESSIP and LTIP share rights were forfeited on resignation
- Mr Cernotta's FY17 ESSIP award represents pro-rata accrued entitlements paid as a cash payment
- Mr Cernotta's other payment relates to an ex-gratia payment of A$947,596 (inclusive of notice) and accrued annual leave entitlements paid out on resignation.

	Short-term employee benefits			Post employ-ment benefits	End of service	Share-based payments		Total statutory remuneration
FY17 A$	Cash salary and fees	ESSIP cash value for 2017 plan year (including the FY17 ESSIP additional stretch objective)	Non-monetary benefits	Superan-nuation	Other payments	ESSIP share value	LTIP share value	Total
Executive Directors								
N Power	1,963,000	2,125,000	8,528	30,000	-	1,424,582	1,918,947	7,470,057
E Gaines[1]	403,514	551,250	631	12,304	-	337,644[5]	-	1,305,343
S Pearce[2]	422,973	-	9,883	13,900	283,813	-	(447,741)	282,828
Executives								
G Lilleyman[3]	481,269	500,000	-	15,000	-	559,838	-	1,556,107
N Cernotta[4]	483,590	448,702	-	19,904	972,123	-	(385,809)	1,538,510

[1] Ms Gaines commenced as CFO and Executive Director on 6 February 2017.
[2] Mr Pearce ceased employment on 31 December 2016.
[3] Mr Lilleyman commenced employment on 1 January 2017.
[4] Mr Cernotta ceased employment on 31 January 2017.
[5] Ms Gaines ESSIP share value is the cash value of share rights that may vest subject to shareholder approval as detailed in Section 6.3.

6 How executive remuneration is reported (continued)

6.2 Statutory remuneration disclosures for executives (continued)

Statutory remuneration disclosures for year ending 30 June 2016

- ESSIP cash value payable in respect to FY16 was paid in September 2016
- In FY16, an accounting expense reversal related to ESSIP and LTIP share rights resulted in a reduction in total statutory remuneration compared to the prior year due to:
  - A partial reversal of share-based payment expense following completion of the three year performance period ended 30 June 2016, and the assessment of performance outcomes of the FY14 LTIP
  - A partial reversal of share-based payment expense as a result of the estimated vesting outcomes of the FY15 LTIP for the three year period ending 30 June 2017
- FY16 ESSIP and FY14 LTIP awarded to Mr Meurs represents accrued benefits as a pro-rata cash payment
- Mr Meurs FY16 ESSIP, FY14 LTIP, FY15 LTIP and FY16 LTIP share rights were forfeited upon his resignation in April 2016
- Mr Meurs' other payment relates to accrued annual leave and long service leave entitlements paid out on resignation.

	Short-term employee benefits					Post employment benefits	End of service	Share based payments			
FY16 $A	**Cash salary and fees**	**ESSIP cash value for 2016 plan year**	**FY14 LTIP cash value**	**Other incentive payment**	**Non-monetary benefits**	**Superannuation**	**Other payment**	**ESSIP share value**	**LTIP share value**	**Other share-based payments**	**Total**
Executive Directors											
N Power	1,963,000	1,313,999	-	2,000,000	8,186	30,000	-	1,118,626	(1,109,672)	-	5,324,139
P Meurs[1]	233,385	779,983	289,917	-	3,087	27,500	170,193	-	(1,316,302)	-	187,763
S Pearce	1,067,700	453,127	-	500,000	4,093	27,800	-	411,095	(446,444)	-	2,017,371
Executives											
N Cernotta	920,000	351,975	-	-	-	30,000	-	349,981	220,640	-	1,872,596

[1] Mr Meurs retired 18 April 2016.

6.3 Details of performance grants to executive directors

At the 2015 AGM, shareholders approved the maximum number of share rights to be granted to Mr Power without further shareholder approval as shown in the table below. Actual performance rights are granted annually by the board in accordance with the Performance Rights Plan.

Mr Power	Maximum share right grant FY16 to FY18	Share rights granted FY16 to FY18
ESSIP share rights	3,671,425	924,213
LTIP share rights	4,895,232	2,464,567
Total	**8,566,657**	**3,388,780**

6 How executive remuneration is reported (continued)

6.3 Details of performance grants to executive directors

Shareholder approval for Ms Gaines

Ms Gaines is eligible to participate in the FY17 ESSIP on a pro-rata basis. Generally, the ESSIP is delivered as a minimum of 50 per cent in vested rights (with the ability to elect up to 100 per cent). Under ASX Listing Rule 10.14, the Company requires shareholder approval to issue equity securities to a Director of the Company under an employee incentive plan. Ms Gaines has elected to receive 100 per cent of the FY17 ESSIP in vested rights, subject to shareholder approval.

Accordingly, the Company will seek shareholder approval at the 2017 AGM to issue equity securities under the performance rights plan to Ms Gaines as follows:

- 89,823 share rights in respect of financial year ended 30 June 2017 in accordance with the ESSIP
- 366,865 share rights in respect of the financial year ending 30 June 2018 in accordance with the ESSIP and LTIP.

No share rights have been granted and no share rights will be granted to Ms Gaines under the Peformance Rights Plan unless shareholder approval is obtained at the 2017 Annual General Meeting.

The issue of share rights to participants will not have a diluting effect on the percentage interest of shareholders holdings if the share rights vest into shares acquired on market.

6.4 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 to 30 June 2017. The value of the rights has been determined using the amount of the grant date fair value.

- The estimated fair value of the long term performance rights was determined using a combination of analytical approaches, binomial tree and Monte-Carlo simulation. The fair value estimation takes into account the exercise price, the effective life of the right, 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
- Mr Pearce's share rights were forfeited upon cessation of employment on 31 December 2016. Mr Pearce was not granted any share rights under the FY17 LTIP
- Mr Cernotta's share rights were forfeited upon cessation of employment on 31 January 2017
- Ms Gaines and Mr Lilleyman commenced during the LTIP performance period and were not granted share rights under the FY17 LTIP.

	LTIP plan	Grant date	Performance period	No. share rights granted	Value per share right granted	Value of rights granted at grant date	Performance achieved %	Vested	Forfeited /lapsed
N Power	FY15	9/12/2014	1/7/14 to 30/6/17	660,837	$2.37	$1,566,184	Nil	Nil	660,837
	FY16	14/12/2015	1/7/15 to 30/6/18	1,666,482	$1.72	$2,866,349	Determined in 2018		
	FY17	20/09/2016	1/7/16 to 30/6/19	798,085	$4.61	$3,679,172	Determined in 2019		
S Pearce	FY15	9/12/2014	1/7/14 to 30/6/17	242,858	$2.37	$575,573	n/a	n/a	242,858
	FY16	14/12/2015	1/7/15 to 30/6/18	612,432	$1.72	$1,053,383	n/a	n/a	612,432
N Cernotta	FY15	9/12/2014	1/7/14 to 30/6/17	209,265	$2.37	$495,958	n/a	n/a	209,265
	FY16	14/12/2015	1/7/15 to 30/6/18	527,720	$1.72	$907,678	n/a	n/a	527,720
	FY17	20/09/2016	1/7/16 to 30/6/19	252,727	$4.61	$1,165,071	n/a	n/a	242,727

7 Executive contract terms

Total Remuneration Package and other terms of employment for Executives are formalised in a service agreement.

The CEO and Executives are employed on a rolling basis with no specified fixed term. The CEO and Executives are remunerated on a total fixed remuneration (TFR) basis inclusive of superannuation and allowances. There was no remuneration increase or changes in terms in FY17.

The major terms of the agreements relating to remuneration are set out in the table below:

			Maximum ESSIP opportunity		Maximum LTIP opportunity		Nominal value of total remuneration package at maximum opportunity
Position	**Executive**	**TFR* (A$)**	**% of TFR**	**A$**	**% of TFR**	**A$**	**A$**
Chief Executive Officer	N Power	2,000,000	112.5	2,250,000	150	3,000,000	7,250,000
Chief Financial Officer	E Gaines	1,102,500	75	826,875	100	1,102,500	3,031,875
Director Operations	G Lilleyman	1,000,000	75	750,000	100	1,000,000	2,750,000

* Total Fixed Remuneration as of 30 June 2017. Reviewed annually by the RNC

The FY17 ESSIP additional stretch objective was introduced by the Board for FY17 only and, therefore, does not form part of the maximum ESSIP opportunity on an ongoing basis.

Executives are required to provide written notice of three or six months (as specified in their individual service agreement) to terminate their employment. Should executives not provide sufficient notice they will forfeit the monetary equivalent (calculated based on TFR) of any shortfall in the notice period.

Termination benefits for KMP comply with the limits set by the *Corporations Act 2001* that do not require shareholder approval.

8 Non-Executive Director (NED) remuneration

8.1 NED remuneration policy

Fortescue's policy on NED remuneration requires that NED 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 NED remuneration of comparable companies.

8.2 NED fee pool

NEDs 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 NEDs who serve on a Committee.

The maximum aggregate remuneration payable to NEDs 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 reviewed the fees payable to NEDs having regard to commentary, market position and benchmark data provided by Egan Associates. The consideration of NED fees took into account a general increase of 10 per cent, together with the alignment of the relativities in ARMC and RNC fees. The increase in fees does not exceed the shareholder approved total fee cap of A$2.0 million.

NED fees (inclusive of superannuation) effective from 1 July 2016 are outlined in the table below:

Position	Fee A$
Board Chairman*	0
Vice Chair	187,000
Lead Independent Director	187,000
Non-Executive Director	154,000
Audit & Risk Management Committee Chair	44,000
Audit & Risk Management Committee Member	16,500
Remuneration & Nomination Committee Chair	44,000
Remuneration & Nomination Committee Member	16,500
China Advisory Group Board of Representatives	66,000
Finance Sub-Committee Member	6,600

* The Chairman of the Board has elected to forego Directors fees for FY17 and received no form of remuneration in FY17.

Non-Executive Directors do not receive retirement benefits, nor do they participate in any incentive programs of the Company.

8 Non-Executive Director (NED) remuneration (continued)

8.2 NED fee pool (continued)

The remuneration of Non-Executive Directors for the year ended 30 June 2017 and 30 June 2016 is detailed below:

FY17

$A	Base fees	Committee fees	Other benefits	Superannuation	Total
A Forrest	-	-	-	-	-
O Hegarty[1]	72,831	6,426	-	22,493	101,750
M Barnaba	169,231	58,591	-	23,921	251,743
E Gaines[2]	83,371	12,505	-	9,817	105,693
C Huiquan	154,000	-	-	-	154,000
G Raby[3]	81,596	28,404	-	-	110,000
S Warburton	139,367	51,551	-	20,046	210,964
J Baderschneider	154,000	-	-	-	154,000
J Morris[4]	87,025	10,666	-	10,257	107,948
P Bingham-Hall[5]	87,025	7,466	-	9,921	104,412

[1] O Hegarty retired 5 December 2016.

[2] E Gaines commenced as CFO and Executive Director on 6 February 2017.

[3] G Raby retired 5 December 2016.

[4] J Morris appointed 16 November 2016.

[5] P Bingham-Hall appointed 16 November 2016.

FY16

$A	Base fees	Committee fees	Other benefits	Superannuation	Total
A Forrest	-	-	-	-	-
O Hegarty	153,846	6,787	-	16,866	177,499
M Barnaba	153,846	48,416	-	21,237	223,499
E Gaines	126,697	19,005	-	15,299	161,001
C Huiquan	140,000	-	-	-	140,000
G Raby	140,000	60,000	-	-	200,000
S Warburton	126,697	27,150	-	16,154	170,001
J Baderschneider	140,000	-	-	-	140,000

NEDs 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 NEDs who serve on a Committee.

9 Equity instrument disclosures relating to key management personnel

9.1 Share rights

The movement during the reporting period in the number of share rights over ordinary shares in the Company held directly, indirectly or beneficially, by each of the KMP, including their related parties is as follows:

FY17	Balance at the start of the year	Granted[1]	Exercised / converted	Forfeited / lapsed	Balance at the end of the year	Vested	Unvested	Not exercisable
Directors of Fortescue								
A Forrest	-	-	-	-	-	-	-	-
N Power	3,805,250	1,097,367	(838,181)	(639,750)	3,424,686	-	3,424,686	3,424,686
E Gaines[3]	-	-	-	-	-	-	-	-
O Hegarty[2]	-	-	-	-	-	-	-	-
C Huiquan	-	-	-	-	-	-	-	-
G Raby[4]	-	-	-	-	-	-	-	-
M Barnaba	-	-	-	-	-	-	-	-
S Warburton	-	-	-	-	-	-	-	-
J Baderschneider	-	-	-	-	-	-	-	-
J Morris[5]	-	-	-	-	-	-	-	-
P Bingham-Hall[6]	-	-	-	-	-	-	-	-
S Pearce[7]	1,416,675	-	(312,593)	(1,104,082)	-	-	-	-
Other key management personnel of Fortescue								
G Lilleyman[8]	-	99,761	-	-	99,761	-	99,761	99,761
N Cernotta[9]	934,880	347,500	(195,250)	(1,087,130)	-	-	-	-

[1] Performance rights were granted in accordance with the short term and long term performance rights plans, as disclosed in note 18 of the financial report.

[2] O Hegarty retired 5 December 2016.

[3] E Gaines commenced as CFO and Executive Director on 6 February 2017.

[4] G Raby retired 5 December 2016.

[5] J Morris appointed 16 November 2016.

[6] P Bingham-Hall appointed 16 November 2016.

[7] S Pearce ceased employment 31 December 2016.

[8] G Lilleyman commenced employment on 1 January 2017.

[9] N Cernotta ceased employment 31 January 2017.

FY16	Balance at the start of the year	Granted[1]	Exercised / converted	Forfeited / lapsed	Balance at the end of the year	Vested	Unvested	Not exercisable
Directors of Fortescue								
A Forrest	-	-	-	-	-	-	-	-
N Power	2,307,503	2,291,413	(714,736)	(78,930)	3,805,250	-	3,805,250	3,805,250
E Gaines	-	-	-	-	-	-	-	-
O Hegarty	-	-	-	-	-	-	-	-
C Huiquan	-	-	-	-	-	-	-	-
G Raby	-	-	-	-	-	-	-	-
M Barnaba	-	-	-	-	-	-	-	-
S Warburton	-	-	-	-	-	-	-	-
J Baderschneider	-	-	-	-	-	-	-	-
P Meurs[2]	877,929	842,094	(235,881)	(1,484,142)	-	-	-	-
S Pearce	914,358	842,094	(304,413)	(35,364)	1,416,675	-	1,416,675	1,416,675
Other key management personnel of Fortescue								
N Cernotta	287,740	725,615	(66,311)	(12,164)	934,880	-	934,800	934,800

[1] Performance Rights were granted in accordance with the short term and long term performance rights plans, as disclosed in note 18 of the financial report.

[2] P Meurs retired on 18 April 2016.

9 Equity instrument disclosures relating to key management personnel (continued)

9.2 Share holdings (Ordinary Shares)

The numbers of shares in the Company held during the financial year by each Director of Fortescue and other key management personnel of the Group, including their related parties, are set out below:

FY17	Held at 1 July 2016	Received on conversion of rights	Issued	Purchases	Sales	Transfers	Other[1]	Held at 30 June 2017
Directors of Fortescue								
A Forrest	1,037,479,247	-	-	1,320,753	-	-	-	1,038,800,000
N Power	2,526,307	838,181	-	-	(413,250)	-	-	2,951,238
O Hegarty[2]	40,000	-	-	-	-	-	(40,000)	-
C Huiquan	-	-	-	-	-	-	-	-
G Raby[4]	8,000	-	-	-	-	-	(8,000)	-
M Barnaba	20,000	-	-	-	-	-	-	20,000
E Gaines[3]	50,000	-	-	-	-	-	-	50,000
S Warburton	50,750	-	-	-	-	-	-	50,750
J Baderschneider	138,000	-	-	-	-	-	-	138,000
J Morris[5]	-	-	-	-	-	-	-	-
P Bingham-Hall[6]	-	-	-	35,000	-	-	-	35,000
S Pearce[7]	227,305	312,593	-	104	-	-	(540,002)	-
Other key management personnel of Fortescue								
G Lilleyman[8]	-	-	-	-	-	-	-	-
N Cernotta[9]	50,000	195,250	-	-	-	-	(245,250)	-

[1] Negative amounts reflect the result of leaving the Company during the year.

[2] O Hegarty retired 5 December 2016.

[3] E Gaines commenced as CFO and Executive Director on 6 February 2017.

[4] G Raby retired 5 December 2016.

[5] J Morris appointed 16 November 2016.

[6] P Bingham-Hall appointed 16 November 2016.

[7] S Pearce ceased employment 31 December 2016.

[8] G Lilleyman commenced employment on 1 January 2017.

[9] N Cernotta ceased employment 31 January 2017.

FY16	Held at 1 July 2015	Received on conversion of rights	Issued	Purchases	Sales	Transfers	Other[1]	Held at 30 June 2016
Directors of Fortescue								
A Forrest	1,037,479,247	-	-	-	-	-	-	1,037,479,247
N Power	1,811,571	714,736	-	-	-	-	-	2,526,307
O Hegarty	40,000	-	-	-	-	-	-	40,000
C Huiquan	-	-	-	-	-	-	-	-
G Raby	8,000	-	-	-	-	-	-	8,000
M Barnaba	20,000	-	-	-	-	-	-	20,000
E Gaines	50,000	-	-	-	-	-	-	50,000
S Warburton	50,750	-	-	-	-	-	-	50,750
J Baderschneider	138,000	-	-	-	-	-	-	138,000
P Meurs[2]	26,199,152	235,881	-	-	(16,632,614)	-	(9,802,419)	-
S Pearce	107,557	304,413	-	2,500	(187,185)	-	-	227,305
Other key management personnel of Fortescue								
N Cernotta	18,236	66,311	-	-	(34,547)	-	-	50,000

[1] Negative amounts reflect the result of leaving the Company during the year.

[2] P Meurs retired on 18 April 2016.

Auditor's independence declaration

As lead auditor for the audit of Fortescue Metals Group Limited for the year ended 30 June 2017, 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.

N Henry.

Nick Henry
Partner
PricewaterhouseCoopers

Perth
21 August 2017

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Consolidated income statement

For the year ended 30 June 2017

	Note	2017 US$m	2016 US$m
Operating sales revenue	3	8,447	7,083
Cost of sales	5	(4,888)	(5,064)
Gross profit		**3,559**	**2,019**
Other income	4	14	7
Other expenses	6	(123)	(211)
Profit before income tax and net finance expenses		**3,450**	**1,815**
Finance income	7	19	214
Finance expenses	7	(502)	(675)
Profit before income tax		**2,967**	**1,354**
Income tax expense	14(a)	(874)	(369)
Profit for the year after income tax		**2,093**	**985**
Profit for the year after income tax is attributable to:			
Equity holders of the Company		2,093	984
Non-controlling interest		-	1
Profit for the year after income tax		**2,093**	**985**

Consolidated statement of comprehensive income

For the year ended 30 June 2017

		2017 US$m	2016 US$m
Profit for the year after income tax		**2,093**	**985**
Other comprehensive income:			
Other comprehensive income items		-	-
Total comprehensive income for the year, net of tax		**2,093**	**985**
Total comprehensive income for the year, net of tax is attributable to:			
Equity holders of the Company		2,093	984
Non-controlling interest		-	1
Total comprehensive income for the year, net of tax		**2,093**	**985**
	Note	**Cents**	**Cents**
Earnings per share for profit attributable to the ordinary equity holders of the Company:			
Basic earnings per share	8	67.3	31.6
Diluted earnings per share	8	67.0	31.6

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 2017

	Note	2017 US$m	2016 US$m
ASSETS			
Current assets			
Cash and cash equivalents	9(b)	1,838	1,583
Trade and other receivables	10(a)	141	241
Inventories	10(c)	588	554
Other current assets		38	45
Total current assets		**2,605**	**2,423**
Non-current assets			
Trade and other receivables	10(a)	3	4
Property, plant and equipment	12	16,493	16,867
Intangible assets		7	15
Other non-current assets		7	28
Total non-current assets		**16,510**	**16,914**
Total assets		**19,115**	**19,337**
LIABILITIES			
Current liabilities			
Trade and other payables	10(b)	708	622
Deferred income	10(d)	461	485
Borrowings and finance lease liabilities	9(a)	121	93
Provisions	13	227	167
Current tax payable	14(a)	685	267
Total current liabilities		**2,202**	**1,634**
Non-current liabilities			
Trade and other payables	10(b)	50	69
Deferred income	10(d)	447	308
Borrowings and finance lease liabilities	9(a)	4,350	6,678
Provisions	13	509	489
Deferred joint venture contributions	17(c)	266	253
Deferred tax liabilities	14(b)	1,557	1,500
Total non-current liabilities		**7,179**	**9,297**
Total liabilities		**9,381**	**10,931**
Net assets		**9,734**	**8,406**
EQUITY			
Contributed equity	9(d)	1,289	1,301
Reserves		39	33
Retained earnings		8,392	7,058
Equity attributable to equity holders of the Company		9,720	8,392
Non-controlling interest		14	14
Total equity		**9,734**	**8,406**

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 2017

	Note	2017 US$m	2016 US$m
Cash flows from operating activities			
Cash receipts from customers		8,768	6,693
Payments to suppliers and employees		(3,744)	(3,736)
Cash generated from operations		5,024	2,957
Interest received		19	22
Interest paid		(412)	(599)
Income tax (paid) received		(375)	66
Net cash inflow from operating activities	**9(c)(i)**	**4,256**	**2,446**
Cash flows from investing activities			
Payments for property, plant and equipment - Fortescue		(716)	(304)
Payments for property, plant and equipment - joint operations		(13)	(56)
Contributions from joint venture partners		12	-
Proceeds from disposal of plant and equipment		2	2
Net cash outflow from investing activities		**(715)**	**(358)**
Cash flows from financing activities			
Proceeds from borrowings and finance leases		1,734	-
Repayment of borrowings and finance leases		(4,187)	(2,695)
Finance costs paid		(47)	(28)
Dividends paid		(755)	(114)
Repayment of customer deposits		-	(5)
Purchase of shares by employee share trust		(27)	(21)
Net cash outflow from financing activities		**(3,282)**	**(2,863)**
Net increase (decrease) in cash and cash equivalents		259	(775)
Cash and cash equivalents at the beginning of the year		1,583	2,381
Effects of exchange rate changes on cash and cash equivalents		(4)	(23)
Cash and cash equivalents at the end of the year	**9(b)**	**1,838**	**1,583**

Non-cash investing and financing activities are disclosed in note 9(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 2017

	Attributable to equity holders of the Company					
	Contributed equity	**Reserves**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
	US$m	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**
Balance at 1 July 2015	**1,294**	**46**	**6,184**	**7,524**	**13**	**7,537**
Profit for the year	-	-	984	984	1	985
Total comprehensive income for the year, net of tax	**-**	**-**	**984**	**984**	**1**	**985**
Transactions with owners:						
Purchase of shares under employee share plans	(21)	-	-	(21)	-	(21)
Employee share awards exercised net of employee contributions	28	(12)	-	16	-	16
Expired options and rights	-	(3)	3	-	-	-
Equity settled share-based payment transactions	-	(3)	-	(3)	-	(3)
Dividends paid	-	-	(113)	(113)	-	(113)
Other	-	5	-	5	-	5
Balance at 30 June 2016	**1,301**	**33**	**7,058**	**8,392**	**14**	**8,406**
Profit for the year	-	-	2,093	2,093	-	2,093
Total comprehensive income for the year, net of tax	**-**	**-**	**2,093**	**2,093**	**-**	**2,093**
Transactions with owners:						
Purchase of shares under employee share plans	(27)	-	-	(27)	-	(27)
Employee share awards exercised net of employee contributions	15	(7)	-	8	-	8
Equity settled share-based payment transactions	-	16	-	16	-	16
Dividends paid	-	-	(762)	(762)	-	(762)
Other	-	(3)	3	-	-	-
Balance at 30 June 2017	**1,289**	**39**	**8,392**	**9,720**	**14**	**9,734**

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

Notes to the consolidated financial statements

For the year ended 30 June 2017

Basis of preparation

Financial performance

Capital management

Key balance sheet items

Taxation

Unrecognised items

Other information

1 Basis of preparation

The financial statements cover the consolidated group comprising 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 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 Company and the majority of its subsidiaries.

(d) Critical accounting estimates

The preparation of financial statements requires management to use estimates, judgements and assumptions. Application of different assumptions and estimates may have a significant impact on Fortescue's net assets and financial results. Estimates and assumptions are reviewed on an ongoing basis and are based on the latest available information at each reporting date. Actual results may differ from the estimates.

The areas involving a higher degree of judgement and complexity, or areas where assumptions are significant to the 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 24.

(e) Changes in accounting policy - consolidated statement of cash flows

Under AASB 107 *Statement of Cash Flows*, interest can be classified as an operating, investing or financing activity and the Group had previously disclosed interest paid as a financing activity and interest received as an investing activity. In the current period, Fortescue changed its accounting policy to disclose interest as an operating activity in the consolidated statement of cash flows to better align with the policy adopted by its industry peers.

The impact of this change in policy is to reclassify US$412 million (FY16: US$599 million) of interest paid out of financing activities and US$19 million (FY16: US$22 million) of interest received out of investing activities into operating activities.

(f) Rounding of amounts

All amounts in the financial statements have been rounded to the nearest million dollars, except as indicated, in accordance with the ASIC Corporations Instrument 2016/191.

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.

	Note	2017 US$m	2016 US$m
Underlying EBITDA		**4,744**	**3,195**
Finance income	7	19	214
Finance expenses	7	(502)	(675)
Depreciation and amortisation	5, 6	(1,243)	(1,244)
Exploration, development and other	6	(51)	(136)
Profit before income tax		**2,967**	**1,354**
Income tax expense	14	(874)	(369)
Profit for the year after income tax		**2,093**	**985**

(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.

	2017 US$m	2016 US$m
Revenue from external customers		
China	7,995	6,787
Other	452	296
	8,447	**7,083**

(b) Major customer information

Revenue from one customer amounted to US$3,702 million (2016: US$1,577 million), arising from the sale of iron ore and the related shipment of product.

3 Operating sales revenue

	2017 US$m	2016 US$m
Sale of iron ore	8,335	6,923
Other revenue	112	136
Sale of joint venture iron ore	-	24
	8,447	**7,083**

4 Other income

	2017 US$m	2016 US$m
Net foreign exchange gain	13	-
Other	1	7
	14	**7**

5 Cost of sales

	2017 US$m	2016 US$m
Mining and processing costs	1,780	2,092
Rail costs	192	201
Port costs	183	204
Operating leases	29	76
Shipping costs	929	781
Government royalty	545	446
Depreciation and amortisation	1,227	1,223
Other operating expenses	3	41
	4,888	**5,064**

Total employee benefits expense included in cost of sales and administration expenses is US$579 million (2016: US$538 million).

6 Other expenses

	2017 US$m	2016 US$m
Administration expenses	56	52
Exploration, development and other[1]	51	136
Depreciation and amortisation	16	21
Net foreign exchange loss	-	2
	123	**211**

[1] During the year ended 30 June 2016, exploration, development and other expenses included an impairment provision following suspension of the Nullagine Iron Ore Joint Venture operations of US$32 million, and provisions in relation to specific assets and capital projects deferred pending market conditions of US$59 million.

Overview
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7 Finance income and finance expenses

	2017 US$m	2016 US$m
Finance income		
Interest income	19	22
Gain on early debt redemption	-	192
	19	**214**
Finance expenses		
Interest expense on borrowings and finance lease liabilities	430	621
Loss on early debt redemption	59	42
Other	13	12
	502	**675**

8 Earnings per share

(a) Earnings per share

	2017 Cents	2016 Cents
Basic	67.3	31.6
Diluted	67.0	31.6

(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	2,093	984

(c) Weighted average number of shares used as the denominator	Number	Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	3,111,190,703	3,111,801,515
Adjustments for calculation of diluted earnings per share:		
Potential ordinary shares	11,112,712	5,569,334
Weighted average number of ordinary and potential ordinary shares used as the denominator in calculating diluted earnings per share	3,122,303,415	3,117,370,849

(d) Information on the classification of securities

Performance 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 performance rights are set out in note 18.

9 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 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.

	Note	2017 US$m	2016 US$m
Borrowings	9(a)	3,653	6,266
Finance lease liabilities	9(a)	818	505
Cash and cash equivalents	9(b)	(1,838)	(1,583)
Net debt		**2,633**	**5,188**
Equity attributable to equity holders of the Company		9,720	8,392
Non-controlling interest		14	14
Total equity		**9,734**	**8,406**

Capital management involves a continuous process of:

- Evaluating capital requirements against the risks arising from Fortescue's activities and its operating environment
- Raising, refinancing and repaying of debt
- Development, maintenance and implementation of the dividend policy, including the dividend reinvestment plan.

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, net 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 returning to a targeted longer term level. Interim levels acknowledge and consider the requirements, in certain circumstances, for remedial actions to be taken.

During the financial year ended 30 June 2017, Fortescue repaid US$2.7 billion of debt lowering gearing levels and improving credit metrics, together with a US$1.5 billion refinancing to extend the debt maturity profile and earliest maturity to 2022. The terms and conditions of Fortescue's debt facilitates its strategy of refinancing and debt repayment prior to maturity, with the 2022 senior secured notes prepayable from March 2018, at the Company's sole option. No financial maintenance covenants apply to any of the Company's debt.

(a) Borrowings and finance lease liabilities

	2017 US$m	2016 US$m
Senior secured notes	70	70
Senior unsecured notes	9	8
Finance lease liabilities	42	11
Senior secured credit facility	-	4
Total current borrowings and finance lease liabilities	**121**	**93**
Senior secured notes	2,093	2,082
Senior unsecured notes	1,481	475
Finance lease liabilities	776	494
Senior secured credit facility	-	3,627
Total non-current borrowings and finance lease liabilities	**4,350**	**6,678**
Total borrowings and finance lease liabilities	**4,471**	**6,771**

9 Capital management (continued)

(a) Borrowings and finance lease liabilities (continued)

(i) Refinancing

During the year ended 30 June 2017, Fortescue successfully completed a US$1,500 million senior unsecured notes issue. The proceeds were utilised to repay the remaining US$976 million of the senior secured credit facility and redeem the outstanding US$478 million of senior unsecured notes due to mature in April 2022.

(ii) Senior secured notes

The senior secured notes are due to mature in November 2022, have a face value of US$2,160 million (30 June 2016: US$2,160 million), a coupon rate of 9.75 per cent and will become callable at Fortescue's option from March 2018. The 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 all existing and future senior unsecured indebtedness.

(iii) Senior unsecured notes

At 30 June 2017 the Company had the following senior unsecured notes on issue:

- Senior unsecured notes due to mature in May 2022, have a face value of US$750 million, a coupon rate of 4.75 per cent and have a non-call life of 5 years
- Senior unsecured notes due to mature in May 2024, have a face value of US$750 million, a coupon rate of 5.125 per cent and have a non-call life of 7 years.

At 30 June 2016 the senior unsecured notes on issue were due to mature in April 2022, had a face value of US$478 million and a coupon interest of 6.875 per cent. These notes were repaid in full during the year ended 30 June 2017.

(iv) Senior secured credit facility

During the year ended 30 June 2017, the senior secured credit facility was repaid in full through US$2.7 billion of voluntary debt repayments and US$976 million paid through refinancing. The facility was due to mature in June 2019 and as at 30 June 2016 had a face value of US$3,676 million and a coupon rate within a range of LIBOR + 2.75 to LIBOR + 3.25 per cent.

(v) Finance lease liabilities

Finance lease liabilities largely relate to contractual commitments associated with ore carriers, the Solomon Power Station, the Fortescue River Gas Pipeline and heavy mobile fleet. In the event of default, the assets revert to the lessor.

	Within one year US$m	Between one year and five years US$m	After five years US$m	Total US$m
30 June 2016				
Lease expenditure commitments	73	295	954	1,322
Effect of discounting	(63)	(245)	(509)	(817)
Finance lease liabilities	**10**	**50**	**445**	**505**
30 June 2017				
Lease expenditure commitments	120	468	1,093	1,681
Effect of discounting	(79)	(285)	(499)	(863)
Finance lease liabilities	**41**	**183**	**594**	**818**

9 Capital management (continued)

(a) Borrowings and finance lease liabilities (continued)

(vi) Summary of movements in borrowings and finance lease liabilities

	Senior secured notes US$m	Senior unsecured notes US$m	Finance leases US$m	Senior secured credit facility US$m	Total US$m
Balance at 1 July 2015	2,248	2,063	461	4,797	9,569
Initial recognition	-	-	51	-	51
Interest expense	221	104	61	235	621
Interest and finance lease repayments	(183)	(126)	(64)	(229)	(602)
Transaction costs	6	13	-	15	34
Foreign exchange gain	-	-	(4)	-	(4)
Repayments	(140)	(1,571)[1]	-	(1,187)	(2,898)
Balance at 30 June 2016	**2,152**	**483**	**505**	**3,631**	**6,771**
Balance at 1 July 2016	2,152	483	505	3,631	6,771
Initial recognition	-	1,500	323	-	1,823
Interest expense	221	41	70	98	430
Interest and finance lease repayments	(210)	(40)	(84)	(93)	(427)
Transaction costs	-	(16)	-	40	24
Foreign exchange loss	-	-	4	-	4
Repayments	-	(478)	-	(3,676)	(4,154)
Balance at 30 June 2017	**2,163**	**1,490**	**818**	**-**	**4,471**

[1] The year ended 30 June 2016 includes repayment of US$1,049 million of the 2019 senior unsecured notes and US$522 million of the 2022 senior unsecured notes.

Information about Fortescue's exposure to interest rate risk and foreign exchange rate risk disclosed in note 11.

(b) Cash and cash equivalents

	2017 US$m	2016 US$m
Cash at bank	923	769
Short term deposits	915	814
	1,838	**1,583**

Cash and cash equivalents do not have any restrictions by contractual or legal arrangements.

9 Capital management (continued)

(c) Cash flow information

(i) Reconciliation of profit after income tax to net cash inflow from operating activities

	2017 US$m	2016 US$m
Profit for the year after income tax	2,093	985
Depreciation and amortisation	1,243	1,244
Exploration, development and other	51	136
Share-based payment expense (benefit)	16	(3)
Net unrealised foreign exchange loss	2	22
Net loss (gain) on early debt redemption	59	(150)
Other non-cash items	32	21
Working capital adjustments:		
Decrease in trade and other receivables	101	52
(Increase) decrease in inventories	(34)	219
Decrease in other assets	28	28
Increase (decrease) in trade and other payables	67	(117)
Increase (decrease) in deferred income	115	(418)
Increase (decrease) in employee benefit provisions	8	(3)
Increase in current tax payable	418	302
Increase in deferred tax liabilities	57	128
Net cash inflow from operating activities	**4,256**	**2,446**

(ii) Non-cash investing and financing activities

	2017 US$m	2016 US$m
Acquisition of property, plant and equipment by means of finance leases	(110)	(51)

(d) Contributed equity

(i) Share capital

	Issued shares Number	Treasury shares Number	Contributed equity Number	Issued shares US$m	Treasury shares US$m	Contributed equity US$m
At 1 July 2015	3,113,798,151	(114,590)	3,113,683,561	1,296	(2)	1,294
Purchase of shares under employee share plans	-	(15,188,032)	(15,188,032)	-	(21)	(21)
Employee share awards exercised net of employee contributions	-	14,939,948	14,939,948	-	28	28
At 30 June 2016	**3,113,798,151**	**(362,674)**	**3,113,435,477**	**1,296**	**5**	**1,301**
Purchase of shares under employee share plans	-	(7,214,860)	(7,214,860)	-	(27)	(27)
Employee share awards exercised net of employee contributions	-	5,118,613	5,118,613	-	15	15
At 30 June 2017	**3,113,798,151**	**(2,458,921)**	**3,111,339,230**	**1,296**	**(7)**	**1,289**

9 Capital management (continued)

(d) Contributed equity (continued)

(ii) Issued shares

Issued shares are fully paid and entitle the holders to one vote per share and the rights to participate in dividends. Ordinary shares participate in the proceeds on winding up of the Company in proportion to the number of shares held.

(iii) Treasury shares

Movements in treasury shares represent acquisition of the Company's shares on market and allocation of shares to the Company's employees from the vesting of awards and exercise of rights under the employee share-based payment plans.

(e) Dividends

(i) Dividends paid during the year

	2017 US$m	2016 US$m
Final fully franked dividend for the year ended 30 June 2016: A$0.12 per share (30 June 2015: A$0.02 per share)	285	46
Interim fully franked dividend for the half-year ended 31 December 2016: A$0.20 per share (31 December 2015: A$0.03 per share)	477	67
Total dividends paid	**762**	**113**

(ii) Dividends declared and not recognised as a liability

	2017 US$m	2016 US$m
Final fully franked dividend: A$0.25per share (2016: A$0.12 per share)	614	285

(iii) Franking credits

At 30 June 2017, franking credits available were A$856 million (2016: A$791million). The payment of the final dividend for the year ended 30 June 2017 will reduce the franking account balance by A$334 million.

10 Working capital

(a) Trade and other receivables

	2017 US$m	2016 US$m
Trade debtors - iron ore	113	210
GST receivables	9	11
Other receivables	19	20
Total current receivables	**141**	**241**
Other receivables	3	4
Total non-current receivables	**3**	**4**

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 11.

Disclosures relating to receivables from related parties are set out in note 17.

10 Working capital (continued)

(b) Trade and other payables

	2017 US$m	2016 US$m
Trade payables	234	190
Other payables and accruals	474	432
Total current payables	**708**	**622**
Customer deposits	50	50
Other payables and accruals	-	19
Total non-current payables	**50**	**69**

(c) Inventories

	2017 US$m	2016 US$m
Iron ore stockpiles	277	229
Warehouse stores and materials	311	325
Total inventories	**588**	**554**

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 2017 amounted to US$3,411 million (2016: US$3,796 million). During the year, inventory write-offs of US$31 million (2016: US$11 million) were recognised in relation to specific items of warehouse stores and materials that were identified as obsolete.

(d) Deferred income

	2017 US$m	2016 US$m
Iron ore prepayments	350	374
Port access prepayment	111	111
Total current deferred income	**461**	**485**
Iron ore prepayments	447	197
Port access prepayment	-	111
Total non-current deferred income	**447**	**308**

11 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 market prices of iron ore and manages the commodity price risk through focus on improving its cash margins and strengthening the 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's 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 2017, Fortescue had 27 million tonnes of iron ore sales (2016: 14 million tonnes) that remained subject to provisional pricing, with the final price to be determined in the following financial year. A 15 per cent movement in the realised iron ore price on these provisionally priced sales would have an impact on the Group's profit of US$161 million (2016: US$85 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 variable rates on the finance leases relating to ore carriers 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.

Fortescue's variable rate financial assets and liabilities at the end of the financial year are summarised below:

	Note	2017 US$m	2016 US$m
Cash and cash equivalents	9(b)	1,838	1,583
Finance leases	9(a)	(213)	-
Senior secured credit facility		-	(3,631)
		1,625	**(2,048)**

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 five basis points in interest rates in variable instruments would have an impact on the Group's profit of US$1 million (2016: US$1 million), before the impact of taxation. This analysis assumes that all other factors remain constant, including foreign currency rates.

11 Financial risk management (continued)

(a) Market risk (continued)

(iii) Foreign currency 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 has not entered into transactions that qualify as hedging for hedge accounting purposes.

The carrying amounts of the financial assets and liabilities denominated in Australian dollars (expressed in US dollar), are set out below:

	2017 US$m	2016 US$m
Financial assets		
Cash and cash equivalents	19	30
Trade and other receivables	22	24
Total financial assets	**41**	**54**
Financial liabilities		
Borrowings and finance lease liabilities	150	143
Trade and other payables	351	336
Total financial liabilities	**501**	**479**

A change of five per cent in the Australian dollar exchange rate would have a net impact on the Group's profit of US$23 million (2016: US$21million), 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, deposits with banks and financial institutions and receivables from customers.

Fortescue is exposed to a concentration of credit 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 years ended 30 June 2017 and 30 June 2016.

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 CFO. Fortescue minimises the credit risks by holding funds with a range of financial institutions with credit ratings approved by the Board.

At 30 June 2017, Fortescue had US$5 million (2016: US$6 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 considered impaired.

11 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. Fortescue 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 its assets and liabilities.

The table below analyses Fortescue's financial liabilities into relevant maturity groupings based on the period to the contracted maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 6 months US$m	Between 6 and 12 months US$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
30 June 2016							
Non-interest bearing	622	-	19	-	50	691	691
Fixed rate	158	158	318	951	3,835	5,420	3,140
Variable rate	73	70	140	3,820	-	4,103	3,631
	853	**228**	**477**	**4,771**	**3,885**	**10,214**	**7,462**
30 June 2017							
Non-interest bearing	708	-	-	50	-	758	758
Fixed rate	190	190	394	4,026	1,699	6,499	4,258
Variable rate	11	11	22	71	193	308	213
	909	**201**	**416**	**4,147**	**1,892**	**7,565**	**5,229**

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.

Fortescue's listed debt instruments, including senior secured notes and senior unsecured notes are classified as level 1 financial instruments in the fair value hierarchy, with their fair values based on quoted market prices at the end of the financial year, as outlined below.

	2017		2016	
	Carrying value US$m	Fair value US$m	Carrying value US$m	Fair value US$m
Senior secured notes	2,163	2,460	2,152	2,386
Senior unsecured notes	1,490	1,507	483	455
Senior secured credit facility	-	-	3,631	3,499

The carrying values of other financial assets and financial liabilities approximate their fair values.

12 Property, plant and equipment

	Note	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
Net carrying value							
At 1 July 2015		12,107	872	768	245	3,737	17,729
Transfer of assets		207	38	(19)	(255)	31	2
Additions		52	-	70	284	-	406
Depreciation		(898)	(61)	-	-	(241)	(1,200)
Changes in restoration and rehabilitation estimate	13(b)	-	-	(8)	-	61	53
Other		(12)	-	(39)	(47)	(25)	(123)
At 30 June 2016		**11,456**	**849**	**772**	**227**	**3,563**	**16,867**
Cost		14,993	1,044	772	227	4,397	21,433
Accumulated depreciation		(3,537)	(195)	-	-	(834)	(4,566)
Net carrying value							
At 1 July 2016		11,456	849	772	227	3,563	16,867
Transfer of assets		573	10	(4)	(602)	19	(4)
Additions		111	-	57	670	-	838
Depreciation		(984)	(62)	-	-	(218)	(1,264)
Changes in restoration and rehabilitation estimate	13(b)	-	-	1	-	68	69
Other		-	(1)	(13)	(4)	5	(13)
At 30 June 2017		**11,156**	**796**	**813**	**291**	**3,437**	**16,493**
Cost		15,677	1,053	813	291	4,489	22,323
Accumulated depreciation		(4,521)	(257)	-	-	(1,052)	(5,830)

Transfers of assets were made between the categories of property, plant and equipment, intangible assets, exploration and evaluation and development expenditure.

Property, plant and equipment includes assets held under finance leases of US$505 million (2016: US$434 million). The details of the finance leases under which these assets are held are disclosed in note 9(a).

During the year ended 30 June 2016 other movements included an impairment provision following suspension of the Nullagine Iron Ore Joint Venture operations for the full value of US$32 million, a provision in relation to specific assets and capital projects deferred pending market conditions of US$59 million, and a US$34 million write-off of previously capitalised exploration costs on relinquished tenements.

13 Provisions

	2017 US$m	2016 US$m
Employee benefits	174	167
Restoration and rehabilitation	53	-
Total current provisions	**227**	**167**
Employee benefits	3	2
Restoration and rehabilitation	506	487
Total non-current provisions	**509**	**489**

(a) Provision for employee benefits

Movements in the provision for employee benefits during the financial year are set out below:

	2017 US$m	2016 US$m
At 1 July	169	172
Changes in employee benefits provision	138	134
Amounts paid	(130)	(137)
At 30 June	**177**	**169**

Provision for employee benefits includes the Group's liability for long service leave, annual leave and employee incentives. 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 estimated amount of current annual leave and long service leave not expected to be paid in the next 12 months is US$38 million (2016: US$30 million).

(b) Provision for restoration and rehabilitation

Movements in the provision for restoration and rehabilitation during the year are set out below:

	2017 US$m	2016 US$m
At 1 July	487	430
Changes in restoration and rehabilitation estimate	69	53
Unwinding of discount	3	4
At 30 June	**559**	**487**

The provision for restoration and rehabilitation has been made for all disturbed areas at the reporting date based on current cost estimates for rehabilitation and infrastructure removal, discounted to their present value based on expected timing of future cash flows.

Provisions for restoration and rehabilitation activities exclude ongoing rehabilitation performed as a part of normal operations.

14 Taxation

For the year ended 30 June 2017, Fortescue is a signatory to the Board of Taxation's voluntary Tax Transparency Code ("TTC"). The TTC recommends a number of additional tax disclosures to be publicly available, in two separate parts. The Part A disclosure requirements are included in this note.

(a) Income tax expense

	Consolidated group 2017 US$m	Consolidated group 2016 US$m
Current tax	817	241
Deferred tax	57	128
	874	**369**

(i) Prima facie income tax expense reconciliation

Fortescue operates in a number of jurisdictions and pays income taxes accordingly. The Company's effective corporate income tax rate is reflective of the statutory corporate income tax rates in each jurisdiction. The majority of the Group's taxes are paid in Australia consistent with the location of its mining operations. The Australian Group includes Fortescue's wholly-owned Australian entities.

For the year ended 30 June 2017, the Group's global effective tax rate was 29.5 per cent. This is in line with the Australia corporate tax rate of 30 per cent.

	Consolidated group 2017 US$m	Australian group 2017 US$m	Consolidated group 2016 US$m	Australian group 2016 US$m
Profit before income tax expense	2,967	2,913	1,354	1,321
Tax at the Australian tax rate of 30 per cent	890	874	406	396
Research and development	(4)	(4)	(8)	(8)
Adjustments in respect of income tax expense of prior periods	(1)	3	(15)	(15)
Foreign exchange variations and other transactions adjustments	(6)	(6)	(2)	(1)
Tax impact of overseas jurisdiction	-	7	5	5
Share based payments	(5)	(5)	(9)	(9)
Other	-	-	(8)	(10)
Income tax expense	**874**	**869**	**369**	**358**
Effective tax rate	29.5%	29.8%	27.3%	27.1%

14 Taxation (continued)

(a) Income tax expense (continued)

(ii) Reconciliation of income tax expense to current tax payable

	Consolidated group 2017 US$m	Consolidated group 2016 US$m
Income tax expense in the consolidated income statement	874	369
Deferred tax expense	(57)	(128)
Prior year under/over provision	6	72
	823	**313**
Tax payments made to tax authorities[1]	(115)	(39)
Impact of foreign exchange on income tax payable[2]	(23)	(7)
Current tax payable at 30 June	**685**	**267**

[1] In Australia Fortescue pays pay as you go (PAYG) instalments based on a set rate, as advised by the Australian Taxation Office.

[2] Fortescue's income tax payments are made in the local currency of the country where taxes are due, being predominantly Australian Dollars.

(b) Deferred tax assets and liabilities

Fortescue recognises a timing difference where there are differences between the accounting and tax treatment of an expense resulting in future tax payable or receivable amount. Deferred tax assets and liabilities are measured at the relevant tax rates enacted for the reporting period. The company's major deferred tax assets and liabilities also arise in Australia, specifically with reference to the level of capital investment in the Pilbara.

	Consolidated group 2017 US$m	Consolidated group 2016 US$m
Deferred tax assets	470	355
Deferred tax liabilities	(2,027)	(1,855)
	(1,557)	**(1,500)**

14 Taxation (continued)

(b) Deferred tax assets and liabilities (continued)

Composition of and movements in deferred tax assets and liabilities

	Deferred tax assets consolidated group		Deferred tax liabilities consolidated group		Charged / (credited) to the income statement consolidated group	
	2017 US$m	2016 US$m	2017 US$m	2016 US$m	2017 US$m	2016 US$m
Temporary differences arising from						
Exploration expenditure	-	-	(123)	(118)	(5)	(26)
Development	-	-	(540)	(510)	(30)	1
Property, plant and equipment	-	-	(1,220)	(1,079)	(141)	(169)
Inventories	-	-	(127)	(121)	(6)	41
Foreign exchange losses (gains)	-	1	(1)	(5)	4	(2)
Provisions	220	202	(1)	(5)	24	16
Other financial liabilities	225	139	(11)	(13)	88	12
Other items	25	13	(4)	(4)	9	(1)
	470	**355**	**(2,027)**	**(1,855)**	**(57)**	**(128)**

(c) Unrecognised tax losses

At 30 June 2017, the Group had income tax losses with a tax benefit of US$23 million (2016: US$12 million) which are not recognised as deferred tax assets. The Group recognises the benefit of tax losses only to the extent of anticipated future taxable income or gains in relevant jurisdictions. These losses do not expire.

15 Commitments and contingencies

	Capital US$m	Operating leases US$m	Total US$m
30 June 2016			
Within one year	290	61	351
Between one and five years	183	98	281
	473	**159**	**632**
30 June 2017			
Within one year	327	64	391
Between one and five years	16	24	40
	343	**88**	**431**

(i) Capital commitments

At 30 June 2017, Fortescue had contractual commitments to capital expenditure not recognised as liabilities, including commitments associated with the construction of ore carriers of US$196 million (2016: US$271 million) within 12 months and nil (2016: US$183 million) between one and five years, after the end of the year.

(ii) Operating lease commitments

Fortescue leases various offices and other premises under non-cancellable operating leases expiring within one to four 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 2017 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.

16 Events occurring after the reporting period

On 20 July 2017, the Federal Court handed down its reasons for judgment on the matter of *Warrie (formerly TJ) (on behalf of the Yindjibarndi People) v State of Western Australia,* in which Fortescue is the second respondent. In the Company's view, the Court's decision has no impact on the current and future operations or mining tenure at the Solomon Hub. Fortescue has no commercial concerns and does not anticipate any material impact following the decision.

On 28 July 2017, the Company executed a US$525 million revolving credit facility.

On 1 August 2017, the Company announced the repurchase of the Solomon Power Station for a total of US$348 million.

On 21 August 2017, the Directors declared a final dividend of 25 Australian cents per ordinary share payable in October 2017.

17 Related party transactions

(a) Subsidiaries and joint operations

Interests in significant subsidiaries and joint operations are set out in note 22.

(b) Key Management Personnel remuneration

	2017 US$'000	2016 US$'000
Short term employee benefits	7,469	8,161
Share-based payments	2,273	(1,242)
Post employment benefits	141	135
	9,883	**7,054**

Detailed information about the remuneration received by each Key Management Personnel is provided in the remuneration report on pages 101 to 132.

(c) Transactions with other related parties

The following transactions occurred with joint operations partners:

	2017 US$'000	2016 US$'000
Other revenue	2,785	30,749
Deferred joint venture contributions	265,800	253,361
Current receivables	274	1,742

The deferred joint venture contributions liability reflects the timing of cash call contributions to the Iron Bridge Joint Venture by Fortescue and other joint operation partners.

18 Share-based payments

(a) Employee Performance Rights Plans

During the year ended 30 June 2017, Fortescue issued 1,874,545 (2016: 3,870,459) short term performance rights and 3,666,789 (2016: 9,211,984) 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 and have an exercise price of nil (2016: nil).

	2017	2016
	Number	Number
Outstanding at 1 July	18,355,858	11,622,892
Performance rights granted	5,541,334	13,082,443
Performance rights forfeited or lapsed	(5,122,418)	(2,866,096)
Performance rights converted or exercised	(2,979,750)	(3,483,381)
Outstanding at 30 June	**15,795,024**	**18,355,858**

The weighted average fair value of performance rights granted during the year ended 30 June 2017 was A$4.85 per right (2016: A$1.79) for the short term performance rights and A$4.61 per right (2016: A$1.72) for the long term performance rights. The estimated fair value of the short term performance rights was determined using a trinomial option pricing model and the estimated fair value of the long term performance rights was determined using a combination of analytical approaches, binomial tree and Monte-Carlo simulation. The fair value estimation takes into account the exercise price, the effective life of the right, 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 2017 were:

- Share price: A$4.99 (2016: A$1.81)
- Exercise price: nil (2016: nil)
- Volatility: 68 per cent (2016: 52 per cent)
- Effective life: 2.2 years (2016: 2.2 years)
- Dividend yield: 3.5 per cent (2016: 2 per cent)
- Risk free interest rate: 2 per cent (2016: 2 per cent)

Details of performance rights outstanding at 30 June 2017 are presented in the following table:

	Exercise price	Balance at the end of the year	Vested and exercisable at the end of the year	Remaining contractual life	Vesting conditions	
	A$	Number	Number	Years	Market	Non-market
Short term performance rights 2016	-	1,376,649	1,376,649	13.5	-	Yes
Short term performance rights 2017	-	1,719,915	-	14.3	-	Yes
Long term performance rights 2015	-	2,643,422	-	0.3	-	Yes
Long term performance rights 2016	-	6,800,593	-	13.5	Yes	Yes
Long term performance rights 2017	-	3,254,445	-	14.3	Yes	Yes
	-	**15,795,024**	**1,376,649**			

(b) Employee expenses

Total expenses arising from share-based payments transactions recognised during the period as part of employee benefit expense were as follows:

	2017 US$m	2016 US$m
Share-based payment expense (benefit)	16	(3)

19 Remuneration of auditors

PricewaterhouseCoopers Australia	2017 US$'000	2016 US$'000
Audit and other assurance services		
Audit and review of financial statements	791	722
Other assurance services	338	34
Total audit and assurance services	**1,129**	**756**
Other services		
Consulting services	122	194
Total remuneration of PricewaterhouseCoopers Australia	**1,251**	**950**
Network firms of PricewaterhouseCoopers Australia		
Audit and other assurance services		
Audit and review of financial statements	63	46
Other assurance services	-	-
	63	**46**
Total auditor's remuneration	**1,314**	**996**

20 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 Corporation Instrument 2016/785 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
- International Bulk Ports Pty Limited
- The Pilbara Infrastructure Pty Limited
- FMG Solomon Pty Limited

During the year ended 30 June 2017, these group entities were added to the deed of cross guarantee:

- FMG Nyidinghu Pty Limited
- FMG Procurement Services Pty Limited
- Pilbara Gas Pipeline Pty Limited
- Pilbara Marine Pty Limited
- Pilbara Power Pty Limited
- FMG JV Company Pty Limited
- FMG Ashburton Pty Limited
- Pilbara Mining Alliance Pty Limited
- Fortescue Services Pty Limited
- FMG Personnel Pty Limited
- FMG Personnel Services Pty Limited
- CSRP Pty Limited
- FMG Training 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 2017 along with the consolidated statement of financial position at 30 June 2017 for the closed group and the extended closed group represented by the above companies are materially the same as that of the Group.

21 Parent entity financial information

(a) Summary financial information

	2017 US$m	2016 US$m
Current assets	158	101
Non-current assets	10,161	10,273
Total assets	**10,319**	**10,374**
Current liabilities	759	325
Non-current liabilities	43	85
Total liabilities	**802**	**410**
Net assets	**9,517**	**9,964**
Contributed equity	1,289	1,301
Reserves	22	14
Retained earnings	8,206	8,649
Total equity	**9,517**	**9,964**
Profit for the year	319	601
Total comprehensive income for the year	**319**	**601**

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:

- Investments in subsidiaries, associates and joint operations have been accounted for at cost; and
- Profit for the year includes dividends received from subsidiaries of US$410 million (2016: US$500 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 20; and
- Guarantees forming part of Fortescue's senior debt arrangements associated with the senior secured notes and the senior unsecured notes. The senior secured notes include providing security to the secured debt holders with respect to the assets of the Company and certain of its subsidiaries, as described in note 9(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 2017 or 30 June 2016.

22 Interests in other entities

(a) Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following significant subsidiaries, in accordance with the accounting policy described in note 23(a)(i):

			Equity holding		Investment	
Controlled entities	Country of incorporation	Class of shares	2017 %	2016 %	2017 US$	2016 US$
Chichester Metals Pty Ltd	Australia	Ordinary	100	100	1	1
FMG International Pte Ltd	Singapore	Ordinary	100	100	209,053	209,053
FMG International Shipping Pte Ltd	Singapore	Ordinary	100	100	1	1
FMG Iron Bridge Ltd	Hong Kong	Ordinary	88	88	43,557,023	43,557,023
FMG Magnetite Pty Ltd	Australia	Ordinary	88	88	1	1
FMG North Pilbara Pty Ltd	Australia	Ordinary	88	88	1	1
FMG Pilbara Pty Ltd	Australia	Ordinary	100	100	1	1
FMG Procurement Services	Australia	Ordinary	100	100	1	1
FMG Resources (August 2006) Pty Ltd	Australia	Ordinary	100	100	1	1
FMG Solomon Pty Ltd	Australia	Ordinary	100	100	1	1
Karribi Developments Pty Ltd	Australia	Ordinary	100	100	1	1
Pilbara Housing Services Pty Ltd	Australia	Ordinary	100	100	1	1
Pilbara Power Pty Ltd	Australia	Ordinary	100	100	1	1
The Pilbara Infrastructure Pty Ltd	Australia	Ordinary	100	100	1	1
FMG Hong Kong Shipping Ltd	Hong Kong	Ordinary	100	-	64,837,148	-

(b) Joint operations

The consolidated financial statements incorporate Fortescue's share in the assets, liabilities and results of the following principal joint operations, in accordance with the accounting policy described in note 23(a)(ii):

				Participating interest %	
Joint operations	Country of incorporation	Holding entity	Principal activities	2017	2016
Iron Bridge Joint Venture	Australia	FMG Magnetite Pty Ltd	Development of magnetite assets and production of magnetite concentrate	69	69
Glacier Valley Joint Venture	Australia	FMG North Pilbara Pty Ltd	Iron ore exploration	69	69
Nullagine Iron Ore Joint Venture	Australia	FMG Pilbara Pty Ltd	Iron ore mining and processing[1]	N/A	25

[1] During the year ended 30 June 2017, Fortescue acquired the remaining 75 per cent interest in the Nullagine Iron Ore Joint Venture. During the year ended 30 June 2016, the operations of the Nullagine Iron Ore Joint Venture were suspended pending market conditions.

23 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 right 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, consolidated statement of changes in equity and consolidated statement of financial position 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.

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 a 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 22.

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 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) Employee share trust

The Group has formed a trust to administer its employee share schemes. The trust is consolidated as the substance of the relationship is that the trust is controlled by the Group. Shares held by the share trust are disclosed as treasury shares and deducted from contributed equity.

(c) Foreign currency translation

Transactions in foreign currencies have been converted at rates of exchange at the date of those transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange of the reporting date, with the resulting gains and losses recognised in the income statement, 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.

(d) 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 on the following page.

23 Summary of significant accounting policies (continued)

(d) Revenue recognition (continued)

(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 the majority of Fortescue's contracts the sale price included in the original invoice is referred to as the 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's arrival to the port of discharge. Refer to note 11(a)(i) for further information on provisionally priced contracts, including accounting for mark 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.

(e) 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.

(f) 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. Income tax on the profit or loss for the period comprises current and deferred tax.

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. Current income tax represents the expected tax payable on the taxable income for the year and any adjustments to tax payable in respect to previous years.

Where the amount of tax payable or recoverable is uncertain, a provision is established based on the Group's understanding of applicable tax law at the time. Settlement of these matters may result in changes to current and deferred income tax if the settlement differs from the provision.

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 substantially 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.

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 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.

Fortescue and its wholly-owned Australian entities have implemented the tax consolidation legislation at 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 at 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 each corresponding tax consolidated group.

23 Summary of significant accounting policies (continued)

(g) 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.

(h) 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.

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.

The amount of the impairment allowance is recognised in the income statement within 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.

(i) 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:

- Materials and production costs, directly attributable to the extraction, processing and transportation of iron ore to the existing location
- Production and transportation overheads
- Depreciation of property, plant and equipment used in the extraction, processing and transportation of iron ore.

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.

(j) 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 amortised cost. At the end of each reporting period loans and receivables are reviewed for impairment, with the difference between the carrying amount and the present value of estimated future cash flows recognised in the income statement.

(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.

(k) 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.

(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.

Borrowings are derecognised when the contractual obligations are discharged, cancelled or expire, or when the terms of an existing borrowing are substantially modified. Any difference between the carrying amount of a derecognised liability and the carrying amount of the new liability is recognised in the income statement.

23 Summary of significant accounting policies (continued)

(k) Financial liabilities (continued)

(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 the income statement over the lease period to reflect a constant periodic rate of interest on the remaining balance of the liability for each period.

(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 the income statement 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 the income statement during the financial period in which they are incurred.

(iii) Depreciation

Depreciation of 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.

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. The estimated useful lives for the principal categories of property, plant and equipment depreciated on a straight-line basis are as follows:

- Buildings 20 to 40 years
- Rolling stock 25 to 30 years
- Plant and equipment 2 to 20 years
- Rail and port infrastructure assets 40 to 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 mines.

23 Summary of significant accounting policies (continued)

(l) Property, plant and equipment (continued)

(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 and capitalised in respect of each identifiable area of interest, 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 within exploration, development and other expenses in the income statement.

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.

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 the income statement 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 mines.

(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
- The costs relating to the production stripping activity associated with that component can be measured reliably.

23 Summary of significant accounting policies (continued)

(m) Stripping costs (continued)

(ii) Production stripping costs (continued)

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 income statement 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 the income statement on a straight-line basis over the lease term.

(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 include decommissioning of facilities, 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 24.

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 at each reporting date, 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.

23 Summary of significant accounting policies (continued)

(p) Impairment of non-financial assets (continued)

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.

(q) Finance costs

Finance costs principally represent interest expense and are recognised as incurred except when associated with major projects involving substantial development and construction periods. In addition, finance costs include losses arising on derecognition of finance liabilities at above their carrying value, unwinding of the discount on provisions and bank charges.

Interest expense and other borrowing costs directly attributable to major projects are added to the cost of the project assets until such time as the assets are substantially ready for their intended use or sale. Where funds are 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.

(r) 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 Government 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. 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.

(s) Share-based payments

Share-based remuneration benefits are provided to employees under the Fortescue's Performance Rights Plan, as set out in note 18.

The fair value of rights is measured at grant date and is recognised as an employee benefits expense over the period during which the employees become unconditionally entitled to the rights, with a corresponding increase in equity.

The fair value at grant date is determined using trinomial option pricing model that takes into account the exercise price, the term of the right, 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 right.

The fair value of the rights granted is measured to reflect expected market vesting conditions, but excludes the impact of any non-market vesting conditions (for example, profitability). Non-market vesting conditions are included in assumptions about the number of rights that are expected to become exercisable. At each reporting date, the entity revises its estimate of the number of rights 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 the income statement with a corresponding adjustment to equity.

23 Summary of significant accounting policies (continued)

(t) 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.

(u) 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.

(v) 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.

(w) Comparatives

Where applicable, certain comparatives have been adjusted to conform with current year presentation.

(x) 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 2016:

- AASB 2014-3 Amendments to Australian Accounting Standards - Accounting for Acquisitions of Interests in Joint Operations
- AASB 2014-4 Amendments to Australian Accounting Standards - Clarification of Acceptable Methods of Depreciation and Amortisation
- AASB 2015-1 Amendments to Australian Accounting Standards - Annual improvements to Australian Accounting Standards 2012 - 2014 cycle
- AASB 2015-2 Amendments to Australian Accounting Standards - Disclosure initiative: Amendments to AASB 101.

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods. There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

23 Summary of significant accounting policies (continued)

(x) New accounting standards and interpretations (continued)

(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 2017 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.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

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 2018)

AASB 15 Revenue from Contracts with Customers (effective for annual reporting periods beginning on or after 1 January 2018). 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.

Fortescue sells a significant proportion of its products on CFR terms which requires the Group to be responsible for providing shipping services after the date at which control of the goods passes to the customer at the port of loading. AASB 15 requires the individual components of revenue to be recognised separately and freight revenue is likely to be deferred until the product is delivered rather than when the product is shipped. No other areas are expected to be significantly impacted.

AASB 16 *Leases* (effective for annual reporting periods beginning on or after 1 January 2019)

AASB 16 introduces new framework for accounting for leases and will replace AASB 117 Leases. The new standard will primarily affect the accounting by lessees and will result in the recognition of almost all leases on the balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for almost all lease contracts.

As at 30 June 2017, Fortescue has non-cancellable operating leases in relation to office rentals, vehicles and vessels. Management is continuing to determine the extent that these operating leases will be recognised as assets and liabilities on the Company's statement of financial position, the impact on profit and classification of the related cash flows. Some of the operating leases in existence at the reporting date will be exempt on the basis of being short-term or low value, some relate to arrangements that will not qualify as leases under the new standard and some will be subject to renewal prior to the implementation.

24 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 the income statement may change where such charges are determined by the units of production method, 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 the income statement.

(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.

(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' in note 24(a)), 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 the income statement.

(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.

Directors' declaration

In the Directors' opinion:

(a) the financial statements and notes set out on pages 61 to 99 are in accordance with the *Corporations Act 2001*, including:

(i) complying with Accounting Standards, the *Corporations Regulations 200*1 and other mandatory professional reporting requirements, and

(ii) giving a true and fair view of the consolidated entity's financial position at 30 June 2017 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 20 will be able to meet any obligations or liabilities to which they are, or may become, subject to by virtue of the deed of cross guarantee described in note 20.

Note 1(a) confirms that the financial statements 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 AO
Chairman

Dated in Perth this 21st day of August 2017.

Independent auditor's report

To the shareholders of Fortescue Metals Group Limited

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Fortescue Metals Group Limited (the Company) and its controlled entities (together, the Group) is in accordance with the *Corporations Act 2001*, including:

1. giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year then ended
2. complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the consolidated statement of financial position as at 30 June 2017
- the consolidated income statement for the year then ended
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

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

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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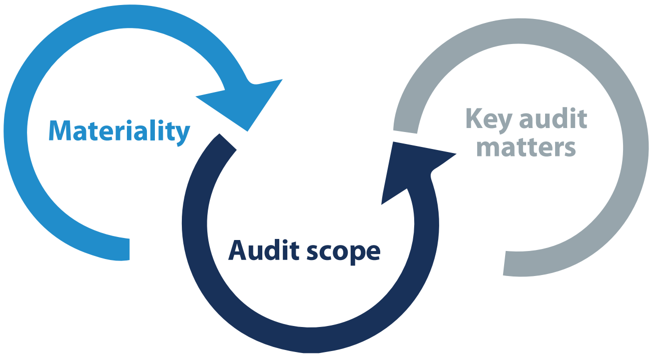
Independent auditor's report

Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.



Materiality

For the purpose of our audit we used overall Group materiality of US$79 million, which represents approximately 5% of the three year average profit before tax of the Group for the current and two previous years.

We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.

We chose Group profit before tax because, in our view, it is the benchmark against which the performance of the Group is most commonly measured. We applied a three year average to address potential volatility in the calculation of materiality that arises from iron ore price fluctuations between years.

We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.

Audit scope

Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.

The primary activity of the Group is the operation of integrated iron ore mining operations and infrastructure comprising various iron ore mines in the Chichester and Hamersley ranges, a rail network and port facilities in Port Hedland. Our audit procedures were predominately performed in Perth where many of the Corporate and Group Operations functions are centralised and this was supported by visits to the mining operations at Solomon, Cloudbreak and Christmas Creek, the port and rail facilities at Port Hedland and the Iron Bridge magnetite project.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context. We communicated the key audit matters to the Audit and Risk Management Committee.

Independent auditor's report

Key audit matter	How our audit addressed the key audit matter
Revenue from iron ore sales (Refer to note 3 and 11(a)(i))	
For the year ended 30 June 2017 the Group recognised revenue of US$8,335 million from the sale of iron ore. We focussed on this area as revenue from iron ore sales was the most significant balance in the consolidated income statement. Our audit approach included additional focus on two specific non-cash period end adjustments to revenue as follows:	In addition to the audit procedures we performed over revenue, we addressed the two specific non-cash period end adjustments to revenue as follows:
(i) Re-measurement of provisional sales	
The value of revenue recognised each period is impacted by the Group's provisional pricing arrangements where the final sales price is determined based on iron ore prices subsequent to the vessel's arrival at the port of discharge.	For a sample of sales contracts open at balance date, we inspected the sales contracts and assessed key terms of the sale including the volume of sales and duration of the provisional sales period.
The Group initially recognises sales at the shipment date price and re-estimates the consideration to be received using the spot iron ore price at the end of each reporting period, with the impact of the iron ore price movements until final settlement recorded as an adjustment to operating sales revenue.	For the sample of sales contracts tested, we recalculated the recorded provisional pricing adjustments to sales revenue and found them to be consistent with external commodity price data.
ii) Deferred income	
The Group has some customers who pay in advance for the future supply of iron ore. These advance prepayments are treated as deferred income and recognised as revenue in the income statement when the associated iron ore is delivered to the customer.	We checked that the sale contracts underlying the payments from customers received in advance included terms that the obligation will be settled by the future physical delivery of iron ore to determine if classification as deferred income was appropriate. For prepayments treated as deferred income at balance date, we obtained confirmation from the Group's customers of the arrangement and remaining value outstanding to be settled in the future delivery of iron ore.
Financing of ore carriers (Refer to note 9(a) and 12)	
During the year ended 30 June 2017, the Group entered into a new financing arrangement for the purchase cost of eight Fortescue ore carriers (ore carriers) that the Group has committed to procure to provide shipping services to its customers. The ore carriers financing arrangements attach to individual vessels and are drawn down upon delivery of each vessel. At 30 June 2017, the Group had accepted delivery of four ore carriers and had received US$234 million of finance funding. This financing transaction was a key audit matter as it was a non-routine arrangement and due to its impact on the Group's financial position at 30 June 2017.	To assess the financial transaction, we performed the following audit procedures, amongst others: • We inspected the financing agreements between the Group and the financier and assessed whether the Group's conclusion to treat the arrangement as a finance lease was consistent with its accounting policies • We checked that the transaction costs associated with this new finance arrangement were capitalised and included within the effective interest rate applied to the finance arrangement.

Independent auditor's report

Key audit matter	How our audit addressed the key audit matter
Carrying value of exploration and evaluation assets (Refer to note 12 and 24(b))	
At 30 June 2017 the Group recognised an asset of US$813 million of exploration and evaluation expenditure. This was a key audit matter as the continued recognition as an asset requires judgement by the Group around the likelihood of recovery through future exploitation or sale of the asset. If a judgement is made by the Group that recovery of the expenditure is unlikely, the relevant capitalised amount will be written off as an impairment expense to the income statement. The majority of the Group's capitalised exploration and evaluation assets relate to its wholly owned Pilbara regional exploration tenements and its 69% interest in the Iron Bridge Joint Venture (IBJV) which is evaluating the Iron Bridge magnetite project (the IBJV Project). We particularly focussed on the Group's judgement that the IBJV remains an exploration and evaluation asset which has not progressed sufficiently to be categorised as a development asset.	To assess the carrying value of the Group's exploration and evaluation assets, we performed the following audit procedures, amongst others: • We assessed whether the Group had right of tenure to its exploration and evaluation assets on a sample basis and whether ongoing exploration and/or evaluation activities exist to support the continued capitalisation of these assets under the Group's accounting policies • We held discussions with Group management on the status of the IBJV Project, which indicated that further evaluation and optimisation work was required in advance of a development decision and such work is continuing • We visited the IBJV Project mine and Stage 1 pilot processing plant in June 2017 to observe the current state of this project. We also inspected minutes of the IBJV Committee meetings throughout the year and noted an FY18 budgeted work program was approved for further evaluation testing of the pilot plant • We found that the Group's continued treatment of the IBJV Project as an exploration and evaluation asset was consistent with the current status of the IBJV Project and the approvals granted by the IBJV Committee.
Restoration and rehabilitation obligations Refer to note 13 and 24(e))	
The Group recognised provisions for restoration and rehabilitation obligations of US$559 million as at 30 June 2017. This was a key audit matter as the calculation of these provisions requires judgement by the Group in estimating the magnitude of possible works required for the removal of infrastructure and rehabilitation works, the future cost of performing the work, when rehabilitation activities will take place and the economic assumptions such as inflation and discount rate relevant to such liabilities. The judgement required by the Group to estimate such costs is further compounded by the fact that there has been limited restoration and rehabilitation activity by the Group or historical precedent against which to benchmark estimates of future costs. The Group reviews the restoration and rehabilitation obligations on an annual basis, using experts to provide support in its assessment where appropriate. This review incorporates consideration of the effects of any changes in regulations and the Group's anticipated approach to restoration and rehabilitation.	To assess the Group's restoration and rehabilitation obligations, we performed the following audit procedures, amongst others: • We evaluated the Group's rehabilitation and restoration cost forecasts including the process by which they were developed. We also checked the mathematical accuracy of the underlying calculations • We considered the competence and objectivity of the Group's experts who reviewed the closure plan and associated cost estimates • We evaluated the expected timing of restoration and rehabilitation activities and found them to be consistent with the life of mine plan for each mining operation • We benchmarked key market related assumptions including inflation rates and discount rates against external market data and found them to be consistent • We assessed provision movements in the year relating to restoration and rehabilitation obligations and found them to be consistent with our understanding of the Group's operations and associated rehabilitation plans.

Independent auditor's report

Other information

The directors are responsible for the other information. The other information comprises the Overview, Operating and Financial Review, Ore Reserves and Mineral Resources, Corporate Social Responsibility, Governance, Directors' Report and Corporate Directory included in the Group's Annual Report for the year ended 30 June 2017 but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors 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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Independent auditor's report

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 105 to 132 of the directors' report for the year ended 30 June 2017.

In our opinion, the remuneration report of Fortescue Metals Group Limited for the year ended 30 June 2017 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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.

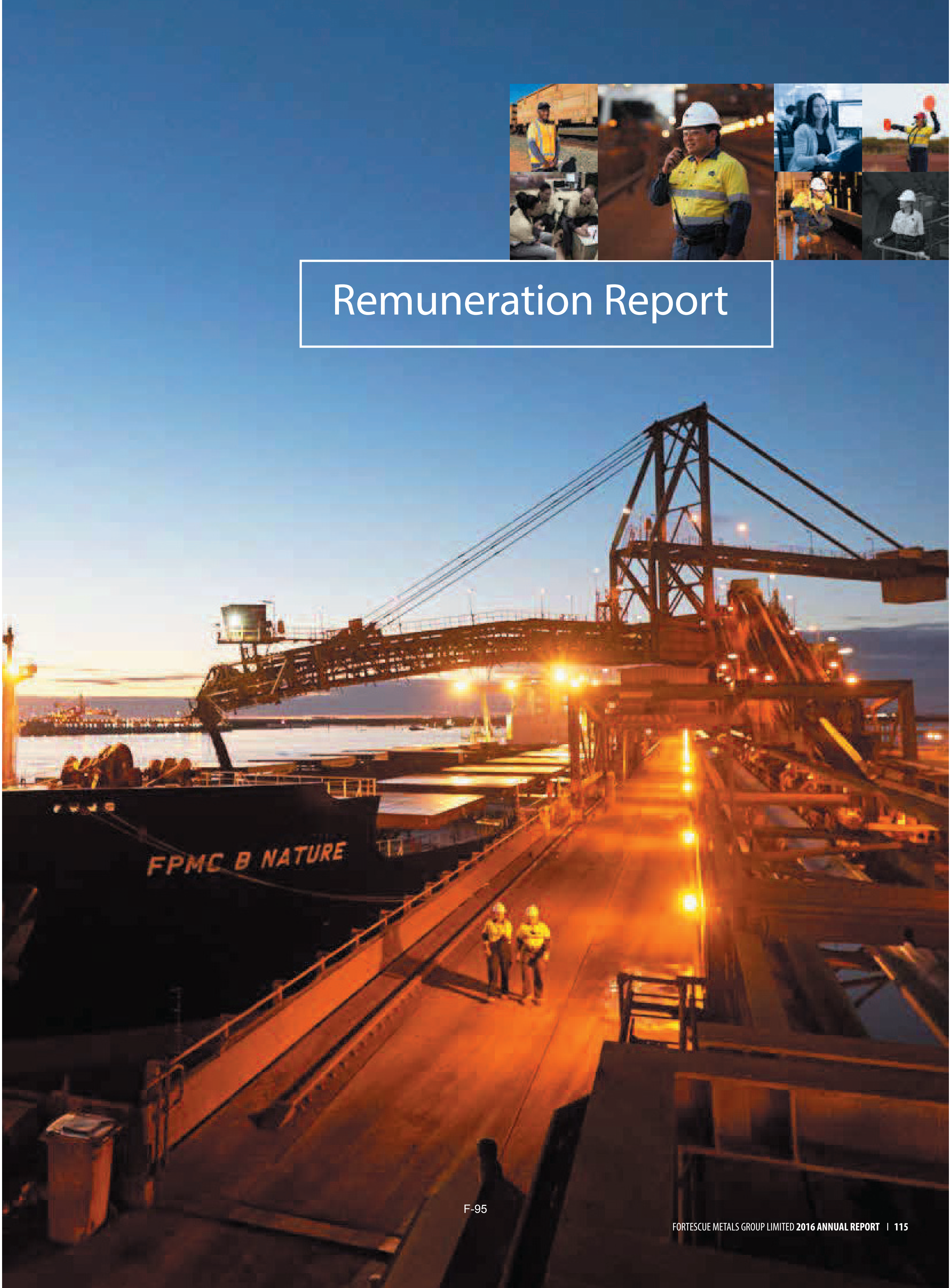
PricewaterhouseCoopers

PricewaterhouseCoopers

N Henry

Nick Henry
Partner

Perth
21 August 2017



Remuneration Report

Remuneration Report

From the Remuneration and Nomination Committee Chair

On behalf of the Directors of Fortescue Metals Group Limited I am pleased to present the Remuneration Report for the year ended 30 June 2016 ('FY2016 or FY16').

Our Remuneration Report is designed to provide you, our shareholders, with information on key Committee activities undertaken during the year. Details of remuneration paid to Directors and Key Management Personnel ('KMP or Executives') in FY2016 demonstrate how reward outcomes link to Company strategy, performance and value to shareholders.

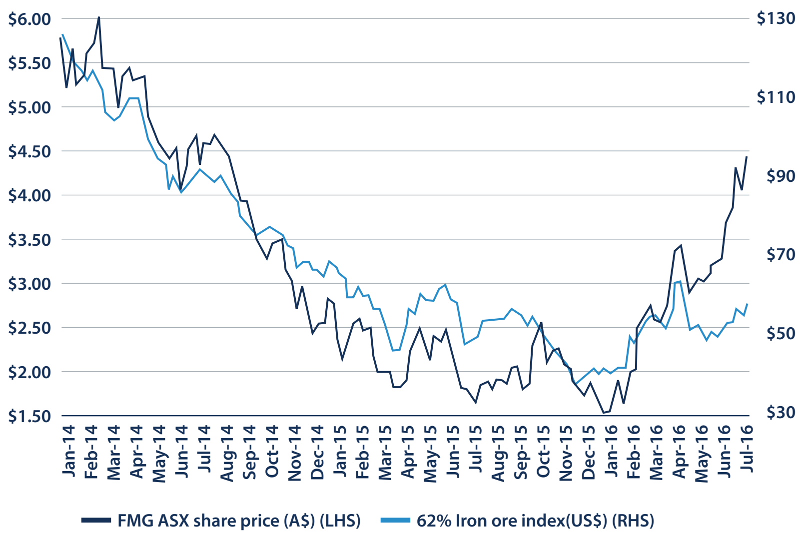
Market context

As reported in the Operating and Financial Review, FY16 has achieved strong results during another challenging year with market volatility and external factors impacting shareholder returns across the industry.

A governing principle of Fortescue's remuneration strategy is to ensure management are held accountable for achieving stretch targets on the critical deliverables of safety, production and cost. For FY16, the Board determined aggressive targets for each and designed incentives specifically to drive business transformation, financial performance and protect shareholder value, as follows:

- Improvement in safety of at least 15% over FY15, ensuring continued improvement of this most critical measure
- A focus on cost reduction at the highest level, to achieve significant and sustainable cost savings in addition to the target set by the Board in FY15, at that time crucial to the sustainability of the business in the context of a falling iron ore price
- Delivery of process efficiency, productivity improvement and efficiency across the business, fundamental to strengthening Fortescue's resilience, preserving shareholder value and developing a platform for future growth.

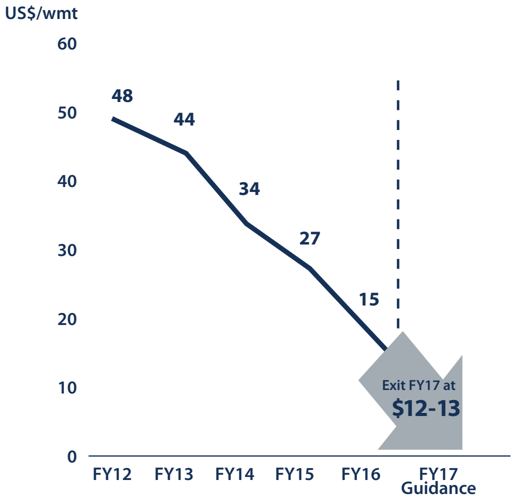
The following chart illustrates the high correlation of the Fortescue share price to movements in the iron ore price, a key external factor outside management's control.



Sustainable cost reduction

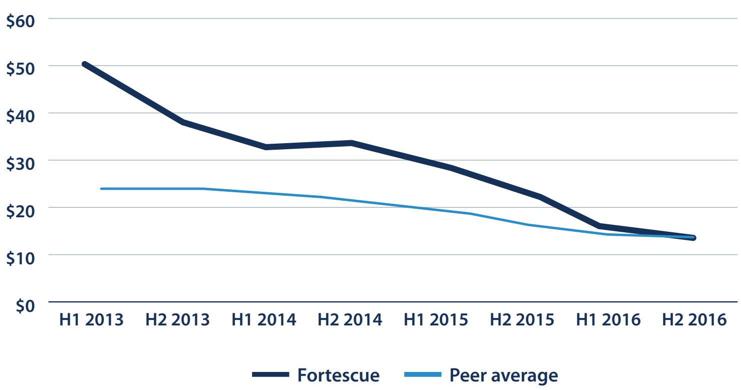
In FY15, the Board tasked the CEO and CFO specifically to safely deliver significant cost savings that it believed were fundamental to business sustainability in light of a falling iron ore price. Given its essential nature to Fortescue, a continued focus on cost reduction in FY16 and criticality of achieving further significant and sustainable cost reductions was reinforced by the Board. The Company's leadership team has continued to focus on the key drivers of financial performance within their control, including process efficiency, productivity improvement and cost reduction. They have taken the necessary actions required to strengthen Fortescue's resilience to the current economic environment, preserving shareholder value and developing a platform for future growth.

C1 costs are an important key performance indicator, representing the operating costs of mining, processing, rail and port on a per tonne basis, including allocation of direct administration charges and production overheads. The chart opposite shows the reduction in C1 costs from FY12 to FY16. FY16 was again a successful year, highlighting the delivery of continuous, sustainable cost improvements achieved through development of assets, efficiencies, productivity and cost savings.

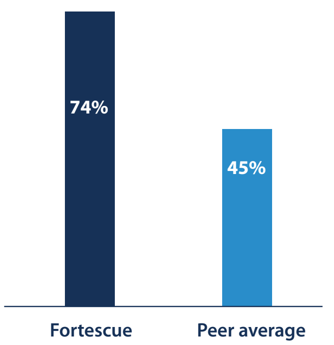


Fortescue's successful drive to reduce C1 costs, together with reduction in all costs of the business reflect further progress in securing the Company's strong competitive position among its global peers. Whilst cost reduction has been reported across the industry of between 41 – 48 per cent since 2013, Fortescue by comparison, has reduced C1 costs by more than 70 per cent as illustrated by the charts below.

C1 cost US$/wmt

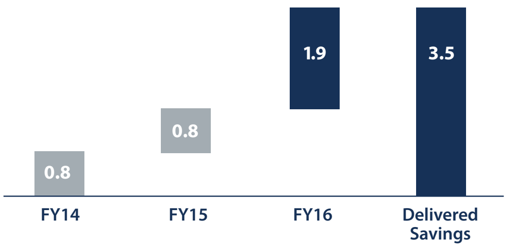


C1 cost reduction 2013-2016

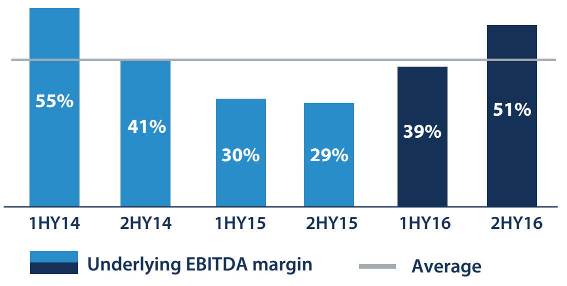


The cost saving actions delivered by the leadership team have successfully maintained underlying EBITDA margins and delivered shareholder value, as illustrated by the charts below.

FY14-FY16 cash savings since achieving full operating capacity US$bn



Underlying EBITDA margin



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FY16 Remuneration

Fixed remuneration

For the second successive year in line with economic and industry sentiment, the FY17 Annual Remuneration Review (effective from 1 July 2016) resulted in a decision to maintain fixed remuneration at current levels across the business.

'At Risk' remuneration

A significant portion of the value that executives may receive in respect to performance based incentives, or the 'at risk' component of their remuneration arrangements is subject to both Company and share price performance. A minimum of 50 per cent (with the ability to elect up to 100 per cent) of the Short Term Incentive and 100 per cent of the Long Term Incentive is offered in the form of share rights, the value of which is based on the share price at the beginning of the performance period. This means that the value of the share rights is subject to the same share price performance experienced by shareholders over the relevant period. The actual value realised by executives is based on the share price at the time the share rights are awarded and value received at the end of the performance period. This ensures that awards are fully aligned with the shareholder experience over the same period.

In FY16, Fortescue's management team have continued to provide strong leadership in operational performance driving safe and sustainable improvements across the business. This performance has resulted in continued reduction in Total Recordable Injury Frequency Rate, a significant reduction in total delivered costs, achievement of annual production targets and the generation of strong cash flows. Accordingly, these results have delivered a solid foundation for the continued reduction of debt. These achievements are reflected in the outcomes of the FY16 Executive and Senior Staff Incentive Plan (ESSIP) which has delivered an average award of 102 per cent of maximum opportunity. In considering incentive payments, the Board take careful consideration in setting and assessing awards to ensure there is a strong link between remuneration and performance.

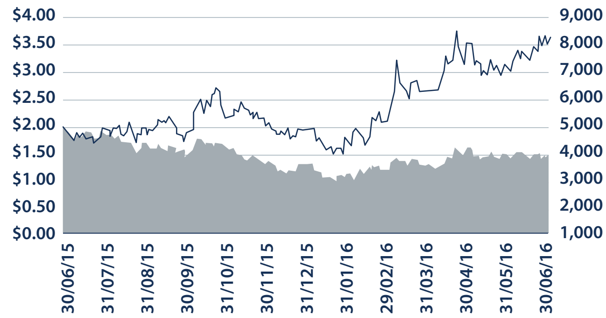
The three year performance period for the FY14 Long Term Incentive Plan (LTIP) concluded on 30 June 2016, with the Plan meeting its Absolute Return on Equity (AROE) threshold of 20 per cent and 25 per cent of share rights granted under the Plan vesting.

Fortescue's share price and total shareholder return for the one year short term and three year long term incentive performance periods are provided below.

	Share Price			
Period	**At start of period**	**At end of period**	**Increase**	**TSR**
1 Year	A$1.91	A$3.50	83%	87.6%
3 Year	A$3.04	A$3.50	15%	27.4%

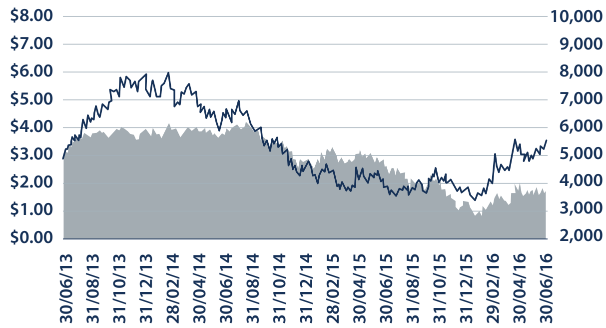
Fortescue's share price performance vs the ASX 100 Resources Index

One year performance



ASX 100 Resources Index (RHS) — FMG ASX share price A$ps (LHS)

Three year performance



ASX 100 Resources Index (RHS) — FMG ASX share price A$ps (LHS)

Critical initiatives

Critical initiatives identified by the Board for implementation over FY16 and the previous financial year were required to ensure continued business sustainability and value protection in the context of the falling iron ore price and consequent market shifts. These initiatives included stability of the leadership team and aggressive cost reduction targets, to be driven in particular by the CEO and CFO.

In the opinion of the Board, the CEO and CFO demonstrated outstanding leadership and extraordinary achievement in creating long term sustainable value for shareholders in the period up to and including the FY16 performance year. This achievement includes the delivery of cost savings of US$1.6 billion for the financial years 2013 to 2015 and the development of a clear and deliverable plan for achieving additional cost savings of US$1.9 billion in FY16.

Recognising the nature of cost savings as fundamental to the sustainability of Fortescue, the Board exercised its discretion to approve a one-off award payment to the CEO of A$2,000,000 and to the CFO of A$500,000, representing in total less than 0.1 per cent of the cost savings delivered at the time of payment.

In considering the reasonableness of the proposed payments, the Board formally engaged Egan Associates.

CEO remuneration

The total remuneration actually delivered to the CEO (and other executives) is subject to performance hurdles and to the share price movement, with a significant proportion delivered in share based incentives subject to the same variability as experienced by shareholders.

Fortescue is committed to providing competitive remuneration packages to executives and senior employees and the Board benchmarks remuneration components against major indices including the ASX 50 and the ASX 100 Resources Index and comparable roles in peer group companies. The Board acknowledges that market conditions, share price and market capitalisation may change the Company's relative comparator group. At 30 June 2015 Fortescue was ranked #55 on the ASX 100 by market capitalisation, improving to #32 at 30 June 2016.

Long Term Incentive Plan

As reported in the FY15 Remuneration Report, the Board reviewed the operation of the Long Term Incentive Plan (LTIP) taking into account the objectives of the Company's broader remuneration strategy, general market conditions and the range of performance hurdles utilised by leading resource companies both regionally and globally. The review resulted in the introduction of an additional two performance hurdles, Relative Total Shareholder Return and a basket of Strategic Measures designed to enhance the existing plan. Absolute Return on Equity has been retained as a key performance measure. This combination of financial and strategic metrics support a framework for long term growth.

The amended LTIP was approved by Shareholders at the 2015 Annual General meeting and has been implemented in FY16. Further details on its operation are provided in Section 5 of this Remuneration Report.

Conclusion

Fortescue's remuneration strategy is designed to motivate, attract and retain employees to deliver on the Company's strategic objectives. For executives and senior staff this includes a high proportion of at risk remuneration which is fundamentally aligned to shareholder returns. At its core, the strategy drives management accountability for the achievement of stretch targets for the business, through a balance of financial and non-financial measures.

Consistent with the Board's strategy, remuneration outcomes for FY16 reflect the achievement of all critical safety, production and cost deliverables for the year. The improvement in safety performance, a focus on cost reduction at the highest level and crucial process efficiency and productivity gains have strengthened Fortescue's resilience, increased shareholder value and have provided the platform for future growth.

Who this report covers

This report outlines the remuneration arrangements for Fortescue's Key Management Personnel (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 Group for FY16 were:

Non-executive Directors

A Forrest	Chairman
O Hegarty	Vice Chair
M Barnaba	Lead Independent Director
E Gaines	Non-Executive Director
C Huiquan	Non-Executive Director
G Raby	Non-Executive Director
S Warburton	Non-Executive Director
J Baderschneider	Non-Executive Director

Executive Directors

N Power	Chief Executive Officer
P Meurs	Director Development (resigned 18 April 2016)
S Pearce	Chief Financial Officer (appointed as an Executive Director 21 June 2016)

Other key management personnel (Executives)

N Cernotta	Director Operations

Within this Remuneration Report reference to "Executive(s)" includes Executive Directors and Other Key Management Personnel.

There have been no changes to Key Management Personnel after the reporting date.

The information provided in this Remuneration Report has been prepared in accordance with requirements under the *Corporations Act 2001* and Accounting Standards. Further details in regard to Company Directors can be found in the Corporate Governance Section of the Annual 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 unless otherwise indicated the following sections have been audited in accordance with section 308 (3c) of the *Corporations Act 2001*.

Sharon Warburton
REMUNERATION & NOMINATION COMMITTEE CHAIR

Safety
TRIFR 4.3
15%

Production
169.4mt
2%

C1 costs
$15.43/wmt
43%

F-100

1 FY16 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 shareholder value.

Fortescue's Board and Remuneration and Nomination Committee (RNC) are committed to the 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 FY16 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 FY16.

Element of Remuneration	Delivery	Performance Measures	Outcomes
Total Fixed Remuneration (TFR) Further details are provided on page 143	Cash, superannuation and optional salary sacrifice benefits	An individual's TFR is a fixed / guaranteed element of remuneration	In consideration of fixed remuneration levels and current business climate, a freeze of fixed remuneration was implemented across the Company in FY16 A market review was conducted for the CEO and Executive in May 2016 resulting in no change to current fixed remuneration for the second successive year TFR is benchmarked against companies in the ASX 100 Resources Index
Short Term Incentive Plan Executive and Senior Staff Incentive Plan (ESSIP) Further details are provided on page 127	Minimum 50 per cent (up to 100 per on election) in share rights with the balance in cash Share rights are granted based on share price at the beginning of the performance period with value realised at time of award at the end of the performance period Movement in share price over the performance period directly affects the value received ensuring full alignment with returns to shareholders over the performance period	A balanced scorecard of performance measures including financial and non-financial measures. Financial measures represent the key drivers of financial performance underlying EBITDA and NPAT **Company Annual Targets** • Safety • Production • Cost **Company Growth Targets** • AROE • Physical • Culture **CEO Performance** • Measured on Company Annual plus Growth Targets **Other KMP Performance** • As per the CEO plus an additional 4-5 Personal KPIs aligned to business plan and set at stretch levels of performance	Awards made in relation to the FY16 ESSIP reflect the achievement of: • All three Company Annual Targets achieved: • 15% reduction in TRIFR • 43% reduction in C1 costs • 2% above target production • Company Growth Targets achieved • Individual performance objectives for Executives other than the CEO The outcome represents an average payment of 102 per cent of maximum opportunity compared with an average payment of 81 per cent of maximum opportunity in FY15 Refer to section 5 for further detail
Long Term Incentive Plan (LTIP) Further details are provided on page 132	Share rights are granted based on share price at the beginning of the performance period with value realised at time of award at the end of the performance period Movement in share price over the performance period directly affects the value received ensuring strong correlation with returns to shareholders over the course of the same period	**FY14 LTIP for the period 1 July 2013 to 30 June 2016** • Measured solely against single financial AROE Targets **FY15 LTIP for the period 1 July 2014 to 30 June 2017** • Measured solely against single financial AROE Targets **FY16 LTIP measured against** • AROE (33%) • TSR (33%) • Strategic Measures (34%)	**FY14 LTIP** Threshold AROE performance of 20% was achieved The FY15 and FY16 LTIP performance periods remain open
Critical Initiative Incentive Payment	One-off cash payment	Business critical initiatives including aggressive cost reduction targets and leadership stability required to deliver sustainable long term value for shareholders	An additional Incentive Payment was awarded to the CEO of A$2,000,000 and the CFO of A$500,000 in recognition of their extraordinary achievement in the delivery of cost savings to the Company of US$1.6 billion for the financial years 2013 to 2015 and the commitment to deliver further cost savings of US$1.9 billion in 2016 ensuring Fortescue's improved global competitiveness. Arising from the improvements achieved, the above incentive payments were determined by the Board and in aggregate equate to less than 0.1 per cent of the cost savings generated

2 Remuneration governance

At Fortescue, we believe that robust governance is critical to underpinning the effectiveness of our remuneration strategy.

2.1 The Remuneration and Nomination Committee

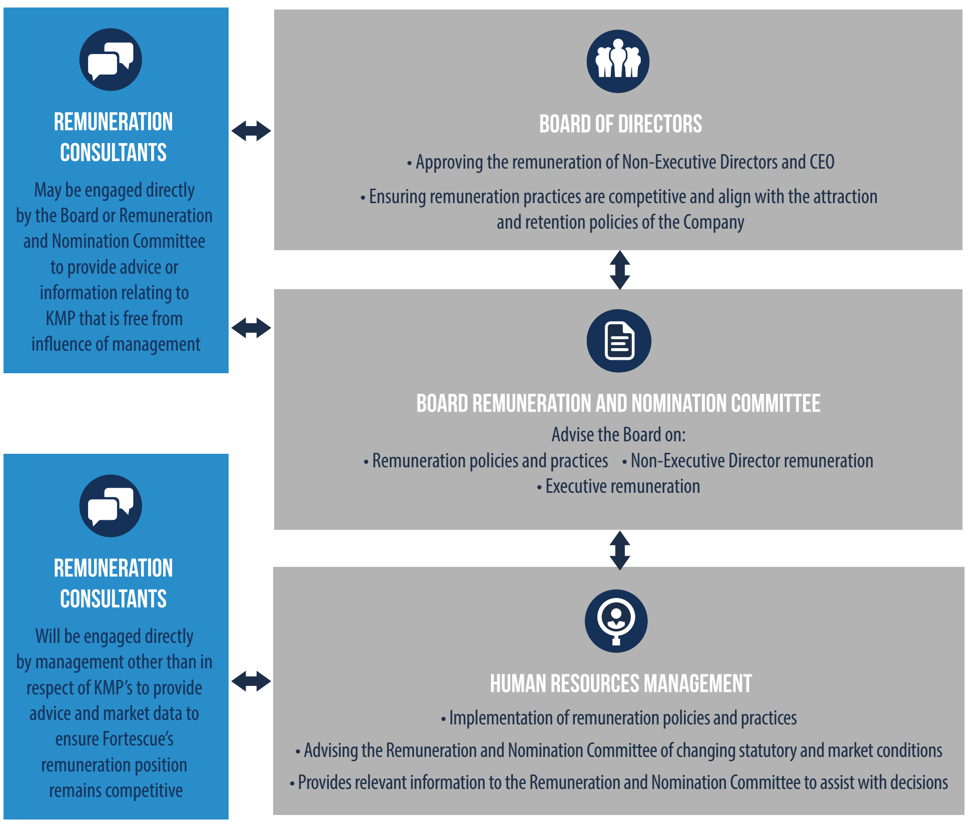
The Remuneration and Nomination Committee (RNC) operates under a Board-approved Charter. The purpose of the committee is to provide assistance and recommendations to the Board to ensure that it is able to fulfil its responsibilities relating to the following:

- Remuneration strategy
- Non-Executive Director remuneration
- Chief Executive Officer and Executive Director remuneration
- Senior Executive remuneration
- Short term and long term incentive plans
- Annual Performance Review of the CEO
- Succession planning
- Diversity strategy
- Gender Pay equity
- Matters relating to the Company's recruitment, retention and termination policies
- Nomination and Review of applicants for the Board Director position
- Committee Member Appointments.

A copy of the Charter is available under the Corporate Governance section at www.fmgl.com.au

The RNC in FY16 consisted solely of Non-Executive Directors. The Chief Executive Officer 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:



2.2 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 2016, the Committee engaged Egan Associates in relation to the reasonableness of the critical initiative incentive payment made to the CEO and CFO and a review of Non-executive director fees. Recommendations received from Egan Associates were provided as input into the decision making process and the Committee considered the recommendations along with other factors in making its decision.

The following table shows the fees relating to remuneration recommendations paid to Egan Associates:

Advice and/or services provided	Fees (excluding GST)
Research and remuneration recommendations - Non-executive director fees	10,290
Reasonableness of critical initiative incentive payment – CEO and CFO	7,500
Total	**17,790**

Fortescue Management were not involved in the formulation of any remuneration recommendations but provided factual information to assist Egan Associates. The Committee and Board are satisfied that the remuneration recommendations received from Egan Associates during the year were free from undue influence from members of Fortescue's KMP.

The Committee also retained Egan Associates in relation to the review of policies and practices and the provision of general information on market trends, it did not incorporate providing the Committee with any remuneration recommendations as defined by the *Corporations Act 2001*.

2.3 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; or
    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; or
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.

2.4. 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 Securities 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 Securities Trading Policy can be accessed from the Corporate Governance section at www.fmgl.com.au

2.5 Minimum shareholding and holding conditions

All Directors and employees are encouraged to own Fortescue shares and the Company enables employee participation as a shareholder through short and long term incentives, salary sacrifice and dividend reinvestment programs.

Fortescue does not have a formal minimum shareholding policy or mandatory holding condition on awarded shares however it is important to note:

- A minimum of 79 per cent of the 'at risk' component of Executive remuneration is granted in share rights
- The nominal value of share rights is determined at the commencement of the performance period motivating executives to hold shares and grow shareholder value
- The combined number of share rights granted and shares awarded exceeds TFR
- Following recent changes to tax legislation, all Fortescue incentives (both short and long term) offered from FY16 will be awarded as vested rights. Participants having up to 15 years to exercise the vested rights into shares and income tax is deferred until exercise.

3 Executive remuneration strategy

Fortescue's reward strategy seeks 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 the ASX 50 and the ASX 100 Resources Index as well as comparable roles in peer group companies. The Board acknowledges that market conditions, share price and market capitalisation may change the Company's relative comparator group from time to time.

The Board, however, has a long term strategy to ensure that executive remuneration is appropriately positioned to motivate, attract and retain key executives and senior employees through the commodity cycles to deliver on the current and long term strategic activities of the Company.

In FY15 Fortescue was ranked #55 on the ASX 100 by market capitalisation and improved to #32 at 30 June 2016.

Information may also be sought from independent remuneration consultants regarding Executive remuneration as and when required as detailed in section 2.

3.2 How remuneration practices align with our reward strategy

Remuneration strategy principle	Policy	Practice
High levels of share ownership	Drive alignment of employee and shareholder interests	A minimum 50 per cent of the ESSIP paid in shares with executives able to elect up to 100 per cent in shares. LTIP awarded as shares
Market competitive remuneration	Attract and retain key talent and be competitive against relevant companies	Remuneration is benchmarked against the ASX 100 Resources Index and other relevant indices
Performance focus	Provide fair reward in line with individual and Company achievements	Executive remuneration mix targets a minimum of 64 per cent of the total opportunity 'at risk'
Fit for purpose	Include flexibility to reflect clear linkage to business strategy	Business strategy is prioritised; market practice is only one input in determining the relevant framework
Strategic alignment	Support delivery of long term business strategy and growth aspirations	Incentives are measured on financial and non-financial performance to support sustainable growth
Shareholder and Executive alignment	LTI rewarding sustained performance over a three year period	A significant portion of executive remuneration granted as performance rights vesting subject to short and long term performance hurdles

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 comprise:

- Total Fixed Remuneration (TFR)
- Executive & Senior Staff Incentive Plan (ESSIP)
- Long Term Incentive Plan (LTIP).

Remuneration may also include participation in the Salary Sacrifice Share Plan (SSSP).

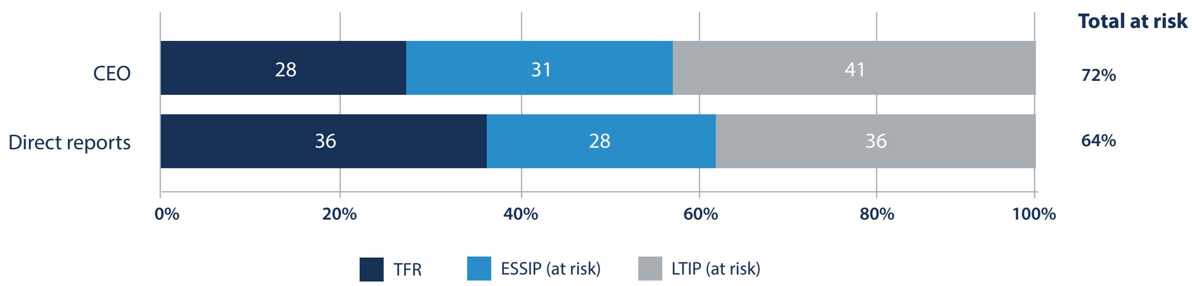
Total remuneration comprising each of these components is benchmarked against the market taking into account the Company's position as the world's fourth largest iron ore producer and explorer and its ranking on the Australian Securities Exchange. Remuneration is benchmarked against companies in the 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.

The number of share rights granted under both ESSIP (which account for a minimum of half the incentive) and LTIP (which is granted solely in share rights) are determined based on the share price at the start of the relevant performance period. This means that the movement in share price over the performance period directly affects the value received by executives and ensures full alignment with returns to shareholders over the course of the same period.

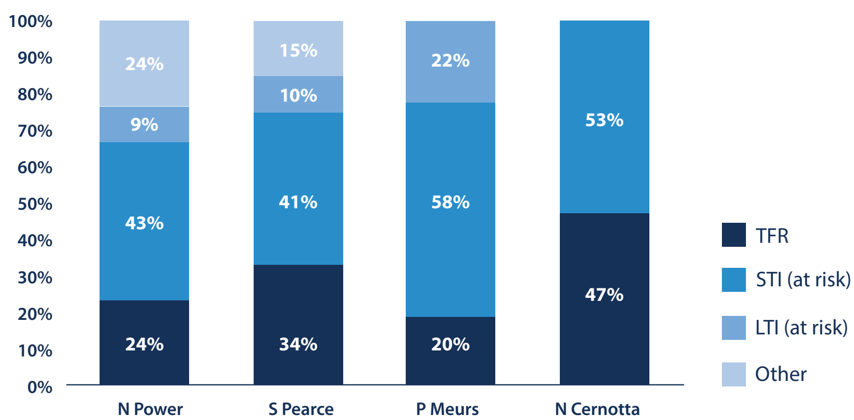
The remuneration mix (shown in the section below) clearly illustrates the significant proportion of 'at risk' components of executive remuneration and reinforces the pay for performance policy alignment adopted by the Board. Further, a minimum 79 per cent (up to a maximum of 100 per cent) of the total 'at risk' component is offered in the form of share rights and subject to share price movement fully aligned with shareholders calculated based on the share price at the commencement of the performance year. This means that over three quarters of the value to the individual of the combined ESSIP and LTIP is tied directly to the share price at the time of award ensuring that executive reward is aligned to shareholder value.

4.1 Remuneration mix

The table below shows the remuneration mix for superior performance when stretch hurdles have been met for both the CEO and his direct reports in FY16:



The chart below represents the actual remuneration mix for KMP in 2016:



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5 Incentive plan operation and performance outcomes

5.1 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 60 per cent to Company objectives, and 40 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 performance period (eg. 1 July 2015 to 7 July 2015).

The maximum incentive opportunity for KMPs in FY16 is shown below:

Chief Executive Officer	112.5 per cent of TFR*	1 participant
CEO Direct Reports	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 Board 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.

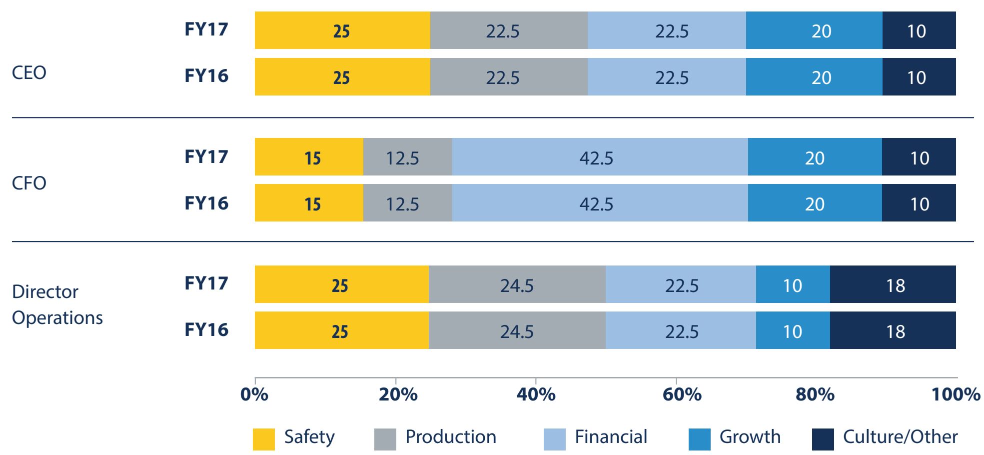
5.2 How ESSIP objectives and weightings are determined

ESSIP targets and measures are set on an annual basis and are linked to the annual stretch budget and Fortescue's strategic plan and reflect an appropriate balance between financial and non-financial targets

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 deliverables.

The following table shows the relationship between the primary ESSIP performance measures for the CEO and other KMP.

- The CEO has 55 per cent financial and 45 per cent non-financial targets
- Financial and non-financial targets are aligned specifically to the executive's respective roles and responsibilities and range from 35 per cent to 65 per cent.



* Other includes measures associated with engagement and functional objectives.

5.3 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 $100,000 and has elected to take 70 per cent of the incentive in shares.

Details of Offer	
Nominal Value of full award	$100,000
VWAP at start of FY16 (1 to 7 July 2015)	$1.8002
Participant Share Weighting	70%
Potential Award	
Cash (30 per cent of opportunity)	$30,000
Nominal value of share rights (70 per cent)	$70,000
Share Rights granted (70 per cent of opportunity)(ie $70,000 ÷ $1.8002)	38,885
Example Outcome	
Percentage of incentive opportunity achieved (Company and personal performance)	80%
Cash paid (80% of cash component)	$24,000
Shares Awarded (80% of share rights convert to ordinary shares)	31,108

The number of share rights granted in respect to the FY16 ESSIP is determined based on the VWAP at the start of the performance period which was A$1.8002.

- If the share price at the time of award is higher, executives will receive higher value per share right
- If the share price at the time of award is lower, the value to executives is decreased.

The value of share rights is therefore aligned with shareholder interests as executives receive value consistent with share price movements.

5.4 How Fortescue performed over the past five years

Fortescue continues to build on its performance over the past five years, showing strong performance in safety, production and costs 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 FY16, Fortescue's share price increased from the FY15 closing price of A$1.91 to A$3.50 at the end of FY16. This represents a 83 per cent increase compared with the ASX 100 Resources index which decreased 17 per cent over the corresponding period.

	2016	2015	2014	2013	2012
Total Tonnes Shipped (wmt)	169.4	165.4	124.2	80.9	57.5
Revenue from iron ore operations - US$millon	$6,947	$8,390	$11,611	$8,057	$6,681
EBITDA - US$million	$3,195	$2,506	$5,636	$3,575	$3,035
Profit after income tax - US$million	$985	$316	$2,740	$1,746	$1,559
Return on Equity %	12%	4%	43%	39%	50%
Gearing (Book value of Debt/Debt + Equity)	45%	56%	56%	71%	69%
Dividends paid A$ per share	$0.05	$0.13	$0.20	$0.04	$0.08
Share Price A$	$3.50	$1.91	$4.35	$3.04	$4.90
- change in share price A$	$1.59	($2.44)	$1.31	($1.81)	($1.45)
- change in share price %	83%	(56)%	43%	(37)%	(23)%

The non-IFRS information included in the table above has not been subject to audit.

An explanation of how fixed and variable remuneration outcomes were driven by Company performance in FY16 is included in section 1.

5.5 FY16 ESSIP performance outcomes

ESSIP awards are 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.

Company annual and growth performance objectives are set by the Fortescue Board in line with the annual business planning and budgeting process and are established in line with a culture of stretch targets. The weighting for each target are reviewed annually and may vary from year to year to reflect its criticality, effort to achieve and impact on the business.

Financial targets account for 55 per cent of the Company and growth performance objectives for the CEO with the non-financial targets accounting for the remaining 45 per cent. The mix of financial and non-financial objectives for executives varies and are specific to their roles and responsibilities.

The financial performance measures were chosen as they represent the key drivers of financial performance (underlying EBITDA, NPAT) 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.

In the 2016 year the Board set a number of key targets in respect of cost reduction across all operating and support functions and challenging production targets. These targets are a high priority for the Board and they have approved an above target award in respect to both measures to reflect the degree of outperformance by the business in this area.

The Board had determined the relative weighting and mix of performance objectives for the CEO and executives in order to deliver long term sustainable value.

The performance objectives in 2016 are shown below:

FY16 Short Term Incentive Outcomes

Objective & Stretch Target	Weighting (% of STI) CEO	Weighting (% of STI) Direct Reports	Result	Achievement
Company Annual Performance				
Safety[1] • TRIFR ≤ 4.33	25	15	Met	Keeping our people safe is our highest priority and in FY16 Fortescue continued its trend in reducing TRIFR achieving a 15 per cent reduction from 5.1 to **4.33**.
Production • Tonnes Shipped ≥ **165 million wmt**	22.5	12.5	Exceeded	Full year production exceeded target by 2 per cent with **169.4 million wmt** total iron ore tonnes shipped in FY16. The Board approved an outperformance award for this measure.
C1 Cost • C1 cost ≤ **US$17.56/wmt** • June Exit C1 Costs ≤ **US$15.00/wmt**	22.5	12.5	Exceeded	FY16 was again a successful year highlighting the delivery of continuous, sustainable cost improvements achieved through development of assets, efficiencies, productivity and cost savings. Both cost targets were exceeded by 12.1 per cent and 4.6 per cent respectively with C1 costs for FY16 further decreasing to **US$15.43/wmt** and Q4 C1 cost of **$US14.31/wmt**. The Board approved an outperformance award for this measure.
Company Growth Performance				
Financial • AROE >12%	10	10	Met	Continued focus on process efficiencies and costs have had a positive impact on profitability and return on equity with **12.4 per cent** AROE achieved in FY16.
Physical • Target tonnes and quality achieved whilst maintaining mine life	10	10	Met	FY16 target production rate of 165mtpa, design strip ratio and production specifications have been achieved whilst maintaining the mine life for each site.
Culture • Safety Survey participation rate ≥75% • Voluntary turnover Rate ≤10%.	10	Included in personal KPIs	Met	Safety Survey participation of **85 per cent** exceeded target. Voluntary Turnover Target achieved with FY16 Rate of **9.2 per cent**
Personal Objectives				
Personal Objectives • 4 to 5 personal objectives set at stretch levels of performance against the FY16 Business Plan	n/a	40	Partially met	Personal objectives are assessed by the CEO and recommended outcomes approved by the Board.

[1]In the event of a fatality no award is made for the Safety KPI.

The non-IFRS information included in the table above has not been subject to audit.

In FY16, 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 2016 after the release of the Company's audited full year results and with final approval from the Board.

Further details in regard to the Company's full year results are set out in the Director's Report on page 68 to 70.

5.6 FY16 ESSIP awards

Share rights granted under the ESSIP at the beginning of FY16 are shown below. All the share rights granted convert to ordinary shares if all ESSIP objectives are met. The deferred ESSIP performance shares reflect the value at the commencement of the performance year when shares are nominally allocated. The ultimate value of these share rights to the executives will reflect either an improvement or decline in the Company's share price over the deferral period. The adoption of this deferral program is specifically to ensure that performance awards made to executives have a value which reflects sustainable value of shareholder's investment in the Company.

Over the performance period the share price increased by 83 per cent and total shareholder return for one year was 88 per cent. The ESSIP has awarded on average 102 per cent of maximum opportunity.

The last column in the table below details the actual number of share rights converted to ordinary shares based on actual performance:

Executive	ESSIP Share Rights Granted	ESSIP Share Rights Lapsed	ESSIP Share Rights Forfeited	Share Rights to convert to shares for FY16 ESSIP performance
N Power	624,931	-	-	624,931
S Pearce	229,662	-	-	229,662
P Meurs	229,662	-	(229,662)	-
N Cernotta	197,895	(2,375)	-	195,520

Unvested share rights lapse once the total at risk outcome of the ESSIP is determined.

The table below details the maximum ESSIP cash and share awards against the actual outcomes for FY16. The share components are based on the share weighting election of each Executive:

FY16 A$	TFR	Maximum ESSIP opportunity (% of TFR)	Weighting in shares (%)	Maximum ESSIP Cash opportunity	Maximum ESSIP Shares opportunity - value atgrant[1]	ESSIP outcome (%)	ESSIP Cash awarded	ESSIP Shares awarded-value at award[2]
Executive Directors								
N Power	$2,000,000	112.5%	50%	$1,125,000	$1,125,000	108.4%	$1,313,999	$2,349,116
P Meurs[3]	$1,102,500	75%	50%	$ 413,438	$413,438	104.8%	$779,983	-
S Pearce	$1,102,500	75%	50%	$413,438	$413,438	104.8%	$453,127	$863,299
Executives								
N Cernotta	$950,000	75%	50%	$356,250	$356,250	98.8%	$351,975	$734,960

[1] 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$1.8002).

[2] 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 FY16 is the number of shares awarded multiplied by the five day VWAP of Fortescue shares traded over the first five trading days of FY17 (A$3.759).

[3] Mr Meurs received a pro-rata cash payment for accrued entitlements of FY16 ESSIP paid at the same time other executives receive their FY16 ESSIP award.

5.7 Critical Initiative Incentive Payment

A key objective of both the CEO and CFO has been to drive productivity improvement and substantially reduce operating costs to meet the standards of global low cost producers in ensuring Fortescue's long term sustainability.

The Board approved a cash payment to the CEO and CFO during the year recognising their leadership and extraordinary achievement in creating long term sustainable value for shareholders through the delivery of cost savings to the Company of US$1.6 billion for the financial years 2013 to 2015 and their commitment to the agreed outperformance of stretch targets for FY2016 required to achieve further additional cost saving of US$1.9 billion.

Arising from the significant savings and productivity gains, a one-off cash payment was made to the CEO of A$2,000,000 and to the CFO of A$500,000. The combined payment represents approximately 0.1 per cent of the cost savings delivered at the time of payment.

5.8 Long Term Incentive Plan (LTIP)

The LTIP is granted in the form of share rights at the commencement of the three year performance period with awards vesting subject to the achievement of the specified performance conditions. The three year performance period, performance measures and date of assessment and award for each of the LTIPs are as follows:

Plan	Performance Period	Performance Measure	Assessment and Award
FY14 LTIP	1 July 2013 to 30 June 2016	AROE	September 2016
FY15 LTIP	1 July 2014 to 30 June 2017	AROE	September 2017
FY16 LTIP	1 July 2015 to 30 June 2018	AROE, TSR and Strategic Measures	September 2018

5.8.1 FY14 and FY15 Long Term Incentive Plan

FY14 and FY15 LTIP awards to executives are made under the performance share plan rules and are delivered in the form of Share 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 assessed over the three year performance period.

AROE was selected as the performance measure for the FY14 and FY15 LTIP 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.

Consistent with the ESSIP, the long term incentive plan is designed to provide alignment with shareholder outcomes by linking the value of the LTIP to share price movement over the financial year.

A minimum 20 per cent annual AROE hurdle rate was selected for the FY14 and FY15 LTIPs 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 was 9.2 per cent
- The 80th percentile AROE for the ASX 100 Resources Index from 2010 to 2014 was 15.6 per cent.

The vesting schedule is as follows:

	Average AROE		
Performance	**FY14**	**FY15**	**Vesting**
Below Threshold	<20%	<20%	Nil
Threshold	20%	20%	25 per cent of share rights vest
Target	>30%	>30 %	100 per cent of share rights vest

Vesting between threshold and target is calculated on a linear basis.

The performance period for the FY14 LTIP is from 1 July 2013 to 30 June 2016 and 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 3. 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.

5.8.2 FY14 LTIP performance outcomes

The performance period for the FY14 LTIP is from 1 July 2013 to 30 June 2016. The AROE average for the three year performance period of 20 per cent (as shown in the table below) met the minimum threshold resulting in 25 per cent of share rights vesting under this plan.

FY14 LTIP Performance Outcomes

Year ending	ROE Performance (%)
30 June 2014	43
30 June 2015	4
30 June 2016	12
Average ROE	**20**
Vesting Level	**25**

All the share rights issued convert to ordinary shares if the LTIP AROE target is met. The deferred LTIP performance shares reflect the value at the commencement of the performance period when shares are nominally allocated. The ultimate value of these share rights to the executives reflect either an improvement or decline in the Company's share price over the deferral period. The adoption of this deferral program is specifically to ensure that performance awards made to executives have a value which reflects sustainable value of shareholder's investment in the Company.

Over the performance period Fortescue's share price increased by 15.4 per cent and total shareholder return for the three year period was 27.4 per cent.

5.8.3 FY14 LTIP awards

Share Rights granted under the LTIP at the beginning of FY14 are shown below. 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
- Mr Cernotta was appointed on 24 March 2014 and accordingly, did not participate in the FY14 LTIP
- Mr Meur's share rights forfeited on resignation.

FY14 LTIP Executive	LTIP Share Rights issued	LTIP Share Rights Lapsed	LTIP Share Rights Forfeited	Share Rights to convert to shares for performance
N Power	853,000	(639,750)	-	213,250
S Pearce	331,723	(248,792)	-	82,931
P Meurs	331,723	-	(331,723)	-
N Cernotta	-	-	-	-

The table below details the maximum LTIP share awards against the actual outcomes for FY16.

- The value at grant is the participant's total fixed remuneration at grant multiplied by the maximum LTIP opportunity
- The actual share value to the individual is not realised until the shares are awarded. For the purpose of this report the nominal share value for FY16 is the number of shares awarded multiplied by the five day VWAP of Fortescue shares traded over the first five trading days of FY17 (A$3.759)
- Mr Meurs resigned effective 18 April 2016
- Mr Meurs will receive a pro-rata cash payment of A$289,917 representing accrued benefits for the FY14 LTIP
- Mr Cernotta was appointed on 24 March 2014 and accordingly, did not participate in the FY14 LTIP.

FY14 LTIP A$	TFR at Grant	Maximum LTIP opportunity (per cent of TFR)	Maximum LTIP Shares opportunity - value at grant	LTIP Shares awarded	LTIP Shares awarded value at award
Executive Directors					
N Power	$1,800,000	150%	$2,700,000	213,250	$801,607
P Meurs	$1,050,000	100%	$1,050,000	-	-
S Pearce	$1,050,000	100%	$1,050,000	82,931	$311,738
Executives					
N Cernotta	-	-	-	-	-

5.8.4 FY15 LTIP performance

The performance period for the FY15 LTIP is from 1 July 2014 to 30 June 2017. Performance outcomes will be reported in the FY17 Remuneration Report.

5.8.5 FY16 LTIP (New Plan)

In FY15, the Board reviewed the operation of the LTIP in light of the objectives of its broader remuneration strategy, general market practice and the range of performance hurdles utilised by leading resources companies both regionally and globally.

The existing program was based on a single financial measure being absolute return on equity earned and measured over a three year period. The ability to achieve threshold AROE for the existing plan in future years has been heavily impacted by the decrease in the iron ore price, notwithstanding the significant cost reduction and production performance by the Company. The reduction in the iron ore price, which is outside the control of the Company's executives, has overshadowed the successful implementation of the initiatives which have achieved or exceeded, all of the pre-agreed stretch targets for safety, production, cost and capital expenditure.

In light of the conclusions arising out of the Board's review of the LTIP, the Board approved an amendment to the plan designed to enhance the alignment between the Company's executives and shareholders, rewarding performance that drives long term growth and delivers shareholder value while promoting executive retention.

5.8.6 FY16 LTIP operation

The performance period for the FY16 LTIP is from 1 July 2015 to 30 June 2018. The FY16 LTIP operates under the performance rights plan rules as approved by Shareholders at the Company's Annual General Meeting on 11 November 2015. The FY16 LTIP is granted in the form of Share 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 FY16 LTIP is assessed against multiple performance measures weighted as follows:

- Absolute Return on Equity (33 per cent)
- Total Shareholder Return relative to the ASX 100 Resources comparator group (33 per cent)
- A basket of strategic measures (34 per cent).

The relative weighting between financial and strategic measures is important and provides the ability to assess performance across a cyclical market. Retaining AROE and adding relative TSR is also important as both are market measure that are aligned with delivering shareholder value.

Each of the performance measures provide for a determination by the Board that the Company has performed at a Threshold, Target or Stretch level. These graduated levels of performance have been included in order to align and reward executives through market cycles. In the event that performance is at the target level in respect of the relevant performance measure, executives will be entitled to 100 per cent of the tranche of LTIP share rights to which the performance measure relates. Where performance is at the stretch level, executives will be entitled to 150 per cent of the tranche of LTIP share rights to which the performance measure relates.

Nevertheless, if the target for any individual performance measure is exceeded, so that up to 150 per cent of the relevant number of LTIP share rights may vest, the maximum number of LTIP share rights that may vest across the three performance measures is capped in aggregate at 100 per cent of share rights granted under the plan.

The Board believes that by incorporating the stretch level of performance into the vesting schedule, the Company will be better able to effectively reward and recognise executives in years where outstanding performance is achieved. This will serve as further motivation and assist in retention through more challenging periods.

Absolute Return on Equity (AROE)

AROE performance is measured over the relevant three year performance period.

As part of the Board's consideration of the new LTIP plan, consideration was given to the minimum AROE threshold. This consideration included the current market cycle and historical performance of the ASX 100 Resources comparator group.

Historical Performance of the ASX 100 Resources:

- Average AROE for FY11 to FY15 was 7 per cent
- Average AROE for FY15 was 2.6 per cent, down from 7 per cent in FY14.

In light of this assessment, the Board lowered the minimum threshold from 20 per cent to 15 per cent based on the following:

- 15 per cent is a suitably aggressive target which exceeds the Company's cost of equity
- An annual 15 per cent AROE would be at least the 70th quartile of performance of the ASX 100 Resources index in any of the past five years
- The stretch target of >30 per cent would be at least the 80th percentile of the ASX 100 Resources index in any of the past five years.

The AROE vesting schedule is as follows:

FY16 LTIP Target and Vesting Schedule

Performance	Average ROE	Portion of tranche that vests
Below Threshold	<15%	Nil
Threshold	15%	25 per cent of share rights vest
Target	30%	100 per cent of share rights vest
Stretch	>30%	150 per cent of share rights vest

Vesting between Threshold and Target performance levels is calculated on a linear basis with the stretch element considered together with the achievement of all performance measures and subject to the aggregate performance cap.

Total Shareholder Return (TSR)

TSR is a measure of the performance of the Company's shares over a three year period against the ASX 100 Resources Index (noted below). It combines share price appreciation and dividends paid to show the total return to the shareholder expressed as a percentage.

Relative TSR hurdles are valuable because the Company needs to outperform a peer group of participants to receive any reward and therefore, is aligned to relative market performance. The ASX 100 Resources Index[1] has been chosen as the comparator group because this is a transparent market indicator, includes Fortescue's ASX Listed commodity market peers and represents the peer group that Fortescue competes with for investment.

When formulating the vesting schedule for the TSR performance measure, the Board considered both local and international market practice. In line with the Company's approach to setting stretch targets, the Board determined that a vesting schedule more aggressive than standard market practice was required in order to align executive reward for this performance measure with superior shareholder returns. The vesting criteria for both threshold and target have been set at the 60th percentile and 80th percentile (respectively) higher than standard market practice whilst the plan also provides for a premium grant of awards where Fortescue delivers the market leading total shareholder return over the performance period.

The TSR vesting schedule is as follows:

FY16 LTIP TSR target and vesting schedule

Performance	Average TSR	Portion of tranche that vests
Below Threshold	Below the 60th percentile	Nil
Threshold	At the 60th percentile	25 per cent of share rights vest
Target	At the 80th percentile	100 per cent of share rights vest
Stretch	At the 100th percentile	150 per cent of share rights vest

Vesting between performance levels is calculated on a linear basis with the stretch element considered together with the achievement of all performance measures and subject to the aggregate performance cap.

The Board acknowledge that a relative TSR hurdle can result in unintended outcomes. The intent is to ensure no win-fall gains or undue penalty. In the event that TSR is negative but the relative TSR hurdle is achieved, the Board will consider overall performance and circumstances and may, at its absolute discretion, reduce the level of vesting or determine that no award will be made in respect to the TSR measure.

[1] Members of the ASX 100 Resources Index as at 30 June 2016 are as follows:

Alumina Ltd
BHP Billiton Ltd
BlueScope Steel Ltd
Caltex Australia Ltd
Fortescue Metals Group Ltd
Iluka Resources Ltd
Newcrest Mining Ltd
Oil Search Ltd
Origin Energy Ltd
Rio Tinto Ltd
Santos Ltd
South32 Ltd
Woodside Petroleum Ltd

Strategic Measures

As part of the enhancements made to the LTIP, the Company has introduced a basket of five strategic measures with associated key performance indicators aimed at directing performance toward the achievement of the Company's long term objectives (strategic objectives).

The strategic objectives devised by the Board specifically relate to key milestones and objectives that are fundamental to the Company's sustainability, continuing development and growth and delivery of shareholder returns. The balanced scorecard approach ensures that Executives continue to focus on the delivery of key milestones that drive long term value and that the Board has the ability to reward these achievements even in times when external factors outside the control of executives may impact shareholder returns.

Strategic measures and objectives for the FY16 LTIP are as follows:

FY16 LTIP Strategic Measures and Objectives

Performance Measure	Objective (KPI)	Link to Strategy
Safety	• Improve Fortescue's relative position against the global safety culture benchmark	Safety leadership
Performance	• Improve Fortescue's relative position on the global cost curve with a future target to have a C1 cost which is the lowest in the world • Reduce all-in cash cost • Maximise production capacity without increasing capital expenditure budget.	Competitive position, cash flow and efficient use of capital
Resource Management	• Increase long term resources quantity and value • No net decrease in mine life • Quantity, quality and diversity of tenements.	Long term sustainability
Growth	• Diversify customer base • Strategic options for growth in iron ore and other commodities.	Growth and diversity of income
Balance Sheet Management	• Reduce gearing (Debt/Debt + Equity) to target levels • Overall cost of financing • Maintain cash on hand at Board approved levels • Balance sheet flexibility	Capital efficiency, cash flow and long term sustainability

Performance targets for each strategic objective are set and assessed annually for each financial year of the relevant three year performance period. This approach provides the Company with the flexibility to respond to economic and industry challenges as they occur to ensure that performance targets are always relevant and drive long term shareholder value.

Whether a strategic objective has been achieved is measured at the end of the relevant financial year on an outcome basis as follows:

Outcome	Score
Did not meet	0
Threshold	1
Target	2
Exceeded	3

Annual performance outcomes are assessed and approved by the Board at the end of each financial year with approved outcomes banked each year for inclusion in the overall LTIP assessment at the end of the performance period.

The strategic measure vesting schedule is as follows:

FY16 LTIP Strategic measure target and vesting schedule

Performance	Score	Portion of tranche that vests
Below Threshold	<5	Nil
Threshold	5	25 per cent of share rights vest
Target	10	100 per cent of share rights vest
Stretch	15	150 per cent of share rights vest

Vesting between performance levels is calculated on a linear basis with the stretch element considered together with the achievement of all performance measures and subject to the aggregate performance cap.

The performance period for the FY16 LTIP is from 1 July 2015 to 30 June 2018. Share Rights vest at the end of the three year performance period subject to performance against the three measures.

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.

Performance outcomes of the FY16 LTIP will be reported in the Company's FY18 Remuneration Report.

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 executive remuneration is reported

Executive remuneration is reported in a number of ways throughout this report differences of which are driven by the following:

- **Total remuneration package** – represents the current remuneration package at stretch target comprising fixed remuneration plus the value of the ESSIP and LTIP at the applicable participating percentage. There was no increase to total fixed remuneration in 2016. Refer to section 7 for further information.
- **Actual remuneration paid** – represents the actual value realised by the individual and includes fixed remuneration, any cash incentives paid and the value of equity at the time the shares were awarded.
  - ESSIP shares granted at A$1.8002 share price and valued at award based on A$3.759 being the five day VWAP at the beginning of FY17
  - LTIP shares granted at A$3.1653 share price and awarded at A$3.759
  - Value received by Executives is subject to performance and share price movement aligned with shareholder value. Refer to the table below for further information.
- **Statutory remuneration** – represents remuneration including share based payments calculated in accordance with Australian Accounting Standards including the fair value attributed to the FY16 ESSIP share component plus one year each of the FY14, FY15 and FY16 LTIP. In 2016, total remuneration is less than prior years due to a negative accounting expense for share based payments. Refer to section 6.2 for further information.

6.1 Actual remuneration paid in FY16

The Board follows a structured process for ensuring that executive remuneration is aligned to shareholder value and stretch targets are set for the incentive plans which are reflective of market conditions and other challenges facing the industry. The value of actual pay realised by executives is reflective of the following:

- FY16 ESSIP is awarded partly in Shares (minimum 50 up to 100 per cent determined on election) with the balance (0-50%) awarded in cash
- FY16 ESSIP and FY14 LTIP Share Rights were granted based on the share price at the beginning of the performance period with value realised at the time of award. The increase in share price over the respective performance periods has resulted in an increase in equity value to executives in respect to these plans.

The following table shows the actual remuneration value realised by the individual and includes fixed remuneration, any cash incentives paid and the nominal value of equity at the time the shares are awarded. The following key points should be read in conjunction with the table below:

- Fixed remuneration includes cash salary, paid leave and superannuation
- The FY16 ESSIP and FY14 LTIP actual share value to the individual is not realised until the shares are awarded in September 2016. For the purpose of this report the nominal value of the ESSIP and LTIP share values is calculated as the number of share rights vested multiplied by A$3.759 being the volume weighted average price of Fortescue Shares for the first five trading days of FY17
- The FY14 LTIP met its 20 per cent threshold resulting in 25 per cent of share rights vesting
- Total Remuneration Earned in FY16 for both Mr Power and Mr Pearce includes an additional one-off critical initiative incentive payment
- Mr Meurs' fixed remuneration and accrued benefits for the FY16 ESSIP and FY14 LTIP have been awarded on a pro-rata basis and in cash
- Mr Cernotta was appointed on 24 March 2014 and accordingly, did not participate in the FY14 LTIP, his total remuneration opportunity does not include any value under this plan.

A$ Name	Fixed remuneration $	FY16 ESSIP Cash Paid $	FY16 ESSIP Shares Awarded $	Critical Initiative Incentive Payment	FY14 LTIP Awarded $	Total Actual Remuneration Earned in FY16
N Power	2,000,000	1,313,999	2,349,116	2,000,000	801,607	8,464,722
S Pearce	1,102,500	453,127	863,299	500,000	311,738	3,230,664
P Meurs	260,885	779,983	-	-	289,917	1,330,785
N Cernotta	950,000	351,975	734,960	-	-	2,036,935

The non IFRS information included in the table above has not been subject to audit.

6.2 Statutory remuneration disclosures for executives

Statutory remuneration disclosures are prepared in accordance with Australian Accounting Standards and include share based payments expensed during the financial year, calculated in accordance with AASB 2 *Share based payments*.

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

Statutory remuneration differs significantly from actual remuneration paid to executives due to the accounting treatment of share based payments. For details of remuneration actually paid to the Chief Executive Officer and executives in FY16 refer to section 6.1.

Statutory Remuneration Disclosures for year ending 30 June 2016

- ESSIP cash value payable in respect to FY16 will be paid in September 2016
- In FY16, an accounting expense reversal related to ESSIP and LTIP share rights resulted in a reduction in total statutory remuneration compared to the prior year due to:
  - A partial reversal of share-based payment expense following completion of the 3 year performance period ended 30 June 2016, and the assessment of performance outcomes of the FY14 LTIP
  - A partial reversal of share-based payment expense as a result of the estimated vesting outcomes of the FY15 LTIP for the 3 year period ending 30 June 2017.
- FY16 ESSIP and FY14 LTIP awarded to Mr Meurs represents accrued benefits as a pro-rata cash payment
- Mr Meurs FY16 ESSIP, FY14 LTIP, FY15 LTIP and FY16 LTIP share rights were forfeited upon his resignation in April 2016
- Mr Meurs' other payment relates to accrued annual leave and long service leave entitlements paid out on resignation.

	Short-term employee benefits					Post Employment Benefits	End of service	Share based payments			
FY16 $A	Cash Salary and fees	ESSIP Cash value for 2016 Plan Year	FY14 LTIP Cash Value	Other Incentive payment	Non-monetary benefits	Superannuation	Other payment	ESSIP Share value	LTIP Share value	Other share-based payments	Total
Executive Directors											
N Power	1,963,000	1,313,999	-	2,000,000	8,186	30,000	-	1,118,626	(1,109,672)	-	5,324,139
P Meurs	233,385	779,983	289,917	-	3,087	27,500	170,193	-	(1,316,302)	-	187,763
S Pearce	1,067,700	453,127	-	500,000	4,093	27,800	-	411,095	(446,444)	-	2,017,371
Executives											
N Cernotta	920,000	351,975	-	-	-	30,000	-	349,981	220,640	-	1,872,596

Statutory Remuneration Disclosures for year ending 30 June 2015

- ESSIP cash value payable in respect to FY15 paid in September 2015
- The value of ESSIP and LTIP share rights was assessed using a 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 divided yield and the risk-free interest rate for the term of the right and represents the accounting value expensed in FY15
- 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
- Mr Meurs FY15 ESSIP was awarded on a pro-rata basis
- Mr Cernotta was appointed on 24 March 2014 and accordingly, did not participate in the FY13 LTIP.

FY15 $A	Short-term employee benefits			Post Employment Benefits	End of service	Share based payments				
	Cash Salary and fees	ESSIP Cash value for 2015 Plan Year	Non-monetary benefits	Superannuation	Other payment	ESSIP Share value	LTIP Share value	Options	Other share-based payments	Total
Executive Directors										
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	963,897	-	853,272	2,895,211
Executives										
S Pearce	1,076,100	210,853	4,205	26,400	-	269,856	963,897	-	-	2,351,311
N Cernotta	906,931	301,031	-	27,500	-	165,114	165,169	-	-	1,565,745

6.3 Details of performance grants to executive directors

At the 2015 AGM, shareholders approved the maximum number of share rights to be granted to Mr Power and Mr Meurs without further shareholder approval as shown in the table below. Actual performance rights are granted annually by the board in accordance with the Performance Rights Plan.

Mr Power	Maximum Share right grant FY16 to FY18	Share rights granted in FY16
ESSIP Share Rights	3,671,425	1,249,862
LTIP Share Rights	4,895,232	1,666,482
Total	**8,566,657**	**2,916,344**

Mr Meurs	Maximum Share right grant FY16 to FY18	Share rights granted in FY16
ESSIP Share Rights	1,349,249	459,324
LTIP Share Rights	1,798,999	612,432
Total	**3,148,248**	**1,071,756**

The issue of Share Rights to participants will not have a diluting effect on the percentage interest of shareholders holdings if the Share Rights vest into shares acquired on market.

6.4 Details of share based payments relating to LTI

The following table provides details of the number of share rights granted under the LTIP during the financial years ended 30 June 2014 to 30 June 2016. The value of the rights has been determined using the amount of the grant date fair value.

- 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
- Mr Meurs share rights were forfeited upon his resignation on 18 April 2016
- Mr Cernotta was appointed on 24 March 2014 and accordingly, did not participate in the FY14 LTIP.

Name	LTIP Plan	Grant Date	Performance Period	No. Share rights granted	Value per share right granted	Value of rights granted at Grant Date	% Performance Achieved	Vested	Forteited / Lapsed
N Power	FY14	16/12/2013	1/7/13 to 30/6/16	853,000	$5.09	$4,341,770	25%	213,250	639,750
	FY15	9/12/2014	1/7/14 to 30/6/17	660,837	$2.37	$1,566,184	Determined in 2017		
	FY16	14/12/2015	1/7/15 to 30/6/18	1,666,482	$1.72	$2,866,349	Determined in 2018		
S Pearce	FY14	16/12/2013	1/7/13 to 30/6/16	331,723	$5.09	$1,688,470	25%	82,931	248,792
	FY15	9/12/2014	1/7/14 to 30/6/17	242,858	$2.37	$575,573	Determined in 2017		
	FY16	14/12/2015	1/7/15 to 30/6/18	612,432	$1.72	$1,053,383	Determined in 2018		
P Meurs	FY14	16/12/2013	1/7/13 to 30/6/16	331,723	$5.09	$1,688,470	n/a	n/a	331,723
	FY15	9/12/2014	1/7/14 to 30/6/17	242,858	$2.37	$575,573	n/a	n/a	242,858
	FY16	14/12/2015	1/7/15 to 30/6/18	612,432	$1.72	$1,053,383	n/a	n/a	612,432
N Cernotta	FY14	16/12/2013	1/7/13 to 30/6/16	-	$5.09	-	n/a	n/a	n/a
	FY15	9/12/2014	1/7/14 to 30/6/17	209,265	$2.37	$ 495,958	Determined in 2017		
	FY16	14/12/2015	1/7/15 to 30/6/18	527,720	$1.72	$907,678	Determined in 2018		

7 Executive contract terms

Total Remuneration Package and other terms of employment for Executives are formalised in a service agreement.

The CEO and Executives are employed on a rolling basis with no specified fixed term. The CEO and executives are remunerated on a total fixed remuneration (TFR) basis inclusive of superannuation and allowances. There was no remuneration increase or changes in terms in FY16.

The major terms of the agreements relating to remuneration are set out in the table below:

A$			Maximum ESSIP opportunity		Maximum LTIP opportunity		Nominal Value of Total Remuneration Package at 100% of target
Position	**Executive**	**TFR* ($)**	**% of TFR**	**$**	**% of TFR**	**$**	
Chief Executive Officer	N Power	$2,000,000	112.5%	$2,250,000	150%	$3,000,000	$7,250,000
Chief Financial Officer	S Pearce	$1,102,500	75%	$826,875	100%	$1,102,500	$3,031,875
Director Operations	N Cernotta	$950,000	75%	$712,500	100%	$950,000	$2,612,500

* Total Fixed Remuneration as at 30 June 2016. Reviewed annually by the RNC.

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 Board 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 Board 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.

8 Non-executive director remuneration

8.1 Non-executive director Remuneration Policy

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.

8.2 Non-executive director fee pool

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 $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 2016 AGM.

8.3 Non-executive director fee structure

Non-Executive Director fees (inclusive of superannuation) are outlined in the table below:

Position	FY16 Fee (A$)
Board Chairman[1]	-
Vice Chairman	170,000
Lead Independent Director	170,000
Non-Executive Director	140,000
Audit & Risk Management Committee Chair	40,000
Audit & Risk Management Committee Member	15,000
Remuneration & Nomination Committee Chair	15,000
Remuneration & Nomination Committee Member	7,500
China Advisory Group Board of Representatives	60,000
Finance Sub-Committee Member	6,000

[1]The Chairman of the Board has elected to forego Directors fees and receives no form of remuneration.

8.4 Non-executive director remuneration paid

The remuneration of non-Executive directors for the year ended 30 June 2016 and 30 June 2015 is detailed below.

FY16 $A	Base fees	Committee fees	Other benefits	Superannuation	Total
A Forrest	-	-	-	-	-
O Hegarty	153,846	6,787	-	16,866	177,499
C Huiquan	140,000	-	-	-	140,000
G Raby	140,000	60,000	-	-	200,000
M Barnaba	153,846	48,416	-	21,237	223,499
E Gaines	126,697	19,005	-	15,299	161,001
S Warburton	126,697	27,150	-	16,154	170,001
J Baderschneider	140,000	-	-	-	140,000

Non-executive directors do not receive retirement benefits, nor do they participate in any incentive programs of the Company.

FY15 $A	Base fees	Committee fees	Other benefits	Superannuation	Total
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[2]	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[1]	69,754	2,491	-	7,586	79,831
G Rowley[1]	46,502	9,965	30,456	5,929	92,852
H Scruggs[1]	51,269	7,690	17,499	-	76,458

[1] H Elliott, G Rowley and H Scruggs retired 13 November 2014.

[2] J Baderschneider was appointed 19 January 2015.

9 Equity instrument disclosures relating to Key Management Personnel

9.1 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 Key Management Personnel, including their related parties is as follows:

FY16	Balance at the start of the year	Granted[1]	Exercised / converted	Forfeited / lapsed	Balance at the end of the year	Vested	Unvested	Not exercisable
Directors of Fortescue								
A Forrest	-	-	-	-	-	-	-	-
N Power	2,307,503	2,291,413	(714,736)	(78,930)	3,805,250	-	3,805,250	3,805,250
O Hegarty	-	-	-	-	-	-	-	-
C Huiquan	-	-	-	-	-	-	-	-
G Raby	-	-	-	-	-	-	-	-
M Barnaba	-	-	-	-	-	-	-	-
E Gaines	-	-	-	-	-	-	-	-
S Warburton	-	-	-	-	-	-	-	-
J Baderschneider	-	-	-	-	-	-	-	-
P Meurs[2]	877,929	842,094	(235,881)	(1,484,142)	-	-	-	-
S Pearce	914,358	842,094	(304,413)	(35,364)	1,416,675	-	1,416,675	1,416,675
Other key management personnel of Fortescue								
N Cernotta	287,740	725,615	(66,311)	(12,164)	934,880	-	934,880	934,880

[1] Performance Rights were granted in accordance with the short term and long term performance rights plans, as disclosed in note 19 of the financial report.

[2] P Meurs retired on 18 April 2016.

FY15	Balance at the start of the year	Granted[1]	Exercised / converted	Forfeited / lapsed	Balance at the end of the year	Vested	Unvested	Not exercisable
Directors of Fortescue								
A Forrest	-	-	-	-	-	-	-	-
N Power	2,038,602	908,651	(456,590)	(183,160)	2,307,503	-	2,307,503	-
H Elliott[2]	-	-	-	-	-	-	-	-
G Rowley[2]	-	-	-	-	-	-	-	-
O Hegarty	-	-	-	-	-	-	-	-
C Huiquan	-	-	-	-	-	-	-	-
G Raby	-	-	-	-	-	-	-	-
H Scruggs[2]	-	-	-	-	-	-	-	-
M Barnaba	-	-	-	-	-	-	-	-
E Gaines	-	-	-	-	-	-	-	-
S Warburton	-	-	-	-	-	-	-	-
J Baderschneider[3]								
P Meurs	8,292,791	333,930	(192,157)	(7,556,635)[4]	877,929	-	877,929	-
Other key management personnel of Fortescue								
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	-

[1] Performance Rights were granted in accordance with the short term and long term performance rights plans, as disclosed in note 19 of the financial report.

[2] H Elliott, G Rowley and H Scruggs retired on 13 November 2014.

[3] J Baderschneider was appointed on 19 January 2015.

[4] Includes 7,500,000 options which expired in May 2015.

9.2 Shareholdings (ordinary shares)

The numbers of shares in the Company held during the financial year by each Director of Fortescue and other key management personnel of the Group, including their related parties, are set out below:

FY16	Held at 1 July 2015	Received on conversion of rights	Issued	Purchases	Sales	Transfers	Other[1]	Held at 30 June 2016
Directors of Fortescue								
A Forrest	1,037,479,247	-	-		-	-	-	1,037,479,247
N Power	1,811,571	714,736	-		-	-	-	2,526,307
O Hegarty	40,000	-	-	-	-	-	-	40,000
C Huiquan	-	-	-	-	-	-	-	-
G Raby	8,000	-	-	-	-	-	-	8,000
M Barnaba	20,000	-	-		-	-	-	20,000
E Gaines	50,000	-	-		-	-	-	50,000
S Warburton	50,750	-	-		-	-	-	50,750
J Baderschneider	138,000	-	-		-	-	-	138,000
P Meurs[2]	26,199,152	235,881	-	-	(16,632,614)	-	(9,802,419)	-
S Pearce	107,577	304,413	-	2,500	(187,185)	-	-	227,305
Other key management personnel of Fortescue								
N Cernotta	18,236	66,311	-	-	(34,547)	-	-	50,000

[1] Negative amounts reflect the result of leaving the Company during the year.

[2] P Meurs retired on 18 April 2016.

FY15	Held at 1 July 2014	Received on conversion of rights	Issued	Purchases	Sales	Transfers	Other[1]	Held at 30 June 2015
Directors of Fortescue								
A Forrest	1,033,479,247	-	-	4,000,000	-	-	-	1,037,479,247
N Power	1,254,981	456,590	-	100,000	-	-	-	1,811,571
H Elliott[2]	2,167,938	-	-	-	-	-	(2,167,938)	-
G Rowley[2]	17,644,951	-	-	-	-	-	(17,644,951)	-
O Hegarty	40,000	-	-	-	-	-	-	40,000
C Huiquan	-	-	-	-	-	-	-	-
G Raby	8,000	-	-	-	-	-	-	8,000
H Scruggs[2]	-	-	-	-	-	-	-	-
M Barnaba	-	-	-	20,000	-	-	-	20,000
E Gaines	50,000	-	-		-	-	-	50,000
S Warburton	-	-	-	50,750	-	-	-	50,750
J Baderschneider[3]	-	-	-	138,000	-	-	-	138,000
P Meurs	26,006,995	192,157	-	-	-	-	-	26,199,152
Other key management personnel of Fortescue								
S Pearce	284,972	210,816	-	1,860	(390,071)	-	-	107,577
N Cernotta	-	18,236	-	-	-	-	-	18,236

[1] Negative amounts reflect the result of leaving the Company during the year.

[2] H Elliott, G Rowley and H Scruggs retired 13 November 2014.

[3] J Baderschneider was appointed 19 January 2015.

Auditor's Independence Declaration

As lead auditor for the audit of Fortescue Metals Group Limited for the year ended 30 June 2016, I declare that to the best of my knowledge and belief, there have been:

1. no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

2. 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.

Nick Henry
Partner
PricewaterhouseCoopers

Perth
22 August 2016

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Consolidated income statement

For the year ended 30 June 2016

	Note	2016 US$m	2015 US$m
Operating sales revenue	3	7,083	8,574
Cost of sales	5	(5,064)	(7,427)
Gross profit		**2,019**	**1,147**
Other income	4	7	77
Other expenses	6	(211)	(175)
Profit before income tax and net finance expenses		**1,815**	**1,049**
Finance income	7	214	15
Finance expenses	7	(675)	(644)
Profit before income tax		**1,354**	**420**
Income tax expense	8	(369)	(104)
Profit for the year after income tax		**985**	**316**
Profit for the year is attributable to:			
Equity holders of the Company		984	317
Non-controlling interest		1	(1)
Profit for the year after income tax		**985**	**316**

Consolidated statement of comprehensive income

For the year ended 30 June 2016

	Note	2016 US$m	2015 US$m
Profit for the year after income tax		**985**	**316**
Other comprehensive income:			
Other comprehensive income items		-	-
Total comprehensive income for the year, net of tax		**985**	**316**
Total comprehensive income for the year is attributable to:			
Equity holders of the Company		984	317
Non-controlling interest		1	(1)
Total comprehensive income for the year, net of tax		**985**	**316**
	Note	**Cents**	**Cents**
Earnings per share for profit attributable to the ordinary equity holders of the Company:			
Basic earnings per share	9	31.6	10.2
Diluted earnings per share	9	31.6	10.2

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 2016

	Note	2016 US$m	2015 US$m
ASSETS			
Current assets			
Cash and cash equivalents	10(b)	1,583	2,381
Trade and other receivables	11(a)	241	291
Inventories	11(c)	554	773
Current tax receivable		-	35
Other current assets		45	49
Total current assets		**2,423**	**3,529**
Non-current assets			
Trade and other receivables	11(a)	4	6
Property, plant and equipment	13	16,867	17,729
Intangible assets		15	44
Other non-current assets		28	52
Total non-current assets		**16,914**	**17,831**
Total assets		**19,337**	**21,360**
LIABILITIES			
Current liabilities			
Trade and other payables	11(b)	622	739
Deferred income	11(d)	485	620
Borrowings and finance lease liabilities	10(a)	93	155
Provisions	14	167	174
Current tax payable		267	-
Total current liabilities		**1,634**	**1,688**
Non-current liabilities			
Trade and other payables	11(b)	69	69
Deferred income	11(d)	308	591
Borrowings and finance lease liabilities	10(a)	6,678	9,414
Provisions	14	489	428
Deferred joint venture contributions	18(c)	253	261
Deferred tax liabilities	15	1,500	1,372
Total non-current liabilities		**9,297**	**12,135**
Total liabilities		**10,931**	**13,823**
Net assets		**8,406**	**7,537**
EQUITY			
Contributed equity	10(d)	1,301	1,294
Reserves		33	46
Retained earnings		7,058	6,184
Equity attributable to equity holders of the Company		8,392	7,524
Non-controlling interest		14	13
Total equity		**8,406**	**7,537**

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 2016

	Note	2016 US$m	2015 US$m
Cash flows from operating activities			
Cash receipts from customers		6,693	8,537
Payments to suppliers and employees		(3,736)	(5,971)
Income tax received (paid)		66	(529)
Net cash inflow from operating activities	**10(c)(i)**	**3,023**	**2,037**
Cash flows from investing activities			
Payments for property, plant and equipment - Fortescue		(304)	(626)
Payments for property, plant and equipment - joint operations		(56)	(223)
Contributions from joint venture partners		-	101
Interest received		22	15
Proceeds from disposal of plant and equipment		2	7
Net cash outflow from investing activities		**(336)**	**(726)**
Cash flows from financing activities			
Proceeds from borrowings		-	2,206
Repayment of borrowings and finance leases		(2,695)	(2,367)
Interest and finance costs paid		(627)	(605)
Dividends paid		(114)	(343)
Repayment of customer deposits		(5)	(96)
Purchase of shares by employee share trust		(21)	(30)
Net cash outflow from financing activities		**(3,462)**	**(1,235)**
Net (decrease) increase in cash and cash equivalents		(775)	76
Cash and cash equivalents at the beginning of the year		2,381	2,398
Effects of exchange rate changes on cash and cash equivalents		(23)	(93)
Cash and cash equivalents at the end of the year	**10(b)**	**1,583**	**2,381**

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 2016

	Attributable to equity holders of the Company					
	Contributed equity	Reserves	Retained earnings	Total	Non-controlling interest	Total equity
	US$m	US$m	US$m	US$m	US$m	US$m
Balance at 1 July 2014	**1,289**	**69**	**6,211**	**7,569**	**14**	**7,583**
Profit (loss) for the year	-	-	317	317	(1)	316
Total comprehensive income for the year, net of tax	**-**	**-**	**317**	**317**	**(1)**	**316**
Transactions with owners:						
Purchase of shares under employee share plans	(30)	-	-	(30)	-	(30)
Employee share awards exercised net of employee contributions	35	(13)	-	22	-	22
Expired options and rights	-	(19)	19	-	-	-
Equity settled share-based payment transactions	-	9	-	9	-	9
Dividends paid	-	-	(363)	(363)	-	(363)
Balance at 30 June 2015	**1,294**	**46**	**6,184**	**7,524**	**13**	**7,537**
Profit for the year	-	-	984	984	1	985
Total comprehensive income for the year, net of tax	**-**	**-**	**984**	**984**	**1**	**985**
Transactions with owners:						
Purchase of shares under employee share plans	(21)	-	-	(21)	-	(21)
Employee share awards exercised net of employee contributions	28	(12)	-	16	-	16
Expired options and rights	-	(3)	3	-	-	-
Equity settled share-based payment transactions	-	(3)	-	(3)	-	(3)
Dividends paid	-	-	(113)	(113)	-	(113)
Other	-	5	-	5	-	5
Balance at 30 June 2016	**1,301**	**33**	**7,058**	**8,392**	**14**	**8,406**

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

Notes to the consolidated financial statements

For the year ended 30 June 2016

1 Basis of preparation

The financial statements cover the consolidated group comprising 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 estimates, judgements and assumptions. Application of different assumptions and estimates may have a significant impact on Fortescue's net assets and financial results. Estimates and assumptions are reviewed on an ongoing basis and are based on the latest available information at each reporting date. Actual results may differ from the estimates.

The areas involving a higher degree of judgement and complexity, or areas where assumptions are significant to the 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

All amounts in the financial statements have been rounded to the nearest million dollars, except as indicated, in accordance with the ASIC Corporations Instrument 2016/191.

For the year ended 30 June 2016

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.

	Note	2016 US$m	2015 US$m
Underlying EBITDA		**3,195**	**2,506**
Finance income	7	214	15
Finance expenses	7	(675)	(644)
Depreciation and amortisation	5, 6	(1,244)	(1,405)
Exploration, development and other	6	(136)	(52)
Net profit before tax		**1,354**	**420**
Income tax expense	8	(369)	(104)
Net profit after tax		**985**	**316**

(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.

	2016 US$m	2015 US$m
Revenue from external customers		
China	6,787	8,047
Other	296	527
	7,083	**8,574**

(b) Major customer information

Revenue from one customer amounted to US$1,577 million (2015: US$3,563 million), arising from the sale of iron ore and the related shipment of product.

3 Operating sales revenue

	2016 US$m	2015 US$m
Sale of iron ore	6,923	8,323
Sale of joint venture iron ore	24	67
Other revenue	136	184
	7,083	**8,574**

4 Other income

	2016 US$m	2015 US$m
Net foreign exchange gain	-	68
Gain on disposal of assets	1	3
Other	6	6
	7	**77**

5 Cost of sales

	2016 US$m	2015 US$m
Mining and processing costs	2,092	3,765
Rail costs	201	230
Port costs	204	274
Operating leases	76	80
Shipping costs	781	1,112
Government royalty	446	516
Depreciation and amortisation	1,223	1,376
Other operating expenses	41	74
	5,064	**7,427**

Total employee benefits expense included in cost of sales and administration expenses is US$538 million (2015: US$740 million).

6 Other expenses

	2016 US$m	2015 US$m
Exploration, development and other[1]	136	52
Administration expenses	52	94
Depreciation and amortisation	21	29
Net foreign exchange loss	2	-
	211	**175**

[1] Exploration, development and other expenses include an impairment provision following suspension of the Nullagine Iron Ore Joint Venture operations of US$32 million, and provisions in relation to specific assets and capital projects deferred pending market conditions of US$59 million.

7 Finance income and finance expenses

	2016 US$m	2015 US$m
Finance income		
Gain on early debt redemption	192	-
Interest income	22	15
	214	**15**
Finance expenses		
Interest expense on borrowings and finance lease liabilities	621	590
Interest capitalised	(2)	(7)
Loss on early debt redemption	42	45
Other	14	16
	675	**644**

8 Income tax expense

(a) Income tax expense

	2016 US$m	2015 US$m
Current tax	241	(112)
Deferred tax	128	216
	369	**104**

(b) Numerical reconciliation of income tax expense to prima facie tax payable

	2016 US$m	2015 US$m
Profit before income tax	1,354	420
Tax at the Australian tax rate of 30 per cent (2015: 30 per cent)	406	126
Research and development	(8)	(8)
Adjustments in respect of income tax expense of prior periods	(15)	6
Foreign exchange variations and other translation adjustments	(2)	(16)
Tax impact of overseas jurisdiction	5	1
Share-based payments	(9)	3
Other	(8)	(8)
Income tax expense	**369**	**104**

9 Earnings per share

(a) Earnings per share

	2016 Cents	2015 Cents
Basic	31.6	10.2
Diluted	31.6	10.2

(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	984	317

(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	3,111,801,515	3,113,525,034
Adjustments for calculation of diluted earnings per share:		
Potential ordinary shares	5,569,334	6,371,996
Weighted average number of ordinary and potential ordinary shares used as the denominator in calculating diluted earnings per share	3,117,370,849	3,119,897,030

(d) Information on the classification of securities

Performance 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 performance rights are set out in note 19.

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 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.

	Note	2016 US$m	2015 US$m
Borrowings and finance lease liabilities	10(a)	6,771	9,569
Cash and cash equivalents	10(b)	(1,583)	(2,381)
Net debt		**5,188**	**7,188**
Equity attributable to equity holders of the Company		8,392	7,524
Non-controlling interest		14	13
Total equity		**8,406**	**7,537**

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
- Raising, refinancing and repaying of debt
- Development, maintenance and implementation of the dividend policy, including the dividend reinvestment plan.

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, net 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 returning to targeted longer term levels. Interim levels acknowledge and consider the requirements, in certain circumstances, for remedial actions to be taken.

The Company's flexible debt profile does not contain any maintenance covenants and allows for voluntary debt repayments at Fortescue's sole option, refinancing of debt prior to maturity and facilitates the debt repayment strategy to lower its gearing levels.

10 Capital management (continued)

(a) Borrowings and finance lease liabilities

	2016 US$m	2015 US$m
Senior secured credit facility	4	80
Senior secured notes	70	39
Senior unsecured notes	8	31
Finance lease liabilities	11	5
Total current borrowings and finance lease liabilities	**93**	**155**
Senior secured credit facility	3,627	4,717
Senior secured notes	2,082	2,209
Senior unsecured notes	475	2,032
Finance lease liabilities	494	456
Total non-current borrowings and finance lease liabilities	**6,678**	**9,414**
Total borrowings and finance lease liabilities	**6,771**	**9,569**

(i) Senior secured credit facility

The facility is due to mature in June 2019, has a face value of US$3,676 million (30 June 2015: US$4,863 million), a coupon rate of LIBOR + 3.25 per cent (30 June 2015: LIBOR + 2.75 per cent) and is repayable at Fortescue's option. The coupon rate varies within a range of LIBOR + 2.75 per cent to LIBOR + 3.50 per cent, with a LIBOR floor of one per cent. 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.

(ii) Senior secured notes

Senior secured notes are due to mature in March 2022, have a face value of US$2,160 million (30 June 2015: US$2,300 million), a coupon rate of 9.75 per cent and will become repayable at Fortescue's option from March 2018. The 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.

(iii) Senior unsecured notes

Senior unsecured notes are due to mature in April 2022, have a face value of US$478 million (30 June 2015: US$1,000 million), a coupon rate of 6.875 per cent and will become repayable at Fortescue's option from April 2017. The carrying value at 30 June 2015 also included senior notes that were due to mature in November 2019, had a face value of US$1,049 million and a coupon interest of 8.25 per cent. These notes were repaid in full during the year ended 30 June 2016.

(iv) Finance lease liabilities

Finance lease liabilities largely relate to contractual commitments associated with the Solomon Power Station and Fortescue River Gas Pipeline, and incorporate the effect of discounting. In the event of default, the assets revert to the lessor.

	Within one year US$m	Between one year and five years US$m	After five years US$m	Total US$m
30 June 2015				
Lease expenditure commitments	65	256	1,004	1,325
Effect of discounting	(62)	(241)	(561)	(864)
Finance lease liabilities	**3**	**15**	**443**	**461**
30 June 2016				
Lease expenditure commitments	73	295	954	1,322
Effect of discounting	(63)	(245)	(509)	(817)
Finance lease liabilities	**10**	**50**	**445**	**505**

10 Capital management (continued)

(a) Borrowings and finance lease liabilities (continued)

(v) Summary of movements in borrowings and finance lease liabilities

	Senior secured credit facility US$m	Senior secured notes US$m	Senior unsecured notes US$m	Finance leases US$m	Total US$m
At 1 July 2014	4,795	-	4,445	317	9,557
Initial recognition	-	2,300	-	141	2,441
Interest expense	223	42	279	46	590
Interest and finance lease repayments	(171)	-	(321)	(43)	(535)
Transaction costs	-	(94)	10	-	(84)
Repayments	(50)	-	(2,350)[1]	-	(2,400)
At 30 June 2015	**4,797**	**2,248**	**2,063**	**461**	**9,569**
Initial recognition	-	-	-	51	51
Interest expense	235	221	104	61	621
Interest and finance lease repayments	(229)	(183)	(126)	(64)	(602)
Transaction costs	15	6	13	-	34
Foreign exchange gain	-	-	-	(4)	(4)
Repayments	(1,187)	(140)	(1,571)[2]	-	(2,898)
At 30 June 2016	**3,631**	**2,152**	**483**	**505**	**6,771**

[1] Includes repayment of US$1,000 million of the 2017 senior unsecured notes, US$900 million of the 2018 senior unsecured notes and US$450 million of the 2019 senior unsecured notes.

[2] Includes repayment of US$1,049 million of the 2019 senior unsecured notes and US$522 million of the 2022 senior unsecured notes.

Information about Fortescue's exposure to interest rate risk and foreign exchange rate risk disclosed in note 12.

(b) Cash and cash equivalents

	2016 US$m	2015 US$m
Cash at bank	769	1,279
Short term deposits	814	1,102
	1,583	**2,381**

Cash and cash equivalents do not have any restrictions by contractual or legal arrangements. At 30 June 2015, Fortescue had US$320 million reserved for repayment, repurchase and other forms of debt retirement.

10 Capital management (continued)

(c) Cash flow information

(i) Reconciliation of profit after income tax to net cash inflow from operating activities

	2016 US$m	2015 US$m
Profit for the year after income tax	985	316
Income tax expense	369	104
Depreciation and amortisation	1,244	1,405
Exploration, development and other	136	52
Share-based payment (benefit) expense	(3)	9
Net unrealised foreign exchange loss	22	72
Finance income and expenses not classified as operating activities	461	629
Gain on disposal of assets	(1)	(3)
Other non-cash items	(7)	(6)
Working capital adjustments:		
Decrease in deferred income	(418)	(281)
Decrease in payables and provisions	(34)	(1,074)
Decrease in receivables	80	299
Decrease in inventories	189	515
	3,023	**2,037**

(ii) Non-cash investing and financing activities

	2016 US$m	2015 US$m
Acquisition of property, plant and equipment by means of finance leases	(51)	(141)
Other	-	42
	(51)	**(99)**

10 Capital management (continued)

(d) Contributed equity

(i) Share capital

	2016			2015		
	Share capital US$m	Treasury shares US$m	Total US$m	Share capital US$m	Treasury shares US$m	Total US$m
At 1 July	1,296	(2)	1,294	1,296	(7)	1,289
Purchase of shares under employee share plans	-	(21)	(21)	-	(30)	(30)
Employee share awards exercised net of employee contributions	-	28	28	-	35	35
At 30 June	**1,296**	**5**	**1,301**	**1,296**	**(2)**	**1,294**

(ii) Movements in share capital issued

	2016			2015		
	Share capital Number	Treasury shares Number	Total Number	Share capital Number	Treasury shares Number	Total Number
Share capital issued						
Ordinary shares fully paid	3,113,435,477	362,674	3,113,798,151	3,113,683,561	114,590	3,113,798,151
Movements in shares						
At 1 July	3,113,683,561	114,590	3,113,798,151	3,113,798,151	-	3,113,798,151
Purchase of shares under employee share plans	(15,188,032)	15,188,032	-	(8,082,221)	8,082,221	-
Employee share awards exercised net of employee contributions	14,939,948	(14,939,948)	-	7,967,631	(7,967,631)	-
At 30 June	**3,113,435,477**	**362,674**	**3,113,798,151**	**3,113,683,561**	**114,590**	**3,113,798,151**

(iii) Ordinary shares

Ordinary shares are fully paid and entitle the holders to one vote per share and the rights to participate in dividends. Ordinary shares participate in the proceeds on winding up of the Company in proportion to the number of shares held.

(iv) Treasury shares

Movements in treasury shares represent acquisition of the Company's shares on market and allocation of shares to the Company's employees from the vesting of awards and exercise of rights under the employee share-based payment plans.

10 Capital management (continued)

(e) Dividends

(i) Dividends paid during the year

	2016 US$m	2015 US$m
Final fully franked dividend for the year ended 30 June 2015: A$0.02 per share (30 June 2014: A$0.10 per share)	46	290
Interim fully franked dividend for the half-year ended 31 December 2015: A$0.03 per share (31 December 2014: A$0.03 per share)	67	73
	113	**363**

(ii) Dividends declared and not recognised as a liability

	2016 US$m	2015 US$m
Final fully franked dividend: A$0.12 per share (2015: A$0.02 per share)	285	46
	285	**46**

(iii) Franking credits

At 30 June 2016, franking credits available were A$791 million (2015: A$951 million). The payment of the final dividend for the year ended 30 June 2016 will reduce the franking account balance by A$160 million.

11 Working capital

(a) Trade and other receivables

	2016 US$m	2015 US$m
Trade debtors - iron ore	210	242
GST receivables	11	7
Other receivables	20	42
Total current receivables	**241**	**291**
Other receivables	4	6
Total non-current receivables	**4**	**6**

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 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

	2016 US$m	2015 US$m
Trade payables	190	178
Customer deposits	-	5
Other payables and accruals	432	556
Total current payables	**622**	**739**
Customer deposits	50	50
Other payables and accruals	19	19
Total non-current payables	**69**	**69**

11 Working capital (continued)

(c) Inventories

	2016 US$m	2015 US$m
Iron ore stockpiles	229	328
Warehouse stores and materials	325	445
	554	**773**

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 2016 amounted to US$3,796 million (2015: US$5,725 million). During the year, inventory write-offs of US$11 million (2015: US$22 million) were recognised in relation to specific items of warehouse stores and materials that were identified as obsolete.

(d) Deferred income

	2016 US$m	2015 US$m
Iron ore prepayments	374	509
Port access prepayment	111	111
Total current deferred income	**485**	**620**
Iron ore prepayments	197	369
Port access prepayment	111	222
Total non-current deferred income	**308**	**591**

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 prevailing market prices. Fortescue has limited ability to directly influence market prices of iron ore and manages the commodity price risk through focus on improving its cash margins and strengthening the 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's 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 2016, Fortescue had 14 million tonnes of iron ore sales (2015: 16 million tonnes) that remained subject to provisional pricing, with the final price to be determined in the following financial year. A 15 per cent movement in the realised iron ore price on these provisionally priced sales would have an impact on the Group's profit of US$85 million (2015: 20 per cent movement would have an impact on the Group's profit of US$150 million), before the impact of taxation. This analysis assumes all other factors, including the foreign currency exchange rates, held constant.

For the year ended 30 June 2016

12 Financial risk management (continued)

(a) Market risk (continued)

(ii) Interest rate risk

The Group's interest rate risk arises from variable 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.

Fortescue's variable rate financial assets and liabilities at the end of the financial year are summarised below:

	Note	2016 US$m	2015 US$m
Cash and cash equivalents	10(b)	1,583	2,381
Senior secured credit facility	10(a)	(3,631)	(4,797)
		(2,048)	**(2,416)**

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 five basis points in interest rates on variable instruments would have an impact on the Group's profit of US$1 million (2015: a change of ten basis points would impact profit by US$3 million), before the impact of taxation. This analysis assumes that all other factors remain constant, including foreign currency rates.

(iii) Foreign currency exchange risk

Fortescue operates in Australia, and is exposed to 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.

The carrying amounts of the financial assets and liabilities denominated in Australian dollars (expressed in US dollars) are set out below:

	2016 US$m	2015 US$m
Financial assets		
Cash and cash equivalents	30	99
Trade and other receivables	24	47
	54	**146**
Financial liabilities		
Borrowings and finance lease liabilities	143	151
Trade and other payables	336	407
	479	**558**

A change of five per cent in the Australian dollar exchange rate would have an impact on the Group's profit of US$21 million (2015: a change of ten per cent would have an impact of US$42 million), before the impact of taxation. This analysis assumes that all other variables, including interest rates and iron ore price, remain constant.

12 Financial risk management (continued)

(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, deposits with banks and financial institutions and receivables from customers.

Fortescue is exposed to a concentration of credit 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 years ended 30 June 2016 and 30 June 2015.

The exposure to credit risk from cash and short term deposits held in banks is managed by the treasury department and monitored by the CFO. Fortescue minimises its credit risk by holding funds with a range of financial institutions with credit ratings approved by the Board.

At 30 June 2016, Fortescue had US$6 million (2015: US$11 million) of trade receivables which were not settled within the normal terms and conditions agreed with the customers. These past due receivables relate to a number of customers for whom there is no recent history of default and are not considered impaired.

(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. Fortescue 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 its assets and liabilities.

The table below analyses Fortescue's financial liabilities into relevant maturity groupings based on the period to the contracted maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 6 months	Between 6 and 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flows	Carrying amount
	US$m	US$m	US$m	US$m	US$m	US$m	US$m
30 June 2015							
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
	1,101	**356**	**714**	**7,619**	**4,940**	**14,730**	**10,379**
30 June 2016							
Non-interest bearing	622	-	19	-	50	691	691
Fixed rate	158	158	318	951	3,835	5,420	3,140
Variable rate	73	70	140	3,820	-	4,103	3,631
	853	**228**	**477**	**4,771**	**3,885**	**10,214**	**7,462**

Management monitors rolling forecasts of the Group's cash and overall liquidity position on the basis of expected cash flows.

12 Financial risk management (continued)

(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.

Fortescue's listed debt instruments, including the senior secured credit facility, senior secured notes and senior unsecured notes are classified as level 1 financial instruments in the fair value hierarchy, with their fair values based on quoted market prices at the end of the financial year, as outlined below.

	2016		2015	
	Carrying value US$m	Fair value US$m	Carrying value US$m	Fair value US$m
Senior secured credit facility	3,631	3,499	4,797	4,347
Senior secured notes	2,152	2,386	2,248	2,373
Senior unsecured notes	483	455	2,063	1,596

The carrying values of other financial assets and financial liabilities approximate their fair values.

13 Property, plant and equipment

	Note	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
Net carrying value							
At 1 July 2014		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(b)	-	-	14	-	(59)	(45)
Other		(2)	-	(16)	(11)	-	(29)
At 30 June 2015		**12,107**	**872**	**768**	**245**	**3,737**	**17,729**
Cost		14,762	1,010	768	245	4,357	21,142
Accumulated depreciation		(2,655)	(138)	-	-	(620)	(3,413)
Net carrying value							
At 1 July 2015		12,107	872	768	245	3,737	17,729
Transfers of assets		207	38	(19)	(255)	31	2
Additions		52	-	70	284	-	406
Capitalised interest	7	-	-	-	2	-	2
Depreciation		(898)	(61)	-	-	(241)	(1,200)
Changes in restoration and rehabilitation estimate	14(b)	-	-	(8)	-	61	53
Other		(12)	-	(39)	(49)	(25)	(125)
At 30 June 2016		**11,456**	**849**	**772**	**227**	**3,563**	**16,867**
Cost		14,993	1,044	772	227	4,397	21,433
Accumulated depreciation		(3,537)	(195)	-	-	(834)	(4,566)

Transfers of assets were made between the categories of property, plant and equipment, intangible assets, exploration and evaluation and development expenditure.

Property, plant and equipment includes assets held under finance leases of US$434 million (2015: US$403 million). The details of the finance leases under which these assets are held are disclosed in note 10(a).

Other movements include an impairment provision following suspension of the Nullagine Iron Ore Joint Venture operations for the full value of US$32 million, a provision in relation to specific assets and capital projects deferred pending market conditions of US$59 million, and a US$34 million write-off of previously capitalised exploration costs on relinquished tenements.

14 Provisions

	2016 US$m	2015 US$m
Employee benefits	167	168
Restoration and rehabilitation	-	6
Total current provisions	**167**	**174**
Employee benefits	2	4
Restoration and rehabilitation	487	424
Total non-current provisions	**489**	**428**

(a) Provision for employee benefits

Movements in the provision for employee benefits during the year are set out below:

	2016 US$m	2015 US$m
At 1 July	172	170
Changes in employee benefits provision	134	110
Amounts paid	(137)	(108)
At 30 June	**169**	**172**

Provision for employee benefits includes the Group's liability for long service leave, annual leave and employee incentives. 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 estimated amount of current annual leave and long service leave not expected to be paid in the next 12 months is US$30 million (30 June 2015: US$30 million).

(b) Provision for restoration and rehabilitation

Movements in the provision for restoration and rehabilitation during the year are set out below:

	2016 US$m	2015 US$m
At 1 July	430	473
Changes in restoration and rehabilitation estimate	53	(45)
Unwinding of discount	4	4
Payments for restoration and rehabilitation activities	-	(2)
At 30 June	**487**	**430**

The provision for restoration and rehabilitation has been made in full for all disturbed areas at the reporting date based on current cost estimates for rehabilitation and infrastructure removal, discounted to their present value based on expected timing of future cash flows.

Payments for restoration and rehabilitation activites exclude ongoing rehabilitation performed as part of normal operations.

15 Deferred tax assets and liabilities

	2016 US$m	2015 US$m
Deferred tax assets	355	397
Deferred tax liabilities	(1,855)	(1,769)
	(1,500)	**(1,372)**

(a) Composition of and movements in deferred tax assets and liabilities

	Deferred tax assets		Deferred tax liabilities		Charged / (credited) to the income statement	
	2016 US$m	2015 US$m	2016 US$m	2015 US$m	2016 US$m	2015 US$m
Exploration expenditure	-	-	(118)	(92)	(26)	(9)
Development	-	-	(510)	(511)	1	(48)
Property, plant and equipment	-	35	(1,079)	(945)	(169)	(232)
Inventories	-	-	(121)	(162)	41	23
Foreign exchange losses (gains)	1	1	(5)	(3)	(2)	7
Provisions	201	184	(5)	(4)	16	(12)
Other financial liabilities	139	137	(13)	(23)	12	50
Other items	14	40	(4)	(29)	(1)	3
	355	**397**	**(1,855)**	**(1,769)**	**(128)**	**(218)**

(b) Tax losses

At 30 June 2016, the Group had income tax losses with a tax benefit of US$12 million (2015: US$6 million) which are not recognised as deferred tax assets. The Group recognises the benefit of tax losses only to the extent of anticipated future taxable income or gains in relevant jurisdictions. These losses do not expire.

16 Commitments and contingencies

	Capital US$m	Operating leases US$m	Total US$m
30 June 2015			
Within one year	138	107	245
Between one and five years	438	174	612
	576	**281**	**857**
30 June 2016			
Within one year	290	61	351
Between one and five years	183	98	281
	473	**159**	**632**

(i) Capital commitments

At 30 June 2016, 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$271 million (2015: US$62 million) within 12 months after the end of the year and US$183 million (2015: US$438 million) between one and five years after the end of the year.

(ii) Operating lease commitments

Fortescue leases various offices and other premises under non-cancellable operating leases expiring within one to four 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 2016 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 22 August 2016, the Directors declared a final dividend of 12 Australian cents per ordinary share payable in October 2016.

18 Related party transactions

(a) Subsidiaries and joint operations
Interests in significant subsidiaries and joint operations are set out in note 23.

(b) Key management personnel remuneration

	2016 US$'000	2015 US$'000
Short term employee benefits	8,161	6,521
Share-based payments	(1,242)	5,984
Post employment benefits	135	169
	7,054	**12,674**

Detailed information about the remuneration received by each key management person is provided in the remuneration report on pages 115 to 146.

(c) Transactions with other related parties
The following transactions occurred with joint operation partners:

	2016 US$'000	2015 US$'000
Other revenue	30,749	70,892
Current receivables	1,742	19,318
Deferred joint venture contributions	253,361	260,749

The deferred joint venture contributions liability reflects the timing of cash call contributions to the Iron Bridge Joint Venture by Fortescue and other joint operation partners.

(d) Guarantees issued
During the financial year ended 30 June 2012, the Minderoo Group Pty Ltd (formerly The Metal Group Pty Ltd), an entity controlled by the Chairman, provided financial assistance by way of guarantee to certain of Fortescue's executives to purchase the Company's shares. US$985 thousand expense was recognised during the year ended 30 June 2015 in relation to the agreement. The agreement concluded during the year ended 30 June 2015.

19 Share-based payments

(a) Employee options and Performance Rights Plans

During the year ended 30 June 2016, Fortescue issued 3,870,459 (2015: 1,671,456) short term performance rights and 9,211,984 (2015: 3,752,129) 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.

	2016		2015	
	Weighted average exercise price		Weighted average exercise price	
	A$	Number	A$	Number
Outstanding at 1 July	-	11,622,892	1.95	19,226,320
Performance rights granted	-	13,082,443	-	5,423,585
Performance rights forfeited or lapsed	-	(2,866,096)	-	(2,718,618)
Performance rights converted	-	(3,483,381)	-	(2,808,395)
Options forfeited or expired during the year	-	-	5.00	(7,500,000)
Outstanding at 30 June	**-**	**18,355,858**	**-**	**11,622,892**

The weighted average fair value of performance rights granted during the year ended 30 June 2016 was A$1.79 per right (2015: A$2.49) for the short term performance rights and A$1.72 per right (2015: A$2.37) for the long term performance rights. The estimated fair value of the short term performance rights was determined using a trinomial option pricing model and the estimated fair value of the long term performance rights was determined using a combination of analytical approaches, binomial tree and Monte-Carlo simulations. The fair value estimation takes into account the exercise price, the effective life of the right, 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 2016 were:

- share price: A$1.81 (2015: A$2.55)
- exercise price: nil (2015: nil)
- volatility: 52 per cent (2015: 62 per cent)
- effective life: 2.2 years (2015: 1.9 years)
- dividend yield: 2 per cent (2015: 3 per cent)
- risk free interest rate: 2.0 per cent (2015: 2.5 per cent).

Details of performance rights outstanding at 30 June 2016 are presented in the following table:

	Exercise price	Balance at the end of the year	Vested and exercisable at the end of the year	Remaining contractual life	Vesting conditions	
	A$	Number	Number	Years	Market	Non-market
Long term performance rights 2014	-	3,582,111	-	0.3	-	Yes
Long term performance rights 2015	-	3,095,545	-	2.3	-	Yes
Short term performance rights 2016	-	3,487,484	-	14.5	-	Yes
Long term performance rights 2016	-	8,190,718	-	14.5	Yes	Yes
		18,355,858	**-**			

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 estimated fair value of this share-based payment at grant date was US$3,941,996 including US$985,499 expensed during the year ended 30 June 2015. 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. The agreement concluded during the year ended 30 June 2015.

(c) Employee expenses

Total expenses arising from share-based payments transactions recognised during the period as part of employee benefit expense were as follows:

	2016 US$m	2015 US$m
Share-based payment (benefit) expense	(3)	9

20 Remuneration of auditors

PricewaterhouseCoopers Australia	2016 US$'000	2015 US$'000
Audit and other assurance services		
Audit and review of financial statements	722	830
Other assurance services	34	501
Total audit and assurance services	**756**	**1,331**
Other services		
Consulting services	194	205
Total remuneration of PricewaterhouseCoopers Australia	**950**	**1,536**
Network firms of PricewaterhouseCoopers Australia		
Audit and other assurance services		
Audit and review of financial statements	46	49
Total remuneration of network firms of PricewaterhouseCoopers Australia	**46**	**49**
Total auditors' remuneration	**996**	**1,585**

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 2016 along with the consolidated statement of financial position at 30 June 2016 for the closed group and the extended closed group represented by the above companies are materially the same as that of the Group.

22 Parent entity financial information

(a) Summary financial information

	2016 US$m	2015 US$m
Current assets	101	198
Non-current assets	10,273	9,395
Total assets	**10,374**	**9,593**
Current liabilities	325	31
Non-current liabilities	85	77
Total liabilities	**410**	**108**
Net assets	**9,964**	**9,485**
Contributed equity	1,301	1,294
Reserves	14	33
Retained earnings	8,649	8,158
Total equity	**9,964**	**9,485**
Profit for the year	601	2,002
Total comprehensive income for the year	**601**	**2,002**

The parent entity's financial information has been prepared on the same basis, including the accounting policies, as the consolidated financial information, except as outlined below:

- Investments in subsidiaries, associates and joint operations have been accounted for at cost; and
- Profit for the year includes dividends received from subsidiaries of US$500 million (2015: $2,045 million).

22 Parent entity financial information (continued)

(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 2016 or 30 June 2015.

23 Interests in other entities

(a) Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following significant subsidiaries, in accordance with the accounting policy described in note 24(a)(i):

			Equity holding		Investment	
Controlled entities	**Country of incorporation**	**Class of shares**	**2016 %**	**2015 %**	**2016 US$**	**2015 US$**
Chichester Metals Pty Limited	Australia	Ordinary	100	100	1	1
FMG International Pte Limited	Singapore	Ordinary	100	100	209,053	209,053
FMG International Shipping Pte Ltd	Singapore	Ordinary	100	100	1	1
FMG Iron Bridge Limited	Hong Kong	Ordinary	88	88	43,557,023	43,557,023
FMG Magnetite Pty Limited	Australia	Ordinary	88	88	1	1
FMG North Pilbara Pty Limited	Australia	Ordinary	88	88	1	1
FMG Pilbara Pty Limited	Australia	Ordinary	100	100	1	1
FMG Procurement Services	Australia	Ordinary	100	100	1	1
FMG Resources (August 2006) Pty Limited	Australia	Ordinary	100	100	1	1
FMG Solomon Pty Limited	Australia	Ordinary	100	100	1	1
Karribi Developments Pty Limited	Australia	Ordinary	100	100	1	1
Pilbara Housing Services Pty Limited	Australia	Ordinary	100	100	1	1
Pilbara Power Pty Limited	Australia	Ordinary	100	100	1	1
The Pilbara Infrastructure Pty Limited	Australia	Ordinary	100	100	1	1

23 Interests in other entities (continued)

(b) Joint operations

The consolidated financial statements incorporate Fortescue's share in the assets, liabilities and results of the following principal joint operations, in accordance with the accounting policy described in note 24(a)(ii).

Joint operations	Country of incorporation	Holding entity	Principal activities	Participating interest, % 2016	Participating interest, % 2015
Nullagine Iron Ore Joint Venture	Australia	FMG Pilbara Pty Ltd	Iron ore mining and processing[1]	25	25
Iron Bridge Joint Venture	Australia	FMG Magnetite Pty Ltd	Development of magnetite assets and production of magnetite concentrate	69	69
Glacier Valley Joint Venture	Australia	FMG North Pilbara Pty Ltd	Iron ore exploration	69	69

[1] During the year ended 30 June 2016, the operations of the Nullagine Iron Ore Joint Venture were suspended pending market conditions.

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 right 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, consolidated statement of changes in equity and consolidated statement of financial position 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.

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.

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.

24 Summary of significant accounting policies (continued)

(a) Principles of consolidation (continued)

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) Employee share trust
The Group has formed a trust to administer its employee share schemes. The trust is consolidated as the substance of the relationship is that the trust is controlled by the Group. Shares held by the share trust are disclosed as treasury shares and deducted from contributed equity.

(c) Foreign currency translation
Transactions in foreign currencies have been converted at rates of exchange at the date of those transactions. 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 the income statement, 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.

(d) 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 the 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's arrival to the port of discharge. Refer to note 12(a)(i) for further information on provisionally priced contracts, including accounting for mark 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.

(e) 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.

24 Summary of significant accounting policies (continued)

(f) 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 for 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 substantially 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.

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 the income statement, 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 and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation as at 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 at 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 Fortescue 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.

(g) 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.

24 Summary of significant accounting policies (continued)

(h) 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.

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.

The amount of the impairment allowance is recognised in the income statement within 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 administration expenses.

(i) 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:

- Materials and production costs, directly attributable to the extraction, processing and transportation of iron ore to the existing location
- Production and transportation overheads
- Depreciation of property, plant and equipment used in the extraction, processing and transportation of iron ore.

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.

(j) 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 amortised cost. At the end of each reporting period loans and receivables are reviewed for impairment, with the difference between the carrying amount and the present value of estimated future cash flows recognised in the income statement.

(ii) Financial assets through profit or loss
This category comprises only derivative financial instruments. They are carried on the balance sheet at fair value with changes in fair value recognised in the income statement.

(k) 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.

(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.

Borrowings are derecognised when the contractual obligations are discharged, cancelled or expire, or when the terms of an existing borrowing are substantially modified. Any difference between the carrying amount of a derecognised liability and the carrying amount of the new liability is recognised in the income statement.

24 Summary of significant accounting policies (continued)

(k) Financial liabilities (continued)

(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 the income statement over the lease period to reflect a constant periodic rate of interest on the remaining balance of the liability for each period.

(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 the income statement 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 the income statement during the financial period in which they are incurred.

(iii) Depreciation
Depreciation of 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.

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. The estimated useful lives for the principal categories of property, plant and equipment depreciated on a straight-line basis are as follows:

- buildings — 20 to 40 years
- rolling stock — 25 to 30 years
- plant and equipment — 2 to 20 years
- rail and port infrastructure assets — 40 to 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 mines.

24 Summary of significant accounting policies (continued)

(l) Property, plant and equipment (continued)

(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 and capitalised in respect of each identifiable area of interest, and carried forward to the extent that:

- Rights to tenure of the identifiable area of interest are current
- At least one of the following conditions is also met:
  - The expenditure is expected to be recouped through the successful development of the identifiable area of interest, or alternatively by its sale; or
  - 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 within exploration, development and other expenses in the income statement.

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.

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 the income statement 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 mines.

(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.

24 Summary of significant accounting policies (continued)

(m) Stripping costs (continued)

(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
- 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 income statement 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 the income statement on a straight-line basis over the lease term.

(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 include decommissioning of facilities, 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.

24 Summary of significant accounting policies (continued)

(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.

(q) Finance costs

Finance costs principally represent interest expense and are recognised as incurred except when associated with major projects involving substantial development and construction periods. In addition, finance costs include losses arising on derecognition of finance liabilities at above their carrying value, unwinding of the discount on provisions and bank charges.

Interest expense and other borrowing costs directly attributable to major projects are added to the cost of the project assets until such time as the assets are substantially ready for their intended use or sale. Where funds are 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.

(r) 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 Government 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. 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.

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24 Summary of significant accounting policies (continued)

(s) Share-based payments

Share-based remuneration benefits are provided to employees under the Fortescue's Performance Rights Plan, as set out in note 19.

The fair value of rights is measured at grant date, as set out in note 19, and is recognised as an employee benefits expense over the period during which the employees become unconditionally entitled to the rights, with a corresponding increase in equity.

The fair value of the rights granted is measured to reflect expected market vesting conditions, but excludes the impact of any non-market vesting conditions (for example, profitability). Non-market vesting conditions are included in assumptions about the number of rights that are expected to become exercisable. At each reporting date, the entity revises its estimate of the number of rights 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 the income statement with a corresponding adjustment to equity.

(t) 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.

(u) 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.

(v) 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.

(w) Comparatives

Where applicable, certain comparatives have been adjusted to conform with current year presentation.

24 Summary of significant accounting policies (continued)

(x) 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 2015:

- 2014-1 *Amendments to Australian Accounting Standards Part A: Annual Improvements 2010-2012 and 2011-2013 Cycles*. AASB 2014-1 introduced annual improvements that resulted in changes to various standards

  The adoption of the 2010-2012 and 2011-2013 annual improvement cycles 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 2016 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 2018). 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
- AASB 16 *Leases* (effective for annual reporting periods beginning on or after 1 January 2019). AASB 16 introduces new framework for accounting for leases and will replace AASB 117 *Leases*. The new standard will primarily affect the accounting by lessees and will result in the recognition of almost all leases on the balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for almost all lease contracts. 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 the income statement may change where such charges are determined by the units of production method, 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 the income statement.

(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 the income statement.

(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 the income statement.

(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.

Directors' declaration

Fortescue Metals Group Limited

In the Directors' opinion:

(a) The financial statements and notes set out on pages 75 to 113 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 2016 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 to 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 22nd day of August 2016.

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 2016, 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*.

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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 2016 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards 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 121 to 146 of the annual report for the year ended 30 June 2016. 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 2016 complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

N Henry

Nick Henry
Partner

Perth
22 August 2016

FMG