



Annual Report FY18

Together we are Fortescue

ABN 57 002 594 872



Fortescue
The New Force in Iron Ore



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The year at a glance

Total Recordable Injury
Frequency Rate

3.7

Production

170 mt

C1 costs

US\$
12.36 /wmt

Revenue

US\$ **6.9** bn

Total taxes paid

A\$ **1.2** bn

Total number of Fortescue
ore carriers delivered to
date

7

About Fortescue

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

Since it was founded in 2003, Fortescue has discovered and developed major iron ore deposits and constructed some of the most significant mines in the world. The Company is focussed on its vision of being the safest, lowest cost, most profitable mining company.

Now consistently producing 170 million tonnes of iron ore per annum (mtpa), Fortescue has grown to be one of the largest global iron ore producers and has been recognised as the lowest cost provider of seaborne iron ore into China based on Metalytics Resource Sector Economics analysis.

Fortescue owns and operates integrated operations spanning three mine sites in the Pilbara, the five berth Herb Elliott Port in Port Hedland and the fastest, heavy haul railway in the world. A natural extension of Fortescue's supply chain, the fleet of eight Fortescue Ore Carriers were designed to complement the industry best practice efficiency of Fortescue's port.

As the first Company in Western Australia to control a railway from outside the region of operation and the first Company in the world to use CAT autonomous haulage technology on a commercial scale, Fortescue is continuing to introduce cutting edge technology across the business.

The world-leading Eliwana mine and rail project will build on Fortescue's development and construction capability, utilising the latest technology, autonomous trucks and design efficiency.

Innovation in exploration, process and design is a key component of Fortescue's strategy to efficiently and effectively deliver products from mine to market.

Fortescue's longstanding relationships with customers in China have grown from the first commercial shipment of iron ore in 2008, to now being a core supplier of China's seaborne iron ore and expanding into markets including Japan, South Korea and India.

The Company continues to assess exploration and development opportunities throughout South America including Ecuador, Colombia and Argentina.

Fortescue is committed to its strategic goals of ensuring balance sheet strength and flexibility, investing in the core long term sustainability of the business while pursuing growth options and delivering returns to shareholders.

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

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Overview



Chairman's message

Andrew Forrest AO



In its short history, Fortescue has achieved what many people thought was impossible: to build a company from a start up to a global leader in the mining industry without losing its heritage, identity and never, ever give up family culture.

A decade ago, when we shipped our first 180,000 tonnes of ore to China, I said it was a phenomenal achievement of sheer hard work, of guts and grind over scepticism, of character over doubt. The same can be said today, as we continue to set records, achieve stretch targets and grow as a company.

From one of Australia's most successful explorers we have transitioned through planning, construction and commissioning to build truly global scale operations. We have gone on to demonstrate our excellent operational capability and are now recognised as the world's lowest cost provider of seaborne iron ore to China based on Metalytics Resource Sector Economic analysis.

During the year Lord Sebastian Coe returned to Fortescue's Board, bringing his unique perspective through his experience in business, marketing and politics across the European Union, India and other markets.

We also farewelled Mr Cao Huiquan and welcomed Dr Cao Zhiqiang, who brings extensive experience in technology and steel mill management along with a deep background in international cooperation.

Mr Mark Barnaba AM, Lead Independent Director, joined Ms Sharon Warburton as Joint Deputy Chair of the Board of

Directors. The appointment of two Deputy Chairs further strengthens the overall independence of the Board, supporting the interests of all shareholders.

During the year Fortescue moved from its traditional leadership focus with the appointment of our new Core Leadership team, with Chief Executive Officer, Ms Elizabeth Gaines, Chief Financial Officer, Mr Ian Wells, Chief Operating Officer, Mr Greg Lilleyman and Deputy Chief Executive Officer, Ms Julie Shuttleworth.

This team brings together a group of incredible individuals who are ingrained with Fortescue's culture, and who all possess the experience, talent and personal values required to lead our company's new direction. Collectively, they will champion Fortescue's unique family values, and have the courage and determination to set immensely challenging stretch targets and to deliver against them.

Fortescue is now rapidly evolving and through product diversification and asset development, we are exploring growth opportunities in Australia and internationally.

Our future growth will be built on our reputational capital, underpinned by our people and our relationships. Fortescue's

long-term engagement with our Chinese customers has played a critical role in the company's growth.

We are proud of our contribution to China's remarkable urban development and our role in supporting trade relations between China and Australia which has been vital to driving economic growth in both nations.

It was a pleasure to once again co-host the Australia-China Senior Business Leaders Forum which, since inception, has provided a unique platform to strengthen the comprehensive strategic partnership between our two countries.

Nicola and I founded the Munderoo Foundation with the belief in the power of giving a hand up, rather than a hand out. It gives me great pride to see this philosophy lived at Fortescue every day. Perhaps there is no greater demonstration of this innate belief than our Vocational Training and Employment Centre (VTEC).

When we started VTEC at Fortescue 12 years ago, I was determined it would end the cycle of jobless training once and for all and break down the social barriers that prohibit so many Aboriginal people from gaining employment.

I was incredibly proud to join the team in recognising the tenth anniversary of VTEC graduations during FY18 and celebrating the lives and achievements of hundreds of Aboriginal people who have seized the opportunities Fortescue's VTEC has offered.

The outstanding financial performance of Fortescue has benefited all shareholders. As shareholders, Nicola and I choose to use our dividends to fund the important work of the Minderoo Foundation and to support and contribute to programs that strengthen communities and support disadvantaged people in Australia and overseas.

Our seven focus areas include driving collaboration and change in global cancer research, ending modern slavery, creating parity for Indigenous Australians, ensuring all children in Australia reach their full potential, nurturing new talents in the arts, generating

world changing research and innovation in Western Australia and innovative community development and environmental conservation initiatives.

These initiatives are captured in the Eliminate Cancer Initiative, Walk Free Foundation, GenerationOne, Thrive by Five, Forrest Research Foundation and arts, culture, community and environment partnerships.

Our recently launched seventh philanthropic pillar, Minderoo Ocean Research, aims to harness the power of science, industry and collaboration to ensure the longevity of our ocean ecology.

We have also supported the Western Force which has been rebuilt as a wholly integrated community and high performance rugby club.

Fortescue's ongoing success has been built on 15 years of stable leadership. Under the stewardship of Mr Nev Power, the company earned its reputation as one of the largest and most consistent seaborne iron ore suppliers, taking its place as the lowest cost most efficient producer in the world. Nev, we thank you.

I would like to thank and congratulate everyone at Fortescue, led by our Core Leadership team, on a transformative year. When we founded Fortescue our vision was to build a truly Australian entity, committed to becoming the safest, lowest cost, most profitable mining company. I am humbled to see our Fortescue team delivering such outstanding results.

An ethical focus on promoting positive change



Fortescue and the Minderoo Foundation share a culture and core values of family, integrity, enthusiasm and challenging the status quo. Our organisations are closely aligned through an ethical focus of promoting positive change, as Fortescue looks beyond its Australian borders for growth and development opportunities. Fortescue was established with a clear vision that communities should benefit from the growth of our businesses. The shipment of Fortescue's first tonne of ore a decade ago wasn't only a hugely significant milestone for our company, but for the whole Pilbara region.

Fortescue is committed to protecting and promoting human rights and shares the goals of the Minderoo Foundation: to eradicate modern slavery, protect the environment and enhance early childhood development. As Fortescue enters more countries and engages with local businesses, we will work with them to also ensure there is no slavery or forced labour in any operations anywhere near ours, and will do our best to defeat it while protecting the environment and spreading the huge nation building benefits of focussing on early childhood development.

We begin our exploration activities in South America with the same vision: to ensure that

local communities benefit from our success. We are committed to providing training, employment and business development opportunities for local, Indigenous people; just as we have in the Pilbara. Even before our drilling program starts, we have established community offices and have engaged with the community to assist in our exploration activities.

As we enter this next exciting phase in Fortescue's history, our promise to the towns, communities and countries where we seek to work is that we will collaborate to contribute effectively to overall social and economic wellbeing and to the empowerment of communities.

Chief Executive Officer's message

Elizabeth Gaines



Our team works with a strong sense of culture, values and community. This is our pathway to achieving Fortescue's vision - to be the safest, lowest cost, most profitable mining company.

I am delighted to present my first annual report as Fortescue's Chief Executive Officer.

FY18 was a remarkable year for Fortescue. As we celebrated everything we have achieved over the last 15 years, we also looked ahead to position ourselves strongly for the next phase of growth.

Commitment to safety and unique culture

The safety of our people is our number one priority and our focus remains on ensuring the team go home safely after every single shift. Disappointingly, the Total Recordable Injury Frequency Rate increased during the year to 3.7 as a result of a number of low severity injuries. We have targeted plans in place to improve safety performance.

Our Company-wide commitment to improving safety and our unique culture was demonstrated by the record 94 per cent participation rate in our annual Safety Excellence and Culture Survey.

During the year, we held a series of Values Forums across the business. Our Values have been such an important part of Fortescue's culture since we were founded and the Forums confirmed that they are as alive and relevant today as they were 15 years ago.

These Values drive our behaviours, our teams and our results, and have enabled us to achieve a cost leadership position and production targets that many thought were unattainable.

Delivering on our targets

The team worked together to deliver record shipments in the June quarter, ensuring we achieved our target of 170mt for the year. Importantly, this was realised while maintaining our focus on costs, with full year C1 cost reducing to US\$12.36/wmt.

The sustainable productivity and efficiency initiatives introduced across the business have ensured that we remain highly competitive and continue to generate strong margins on every tonne of ore we produce.

With no debt repayments due until 2022, the refinancing strategy that was implemented over the past twelve months leaves our remaining debt structured on investment grade terms and conditions, providing a flexible capital structure supporting our ongoing operations and future growth.

World class operations

The long-term sustainability of our core iron ore business in the Pilbara remains a key priority for Fortescue. To that end, the largest development since Fortescue's ambitious T155 project, the Eliwana mine and rail project, was announced during the year. Eliwana will maintain Fortescue's low cost status, providing us with greater flexibility to capitalise on market dynamics while maintaining production over 20 years.

At Fortescue, we have a proud history of embracing technology and innovation, which has become vital in driving sustained productivity, cost savings and improving safety performance across our business and the mining sector more broadly.

Building on the pioneering success of autonomous haulage (AHS) at Solomon, this year we commenced the rollout of AHS to our fleet at the Chichester Hub. Once completed, Fortescue will become the first iron ore operation in the world with a fully automated haul fleet.

The new relocatable conveyor at Cloudbreak is another example of Fortescue's innovative culture, adapting technology frequently used in underground mining operations to provide greater flexibility and increased accessibility to remote mine pits.

Our customers

China remains our core focus, representing 50 per cent of world steel production, and we have strong relationships with a diverse customer base in China. In addition, we have successfully increased the volume of shipments to non-China markets during FY18.

Moving forward, the combination of growth in our region combined with China's Belt and Road initiative represents an unprecedented investment in infrastructure, driving continued investment and demand for steel to the advantage of Fortescue and Australia's mineral resources sector as a whole.

Innovation in process and design is a fundamental part of Fortescue's strategy to efficiently and effectively deliver products from mine to market. Fortescue has consistently challenged geological thinking to identify valuable deposits and establish a differentiated product offering. Building on this, during the year we announced Fortescue will begin offering a 60 per cent iron content product, West Pilbara Fines, in the second half of FY19.

Building a strong business

When Fortescue was founded 15 years ago, it was our vision that by first and foremost creating a strong business, we could create economic opportunities and contribute to thriving local communities.

This vision continues with the US\$1.275bn Eliwana project, which will generate up to 1,900 jobs during construction and 500 full-time site positions once operational.

We are proud of our achievements and our ongoing contribution to Western Australia and the country's economic strength. Since Fortescue began, we have paid corporate taxes of more than A\$3 billion, royalties to the State of more than A\$4.5 billion and have invested over US\$22 billion in Australia's economy.

We continue to empower generational change through our Vocational Training and Employment Centres. Since the initiative began 12 years ago, 797 Aboriginal people have commenced employment with Fortescue.

Our Billion Opportunities program focusses on building capacity and capability in Aboriginal businesses. The program reached a significant milestone during the year, recognising the award of A\$2 billion in contracts and subcontracts since its commencement in 2011.

At Fortescue, diversity is broader than gender and is embraced in all its forms. 24 per cent of our senior management team is female and we are proudly only one of two listed companies in Australia with greater than 50 per cent female Board members.

At a personal level, I am focussed on leadership development, retention of

female talent and ensuring that women are encouraged to progress to the C-Suite so that we have equal representation in senior roles across corporate Australia.

Investing for the future

As we look to the future we are driven by four key priorities. We will seek to maintain our balance sheet strength and flexibility and will continue to invest in the long term sustainability of our core iron ore business. We are also prioritising growth primarily through exploration activities and remain focussed on delivering returns to our shareholders.

Crucially, our future success will be underpinned by Fortescue's unique culture. Our culture and Values were created by our Founder and Chairman Andrew Forrest AO, and championed by our former Chief Executive Officer Nev Power, and it is my and the Core Leadership team's responsibility and privilege to continue that legacy. Together, the Core Leadership team is committed to leading Fortescue through its next phase by empowering and encouraging our people to generate new ideas and have the courage to implement them.

I would like to thank and congratulate all of our employees, contractors and suppliers for their great contributions. Their determination, innovation and enthusiasm is driving improvements in safety, productivity and efficiency and delivering these strong results across every aspect of our business.

15 years of milestones



15 years ago, our Chairman Andrew Forrest AO, had the remarkable vision and entrepreneurial spirit to create Fortescue and the determination to build it into a global leader in the mining industry.

Fortescue has been on an incredible journey and it is the sheer determination of the Fortescue family that has seen us become the true Australian success story we are today.

In April, ten years after Fortescue first exported its ore to Shanghai Baosteel's Majishan Port, the billionth tonne sailed

to China aboard Fortescue's Ore Carrier 'FMG Sophia'.

This year also marks 15 years since Andrew Forrest AO was elected Chairman of the newly named Fortescue Metals Group, marking the start of his visionary journey to create an Australian-owned iron ore group, comparable in size with the global iron ore majors.

We have been proud to recognise these remarkable achievements with customers from around the world, suppliers and key stakeholders, pastoralists, government, Native Title Partners and local communities.

In true Fortescue fashion, we have celebrated as a team, with events across the entire business, from the Pilbara to Perth, China to South America.

My sincere thanks to the entire Fortescue family; our unique culture and Values have driven us to strive to reach stretch targets, to generate ideas and to never, ever give up.

"We achieved these milestones in true Fortescue fashion - taking 10 years to achieve what others took decades to do."

Fortescue's Values

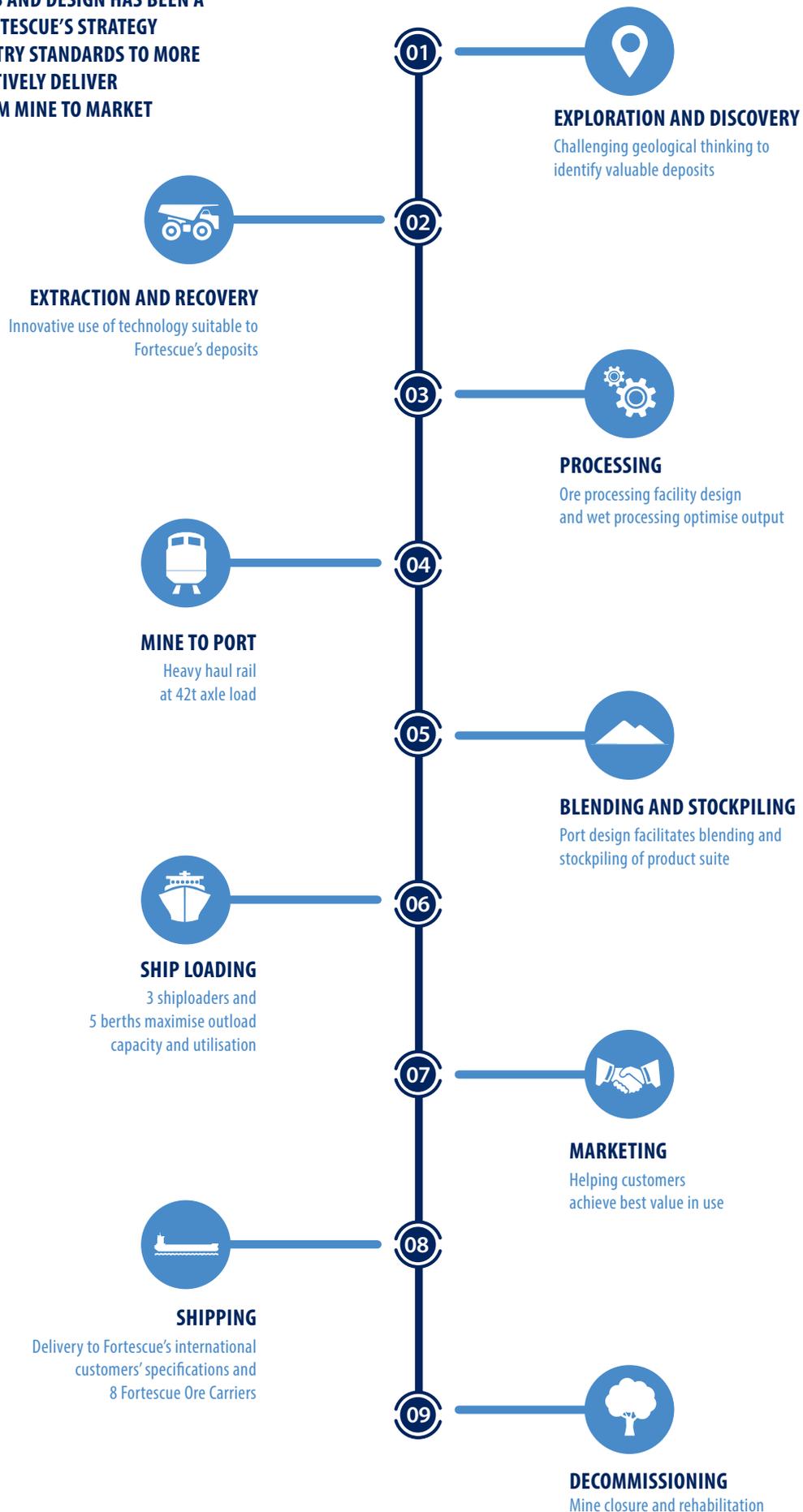
				
Safety Look out for our mates and ourselves	Empowerment Take action and encourage your team	Family Care for your work mates	Frugality Use your brain not your cheque book	Stretch targets Deliver against challenging targets
				
Integrity Do what you say you're going to do	Enthusiasm Be positive, energetic	Courage and determination Never, ever give up	Generating ideas Always be on the lookout for better ways	Humility Show vulnerability in leadership

Fortescue's unique Values drive the Company's performance in a way that sets Fortescue apart.



Value Chain

INNOVATION IN PROCESS AND DESIGN HAS BEEN A KEY COMPONENT OF FORTESCUE'S STRATEGY IN CHALLENGING INDUSTRY STANDARDS TO MORE EFFICIENTLY AND EFFECTIVELY DELIVER ITS PRODUCT SUITE FROM MINE TO MARKET





Fortescue has a talented and diverse Board committed to enhancing and protecting the interests of shareholders and other stakeholders and fulfilling a strong governance role over the Company's affairs.

The Board Overview

The appointment and reappointment of directors is intended to maintain and enhance the overall quality of the Board through a composition which reflects a diversity of skills, experience, gender and age. The primary driver for the Board in seeking new directors is skills and experience which are relevant to the needs of the Board in discharging its responsibilities to shareholders.

All new Board members benefit from a comprehensive induction process that supports their understanding of Fortescue's business.

Fortescue's policy is to assess all potential Board candidates without regard to race, gender, age, physical ability, sexuality, nationality, religious beliefs, or any other factor not relevant to their competence and performance.

There is also a range of support given to Board members which enables them to stay strongly connected to the Company and its culture.

These include:

- Opportunities for significant contribution to the annual strategy setting process conducted with executive and senior management

- Regular briefings from executive and senior management regarding all major business areas, tailored site visits and annual site tours to operations
- Visits to meet with key customers that strengthen their understanding of the Company's key markets
- Regular formal and informal opportunities for the directors to meet with management and staff.

The Board has established Committees to assist in the execution of its duties and to ensure that important and complex issues are given appropriate consideration. The primary Committees of the Board are the Remuneration and Nomination Committee, the Audit and Risk Management Committee and the Finance Committee. Each Committee has a non-executive Chair and operates under its own Charter which has been approved by the Board.

Directors are expected to act independently, ethically and comply with all relevant requirements of the *Corporations Act 2001*, ASX Listing Rules and the Company's constitution. The Company actively promotes ethical and responsible decision making through its Values and Code of Conduct and Integrity that embodies these values.

There is a formal process and policy to identify, disclose and manage potential conflicts of interest, should they arise.

The Board and each of its three primary Committees have established a process to evaluate their performance annually. The process is based on a formal questionnaire and interview conducted every second year by an independent consultant and every other year by the Company Secretary under the direction of the Chair of the Remuneration and Nomination Committee. The most recent review was undertaken in May/June 2018 by the Company Secretary. The results and recommendations are reported to the full Board for further consideration and agreement of improvement actions, where required.

At the date of this report, the Board has eight non-executive directors and one executive director, being Chief Executive Officer Elizabeth Gaines. The Board believes that an appropriate mix of non-executive and executive directors is beneficial to its role and provides strong operational and financial insights to support the business.



Andrew Forrest AO

Chairman

Appointed Chairman in July 2003; Assumed role of Chief Executive Officer in 2005; Resumed non-executive responsibilities in July 2011.

Mr Forrest is Fortescue's Founder and Chairman and has led the Company to its status as the fourth-largest seaborne iron ore producer. Under Mr Forrest, Fortescue has made significant investments in the Australian resources sector of more than US\$22 billion and become the lowest cost and most efficient supplier of iron ore into China.

In 2001, Mr Forrest co-founded the Minderoo Foundation with his wife Nicola, which has supported over 250 initiatives across Australia and internationally in pursuit of a range of causes. Mr Forrest was appointed an Officer of the Order of Australia (AO) in 2017 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.

He is an Adjunct Professor of the Central South University in China, a longstanding Fellow of the Australian Institute of Mining and Metallurgy, and a leading global representative of the resources sector. He is co-Chairman of the Senior Business Leaders' Forum, the leading formal dialogue for China and Australia's most senior business leaders.

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 his service to the country.

In 2017, he was named West Australian of the Year for his contribution to the community and in 2018, he was honoured with the EY Entrepreneur Of The Year Alumni Social Impact Award for the "lasting and exceptional legacy" of his philanthropic work.

Committee memberships:
Finance Committee (Chair)



Mark Barnaba AM

Lead Independent Director/Deputy Chair

Deputy Chair since November 2017; Lead Independent Director since November 2014; Non-Executive Director since February 2010.

A member of the Board of the Reserve Bank of Australia, Mr Barnaba previously worked for McKinsey and Company and also held several senior executive roles at Macquarie Group where he served as Chairman and Global Head of Natural Resources for Macquarie Capital.

Mr Barnaba is Chairman of The University of Western Australia's Business School Board and an Adjunct Professor of Finance and Investment Banking at the University of Western Australia. He is co-founder 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.

After graduating from The University of Western Australia with a Bachelor of Commerce, Mr Barnaba entered Harvard Business School receiving a Master of Business Administration. He received an Honorary Doctor of Commerce from The University of Western Australia in 2012 and was granted the Honorary designation Fellow of CPA from CPA Australia. He is a Fellow of the Australian Institute of Company Directors.

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 organisations.

Committee memberships: Audit and Risk Management Committee (Chair); Remuneration and Nomination Committee (Member)



Elizabeth Gaines

Chief Executive Officer/Managing Director

Chief Executive Officer since February 2018 and Executive Director since February 2017; Former Non-Executive Director since February 2013.

Elizabeth Gaines commenced as Chief Executive Officer of Fortescue Metals Group 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.

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

Former directorships in the last three years (ASX Listed Entities): NEXTDC Limited (Non-Executive Director); Mantra Group Limited (Non-Executive Director); Nine Entertainment Co. Holdings Limited (Non-Executive Director); ImpediMed Limited (Non-Executive Director); Helloworld Limited (Executive Director).

The Board



Sharon Warburton

Deputy Chair

Deputy Chair since July 2017; 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 Australian Financial Review's Westpac 100 Women of Influence (2015).

She is on the board of not-for-profit organisation Perth Children's Hospital Foundation and formerly the Chairman of the Northern Australia Infrastructure Facility and Director of Western Power.

Ms Warburton is regarded as a financial, governance and remuneration expert and is a Fellow of the Institute of Chartered Accountants 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.

Other current directorships (ASX listed entities): Gold Road Resources Limited (Non-Executive Director); NEXTDC Limited (Non-Executive Director).

Former directorships in the last three years (ASX Listed Entities): Wellard Limited.

Committee memberships: Remuneration and Nomination Committee (Chair); Audit and Risk Management Committee (Member); Finance Committee (Member)



Lord Sebastian Coe CH, KBE

Non-Executive Director

Non-Executive Director since February 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.

Based in the United Kingdom, 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 (IAAF) in 2015 where he is driving significant governance reforms through the organisation and its 214 Member Federations around the world.

Lord Coe previously served as Chairman of the British Olympic Association and was Chairman of the Organising 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 eleven world records.

In 1992, Lord Coe became a Member of Parliament and during his political career served as a Government Whip and then 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.

Nev Power

Former Chief Executive Officer and Managing Director

Mr Power was appointed Chief Executive Officer in July 2011 and Managing Director in September 2011 and retired from Fortescue's Board after resigning from his role as Chief Executive Officer in February 2018.

With more than 30 years' experience in the mining, steel and construction industries, Mr Power led Fortescue's strong, values based culture and commitment to safety excellence. Prior to joining Fortescue, Mr Power held chief executive positions at Thiess and Smorgon Steel Group.



Jennifer Morris OAM

Non-Executive Director

Non-Executive Director since November 2016. Ms Morris is a former Partner in the Consulting Division of Deloitte, where she specialised 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 has completed Finance for Executives at INSEAD.

Committee memberships: Remuneration and Nomination Committee (Member); Audit and Risk Management Committee (Member)



Dr Jean Baderschneider

Non-Executive Director

Non-Executive Director since January 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, South America, 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. She holds a Master's Degree from the University of Michigan and a PhD from Cornell University.

Cameron Wilson

Company Secretary

Mr Wilson was appointed Company Secretary in February 2018, bringing over 20 years mining industry experience across the gold, nickel, coal and mineral sands sectors. He started his career as a lawyer in private practice with a leading Australian law firm and subsequently held a number of senior legal, commercial and governance positions, including most recently as General Counsel and Company Secretary at Iluka 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.



Penny Bingham-Hall

Non-Executive Director

Non-Executive Director since November 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 holds a Bachelor of Arts (Industrial Design).

Other current directorships (ASX listed entities): BlueScope Steel Limited (Non-Executive Director); DEXUS Property Group (Non-Executive Director).

Committee memberships: Finance Committee (Member); Audit and Risk Management Committee (Member)

Alison Terry

Group Manager Corporate Affairs and Joint Company Secretary

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

With significant experience in corporate affairs, legal, company secretarial and general management, Ms Terry has previously held senior executive and Board roles across a number of sectors including automotive, telecommunications and superannuation. Ms Terry holds a Bachelor of Economics and Bachelor of Laws (Honours) and a Graduate Diploma of Business (Accounting).



Dr Cao Zhiqiang

Non-Executive Director

Non-Executive Director since January 2018 (nominated director from Hunan Valin Iron and Steel Group Company Ltd).

Dr Cao is currently the Chairman of Hunan Valin Iron and Steel Group Company Ltd and brings extensive experience in technology and steel mill management, along with a deep background in international co-operation.

Dr Cao joined Valin Xiangtan Steel in 1997 and has worked in a variety of roles including Director of the Research and Development centre, before being appointed Chief Executive Officer.

He holds a PhD in Science and is a senior engineer research fellow.

Cao Huiquan

Former Non-Executive Director

Mr Cao was appointed Chief Executive Officer of Hunan Valin Iron and Steel Group Company Ltd in 2005 and concurrently held the position of General Manager of Lianyuan Iron and Steel Group Co Ltd.

Mr Cao resigned from Fortescue's Board in January 2018. Dr Cao Zhiqiang was appointed to Fortescue's Board, replacing Mr Cao in January 2018.



Core Leadership team

The Core Leadership team was announced on 30 November 2017

as part of a move from a traditional leadership focus to a team with active Board support, devolving authority throughout the organisation.

Elizabeth Gaines

Chief Executive Officer

Ms Gaines commenced as Chief Executive Officer 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.

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.



Left to right: Ian Wells, Elizabeth Gaines, Julie Shuttleworth, Greg Lilleyman

Greg Lilleyman

Chief Operating Officer

Mr Lilleyman commenced as Chief Operating Officer in February 2018, after joining Fortescue as Director Operations in January 2017.

With nearly three decades of extensive international experience in the mining sector, including over 20 years in the iron ore sector, across multiple commodities in large scope project development and construction, operational and business leadership, JV management and technology deployment, Mr Lilleyman brings significant business credentials and iron ore market knowledge to Fortescue's Core Leadership team.

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. He is a member of the Australian Institute of Mining and Metallurgy, the Australian Institute of Company Directors and a Fellow of the Australian Institute of Management.

Julie Shuttleworth

Deputy Chief Executive Officer

Ms Shuttleworth commenced as Deputy Chief Executive Officer in January 2018, following four years as General Manager Cloudbreak and later General Manager Solomon at Fortescue. She 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.

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

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

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. He commenced as Chief Financial Officer in February 2018.

Prior experience includes financing Fortescue's US\$10 billion major iron ore project development to 155 million tonnes per annum, and successfully undertaking multi-billion dollar capital raising and refinancing transactions in domestic and international capital markets.

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 and Acting CFO of Alinta Limited.

Mr Wells holds a Bachelor of Business in Accounting, is a Fellow of CPA Australia, a Certified Finance and Treasury Professional and a Graduate of the Australian Institute of Company Directors.

Executive team

Fortescue's Executive team is accountable for the safety of its people, upholding the Company's Values, acting with integrity and honesty, and leading the business to achieve its vision of becoming the safest, lowest cost, most profitable mining company.



Danny Goeman



Peter Huston



Tim Langmead



David Liu



Linda O'Farrell



Alison Terry



Gerhard Veldsman



Rob Watson

Danny Goeman

Director Sales and Marketing

Mr Goeman was appointed Director Sales and Marketing in August 2018.

Mr Goeman has more than 25 years of experience in management, sales and marketing, strategy development and high level commercial negotiations, including more than 20 years with the Rio Tinto group of Companies.

Mr Goeman has a wealth of experience in leading commercial transactions in different geographies including Australia, Asia and Europe, and has experience in a range of commodities including diamonds, iron ore, coal and potash.

Mr Goeman has a Masters degree in Business Administration.

Peter Huston

Chief General Counsel and Director Corporate Services

Mr Huston joined Fortescue as Chief General Counsel in January 2005 and joined the executive team in January 2009 as Director Corporate Services.

Prior to joining Fortescue, Mr Huston spent 12 years as a partner of the law firm now known as Norton Rose and 10 years in private equity, mergers and acquisitions.

Mr Huston holds a Bachelor of Laws (Honours), Commerce and Jurisprudence and a Master of Laws.

Tim Langmead

Director Community, Environment and Government

Mr Langmead was appointed Director External Relations in January 2014, after joining Fortescue as Group Manager Corporate Affairs in January 2013 and was subsequently appointed Director Community, Environment and Government.

Previously, Mr Langmead held senior corporate affairs roles in the Australian business units of global oil and gas companies.

Mr Langmead served in senior staff roles for Ministers in the Howard-Anderson and Howard-Vaile governments and commenced his career as an agribusiness journalist.

David Liu

Senior Adviser to the CEO and COO

Mr Liu was appointed Director Sales and Marketing in 2011. He has almost 30 years' experience in trade and investment projects between Australia and China and a strong understanding of Chinese culture and business practices.

Mr Liu moved from Director Sales and Marketing into the role of Senior Adviser to the Chief Executive Officer and Chief Operating Officer in August 2018.

Linda O'Farrell

Group Manager Fortescue People

Ms O'Farrell joined Fortescue in October 2013 as Group Manager Fortescue People, joining the executive team in December 2014.

Having held a number of executive human resources roles in major Australian resource companies, Ms O'Farrell brings deep experience in strategic people management, diversity and Aboriginal employment.

Ms O'Farrell holds a Bachelor of Economics (Honours in Industrial Relations) from the University of Western Australia.

Alison Terry

Group Manager Corporate Affairs and Joint Company Secretary

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

With significant experience in corporate affairs, legal, company secretarial and general management, Ms Terry has previously held senior executive and Board roles across a number of sectors including automotive, telecommunications and superannuation.

Ms Terry holds a Bachelor of Economics and Bachelor of Laws (Honours) and a Graduate Diploma of Business (Accounting).

Gerhard Veldsman

Executive GM Pilbara Operations

Mr Veldsman was appointed Executive General Manager Pilbara Operations in February 2018. He started his career at Fortescue in 2011 and has led the Port and Rail operations and Solomon Hub. Most recently, he was GM Iron Ore Projects, responsible for the Iron Bridge Joint Venture Magnetite Project and feasibility studies into the Western Hub and Nyidinghu.

With more than 15 years' industry experience spanning various commodities and operations in Australia and South Africa, Mr Veldsman's previous experience includes senior operations management, asset reliability and overseeing mechanical, structural and expansion projects.

Mr Veldsman holds a Bachelor of Engineering (Mech), Masters of Engineering (Mech), and is registered as a Professional Engineer in South Africa.

Rob Watson

Group Manager Health and Safety

Mr Watson was appointed Group Manager Health and Safety in 2014 after joining Fortescue in 2011. Prior to this, Mr Watson spent 15 years in a number of senior corporate health and safety roles in large mining companies.

Mr Watson's career in health and safety spans over 25 years in a number of industries and commodities. Mr Watson holds a Masters in Occupational Health and Safety.

Fortescue's Vision

To be the safest, lowest cost, most profitable mining company.

Values

Fortescue's unique Values drive the Company's performance in a way that sets it apart from others.

Culture

Fortescue is a values-based business with a strong, differentiated culture.

The Company believes that by leveraging the unique culture of its greatest asset, its people, it will achieve its stretch targets.



02

Operating and Financial Review



Operating and financial highlights

Production

170 mt

C1 costs

US\$
12.36 /wmt

Cash on hand

US\$
863 m

Revenue

US\$
6.9 bn

Gross debt

US\$
4.0 bn

Net debt

US\$
3.1 bn

Overview of operations

Chichester Hub

The Chichester Hub in the Chichester Ranges, comprising the Cloudbreak and Christmas Creek mines, has an annual production capacity of 95 million tonnes per annum (mtpa) from three Ore Processing Facilities (OPFs).

Consistent and sustained output delivered from the OPFs has allowed Fortescue to continue optimisation of its product strategy through enhanced blending and beneficiation, increasing iron upgrades and reducing impurities. This has resulted in lower mining cut-off grades, further optimising ore bodies and sustainably reducing strip ratios.

Building on the success of autonomous haulage technology (AHS) at the Solomon Hub, the first autonomous trucks began operation at Christmas Creek during the year. The conversion of approximately 100 haul trucks at the Chichester Hub will see Fortescue become the first iron ore operation in the world to have a fully autonomous fleet.

Cloudbreak's five kilometre relocatable conveyor and semi-mobile primary crushing station also began operation in FY18.



Christmas Creek



Cloudbreak

Solomon Hub

The Solomon Hub in the Hamersley Ranges is located 60 kilometres (km) north of Tom Price and 120km to the west of Fortescue's Chichester Hub. It comprises the Firetail and Kings Valley mines which together have production capacity of 75mtpa.

Solomon represents a valuable source of production by blending higher iron grade, low cost Firetail ore with low phosphorous Chichester ore to create the high quality Fortescue blend.

Fortescue successfully first deployed CAT AHS at the Solomon Hub in 2012. Today, the AHS fleet consists of 70 trucks, delivering a 30 per cent improvement in productivity.



Solomon

Hedland Operations

Fortescue wholly owns and operates its purpose built and designed rail and port facilities, constructed to deliver iron ore from its mines to Port Hedland and on to its customers. Covering 620km of track, the railway is the fastest, heavy haul line in the world. The efficient design, layout and optimal berthing configuration make Fortescue's port the most efficient bulk port operation in Australia. The port has five operating berths and is capable of efficiently exporting more than 170mtpa.

A natural extension of Fortescue's supply chain, the Company's ore carriers were designed to complement the industry leading efficiency of Fortescue's port. Three Fortescue Ore Carriers made their maiden voyage into Herb Elliot Port in FY18, with the remaining vessel due to be delivered in early FY19.

Construction of Fortescue's tug haven commenced during the year. Due to begin operations in 2019, the tug fleet will provide safe and reliable towage services that will maximise efficiencies at the Company's port operations.

Eliwana

During the year, Fortescue's Board of Directors approved the development of the Eliwana mine and rail project. With an estimated capital cost of US\$1.275bn, the development consists of 143km of rail and a new 30mtpa dry OPF. The project underpins the introduction of a 60 per cent iron grade product and will maintain Fortescue's low cost status, providing greater flexibility, while maintaining a minimum 170mtpa production rate over 20 years.

The Eliwana project will build on Fortescue's development and construction capability, utilising the latest technology, autonomous trucks and design efficiency while redeploying existing assets to this world leading development.

Iron Bridge

Iron Bridge, located 100km south of Port Hedland, is a joint venture between Fortescue, Taiwan's Formosa Group and China's Baosteel Resources Ltd, a subsidiary of China's Baowu Group, incorporating the world class North Star and Glacier Valley Magnetite ore bodies. Feasibility studies for the high grade, magnetite project continue to be assessed with a decision, in conjunction with Fortescue's joint venture partners, expected during the 2018 calendar year.

Exploration

Fortescue holds the largest tenement portfolio in the Pilbara. Details of the Company's reserves and resources are summarised in the Ore Reserves and Minerals Resources Report on pages 35 to 42 of this report. Exploration activity in FY18 included the discovery of several iron ore deposits along the southern and western margins of the Jeerinah Anticline in the western portion of the Hamersley Group. The Western Hub Resources include significant amounts of high iron content bedded iron ore hosted in both the Brockman and Marra Mamba Formations adding high iron content, dry, low cost tonnes to Fortescue's product suite and providing optionality and flexibility moving forward.

During the year, Fortescue continued to undertake early stage, low cost exploration on copper-gold prospective tenements in South Australia and New South Wales.

South America

Fortescue continued to assess exploration and development opportunities throughout South America including Ecuador, Colombia and Argentina. 32 exploration concessions were awarded in Ecuador and initial evaluation of potential for porphyry copper deposits commenced. A further 64 applications were lodged in Colombia for exploration concessions in areas which are copper and gold prospective.



Construction of Fortescue's tug haven commenced during the year.



博鳌亚洲论坛2018年年会 BOAO FORUM FOR ASIA ANNUAL CONFERENCE 2018



Fortescue is proud of its longstanding relationships with China.

This year marked a number of important milestones in the Company's relationship with China as Fortescue recognised 10 years since the first shipment of iron ore, celebrated the delivery of the one billionth tonne and marked a decade as Diamond Sponsor of the Boao Forum for Asia.

The success and longevity of Fortescue's association with China is due to the multifaceted nature of the relationship which is built on four pillars of engagement: supply, procurement, investment and community engagement.

A decade ago, Fortescue shipped its first 180,000 tonnes of iron ore aboard the Cape size vessel Heng Shan from Herb Elliott Port

in Port Hedland. Today, Fortescue is the lowest cost supplier of seaborne iron ore into China.

Fortescue has spent over US\$1 billion in procurement from China, including the US\$600 million the construction of the fleet of Fortescue Ore Carriers. The partnerships with Chinese manufactures has had lasting benefits, enabling the businesses to enter the world market.

It has been 30 years since China's first investment in Australia's iron ore industry, which includes the highly successful direct investment in Fortescue by Hunan Valin Steel Group who remain a major shareholder.

The engagement extends to the community level, with Fortescue sponsoring academic scholarships at Central South University in China and hosting the China-Australia university partnership in the Pilbara.

Fortescue is proud of its contribution to China's remarkable economic development and its role in supporting the important trade relationship between China and Australia, which has been vital to driving economic growth in both nations.

Key Performance Indicators

Safety

3.7

Total Recordable Injury Frequency Rate

Production

170 mt

Meeting annual production target

C1 Costs

US\$

12.36 /wmt

Four per cent reduction from prior year



Key performance indicators

Safety

Fortescue places the utmost importance on safety, as the Company's number one Value.

Every day, Fortescue's people are encouraged and empowered to look out for their mates and themselves.

The Company is committed to providing a safe workplace for all of its employees and contractors as it works to become a global leader in safety through reducing its Total Recordable Injury Frequency Rate (TRIFR) and Significant Incident Frequency Rate to the lowest quartile of the resources industry.

Fortescue's rolling twelve-month TRIFR increased by 28 per cent from 2.9 at 30 June 2017 to 3.7 at 30 June 2018, predominantly due to a number of low severity injuries.

Fortescue is committed to continuing to improve its safety performance across the following areas:

- Strengthening safety leadership through specific action plans to improve the results of the Company-wide Safety Excellence and Culture Survey
- Engagement with its contracting partners to ensure compliance with Fortescue's safety standards and a safe workplace

- Enhancement of the critical control monitoring (CCM) program to eliminate fatalities and serious injuries. The CCM program aligns with Fortescue's risk profile and any significant incident trends
- The continued reduction of workplace exposures through safety improvement opportunities.

12-month rolling TRIFR, per million hours worked



Production

Consistent and predictable production.

Production and shipments on a wet metric tonne basis (wmt) for the year are outlined below:

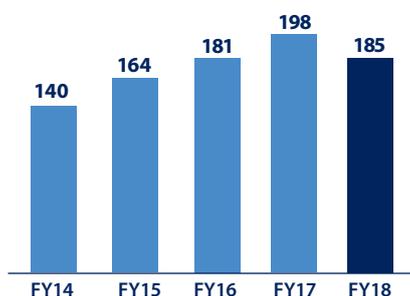
12 months to 30 June	2018 million wmt	2017 million wmt	Movement %
Shipments	170	170	-
Ore mined	185	198	-7
Overburden removed	267	205	+30
Ore processed	166	172	-3

An annual shipment rate of 170mtpa was maintained in FY18 including a record June quarter of 46.5mt. Mining and processing activities continued to support Fortescue's product strategy and shipping targets. Total processing tonnes included a three per cent increase in the OPF output compared to the prior year.

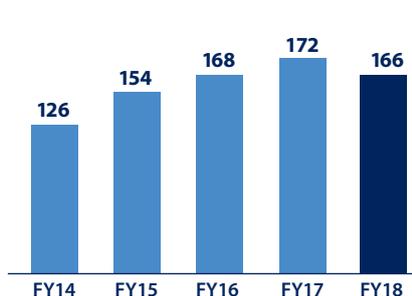
Fortescue's product strategy continued to focus on delivering value to its customers and maximising the value of its ore bodies and infrastructure assets through beneficiation, as well as operating, asset utilisation and productivity efficiencies.

Strip ratio across all mining operations increased to 1.4 with the five year mine strip ratio remaining at 1.5.

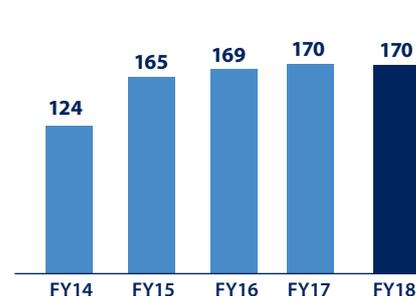
Mining, million wmt



Processing, million wmt



Shipments, million wmt



Key performance indicators

Costs

C1 costs of US\$12.36/wmt, a four per cent reduction from the prior year.

During the year, Fortescue has delivered on key strategic initiatives which position the Company for the next phase of growth while improving productivity and remaining the lowest cost producer of seaborne iron ore to China.

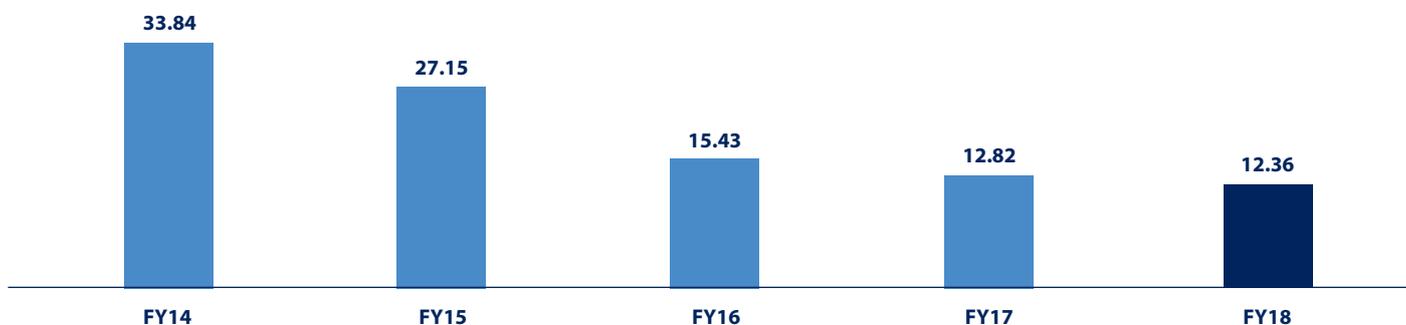
In FY18, Fortescue delivered a record low C1 cost for the year of US\$12.36/wmt, a four per cent improvement over the prior year offsetting a 12 per cent increase in total material moved, a three per cent increase in foreign exchange and a 21 per cent increase in oil price. As a result, the Company has maintained its position as the lowest cost supplier of seaborne iron ore into China based on Metalytics Resource Sector Economic analysis.

The strategic initiatives achieved in FY18 include:

- The transition to autonomous haul fleet at Christmas Creek with 19 trucks converted and in operation at 30 June 2018. Upon completion of the program, with approximately 100 haul trucks at the Chichester Hub and 70 at the Solomon hub, Fortescue will become the first iron ore operation in the world to have a fully autonomous fleet
- Commissioning of the relocatable conveyor at Cloudbreak. The five kilometre conveyor includes a semi-mobile primary crushing station that feeds directly into the ore processing facility. The relocatable conveyor and semi-mobile crushing facilities can be positioned approximate to pits and relocated once mining is complete
- Continued improvement focus across all operations including mine planning, design and review of mining methodology, cross-site operational collaboration, efficiency of mining equipment and labour productivity.

The chart below illustrates progressive cost reductions over the past five years, representing sustainable, long term improvements in operating costs.

C1 cost journey, US\$/wmt



Financial performance

The Company's focus on safety and the productivity and efficiency of its operations underpins the generation of strong margins and sustainable delivery of shareholder value.

Key metrics	2018	2017
Revenue, US\$ millions	6,887	8,447
Underlying EBITDA ¹ , US\$ millions	3,182	4,744
Underlying net profit after tax ¹ , US\$ millions	1,080	2,134
Net profit after tax, US\$ millions	878	2,093
Earnings per share, US cents	28.2	67.3
Realised price, US\$/dmt	44	53
C1 costs, US\$/wmt	12	13
Underlying EBITDA margin, US\$/dmt	20	30
Key ratios		
Underlying EBITDA margin, %	46	56
Return on equity, %	9	23

¹ Refer to page 29 for the reconciliation of Underlying EBITDA and Underlying net profit after tax to the financial metrics reported in the financial statements under Australian Accounting Standards.

Financial performance

In FY18, Fortescue delivered net profit after tax of US\$878 million and earnings per share of 28.2 cents (FY17: US\$2,093 million and earnings per share of 67.3 cents). Underlying net profit after tax, adjusted for one-off refinancing and early debt repayment costs, was US\$1,080 million (FY17: US\$2,134 million).

Underlying EBITDA

Underlying EBITDA, defined as earnings before interest, tax, depreciation and amortisation, exploration, development and other expenses, is used as a key measure of the Company's financial performance.

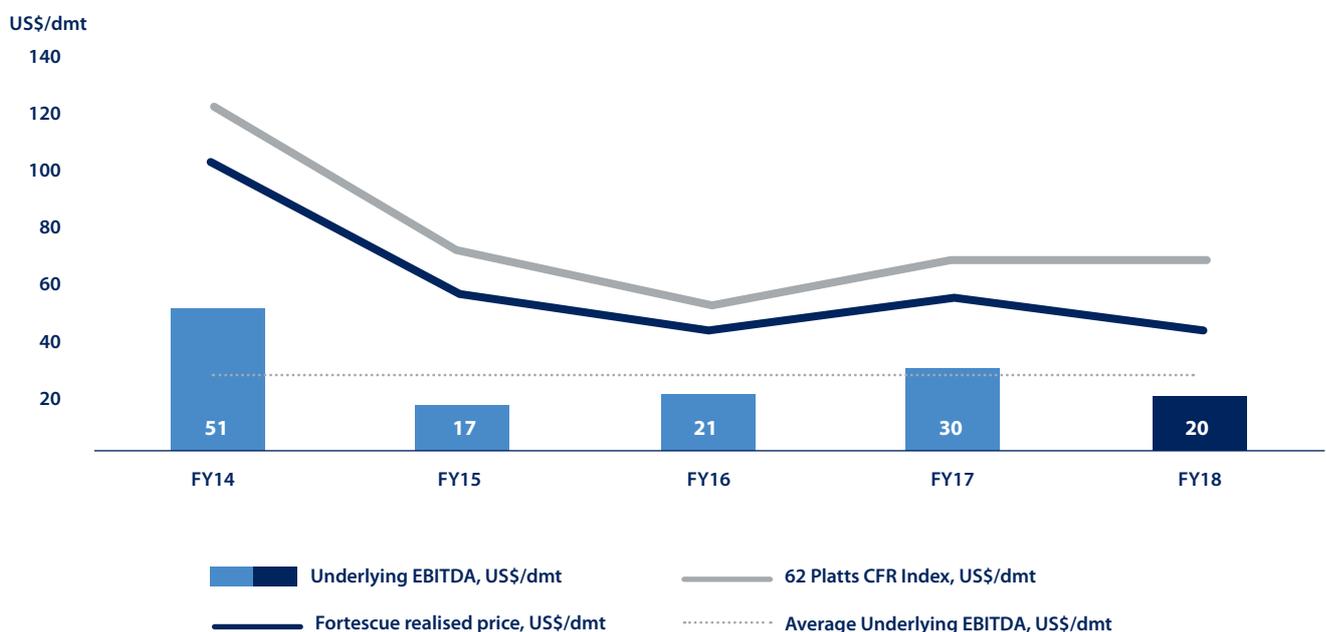
During the year, Fortescue's operations generated Underlying EBITDA of US\$3,182 million (FY17: US\$4,744 million).

The reconciliation of Underlying EBITDA and Underlying net profit after tax to the financial metrics reported in the financial statements under Australian Accounting Standards is presented below:

	Note ¹	2018 US\$m	2017 US\$m
Operating sales revenue	3	6,887	8,447
Cost of sales excluding depreciation and amortisation	5	(3,665)	(3,661)
Net foreign exchange gain	4	29	13
Administration expenses	6	(70)	(56)
Other income	4	1	1
Underlying EBITDA		3,182	4,744
Finance income	7	24	19
Finance expenses	7	(652)	(502)
Depreciation and amortisation	5, 6	(1,277)	(1,243)
Exploration, development and other	6	(32)	(51)
Net profit before tax		1,245	2,967
Income tax expense	14	(367)	(874)
Net profit after tax		878	2,093
Cost of early debt repayment after tax		202	41
Underlying net profit after tax		1,080	2,134

¹ Refer to notes to the accompanying financial statements.

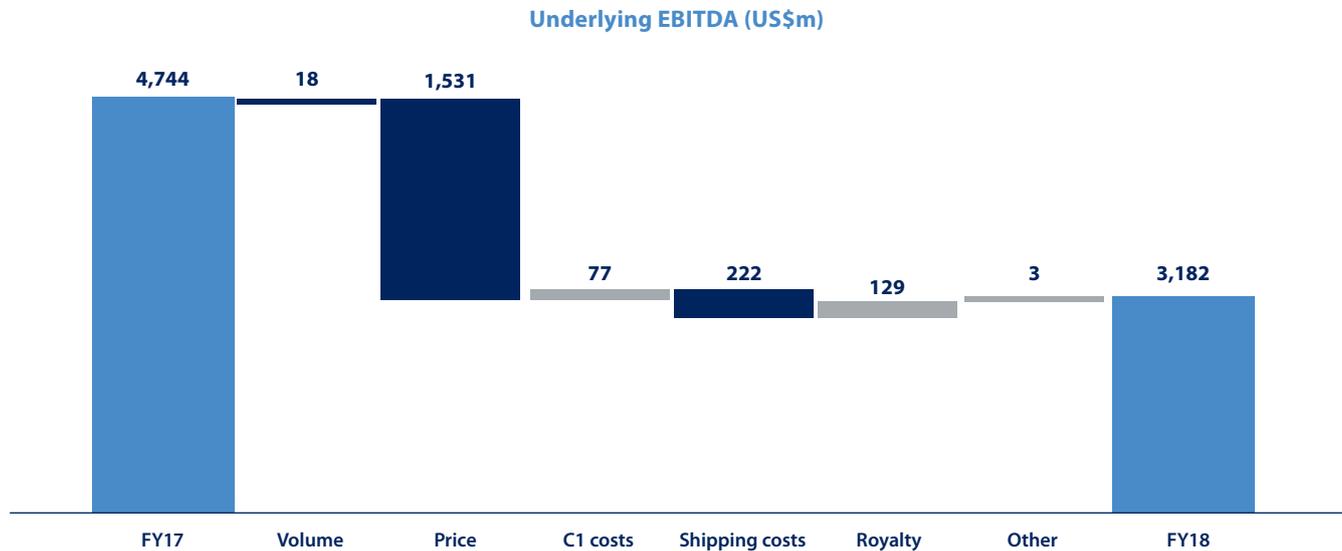
The Underlying EBITDA of US\$3,182 million for FY18 represents a margin of 46 per cent or US\$20/dmt. As illustrated in the chart below, Fortescue has been maintaining strong Underlying EBITDA margins through market cycles, demonstrating the commitment to and focus on productivity, efficiency and innovation.



Financial performance

Underlying EBITDA (continued)

Key factors contributing to the 33 per cent reduction in Underlying EBITDA from the prior year were primarily market driven, with lower prices realised for Fortescue products averaging US\$44/dmt in FY18 (FY17: US\$53/dmt) and increased shipping rates with the average BCI5 index of US\$7/wmt (FY17: US\$6/wmt).



Revenue

	Note ¹	2018 US\$m	2017 US\$m
Sale of iron ore, US\$ millions	3	6,775	8,335
Other revenue, US\$ millions	3	112	112
Operating sales revenue, US\$ millions		6,887	8,447
Shipments, million wmt		170	170
62% Fe CFR Platts index, US\$/dmt		69	70
Realised price, US\$/dmt		44	53

¹ Notes to the accompanying financial statements.

Demand for Fortescue products remained strong with 170mt of iron ore sold to customers in FY18.

The Platts 62 CFR index averaged US\$69/dmt in FY18, consistent with the prior year (FY17: US\$70/dmt). High profit margins being realised by Chinese steel mills, uncertainty surrounding environmental restrictions and high coal prices supported increased demand for high iron content ores during FY18. As a result, the spread in prices between iron ore products widened during the year and Fortescue realised US\$44/dmt compared to US\$53/dmt in the prior year.

Fortescue's low cost base and continued focus on productivity and efficiency improvements has partially offset the impact of a reduction in realised iron ore prices to deliver strong cash margins allowing the Company to withstand periods of market volatility. Fortescue continues to explore options for further improvements in margin and has approved the Eliwana project which will support a higher Fe grade, lower alumina product while maintaining flexibility to manage product volumes and commodity cycles.

Financial performance

Production costs

The reconciliation of C1 costs and total delivered costs to customers to the financial metrics reported in the financial statements under Australian Accounting Standards is set out below:

	Note ¹	2018	2017
Mining and processing costs, US\$ millions	5	1,739	1,801
Rail costs, US\$ millions	5	188	200
Port costs, US\$ millions	5	172	183
C1 costs, US\$ million		2,099	2,184
Shipments, million wmt		170	170
C1 costs, US\$/wmt		12.36	12.82
Shipping costs, US\$ millions	5	1,148	929
Government royalty ² , US\$ millions	5	416	545
Administration expenses, US\$ millions	6	70	56
Shipping, royalty and administration, US\$ millions		1,634	1,530
Shipments, million wmt		170	170
Shipping, royalty and administration, US\$/wmt		10	9
Total delivered cost, US\$/wmt		22	22
Total delivered cost, US\$/dmt		24	24

¹ Refer to notes to the accompanying financial statements.

² Fortescue pays 7.5 per cent state government royalty for the majority of its iron ore products, with a concession rate of five per cent applicable to beneficiated fines.

Key factors contributing to FY18 operating cost performance are discussed on page 27.

Non-operating events

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

- In the first half of FY18, Fortescue repurchased the Solomon Power Station (FY17: US\$326 million). During the second half of the year, Fortescue fully repaid and refinanced the outstanding US\$2,160 million of the 9.75% Senior Secured Notes, through a combination of US\$1,900 million refinancing and US\$260 million cash payment
- Finance expenses of US\$652 million include one-off costs associated with the above early repayments and refinancing of US\$289 million and an interest expense of US\$340 million, a 21 per cent reduction from the prior year reflecting lower indebtedness and improved credit terms
- Depreciation and amortisation expense of US\$1,277 million (FY17: US\$1,243 million)
- Income tax expense for the year of US\$367 million at an effective income tax rate of 29.5 per cent (FY17: US\$874 million, at an effective rate of 29.5 per cent).



Financial Position

Fortescue's balance sheet has been restructured on low cost, investment grade terms while maintaining flexibility to support ongoing operations and future growth.

Fortescue's debt decreased to US\$3,975 million with a gross gearing of 29 per cent (FY17: US\$4,471 million), inclusive of finance leases of US\$595 million (FY17: US\$818 million). The US\$525 million revolving facility remains undrawn at 30 June 2018.

Key metrics	Note ¹	2018	2017
Borrowings, US\$ millions	9(a)	3,380	3,653
Finance lease liabilities, US\$ millions	9(a)	595	818
Total debt		3,975	4,471
Cash and cash equivalents, US\$ millions	9(b)	863	1,838
Net debt, US\$ millions		3,112	2,633
Equity, US\$ millions		9,732	9,734
Cash generated from operations, US\$ millions		3,031	5,024
Cash flows from operating activities, US\$ millions		1,601	4,256
Capital expenditure, US\$ millions		(890)	(716)
Free cash flow, US\$ millions		711	3,540
Key ratios			
Gearing, %		29	31
Net gearing, %		24	21

¹ Refer to notes to the accompanying financial statements.

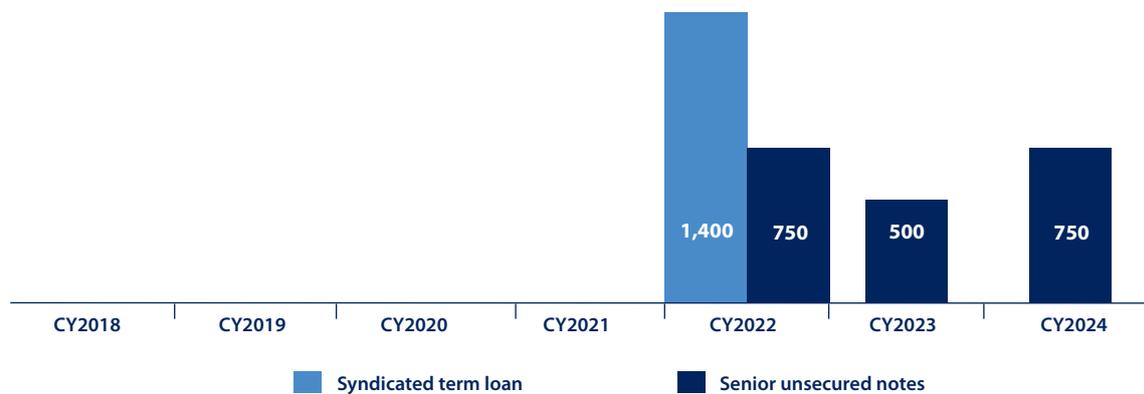
Financial position

Debt maturity profile

Fortescue successfully refinanced and repaid its high cost senior secured notes in FY18 through the establishment of a US\$1.4 billion syndicated term loan, with participation by key Chinese domestic and international relationship banks, a US\$500 million senior unsecured notes issue and a US\$260 million cash payment.

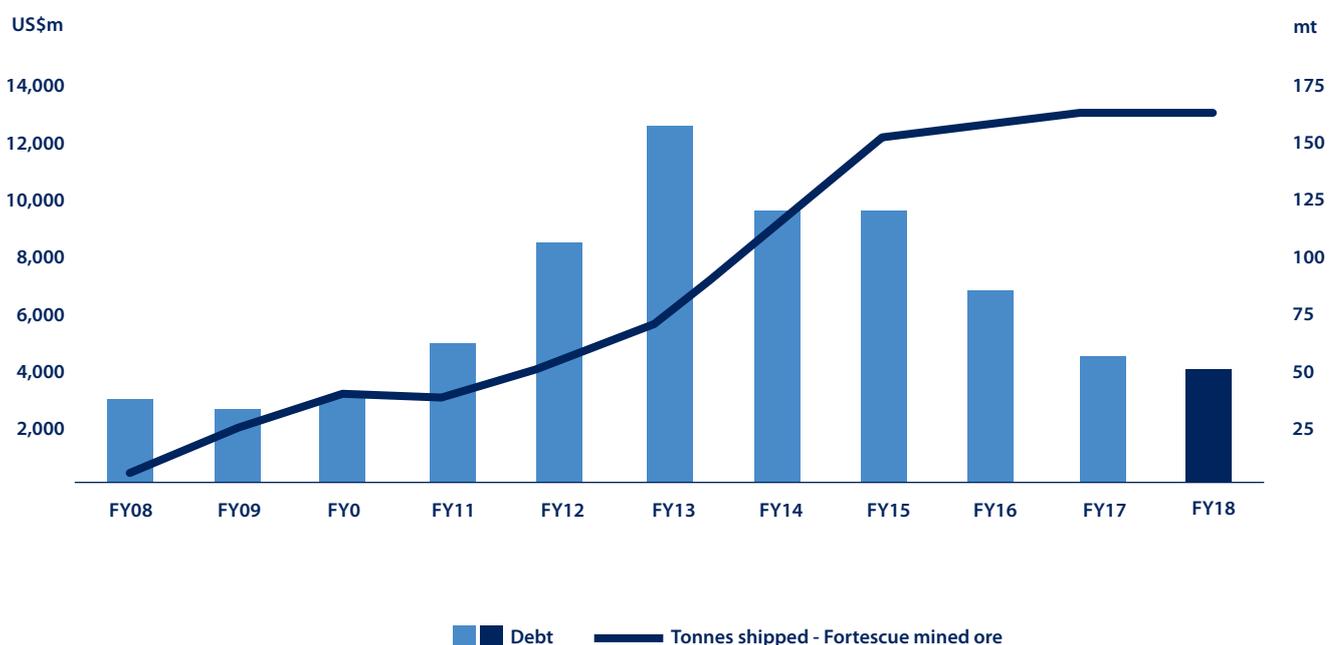
This has lowered the Company's average cost of capital, improved flexibility, strengthened the balance sheet and further developed Fortescue's strong relationships with China. The Company's debt maturity profile at 30 June 2018 structured on investment grade terms and conditions is set out below:

Debt maturity profile (excluding finance leases), US\$m



At 30 June 2018, Fortescue had US\$1.4 billion of liquidity available including US\$863 million of cash on hand and the US\$525 million undrawn revolving credit facility. The Company has no financial maintenance covenants across all instruments.

The Company has successfully reduced its debt over the past five years to a gross gearing level of 29 per cent at 30 June 2018 (net gearing 24 per cent). Total borrowings and finance lease liabilities of US\$3,975 million have returned to below FY11 levels, when Fortescue was producing at an annual rate of 50mtpa.



Financial position

Finance leases

In FY18, Fortescue repaid the Solomon Power Station finance lease (FY17: \$US326 million).

During the year, Fortescue continued to draw down on the finance lease facility entered into the previous year with the China Development Bank Funding Leasing Co., Ltd in relation to the financing of eight Fortescue ore carriers. The facility of US\$473 million funds 85 per cent of the ore carriers' costs for a minimum of 12 years on highly flexible terms, including early repayment and extension options, and has been drawn down progressively as the ships have been delivered. At 30 June 2018, US\$405 million of the facility has been utilised following delivery of the seven ore carriers, with the remaining funds to be drawn down in FY19 on delivery of the final ore carrier.

Cash generated by operations

Fortescue continued to generate strong underlying cash flows from operations during the year with cash on hand at 30 June 2018 of US\$863 million. Key factors contributing to the 62 per cent decrease in operating cash inflows were as follows:

- 18 per cent decrease in revenue as a result of lower realised prices received in FY18
- Increased income tax payments of US\$1,062 million (FY17: US\$375 million), including US\$670 million relating to FY17.

This has been partially offset by:

- Four per cent reduction in C1 costs to US\$12.36/wmt in FY18
- Lower interest payments of US\$392 million (FY17: US\$412), reflecting US\$3.0 billion of debt repayments since July 2016.

Capital expenditure

Fortescue's capital expenditure of US\$890 million (FY17: US\$716 million) included:

- Sustaining capital of US\$507 million (FY17: US\$354 million)
- Ore carrier construction of US\$149 million (FY17: US\$260 million)
- Development capital of US\$167 million (FY17: US\$63 million)
- Exploration expenditure of US\$67 million (FY17: US\$39 million).

Dividends and shareholder returns

In FY18, Fortescue generated earnings of 28.2 US cents per share (FY17: 67.3 US cents per share), with return on equity of nine per cent (FY17: 23 per cent).

	2018	2017
Net profit after tax, US\$ millions	878	2,093
Earnings per share, US cents per share	28.2	67.3
Return on equity, %	9	23
Interim dividend, AUD cents per share	11	20
Final dividend, AUD cents per share	12	25
Total dividend, AUD cents per share	23	45
Dividend payout ratio, %	62	52

Case Study Strong balance sheet



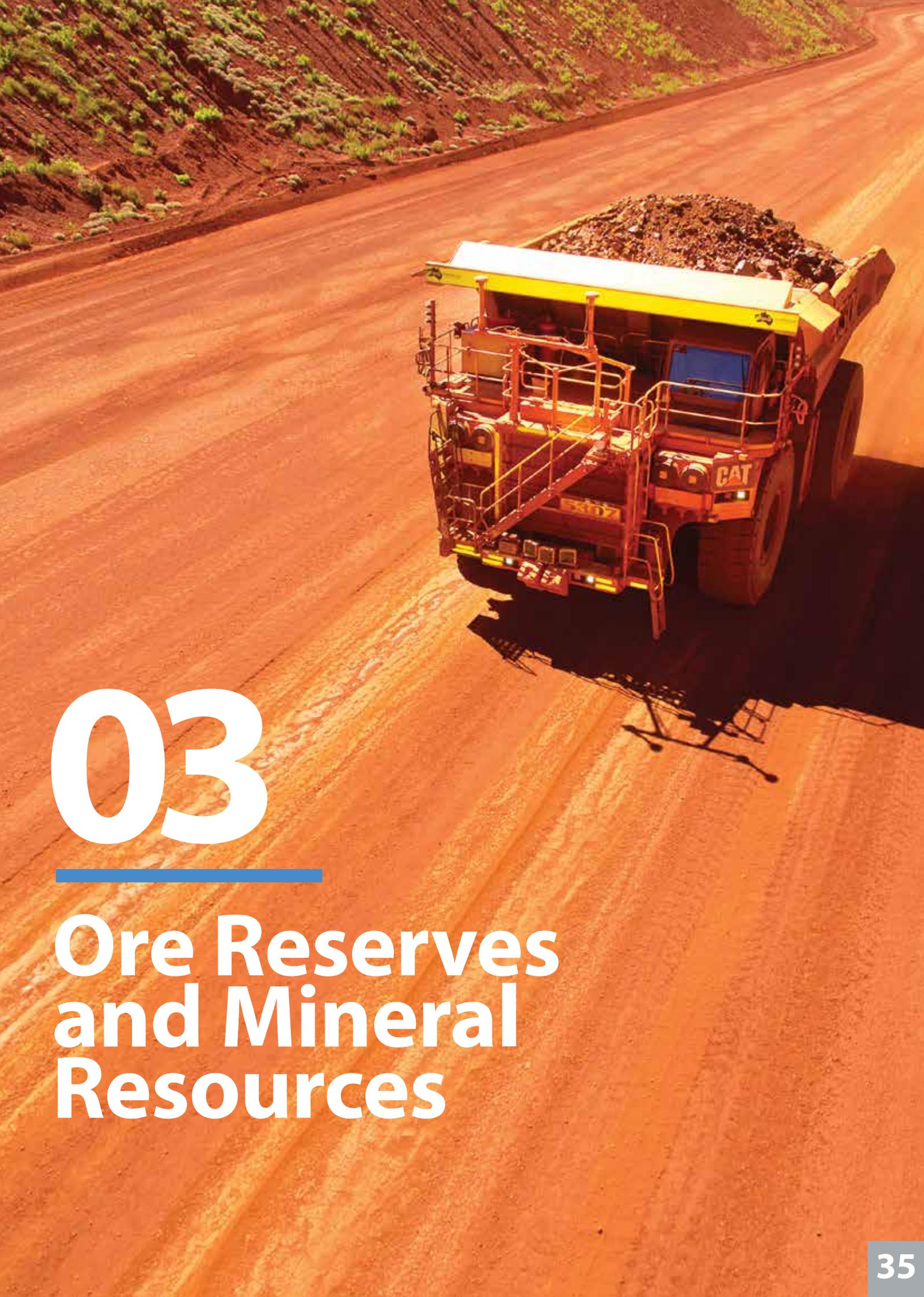
Fortescue's capital structure underwent significant change over the past ten years, from restrictive project financing which supported the initial Cloudbreak mine development, to its most recent refinancing, delivering flexible, low cost debt reflective of an investment grade company.

In February 2018, Fortescue announced the completion of a US\$1.4 billion Syndicated term loan co-led by Industrial and Commercial Bank of China and Australia New Zealand Bank.

The US\$1.4 billion Term Loan, together with the US\$0.5 billion Unsecured Note and US\$260 million of cash transitioned Fortescue's balance sheet to an investment grade structure.

The Term Loan represented another significant milestone in the commercial relationship between Australia and China, bringing together a world class financial syndicate delivering globally competitive financing terms and aligning funding sources with core business.

Fortescue continues to be disciplined in its approach to capital management, delivering returns to its shareholders. This is achieved through sustained productivity improvements which underpin cashflow generation. Capital management remains a key priority for Fortescue as the Company continues to invest in the long-term sustainability of the business, growth options and delivery of returns to shareholders.



03

Ore Reserves and Mineral Resources

Ore Reserves and Mineral Resources

Reporting is grouped by operating and development properties and includes both Hematite and Magnetite deposits.

Hematite Ore Reserves total 2.25 billion tonnes (bt) at an average iron (Fe) grade of 57.4 per cent. Combined Hematite Mineral Resources total 13bt at an average Fe grade of 56.8 per cent.

Magnetite Ore Reserves total 0.7bt at an average mass recovery of 27.2 per cent for a 67 per cent Fe grade product. Magnetite Mineral Resources total 7.9bt at an average mass recovery of 23.3 per cent.

Operating property Ore Reserves and Mineral Resources have all been reported to the Joint Ore Reserves Committee (JORC) 2012 standard. Accordingly, the information in these sections should be read in conjunction with the respective explanatory Mineral Resource and Ore Reserve information (Fortescue ASX release dated 17 August 2018). Development property Mineral Resources are a combination of JORC 2012 and JORC 2004 estimates. Those development property Mineral Resources reported to JORC 2012 standard are identified in the Fortescue ASX releases on 17 August 2018, 18 August 2017, 8 January 2015 and 20 May 2014 that includes the supporting technical data. The remaining JORC 2004 Mineral Resource estimates will be progressively updated to the JORC 2012 standard as development priorities dictate.

Magnetite Mineral Resources have been updated and reported to the JORC 2012 standards. The Mineral Resources quoted in this report should be read in conjunction with the supporting technical data contained in the corresponding ASX release dated 17 August 2018.

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

In addition to routine internal audit, auditing of the estimation of Mineral Resources and Ore Reserves is addressed as a sub-set of the annual internal audit

plan approved by the Board Audit and Risk Management Committee (ARMC). Specific audit of the Ore Reserve process was performed in 2011, 2013, 2015, 2016 and 2017. These audits were managed by Fortescue's internal audit service provider with external technical subject experts. The 2015, 2016 and 2017 Ore Reserves audits were carried out by independent external technical consultants.

The ARMC also monitors the Ore Reserve and Mineral Resource status and approves the final outcome. The annual Ore Reserves and Mineral Resources update is a prescribed activity within the annual Corporate Planning Calendar that includes a schedule of regular executive engagement meetings to approve assumptions and guide the overall process.

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

Ore Reserves Operating Properties – Hematite

The 2018 combined Chichester, Solomon and Eliwana (part of Western Hub) Hematite Ore Reserve is a total of 2,250 million dry tonnes (mt) at an average iron (Fe) grade of 57.4 per cent.

Ore Reserves are quoted on a dry product basis while Mineral Resources are quoted on a dry in-situ basis. (Company production and sales reporting is based on wet tonnes. The typical free moisture content of shipped products is nine per cent).

The Ore Reserve is quoted as at 30 June 2018 and is inclusive of ore and product stockpiles at mines. Product stockpiles at port have been excluded from contributing to Ore Reserves. The proportion of higher confidence Proved Ore Reserve has remained unchanged (746mt) as a result of ongoing in-fill drilling at both the Solomon and the Chichester deposits, as well as the addition of the Eliwana deposit to Ore Reserves.

The Chichester Hub (Cloudbreak and Christmas Creek deposits) contains 1,376mt at an average Fe grade of 57.1 per cent, a decrease of 141mt due primarily to a combination of mining depletion and reconciliation adjustments (-ve). Proved Ore Reserve constitutes 42 per cent of Chichester Ore Reserve.

While the Cloudbreak and Christmas Creek deposits are quoted separately for historical reasons, they effectively represent a single deposit with ore generally directed to the most proximal of the three available ore processing facilities (OPFs).

The Ore Reserve estimate for the Solomon Hub is 660mt at an average Fe grade of 57.2 per cent, a decrease of 14mt due to production with replacement ore through Grade Control activities and new pit geometries. Solomon Ore Reserve consists of 14 per cent of the tonnage in the Proved Ore Reserve category.

The Ore Reserve estimate for the new Eliwana deposit is 213mt at an average Fe grade of 60.1 per cent. The estimate is supported by Detailed Feasibility Study, inclusion in the integrated Life Of Mine plans and Financial Investment Decision announced in May 2018. Eliwana Ore Reserve consists of 37 per cent of the tonnage in the Proved Ore Reserve category.

The 2018 Hematite Ore Reserve estimates were subject to comprehensive review and update addressing:

- Addition of Eliwana deposit to Ore Reserves (increase)
- Revisions to the Cloudbreak pit geometry and cut-off grade (decrease)
- Revisions to the Christmas Creek pit geometry cut-off grade (decrease)
- Revisions of ore loss and dilution factors based on 12 months of operational history at all mines (tonnage decrease at the Chichesters)
- Revisions to the processing response through all OPFs based on updated test work and operational history (minor)
- Ore depletion as a result of sales (decrease)
- Re-optimisation of mine geometries to maximise the benefit of cost reductions across all Fortescue operations and new additions to the resource base
- A revised Life Of Mine (LOM) plan that addresses the listed items and incorporates the latest information on long term product strategy (introduction of 60% Fe product).

Hematite Ore Reserves – as at 30 June 2018

	June 2018						June 2017					
	Product Tonnes (mt)	Iron Fe %	Silica SiO ₂ %	Alumina Al ₂ O ₃ %	Phos P %	Loss On Ignition LOI %	Product Tonnes (mt)	Iron Fe %	Silica SiO ₂ %	Alumina Al ₂ O ₃ %	Phos P %	Loss On Ignition LOI %
Cloudbreak												
Proved	270	57.3	5.45	2.86	0.053	8.38	304	57.5	5.21	2.81	0.052	8.49
Probable	276	57.1	6.09	2.81	0.059	7.69	289	57.2	5.97	2.75	0.058	8.00
Total	546	57.2	5.78	2.83	0.056	8.03	593	57.4	5.58	2.78	0.055	8.25
Christmas Creek												
Proved	302	57.0	5.96	2.77	0.040	7.72	326	57.1	5.86	2.81	0.043	7.81
Probable	528	57.1	5.52	3.09	0.046	7.68	597	57.0	5.96	3.03	0.047	7.57
Total	831	57.1	5.68	2.97	0.044	7.69	924	57.0	5.93	2.95	0.046	7.66
Sub-total Chichester Hub												
Proved	572	57.1	5.72	2.81	0.046	8.03	631	57.3	5.54	2.81	0.047	8.14
Probable	804	57.1	5.71	2.99	0.050	7.68	886	57.1	5.96	2.94	0.051	7.71
Total	1,376	57.1	5.72	2.92	0.049	7.82	1,517	57.2	5.79	2.88	0.049	7.89
Firetail												
Proved	4	58.7	6.24	2.71	0.113	6.60	13	59.0	5.57	2.40	0.114	7.18
Probable	90	59.3	5.66	2.45	0.107	6.68	112	59.3	5.75	2.53	0.107	6.38
Total	94	59.2	5.68	2.46	0.107	6.67	125	59.2	5.73	2.51	0.107	6.46
Kings and Queens												
Proved	91	55.9	7.23	2.57	0.074	9.96	103	56.3	6.60	2.40	0.073	9.95
Probable	475	57.1	6.50	2.69	0.064	8.76	446	56.9	6.36	2.61	0.064	9.13
Total	566	56.9	6.61	2.67	0.066	8.95	548	56.8	6.40	2.57	0.065	9.29
Sub-total Solomon Hub												
Proved	95	56.0	7.18	2.57	0.076	9.82	116	56.6	6.48	2.40	0.078	9.64
Probable	565	57.4	6.36	2.65	0.071	8.42	558	57.4	6.23	2.59	0.072	8.58
Total	660	57.2	6.48	2.64	0.072	8.62	674	57.3	6.28	2.56	0.073	8.76
Eliwana												
Proved	79	61.1	4.22	2.51	0.144	5.21	-	-	-	-	-	-
Probable	135	59.5	5.27	2.37	0.115	6.27	-	-	-	-	-	-
Total	213	60.1	4.88	2.42	0.126	5.88	-	-	-	-	-	-
Total Hematite Ore Reserves												
Proved	746	57.4	5.75	2.75	0.060	7.96	746	57.2	5.69	2.75	0.052	8.37
Probable	1,504	57.5	5.92	2.81	0.064	7.83	1,444	57.2	6.07	2.80	0.059	8.05
Total	2,250	57.4	5.86	2.79	0.063	7.87	2,191	57.2	5.94	2.78	0.057	8.16

Notes in reference to table

- The diluted mining models used to report the 2018 Ore Reserves are based on Christmas Creek Mineral Resource model reported in 2016, Firetail Mineral Resource model revised in 2014, Cloudbreak Mineral Resource model completed in 2016, Kings Mineral Resource model released in 2017, Kutayi Mineral Resource model released in 2014 and Eliwana Mineral Resource model released in 2018.
- Diluted mining models are validated by reconciliation against historical production.
- Proved Ore Reserves are inclusive of ore stockpiles at the mines totalling approximately 18mt on dry product basis.
- The Chichester Ore Reserve is inclusive of the Cloudbreak, Christmas Creek and Kutayi BID deposits. Selected Christmas Creek Ore Reserves will be directed to the Cloudbreak OPF to optimise upgrade performance and balance Cloudbreak and Christmas Creek OPF lives.
- Tonnage information has been rounded and as a result the figures may not add up to the totals quoted.

Ore Reserves – Magnetite

The 2018 Ore Reserves for Magnetite are from the Iron Bridge project. Ore Reserves for the project total 705mt at an average mass recovery of 27.2 per cent for a 67 per cent Fe grade product.

The Magnetite Ore Reserve is quoted as at 30 June 2018. These were compiled in 2015 and have been re-reported as there have been no updates. Ore Reserves are quoted on a dry in-situ tonnes basis prior to processing.

No Company sales or production have occurred for Magnetite as at 30 June 2018. Price forecasting has been based on a dry tonnage basis. When shipping occurs production will be quoted in wet tonnes. The typical free moisture content of shipped products is nine per cent.

All Magnetite Ore Reserves are classified as Probable Ore Reserves. These have been estimated from Indicated plus Measured Mineral Resources from within the North Star mining study pit. Additional Indicated

Mineral Resources from outside the study pit (including the Eastern Limb, Glacier Valley deposits) have not been included in these Ore Reserves.

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

Magnetite Ore Reserves – as at 30 June 2018

	June 2018					June 2017				
	In-Situ Tonnes (mt)	DTR mass recovery %	Product Iron Fe %	Product Silica SiO ₂ %	Product Alumina Al ₂ O ₃ %	In-Situ Tonnes (mt)	DTR mass recovery %	Product iron Fe %	Product Silica SiO ₂ %	Product Alumina Al ₂ O ₃ %
North Star (60.72% Fortescue) - Eastern Limb currently not assessed										
Proved	-	-	-	-	-	-	-	-	-	-
Probable	705	27.2	67.2	5.52	0.25	705	27.2	67.2	5.52	0.25
Total	705	27.2	67.2	5.52	0.25	705	27.2	67.2	5.52	0.25
Glacier Valley (60.72% Fortescue)										
Proved	-	-	-	-	-	-	-	-	-	-
Probable	-	-	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-	-	-	-
West Star (60.72% Fortescue)										
Proved	-	-	-	-	-	-	-	-	-	-
Probable	-	-	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-	-	-	-
Total Magnetite Ore Reserves										
Proved	-	-	-	-	-	-	-	-	-	-
Probable	705	27.2	67.2	5.52	0.25	705	27.2	67.2	5.52	0.25
Total	705	27.2	67.2	5.52	0.25	705	27.2	67.2	5.52	0.25

Notes in reference to table

- Magnetite Ore Reserves are a result of a mining study only upon the North Star deposit. Utilising 705mt of Measured plus Indicated Mineral Resources reported within a defined pit design.
- All reporting is based on Mass Recovery expressed as a nine per cent Davis Tube Recovery (DTR) cut-off.
- All Ore Reserves are reported on a dry-tonnage basis.

Mineral Resources Operating Properties – Hematite

Mineral Resources for the operating properties including the Chichester and Solomon Hubs and Eliwana are stated on a dry in-situ basis. Mineral Resources from the Eliwana deposit are reported here for the first time, previously they were reported with development properties as part of the Western Hub. The Mineral Resources are inclusive of that portion converted to Ore Reserves, including stockpiles.

As at 30 June 2018, the total Mineral Resource for the Chichester and Solomon Hubs and Eliwana was 6,122mt at an average Fe grade of 56.4 per cent, an increase over that stated in the prior year. This was accompanied by a decrease in the proportion of higher confidence Measured and Indicated Mineral Resource mineralisation from 73 per cent to 66 per cent.

The Chichester Hub Mineral Resource totalled 3,061mt at an average Fe grade of 56.3 per cent, with 79 per cent of the

tonnage in the Measured and Indicated Mineral Resource categories.

The Solomon Hub Mineral Resource totalled 2,051mt at an average Fe grade of 55.5 per cent, with 61 per cent of the tonnage in the Measured and Indicated Mineral Resource categories.

The Eliwana Mineral Resource totalled 1,010mt at an average Fe grade of 58.8 percent, with 34 percent of the tonnage in the Measured and Indicated Mineral Resource categories.

Hematite Mineral Resources (Operating Properties) – as at 30 June 2018

	June 2018						June 2017					
	In-Situ Tonnes (mt)	Iron Fe %	Silica SiO ₂ %	Alumina Al ₂ O ₃ %	Phos P %	Loss On Ignition LOI %	In-Situ Tonnes (mt)	Iron Fe %	Silica SiO ₂ %	Alumina Al ₂ O ₃ %	Phos P %	Loss On Ignition LOI %
Cloudbreak												
Measured	479	56.7	5.55	3.48	0.057	8.7	478	56.7	5.60	3.45	0.056	8.6
Indicated	428	56.1	6.69	3.43	0.059	8.0	438	56.1	6.70	3.46	0.059	8.1
Inferred	134	56.4	6.42	3.56	0.053	7.7	138	56.3	6.46	3.53	0.052	7.8
Total	1,041	56.4	6.13	3.47	0.058	8.3	1,055	56.4	6.17	3.46	0.057	8.3
Christmas Creek												
Measured	515	56.9	6.28	3.09	0.047	7.8	522	56.9	6.12	3.12	0.047	8.0
Indicated	1,004	56.1	6.58	3.72	0.051	7.9	1,088	56.1	6.74	3.67	0.050	7.8
Inferred	501	55.6	7.05	3.75	0.054	7.8	505	55.6	7.09	3.74	0.054	7.8
Total	2,020	56.2	6.62	3.57	0.051	7.9	2,115	56.2	6.67	3.55	0.050	7.9
Sub-total Chichester Hub												
Measured	994	56.8	5.93	3.28	0.052	8.2	1,000	56.8	5.87	3.28	0.051	8.3
Indicated	1,433	56.1	6.61	3.64	0.053	7.9	1,526	56.1	6.73	3.61	0.053	7.9
Inferred	635	55.8	6.92	3.71	0.054	7.8	643	55.8	6.95	3.69	0.054	7.8
Total	3,061	56.3	6.45	3.53	0.053	8.0	3,170	56.2	6.50	3.52	0.052	8.0
Firetail												
Measured	8	57.5	5.91	3.43	0.123	7.8	21	58.1	5.43	2.93	0.128	7.9
Indicated	170	58.1	6.79	2.81	0.113	6.7	193	58.3	6.62	2.78	0.113	6.6
Inferred	133	57.2	7.36	3.35	0.107	7.0	134	57.2	7.34	3.36	0.107	7.0
Total	310	57.7	7.01	3.06	0.111	6.8	348	57.9	6.83	3.01	0.111	6.8
Kings and Queens												
Measured	152	54.9	7.96	3.02	0.087	9.9	196	55.0	7.81	2.92	0.086	9.9
Indicated	919	55.3	7.98	3.40	0.072	8.9	893	55.2	8.00	3.37	0.073	9.1
Inferred	669	55.0	8.00	3.47	0.082	9.2	671	54.9	8.22	3.60	0.079	9.0
Total	1,741	55.1	7.99	3.39	0.077	9.1	1,761	55.1	8.06	3.41	0.076	9.2
Sub-total Solomon Hub												
Measured	160	55.0	7.86	3.04	0.088	9.8	217	55.3	7.59	2.92	0.090	9.7
Indicated	1,089	55.7	7.79	3.31	0.078	8.6	1,087	55.7	7.75	3.27	0.080	8.7
Inferred	802	55.4	7.89	3.45	0.086	8.9	805	55.3	8.07	3.56	0.083	8.7
Total	2,051	55.5	7.84	3.34	0.082	8.8	2,109	55.5	7.86	3.34	0.082	8.8
Eliwana												
Measured	229	60.0	4.89	2.61	0.141	5.8	-	-	-	-	-	-
Indicated	113	58.5	5.40	2.81	0.098	7.1	-	-	-	-	-	-
Inferred	668	58.4	5.70	3.21	0.107	6.7	-	-	-	-	-	-
Total	1,010	58.8	5.48	3.03	0.114	6.6	-	-	-	-	-	-
Total Hematite Operational Mineral Resources												
Measured	1,383	57.1	5.98	3.14	0.071	8.0	1,218	56.6	6.18	3.21	0.058	8.6
Indicated	2,634	56.0	7.05	3.47	0.066	8.2	2,613	55.9	7.15	3.47	0.064	8.2
Inferred	2,105	56.5	6.90	3.45	0.083	7.9	1,448	55.5	7.58	3.62	0.070	8.3
Total	6,122	56.4	6.76	3.39	0.073	8.0	5,279	56.0	7.04	3.45	0.064	8.3

Notes in reference to table

- Chichester Hub Mineral Resources are quoted at a cut-off of 53.5 per cent Fe, Solomon Hub and Eliwana Mineral Resources are quoted at a cut-off grade of 51.5 per cent Fe.
- Fortescue is yet to remodel BCI Mineral Resources.
- The Measured Mineral Resource estimate includes mine stockpiles totalling approximately 20mt.

Mineral Resources Development Properties – Hematite

Fortescue has announced a 393 million tonnes (mt) addition to the Greater Western Hub Mineral Resource as a result of exploration drilling, including increases to the existing Lora and Boolgeeda deposits. This update to the development properties is reported to JORC 2012 standard as identified in the Fortescue ASX release of 17 August 2018 that includes the supporting technical data.

The Eliwana deposit previously included in the Greater Western Hub has been transferred to the operating properties.

Hematite Mineral Resources (Development Properties) – as at 30 June 2018

	June 2018						June 2017					
	In-Situ Tonnes (mt)	Iron Fe %	Silica SiO ₂ %	Alumina Al ₂ O ₃ %	Phos P %	Loss On Ignition LOI %	In-Situ Tonnes (mt)	Iron Fe %	Silica SiO ₂ %	Alumina Al ₂ O ₃ %	Phos P %	Loss On Ignition LOI %
Greater Chichester												
Measured	-	-	-	-	-	-	-	-	-	-	-	-
Indicated	-	-	-	-	-	-	-	-	-	-	-	-
Inferred	433	56.4	7.10	3.77	0.058	7.0	433	56.4	7.10	3.77	0.058	7.0
Total	433	56.4	7.10	3.77	0.058	7.0	433	56.4	7.10	3.77	0.058	7.0
Greater Solomon												
Measured	-	-	-	-	-	-	-	-	-	-	-	-
Indicated	254	56.6	6.70	3.45	0.083	8.3	254	56.6	6.70	3.45	0.083	8.3
Inferred	2,404	56.8	6.93	3.71	0.081	7.2	2,404	56.8	6.93	3.71	0.081	7.2
Total	2,658	56.8	6.91	3.69	0.082	7.3	2,658	56.8	6.91	3.69	0.082	7.3
Greater Western Hub												
Measured	-	-	-	-	-	-	-	-	-	-	-	-
Indicated	-	-	-	-	-	-	-	-	-	-	-	-
Inferred	1,642	57.1	5.72	2.85	0.078	9.0	2,125	57.9	5.53	2.93	0.094	7.9
Total	1,642	57.1	5.72	2.85	0.078	9.0	2,125	57.9	5.53	2.93	0.094	7.9
Nyidinghu												
Measured	23	59.6	3.56	2.21	0.139	8.0	23	59.6	3.56	2.21	0.139	8.0
Indicated	580	58.1	4.52	2.95	0.148	8.6	580	58.1	4.52	2.95	0.148	8.6
Inferred	1,860	57.2	5.00	3.36	0.147	8.8	1,860	57.2	5.00	3.36	0.147	8.8
Total	2,463	57.4	4.87	3.25	0.147	8.8	2,463	57.4	4.87	3.25	0.147	8.8
Total Development Mineral Resources												
Measured	23	59.6	3.56	2.21	0.139	8.0	23	59.6	3.56	2.21	0.139	8.0
Indicated	834	57.6	5.18	3.11	0.128	8.5	834	57.6	5.18	3.11	0.128	8.5
Inferred	6,340	57.0	6.06	3.39	0.098	8.1	6,823	57.2	5.98	3.38	0.102	7.9
Total	7,198	57.1	5.95	3.35	0.102	8.2	7,680	57.3	5.89	3.35	0.105	7.9

Notes in reference to table

- The Greater Chichester Mineral Resource includes the Investigator, White Knight and Mount Lewin deposits.
- The Greater Solomon Mineral Resource includes the Serenity, Sheila Valley, Mount MacLeod, Queens Extension, Cerberus, Stingray and Raven deposits.
- The Greater Western Hub Mineral Resource includes the Flying Fish, Vivash, Cobra, Lora, Zorb, Farquhar, Elevation, Boolgeeda CID and Wyloo North deposits.
- All Mineral Resources are quoted on an in-situ basis after applying an appropriate cut-off for each deposit. Details relating to the cut-offs were provided when each Mineral Resource was first announced.

Mineral Resources Development Properties – Magnetite

Mineral Resource estimates for the North Star, Eastern Limb, West Star and Glacier Valley deposits (60.72 per cent Fortescue) were completed in 2017 and have been re-reported as there have been no updates. Continued internal analysis of the resource models has confirmed the integrity of these resources, with the robust Measured plus Indicated Resources in North Star, Eastern Limb and Glacier Valley the focus of a mining study to evaluate the future development of the project.

Magnetite Mineral Resources – as at 30 June 2018

	June 2018					June 2017				
	In-Situ Tonnes (mt)	DTR mass recovery %	In-Situ Iron Fe %	In-Situ Silica SiO ₂ %	In-Situ Alumina Al ₂ O ₃ %	In-Situ Tonnes (mt)	DTR mass recovery %	In-Situ iron Fe %	In-Situ Silica SiO ₂ %	In-Situ Alumina Al ₂ O ₃ %
North Star + Eastern Limb (60.72% Fortescue)										
Measured	77	28.6	32.4	39.44	1.91	77	28.6	32.4	39.44	1.91
Indicated	989	27.8	31.1	40.48	2.28	989	27.8	31.1	40.48	2.28
Inferred	3,231	24.1	29.6	41.80	2.88	3,231	24.1	29.6	41.80	2.88
Total	4,297	25.1	30.0	41.46	2.73	4,297	25.1	30.0	41.46	2.73
Glacier Valley (60.72% Fortescue)										
Measured	-	-	-	-	-	-	-	-	-	-
Indicated	477	24.1	32.4	39.33	1.74	477	24.1	32.4	39.33	1.74
Inferred	2,844	20.5	30.7	40.69	2.19	2,844	20.5	30.7	40.69	2.19
Total	3,321	21.1	30.9	40.50	2.13	3,321	21.1	30.9	40.50	2.13
West Star (60.72% Fortescue)										
Measured	-	-	-	-	-	-	-	-	-	-
Indicated	-	-	-	-	-	-	-	-	-	-
Inferred	274	23.5	28.3	43.43	3.43	274	23.5	28.3	43.43	3.43
Total	274	23.5	28.3	43.43	3.43	274	23.5	28.3	43.43	3.43
Total Magnetite Mineral Resources										
Measured	77	28.6	32.4	39.44	1.91	77	28.6	32.4	39.44	1.91
Indicated	1,466	26.6	31.5	40.11	2.11	1,466	26.6	31.5	40.11	2.11
Inferred	6,350	22.5	30.0	41.38	2.60	6,350	22.5	30.0	41.38	2.60
Total	7,892	23.3	30.3	41.12	2.50	7,892	23.3	30.3	41.12	2.50

Notes in reference to table

- Magnetite Mineral Resource estimates, including the North Star, Eastern Limb, Glacier Valley and West Star deposits, are reported according to JORC 2012 standards.
- All reporting is based on Mass Recovery expressed as a nine per cent Davis Tube Recovery (DTR) cut-off.
- All Mineral Resources are reported on a dry-tonnage basis.



Competent Persons Statement

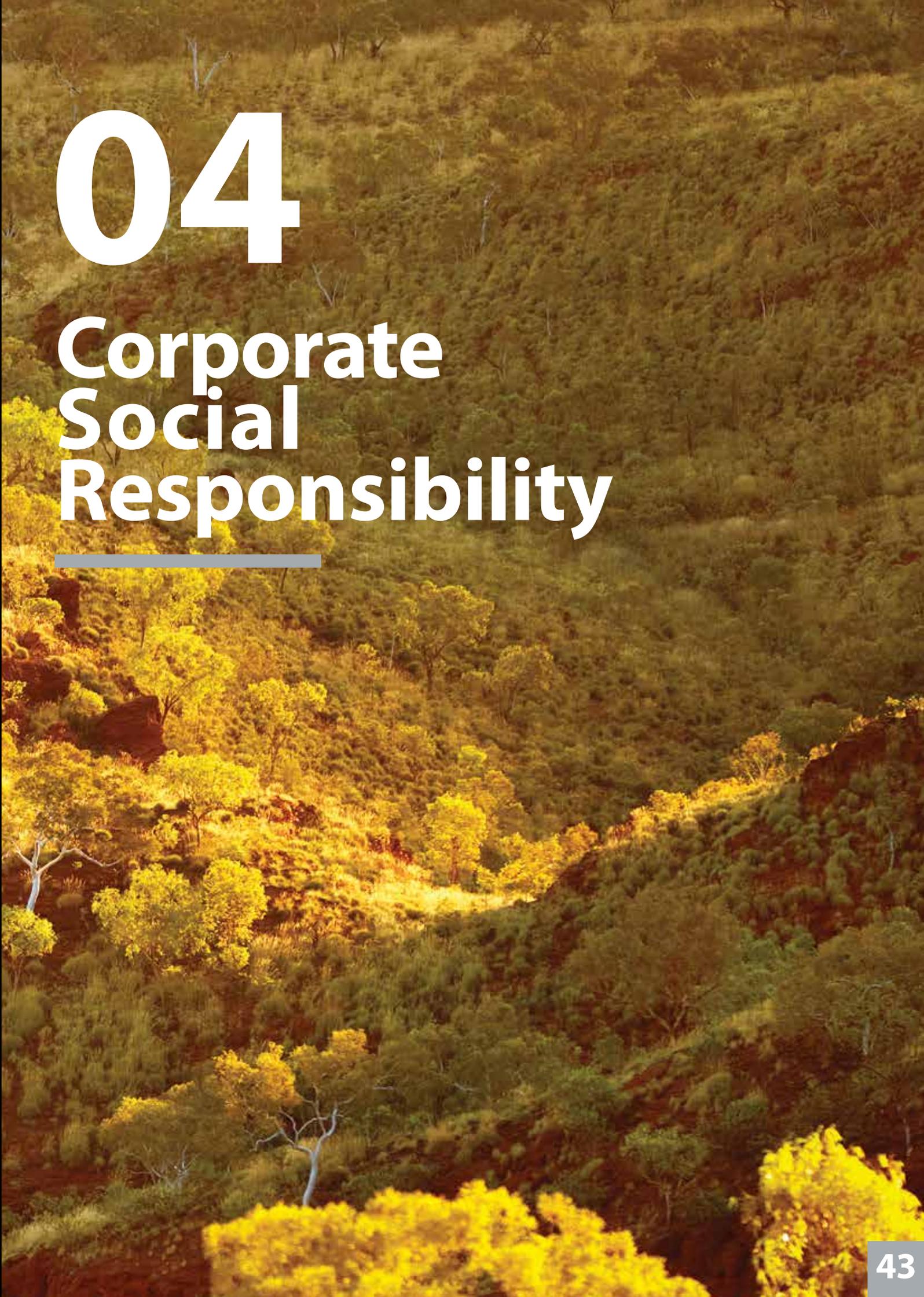
The detail in this report that relates to Hematite Mineral Resources is based on information compiled by Mr Stuart Robinson, Mr Nicholas Nitschke, Ms Erin Retz and Mr David Frost-Barnes; full-time employees of Fortescue. Each provided technical input for Mineral Resource estimations. The detail in this report that relates to Magnetite Mineral Resources is based on information compiled by Mr Lynn Widenbar, an independent consultant for Widenbar and Associates. Mr Widenbar provided technical input for Mineral Resource estimations.

Estimated Ore Reserves for the Chichester and Solomon Hubs and Eliwana deposit for fiscal year 2018 were compiled by Mr Oliver Wang, Mr Martin Slavik and Mr Chris Fowers; full-time employees of Fortescue. Estimated Magnetite Ore Reserves for the Iron Bridge project for fiscal year 2018 were compiled by Mr Glenn Turnbull, an independent consultant for Golder Associates.

Mr Robinson is a Fellow of, and Mr Nitschke, Ms Retz, Mr Frost-Barnes, Mr Slavik, Mr Wang, Mr Fowers, Mr Widenbar and Mr Turnbull are Members of the Australasian Institute of Mining and Metallurgy.

Mr Robinson, Mr Nitschke, Ms Retz, Mr Frost-Barnes, Mr Slavik, Mr Wang, Mr Fowers, Mr Widenbar and Mr Turnbull have sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity which they are undertaking to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'.

Mr Robinson, Mr Nitschke, Ms Retz, Mr Frost-Barnes, Mr Slavik, Mr Wang, Mr Fowers, Mr Widenbar and Mr Turnbull consent to the inclusion in this report of the matters based on this information in the form and context in which it appears.

An aerial photograph of a dense forest. The trees are in various stages of autumn, with some showing bright yellow and orange foliage, while others remain green. The terrain appears to be a valley or a series of ridges, with the forest covering the slopes. The lighting is warm, suggesting late afternoon or early morning.

04

Corporate Social Responsibility

Fortescue is committed to ensuring communities benefit from its growth and development.



FY18 highlights

VTECs anniversary

10th

Billion Opportunities
Program milestone
achieved

A\$2^{bn}

Total taxes paid in FY18

A\$1.2^{bn}

Stays in the Fortescue
Family Room

971

Active heritage places
managed

5,597

Recycled waste

88%

Empowerment is at the heart of Fortescue's approach to Corporate Social Responsibility





Approach to Corporate Social Responsibility

Creating shared value

Corporate Social Responsibility (CSR) is Fortescue's commitment to behave ethically, to create value for the Company's stakeholders, to protect Aboriginal heritage and the environment and to empower and partner with communities to build capability and capacity.

Fortescue is committed to ensuring communities benefit from its growth and development and recognises that, in order to achieve its vision of being the safest, lowest cost, most profitable mining company, CSR must be embedded within all aspects of its business.

Empowerment is at the heart of Fortescue's approach to CSR – as is an absolute determination to achieve practical outcomes.

It is demonstrated by Fortescue's ability to empower individuals within the Company and communities to be their best; to find innovative solutions to the most complex business and societal challenges and to find ways to improve the business' bottom line while delivering positive change.

Compliance with all relevant legislation and obligations including those that govern health, safety and environment is the absolute minimum standard to which the Company adheres.

Fortescue's Values form the foundation of the Company's approach to CSR, setting the ethical and moral compass by which business is undertaken. Fortescue's Code of Conduct and Integrity establishes the essential standards of personal and corporate conduct and behaviour of employees, suppliers and contractors.

This strong base supports the Company's commitments and principles and leads to the development and implementation of policies, opportunities and objectives, ultimately informing the application of specific business unit targets, processes and plans.

A full copy of the CSR report is available on the Company's website at www.fmgil.com.au

Fortescue's people deliver shared value by maximising their energy and targeting their resources.

Fortescue's FY18 CSR Report outlines the performance of Fortescue against key material corporate social responsibility issues and opportunities during FY18.

Fortescue is a signatory to the United Nations Global Compact (UNGC) and the FY18 Corporate Social Responsibility report represents the Company's ongoing commitment to report progress towards the principles of the UNGC. The report has been prepared in accordance with the Global Reporting Initiative (GRI) Standards Core option and a copy of the GRI Content Index is provided within the report, available at www.fmgl.com.au



The report also takes into account issues identified through Fortescue's Risk Management Framework and guidance provided by key bodies including the International Council on Mining and Metals (ICMM).

Issues are considered material if they reflect the Company's key environmental, social and economic impacts or if they influence the assessments and decisions of stakeholders.

CSR material issues are determined via an annual assessment process that considers associated risks and opportunities and internal and external stakeholder views.

The assessment is undertaken through a cycle of identification, prioritisation, validation and review.

Based on this assessment the following were determined to be Fortescue's most material issues:

- Employee health and safety
- Creating employment and business opportunities for Aboriginal people
- Ensuring ethical conduct
- Eradicating slavery in the supply chain
- Building local communities
- Workforce diversity
- Protecting biodiversity and water resources
- Protecting Aboriginal culture and heritage
- Climate change action and disclosure.

Fortescue's performance against each material issue is reported against three core areas:

Setting high standards

by championing safety, preserving Aboriginal heritage, embracing diversity and demonstrating integrity

Creating positive social change

by building local communities, empowering Aboriginal people and eradicating modern slavery in Fortescue's supply chain

Safeguarding the environment

by protecting biodiversity, managing water resources, reducing greenhouse gas emissions and waste

05

Corporate Governance



Overview of Governance

Good corporate governance is critical to the long term, sustainable success of Fortescue.

Good governance is embedded throughout Fortescue and is the collective responsibility of the Board of Directors and all levels of management. Fortescue seeks to adopt leading practice, contemporary governance standards and apply these in a manner consistent with its culture and Values.

Fortescue supports the intent of the ASX Corporate Governance Council Principles and Recommendations 3rd Edition (Principles and Recommendations) and meets the specific requirements of the Principles and Recommendations, unless otherwise disclosed. Fortescue is also monitoring the development of the 4th Edition of the Principles and Recommendations and welcomes the enhanced focus on corporate culture in driving ethical and socially responsible behaviour, as outlined in the Public Consultation document, issued on 2 May 2018 by the ASX Corporate Governance Council.

The cornerstone principles of corporate governance at Fortescue are:

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

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

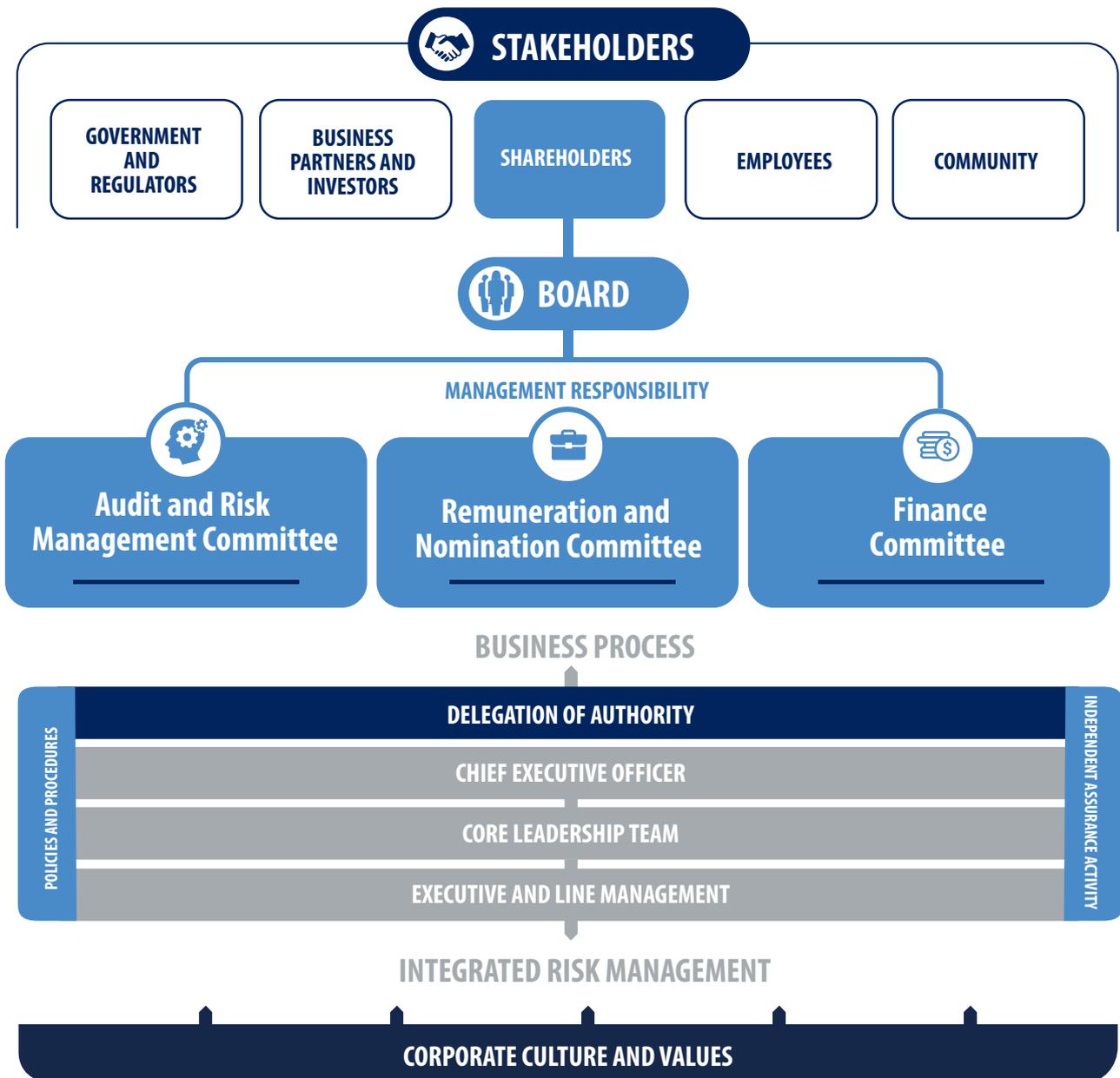
Empowerment: Everyone at Fortescue is empowered to make decisions that support the organisation's objectives and are in the best interests of stakeholders. Management and staff are encouraged to be innovative and strategic in making decisions that align with Fortescue's risk appetite and are undertaken in a manner consistent with corporate expectations and standards.

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

Stewardship: Developing and maintaining a Company-wide recognition that Fortescue is managed for the benefit of its shareholders, taking into account the interests of other stakeholders.

A full copy of the Corporate Governance Statement is available on the Company's website at www.fmgil.com.au

Governance framework



06

Fortescue's response to climate change





Since FY15, GHG emissions intensity across Fortescue's operations has reduced by 13.5 per cent.

Fortescue's commitment

Climate change is one of the most challenging and complex issues facing the planet. Developing solutions to the issues that arise will require a long-term, sustainable, collaborative approach where governments, businesses and communities work together.

As a business which strives to create value for its shareholders and communities, Fortescue is committed to playing its part and contributing to global efforts to combat climate change.

Fortescue accepts the scientific consensus as assessed by the Intergovernmental Panel on Climate Change (IPCC) and supports the Paris Agreement goal of limiting global temperature rise to less than 2°C above pre-industrial levels.

The Company's climate change strategy focusses on mitigating the risks and building the resilience of the business and, where possible, creating and leveraging opportunities. Fortescue will continue to work proactively with its peers and governments to ensure policy frameworks are suitably designed to deliver positive climate change outcomes while also supporting economic growth.

Fortescue acknowledges the growing stakeholder interest in business action on climate change and this year has commenced the process to expand disclosure in line with the recent recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) established by the G20 Financial Stability Board. The TCFD recommendations focus on the four key elements depicted below.

A copy of Fortescue's approach to climate change is contained within the FY18 Corporate Social Responsibility Report available on the Company's website at www.fmgl.com.au

TCFD recommendations

Governance	Strategy	Risk management	Metrics and targets
Disclose the organisation's governance around climate-related risks and opportunities.	Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material.	Disclose how the organisation identifies, assesses, and manages, climate-related risks.	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

Source: Recommendations of the Task Force on Climate-related Financial Disclosures 2017.

07

Financial Report



Directors' Report

At 30 June 2018

Directors

Your Directors present their report on the Fortescue consolidated group, comprising the Company and its controlled entities, for the year ended 30 June 2018.

The Directors of the Company in office during the year and until the date of this report, their qualifications, experience and directorships held in listed companies at any time during the last three years, are set out on pages 11 to 13.

The Directors' meetings, including meetings of the Company's Board of Directors and of each Board committee held during the year ended 30 June 2018 and the number of meetings attended by each Director are shown in section 2.3 of the FY18 Corporate Governance Statement.¹

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

Director	Ordinary shares	Share rights
A Forrest AO	1,038,800,000	-
M Barnaba AM	20,000	-
S Warburton	50,750	-
E Gaines	224,823	525,966
Dr J Baderschneider	138,000	-
Dr Z Cao	-	-
P Bingham-Hall	36,516	-
J Morris OAM	5,250	-
Lord S Coe CH,KBE	-	-

¹ Fortescue's FY18 Corporate Governance Statement is available at www.fmg.com.au



Directors' Report

At 30 June 2018

Operating and financial review

Fortescue's principal activities during the year were exploration, development, production, processing and sale of iron ore. There were no significant changes to the nature of the Group's principal activities during FY18.

The overview of Fortescue's operations, including a discussion of strategic priorities and outlook, key aspects of operating and financial performance and key business risks are contained in the following sections of the Annual Report: Overview on pages 3 to 19, Operating and Financial Review on pages 20 to 34 and Corporate Governance Statement¹ section 4 Risk Management.

Dividends

		2018	2017
Net profit after tax	US\$m	878	2,093
Interim dividend	A\$ cents per share	11	20
Final dividend	A\$ cents per share	12	25
Total dividend	A\$ cents per share	23	45

The following dividend payments were made during the year:

- Final fully franked dividend for the year ended 30 June 2017 of A\$0.25 per share, paid in October 2017
- Interim fully franked dividend for the year ended 30 June 2018 of A\$0.11 per share, paid in April 2018.

Environmental regulation and compliance

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

The details of Fortescue's environmental performance including compliance with the relevant environmental legislation are presented in Fortescue's Corporate Social Responsibility Report.²

Greenhouse gas emissions and energy

Fortescue complies with the Australian Government's *National Greenhouse and Energy Reporting Act 2007* (Cth) and recognises its responsibility to actively improve energy use and minimise greenhouse gas emissions to reduce its contribution to climate change and impact on the environment.

The details of greenhouse gas emissions and energy strategy, compliance and reporting are presented in Fortescue's Corporate Social Responsibility Report.

Unissued shares under share rights

Details of the share rights outstanding at 30 June 2018 are as follows:

	Exercise price A\$	Balance at the end of the year Number	Vested and exercisable at the end of the year Number	Remaining contractual life Years	Vesting conditions	
					Market	Non-market
Short term share rights 2016	-	616,219	616,219	12.5	-	Yes
Short term share rights 2017	-	761,507	761,507	13.3	-	Yes
Short term share rights 2018	-	1,755,884	-	14.3	-	Yes
Long term share rights 2016	-	6,465,830	-	12.5	Yes	Yes
Long term share rights 2017	-	2,296,040	-	13.3	Yes	Yes
Long term share rights 2018	-	2,475,313	-	14.3	Yes	Yes
	-	14,370,793	1,377,726			

In FY18, 1,766,692 of the short term share rights and no long term share rights were converted to shares.

¹ Fortescue's FY18 Corporate Governance Statement is available at www.fmgil.com.au

² Fortescue's FY18 Corporate Social Responsibility Report is available at www.fmgil.com.au

Directors' Report

At 30 June 2018

Company Secretary

Cameron Wilson and Alison Terry are Company Secretaries of Fortescue. Details of their qualifications and experience are set out on page 13.

Directors and Officers indemnities and insurance

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

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

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

Non-audit services

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

Details of the amounts paid or payable to the auditor PricewaterhouseCoopers Australia and related entities for audit and non-audit services provided during the year are set out in note 19 to the financial statements.

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

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

The auditor's independence declaration, as required under section 307C of the *Corporations Act 2001*, is set out on page 59 and forms part of this report.

Future developments

The Overview section set out on pages 3 to 19 and the Operating and Financial Review section set out on pages 20 to 34 of this Annual report, provide an indication of the Group's likely developments and expected results. In the opinion of the Directors, disclosure of any further information about these matters and the impact on Fortescue's operations could result in unreasonable prejudice to the Group and has not been included in this report.

Significant changes in state of affairs

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

Proceedings on behalf of the Group

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

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

Rounding of amounts

The Company is of a kind referred to in ASIC Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that instrument to the nearest million dollars, unless otherwise stated.

Events occurring after the reporting period

On 20 August 2018, the Directors declared a final dividend of 12 Australian cents per ordinary share payable in October 2018.

Signed in accordance with a resolution of the Directors.



Andrew Forrest AO
Chairman

Dated in Perth this 20th day of August 2018.

Auditor's independence declaration



As lead auditor for the audit of Fortescue Metals Group Ltd for the year ended 30 June 2018, 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 Ltd and the entities it controlled during the period.

A handwritten signature in black ink that reads 'Justin Carroll'.

Justin Carroll
Partner
PricewaterhouseCoopers

Perth
20 August 2018

Independent auditors' report



To the members of Fortescue Metals Group Ltd

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Fortescue Metals Group Ltd (the Company) and its controlled entities (together, the Group) is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year then ended
- (b) 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 2018
- 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

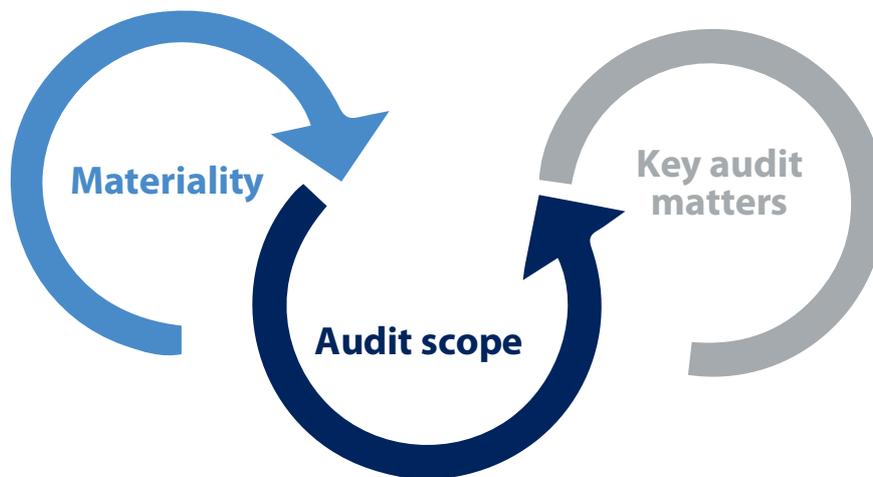
We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Independent auditors' 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\$92 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 focussed on where the Company has 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 auditors' report

Key audit matter	How our audit addressed the key audit matter
<p>Revenue from iron ore sales (Refer to note 3)</p> <p>For the year ended 30 June 2018 the Group recognised revenue of US\$6,775 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 non-cash period end adjustments that relate to the remeasurement of provisional sales.</p> <p>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.</p> <p>The Group initially recognises sales at the shipment date price and as applicable 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.</p>	<p>In addition to the audit procedures we performed over revenue, we addressed the two specific non-cash period end adjustments to revenue as follows:</p> <ul style="list-style-type: none"> • 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 any provisional sales period • For the sample of sales contracts tested, we recalculated the recorded provisional pricing adjustments to sales revenue and found them to be consistent with relevant external iron ore price indices.
<p>Carrying value of exploration and evaluation assets (Refer to note 12 and 24(b))</p> <p>At 30 June 2018 the Group recognised exploration and evaluation assets totalling US\$857 million. 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.</p> <p>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).</p> <p>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.</p>	<p>To assess the carrying value of the Group's exploration and evaluation assets, we performed the following audit procedures, amongst others:</p> <ul style="list-style-type: none"> • 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 2018 to observe the current state of this project. We also inspected minutes of the IBJV Committee meetings throughout the year and noted an FY19 budgeted work program was approved for further evaluation testing of the pilot plant. <p>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.</p>

Independent auditors' report

Key audit matter	How our audit addressed the key audit matter
<p>Restoration and rehabilitation obligations (Refer to note 13 and 24(e))</p> <p>The Group recognised provisions for restoration and rehabilitation obligations of US\$591 million as at 30 June 2018.</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>To assess the Group's restoration and rehabilitation obligations, we performed the following audit procedures, amongst others:</p> <ul style="list-style-type: none"> • 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.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2018, including the Overview, Operating and Financial Review, Ore Reserves and Mineral Resources, Corporate Social Responsibility, Corporate Governance, Fortescue's response to climate change, Directors' Report, Remuneration and Nomination Committee Chair message and Corporate Directory, 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 *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 auditors' report

Report on the remuneration report

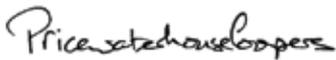
Our opinion on the remuneration report

We have audited the remuneration report included in pages 111 to 138 of the directors' report for the year ended 30 June 2018.

In our opinion, the remuneration report of Fortescue Metals Group Ltd for the year ended 30 June 2018 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



Justin Carroll
Partner

Perth
20 August 2018

Directors' declaration

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 66 to 105 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 2018 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 20th day of August 2018.

Consolidated income statement

For the year ended 30 June 2018

	Note	2018 US\$m	2017 US\$m
Operating sales revenue	3	6,887	8,447
Cost of sales	5	(4,930)	(4,888)
Gross profit		1,957	3,559
Other income	4	30	14
Other expenses	6	(114)	(123)
Net profit before income tax and net finance expenses		1,873	3,450
Finance income	7	24	19
Finance expenses	7	(652)	(502)
Net profit before tax		1,245	2,967
Income tax expense	14	(367)	(874)
Net profit after tax		878	2,093
<i>Net profit after tax is attributable to:</i>			
Equity holders of the Company		879	2,093
Non-controlling interest		(1)	-
Net profit after tax		878	2,093
	Note	Cents	Cents
<i>Earnings per share for profit attributable to the ordinary equity holders of the Company:</i>			
Basic earnings per share	8	28.2	67.3
Diluted earnings per share	8	28.1	67.0

Consolidated statement of comprehensive income

For the year ended 30 June 2018

	2018 US\$m	2017 US\$m
Net profit after tax	878	2,093
<i>Other comprehensive income:</i>		
Gain on available for sale financial assets	2	-
Exchange differences on translation of foreign operations	2	-
Total comprehensive income, net of tax	882	2,093
<i>Total comprehensive income is attributable to:</i>		
Equity holders of the Company	883	2,093
Non-controlling interest	(1)	-
Total comprehensive income, net of tax	882	2,093

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 2018

	Note	2018 US\$m	2017 US\$m
ASSETS			
Current assets			
Cash and cash equivalents	9(b)	863	1,838
Trade and other receivables	10(a)	120	141
Inventories	10(c)	496	588
Other current assets		92	38
Current tax receivable	14(a)	79	-
Total current assets		1,650	2,605
Non-current assets			
Trade and other receivables	10(a)	3	3
Property, plant and equipment	12	16,189	16,493
Intangible assets		4	7
Other non-current assets		3	7
Total non-current assets		16,199	16,510
Total assets		17,849	19,115
LIABILITIES			
Current liabilities			
Trade and other payables	10(b)	678	708
Deferred income	10(d)	267	461
Borrowings and finance lease liabilities	9(a)	97	121
Provisions	13	197	227
Current tax payable	14(a)	-	685
Total current liabilities		1,239	2,202
Non-current liabilities			
Trade and other payables	10(b)	50	50
Deferred income	10(d)	528	447
Borrowings and finance lease liabilities	9(a)	3,878	4,350
Provisions	13	546	509
Deferred joint venture contributions	17(c)	270	266
Deferred tax liabilities	14(b)	1,606	1,557
Total non-current liabilities		6,878	7,179
Total liabilities		8,117	9,381
Net assets		9,732	9,734
EQUITY			
Contributed equity	9(d)	1,287	1,289
Reserves		46	39
Retained earnings		8,386	8,392
Equity attributable to equity holders of the Company		9,719	9,720
Non-controlling interest		13	14
Total equity		9,732	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 year ended 30 June 2018

	Note	2018 US\$m	2017 US\$m
Cash flows from operating activities			
Cash receipts from customers		6,718	8,768
Payments to suppliers and employees		(3,687)	(3,744)
Cash generated from operations		3,031	5,024
Interest received		24	19
Interest paid		(392)	(412)
Income tax paid		(1,062)	(375)
Net cash inflow from operating activities	9(c)(i)	1,601	4,256
Cash flows from investing activities			
Payments for property, plant and equipment - Fortescue		(890)	(716)
Payments for property, plant and equipment - joint operations		(11)	(13)
Contributions from joint venture partners		4	12
Proceeds from disposal of plant and equipment		16	2
Purchase of financial assets		(55)	-
Net cash outflow from investing activities		(936)	(715)
Cash flows from financing activities			
Proceeds from borrowings and finance leases		2,071	1,734
Repayment of borrowings and finance leases		(2,545)	(4,187)
Finance costs paid		(254)	(47)
Dividends paid		(874)	(755)
Purchase of shares by employee share trust		(24)	(27)
Net cash outflow from financing activities		(1,626)	(3,282)
Net (decrease) increase in cash and cash equivalents		(961)	259
Cash and cash equivalents at the beginning of the year		1,838	1,583
Effects of exchange rate changes on cash and cash equivalents		(14)	(4)
Cash and cash equivalents at the end of the year	9(b)	863	1,838

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 2018

	Attributable to equity holders of the Company				Non-controlling interest US\$m	Total equity US\$m
	Contributed Equity US\$m	Reserves US\$m	Retained earnings US\$m	Total		
Balance at 1 July 2016	1,301	33	7,058	8,392	14	8,406
Net profit after tax	-	-	2,093	2,093	-	2,093
Total comprehensive income for the year, net of tax	-	-	2,093	2,093	-	2,093
<i>Transactions with owners:</i>						
Purchase of shares under employee share plans	(27)	-	-	(27)	-	(27)
Employee share awards vested	15	(7)	-	8	-	8
Equity settled share-based payment transactions	-	16	-	16	-	16
Dividends declared	-	-	(762)	(762)	-	(762)
Other	-	(3)	3	-	-	-
Balance at 30 June 2017	1,289	39	8,392	9,720	14	9,734
Net profit after tax	-	-	879	879	(1)	878
Other comprehensive income	-	4	-	4	-	4
Total comprehensive income for the year, net of tax	-	4	879	883	(1)	882
<i>Transactions with owners:</i>						
Purchase of shares under employee share plans	(24)	-	-	(24)	-	(24)
Employee share awards vested	22	(11)	-	11	-	11
Equity settled share-based payment transactions	-	14	-	14	-	14
Dividends declared	-	-	(885)	(885)	-	(885)
Balance at 30 June 2018	1,287	46	8,386	9,719	13	9,732

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 2018

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Notes to the consolidated financial statements

For the year ended 30 June 2018

Basis of preparation

1 Basis of preparation

The financial statements cover the consolidated group comprising of Fortescue Metals Group Ltd (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 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) 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.

Notes to the consolidated financial statements

For the year ended 30 June 2018

Financial performance

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	2018 US\$m	2017 US\$m
Underlying EBITDA		3,182	4,744
Finance income	7	24	19
Finance expenses	7	(652)	(502)
Depreciation and amortisation	5, 6	(1,277)	(1,243)
Exploration, development and other	6	(32)	(51)
Net profit before tax		1,245	2,967
Income tax expense	14	(367)	(874)
Net profit after tax		878	2,093

(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.

	2018 US\$m	2017 US\$m
Revenues from external customers		
China	6,211	7,995
Other	676	452
	6,887	8,447

(b) Major customer information

Revenue from two customers amounted to US\$2,753 million and US\$988 respectively (2017: US\$3,702 million and US\$527 million), arising from the sale of iron ore and the related shipment of product.

Notes to the consolidated financial statements

For the year ended 30 June 2018

Financial performance

3 Operating sales revenue

	2018 US\$m	2017 US\$m
Sale of iron ore	6,775	8,335
Other revenue	112	112
	6,887	8,447

4 Other income

	2018 US\$m	2017 US\$m
Net foreign exchange gain	29	13
Other	1	1
	30	14

5 Cost of sales

	2018 US\$m	2017 US\$m
Mining and processing costs	1,739	1,801
Rail costs	188	200
Port costs	172	183
Shipping costs	1,148	929
Government royalty	416	545
Depreciation and amortisation	1,265	1,227
Other operating expenses	2	3
	4,930	4,888

Total employee benefits expense included in cost of sales and administration expenses is US\$601 million (2017: US\$579 million).

6 Other expenses

	2018 US\$m	2017 US\$m
Administration expenses	70	56
Exploration, development and other	32	51
Depreciation and amortisation	12	16
	114	123

Notes to the consolidated financial statements

For the year ended 30 June 2018

Financial performance

7 Finance income and finance expenses

	2018 US\$m	2017 US\$m
Finance income		
Interest income	24	19
	24	19
Finance expenses		
Interest expense on borrowings and finance lease liabilities	340	430
Cost of early debt repayment	289	59
Other	23	13
	652	502

8 Earnings per share

	2018 Cents	2017 Cents
(a) Earnings per share		
Basic	28.2	67.3
Diluted	28.1	67.0
(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	879	2,093
(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	3,112,150,439	3,111,190,703
<i>Adjustments for calculation of diluted earnings per share:</i>		
Potential ordinary shares	10,886,842	11,112,712
Weighted average number of ordinary and potential ordinary shares used as the denominator in calculating diluted earnings per share	3,123,037,281	3,122,303,415

(d) Information on the classification of securities

Share 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 share rights are set out in note 18.

Notes to the consolidated financial statements

For the year ended 30 June 2018

Capital management

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	2018 US\$m	2017 US\$m
Borrowings	9(a)	3,380	3,653
Finance lease liabilities	9(a)	595	818
Cash and cash equivalents	9(b)	(863)	(1,838)
Net debt		3,112	2,633
Equity attributable to equity holders of the Company		9,719	9,720
Non-controlling interest		13	14
Total equity		9,732	9,734

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.

Debt repayments and refinancing completed during the year ended 30 June 2018 resulted in improved credit metrics and lower interest costs. Target gearing ratios and balance sheet flexibility have been achieved with the focus now on re-investing in the business, growth options and shareholder returns. No financial maintenance covenants apply to any of the Company's debt.

(a) Borrowings and finance lease liabilities

	2018 US\$m	2017 US\$m
Senior unsecured notes	16	9
Syndicated term loan	18	-
Finance lease liabilities	63	42
Senior secured notes	-	70
Total current borrowings and finance lease liabilities	97	121
Senior unsecured notes	1,981	1,481
Syndicated term loan	1,365	-
Finance lease liabilities	532	776
Senior secured notes	-	2,093
Total non-current borrowings and finance lease liabilities	3,878	4,350
Total borrowings and finance lease liabilities	3,975	4,471

Notes to the consolidated financial statements

For the year ended 30 June 2018

Capital management

9 Capital management (continued)

(a) Borrowings and finance lease liabilities (continued)

(i) Refinancing

During the year ended 30 June 2018, Fortescue repaid the outstanding US\$2,160 million of the 9.75 per cent senior secured notes due to mature in November 2022, through a combination of a US\$1,900 million refinancing and a US\$260 million cash payment.

(ii) Senior unsecured notes

Fortescue's senior unsecured notes comprise a series of the following tranches which have early repayment options:

Date of issue	Date of maturity	Non-call period	Face value, US\$m	Carrying value, US\$m	Coupon rate	Currency
March 2018	April 2023	5 years	500	503	5.125%	USD
May 2017	May 2022	5 years	750	747	4.75%	USD
May 2017	May 2024	7 years	750	747	5.125%	USD
			2,000	1,997		

(iii) Syndicated term loan

The US\$1,400 million syndicated term loan established during the financial year is due to mature in February 2022, has a coupon rate linked to LIBOR plus fixed margin and is repayable at Fortescue's option. The facility has principal repayment of one per cent per annum.

(iv) Senior secured notes

During the year ended 30 June 2018, the senior secured notes were repaid in full. The notes were due to mature in November 2022 and as at 30 June 2017 had a face value of US\$2,160 million and a coupon rate of 9.75 per cent.

(v) Finance lease liabilities

Finance lease liabilities largely relate to contractual commitments associated with ore carriers, Fortescue River Gas Pipeline and heavy mobile fleet. In the event of default, the assets revert to the lessor.

In November 2017, Fortescue repurchased the Solomon Power Station which was previously classified as a finance lease liability.

	Within one year US\$m	Between one year and five years US\$m	After five years US\$m	Total US\$m
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
30 June 2018				
Lease expenditure commitments	107	310	583	1,000
Effect of discounting	(44)	(149)	(212)	(405)
Finance lease liabilities	63	161	371	595

Notes to the consolidated financial statements

For the year ended 30 June 2018

Capital management

9 Capital management (continued)

(a) Borrowings and finance lease liabilities (continued)

(vi) Summary of movements in borrowings and finance lease liabilities

	Senior unsecured notes US\$m	Syndicated term loan US\$m	Senior secured notes US\$m	Finance leases US\$m	Senior secured credit facility US\$m	Total US\$m
Balance at 1 July 2016	483	-	2,152	505	3,631	6,771
Initial recognition	1,500	-	-	344	-	1,844
Interest expense	41	-	221	70	98	430
Interest and finance lease repayments	(40)	-	(210)	(105)	(93)	(448)
Transaction costs	(16)	-	-	-	40	24
Foreign exchange loss	-	-	-	4	-	4
Repayment	(478)	-	-	-	(3,676)	(4,154)
Balance at 30 June 2017	1,490	-	2,163	818	-	4,471
Initial recognition	500	1,400	-	171	-	2,071
Interest expense	85	20	180	55	-	340
Interest and finance lease repayments	(73)	(14)	(241)	(120)	-	(448)
Transaction costs	(5)	(23)	58	-	-	30
Foreign exchange gain	-	-	-	(5)	-	(5)
Repayment	-	-	(2,160)	(324)	-	(2,484)
Balance at 30 June 2018	1,997	1,383	-	595	-	3,975

Information about Fortescue's exposure to interest rate risk and foreign exchange rate risk is disclosed in note 11.

(b) Cash and cash equivalents

	2018 US\$m	2017 US\$m
Cash at bank	702	923
Short term deposits	161	915
	863	1,838

Cash and cash equivalents do not have any restrictions by contractual or legal arrangements.

On 28 July 2017, the Company executed a US\$525 million revolving credit facility that remained undrawn at 30 June 2018.

Notes to the consolidated financial statements

For the year ended 30 June 2018

Capital management

9 Capital management (continued)

(c) Cash flow information

(i) Reconciliation of net profit after tax to net cash inflow from operating activities

	2018 US\$m	2017 US\$m
Net profit after tax	878	2,093
Depreciation and amortisation	1,277	1,243
Exploration, development and other	32	51
Share-based payment expense	14	16
Net unrealised foreign exchange (gain) loss	(2)	2
Accrued interest	(34)	28
Cost of early debt repayment	289	59
Rehabilitation expenditure	(11)	-
Depreciation in inventory	(38)	33
Other non-cash items	(44)	(29)
Working capital adjustments:		
Decrease in trade and other receivables	21	101
Decrease (increase) in inventories	92	(34)
Decrease in other assets	9	28
(Decrease) increase in trade and other payables	(30)	67
(Decrease) increase in deferred income	(113)	115
(Decrease) increase in employee benefit provision	(24)	8
(Decrease) increase in current tax payable	(764)	418
Increase in deferred tax liabilities	49	57
Net cash inflow from operating activities	1,601	4,256

(ii) Non-cash financing and investing activities

	2018 US\$m	2017 US\$m
Acquisition of property, plant and equipment by means of finance leases	-	(110)

Notes to the consolidated financial statements

For the year ended 30 June 2018

Capital management

9 Capital management (continued)

(d) Contributed equity

(i) Share capital

	Issued shares	Treasury shares	Contributed equity	Issued shares	Treasury shares	Contributed equity
	Number	Number	Number	US\$m	US\$m	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 vested	-	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 vested	-	6,346,506	6,346,506	-	22	22
At 30 June 2018	3,113,798,151	(1,227,861)	3,112,570,290	1,296	(9)	1,287

(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 share rights under the employee share-based payment plans.

(e) Dividends

(i) Dividends paid during the year

	2018 US\$m	2017 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
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
Total dividends paid	885	762

(ii) Dividends declared and not recognised as a liability

	2018 US\$m	2017 US\$m
Final fully franked dividend: A\$0.12 per share (2017: A\$0.25 per share)	271	614

(iii) Franking credits

At 30 June 2018, franking credits available were A\$1,757 million (2017: A\$856 million). The payment of the final dividend for the year ended 30 June 2018 will reduce the franking account balance by A\$160 million.

Notes to the consolidated financial statements

For the year ended 30 June 2018

Capital management

10 Working capital

(a) Trade and other receivables

	2018 US\$m	2017 US\$m
Trade debtors - iron ore	89	113
GST receivables	13	9
Other receivables	18	19
Total current receivables	120	141
Other receivables	3	3
Total non-current receivables	3	3

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(c).

(b) Trade and other payables

	2018 US\$m	2017 US\$m
Trade payables	272	234
Other payables and accruals	406	474
Total current payables	678	708
Customer deposits	50	50
Total non-current payables	50	50

(c) Inventories

	2018 US\$m	2017 US\$m
Iron ore stockpiles	215	277
Warehouse stores and materials	281	311
Total inventories	496	588

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 2018 amounted to US\$3,364 million (2017: US\$3,411 million). During the year, inventory write-offs of US\$25 million (2017: US\$31 million) were recognised in relation to specific items of warehouse stores and materials that were identified as obsolete.

(d) Deferred income

	2018 US\$m	2017 US\$m
Iron ore prepayments	267	350
Port access prepayment	-	111
Total current deferred income	267	461
Iron ore prepayments	528	447
Total non-current deferred income	528	447

Notes to the consolidated financial statements

For the year ended 30 June 2018

Capital management

11 Financial risk management

Fortescue is exposed to a range of financial risks, including market risk, credit risk and liquidity risk. Fortescue has 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 2018, Fortescue had 31 million tonnes of iron ore sales (2017: 27 million tonnes) that remained subject to provisional pricing, with the final price to be determined in the following year.

A 10 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\$101 million (2017: 15 per cent movement would have an impact on the Group's profit of US\$161million), before the impact of taxation. This analysis assumes all other factors, including the foreign currency exchange rates, remain constant.

(ii) Interest rate risk

The Group's interest rate risk arises from variable rates on the syndicated term loan, finance leases relating to the 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	2018 US\$m	2017 US\$m
Cash and cash equivalents	9(b)	863	1,838
Finance leases	9(a)	(356)	(213)
Syndicated term loan	9(a)	(1,383)	-
		(876)	1,625

Notes to the consolidated financial statements

For the year ended 30 June 2018

Capital management

11 Financial risk management (continued)

(a) Market risk (continued)

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 50 basis points in interest rates in variable instruments would have an impact on the Group's profit of US\$13 million (2017: a change of five basis points would impact profit by US\$1 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 the movements in the Australian dollar exchange rate, with a significant portion of its operating costs and capital expenditure incurred and paid in Australian dollars.

Fortescue's risk management policy is to target specific levels at which to convert United States dollars to Australian dollars by entering into either spot or short term forward exchange contracts. The Group does not enter into transactions that qualify as hedging for hedge accounting purposes.

The carrying amounts of the financial assets and liabilities denominated in Australian dollars (expressed in US dollars), are set out below:

	2018 US\$m	2017 US\$m
Financial assets		
Cash and cash equivalents	260	19
Trade and other receivables	21	22
Other financial assets	62	-
Total financial assets	343	41
Financial liabilities		
Borrowings and finance lease liabilities	142	150
Trade and other payables	518	351
Total financial liabilities	660	501

A change of 10 per cent in the Australian dollar exchange rate would have a net impact on the Group's profit of US\$36 million (2017: a change of five per cent would have an impact of US\$23 million), before the impact of taxation. This analysis assumes that all other variables, including interest rates and iron ore price, remain constant.

(b) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to Fortescue, and is managed on a consolidated basis. Credit risk arises from cash and cash equivalents, 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 2018 and 30 June 2017.

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 of Directors.

At 30 June 2018, Fortescue had US\$5 million (2017: US\$5 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.

Notes to the consolidated financial statements

For the year ended 30 June 2018

Capital management

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 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
30 June 2018							
Non-interest bearing	678	-	-	50	-	728	728
Fixed rate	78	90	148	1,615	1,042	2,973	2,236
Variable rate	51	65	115	1,602	335	2,168	1,739
	807	155	263	3,267	1,377	5,869	4,703

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.

	2018		2017	
	Carrying value US\$m	Fair value US\$m	Carrying value US\$m	Fair value US\$m
Senior secured notes	-	-	2,163	2,460
Senior unsecured notes	1,997	1,924	1,490	1,507

The carrying values of other financial assets and financial liabilities approximate their fair values.

Notes to the consolidated financial statements

For the year ended 30 June 2018

Key balance sheet items

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 2016		11,456	849	772	227	3,563	16,867
Transfers 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)
Net carrying value							
At 1 July 2017		11,156	796	813	291	3,437	16,493
Transfers of assets		812	8	(17)	(832)	27	(2)
Additions		3	-	70	842	-	915
Disposals		(5)	(1)	-	-	-	(6)
Depreciation		(969)	(59)	-	-	(207)	(1,235)
Changes in restoration and rehabilitation estimate	13(b)	-	-	3	-	35	38
Other		(2)	-	(12)	-	-	(14)
At 30 June 2018		10,995	744	857	301	3,292	16,189
Cost		16,473	1,060	857	301	4,551	23,242
Accumulated depreciation		(5,478)	(316)	-	-	(1,259)	(7,053)

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\$253 million (2017: US\$505 million). The details of the finance leases under which these assets are held are disclosed in note 9(a).

Notes to the consolidated financial statements

For the year ended 30 June 2018

Key balance sheet items

13 Provisions

	2018 US\$m	2017 US\$m
Employee benefits	150	174
Restoration and rehabilitation	47	53
Total current provisions	197	227
Employee benefits	2	3
Restoration and rehabilitation	544	506
Total non-current provisions	546	509

(a) Provision for employee benefits

Movements in the provision for employee benefits during the year are set out below:

	2018 US\$m	2017 US\$m
At 1 July	177	169
Changes in employee benefits provision	96	138
Amounts paid	(121)	(130)
At 30 June	152	177

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\$41 million (2017: US\$38 million).

(b) Provision for restoration and rehabilitation

Movements in the provision for restoration and rehabilitation during the year are set out below:

	2018 US\$m	2017 US\$m
At 1 July	559	487
Changes in restoration and rehabilitation estimate	38	69
Unwinding of discount	5	3
Payments for restoration and rehabilitation activities	(11)	-
At 30 June	591	559

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 activities exclude ongoing rehabilitation performed as part of normal operations.

Notes to the consolidated financial statements

For the year ended 30 June 2018

Taxation

14 Taxation

For the year ended 30 June 2018, Fortescue continues to be 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 addressed in this note.

(a) Income tax expense

	Consolidated group 2018 US\$m	Consolidated group 2017 US\$m
Current tax	320	817
Deferred tax	47	57
	367	874

(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 2018, the Group's global effective tax rate was 29.5 per cent, in line with the Australia corporate tax rate of 30 per cent.

	Consolidated group 2018 US\$m	Australian group 2018 US\$m	Consolidated group 2017 US\$m	Australian group 2017 US\$m
Net profit before tax	1,245	1,185	2,967	2,913
Tax at the Australian tax rate of 30 per cent	374	356	890	874
Research and development	(3)	(3)	(4)	(4)
Adjustments in respect of income tax expense of prior periods	(1)	(6)	(1)	3
Foreign exchange variations	(4)	(4)	(6)	(6)
Tax impact of overseas jurisdiction	(1)	8	-	7
Share-based payments	(1)	(1)	(5)	(5)
Other	3	1	-	-
Income tax expense	367	351	874	869
Effective tax rate	29.5%	29.6%	29.5%	29.8%

Notes to the consolidated financial statements

For the year ended 30 June 2018

Taxation

14 Taxation (continued)

(a) Income tax expense (continued)

(ii) Reconciliation of income tax expense to current tax (receivable) payable

	Consolidated group 2018 US\$m	Consolidated group 2017 US\$m
Income tax expense in the consolidated income statement	367	874
Deferred tax expense	(47)	(57)
Adjustments in respect of income tax expense of prior periods	(1)	6
	319	823
Tax payments made to tax authorities ¹	(385)	(115)
Impact of foreign exchange on income tax payable ²	(13)	(23)
Current tax (receivable) payable at 30 June	(79)	685

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

Deferred tax assets and liabilities represent the difference between the carrying value of assets and liabilities compared to their income tax base. Deferred tax assets and liabilities are measured at the relevant tax rates enacted for the reporting period. Fortescue's main operations are in Australia and therefore the main taxable income arises in Australia. The Company's major deferred tax assets and liabilities also arise in Australia, predominantly relating to capital investments in the Pilbara region.

	Consolidated group 2018 US\$m	Consolidated group 2017 US\$m
Deferred tax assets	431	470
Deferred tax liabilities	(2,037)	(2,027)
	(1,606)	(1,557)

Notes to the consolidated financial statements

For the year ended 30 June 2018

Taxation

14 Taxation (continued)

(b) Deferred tax assets and liabilities (continued)

Composition of and movements in deferred tax assets and liabilities during the year are set out below:

	Deferred tax assets		Deferred tax liabilities		Charged / (credited) to the income statement	
	Consolidated group		Consolidated group		Consolidated group	
	2018 US\$m	2017 US\$m	2018 US\$m	2017 US\$m	2018 US\$m	2017 US\$m
Temporary differences arising from						
Exploration expenditure	-	-	(134)	(123)	(11)	(5)
Development	-	-	(546)	(540)	(6)	(30)
Property, plant and equipment	-	-	(1,244)	(1,220)	(24)	(141)
Inventories	-	-	(105)	(127)	22	(6)
Provisions	223	220	-	(1)	4	24
Other financial liabilities	182	225	-	(11)	(32)	88
Other items	26	25	(8)	(5)	-	13
	431	470	(2,037)	(2,027)	(47)	(57)

(c) Unrecognised tax losses

At 30 June 2018, the Group had income tax losses with a tax benefit of US\$28 million (2017: US\$23 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.

Notes to the consolidated financial statements

For the year ended 30 June 2018

Unrecognised items

15 Commitments and contingencies

	Capital US\$m	Operating leases US\$m	Total US\$m
30 June 2017			
Within one year	327	64	391
Between one and five years	16	24	40
Total commitments	343	88	431
30 June 2018			
Within one year	175	13	188
Between one and five years	40	31	71
Total commitments	215	44	259

(i) Capital commitments

At 30 June 2018, Fortescue had contractual commitments to capital expenditure not recognised as liabilities, including commitments associated with the construction of iron ore carriers of US\$43 million (2017: US\$196 million) within 12 months 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 three 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 2018 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 August 2018, the Directors declared a final dividend of 12 Australian cents per ordinary share payable in October 2018.

Notes to the consolidated financial statements

For the year ended 30 June 2018

Other information

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

	2018 US\$'000	2017 US\$'000
Short term employee benefits	6,569	7,469
Share-based payments	2,469	2,273
Post employment benefits	148	141
	9,186	9,883

Detailed information about the remuneration received by each key management person is provided in the Remuneration Report on pages 111 to 138.

(c) Transactions with other related parties

The following transactions occurred with joint operations partners

	2018 US\$'000	2017 US\$'000
Other revenue	1,973	2,785
Balances at 30 June		
Deferred joint venture contributions	269,859	265,800
Current receivables	219	274

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 share rights plans

During the year ended 30 June 2018, Fortescue issued 1,845,707 (2017: 1,874,545) short term share rights and 3,045,753 (2017: 3,666,789) long term share 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.

	2018 Number	2017 Number
Outstanding at 1 July	15,795,024	18,355,858
Share rights granted	4,891,460	5,541,334
Share rights forfeited or lapsed	(4,548,999)	(5,122,418)
Share rights converted or exercised	(1,766,692)	(2,979,750)
Outstanding at 30 June	14,370,793	15,795,024

Notes to the consolidated financial statements

For the year ended 30 June 2018

Other information

18 Share-based payments (continued)

(a) Employee share rights plans (continued)

The weighted average fair value of share rights granted during the year ended 30 June 2018 was A\$5.34 per right (2017: A\$4.85) for the short term share rights and A\$5.04 per right (2017: A\$4.61) for the long term share rights. The estimated fair value of the short term share rights was determined using a trinomial option pricing model and the estimated fair value of the long term share 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 share rights granted during the year ended 30 June 2018 were:

- Share price: A\$4.90 (2017: A\$4.99)
- Exercise price: nil (2017: nil)
- Volatility: 49 per cent (2017: 68 per cent)
- Effective life: 2.1 years (2017: 2.2 years)
- Dividend yield: 7.1 per cent (2017: 3.5 per cent)
- Risk free interest rate: 1.9 per cent (2017: 2.0 per cent).

Details of share rights outstanding at 30 June 2018 are presented in the following table:

	Exercise price A\$	Balance at the end of the year Number	Vested and exercisable at the end of the year Number	Remaining contractual life Years	Vesting conditions	
					Market	Non-market
Short term share rights 2016	-	616,219	616,219	12.5	-	Yes
Short term share rights 2017	-	761,507	761,507	13.3	-	Yes
Short term share rights 2018	-	1,755,884	-	14.3	-	Yes
Long term share rights 2016	-	6,465,830	-	12.5	Yes	Yes
Long term share rights 2017	-	2,296,040	-	13.3	Yes	Yes
Long term share rights 2018	-	2,475,313	-	14.3	Yes	Yes
	-	14,370,793	1,377,726			

(b) Employee expenses

Total expenses arising from share-based payments transactions recognised during the period as part of employee benefit expense were as follows:

	2018 US\$m	2017 US\$m
Share-based payment expense	14	16

Notes to the consolidated financial statements

For the year ended 30 June 2018

Other information

19 Remuneration of auditors

	2018 US\$'000	2017 US\$'000
PricewaterhouseCoopers Australia		
Audit and other assurance services		
Audit and review of financial statements	753	791
Other assurance services	398	338
Total audit and assurance services	1,151	1,129
Other services		
Consulting services	225	122
Total remuneration of PricewaterhouseCoopers Australia	1,376	1,251
Network firms of PricewaterhouseCoopers Australia		
Audit and other assurances		
Audit and review of financial statements	130	63
	130	63
Total remuneration of auditors	1,506	1,314

20 Deed of cross guarantee

Fortescue Metals Group Ltd 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 Ltd

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
- 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

Notes to the consolidated financial statements

For the year ended 30 June 2018

Other information

20 Deed of cross guarantee (continued)

(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 2018 along with the consolidated statement of financial position at 30 June 2018 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

	2018 US\$m	2017 US\$m
Current assets	247	158
Non-current assets	10,035	10,161
Total assets	10,282	10,319
Current liabilities	86	759
Non-current liabilities	91	43
Total liabilities	177	802
Net assets	10,105	9,517
Contributed equity	1,287	1,289
Reserves	29	22
Retained earnings	8,789	8,206
Total equity	10,105	9,517
Net profit after tax	1,468	319
Total comprehensive income for the year	1,468	319

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\$1,411 million (2017: US\$410 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 at 30 June 2017 included providing security to the secured debt holders with respect to the assets of the Company and certain of its subsidiaries.

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 2018 or 30 June 2017.

Notes to the consolidated financial statements

For the year ended 30 June 2018

Other information

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):

	Country of incorporation	Class of shares	Equity holding		Investment	
			2018 %	2017 %	2018 US\$	2017 US\$
Controlled entities						
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
FMG Hong Kong Shipping Ltd	Hong Kong	Ordinary	100	100	97,610,244	64,837,148
FMG Personnel Services Pty Ltd	Australia	Ordinary	100	100	1	1

(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).

Joint operations	Country of incorporation	Holding entity	Principal activities	Participating interest	
				2018	2017
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%

Notes to the consolidated financial statements

For the year ended 30 June 2018

Other information

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 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 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.

Notes to the consolidated financial statements

For the year ended 30 June 2018

Other information

23 Summary of significant accounting policies (continued)

(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 significant risks and rewards of ownership have passed 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.

The above conditions are generally satisfied when title passes to the customer, typically on the bill of lading date when iron ore is delivered to the vessel. Revenue is recorded at the invoiced amounts.

Fortescue's sale contracts may provide for provisional pricing of sales with final pricing determined using the iron ore price indices on or after the vessel's arrival to the port of discharge. A provisionally priced sale contains an embedded derivative which is required to be separated from the host contract. At each reporting date, in the absence of an iron ore futures market, the provisionally priced sales are marked-to-market at period end prices, with adjustments (both gains and losses) recorded in operating sales revenue in the consolidated income statement and in trade debtors or trade payables in the balance sheet.

(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.

Notes to the consolidated financial statements

For the year ended 30 June 2018

Other information

23 Summary of significant accounting policies (continued)

(f) Income tax (continued)

Fortescue and its wholly-owned Australian controlled 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 the each corresponding tax consolidated group.

(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.

Collectability 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, financial assets at fair value through profit or loss and available for sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

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.

Notes to the consolidated financial statements

For the year ended 30 June 2018

Other information

23 Summary of significant accounting policies (continued)

(j) Financial assets (continued)

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 profit or loss.

(iii) Available for sale financial assets

Available for sale financial assets, comprising principally marketable equity securities, are non derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date. Investments are designated as available for sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term. These instruments are recognised at fair value, with changes in fair value being recognised directly in other comprehensive income, unless the change is considered to be a significant or prolonged decrease below original cost, in which case the decrease is recognised in profit or loss as an impairment 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.

(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

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 as 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.

Notes to the consolidated financial statements

For the year ended 30 June 2018

Other information

23 Summary of significant accounting policies (continued)

(I) Property, plant and equipment (continued)

(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.

(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.

Notes to the consolidated financial statements

For the year ended 30 June 2018

Other information

23 Summary of significant accounting policies (continued)

(l) Property, plant and equipment (continued)

Development costs are accumulated in respect of each separate area of interest. Costs associated with commissioning of 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.

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.

Notes to the consolidated financial statements

For the year ended 30 June 2018

Other information

23 Summary of significant accounting policies (continued)

(o) Rehabilitation provision

Provisions are recognised when Fortescue has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

The mining, extraction and processing activities of Fortescue give rise to obligations for site rehabilitation. Rehabilitation obligations 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 bi-annually, which is used as a source of information to assess for any indications of impairment. External factors, such as changes in expected future prices, costs and other market factors are also monitored to assess for indications of impairment. If any such indication exists, an estimate of the asset's recoverable amount is calculated, being the higher of fair value less direct costs to sell and the asset's value in use. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. Fair value for mineral assets is generally determined using independent market assumptions to calculate the present value of the estimated future cash flows expected to arise from the continued use of the asset, including any expansion prospects, and its eventual disposal. These cash flows are discounted using an appropriate discount rate to arrive at a net present value of the asset.

Value in use is determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset in its present form and its eventual disposal, discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. Value in use is determined by applying assumptions specific to the Group's continued use and does not take into account future development.

In testing for indications of impairment and performing impairment calculations, assets are considered as collective groups and referred to as cash generating units. Cash generating units are the smallest identifiable groups of assets and liabilities that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Impaired assets are reviewed for possible reversal of the impairment at each reporting date.

Notes to the consolidated financial statements

For the year ended 30 June 2018

Other information

23 Summary of significant accounting policies (continued)

(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 from 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 share 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 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.

Notes to the consolidated financial statements

For the year ended 30 June 2018

Other information

23 Summary of significant accounting policies (continued)

(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 2017:

- AASB 2016-1 *Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses*
- AASB 2016-2 *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107*
- AASB 2017-2 *Amendments to Australian Accounting Standards – Further Annual Improvements 2014-2016 Cycle*.

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.

(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 2018 reporting periods. These standards and interpretations have not been early adopted.

AASB 15 Revenue from Contracts with Customers (effective from 1 July 2018)

The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard introduces a five-step process for applying this principle, which includes guidance in respect of identifying the performance obligations under the contract with the customer, allocating the transaction price between the performance obligations, and recognising revenue as the entity satisfies the performance obligations.

The Group has concluded its evaluation of the impact of AASB 15 and determined that the only relevant impact for the Group relates to the shipping of iron ore sold to customers. The Group sells a significant proportion of its products on Cost and Freight (CFR) terms, which means that the Group is responsible for shipping the product to a destination port specified by the customer.

Notes to the consolidated financial statements

For the year ended 30 June 2018

Other information

23 Summary of significant accounting policies (continued)

(x) New accounting standards and interpretations (continued)

(ii) *New accounting standards and interpretations not yet adopted (continued)*

Under AASB 118 *Revenue* the Group recognised the total contract revenue when title to iron ore passed to the customer, typically on the bill of lading date when ore is delivered to the ship, the related shipping costs in full at that point. Under AASB 15 the shipping service will represent a separate performance obligation, and will be recognised separately from the sale of the ore when the shipping service has been provided, along with the associated costs.

Fortescue's sale contracts may provide for provisional pricing of sales at the time the product is delivered to the vessel with final pricing determined using the iron ore price indices on or after the vessel's arrival to the port of discharge. As explained in more detail below provisional pricing adjustments to revenue will be dealt with under AASB 9 rather than AASB 15, and therefore the AASB 15 rules on variable consideration do not apply to the provisional pricing mechanism of the Group's sales contracts. Commencing in the year ending 30 June 2019, provisional pricing adjustments will continue to be included in operating sales revenue on the face of the income statement with the amount of such adjustments disclosed by way of note to the financial statements.

The Group will adopt the modified transitional approach to implementation where any transitional adjustment is recognised in retained earnings at 1 July 2018 without adjustment of comparatives and the new standard will only be applied to contracts that remain in force at that date. The impact of this change to retained earnings at 1 July 2018 is estimated at US\$2 million.

AASB 9 Financial Instruments (effective from 1 July 2018)

The Group has concluded its evaluation of the impact of AASB 9 and determined that there is no significant impact on the Group's results from application of the standard.

As explained above, Fortescue's sale contracts may provide for provisional pricing of sales at the time the product is delivered to the vessel with final pricing determined using the iron ore price indices on or after the vessel's arrival to the port of discharge. Under AASB 139 *Financial Instruments: Recognition and Measurement* the final pricing adjustment mechanism represents an embedded derivative which is separated from the host contract and recognised at fair value through profit or loss. Under AASB 9 the receivable asset is measured at fair value through profit or loss which will result in a similar overall impact on the income statement and balance sheet.

AASB 9 introduces an expected credit loss model for impairment of financial assets which replaces the incurred loss model used in AASB 139. This is not expected to have a significant impact on the Group given our credit risk management processes, and the resulting insignificant level of credit losses.

AASB 16 Leases (effective from 1 July 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. Depreciation would be recognised on the assets and interest on the financial liabilities over the lease term.

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, commencing with a detailed contract review process. 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.

There are two transition provisions available for the adoption of AASB 16, being retrospective application to each prior reporting period presented by applying AASB 108, or retrospective application with the cumulative effect of initially applying the standard recognised at the date of initial application. Fortescue is continuing to evaluate the transition approach.

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Other information

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.

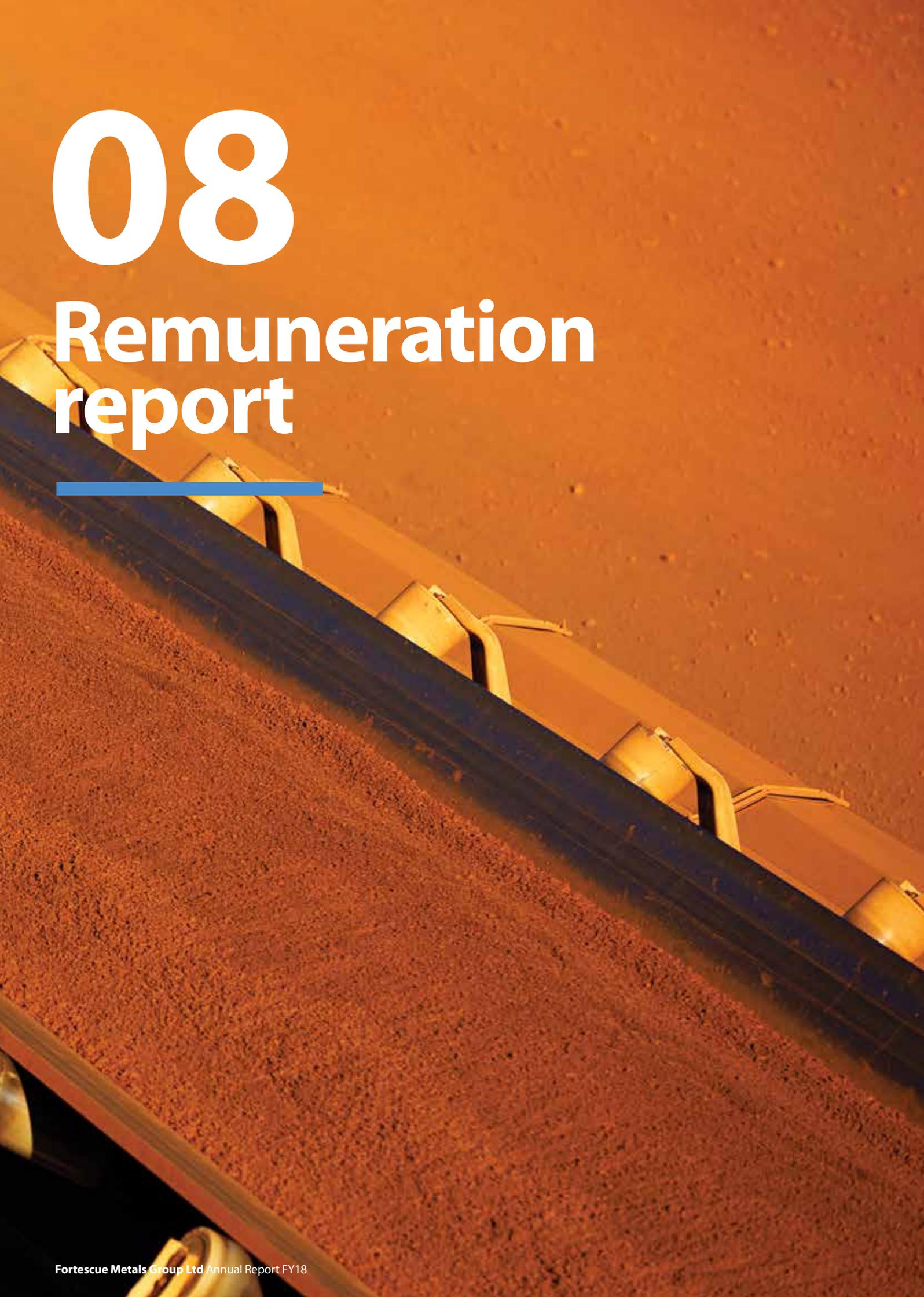
(d) Property, plant and equipment – recoverable amount

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' 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.

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.

(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.



08

Remuneration report



Remuneration and Nomination Committee Chair

On behalf of the Directors of Fortescue Metals Group Ltd, I am pleased to present the Remuneration Report for the year ended 30 June 2018.

Our Report aims to provide you with clear information on our remuneration strategy for Executives and Directors, aligned to deliver the best outcomes to you, our shareholder.

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 FY18, the Board determined aggressive targets for each and designed incentives specifically to drive business transformation, financial performance and to protect shareholders.

As reported in the Operating and Financial Review, FY18 has once again delivered strong, consistent results against the majority of our key targets for the year, reflecting our strong values-based culture and the commitment of the whole Fortescue team.

Performance culture driving remuneration strategy

Fortescue's remuneration strategy is underpinned by its core Values and performance culture which includes setting challenging stretch targets, striving to achieve them and rewarding success. Key focus areas are innovation, value creation, long-term sustainability and growth with the Board exercising discretion to recognise outstanding levels of achievement where outcomes may not accurately reflect performance.

Once again, Fortescue's unique culture continues to deliver outstanding levels of engagement as demonstrated by the annual Safety Excellence and Culture Survey with an exceptional 94 per cent participation rate as well as substantial improvement across all survey metrics.

A commitment to diversity and ensuring an encouraging and inclusive workplace through practical measures, including fair and equitable pay, flexible work practices and support for parents returning to work are fundamental drivers of our success.

Safety performance for the year was disappointing with TRIFR increasing over the period from 2.9 to 3.7, primarily driven by an increase in low severity injuries. Safety is the team's highest priority and targeted plans are in place to improve this performance going forward.

Culture

94%



Participation in Safety Excellence and Culture Survey

Reduced costs

4%



US\$ 12.36/wmt

Consistent production

170 mt

Safety performance

28%

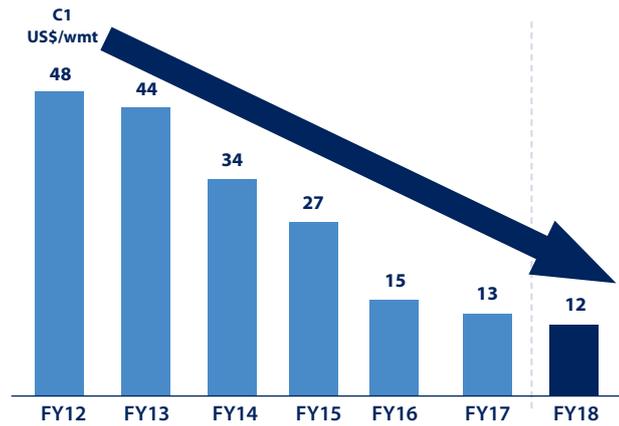


3.7 Total Recordable Injury Frequency Rate

Long term sustainable value

The delivery of long term, sustainable value is our goal. Focussed cost reduction, debt repayment and balance sheet management has been very successful and remain key objectives of our long term strategy.

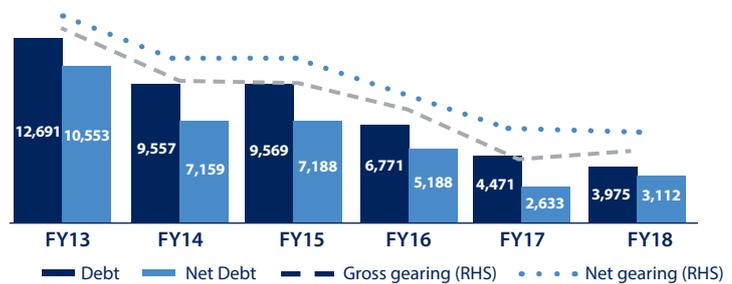
C1 cost reductions have been significant and sustainable, generating shareholder value.



Despite challenging market conditions, the team have achieved our balance sheet goals, providing a strong platform for growth.

The re-rating of Fortescue shares was achieved through the execution of the disciplined Capital Management Strategy. As at 30 June:

- Gross debt reduced to US\$4.0bn
- Net debt reduced to US\$3.1bn
- Gross gearing was 29 per cent
- Debt to EBITDA of 1.2 times.



Leadership

2018 was a year of transition with a change in leadership and the appointment of Fortescue’s Core Leadership team (CLT), comprising our Chief Executive Officer Elizabeth Gaines, Deputy Chief Executive Officer Julie Shuttleworth, Chief Operating Officer Greg Lilleyman and Chief Financial Officer Ian Wells. The CLT bring considerable experience, talent and the commitment to Fortescue’s culture and Values required to lead the Company through its next phase of growth and development. The collaborative working style is core to their success.

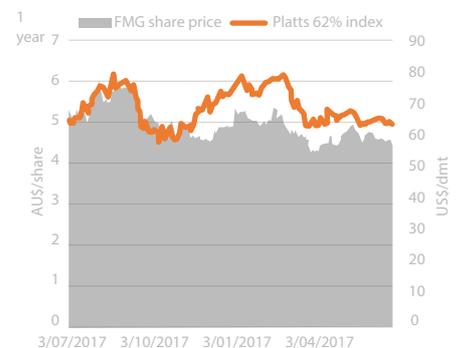
FY18 performance

During FY18, a challenging year from a market perspective, significant progress on the delivery of Fortescue’s business strategy was achieved, specifically:

- Consistent production from the Company’s world class assets, with 170mt of iron ore shipped and achievement of a record 46.5mt for the June 2018 quarter

- Continued cost reduction including a four per cent year on year or eight per cent reduction in C1 costs when normalised for exchange rate and fuel costs, reflecting the sustained improvement in productivity and efficiency together with higher production volumes
- Substantial increase (approximately 101 per cent) in non-China Sales
- Significant progress toward Fortescue’s growth strategy including the identification and assessment of opportunities locally and abroad
- Employee engagement levels maintained at high levels, measured by an outstanding 94 per cent response rate to the annual Safety Excellence and Culture Survey
- Mine life maintained at target production rate and quality
- Completed the capital management strategy reducing gross debt, the cost of capital and increasing flexibility.

Fortescue’s share price decreased by 16 per cent over the year impacted predominantly by iron ore price movements. The correlation between Fortescue’s share price and the movement of the iron ore price 62 Platts index is shown in the graph below.



During FY18, the Fortescue team successfully focussed on measures within their control. The Board has rewarded this focus.

FY18 remuneration outcomes

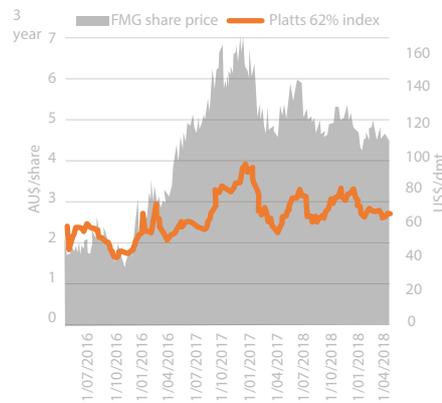
Fixed remuneration for the CLT was established at the time of each of their appointments during the year, having regard to comparable roles within the ASX 100, ASX 50 and ASX 30 indices as well as other global resource companies. Remuneration for each of the CLT members has been positioned lower than the remuneration for prior incumbents in these roles, noting that Fortescue has not previously had a Deputy CEO.

FY18 Short Term Incentive stretch targets for production, sustaining capital expenditure and culture have been met, with the growth target partially achieved. The Board has exercised its discretion for a partial award related to C1 cost and underlying EBITDA margin, reflecting continued cost reductions against an aggressive target on a normalised basis. As noted above, the safety target has not been achieved and is a core area of focus for improvement. Awards for the FY18 short term incentive averaged 69 per cent of maximum opportunity.

FY16 Long Term Incentive Plan (LTIP) is the first of the newly designed LTIPs to complete its performance period. Stretch targets for this plan have been achieved at varying levels, resulting in an overall payout ratio of 86 per cent.

- The Total Shareholder Return (TSR) target has been exceeded, reflecting the outstanding share price growth over the three year performance period
- Growth in share price reflects the investment grade debt profile and the outstanding operating cost reduction which was achieved through execution of strategy over the last three years
- The three year average Average Return on Equity (AROE), based on underlying NPAT (which excludes exceptional items relating to the Company's one-off costs of refinancing activities) has been achieved at threshold
- Strategic measures have been achieved at target. Strategic measures are closely aligned with short term incentive measures to ensure long term value is retained and not impacted by a purely short term focus (eg long term mine life is preserved notwithstanding ongoing reductions in annual operating costs).

Over the performance period of the FY16 LTIP, Fortescue's share price has materially outperformed the iron ore indices as shown in the graph below.



The outcomes of the FY16 LTIP recognises and rewards the outstanding performance achieved by long term employees in a challenging iron ore market.

Treatment of incentives and discretionary ex-gratia payment for Mr Power

Mr Power's ESSIP and LTIP grants were approved by shareholders at the 2015 AGM. Other than Mr Power's FY18 ESSIP and FY16 LTIP entitlements, all of Mr Power's ESSIP and LTIP entitlements have lapsed. At the time of Mr Power's resignation, the Board considered the potential risk of an unintended windfall gain in respect to the FY16 LTIP value that may have occurred as a result of an increasing share price. In order to ensure a responsible remuneration outcome in the interests of shareholders, the Board has exercised its discretion to limit Mr Power's potential FY18 total remuneration through the 'at risk' component as follows:

- An FY18 ESSIP entitlement awarded on a pro-rata basis up to cessation of employment and subject to Company performance against the abovementioned FY18 stretch targets
- An FY16 LTIP entitlement awarded on a pro-rata basis up to cessation of employment, subject to Company performance against targets and the FY16 LTIP rights being capped by reference to an amount equal to the aggregate value of the FY16 LTIP award using a notional share price of \$1.80 (being the share price at the date of grant)
- An ex-gratia payment of A\$1,006,850.

This application of board discretion resulted in Mr Power's total at risk remuneration accounting for 51 per cent of his total remuneration, a 59 per cent reduction in 'at risk' remuneration in total from FY17.

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.

We have seen a reduction in the 'at risk' award for the FY18 short term incentive (compared to FY17) and an award for the FY16 LTIP (for the period from 1 July 2016 to 30 June 2018), which aligns with shareholder returns over these periods.

Through its ongoing focus on a targeted short and long term remuneration framework, Fortescue continues to work towards its vision to be the world's safest, low cost, most profitable mining company while also positioning the Company for its future growth and development.

Sharon Warburton
Remuneration & Nomination
Committee Chair

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1. FY18 overview and year ahead
2. Remuneration governance
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4. Executive remuneration structure
5. Incentive plan operation and performance
6. How executive remuneration is reported
7. Executive contract terms
8. Non-executive director remuneration
9. Equity Instrument disclosures relating to key management personnel

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 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 and Executives 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 FY18 were:

Non-executive Directors

Current

A Forrest AO	Chairman
M Barnaba AM	Deputy Chair and Lead Independent Director
S Warburton	Deputy Chair
J Baderschneider	Non-Executive Director
J Morris OAM	Non-Executive Director
P Bingham-Hall	Non-Executive Director
Z Cao	Non-Executive Director (Appointed 18 January 2018)
S Coe CH, KBE	Non-Executive Director (Appointed 21 February 2018)

Former

H Cao	Non-Executive Director (Retired 18 January 2018)
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Executive Directors

Current

E Gaines	Chief Executive Officer (Commenced as CEO on 19 February 2018)
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Former

N Power	Chief Executive Officer (Ceased employment 19 February 2018)
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Other key management personnel (Executives)

Current

J Shuttleworth	Deputy Chief Executive Officer (Commenced as Deputy CEO on 8 January 2018)
I Wells	Chief Financial Officer (Commenced as CFO on 19 February 2018)
G Lilleyman	Chief Operating Officer (Commenced as COO on 19 February 2018)

1. FY18 OVERVIEW AND YEAR AHEAD

Fortescue's remuneration strategy seeks to build a performance orientated culture by attracting and retaining the best possible people to align with driving increased shareholder value.

Fortescue's Board and 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 with shareholder interests.

1.1 FY18 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 FY18.

Total Fixed Remuneration (TFR) Further details are provided on page 135		
Delivery	Performance measures	Outcomes
Cash, superannuation and optional salary sacrifice benefits	An individual's TFR is a fixed / guaranteed element of remuneration.	TFR for the CEO and KMP is benchmarked at least annually against companies in the ASX 100, ASX 50 and ASX 30 indices as well as global resources companies. CEO and KMP TFR was benchmarked against the above indices at the time of appointment. Current CEO TFR is 25% lower than the previous CEO reflecting market trends and benchmarks.

Short Term Incentive Plan Executive and Senior Staff Incentive Plan (ESSIP) Further details are provided on page 118		
Delivery	Performance measures	Outcomes
<p>Generally, a minimum of 50% of the incentive value (up to 100% on election) is granted in share rights with the balance in cash</p> <p>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</p> <p>Movement in share price over the performance period directly affects the value received ensuring full alignment with returns to shareholders over the performance period</p>	<p>A balanced scorecard of performance measures including financial and non-financial measures. Financial measures represent the key controllable drivers of financial performance being underlying EBITDA and NPAT</p> <p>Targets set are stretch levels of performance with each target either met (resulting in 100% of maximum opportunity) or not met (resulting in no payment)</p> <p>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 and level of improvement on the prior year</p> <p>Company Financial Targets</p> <ul style="list-style-type: none"> • Production • Operating Cost • Sustaining Capital • EBITDA margin • Price realisation • Business diversification and growth targets <p>Company Sustainability Targets</p> <ul style="list-style-type: none"> • Safety • Culture and engagement <p>KMP Performance:</p> <ul style="list-style-type: none"> • Measured on Company targets plus an additional 4-5 Personal KPIs aligned to business plan and set at stretch levels of performance 	<p>During FY18, the Company continued to deliver strong performance against many but not all of its stretch targets</p> <p>Awards made in relation to the FY18 ESSIP reflect achievement of:</p> <ul style="list-style-type: none"> • On target tonnes shipped • On target sustaining capital expenditure • Significant measurable improvement in employee culture and engagement <p>Partial award for:</p> <ul style="list-style-type: none"> • Substantial diversification and growth strategy progress • Strong EBITDA margin • 8% reduction in C1 costs when normalised for exchange rate and fuel costs <p>No award was made for safety. Safety performance this year was disappointing and whilst there has been a significant reduction in significant incidents, the specific TRIFR target has not been met</p> <p>Price realisation was also below target and no award was made</p> <p>The outcome of the FY18 ESSIP represents an average payment of 69% of maximum opportunity compared with an average payment of 96% of maximum opportunity in FY17</p> <p>Refer to section 5 for further detail</p>

Long Term Incentive Plan (LTIP) Further details are provided on page 123

Delivery	Performance Measures	Outcomes
<p>Share rights are granted based on the share price at the beginning of the performance period with value realised at time of award at the end of the performance period</p> <p>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</p>	<p>Measured against:</p> <ul style="list-style-type: none"> • Relative TSR (33%) • AROE (33%) • Strategic Measures (34%) 	<p>FY16 LTIP</p> <p>FY16 LTIP share rights were granted at a share price of \$1.80 and the share price has increased over the performance period to \$4.35. This increase in share price is reflected in the nominal value of FY16 LTIP vested rights awarded which are valued at the end of the performance period</p> <p>The FY16 LTIP has achieved all three of its performance measures resulting in 86% of share rights vesting under this plan</p> <ul style="list-style-type: none"> • A TSR outcome of 139% (93rd percentile) has been achieved • An AROE outcome of 15.2% has been achieved and therefore, the 15% threshold has been met • Strategic measures are set and assessed annually. The strategic measures for each of the performance years of the FY16 LTIP have been achieved at target



Fortescue's remuneration strategy seeks to build a performance orientated culture by attracting and retaining the best possible people to align with driving increased shareholder value.

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

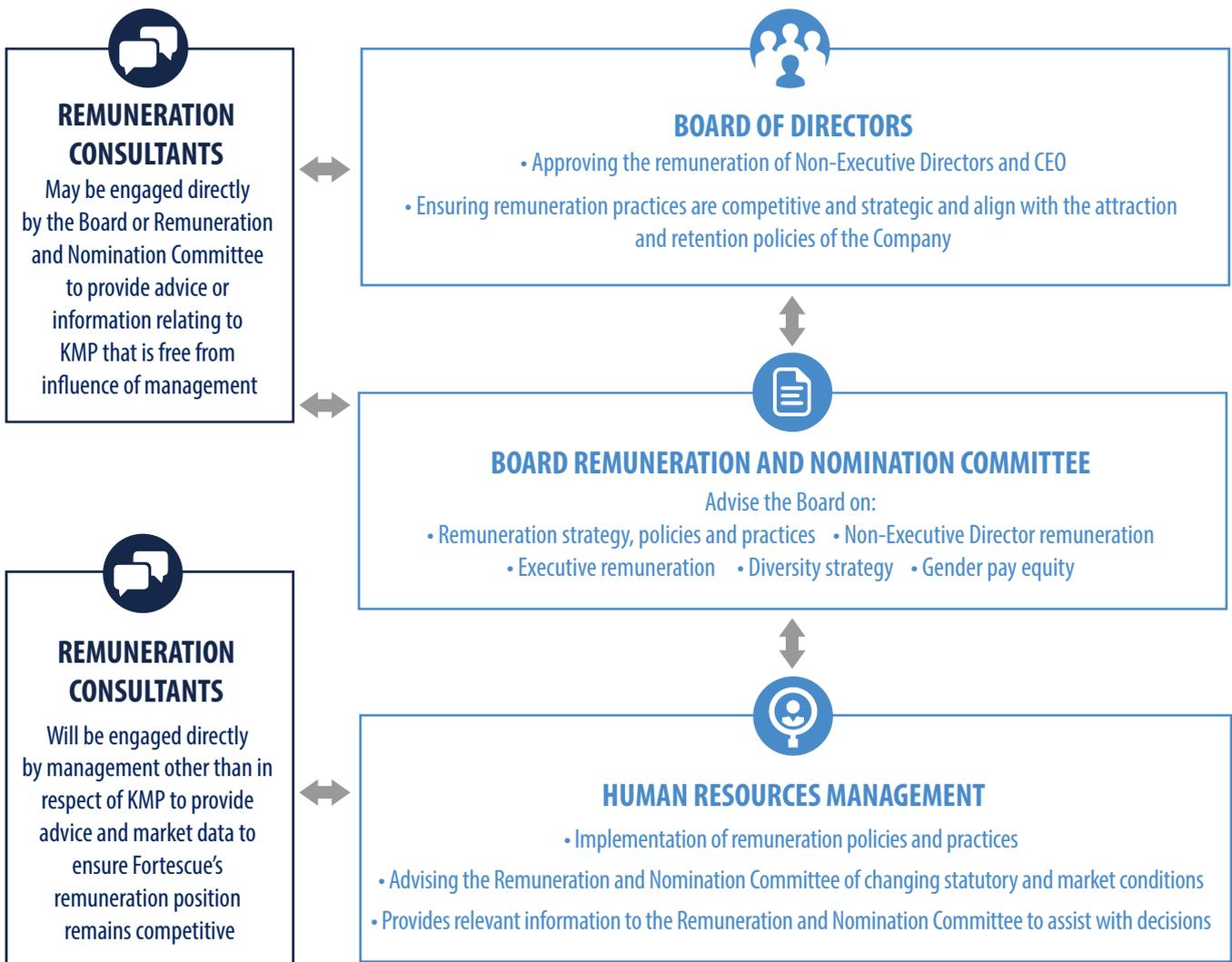
The RNC operates under a Board-approved Charter. The purpose of the RNC is to provide assistance and recommendations to the Board to ensure that it is able to fulfil its responsibilities relating to the following:

- Remuneration strategy
- Non-Executive Director remuneration
- CEO and Executive Director remuneration
- Other Core Leadership team and senior executive remuneration
- Short term and long term incentive plans
- Core Leadership team recruitment
- Annual Performance Review of the CEO and other Core Leadership team members
- 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 the Board Director position
- Committee Member appointments.

A copy of the Charter is available under the Corporate Governance section of the Company's website available at www.fmgl.com.au

The RNC in FY18 consisted solely of Non-Executive Directors. The CEO 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:



2.2 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 2018, the Committee retained PwC in relation to the review of policies and practices, the provision of general information and 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 of the Company's website available 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.

In 2018, the Board introduced a minimum shareholding policy for Directors and Executives as detailed below:

NEDs:	100% of base annual fees
CEO:	100% of TFR
Other KMP:	75% of TFR
Other Executives: 50% of TFR (as determined by the Board).	

Participants are encouraged to meet their respective minimum shareholding within a reasonable timeframe, generally within five years from date of appointment by holding shares that vest under the long term incentive plan.

The Directors' and Executives' Minimum Shareholding Policy can be accessed from the Corporate Governance section of the Company's website available at www.fmgl.com.au

In addition to the minimum shareholding requirement, 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. The value of any shares that may vest (subject to performance) is also subject to the same share price fluctuations experienced by shareholders over the performance period.

The minimum shareholding requirement combined with the structure of Fortescue's incentive plans ensures that executive remuneration is directly aligned with shareholder returns.

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 performance based culture and acknowledging global industry outperformance
- Alignment to the long term goals of the Company.

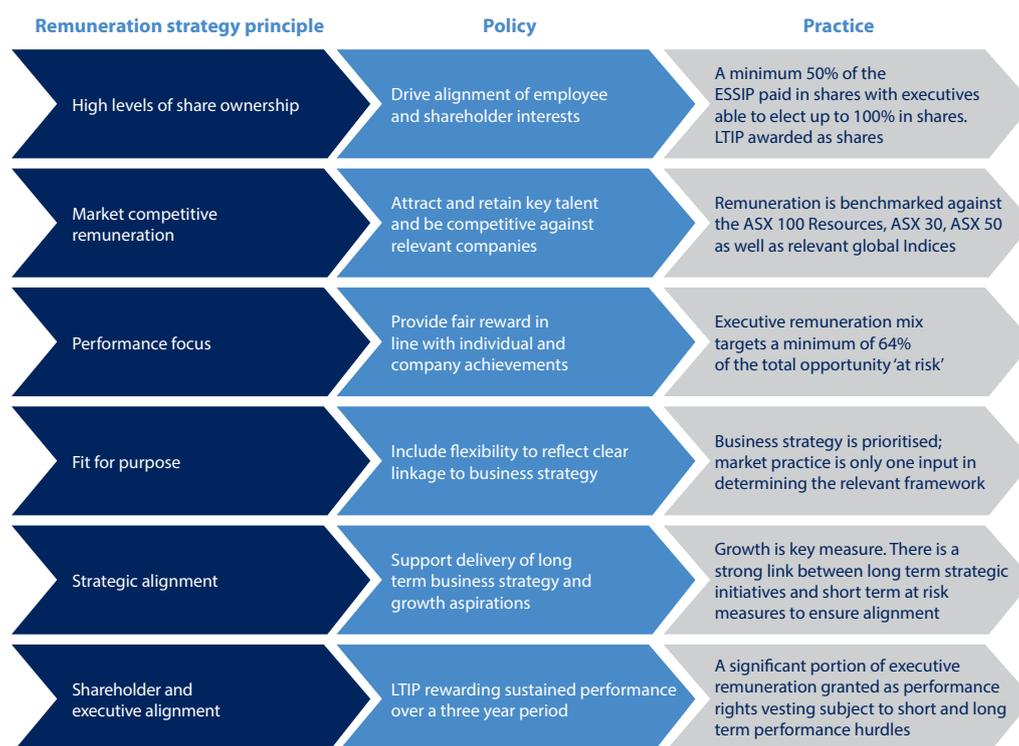
3.1 Remuneration Policy

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. Fortescue seeks to attract and retain the best global mining industry talent so also benchmarks against 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 executives throughout the commodity cycle is critical to long term shareholder value.

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 our reward strategy



4. EXECUTIVE REMUNERATION STRUCTURE

Executive remuneration has a fixed component and a variable 'at risk' component, the payment of which is dependent on the achievement of Company performance and growth targets and individual objectives.

The key components of the executive remuneration structure 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 its ranking on the Australian Securities Exchange.

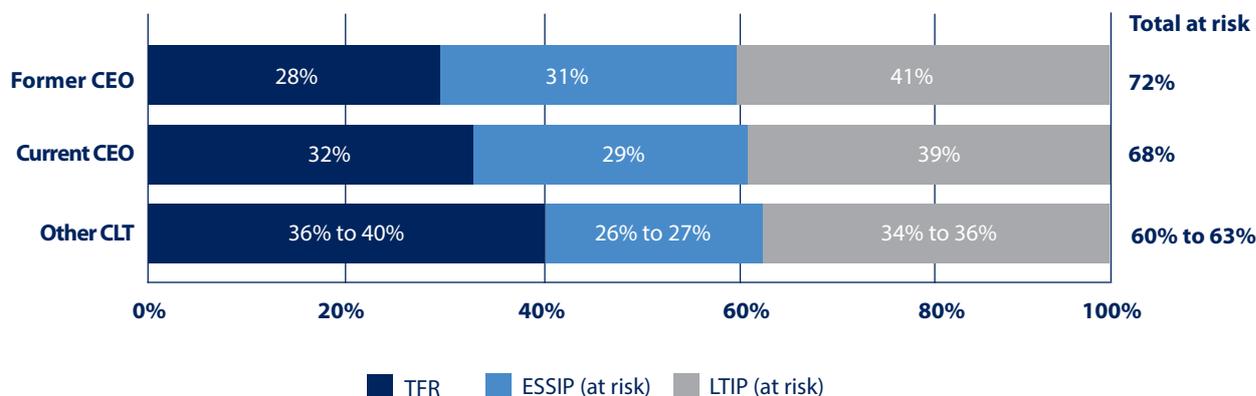
Fixed Remuneration is benchmarked against the market median (50th percentile) with the ability to earn third quartile (75th percentile) or above total remuneration for outstanding performance against stretch targets. Remuneration is benchmarked against companies in the ASX 100 Resources Index, ASX 30 and ASX 50 as well as relevant global indices as required but at least annually.

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, is 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.

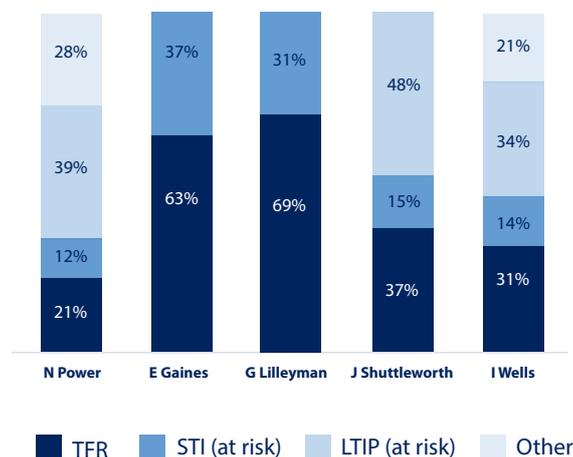
4.1 FY18 Remuneration mix

The table below shows the remuneration mix for superior performance when stretch hurdles have been met for both the CEO and executives. The remuneration mix for the current CEO and other CLT reflects the pro-rata ESSIP and LTIP values associated with their change in role during FY18.



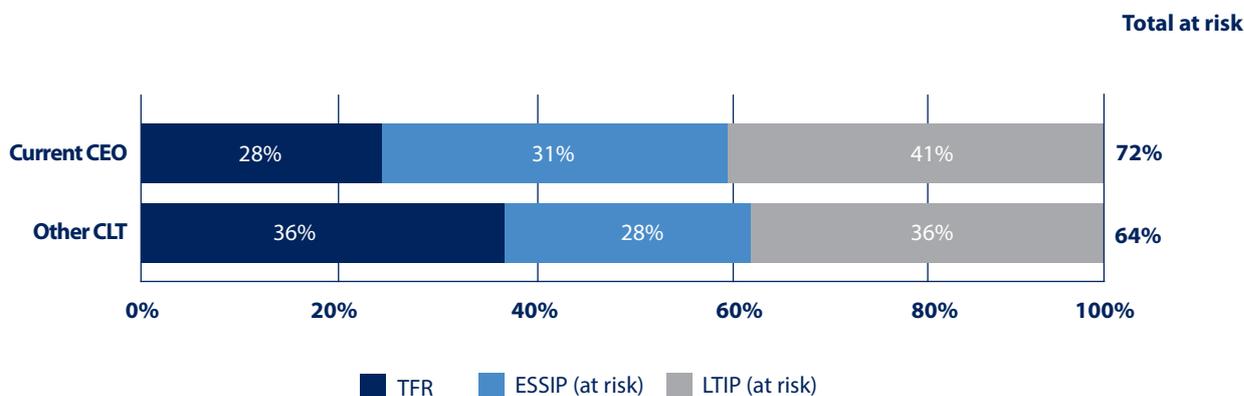
The chart to the right represents the actual remuneration mix for KMP in 2018:

- The nominal value of the LTI, for all KMP except Mr Power, reflects the share price growth from \$1.80 to \$4.35 over the performance period
- Ms Gaines and Mr Lilleyman did not participate in the FY16 long term incentive due to the timing of their commencement of employment
- Mr Wells' Other payment is for a retention plan related to his prior role, the retention period for which concluded on 30 June 2018
- Mr Power's remuneration mix is comprised of the following:
 - o An ESSIP entitlement reflecting the pro-rata accrued benefit (based on achieving 56 per cent of maximum opportunity) up to the date he ceased employment
 - o An LTIP entitlement reflecting the pro-rata accrued benefit and capped value of Mr Power's LTI at the grant price of \$1.80 per share
 - o Mr Power's Other payment relates to an ex-gratia payment of A\$1,006,850 plus accrued leave entitlements of A\$634,776 paid out on cessation of employment.



4.2 FY19 Remuneration mix

The table below shows the remuneration mix for superior performance when stretch hurdles have been met for both the CEO and CLT in FY19.



5. INCENTIVE PLAN OPERATION AND PERFORMANCE

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 annual Company and individual performance objectives that drive shareholder value.

Historically the CEO's ESSIP potential award is linked solely to Company objectives with other executives ESSIP potential award generally linked 60 per cent to Company objectives, and 40 per cent to individual performance. This creates alignment of CEO and executive remuneration with Company performance during the Plan Year.

2018 was a year of transition with the formation of the four-member CLT and changes to each of their roles part way through the year. In this transition year, their ESSIP potential award was linked to a combination of Company and individual based performance objectives. Mr Power's pro rata award was linked solely to Company objectives.

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.

The number of 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 2017 to 7 July 2017).

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. No additional awards were made in 2018.

Maximum General ESSIP opportunity

Role	Prior % of TFR	New % of TFR	No. of Participants
Former Chief Executive Officer	112.5	112.5	1
Current Chief Executive Officer	75	112.5	1
Other CLT	56.25 or 75	75	3

The maximum incentive opportunity for KMP in FY18 is shown below:

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. As shown in the table above, the Maximum General ESSIP opportunity was increased for the current CEO and other CLT upon commencement of their current roles. The maximum award for 2018 year has been prorated (ie the higher maximum only applies from commencement of their new role).

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

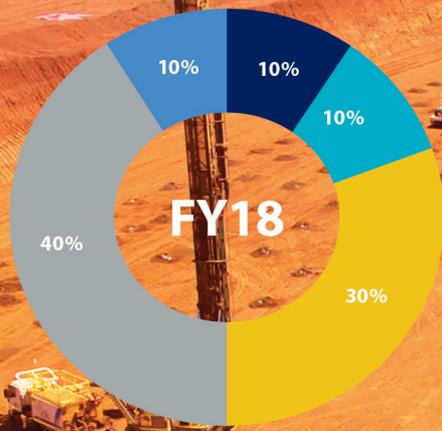
Generally, ESSIP targets and measures are set on an annual basis and are linked to the annual stretch budget and Fortescue's strategic plan focussing on core drivers of shareholder value resulting in well balanced financial and non-financial targets. There is a strong link between the ESSIP measures and the strategic measures within the LTIP to ensure alignment of short and long term value.

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 charts on the following page show the relationship between the primary ESSIP performance measures for the CEO and other KMP in FY18:

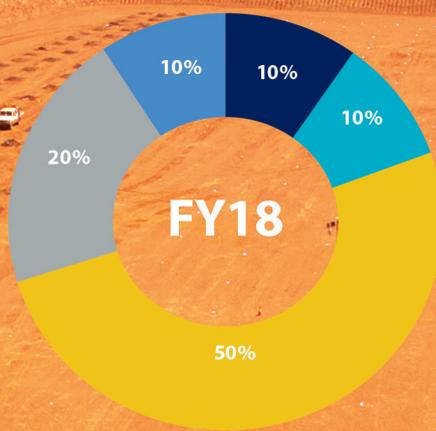
- The former CEO had 40 per cent financial, 40 per cent growth and 20 per cent non-financial targets
- The current CEO had 60 per cent financial, 20 per cent growth and 20 per cent non-financial
- Financial and non-financial targets are aligned specifically to the executive's respective roles and responsibilities and financial targets range from 40 per cent to 60 per cent
- Financial includes cost, production and profitability measures
- Non-Financial includes safety, culture and engagement measures.

FORMER CEO



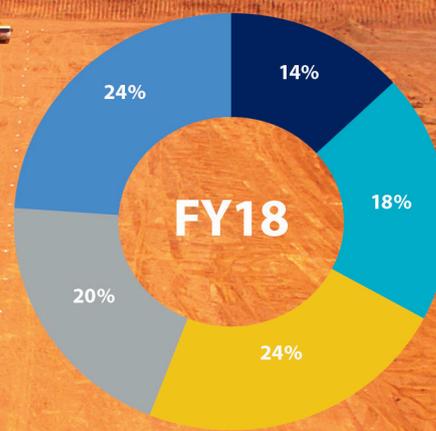
■ Culture/Other ■ Safety ■ Production
■ Financial ■ Growth

CURRENT CEO



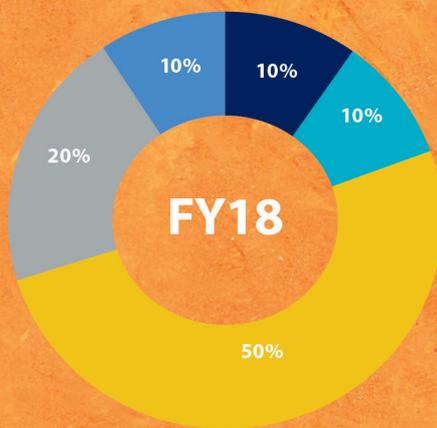
■ Culture/Other ■ Safety ■ Production
■ Financial ■ Growth

DEPUTY CEO



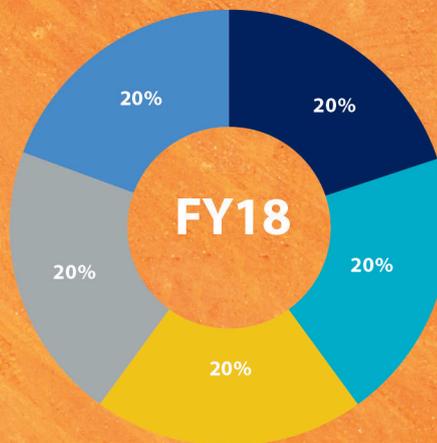
■ Culture/Other ■ Safety ■ Production
■ Financial ■ Growth

CFO



■ Culture/Other ■ Safety ■ Production
■ Financial ■ Growth

COO



■ Culture/Other ■ Safety ■ Production
■ Financial ■ Growth

5.3 How the ESSIP works:

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.

The number of share rights granted in respect to the FY18 ESSIP is determined based on the VWAP at the start of the performance period which was A\$5.26.

- 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.

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 cost to deliver shareholder value. The chart to the right shows Fortescue's cost reductions, a world class improvement over the past five years.

In considering Fortescue's performance and benefits for shareholder value, the Board have regard to the ASX 100 resources index in respect of the current financial year and the previous four financial years.

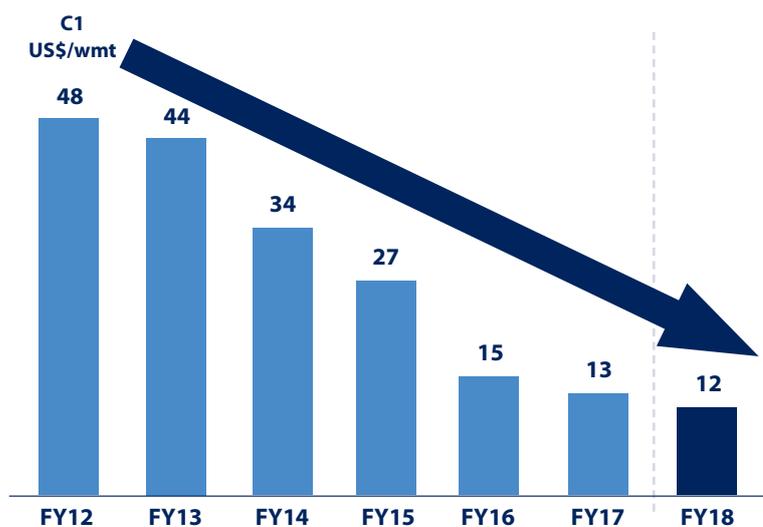
In FY18, Fortescue's share price decreased from the FY17 closing price of A\$5.22 to A\$4.39 at the end of FY18. This represents a 16 per cent decrease compared with the ASX 100 Resources index which increased 34 per cent over the corresponding period.

The Fortescue share price movement throughout FY18 was strongly correlated to movement in iron ore price. See graph on page 108.

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 FY18 (1 to 7 July 2017)	\$5.26
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 ÷ \$5.26)	13,310
Example outcome	
Percentage of incentive opportunity achieved (company and personal performance)	80%
Cash paid (80% of cash component)	\$24,000
No. Share Rights Vested (80% of share rights convert to vested rights)	10,648



	2018	2017	2016	2015	2014
Total million tonnes shipped (wmt)	170	170	169	165	124
Revenue from iron ore operations - US\$million	6,775	8,335	6,947	8,390	11,611
EBITDA - US\$million	3,182	4,744	3,195	2,506	5,636
Net profit/(loss) - US\$million	878	2,093	985	316	2,740
Return on Equity %	9	23	12	4	43
Gearing (Book value of Debt/Debt + Equity)	29	31	45	56	56
Dividends paid A\$ per share	0.36	0.32	0.05	0.13	0.20
Share Price A\$	4.39	5.22	3.50	1.91	4.35
Change in share price A\$	(0.83)	1.72	1.59	(2.44)	1.31
Change in share price %	(16)	49	83	(56)	43

The non-IFRS information included in the table above has not been subject to audit.

5.5 FY18 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 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 FY18, financial targets account for 80 per cent of the former and 70 per cent for the current CEO performance objectives with non-financial targets accounting for the remaining 20 to 30 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 (underlying EBITDA, NPAT) 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.

Fortescue's Board recognises the importance of supporting the Company's strong, differentiated culture underpinned by its core Values, which is fundamental to corporate success. Fortescue has measured and rewarded high levels of employee engagement, demonstrated by the results of the Company's annual Safety Excellence and Culture Survey, through both the ESSIP and more recently within the strategic measures of the LTIP. **The strength of Fortescue's values-based culture continues to be a core contributor to its success and accordingly to remuneration outcomes.**

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 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 FY18, the Board set a number of key targets in respect of cost reduction across all operating and support functions and challenging production and growth 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.

The ESSIP performance objectives in 2018 are shown below:

FY18 Short Term Incentive Outcomes

Objective and measurement	Weighting (% of STI)			Result	Achievement
	Former CEO	Current CEO	Executives		
Company financial performance					
Cost					
• C1 cost < US\$11.50/wmt	5	5	5 to 10	US\$11.83	Partially achieved. The C1 cost of \$US11.83 has been normalised for budgeted fuel and exchange rate to ensure a like-for-like comparison to the target. The result remains short of the target but is a 8% reduction to a normalised C1 cost of US\$12.82/wmt for FY17 In light of the continued year on year cost reduction and Fortescue maintaining its position as the lowest cost provider of seaborne iron ore to China, the Board has exercised its discretion to award 71.3% for this measure based on achieving 97% of the target
• Sustaining Capex < \$3.07/wmt	5	5	5 to 10	US\$3.05	Achieved. The Capex target has been met

FY18 Short Term Incentive Outcomes

Objective and measurement	Weighting (% of STI)			Result	Achievement
	Former CEO	Current CEO	Executives		
Company financial performance					
Profitability	10	5		55.8%	Partially achieved. The underlying EBITDA margin adjusted for a C1 cost of US\$11.83/wmt based on the budgeted fuel and exchange rate has exceeded the target at 55.8%
• EBITDA/Revenue Margin >50%			0 to 10		In recognition of the sensitivity of this measure to external factors, the Board has exercised its discretion to award 71.3% for this measure based on exceeding the target on a normalised basis
• Contractual price realisation	10	5		65%	Not achieved. The contractual price realisation target has not been met
Production	10	10	10 to 20	170	Achieved
• Tonnes Shipped > 170.0 million wmt					
Growth	40	20	0 to 20	Partially met	Partially achieved. Significant progress has been made toward Fortescue's growth strategy including the identification and assessment of opportunities locally and abroad and establishing a presence in Ecuador and Argentina
• Specific Growth Objectives designed to increase Fortescue's market value assessed at the absolute discretion of the Board					The Board has determined that this measure will be awarded at 50% based on partial achievement
Company Non-Financial Performance					
Safety¹	10	10	10 to 15	3.7	Not achieved. Keeping people safe remains Fortescue's highest priority. However, in FY18 TRIFR increased to 3.7 and this target has not been met
• TRIFR < 2.6					
Culture	10	Included in personal KPIs	Included in personal KPIs	94 +10	Achieved. The Safety Excellence and Culture Survey participation rate and net promoter score exceeded the Company's target and overall this is an exceptional result
• Participation rate ≥85%					This measure has been met
• Positive Net Promoter Score					
Personal Objectives					
Personal Objectives	n/a	40	40 to 45	Partially Met	Partially achieved. CEO personal objectives are assessed by the Board and CLT personal objectives are assessed by the CEO and recommended outcomes approved by the Board
• 4 to 5 Personal Objectives set at Stretch Levels of performance against the FY18 Business Plan					

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 FY18, Mr Power was measured solely against Company performance outcomes thereby ensuring the alignment between Company performance, shareholder value and CEO reward for the performance year.

Due to Ms Gaines' appointment as CEO during the FY18 performance period, Ms Gaines has been measured on both Company performance and personal objectives related to her tenure as CFO.

Payment of ESSIP awards are made in September 2018 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 Finance Report on page 55 to 105.

5.6 FY18 ESSIP awards

Share rights granted under the ESSIP at the beginning of FY18 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 shareholders investment in the Company.

The ESSIP has awarded on average 69.2 per cent of maximum opportunity.

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
E Gaines	225,414	60,862	-	164,552
N Power ¹	427,830	268,106	-	159,724
J Shuttleworth	61,537	17,230	-	44,307
I Wells	42,246	11,406	-	30,840
G Lilleyman	154,495	43,259	-	111,236

Unvested share rights lapse once the total at risk outcome of the ESSIP is determined.

¹ Mr Power's ESSIP participation is on a pro-rata basis and represents his accrued entitlement up to cessation of employment.

2018	A\$	TFR	Maximum ESSIP opportunity (per cent of TFR)	Weighting in shares (per cent)	Maximum ESSIP cash opportunity	Maximum ESSIP Shares opportunity - value at grant ¹	ESSIP outcome	Total ESSIP cash awarded	Nominal Value of ESSIP Vested Rights	
									Share Price at grant \$5.2591	Share Price at Vesting \$4.3480
Executive directors										
E Gaines ^{2,3}	1,268,125	93.5	100	-	1,185,469	73	-	865,397	715,473	
N Power ⁴	2,000,000	112.5	100	-	2,250,000	56	-	840,004 ⁵	694,480 ⁵	
Other executives										
J Shuttleworth ^{2,3}	602,500	67	80	80,906	323,625	72	58,253	233,013	192,645	
I Wells ^{2,3}	675,349	66	50	222,169	222,169	73	162,183	162,188	134,090	
G Lilleyman ^{2,3}	1,083,333	75	100	-	812,500	72	-	585,003	483,656	

¹ 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 days of the Plan year (\$5.26).

² TFR reflects the pro-rata TFR of the FY18 year.

³ Maximum ESSIP opportunity reflects the pro-rata incentive arrangements associated with the prior position calculated from the commencement of the performance year up to the date of promotion plus pro-rata incentive arrangements associated with the new role calculated from the date of promotion to the end of the performance year.

⁴ Mr Power ceased employment on 19 February 2018.

⁵ Represents Mr Power's accrued entitlement under the ESSIP awarded on a pro-rata basis.

5.7 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
FY16 LTIP	1 July 2015 to 30 June 2018	Relative TSR	September 2018
FY17 LTIP	1 July 2016 to 30 June 2019	AROE	September 2019
FY18 LTIP	1 July 2017 to 30 June 2020	Strategic Measures	September 2020

5.7.1 LTIP operation

The 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 LTIP is assessed against multiple performance measures weighted as follows:

- Total Shareholder Return relative to the ASX 100 Resources comparator group (33 per cent)
- Absolute Return on Equity (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.

The inclusion of strategic measures also ensures alignment between short and long term value creation by ensuring long term value is not compromised. The combination of AROE and 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.

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 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:

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% of share rights vest
Target	At the 80th percentile	100% of share rights vest
Stretch	At the 100th percentile	150% 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.

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 FY16 LTIP AROE targets, consideration was given to the minimum AROE threshold. This consideration included the current market cycle at the time and most recent 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 determined a threshold AROE of 15 per cent for the FY16 LTIP 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.

The AROE vesting schedule is as follows:

LTIP AROE Target and Vesting Schedule		
Performance	Average ROE	Portion of tranche that vests
Below Threshold	<15%	Nil
Threshold	15%	25% of share rights vest
Target	30%	100% of share rights vest
Stretch	>30%	150% 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.

Strategic Measures

Strategic Measures and associated key performance indicators are aimed at directing performance toward the achievement of the Company's long term objectives (strategic objectives). The strong link between these strategic measures and the ESSIP measures ensure that long term value is not compromised by focussing on annual short term goals alone.

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.

Annual Strategic measures and objectives are as follows:

LTIP strategic measures and objectives		
Performance Measure	Objective (KPI)	Link to strategy
Safety	<ul style="list-style-type: none"> Improve Fortescue's relative position against the global safety culture benchmark 	Safety leadership and culture
Performance	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Increase long term resources quantity and value No net decrease in mine life Quantity, quality and diversity of tenements 	Long term sustainability
Growth	<ul style="list-style-type: none"> Diversify customer base Strategic options for growth in iron ore and other commodities 	Growth and diversity of income
Balance sheet management	<ul style="list-style-type: none"> 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 three year performance period.

The strategic measure vesting schedule is as follows:

LTIP strategic measure target and vesting schedule		
Performance	Score	Portion of tranche that vests
Below Threshold	<5	Nil
Threshold	5	25% of share rights vest
Target	10	100% of share rights vest
Stretch	15	150% 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

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.

5.7.2 FY16 LTIP performance outcomes

The FY16 LTIP has achieved all three performance measures as shown in the table below resulting in 86.2 per cent of share rights vesting under this plan.

FY16 LTIP performance outcomes					
Measure	Weighting	Threshold	Result	Achieved	Weighted Average
TSR	33%	60th percentile	92.8 percentile	132%	43.6%
AROE	33%	15%	15.2%	26%	8.6%
Strategic Measures	34%	5 out of 15	10 out of 15	100%	34.0%
FY16 LTIP vesting outcome	100%				86.2%

5.7.3 FY16 LTIP TSR Performance

In the period from 1 January 2015 to 30 June 2018, Fortescue achieved a TSR of 139 per cent and a percentile ranking of 92.8 per cent. Based on the percentile ranking, 132 per cent of share rights granted in respect to the TSR measure will vest.

TSR Performance	
	FY16 LTIP
TSR	139%
Percentile Ranking	92.8
Vesting Outcome	132%

Details of the FY16 comparator group and TSR Ranking is shown in the table below.

Rank	Name	TSR	Percentile rank
1	BlueScope Steel Limited	493%	100%
2	Fortescue Metals Group Ltd	139%	92.8%
3	South 32 Limited	97%	85.7%
4	Alumina Limited	95%	78.5%
5	Sims Metal Management Limited	65%	71.4%
6	Rio Tinto Limited	65%	64.2%
7	WorleyParsons Limited	63%	57.1%
8	Newcrest Mining Limited	61%	50.0%
9	Iluka Resources Limited	47%	42.8%
10	BHP Billiton Limited	29%	35.7%
11	Oil Search Limited	18%	28.5%
12	Caltex Australia Limited	7%	21.4%
13	Woodside Petroleum Limited	6%	14.2%
14	Origin Energy Limited	-20%	7.1%
15	Santos Limited	-25%	0.0%

Note: TSR is calculated over the defined performance period, being the three years up to and including 30 June 2018.

5.7.4 FY16 LTIP AROE performance

The Board has taken the approach (which is consistent with the approach taken on TSR) to ensure that AROE performance does not result in unintended windfall gains or undue penalty.

At the time of making the decision to refinance and repay debt, as part of the Capital Management Strategy, the Board acknowledged the costs of redemption. The costs, which have the benefit of lowering borrowing costs and provide significant future benefit to earnings, have been excluded from the statutory NPAT for the purposes of calculating AROE.

Fortescue's AROE performance over the three years ending 30 June 2018 based on the underlying NPAT (which excludes one-off items relating to the cost of company refinancing activities) over the three year performance period is 15.2 per cent. The AROE performance threshold of 15 per cent has been met and accordingly, 26 per cent of share rights have vested in respect to this measure.

Year ending	AROE
30 June 2016	12.4
30 June 2017	23.1
30 June 2018	11.1
Average ROE	15.2
Vesting Outcome	26%

5.7.5 FY16 LTIP Strategic Measures Performance

LTIP strategic measures and objectives		
Performance Measure	Objective (KPI)	Outcome
Safety	<ul style="list-style-type: none"> Improve Fortescue's relative position against the global safety culture benchmark 	<p>Achieved target. Improved from 69th percentile to 77th percentile over the three years</p> <p>The combination of long term safety culture as well as improvements to both the Safety Excellence and Culture Survey results and injury frequency rate is our strategic goal</p>
Performance	<ul style="list-style-type: none"> 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 	<p>Achieved target</p> <p>C1 costs have reduced from US\$27.15/wmt in FY15 to US\$12.36/wmt for FY18, representing a 54.5% reduction</p> <p>During this period, Fortescue was officially recognised as the lowest cost supplier of seaborne iron ore into China, based on Metalitics Resource Sector Economic Analysis, a position which has been maintained</p> <p>Despite market volatility in the sales price of iron ore, the reduction in total delivered costs resulted in an average EBITDA margin of US\$24/dmt over the three year period</p> <p>Target sustaining capital expenditure budgets were also achieved whilst achieving production targets over the three years</p>

Resource management	<ul style="list-style-type: none"> • Increase long term resources quantity and value • No net decrease in mine life • Quantity, quality and diversity of tenements 	<p>Achieved target</p> <p>FY18 reserves and resources statement indicates maintenance of 20 years mine life, based on Life of Mine plans. Year on year cost savings have been achieved without reducing long term mine life ensuring shareholder value. The addition of 540m wmt from the Eliwana project facilitates the sustainable production of a 60 per cent Fe product which will be introduced to the market from existing operations in the second half of FY19. The US\$1.275bn Eliwana mine and rail project significantly increases mining inventory into Fortescue's integrated mine, rail and port operation</p>
Growth	<ul style="list-style-type: none"> • Diversify customer base • Strategic options for growth in iron ore and other commodities 	<p>Achieved target</p> <p>Fortescue's non-China sales have increased significantly by 357% between FY15 and FY18. Importantly, these sales were into Japan and Korea together with India. India has recently become the third largest steel producing country and represents a significant growth market</p> <p>Considerable progress has been made in assessing growth opportunities in other commodities including in South America as well as expanding iron ore operations through the development of the Eliwana mine</p>
Balance sheet management	<ul style="list-style-type: none"> • Reduce gearing (Debt/Debt + Equity) to target levels • Overall cost of financing • Maintain cash on hand at Board approved levels • Balance sheet flexibility 	<p>Achieved target</p> <p>The successful execution of Fortescue's Capital Management Strategy over this three year period has reduced gross debt and lowered the Company's average cost of capital. The restructured debt facilities have investment grade terms and conditions, providing additional flexibility and the strengthened balance sheet supports future growth. The team have outperformed over the three year period in relation to balance sheet management</p>

5.7.6 FY16 LTIP awards

Share Rights granted under the LTIP at the beginning of FY16 are shown below. The last column details the actual number of share rights that vested based on actual performance.

- Unvested share rights lapse once the outcome of the LTIP is determined
- Ms Gaines and Mr Lilleyman commenced after the performance period had commenced and accordingly, did not participate in the FY16 LTIP
- Mr Power's LTIP participation is on a pro-rata basis and represents his accrued entitlement up to cessation of employment on 19 February 2018
- Mr Power's LTIP award has been capped at the share price at grant (being \$1.80) thereby reducing the number of share rights that vested.

FY16 LTIP				
Executive	LTIP Share Rights Granted	LTIP Share Rights Lapsed	LTIP Share Rights Forfeited	LTIP Share Rights Vested
E Gaines	-	-	-	-
N Power	1,666,482	1,137,809	-	528,673
J Shuttleworth	210,394	29,034	-	181,360
I Wells	189,465	26,146	-	163,319
G Lilleyman	-	-	-	-

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.

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
- **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 on the following page 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 FY18 ESSIP share component plus one year each of the FY16, FY17 and FY18 LTIP.

6.1 Actual remuneration paid in FY18

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:

- FY18 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; FY18 ESSIP share rights granted at the beginning of the performance period at a face value share price of **A\$5.26**
- FY18 ESSIP vested rights awarded have a nominal value based on **A\$4.35** being the five day VWAP at the beginning of FY18. The decrease in share price over the respective performance periods has resulted in an decrease in equity value to executives in respect to this plan
- FY16 LTIP is awarded solely in vested rights
- FY16 LTIP share rights granted at the beginning of the performance period at a face value share price of **A\$1.80**
- The pro-rata number of share rights that would have vested to Mr Power has been reduced to reflect the FY16 award value capped at **\$1.80** per share
- FY16 LTIP vested rights awarded have a nominal value based on **A\$4.35** being the five day VWAP at the beginning of FY18. Other than for Mr Power 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 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:

- Ms Gaines and Mr Lilleyman were not eligible to participate in the FY16 LTIP
- Mr Power's FY18 ESSIP and FY16 LTIP represents his pro-rata accrued entitlements with his FY16 LTIP capped at grant price
- Mr Power's other payment relates to an ex-gratia cash payment of \$1,006,850 plus annual and long service leave paid out on cessation of employment
- Mr Wells participated in a retention plan (relating to a prior role), the retention period for which was from 1 January 2017 to 30 June 2018. Other payment relates to the retention payment made upon the conclusion of the retention period.

Name	Fixed ¹ remuneration \$	FY 18 ESSIP cash paid \$	Nominal Value of FY18 ESSIP vested rights \$	Nominal Value of FY16 LTIP Vested Rights \$	Other payment \$	Leave entitlement on cessation of employment \$	Nominal total remuneration earned in FY18 \$
E Gaines	1,239,830	-	715,473	-	-		1,955,303
N Power ²	1,266,328	-	694,480 ³	2,298,670 ³	1,006,850	634,776	5,901,104
J Shuttleworth	598,831	58,253	192,645	788,553	-		1,638,282
I Wells	654,606	162,183	134,090	710,711	426,342		2,087,932
G Lilleyman	1,072,619	-	483,656	-	-		1,556,275

¹ Fixed remuneration includes cash salary, paid leave and superannuation.

² Mr Power ceased employment on 19 February 2018.

³ Pro-rata ESSIP and LTIP entitlement. The LTIP value has been capped at \$1.80 per share.

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 of the short term share rights was determined using a trinomial option pricing model and the estimated fair value of the long term share 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 FY18 refer to section 6.1.

6.21 Statutory Remuneration Disclosures for year ending 30 June 2018

- Mr Power's FY17 and FY18 LTIP share rights were forfeited on cessation of employment
- Mr Power's other payment relates to an ex-gratia payment of A\$1,006,850 and accrued leave entitlements paid out on resignation
- Mr Wells other payment is in respect to a retention plan which concluded on 30 June 2018.

FY18	Short-term employee benefits			Post employment benefits	End of service	Share-based payments		Total Statutory Remuneration
	Cash salary and fees	ESSIP cash value for 2018 Plan Year	Non-monetary benefits	Superannuation	Other Payment	ESSIP Share value	LTIP Share value	Total
	\$A	\$A	\$A	\$A	\$A	\$A	\$A	\$A
Executive Directors								
E Gaines	1,214,830	-	4,223	25,000	-	860,316	416,370	2,520,739
N Power ¹	1,248,816	-	28,582	17,512	1,641,626	886,468	(1,087,517)	2,735,487
Executives								
J Shuttleworth	578,782	58,253	-	20,049	-	234,554	334,372	1,226,010
I Wells	634,557	162,183	4,223	20,049	426,342	163,723	362,743	1,773,820
G Lilleyman	1,047,619	-	-	25,000	-	610,003	337,670	2,020,292

¹ Mr Power ceased employment on 19 February 2018.

6.22 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 and long service leave entitlements paid out on resignation.

FY17	Short-term employee benefits			Post employment benefits	End of service	Share-based payments		Total Statutory Remuneration
	Cash salary and fees	ESSIP cash value for 2017 Plan Year (incl. the FY17 ESSIP additional Stretch Objective)	Non-monetary benefits	Superannuation	Other payment	ESSIP Share value	LTIP Share value	Total
	\$A	\$A	\$A	\$A	\$A	\$A	\$A	\$A
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.

6.3 Details of share right 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 in FY16, FY17 and FY18
ESSIP Share Rights	3,671,425	1,352,043
LTIP Share Rights	4,895,232	3,035,007
Total	8,566,657	4,387,050

At the 2017 AGM, shareholders approved the maximum number of share rights to be granted to Ms Gaines 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.

Ms Gaines	Maximum Share right grant FY16 to FY18	Share rights granted in FY16, FY17 and FY18
ESSIP Share Rights	247,051	247,051
LTIP Share Rights	209,637	209,637
Total	456,688	456,688

Ms Gaines was granted an additional 68,186 share rights in respect to the FY18 ESSIP and 90,915 additional share rights in respect to the FY18 LTIP as a result of her appointment to the role of CEO on 19 February 2018. Any shares awarded in respect to the additional share rights will be purchased on market.

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 2016 to 30 June 2018. The value of the rights has been determined using the grant date fair value.

- The estimated fair value of the long term share 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 Power's share rights for the FY17 and FY18 LTIP were forfeited upon cessation of employment on 19 February 2018
- Mr Power's LTIP participation is on a pro-rata basis and represents his accrued entitlement up to cessation of employment on 19 February 2018
- Mr Power's LTIP award has been capped at the share price at grant (being \$1.80) thereby reducing the number of share rights that vested
- Ms Gaines and Mr Lilleyman commenced during the LTIP performance period and were not granted share rights under the FY16 or FY17 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	Forfeited / lapsed
E Gaines	FY16	14/12/2015	1/7/15 to 30/6/18	-	-	-	-	-	-
	FY17	20/09/2016	1/7/16 to 30/6/19	-	-	-	-	-	-
	FY18	08/11/2017	1/7/17 to 30/6/20	209,637	\$4.15	\$869,994			Determined in 2020
	FY18	27/12/2017	1/7/17 to 30/6/20	90,915	\$4.17	\$379,116			Determined in 2020
N Power	FY16	14/12/2015	1/7/15 to 30/6/18	1,666,482	\$1.72	\$2,866,349	86.2	528,673	1,137,809
	FY17	20/09/2016	1/7/16 to 30/6/19	798,085	\$4.61	\$3,679,172	-	-	798,085
	FY18	06/09/2017	1/7/17 to 30/6/20	570,440	\$4.98	\$2,840,791	-	-	570,440
J Shuttleworth	FY16	14/12/2015	1/7/15 to 30/6/18	210,394	\$1.72	\$361,878	86.2	181,360	29,034
	FY17	20/09/2016	1/7/16 to 30/6/19	100,759	\$4.61	\$464,499			Determined in 2019
	FY18	06/09/2017	1/7/17 to 30/6/20	72,019	\$4.98	\$358,655			Determined in 2020
	FY18	27/12/2017	1/7/17 to 30/6/20	30,543	\$4.17	\$127,364			Determined in 2020
I Wells	FY16	14/12/2015	1/7/15 to 30/6/18	189,465	\$1.72	\$325,880	86.2	163,319	26,146
	FY17	20/09/2016	1/7/16 to 30/6/19	109,639	\$4.61	\$505,436			Determined in 2019
	FY18	06/09/2017	1/7/17 to 30/6/20	81,068	\$4.98	\$403,719			Determined in 2020
	FY18	27/12/2017	1/7/17 to 30/6/20	31,585	\$4.17	\$131,709			Determined in 2020
G Lilleyman	FY16	14/12/2015	1/7/15 to 30/6/18	-	-	-	-	-	-
	FY17	20/09/2016	1/7/16 to 30/6/19	-	-	-	-	-	-
	FY18	06/09/2017	1/7/17 to 30/6/20	190,147	\$4.98	\$946,932			Determined in 2020
	FY18	27/12/2017	1/7/17 to 30/6/20	15,846	\$4.17	\$66,078			Determined in 2020

* Grant date is determined in accordance with AASB 2 share based payments.

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.

The major terms of the agreements relating to remuneration are set out in the table below:

Position	Executive	TFR (A\$)	Maximum ESSIP opportunity		Maximum LTIP opportunity		Nominal Value of Total Remuneration Package at Maximum Opportunity
			% of TFR	A\$	% of TFR	A\$	
Chief Executive Officer	E Gaines	1,500,000	112.5	1,687,500	150	2,250,000	5,437,500
Deputy Chief Executive Officer	J Shuttleworth	700,000	75	525,000	100	700,000	1,925,000
Chief Financial Officer	I Wells	825,000	75	618,750	100	825,000	2,268,750
Chief Operating Officer	G Lilleyman	1,200,000	75	900,000	100	1,200,000	3,300,000

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 \$2.5 million, which was approved by shareholders at the Annual General Meeting on 8 November 2017. There have been no further changes to the aggregate fee pool since November 2017. The Board will not seek any increase to this fee pool at the 2018 AGM.

The Board reviewed and increased the fees payable to both the Deputy Chair and Lead Independent Director and the Deputy Chair. The increases reflect the additional workload undertaken by each of these Directors. NED fees (inclusive of superannuation) effective from 1 July 2018 are outlined in the table below:

Position	Fee (A\$)
Board Chairman*	0
Deputy Chair and Lead Independent Director	529,500
Deputy Chair	262,900
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 and receives no form of remuneration.

Non-Executive directors do not receive retirement benefits, nor do they participate in any incentive programs of the Company.

The remuneration of non-Executive directors for the year ended 30 June 2018 and 30 June 2017 is detailed below.

2018 \$A	Base fees	Committee fees	Other benefits	Superannuation	Total
A Forrest AO	-	-	-	-	-
M Barnaba AM	394,410	56,917	-	24,506	475,833
S Warburton	217,816	60,001	-	24,487	302,304
J Baderschneider	154,000	-	-	-	154,000
J Morris OAM	139,367	29,864	-	17,769	187,000
P Bingham-Hall	139,367	20,904	-	16,828	177,099
C Zhiqiang ¹	69,962	-	-	-	69,962
C Huiquan ²	84,037	-	-	-	84,037
S Coe ³ CH, KBE	54,709	-	-	-	54,709

¹ C Zhiqiang appointed 18 January 2018

² C Huiquan retired 18 January 2018

³ S Coe appointed 21 February 2018.

2017 \$A	Base fees	Committee fees	Other benefits	Superannuation	Total
A Forrest AO	-	-	-	-	-
O Hegarty ¹	72,831	6,426	-	22,493	101,750
M Barnaba AM	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 OAM 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 OAM appointed 9 November 2016

⁵ P Bingham-Hall appointed 9 November 2016.

9. EQUITY INSTRUMENT DISCLOSURES RELATING TO KEY MANAGEMENT PERSONNEL

9.1 Unvested Share Rights

The movement during the reporting period in the number of unvested share 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:

2018

Name	Balance at the start of the year	Granted ¹	Exercised / converted	Forfeited / lapsed	Balance at the end of the year	Vested	Unvested	Not exercisable
Non-Executive Directors of Fortescue								
A Forrest AO	-	-	-	-	-	-	-	-
M Barnaba AM	-	-	-	-	-	-	-	-
S Warburton	-	-	-	-	-	-	-	-
J Baderschneider	-	-	-	-	-	-	-	-
J Morris OAM	-	-	-	-	-	-	-	-
P Bingham-Hall	-	-	-	-	-	-	-	-
C Huiquan ²	-	-	-	-	-	-	-	-
C Zhiqiang ³	-	-	-	-	-	-	-	-
S Coe ⁴ CH,KBE	-	-	-	-	-	-	-	-
Executive Directors of Fortescue								
E Gaines	-	615,789	(89,823)	-	525,966	-	525,966	525,966
N Power ⁵	3,424,686	998,270	(299,282)	(2,029,362)	2,094,312	-	2,094,312	2,094,312
Other key management personnel of Fortescue								
J Shuttleworth	467,526	164,099	(71,942)	(84,431)	475,252	-	475,252	475,252
I Wells	412,285	154,899	(38,283)	(74,898)	454,003	-	454,003	454,003
G Lilleyman	99,761	360,488	(91,780)	(7,981)	360,488	-	360,488	360,488

¹ Share rights were granted in accordance with the short term and long term share rights plans, as disclosed in note 18 of the Financial Report.

² H Cao retired on 18 January 2018.

³ Z Cao appointed on 18 January 2018.

⁴ S Coe appointed 21 February 2018.

⁵ Mr Power ceased employment on 19 February 2018.

2017

Name	Balance at the start of the year	Granted ¹	Exercised / converted	Forfeited / lapsed	Balance at the end of the year	Vested	Unvested	Not exercisable
Non-Executive Directors of Fortescue								
A Forrest AO	-	-	-	-	-	-	-	-
O Hegarty ²	-	-	-	-	-	-	-	-
C Huiquan	-	-	-	-	-	-	-	-
G Raby ⁴	-	-	-	-	-	-	-	-
M Barnaba AM	-	-	-	-	-	-	-	-
S Warburton	-	-	-	-	-	-	-	-
J Baderschneider	-	-	-	-	-	-	-	-
J Morris OAM ⁵	-	-	-	-	-	-	-	-
P Bingham-Hall ⁶	-	-	-	-	-	-	-	-
Executive Directors of Fortescue								
E Gaines ³	-	-	-	-	-	-	-	-
N Power	3,805,250	1,097,367	(838,181)	(639,750)	3,424,686	-	3,424,686	3,424,686
Other key management personnel of Fortescue								
S Pearce ⁷	1,416,675	-	(312,593)	(1,104,082)	-	-	-	-
G Lilleyman ⁸	-	99,761	-	-	99,761	-	99,761	99,761
N Cernotta ⁹	934,880	347,500	(195,250)	(1,087,130)	-	-	-	-

¹ Share rights were granted in accordance with the short term and long term share 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 OAM appointed 9 November 2016.

⁶ P Bingham-Hall appointed 9 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.

9.2 Share holdings (Ordinary Shares)

The numbers of shares and vested share rights 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:

2018

Name	Held at 1 July 2017	Received on conversion of rights	Issued	Purchases	Sales	Transfers	Other ¹	Held at 30 June 2018
Non-Executive Directors of Fortescue								
A Forrest AO	1,038,800,000	-	-	-	-	-	-	1,038,800,000
M Barnaba AM	20,000	-	-	-	-	-	-	20,000
S Warburton	50,750	-	-	-	-	-	-	50,750
J Baderschneider	138,000	-	-	-	-	-	-	138,000
J Morris OAM	-	-	-	5,250	-	-	-	5,250
P Bingham-Hall	35,000	-	-	1,516	-	-	-	36,516
C Huiquan ²	-	-	-	-	-	-	-	-
C Zhiqiang ³	-	-	-	-	-	-	-	-
S Coe CH,KBE	-	-	-	-	-	-	-	-
Executive Directors of Fortescue								
E Gaines	50,000	89,293	-	85,000	-	-	-	224,823
N Power ⁴	2,951,238	299,282	-	-	(299,282)	-	(2,951,238)	-
Other key management personnel of Fortescue								
J Shuttleworth	100,258	71,942	-	-	-	-	-	172,200
I Wells	71,050	38,283	-	-	-	-	-	109,333
G Lilleyman	-	91,780	-	-	-	-	-	91,780

¹ Negative amounts reflect the result of leaving the Company during the year.

² C Huiquan retired on 18 January 2018.

³ C Zhiqiang appointed on 18 January 2018.

⁴ Mr Power ceased employment on 19 February 2018.

2017

Name	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 AO	1,037,479,247	-	-	1,320,753	-	-	-	1,038,800,000
O Hegarty ²	40,000	-	-	-	-	-	(40,000)	-
C Huiquan	-	-	-	-	-	-	-	-
G Raby ⁴	8,000	-	-	-	-	-	(8,000)	-
M Barnaba AM	20,000	-	-	-	-	-	-	20,000
S Warburton	50,750	-	-	-	-	-	-	50,750
J Baderschneider	138,000	-	-	-	-	-	-	138,000
J Morris OAM ⁵	-	-	-	-	-	-	-	-
P Bingham-Hall ⁶	-	-	-	35,000	-	-	-	35,000
Executive directors of Fortescue								
E Gaines ³	50,000	-	-	-	-	-	-	50,000
N Power	2,526,307	838,181	-	-	(413,250)	-	-	2,951,238
Other key management personnel of Fortescue								
G Lilleyman ⁸	-	-	-	-	-	-	-	-
S Pearce ⁷	227,305	312,593	-	104	-	-	(540,002)	-
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 OAM appointed 9 November 2016.

⁶ P Bingham-Hall appointed 9 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.

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Corporate Directory



Shareholder information

at 20 August 2018

Top 20 holders of ordinary shares

Rank	Name	Shares number	% of issued capital
1	Minderoo Group Pty Ltd	918,806,548	29.51
2	HSBC Custody Nominees (Australia) Limited	506,202,206	16.26
3	J P Morgan Nominees Australia Limited	270,902,886	8.70
4	Valin Investments (Singapore) Pte Ltd	228,007,497	7.32
5	Citicorp Nominees Pty Limited	163,318,041	5.24
6	Valin Resources Investments (Singapore) Pte Ltd	130,776,216	4.20
7	Emichrome Pty Ltd	93,045,000	2.99
8	AMNL Financing Pty Ltd	71,365,581	2.29
9	The Trust Company Limited	64,968,641	2.09
10	Bnp Paribas Noms Pty Ltd	50,559,189	1.62
11	National Nominees Limited	34,826,304	1.12
12	BNP Paribas Nominees Pty Ltd	33,596,599	1.08
13	AMNL Financing Pty Ltd	30,365,261	0.98
14	Valin Mining Investments (Singapore) Pte Ltd	11,161,764	0.36
15	Citicorp Nominees Pty Limited	9,285,673	0.30
16	HSBC Custody Nominees (Australia) Limited	8,613,891	0.28
17	Mr William Graeme Rowley	8,244,951	0.26
18	HSBC Custody Nominees (Australia) Limited	7,812,276	0.25
19	HSBC Custody Nominees (Australia) Limited-Gsco Eca	7,116,225	0.23
20	Pacific Custodians Pty Limited	6,437,999	0.21
		2,655,412,748	85.28

Substantial holders

Name	Shares number	% of issued capital
1 Minderoo Group Pty Ltd and John Andrew Forrest	1,038,800,000	33.36
2 Hunan Valin Iron and Steel Group Company	434,914,118	13.97

Range	Shareholders number	Shares number	% of issued capital
1 to 1,000	26,217	12,747,570	0.41
1,001 to 5,000	27,798	73,482,822	2.36
5,001 to 10,000	8,305	63,997,575	2.06
10,001 to 100,000	6,240	152,731,076	4.90
100,001 and Over	377	2,810,839,108	90.27
Total	68,937	3,113,798,151	100.00

Unmarketable parcels

There were 3,568 members holding less than a marketable parcel of shares in the Company.

Glossary

Australian Accounting Standards

Australian Accounting Standards are developed, issued and maintained by the Australian Accounting Standards Board, an Australian Government agency under the Australian Securities and Investments Commission Act 2001.

AMMA

Australian Mines and Metals Association.

ASX

Australian Securities Exchange.

ASX 100 Resource Index

A capitalisation-weighted index which measures the performance of the resources sector of the ASX 100. The index is calculated on an end of day basis.

ASX Corporate Governance Principles and Recommendations (Third Edition)

Principles and recommendations developed and released by the ASX Corporate Governance Council on the corporate governance practices to be adopted by ASX listed entities and which are designed to promote investor confidence and to assist listed entities to meet shareholder expectations.

Beneficiation

Beneficiation is a process whereby ore is pulverised into fine particles and the higher grade material is separated, often magnetically, from the gangue (waste).

BID

Bedded Iron Deposit.

bt

Billion tonnes.

C1 Cost

Operating costs of mining, processing, rail and port on a per tonne basis, including allocation of direct administration charges and production overheads.

CFR

A delivery term that indicates that the shipment price includes the cost of goods, freight costs and marine costs associated with a particular delivery.

Chichester Hub

Fortescue's mining hub with two operating iron ore mines, Cloudbreak and Christmas Creek, located in the Pilbara, approximately 250 kilometres south east of Fortescue's Herb Elliott Port in Port Hedland.

CID

Channel Iron Deposit.

CO₂e

Carbon dioxide equivalent which is the internationally recognised measure of greenhouse gas emissions.

Contractors

Non-Fortescue employees, working with the Company to support specific business activities.

Corporations Act

Corporations Act 2001 of the Commonwealth of Australia.

DID

Detrital Iron Deposit.

Direct employees

Total number of employees including permanent, fixed term and part-time. Does not include contractors.

dmt

Dry metric tonne.

dmtu

Dry metric tonne unit.

EPA

Environmental Protection Authority.

Fe

The chemical symbol for iron.

FIFO

Fly-in Fly-out is defined as circumstances of work where the place of work is sufficiently isolated from the worker's place of residence to make daily commute impractical.

Fortescue

Fortescue Metals Group Ltd (ACN 002 594 872) and its subsidiaries.

Fortescue blend

A blend of ore from Christmas Creek and Firetail mines, with an iron grade of 58.2pct fe

Fortescue River Gas Pipeline

A 270 kilometre gas pipeline which delivers natural gas from the Dampier to Bunbury Pipeline to the main power station in the Solomon Hub.

FY

Refers to a Financial Year.

Gearing

Debt / (debt + equity).

GJ

Gigajoules.

GRI

The Global Reporting Initiative (GRI) is an international independent organisation which has developed a standard for sustainability reporting and disclosure.

Ha

Hectares.

Hematite

An iron ore compound with an average iron ore content of between 57 per cent and 63 per cent Fe. Hematite deposits are typically large, close to the surface and mined via open pits.

HSES

Health, safety, environment and security.

ICMM

The International Council on Mining and Metals, established in 2001 to act as a catalyst for performance improvement in the mining and metals industry.

Indigenous Land Use Agreements (ILUA)

Statutory agreement between a native title group and others about the use of land and waters.

Indicated Resource

As defined in the JORC Code, that part of a mineral resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are too widely or inappropriately spaced to confirm geological and/or grade continuity but are spaced closely enough for continuity to be assumed.

Inferred Resource

As defined in the JORC Code, that part of a mineral resource for which tonnage, grade and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified geological and/or grade continuity. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes which may be limited or of uncertain quality and reliability.

International Financial Reporting Standards

International Financial Reporting Standards (IFRS) is a single set of accounting standards, developed and maintained by the IASB with the intention of those standards being capable of being applied on a globally consistent basis.

IUCN

International Union for Conservation of Nature.

JORC Code

The Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves 2004 or 2012 Edition, as the case may be, each prepared by the Joint Ore Reserves Committee of the Australian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Mineral Council of Australia, as amended or supplemented from time to time.

Key Management Personnel

Key Management Personnel (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

Kings CID Fines

Fortescue's stand-alone product produced from Channel Iron Deposit Ore from its Kings mine in the Solomon Hub, with an iron grade of 57.3 per cent Fe.

kL

Kilolitre.

Local supplier

Suppliers based in the Pilbara region.

LOM

Life of Mine, being the number of years over which available reserves will be extracted.

m³

Cubic metres.

Magnetite

An iron ore compound that is typically a lower grade ore than Hematite iron ore because of a lower iron content.

Magnetite ore requires significant beneficiation to form a saleable concentrate. After beneficiation, Magnetite ore can be palletised for direct use as a high-grade raw material for steel production.

Measured Resource

As defined in the JORC Code, that part of a mineral resource for which tonnage densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are spaced closely enough to confirm geological and grade continuity.

mt

Million tonnes.

mtpa

Million tonnes per annum.

Net gearing

$(\text{Debt} - \text{cash}) / (\text{debt} - \text{cash} + \text{equity})$.

NGER

The National Greenhouse and Energy Reporting (NGER) Scheme was introduced in 2007 to provide data and accounting in relation to Greenhouse Gas emissions and energy consumption and production. The NGER Scheme operates under the National Greenhouse and Energy Reporting Act 2007 (NGER Act).

NPAT

Net profit after tax.

OPF

Ore Processing Facility.

Pilbara

The Pilbara region in the north west of Western Australia.

Probable Ore Reserve

As defined in the JORC Code, the economically mineable part of an indicated mineral resource, and in some circumstances, a measured mineral resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified.

Proved Ore Reserve

As defined in the JORC Code, the economically mineable part of a measured mineral resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified.

Reserves or Ore Reserves

As defined in the JORC Code, the economically mineable part of a measured mineral resource and/or an indicated mineral resource. It includes diluting materials and allowances for losses, which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified. Ore reserves are sub-divided in order of increasing confidence into Probable Ore Reserves and Proved Ore Reserves. Where capitalised, this term refers to Fortescue's estimated reserves.

Resources or Mineral Resources

As defined in the JORC Code, a concentration or occurrence of material of intrinsic economic interest in or on the Earth's crust in such form, quantity and quality that there are reasonable prospects for eventual economic extraction. The location, quantity, grade, geological characteristics and continuity of a mineral resource are known, estimated

or interpreted from specific geological evidence and knowledge.

Mineral resources are sub-divided, in order of increasing geological confidence, into inferred, indicated and measured categories. Where capitalised, this term refers to Fortescue's estimated Mineral Resources.

Senior Executive

Leadership position title of Director or Group Manager.

Solomon Hub

A mining hub with two operating iron ore mines, Firetail and Kings. The Hub is located approximately 60 kilometres north of the township of Tom Price and 120 kilometres west of the railway that links the Chichester Hub to Port Hedland.

Super Special Fines

Fortescue's flagship iron ore product from the Chichester Hub, with an iron grade of 56.4 per cent Fe.

TRIFR

Total Recordable Injury Frequently Rate per million man hours worked, comprising lost time injuries, restricted work and medical treatments.

Underlying EBITDA

Underlying EBITDA is defined as earnings before interest, tax, depreciation and amortisation, exploration, development and other expenses.

Underlying EBITDA margin

Underlying EBITDA / Operating sales revenue.

Underlying Net Profit After Tax

Net profit after tax adjusted for the after tax impact of one-off refinancing and early debt repayment costs.

UNGC

United Nations Global Compact provides a leadership platform for business that are committed to aligning their strategies and operations with ten universally accepted principles in human rights, labour, environment and anti-corruption.

Voluntary employee turnover

Permanent and fixed term employees who left Fortescue voluntarily for reasons not initiated by the Company.

VTEC

Vocational Training and Employment Centre.

wmt

Wet metric tonne.

WMYAC

Wiru-murra Yindjibarndi Aboriginal Corporation.

WTI

West Texas Intermediate.

FY18 Awards

FY18 Awards

June 2018 - Ernst Young Entrepreneur of the Year Alumni Special award for Societal Impact

Chairman and Founder Andrew Forrest AO

May 2018 - Supply Nation

Corporate Member of the Year award

May 2018 - Australia China Business Award

Cross Border Investment

May 2018 - Forbes Asia's inaugural Emergent 25 List

CEO Elizabeth Gaines

November 2017 - TR Foundation

Stop Slavery award - One of 15 leading companies

November 2017 - International Mining and Resources Conference

Legend in Mining award, Former CEO Nev Power

October 2017 - Department Mines, Industry Regulation and Safety Resources Sector awards for excellence

Safety Representatives category

FY18 Finalist

September 2017 - CMEWA Women in Resources awards

Drill and Blast Operator Megan Lockyer



Corporate information

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F: +61 8 6218 8880
E: fmgl@fmgl.com.au
www.fmgl.com.au

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Shanghai, P.R China

Singapore

FMG International, The Central
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E: vtec@fmgl.com.au

Orange, NSW

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Orange, NSW 2800

Stock Exchange listings

Australian Business Number

ABN 57 002 594 872

Auditor

PwC
Level 15, 125 St Georges Terrace
Perth, WA 6000
www.pwc.com.au

Securities Exchange listings

Fortescue Metals Group Ltd shares are listed
on the Australian Securities
Exchange (ASX)
ASX Code: FMG

Fortescue Share Registry

Link Market Services Limited
Level 12, QV1 Building
250 St Georges Terrace
Perth, WA 6000
Locked Bag A14
Sydney South, NSW 1235
T: 1300 733 136 (within Australia)
T: +61 2 8280 7603 (International)
F: +61 2 9287 0309
www.linkmarketservices.com.au

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If you would prefer to receive information
such as Annual Reports, notices of meetings
and announcements via email,
you can change your communication
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www.linkmarketservices.com.au

Twitter

[@FortescueNews](https://twitter.com/FortescueNews)

LinkedIn

[au.linkedin.com/company/fortescue-
metals-group](http://au.linkedin.com/company/fortescue-metals-group)

YouTube

[www.youtube.com/user/
FortescueMetalsGroup](http://www.youtube.com/user/FortescueMetalsGroup)

Event calendar 2018

Key dates for Fortescue shareholders in
2018. Please note dates are subject to
review.

Full year results announcement

20 August 2018

September Quarterly Production Report

25 October 2018

Annual General Meeting

15 November 2018

THE DREAM BEGINS

2003

S&P/ASX 200 index

04

04 **Cloudbreak identified**



05

06 **Port Hedland groundbreaking**



06

07

08 **FIRST ORE ON SHIP**



08

09

27mtpa shipped

10

10 **Christmas Creek expanded**



11

11 **Solomon construction begins**



12

57.5mtpa shipped

13

13 **Firetail opened at Solomon**
80.9mtpa shipped



14

14 **155MTPA SUSTAINABLE PRODUCTION**
Kings Valley project opened at Solomon



15

15 • Anderson Point Berth 5 completion
• Fortescue River Gas Pipeline completion
• 500 millionth tonne of ore shipped
• 165mtpa shipped sustainable production



16

- US\$2.9 billion debt repaid in FY16
- 169.4mt shipped in FY16
- Fortescue celebrates arrival of first ore carrier, FMG Nicola into Port Hedland
- Fortescue recognised as lowest cost iron ore supplier into China

17

- Achieved lowest ever TRIFR of 2.9
- 170.4mt shipped in FY17

18

Core Leadership team appointed

18 **FORTESCUE CELEBRATES:**

- 1 billion tonnes of iron ore
- 10 years since first ore shipped to China
- 15 years since the Company's inception



THE JOURNEY CONTINUES



Fortescue
The New Force in Iron Ore