Annual Report 2016

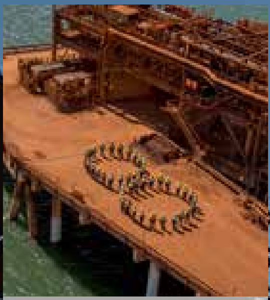
ABN 57 002 594 872

People. Innovation. Performance.

THE YEAR AT A GLANCE

SAFETY
Total Recordable Injury Frequency Rate
4.3

Operating cost
43%



169.4
million tonnes shipped

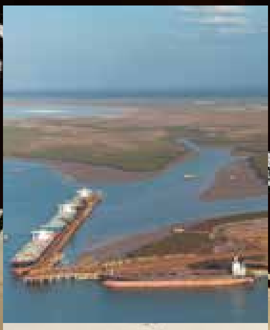
Revenue
US $7.1 billion

8TH
anniversary of first ore on ship

US$2.9
billion debt retired

"Fortescue's Trade Up" launched
a pathway to an apprenticeship

Reduction of
8%
in greenhouse gas emissions

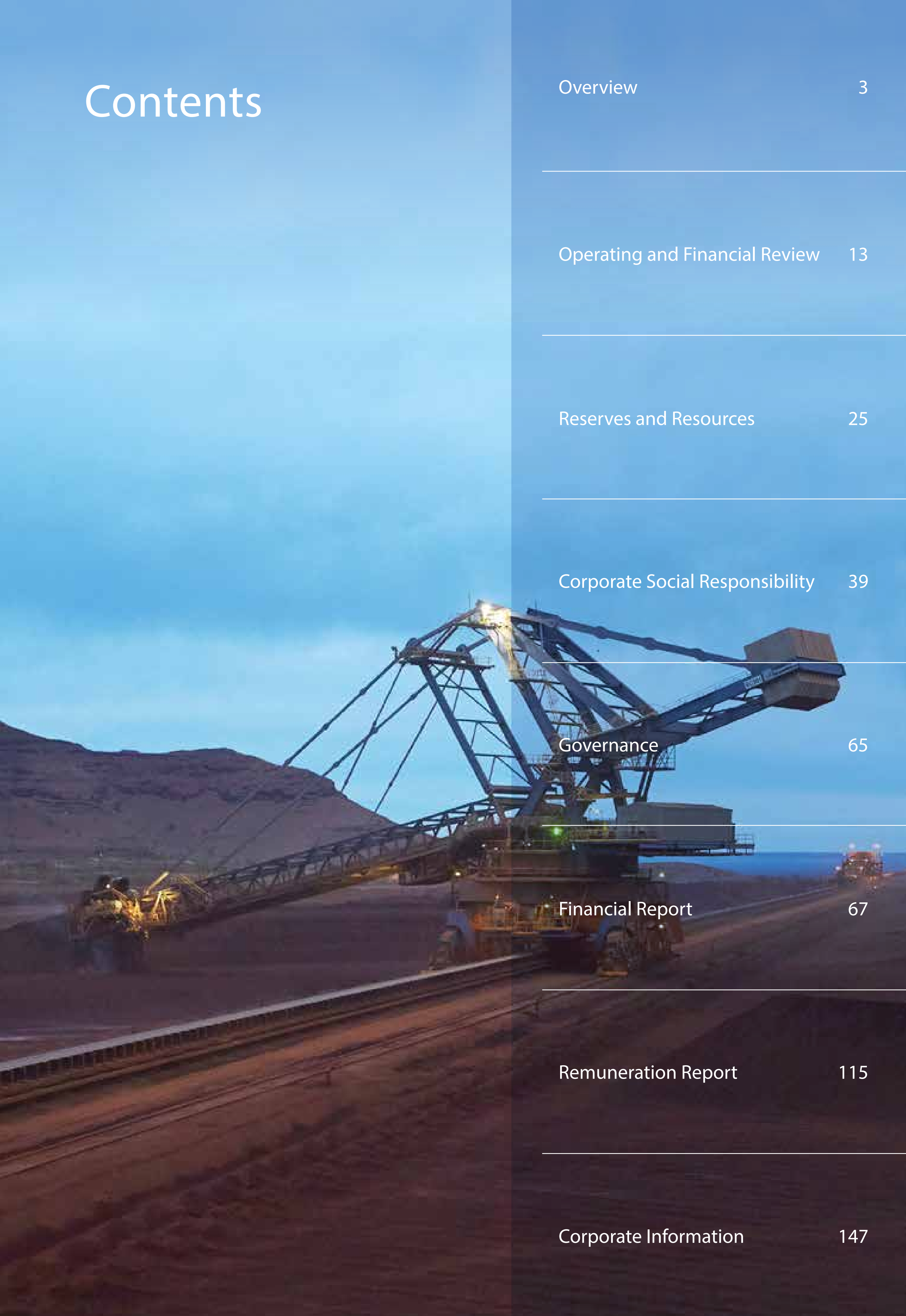


Second
towage licence

A$1.8 billion
Contracts to Aboriginal companies and Joint Ventures

2.17 billion tonnes
Ore Reserves

11.6
billion tonnes
Mineral Resources



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About Fortescue

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

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

Now producing 165 – 170 million tonnes of iron ore per annum, the Company has grown to be one of the largest global iron ore producers and is focussed on its vision of being the safest, lowest cost, most profitable iron ore producer.

The Company's operations span four mine sites in the Pilbara. The Chichester Hub, which includes the Cloudbreak and Christmas Creek mines, is located in the Chichester Ranges and the Solomon Hub, in the Hamersley Ranges, includes the Firetail and Kings Valley mines.

Fortescue owns and operates an integrated supply chain including its five berth Herb Elliott Port in Port Hedland and the fastest, heavy haul railway in the world with up to 42 tonne axle load capacity over 620km of track. With only a ten-day seaborne journey from Port Hedland to China, Fortescue has longstanding relationships with customers and stakeholders in China and has contributed to China's remarkable economic development and ongoing urban growth.

Embracing innovation is deeply engrained in Fortescue's approach to business, as the first company in Western Australia to control a railway from outside a region of operation and the first company in the world to use CAT autonomous haulage technology on a commercial scale.

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, build up communities, protect the environment and strengthen the broader Australian economy.

About this report

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

This report provides a summary of Fortescue's operations and financial position for the financial year ended 30 June 2016. All references to Fortescue, the Group, the Company, we, us and our refer to Fortescue Metals Group Limited (ABN 57 002 594 872) and its subsidiaries. All references to a year are the financial year ended 30 June 2016 unless otherwise stated. All dollar figures are in US currency unless otherwise stated.

The world's best address for iron ore

Fortescue holds the largest tenement position in the Pilbara.

Overview

Chairman's Message

Andrew Forrest

I am delighted to describe Fortescue's outstanding results for 2016. From one of Australia's most successful, largest and most vociferous explorers we have transitioned through planning, construction, commissioning, and back into planning and construction, to truly build global scale operations. We have gone on to finally prove our mettle as an operations company with very few peers worldwide, as we take our place as one of the world's most efficient iron ore producers.

At Fortescue, the Board's attitude is that it is there to lead and guide; we never pretend to be a managing board. In this way, the responsibility for our performance is entirely mutual, with management fully empowered to achieve its goals. We hold Board meetings every quarter and not monthly, yet we are flexible and agile, meeting several times a day electronically if that is what the situation requires.

While maintaining strict financial and operational controls, we encourage a corporation that feels non-bureaucratic and friendly, and in which we all treat each other with the preciousness we would our family. This doesn't mean we don't hold each other to account; we certainly do. However, it is done with encouragement and where a problem can't be beaten by a known path, together management and the Board – in fact, all of us – take responsibility for finding another solution.

Our Board sets targets that require all of our teams to lift our business performance to the next level. Most importantly, safety continues to steadily improve, and at the same time the team's achievement on cost reduction has been truly excellent. The result, positioning us at the very lowest end of the global cost curve, is highly commendable and will ensure our business is strong and well placed to withstand the inevitable challenges that the market will continue to send our way. Management has well and truly met our targets and we have been in lock step with them for the journey.

Australia's mining industry is very well positioned to fuel the great arc of the developing world, from China through the sub-continent, the Middle East and into Africa. China's visionary "One Belt, One Road" infrastructure strategy has continued to develop, and the opportunities for northern Australia are now also emerging. Fortescue's engagement with senior Government and business leaders throughout the region, through strong relationships and our ongoing sponsorship of the Boao Forum, continues to drive our business. During the year, very successful meetings of the Australia-China Senior Business Leaders' Forum (SBLF) were held in Sydney as well as on Hainan Island in conjunction with the Boao Forum. China's and Asia's strength, combined with Fortescue's outstanding performance, have allowed shareholders a rewarding dividend policy which directly funds the philanthropic work of Fortescue's founding shareholder, Minderoo.

The Minderoo Foundation and Fortescue continue to support large numbers of diverse philanthropic pursuits in Australia and throughout the world, and I hope that you are as heartened as I am by our involvement. Together we drive a number of initiatives including supporting the vulnerable and disadvantaged, encouraging community vibrancy and highlighting the critical importance of early years wellbeing as well as whole-of-life education.

Walk Free Foundation

Global Freedom Network. Following on from the historic signing by global faith leaders of the Joint Declaration of Religious Leaders Against Modern Slavery in December 2014, further Declaration signings occurred in Canberra and New Delhi, in December 2015. 39 leaders representing 19 faiths have now signed the Declaration. The December 2015 events were the catalyst for the introduction of the Australian Freedom Network and the Indian Freedom Network, as other nations and leaders joined us in working to end modern slavery.

Global Slavery Index (GSI). The third GSI was launched in May to worldwide fanfare and critical acclaim. In the biggest and most comprehensive report yet, the GSI found that an estimated 45.8 million people around the world are in slavery, with 58 per cent of those people living in India, China, Pakistan, Bangladesh and Uzbekistan. We can't act if we don't know the size and scale of this abhorrent practice, and the GSI is an important piece of global research that continues to provide us with impetus to encourage governments, business and civil society to act with speed and commitment.

Other Walk Free Foundation initiatives and affiliated organisations, such as the Bali Process in conjunction with the Australian Government, Global Fund to End Slavery, the Freedom Fund and Walk Free Movement, are ensuring a coordinated effort to eradicate modern slavery.

GenerationOne

Fortescue's commitment to Indigenous employment is complementary to the programs operated by GenerationOne, which has secured a commitment for over 62,000 jobs across corporate Australia. Through the Vocational Training and Employment Centres (VTEC) initiative, pioneered by Fortescue and now funded by the Federal Government, GenerationOne achieved one of its key goals - facilitating long-term sustainable employment for a further 5,000 First Australians. This brings the total number of jobs filled through GenerationOne to over 28,000. More broadly, the Creating Parity Review, produced at the request of the Prime Minister and Cabinet, gained much traction during the financial year. Trials of the Healthy Welfare Card are under way in Ceduna, SA, and Kununurra, WA, and there are strong early indicators of success. Other Creating Parity recommendations are in progress.

Thrive by Five

We believe every child in Australia should be given the best chance to reach their potential. Thrive by Five, an initiative that has attracted substantial Australian Government support, encompasses this belief, and puts effort into contributing to a national shift in attitudes, policy and practice so that children's critical first few years of life are prioritised.

Key achievements include a partnership with the Telethon Kids Institute to increase the translation of evidence to practice and policy and the commencement of the Australian Government's A$20 million Connected Beginnings initiative based on our recommendations. Locally, we are working with Challis Primary School in Armadale, Western Australia, where children have enjoyed massive improvements in developmental outcomes following our four year investment in the Challis Parenting and Early Learning Centre.

Forrest Research Foundation

Our A$65 million partnership across the five Western Australian universities has now seen eight scholarships awarded to outstanding students who are conducting ground breaking research in various areas. Plans for Forrest Hall at The University of Western Australia were completed and construction will begin this year.

Arts, Culture and the Community

Building cultural capital through an effective talent pipeline is an important pursuit, and the focus has been on a collaboration with the Western Australian Academy of Performing Arts (WAAPA), where we have supported the visiting artists program. Among many community support projects, the Foundation responded with great energy to the bush fire disaster in Yarloop, provided scholarships for primary and secondary students and supported organisations ranging from Channel 7 Telethon and St Vincent de Paul through to a men's shed in Fitzroy Crossing.

To date, the Minderoo Foundation, with Fortescue's unwavering support, has supported more than 250 initiatives and committed over A$245 million across Australia and abroad including projects in education, research, Indigenous affairs, disaster response and the arts. The act of giving expands our horizons, stimulates our intellect and nurtures us. We are proud that through our success, as fellow Fortescue shareholders, you are able to contribute and be part of programs that are making a difference all over the world.

Conclusion

Our Board has continued to provide its expertise and experience to our great company as we make great strides towards realising our vision – to be the safest, lowest cost, most profitable iron ore producer. During the year we announced that Peter Meurs, an early pioneer and believer in Fortescue, would step down from the Board and we gratefully acknowledge his outstanding contribution to Fortescue's infrastructure and mine development capability. The very successful T155 US$9 billion expansion project stands among Peter's many achievements at Fortescue and we wish him all the very best with his future endeavors. Stephen Pearce, our high performing CFO has now been appointed as an Executive Director in addition to his ongoing role as an integral member of the executive management team.

Our CEO, Nev Power, has led the excellent results achieved by the Fortescue team during the year. His leadership and unwavering focus on delivering against each and every one of our critical goals represents an extraordinary achievement, resulting in long-term sustainable growth for shareholders.

In building communities carefully through generosity and ensuring the environment is preserved, the future of Australian mining is one that is more relevant than ever to this nation and the world it supplies. More importantly, my personal goal for Fortescue and Minderoo is that together we recognise our role in addressing the challenges that go beyond mere business outcomes.

It is the results that we achieve in these challenges that build the platforms to ensure the next generation inherits, as much as is in our own control, a better world.

Chief Executive Officer's Report

Nev Power

Our strategic focus is on achieving our vision to be the safest, lowest cost, most profitable iron ore producer and the operating results achieved by the whole team during FY16 on safety, production and costs have brought that vision closer to reality.

During 2016, our entire Fortescue team has performed extremely well to deliver against all key elements of our safety and business strategy, resulting in a substantially improved competitive position, global cost leadership, a strong balance sheet and a resilient platform for future growth.

Safety performance continues to deliver steady improvement with a further 15 per cent reduction achieved in Total Recordable Injury Frequency Rate (TRIFR) during the year, meeting our FY16 target. The safety of all of our people is our highest priority and we will strive for further improvement through safety leadership, shared best practices, engagement and empowerment of our teams as we continue to build our strong workplace culture. During FY16, our company wide Safety Excellence and Culture Survey provided clear direction on our focus and priorities for the year ahead.

At Fortescue, our safety value means that we look after our mates, and ourselves – we are our brother's and sister's keeper. We aspire to safety leadership across all of our operations and will work to continually improve our safety performance in FY17 and beyond.

Maximising value from our world-class assets, while being highly responsive to the market and our customers' needs drives our leadership and all key decisions. Our differentiating culture of stretch performance, shaped by our strong values is a key factor in Fortescue's consistent delivery against each of our challenging targets.

Consistent production and operating excellence has underpinned our performance in FY16. With completion of our second full year of operation following the Company's development and construction phase, our business is strategically positioned to maximise returns from consistent production, optimising our ore bodies and Ore Processing Facility (OPF) upgrade performance.

Production in FY16 of 169.4mt maintained our consistent production rate, including a slight uplift due to favourable weather conditions, and will continue through FY17 at 165-170mt.

Our unwavering drive for cost reductions continues to deliver outstanding results. We exited FY16 with our C1 cost at US$14.31/wmt for the fourth quarter, and our guidance for FY17 of US$12-13/wmt includes sustained continuous improvements. Our highly successful approach to productivity and efficiency gains is embedded in all of our operating processes and will deliver further gains through operational excellence, innovation, and our values-driven approach to embrace and deliver against stretch targets.

Cost savings of US$1.9 billion were achieved during FY16, bringing cumulative cost savings since we reached full operating capacity to US$3.5 billion. Fortescue is now firmly positioned at the very lowest end of the global cost curve and we are well placed to achieve further improvements in FY17 through innovation and our ongoing productivity and efficiency focus. This result clearly demonstrates successful delivery of a critical strategic target resulting in a significant improvement in our business resilience as well as our competitive position.

Market outlook for FY17 is positive as urbanisation and industrialisation in China underpins ongoing domestic steel demand and regional growth through the massive One Belt, One Road infrastructure plan.

Fortescue's exports represent 18 per cent of China's iron ore imports with over 700 million tonnes shipped to our Chinese customers to date, while we also continue to grow our presence in markets including Japan, South Korea and the emerging economies.

Excellent financial performance has been delivered for FY16, as cost reductions have contributed to strong cash flows from operations which in turn have been applied to further reduce our debt. Sustaining capital expenditure for FY16 was US$1.33/wmt, well below our guidance estimate and reflecting the young age of our high quality assets.

Net profit after tax for FY16 was US$985 million with the positive contribution from cost reductions more than offsetting the impact of the lower iron ore price compared to FY15. This outcome, crucial to delivery of our strategic cost reduction target, has been achieved through the efforts of all of our teams and ensures that the cost savings provide a sustainable platform for further improvement.

Debt repayment during the year totalled US$2.9 billion reducing net debt to US$5.2 billion. We are fast approaching our initial balance sheet targets with our net gearing ratio now below 40 per cent and set to improve further with ongoing strong cash flows from operations.

Building stronger communities, ensuring that the benefits from our operations are shared is a core commitment for Fortescue and we are proud of the contributions we have made to employment, education and business development in the communities supporting our business. Our direct Aboriginal employment has risen to 14 per cent, with Fortescue and its contractors now employing more than 1,100 Aboriginal people across all sites.

The value of contracts awarded under the Billion Opportunities program stands at A$1.8 billion, building capability and skills in businesses owned wholly or partially by Aboriginal people.

Our Fortescue team provided the skills, hard work, passion and commitment required to deliver these outstanding results for our organisation in FY16. Every single group across the business has excelled and can all feel very proud of what has been achieved together.

I take this opportunity to thank each and every one of our great Fortescue family for their innovative ideas, tireless work and contributions on our journey to be the world's safest, lowest cost, most profitable iron ore producer.

Nev Power, CEO: Look north and create a vision for the future

We can all reflect on how different the Australia of today might be if the first European settlements had been established in the tropics rather than on the shores of Botany Bay, the south-west of WA or Tasmania.

Without dwelling on what might have been, the fact is that northern Australia now provides a wealth of untapped potential.

WA is in the same time zone as much of Asia and all of China, facilitating business relationships and regional travel, and all of northern Australia has the geographic proximity to those markets that ensures we also have a significant shipping advantage, another key factor in our favour.

In order for northern Australia's enormous potential to be fully realised, a clear focus will be required by governments at all levels, business and the community. Creating a future vision for our own Pilbara region in WA will be a vital first step on this path.

Development and investments by mining, resource and energy companies across northern Australia have provided the catalyst for major regional development to date and will be one of the key sectors that will contribute to the next phase.

We can also look to our neighbours on the east coast, with towns such as Mackay and Townsville providing great examples of vibrant, sustainable communities that have grown with the workforces for their key industry sectors.

As we embark on this next phase, our focus must be on building our towns in the Pilbara into vibrant and sustainable communities that will attract and retain the workforce and families for those key industry sectors and companies to thrive.

Business, governments and communities working together will give us the best opportunity to achieve this goal.

Governments must not only provide the core health and education services but must also ensure that these are targeted to the needs of the workforce we want to attract.

At the same time, business will provide the jobs, training and primary income while continuing to build the capability in infrastructure, energy and transportation that all contribute to our region's competitive advantage.

Finally, community organisations will play an important role in building the social fabric through arts, culture, sporting and recreational activities, which must all be at a level that will make the regional lifestyle at least comparable, if not more attractive, to the bigger cities.

Companies such as Fortescue Metals Group will also contribute through their community engagement and continued efforts to end Aboriginal disparity through training, employment and business opportunities.

Commitment to a shared vision for the Pilbara and for northern Australia will position us strongly to attract and retain a diverse workforce, build our industries and grow sustainable communities for the future.

Abridged version – full article published in The West Australian on 20 November 2015.

FORTESCUE'S VALUE CHAIN

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

1 EXPLORATION AND DISCOVERY

- Challenging geological thinking to identify valuable deposits

2 EXTRACTION AND RECOVERY

- Innovative use of technology suitable to our deposits

3 PROCESSSING

- Ore processing facility design and wet processing optimise output

4 MINE TO PORT

- Heaviest haul rail at 42t axle load

5 BLENDING AND STOCKPILING

- Port design facilitates blending and stockpiling of product suite

6 SHIP LOADING

- 3 shiploaders
- 5 berths maximise outload capacity and utilisation

7 MARKETING

- Helping customers achieve best value in use

8 SHIPPING

- Delivery to our international customers' specifications
- VLOCs

Fortescue's Board

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 has an appropriate mix of executive and non-executive directors to support its role. The primary driver for the Board in seeking new directors has been, and continues to be, the skills, experience, knowledge and other important attributes which are relevant to the needs of the Board in discharging its responsibilities to shareholders. As with all roles in the Company, Fortescue's policy is to recruit the best person for each role regardless of race, gender, age, physical ability, sexuality, nationality, religious beliefs, or any other factor not relevant to their competence and performance. The 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.

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

- 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 operational locations
- Biannual visits to China to meet with key customers and strengthen their understanding of the Company's key markets
- Regular formal and informal opportunities for the directors to meet with management and staff.

The directors also undertake an annual competency self-assessment to evaluate whether the Board, as a whole, maintains an appropriate mix of skills and experience to effectively fulfil its role. Opportunities for improvement are incorporated into director training and consideration for new director appointments.

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 Nominations Committee, the Audit and Risk Management Committee and the Finance Committee. Each Committee has an independent, 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 that embodies these values. There is a formal process to identify, disclose and manage potential conflicts of interest, should they arise. In this regard, the roles of Vice Chairman and the Lead Independent Director are a cornerstone that ensures the interests of all shareholders are protected equally.

The Board and each of its three primary Committees have established a formal process to evaluate their performance annually. The process is undertaken by an independent consultant and supported by the Company Secretary. The most recent review was undertaken in February 2016. 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 two executive directors being Chief Executive Officer, Mr Nev Power, and Chief Financial Officer, Mr Stephen Pearce. Mr Pearce was appointed as a director on 21 June 2016. Previously, Mr Peter Meurs acted as an Executive Director prior to his resignation on 18 April 2016. 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 into the business. The Board has maintained a consistent compliment of two executive directors in recent years and has consistently maintained a majority of independent directors.

The Board

Andrew Forrest
Chairman

Mr Forrest was appointed Chairman in July 2003 and Chief Executive Officer in 2005. In July 2011 Mr Forrest resumed responsibilities as Chairman (elect). Mr Forrest is the Founder of the Company and is also the Founder and Chairman of Minderoo Foundation, Australia's largest philanthropic organisation which operates GenerationOne, The Australian Employment Covenant and Walk Free. He was appointed by the Prime Minister as Chair of the Indigenous Jobs and Training Review in 2013 (the Forrest Review).

Mr Forrest holds other positions including Chairman Global Freedom Network, Councillor Global Citizen Commission, Commonwealth Ambassador for Employment and Engagement with disadvantaged communities, Vice Patron of the SAS Resources Fund, Chair of the Foundation of the Art Gallery of Western Australia, Adjunct Professor of the China Southern University, Fellow of the Australian Institute of Mining and Metallurgy, Co-Chairman of the China Australia Senior Business Leaders' Forum.

Current directorships (ASX listed entities): None

Committee membership: Member: Remuneration and Nomination Committee and Finance Committee

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Owen Hegarty
Vice Chairman

Mr Hegarty was appointed Vice Chairman in November 2014 having served as a Non-Executive Director since October 2008. Mr Hegarty has 40 years' experience in the global mining industry, 25 years' with the Rio Tinto group including Managing Director of Rio Tinto Asia and Managing Director of the Group's Australian copper and gold business. Mr Hegarty was Founder and CEO of the Oxiana Ltd Group (now OZ Minerals Ltd).

Mr Hegarty is a former Director of the AusIMM and was awarded the AusIMM Institute Medal in 2006 and the G.J. Stokes Memorial Award in 2008 for achievements in the mining industry. Mr Hegarty is also a member of a number of government and industry advisory groups and Chairman of EMR Capital.

Current directorships (ASX listed entities): Chairman: Tigers Realm Minerals Pty Ltd, Non-Executive Director: Tigers Realm Coal Limited and Highfield Resources Limited

Committee membership: Member: Remuneration and Nomination Committee

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Mark Barnaba
Lead Independent Director

Mr Barnaba was appointed Lead Independent Director in November 2014, having served as a Non-Executive Director since February 2010. Mr Barnaba serves as both Chairman of Macquarie Group, Western Australia and as Chairman and Global Head, Resources Group, Macquarie Capital, co-founder (and previously Co-Executive Chairman) of Azure Capital, previously the Chairman of Western Power, Edge Employment Solutions, the West Coast Eagles Football Club and Alinta Infrastructure Holdings. He was appointed by the Premier to Chair the WA Steering Committee of the Commonwealth Business Forum in CHOGM in 2011.

Mr Barnaba holds a Bachelor of Commerce with first class honours from the University of Western Australia and an MBA from Harvard Business School, graduating with a high distinction as a Baker Scholar. Mr Barnaba is a Fellow of the Australian Institute of Company Directors.

Current directorships: (ASX listed entities): None

Committee membership: Chair: Audit and Risk Management Committee and Finance Committee, Member: Remuneration and Nomination Committee

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Nev Power
Chief Executive Officer, Executive Director

Mr Power was appointed Chief Executive Officer in July 2011, and Executive Director in September 2011.

Mr Power has extensive experience with more than 30 years' exposure to the mining, steel and construction industries. Prior to joining Fortescue, Mr Power held Chief Executive positions at Thiess and the Smorgon Steel Group.

Mr Power has led Fortescue's commitment to safety excellence, and to the Billion Opportunities program which has awarded over A$1.8 billion in contracts to Aboriginal businesses. He is also a passionate advocate for the development of northern Australia and for its communities to reach their full potential.

He is a Fellow of both Engineers Australia and the AusIMM and a member of the Australian Institute of Company Directors. He holds a Bachelor of Engineering and a Master of Business Administration. Mr Power has a long history in agribusiness and aviation, holding both fixed wing and helicopter commercial pilot licenses.

Current directorships: (ASX listed entities): None

Stephen Pearce
Chief Financial Officer, Executive Director

Mr Pearce was appointed as an Executive Director in June 2016, after joining Fortescue in March 2010. Mr Pearce has more than 20 years' experience in senior management roles in the mining, oil and gas and utilities industries. He previously held the position of Managing Director and Chief Executive Officer of Southern Cross Electrical Engineering Limited and prior to that Chief Financial Officer of Alinta Limited.

He has a Bachelor of Business from RMIT, a Graduate Diploma in Company Secretarial Practice and is a fellow of the Institute of Chartered Accountants Australia and New Zealand, a member of the Governance Institute of Australia and Australian Institute of Company Directors.

Mr Pearce is currently Chairman of the Lions Eye Institute.

Current directorships (ASX listed entities): Non-Executive Director: Cedar Woods Limited

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Peter Meurs
Executive Director

Mr Meurs was appointed as an Executive Director of the Company in February 2013 after joining Fortescue as Director Development in 2010. Mr Meurs resigned from the Board on 18 April 2016.

Mr Meurs was previously the Managing Director at WorleyParsons with project management and company development experience in hydrocarbons, minerals and metals.

Mr Meurs is a Fellow of Engineers Australia and a member of the Australia Institute of Company Directors.

Current directorships (ASX listed entities): None

Jean Baderschneider
Non-Executive Director

Ms Baderschneider was appointed as a Non-Executive Director in January 2015. She brings 30 years' experience with ExxonMobil in global operations, strategic sourcing and supply chain management roles including as Vice-President, Global Procurement. Previously a member of the Board of Directors of the Institute for Supply Management, the Executive Board of the National Minority Supplier Development Council (NMSDC) and Presidential appointee to the US Department of Commerce's National Advisory Council of Minority Business Enterprises in February 2011.

Ms Baderschneider is a past Board member of The Center of Advanced Purchasing Studies (CAPS) and Procurement Councils of The Conference Board and the Corporate Executive Board.

Ms Baderschneider is a member of Advisory Councils of President Lincoln's Cottage (Executive Committee), the Ford's Theatre, and the ILR School at Cornell University. She is also a member of Cornell's President's Council of Cornell Women and the Board of Trustees of the Maret School in Washington, D.C.

Current directorships (ASX listed entities): None

Elizabeth Gaines
Non-Executive Director

Ms Gaines was appointed as a Non-Executive Director in February 2013. She has extensive operational experience as a group executive running large businesses and a proven track record in internal business and financial leadership. Ms Gaines is the former Chief Executive Officer of Helloworld Limited. Prior to this, Ms Gaines was Chief Financial Officer of the Stella Group, Chief Finance and Operations Director of UK-based Entertainment Rights Plc and Chief Executive Officer of Heytesbury Pty Limited.

Ms Gaines is a member of the Chartered Accountants Australia and New Zealand, the Australian Institute of Company Directors and Chief Executive Women. She is a Commissioner of Tourism WA and in August 2016 was appointed to the Board of 7-Eleven Stores Pty Ltd.

Current directorships (ASX listed entities): Non-Executive Director: NEXTDC Limited, Nine Entertainment Co. Holdings Limited and ImpediMed Limited

Former directorships in the last 3 years (ASX Listed Entities): Executive Director Helloworld Limited, Non-Executive Director of Mantra Group Limited

Committee membership: Member: Audit and Risk Management Committee and Finance Committee

Cao Huiquan
Non-Executive Director

Mr Cao was nominated by Hunan Valin Iron & Steel Group Company Ltd to join Fortescue's Board as a Non-Executive Director in February 2012. Mr Cao joined Hunan Xiangtan Iron & Steel Co. Ltd in 1991, was appointed General Manager in 2003 and in 2005 was appointed General Manager of Hunan Valin Iron & Steel Co Ltd. Mr Cao was appointed Chairman of Hunan Valin Iron & Steel Group Co. Ltd, Chairman and CEO of Hunan Valin Steel Co Ltd in 2011. He currently serves as Chairman of Hunan Valin Iron and Steel Group Co., Ltd and Chairman of Hunan Valin Steel Co., Ltd

Current directorships (ASX listed entities): None

Geoff Raby
Non-Executive Director

Mr Raby was appointed as a Non-Executive Director in August 2011. He formerly served as Australia's Ambassador to the People's Republic of China between 2007 and 2011. Mr Raby has also held positions including Deputy Secretary in the Department of Foreign Affairs and Trade (DFAT), Australia's Ambassador to the World Trade Organisation (1998-2001), Australia's APEC Ambassador (2003-2005), and Head of DFAT's Office of Trade Negotiations and Head of the Trade Policy Issues Division at the OECD, Paris. He has been the Chair of DFAT's Audit Committee and an ex officio member of the Boards of Austrade and Export Finance and Insurance Corporation.

Current directorships (ASX listed entities): Non-Executive Director: Oceana Gold Corporation, Yancoal Australia Limited and iSentia Group Limited

Former directorships in the last 3 years (ASX Listed Entities): Non-Executive Director: SmartTrans Holdings Limited, Sm@rtTrans Limited and YPB Group Ltd

Sharon Warburton
Non-Executive Director

Ms Warburton was appointed as a Non-Executive Director in November 2013. She has previously held positions as Executive Director of Strategy and Finance with Brookfield Multiplex, Chief Planning and Strategy Officer of UAE based ALDAR Properties PJSC, and senior executive roles with Multiplex, Citigroup and Rio Tinto.

Ms Warburton is a Fellow of the Chartered Accountants Australia New Zealand. She is a Graduate of the Australian Institute of Company Directors and a member of Chief Executive Women. She is Chairman of the northern Australia Infrastructure Facility, Director of Western Power and member of the Takeovers Panel.

Current directorships (ASX listed entities): Non-Executive Director: Wellard Limited and Gold Road Resources Limited

Committee membership: Chair: Remuneration and Nomination Committee, Member: Audit and Risk Management Committee

Ian Wells
Company Secretary

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

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

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

Mark Thomas
Group Manager Infrastructure Services, Company Secretary

Mr Thomas was appointed as Company Secretary in June 2010, joining Fortescue in April 2004 as Group Financial Controller. Mr Thomas is the Group Manager of Infrastructure Services and acts as joint Company Secretary. He has extensive experience in accounting and finance, IT and business administration in the mining and professional service industries.

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

Executive team

Nev Power
Chief Executive Officer
Executive Director

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

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

Stephen Pearce
Chief Financial Officer,
Executive Director

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

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

Nick Cernotta
Director
Operations

Mr Cernotta was appointed as Director, Operations in March 2014 with more than 30 years' experience in the mining industry, spanning various commodities and operations in Australia, Africa, South East and Central Asia, Saudi Arabia and Papua New Guinea. Prior to joining Fortescue Mr Cernotta held the position of Chief Operating Officer, Macmahon Contracting and prior to that Director of Operations for the Barrick Gold Australia Pacific Regional Business Unit.

David Liu
Director of Sales
and Marketing

Mr Liu joined Fortescue in 2003 and was appointed as Director of Sales and Marketing in 2011 after completing his post-graduate studies at the University of Western Australia. Having spent nearly 30 years in Perth, Mr Liu has strong experience in trade and investment projects between Australia and China. He brings a deep understanding of Asian, particularly Chinese, culture and business practices to Fortescue's strategy of securing long term partnerships with the major steel mills in Asia.

Tim Langmead
Director External
Relations

Mr Langmead was appointed Director External Relations in January 2014 after joining Fortescue in January 2013 as Group Manager Corporate Affairs. Previously Mr Langmead held senior corporate affairs roles in the Australian business units of global oil and gas companies. He served in senior staff roles for Ministers in the Howard-Anderson and Howard-Vaile governments and commenced his career as an agribusiness journalist.

Linda O'Farrell
Group Manager
Fortescue People

Ms O'Farrell joined Fortescue in October 2013 as Group Manager Fortescue People, joining the Executive team in December 2014. Ms O'Farrell previously held executive human resources roles in major Australian resources companies. Ms O'Farrell brings deep experience in strategic people management, diversity and Aboriginal employment and holds a Bachelor of Economics degree (Honours in Industrial Relations) from the University of Western Australia.

Simon Carter
Group Manager
Development

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

Peter Huston
Director Corporate
Services, Chief
General Counsel

Mr Huston joined Fortescue in January 2005 with over 20 years' experience in legal and corporate advisory roles. Prior to joining Fortescue. 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.

Rob Watson
Group Manager
Health and Safety

Mr Watson joined Fortescue in 2011 and was appointed Group Manager Health and Safety in 2014. Mr Watson has held a number of senior corporate health and safety roles in large mining companies over the last 15 years. His total career in health and safety spans over 25 years in a number of industries and commodities. Mr Watson holds a Masters in Occupational Health and Safety.

Peter Lynch
Director Business
Development

Mr Lynch joined Fortescue in June 2016 and has over 28 years' of experience in the Australian and global mining sector including coal, copper, gold, lead, and zinc. He has held a number of senior roles, including directorships of several publicly listed junior mining companies including Managing Director of ASX listed Cokal Ltd (ASX:CKA) and prior to that as President and CEO of Waratah Coal Inc (TSX:WCI).

Operating and financial review

Highlights

Production

169.4 million tonnes

Consistent operating performance

C1 costs

$15.43 /wmt

43 per cent decrease from prior year

Revenue

$7.1 billion

A key global supplier of iron ore

Cash

$1.6 billion at 30 June 2016

Positive cash margins from cost reductions

Underlying EBITDA

$3.2 billion

Focus on productivity and efficiency lowers costs

Debt repayments

$2.9 billion debt retired in FY16

Debt repayments above six billion since November 2013

Net profit after tax

$985 million

212 per cent increase from prior year

Net debt

$5.2 billion at 30 June 2016

Net gearing lowered to 38%

Overview of operations

Chichester Hub

The Chichester Hub in the Chichester Ranges, comprising the Cloudbreak and Christmas Creek mines, has an annual production capacity in excess of 90 million tonnes 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. This innovative approach has enabled Fortescue to increase iron upgrades and reduce impurities, which has resulted in lower mining cut-off grades, further optimising ore bodies and sustainably reducing strip ratios, while improving final product specifications.

During the year, Fortescue began transitioning to a full owner operator model at Christmas Creek. This will further reduce Fortescue's costs through ongoing improvement of the efficiency and productivity of the site.

Solomon Hub

The Solomon Hub in the Hamersley Ranges is located 60km north of Tom Price and 120km to the west of the Chichester Hub. It comprises the Firetail and Kings Valley mines which together have production capacity in excess of 70mtpa.

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

During the year, Fortescue continued to expand the use of autonomous haulage at both the Kings Valley and Firetail mines. Since the autonomous haulage system (AHS) was deployed at Solomon in 2012, over 200mt of material has been safely moved. The integration of AHS into Solomon has seen a 20 per cent productivity improvement compared to the regular fleet.

Overview of operations

Rail and Port

Fortescue wholly owns and operates its purpose designed rail and port facilities, constructed to deliver iron ore from its mines to Port Hedland and onto its customers. The Company's railway covers 620km and is the fastest, heavy haul line in the world. The Company's world class rail operations run a cycle of 13 trains a day with each train carrying up to 35,000 tonnes of iron ore directly to Herb Elliott Port.

The efficient design and layout, optimal berthing configuration and ongoing innovation to increase productivity makes Fortescue's Port the most efficient bulk port operation in Australia. The site sits on two hundred hectares of land and comprises three inload and outload circuits with three train unloaders, 54km of conveyor systems, three stackers, three reclaimers, transfer stations, drive stations, sample stations, and power and control systems. The Port has five operating berths and is capable of efficiently exporting more than 165mtpa.

In May 2016, Fortescue was awarded a second towage licence for the Port at Port Hedland. This will ensure Fortescue can provide long term, sustainable towage services crucial to meeting customer needs.

Iron Bridge

Iron Bridge, located 100km south of Port Hedland, is a joint venture between Fortescue, Taiwan's Formosa Group and China's Baosteel Group, incorporating the world class North Star and Glacier Valley Magnetite ore bodies. The development of a large scale pilot plant and successful testing of an innovative, low cost production process was completed during Stage One of the project. Subject to market conditions and approval by joint venture partners, Stage Two will deliver product via a pipeline to storage and handling facilities in Port Hedland.

Exploration

Fortescue has the largest tenement portfolio in the Pilbara. Details of the Ore Reserves and Mineral Resources are summarised in the Reserves and Resources Report on pages 25 to 37.

While exploration activity in FY16 was primarily focussed on Fortescue's iron ore tenements, the Company continues to undertake early stage, low cost exploration on copper-gold prospective tenements in South Australia and New South Wales. Fortescue is also assessing high potential, early stage exploration tenements in highly prospective areas of Ecuador. This exploration is in line with Fortescue's strategy of focussing on its core iron ore business while creating low cost future optionality.

Key performance indicators

Safety

TRIFR 4.3

↓ 15%

Production

169.4mt

↑ 2%

C1 costs

$15.43/wmt

↓ 43%

Fortescue's FY16 results demonstrate the focus on business fundamentals and the consistent delivery of steady, sustainable cost reductions supported by outstanding performance across all aspects of operations. Fortescue's team continued to innovate and deliver excellent progress on key areas within the Company's control that support its vision to become the safest, lowest cost, most profitable iron ore producer, including:

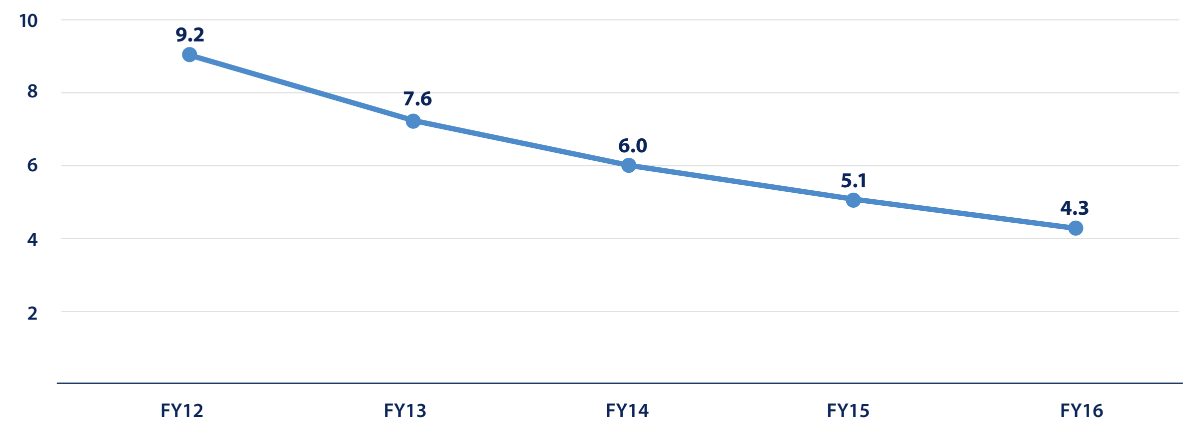
- Continuous steady improvements in safety performance
- Sustainable production delivering maximum value from the Company's assets
- Productivity, efficiency and innovation further reducing costs.

In FY16, Fortescue delivered strong results on each of the above key strategic targets and continued to apply cash generated by operations to debt repayments, significantly strengthening the Company's balance sheet.

Safety

The health and safety of our people is core to Fortescue's values and the Company's commitment to becoming a global leader in safety. Fortescue's Total Recordable Injury Frequency Rate (TRIFR), used as a measure of its safety performance, has been progressively reducing year on year, with a 15 per cent reduction in FY16 to 4.3. The Company remains focussed on delivering progressive improvement in its safety performance to achieve its vision of zero injury and harm across the entire business.

TRIFR, per million hours worked



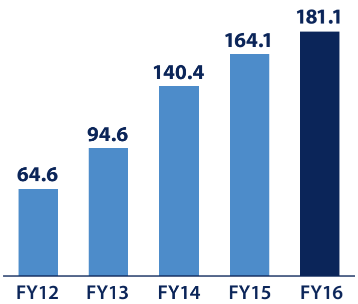
Further information on the Company's safety performance in FY16 and on Fortescue's approach to safety is set out on pages 44 to 45.

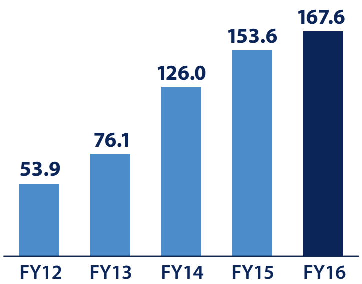
Key performance indicators

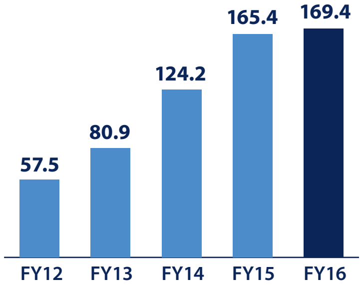
Production

In FY16, Fortescue continued to operate at a consistent production rate, delivering total shipments of 169.4mt. Production and shipments for the year on a wet metric tonnes (wmt) basis are outlined below.

12 months to 30 June (million tonnes)	2016	2015	Movement, %
Ore mined	181.1	164.1	+10
Overburden removed	195.9	300.0	-35
Ore processed	167.6	153.6	+9
Shipments – Fortescue mined ore	166.8	160.2	+4
Shipments – Fortescue equity ore	167.4	161.4	+4
Total ore shipped including third party product	169.4	165.4	+2







Mining volumes and processing throughput support shipments of 165mt to 170mt per year. Iron ore stockpiles at the mines and product stocks at the OPFs and at Port are maintained at optimum levels to support these production targets and continue to be managed closely to ensure product quality and specifications.

OPF performance continued to improve following the successful implementation of a number of projects during the year enhancing iron ore recovery and plant reliability. A key focus at the OPFs is on increase of iron upgrades and reduction of impurities, allowing product cut-off grades to be lowered and reducing strip ratios while maintaining the overall product grade. Through these initiatives, the strip ratio has continued to decrease averaging 1.1 for the year, including 1.2 at the Chichester Hub and 0.8 at the Solomon Hub. These improvements to strip ratio reflect the strategic investment made by Fortescue in processing capacity, supported by a sustained focus on mining efficiencies and improved ore body modelling.

The Company's rail and port infrastructure has continued to support its mining and processing operations throughout the year. Fortescue's Port capacity exceeds current operating targets and the Company's focus remains on maximising the value of its ore bodies and infrastructure assets through beneficiation, operating efficiencies and productivity improvements.

Key performance indicators

Costs

Steady, consistent cost reductions delivered through FY16 demonstrate operational excellence across the mines, OPFs and infrastructure, together with ongoing delivery of productivity and efficiency improvement programs. C1 costs averaged US$15.43/wmt in FY16, a 43 per cent reduction from the prior year. This result includes an average C1 cost of US$14.31/wmt for the June 2016 quarter. Fortescue's C1 cost reduction journey, with ten consecutive quarters of progressive cost improvements, is illustrated at the bottom of this page.

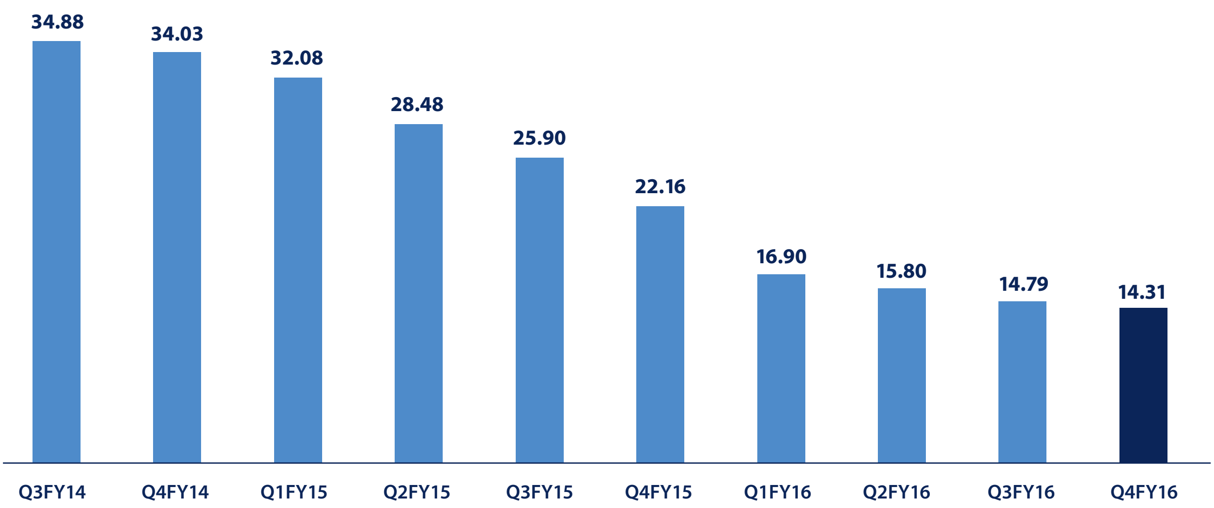
Progressive cost reductions delivered by Fortescue in recent years represent sustainable, long term improvements in operating costs, supporting mine lives in excess of 20 years.

Key focus areas which have contributed to the 43 per cent reduction in C1 costs during the year include:

- OPF performance, with improved upgrades and yields, enhanced plant reliability and shutdown optimisations
- Mine planning, design and mining methodology
- Cross-site operational synergies
- Contractor insourcing programs
- Mining equipment and labour productivity
- Autonomous haulage system
- Procurement initiatives to maximise the value of products and services procured into the business
- Benefits of the lower Australian dollar and declining oil prices.

As focus continues on innovation, productivity and efficiencies, the full year FY17 C1 cost is estimated at US$12-13/wmt, based on an Australian dollar exchange rate of 0.75 and an oil price of US$50 per barrel (WTI).

C1 costs journey, US$/wmt



Financial results and position

Fortescue's FY16 financial results are underpinned by strong operational performance and the continued success of the productivity and efficiency drive. Improved profitability with strong cash flow generation through the year enabled significant debt reductions, which reshaped the Company's balance sheet, improving credit metrics.

Key metrics		**2016 US$m**	**2015 US$m**
Revenue		7,083	8,574
Underlying EBITDA[1]		3,195	2,506
Net profit after tax		985	316
Earnings per share	**US cents**	**31.6**	**10.2**
Cash from operating activities		3,023	2,037
Capital expenditure – Fortescue		304	626
Free cash flows		**2,719**	**1,411**
Cash and cash equivalents		1,583	2,381
Debt		6,771	9,569
Net debt		**5,188**	**7,188**
C1 costs	**US$/wmt**	**15.43**	**27.15**
Key ratios		**%**	**%**
Gearing		45	56
Net gearing		38	49
Underlying EBITDA margin		45	29
Return on equity		12	4

[1] Refer to page 20 for the reconciliation of Underlying EBITDA to the financial metrics reported in the financial statements under Australian Accounting Standards.

Financial results and position

Financial performance

In FY16, Fortescue delivered net profit after tax of US$985 million and earnings per share of 31.6 cents (FY15: US$316 million and 10.2 cents). This result has been achieved despite a 29 per cent reduction in the iron ore price and demonstrates strong operational performance and significant improvement in operating margins.

Underlying EBITDA

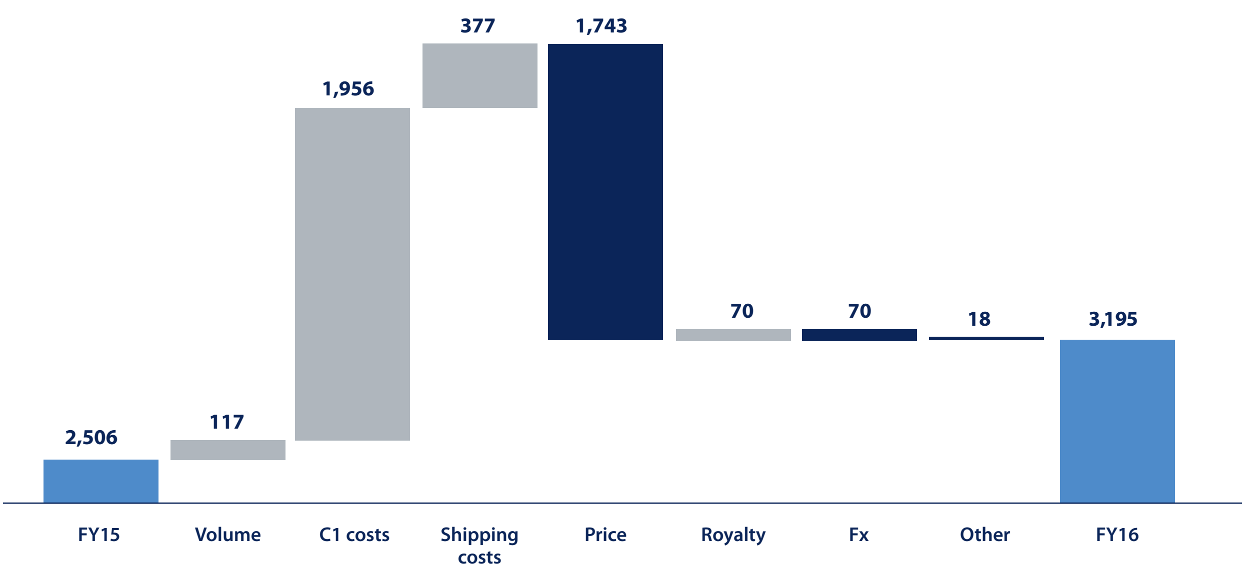
Fortescue uses Underlying EBITDA, defined as earnings before interest, tax, depreciation and amortisation, exploration, development and other expenses as a key measure of its financial performance. In FY16, Fortescue's operations generated Underlying EBITDA of US$3,195 million (FY15: US$2,506 million). The reconciliation of Underlying EBITDA to the financial metrics reported in the financial statements under Australian Accounting Standards is presented below.

	Note[1]	2016 US$m	2015 US$m
Operating sales revenue	3	7,083	8,574
Cost of sales excluding depreciation and amortisation	5	(3,841)	(6,051)
Gain on disposal of assets	4	1	3
Net foreign exchange (loss) gain	4, 6	(2)	68
Administration expenses	6	(52)	(94)
Other income	4	6	6
Underlying EBITDA		**3,195**	**2,506**
Finance income	7	214	15
Finance expenses	7	(675)	(644)
Depreciation and amortisation	5, 6	(1,244)	(1,405)
Exploration, development and other	6	(136)	(52)
Net profit before tax		**1,354**	**420**
Income tax expense	8	(369)	(104)
Net profit after tax		**985**	**316**

[1] Notes to the accompanying financial statements.

The 27 per cent improvement in Underlying EBITDA has been delivered through reductions in C1 operating costs, contributing US$1,956 million to the result and fully offsetting the impact of lower iron ore prices as illustrated below.

Underlying EBITDA, US$ million



Financial results and position

Financial performance (continued)

Revenue

	Note[1]	2016 US$m	2015 US$m
Sale of iron ore	3	6,923	8,323
Sale of joint venture ore	3	24	67
Other revenue	3	136	184
Operating sales revenue		**7,083**	**8,574**
Shipments – Fortescue mined ore	mt	166.8	160.2
Shipments – Fortescue's share of joint venture ore	mt	0.6	1.2
62% Fe CFR Platts index	US$/dmt	51	72
Realised price	**US$/dmt**	**45**	**57**

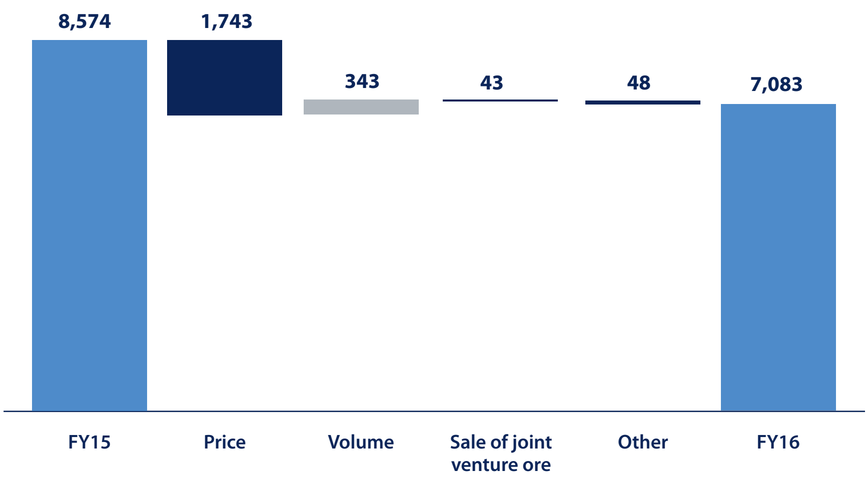
[1] Notes to the accompanying financial statements.

(i) Key movements in operating sales revenue

Revenue decreased by 17 per cent or US$1,491 million as a result of a 29 per cent reduction in the iron ore price, offset by the impact of improved price realisations.

Other key factors impacting Fortescue's revenue in FY16 were the increase in Fortescue's iron ore shipments and lower sale of joint venture iron ore following temporary suspension of the Nullagine Iron Ore Joint Venture operations in December 2015.

Revenue, US$ million

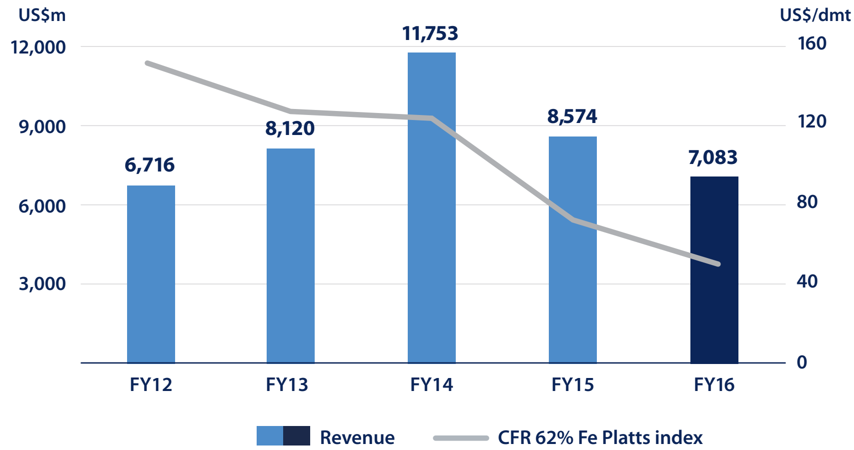


(ii) Price realisations

Fortescue products are priced relative to the 62% Fe CFR Platts index, which averaged US$51/dmt for the year (FY15: US$72/dmt). Realised prices average in the range of 85 to 90 per cent of this index.

In FY16, Fortescue realised US$45/dmt (FY15: US$57/dmt).

Revenue and iron ore price



Financial results and position

Financial performance (continued)

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]	2016 US$m	2015 US$m
Mining and processing costs	5	2,092	3,765
Rail costs	5	201	230
Port costs	5	204	274
Operating leases	5	76	80
C1 costs, US$ million		2,573	4,349
Shipments – Fortescue mined ore, mt		**166.8**	**160.2**
C1, US$/wmt		**15**	**27**
Shipping costs	5	781	1,112
Government royalty[2]	5	446	516
Administration expenses	6	52	94
Shipping, royalty and administration, US$/wmt		8	11
Total delivered cost, US$/wmt		**23**	**38**

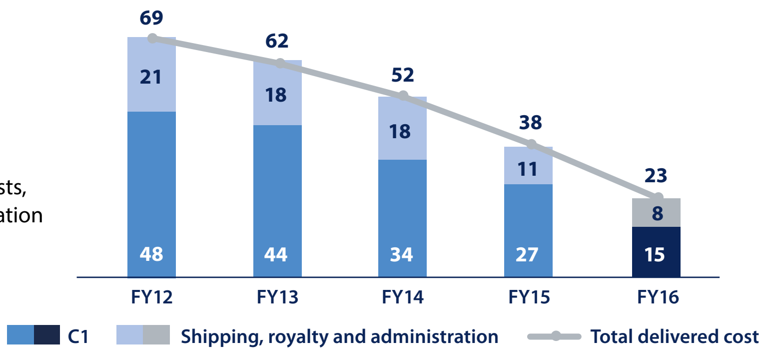
[1] Notes to the accompanying financial statements.

[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 the FY16 operating costs performance are discussed on page 18.

Total delivered cost, US$/wmt

Total delivered cost to customers, inclusive of C1 costs, shipping, state government royalties and administration charges, were US$23/wmt (FY15: US$38/wmt).



Non-operating events

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

- Net gain on debt redemption of US$150 million (FY15: net loss of US$45 million)
- Depreciation and amortisation expenses of US$1,244 million (FY15: US$1,405 million)
- Exploration, development and other expenses of US$136 million, following the temporary suspension of the Nullagine Iron Ore Joint Venture operations and review of capital projects (FY15: US$52 million)
- Income tax expense for the year of US$369 million at an effective income tax rate of 27 per cent (FY15: US$104 million at a rate of 25 per cent).

Shares on issue

The number of shares on issue at 30 June 2016 was 3,113,798,151 billion and remained unchanged since last year.

Financial results and position

Balance sheet strength

Strong cash generation underpinned by consistent operating performance and sustainable cost reductions delivered across the supply chain enabled Fortescue to accelerate debt repayments. In FY16, Fortescue successfully retired US$2.9 billion of debt, generating a net gain on redemption of US$150 million and delivering annual interest savings of US$186 million. As a result of these debt repayments, the net gearing ratio dropped to 38 per cent with gross gearing expected to fall below 40 per cent during FY17.

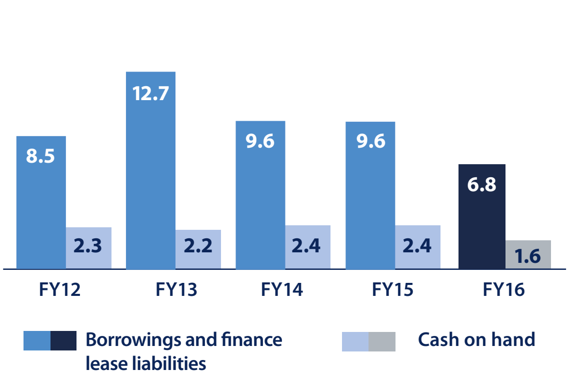
Key metrics

At 30 June 2016, Fortescue's net debt position was US$5,188 million (FY15: US$7,188 million), inclusive of finance leases and cash on hand.

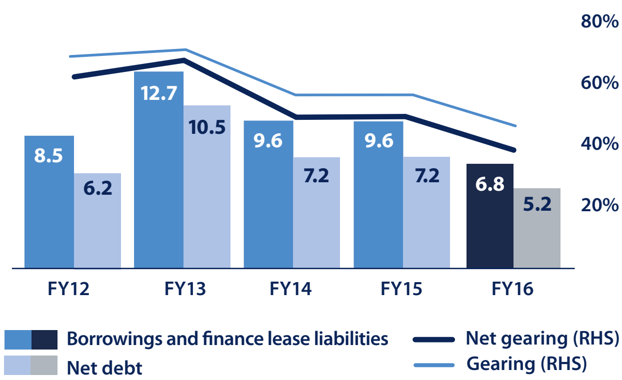
	Note[1]	2016 US$m	2015 US$m
Borrowings and finance lease liabilities	10(a)	6,771	9,569
Cash and cash equivalents	10(b)	(1,583)	(2,381)
Net debt		**5,188**	**7,188**
Equity		8,406	7,537
Gearing		**45%**	**56%**
Net gearing		**38%**	**49%**

[1] Notes to the accompanying financial statements.

Cash and debt, US$ billion



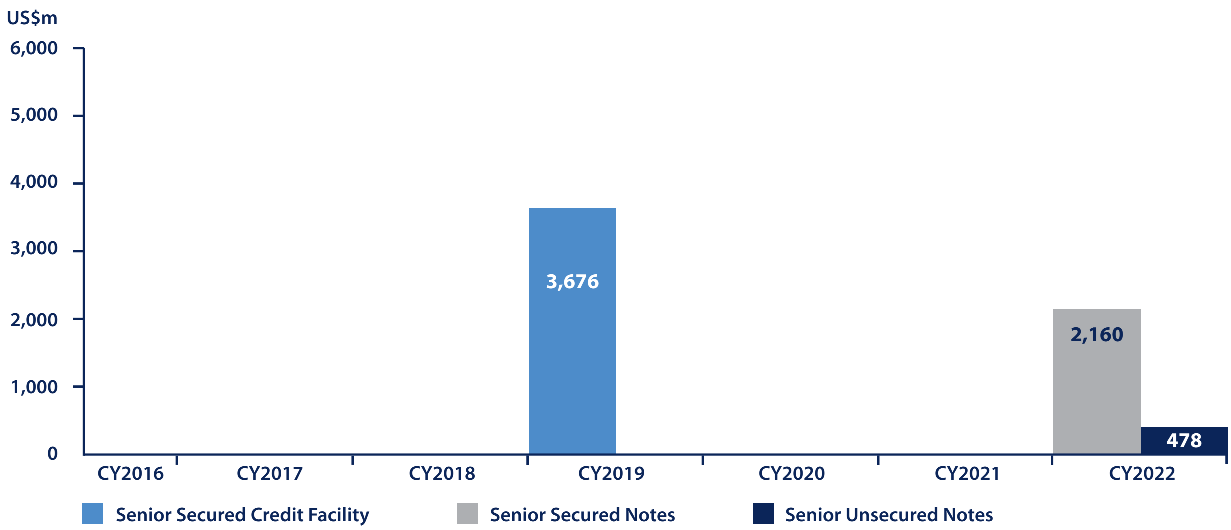
Gearing and net gearing



Debt profile

Fortescue continues to maintain a flexible debt profile with no maintenance covenants. The Senior Secured Credit Facility, representing 58 per cent of total institutional debt at 30 June 2016, is available for voluntary repayment or refinance at Fortescue's sole discretion.

Debt maturity profile



Financial results and position

Cash flow generation and capital discipline

Fortescue's free cash flows, representing net cash proceeds generated by operations after capital allocations, have improved by 93 per cent to US$2,719 million.

	2016 US$m	2015 US$m
Cash flows from operating activities	3,023	2,037
Capital expenditure – Fortescue	(304)	(626)
Free cash flow	**2,719**	**1,411**

Cash and cash equivalents at 30 June 2016 were US$1,583 million compared to US$2,381 million at 30 June 2015, with the key cash movements for the financial year outlined below.

Cash generated by operations

Key factors contributing to the 48 per cent improvement in operating cash flows to US$3,023 million (FY15: US$2,037 million):

- Significant reduction in the operating cost base together with a marginal increase in shipments have outweighed a 29 per cent decrease in the iron ore market price
- Net reduction in customer prepayments of US$312 million, with US$412 million amortised through delivery of iron ore offset by US$100 million received during the year
- Net income tax refund of US$66 million following revision of tax positions for prior years, with US$267 million of income tax attributable to FY16 payable in December 2016.

Capital allocations

Fortescue's capital expenditure for the year reduced to US$304 million (FY15: US$626 million):

- Lower capital spend reflects the ex-growth nature of Fortescue's capital profile with newly installed processing and infrastructure assets, a weaker Australian dollar and general deflation following the decline in commodity prices reducing capital project costs in the Pilbara
- Sustaining capital is closely managed to ensure reliability of operations and delivery of maximum value from the Company's world class assets, and is estimated at US$2/wmt in FY17.

Joint venture capital expenditure of US$56 million (FY15: US$223 million) primarily relates to the Iron Bridge project and has been predominantly funded by the Formosa Plastics Group.

Commitment to debt reduction

Fortescue's net financing cash outflows of US$3,462 million (FY15: US$1,235 million) for the year included US$2,695 million applied to debt repayments (FY15: US$161 million, net of proceeds from refinancing), US$627 million interest and finance costs (FY15: US$605 million) and US$114 million dividend payments (FY15: US$343 million).

Shareholder returns and dividends

Earnings have improved to 31.6 cents per share with return on equity of 12 per cent delivered during the year (FY15: 10.2 cents per share and four per cent respectively).

		2016	2015
Net profit after tax	US$m	985	316
Earnings per share	US cents	31.6	10.2
Return on equity		12%	4%
Interim dividend	AUD cents per share	3	3
Final dividend	AUD cents per share	12	2
Total dividend	AUD cents per share	15	5
Dividend payout ratio		36%	41%

Total dividend of 15 Australian cents per share represents a 36 per cent dividend payout ratio and an appropriate balance between debt repayments and dividend distributions.

Reserves and Resources

Ore Reserves and Mineral Resources Report

Ore Reserves and Mineral Resources

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

Hematite Ore Reserves total 2.17 billion tonnes (bt) at an average iron (Fe) grade of 57.2 per cent. Combined Hematite Mineral Resources total 11.6bt at an average Fe of 56.8 per cent.

Magnetite Ore Reserves total 0.7bt at an average mass recovery of 27.2 per cent. Magnetite Mineral Resources total 6.7bt at an average mass recovery of 24.1 per cent.

Operating property Ore Reserves and Mineral Resources have all been reported to the Joint Ore Reserves Committee (JORC) 2012 standard. Accordingly, the information in these sections should be read in conjunction with the respective explanatory Resource and Reserve information (Fortescue ASX release dated 19 August 2016). 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 release on 20 May 2014 and 8 January 2015 that includes the supporting technical data. The remaining JORC 2004 resource estimates will be progressively updated to the JORC 2012 standard as development priorities dictate.

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 19 August 2016.

Audit of the estimation of Ore Reserves and Mineral Resources is addressed as a sub-set of the annual internal audit plan approved by the Audit and Risk Management Committee (ARMC). Specific audit of the Ore Reserve process was performed in 2011, 2013, 2015 and 2016. These audits were managed by Fortescue's internal audit service provider with external technical subject experts.

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

The Ore Reserve and Mineral Resource estimation processes followed internally are well established and are subject to systematic internal peer review, including calibration against operational outcomes.

Independent technical reviews and audits are undertaken on an as required basis as an outcome of risk assessment.

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

Ore Reserves Operating Properties – Hematite

The 2016 combined Chichester and Solomon Hematite Ore Reserve is a total of 2,173 million dry tonnes (mt) at an average Fe grade of 57.2 per cent.

The Ore Reserve is quoted as at 30 June 2016 and is inclusive of ore stockpiles. Ore Reserves are quoted on a dry product basis while Mineral Resources are quoted on a dry in-situ basis.

Company production and sales reporting is based on wet tonnes. The typical free moisture content of shipped products is nine per cent. The proportion of higher confidence Proved Ore Reserve has been increased from 726mt to 755mt as a result of ongoing in-fill drilling at both the Solomon and the Chichester deposits.

The Chichester Hub (Cloudbreak and Christmas Creek deposits) contains 1,444mt at an average Fe grade of 57.3 per cent, a decrease of 165mt due to mining depletion, use of less selective mining method (excavator vs surface miner) and re-modelling of Christmas Creek Resource (implementing recommendations from the latest external audit). Proven Ore Reserve constitutes 43 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 728mt at an average Fe grade of 56.9 per cent, a decrease of 63mt due to production. Solomon Ore Reserve consists of 19 per cent of the tonnage in the Proved Ore Reserve category.

The 2016 Hematite Ore Reserve estimates were subject to comprehensive review and update addressing:

- Revisions to the Cloudbreak Resource model and to grade control models in all near-term mining areas (increase)
- Revisions to the Christmas Creek Resource model and to grade control models in all near-term mining areas (decrease)
- Revisions of ore loss and dilution factors based on the last two years of operational history at Solomon and 11 months of newly adopted excavator mining at the Chichesters
- Revisions to the processing response through all OPFs based on updated test work (Cloudbreak OPF) and operational history (Kings OPF)
- Ore depletion as a result of sales
- Re-optimisation of mine plans to maximise the benefit of cost reductions across all Fortescue's operations, including increased excavator mining at the Chichester Hub
- A revised life of mine (LOM) plan that addresses the listed items and incorporates the latest information on long term product strategy and mining and processing reconciliation trends.

Hematite Ore Reserves - as at 30 June 2016

	30 June 2016						30 June 2015					
	Product Tonnes (mt)	Iron Fe %	Silica SiO_2 %	Alumina Al_2O_3 %	Phos P %	Loss On Ignition LOI %	Product Tonnes (mt)	Iron Fe %	Silica SiO_2 %	Alumina Al_2O_3 %	Phos P %	Loss On Ignition LOI %
Cloudbreak												
Proved	291	57.6	5.15	2.82	0.054	8.50	268	57.3	4.99	2.83	0.052	8.5
Probable	249	57.1	5.95	2.84	0.059	7.97	265	57.1	5.25	2.85	0.052	8.1
Total	**541**	**57.3**	**5.52**	**2.83**	**0.056**	**8.25**	**533**	**57.2**	**5.12**	**2.84**	**0.052**	**8.3**
Christmas Creek												
Proved	325	57.4	5.73	2.77	0.043	7.47	346	57.9	5.60	2.62	0.046	7.9
Probable	579	57.1	5.62	3.05	0.049	7.34	730	57.8	5.01	2.80	0.047	8.0
Total	**904**	**57.2**	**5.66**	**2.95**	**0.047**	**7.38**	**1,076**	**57.8**	**5.20**	**2.74**	**0.047**	**8.0**
Sub-total Chichester Hub												
Proved	616	57.5	5.45	2.79	0.048	7.96	615	57.6	5.33	2.71	0.049	8.1
Probable	828	57.1	5.72	2.99	0.052	7.53	994	57.6	5.07	2.81	0.049	8.0
Total	**1,444**	**57.3**	**5.61**	**2.91**	**0.050**	**7.71**	**1,609**	**57.6**	**5.17**	**2.77**	**0.049**	**8.1**
Firetail												
Proved	19	58.4	5.79	2.70	0.127	7.29	23	58.2	5.99	3.22	0.142	6.8
Probable	100	59.2	5.83	2.51	0.111	6.23	118	58.7	6.42	2.46	0.109	6.4
Total	**119**	**59.1**	**5.82**	**2.54**	**0.113**	**6.40**	**142**	**58.6**	**6.35**	**2.58**	**0.115**	**6.5**
Kings and Queens												
Proved	120	56.0	6.81	2.51	0.077	10.15	89	56.6	7.23	2.29	0.067	9.0
Probable	489	56.6	6.85	2.73	0.062	8.87	561	56.2	7.09	2.80	0.064	8.9
Total	**609**	**56.5**	**6.85**	**2.69**	**0.065**	**9.12**	**650**	**56.3**	**7.11**	**2.73**	**0.064**	**8.9**
Sub-total Solomon Hub												
Proved	138	56.3	6.67	2.53	0.084	9.76	111	57.0	6.96	2.49	0.084	8.5
Probable	590	57.1	6.68	2.69	0.070	8.42	680	56.7	6.97	2.74	0.072	8.4
Total	**728**	**56.9**	**6.68**	**2.66**	**0.073**	**8.67**	**791**	**56.7**	**6.97**	**2.70**	**0.073**	**8.5**
Total Hematite Ore Reserves												
Proved	755	57.3	5.68	2.74	0.055	8.29	726	57.5	5.58	2.68	0.054	8.2
Probable	1,418	57.1	6.12	2.87	0.059	7.90	1,674	57.2	5.84	2.78	0.058	8.2
Total	**2,173**	**57.2**	**5.97**	**2.82**	**0.058**	**8.03**	**2,400**	**57.3**	**5.77**	**2.75**	**0.057**	**8.2**

1 The diluted mining models used to report the 2016 Ore Reserves are based on Christmas Creek Mineral Resource model reported in 2016, Solomon Mineral Resource models revised in 2014 and Cloudbreak Resource model completed 2016. Diluted mining models are validated by reconciliation against historical production.

2 Proved Reserves are inclusive of ore stockpiles at the mines and port totalling approximately 16.1mt on dry product basis.

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

4 Reserve in-situ Fe cut-off grades are approximately 52.5 per cent for BID deposits and 51.5 per cent for CID deposits.

Ore Reserve Development Properties – Magnetite

The 2016 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.

The Magnetite Ore Reserve is quoted as at 30 June 2016. 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 2016. When shipping occurs production will be quoted in wet tonnes. The typical free moisture content of shipped products is below eight per cent.

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

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

Magnetite Ore Reserves – as at 30 June 2016

	30 June 2016					30 June 2015				
	In-Situ Tonnes (mt)	DTR mass recovery %	Product iron Fe %	Product Silica SiO_2 %	Product Alumina Al_2O_3 %	In-Situ Tonnes (mt)	DTR mass recovery %	Product iron Fe %	Product Silica SiO_2 %	Product Alumina Al_2O_3 %
North Star (60.72%)										
Proved	-	-	-	-	-	-	-	-	-	-
Probable	705	27.2	67.2	5.5	0.25	705	27.2	67.2	5.5	0.25
Total	**705**	**27.2**	**67.2**	**5.5**	**0.25**	**705**	**27.2**	**67.2**	**5.5**	**0.25**
Glacier Valley (60.72%)										
Proved	-	-	-	-	-	-	-	-	-	-
Probable	-	-	-	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
West Star (60.72%)										
Proved	-	-	-	-	-	-	-	-	-	-
Probable	-	-	-	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total Magnetite Ore Reserves										
Proved	-	-	-	-	-	-	-	-	-	-
Probable	705	27.2	67.2	5.5	0.25	705	27.2	67.2	5.5	0.25
Total	**705**	**27.2**	**67.2**	**5.5**	**0.25**	**705**	**27.2**	**67.2**	**5.5**	**0.25**

1 Magnetite Ore Reserves are a result of a mining study only upon the North Star deposit. Utilising 705mt of Measured plus Indicated Mineral Resources within a defined optimal pit design.

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

3 All Ore Reserves are reported on a dry-tonnage basis.

Mineral Resources Operating Properties – Hematite

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

As at 30 June 2016, the total Mineral Resource for the Chichester and Solomon Hubs was 5,261mt at an average Fe grade of 56.0 per cent, a slight decrease over that stated in the prior year. This was accompanied by a slight increase in the proportion of higher confidence Measured and Indicated Mineral Resource mineralisation from 67 per cent to 70 per cent as a result of in-fill drilling.

The Chichester Hub Mineral Resource totalled 3,159mt at an average Fe grade of 56.2 per cent, with 80 per cent of the tonnage in the Measured and Indicated Mineral Resource categories.

The total Solomon Hub Mineral Resource totalled 2,097mt at an average Fe grade of 55.9 per cent, with 54 per cent of the tonnage in the Measured and Indicated Mineral Resource categories.

Hematite Mineral Resources – as at 30 June 2016

	30 June 2016						30 June 2015					
	In-Situ Tonnes (mt)	Iron Fe %	Silica SiO_2 %	Alumina Al_2O_3 %	Phos P %	Loss On Ignition LOI %	In-Situ Tonnes (mt)	Iron Fe %	Silica SiO_2 %	Alumina Al_2O_3 %	Phos P %	Loss On Ignition LOI %
Cloudbreak												
Measured	514	56.8	5.48	3.40	0.055	8.6	386	57.2	5.25	3.29	0.052	8.6
Indicated	438	56.1	6.70	3.45	0.059	8.1	374	56.5	6.38	3.32	0.053	8.2
Inferred	138	56.3	6.47	3.53	0.052	7.8	280	56.0	6.82	3.60	0.052	8.1
Total	**1,090**	**56.5**	**6.10**	**3.44**	**0.057**	**8.3**	**1,039**	**56.6**	**6.08**	**3.39**	**0.053**	**8.3**
Christmas Creek												
Measured	535	57.0	6.15	3.07	0.047	8.0	499	57.0	6.11	3.09	0.047	8.1
Indicated	1,054	55.9	6.77	3.71	0.049	7.9	1,237	56.3	6.12	3.52	0.048	8.0
Inferred	480	55.5	7.12	3.73	0.054	7.9	505	55.9	6.92	3.35	0.059	7.3
Total	**2,069**	**56.1**	**6.69**	**3.55**	**0.050**	**7.9**	**2,241**	**56.4**	**6.30**	**3.39**	**0.050**	**7.8**
Sub-total Chichester Hub												
Measured	1,048	56.9	5.82	3.24	0.051	8.3	885	57.1	5.74	3.18	0.049	8.3
Indicated	1,492	56.0	6.75	3.64	0.052	7.9	1,610	56.4	6.18	3.47	0.049	8.0
Inferred	619	55.7	6.98	3.68	0.054	7.9	785	56.0	6.88	3.44	0.056	7.6
Total	**3,159**	**56.2**	**6.49**	**3.51**	**0.052**	**8.0**	**3,280**	**56.5**	**6.23**	**3.39**	**0.051**	**8.0**
Firetail												
Measured	32	57.7	5.91	3.18	0.128	7.7	32	57.7	6.00	3.57	0.140	7.3
Indicated	146	59.0	6.12	2.63	0.111	6.2	152	59.0	6.09	2.54	0.110	6.4
Inferred	132	57.3	6.92	3.38	0.108	7.1	157	57.5	6.89	3.29	0.108	6.9
Total	**310**	**58.2**	**6.44**	**3.01**	**0.111**	**6.8**	**341**	**58.2**	**6.45**	**2.98**	**0.112**	**6.7**
Kings and Queens												
Measured	222	55.2	7.31	2.90	0.091	10.1	119	53.8	7.30	2.56	0.071	8.6
Indicated	729	55.6	7.98	3.29	0.064	8.6	817	55.7	7.75	3.21	0.065	8.8
Inferred	836	55.5	7.78	3.48	0.076	8.7	858	55.6	7.83	3.43	0.077	8.6
Total	**1,788**	**55.5**	**7.81**	**3.33**	**0.073**	**8.8**	**1,794**	**55.5**	**7.76**	**3.28**	**0.071**	**8.7**
Sub-total Solomon Hub												
Measured	254	55.5	7.14	2.94	0.096	9.8	150	54.6	7.03	2.78	0.086	8.3
Indicated	876	56.2	7.67	3.18	0.072	8.2	970	56.2	7.49	3.11	0.072	8.4
Inferred	968	55.8	7.67	3.46	0.080	8.5	1,015	55.9	7.69	3.41	0.081	8.4
Total	**2,097**	**55.9**	**7.60**	**3.28**	**0.079**	**8.5**	**2,135**	**55.9**	**7.55**	**3.23**	**0.078**	**8.4**
Total Hematite Operational Mineral Resources												
Measured	1,307	56.4	6.05	3.17	0.059	8.6	1,035	56.7	5.92	3.12	0.055	8.3
Indicated	2,368	56.0	7.09	3.47	0.060	8.0	2,580	56.3	6.67	3.34	0.058	8.2
Inferred	1,587	55.7	7.40	3.55	0.070	8.2	1,800	55.9	7.34	3.42	0.071	8.0
Total	**5,261**	**56.0**	**6.93**	**3.42**	**0.063**	**8.2**	**5,415**	**56.2**	**6.75**	**3.32**	**0.061**	**8.1**

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

2 The Measured Mineral Resource estimate includes mine and port ore stockpiles totalling 20mt.

Mineral Resources Development Properties – Hematite

Development property Mineral Resources include both JORC 2012 and JORC 2004 compliant estimates. The remaining JORC 2004 resource estimates will be progressively updated to the JORC 2012 standard as development priorities dictate.

Hematite Mineral Resources – as at 30 June 2016

	30 June 2016						30 June 2015					
	In-Situ Tonnes (mt)	Iron Fe %	Silica SiO_2 %	Alumina Al_2O_3 %	Phos P %	Loss On Ignition LOI %	In-Situ Tonnes (mt)	Iron Fe %	Silica SiO_2 %	Alumina Al_2O_3 %	Phos P %	Loss On Ignition LOI %
Greater Chichester												
Measured	-	-	-	-	-	-	-	-	-	-	-	-
Indicated	82	57.9	6.30	2.99	0.053	6.8	82	57.9	6.30	2.99	0.053	6.8
Inferred	409	57.0	6.66	3.61	0.059	6.8	409	57.0	6.66	3.61	0.059	6.8
Total	**491**	**57.1**	**6.60**	**3.51**	**0.058**	**6.8**	**491**	**57.1**	**6.60**	**3.51**	**0.058**	**6.8**
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**
Eliwana and Flying Fish												
Measured	-	-	-	-	-	-	-	-	-	-	-	-
Indicated	-	-	-	-	-	-	-	-	-	-	-	-
Inferred	740	59.1	5.21	2.88	0.091	6.5	740	59.1	5.21	2.88	0.091	6.5
Total	**740**	**59.1**	**5.21**	**2.88**	**0.091**	**6.5**	**740**	**59.1**	**5.21**	**2.88**	**0.091**	**6.5**
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 Hematite 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	916	57.6	5.28	3.09	0.121	8.3	916	57.6	5.28	3.09	0.121	8.3
Inferred	5,413	57.3	6.01	3.47	0.104	7.6	5,413	57.3	6.01	3.47	0.104	7.6
Total	**6,353**	**57.4**	**5.90**	**3.41**	**0.107**	**7.7**	**6,353**	**57.4**	**5.90**	**3.41**	**0.107**	**7.7**

1 The Greater Chichester Mineral Resource includes the Investigator, White Knight, Kutayi and Mount Lewin deposits.

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

3 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 updates for the North Star, Eastern Limb, West Star and Glacier Valley deposits (60.72 per cent Fortescue) were completed in 2016, incorporating additional drilling, including the results of an in-fill reverse circulation drilling campaign across all areas. This drilling has confirmed the tonnage of higher confidence Measured and Indicated Mineral Resource at North Star, Eastern Limb and Glacier Valley, which can potentially be converted to an Ore Reserve. The increase in Magnetite Mineral Resources is predominantly driven by the recent discovery of the Eastern Limb deposit, adjacent to the North Star deposit.

Magnetite Mineral Resources – as at 30 June 2016

	30 June 2016					30 June 2015				
	In-Situ Tonnes (mt)	DTR mass recovery %	In-situ iron Fe %	In-situ Silica SiO_2 %	In-situ Alumina Al_2O_3 %	In-Situ Tonnes (mt)	DTR mass recovery %	In-situ iron Fe %	In-situ Silica SiO_2 %	In-situ Alumina Al_2O_3 %
North Star plus Eastern Limb (60.72%)										
Measured	76	28.7	32.4	39.42	1.90	77	28.5	32.4	39.45	1.90
Indicated	936	26.8	31.1	40.50	2.29	708	26.6	31.7	39.85	2.02
Inferred	2,651	24.7	30.5	41.23	2.62	1,877	23.6	30.5	41.97	2.52
Total	**3,664**	**25.3**	**30.7**	**41.01**	**2.52**	**2,663**	**24.5**	**30.9**	**40.63**	**2.37**
Glacier Valley (60.72%)										
Measured	-	-	-	-	-	-	-	-	-	-
Indicated	350	25.1	32.8	39.301	1.66	343	24.3	32.6	39.10	1.72
Inferred	2,434	222	32.4	39.06	1.76	2,238	21.5	32.2	39.26	1.78
Total	**2,784**	**22.5**	**32.5**	**39.06**	**1.74**	**2,581**	**21.9**	**32.2**	**39.24**	**1.77**
West Star (60.72%)										
Measured	-	-	-	-	-	-	-	-	-	-
Indicated	-	-	-	-	-	-	-	-	-	-
Inferred	258	23.5	29.0	42.90	3.20	261	21.7	28.3	43.35	3.40
Total	**258**	**23.5**	**29.0**	**42.90**	**3.20**	**261**	**21.7**	**28.3**	**43.35**	**3.40**
Total Magnetite Mineral Resources										
Measured	76	28.7	32.4	39.42	1.90	77	28.5	32.4	39.45	1.90
Indicated	1,286	26.4	31.6	40.10	2.12	1,051	25.9	32.0	39.61	1.92
Inferred	5,344	23.5	31.3	40.32	2.26	4,376	22.4	31.2	40.23	2.19
Total	**6,706**	**24.1**	**31.4**	**40.27**	**2.22**	**5,504**	**23.2**	**31.4**	**40.10**	**2.14**

1 Magnetite Mineral Resource estimates, including the North Star, Eastern Limb, Glacier Valley and West Star deposits, are reported according to JORC 2012 standards.

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

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

Estimated Ore Reserves for the Chichester and Solomon Hubs for FY16 were compiled by Mr Martin Slavik and Mr Oliver Wang, full-time employees of Fortescue. Estimated Magnetite Ore Reserves for the Iron Bridge project for FY16 were compiled by Mr Glenn Turnbull, an independent consultant for Golder Associates.

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

Messrs Slavik, Wang and Turnbull have sufficient experience that is relevant to the estimation, assessment, evaluation and economic extraction of Ore Reserves, and to the activity for which they are accepting responsibility to be qualified as Competent Persons as defined in the JORC code.

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

Western Australia Tenure

Holder: Chichester Metals Pty Ltd Status: Granted

FMG mineral rights status: 100% all mineral rights

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

Holder: Chichester Metals Pty Ltd Status: Granted

FMG mineral rights status: 100% iron ore rights

E 46/413

Holder: Chichester Metals Pty Ltd Status: Granted

FMG mineral rights status: N/A

G 46/7	L 45/152	L 46/100	L 46/111	L 46/112
L 46/35	L 46/36	L 46/37	L 46/40	L 46/46
L 46/47	L 46/48	L 46/49	L 46/51	L 46/52
L 46/53	L 46/54	L 46/55	L 46/56	L 46/57
L 46/58	L 46/62	L 46/64	L 46/66	L 46/99
L 47/193	L 47/197	L 47/198	L 47/654	L 47/655
L 47/656	L 47/658	L 47/660	L 47/693	L 47/710
L 47/711				

Holder: Chichester Metals Pty Ltd Status: Application

FMG mineral rights status: N/A

L 47/653 L 47/657 L 47/659

Holder: FMG Magnetite Pty Ltd Status: Granted

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

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

Holder: FMG Magnetite Pty Ltd Status: Granted

FMG mineral rights status: N/A (Note: 1)

L 45/257	L 45/293	L 45/294	L 45/317	L 45/318
L 45/331				

Holder: FMG Magnetite Pty Ltd Status: Application

FMG mineral rights status: N/A (Note: 1)

L 45/320 L 45/319

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

Status: Granted

FMG mineral rights status: 69% all mineral rights (Note: 1, 2)

E 45/4606

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

Status: Granted

FMG mineral rights status: N/A (Note: 1, 2)

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

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

Status: Application

FMG mineral rights status: N/A (Note: 1, 2)

L 45/397

Holder: FMG North Pilbara Pty Ltd Status: Granted

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

E 45/3084 M 45/1244

Holder: FMG North Pilbara Pty Ltd Status: Application

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

P 45/3010

Holder: Pilbara Water & Power Pty Ltd

Status: Granted

FMG mineral rights status: N/A (Note: 1)

L 45/272	L 45/289	L 45/291	L 45/292	L 45/325
L 45/360	L 45/361	L 45/364	L 45/389	

Western Australia Tenure continued

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

FMG mineral rights status: 100% all mineral rights

E 08/1393	E 08/1440	E 08/1626	E 08/1627	E 08/1631
E 08/1878	E 08/1933	E 08/1962	E 08/2003	E 08/2072
E 08/2137	E 08/2200	E 08/2258	E 08/2284	E 08/2398
E 08/2490	E 08/2491	E 08/2497	E 08/2498	E 08/2550
E 08/2557	E 08/2577	E 08/2594	E 08/2625	E 08/2626
E 08/2627	E 08/2652	E 08/2653	E 08/2658	E 08/2662
E 08/2683	E 08/2686	E 08/2687	E 08/2688	E 08/2689
E 08/2690	E 08/2691	E 08/2696	E 08/2697	E 08/2700
E 08/2704	E 08/2705	E 08/2706	E 08/2721	E 08/2728
E 45/2870	E 45/2945	E 45/3191	E 45/3414	E 45/3438
E 45/3473	E 45/3545	E 45/3641	E 45/3659	E 45/3697
E 45/3698	E 45/3705	E 45/3760	E 45/3816	E 45/4148
E 45/4227	E 45/4239	E 45/4265	E 45/4304	E 45/4356
E 45/4380	E 45/4429	E 45/4450	E 45/4451	E 45/4466
E 45/4479	E 45/4489	E 45/4498	E 45/4525	E 45/4526
E 45/4528	E 45/4529	E 45/4530	E 45/4531	E 45/4532
E 45/4549	E 46/1000	E 46/1009	E 46/1034	E 46/1048
E 46/1055	E 46/1074	E 46/1079	E 46/517	E 46/621
E 46/694	E 46/695	E 46/697	E 46/698	E 46/699
E 46/701	E 46/706	E 46/711	E 46/729	E 46/741
E 46/743	E 46/776	E 46/799	E 46/805	E 46/859
E 46/861	E 46/862	E 46/870	E 46/878	E 46/889
E 46/965	E 46/966	E 46/967	E 46/980	E 46/986
E 46/989	E 47/1011	E 47/1016	E 47/1136	E 47/1154
E 47/1155	E 47/1194	E 47/1195	E 47/1196	E 47/1299
E 47/1300	E 47/1301	E 47/1302	E 47/1306	E 47/1319
E 47/1342	E 47/1349	E 47/1351	E 47/1355	E 47/1357
E 47/1370	E 47/1373	E 47/1383	E 47/1384	E 47/1390
E 47/1391	E 47/1392	E 47/1393	E 47/1395	E 47/1396
E 47/1397	E 47/1404	E 47/1419	E 47/1420	E 47/1423
E 47/1433	E 47/1435	E 47/1446	E 47/1447	E 47/1448
E 47/1449	E 47/1453	E 47/1455	E 47/1461	E 47/1479
E 47/1500	E 47/1532	E 47/1533	E 47/1543	E 47/1578
E 47/1579	E 47/1613	E 47/1614	E 47/1623	E 47/1649
E 47/1650	E 47/1675	E 47/1677	E 47/1681	E 47/1682
E 47/1684	E 47/1685	E 47/1686	E 47/1687	E 47/1690
E 47/1702	E 47/1703	E 47/1728	E 47/1735	E 47/1741
E 47/1761	E 47/1762	E 47/1763	E 47/1764	E 47/1772
E 47/1809	E 47/1818	E 47/1821	E 47/1832	E 47/1833
E 47/1846	E 47/1861	E 47/1879	E 47/1920	E 47/1921
E 47/1927	E 47/1944	E 47/1988	E 47/2037	E 47/2061
E 47/2062	E 47/2085	E 47/2119	E 47/2143	E 47/2146
E 47/2160	E 47/2172	E 47/2173	E 47/2239	E 47/2240
E 47/2285	E 47/2331	E 47/2333	E 47/2378	E 47/2442
E 47/2465	E 47/2496	E 47/2538	E 47/2664	E 47/2665

E 47/2666	E 47/2675	E 47/2729	E 47/2739	E 47/2879
E 47/2914	E 47/2918	E 47/2919	E 47/2920	E 47/2921
E 47/2922	E 47/2986	E 47/3001	E 47/3004	E 47/3013
E 47/3014	E 47/3016	E 47/3051	E 47/3080	E 47/3081
E 47/3125	E 47/3126	E 47/3133	E 47/3150	E 47/3153
E 47/3161	E 47/3162	E 47/3163	E 47/3194	E 47/3201
E 47/3207	E 47/3211	E 47/3218	E 47/3219	E 47/3220
E 47/3225	E 47/3226	E 47/3227	E 47/3228	E 47/3245
E 47/3252	E 47/3254	E 47/3255	E 47/3264	E 47/3270
E 47/3280	E 47/3291	E 47/3292	E 47/3296	E 47/3307
E 47/3311	E 47/3313	E 47/3315	E 47/3318	E 47/3321
E 47/3334	E 47/3347	E 52/1763	E 52/1779	E 52/1788
E 52/1789	E 52/1790	E 52/1937	E 52/2034	E 52/2035
E 52/2114	E 52/2311	E 52/2521	E 52/2522	E 52/2555
E 52/2594	E 52/2620	E 52/2637	E 52/2730	E 52/2745
E 52/2748	E 52/2928	E 52/2933	E 52/3016	E 52/3060
E 52/3097	E 52/3107	E 52/3108	E 52/3134	E 52/3135
E 52/3160	E 52/3184	E 52/3204	E 52/3206	E 52/3207
E 52/3208	E 52/3209	E 52/3210	E 52/3211	E 52/3213
E 52/3243	E 52/3244	E 52/3245	E 52/3247	E 52/3256
E 52/3261	E 52/3294	E 52/3312	E 52/3343	M 45/1177
M 47/1407	M 47/1408	M 47/1409	M 47/1410	M 47/1411
M 47/1413	M 47/1417	M 47/1431	M 47/1433	M 47/1434
M 47/1453	M 47/1466	M 47/1473	M 47/1474	M 47/1475
M 47/1488	M 47/1489	M 47/1492	P 08/531	P 08/532
P 08/556	P 08/624	P 45/2748	P 45/2862	P 45/2863
P 45/2864	P 45/2865	P 45/2932	P 45/2934	P 47/1257
P 47/1269	P 47/1270	P 47/1278	P 47/1279	P 47/1286
P 47/1287	P 47/1304	P 47/1305	P 47/1306	P 47/1309
P 47/1316	P 47/1317	P 47/1318	P 47/1397	P 47/1404
P 47/1407	P 47/1408	P 47/1409	P 47/1410	P 47/1411
P 47/1412	P 47/1423	P 47/1427	P 47/1469	P 47/1470
P 47/1545	P 47/1553	P 47/1554	P 47/1609	P 47/1633
P 47/1640	P 47/1641	P 47/1642	P 47/1643	P 47/1644
P 47/1645	P 47/1646	P 47/1647	P 47/1649	P 47/1650
P 47/1663	P 47/1664	P 47/1665	P 47/1666	P 47/1667
P 47/1668	P 47/1669	P 47/1670	P 47/1671	P 47/1672
P 47/1673	P 47/1674	P 47/1675	P 47/1696	P 47/1722
P 47/1735	P 47/1736	P 47/1768	P 47/1771	P 52/1421
P 52/1422	P 52/1485			

Western Australia Tenure continued

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

FMG mineral rights status:
100% iron ore rights, 37.76% non-iron (Note 3)

E 08/1632 E 08/1915 E 08/1949 E 08/1950 E 08/2000
E 08/2038 E 08/2039 E 08/2065 E 08/2067 E 08/2114
E 47/1773 E 47/2171 E 47/2236 E 47/2292 E 52/2484
E 52/2786

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

FMG mineral rights status: 100% all mineral rights except diamonds

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

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

FMG mineral rights status: N/A

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

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

FMG mineral rights status: 100% all mineral rights

E 08/2609 E 08/2778 E 08/2786 E 08/2790 E 08/2792
E 08/2804 E 08/2805 E 08/2806 E 08/2827 E 08/2849
E 45/4369 E 45/4497 E 45/4545 E 45/4578 E 45/4579
E 45/4580 E 45/4581 E 45/4582 E 45/4589 E 45/4591
E 45/4664 E 45/4718 E 45/4720 E 45/4725 E 45/4728
E 45/4755 E 45/4756 E 45/4781 E 45/4783 E 45/4792
E 45/4793 E 45/4794 E 45/4795 E 46/1045 E 46/1046
E 46/1047 E 46/1049 E 46/1053 E 46/1071 E 46/1072
E 46/1076 E 46/1077 E 46/1078 E 46/1080 E 46/1081
E 46/1085 E 46/1097 E 46/1101 E 46/1117 E 46/1120
E 46/1121 E 46/1122 E 46/1125 E 46/1126 E 46/1127
E 46/1128 E 46/1135 E 46/1136 E 46/1137 E 46/1139
E 47/2985 E 47/3097 E 47/3098 E 47/3171 E 47/3205
E 47/3222 E 47/3258 E 47/3262 E 47/3263 E 47/3277
E 47/3278 E 47/3279 E 47/3332 E 47/3333 E 47/3335
E 47/3343 E 47/3350 E 47/3372 E 47/3379 E 47/3380
E 47/3381 E 47/3397 E 47/3402 E 47/3403 E 47/3404
E 47/3405 E 47/3406 E 47/3407 E 47/3408 E 47/3409
E 47/3410 E 47/3411 E 47/3424 E 47/3432 E 47/3435
E 47/3438 E 47/3444 E 47/3445 E 47/3448 E 47/3451
E 47/3454 E 47/3455 E 47/3463 E 47/3464 E 47/3482
E 47/3483 E 47/3484 E 47/3498 E 47/3499 E 47/3500
E 47/3501 E 47/3505 E 47/3506 E 47/3511 E 47/3512
E 47/3513 E 47/3517 E 52/3233 E 52/3303 E 52/3309
E 52/3310 E 52/3369 E 52/3370 E 52/3371 E 52/3372
E 52/3373 E 52/3374 E 52/3375 E 52/3376 E 52/3377
E 52/3378 E 52/3396 E 52/3441 M08/502 M 47/1456
M 47/1457 M 47/1458 M 47/1459 M 47/1476 M 47/1477
M 47/1478 M 47/1481 M 47/1490 M 47/1493 M 47/1497
M 47/1508 M 47/1509 M 47/1510 M 47/1511 P 47/1772
P 47/1774 P 47/1775 P 47/1776 P 47/1777 P 52/1523
P 52/1524 P 52/1525

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

FMG mineral rights status: N/A

L 47/713 L 47/714 L 47/716 L 47/752 L 47/754

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

FMG mineral rights status: 100% all mineral rights

E 29/929 E 29/938 E 29/946 E 45/4150 E 45/4349
E 45/4350 E 45/4576 E 45/4577 E59/1275 E59/1360
E 69/3304 E 69/3305 E 69/3385 E 77/2157 E 77/2158
E 77/2159 E 77/2262 E 77/2292 P 29/2359

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

FMG mineral rights status: 100% iron ore rights, 36.76% non-iron (Note 3)

E 08/2280 E 08/2282

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

FMG mineral rights status: 100% all mineral rights

E 04/2323 E 04/2129 E 04/2322 E 45/4737 E 77/2357

Holder: Pilbara Gas Pipeline Pty Ltd **Status: Granted**

FMG mineral rights status: N/A

L 45/334 L 45/336 L 45/339 L 45/342 L 45/343
L 45/344 L 45/345 L 45/346 L 45/347 L 45/349
L 45/352 L 45/353 L 47/696 L 47/697

Holder: Pilbara Gas Pipeline Pty Ltd **Status: Application**

FMG mineral rights status: N/A

L 45/332 L 45/333 L 45/335 L 45/337 L 45/338
L 45/340 L 45/348 L 47/695

Western Australia Tenure continued

Holder: Pilbara Iron Ore Pty Ltd Status: Granted

FMG mineral rights status: 50% all mineral rights (Note 4)

E 47/1191 E 47/1192 E 47/1224 E 47/1225 E 47/1235
E 47/1380 M 47/580

Holder: Pilbara Iron Ore Pty Ltd Status: Application

FMG mineral rights status: N/A (Note 4)

L 47/205

Holder: The Pilbara Infrastructure Pty Ltd

Status: Granted

FMG mineral rights status: N/A

AL 70/1 (L 1SA) G45/286 L45/199 L46/86 L46/87
L46/96

Holder: The Pilbara Infrastructure Pty Ltd

Status: Application

FMG mineral rights status: N/A

L47/661 L47/758 L47/759 L47/760 L47/761

Third Party Tenure

Holder: Ammon, Derek Status: Granted

FMG mineral rights status: 40% all mineral rights (Note 5)

E 47/1140

Holder: Ammon, Derek Status: Application

FMG mineral rights status: 40% all mineral rights (Note 5)

M 47/583

Holder: Archipelago Nominees Pty Ltd

Status: Granted

FMG mineral rights status: 100% all mineral rights except rock products

M 45/1229

Holder: Baldock FE Pty Ltd Status: Granted

FMG mineral rights status: 100% all mineral rights

E 47/2774

Holder: BC Iron Ltd Status: Granted

FMG mineral rights status: 25% iron ore rights (Note 6)

E 46/522 E 46/523 M 46/515

Holder: BC Iron Ltd Status: Granted

FMG mineral rights status: N/A (Note 6)

G 46/8 G 46/9 L 46/68 L 46/73 L 46/74
L 46/75 L 46/76

Holder: BC Iron Ltd Status: Granted

FMG mineral rights status: 25% iron ore rights (Note 6)

E 45/2717 E 46/524 E 46/651 E 46/652 E 46/655
E 46/663 E 46/928 E 46/969 M 46/522 M 46/523

Holder: BC Iron Nullagine Pty Ltd Status: Granted

FMG mineral rights status: N/A (Note 6)

L 46/79 L 46/80 L 46/81 L 46/82 L 46/83
L 46/84 L 46/85 L 46/93 L 46/94 L 46/95
L 46/114 L 46/118 L 46/119

Holder: Cullen Exploration Pty Ltd Status: Granted

FMG mineral rights status: Beneficial right to earn 51% iron ore rights

E52/1667

Holder: Dynasty Resources Ltd Status: Granted

FMG mineral rights status: 100% all mineral rights

E 47/3094

Holder: Global Advanced Metals Pty Ltd

Status: Granted

FMG mineral rights status: 100% iron ore rights

E 45/4025 E 45/4024

Holder: Livno Consolidated Pty Ltd Status: Granted

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

E 45/4021

Holder: Ryan, David Status: Granted

FMG mineral rights status: 100% all mineral rights except crocidolite

P 47/1275

Holder: Williamson, Richard Status: Granted

FMG mineral rights status: 100% all mineral rights except tiger eye

P 47/1695

New South Wales Tenure

Holder: Gold and Copper Resources Pty Ltd

Status: Granted

FMG mineral rights status: Earning 51% metallic mineral rights (Note 7)

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

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

FMG mineral rights status: Earning 51% metallic mineral rights (Note 7)

EL 6481

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

FMG mineral rights status: Earning 51% metallic mineral rights (Note 7)

EL 6249 EL 6562

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

FMG mineral rights status: Earning 51% metallic mineral rights (Note 7)

EL 6455 (partial)

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

FMG mineral rights status: Earning 51% metallic mineral rights (Note 7)

EL 6456

South Australian Tenure

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

FMG mineral rights status: 100% all mineral rights

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

Notes

1 FMG Magnetite Pty Ltd, FMG North Pilbara Pty Ltd and Pilbara Water and Power Pty Ltd are subsidiaries of FMG Iron Bridge Limited which is owned 88 per cent by Fortescue Metals Group Ltd and 12 per cent by Baosteel Resources International Co. Ltd.

2 Joint Venture with FMG Magnetite Pty Ltd and Formosa Steel IB Pty Ltd. Formosa holds 31 per cent interest in title.

3 Joint Venture with Northern Star Resources Ltd. Northern Star Resources Ltd holds a 63.24 per cent beneficial interest in non-iron mineral rights.

4 Unincorporated Joint Venture between Fortescue Metals Limited and Consolidated Minerals Limited.

5 Title has been contested and is currently being litigated.

6 Joint Venture with FMG Pilbara Pty Ltd, BC Iron Nullagine Pty Ltd and BC Iron Ltd. BCI holds 75 per cent interest in title.

7 Joint Venture with FMG Resources Pty Ltd and Gold and Copper Resources Pty Ltd, Gosling Creek Pty Ltd, Gum Ridge Mining Pty Ltd, Lucknow Gold Limited, Tom's Waterhole Pty Ltd. Fortescue are farming in to earn up to a 51 per cent interest in the metallic mineral rights.

Values

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

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

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

Determination
- Drive for outcomes
- Never give up

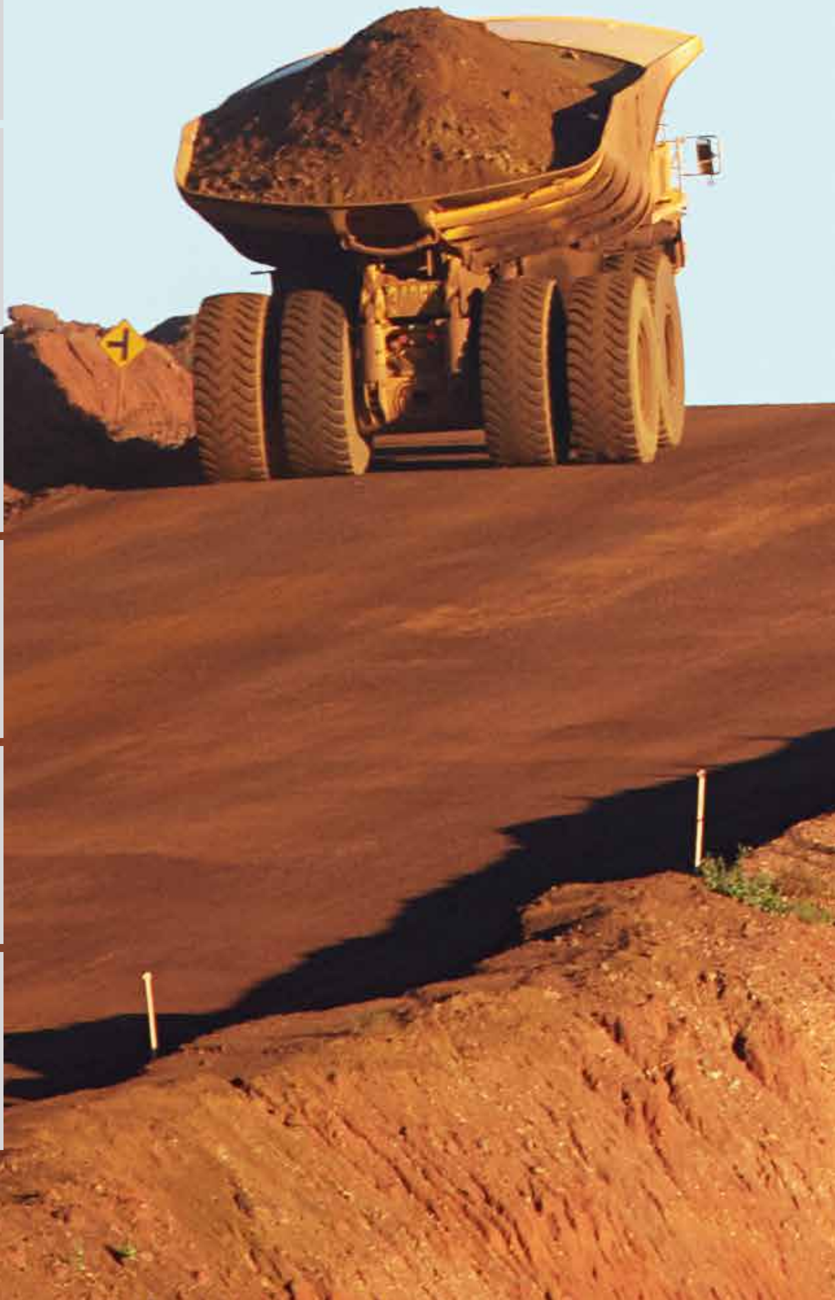
Generating ideas
- Never accept the status quo
- Always be on the lookout for better ways

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

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

Set yourself Stretch Targets

Enthusiasm
- Be enthusiastic
- Be energetic
- Be positive



Corporate Social Responsibility

What does CSR mean to Fortescue?

Fortescue's commitment to delivering positive social change by contributing to ending disadvantage amongst Aboriginal people in the Pilbara, promoting diversity in the workplace and addressing environmental challenges such as climate change, are important elements of the Company's CSR strategy.

Fortescue recognises that in order to achieve its vision of being the safest, lowest cost, most profitable iron ore producer, Corporate Social Responsibility (CSR) must be a focus in every aspect of the business.

Leveraging the significant opportunities that arise from its operations, both for people and the environment, is central to Fortescue's approach to CSR. CSR is Fortescue's commitment to behave ethically, to create value for the company's stakeholders and to leave the communities and the environments in which the Company operates in a demonstrably better position.

Approach to CSR

Fortescue's values sit at the apex of the Company's approach to CSR. The Fortescue values set the ethical and moral compass by which the Company undertakes its business. The Code of Conduct establishes the essential standards of personal and corporate conduct and behaviour expected of all Fortescue People. Fortescue endorses or has formally joined a number of voluntary initiatives promoting the highest level of standards in relation to CSR including engaging with the United Nations Global Compact (UNGC). This report communicates the Company's progress against the principles of the UNGC and informs Fortescue's stakeholders. These voluntary commitments and principles guide Fortescue's approach to CSR.

CSR reporting

This report contains Standard Disclosures from the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines, which are also referenced in the ASX Corporate Governance Principles and Recommendations. A copy of the GRI Navigational Index is available at www.fmgl.com.au

The overall approach to audit and assurance is outlined in the Corporate Governance Statement, which is available at fmgl.com.au, with the data on Greenhouse Gas (GHG) emissions, total energy consumption and total energy production independently assured.

This information was the subject of a limited assurance by auditors, PricewaterhouseCoopers, in accordance with the National Greenhouse and Energy Reporting (Audit) Determination 2009 and ASAE 3410: Assurance Engagements on Greenhouse Gas Statements (ASAE 3410), as well as the Australian Standard on Assurance Engagements. In addition, the results of our Aboriginal contracting strategy, Billion Opportunities, were audited by the Group's internal audit function.

Fortescue's CSR report takes into account:

- Review and prioritisation of issues identified in Fortescue's Risk Management Framework
- Materiality assessment carried out in development of the updated CSR strategy
- The content of public disclosure on key issues within the industry
- Fortescue's commitments and policies which guide its CSR agenda
- Requirements of relevant global frameworks such as the UNGC, International Council on Mining and Metals (ICMM) and GRI
- Stakeholder interests and concerns based on Fortescue's existing stakeholder engagement programs.

Looking ahead to FY17

During FY16, Fortescue reviewed its approach to CSR and will refresh its approach in FY17. Through the new CSR strategy, Fortescue aims to further enhance the highly developed sustainability and community development initiatives in place.

Development of the CSR strategy brought together expertise and experience in corporate governance, health and safety, procurement, environment, people, community, engineering and operations from across the business. The process focussed on materiality and risk assessment, considered stakeholders and identified opportunities to make a significant contribution in the environments and communities in which Fortescue operates. These opportunities in turn will be underpinned by a set of key objectives which will drive corporate wide targets.

During 2017, Fortescue's operational sites will develop local CSR plans to implement the whole of business strategy and further integrate sustainable development considerations within Fortescue's corporate decision-making process. Fortescue anticipates that from 2017, the Company's sustainability reporting will reflect the CSR strategy and localised CSR implementation plans and will seek to be in accordance with the GRI G4 standard.

Focus areas

The following environmental, social and broader economic considerations were considered in the CSR report and are explored further in this section:

- Ethical conduct, bribery and corruption
- Ending modern slavery and ethical supply chain
- Human rights
- Tax transparency and governance
- Employee health, safety and wellbeing
- Local community engagement – residential workforce, local and Aboriginal content
- Engaging with stakeholders
- Climate change
- Water resources
- Biodiversity
- Life of mine planning – environmental and community
- Economic performance.

The aspect boundaries are within the narrative of this report.

Tax transparency and governance

Fortescue's overarching tax strategy of operating in good faith, with transparency, and fully complying with the prevailing tax laws of all jurisdictions where business is undertaken reinforces our classification as a compliant and low risk taxpayer by all revenue authorities. Fortescue seeks to have good working relationships with revenue authorities and to fully discharge its tax obligations whilst not incurring any additional unnecessary costs or liabilities.

Fortescue achieves its tax strategy by employing a designated tax team whose primary function is to be proactively involved in the business operations to ensure all tax risks are identified and managed in accordance with Fortescue's formal Tax Risk and Governance Framework. The tax function is responsible for managing all relevant relationships with regulators, external expert advisors, and industry bodies. Through the creation of strong relationships with these external parties, Fortescue ensures mutual trust and cooperation is fostered, which in turn allows for proactive and appropriate tax risk management to be achieved.

Tax risks are reported and monitored on an ongoing basis. Fortescue's comprehensive Tax Risk and Governance Framework prescribes the process of identifying, characterising and managing tax risks, and requires any significant tax issues and risks to be escalated and reported in a timely manner through the Chief Financial Officer, the Audit and Risk Management Committee, and ultimately the Fortescue Board.

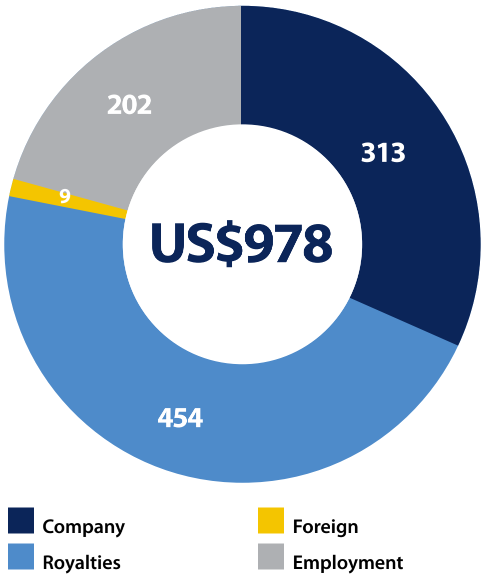
Tax contribution

Fortescue operates in Australia and a variety of international locations and pays taxes according to the prevailing tax laws in each jurisdiction. The breadth of taxes applicable to Fortescue's business encompass Company taxes, value added taxes, royalties, stamp duties, excise and import duties, withholding taxes and comprehensive employer taxes such as fringe benefits taxes, payroll taxes and various employee insurances. As Fortescue's main operations are located and operated in Australia the majority of the Group's tax liabilities are paid in Australia. Furthermore, given the current structure of Fortescue's international operations, and the application of Australia's Controlled Foreign Companies (CFC) tax rules, all relevant foreign income is ultimately attributed to, and assessed in Australia at prevailing Australian rates of tax.

A summary of Fortescue's 2016 financial year tax obligations are detailed below:

FY16 Tax obligations US$m

Fortescue regularly evaluates commercial opportunities to enhance shareholder value. The Fortescue tax team is actively involved in all proposed opportunities to ensure that all tax sensitivities in relevant jurisdictions are thoroughly considered, and all potential tax risks are identified and appropriately addressed in a complete and timely manner.



Fortescue recognises the need for broad and comprehensive tax reporting and is committed to the ongoing development of transparent reporting metrics in relation to all of its taxes paid in Australia and overseas. Fortescue is committed to achieving this by focussing on the continuous improvement of internal tax policies, application of industry best practices, consideration of feedback from key stakeholders and the adoption of relevant legislative developments.

Safety

A safe and healthy workforce

Fortescue is committed to being a global leader in safety and believes it is everyone's responsibility to be their brother's and sister's keeper. The focus on safety leadership and culture empowers everyone at Fortescue to pause and reassess the task to ensure it is always safe.

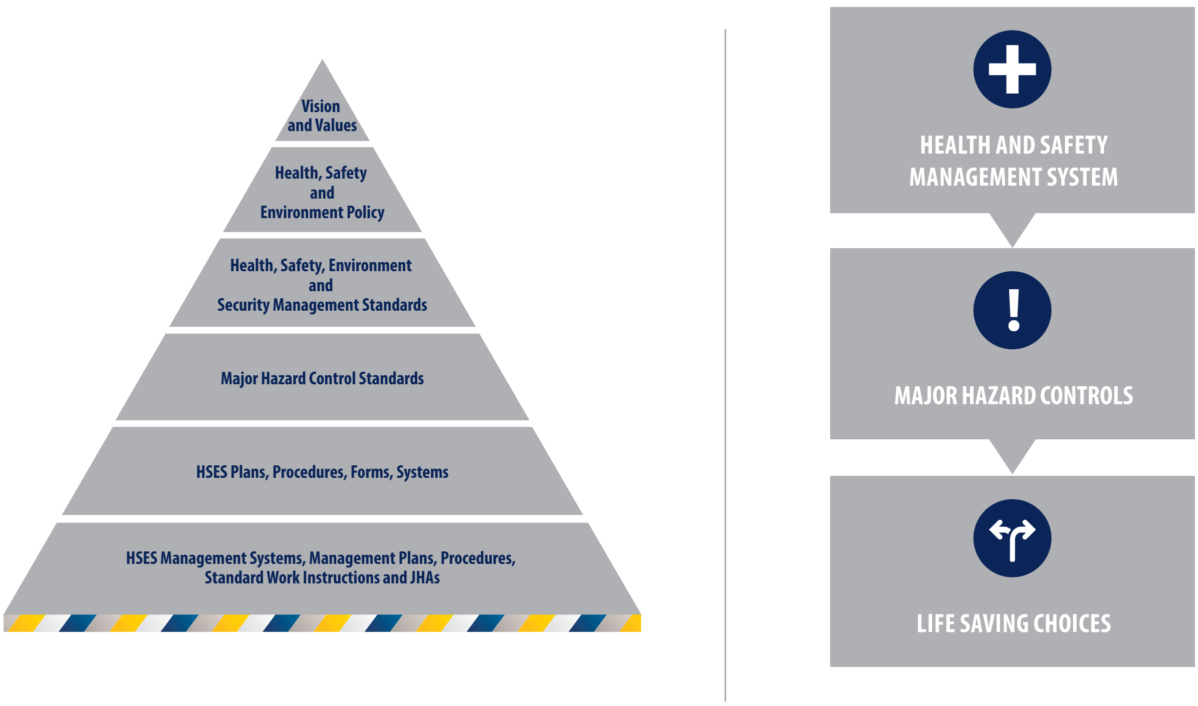
Approach to safety

Fortescue recognises health and safety is inherent to productive mining and adopts a continuous improvement approach to health and safety performance. Safety is embedded in Fortescue's Risk Management Framework which is focussed on all operations that have a potential impact on health and safety.

Fortescue's Health and Safety Program is represented as a tiered system which provides a common approach across the business.

- Safety is Fortescue's highest priority and one of the Company's values
- Safety leadership is inherent in Fortescue's vision to be the safest, lowest cost, most profitable iron ore producer
- The Health and Safety Management System is the overarching framework which includes all of the controls required to achieve safe outcomes
- The Major Hazard Control Standards Management Program features 59 common and 14 site specific critical controls. These critical controls are monitored by leaders to ensure fatality risks are minimised
- Life Saving Choices empower individuals to manage the safety risk where they have direct control on the job. They consist of a set of 12 memorable, simple rules for all employees and contractors
- A blueprint for managing mental health outlines Fortescue's comprehensive approach to effectively managing the health and wellbeing of the workforce.

Fortescue's Health and Safety Program



Safety reporting

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

In FY16, Fortescue's TRIFR reduced to 4.3 per million hours worked, a 15 per cent improvement compared to the previous year and a 70 per cent improvement over the past five years.

In May 2016, an independent, external Safety Excellence Survey of employees and contractors was conducted with over 6,000 responses received. The survey is in its third consecutive year and is a key tool for engaging with team members and recognising and identifying further improvement opportunities to Fortescue's unique safety culture.

Following an investigation into the December 2013 fatal injury of Alan Zuvela in an accident in the heavy vehicle workshop at Christmas Creek, the WA Department of Mines and Petroleum charged Mesa West Pty Ltd, a contracting company working at Fortescue for failing to provide a safe working environment. Mesa West pleaded guilty and was fined A$20,000 in May 2016.

In May 2016, The Pilbara Infrastructure Pty Ltd pleaded guilty to a charge relating to an incident which took place at Port Hedland in July 2011, in which Mr Bevan Coutts sustained serious injuries. The Pilbara Infrastructure Pty Ltd was fined A$50,000.

Contractor Shutdown Leadership

Planned shutdown maintenance is an integral part of the operation of a mine site. During a planned shutdown period, anywhere between 50 and 700 extra workers can be on site.

In FY16, Fortescue introduced a Shutdown Safety Leadership training program. The program was designed in consultation with Fortescue's key contracting partners and is primarily focussed on enhancing the skills and knowledge of the leadership team to improve shutdown safety performance.

This program is part of a series of new initiatives aimed at aligning contractor supervision and leadership with Fortescue's safety priorities. Forums are co-presented by Fortescue shutdown leaders and senior leaders from major contractors, focussing on four key areas:

1. Fatality prevention
2. Current shutdown safety performance
3. Safety culture and leadership
4. Roles of the supervisor, including areas of responsibility.

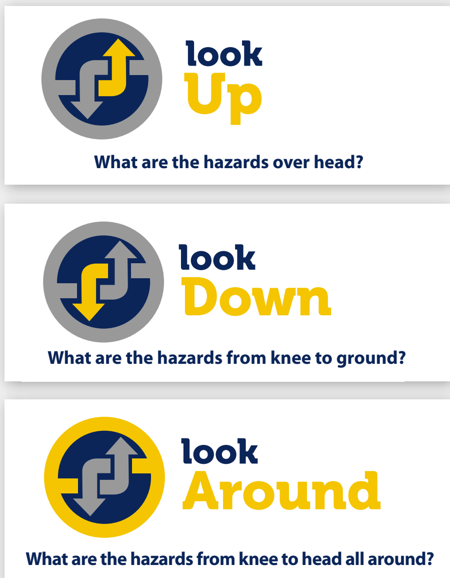
Over 130 contractor leaders have participated in the program since March 2016. Feedback from participants indicates the program has been a success, contributing positively to the culture and engagement of the shutdown teams. The success of this program will continue to increase the alignment between Fortescue and its contracting companies.

Understanding exposure: situational awareness and hazard assessment

As part of Fortescue's ongoing commitment to creating a safer workplace, a new approach to safe management of tasks was introduced, encompassing:

- Greater emphasis on situational awareness – look up, down and around
- Increased focus on exposure through assessment of the hazards and behaviours that could lead to incidents and injuries
- Identification of changes (hold points) that could increase exposures before the commencement of a task.

Since the launch in November 2015, over 8,000 employees and contractors have been trained in how to understand and control exposures and recognise changes in exposure that could lead to injuries and incidents.



People

Working together

Fortescue's workforce

Fortescue is a values-based business with a strong, differentiated culture. The Company believes that by leveraging the unique and differentiating culture of its greatest asset, its people, it will achieve stretch targets in all its key pillars.

As Fortescue has moved from the construction phase to steady state operations, at a time of volatility in the iron ore market, the Company has been focussed on operating as efficiently and productively as possible. A thorough organisational review was performed, initiating a number of key projects focussed on improving productivity and efficiency. It is important to note that Fortescue's commitment to stretch targets for diversity have been maintained throughout the organisational reviews, including reaching 20 per cent Aboriginal employment by 2020 and 25 per cent female employment by 2020.

As at 30 June 2016, Fortescue employed 3,890 direct employees, with contractors employing a further 4,205 people at operational sites (excluding shutdown contractors). In total, 52 per cent of employees are covered by enterprise agreements.

As at 30 June 2016, annualised voluntary turnover was 13.6 per cent. In the fourth quarter of FY16, the voluntary turnover rate trended downwards at 7.4 per cent.

A number of internal channels are used to regularly engage with the geographically disparate Fortescue family and to communicate transparent, accurate and timely information. Key channels include:

- Fortescue Hub, the company's intranet, which was upgraded to be mobile responsive
- Fortescue TV installed across all of Fortescue's operations in 57 locations
- Fortescoop, fortnightly internal newsletter launched
- Weekly, whole of team meetings which are streamed live to sites.

Maintaining a high performance culture

Fortescue's leaders are critical to reinforcing, and leveraging, the Company's unique culture to drive business performance. Together with their teams, leaders are empowered to focus on innovation to achieve the Company's safety, cost and production targets.

The Leadership Excellence Pathway continues to strengthen Fortescue's internal leadership group. Delivered internally by subject matter experts and senior leaders, the program involves a four-day Leadership Fundamentals Program, site-based Leadership Development Program, and external leadership forums. During the year, 532 current and emerging leaders completed formal leadership training.

Meet Jeffrey Farrell, Supervisor – Mobile Maintenance

Fortescue is committed to supporting the next generation of Aboriginal leaders, helping them challenge the status quo and take positive steps towards becoming future business leaders.

In late 2015, the Leadership and Excellence in Aboriginal People (LEAP) program was launched with 14 participants, including Jeffrey Farrell.

Jeffrey has been working at the Mobile Maintenance department at Christmas Creek for over two years.

After completing the LEAP program, which gives motivated and high performing Aboriginal employees the opportunity to be coached for future leadership roles, Jeffrey was promoted into the role of Ancillary Fleet 2IC. He is now part of the Mobile Maintenance planning team which schedule maintenance for the 250 mobile assets at Christmas Creek. Due to his hard work and leadership ability, Jeffrey was recently promoted to Supervisor.

"The LEAP program gave me insight as to what is required to be a leader and helped me realise that a leadership role is something that I can achieve," Jeffrey said.

14% Aboriginal participation (national best practice)

84 people trained through VTEC

33% female VTEC participants

Living the family values

'Speak Up' program

Ensuring Fortescue is a safe and happy workplace is a fundamental Fortescue value. Whether it's about a safety breach, bullying and harassment or inappropriate use of alcohol and drugs, employees feel empowered to 'speak up'. The program provides a number of confidential channels for people to share their concerns in a fair, balanced and confidential manner. It's all about employees being their brothers' and sisters' keeper.

Building on the success of 'Speak Up', and following consultation within the business, Fortescue will refresh the RESPECT training program in FY17 to ensure continued, positive engagement.

Workforce equality and diversity

Fortescue is committed to providing a safe, balanced and fair working environment where core values drive behaviour and a strong culture.

The Fortescue Board of Directors proudly includes three female directors, out of a total of ten. In September 2015, Fortescue announced its membership of the 30% Club Australia, a club which aims for 30 per cent of women on ASX 200 boards by 2018.

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

Meet Jessica Mattingley, Electrical Project Engineer

Jessica Mattingley is an Electrical Project Engineer in Fortescue's Operational Projects team. The Projects team is responsible for the design and delivery of capital projects across all sites in order to achieve increased operating efficiencies and overall business improvements.

Having joined Fortescue through the vacation program in 2011, Jessica went on to complete the Graduate program. The Graduate program allowed her to rotate through Fortescue's sites and departments to gain a whole of business perspective while developing her technical skills in different fields.

Reflecting on her time at Fortescue, Jessica says she enjoys working with her team to achieve results. "At Fortescue, you always need to think differently to achieve results in such a fast-paced environment. We always find a better way of doing something and that keeps things interesting," Jessica said.

In FY16, 33 participants accepted the opportunity to work on the FIFO, vacation program. Of the participants, 50 per cent were female.

Employee Group	Female			Female %			Male			Male %		
	FY14	FY15	FY16	FY14	FY15	FY16	FY14	FY15	FY16	FY14	FY15	FY16
Whole of Fortescue	793	657	628	17.4%	16.2%	16.1%	3,770	3,401	3,270	82.6%	83.8%	83.9%
Senior Executive	4	6	5	9.5%	16.2%	14.3%	38	31	30	90.5%	83.8%	85.7%
Board Members	2	3	3	16.7%	30.0%	30.0%	10	7	7	83.3%	70.0%	70.0%

Meet Jade Wilson, Apprentice Fixed Plant Mechanic

As a young girl, Jade Wilson remembers her dad pulling things apart, fixing them and putting them back together, leaving her with a strong interest in how things work. Jade, a Umadai woman, joined Fortescue in 2012 as a civil operator and was very keen to develop her skills further. However, her applications for apprenticeship training were unsuccessful mainly due to her limited formal education.

Fortescue's Trade Up was designed to provide a pathway to an apprenticeship for Fortescue's Aboriginal employees. Participants are selected annually to start a 12-month, nationally accredited traineeship, after which they have the opportunity to begin a four-year apprenticeship program.

Jade Wilson says Fortescue's Trade Up "is a great opportunity to better my studies and knowledge while I work in the role I want and learn on the job."

Jade recently began her apprenticeship as a Fixed Plant Mechanic thanks to the program.

Identified Opportunity	Recommended Measurable Objectives FY16	Progress
Continue to build awareness of the benefits of gender diversity within the business	Nominate female employees for internal and industry awards	Internal recognition program, Northern Spirits, includes an award 'Inspiring female employees to thrive' Seven female employees submitted for FY16 CME Women in Resources awards
	Ongoing diversity and equal opportunity communication and training, including: • RESPECT • Code of Conduct • Equal Employment Harassment and Bullying • Fair treatment • Whistleblowing Policy	Included in all inductions and leadership programs along with 'Speak Up' internal communications campaigns
	Review and update Fortescue's Diversity Policy	Review completed by the Company Secretary in May 2016
	Obtain employee feedback on diversity via a company wide survey	Safety Excellence and Culture Survey completed in May 2016
Ensure remuneration outcomes are based on job value	Complete annual gender remuneration parity review and implement recommended actions	Gender equity pay review completed in FY16 Anomalies corrected and communicated to those affected

FY17 Diversity Plan

The FY17 Diversity Plan has been developed following four business wide consultation sessions with over 250 employees. The sessions illustrated what Fortescue's employees thought the Company's strengths and opportunities were to further strengthen diversity.

Generally, employees viewed diversity as: "Developing teams with a broad range of personalities, skills and experience, and embracing the new ideas and innovative ways of doing things that come from this. Celebrating and respecting people's differences and committing to being inclusive at all times."

The measurable diversity objectives for FY17 form five key themes:

- Continue to increase the female participation rate:
  - Company wide target set at 25 per cent for female participation by 2020.
- Build talent pools:
  - Set targets for internal and external recruitment providers of 20 per cent female participation by FY17
  - Attract parents to return to work following career breaks
  - Develop training pathways into ore processing roles
  - Encourage female employees to obtain professional qualifications.
- Create a workplace which supports diversity:
  - Celebrate success in diversity through the Company's recognition programs
  - Encourage all eligible employees to access paid parental leave and to return to work following parental leave.
- Provide childcare options so families can balance work and family responsibilities
  - Develop a crèche / study area for Fortescue's Perth office
  - Support employees when attending company meetings and 'keep in touch' with childcare options
  - Review day care options
  - Support employees with family responsibilities through family site visits and community based family support.
- Support and promote opportunities for aspiring female leaders:
  - Identify females with leadership potential through talent reviews and ensure participation in leadership development programs
  - Continue the Career Resiliency Program, the CEO for a Day initiative and mentoring programs.

Community

Building strong communities

A vision for empowerment

Empowerment is a Fortescue value and fundamental to the approach of building vibrant and strong local communities by providing opportunities for training, education, employment and business development.

Fortescue is committed to local employment, a residential workforce, and training and employment for Aboriginal people to create opportunities and growth within the regions in which it operates. Fortescue's community team is guided by the philosophy of being welcomed by the communities that host its business activities. It works towards this goal through effective engagement with stakeholders, respect for cultural heritage and diversity, investment in community projects and programs, and fostering a strong residential workforce.

This approach is underpinned by Fortescue's commitment to the Western Australian Government to contribute to sustainable community and social benefits as outlined in the Company's Community Development Plans and Reports.

Meet Catriona Dowding, Community Advisor

A Ngarluma woman from Roebourne, Catriona Dowding is a member of the community team at Fortescue, based at the South Hedland Shopping Centre. Catriona and the community team interact with more than 700 Port Hedland residents every year. Catriona oversees the two community grant rounds held annually in the Town of Port Hedland, East Pilbara shire and the towns of Tom Price and Roebourne. She also represents Fortescue in the local community, including as a member of the organising committee for Port Hedland's 120th birthday celebrations.

Having lived in remote communities before, Catriona's goal is to contribute to communities, such as Port Hedland in a meaningful way. "I am really proud to be part of a team that is dedicated to making Port Hedland the best it can be," Catriona said.

Contributing to ending Aboriginal disadvantage

Fortescue believes that its operations provide a unique opportunity to empower generational change in the Aboriginal communities of the Pilbara. Fortescue's commitment to employing, training and providing business opportunities to Aboriginal communities is central to the way it conducts its business. These programs have been developed in close consultation with Aboriginal communities determined to see Aboriginal people take their stake in the Pilbara, and the broader Australian economy.

Investing in sustainable Aboriginal businesses

Fortescue's Billion Opportunities program commenced in 2011 as an initiative to promote sustainable business opportunities for Aboriginal people. Aligning with Fortescue's commitment to support local businesses, Billion Opportunities forms a critical element of Fortescue's approach to ensuring economic opportunity is the key benefit to flow from Native Title agreements.

Since its inception, Billion Opportunities has awarded 238 contracts and sub-contracts worth more than A$1.8 billion to 102 Aboriginal owned businesses and joint ventures, with a particular focus on Traditional Owner involvement. In April 2016, an internal audit review noted that despite challenging market conditions, Billion Opportunities indicates a continuing upward trend, which reflects positively on Fortescue's continued commitment to provide opportunities and award contracts to Aboriginal businesses.

Meet Sheila and Leon Torzyn, Print Junction owner-operators

Sheila and Leon are owner-operators of Print Junction, a graphic design and print business and a beneficiary of Fortescue's Billion Opportunities program. Their relationship with Fortescue began in 2012 with a print run for their business worth A$293. It's come a long way since, having secured a three year contract for over A$1 million in late 2015, which was the first contract Print Junction had received in 20 years of business. It is this unique, long term business relationship that won Fortescue and Print Junction the Supply Nation Supplier to Corporate Partnership of the Year award at Connect 2016 Supplier Diversity Awards.

Leon said it was an honour to receive the award. "Print Junction have grown with this experience and we appreciate the opportunities that Fortescue has provided," he said.

Read more about Fortescue's Aboriginal employment and development program in the People Section of this CSR report at page 47.

Contributing to vibrant communities

Fortescue's vision for northern Australia includes building the towns in the Pilbara into vibrant and sustainable communities. As part of this commitment, Fortescue provides support to various community facilities and events delivered by the Town of Port Hedland, including Wanangkura Stadium and the north west Festival. In addition, Fortescue's partnership with the South Hedland Swans Australian Rules Football Club has been renewed for a further five year term. As a sponsor of both the national women's (Hockeyroos) and men's (Kookaburras) hockey teams, Fortescue and Hockey Australia deliver the National Indigenous Hockey Program.

Fortescue believes good educational opportunities are key to strengthening and building regional communities. Fortescue is an operational sponsor of the Hedland Senior High School's Trade Training Centre, providing students with a pathway to employment in the mining industry and other industries requiring trade qualified students. Fortescue also hosted the students at its Port Hedland facilities during work placement week.

Fortescue understands access to childcare can be a real barrier to employment for parents in regional communities. In FY16, two new family day care units were established in the Port Hedland community under a partnership between Fortescue and One Tree, a community based provider of family day care services. This much needed resource provides childcare services to Fortescue employees and the broader community.

In 2016, Fortescue continued its support of the Young Australian Art and Literacy Awards: Pilbara Region in FY16 for a fifth consecutive year. Delivered to eight Pilbara schools by leading children's authors and illustrators, the program aims to develop literacy, teach creativity and increase school attendance levels, with a view to addressing the broader concern of child suicide rates in remote communities.

Fortescue supports local careers in trade

Fortescue is proud to partner with Hedland Senior High School to provide operational funding to its Trade Training Centre. Worth A$300,000 over three years, the agreement covers the purchase of equipment and materials for the Centre, allowing the students to learn key skills in a hands-on environment with high quality machinery and equipment.

The skills and experiences the students gain through facilities like the Trade Training Centre allow them to remain in their local community and seek careers in the industries that are operating where they live.

Hedland Senior High School Principal, Kelly Summers, said, "Our partnerships with local industry and companies such as Fortescue are vital in supporting students to develop a wider understanding of employment and the responsibilities and expectations they will have to meet as apprentices and trainees."

Grade 11 and 12 students can apply to study a Certificate II in Engineering Pathways through the Centre, which teaches them to use workshop machinery, as well as critical safety skills and general industry knowledge.

The entire Fortescue family has been working together to contribute to the new Ronald McDonald House in Perth, raising A$200,000 in two years. The new facility was opened in December 2015. Ronald McDonald House provides much needed accommodation and support to regional and remote children and their families in Perth for medical treatment. The Royal Flying Doctor Service (RFDS) is another highly valuable resource for the people of the Pilbara, and Fortescue employees participated in several fundraising activities for the RFDS across the sites.

Fortescue stands behind Australia's campaign to prevent men's violence against women

In FY16, Fortescue supported several community initiatives aimed at ending violence against women and increasing female participation in the workforce. White Ribbon Day is a national campaign to end men's violence against women. During the year, CEO, Nev Power, was accredited as a White Ribbon Ambassador.

"I became a White Ribbon Ambassador because I am in a position to influence, educate and show leadership on this issue, not only in our workplace, but also in the wider community," Mr Power said.

Critically acclaimed Australian actress, Claudia Karvan, joined Mr Power in speaking out against violence towards women and encouraged employees to take the White Ribbon oath during a series of events held across site. In Port Hedland, Fortescue employees participated in the annual White Ribbon Day march.

Fortescue also supported the Hedland Women's Refuge through a partnership with the VTEC training program to upgrade the outdoor area at the refuge during their ten week work readiness training.

Fortescue supports one of Australia's most gender-equal sports

Fortescue has been a supporter of the Kookaburras, Australia's national men's hockey team, since 2012. In January 2016, Fortescue was delighted to extend their support of this fantastic sport to the Hockeyroos, Australia's national women's hockey team.

CEO, Nev Power, said the sponsorship of the Hockeyroos was an opportunity to publicly demonstrate Fortescue's commitment to gender equality.

"Hockey Australia pools sponsorship revenues and pays female and male athletes equally, but by signing on formally as a sponsor, we are very excited to be more directly associated with the Hockeyroos," he said.

Reflecting on the sponsorship agreement, Australian Sports Commission Chair John Wylie said, "Fortescue is taking a commendable leadership stance in improving gender diversity and its sponsorship of the Hockeyroos is highly encouraging for Australian sport and business."

Through the partnership with Hockey Australia, Fortescue is the principal sponsor of the National Indigenous Hockey Program which delivers hockey workshops to Pilbara schools.

Living in our communities

Fortescue recognises the need to build the towns in the Pilbara into vibrant and sustainable communities that will attract and retain the workforce and their families required by the mining industry to thrive.

With this in mind, Fortescue is committed to growing its Pilbara residential operational workforce. Fortescue currently has 524 residential employees in the Pilbara and provides housing support to 456 employees.

In order to ensure Fortescue provides opportunities for local Aboriginal people to work on its remote Pilbara mine sites, Fortescue provides a FIFO service to 221 employees based in the towns of Port Hedland, Roebourne and Karratha. This unique arrangement ensures Aboriginal people in regional towns can access employment opportunities on remote mine sites which would otherwise be staffed by FIFO workers outside of the region. These employees are also entitled to housing assistance, helping to ease pressure on the limited public housing stocks in the Pilbara.

Meet Ayla Stewart, Personal Assistant to General Manager of Cloudbreak

Ayla is an Aboriginal woman from the Pilbara region with continued links to family, tradition and culture. A proud Warnman (Martu) woman, Ayla holds a close connection to the Nyangumarta people having been raised by her grandmother. Ayla commenced at Fortescue's Cloudbreak mine as an operator in 2014, after successfully graduating from VTEC. In April 2014, Ayla was able to purchase her own home with the assistance of Fortescue's Pilbara Home Ownership Scheme.

Ayla and her family are one of 72 families who have purchased properties through the Scheme. Fortescue maintains a further 375 rental properties, highlighting the commitment to a residential workforce.

Now the Personal Assistant to the General Manager of Cloudbreak, Maryanne Kelly, Ayla says that becoming a home owner is a sense of accomplishment. "Without the support and guidance of Fortescue's Pilbara Home Ownership Scheme this opportunity would have not been achievable," Ayla said.

Respecting our neighbours

Fortescue is committed to developing strong relationships with key stakeholders, especially those directly affected by its operations, such as pastoralists who operate cattle stations in the vicinity. Since its inception, Fortescue has worked its operations around 74 different pastoral leases in the Pilbara and Gascoyne region. The level of engagement with the pastoralists depends on the nature of the activity being carried out by Fortescue. Generally the relationship starts with exploration and continues through infrastructure development and mining operations.

Fortescue is proud of the relationships it has developed with the pastoralists in the Pilbara through a hands on and open approach.

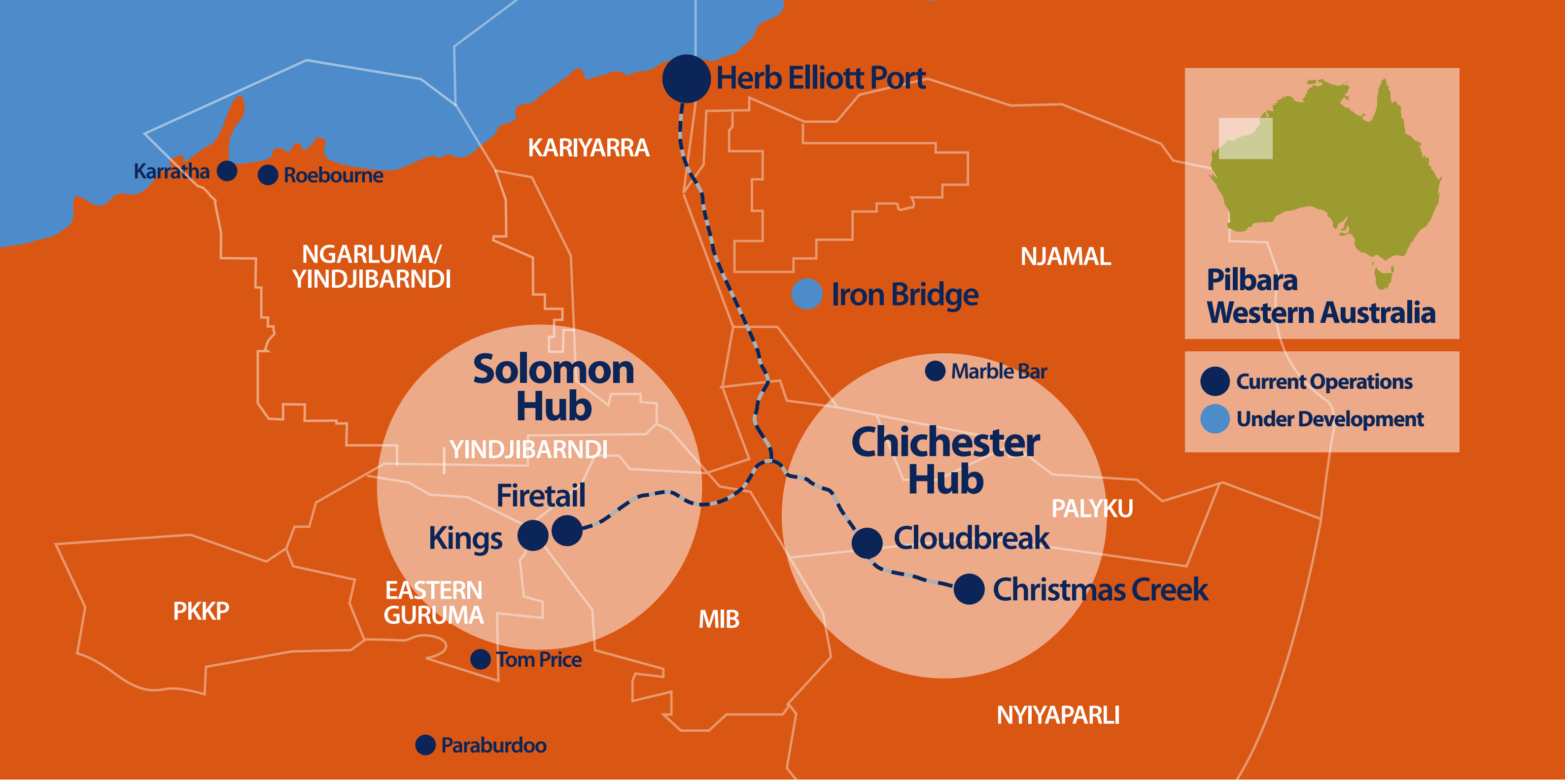
Meet Vince George and Matt Clements, Pastoral Access team

Fortescue currently holds 19 Land Access Agreements with pastoral leaseholders, with some leases having been in operation for over 130 years.

Vince George and Matt Clements from the Pastoral Access team are responsible for building and maintaining relationships with pastoral leaseholders and compliance with Fortescue's Land Access Agreements and tenement conditions.

Vince and Matt are often on the road, travelling hundreds of kilometres between stations and sites including Exploration, Rail and Mining.

An average day for the Pastoral Access team can involve assisting stations with mustering cattle near Fortescue's operational areas, installing and maintaining stock watering points, fencing, as well as donating material or equipment to the stations that are no longer of use to the Company.



Aboriginal Heritage and Native Title

Building partnerships

Fortescue continues to build on its excellent long-standing relationships with its Native Title partners across the Pilbara. Fortescue has Land Access Agreements (LAAs) in place with seven Native Title groups in the Pilbara region, specifically the Kariyarra, Palyku, Nyiyaparli, Martu Idja Banjima, Eastern Guruma, Puuti Kunti Kuruma Pinikura and Njamal People, and works closely with the Wirlu-murra Yindjibarndi Aboriginal Corporation (WMYAC) as a representative of Yindjibarndi Traditional Owners.

In 2015, Fortescue commenced negotiations with several Native Title Partners to convert the earliest LAAs, executed in 2005, to Indigenous Land Use Agreements (ILUAs). An ILUA is a special type of statutory agreement established through the *Native Title Act*. Fortescue consulted extensively with its Native Title partners in the development of the ILUAs. While the ILUAs enhance Fortescue's security of tenure, they also expand the range of opportunities offered to the Native Title partners, with a particular focus on additional resources being allocated to business and community development programs.

The first of the ILUAs, between Fortescue and the Nyiyaparli People, was authorised by the Nyiyaparli Traditional Owners at a whole of community meeting in Port Hedland in early 2016. The authorised ILUA will now be considered by the National Native Title Tribunal and is expected to be registered in late 2016. Under the ILUA, Fortescue will work even more closely with the Nyiyaparli People to identify and deliver community and business development opportunities.

Fortescue expects to convert the remaining Land Access Agreements into ILUAs with most Native Title partners through 2016 and 2017.

In addition to its LAAs and ILUAs, Fortescue has concluded 20 heritage agreements to facilitate exploration activities with nine Native Title groups.

Working together to manage heritage

Fortescue is committed to the identification and protection of Aboriginal heritage and believes it is important to increase shared knowledge of Aboriginal culture in order to develop a richer understanding of Australia's first people.

The identification and management of Aboriginal cultural heritage is fundamental to Fortescue's approach to sustainable operations. Fortescue consults closely with its Native Title partners and government to ensure effective cultural heritage management outcomes and commitment to compliance with all applicable legislation, including the *Western Australian Aboriginal Heritage Act 1972* (AHA). Fortescue is proud to report that there were no incidents impacting on Aboriginal heritage sites this year.

More than
5,000
heritage places managed

0
reportable heritage incidents

190,000ha
ethnographically surveyed

6,800ha
archaeologically surveyed

Some of the significant heritage sites, which the Company has committed to avoid and protect in collaboration with Traditional Owners, include the 42,000 year old Kakutangutanta rock shelter adjacent to a mining area at Christmas Creek and the Satellite Springs ethnographic site at the Kings Valley mine.

Following the development of new Heritage Consultant Standards (the Standards) in FY15, a new heritage consultant induction and performance management procedure has been implemented. This has resulted in further improvements in the quality and transparency of heritage survey outcomes, keeping pace with ongoing changes to the administration and application of heritage legislation.

Building cultural understanding

Working adjacent to known heritage areas presents a unique opportunity for employees and contractors to better understand, respect and promote Aboriginal history, heritage and culture. In FY16, Fortescue heritage staff organised and attended ten heritage sub-committee meetings with Native Title partners to ensure transparent and open dialogue is maintained about heritage processes, approvals, compliance and Fortescue's operations.

In consultation with its Native Title partners, Fortescue delivers a comprehensive program of cross-cultural and heritage education for all employees and contractors. In FY16, 6,900 employees and contractors participated in Fortescue's Aboriginal Engagement sessions. Over 2,800 employees and contractors engaged in cross-cultural awareness programs delivered across Fortescue sites.

An educational video on Fortescue's heritage processes was developed and launched during 2015 NAIDOC Week, in celebration of the theme: We all Stand on Sacred Ground: Learn, Respect and Celebrate. The video can be viewed at: www.fmgl.com.au

Community and culture

Fortescue's heritage team also works with Native Title partners on broader cultural, community, research and communications projects. Following the launch of the Gamburlarna Project with the WMYAC in 2014, a number of sub-projects have been conducted, including an interactive cultural mapping activity, support for a music education program at Roebourne District High School and the 'Untold Stories' video project. Fortescue's contribution to the project thus far of A$1.2 million, will be supplemented by a further commitment of A$1.8 million over the coming years.

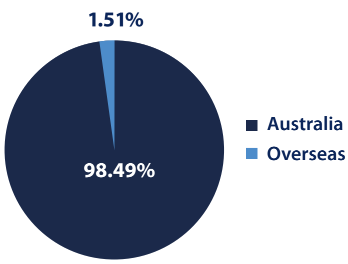
Meet Bruce Monadee, Senior Elder

The Untold Stories project is an initiative of the Gamburlarna Project. The Project has seen 20 community members, including Big hART's Yijala Yala Project and Wirlu-murra Yindjibarndi Aboriginal Corporation work together to record the stories of some Yindjibarndi elders.

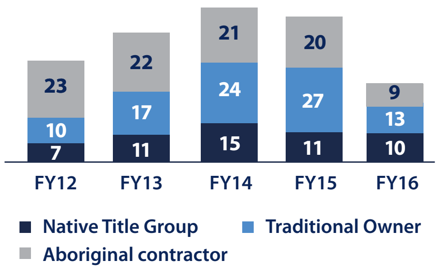
Senior Elder, Bruce Monadee, has been involved in the filming from the beginning. Bruce said it was about time he told his story and had it recorded properly.

"It is important to record what we have done and what happened. We have been walking with the other elders, roaming the Fortescue River and where we grew up. It was good to say how we felt when we first become a part of Roebourne, meeting other tribes and reflecting on how that made us feel and how it affected us," he said.

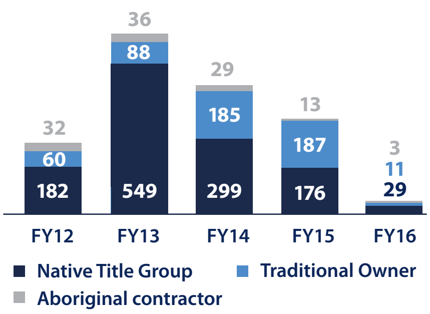
Percentage spend Australia and overseas



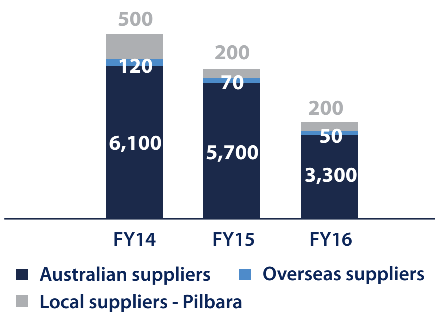
Billion Opportunities contracts awarded



Billion Opportunities contract value (A$ millions)



Fortescue supplier spend profile (A$ millions)



Engaging with stakeholders

Effective stakeholder engagement is at the heart of any long-term social license to operate. Fortescue is committed to ensuring we deliver the highest possible benefits to the Company's stakeholders over the long term.

Customers

Stakeholders: Customers are China, Japan, South Korea and other parts of Asia

Interests and concerns:

- Safe, reliable and consistent supply and delivery of blended iron ore products
- Maintainenance of strong technical and commercial relationships through timely, open and honest communication, delivering on Fortescue's promise

Stakeholder engagement and response:

- Regular face to face and electronic communication
- Shanghai and Singapore offices with in-country employees
- Highly skilled and experienced marketing and sales team
- Quality control of Fortescue products
- Targeted continuous improvement programs
- Visits to customer operations

Employees

Stakeholders: Employees working across Fortescue's operations

Interests and concerns:

- Ensuring a safe workplace
- Fostering a rewarding work environment, where employees feel empowered through career development and opportunities
- Building a strong and unique culture through a values-driven approach
- Celebrate and respect people's differences and commit to being inclusive at all times

Engagement:

- Internal communication events, such as Future Forums and Fortescue Pulse with the CEO and executive leadership team
- Leadership Excellence Pathway to provide professional development for employees
- Annual safety and culture survey and regular safety engagement on performance and improvement
- Employee recognition programs, Northern Spirits and Legends
- Internal communications channels including prestart meetings, company emails, site notices, intranet, internal newsletter, Fortescue TV, live-streamed whole of team meetings and events

Local and Aboriginal communities

Stakeholders: Local and Aboriginal communities in close proximity to Fortescue's operations and the broader Western Australian community

Interests and concerns:

- Potential environmental and social impacts associated with Fortescue's operations
- Sustainable community development through local content, employment, training and education, business development and opportunities, and investment in services and amenities
- Culture and heritage management

Engagement:

- Dedicated community office
- Community consultation and engagement
- Fortescue-hosted community events
- Fortescue Community Support program, Helping Others
- Partnerships and investments in significant projects, including the Gamburlana Project
- Fortescue VTEC
- Dedicated heritage, pastoralist and Aboriginal development teams

Traditional Owners

Stakeholders: Traditional Owners and Native Title groups of the land on which Fortescue operates

Interests and concerns:

- Compliance with Land Access Agreements, including heritage and Native Title compliance
- Strengthening cultural awareness and understanding
- Creating opportunities through training, employment, and business development

Engagement:

- Dedicated Aboriginal heritage, Native Title and Aboriginal development teams
- Progressive negotiated review of Land Access Agreements and registration of Indigenous Land Use Agreements
- Regular communication and consultation with Native Title groups and prescribed working group committees
- Support for Aboriginal heritage protection and promotion activities
- Fortescue Vocational Training and Employment Centres (VTEC)
- Targeted and tailored business development meetings
- Fortescue hosted business and employment exhibitions and events
- Local content procurement targets

Engaging with stakeholders continued

Government and regulators

Stakeholders: Federal, State and Local Government agencies and regulators

Interests and concerns:

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

Engagement:

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

Educational institutions

Stakeholders: Local schools, universities, and other educational institutions

Interests and concerns:

- Creating career pathways and opportunities, including in the Pilbara
- Supporting Aboriginal students and creating economic opportunity through education and training
- Attracting high calibre employees by positioning the Company as an employer of choice

Engagement:

- Fortescue's Five Star Program which includes high school scholarships, cadetships and school and work based traineeships
- University graduate program
- Involvement in local career exhibitions such as AMMA Resource Kids Connect
- Site visits and work placement opportunities
- Hedland Senior High School Trade Training Centre

Non-government organisations

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

Interests and concerns:

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

Engagement:

- Involvement in UNGC forums
- Partnerships in delivery of services and supporting programs
- Reporting
- ASX announcements and media releases
- Environment and community departments
- Engagement and consultation
- Corporate policies

Suppliers and contractors

Stakeholders: Businesses local to Fortescue's operations in the Pilbara, Western Australia and Australia

Interests and concerns:

- Ensuring economic opportunity through sustainable business development
- Working closely with suppliers and contractors to achieve mutually beneficial outcomes
- Transparent communication throughout contract award process and meeting agreements and processes on an ongoing basis

Engagement:

- Strategic relationships with contractors and suppliers
- Regular meetings, communication and reviews with strategic suppliers and contractors
- Early engagement with key contractors and suppliers for major projects
- Local content procurement targets
- The Billion Opportunities program

Environment

Protecting the Environment

Reducing Fortescue's environmental impact

Fortescue is committed to safeguarding the environment for future generations through responsible environmental management. The Company takes a precautionary approach to environmental challenges and continues to invest in initiatives and technologies that minimise its environmental impacts and contribute to sustainable environmental benefits.

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

Fortescue's environmental management includes the development of impact assessments, management plans, monitoring programs and detailed reports and registers. An extensive library of these resources is available at www.fmgl.com.au

In FY16, Fortescue recorded an environmental incident at its Christmas Creek mining operations that resulted in the accidental discharge of saline water into the surrounding environment. Occurrences like these, in sensitive environments, have the potential for material environmental impact and as such, Fortescue is committed to ensuring that its environmental controls and monitoring programs ensure that associated risks are as low as reasonably practicable. The discharge did not reach or impact the regionally significant Fortescue Marshes and was reported to the Department of Environment Regulation. Fortescue will continue to monitor the impacts of the incident.

8%
reduction in GHG emissions

0
surface water discharge

40,000ha
biological surveying and monitoring

80%
Chichester overburden backfilled to pits

Environmental management systems

Fortescue's Environment Policy was updated during FY16 to reflect the Company's commitment to continually improve processes and measure the progress against environmental objectives.

Fortescue's environmental commitments and activities reflect the ICMM and UNGC principles and align with the ISO 14001 standard for Environmental Management Systems. The Company's environmental management system identifies, communicates and monitors aspects of operations that have the potential to impact the environment, and direct management and improvement activities accordingly. In FY16, Environmental Improvement Plans were developed for each operational area to ensure a continual focus on effective management.

Internal auditing against the Company's environmental obligations continued throughout the year with the results providing a key indicator of performance. These internal audits were supplemented with an independent external review commissioned at the Cloudbreak mine site. This review demonstrated that Fortescue "***has well established environmental management processes and systems that were generally well implemented resulting in a high level of environmental performance and compliance***." A number of recommendations were also considered and incorporated into Fortescue's day to day operations as part of the Company's journey towards environmental excellence.

Audits conducted on Ministerial Statements by The Western Australian Office of the Environmental Protection Authority (EPA) did not identify any material non-compliances.

Greenhouse Gas emissions and energy

Fortescue recognises its responsibility to actively improve energy use and minimise Greenhouse Gas (GHG) emissions to reduce its contribution to climate change and impact on the environment.

Fortescue's operations and approach to GHG is compliant with:

- Australian Federal Government's *National Greenhouse and Energy Reporting (NGER) Act 2007*
- The international Carbon Disclosure Project
- The Company's Climate Change and Energy Management Policy
- The Company's Greenhouse Gas Emissions and Energy Reporting Management Plan.

Whilst production output remained relatively steady, Fortescue's total scope one and scope two GHG emissions for the FY16 reporting period were 1.772 million tonnes of CO_2e, representing a strong net decrease of eight per cent compared with the previous 12 months.

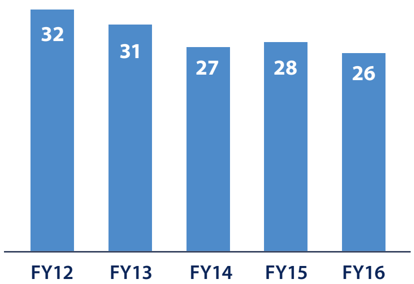
Monitoring emission and energy use intensity is a practical indication of GHG performance as it takes into account the effects of the Company's entire operations on energy consumption. In FY16, Fortescue's GHG and energy intensities stabilised and improved with a 1.5–1.9 per cent improvement from FY15.

The Company's transition into the operations phase has allowed for an even greater focus on energy efficiency and energy intensity targets. Initiatives driving further sustainable reductions in overall GHG and energy intensity include:

- Improvement in strip ratios across Fortescue's mines has resulted in less energy being consumed, per tonne of material removed
- Improved ore recovery from Fortescue's wet plant operations
- The Fortescue River Gas Pipeline has reduced Fortescue's Solomon mine site diesel consumption by 102 million litres for FY16, representing a total carbon CO_2e abatement of approximately 35,000 tonnes
- The Pilbara Power Project will see a reduction in natural gas usage by Fortescue's Port operations, resulting in a carbon abatement of 88,000 tonnes CO_2e per annum from existing FY16 consumption.

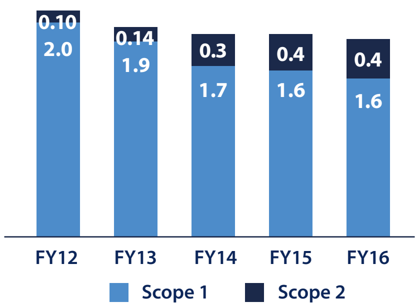
Energy use intensity

GJ of energy consumed ('000) / million tonnes of material mined, processed, railed and shipped



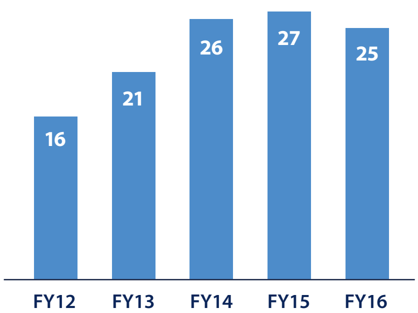
GHG emissions intensity

Total tonnes of CO_2e ('000) / million tonnes of material mined, processed, railed and shipped



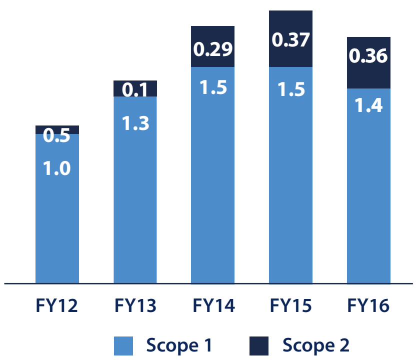
Energy Use

GJ of energy consumed (m)



Total GHG Emissions

Tonnes of CO_2e (m)



Climate change

Fortescue is focussed on addressing the impacts of climate change by reducing its emissions and investing in low-emission technology. The Company is also committed to ensuring the resilience of its operations under various climate change scenarios.

Severe weather events

Fortescue's existing assets have limited exposure to interruptions caused by predicted outcomes such as extreme weather events, increasing average temperatures and water scarcity. Regardless, the risk of these events are factored into project designs as well as annual business forecasts. Developed with the impact of climate change in mind, site specific designs are created for each project and reassessed if necessary.

To improve the accuracy of this process and validate current understanding of the effects of climate change, the Company utilises continuous weather monitoring and literature scans and conducts regular business impact and risk assessment studies.

All of Fortescue's infrastructure meets Australian standards and codes for wind and maritime structures. Australian standards wind code recommendations for the most severe cyclone region are applied to all facilities within the Port Hedland area and are extended to infrastructure in less at risk zones.

Water supply

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

The potential lack of water supply is evaluated as part of the risk assessment process and financial analysis is completed on these options. Alternative water management practices, such as improved efficiency measures or additional supply options, are incorporated into development and construction.

Fortescue's water management and associated monitoring program is critical to ensure there are no unplanned long term or offsite impacts to the water dependent ecosystems and habitats adjacent to its operations. Vegetation health and groundwater levels and quality monitoring programs demonstrates Fortescue's effective management on this valuable resource.

Water management

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

Dewatering and other mining related water uses account for the majority of all water abstracted or produced in the Pilbara. Fortescue continually assesses and manages its water resources, applying adaptive responses to water excess, water scarcity, water quality and waste water treatment. Wherever possible, waste water treatment plant discharge is recycled for other onsite applications including dust suppression and landscape irrigation.

Fortescue's operations are guided by site specific Groundwater Management Plans and informed by the Department of Water 2013 Strategic Policy 2.09, which recommends a hierarchical approach for the use of mine dewatering surplus.

The Papa Waringka and the Fortescue Marsh

Fortescue's innovative approach to minimise its impact on groundwater has been recognised by the International Water Association, winning a top Project Innovation Award in 2012 at the World Water Congress. The Papa Waringka (Nyipali language for water in the ground) Managed Aquifer Recharge (MAR) program at the Chichester Hub sees water from mine dewatering reinjected down dip. This approach minimises potential indirect impacts to neighbouring water users, groundwater dependent ecosystems and the Fortescue Marsh.

The Fortescue Marsh is listed on the Directory of Important Wetlands of Australia as a wetland of national significance and is considered to be a unique wetland landform in Western Australia. Significant monitoring is in place to ensure the quality of water is returned to the aquifer. Smaller MAR systems are successfully protecting groundwater fed pools at Solomon from dewatering impacts and enabling the Company to manage potential for environmental impact.

Meet Andrew Jackson, Operational Hyrdogeologist
Andrew, an Operational Hydrogeologist, has been with Fortescue for five years. He works with the dewatering and mine planning teams to develop strategies to mitigate groundwater related issues. By understanding the current hydrogeological conditions, Andrew and the teams work together to prevent and minimise delays to mining, maintain dewatering and injection targets, and ensure Fortescue is adhering to its groundwater related environmental obligations.

Andrew's work is critical to the success of Fortescue's award winning, Managed Aquifer Recharge scheme, the Papa Waringka. "I am very proud to work on a project that represents world's best environmental practice and ensures groundwater levels within the Fortescue Marsh are not adversely impacted by mining operations," Andrew said.

Technology

A number of technological advances designed to reduce Fortescue's environmental impact and improve water use efficiency are currently being assessed. One of the technology advances being explored is telemetry of flow meters on pipelines which can reduce the size of spills by providing real time monitoring. Fortescue is also testing the use of filters to separate and recover water from processing waste. It is anticipated that some technology advances will be rolled out in FY17.

Water use

Site	Type	Volume (kL) 2016	Volume (kL) 2015	Use
Herb Elliott Port	Scheme water	5,584	7,636	Potable supply
	Groundwater abstraction	744,618	625,187	Process and dust suppression
	Desalination	290,125	280,457	Process and dust suppression
Railway	Groundwater abstraction	159,802	265,000	Dust suppression for rail operations and potable water supply to construction camps
Mining operations	Groundwater abstraction	176,145,306	169,074,323	Dewatering to allow for mining below water table, potable water supply and non-dewatering abstraction for mine use
Returns to the environment				
	Groundwater reinjection	120,621,000	115,954,853	Water is injected into aquifers to minimise environmental impacts and maintain water balance
	Surface water discharge	-	-	No excess groundwater was discharged to surface during FY16
	Supplementation	838,471	-	Water to minimise impact to groundwater fed pools
	Evaporation and seepage	993,000	255,000	Evaporative losses from uncovered transfer ponds and seepage from unlined brackish ponds
Groundwater use				
	Ore processing facilities	30,023,021	27,641,559	Processing and refining ore
	Camp supply	1,090,631	870,131	Potable supply
	Dust suppression	8,417,552	8,845,326	Dust suppression on roads

Wastewater data

Site	Wastewater discharge (kL) 2016	Wastewater discharge (kL) 2015
Christmas Creek	206,870	276,899
Solomon	137,935	140,257
Cloudbreak	141,117	134,552

Protecting the biodiversity of the Pilbara

Fortescue acknowledges and appreciates the unique biodiversity within the Pilbara region, as well as the potential impact of its operations on that biodiversity. Working with regulation authorities and the Traditional Owners as the guardians of the environment, Fortescue ensures there are appropriate actions in place to understand, minimise and mitigate these impacts, and contributes to the conservation of biodiversity in the Pilbara through an integrated approach to land use planning.

The Company employs biodiversity consultants, as well as in-house experts, to survey and monitor its operations and surrounding environments. The findings from these programs, as well as the outcomes of research investments, are continually integrated into environmental management plans and procedures to ensure that ongoing review and improvement is embedded in its management and decision making processes.

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

Fortescue's offset programs are guided by the Company's Environment Policy through minimising and mitigating net environmental impacts. Such projects include invasive species management conducted in partnership with the Department of Parks and Wildlife and research funding to implement threatened species recovery programs.

Meet Catherine Bozanich, Senior Environmental Advisor

Cath is a part-time Senior Environmental Advisor and is responsible for developing and implementing Fortescue's environmental offsets programs and gaining and maintaining approvals for Fortescue's rail lines. Having worked in Fortescue's environmental team for more than eight years, Cath has been focussing on Fortescue's key offset programs which include a five year feral cat baiting program at the Fortescue Marsh and research into the elusive Night Parrot. She is currently working with key stakeholders including government agencies, to design a research program to study the interactions between feral cats, dingoes and wild dogs within Karijini National Park. One of the aims of this program will be to determine whether dingoes and wild dogs can help control feral cat numbers in the Pilbara.

"I have been lucky enough to continue my career working part time while my daughters were young and the offsets work has been really rewarding and something I am very proud of," Cath said.

Meet Todd Edwards, Senior Environmental Specialist

Todd oversees Fortescue's innovative biological monitoring programs, to protect and enhance the biodiversity of the Pilbara. One example of this is the Northern Quoll monitoring program which uses radio collars to map the behaviours and travel distances of this endangered marsupial. As part of this program, Fortescue has partnered with the Department of Parks and Wildlife to improve overall efficiency and veracity of the data by leveraging a much larger, regional program, with 40,000ha surveyed and monitored. Todd's work has helped provide evidence of Fortescue's sustainable environmental management and has established that Fortescue's activities are not impacting upon the species.

Protecting the Fortescue Marsh

Fortescue's funding of an external, full-time Fortescue Marsh Conservation Officer in Karratha continued throughout the year with the objective of preserving and improving the conservation wetland.

A strategic Fortescue Marsh fencing plan aimed at the removal of, and prevention of feral herbivores from the Marsh was developed in FY16. This fencing program has been designed to reduce impacts such as soil compaction and erosion, selective grazing, introduction and spread of weeds as well as the fouling of available water sources. Fortescue also funds additional land management programs including invasive species control which align with the fencing plan.

Fortescue's environmental assessment studies have played an important role in creating a greater understanding of the hydrology of the marsh. The Company works closely with state agencies and academic institutions on dedicated research projects in the area, including surveying and mapping, to help the business better understand and responsibly manage the relationship between the Marsh and its activities. This cooperative approach is aligned with the Western Australian EPAs approach to assessing the cumulative impacts of development projects in the Pilbara.

Contributing to scientific knowledge

Maintaining relationships with academic institutions and scientific experts allows Fortescue to obtain rigorous advice and information on the preservation and restoration of pre-operational environments. During the year, targeted research and provision of funds to further the knowledge base of threatened Pilbara species continued. Specifically, surveys were commissioned into species such as the Pilbara Leaf-nosed Bat and the Pilbara Olive Python. In addition to these activities, targeted research to further the knowledge base of threatened Pilbara species such as the Night Parrot and the Northern Quoll continued, with over A$2 million provided to conservation funds or on ground survey programs in the past five years.

Sustainable land rehabilitation

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

Flinders waste rock dump

In FY16, major earthworks commenced on the 160ha Flinders waste rock dump at Christmas Creek, the largest waste dump within Fortescue's operations. The rehabilitation of this waste rock dump provided an exceptional opportunity to incorporate Fortescue's rehabilitation and closure commitments with its Aboriginal training and development programs.

The rehabilitation works will continue into 2017 with a number of profile trials to take place. The findings of these trails will contribute to the final landform design, vegetation profile and sustainable rehabilitation success.

Rehabilitation monitoring

Progressive rehabilitation activities have been integrated into Fortescue's standard operating procedures to ensure the required environmental performance objectives will be met on closure. These activities include:

- Ongoing geochemical and physical characterisation of the mineral waste rock
- Placement of mineral waste rock into pits after the ore is mined
- Regular review, including computer modelling, of proposed post-mining landforms and water systems
- Earthwork and revegetation activities
- Monitoring of local water quality and vegetation health indicators.

This year enhancements made to Fortescue's mine planning systems have enabled mineral waste rock to be tracked more effectively through the mining life-cycle. These will be used to improve reporting on progressive rehabilitation in the future.

Rehabilitation monitoring of Fortescue's operational sites is completed by an independent specialist on an annual basis. In calendar year 2015, monitoring was completed in accordance with Fortescue's Rehabilitation and Revegetation Monitoring Procedure.

The monitoring results identified three sites at Solomon Hub, and 12 sites along the Fortescue Main Line Rail that have reached all completion criteria, with the exception of one criterion that could not be readily assessed. A number of rehabilitated sites at Christmas Creek are also progressing towards meeting completion criteria.

Other examples of the monitoring undertaken in FY16 include:

- Transect and photograph point monitoring, including vegetation assessment and Landscape Function Analysis (LFA)
- Innovative bio-indicator monitoring at five mulga control sites at Cloudbreak
- Rehabilitation seeding trial at Christmas Creek to investigate the success of rehabilitation with varying quantities of native seed mixes
- Main Line Rail and Hamersley Line rehabilitated areas assessed for conservation significant fauna usage using motion cameras and targeted searches.

The results provide evidence that Fortescue's rehabilitation activities are effective in rehabilitating disturbed lands back to functional self-subsisting ecosystems.

Fortescue's data on land disturbance and rehabilitation is presented on a calendar year basis, 1 January to 31 December.

Land disturbance and rehabilitation in 2015

Site	Total area disturbed (ha)	2015 Rehabilitation (ha)	2014 Rehabilitation (ha)	Total rehabilitation to date (ha)
Herb Elliott Port	362	-	-	-
Railway corridor	5,386	23	148	2,086
Mining operations	19,869	1,194[1]	13	1,282[1]

[1] Includes the backfill of mined out pit voids.

Waste and recycling

Fortescue is focussed on both the reduction of waste, as well as how much waste is disposed of in landfill. During the year, more than 80 per cent of waste delivered to the Company's landfill sites was reused or recycled. In 2016, and extending into 2017, the introduction of sludge presses into the waste management process will reduce the amount of liquid waste disposed of offsite by approximately 3,000 tonnes per annum at both the Newman and Tom Price facilities. The construction of these sludge presses will include the installation of a 'hot rot' composting unit, further reducing the disposal of waste material to landfill.

Waste from the processing facilities, as well as overburden removed to access Fortescue's ore bodies, is disposed of onsite with much of the waste put back into mined out pits. Within the Chichester region, 81.5 per cent of overburden was returned to pits as backfill.

Both non-hazardous and hazardous waste is generated across Fortescue's operations, managed by Fortescue's Waste Management Plan and Hazardous Materials Management Procedure respectively. No hazardous wastes classified under the Basel Convention were generated or disposed of by Fortescue during FY16.

Site	Waste rock 2016 (tonnes)
Total overburden mined	195,926,944
Total ore mined	181,132,674
Total tailings	21,697,270

Meet Doug Banfield – Village Operations Manager

Each year, Fortescue's Solomon mine site uses over 3.5 million plastic food containers for employee lunches. In an effort to minimise waste and save money, Doug suggested using reusable containers instead. During FY16, residents at Solomon were given five reusable containers and an insulated bag, with the containers able to be washed after use by the employee ready for the next use. Doug's simple idea will save Fortescue approximately A$300,000 a year. Importantly, this small change to daily routines is also stopping 3.5 million plastic containers becoming landfill.

This initiative has also been adopted by the residents at Fortescue's village in Newman, resulting in a 90 per cent reduction of the waste.

Closure planning

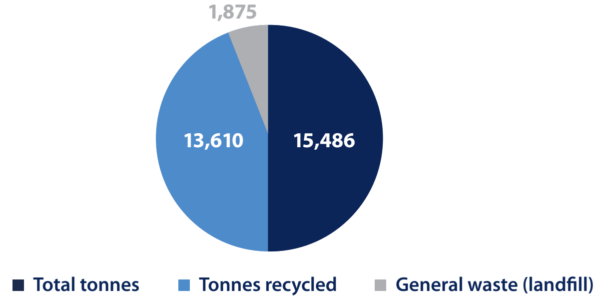
Fortescue's closure planning is focussed on returning the land to a state that will provide future use and value post resource development. Closure plans and financial provisions to execute these plans are developed and maintained for all of Fortescue's operational sites.

Initial consideration of mine closure occurs in the feasibility phase of project development, with the mine closure plan implemented progressively over time. The plans are updated regularly with findings from targeted research and trials to ensure maximum effectiveness in rehabilitation and remediation activities.

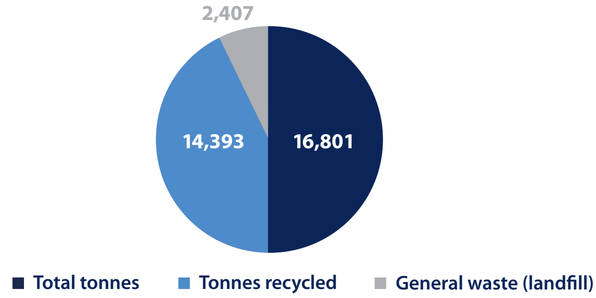
A key component in the development and fulfilment of the Company's closure plans is the consultation and engagement of local stakeholders, including Traditional Owners and regulators, to ensure that land is returned in a state that supports future opportunity and long-term benefit.

In FY16, Fortescue voluntarily engaged with an EPA led working group to share learnings and processes associated with mine rehabilitation and closure within the resources industry. Fortescue remains engaged in the development of the outcomes and recommendations from the Group.

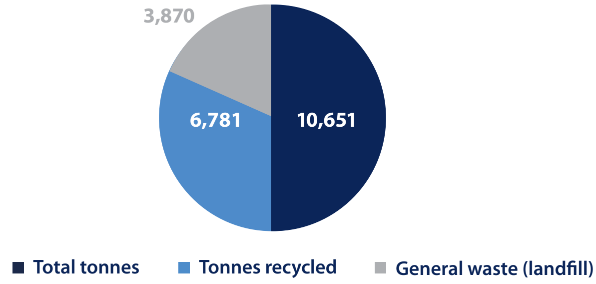
Landfill space saved at Cloudbreak



Landfill space saved at Christmas Creek



Landfill space saved at Solomon



Governance

Overview of Governance

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

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

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

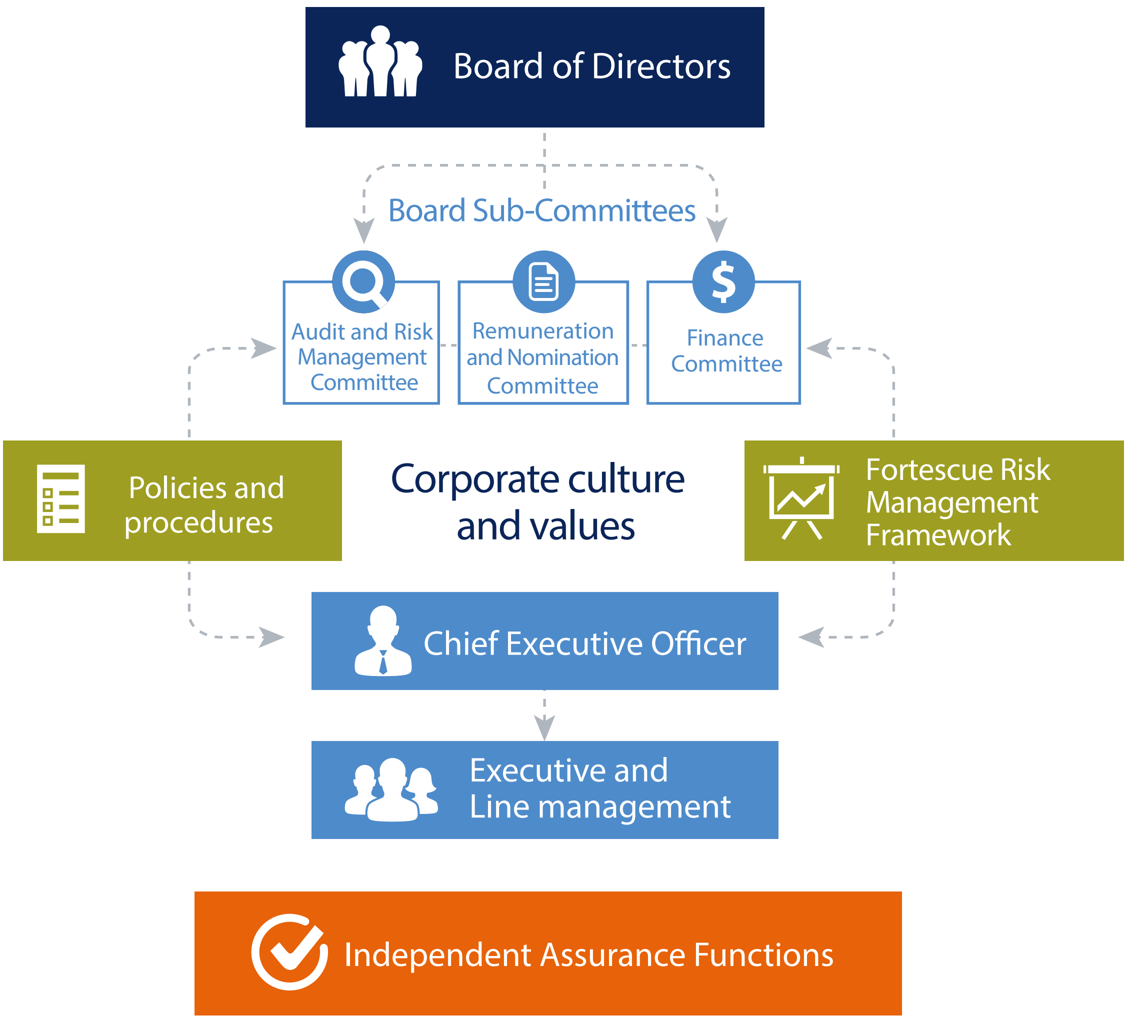
Integrity: Developing and maintaining a corporate culture committed to ethical behaviour and compliance with the law.

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

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

Fortescue's Corporate Governance Statement is available at www.fmgl.com.au

Fortescue's governance framework



Financial report

Directors' report

Fortescue Metals Group Limited

Your Directors present their report on the Fortescue consolidated group, comprising the Company and its controlled entities, for the year ended 30 June 2016.

Directors

The Directors of the Company in office during the financial year and until the date of this report, their qualifications, experience and directorships held in listed companies at any time during the last three years, are set out on pages 10 to 11.

The Directors' meetings, including meetings of the Company's Board of Directors and of each Board committee held during the year ended 30 June 2016 and the number of meetings attended by each Director are shown in section 2.3 of the Corporate Governance Statement[1].

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

Director	Ordinary shares	Performance rights
A Forrest	1,037,479,247	-
O Hegarty	40,000	-
M Barnaba	20,000	-
N Power	2,526,307	3,805,250
S Pearce	227,409	1,416,675
J Baderschneider	138,000	-
E Gaines	50,000	-
C Huiquan	-	-
G Raby	8,000	-
S Warburton	50,750	-

The remuneration of Directors and Key Management Personnel are detailed in the Remuneration Report on pages 115 to 146.

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 FY16.

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 12, Operating and Financial Review on pages 13 to 24 and Corporate Governance Statement[1] (sections 5.1 Material risk exposures and 5.2 Fortescue Risk Management Framework).

Dividends

		2016	2015
Net profit after tax	US$m	985	316
Interim dividend	A$ cents per share	3	3
Final dividend	A$ cents per share	12	2
Total dividend	**A$ cents per share**	**15**	**5**

The following dividend payments were made during the financial year:

- Final fully franked dividend for the year ended 30 June 2015 of two Australian cents per share, paid in October 2015
- Interim fully franked dividend for the year ended 30 June 2016 of three Australian cents per share, paid in April 2016.

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 on page 58.

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 on page 59.

[1] Corporate Governance Statement is available at www.fmgl.com.au.

Directors' report

Fortescue Metals Group Limited

Unissued shares under performance rights

Details of the performance rights outstanding at 30 June 2016 are as follows:

	Exercise price	Balance at the end of the year	Vested and exercisable at the end of the year	Remaining contractual life
	A$	(number)	(number)	(years)
Long term performance rights 2014	-	3,582,111	-	0.3
Long term performance rights 2015	-	3,095,545	-	2.3
Short term performance rights 2016	-	3,487,484	-	14.5
Long term performance rights 2016	-	8,190,718	-	14.5
		18,355,858	**-**	

1,177,128 of the 2015 short term performance rights were converted to shares in FY16, while the remaining 262,045 of the 2015 short term performance rights lapsed during the year. 2,306,253 of the 2013 long term performance rights were converted to shares in FY16, while the remaining 191,046 of the 2013 long term performance rights lapsed during the year.

Company secretaries

Ian Wells and Mark Thomas are joint Company Secretaries of Fortescue. Details of their qualifications and experience are set out on page 11.

Directors and officers indemnities and insurance

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

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

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

Non-audit services

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

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

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

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

The auditor's independence declaration, as required under section 307C of the *Corporations Act 2001*, is set out on page 71 and forms part of this report.

Directors' report

Fortescue Metals Group Limited

Future developments

The Overview section set out on pages 3 to 12 and the Operating and Financial Review section set out on pages 13 to 24 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 22 August 2016, the Directors declared a final dividend of 12 Australian cents per ordinary share payable in October 2016.

Signed in accordance with a resolution of the Directors.

Andrew Forrest
Chairman

Dated in Perth this 22nd day of August 2016.

Auditor's Independence Declaration

As lead auditor for the audit of Fortescue Metals Group Limited for the year ended 30 June 2016, I declare that to the best of my knowledge and belief, there have been:

1. no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

2. no contraventions of any applicable code of professional conduct in relation to the audit.

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

Henry

Nick Henry
Partner
PricewaterhouseCoopers

Perth
22 August 2016

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

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

Report on the financial report

We have audited the accompanying financial report of Fortescue Metals Group Limited (the company), which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the Fortescue Metals Group Limited Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

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

Independence

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

PricewaterhouseCoopers, ABN 52 780 433 757
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T: +61 8 9238 3000, F: +61 8 9238 3999, www.pwc.com.au

Auditor's opinion
In our opinion:

(a) the financial report of Fortescue Metals Group Limited is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the remuneration report included in pages 121 to 146 of the annual report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion
In our opinion, the remuneration report of Fortescue Metals Group Limited for the year ended 30 June 2016 complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Henry

Nick Henry
Partner

Perth
22 August 2016

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

Directors' declaration

Fortescue Metals Group Limited

In the Directors' opinion:

(a) The financial statements and notes set out on pages 75 to 113 are in accordance with the *Corporations Act 2001*, including:

   (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and

   (ii) giving a true and fair view of the consolidated entity's financial position at 30 June 2016 and of its performance for the year ended on that date, and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable, and

(c) at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed group identified in note 21 will be able to meet any obligations or liabilities to which they are, or may become, subject to by virtue of the deed of cross guarantee described in note 21.

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

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

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

Andrew Forrest
Chairman

Dated in Perth this 22nd day of August 2016.

Consolidated income statement

For the year ended 30 June 2016

	Note	2016 US$m	2015 US$m
Operating sales revenue	3	7,083	8,574
Cost of sales	5	(5,064)	(7,427)
Gross profit		**2,019**	**1,147**
Other income	4	7	77
Other expenses	6	(211)	(175)
Profit before income tax and net finance expenses		**1,815**	**1,049**
Finance income	7	214	15
Finance expenses	7	(675)	(644)
Profit before income tax		**1,354**	**420**
Income tax expense	8	(369)	(104)
Profit for the year after income tax		**985**	**316**
Profit for the year is attributable to:			
Equity holders of the Company		984	317
Non-controlling interest		1	(1)
Profit for the year after income tax		**985**	**316**

Consolidated statement of comprehensive income

For the year ended 30 June 2016

	Note	2016 US$m	2015 US$m
Profit for the year after income tax		**985**	**316**
Other comprehensive income:			
Other comprehensive income items		-	-
Total comprehensive income for the year, net of tax		**985**	**316**
Total comprehensive income for the year is attributable to:			
Equity holders of the Company		984	317
Non-controlling interest		1	(1)
Total comprehensive income for the year, net of tax		**985**	**316**

	Note	Cents	Cents
Earnings per share for profit attributable to the ordinary equity holders of the Company:			
Basic earnings per share	9	31.6	10.2
Diluted earnings per share	9	31.6	10.2

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

Consolidated statement of financial position

At 30 June 2016

	Note	2016 US$m	2015 US$m
ASSETS			
Current assets			
Cash and cash equivalents	10(b)	1,583	2,381
Trade and other receivables	11(a)	241	291
Inventories	11(c)	554	773
Current tax receivable		-	35
Other current assets		45	49
Total current assets		**2,423**	**3,529**
Non-current assets			
Trade and other receivables	11(a)	4	6
Property, plant and equipment	13	16,867	17,729
Intangible assets		15	44
Other non-current assets		28	52
Total non-current assets		**16,914**	**17,831**
Total assets		**19,337**	**21,360**
LIABILITIES			
Current liabilities			
Trade and other payables	11(b)	622	739
Deferred income	11(d)	485	620
Borrowings and finance lease liabilities	10(a)	93	155
Provisions	14	167	174
Current tax payable		267	-
Total current liabilities		**1,634**	**1,688**
Non-current liabilities			
Trade and other payables	11(b)	69	69
Deferred income	11(d)	308	591
Borrowings and finance lease liabilities	10(a)	6,678	9,414
Provisions	14	489	428
Deferred joint venture contributions	18(c)	253	261
Deferred tax liabilities	15	1,500	1,372
Total non-current liabilities		**9,297**	**12,135**
Total liabilities		**10,931**	**13,823**
Net assets		**8,406**	**7,537**
EQUITY			
Contributed equity	10(d)	1,301	1,294
Reserves		33	46
Retained earnings		7,058	6,184
Equity attributable to equity holders of the Company		8,392	7,524
Non-controlling interest		14	13
Total equity		**8,406**	**7,537**

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

Consolidated statement of cash flows

For the year ended 30 June 2016

	Note	2016 US$m	2015 US$m
Cash flows from operating activities			
Cash receipts from customers		6,693	8,537
Payments to suppliers and employees		(3,736)	(5,971)
Income tax received (paid)		66	(529)
Net cash inflow from operating activities	**10(c)(i)**	**3,023**	**2,037**
Cash flows from investing activities			
Payments for property, plant and equipment - Fortescue		(304)	(626)
Payments for property, plant and equipment - joint operations		(56)	(223)
Contributions from joint venture partners		-	101
Interest received		22	15
Proceeds from disposal of plant and equipment		2	7
Net cash outflow from investing activities		**(336)**	**(726)**
Cash flows from financing activities			
Proceeds from borrowings		-	2,206
Repayment of borrowings and finance leases		(2,695)	(2,367)
Interest and finance costs paid		(627)	(605)
Dividends paid		(114)	(343)
Repayment of customer deposits		(5)	(96)
Purchase of shares by employee share trust		(21)	(30)
Net cash outflow from financing activities		**(3,462)**	**(1,235)**
Net (decrease) increase in cash and cash equivalents		(775)	76
Cash and cash equivalents at the beginning of the year		2,381	2,398
Effects of exchange rate changes on cash and cash equivalents		(23)	(93)
Cash and cash equivalents at the end of the year	**10(b)**	**1,583**	**2,381**

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

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

Consolidated statement of changes in equity

For the year ended 30 June 2016

	Attributable to equity holders of the Company					
	Contributed equity	Reserves	Retained earnings	Total	Non-controlling interest	Total equity
	US$m	US$m	US$m	US$m	US$m	US$m
Balance at 1 July 2014	**1,289**	**69**	**6,211**	**7,569**	**14**	**7,583**
Profit (loss) for the year	-	-	317	317	(1)	316
Total comprehensive income for the year, net of tax	**-**	**-**	**317**	**317**	**(1)**	**316**
Transactions with owners:						
Purchase of shares under employee share plans	(30)	-	-	(30)	-	(30)
Employee share awards exercised net of employee contributions	35	(13)	-	22	-	22
Expired options and rights	-	(19)	19	-	-	-
Equity settled share-based payment transactions	-	9	-	9	-	9
Dividends paid	-	-	(363)	(363)	-	(363)
Balance at 30 June 2015	**1,294**	**46**	**6,184**	**7,524**	**13**	**7,537**
Profit for the year	-	-	984	984	1	985
Total comprehensive income for the year, net of tax	**-**	**-**	**984**	**984**	**1**	**985**
Transactions with owners:						
Purchase of shares under employee share plans	(21)	-	-	(21)	-	(21)
Employee share awards exercised net of employee contributions	28	(12)	-	16	-	16
Expired options and rights	-	(3)	3	-	-	-
Equity settled share-based payment transactions	-	(3)	-	(3)	-	(3)
Dividends paid	-	-	(113)	(113)	-	(113)
Other	-	5	-	5	-	5
Balance at 30 June 2016	**1,301**	**33**	**7,058**	**8,392**	**14**	**8,406**

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

Notes to the consolidated financial statements

For the year ended 30 June 2016

1 Basis of preparation

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

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

(a) Compliance with IFRS

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

(b) Historical cost convention

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

(c) Functional and presentation currency

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

(d) Critical accounting estimates

The preparation of financial statements requires management to use estimates, judgements and assumptions. Application of different assumptions and estimates may have a significant impact on Fortescue's net assets and financial results. Estimates and assumptions are reviewed on an ongoing basis and are based on the latest available information at each reporting date. Actual results may differ from the estimates.

The areas involving a higher degree of judgement and complexity, or areas where assumptions are significant to the financial statements are:

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

The accounting estimates and judgements applied to these areas are disclosed in note 25.

(e) Rounding of amounts

All amounts in the financial statements have been rounded to the nearest million dollars, except as indicated, in accordance with the ASIC Corporations Instrument 2016/191.

2 Segment information

Fortescue's chief operating decision maker, identified as the Chief Executive Officer, reviews the Group's financial performance and makes significant operating decisions having regard to all aspects of the integrated operation, with the key financial information presented internally for management purposes on a consolidated basis. Accordingly, no reportable operating segments have been identified in presenting the Group's consolidated financial performance.

Fortescue uses Underlying EBITDA defined as earnings before interest, tax, depreciation and amortisation, exploration, development and other expenses, as a key measure of its financial performance. The reconciliation of Underlying EBITDA to the net profit after tax is presented below.

	Note	2016 US$m	2015 US$m
Underlying EBITDA		**3,195**	**2,506**
Finance income	7	214	15
Finance expenses	7	(675)	(644)
Depreciation and amortisation	5, 6	(1,244)	(1,405)
Exploration, development and other	6	(136)	(52)
Net profit before tax		**1,354**	**420**
Income tax expense	8	(369)	(104)
Net profit after tax		**985**	**316**

(a) Geographical information

Fortescue operates predominantly in the geographical location of Australia, and this is the location of the vast majority of the Group's assets. In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers.

	2016 US$m	2015 US$m
Revenue from external customers		
China	6,787	8,047
Other	296	527
	7,083	**8,574**

(b) Major customer information

Revenue from one customer amounted to US$1,577 million (2015: US$3,563 million), arising from the sale of iron ore and the related shipment of product.

3 Operating sales revenue

	2016 US$m	2015 US$m
Sale of iron ore	6,923	8,323
Sale of joint venture iron ore	24	67
Other revenue	136	184
	7,083	**8,574**

4 Other income

	2016 US$m	2015 US$m
Net foreign exchange gain	-	68
Gain on disposal of assets	1	3
Other	6	6
	7	**77**

5 Cost of sales

	2016 US$m	2015 US$m
Mining and processing costs	2,092	3,765
Rail costs	201	230
Port costs	204	274
Operating leases	76	80
Shipping costs	781	1,112
Government royalty	446	516
Depreciation and amortisation	1,223	1,376
Other operating expenses	41	74
	5,064	**7,427**

Total employee benefits expense included in cost of sales and administration expenses is US$538 million (2015: US$740 million).

6 Other expenses

	2016 US$m	2015 US$m
Exploration, development and other[1]	136	52
Administration expenses	52	94
Depreciation and amortisation	21	29
Net foreign exchange loss	2	-
	211	**175**

[1] Exploration, development and other expenses include an impairment provision following suspension of the Nullagine Iron Ore Joint Venture operations of US$32 million, and provisions in relation to specific assets and capital projects deferred pending market conditions of US$59 million.

7 Finance income and finance expenses

	2016 US$m	2015 US$m
Finance income		
Gain on early debt redemption	192	-
Interest income	22	15
	214	**15**
Finance expenses		
Interest expense on borrowings and finance lease liabilities	621	590
Interest capitalised	(2)	(7)
Loss on early debt redemption	42	45
Other	14	16
	675	**644**

8 Income tax expense

(a) Income tax expense

	2016 US$m	2015 US$m
Current tax	241	(112)
Deferred tax	128	216
	369	**104**

(b) Numerical reconciliation of income tax expense to prima facie tax payable

	2016 US$m	2015 US$m
Profit before income tax	1,354	420
Tax at the Australian tax rate of 30 per cent (2015: 30 per cent)	406	126
Research and development	(8)	(8)
Adjustments in respect of income tax expense of prior periods	(15)	6
Foreign exchange variations and other translation adjustments	(2)	(16)
Tax impact of overseas jurisdiction	5	1
Share-based payments	(9)	3
Other	(8)	(8)
Income tax expense	**369**	**104**

9 Earnings per share

(a) Earnings per share

	2016 Cents	2015 Cents
Basic	31.6	10.2
Diluted	31.6	10.2

(b) Reconciliation of earnings used in calculating earnings per share

	US$m	US$m
Profit attributable to the ordinary equity holders of the Company used in calculating basic and diluted earnings per share	984	317

(c) Weighted average number of shares used as denominator

	Number	Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	3,111,801,515	3,113,525,034
Adjustments for calculation of diluted earnings per share:		
Potential ordinary shares	5,569,334	6,371,996
Weighted average number of ordinary and potential ordinary shares used as the denominator in calculating diluted earnings per share	3,117,370,849	3,119,897,030

(d) Information on the classification of securities

Performance rights granted to employees under the Fortescue incentive plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. Details relating to the performance rights are set out in note 19.

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10 Capital management

Fortescue's capital management policy supports its strategic objectives and provides a framework to maintain a strong capital structure to deliver consistent returns to its shareholders and sustain future developments and expansion of the business.

Fortescue's capital includes shareholders' equity, reserves and net debt. Net debt is defined as a combination of cash and cash equivalents, borrowings and finance lease liabilities.

	Note	2016 US$m	2015 US$m
Borrowings and finance lease liabilities	10(a)	6,771	9,569
Cash and cash equivalents	10(b)	(1,583)	(2,381)
Net debt		**5,188**	**7,188**
Equity attributable to equity holders of the Company		8,392	7,524
Non-controlling interest		14	13
Total equity		**8,406**	**7,537**

Capital management involves a continuous process of:

- Monitoring and controlling the capital structure
- Evaluating capital requirements against the risks arising from Fortescue's activities and the environment it operates in
- Raising, refinancing and repaying of debt
- Development, maintenance and implementation of the dividend policy, including the dividend reinvestment plan.

To achieve its primary capital management objective of maintaining a strong capital structure, Fortescue has developed target ranges for a number of financial indicators. These indicators include gearing, net gearing, debt to Underlying EBITDA and interest coverage ratio, and are monitored together with a number of other financial and non-financial indicators. Target ranges for the financial ratios vary upon the investment and commodity cycles. During periods of intensive investment, for example expansion programs, or a commodity downturn, the capital management policy contemplates interim ratio levels returning to targeted longer term levels. Interim levels acknowledge and consider the requirements, in certain circumstances, for remedial actions to be taken.

The Company's flexible debt profile does not contain any maintenance covenants and allows for voluntary debt repayments at Fortescue's sole option, refinancing of debt prior to maturity and facilitates the debt repayment strategy to lower its gearing levels.

10 Capital management (continued)

(a) Borrowings and finance lease liabilities

	2016 US$m	2015 US$m
Senior secured credit facility	4	80
Senior secured notes	70	39
Senior unsecured notes	8	31
Finance lease liabilities	11	5
Total current borrowings and finance lease liabilities	**93**	**155**
Senior secured credit facility	3,627	4,717
Senior secured notes	2,082	2,209
Senior unsecured notes	475	2,032
Finance lease liabilities	494	456
Total non-current borrowings and finance lease liabilities	**6,678**	**9,414**
Total borrowings and finance lease liabilities	**6,771**	**9,569**

(i) Senior secured credit facility

The facility is due to mature in June 2019, has a face value of US$3,676 million (30 June 2015: US$4,863 million), a coupon rate of LIBOR + 3.25 per cent (30 June 2015: LIBOR + 2.75 per cent) and is repayable at Fortescue's option. The coupon rate varies within a range of LIBOR + 2.75 per cent to LIBOR + 3.50 per cent, with a LIBOR floor of one per cent. The facility is secured over principally all of the assets of the Company and its subsidiaries, subject to certain limited exceptions, with the security shared on a pari passu basis with the senior secured notes.

(ii) Senior secured notes

Senior secured notes are due to mature in March 2022, have a face value of US$2,160 million (30 June 2015: US$2,300 million), a coupon rate of 9.75 per cent and will become repayable at Fortescue's option from March 2018. The notes are secured over principally all of the assets of the Company and its subsidiaries, subject to certain limited exceptions, with the security shared on a pari passu basis with the senior secured credit facility.

(iii) Senior unsecured notes

Senior unsecured notes are due to mature in April 2022, have a face value of US$478 million (30 June 2015: US$1,000 million), a coupon rate of 6.875 per cent and will become repayable at Fortescue's option from April 2017. The carrying value at 30 June 2015 also included senior notes that were due to mature in November 2019, had a face value of US$1,049 million and a coupon interest of 8.25 per cent. These notes were repaid in full during the year ended 30 June 2016.

(iv) Finance lease liabilities

Finance lease liabilities largely relate to contractual commitments associated with the Solomon Power Station and Fortescue River Gas Pipeline, and incorporate the effect of discounting. In the event of default, the assets revert to the lessor.

	Within one year US$m	Between one year and five years US$m	After five years US$m	Total US$m
30 June 2015				
Lease expenditure commitments	65	256	1,004	1,325
Effect of discounting	(62)	(241)	(561)	(864)
Finance lease liabilities	**3**	**15**	**443**	**461**
30 June 2016				
Lease expenditure commitments	73	295	954	1,322
Effect of discounting	(63)	(245)	(509)	(817)
Finance lease liabilities	**10**	**50**	**445**	**505**

10 Capital management (continued)

(a) Borrowings and finance lease liabilities (continued)

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

	Senior secured credit facility US$m	Senior secured notes US$m	Senior unsecured notes US$m	Finance leases US$m	Total US$m
At 1 July 2014	4,795	-	4,445	317	9,557
Initial recognition	-	2,300	-	141	2,441
Interest expense	223	42	279	46	590
Interest and finance lease repayments	(171)	-	(321)	(43)	(535)
Transaction costs	-	(94)	10	-	(84)
Repayments	(50)	-	(2,350)[1]	-	(2,400)
At 30 June 2015	**4,797**	**2,248**	**2,063**	**461**	**9,569**
Initial recognition	-	-	-	51	51
Interest expense	235	221	104	61	621
Interest and finance lease repayments	(229)	(183)	(126)	(64)	(602)
Transaction costs	15	6	13	-	34
Foreign exchange gain	-	-	-	(4)	(4)
Repayments	(1,187)	(140)	(1,571)[2]	-	(2,898)
At 30 June 2016	**3,631**	**2,152**	**483**	**505**	**6,771**

[1] Includes repayment of US$1,000 million of the 2017 senior unsecured notes, US$900 million of the 2018 senior unsecured notes and US$450 million of the 2019 senior unsecured notes.

[2] Includes repayment of US$1,049 million of the 2019 senior unsecured notes and US$522 million of the 2022 senior unsecured notes.

Information about Fortescue's exposure to interest rate risk and foreign exchange rate risk disclosed in note 12.

(b) Cash and cash equivalents

	2016 US$m	2015 US$m
Cash at bank	769	1,279
Short term deposits	814	1,102
	1,583	**2,381**

Cash and cash equivalents do not have any restrictions by contractual or legal arrangements. At 30 June 2015, Fortescue had US$320 million reserved for repayment, repurchase and other forms of debt retirement.

10 Capital management (continued)

(c) Cash flow information

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

	2016 US$m	2015 US$m
Profit for the year after income tax	985	316
Income tax expense	369	104
Depreciation and amortisation	1,244	1,405
Exploration, development and other	136	52
Share-based payment (benefit) expense	(3)	9
Net unrealised foreign exchange loss	22	72
Finance income and expenses not classified as operating activities	461	629
Gain on disposal of assets	(1)	(3)
Other non-cash items	(7)	(6)
Working capital adjustments:		
Decrease in deferred income	(418)	(281)
Decrease in payables and provisions	(34)	(1,074)
Decrease in receivables	80	299
Decrease in inventories	189	515
	3,023	**2,037**

(ii) Non-cash investing and financing activities

	2016 US$m	2015 US$m
Acquisition of property, plant and equipment by means of finance leases	(51)	(141)
Other	-	42
	(51)	**(99)**

10 Capital management (continued)

(d) Contributed equity

(i) Share capital

	2016			2015		
	Share capital US$m	Treasury shares US$m	Total US$m	Share capital US$m	Treasury shares US$m	Total US$m
At 1 July	1,296	(2)	1,294	1,296	(7)	1,289
Purchase of shares under employee share plans	-	(21)	(21)	-	(30)	(30)
Employee share awards exercised net of employee contributions	-	28	28	-	35	35
At 30 June	**1,296**	**5**	**1,301**	**1,296**	**(2)**	**1,294**

(ii) Movements in share capital issued

	2016			2015		
	Share capital Number	Treasury shares Number	Total Number	Share capital Number	Treasury shares Number	Total Number
Share capital issued						
Ordinary shares fully paid	3,113,435,477	362,674	3,113,798,151	3,113,683,561	114,590	3,113,798,151
Movements in shares						
At 1 July	3,113,683,561	114,590	3,113,798,151	3,113,798,151	-	3,113,798,151
Purchase of shares under employee share plans	(15,188,032)	15,188,032	-	(8,082,221)	8,082,221	-
Employee share awards exercised net of employee contributions	14,939,948	(14,939,948)	-	7,967,631	(7,967,631)	-
At 30 June	**3,113,435,477**	**362,674**	**3,113,798,151**	**3,113,683,561**	**114,590**	**3,113,798,151**

(iii) Ordinary shares

Ordinary shares are fully paid and entitle the holders to one vote per share and the rights to participate in dividends. Ordinary shares participate in the proceeds on winding up of the Company in proportion to the number of shares held.

(iv) Treasury shares

Movements in treasury shares represent acquisition of the Company's shares on market and allocation of shares to the Company's employees from the vesting of awards and exercise of rights under the employee share-based payment plans.

10 Capital management (continued)

(e) Dividends

(i) Dividends paid during the year

	2016 US$m	2015 US$m
Final fully franked dividend for the year ended 30 June 2015: A$0.02 per share (30 June 2014: A$0.10 per share)	46	290
Interim fully franked dividend for the half-year ended 31 December 2015: A$0.03 per share (31 December 2014: A$0.03 per share)	67	73
	113	**363**

(ii) Dividends declared and not recognised as a liability

	2016 US$m	2015 US$m
Final fully franked dividend: A$0.12 per share (2015: A$0.02 per share)	285	46
	285	**46**

(iii) Franking credits

At 30 June 2016, franking credits available were A$791 million (2015: A$951 million). The payment of the final dividend for the year ended 30 June 2016 will reduce the franking account balance by A$160 million.

11 Working capital

(a) Trade and other receivables

	2016 US$m	2015 US$m
Trade debtors - iron ore	210	242
GST receivables	11	7
Other receivables	20	42
Total current receivables	**241**	**291**
Other receivables	4	6
Total non-current receivables	**4**	**6**

Carrying value of the receivables approximates their fair value. Information about Fortescue's exposure to foreign currency risk, interest rate risk and price risk pertaining to trade and other receivables balances is disclosed in note 12.

Disclosures relating to receivables from related parties are set out in note 18.

(b) Trade and other payables

	2016 US$m	2015 US$m
Trade payables	190	178
Customer deposits	-	5
Other payables and accruals	432	556
Total current payables	**622**	**739**
Customer deposits	50	50
Other payables and accruals	19	19
Total non-current payables	**69**	**69**

11 Working capital (continued)

(c) Inventories

	2016 US$m	2015 US$m
Iron ore stockpiles	229	328
Warehouse stores and materials	325	445
	554	**773**

Iron ore stockpiles, warehouse stores and materials are stated at cost. Inventories expensed through cost of sales, including depreciation, during the year ended 30 June 2016 amounted to US$3,796 million (2015: US$5,725 million). During the year, inventory write-offs of US$11 million (2015: US$22 million) were recognised in relation to specific items of warehouse stores and materials that were identified as obsolete.

(d) Deferred income

	2016 US$m	2015 US$m
Iron ore prepayments	374	509
Port access prepayment	111	111
Total current deferred income	**485**	**620**
Iron ore prepayments	197	369
Port access prepayment	111	222
Total non-current deferred income	**308**	**591**

12 Financial risk management

Fortescue is exposed to a range of financial risks, including market risk, credit risk and liquidity risk. Fortescue established a risk management framework that provides a structured approach to the identification and control of risks across the business, sets the appropriate risk tolerance levels and incorporates active management of financial risks. The risk management framework has been approved by the Board of Directors, through the Audit and Risk Management Committee. The day to day management responsibility for execution of the risk management framework has been delegated to the CEO and the CFO. Periodically the CFO reports to the Audit and Risk Management Committee on risk management performance, including management of financial risks.

The key elements of financial risk are further explained below.

(a) Market risk

Market risk arises from Fortescue's exposure to commodity price risk and the use of interest bearing and foreign currency financial instruments. It is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in iron ore price (commodity price risk), interest rates (interest rate risk) and foreign exchange rates (foreign currency exchange risk).

(i) Commodity price risk

Fortescue is exposed to the commodity price risk, as its iron ore sales are predominantly subject to prevailing market prices. Fortescue has limited ability to directly influence market prices of iron ore and manages the commodity price risk through focus on improving its cash margins and strengthening the corporate balance sheet through refinancing and early debt repayments.

The majority of Fortescue's iron ore sales contracts are structured on a provisional pricing basis, with the final sales price determined using the iron ore price indices on or after the vessel's arrival to the port of discharge. The estimated consideration in relation to the provisionally priced contracts is marked to market using the spot iron ore price at the end of each reporting period with the impact of the iron ore price movements recorded as an adjustment to operating sales revenue. At 30 June 2016, Fortescue had 14 million tonnes of iron ore sales (2015: 16 million tonnes) that remained subject to provisional pricing, with the final price to be determined in the following financial year. A 15 per cent movement in the realised iron ore price on these provisionally priced sales would have an impact on the Group's profit of US$85 million (2015: 20 per cent movement would have an impact on the Group's profit of US$150 million), before the impact of taxation. This analysis assumes all other factors, including the foreign currency exchange rates, held constant.

12 Financial risk management (continued)

(a) Market risk (continued)

(ii) Interest rate risk

The Group's interest rate risk arises from variable rates on the senior secured credit facility and, to a lesser extent, changes in rates applicable to the short term deposits forming part of cash and cash equivalents.

Fortescue's policy is to reduce interest rate risk over the cash flows on its long term debt funding through the use of fixed rate instruments whenever appropriate.

Fortescue's variable rate financial assets and liabilities at the end of the financial year are summarised below:

	Note	2016 US$m	2015 US$m
Cash and cash equivalents	10(b)	1,583	2,381
Senior secured credit facility	10(a)	(3,631)	(4,797)
		(2,048)	**(2,416)**

Management analyses the Group's interest rate exposure on a regular basis by simulation of various scenarios taking into consideration refinancing, renewal of existing positions, alternative financing options and hedging.

A change of five basis points in interest rates on variable instruments would have an impact on the Group's profit of US$1 million (2015: a change of ten basis points would impact profit by US$3 million), before the impact of taxation. This analysis assumes that all other factors remain constant, including foreign currency rates.

(iii) Foreign currency exchange risk

Fortescue operates in Australia, and is exposed to movements in the Australian dollar exchange rate, with a significant portion of its operating costs and capital expenditure incurred and paid in Australian dollars.

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

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

	2016 US$m	2015 US$m
Financial assets		
Cash and cash equivalents	30	99
Trade and other receivables	24	47
	54	**146**
Financial liabilities		
Borrowings and finance lease liabilities	143	151
Trade and other payables	336	407
	479	**558**

A change of five per cent in the Australian dollar exchange rate would have an impact on the Group's profit of US$21 million (2015: a change of ten per cent would have an impact of US$42 million), before the impact of taxation. This analysis assumes that all other variables, including interest rates and iron ore price, remain constant.

12 Financial risk management (continued)

(b) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to Fortescue, and is managed on a consolidated basis. Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions and receivables from customers.

Fortescue is exposed to a concentration of credit risk with the majority of its iron ore customers located in China. This risk is mitigated by a policy of only trading with creditworthy counterparties and Fortescue further mitigates its credit risk by obtaining security in the form of letters of credit covering approximately 95 per cent of the value of iron ore shipped. Fortescue has not recognised any bad debt expense from trading counterparties in the years ended 30 June 2016 and 30 June 2015.

The exposure to credit risk from cash and short term deposits held in banks is managed by the treasury department and monitored by the CFO. Fortescue minimises its credit risk by holding funds with a range of financial institutions with credit ratings approved by the Board.

At 30 June 2016, Fortescue had US$6 million (2015: US$11 million) of trade receivables which were not settled within the normal terms and conditions agreed with the customers. These past due receivables relate to a number of customers for whom there is no recent history of default and are not considered impaired.

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as and when they fall due. Fortescue manages liquidity risk by maintaining adequate cash reserves and banking facilities, by continuously monitoring actual and forecast cash flows and by matching the maturity profiles of its assets and liabilities.

The table below analyses Fortescue's financial liabilities into relevant maturity groupings based on the period to the contracted maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 6 months	Between 6 and 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flows	Carrying amount
	US$m	US$m	US$m	US$m	US$m	US$m	US$m
30 June 2015							
Non-interest bearing	760	-	-	-	50	810	810
Fixed rate	223	221	445	2,335	4,890	8,114	4,772
Variable rate	118	135	269	5,284	-	5,806	4,797
	1,101	**356**	**714**	**7,619**	**4,940**	**14,730**	**10,379**
30 June 2016							
Non-interest bearing	622	-	19	-	50	691	691
Fixed rate	158	158	318	951	3,835	5,420	3,140
Variable rate	73	70	140	3,820	-	4,103	3,631
	853	**228**	**477**	**4,771**	**3,885**	**10,214**	**7,462**

Management monitors rolling forecasts of the Group's cash and overall liquidity position on the basis of expected cash flows.

12 Financial risk management (continued)

(d) Fair values

All financial assets and financial liabilities, with the exception of derivatives, are initially recognised at the fair value of the consideration paid or received, net of directly attributable transaction costs. Subsequently, the financial assets and financial liabilities, other than derivatives, are measured at amortised cost.

Fortescue's listed debt instruments, including the senior secured credit facility, senior secured notes and senior unsecured notes are classified as level 1 financial instruments in the fair value hierarchy, with their fair values based on quoted market prices at the end of the financial year, as outlined below.

	2016		2015	
	Carrying value US$m	Fair value US$m	Carrying value US$m	Fair value US$m
Senior secured credit facility	3,631	3,499	4,797	4,347
Senior secured notes	2,152	2,386	2,248	2,373
Senior unsecured notes	483	455	2,063	1,596

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

13 Property, plant and equipment

	Note	Plant and equipment US$m	Land and buildings US$m	Exploration and evaluation US$m	Assets under development US$m	Development US$m	Total US$m
Net carrying value							
At 1 July 2014		12,430	933	408	313	3,984	18,068
Transfers of assets		536	1	71	(603)	24	29
Additions		139	-	291	539	(5)	964
Capitalised interest	7	-	-	-	7	-	7
Disposals		(1)	(4)	-	-	-	(5)
Depreciation		(995)	(58)	-	-	(207)	(1,260)
Changes in restoration and rehabilitation estimate	14(b)	-	-	14	-	(59)	(45)
Other		(2)	-	(16)	(11)	-	(29)
At 30 June 2015		**12,107**	**872**	**768**	**245**	**3,737**	**17,729**
Cost		14,762	1,010	768	245	4,357	21,142
Accumulated depreciation		(2,655)	(138)	-	-	(620)	(3,413)
Net carrying value							
At 1 July 2015		12,107	872	768	245	3,737	17,729
Transfers of assets		207	38	(19)	(255)	31	2
Additions		52	-	70	284	-	406
Capitalised interest	7	-	-	-	2	-	2
Depreciation		(898)	(61)	-	-	(241)	(1,200)
Changes in restoration and rehabilitation estimate	14(b)	-	-	(8)	-	61	53
Other		(12)	-	(39)	(49)	(25)	(125)
At 30 June 2016		**11,456**	**849**	**772**	**227**	**3,563**	**16,867**
Cost		14,993	1,044	772	227	4,397	21,433
Accumulated depreciation		(3,537)	(195)	-	-	(834)	(4,566)

Transfers of assets were made between the categories of property, plant and equipment, intangible assets, exploration and evaluation and development expenditure.

Property, plant and equipment includes assets held under finance leases of US$434 million (2015: US$403 million). The details of the finance leases under which these assets are held are disclosed in note 10(a).

Other movements include an impairment provision following suspension of the Nullagine Iron Ore Joint Venture operations for the full value of US$32 million, a provision in relation to specific assets and capital projects deferred pending market conditions of US$59 million, and a US$34 million write-off of previously capitalised exploration costs on relinquished tenements.

14 Provisions

	2016 US$m	2015 US$m
Employee benefits	167	168
Restoration and rehabilitation	-	6
Total current provisions	**167**	**174**
Employee benefits	2	4
Restoration and rehabilitation	487	424
Total non-current provisions	**489**	**428**

(a) Provision for employee benefits

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

	2016 US$m	2015 US$m
At 1 July	172	170
Changes in employee benefits provision	134	110
Amounts paid	(137)	(108)
At 30 June	**169**	**172**

Provision for employee benefits includes the Group's liability for long service leave, annual leave and employee incentives. The current portion includes all of the accrued annual leave and the portion of long service leave where employees have completed their required period of service. The estimated amount of current annual leave and long service leave not expected to be paid in the next 12 months is US$30 million (30 June 2015: US$30 million).

(b) Provision for restoration and rehabilitation

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

	2016 US$m	2015 US$m
At 1 July	430	473
Changes in restoration and rehabilitation estimate	53	(45)
Unwinding of discount	4	4
Payments for restoration and rehabilitation activities	-	(2)
At 30 June	**487**	**430**

The provision for restoration and rehabilitation has been made in full for all disturbed areas at the reporting date based on current cost estimates for rehabilitation and infrastructure removal, discounted to their present value based on expected timing of future cash flows.

Payments for restoration and rehabilitation activites exclude ongoing rehabilitation performed as part of normal operations.

15 Deferred tax assets and liabilities

	2016 US$m	2015 US$m
Deferred tax assets	355	397
Deferred tax liabilities	(1,855)	(1,769)
	(1,500)	**(1,372)**

(a) Composition of and movements in deferred tax assets and liabilities

	Deferred tax assets		Deferred tax liabilities		Charged / (credited) to the income statement	
	2016 US$m	2015 US$m	2016 US$m	2015 US$m	2016 US$m	2015 US$m
Exploration expenditure	-	-	(118)	(92)	(26)	(9)
Development	-	-	(510)	(511)	1	(48)
Property, plant and equipment	-	35	(1,079)	(945)	(169)	(232)
Inventories	-	-	(121)	(162)	41	23
Foreign exchange losses (gains)	1	1	(5)	(3)	(2)	7
Provisions	201	184	(5)	(4)	16	(12)
Other financial liabilities	139	137	(13)	(23)	12	50
Other items	14	40	(4)	(29)	(1)	3
	355	**397**	**(1,855)**	**(1,769)**	**(128)**	**(218)**

(b) Tax losses

At 30 June 2016, the Group had income tax losses with a tax benefit of US$12 million (2015: US$6 million) which are not recognised as deferred tax assets. The Group recognises the benefit of tax losses only to the extent of anticipated future taxable income or gains in relevant jurisdictions. These losses do not expire.

16 Commitments and contingencies

	Capital US$m	Operating leases US$m	Total US$m
30 June 2015			
Within one year	138	107	245
Between one and five years	438	174	612
	576	**281**	**857**
30 June 2016			
Within one year	290	61	351
Between one and five years	183	98	281
	473	**159**	**632**

(i) Capital commitments

At 30 June 2016, Fortescue had contractual commitments to capital expenditure not recognised as liabilities, including commitments associated with the construction of very large iron ore carriers of US$271 million (2015: US$62 million) within 12 months after the end of the year and US$183 million (2015: US$438 million) between one and five years after the end of the year.

(ii) Operating lease commitments

Fortescue leases various offices and other premises under non-cancellable operating leases expiring within one to four years. The leases have varying terms, escalation clauses and renewal rights. The terms of the leases are renegotiated on renewal. Fortescue also leases mobile equipment, plant and machinery and office equipment under non-cancellable operating leases. The leases have varying terms.

Fortescue had no material contingent liabilities or contingent assets at 30 June 2016 or at the date of this report. Fortescue occasionally receives claims arising from its activities in the normal course of business. In the opinion of the Directors, all such matters are covered by insurance or, if not covered, are without merit or are of such a kind or involve such amounts that would not have a material adverse impact on the operating results or financial position if settled unfavourably.

17 Events occurring after the reporting period

On 22 August 2016, the Directors declared a final dividend of 12 Australian cents per ordinary share payable in October 2016.

18 Related party transactions

(a) Subsidiaries and joint operations
Interests in significant subsidiaries and joint operations are set out in note 23.

(b) Key management personnel remuneration

	2016 US$'000	2015 US$'000
Short term employee benefits	8,161	6,521
Share-based payments	(1,242)	5,984
Post employment benefits	135	169
	7,054	**12,674**

Detailed information about the remuneration received by each key management person is provided in the remuneration report on pages 115 to 146.

(c) Transactions with other related parties
The following transactions occurred with joint operation partners:

	2016 US$'000	2015 US$'000
Other revenue	30,749	70,892
Current receivables	1,742	19,318
Deferred joint venture contributions	253,361	260,749

The deferred joint venture contributions liability reflects the timing of cash call contributions to the Iron Bridge Joint Venture by Fortescue and other joint operation partners.

(d) Guarantees issued
During the financial year ended 30 June 2012, the Minderoo Group Pty Ltd (formerly The Metal Group Pty Ltd), an entity controlled by the Chairman, provided financial assistance by way of guarantee to certain of Fortescue's executives to purchase the Company's shares. US$985 thousand expense was recognised during the year ended 30 June 2015 in relation to the agreement. The agreement concluded during the year ended 30 June 2015.

19 Share-based payments

(a) Employee options and Performance Rights Plans

During the year ended 30 June 2016, Fortescue issued 3,870,459 (2015: 1,671,456) short term performance rights and 9,211,984 (2015: 3,752,129) long term performance rights to employees and senior executives, convertible to one ordinary share per right. The short term rights vest over one year, and the long term rights vest over three years.

	2016		2015	
	Weighted average exercise price		Weighted average exercise price	
	A$	Number	A$	Number
Outstanding at 1 July	-	11,622,892	1.95	19,226,320
Performance rights granted	-	13,082,443	-	5,423,585
Performance rights forfeited or lapsed	-	(2,866,096)	-	(2,718,618)
Performance rights converted	-	(3,483,381)	-	(2,808,395)
Options forfeited or expired during the year	-	-	5.00	(7,500,000)
Outstanding at 30 June	**-**	**18,355,858**	**-**	**11,622,892**

The weighted average fair value of performance rights granted during the year ended 30 June 2016 was A$1.79 per right (2015: A$2.49) for the short term performance rights and A$1.72 per right (2015: A$2.37) for the long term performance rights. The estimated fair value of the short term performance rights was determined using a trinomial option pricing model and the estimated fair value of the long term performance rights was determined using a combination of analytical approaches, binomial tree and Monte-Carlo simulations. The fair value estimation takes into account the exercise price, the effective life of the right, the impact of dilution, the share price at grant date, expected price volatility of the underlying share, the effect of additional market conditions, the expected dividend yield, estimated share conversion factor and the risk free interest rate for the term of the right.

The weighted average inputs used to determine the fair value of performance rights granted during the year ended 30 June 2016 were:

- share price: A$1.81 (2015: A$2.55)
- exercise price: nil (2015: nil)
- volatility: 52 per cent (2015: 62 per cent)
- effective life: 2.2 years (2015: 1.9 years)
- dividend yield: 2 per cent (2015: 3 per cent)
- risk free interest rate: 2.0 per cent (2015: 2.5 per cent).

Details of performance rights outstanding at 30 June 2016 are presented in the following table:

	Exercise price	Balance at the end of the year	Vested and exercisable at the end of the year	Remaining contractual life	Vesting conditions	
	A$	Number	Number	Years	Market	Non-market
Long term performance rights 2014	-	3,582,111	-	0.3	-	Yes
Long term performance rights 2015	-	3,095,545	-	2.3	-	Yes
Short term performance rights 2016	-	3,487,484	-	14.5	-	Yes
Long term performance rights 2016	-	8,190,718	-	14.5	Yes	Yes
		18,355,858	**-**			

19 Share-based payments (continued)

(b) Other share-based payments

The arrangement between certain of Fortescue's executives and The Minderoo Group Pty Ltd, as described in note 18, constitutes a share-based payment. The estimated fair value of this share-based payment at grant date was US$3,941,996 including US$985,499 expensed during the year ended 30 June 2015. The fair value at each grant date was determined using a Monte-Carlo simulation model that takes into account the four-year life of the instruments, the share prices at each grant date, the expected price volatility of the underlying share, the expected dividend yield, risk free interest rate for the life of the instruments, the loan value per share, the loan interest rate and the terms of the margin call. The agreement concluded during the year ended 30 June 2015.

(c) Employee expenses

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

	2016 US$m	2015 US$m
Share-based payment (benefit) expense	(3)	9

20 Remuneration of auditors

PricewaterhouseCoopers Australia	**2016 US$'000**	**2015 US$'000**
Audit and other assurance services		
Audit and review of financial statements	722	830
Other assurance services	34	501
Total audit and assurance services	**756**	**1,331**
Other services		
Consulting services	194	205
Total remuneration of PricewaterhouseCoopers Australia	**950**	**1,536**
Network firms of PricewaterhouseCoopers Australia		
Audit and other assurance services		
Audit and review of financial statements	46	49
Total remuneration of network firms of PricewaterhouseCoopers Australia	**46**	**49**
Total auditors' remuneration	**996**	**1,585**

21 Deed of cross guarantee

Fortescue Metals Group Limited and certain of its subsidiaries are parties to a deed of cross guarantee under which each company guarantees the debts of the others. By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare a financial report and Directors' report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission.

Holding entity

- Fortescue Metals Group Limited

Group entities

- FMG Pilbara Pty Limited
- Chichester Metals Pty Limited
- FMG Resources (August 2006) Pty Limited
- FMG Resources Pty Limited
- International Bulk Ports Pty Limited
- The Pilbara Infrastructure Pty Limited
- FMG Solomon Pty Limited

(a) Consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position and consolidated statement of changes in equity

The consolidated income statement, consolidated statement of comprehensive income and consolidated statement of changes in equity for the year ended 30 June 2016 along with the consolidated statement of financial position at 30 June 2016 for the closed group and the extended closed group represented by the above companies are materially the same as that of the Group.

22 Parent entity financial information

(a) Summary financial information

	2016 US$m	2015 US$m
Current assets	101	198
Non-current assets	10,273	9,395
Total assets	**10,374**	**9,593**
Current liabilities	325	31
Non-current liabilities	85	77
Total liabilities	**410**	**108**
Net assets	**9,964**	**9,485**
Contributed equity	1,301	1,294
Reserves	14	33
Retained earnings	8,649	8,158
Total equity	**9,964**	**9,485**
Profit for the year	601	2,002
Total comprehensive income for the year	**601**	**2,002**

The parent entity's financial information has been prepared on the same basis, including the accounting policies, as the consolidated financial information, except as outlined below:

- Investments in subsidiaries, associates and joint operations have been accounted for at cost; and
- Profit for the year includes dividends received from subsidiaries of US$500 million (2015: $2,045 million).

22 Parent entity financial information (continued)

(b) Guarantees entered into by the parent entity

The parent entity is a party to the following guarantees:

- Deed of cross guarantee, as described in note 21; and
- Guarantees forming part of the Fortescue's senior debt arrangements associated with the senior secured credit facility, the senior secured notes and the senior unsecured notes, which includes providing security to the secured debt holders with respect to the assets of the Company and certain of its subsidiaries, as described in note 10(a).

No liability was recognised by the parent entity or the Group in relation to these guarantees.

(c) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities at 30 June 2016 or 30 June 2015.

23 Interests in other entities

(a) Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following significant subsidiaries, in accordance with the accounting policy described in note 24(a)(i):

			Equity holding		Investment	
Controlled entities	Country of incorporation	Class of shares	2016 %	2015 %	2016 US$	2015 US$
Chichester Metals Pty Limited	Australia	Ordinary	100	100	1	1
FMG International Pte Limited	Singapore	Ordinary	100	100	209,053	209,053
FMG International Shipping Pte Ltd	Singapore	Ordinary	100	100	1	1
FMG Iron Bridge Limited	Hong Kong	Ordinary	88	88	43,557,023	43,557,023
FMG Magnetite Pty Limited	Australia	Ordinary	88	88	1	1
FMG North Pilbara Pty Limited	Australia	Ordinary	88	88	1	1
FMG Pilbara Pty Limited	Australia	Ordinary	100	100	1	1
FMG Procurement Services	Australia	Ordinary	100	100	1	1
FMG Resources (August 2006) Pty Limited	Australia	Ordinary	100	100	1	1
FMG Solomon Pty Limited	Australia	Ordinary	100	100	1	1
Karribi Developments Pty Limited	Australia	Ordinary	100	100	1	1
Pilbara Housing Services Pty Limited	Australia	Ordinary	100	100	1	1
Pilbara Power Pty Limited	Australia	Ordinary	100	100	1	1
The Pilbara Infrastructure Pty Limited	Australia	Ordinary	100	100	1	1

23 Interests in other entities (continued)

(b) Joint operations

The consolidated financial statements incorporate Fortescue's share in the assets, liabilities and results of the following principal joint operations, in accordance with the accounting policy described in note 24(a)(ii).

				Participating interest, %	
Joint operations	**Country of incorporation**	**Holding entity**	**Principal activities**	**2016**	**2015**
Nullagine Iron Ore Joint Venture	Australia	FMG Pilbara Pty Ltd	Iron ore mining and processing[1]	25	25
Iron Bridge Joint Venture	Australia	FMG Magnetite Pty Ltd	Development of magnetite assets and production of magnetite concentrate	69	69
Glacier Valley Joint Venture	Australia	FMG North Pilbara Pty Ltd	Iron ore exploration	69	69

[1] During the year ended 30 June 2016, the operations of the Nullagine Iron Ore Joint Venture were suspended pending market conditions.

24 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below.

(a) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries, being the entities controlled by the Company. Control exists when the Group is exposed to, or has right to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

The financial statements of subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. All intercompany balances and transactions, including unrealised profits and losses arising from intra-group transactions, have been eliminated in full. Subsidiaries are consolidated from the effective date of acquisition to the effective date of disposal.

The acquisition method of accounting is used to account for the Group's business combinations.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of financial position respectively.

(ii) Joint arrangements

A joint arrangement is an arrangement when two or more parties have joint control. Joint control exists when the parties agree contractually to share control over the activities that significantly affect the entity's returns (relevant activities), and the decisions about relevant activities require the unanimous consent of the parties sharing joint control.

Joint arrangements are classified as either joint operations or joint ventures, based on the contractual rights and obligations between the parties to the arrangement.

Joint operations

If the contractual arrangement specifies a right to the assets and the obligations for the liabilities for the parties, the arrangement is classified as joint operation. The Group recognises its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. These have been incorporated in the financial statements under the appropriate headings. Details of the joint operations are set out in note 23.

To support operations and construction projects of some of the joint operations, Fortescue and other parties to the joint arrangements are required, from time to time, to contribute funds in the form of cash calls, in proportion to their respective interests in the joint arrangements. These funds, if contributed by the parties to the joint arrangements in different financial years, may give rise to deferred joint venture contribution assets or liabilities.

24 Summary of significant accounting policies (continued)

(a) Principles of consolidation (continued)

Joint ventures
If the contractual arrangement grants the parties the right to the arrangement's net assets, it is classified as a joint venture. Interests in joint ventures are accounted for using the equity method, after initially being recognised at cost in the consolidated balance sheet.

(b) Employee share trust
The Group has formed a trust to administer its employee share schemes. The trust is consolidated as the substance of the relationship is that the trust is controlled by the Group. Shares held by the share trust are disclosed as treasury shares and deducted from contributed equity.

(c) Foreign currency translation
Transactions in foreign currencies have been converted at rates of exchange at the date of those transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the reporting date, with the resulting gains and losses recognised in the income statement, except as set out below:

- For qualifying cash flow hedges, the gains and losses arising on foreign currency translations are deferred in other comprehensive income
- Translation differences on site rehabilitation provisions are capitalised as part of the development assets.

Gains and losses on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

(d) Revenue recognition
Revenue is measured at the fair value of the consideration received or receivable. Fortescue recognises revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below.

(i) Sale of products
Revenue from the sale of products is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, indicating that there has been a transfer of risks and rewards of ownership to the customer, no further work or processing is required by the Group, the quantity and quality of the products have been determined with reasonable accuracy, the price can be reasonably estimated and collectability is reasonably assured.

For iron ore sales, the above conditions are generally satisfied when title passes to the customer, typically on the bill of lading date when ore is delivered to the vessel. Accordingly, revenue from sales of iron ore is recognised on the bill of lading date at an invoiced amount.

For the majority of Fortescue's contracts the sale price included in the original invoice is referred to as provisional price and is subsequently adjusted to reflect market prices over a quotation period stipulated in the sales contract, typically on or after the vessel's arrival to the port of discharge. Refer to note 12(a)(i) for further information on provisionally priced contracts, including accounting for mark to market adjustments.

(ii) Services revenue
Revenue from the provision of services is recognised in the accounting period in which the services are rendered.

(iii) Interest income
Interest income is accrued using the effective interest rate method.

(e) Deferred income
Deferred income represents payments collected but not earned at the end of the reporting period. These payments are recognised as revenue when the goods are delivered or services are provided.

24 Summary of significant accounting policies (continued)

(f) Income tax

The income tax expense for the year is the tax payable on the current year's taxable income based on the applicable income tax rate for each jurisdiction adjusted for changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the taxation laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which the applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the taxation authorities.

The Group is subject to income taxes in Australia and jurisdictions where it has foreign operations. Significant judgement is required in determining the provisions for income taxes. There are certain transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination may be subject to change. Fortescue estimates its tax liabilities based on the Group's understanding of the tax law at the time. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. However, the deferred income tax is not accounted for if it arises from the initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither the accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for future deductible temporary differences and carry forward of unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are not recognised for temporary differences between the carrying amounts and tax bases of investments in foreign operations where the Group is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not be reversed in the foreseeable future. Deferred tax assets and liabilities are offset when there is a legal right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the Group has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. Current and deferred tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Fortescue and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation as at 1 July 2002, namely the FMG tax consolidated group, and are therefore taxed as a single entity from that date. FMG Iron Bridge (Aust) Pty Ltd and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation as at 28 September 2011, namely the FMG Iron Bridge tax consolidated group, and are therefore taxed as a single entity from that date.

The head entity and the controlled entities in both tax consolidated groups continue to account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in each tax consolidated group continues to be a standalone taxpayer in its own right. In addition to its own current and deferred tax amounts, the head entity of each group also recognises the current tax liabilities, or assets, and the deferred tax assets it has assumed from unused tax losses and unused tax credits from controlled entities in the each corresponding tax consolidated group.

Assets or liabilities arising within the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the tax consolidated group. Any differences between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to, or distribution from, wholly-owned tax consolidated entities.

All the entities in the Fortescue tax consolidated group have entered into a valid and current tax sharing agreement which, in the opinion of the Directors, limits the joint and several liability of the wholly-owned entities in the case of an income tax obligation default by the head entity.

(g) Cash and cash equivalents

Cash and cash equivalents include cash on hand, short term deposits and other short term highly liquid investments that are subject to an insignificant risk of changes in value, and are readily convertible to known amounts of cash.

24 Summary of significant accounting policies (continued)

(h) Trade receivables
Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Collectibility of trade receivables is reviewed on a monthly basis. When there is objective evidence that Fortescue will not be able to collect all amounts due according to the original terms of the receivables, an allowance for impairment of trade receivables is raised. Total receivables which are known to be uncollectible are written off by reducing the carrying amount directly. Significant financial difficulties of the customer, probability that the customer will enter bankruptcy or financial re-organisation and default or delinquency in payments are considered indicators that the trade receivable may not be collected. The amount of the impairment allowance is the difference between the trade receivable's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment allowance is recognised in the income statement within administration expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against administration expenses.

(i) Inventories
Warehouse stores and materials, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost for raw materials and stores is determined as the purchase price. For partly processed and saleable iron ore, cost is based on the weighted average cost method and includes:

- Materials and production costs, directly attributable to the extraction, processing and transportation of iron ore to the existing location
- Production and transportation overheads
- Depreciation of property, plant and equipment used in the extraction, processing and transportation of iron ore.

Iron ore stockpiles represent iron ore that has been extracted and is available for further processing or sale. Quantities are assessed primarily through internal and third party surveys. Where there is an indication that inventories are obsolete or damaged, these inventories are written down to net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(j) Financial assets
Fortescue classifies its financial assets into loans and receivables and financial assets at fair value through profit or loss. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and include trade receivables. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are initially measured at fair value and subsequently carried at amortised cost. At the end of each reporting period loans and receivables are reviewed for impairment, with the difference between the carrying amount and the present value of estimated future cash flows recognised in the income statement.

(ii) Financial assets through profit or loss
This category comprises only derivative financial instruments. They are carried on the balance sheet at fair value with changes in fair value recognised in the income statement.

(k) Financial liabilities

(i) Trade payables
Trade and other payables are initially recognised at fair value and subsequently carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid.

(ii) Borrowings
Borrowings are initially recognised at fair value of the consideration received, less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method.

Borrowings are derecognised when the contractual obligations are discharged, cancelled or expire, or when the terms of an existing borrowing are substantially modified. Any difference between the carrying amount of a derecognised liability and the carrying amount of the new liability is recognised in the income statement.

24 Summary of significant accounting policies (continued)

(k) Financial liabilities (continued)

(iii) Finance lease liabilities
The Group has finance lease liabilities in relation to certain items of property, plant and equipment. Finance lease liabilities are initially recognised at the fair value of the underlying assets or, if lower, the estimated present value of the minimum lease payments. Each lease payment is allocated between the liability and finance cost and the finance cost is charged to the income statement over the lease period to reflect a constant periodic rate of interest on the remaining balance of the liability for each period.

(l) Property, plant and equipment

(i) Recognition and measurement
Each class of property, plant and equipment is stated at historical cost less, where applicable, any accumulated depreciation and impairment loss. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.

The cost of self-constructed assets includes the cost of materials and direct labour and any other costs directly attributable to bringing an asset to a working condition ready for its intended use. Assets under construction are recognised in assets under development. Upon commissioning, which is the date when the asset is in the location and condition necessary for it to be capable of operating in the manner intended by management, the assets are transferred into property, plant and equipment or development assets, as appropriate.

Cost may also include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Borrowing costs related to the acquisition or construction of qualifying assets are capitalised.

When separate parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalised as part of the equipment.

Gains and losses arising on disposal of property, plant and equipment are recognised in the income statement and determined by comparing proceeds from the sale of the assets to their carrying amount.

(ii) Subsequent costs
Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with these subsequent costs will flow to Fortescue and the cost of the item can be measured reliably. Ongoing repairs and maintenance are recognised as an expense in the income statement during the financial period in which they are incurred.

(iii) Depreciation
Depreciation of assets, other than land which is not depreciated, is calculated using the straight-line method or units of production method, net of residual values, over estimated useful lives. Depreciation commences on the date when an asset is available for use, that is, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Assets acquired under finance leases are depreciated over the shorter of the individual asset's useful life and the lease term.

Straight-line method
Where the useful life is not linked to the quantities of iron ore produced, assets are generally depreciated on a straight-line basis. The estimated useful lives for the principal categories of property, plant and equipment depreciated on a straight-line basis are as follows:

• buildings	20 to 40 years
• rolling stock	25 to 30 years
• plant and equipment	2 to 20 years
• rail and port infrastructure assets	40 to 50 years

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period with the effect of any changes in estimate accounted for on a prospective basis.

Units of production method
Where the useful life of an asset is directly linked to the extraction of iron ore from a mine, the asset is depreciated using the units of production method. The units of production method is an amortised charge proportional to the depletion of the estimated proven and probable reserves at the mines.

24 Summary of significant accounting policies (continued)

(l) Property, plant and equipment (continued)

(iv) Exploration, evaluation and development expenditure
Exploration and evaluation activities involve the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource. Exploration and evaluation expenditure incurred is accumulated and capitalised in respect of each identifiable area of interest, and carried forward to the extent that:

- Rights to tenure of the identifiable area of interest are current
- At least one of the following conditions is also met:
  - The expenditure is expected to be recouped through the successful development of the identifiable area of interest, or alternatively by its sale; or
  - Where activities in the identifiable area of interest have not, at the reporting date, reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and activities in, or in relation to, the area of interest, are continuing.

Exploration and evaluation assets are reviewed at each reporting date for indicators of impairment and tested for impairment where such indicators exist. If the test indicates that the carrying value might not be recoverable, the asset is written down to its recoverable amount. These charges are recognised within exploration, development and other expenses in the income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in previous years.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified from exploration and evaluation expenditure to development expenditure.

Development expenditure includes capitalised exploration and evaluation costs, pre-production development costs, development studies and other expenditure pertaining to that area of interest. Costs related to surface plant and equipment and any associated land and buildings are accounted for as property, plant and equipment.

Development costs are accumulated in respect of each separate area of interest. Costs associated with commissioning new assets in the period before they are capable of operating in the manner intended by management, are capitalised. Development costs incurred after the commencement of production are capitalised to the extent they are expected to give rise to a future economic benefit.

When an area of interest is abandoned or the Directors decide that it is not commercially or technically feasible, any accumulated cost in respect of that area is written off in the financial period that the decision is made. Each area of interest is reviewed at the end of each accounting period and the accumulated costs written off to the income statement to the extent that they will not be recoverable in the future.

Amortisation of development costs capitalised is charged on a unit of production basis over the life of estimated proven and probable reserves at the mines.

(m) Stripping costs

(i) Development stripping costs
Overburden and other mine waste materials are often removed during the initial development of a mine in order to access the mineral deposit. This activity is referred to as development stripping and the directly attributable costs, inclusive of an allocation of relevant overhead expenditure, are capitalised as development costs. Capitalisation of development stripping costs ceases and amortisation of those capitalised costs commences upon commercial extraction of ore. Amortisation of capitalised development stripping costs is determined on a unit of production basis for each area of interest.

Development stripping costs are considered in combination with other assets of an operation for the purpose of undertaking impairment assessments.

24 Summary of significant accounting policies (continued)

(m) Stripping costs (continued)

(ii) Production stripping costs

Overburden and other mine waste materials continue to be removed throughout the production phase of the mine. This activity is referred to as production stripping, with the associated costs charged to the income statement, as operating cost, except when all three criteria below are met:

- Production stripping activity provides improved access to the specific component of the ore body, and it is probable that economic benefit arising from the improved access will be realised in future periods
- The Group can identify the component of the ore body for which access has been improved
- The costs relating to the production stripping activity associated with that component can be measured reliably.

If all of the above criteria are met, production stripping costs resulting in improved access to the identified component of the ore body are capitalised as part of development asset and are amortised over the life of the component of the ore body.

The determination of components of the ore body is individual for each mine. The allocation of costs between production stripping activity and the costs of ore produced is performed using relevant production measures, typically strip ratios. Changes to the mine design, technical and economic parameters affecting life of the components and strip ratios, are accounted for prospectively.

(n) Leases

Leases of assets where Fortescue, as lessee, has substantially all the risks and rewards of ownership, are classified as finance leases. Assets acquired under finance leases are capitalised at the lower of the fair value of the underlying assets or the present value of the future minimum lease payments. The corresponding finance lease liability is classified as borrowings. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to Fortescue as lessee are classified as operating leases. Payments made under operating leases are recognised as an expense in the income statement on a straight-line basis over the lease term.

(o) Rehabilitation provision

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

The mining, extraction and processing activities of Fortescue give rise to obligations for site rehabilitation. Rehabilitation obligations include decommissioning of facilities, removal or treatment of waste materials, land rehabilitation and site restoration. The extent of work required and the associated costs are estimated using current restoration standards and techniques. Provisions for the cost of each rehabilitation program are recognised at the time that environmental disturbance occurs.

Rehabilitation provisions are initially measured at the expected value of future cash flows required to rehabilitate the relevant site, discounted to their present value using Australian Government bond market yields that match, as closely as possible, the timing of the estimated future cash outflows. The judgements and estimates applied for the estimation of the rehabilitation provisions are discussed in note 25.

When provisions for closure and rehabilitation are initially recognised, the corresponding cost is capitalised into the cost of mine development assets, representing part of the cost of acquiring the future economic benefits of the operation. The capitalised cost of closure and rehabilitation activities is recognised within development assets and is amortised based on the units of production method over the life of the mine. The value of the provision is progressively increased over time as the effect of discounting unwinds, creating an expense recognised in finance costs.

At each reporting date the rehabilitation liability is re-measured to account for any new disturbance, updated cost estimates, inflation, changes to the estimated reserves and lives of operations, new regulatory requirements, environmental policies and revised discount rates. Changes to the rehabilitation liability are added to or deducted from the related rehabilitation asset and amortised accordingly.

24 Summary of significant accounting policies (continued)

(p) Impairment of non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The Group conducts an internal review of asset values bi-annually, which is used as a source of information to assess for any indications of impairment. External factors, such as changes in expected future prices, costs and other market factors are also monitored to assess for indications of impairment. If any such indication exists, an estimate of the asset's recoverable amount is calculated, being the higher of fair value less direct costs to sell and the asset's value in use. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

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

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

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

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

(q) Finance costs

Finance costs principally represent interest expense and are recognised as incurred except when associated with major projects involving substantial development and construction periods. In addition, finance costs include losses arising on derecognition of finance liabilities at above their carrying value, unwinding of the discount on provisions and bank charges.

Interest expense and other borrowing costs directly attributable to major projects are added to the cost of the project assets until such time as the assets are substantially ready for their intended use or sale. Where funds are used to finance an asset form part of general borrowings, the amount capitalised is calculated using a weighted average of rates applicable to relevant general borrowings during the construction period.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

(r) Employee benefits

(i) Wages and salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in other payables and accruals in respect of employee services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Long service leave

The liability for long service leave is recognised in provisions and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, probability of employee departures and periods of service.

Expected future payments are discounted using market yields at the reporting date on Australian Government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows. The liability for long service leave for which settlement within 12 months of the reporting date cannot be deferred is recognised in the current provision. The liability for long service leave for which settlement can be deferred beyond 12 months from the reporting date is recognised in the non-current provision.

24 Summary of significant accounting policies (continued)

(s) Share-based payments

Share-based remuneration benefits are provided to employees under the Fortescue's Performance Rights Plan, as set out in note 19.

The fair value of rights is measured at grant date, as set out in note 19, and is recognised as an employee benefits expense over the period during which the employees become unconditionally entitled to the rights, with a corresponding increase in equity.

The fair value of the rights granted is measured to reflect expected market vesting conditions, but excludes the impact of any non-market vesting conditions (for example, profitability). Non-market vesting conditions are included in assumptions about the number of rights that are expected to become exercisable. At each reporting date, the entity revises its estimate of the number of rights that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate. The impact of the revision to original estimates, if any, is recognised in the income statement with a corresponding adjustment to equity.

(t) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the Company, on or before the end of the reporting period but not distributed at the end of the reporting period.

(u) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing profit for the year after income tax attributable to the ordinary shareholders by the weighted average number of ordinary shares on issue during the financial year.

(ii) Diluted earnings per share

Diluted earnings per share is calculated by dividing profit for the year after income tax attributable to the ordinary shareholders by the weighted average number of ordinary shares on issue during the financial year, after adjusting for the effects of all potential dilutive ordinary shares that were outstanding during the financial year.

(v) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which is disclosed as an operating cash flow.

(w) Comparatives

Where applicable, certain comparatives have been adjusted to conform with current year presentation.

24 Summary of significant accounting policies (continued)

(x) New accounting standards and interpretations

(i) New and amended standards adopted by the Group

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 July 2015:

- 2014-1 *Amendments to Australian Accounting Standards Part A: Annual Improvements 2010-2012 and 2011-2013 Cycles*. AASB 2014-1 introduced annual improvements that resulted in changes to various standards

  The adoption of the 2010-2012 and 2011-2013 annual improvement cycles had no impact on the amounts recognised and disclosures in Fortescue's financial statements.

(ii) New accounting standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2016 reporting periods. These standards and interpretations have not been early adopted.

- AASB 9 *Financial Instruments* (effective for annual reporting periods beginning on or after 1 January 2018). AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting. Fortescue has determined that AASB 9 will have no material impact on the way the Group accounts for its financial instruments
- AASB 15 *Revenue from Contracts with Customers* (effective for annual reporting periods beginning on or after 1 January 2018). AASB 15 introduces new framework for accounting for revenue and will replace AASB 118 *Revenue* and AASB 111 *Construction Contracts*. The new standard is based on the principle that revenue is recognised when control over goods and services transfers to a customer, therefore the notion of control replaces the existing notion of risks and rewards. Management is continuing to assess the impact of the new standard on Fortescue's financial statements
- AASB 16 *Leases* (effective for annual reporting periods beginning on or after 1 January 2019). AASB 16 introduces new framework for accounting for leases and will replace AASB 117 *Leases*. The new standard will primarily affect the accounting by lessees and will result in the recognition of almost all leases on the balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for almost all lease contracts. Management is continuing to assess the impact of the new standard on Fortescue's financial statements.

25 Critical accounting estimates and judgements

The preparation of the consolidated financial statements requires management to make judgements and estimates and form assumptions that affect how certain assets, liabilities, revenue, expenses and equity are reported. At each reporting period, management evaluates its judgements and estimates based on historical experience and on other factors it believes to be reasonable under the circumstances, the results of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Fortescue has identified the following critical accounting policies where significant judgements and estimates are made by management in the preparation of these financial statements.

(a) Iron ore reserve estimates

Iron ore reserves are estimates of the amount of product that can be economically and legally extracted from Fortescue's current mining tenements. In order to calculate ore reserves, estimates and assumptions are required about a range of geological, technical and economic factors, including quantities, grades, production techniques, recovery rates, production costs, transport costs, commodity demand, commodity prices and exchange rates. Estimating the quantity and grade of ore reserves requires the size, shape and depth of ore bodies or fields to be determined by analysing geological data such as drilling samples. This requires complex and difficult geological judgements and calculations to interpret the data.

As economic assumptions used to estimate reserves change and as additional geological data is generated during the course of operations, estimates of reserves may vary from period to period. Changes in reported reserves may affect Fortescue's financial results and financial position in a number of ways, including the following:

- Asset carrying values may be affected due to changes in estimated future cash flows
- Depreciation and amortisation charges in the income statement may change where such charges are determined by the units of production method, or where the useful economic lives of assets change
- The carrying value of deferred tax assets may change due to changes in estimates of the likely recovery of tax benefits.

(b) Exploration and evaluation expenditure

Fortescue's accounting policy for exploration and evaluation expenditure results in expenditure being capitalised for an area of interest where it is considered likely to be recoverable by future exploitation or sale or where the activities have not reached a stage which permits a reasonable assessment of the existence of reserves. This policy requires management to make certain estimates as to future events and circumstances, in particular whether an economically viable extraction operation can be established. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised the expenditure under the policy, a judgement is made that recovery of the expenditure is unlikely, the relevant capitalised amount will be written off to the income statement.

(c) Development expenditure

Development activities commence after commercial viability and technical feasibility of the project is established. Judgement is applied by management in determining when a project is commercially viable and technically feasible. In exercising this judgement, management is required to make certain estimates and assumptions as to the future events. If, after having commenced the development activity, a judgement is made that a development asset is impaired, the relevant capitalised amount will be written off to the income statement.

(d) Property, plant and equipment – recoverable amount

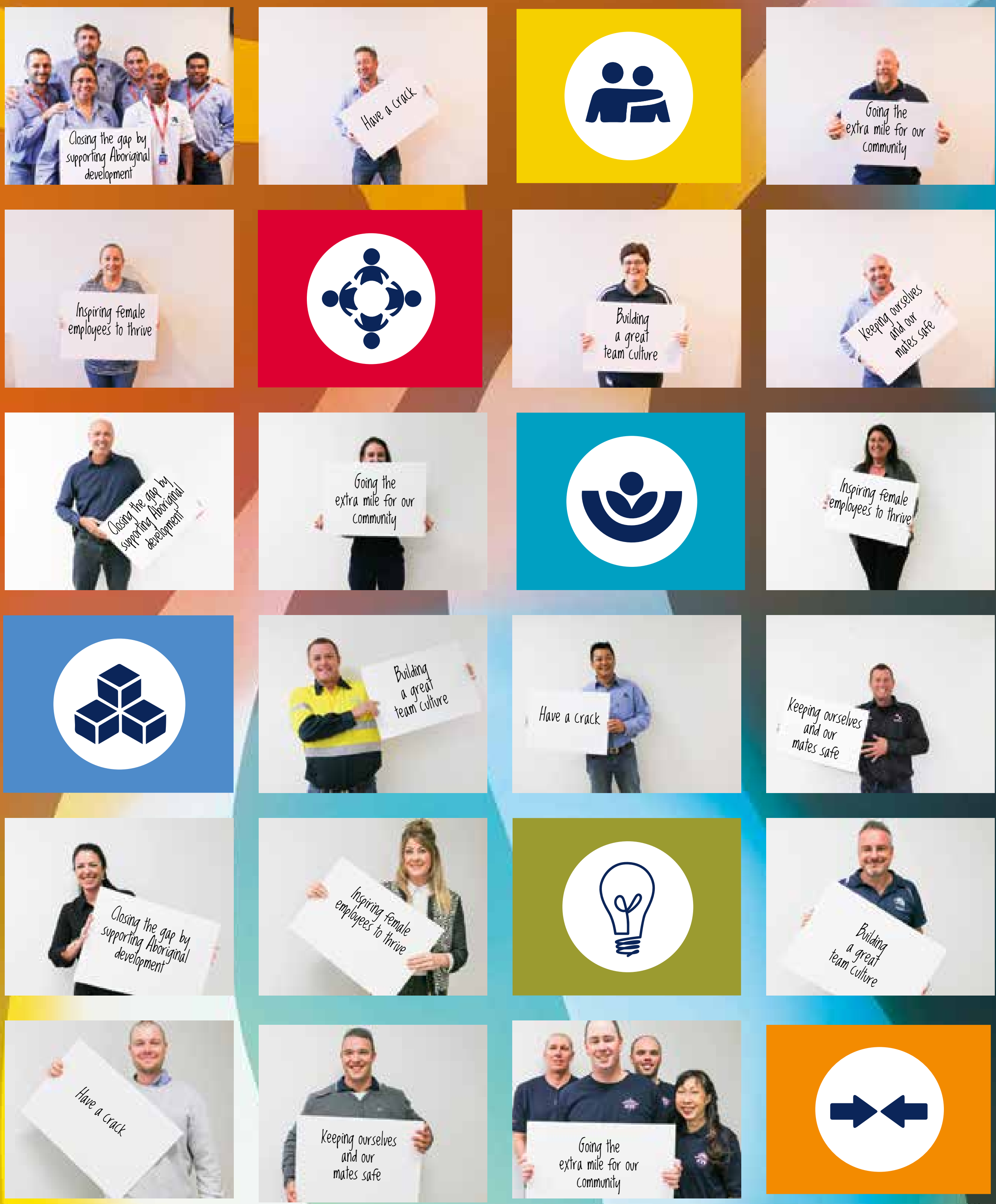
The determination of fair value and value in use requires management to make estimates about expected production and sales volumes, commodity prices, reserves (see 'iron ore reserve estimates' above), operating costs, rehabilitation costs and future capital expenditure. Changes in circumstances may alter these projections, which may impact the recoverable amount of the assets. In such circumstances, some or all of the carrying value of the assets may be impaired and the impairment would be charged to the income statement.

(e) Rehabilitation estimates

Fortescue's accounting policy for the recognition of rehabilitation provisions requires significant estimates including the magnitude of possible works required for the removal of infrastructure and of rehabilitation works, future cost of performing the work, the inflation and discount rates and the timing of cash flows. These uncertainties may result in future actual expenditure differing from the amounts currently provided.

Northern Spirits

recognition program



Remuneration Report

Remuneration Report

From the Remuneration and Nomination Committee Chair

On behalf of the Directors of Fortescue Metals Group Limited I am pleased to present the Remuneration Report for the year ended 30 June 2016 ('FY2016 or FY16').

Our Remuneration Report is designed to provide you, our shareholders, with information on key Committee activities undertaken during the year. Details of remuneration paid to Directors and Key Management Personnel ('KMP or Executives') in FY2016 demonstrate how reward outcomes link to Company strategy, performance and value to shareholders.

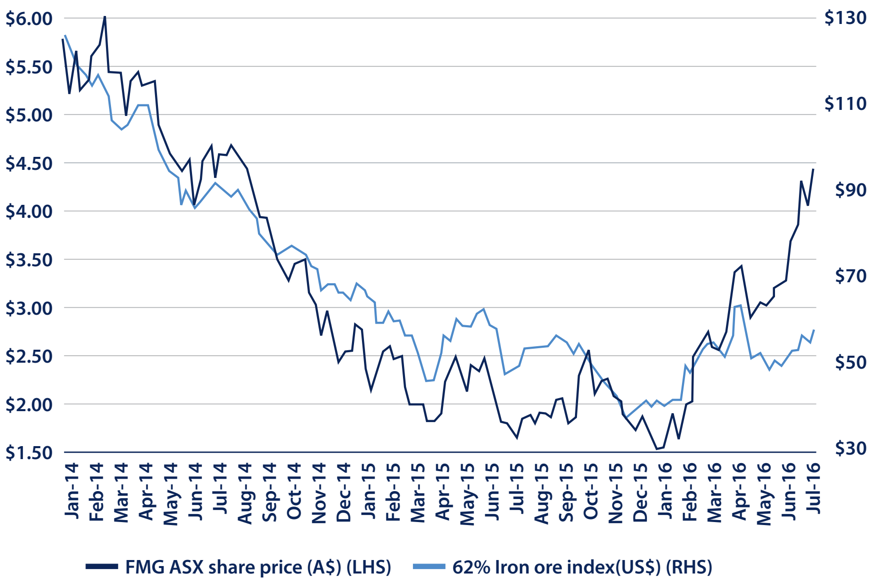
Market context

As reported in the Operating and Financial Review, FY16 has achieved strong results during another challenging year with market volatility and external factors impacting shareholder returns across the industry.

A governing principle of Fortescue's remuneration strategy is to ensure management are held accountable for achieving stretch targets on the critical deliverables of safety, production and cost. For FY16, the Board determined aggressive targets for each and designed incentives specifically to drive business transformation, financial performance and protect shareholder value, as follows:

- Improvement in safety of at least 15% over FY15, ensuring continued improvement of this most critical measure
- A focus on cost reduction at the highest level, to achieve significant and sustainable cost savings in addition to the target set by the Board in FY15, at that time crucial to the sustainability of the business in the context of a falling iron ore price
- Delivery of process efficiency, productivity improvement and efficiency across the business, fundamental to strengthening Fortescue's resilience, preserving shareholder value and developing a platform for future growth.

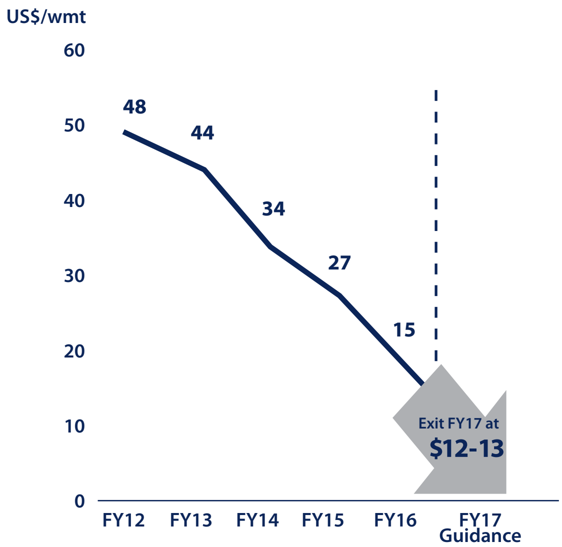
The following chart illustrates the high correlation of the Fortescue share price to movements in the iron ore price, a key external factor outside management's control.



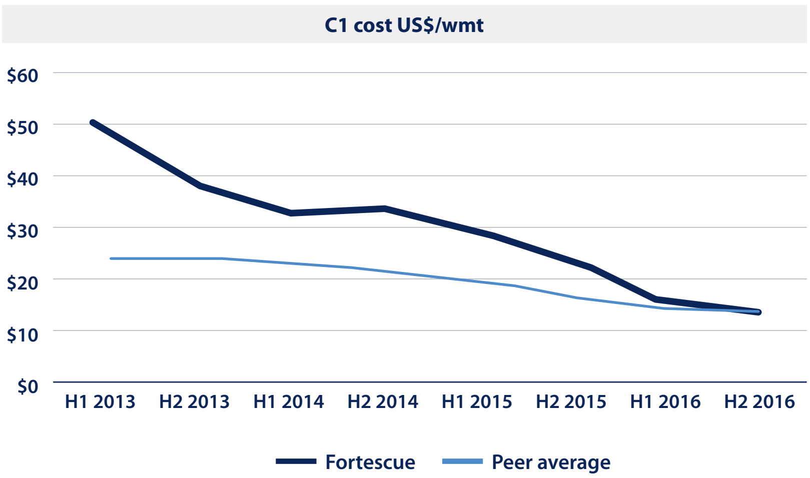
Sustainable cost reduction

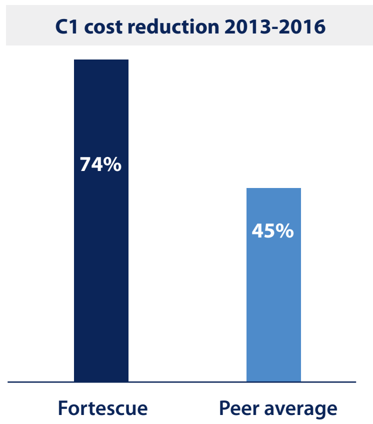
In FY15, the Board tasked the CEO and CFO specifically to safely deliver significant cost savings that it believed were fundamental to business sustainability in light of a falling iron ore price. Given its essential nature to Fortescue, a continued focus on cost reduction in FY16 and criticality of achieving further significant and sustainable cost reductions was reinforced by the Board. The Company's leadership team has continued to focus on the key drivers of financial performance within their control, including process efficiency, productivity improvement and cost reduction. They have taken the necessary actions required to strengthen Fortescue's resilience to the current economic environment, preserving shareholder value and developing a platform for future growth.

C1 costs are an important key performance indicator, representing the operating costs of mining, processing, rail and port on a per tonne basis, including allocation of direct administration charges and production overheads. The chart opposite shows the reduction in C1 costs from FY12 to FY16. FY16 was again a successful year, highlighting the delivery of continuous, sustainable cost improvements achieved through development of assets, efficiencies, productivity and cost savings.

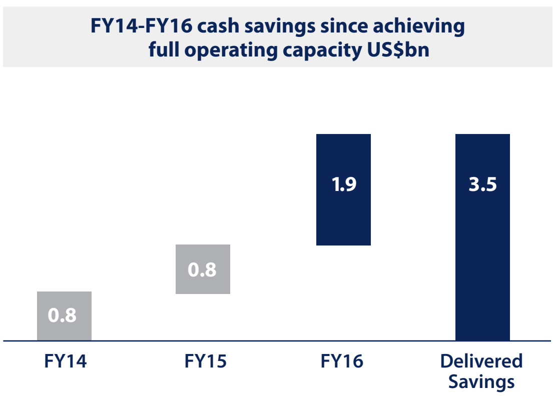


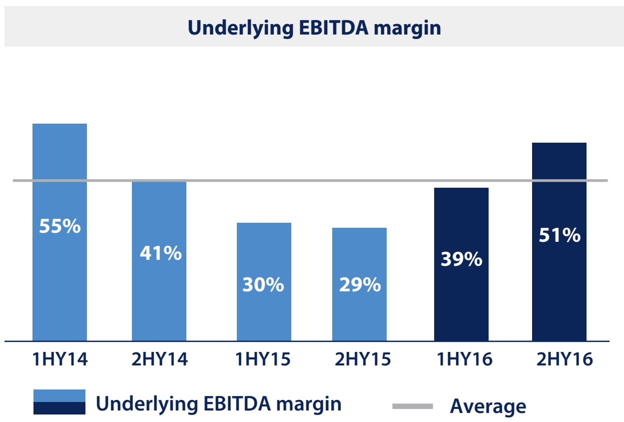
Fortescue's successful drive to reduce C1 costs, together with reduction in all costs of the business reflect further progress in securing the Company's strong competitive position among its global peers. Whilst cost reduction has been reported across the industry of between 41 – 48 per cent since 2013, Fortescue by comparison, has reduced C1 costs by more than 70 per cent as illustrated by the charts below.





The cost saving actions delivered by the leadership team have successfully maintained underlying EBITDA margins and delivered shareholder value, as illustrated by the charts below.





FY16 Remuneration

Fixed remuneration

For the second successive year in line with economic and industry sentiment, the FY17 Annual Remuneration Review (effective from 1 July 2016) resulted in a decision to maintain fixed remuneration at current levels across the business.

'At Risk' remuneration

A significant portion of the value that executives may receive in respect to performance based incentives, or the 'at risk' component of their remuneration arrangements is subject to both Company and share price performance. A minimum of 50 per cent (with the ability to elect up to 100 per cent) of the Short Term Incentive and 100 per cent of the Long Term Incentive is offered in the form of share rights, the value of which is based on the share price at the beginning of the performance period. This means that the value of the share rights is subject to the same share price performance experienced by shareholders over the relevant period. The actual value realised by executives is based on the share price at the time the share rights are awarded and value received at the end of the performance period. This ensures that awards are fully aligned with the shareholder experience over the same period.

In FY16, Fortescue's management team have continued to provide strong leadership in operational performance driving safe and sustainable improvements across the business. This performance has resulted in continued reduction in Total Recordable Injury Frequency Rate, a significant reduction in total delivered costs, achievement of annual production targets and the generation of strong cash flows. Accordingly, these results have delivered a solid foundation for the continued reduction of debt. These achievements are reflected in the outcomes of the FY16 Executive and Senior Staff Incentive Plan (ESSIP) which has delivered an average award of 102 per cent of maximum opportunity. In considering incentive payments, the Board take careful consideration in setting and assessing awards to ensure there is a strong link between remuneration and performance.

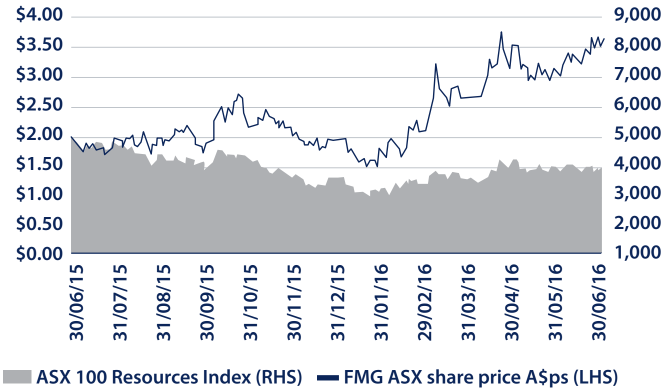
The three year performance period for the FY14 Long Term Incentive Plan (LTIP) concluded on 30 June 2016, with the Plan meeting its Absolute Return on Equity (AROE) threshold of 20 per cent and 25 per cent of share rights granted under the Plan vesting.

Fortescue's share price and total shareholder return for the one year short term and three year long term incentive performance periods are provided below.

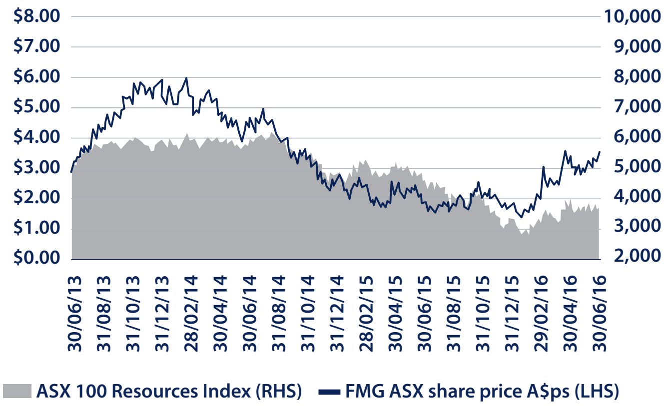
	Share Price			
Period	**At start of period**	**At end of period**	**Increase**	**TSR**
1 Year	A$1.91	A$3.50	83%	87.6%
3 Year	A$3.04	A$3.50	15%	27.4%

Fortescue's share price performance vs the ASX 100 Resources Index

One year performance



Three year performance



Critical initiatives

Critical initiatives identified by the Board for implementation over FY16 and the previous financial year were required to ensure continued business sustainability and value protection in the context of the falling iron ore price and consequent market shifts. These initiatives included stability of the leadership team and aggressive cost reduction targets, to be driven in particular by the CEO and CFO.

In the opinion of the Board, the CEO and CFO demonstrated outstanding leadership and extraordinary achievement in creating long term sustainable value for shareholders in the period up to and including the FY16 performance year. This achievement includes the delivery of cost savings of US$1.6 billion for the financial years 2013 to 2015 and the development of a clear and deliverable plan for achieving additional cost savings of US$1.9 billion in FY16.

Recognising the nature of cost savings as fundamental to the sustainability of Fortescue, the Board exercised its discretion to approve a one-off award payment to the CEO of A$2,000,000 and to the CFO of A$500,000, representing in total less than 0.1 per cent of the cost savings delivered at the time of payment.

In considering the reasonableness of the proposed payments, the Board formally engaged Egan Associates.

CEO remuneration

The total remuneration actually delivered to the CEO (and other executives) is subject to performance hurdles and to the share price movement, with a significant proportion delivered in share based incentives subject to the same variability as experienced by shareholders.

Fortescue is committed to providing competitive remuneration packages to executives and senior employees and the Board benchmarks remuneration components against major indices including the ASX 50 and the ASX 100 Resources Index and comparable roles in peer group companies. The Board acknowledges that market conditions, share price and market capitalisation may change the Company's relative comparator group. At 30 June 2015 Fortescue was ranked #55 on the ASX 100 by market capitalisation, improving to #32 at 30 June 2016.

Long Term Incentive Plan

As reported in the FY15 Remuneration Report, the Board reviewed the operation of the Long Term Incentive Plan (LTIP) taking into account the objectives of the Company's broader remuneration strategy, general market conditions and the range of performance hurdles utilised by leading resource companies both regionally and globally. The review resulted in the introduction of an additional two performance hurdles, Relative Total Shareholder Return and a basket of Strategic Measures designed to enhance the existing plan. Absolute Return on Equity has been retained as a key performance measure. This combination of financial and strategic metrics support a framework for long term growth.

The amended LTIP was approved by Shareholders at the 2015 Annual General meeting and has been implemented in FY16. Further details on its operation are provided in Section 5 of this Remuneration Report.

Conclusion

Fortescue's remuneration strategy is designed to motivate, attract and retain employees to deliver on the Company's strategic objectives. For executives and senior staff this includes a high proportion of at risk remuneration which is fundamentally aligned to shareholder returns. At its core, the strategy drives management accountability for the achievement of stretch targets for the business, through a balance of financial and non-financial measures.

Consistent with the Board's strategy, remuneration outcomes for FY16 reflect the achievement of all critical safety, production and cost deliverables for the year. The improvement in safety performance, a focus on cost reduction at the highest level and crucial process efficiency and productivity gains have strengthened Fortescue's resilience, increased shareholder value and have provided the platform for future growth.

Who this report covers

This report outlines the remuneration arrangements for Fortescue's Key Management Personnel (KMP). KMP are defined as 'those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity'.

The KMP of the Group for FY16 were:

Non-executive Directors

A Forrest	Chairman
O Hegarty	Vice Chair
M Barnaba	Lead Independent Director
E Gaines	Non-Executive Director
C Huiquan	Non-Executive Director
G Raby	Non-Executive Director
S Warburton	Non-Executive Director
J Baderschneider	Non-Executive Director

Executive Directors

N Power	Chief Executive Officer
P Meurs	Director Development (resigned 18 April 2016)
S Pearce	Chief Financial Officer (appointed as an Executive Director 21 June 2016)

Other key management personnel (Executives)

N Cernotta	Director Operations

Within this Remuneration Report reference to "Executive(s)" includes Executive Directors and Other Key Management Personnel.

There have been no changes to Key Management Personnel after the reporting date.

The information provided in this Remuneration Report has been prepared in accordance with requirements under the *Corporations Act 2001* and Accounting Standards. Further details in regard to Company Directors can be found in the Corporate Governance Section of the Annual Report.

Whilst the functional and reporting currency of Fortescue is US dollars, it is the Directors' view that presentation of the information in Australian dollars provides a more accurate and fair reflection of the remuneration practices of Fortescue, as all Directors, Executives and Employees are remunerated in Australian dollars. This report forms part of the Directors' Report and unless otherwise indicated the following sections have been audited in accordance with section 308 (3c) of the *Corporations Act 2001*.

Sharon Warburton
REMUNERATION & NOMINATION COMMITTEE CHAIR

Safety
TRIFR 4.3
↓ 15%

Production
169.4mt
↑ 2%

C1 costs
$15.43/wmt
↓ 43%

1 FY16 Overview and year ahead

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

Fortescue's Board and Remuneration and Nomination Committee (RNC) are committed to the continued review and refinement of the remuneration strategy to ensure it meets the changing needs of the organisation, maintains market competitiveness, and aligns to shareholder interests.

1.1 FY16 Remuneration outcomes - linking performance and pay

The Board takes into consideration both quantitative and qualitative assessments when deliberating on Executive remuneration to ensure that reward outcomes reflect both Company and individual performance. The following explains how fixed and variable remuneration outcomes were driven by performance in FY16.

Element of Remuneration	Delivery	Performance Measures	Outcomes
Total Fixed Remuneration (TFR) Further details are provided on page 143	Cash, superannuation and optional salary sacrifice benefits	An individual's TFR is a fixed / guaranteed element of remuneration	In consideration of fixed remuneration levels and current business climate, a freeze of fixed remuneration was implemented across the Company in FY16 A market review was conducted for the CEO and Executive in May 2016 resulting in no change to current fixed remuneration for the second successive year TFR is benchmarked against companies in the ASX 100 Resources Index
Short Term Incentive Plan Executive and Senior Staff Incentive Plan (ESSIP) Further details are provided on page 127	Minimum 50 per cent (up to 100 per on election) in share rights with the balance in cash Share rights are granted based on share price at the beginning of the performance period with value realised at time of award at the end of the performance period Movement in share price over the performance period directly affects the value received ensuring full alignment with returns to shareholders over the performance period	A balanced scorecard of performance measures including financial and non-financial measures. Financial measures represent the key drivers of financial performance underlying EBITDA and NPAT **Company Annual Targets** • Safety • Production • Cost **Company Growth Targets** • AROE • Physical • Culture **CEO Performance** • Measured on Company Annual plus Growth Targets **Other KMP Performance** • As per the CEO plus an additional 4-5 Personal KPIs aligned to business plan and set at stretch levels of performance	Awards made in relation to the FY16 ESSIP reflect the achievement of: • All three Company Annual Targets achieved: • 15% reduction in TRIFR • 43% reduction in C1 costs • 2% above target production • Company Growth Targets achieved • Individual performance objectives for Executives other than the CEO The outcome represents an average payment of 102 per cent of maximum opportunity compared with an average payment of 81 per cent of maximum opportunity in FY15 Refer to section 5 for further detail
Long Term Incentive Plan (LTIP) Further details are provided on page 132	Share rights are granted based on share price at the beginning of the performance period with value realised at time of award at the end of the performance period Movement in share price over the performance period directly affects the value received ensuring strong correlation with returns to shareholders over the course of the same period	**FY14 LTIP for the period 1 July 2013 to 30 June 2016** • Measured solely against single financial AROE Targets **FY15 LTIP for the period 1 July 2014 to 30 June 2017** • Measured solely against single financial AROE Targets **FY16 LTIP measured against** • AROE (33%) • TSR (33%) • Strategic Measures (34%)	**FY14 LTIP** Threshold AROE performance of 20% was achieved The FY15 and FY16 LTIP performance periods remain open
Critical Initiative Incentive Payment	One-off cash payment	Business critical initiatives including aggressive cost reduction targets and leadership stability required to deliver sustainable long term value for shareholders	An additional Incentive Payment was awarded to the CEO of A$2,000,000 and the CFO of A$500,000 in recognition of their extraordinary achievement in the delivery of cost savings to the Company of US$1.6 billion for the financial years 2013 to 2015 and the commitment to deliver further cost savings of US$1.9 billion in 2016 ensuring Fortescue's improved global competitiveness. Arising from the improvements achieved, the above incentive payments were determined by the Board and in aggregate equate to less than 0.1 per cent of the cost savings generated

2 Remuneration governance

At Fortescue, we believe that robust governance is critical to underpinning the effectiveness of our remuneration strategy.

2.1 The Remuneration and Nomination Committee

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

- Remuneration strategy
- Non-Executive Director remuneration
- Chief Executive Officer and Executive Director remuneration
- Senior Executive remuneration
- Short term and long term incentive plans
- Annual Performance Review of the CEO
- Succession planning
- Diversity strategy
- Gender Pay equity
- Matters relating to the Company's recruitment, retention and termination policies
- Nomination and Review of applicants for the Board Director position
- Committee Member Appointments.

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

The RNC in FY16 consisted solely of Non-Executive Directors. The Chief Executive Officer and others may be invited to attend meetings by the Committee Chair as required, but have no vote on matters before the Committee.

The process and accountabilities in determining remuneration are shown below:

REMUNERATION CONSULTANTS

May be engaged directly by the Board or Remuneration and Nomination Committee to provide advice or information relating to KMP that is free from influence of management

BOARD OF DIRECTORS

- Approving the remuneration of Non-Executive Directors and CEO
- Ensuring remuneration practices are competitive and align with the attraction and retention policies of the Company

BOARD REMUNERATION AND NOMINATION COMMITTEE

Advise the Board on:

- Remuneration policies and practices
- Non-Executive Director remuneration
- Executive remuneration

REMUNERATION CONSULTANTS

Will be engaged directly by management other than in respect of KMP's to provide advice and market data to ensure Fortescue's remuneration position remains competitive

HUMAN RESOURCES MANAGEMENT

- Implementation of remuneration policies and practices
- Advising the Remuneration and Nomination Committee of changing statutory and market conditions
- Provides relevant information to the Remuneration and Nomination Committee to assist with decisions

2.2 Use of remuneration consultants

The Committee has the resources and authority appropriate to perform its duties and responsibilities, including the authority to engage external professionals on terms it deems appropriate.

During the year ended 30 June 2016, the Committee engaged Egan Associates in relation to the reasonableness of the critical initiative incentive payment made to the CEO and CFO and a review of Non-executive director fees. Recommendations received from Egan Associates were provided as input into the decision making process and the Committee considered the recommendations along with other factors in making its decision.

The following table shows the fees relating to remuneration recommendations paid to Egan Associates:

Advice and/or services provided	Fees (excluding GST)
Research and remuneration recommendations - Non-executive director fees	10,290
Reasonableness of critical initiative incentive payment – CEO and CFO	7,500
Total	**17,790**

Fortescue Management were not involved in the formulation of any remuneration recommendations but provided factual information to assist Egan Associates. The Committee and Board are satisfied that the remuneration recommendations received from Egan Associates during the year were free from undue influence from members of Fortescue's KMP.

The Committee also retained Egan Associates in relation to the review of policies and practices and the provision of general information on market trends, it did not incorporate providing the Committee with any remuneration recommendations as defined by the *Corporations Act 2001*.

2.3 Clawback Policy

Fortescue operates a Clawback Policy. Clawback will be initiated where in the opinion of the Board:

1) An Award, which would not have otherwise vested, vests or may vest as a result directly or indirectly of:
   a) The fraud, dishonesty or breach of obligations (including, without limitation, a material misstatement of financial information) of any person; or
   b) Any other action or omission (whether intentional or inadvertent) of any person, the Board may make a determination to ensure that no unfair benefit is obtained by any Participant; or
2) An Award, which may otherwise have vested, has not vested as a result directly or indirectly of any circumstance referred to in paragraphs 1) a) or b) above, the Board may reconsider the level of satisfaction of the applicable Conditions and reinstate and vest any Award that may have lapsed to the extent that the Board determines appropriate in the circumstances.

2.4. Securities Trading Policy

Fortescue's Securities Trading Policy provides clear guidance on how Company securities may be dealt with.

The Securities Trading Policy details acceptable and unacceptable periods for trading in Company Securities including detailing potential civil and criminal penalties for misuse of confidential information.

Fortescue's Securities Trading Policy provides guidance on acceptable transactions in dealing in the Company's various securities, including shares, debt notes and options.

The policy also sets out a specific governance approach for how the Chairman and Directors can deal in Company Securities. The Company's Securities Trading Policy can be accessed from the Corporate Governance section at www.fmgl.com.au

2.5 Minimum shareholding and holding conditions

All Directors and employees are encouraged to own Fortescue shares and the Company enables employee participation as a shareholder through short and long term incentives, salary sacrifice and dividend reinvestment programs.

Fortescue does not have a formal minimum shareholding policy or mandatory holding condition on awarded shares however it is important to note:

- A minimum of 79 per cent of the 'at risk' component of Executive remuneration is granted in share rights
- The nominal value of share rights is determined at the commencement of the performance period motivating executives to hold shares and grow shareholder value
- The combined number of share rights granted and shares awarded exceeds TFR
- Following recent changes to tax legislation, all Fortescue incentives (both short and long term) offered from FY16 will be awarded as vested rights. Participants having up to 15 years to exercise the vested rights into shares and income tax is deferred until exercise.

3 Executive remuneration strategy

Fortescue's reward strategy seeks to build a performance orientated culture that supports the achievement of our strategic vision and to attract, retain and motivate its employees by providing market competitive fixed remuneration and incentives.

The reward strategy also supports Fortescue's growth and progression as one of the world's leading producers of iron ore through:

- Being well positioned to deliver fair and market competitive rewards
- Supporting a clear performance focus
- Alignment to the long term goals of the Company.

3.1 Remuneration Policy

Fortescue is committed to providing competitive remuneration packages to our executives and senior employees. Fortescue benchmarks remuneration components against major indices such as the ASX 50 and the ASX 100 Resources Index as well as comparable roles in peer group companies. The Board acknowledges that market conditions, share price and market capitalisation may change the Company's relative comparator group from time to time.

The Board, however, has a long term strategy to ensure that executive remuneration is appropriately positioned to motivate, attract and retain key executives and senior employees through the commodity cycles to deliver on the current and long term strategic activities of the Company.

In FY15 Fortescue was ranked #55 on the ASX 100 by market capitalisation and improved to #32 at 30 June 2016.

Information may also be sought from independent remuneration consultants regarding Executive remuneration as and when required as detailed in section 2.

3.2 How remuneration practices align with our reward strategy

Remuneration strategy principle	Policy	Practice
High levels of share ownership	Drive alignment of employee and shareholder interests	A minimum 50 per cent of the ESSIP paid in shares with executives able to elect up to 100 per cent in shares. LTIP awarded as shares
Market competitive remuneration	Attract and retain key talent and be competitive against relevant companies	Remuneration is benchmarked against the ASX 100 Resources Index and other relevant indices
Performance focus	Provide fair reward in line with individual and Company achievements	Executive remuneration mix targets a minimum of 64 per cent of the total opportunity 'at risk'
Fit for purpose	Include flexibility to reflect clear linkage to business strategy	Business strategy is prioritised; market practice is only one input in determining the relevant framework
Strategic alignment	Support delivery of long term business strategy and growth aspirations	Incentives are measured on financial and non-financial performance to support sustainable growth
Shareholder and Executive alignment	LTI rewarding sustained performance over a three year period	A significant portion of executive remuneration granted as performance rights vesting subject to short and long term performance hurdles

4 Executive remuneration structure

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

The key components of the executive remuneration structure comprise:

- Total Fixed Remuneration (TFR)
- Executive & Senior Staff Incentive Plan (ESSIP)
- Long Term Incentive Plan (LTIP).

Remuneration may also include participation in the Salary Sacrifice Share Plan (SSSP).

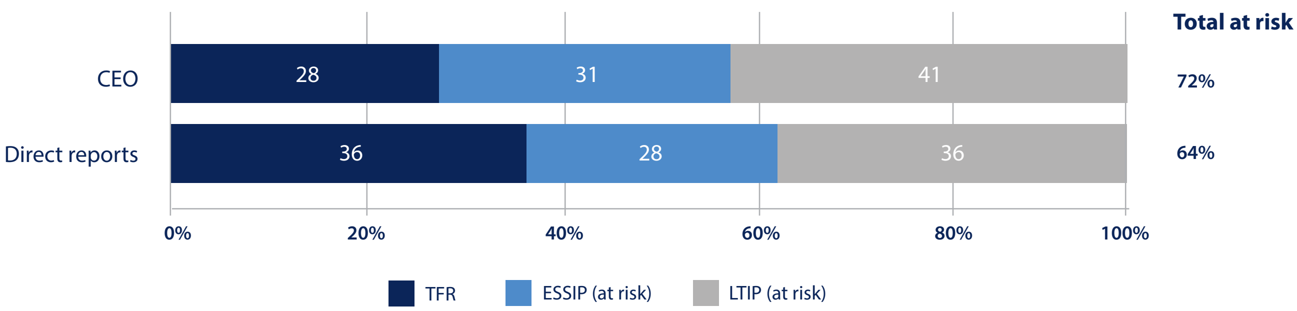
Total remuneration comprising each of these components is benchmarked against the market taking into account the Company's position as the world's fourth largest iron ore producer and explorer and its ranking on the Australian Securities Exchange. Remuneration is benchmarked against companies in the ASX 100 Resources Index, with total remuneration targeted at the third quartile. Total reward opportunities are intended to provide executives the opportunity to earn 75th percentile rewards for outstanding performance against stretch targets.

The number of share rights granted under both ESSIP (which account for a minimum of half the incentive) and LTIP (which is granted solely in share rights) are determined based on the share price at the start of the relevant performance period. This means that the movement in share price over the performance period directly affects the value received by executives and ensures full alignment with returns to shareholders over the course of the same period.

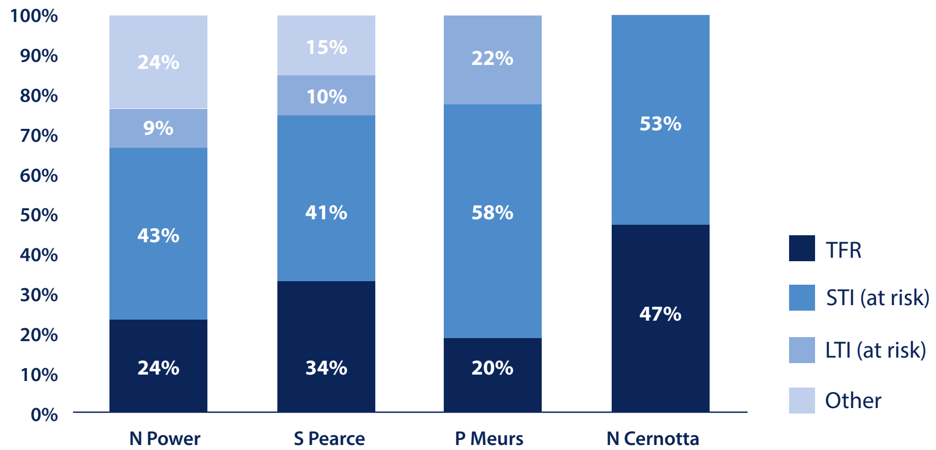
The remuneration mix (shown in the section below) clearly illustrates the significant proportion of 'at risk' components of executive remuneration and reinforces the pay for performance policy alignment adopted by the Board. Further, a minimum 79 per cent (up to a maximum of 100 per cent) of the total 'at risk' component is offered in the form of share rights and subject to share price movement fully aligned with shareholders calculated based on the share price at the commencement of the performance year. This means that over three quarters of the value to the individual of the combined ESSIP and LTIP is tied directly to the share price at the time of award ensuring that executive reward is aligned to shareholder value.

4.1 Remuneration mix

The table below shows the remuneration mix for superior performance when stretch hurdles have been met for both the CEO and his direct reports in FY16:



The chart below represents the actual remuneration mix for KMP in 2016:



5 Incentive plan operation and performance outcomes

5.1 Executive and Senior Staff Incentive Plan (ESSIP)

The purpose of the ESSIP is to incentivise and reward key Fortescue Executives (including KMP) for achieving Company and individual performance objectives that drive shareholder value.

The CEO's ESSIP potential award is linked solely to Company objectives with executive's ESSIP potential award linked 60 per cent to Company objectives, and 40 per cent to individual performance, aligning CEO and executive remuneration with Company performance during the Plan Year.

The maximum ESSIP opportunity is established at the beginning of the financial year for each Executive. The ESSIP is delivered as a minimum of 50 per cent in ordinary shares, and a maximum of 50 per cent in cash. The plan allows participants to elect to receive up to 100 per cent of the ESSIP in shares. Share rights are granted based on the election made by the participant and represent the maximum number of shares that may be awarded subject to performance.

ESSIP share rights are calculated based on the Volume Weighted Average Price (VWAP) of Fortescue shares traded over the first five trading days of the performance period (eg. 1 July 2015 to 7 July 2015).

The maximum incentive opportunity for KMPs in FY16 is shown below:

Chief Executive Officer	112.5 per cent of TFR*	1 participant
CEO Direct Reports	75 per cent of TFR*	3 participants

* Note that the actual award outcomes under the ESSIP will be determined by the number of objectives achieved and the value of the Fortescue shares at time of vesting.

Individuals who leave during the year (i.e. before 30 June) are not eligible to receive an ESSIP award, unless by specific Board approval. On receipt of such approval, the ESSIP is pro-rated based on service during the period, and made at the usual payment date, which is around September of each year, post release of audited and approved full year results.

Individuals who commence during the year similarly will have awards under the ESSIP pro-rated based on service during the performance period.

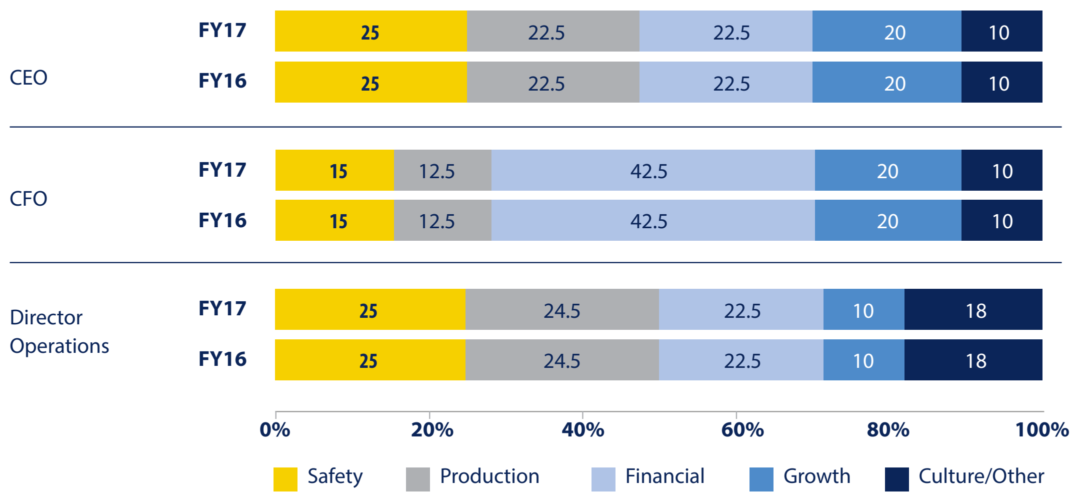
5.2 How ESSIP objectives and weightings are determined

ESSIP targets and measures are set on an annual basis and are linked to the annual stretch budget and Fortescue's strategic plan and reflect an appropriate balance between financial and non-financial targets

Personal objectives are set at stretch levels of performance with measures and weightings aligned to the individual's ability to influence outcomes and ensure focus on critical deliverables.

The following table shows the relationship between the primary ESSIP performance measures for the CEO and other KMP.

- The CEO has 55 per cent financial and 45 per cent non-financial targets
- Financial and non-financial targets are aligned specifically to the executive's respective roles and responsibilities and range from 35 per cent to 65 per cent.



* Other includes measures associated with engagement and functional objectives.

5.3 How the ESSIP works: an example

ESSIP participant rewards are designed to reflect Company performance and provide alignment with shareholder outcomes by linking a minimum of half the ESSIP to share price movement over the financial year.

Example:
The example below assumes that Executive A has an incentive opportunity of $100,000 and has elected to take 70 per cent of the incentive in shares.

Details of Offer	
Nominal Value of full award	$100,000
VWAP at start of FY16 (1 to 7 July 2015)	$1.8002
Participant Share Weighting	70%
Potential Award	
Cash (30 per cent of opportunity)	$30,000
Nominal value of share rights (70 per cent)	$70,000
Share Rights granted (70 per cent of opportunity)(ie $70,000 ÷ $1.8002)	38,885
Example Outcome	
Percentage of incentive opportunity achieved (Company and personal performance)	80%
Cash paid (80% of cash component)	$24,000
Shares Awarded (80% of share rights convert to ordinary shares)	31,108

The number of share rights granted in respect to the FY16 ESSIP is determined based on the VWAP at the start of the performance period which was A$1.8002.

- If the share price at the time of award is higher, executives will receive higher value per share right
- If the share price at the time of award is lower, the value to executives is decreased.

The value of share rights is therefore aligned with shareholder interests as executives receive value consistent with share price movements.

5.4 How Fortescue performed over the past five years

Fortescue continues to build on its performance over the past five years, showing strong performance in safety, production and costs to deliver shareholder wealth. In considering Fortescue's performance and benefits for shareholder wealth, the Board have regard to the following indices in respect of the current financial year and the previous four financial years.

In FY16, Fortescue's share price increased from the FY15 closing price of A$1.91 to A$3.50 at the end of FY16. This represents a 83 per cent increase compared with the ASX 100 Resources index which decreased 17 per cent over the corresponding period.

	2016	2015	2014	2013	2012
Total Tonnes Shipped (wmt)	169.4	165.4	124.2	80.9	57.5
Revenue from iron ore operations - US$millon	$6,947	$8,390	$11,611	$8,057	$6,681
EBITDA - US$million	$3,195	$2,506	$5,636	$3,575	$3,035
Profit after income tax - US$million	$985	$316	$2,740	$1,746	$1,559
Return on Equity %	12%	4%	43%	39%	50%
Gearing (Book value of Debt/Debt + Equity)	45%	56%	56%	71%	69%
Dividends paid A$ per share	$0.05	$0.13	$0.20	$0.04	$0.08
Share Price A$	$3.50	$1.91	$4.35	$3.04	$4.90
- change in share price A$	$1.59	($2.44)	$1.31	($1.81)	($1.45)
- change in share price %	83%	(56)%	43%	(37)%	(23)%

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

An explanation of how fixed and variable remuneration outcomes were driven by Company performance in FY16 is included in section 1.

5.5 FY16 ESSIP performance outcomes

ESSIP awards are based on an assessment of Company and individual performance. Company performance comprises company annual and growth measures designed to drive both a short and long term perspective on performance, and protect the long term interests of the shareholder by seeking to ensure efficient processing of reserves mined and that financial objectives are met.

Company annual and growth performance objectives are set by the Fortescue Board in line with the annual business planning and budgeting process and are established in line with a culture of stretch targets. The weighting for each target are reviewed annually and may vary from year to year to reflect its criticality, effort to achieve and impact on the business.

Financial targets account for 55 per cent of the Company and growth performance objectives for the CEO with the non-financial targets accounting for the remaining 45 per cent. The mix of financial and non-financial objectives for executives varies and are specific to their roles and responsibilities.

The financial performance measures were chosen as they represent the key drivers of financial performance (underlying EBITDA, NPAT) of the Company and provide a framework for delivering long term value. The non-financial component of the ESSIP is measured with reference to an assessment against a range of measures. A majority of the non-financial measures are quantitative-based.

A key element of our culture is to set challenging stretch targets and strive to outperform those targets. When deliberating on performance outcomes, the Board considers the level of achievement against stretch targets and in circumstances where above target performance is achieved, the Board may approve an above target award to reflect the degree of outperformance by the business.

In the 2016 year the Board set a number of key targets in respect of cost reduction across all operating and support functions and challenging production targets. These targets are a high priority for the Board and they have approved an above target award in respect to both measures to reflect the degree of outperformance by the business in this area.

The Board had determined the relative weighting and mix of performance objectives for the CEO and executives in order to deliver long term sustainable value.

The performance objectives in 2016 are shown below:

FY16 Short Term Incentive Outcomes

Objective & Stretch Target	Weighting (% of STI) CEO	Weighting (% of STI) Direct Reports	Result	Achievement
Company Annual Performance				
Safety[1] • TRIFR ≤ 4.33	25	15	Met	Keeping our people safe is our highest priority and in FY16 Fortescue continued its trend in reducing TRIFR achieving a 15 per cent reduction from 5.1 to **4.33**.
Production • Tonnes Shipped ≥ **165 million wmt**	22.5	12.5	Exceeded	Full year production exceeded target by 2 per cent with **169.4 million wmt** total iron ore tonnes shipped in FY16. The Board approved an outperformance award for this measure.
C1 Cost • C1 cost ≤ **US$17.56/ wmt** • June Exit C1 Costs ≤ **US$15.00/wmt**	22.5	12.5	Exceeded	FY16 was again a successful year highlighting the delivery of continuous, sustainable cost improvements achieved through development of assets, efficiencies, productivity and cost savings. Both cost targets were exceeded by 12.1 per cent and 4.6 per cent respectively with C1 costs for FY16 further decreasing to **US$15.43/wmt** and Q4 C1 cost of **$US14.31/wmt**. The Board approved an outperformance award for this measure.
Company Growth Performance				
Financial • AROE >12%	10	10	Met	Continued focus on process efficiencies and costs have had a positive impact on profitability and return on equity with **12.4 per cent** AROE achieved in FY16.
Physical • Target tonnes and quality achieved whilst maintaining mine life	10	10	Met	FY16 target production rate of 165mtpa, design strip ratio and production specifications have been achieved whilst maintaining the mine life for each site.
Culture • Safety Survey participation rate ≥75% • Voluntary turnover Rate ≤10%.	10	Included in personal KPIs	Met	Safety Survey participation of **85 per cent** exceeded target. Voluntary Turnover Target achieved with FY16 Rate of **9.2 per cent**
Personal Objectives				
Personal Objectives • 4 to 5 personal objectives set at stretch levels of performance against the FY16 Business Plan	n/a	40	Partially met	Personal objectives are assessed by the CEO and recommended outcomes approved by the Board.

[1]In the event of a fatality no award is made for the Safety KPI.

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

In FY16, the CEO was measured solely against Company performance outcomes thereby ensuring the alignment between Company performance, shareholder returns and CEO reward for the performance year.

Payment of ESSIP awards are made in September 2016 after the release of the Company's audited full year results and with final approval from the Board.

Further details in regard to the Company's full year results are set out in the Director's Report on page 68 to 70.

5.6 FY16 ESSIP awards

Share rights granted under the ESSIP at the beginning of FY16 are shown below. All the share rights granted convert to ordinary shares if all ESSIP objectives are met. The deferred ESSIP performance shares reflect the value at the commencement of the performance year when shares are nominally allocated. The ultimate value of these share rights to the executives will reflect either an improvement or decline in the Company's share price over the deferral period. The adoption of this deferral program is specifically to ensure that performance awards made to executives have a value which reflects sustainable value of shareholder's investment in the Company.

Over the performance period the share price increased by 83 per cent and total shareholder return for one year was 88 per cent. The ESSIP has awarded on average 102 per cent of maximum opportunity.

The last column in the table below details the actual number of share rights converted to ordinary shares based on actual performance:

Executive	ESSIP Share Rights Granted	ESSIP Share Rights Lapsed	ESSIP Share Rights Forfeited	Share Rights to convert to shares for FY16 ESSIP performance
N Power	624,931	-	-	624,931
S Pearce	229,662	-	-	229,662
P Meurs	229,662	-	(229,662)	-
N Cernotta	197,895	(2,375)	-	195,520

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

The table below details the maximum ESSIP cash and share awards against the actual outcomes for FY16. The share components are based on the share weighting election of each Executive:

FY16 A$	TFR	Maximum ESSIP opportunity (% of TFR)	Weighting in shares (%)	Maximum ESSIP Cash opportunity	Maximum ESSIP Shares opportunity - value atgrant[1]	ESSIP outcome (%)	ESSIP Cash awarded	ESSIP Shares awarded- value at award[2]
Executive Directors								
N Power	$2,000,000	112.5%	50%	$1,125,000	$1,125,000	108.4%	$1,313,999	$2,349,116
P Meurs[3]	$1,102,500	75%	50%	$ 413,438	$413,438	104.8%	$779,983	-
S Pearce	$1,102,500	75%	50%	$413,438	$413,438	104.8%	$453,127	$863,299
Executives								
N Cernotta	$950,000	75%	50%	$356,250	$356,250	98.8%	$351,975	$734,960

[1] The value at grant is the participant's elected weighting in shares (minimum 50 per cent of the total award) divided by the strike price used to determine the number of share rights granted being the VWAP of Fortescue shares traded over the first five trading days of the Plan year (A$1.8002).

[2] The actual share value to the individual is not realised until the shares are awarded. For the purpose of this report the nominal ESSIP share value for FY16 is the number of shares awarded multiplied by the five day VWAP of Fortescue shares traded over the first five trading days of FY17 (A$3.759).

[3] Mr Meurs received a pro-rata cash payment for accrued entitlements of FY16 ESSIP paid at the same time other executives receive their FY16 ESSIP award.

5.7 Critical Initiative Incentive Payment

A key objective of both the CEO and CFO has been to drive productivity improvement and substantially reduce operating costs to meet the standards of global low cost producers in ensuring Fortescue's long term sustainability.

The Board approved a cash payment to the CEO and CFO during the year recognising their leadership and extraordinary achievement in creating long term sustainable value for shareholders through the delivery of cost savings to the Company of US$1.6 billion for the financial years 2013 to 2015 and their commitment to the agreed outperformance of stretch targets for FY2016 required to achieve further additional cost saving of US$1.9 billion.

Arising from the significant savings and productivity gains, a one-off cash payment was made to the CEO of A$2,000,000 and to the CFO of A$500,000. The combined payment represents approximately 0.1 per cent of the cost savings delivered at the time of payment.

5.8 Long Term Incentive Plan (LTIP)

The LTIP is granted in the form of share rights at the commencement of the three year performance period with awards vesting subject to the achievement of the specified performance conditions. The three year performance period, performance measures and date of assessment and award for each of the LTIPs are as follows:

Plan	Performance Period	Performance Measure	Assessment and Award
FY14 LTIP	1 July 2013 to 30 June 2016	AROE	September 2016
FY15 LTIP	1 July 2014 to 30 June 2017	AROE	September 2017
FY16 LTIP	1 July 2015 to 30 June 2018	AROE, TSR and Strategic Measures	September 2018

5.8.1 FY14 and FY15 Long Term Incentive Plan

FY14 and FY15 LTIP awards to executives are made under the performance share plan rules and are delivered in the form of Share Rights (Rights). Each Right entitles the holder (subject to achievement of the specified performance conditions) to one fully paid ordinary share in the Company for nil consideration.

The Company uses absolute return on equity (AROE) as the performance measure for assessments of LTIP awards assessed over the three year performance period.

AROE was selected as the performance measure for the FY14 and FY15 LTIP for the following reasons:

- AROE is one of the most important value metrics reflecting profit earned relative to shareholders equity (the amount of capital invested by shareholders)
- AROE performance in excess of the Company's cost of equity capital will deliver shareholder value.

Consistent with the ESSIP, the long term incentive plan is designed to provide alignment with shareholder outcomes by linking the value of the LTIP to share price movement over the financial year.

A minimum 20 per cent annual AROE hurdle rate was selected for the FY14 and FY15 LTIPs following reasons:

- 20 per cent exceeds the Company's cost of equity
- The average AROE for the ASX 100 Resources Index from 2010 to 2014 was 9.2 per cent
- The 80th percentile AROE for the ASX 100 Resources Index from 2010 to 2014 was 15.6 per cent.

The vesting schedule is as follows:

	Average AROE		
Performance	FY14	FY15	Vesting
Below Threshold	<20%	<20%	Nil
Threshold	20%	20%	25 per cent of share rights vest
Target	>30%	>30 %	100 per cent of share rights vest

Vesting between threshold and target is calculated on a linear basis.

The performance period for the FY14 LTIP is from 1 July 2013 to 30 June 2016 and for the FY15 LTIP is from 1 July 2014 to 30 June 2017. Share Rights will convert to shares at the end of the three year performance period subject to performance against the AROE performance measure. The average AROE over three years will be measured as the sum of AROE for years 1, 2 and 3 divided by 3. Average AROE less than Threshold Performance will result in no award.

In the event of a change of control of the Company, the performance period end date will generally be brought forward to the date of the change of control and awards will vest over this shortened period, subject to ultimate Board discretion. The Clawback Policy also applies to this plan.

5.8.2 FY14 LTIP performance outcomes

The performance period for the FY14 LTIP is from 1 July 2013 to 30 June 2016. The AROE average for the three year performance period of 20 per cent (as shown in the table below) met the minimum threshold resulting in 25 per cent of share rights vesting under this plan.

FY14 LTIP Performance Outcomes

Year ending	ROE Performance (%)
30 June 2014	43
30 June 2015	4
30 June 2016	12
Average ROE	**20**
Vesting Level	**25**

All the share rights issued convert to ordinary shares if the LTIP AROE target is met. The deferred LTIP performance shares reflect the value at the commencement of the performance period when shares are nominally allocated. The ultimate value of these share rights to the executives reflect either an improvement or decline in the Company's share price over the deferral period. The adoption of this deferral program is specifically to ensure that performance awards made to executives have a value which reflects sustainable value of shareholder's investment in the Company.

Over the performance period Fortescue's share price increased by 15.4 per cent and total shareholder return for the three year period was 27.4 per cent.

5.8.3 FY14 LTIP awards

Share Rights granted under the LTIP at the beginning of FY14 are shown below. The last column details the actual number of share rights converted to ordinary shares based on actual performance.

- Unvested share rights lapse once the outcome of the LTIP is determined
- Mr Cernotta was appointed on 24 March 2014 and accordingly, did not participate in the FY14 LTIP
- Mr Meur's share rights forfeited on resignation.

FY14 LTIP Executive	LTIP Share Rights issued	LTIP Share Rights Lapsed	LTIP Share Rights Forfeited	Share Rights to convert to shares for performance
N Power	853,000	(639,750)	-	213,250
S Pearce	331,723	(248,792)	-	82,931
P Meurs	331,723	-	(331,723)	-
N Cernotta	-	-	-	-

The table below details the maximum LTIP share awards against the actual outcomes for FY16.

- The value at grant is the participant's total fixed remuneration at grant multiplied by the maximum LTIP opportunity
- The actual share value to the individual is not realised until the shares are awarded. For the purpose of this report the nominal share value for FY16 is the number of shares awarded multiplied by the five day VWAP of Fortescue shares traded over the first five trading days of FY17 (A$3.759)
- Mr Meurs resigned effective 18 April 2016
- Mr Meurs will receive a pro-rata cash payment of A$289,917 representing accrued benefits for the FY14 LTIP
- Mr Cernotta was appointed on 24 March 2014 and accordingly, did not participate in the FY14 LTIP.

FY14 LTIP A$	TFR at Grant	Maximum LTIP opportunity (per cent of TFR)	Maximum LTIP Shares opportunity - value at grant	LTIP Shares awarded	LTIP Shares awarded value at award
Executive Directors					
N Power	$1,800,000	150%	$2,700,000	213,250	$801,607
P Meurs	$1,050,000	100%	$1,050,000	-	-
S Pearce	$1,050,000	100%	$1,050,000	82,931	$311,738
Executives					
N Cernotta	-	-	-	-	-

5.8.4 FY15 LTIP performance

The performance period for the FY15 LTIP is from 1 July 2014 to 30 June 2017. Performance outcomes will be reported in the FY17 Remuneration Report.

5.8.5 FY16 LTIP (New Plan)

In FY15, the Board reviewed the operation of the LTIP in light of the objectives of its broader remuneration strategy, general market practice and the range of performance hurdles utilised by leading resources companies both regionally and globally.

The existing program was based on a single financial measure being absolute return on equity earned and measured over a three year period. The ability to achieve threshold AROE for the existing plan in future years has been heavily impacted by the decrease in the iron ore price, notwithstanding the significant cost reduction and production performance by the Company. The reduction in the iron ore price, which is outside the control of the Company's executives, has overshadowed the successful implementation of the initiatives which have achieved or exceeded, all of the pre-agreed stretch targets for safety, production, cost and capital expenditure.

In light of the conclusions arising out of the Board's review of the LTIP, the Board approved an amendment to the plan designed to enhance the alignment between the Company's executives and shareholders, rewarding performance that drives long term growth and delivers shareholder value while promoting executive retention.

5.8.6 FY16 LTIP operation

The performance period for the FY16 LTIP is from 1 July 2015 to 30 June 2018. The FY16 LTIP operates under the performance rights plan rules as approved by Shareholders at the Company's Annual General Meeting on 11 November 2015. The FY16 LTIP is granted in the form of Share Rights (Rights). Each Right entitles the holder (subject to achievement of the specified performance conditions) to one fully paid ordinary share in the Company for nil consideration.

The FY16 LTIP is assessed against multiple performance measures weighted as follows:

- Absolute Return on Equity (33 per cent)
- Total Shareholder Return relative to the ASX 100 Resources comparator group (33 per cent)
- A basket of strategic measures (34 per cent).

The relative weighting between financial and strategic measures is important and provides the ability to assess performance across a cyclical market. Retaining AROE and adding relative TSR is also important as both are market measure that are aligned with delivering shareholder value.

Each of the performance measures provide for a determination by the Board that the Company has performed at a Threshold, Target or Stretch level. These graduated levels of performance have been included in order to align and reward executives through market cycles. In the event that performance is at the target level in respect of the relevant performance measure, executives will be entitled to 100 per cent of the tranche of LTIP share rights to which the performance measure relates. Where performance is at the stretch level, executives will be entitled to 150 per cent of the tranche of LTIP share rights to which the performance measure relates.

Nevertheless, if the target for any individual performance measure is exceeded, so that up to 150 per cent of the relevant number of LTIP share rights may vest, the maximum number of LTIP share rights that may vest across the three performance measures is capped in aggregate at 100 per cent of share rights granted under the plan.

The Board believes that by incorporating the stretch level of performance into the vesting schedule, the Company will be better able to effectively reward and recognise executives in years where outstanding performance is achieved. This will serve as further motivation and assist in retention through more challenging periods.

Absolute Return on Equity (AROE)
AROE performance is measured over the relevant three year performance period.

As part of the Board's consideration of the new LTIP plan, consideration was given to the minimum AROE threshold. This consideration included the current market cycle and historical performance of the ASX 100 Resources comparator group.

Historical Performance of the ASX 100 Resources:

- Average AROE for FY11 to FY15 was 7 per cent
- Average AROE for FY15 was 2.6 per cent, down from 7 per cent in FY14.

In light of this assessment, the Board lowered the minimum threshold from 20 per cent to 15 per cent based on the following:

- 15 per cent is a suitably aggressive target which exceeds the Company's cost of equity
- An annual 15 per cent AROE would be at least the 70th quartile of performance of the ASX 100 Resources index in any of the past five years
- The stretch target of >30 per cent would be at least the 80th percentile of the ASX 100 Resources index in any of the past five years.

The AROE vesting schedule is as follows:

FY16 LTIP Target and Vesting Schedule

Performance	Average ROE	Portion of tranche that vests
Below Threshold	<15%	Nil
Threshold	15%	25 per cent of share rights vest
Target	30%	100 per cent of share rights vest
Stretch	>30%	150 per cent of share rights vest

Vesting between Threshold and Target performance levels is calculated on a linear basis with the stretch element considered together with the achievement of all performance measures and subject to the aggregate performance cap.

Total Shareholder Return (TSR)

TSR is a measure of the performance of the Company's shares over a three year period against the ASX 100 Resources Index (noted below). It combines share price appreciation and dividends paid to show the total return to the shareholder expressed as a percentage.

Relative TSR hurdles are valuable because the Company needs to outperform a peer group of participants to receive any reward and therefore, is aligned to relative market performance. The ASX 100 Resources Index[1] has been chosen as the comparator group because this is a transparent market indicator, includes Fortescue's ASX Listed commodity market peers and represents the peer group that Fortescue competes with for investment.

When formulating the vesting schedule for the TSR performance measure, the Board considered both local and international market practice. In line with the Company's approach to setting stretch targets, the Board determined that a vesting schedule more aggressive than standard market practice was required in order to align executive reward for this performance measure with superior shareholder returns. The vesting criteria for both threshold and target have been set at the 60th percentile and 80th percentile (respectively) higher than standard market practice whilst the plan also provides for a premium grant of awards where Fortescue delivers the market leading total shareholder return over the performance period.

The TSR vesting schedule is as follows:

FY16 LTIP TSR target and vesting schedule

Performance	Average TSR	Portion of tranche that vests
Below Threshold	Below the 60th percentile	Nil
Threshold	At the 60th percentile	25 per cent of share rights vest
Target	At the 80th percentile	100 per cent of share rights vest
Stretch	At the 100th percentile	150 per cent of share rights vest

Vesting between performance levels is calculated on a linear basis with the stretch element considered together with the achievement of all performance measures and subject to the aggregate performance cap.

The Board acknowledge that a relative TSR hurdle can result in unintended outcomes. The intent is to ensure no win-fall gains or undue penalty. In the event that TSR is negative but the relative TSR hurdle is achieved, the Board will consider overall performance and circumstances and may, at its absolute discretion, reduce the level of vesting or determine that no award will be made in respect to the TSR measure.

[1] Members of the ASX 100 Resources Index as at 30 June 2016 are as follows:

Alumina Ltd
BHP Billiton Ltd
BlueScope Steel Ltd
Caltex Australia Ltd
Fortescue Metals Group Ltd
Iluka Resources Ltd
Newcrest Mining Ltd
Oil Search Ltd
Origin Energy Ltd
Rio Tinto Ltd
Santos Ltd
South32 Ltd
Woodside Petroleum Ltd

Strategic Measures

As part of the enhancements made to the LTIP, the Company has introduced a basket of five strategic measures with associated key performance indicators aimed at directing performance toward the achievement of the Company's long term objectives (strategic objectives).

The strategic objectives devised by the Board specifically relate to key milestones and objectives that are fundamental to the Company's sustainability, continuing development and growth and delivery of shareholder returns. The balanced scorecard approach ensures that Executives continue to focus on the delivery of key milestones that drive long term value and that the Board has the ability to reward these achievements even in times when external factors outside the control of executives may impact shareholder returns.

Strategic measures and objectives for the FY16 LTIP are as follows:

FY16 LTIP Strategic Measures and Objectives

Performance Measure	Objective (KPI)	Link to Strategy
Safety	• Improve Fortescue's relative position against the global safety culture benchmark	Safety leadership
Performance	• Improve Fortescue's relative position on the global cost curve with a future target to have a C1 cost which is the lowest in the world • Reduce all-in cash cost • Maximise production capacity without increasing capital expenditure budget.	Competitive position, cash flow and efficient use of capital
Resource Management	• Increase long term resources quantity and value • No net decrease in mine life • Quantity, quality and diversity of tenements.	Long term sustainability
Growth	• Diversify customer base • Strategic options for growth in iron ore and other commodities.	Growth and diversity of income
Balance Sheet Management	• Reduce gearing (Debt/Debt + Equity) to target levels • Overall cost of financing • Maintain cash on hand at Board approved levels • Balance sheet flexibility	Capital efficiency, cash flow and long term sustainability

Performance targets for each strategic objective are set and assessed annually for each financial year of the relevant three year performance period. This approach provides the Company with the flexibility to respond to economic and industry challenges as they occur to ensure that performance targets are always relevant and drive long term shareholder value.

Whether a strategic objective has been achieved is measured at the end of the relevant financial year on an outcome basis as follows:

Outcome	Score
Did not meet	0
Threshold	1
Target	2
Exceeded	3

Annual performance outcomes are assessed and approved by the Board at the end of each financial year with approved outcomes banked each year for inclusion in the overall LTIP assessment at the end of the performance period.

The strategic measure vesting schedule is as follows:

FY16 LTIP Strategic measure target and vesting schedule

Performance	Score	Portion of tranche that vests
Below Threshold	<5	Nil
Threshold	5	25 per cent of share rights vest
Target	10	100 per cent of share rights vest
Stretch	15	150 per cent of share rights vest

Vesting between performance levels is calculated on a linear basis with the stretch element considered together with the achievement of all performance measures and subject to the aggregate performance cap.

The performance period for the FY16 LTIP is from 1 July 2015 to 30 June 2018. Share Rights vest at the end of the three year performance period subject to performance against the three measures.

In the event of a change of control of the Company, the performance period end date will generally be brought forward to the date of the change of control and awards will vest over this shortened period, subject to ultimate Board discretion. The Clawback Policy also applies to this plan.

Performance outcomes of the FY16 LTIP will be reported in the Company's FY18 Remuneration Report.

5.9 Salary Sacrifice Share Plan

Executives may nominate an amount (up to A$5,000 per annum) of pre-tax salary to acquire ordinary shares under the Salary Sacrifice Share Plan (SSSP). Provided ordinary shares are kept in the SSSP, income tax on the acquisition of these ordinary shares can be deferred by the Executive for up to seven years. Disposal restrictions apply while the shares remain in the SSSP. Shares acquired under this plan are not subject to performance conditions because they are issued in lieu of salary which would otherwise be payable and are subject to a monetary limit of A$5,000 per annum.

6 How executive remuneration is reported

Executive remuneration is reported in a number of ways throughout this report differences of which are driven by the following:

- **Total remuneration package** – represents the current remuneration package at stretch target comprising fixed remuneration plus the value of the ESSIP and LTIP at the applicable participating percentage. There was no increase to total fixed remuneration in 2016. Refer to section 7 for further information.
- **Actual remuneration paid** – represents the actual value realised by the individual and includes fixed remuneration, any cash incentives paid and the value of equity at the time the shares were awarded.
  - ESSIP shares granted at A$1.8002 share price and valued at award based on A$3.759 being the five day VWAP at the beginning of FY17
  - LTIP shares granted at A$3.1653 share price and awarded at A$3.759
  - Value received by Executives is subject to performance and share price movement aligned with shareholder value. Refer to the table below for further information.
- **Statutory remuneration** – represents remuneration including share based payments calculated in accordance with Australian Accounting Standards including the fair value attributed to the FY16 ESSIP share component plus one year each of the FY14, FY15 and FY16 LTIP. In 2016, total remuneration is less than prior years due to a negative accounting expense for share based payments. Refer to section 6.2 for further information.

6.1 Actual remuneration paid in FY16

The Board follows a structured process for ensuring that executive remuneration is aligned to shareholder value and stretch targets are set for the incentive plans which are reflective of market conditions and other challenges facing the industry. The value of actual pay realised by executives is reflective of the following:

- FY16 ESSIP is awarded partly in Shares (minimum 50 up to 100 per cent determined on election) with the balance (0-50%) awarded in cash
- FY16 ESSIP and FY14 LTIP Share Rights were granted based on the share price at the beginning of the performance period with value realised at the time of award. The increase in share price over the respective performance periods has resulted in an increase in equity value to executives in respect to these plans.

The following table shows the actual remuneration value realised by the individual and includes fixed remuneration, any cash incentives paid and the nominal value of equity at the time the shares are awarded. The following key points should be read in conjunction with the table below:

- Fixed remuneration includes cash salary, paid leave and superannuation
- The FY16 ESSIP and FY14 LTIP actual share value to the individual is not realised until the shares are awarded in September 2016. For the purpose of this report the nominal value of the ESSIP and LTIP share values is calculated as the number of share rights vested multiplied by A$3.759 being the volume weighted average price of Fortescue Shares for the first five trading days of FY17
- The FY14 LTIP met its 20 per cent threshold resulting in 25 per cent of share rights vesting
- Total Remuneration Earned in FY16 for both Mr Power and Mr Pearce includes an additional one-off critical initiative incentive payment
- Mr Meurs' fixed remuneration and accrued benefits for the FY16 ESSIP and FY14 LTIP have been awarded on a pro-rata basis and in cash
- Mr Cernotta was appointed on 24 March 2014 and accordingly, did not participate in the FY14 LTIP, his total remuneration opportunity does not include any value under this plan.

A$ Name	Fixed remuneration $	FY16 ESSIP Cash Paid $	FY16 ESSIP Shares Awarded $	Critical Initiative Incentive Payment	FY14 LTIP Awarded $	Total Actual Remuneration Earned in FY16
N Power	2,000,000	1,313,999	2,349,116	2,000,000	801,607	8,464,722
S Pearce	1,102,500	453,127	863,299	500,000	311,738	3,230,664
P Meurs	260,885	779,983	-	-	289,917	1,330,785
N Cernotta	950,000	351,975	734,960	-	-	2,036,935

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

6.2 Statutory remuneration disclosures for executives

Statutory remuneration disclosures are prepared in accordance with Australian Accounting Standards and include share based payments expensed during the financial year, calculated in accordance with AASB 2 *Share based payments*.

The estimated fair value was determined using a trinomial option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date, expected price volatility of the underlying share, the effect of additional market conditions, the expected dividend yield, estimated share conversion factor and the risk free interest rate for the term of the right

Statutory remuneration differs significantly from actual remuneration paid to executives due to the accounting treatment of share based payments. For details of remuneration actually paid to the Chief Executive Officer and executives in FY16 refer to section 6.1.

Statutory Remuneration Disclosures for year ending 30 June 2016

- ESSIP cash value payable in respect to FY16 will be paid in September 2016
- In FY16, an accounting expense reversal related to ESSIP and LTIP share rights resulted in a reduction in total statutory remuneration compared to the prior year due to:
  - A partial reversal of share-based payment expense following completion of the 3 year performance period ended 30 June 2016, and the assessment of performance outcomes of the FY14 LTIP
  - A partial reversal of share-based payment expense as a result of the estimated vesting outcomes of the FY15 LTIP for the 3 year period ending 30 June 2017.
- FY16 ESSIP and FY14 LTIP awarded to Mr Meurs represents accrued benefits as a pro-rata cash payment
- Mr Meurs FY16 ESSIP, FY14 LTIP, FY15 LTIP and FY16 LTIP share rights were forfeited upon his resignation in April 2016
- Mr Meurs' other payment relates to accrued annual leave and long service leave entitlements paid out on resignation.

	Short-term employee benefits					Post Employment Benefits	End of service	Share based payments			
FY16 $A	**Cash Salary and fees**	**ESSIP Cash value for 2016 Plan Year**	**FY14 LTIP Cash Value**	**Other Incentive payment**	**Non-monetary benefits**	**Superannuation**	**Other payment**	**ESSIP Share value**	**LTIP Share value**	**Other share-based payments**	**Total**
Executive Directors											
N Power	1,963,000	1,313,999	-	2,000,000	8,186	30,000	-	1,118,626	(1,109,672)	-	5,324,139
P Meurs	233,385	779,983	289,917	-	3,087	27,500	170,193	-	(1,316,302)	-	187,763
S Pearce	1,067,700	453,127	-	500,000	4,093	27,800	-	411,095	(446,444)	-	2,017,371
Executives											
N Cernotta	920,000	351,975	-	-	-	30,000	-	349,981	220,640	-	1,872,596

Statutory Remuneration Disclosures for year ending 30 June 2015

- ESSIP cash value payable in respect to FY15 paid in September 2015
- The value of ESSIP and LTIP share rights was assessed using a trinomial pricing model that takes into account the price of Fortescue shares at the grant date, expected price volatility of the underlying share, the term of the right, the expected divided yield and the risk-free interest rate for the term of the right and represents the accounting value expensed in FY15
- Other share based payments relate to financial assistance by way of guarantee to Mr Meurs by The Minderoo Group Pty Ltd to purchase Fortescue shares under an approved arrangement. The fair value at grant date was determined using a Monte Carlo simulation model, which takes into account the following inputs: the life of the instruments, the price of the underlying share, the expected volatility of the underlying share price, the dividends expected on the underlying share, the risk free interest rate for the life of the instruments, the loan value per share, the interest, fees and charges on the loan and the terms of the margin call
- Mr Meurs FY15 ESSIP was awarded on a pro-rata basis
- Mr Cernotta was appointed on 24 March 2014 and accordingly, did not participate in the FY13 LTIP.

FY15 $A	Short-term employee benefits			Post Employment Benefits	End of service	Share based payments				
	Cash Salary and fees	ESSIP Cash value for 2015 Plan Year	Non-monetary benefits	Superannuation	Other payment	ESSIP Share value	LTIP Share value	Options	Other share-based payments	Total
Executive Directors										
N Power	1,972,500	956,250	4,205	27,500	-	524,499	2,507,263	-	-	5,992,217
P Meurs	767,283	180,879	3,168	27,500	-	99,212	963,897	-	853,272	2,895,211
Executives										
S Pearce	1,076,100	210,853	4,205	26,400	-	269,856	963,897	-	-	2,351,311
N Cernotta	906,931	301,031	-	27,500	-	165,114	165,169	-	-	1,565,745

6.3 Details of performance grants to executive directors

At the 2015 AGM, shareholders approved the maximum number of share rights to be granted to Mr Power and Mr Meurs without further shareholder approval as shown in the table below. Actual performance rights are granted annually by the board in accordance with the Performance Rights Plan.

Mr Power	Maximum Share right grant FY16 to FY18	Share rights granted in FY16
ESSIP Share Rights	3,671,425	1,249,862
LTIP Share Rights	4,895,232	1,666,482
Total	**8,566,657**	**2,916,344**

Mr Meurs	Maximum Share right grant FY16 to FY18	Share rights granted in FY16
ESSIP Share Rights	1,349,249	459,324
LTIP Share Rights	1,798,999	612,432
Total	**3,148,248**	**1,071,756**

The issue of Share Rights to participants will not have a diluting effect on the percentage interest of shareholders holdings if the Share Rights vest into shares acquired on market.

6.4 Details of share based payments relating to LTI

The following table provides details of the number of share rights granted under the LTIP during the financial years ended 30 June 2014 to 30 June 2016. The value of the rights has been determined using the amount of the grant date fair value.

- The estimated fair value was determined using a trinomial option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date, expected price volatility of the underlying share, the effect of additional market conditions, the expected dividend yield, estimated share conversion factor and the risk free interest rate for the term of the right
- Mr Meurs share rights were forfeited upon his resignation on 18 April 2016
- Mr Cernotta was appointed on 24 March 2014 and accordingly, did not participate in the FY14 LTIP.

Name	LTIP Plan	Grant Date	Performance Period	No. Share rights granted	Value per share right granted	Value of rights granted at Grant Date	% Performance Achieved	Vested	Forteited / Lapsed
N Power	FY14	16/12/2013	1/7/13 to 30/6/16	853,000	$5.09	$4,341,770	25%	213,250	639,750
	FY15	9/12/2014	1/7/14 to 30/6/17	660,837	$2.37	$1,566,184	Determined in 2017		
	FY16	14/12/2015	1/7/15 to 30/6/18	1,666,482	$1.72	$2,866,349	Determined in 2018		
S Pearce	FY14	16/12/2013	1/7/13 to 30/6/16	331,723	$5.09	$1,688,470	25%	82,931	248,792
	FY15	9/12/2014	1/7/14 to 30/6/17	242,858	$2.37	$575,573	Determined in 2017		
	FY16	14/12/2015	1/7/15 to 30/6/18	612,432	$1.72	$1,053,383	Determined in 2018		
P Meurs	FY14	16/12/2013	1/7/13 to 30/6/16	331,723	$5.09	$1,688,470	n/a	n/a	331,723
	FY15	9/12/2014	1/7/14 to 30/6/17	242,858	$2.37	$575,573	n/a	n/a	242,858
	FY16	14/12/2015	1/7/15 to 30/6/18	612,432	$1.72	$1,053,383	n/a	n/a	612,432
N Cernotta	FY14	16/12/2013	1/7/13 to 30/6/16	-	$5.09	-	n/a	n/a	n/a
	FY15	9/12/2014	1/7/14 to 30/6/17	209,265	$2.37	$ 495,958	Determined in 2017		
	FY16	14/12/2015	1/7/15 to 30/6/18	527,720	$1.72	$907,678	Determined in 2018		

7 Executive contract terms

Total Remuneration Package and other terms of employment for Executives are formalised in a service agreement.

The CEO and Executives are employed on a rolling basis with no specified fixed term. The CEO and executives are remunerated on a total fixed remuneration (TFR) basis inclusive of superannuation and allowances. There was no remuneration increase or changes in terms in FY16.

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

A$			Maximum ESSIP opportunity		Maximum LTIP opportunity		Nominal Value of Total Remuneration Package at 100% of target
Position	**Executive**	**TFR* ($)**	**% of TFR**	**$**	**% of TFR**	**$**	
Chief Executive Officer	N Power	$2,000,000	112.5%	$2,250,000	150%	$3,000,000	$7,250,000
Chief Financial Officer	S Pearce	$1,102,500	75%	$826,875	100%	$1,102,500	$3,031,875
Director Operations	N Cernotta	$950,000	75%	$712,500	100%	$950,000	$2,612,500

* Total Fixed Remuneration as at 30 June 2016. Reviewed annually by the RNC.

All executives are required to provide written notice of three months to terminate their service agreement. Should executives not provide sufficient notice they will forfeit the monetary equivalent (calculated based on TFR) of any shortfall in the notice period.

If an executive resigns and leaves the Company prior to 30 June in any year, the Executive will forfeit all entitlement to any award under the ESSIP. If an executive retires, is made redundant or leaves the Company as a result of a negotiated termination, the Board at its sole discretion may elect to make a pro-rata ESSIP payment based on service up to the termination date.

If the executive resigns and leaves the Company prior to 30 June in the year of vesting under the LTIP, the executive will forfeit all entitlement to any award under the LTIP. If an executive retires, is made redundant or leaves the Company as a result of a negotiated termination prior to 30 June in the year of vesting under the LTIP, the Board at its sole discretion may elect to make a pro-rata LTIP award based on service up to the termination date.

Termination benefits for KMP comply with the limits set by the Corporations Act 2001 that do not require shareholder approval.

8 Non-executive director remuneration

8.1 Non-executive director Remuneration Policy

Fortescue's policy on non-executive director remuneration requires that non-executive director fees are:

- Not 'at risk' to reflect the nature of their responsibilities and safeguard their independence
- Market competitive with fees set at levels comparable with non-executive director remuneration of comparable companies.

8.2 Non-executive director fee pool

Non-Executive directors receive fees for both Board and Committee membership. The payment of additional fees for serving on a Committee recognises the additional time commitment required by non-executive directors who serve on a Committee. The Board Chairman attends all Committee meetings but does not receive any additional fees in addition to Board fees.

The maximum aggregate remuneration payable to non-executive directors is $2.0 million, which was approved by shareholders at the annual general meeting on 19 November 2010. There have been no changes to the aggregate fee pool since November 2010. The Board will not seek any increase to this fee pool at the 2016 AGM.

8.3 Non-executive director fee structure

Non-Executive Director fees (inclusive of superannuation) are outlined in the table below:

Position	FY16 Fee (A$)
Board Chairman[1]	-
Vice Chairman	170,000
Lead Independent Director	170,000
Non-Executive Director	140,000
Audit & Risk Management Committee Chair	40,000
Audit & Risk Management Committee Member	15,000
Remuneration & Nomination Committee Chair	15,000
Remuneration & Nomination Committee Member	7,500
China Advisory Group Board of Representatives	60,000
Finance Sub-Committee Member	6,000

[1]The Chairman of the Board has elected to forego Directors fees and receives no form of remuneration.

8.4 Non-executive director remuneration paid

The remuneration of non-Executive directors for the year ended 30 June 2016 and 30 June 2015 is detailed below.

FY16 $A	Base fees	Committee fees	Other benefits	Superannuation	Total
A Forrest	-	-	-	-	-
O Hegarty	153,846	6,787	-	16,866	177,499
C Huiquan	140,000	-	-	-	140,000
G Raby	140,000	60,000	-	-	200,000
M Barnaba	153,846	48,416	-	21,237	223,499
E Gaines	126,697	19,005	-	15,299	161,001
S Warburton	126,697	27,150	-	16,154	170,001
J Baderschneider	140,000	-	-	-	140,000

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

FY15 $A	Base fees	Committee fees	Other benefits	Superannuation	Total
A Forrest	108,687	10,247	16,075	12,488	147,497
O Hegarty	144,071	6,793	-	15,841	166,705
M Barnaba	144,071	48,456	-	20,215	212,742
J Baderschneider[2]	63,320	-	-	-	63,320
E Gaines	126,801	19,021	-	15,311	161,133
C Huiquan	140,000	-	-	-	140,000
G Raby	140,000	60,000	-	-	200,000
S Warburton	126,801	22,221	-	15,647	164,669
H Elliott[1]	69,754	2,491	-	7,586	79,831
G Rowley[1]	46,502	9,965	30,456	5,929	92,852
H Scruggs[1]	51,269	7,690	17,499	-	76,458

[1] H Elliott, G Rowley and H Scruggs retired 13 November 2014.

[2] J Baderschneider was appointed 19 January 2015.

9 Equity instrument disclosures relating to Key Management Personnel

9.1 Options and performance rights

The movement during the reporting period in the number of options and performance rights over ordinary shares in the Company held directly, indirectly or beneficially, by each of the Key Management Personnel, including their related parties is as follows:

FY16	Balance at the start of the year	Granted[1]	Exercised / converted	Forfeited / lapsed	Balance at the end of the year	Vested	Unvested	Not exercisable
Directors of Fortescue								
A Forrest	-	-	-	-	-	-	-	-
N Power	2,307,503	2,291,413	(714,736)	(78,930)	3,805,250	-	3,805,250	3,805,250
O Hegarty	-	-	-	-	-	-	-	-
C Huiquan	-	-	-	-	-	-	-	-
G Raby	-	-	-	-	-	-	-	-
M Barnaba	-	-	-	-	-	-	-	-
E Gaines	-	-	-	-	-	-	-	-
S Warburton	-	-	-	-	-	-	-	-
J Baderschneider	-	-	-	-	-	-	-	-
P Meurs[2]	877,929	842,094	(235,881)	(1,484,142)	-	-	-	-
S Pearce	914,358	842,094	(304,413)	(35,364)	1,416,675	-	1,416,675	1,416,675
Other key management personnel of Fortescue								
N Cernotta	287,740	725,615	(66,311)	(12,164)	934,880	-	934,880	934,880

[1] Performance Rights were granted in accordance with the short term and long term performance rights plans, as disclosed in note 19 of the financial report.

[2] P Meurs retired on 18 April 2016.

FY15	Balance at the start of the year	Granted[1]	Exercised / converted	Forfeited / lapsed	Balance at the end of the year	Vested	Unvested	Not exercisable
Directors of Fortescue								
A Forrest	-	-	-	-	-	-	-	-
N Power	2,038,602	908,651	(456,590)	(183,160)	2,307,503	-	2,307,503	-
H Elliott[2]	-	-	-	-	-	-	-	-
G Rowley[2]	-	-	-	-	-	-	-	-
O Hegarty	-	-	-	-	-	-	-	-
C Huiquan	-	-	-	-	-	-	-	-
G Raby	-	-	-	-	-	-	-	-
H Scruggs[2]	-	-	-	-	-	-	-	-
M Barnaba	-	-	-	-	-	-	-	-
E Gaines	-	-	-	-	-	-	-	-
S Warburton	-	-	-	-	-	-	-	-
J Baderschneider[3]								
P Meurs	8,292,791	333,930	(192,157)	(7,556,635)[4]	877,929	-	877,929	-
Other key management personnel of Fortescue								
S Pearce	792,791	370,359	(210,816)	(37,976)	914,358	-	914,358	-
N Cernotta	30,527	287,740	(18,236)	(12,291)	287,740	-	287,740	-

[1] Performance Rights were granted in accordance with the short term and long term performance rights plans, as disclosed in note 19 of the financial report.

[2] H Elliott, G Rowley and H Scruggs retired on 13 November 2014.

[3] J Baderschneider was appointed on 19 January 2015.

[4] Includes 7,500,000 options which expired in May 2015.

9.2 Shareholdings (ordinary shares)

The numbers of shares in the Company held during the financial year by each Director of Fortescue and other key management personnel of the Group, including their related parties, are set out below:

FY16	Held at 1 July 2015	Received on conversion of rights	Issued	Purchases	Sales	Transfers	Other[1]	Held at 30 June 2016
Directors of Fortescue								
A Forrest	1,037,479,247	-	-		-	-	-	1,037,479,247
N Power	1,811,571	714,736	-		-	-	-	2,526,307
O Hegarty	40,000	-	-	-	-	-	-	40,000
C Huiquan	-	-	-	-	-	-	-	-
G Raby	8,000	-	-	-	-	-	-	8,000
M Barnaba	20,000	-	-		-	-	-	20,000
E Gaines	50,000	-	-		-	-	-	50,000
S Warburton	50,750	-	-		-	-	-	50,750
J Baderschneider	138,000	-	-		-	-	-	138,000
P Meurs[2]	26,199,152	235,881	-	-	(16,632,614)	-	(9,802,419)	-
S Pearce	107,577	304,413	-	2,500	(187,185)	-	-	227,305
Other key management personnel of Fortescue								
N Cernotta	18,236	66,311	-	-	(34,547)	-	-	50,000

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

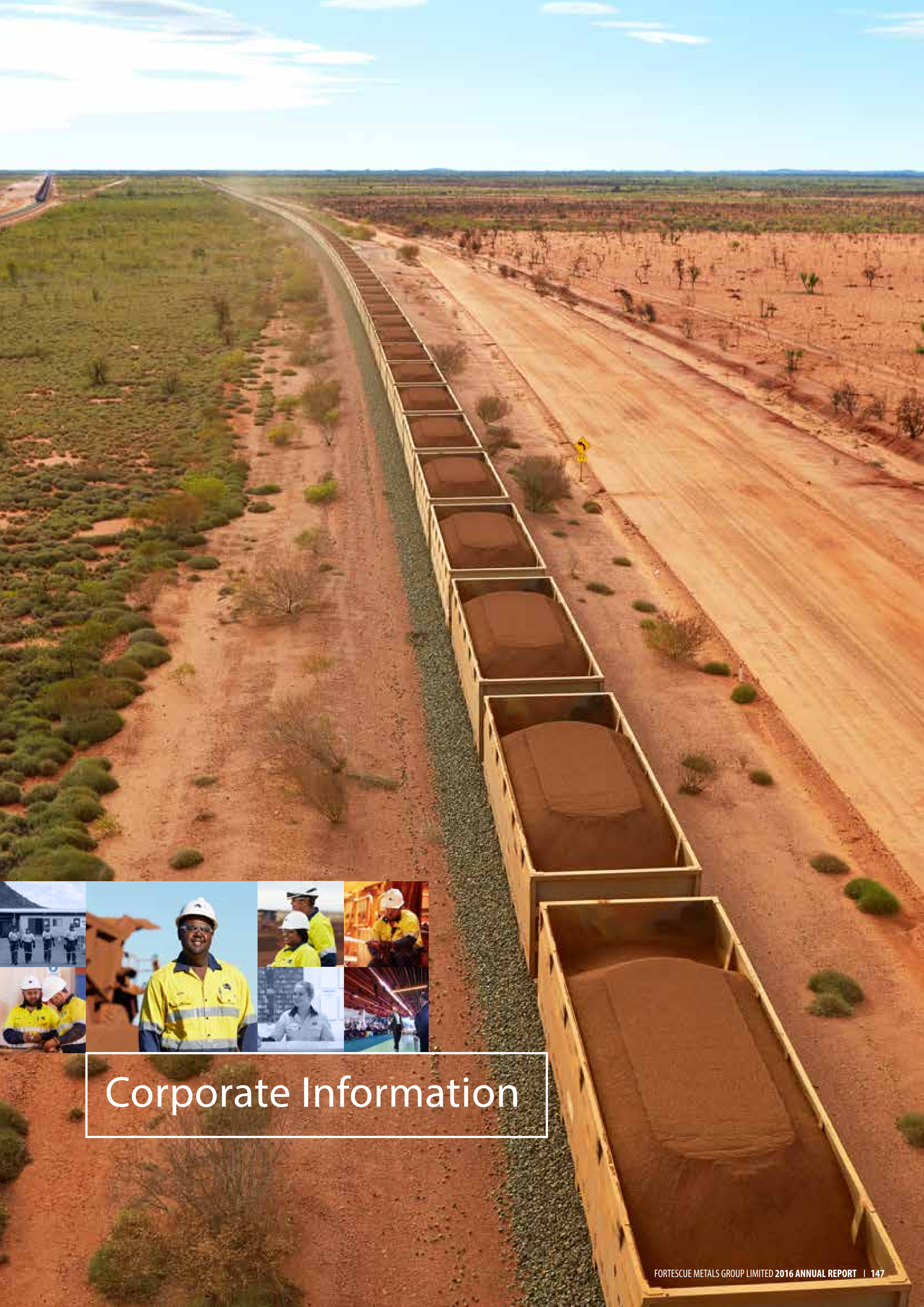
[2] P Meurs retired on 18 April 2016.

FY15	Held at 1 July 2015	Received on conversion of rights	Issued	Purchases	Sales	Transfers	Other[1]	Held at 30 June 2016
Directors of Fortescue								
A Forrest	1,033,479,247	-	-	4,000,000	-	-	-	1,037,479,247
N Power	1,254,981	456,590	-	100,000	-	-	-	1,811,571
H Elliott[2]	2,167,938	-	-	-	-	-	(2,167,938)	-
G Rowley[2]	17,644,951	-	-	-	-	-	(17,644,951)	-
O Hegarty	40,000	-	-	-	-	-	-	40,000
C Huiquan	-	-	-	-	-	-	-	-
G Raby	8,000	-	-	-	-	-	-	8,000
H Scruggs[2]	-	-	-	-	-	-	-	-
M Barnaba	-	-	-	20,000	-	-	-	20,000
E Gaines	50,000	-	-		-	-	-	50,000
S Warburton	-	-	-	50,750	-	-	-	50,750
J Baderschneider[3]	-	-	-	138,000	-	-	-	138,000
P Meurs	26,006,995	192,157	-	-	-	-	-	26,199,152
Other key management personnel of Fortescue								
S Pearce	284,972	210,816	-	1,860	(390,071)	-	-	107,577
N Cernotta	-	18,236	-	-	-	-	-	18,236

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

[2] H Elliott, G Rowley and H Scruggs retired 13 November 2014.

[3] J Baderschneider was appointed 19 January 2015.



Corporate Information

Shareholder Information

Top 20 holders of ordinary shares

Rank	Name	Units	% of issued capital
1	Minderoo Group Pty Ltd	917,485,795	29.47
2	J P Morgan Nominees Australia Limited	412,811,126	13.26
3	HSBC Custody Nominees (Australia) Limited	321,217,161	10.32
4	Valin Investments (Singapore) Pte Ltd	228,007,497	7.32
5	Valin Resources Investments (Singapore) Pte Ltd	154,267,590	4.95
6	National Nominees Limited	141,248,531	4.54
7	Citicorp Nominees Pty Limited	135,023,002	4.34
8	Emichrome Pty Ltd	94,685,358	3.04
9	Valin Mining Investments (Singapore) Pte Ltd	76,130,405	2.44
10	AMNL Financing Pty Ltd	71,365,581	2.29
11	BNP Paribas Noms Pty Ltd	60,405,799	1.94
12	UBS Nominees Pty Ltd	39,805,227	1.28
13	AMNL Financing Pty Ltd	30,365,261	0.98
14	Citicorp Nominees Pty Limited	23,357,081	0.75
15	HSBC Custody Nominees (Australia) Limited-Gsco Eca	12,759,981	0.41
16	The Minderoo Foundation Pty Ltd	11,310,500	0.36
17	Pacific Custodians Pty Limited	10,398,685	0.33
18	National Nominees Limited	8,064,243	0.26
19	HSBC Custody Nominees (Australia) Limited	7,327,325	0.24
20	Mr William Graeme Rowley	7,144,951	0.23
Total		**2,763,181,099**	**88.74**

Substantial shareholders

Name	Total shares	% of issued capital
Minderoo Group Pty Ltd and John Andrew Forrest	1,037,479,247	33.32
Hunan Valin Iron and Steel	458,405,492	14.72
Capital Research Global Investors	251,992,113	8.09

Range of shares

Range	Total holders	Units	% of issued capital
1 to 1,000	22,037	10,374,342	0.33
1,001 to 5,000	20,026	50,452,913	1.62
5,001 to 10,000	4,947	37,583,513	1.21
10,001 to 100,000	3,746	92,357,638	2.97
100,001 and over	319	2,923,029,745	93.87
Total	**51,075**	**3,113,798,151**	**100.00**

Unmarketable parcels

There were 3,168 members holding less than a marketable parcel of shares in the Company.

Business Directory

Australian Business Number

ABN 57 002 594 872

Registered Office Australia

Level 2, 87 Adelaide Terrace
East Perth, WA 6004
T: +61 8 6218 8888
F: +61 8 6218 8880
W: www.fmgl.com.au
E: fmgl@fmgl.com.au

Auditor

PricewaterhouseCoopers
Level 15, 125 St Georges Terrace
Perth, WA 6000

Securities Exchange Listings

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

Fortescue Share Registry

Link Market Services Limited
Level 4, Central Park
152 St Georges Terrace
Perth, WA 6000

Locked Bag A14
Sydney South, NSW 1235
T: 1300 733 136
T: +61 2 8280 7603 (International)
F: +61 2 9287 0309
W: www.linkmarketservices.com.au

Prefer email?

If you would prefer to receive information such as annual reports, notices of meetings and announcements via email, you can change your communication preferences on the Registry website:
www.linkmarketservices.com.au

Event Calendar 2016

Key dates for Fortescue shareholders in 2016.
Please note dates are subject to review.

Full Year Results Announcement

22 August 2016

September Quarter Production Report

20 October 2016

Annual General Meeting

9 November 2016

FY16 Key Announcements

August 2015

- Fortescue Ore Reserves and Mineral Resources update

September 2015

- Fortescue launches 'Trade Up' Aboriginal Apprenticeship program
- Fortescue joins 30% club, 30% representation of females on the Board
- Fortescue completes US$750 million debt tender

December 2015

- Fortescue awards supply contract to Aboriginal joint venture business

January 2016

- Fortescue supports one of Australia's most gender-equal sports by signing the Hockeyroos, Australia's national women's hockey team

April 2016

- Changes to Christmas Creek Mining Operations
- Resignation of Mr Peter Meurs
- Fortescue initiates US$577 million repayment of 2019 Notes

May 2016

- Fortescue announces US$650m repayment of 2019 Term Loan
- Fortescue secures the Second Towage Licence at Port Hedland

June 2016

- Appointment of Mr Stephen Pearce to Fortescue Board
- Fortescue announces a further US$500m repayment of 2019 Term Loan

FY16 Awards

2016 Supply Nation Supplier Diversity Awards

- Supplier to Corporate Partnership of the Year

2015 Swann Group National Association of Women in Construction

- Crystal Vision Award winner, Sharon Warburton

FY16 Award Finalist

2015 CME Women in Resources Awards

- Outstanding Company Initiative, 'Trade Up' program

2015 Westpac AFR 100 Women of Influence Finalist

- Board Management category, Sharon Warburton

Glossary

Aboriginal owned businesses
Contractors, joint ventures, sub-contractors or other legal entities owned by Aboriginal people.

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

AMMA
The Australian Mines and Metals Association.

ASX
The 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. The reconciliation of C1 to the amounts disclosed in the financial statements on page 22 prepared under the Australian Accounting Standards.

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

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

CID
Channel Iron Deposit.

CO_2e
Carbon dioxide equivalent which is the internationally recognised measure of greenhouse gas emissions.

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

Corporations Act
Corporations Act 2001 of the Commonwealth of Australia.

DID
Detrital Iron Deposit.

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

dmt
Dry metric tonnes.

dmtu
Dry metric tonne unit.

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 Limited (ACN 002 594 872) and its subsidiaries.

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

FY
Refers to a Financial Year.

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% and 63% 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 was established in 2001 to act as a catalyst for performance improvement in the mining and metals industry.

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.

Glossary

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

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

Iron Bridge Joint Venture
Unincorporated joint venture between Fortescue subsidiary Iron Bridge Limited (69%) and a subsidiary of Formosa Plastics Group (31%) to develop the Iron Bridge Magnetite project. FMG Iron Bridge Limited is jointly owned by Fortescue (88%) and a subsidiary of Baosteel (12%).

IUCN
International Union for Conservation of Nature.

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

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

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

kL
Kilolitre.

Local supplier
Suppliers based in the Pilbara region.

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

m^3
Cubic metres.

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

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

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

mt
Million tonnes.

mtpa
Million tonnes per annum.

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

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

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

Resources or Mineral Resources
As defined in the JORC Code, a concentration or occurrence of material of intrinsic economic interest in or on the Earth's crust in such form, quantity and quality that there are reasonable prospects for eventual economic extraction. The location, quantity, grade, geological characteristics and continuity of a mineral resource are known, estimated or interpreted from specific geological evidence and knowledge. Mineral resources are sub-divided, in order of increasing geological confidence, into inferred, indicated and measured categories. Where capitalised, this term refers to Fortescue's estimated resources.

Glossary

Rocket Fines
A product containing approximately 59% Fe upon shipment and produced by Fortescue from the Chichester Hub.

Senior Executive
Leadership position title of Director, Group Manager or General Manager.

Solomon Hub
A mining hub with two operating iron ore mines, Firetail and Kings. The Hub is located approximately 60 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% Fe.

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

Underlying EBITDA
Underlying EBITDA is defined as earnings before interest, tax, depreciation and amortisation, exploration, development and other expenses. The reconciliation of Underlying EBITDA to the financial metrics reported in the financial statements under Australian Accounting Standards is presented on page 20.

Underlying EBITDA margin
Underlying EBITDA / Operating sales revenue.

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

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

VTEC
Vocational Training and Employment Centre.

wmt
Wet metric tonnes.

WMYAC
Wirlu-murra Yindjibarndi Aboriginal Corporation.

WTI
West Texas Intermediate.


FMG Fortescue
The New Force in Iron Ore
Fortescue's vision
is to be the safest,
lowest cost, most profitable
iron ore producer
www.fmgl.com.au
@FortescueNews

The pathway from construction to production

2003
The dream begins

2004
Cloudbreak identified

2005
S&P/ASX 200 index

2006
Port Hedland groundbreaking

2008
First ore on ship

2009
27mtpa shipped

2010
Christmas Creek expanded

2011
Solomon construction begins

2012
57.5mtpa shipped

2013
Firetail opened at Solomon

2013
80.9mtpa shipped

2014
Kings Valley project opened at Solomon

2014
155mtpa sustainable production

2015
Anderson Point Berth 5 completion

2015
Fortescue River Gas Pipeline completion

2015
500 millionth tonne of ore shipped

2015
165mtpa shipped sustainable production

2016
Eighth anniversary of first ore on ship

2016
$2.9 billion debt repaid in FY16

2016
169.4mtpa shipped at end of FY16

Fortescue
The New Force in Iron Ore

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