



Fortescue
The New Force in Iron Ore



2014 ANNUAL REPORT

ABN: 57 002 594 872

2014

CORPORATE DIRECTORY

Australian Business Number

ABN 57 002 594 872

Directors

Andrew Forrest – Non-Executive Chairman
Herb Elliott – Non-Executive Deputy Chairman
Nev Power – Executive Director
Graeme Rowley – Non-Executive Director
Owen Hegarty – Non-Executive Director
Cao Huiquan – Non-Executive Director
Mark Barnaba – Non-Executive Director
Geoff Raby – Non-Executive Director
Herbert Scruggs – Non-Executive Director
Elizabeth Gaines – Non-Executive Director
Peter Meurs – Executive Director
Sharon Warburton – Non-Executive Director

Company Secretary

Mark Thomas

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Auditor

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Perth WA 6000

Internal Auditor

KPMG
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Perth WA 6000

Stock Exchange Listings

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

Fortescue Share Registry

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For any change in personal details, please contact Link Market Services.

Annual General Meeting

12 November 2014

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Our vision is to be the
safest, lowest cost iron ore producer

OUR VALUES



Safety



Family



Empowerment



Enthusiasm



Determination



Frugality



Integrity



Generating ideas



Set yourself stretch targets



FY14 OPERATION HIGHLIGHTS

August 2013
Official opening of the fourth berth at Herb Elliott Port

October 2013
Surge bin increases outload capacity

Port



March 2014
2,000th ship berthed at Port

February 2014
Fifth berth commenced construction

December 2013
300 millionth tonne shipped

September 2013
Robotic ore car maintenance facility opened

November 2013
13th rake fully operational

Rail



March 2014
10,000th train

March 2014
Hamersley Line train control completed

December 2013
Integrated train control system commissioned

2013
Improved train load out performance - less than 2.2 hours per train

September 2013
Benefits realised from enhanced processing capabilities including the reduction of strip ratios

Chichester Hub



June 2014
Strip ratios at Cloudbreak and Christmas Creek averaged 3.2 for the June 2014 quarter, slightly below the five-year mine plan of 3.5

November 2013
Power station fully operational

November 2013
Kings Valley OPF first ore

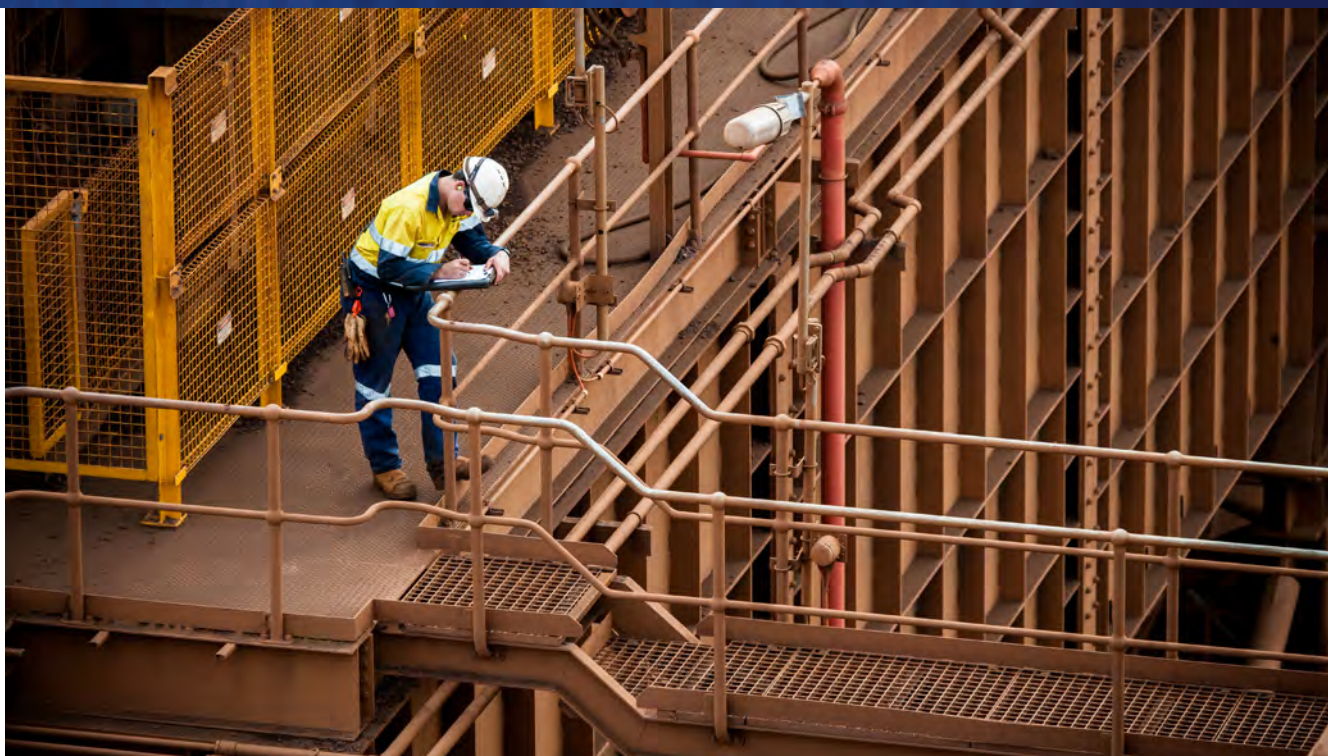
March 2014
Official opening of Kings Valley project

Solomon Hub



July 2014
First Kings Valley channel iron deposit (CID) mined

June 2014
16 autonomous trucks in operation



Corporate directory	
About Fortescue	4
Where we operate	5
Chairman's report	6
Chief Executive Officer's report	10
Operations report	14
Reserves and resources report	18
Corporate social responsibility	25
Corporate governance	54
Financial report	73
Directors' report	74
Remuneration report	98
Auditor's independence declaration	120
Independent auditor's report to the members	121
Directors' declaration	123
Financial statements	124
Shareholder information	170
Tenement report	171



ABOUT FORTESCUE

Fortescue Metals Group is the world's fourth largest producer of iron ore, having started as a vision just over a decade ago.

Fortescue discovered world-class deposits in the Pilbara's Chichester Range and Hamersley Range, and set about redefining the iron ore industry. Construction began at its first mine, Cloudbreak, in 2006 while work also started on a 256 kilometre railway from Cloudbreak to Port Hedland and on world-class facilities at Herb Elliott Port. Two years later, and only five years after the company was formed, Fortescue shipped its first cargo of iron ore bound for China.

In 2014, Fortescue completed a US\$9.2 billion expansion ahead of schedule increasing its capacity to 155 million tonnes per annum. The company has now built four mines across its two operating hubs – Chichester and Solomon.

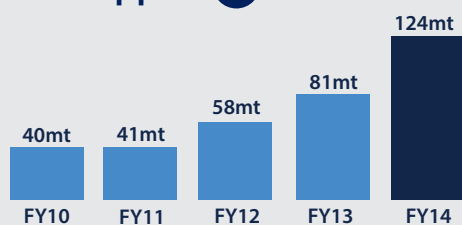
It operates the fastest and heaviest haul rail network in the world, where every day 14 trains, each 2.7 kilometres long, transport about 33,000 tonnes of ore per train from mine to port. Fortescue's efficient port operations shipped 124.2 million tonnes in Financial Year 2014 and the company is targeting 155 to 160 million tonnes in FY15.

Fortescue is now focused on maximising throughput, bringing down costs, paying back debt and increasing shareholder value with the aim of being the safest, lowest cost, most profitable iron ore producer in the world.

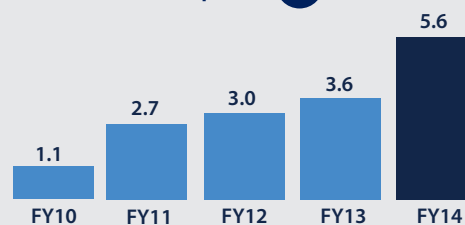
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FY14 HIGHLIGHTS

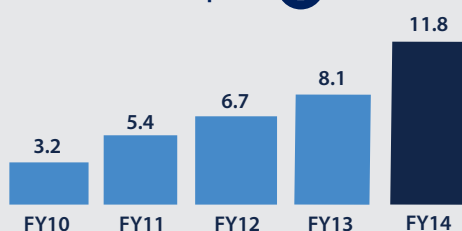
Ore shipped ↑ 54%



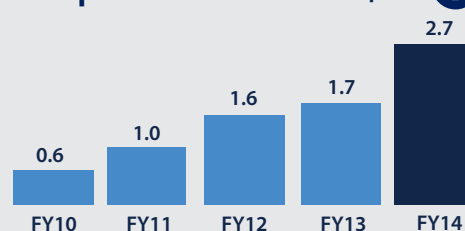
EBITDA¹ US\$bn ↑ 58%



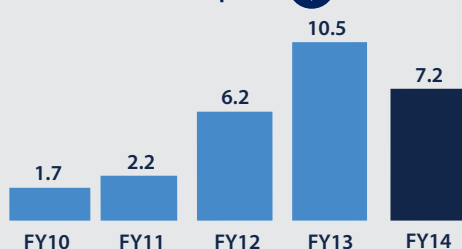
Revenue US\$bn ↑ 45%



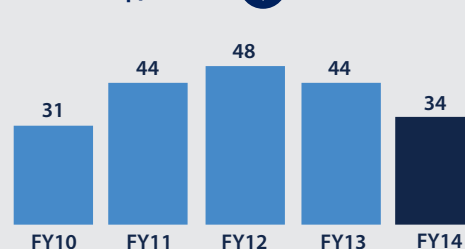
Net profit after tax US\$bn ↑ 57%



Net debt² US\$bn ↓ 32%



C1³ US\$/wmt ↓ 23%



¹ EBITDA = profit before income tax adjusted for depreciation and amortisation, asset write-offs, exploration, development and other write-offs, net finance costs and gain or loss on refinancing (refer page 89 reconciliation).

² Net debt = debt + cash and cash equivalents

³ C1 = costs of mining, processing, rail and port per wet metric tonne (refer page 85 reconciliation).



Fortescue is the world's
fourth largest
 iron ore producer



2013 Firetail Mine



2013 Kings Valley Project in construction



Chairman Andrew Forrest and CEO Nev Power at the official opening of the Kings Valley project at the Solomon Hub

I am delighted to introduce Fortescue's 2014 annual report. The past year marked a significant milestone in Fortescue's evolution by cementing our hard earned status as the new force in iron ore and placing us on track to becoming the force in the global iron ore industry.

These achievements stand as testament to the hard work, determination and faith of the Fortescue family in the shared ambition of building our company into one of the world's leading mining groups. It is an achievement of which the Board of directors, on behalf of all stakeholders, are very proud.

Our team has proved their courage to defy the odds, to prove their detractors wrong, time and time again. Your company, dear fellow shareholder, has earned its reputation of translating vision into reality. There is no better example of their ability to execute on our long term strategy than the completion of our US\$9.2 billion expansion that nearly tripled our capacity to 155 million tonnes per annum (mtpa).

I remember very clearly a high profile analyst saying it was a 2018 story at the earliest. On 28 March 2014, the Fortescue Family demonstrated our resolve. As we arrived at the Kings Valley project at the Solomon Hub to celebrate

the completion of the expansion, our gaze was drawn to an enormous banner draped against the ore processing facility. Four words encapsulated a journey that began around my kitchen table 11 years ago: Turning Vision into Reality. And there at Kings Valley we took a moment to revel in what we had achieved and pay tribute to those who believed in our vision: our wonderful employees, our contracting partners, our local communities, our customers and our shareholders. Together, we had the courage to pursue what many people mocked and for that, I thank you.

Thank you for the one thing that makes the Fortescue Family so unique. Our determination to never, ever give up.

Our courage and belief has transformed Fortescue into a world leader, one of the biggest suppliers of iron ore to customers throughout Asia. With multiple shipments daily of this vital steel making ingredient, we are playing a vital



Kings Valley project at the Solomon Hub officially opened by His Excellency Malcolm McCusker, Governor of Western Australia

role in lifting the economy of other nations out of poverty. Our iron ore is used in the construction of homes, hospitals, schools and transportation systems, and for that we can all be very proud. We are a reliable supplier of the building blocks of industrialisation and urbanisation, two very powerful forces combining to produce higher living standards and better futures for millions of people in the region fast becoming the epicentre of the global economy. We are unashamed believers in Asia's future, a commitment underscored by our significant investments in new capacity.

My leadership team can also be proud of the thousands of jobs Fortescue has created. It is our dedicated staff that puts the family into the Fortescue Family. They make a significant contribution to the Australian economy and broader community through the billions of dollars we pay to state and federal governments in taxes and royalties. It is these contributions that allow Fortescue's success to be shared across the cities and towns that make up this great nation of 23 million people. Fortescue plays significant roles in supporting local communities, who have taken our friendship to their hearts and welcomed us onto their land. More than just a mining company, we are a totally involved member of the communities in which we operate. In 11 short years, we have built a major business that is changing lives at home and abroad.

Fortescue's role as a partner in Asia's development was highlighted by the many customers who travelled thousands of kilometres to join us at the awe inspiring Solomon Hub. I was delighted to see more than 100 people from China, Korea, Taiwan and Japan in attendance, with many of them visiting our Pilbara operations for the first time. Iron ore prices may fluctuate but our relationship with our customers is as strong as ever. They appreciate our consistent delivery of high quality iron ore and we continue to sell every tonne that we produce. It is Fortescue's unrelenting commitment to invest in assets and relationships that will underpin our long term ability to generate the returns that you, our shareholders, the true owners of our business, demand of us.

Our ability to deliver for our shareholders is best told by letting the numbers speak for themselves. Our rapid expansion to 155mtpa led to a massive increase in shipments from the Chichester and Solomon hubs in FY14. We exported a record 124.2 million tonnes, 54 per cent above FY13, and at a C1 cost of only US\$34 per tonne. This is an exceptional performance but we will maintain a laser like focus on driving our production costs further down the global cost curve.

We also delivered another strong financial performance. Net profit after tax in for FY14 rose to a record US\$2.7 billion on the back of revenue of US\$11.8 billion.

CHAIRMAN'S REPORT



2014 Board visit to Solomon



At 30 June 2014, our cash on hand was US\$2.4 billion, which reflects the strength of operational cashflows, reduced capital expenditure as our expansion neared completion, and lower finance costs as we began to deleverage our balance sheet. Our robust financial position enabled the Board to reward shareholders with a A\$0.10 fully franked final dividend, taking the full year dividend to A\$0.20. Our ability to imagine the opportunities presented by Asia's rise, prudently manage risk, and execute on large scale projects is paying rewards. The momentum of success is gathering pace.

At year end, our net debt stood at US\$7.2 billion. Since November 2013, we have repaid or committed to repay a total of US\$3.6 billion and we will continue this journey in FY15. Our ability to repay debt demonstrates our strategy of expanding rapidly to meet China's insatiable demand for iron ore and deliver significant value for our shareholders. Under our Chief Financial Officer, Stephen Pearce, we've built significant flexibility into our balance sheet. Our earliest debt repayment isn't due until 2017, while 60 per cent of our long term debt is available for voluntary repayment in advance of maturity at our option.

One of our most important relationships, and one that we work hard to maintain, is our relationship with China, our largest customer and Australia's largest trading partner. Two weeks after hosting our customers, we returned to

the prestigious Boao Forum for Asia on Hainan Island as a Diamond Sponsor for the sixth consecutive year. I'm delighted Fortescue has maintained its close association with the Boao Forum. It is one of the world's most significant platforms for dialogue among political, industry and economic leaders and this year's theme was particularly pertinent with discussions centred on the noble challenge we all face as leaders – finding new drivers for growth to continue unlocking the potential of the global economy.

The Forum provided another opportunity to meet with Chinese Premier Li Keqiang. Together with President Xi Jinping, Premier Li is seeking to reform the Chinese economy, and in turn, transition it away from a historical reliance on exports and fixed asset investment and towards a greater role for consumption as a driver of growth. We at Fortescue will closely watch Premier Li's progress in shaping the next phase of growth in Australia's largest trading partner. I was also honoured to welcome Australian Prime Minister Tony Abbott who travelled to Boao as part of his first visit to China as Prime Minister, where he underscored the importance of the economic relationship between the two countries.

During the Forum, I also had the privilege of co-hosting the third China-Australia Senior Business Leaders' Forum (SBLF). The SBLF, which was held for the first time during the Forum in 2013, is providing an important platform for



Chairman Andrew Forrest meets with Chinese Premier Li Keqiang during the Boao Forum for Asia 2014

business-to-business dialogue between Australia and China and facilitating discussions on challenges and opportunities in economic, trade, investment, cultural, philanthropic and political relations between the two countries.

This year has also been gratifying for me personally. I was a very proud and humble recipient of the AustCham Westpac Australia China Individual Award which recognises those who play a leading role in driving the Australia China Bilateral Relationship. This award was due in part to the success of SBLF, and I thank everyone involved in this important dialogue.

On behalf of all the Indigenous people working at Fortescue and all those that helped shape the success and privilege that Fortescue has had working with Aboriginal communities, I was honoured to deliver the Creating Parity Review to Prime Minister Tony Abbott in August 2014. It is a cohesive and interlinked strategy to end the disparity between first Australians and other Australians. This is a subject close to my heart. The Review followed six months of consultations around the country and recommends a strategy that delivers a complete end-to-end solution, without the baggage attached to current government policies and arrangements. Implemented in full, it will finally create parity and comprehensively build our society.

The Review would not have been possible without the support of Fortescue, which is passionate about supporting

Aboriginal communities through training, local employment and business opportunities. At Fortescue we talk the talk and walk the walk when it comes to our commitment to improve the lives of Indigenous Australians. Fortescue established its first Vocational Training and Employment in Centre in 2006 and opened a second centre in Roebourne in 2010. Their "welfare-to-work" model, catering for people with little or no work history, has been an enormous success, so much so the Federal Government has adopted our employment model around the country. We have challenged the Commonwealth to issue \$1.3 billion worth of contracts to Indigenous companies knowing that Fortescue has led the way having already issued \$1.6 billion worth of contracts to Indigenous companies and joint ventures.

As we look ahead to the next phase of Fortescue's growth, I would like to thank the Fortescue Family and my fellow directors for their leadership and support. We have built a proud Australian company – the New Force in Iron Ore. Our first 11 years has been an amazing journey. I look forward to sharing even greater achievements with you in the years ahead. The best is yet to come.

Mr Andrew Forrest
Chairman



Chairman Andrew Forrest with CEO Nev Power at the opening of the Kings Valley project at the Solomon Hub

DEAR SHAREHOLDERS

Financial Year 2014 was a year of outstanding delivery for Fortescue. Our company delivered record results with a total of 124.2 million tonnes (mt) shipped, a 54 per cent increase on the previous year. C1 costs were down 23 per cent on the previous year to \$34 per wet metric tonne (wmt) and total delivered cost to customers was US\$52/wmt.

We delivered our expansion to 155 million tonnes ahead of schedule and we passed peak debt, repaying US\$3.1 billion during the year. Fortescue's record of delivery reflects the company's vision of being the safest, lowest-cost, most profitable iron ore producer.

In March, Fortescue marked the completion of our US\$9.2 billion expansion to 155 million tonnes. The expansion of mine, port and rail operations had originally been scheduled for completion at the end of June 2014, but, through the commitment and innovation of everyone working on the project, it was completed ahead of schedule at an industry-leading capital cost of US\$92 per tonne of installed capacity. The expansion touched almost every part of our operations and included the construction of the greenfields Solomon Hub in the Hamersley Ranges, one of the world's largest iron ore developments comprising the 40 million tonnes per annum (mtpa) Kings Valley project and the 20mtpa Firetail mine; an expansion of

the Christmas Creek mine to 50mtpa; and major extensions of Fortescue's world-class rail and port facilities, including the opening of the fourth berth at Herb Elliott Port.

Safety

Safety is the highest priority for everyone working at Fortescue. We were deeply saddened by the tragic deaths this year of two of our Fortescue family, Kurt Williams and Allen Zuvela. These incidents serve as a reminder that everyone in our industry must remain forever vigilant about our safety and the safety of our mates. The entire Fortescue family continues to offer their thoughts and condolences to the families and friends of both men.

The Total Recordable Injury Frequency rate per million hours worked was 21 per cent lower, down to 6.0 in June 2014 from 7.6 in June 2013. More importantly there

has been a step change in safety leadership. This year Fortescue engaged a leading global consultant to conduct an extensive safety review engaging approximately 6,000 people representing every part of the business. As a result, numerous improvements were made across operations, including extensive leadership site visits and a comprehensive study of systems, processes and procedures. Fortescue is already recognised as a world leader in our industry across so many areas of our business and we are committed to becoming a global leader in safety through the same culture of empowerment.

Financial results

Fortescue delivered record financial results in FY14 with revenue up 45 per cent to US\$11.8 billion and net profit up 57 per cent to US\$2.7 billion. Earnings before interest, taxes, depreciation and amortisation were up 58 per cent at US\$5.6 billion. These record results were delivered on the back of increased volumes from our successful expansion and strong marketing of our quality products for an average realised price of US\$106 per dry metric tonne.

Cash on hand was US\$2.4 billion at 30 June 2014, reflecting the continued operational cashflow strength from increased production, reduced C1 costs and lower capital expenditure. The increase in operating cashflows allowed Fortescue to commence its debt repayment strategy in November 2013 and since then we have repaid US\$3.1 billion and committed an additional US\$0.5 billion repayment in October 2014. This is an important step as Fortescue funded its 155mtpa expansion by accessing US debt markets which provided the cheapest most flexible source of capital. It has always been Fortescue's intention to rapidly repay this debt to achieve an initial gearing target of 40 per cent and our flexible debt maturity profile facilitates this commitment.

The record financial results, driven by our rapid increase in capacity, have allowed Fortescue to increase returns to shareholders and declare total FY14 dividends of A\$0.20 per share fully franked. We continue to progress towards a 30 to 40 per cent profit payout ratio dividend policy once the targeted gearing level is achieved.

Operational performance

Fortescue has delivered the fastest ever ramp up in the history of our industry which has delivered a production rate of 155mtpa in the June 2014 quarter and 160mtpa in the month of June. Total ore mined for the year was 104.4mt, up 48 per cent on the previous year.

Construction of the fifth berth at Herb Elliott Port is expected to be completed by early 2015 and once fully operational will provide an additional 15 to 20mtpa of outload capacity. The design and construction of a five million tonne per annum detrital iron ore (DID) plant at Solomon will provide a low-cost, efficient processing solution to supplement our Fortescue Blend. Our expertise in ore processing and beneficiation is strengthened by consolidating operational management at Christmas Creek and Solomon ore processing facilities (OPF) with Cloudbreak. This allows us to share knowledge across the company, driving productivity and efficiencies to optimise our operations.

The exploration team continued to deliver in FY14, with work at the Solomon Hub leading to an additional 1.16 billion tonnes being added to the Greater Solomon Mineral Resource. Our vast tenement footprint in the Pilbara remains an incredibly valuable core asset and as exploration continues we look to identify additional, highly prospective opportunities to further enhance our resource base. While our strategic focus remains delivery, de-gearing and dividends, we will also work diligently to continue to evaluate strategic low-cost options in long-term, high value opportunities.

Bringing down costs

Fortescue has successfully reduced its C1 operating costs by 23 per cent to US\$34/wmt in FY14 with a total delivered cost of US\$56 per dry metric tonnes (dmt). Lowering of our cost base reflects the establishment of the low cost Solomon operations, introduction of the Fortescue Blend product, enhanced processing capacity and a continual focus on efficiency. While significant cost achievements have been delivered, we recognise that it is critical to focus on controllable factors and to continue to manage our operations as efficiently as possible to continue to drive Fortescue lower on the global iron ore cost curve. I believe most Australians understand that the world does not owe us a living, and at Fortescue everyone embraces the challenge of thinking every day about how we can do our jobs more productively and efficiently while staying focused on safety. The signing of a long-term Gas Transportation Agreement for the construction of the longest natural gas pipeline to be built in Western Australia in a decade will deliver natural gas to the Solomon power station. Converting the Solomon power station from diesel to gas is expected to save approximately US\$20 million per year and is expected to be operational in early 2015.

This important piece of infrastructure lays the foundations for the future gasification of the Pilbara and if competitive supplies of natural gas are available for long term offtake, could offer the potential for further savings through



CEO Nev Power and Chairman Andrew Forrest during a board meeting at Fortescue's Perth office

extension of the pipeline to the Chichester Hub. In July, the company signed a 25 year agreement to participate in a Public Private Partnership with the Government of Western Australia, Horizon Power and Transalta, which will build and operate a combined cycle gas power station in South Hedland by 2017 that will supply energy to our port and rail operations. A reliable supply of competitive gas will reduce operating costs and play a significant role in cutting emissions. That is why Fortescue has taken a leadership position on the critical issue of gas sector reform by calling for the enforcement of Retention Lease “use it or lose it” policies to encourage the rational and market-based development of Western Australia’s abundant gas reserves. Despite abundant low-cost natural gas being discovered offshore WA, the state is heading for a supply shortage over the next few years because resources are being warehoused rather than developed.

We have also signed contracts to construct eight very large ore carriers valued at around US\$550 million. These vessels are being designed for operational conditions at Port Hedland and will allow us to maximise shipping volumes and increase efficiencies, which will have a further positive impact on costs. The eight vessels are expected to be delivered from late 2016 through to early 2018 and will carry about 12 per cent of Fortescue’s ore output.

Market conditions

Much has been written about the iron ore price and Chinese demand, particularly as the fourth quarter of FY14 saw the market digesting the large increase in seaborne iron ore supply. Fortescue continues to receive strong support from its customer base and is seen as an alternative, reliable and competitive supplier of seaborne iron ore. China’s demand for iron ore remains strong with the government committed to continued economic growth and urbanisation. Chinese steel production has hit record levels as the country transitions another 200 million people to urban living by 2020.

Social responsibility

Throughout the year we have achieved good progress on the Corporate Social Responsibility targets we have set ourselves. Our main challenges for the coming year are safety, reducing energy consumption and continuing our support of local communities through our business. In April 2013, we first signed up to the principles of the United Nations Global Compact and to this date we continue to show our support through our actions and initiatives. You can read more about our key actions and achievements in our Corporate Social Responsibility section of this report.



CEO Nev Power and Chairman Andrew Forrest with Elders from the Yindjibarndi and Eastern Guruma People at the opening of the Kings Valley project at the Solomon Hub

Fortescue continues to work toward ending Aboriginal disparity in the Pilbara and now employs more than 1100 Aboriginal people. Our pioneering Fortescue Vocational Training and Employment Centres (VTEC) continue to provide guaranteed jobs for Aboriginal people and the training and support to succeed in those jobs. This model has become a template for the Australian Government and GenerationOne to roll out nationally. Training for a guaranteed job has broken the cycle of endless training for training's sake. The Billion Opportunities program, which was launched in late 2011, this year reached \$1.6 billion in contracts and sub-contracts awarded to Aboriginal businesses and joint ventures. Through this program Fortescue is supporting a generation of Aboriginal entrepreneurs who will create true empowerment and economic self-determination.

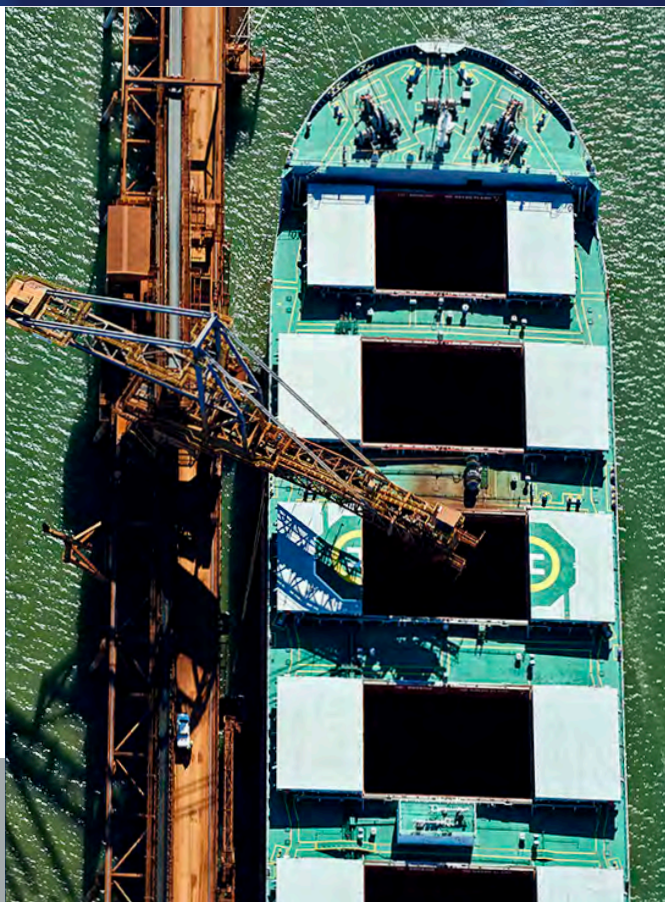
Fortescue continues its sponsorship of the national men's hockey team, the Kookaburras, who were crowned world and Commonwealth Games champions this year, while on a local level the company's sponsorship of the South Hedland Swans enters its fourth year. The Fortescue team continued volunteering and raising funds within the communities where we live and operate; the annual Roebourne working bee was a great success and Fortescue raised significant money for a variety of good

causes, particularly Perth's new Ronald McDonald House and the Royal Flying Doctor Service.

I would like to thank all of our employees, contracting partners, traditional owners and joint venture partners for their great support. Through their commitment Fortescue has delivered its ambition of developing mines and infrastructure to produce 155mt of iron ore per year in record time and at industry leading capital productivity. These foundations position your company to be the safest and lowest cost iron ore producer.

We are very excited about the future because we are building a unique Australian company that will continue to deliver exceptional results for you and all our shareholders.

Mr Nev Power
Chief Executive Officer



Operations Report

In March 2014, Fortescue celebrated one of the most significant milestones in its 11-year history, the successful completion of the US\$9.2 billion expansion of its port, rail and mining operations in the Pilbara region of Western Australia to achieve a production capacity of 155 million tonnes per annum (mtpa). The completion of the project has taken Fortescue a significant step closer to its vision of becoming the safest, lowest cost, most profitable producer of iron ore.

Fortescue committed to the expansion in November 2010 and set itself the ambitious target of completing it by June 2014. Thanks to the hard work and dedication of thousands of people, Fortescue completed construction more than six months ahead of schedule.

The expansion included the development of the 60mtpa Solomon Hub in the Hamersley Ranges comprising the Kings Valley and nearby Firetail projects; an expansion of the Christmas Creek mine to 50mtpa; a wet processing plant at Cloudbreak and major extensions of Fortescue's world-class port and rail facilities.

Fortescue's iron ore operations now include the 90mtpa Chichester Hub, comprising the Cloudbreak and Christmas Creek mines, the Solomon Hub, more than 600km of rail and port facilities comprising four berths and three shiploaders at Herb Elliott Port in Port Hedland, with construction of a fifth berth under way.

Highlights

Fortescue achieved a number of key milestones in FY14 as it completed the expansion to 155mtpa, including:

- The opening of the fourth berth – the Nick Sexton berth – at Herb Elliott Port in August 2013, marking the completion of the US\$2.4 billion port expansion
- The significant reduction of strip ratios at the Chichester Hub as benefits were realised from blending Firetail and Chichester ore and enhanced processing capabilities following the commissioning of the Christmas Creek jigs plant and Cloudbreak wet processing plant in the September quarter 2013
- Completion of the expanded railway and the commissioning of the rail integrated train control system on the mainline in the December 2013 quarter
- Completion of the Kings Valley ore processing facility (OPF) in October 2013 and first ore through the plant in November 2013
- Completion of all expansion projects at a total cost of US\$9.2 billion or US\$92 per annual production tonne in the June 2014 quarter
- Delivery of the targeted 155 million tonne annualised run rate in the June 2014 quarter and a record 160mtpa annualised run rate for the month of June

Safety

Fortescue's greatest asset is its people and safety is one of the company's core values.

Tragically, in FY14 there were two fatal accidents at Christmas Creek, in the Ore Processing Facility and in the Heavy Vehicle Workshop, which took the lives of Kurt Williams on 14 August 2013 and Allen Zuvela on 29 December 2013.

Fortescue has taken decisive action to reinforce safety as its highest priority and engaged an independent auditor to undertake a comprehensive whole-of-business review of its safety standards, systems and processes to examine safety performance and management across every area of its operations.

Numerous improvements have been made across operations, including extensive leadership site visits and a comprehensive study of systems, processes and

procedures. Fortescue is recognised as a world leader across many areas of its business and is committed to becoming a global leader in safety through its culture of empowerment and determination.

In FY14, Fortescue recorded a Total Recordable Injury Frequency Rate (TRIFR) of 6.0 per million hours worked, a 21 per cent improvement over the previous year.

Production

Fortescue finished FY14 on an outstanding note, shipping a record 124.2 million tonnes over the 12 month period. Shipments were 54 per cent higher than the previous year and within two per cent of the company's full year guidance of 127mt. In the June 2014 quarter, Fortescue achieved a seventh consecutive shipping record of 38.7mt, a 23 per cent increase over the previous quarter and a 55 per cent increase over the prior comparable period. Total shipments in FY14 included 4.3 million third party tonnes.

Fortescue achieved its targeted 155mtpa annualised run rate in the June 2014 quarter and a record 160 million tonne annualised shipping rate for the month of June following the successful ramp up of the Kings Valley OPF. Total output from all processing facilities increased to a record 41.1mt in the June quarter, 31 per cent higher than the prior quarter as Fortescue moved to steady state operations. Fortescue has provided guidance for shipping volumes for FY15 of 155 to 160mt, which reflects a full year of operations from the Kings Valley project.

During the year, Fortescue assumed full ownership and operational responsibility for the two OPFs at Christmas Creek and during the June 2014 quarter, Fortescue and Leighton Contractors completed a successful transition of full operational responsibility for the two Solomon Hub OPFs and the train load out facility. These strategic business decisions have given Fortescue operational responsibility over all five of its OPFs, which will enable shared learnings, synergies, economies of scale and efficiency increases across the business.

Costs

Fortescue's relentless focus on costs led to a 23 per cent improvement in FY14 with C1 costs falling to US\$34/wmt. The sharp reduction reflects the lower cost Solomon operations, improved processing capacity and lower strip ratios at the Chichester Hub, operational efficiencies and a lower Australian dollar.

In the June 2014 quarter, Fortescue's total delivered costs to customers were US\$49/wmt inclusive of C1 costs and shipping, royalty and administration costs, eight per cent lower than the prior quarter, while total delivered costs to customers for the full year were US\$52/wmt.

Fortescue is determined to reduce costs even further in FY15 and is targeting a C1 operating cost of US\$31-32/wmt based on an average US to Australian dollar exchange rate of 0.90.

Marketing

Fortescue's suite of products is sold with reference to the 62% Platts index with a market price comparable to other products which have similar value-in-use properties for steel production.

A significant increase in new seaborne iron ore supply, tighter credit conditions in China and relatively high Chinese port stocks led to a lower price environment in the second half of FY14. Fortescue achieved an average price realisation of 86 per cent compared to the average 62% Platts index in FY14.

Fortescue expects supply to re-balance as Chinese port inventories are drawn down, steel mills re-stock and higher cost iron ore production leaves the market. As this occurs and Fortescue transitions to a product suite dominated by the high quality Fortescue Blend and Kings channel iron deposit (CID) products, realised prices are expected to range between 85 and 90 per cent of the 62% Platts price index.

Chichester Hub

Fortescue's mining operations in the Chichester Range comprise Cloudbreak, 150km north of Newman, and Christmas Creek, 50km to the east of Cloudbreak.

Several major projects were undertaken at the Chichester Hub as part of the expansion to 155mtpa. These included a second OPF and jigs plant at Christmas Creek, which lifted the production capacity to 50mtpa, and the addition of a wet front end to the processing plant at Cloudbreak.

The benefits of enhanced processing capabilities following commissioning of the jigs plant and wet front end, along with Fortescue's product strategy of blending Chichester ore with Firetail ore, played a significant role in reducing the strip ratios at the Chichester Hub in FY14. Strip ratios averaged 3.5 for FY14, in line with the five-year mine plan of 3.5.

Solomon Hub

The 60mtpa Solomon Hub is in the Hamersley Ranges, 60km north of Tom Price and 120km to the west of the Chichester Hub and includes the 20mtpa Firetail project and 40mtpa Kings Valley project.

The Solomon Hub represents a valuable source of new production from long life, low cost mining operations. Its low strip ratios have played a major role in reducing Fortescue's overall operating costs while the new operations have expanded Fortescue's product mix. Firetail ore blended with Chichester ore has created an enhanced product known as the Fortescue Blend, while CID ore from Kings Valley represents a new stand-alone product.

Fortescue opened Firetail in May 2013 and completed construction of the Kings Valley OPF in October 2013. Construction was completed in record time, taking only 179 days from the assembly of first steel. The successful ramp-up of Kings Valley allowed Fortescue to achieve its targeted 155 million tonne annualised run rate in the June quarter 2014 and a record 160 mtpa annualised run rate for the month of June.

Port and Rail

The expansion of Fortescue's port and rail operations have led to consistent operations at and above the annualised run rate of 155mtpa. Further optimisation work will continue to deliver increased productivity and efficiency.

In August 2013, Fortescue celebrated the completion of the US\$2.4 billion expansion of Fortescue's port facilities, a core component of Fortescue's US\$9.2 billion expansion, to lift the Port's export capacity to 155mtpa.

The expansion of Fortescue's rail line - the heaviest haul line in the world with a 40 tonne axle load capacity - means 14 train journeys per day now operate from Cloudbreak, Christmas Creek and Solomon, with each hauling about 33,000 tonnes of ore to Herb Elliott Port.

In the December 2013 quarter, Fortescue opened a state-of-the-art ore car maintenance facility incorporating some of the world's most advanced engineering and automated technology in heavy haul maintenance. The automated facility will maintain the company's 3,000 plus ore cars and ancillary fleet.

An Integrated Train Control System (ITCS) was also introduced where trains are tracked by GPS and operating instructions are delivered from Fortescue's Train Control Centre in Perth to the locomotives via digital communications. The state of the art ITCS provides greater utilisation efficiency and improved safety.

Development

Fortescue River Gas Pipeline

Fortescue is executing a plan to lower energy costs and reduce its carbon footprint by transitioning its Pilbara operations from diesel to natural gas. As a first step, the Fortescue River Gas Pipeline will deliver gas from the Dampier to Bunbury Pipeline to the Solomon Power Station with completion scheduled in the March 2015 quarter. This single initiative will save Fortescue approximately US\$20 million a year as well as reducing carbon emissions.

Compressed Natural Gas (CNG)

As an interim step in advance of completion of the natural gas pipeline, Fortescue will truck compressed natural gas (CNG) from facilities in Port Hedland to gas receiving facilities installed at the Solomon Power Station. Deliveries are scheduled to commence in October 2014 and will run until the Fortescue River pipeline is fully commissioned.

AP5 Project

Fortescue is building a fifth wharf at Anderson Point, AP5, which is scheduled for completion in the March 2015 quarter. The fifth berth will provide additional flexibility and efficiency at the port.

Detrital Processing Plant

In May 2014, Fortescue approved the construction of a 5mtpa detrital iron deposit (DID) processing plant at Solomon. The facility will allow DID ore to be processed, eliminating the need for a wet plant addition to the Firetail OPF and freeing the Kings Valley OPF to process Kings CID ore. The project is expected to take just over a year and cost approximately US\$105 million.

Iron Bridge Project

Fortescue is progressing the Iron Bridge magnetite project, 100 kilometres south of Port Hedland. The project, incorporating the North Star and Glacier Valley ore bodies, is being developed in conjunction with Taiwan's Formosa Group and China's Baosteel Group. By the end of FY14 the main construction camp was complete, access roads and earthworks at the North Star OPF were nearing completion and pre-strip activities were progressing. First production from the 1.5mtpa Stage 1 is expected in the March 2015 quarter.

Exploration

Fortescue's FY14 drilling program focused on identifying and defining new targets for bedded mineralisation in and around the existing Chichester and Solomon hubs.



Solomon Power Station



AP5 construction



Iron Bridge Project construction

ORE RESERVES AND RESOURCES REPORT

Ore Reserves and Mineral Resources

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

Hematite Ore Reserves total 2.4 billion tonnes (bt) at an average iron (Fe) grade of 57.3 per cent. Combined hematite Mineral Resources total 11.6bt at an average Fe of 56.9 per cent. Magnetite Mineral Resources total 4.7bt at an average mass recovery of 24.2 per cent.

Operating property Ore Reserves and Mineral Resources have all been reported to the Joint Ore Reserves Committee (JORC) 2012 standard. Accordingly, the information in these sections should be read in conjunction with the respective explanatory Resource and Reserve information (Fortescue ASX release dated 20 August 2014).

Development property Mineral Resources are a combination of JORC 2012 and JORC 2004 estimates. Those development property resources reported to JORC 2012 standard are identified in the Fortescue ASX release of 20 May 2014 that includes the supporting technical data. The remaining JORC 2004 resource estimates will be progressively updated to the JORC 2012 standard as development priorities dictate.

Magnetite resources have been updated and reported to the JORC 2012 standards. The resources quoted in this report should be read in conjunction with the supporting technical data contained in the corresponding ASX release dated 20 August 2014.

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

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

The Mineral Resource and Ore Reserve 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 2014 combined Chichester and Solomon hematite Ore Reserve is a total of 2,374 million dry tonnes (mt) at an average iron (Fe) grade of 57.3 per cent.

The Ore Reserve is quoted as at June 30, 2014 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 slightly improved 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 1,470mt at an average Fe grade of 57.4 per cent, with 30 per cent of the tonnage in the Proved Ore Reserve category. 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 903mt at an average Fe of 57.2 per cent, with 16 per cent of the tonnage in the Proved Ore Reserve category.

The 2014 hematite Ore Reserve estimates were subject to comprehensive review and update addressing:

- Revisions to the Kings (Solomon CID) resource model and to grade control models in all near-term mining areas.
- a revised processing strategy including accelerated "dry processing" (rather than beneficiation) of the Firetail bedded iron deposit (BID) at Solomon.
- ore depletion as a result of sales.
- exclusion of low margin mineralisation to enhance financial outcomes, and
- 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.

ORE RESERVES AND RESOURCES REPORT

Category	Hematite Ore Reserves – as at 30 June 2014						Hematite Ore Reserves – as at 30 June 2013					
	Product Tonnes (Mt)	Iron Fe%	Silica SiO ₂ %	Alumina Al ₂ O ₃ %	Phos P%	Loss On Ignition LOI%	Product Tonnes (Mt)	Iron Fe%	Silica SiO ₂ %	Alumina Al ₂ O ₃ %	Phos P%	Loss On Ignition LOI%
Cloudbreak												
Proved	132	57.7	4.20	2.35	0.048	8.7	136	58.2	4.18	1.99	0.051	8.5
Probable	368	57.5	4.55	2.33	0.052	8.1	368	57.9	4.38	2.24	0.053	8.1
Total	500	57.6	4.46	2.33	0.051	8.3	504	57.9	4.33	2.17	0.052	8.2
Christmas Creek												
Proved	312	57.3	5.72	2.45	0.043	7.9	312	57.4	5.37	2.39	0.042	7.9
Probable	659	57.3	4.91	2.62	0.044	7.9	701	57.5	4.93	2.60	0.045	7.9
Total	970	57.3	5.17	2.57	0.044	7.9	1,013	57.4	5.06	2.53	0.044	7.9
Sub-Total Chichester Hub												
Proved	444	57.4	5.27	2.42	0.045	8.2	449	57.6	5.01	2.27	0.045	8.1
Probable	1,026	57.4	4.78	2.52	0.047	7.9	1,069	57.6	4.74	2.47	0.048	7.9
Total	1,470	57.4	4.93	2.49	0.046	8.0	1,517	57.6	4.82	2.41	0.047	8.0
Firetail												
Proved	39	59.2	5.66	2.66	0.133	6.4	29	60.5	4.63	2.21	0.135	6.1
Probable	136	58.5	6.84	2.63	0.106	6.2	133	59.8	5.88	2.22	0.104	5.9
Total	174	58.7	6.58	2.64	0.112	6.3	162	59.9	5.66	2.22	0.109	5.9
Kings and Queens												
Proved	105	57.6	6.14	2.22	0.061	8.5	69	57.7	5.30	1.61	0.051	9.9
Probable	624	56.7	6.57	2.67	0.064	8.9	596	57.3	6.75	2.66	0.058	8.9
Total	729	56.9	6.50	2.61	0.064	8.8	665	57.3	6.60	2.55	0.057	9.0
Sub-Total Solomon Hub												
Proved	143	58.0	6.01	2.34	0.081	7.9	98	58.5	5.10	1.79	0.076	8.8
Probable	760	57.1	6.61	2.66	0.072	8.4	729	57.7	6.59	2.58	0.066	8.3
Total	903	57.2	6.52	2.61	0.073	8.3	827	57.8	6.42	2.48	0.068	8.4
Combined Hematite Ore Reserves												
Proved	587	57.6	5.45	2.40	0.053	8.1	547	57.8	5.02	2.18	0.050	8.2
Probable	1,786	57.3	5.56	2.58	0.057	8.1	1,797	57.7	5.49	2.52	0.055	8.1
Total	2,374	57.3	5.53	2.54	0.056	8.1	2,344	57.7	5.38	2.44	0.054	8.1

- The diluted mining models used to report the 2014 Ore Reserves are based on Chichester Mineral Resource models reported in 2012 and revised Solomon Mineral Resource models completed this year. Diluted mining models are validated by reconciliation against historical production.
- Proved Reserves are inclusive of ore stockpiles at the mines and port totalling approximately 30.9mt of dry product.
- 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.
- The June 2013 Solomon Reserve was reported on a hub basis. It is restated here including deposit detail to allow direct comparison with the 2014 statement.
- Reserve in-situ Fe cut-off grades are approximately 53 per cent for BID deposits and 51 per cent for CID deposits.



C1 costs were
↓ 23%
for the financial year

Mineral Resources Operating Properties – Hematite

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

As of 30 June 2014, the total Mineral Resource for the Chichester and Solomon hubs was 5,441mt at an average Fe grade of 56.5 per cent, a slight increase over that stated in the prior year. This was accompanied by a slight decrease in the proportion of higher confidence Measured and Indicated Mineral Resource mineralisation from 66 per cent to 63 per cent as a result of mining depletion.

The Chichester Hub Mineral Resource totalled 3,222mt at an average Fe grade of 56.7 per cent, with 70 per cent of the tonnage in the Measured and Indicated Mineral Resource categories.

The total Solomon Hub Mineral Resource increased by 11 per cent, totalling 2,219mt at an average Fe grade of 56.1 per cent, with 51 per cent of the tonnage in the Measured and Indicated Mineral Resource categories.



ORE RESERVES AND RESOURCES REPORT

Category	Hematite Mineral Resources – as at 30 June 2014						Hematite Mineral Resources – as at 30 June 2013					
	In-situ Tonnes (Mt)	Iron Fe%	Silica SiO ₂ %	Alumina Al ₂ O ₃ %	Phos P%	Loss On Ignition LOI%	In-situ Tonnes (Mt)	Iron Fe%	Silica SiO ₂ %	Alumina Al ₂ O ₃ %	Phos P%	Loss On Ignition LOI%
Cloudbreak												
Measured	274	57.5	4.86	3.06	0.054	8.7	211	57.0	5.43	3.02	0.056	8.7
Indicted	420	56.7	5.69	3.37	0.059	8.3	473	56.6	5.75	3.38	0.057	8.2
Inferred	469	56.3	6.07	3.38	0.057	8.3	494	56.3	6.09	3.38	0.057	8.3
Total	1,163	56.7	5.65	3.30	0.057	8.4	1,178	56.6	5.84	3.31	0.057	8.4
Christmas Creek												
Measured	516	57.3	5.93	2.97	0.047	8.0	457	56.5	6.39	3.13	0.045	8.0
Indicted	1,064	56.6	5.94	3.38	0.049	7.9	1,097	56.6	5.97	3.37	0.048	7.8
Inferred	479	56.4	6.54	3.21	0.059	7.2	491	56.4	6.55	3.21	0.059	7.2
Total	2,059	56.7	6.08	3.24	0.050	7.7	2,045	56.6	6.20	3.28	0.050	7.7
Sub-Total Chichester Hub												
Measured	790	57.4	5.56	3.00	0.049	8.2	668	56.7	6.08	3.09	0.048	8.2
Indicted	1,484	56.6	5.87	3.37	0.051	8.0	1,569	56.6	5.90	3.37	0.051	8.0
Inferred	947	56.3	6.31	3.30	0.058	7.8	985	56.3	6.32	3.29	0.058	7.8
Total	3,222	56.7	5.92	3.26	0.053	8.0	3,222	56.6	6.07	3.29	0.053	8.0
Firetail												
Measured	45	58.0	5.80	3.35	0.141	7.3	41	59.7	4.84	2.56	0.141	6.6
Indicted	155	58.9	6.11	2.64	0.107	6.4	181	59.0	6.13	2.66	0.107	6.2
Inferred	170	57.6	6.85	3.25	0.110	6.9	141	57.6	6.55	3.36	0.105	7.1
Total	371	58.2	6.41	3.00	0.112	6.7	364	58.5	6.15	2.92	0.110	6.6
Kings and Queens												
Measured	121	56.4	7.43	2.87	0.068	8.5	92	56.9	6.23	1.93	0.060	10.0
Indicted	818	55.7	7.75	3.22	0.065	8.8	871	55.6	7.86	3.25	0.066	8.8
Inferred	909	55.6	7.86	3.41	0.076	8.6	676	55.2	8.07	3.42	0.068	8.9
Total	1,848	55.7	7.78	3.29	0.071	8.7	1,640	55.5	7.85	3.25	0.067	8.9
Sub-Total Solomon Hub												
Measured	167	56.8	6.99	3.00	0.088	8.2	133	57.8	5.80	2.13	0.085	9.0
Indicted	973	56.2	7.49	3.12	0.072	8.4	1,053	56.2	7.56	3.15	0.073	8.3
Inferred	1,079	55.9	7.70	3.38	0.082	8.3	818	55.6	7.80	3.41	0.075	8.6
Total	2,219	56.1	7.55	3.24	0.078	8.3	2,003	56.1	7.54	3.19	0.074	8.5
Total Operating Property Hematite Mineral Resource												
Measured	957	57.3	5.81	3.00	0.056	8.2	801	56.9	6.04	2.93	0.054	8.4
Indicated	2,457	56.5	6.51	3.28	0.060	8.2	2,622	56.4	6.57	3.28	0.060	8.1
Inferred	2,027	56.1	7.05	3.34	0.071	8.1	1,802	56.0	6.99	3.35	0.065	8.1
Total	5,441	56.5	6.59	3.25	0.063	8.1	5,226	56.4	6.63	3.25	0.061	8.2

- Chichester Hub Mineral Resources are quoted at a cut-off grade of 54 per cent Fe while Solomon Hub Mineral Resources are quoted at a cut-off grade of 51 per cent Fe.
- The Measured Mineral Resource estimate includes mine and port ore stockpiles totalling 34.3mt.
- The June 2013 Solomon Mineral Resource has been re-stated on a deposit basis to allow comparison.

ORE RESERVES AND RESOURCES REPORT

Mineral Resources Development Properties – Hematite

The Company announced a 1.16 billion tonne (bt) addition to the Greater Solomon Mineral Resource base in May, 2014 as a result of a program of exploration drilling. Major increases were in the Sheila Valley and Serenity deposits including additional bedded, channel iron and detrital mineralisation. Updates to the Eliwana-Flying Fish Mineral Resources were also announced.

At the same time, the Mt Nicholas estimate was removed from the Greater Chichester inventory pending review and re-modelling.

Category	Hematite Mineral Resources – as at 30 June 2014						Hematite Mineral Resources – as at 30 June 2013					
	In-situ Tonnes (Mt)	Iron Fe%	Silica SiO ₂ %	Alumina Al ₂ O ₃ %	Phos P%	Loss On Ignition LOI%	In-situ Tonnes (Mt)	Iron Fe%	Silica SiO ₂ %	Alumina Al ₂ O ₃ %	Phos P%	Loss On Ignition LOI%
Greater Chichester												
Measured	-	-	-	-	-	-	-	-	-	-	-	-
Indicated	-	-	-	-	-	-	222	50.0	10.89	6.83	0.060	8.0
Inferred	303	57.1	5.90	3.25	0.067	7.1	473	54.1	7.58	4.86	0.066	7.5
Total	303	57.1	5.90	3.25	0.067	7.1	695	52.8	8.64	5.49	0.064	7.7
Greater Solomon												
Measured	-	-	-	-	-	-	-	-	-	-	-	-
Indicated	254	56.6	6.70	3.45	0.083	8.3	-	-	-	-	-	-
Inferred	2,404	56.8	6.93	3.71	0.081	7.2	1,501	56.8	7.00	3.71	0.080	7.3
Total	2,658	56.8	6.91	3.69	0.082	7.3	1,501	56.8	7.00	3.71	0.080	7.3
Eliwana and Flying Fish												
Measured	-	-	-	-	-	-	-	-	-	-	-	-
Indicated	-	-	-	-	-	-	-	-	-	-	-	-
Inferred	740	59.1	5.21	2.88	0.091	6.5	624	58.7	5.44	3.06	0.091	6.6
Total	740	59.1	5.21	2.88	0.091	6.5	624	58.7	5.44	3.06	0.091	6.6
Nyidinghu												
Measured	23	59.6	3.56	2.21	0.139	8.0	23	59.6	3.56	2.21	0.139	8.0
Indicated	580	58.1	4.52	2.95	0.148	8.6	580	58.1	4.52	2.95	0.148	8.6
Inferred	1,860	57.2	5.00	3.36	0.147	8.8	1,860	57.2	5.00	3.36	0.147	8.8
Total	2,463	57.4	4.87	3.25	0.147	8.8	2,463	57.4	4.87	3.25	0.147	8.8
Total Development Property Hematite Mineral Resources												
Measured	23	59.6	3.56	2.21	0.139	8.0	23	59.6	3.56	2.21	0.139	8.0
Indicated	834	57.6	5.18	3.10	0.128	8.5	802	55.8	6.28	4.02	0.124	8.4
Inferred	5,307	57.3	5.95	3.45	0.105	7.7	4,458	56.9	6.01	3.60	0.108	7.9
Total	6,165	57.3	5.85	3.40	0.108	7.8	5,283	56.8	6.04	3.65	0.110	7.9

- The Greater Chichester Mineral Resource includes the Investigator, White Knight and Mt Lewin deposits. Overall, the quality has increased and tonnage reduced as a result of removal of the Mount Nicholas inventory pending a model review.
- The Greater Solomon Mineral Resource includes the Serenity, Sheila Valley, Mount MacLeod, Queens Extension, Cerberus, Stingray and Raven deposits. The Indicated Mineral Resource is located at the Serenity deposit. The majority of additional Inferred Mineral Resource is from extensions at Sheila Valley with smaller contributions from Serenity and Mount MacLeod. All estimates making up Greater Solomon are reported to JORC 2012 standards (ASX release 20 May 2014).
- The Greater Chichester and Nyidinghu Mineral Resource is reported to JORC 2004 standards and will be updated to meet JORC 2012 reporting standards according to development priorities.
- All Mineral Resources are quoted on an in-situ basis after applying an appropriate cut-off for each deposit. Details relating to the cut-offs were provided when the Mineral Resource was first announced.

ORE RESERVES AND RESOURCES REPORT

Mineral Resources Development Properties – Magnetite

Mineral Resource updates for the North Star and Glacier Valley deposits (60.72 per cent Fortescue) were completed in 2014, incorporating additional drilling, including the results of an in-fill reverse circulation drilling campaign across the North Star Stage 1 project area. This drilling has confirmed the tonnage of higher confidence Measured and Indicated Mineral Resource, which can potentially be converted to an Ore Reserve at an improved mass recovery. Peripheral Inferred mineralisation contained in the prior estimate has been re-assessed based on the improved understanding of the mineralisation controls and continuity. As a result, the tonnage of low mass recovery, Inferred mineralisation in the hangingwall and footwall has been reduced with a corresponding significant increase in Mass Recovery.

The Glacier Valley estimate was also updated using the available data, including the improved understanding of mineralisation continuity and controls. The 2014 Glacier Valley estimate remains wholly Inferred, with the tonnage increased by 24 per cent, at a better Mass Recovery (2013 Mass Recovery based on MagSus correlation).

Category	Magnetite Mineral Resources – as at 30 June 2014					Magnetite Mineral Resources – as at 30 June 2013				
	In-situ Tonnes (Mt)	Mass Recovery %	Iron Fe%	Silica SiO ₂ %	Alumina Al ₂ O ₃ %	In-situ Tonnes (Mt)	Mass Recovery %	Iron Fe%	Silica SiO ₂ %	Alumina Al ₂ O ₃ %
North Star (60.72% Fortescue)										
Measured	44	27.2	32.2	39.8	2.0	-	-	-	-	-
Indicated	679	28.0	32.2	39.6	1.9	721	25.1	31.9	40.0	2.0
Inferred	1,926	23.4	30.6	40.9	2.5	2,847	19.1	29.1	41.8	2.9
Total	2,648	24.6	31.0	40.6	2.3	3,568	20.3	29.6	41.5	2.7
Glacier Valley (60.72% Fortescue)										
Measured	-	-	-	-	-	-	-	-	-	-
Indicated	-	-	-	-	-	-	-	-	-	-
Inferred	2,028	23.5	32.8	38.7	1.6	1,637	-	32.2	38.9	1.7
Total	2,028	23.5	32.8	38.7	1.6	1,637	-	32.2	38.9	1.7
Total Magnetite Mineral Resource										
Measured	44	27.2	32.2	39.8	2.0	-	-	-	-	-
Indicated	679	28.0	32.2	39.6	1.9	721	25.1	31.9	40.0	2.0
Inferred	3,953	23.5	31.7	39.8	2.1	4,484	-	30.2	40.8	2.5
Total	4,676	24.2	31.8	39.8	2.0	5,205	-	30.5	40.7	2.4

- Magnetite Mineral Resources including the North Star and Glacier Valley deposits are reported according to JORC 2012 standards (ASX release 20 August 2014).
- All reporting is based on mass recovery expressed as a 9 per cent Davis Tube Recovery (DTR) cut-off.
- Average concentrate quality based on DTR test results at a 53 micron grind size is ≥66 per cent Fe and ≤six per cent silica.



Kings Valley ore processing facility

Competent Persons Statement

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

Estimated Ore Reserves for the Chichester and Solomon Hubs for fiscal year 2014 were compiled by Mr Ross Oliver, a full-time employee of Fortescue.

Mr Robinson is a Fellow of, and Messrs Simpson, Nitschke, Oliver and Widenbar are Members of, the Australasian Institute of Mining and Metallurgy. Mr Frost-Barnes is a member of the Institute of Materials, Minerals and Mining. Messrs Robinson, Simpson, Nitschke, Oliver, 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 Robinson, Simpson, Nitschke, Frost-Barnes, Widenbar and Oliver 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.



Fortescue aspires to be a corporate citizen of choice that is welcomed by the communities that host its activities.

What Corporate Social Responsibility means to Fortescue

We believe in generating long term value for all of our stakeholders. We do this by empowering communities, providing economic opportunity, behaving with respect and care for people and the environment, taking responsibility for our presence and doing what we say we will do. To achieve our Vision, we must operate in a way that integrates Corporate Social Responsibility (CSR) principles into everything we do.

Our approach

Our governance framework and management systems are designed to ensure that we make good decisions, identify and manage our risks and continuously improve our performance. These also stem from our Vision of being the safest, lowest cost, most profitable iron ore producer and align with our Values of: Safety, Integrity, Family, Enthusiasm, Empowerment, Determination, Generating Ideas, Frugality, and Stretch Targets. This approach helps us to manage both our financial and non-financial risks and to take advantage of the opportunities they also present. This report provides

an overview of how we approach the management of our CSR issues and our current performance. This report has been prepared in accordance with the core requirements of the Global Reporting Initiative fourth generation guidelines (GRI G4) Guidelines. Due to the focus of G4 on materiality, we have reported only on our most material issues this year. This ensures that our 2014 report is tailored to reflect where our impact occurs and where we are able to have influence. A copy of our GRI index is available on our website at www.fmgl.com.au. Our overall approach to audit and assurance is outlined in the Corporate Governance section of this report. At present the only information within this CSR section that has been independently assured is our greenhouse gas emissions and energy data.

We adopt a continuous improvement approach to our performance disclosures. In 2013, we became a signatory of the United Nations Global Compact (UNGC) and we continue to make use of the International Council on Mining and Metals (ICMM) Sustainable Development Principles. These commitments have also helped to develop the content of this report.

CORPORATE SOCIAL RESPONSIBILITY



2014 SCORECARD - PERFORMANCE AGAINST OUR 12 TARGETS

Business ethics and governance

We will clearly articulate our ethical business principles and practices and implement sound systems of corporate governance. We will identify and manage our business risks and incorporate CSR into our decision-making processes. We will implement effective engagement and communication practices with our key stakeholder groups. We will transparently report on our performance to our stakeholders.

Our governance systems

Fortescue is committed to implementing and maintaining ethical business practices, sound systems of corporate governance and engaging with our stakeholders in an open and honest way. Detailed information on our approach to governance and stakeholder engagement can be found in the Corporate Governance section of this report.

We have a number of specific CSR-related policies in place which help us to govern our business activities and to clearly articulate our expectations with regard to business behaviours. These policies are supported by established management systems which assist the business in the day-to-day management of CSR performance.

Our policies are available on our website www.fmg.com.au and they include our:

- Directors' Code of Conduct
- Employees' Code of Conduct
- Risk Management Policy
- Procurement Policy
- Safety Policy
- Diversity Policy
- Community Policy
- Human Rights Policy
- Environmental Policy
- Climate Change and Energy Management Policy

A whistleblower hotline service helps to ensure compliance. This anonymous service is available to all of our employees, contractors and our business partners. It assists us to effectively deal with misconduct and governance related breaches such as unethical, corrupt or fraudulent behaviour. A number of reports were received this year and these were followed up with corrective action in accordance with our Unethical Behaviour Control Framework. Some contractors and employees were dismissed as a result of investigations.

In 2012, we made a commitment to consider the ICMM Sustainable Development Principles in our management systems. While we are not currently a signatory to the ICMM, we believe that the Principles it has developed in its framework are currently industry best practice. We have reviewed our practices against the Principles and this has helped us to focus on industry specific issues. We will continue to use the ICMM Principles to drive performance improvements into the future. In April 2013, we started to engage with the UNGC and agreed the UNGC principles would become part of our business strategy, our culture, supply chain and day-to-day operations.

Integration of CSR into the business

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

The Board has delegated the responsibility for oversight of risk management to the Audit & Risk Management Committee (ARMC). The role of the ARMC is explained in the Corporate Governance section of this report, including its responsibilities for risk management.

The company has developed the Fortescue Risk Management Framework (FRMF) which outlines the methodology, approach and responsibility for the effective management and oversight of risk within our business. The FRMF is aligned to ISO 31000, the international standard for risk management and provides a consistent approach to the recognition, measurement and evaluation of risks across our business. It also supports Executive Management and the Board in meeting their corporate governance responsibilities. Fortescue is working towards integrating CSR considerations into our corporate decision-making processes. We believe that our procurement, planning and operational management decisions can help to drive CSR performance improvements.

Engaging our stakeholders

We have a large number of stakeholders who are either impacted or who influence the way that we operate. Our success and social licence to operate depends on proactive and transparent engagement with multiple stakeholder groups. It is important for us to do what we say we will do. Our stakeholders include our people, federal, state and local governments, communities, traditional owners of land, suppliers, customers, non-government organisations, pastoral leaseholders, investors and the media. For Fortescue to be successful over the longer term in achieving our community goals, it is important that we proactively and transparently engage with all of these stakeholder groups. We use many vehicles to engage our stakeholders including: hard copy reports, electronic reports, intranet and internet sites, induction and training, management briefings, company newsletters, employee surveys, project specific meetings and other informal communications.

Confirming report content

To ensure that our report is meaningful to our business and to our stakeholders, this year we reviewed the issues which have formed the basis of our CSR disclosures to date. Specifically, we developed a list of material issues which were then prioritised according to:

- A review of our sector and the content of public disclosure on key issues
- The ranking of issues in our risk register and their relationship to our CSR agenda
- Stated commitments and policies of Fortescue
- Public interest in issues
- Stakeholder interest based on Fortescue's existing stakeholder engagement programs (as outlined in the Corporate Governance section of this report on page 65).

Based on this assessment, the following issues ranked most highly this year: employee health and safety, local community development, biodiversity, land rehabilitation, energy efficiency, waste, land use and compliance. In the next reporting cycle we will further refine and confirm the priority issues with our key stakeholder groups.



28 FORTESCUE MATERIAL ISSUES 2014

A safe, healthy and engaged workforce

We will foster a safety culture that aligns with our core values and achieves a safe workplace for our employees and contractors. We will value and look after the well-being of everyone in the Fortescue family. We will nurture our high performance culture and aim to provide a workplace that is diverse, fair and empowering.

Zero harm

People are our company's greatest asset and safety is a core value. We empower employees, business partners and contractors to make decisions based on the fact that safe production is the only acceptable standard. As a business we are committed to continuous improvement of our safety performance and to providing a safe workplace for all of our employees, our business partners and our contractors.

In spite of our efforts this year, the Fortescue family tragically lost two contractor employees in separate incidents at Christmas Creek. Kurt Williams was fatally injured on 14 August 2013 in an accident at the Ore Processing Facility and Allen Zuvella was fatally injured on 29 December 2014

in an accident at the heavy vehicle workshop, which also injured a second contractor employee. Another contractor's employee was seriously injured in a dump truck accident at Christmas Creek on 22 October 2013.

Fortescue offers chaplaincy and counselling to colleagues and family members, however, the loss of two people is totally unacceptable to all of us and reminds us to be ever vigilant. Employees, business partners and contractors should expect to return home safely from work. No one on a Fortescue site is ever expected to do anything that compromises safety. Our culture empowers everyone to take whatever action is required to ensure safe operation, including stopping production when necessary.



Use fall protection when working at height – 2x2



Verify isolations and confirm stored energy has been controlled before work begins



Obtain authorisation to enter explosive exclusion zones



Secure tools and barricade work areas to prevent dropped objects



Maintain 3 metres from track and only work within authorisation limit



Obtain authorisation prior to entering confined space



Only inflate tyres in an approved tyre safety device



Never walk or work under a suspended load



Stop at stop signs and rail crossings



Follow lightning instructions at work



When driving wear a seat belt and obey speed limits



Wear a PFD when working above water

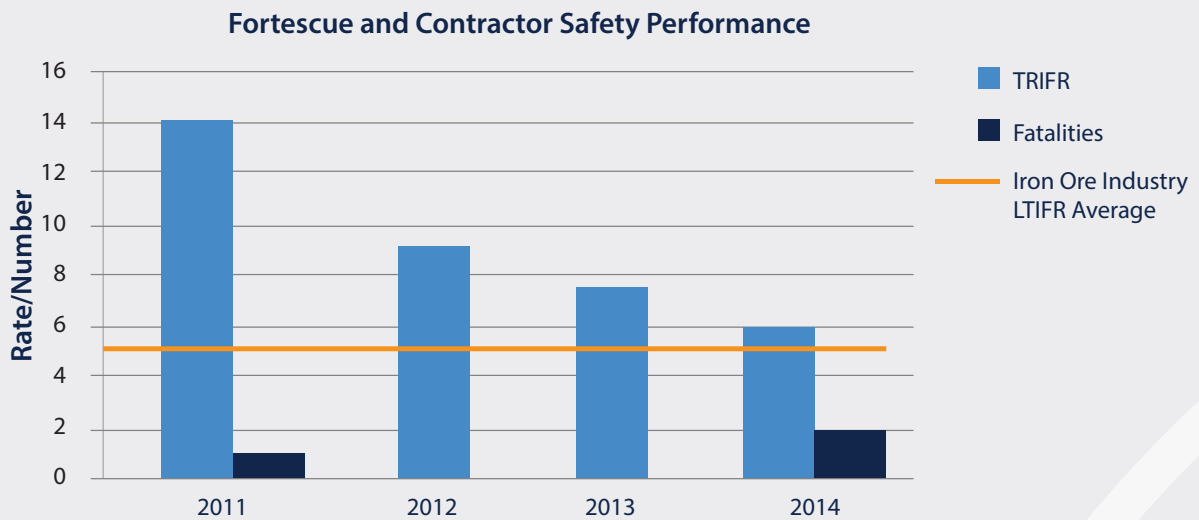
LIFE SAVING CHOICES

Fortescue is facilitating official investigations and enquiries into these incidents with the relevant authorities and these are ongoing. Fortescue was not issued with any safety-related fines or penalties during the reporting period. The WA Department of Mines and Petroleum issued Fortescue special directions under section 21.1 (O) of the Mine Safety Act 1994 on 30 December 2013, requiring greater direct supervision and safety checks across all Fortescue mine sites. The directions were subsequently withdrawn on 7 January 2014 following submission of Fortescue's action plan. Fortescue commissioned an independent, external whole of business review in February 2014 to examine safety performance and management across every area of our operations. The review looked at multiple aspects of safety including culture, systems, policy and reporting and had open access to our sites, data and people. More than 6,000 employees, contractors and business partners were engaged and active in this process.

The review found our approach to be leading edge, however opportunities for improvement were identified and further work was recommended in four key areas: safety as a value, line management leadership, contractor management and site action plans. All recommendations from the review have been accepted and are being implemented in our business. Fortescue is committed to remaining eternally vigilant with respect to safety.

Life Saving Choices

Our key fatality prevention programs are now represented by three tiers. First, our existing Health and Safety Management System includes thousands of controls. Second, our Major Hazards Management Program was built on eliminating fatality risk at all stages of the mine lifecycle and features fifty to sixty critical controls. Finally, our Life Saving Choices empower individuals by focusing on the fatality risk that the individual has the most direct control over on the job. They consist of a set of twelve memorable, simple rules which are enforceable 100 per cent of the time and applicable to everyone who works for or with Fortescue. The Life Saving Choices program was launched in October 2013 and training was delivered through site leadership teams in the two months prior. To date, more than 16,000 direct employees and contractors have been trained and of these 5,613 are new personnel inducted since January 2014. A further 10,620 employees and contractors have received additional formal health and safety training while Life Saving Choices has also been incorporated into leadership training programs.

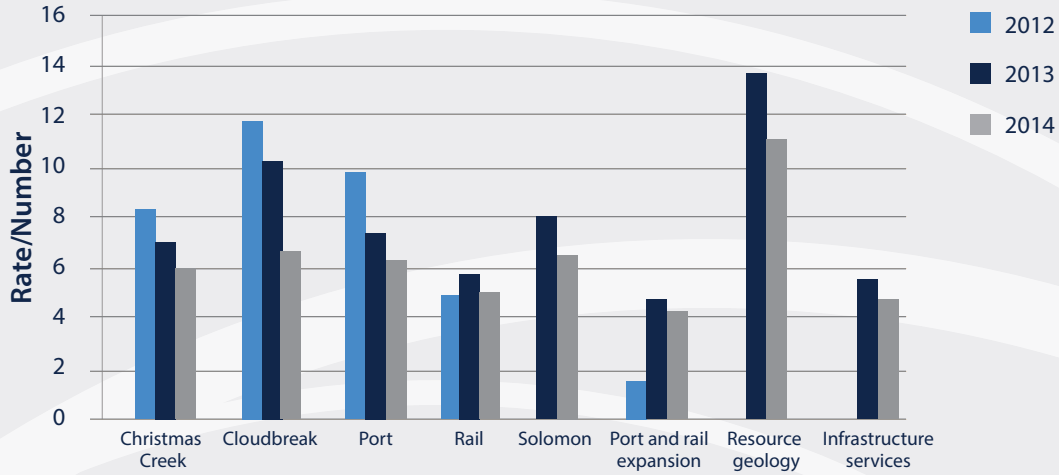


One of the primary objectives of our Business Plan for 2014 was to improve our total recordable injury frequency rate (TRIFR) by 15 per cent. To reinforce our safety culture, rewards are included in the structure of our short term incentive plan where every Fortescue employee has a portion of their incentive weighted against our safety performance measure. The weighting varies for each individual and ranges from 8 per cent to 33 per cent of the total opportunity. This measure accounted for 15 per cent of the CEO's incentive opportunity and 20.5 per cent of the Director of Operations and site general managers incentive opportunity.

Our 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. During this year we recorded a TRIFR of 6.0 per million hours worked which represents an improvement of 21 per cent on the previous year's result of 7.6.

Our safety performance over time is presented in the charts above and opposite. While we have seen improvements in our overall injury rate over recent years, the two fatalities recorded over the past year demonstrate that lower rates of injury do not necessarily mean that fatalities will be prevented. Both fatality risk and injury rates will require our constant focus as we drive our step change. Safety is our highest priority.

TRIFR by major business units and operations



CASE STUDY



Nick Harvey (RFDS Executive General Manager Corporate Affairs) accepts the Great Days contribution at Solomon

Great Days for the Royal Flying Doctor Service

Our Great Days Program was developed to help ensure our milestones for safety, environment, heritage and construction are consistently managed in our projects. A Great Day is when everyone goes home the way they came, having worked safely, hit targets, cared for the environment and kept to schedule. The premise of the program is that if we can have just one Great Day, then there is no reason why we cannot have all Great Days. As an added incentive, the program links to our community investment work and for each Great Day achieved, Fortescue donates funds on a sliding scale to the Royal Flying Doctor Service (RFDS) for the essential role they play in saving lives at remote and rural locations such as ours. The more consecutive Great Days we have, the larger our contribution. To date we have donated more than \$70,000 and in August last year we presented a cheque for over \$40,000 to Nick Harvey from the RFDS at a ceremony at Solomon. Paul Randell, Solomon's HSE Manager, said the Great Days Program not only made the sites focus on their targets but it enabled them to donate important funds to the RFDS. "The cheque represented the hard work of our employees and contractors at our Christmas Creek and Solomon sites. It is a fantastic effort and I hope that we can continue to work hard to have many more Great Days," Paul said.



Cloudbreak vehicle segregation is improving safety

Cloudbreak Vehicle Segregation and Hierarchy Traffic Rules – Safety Award Finalist

The implementation of a new traffic management system at Cloudbreak was proposed at one of our risk assessment workshops. The system is designed to address risk associated with vehicle interaction and lower the risk profile. Hierarchy Road Rules assign right of way priority to different classes of vehicles to reduce the risk associated with vehicle crossings or blind spots. The proposal for vehicle segregation focuses on eliminating a significant portion of vehicle interaction in the mining area. The program was recognised as a finalist in the Safety and Health Innovation Awards 2014 by the Chamber of Minerals and Energy of Western Australia.

CASE STUDIES



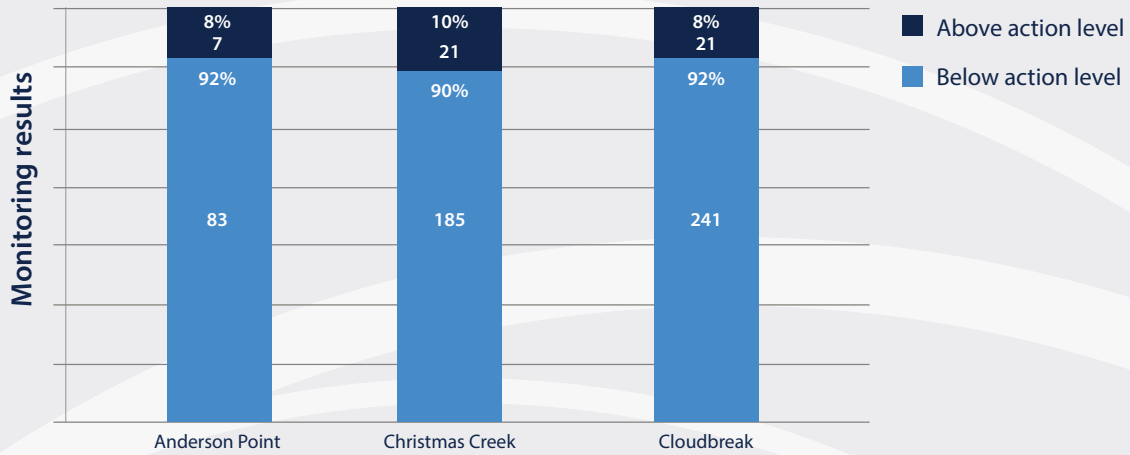
Dust monitoring is providing a safe working environment for our employees

Occupational Hygiene Program

Fortescue has developed an occupational hygiene program to properly manage occupational health risks associated with potential exposure to a variety of health hazards. These hazards include atmospheric contaminants such as dusts, fibres and fumes. The program is designed to effectively anticipate, recognise, evaluate, communicate and control potential health hazards in the workplace in order to prevent occupational illness and disease.

Risk based atmospheric contaminant monitoring was conducted across Fortescue operations throughout FY14. Monitoring results are compared against regulated exposure standards and internal action limits to quantify exposures and assess control effectiveness. Across three operational mine sites, over 90 per cent of all monitoring results received were below action levels showing highly controlled work areas for atmospheric contaminant exposure. Ventilation controls are routinely inspected throughout the year to ensure their effectiveness thus providing a safe working environment for our employees.

Fortescue atmospheric contaminant monitoring results FY14



Our workforce

The size of Fortescue's workforce has grown rapidly over the past few years, with direct employment peaking in 2012. Our workforce at 30 June 2014 comprised 4,553 direct employees, with our contractors employing a further 10,125 people. The changing nature of our workforce reflects the development and completion of important infrastructure projects over this period, such as the Kings Valley project at the Solomon Hub which employed more than 2,000 people during peak construction. This transition and the ramping up of mines and processing facilities have helped us toward our production goal of 155 million tonnes per annum.

We would like to thank everyone who is no longer with the business for playing a very important part in achieving this milestone.

Workforce equality and diversity

Our employee Code of Conduct establishes the essential standards of personal and corporate conduct and behaviour expected of everyone at Fortescue. The Code outlines the ways in which Fortescue conducts its business and reinforces the Fortescue values. Our policies on issues such as equal opportunity and employee discrimination, diversity, bullying, unethical behaviour and human rights all stem from the Code of Conduct. These policies and frameworks work together to provide a fair and equal workplace that is free from discrimination. In 2014, we rolled out training programs on bullying and anti-discriminatory behaviour. As part of our Unethical Control Behaviour Framework, we assessed areas for bribery and corruption risk and every one of our leaders across the business completed ethics training on how to deal with fraud, bribery and corruption.

We are committed to providing a balanced and inclusive working environment. We have a documented Diversity Policy and Plan that is built on our values and aligns with ASX requirements. While we have continued to implement that plan, we are disappointed that the overall proportion of women in our workforce reduced to 17.4 per cent this year from 19.7 per cent in 2013. The proportion of women in the senior executive increased from 3.2 per cent in 2013 to 10 per cent this year.



Fortescue Director Sharon Warburton with Fortescue 10 year Legend Kaz Floyd

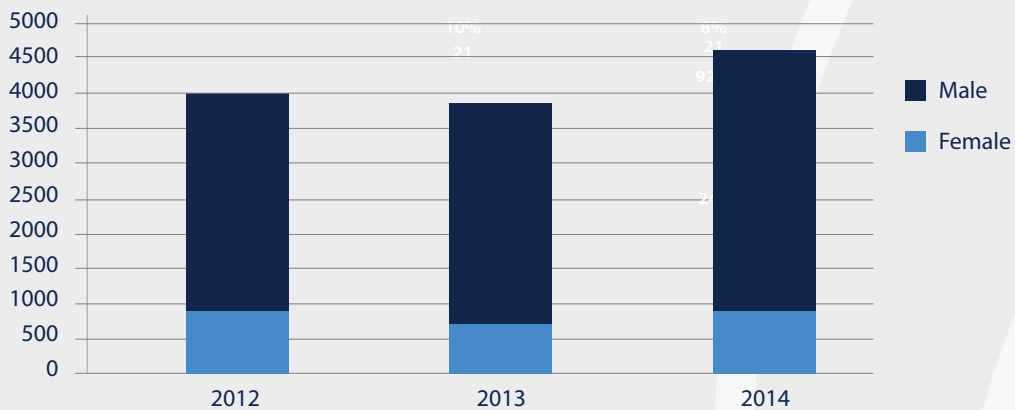
Supporting Women In Fortescue Together

We continued Supporting Women In Fortescue Together (SWIFT) which was initiated last year by a small group of Fortescue women keen to enhance the networking and mentoring opportunities available to women within Fortescue. This year our activities included meetings with Board member Sharon Warburton and our Chaplains Diana Bartlett and Gillian Lewis to discuss work life balance, becoming a new parent and career planning.

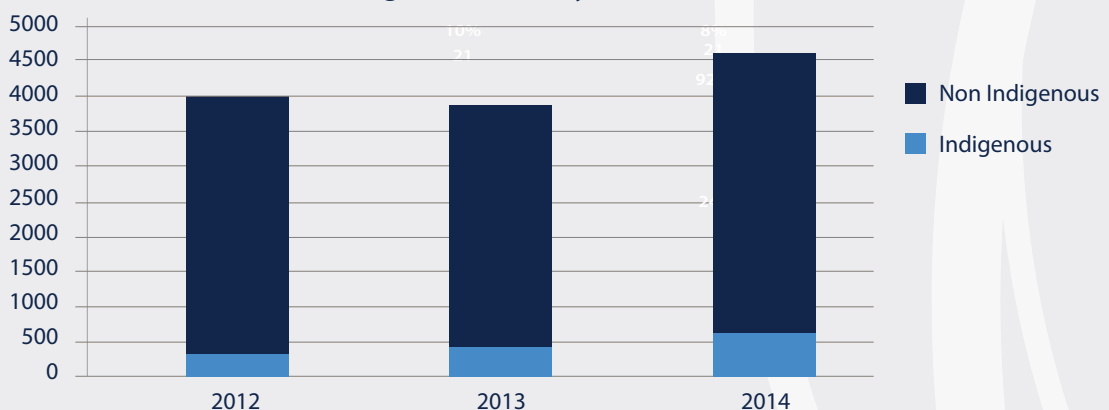
Over the coming year we will pilot a career resiliency program called Go Forward, to assist young women in the company with their career goals, access to networks and mentoring activities. We also have a new target of an equal representation of men and women for our 2015 graduate intake.

CASE STUDY

Workforce profile: Gender



Indigenous diversity



We were also pleased to announce the appointment of another woman to the Board and we welcome Sharon Warburton to the Fortescue family.

We have continued our long term commitment to increasing Aboriginal participation in employment through opportunities within our business. We set ourselves a target of 15 per cent of Aboriginal employees in our business by 2015. Such employment opportunities help us to achieve our aim of being an inclusive and diverse workplace with multiple benefits to the communities in which we operate. This year we achieved another increase in Aboriginal employees to 12 per cent, which places us within range of our target.

Developing our high performance culture

As a business we continue to challenge ourselves and others. Setting stretch targets, generating ideas and empowerment are all core values which need to be supported by a workforce which is motivated, engaged and effective. We remain committed to essential training on safety, environment and cultural awareness. Such training is key to employees and contractors being able to meet work expectations.

During the year more than 14,000 users were added to our employee and contractor online induction system. A total of 70,958 online inductions were completed during the year. We delivered quarterly toolbox presentations to raise awareness of key environmental issues. 113 cultural awareness training sessions were held discussing our approach to cultural heritage and local communities.

Fortescue's apprenticeship program is part of our commitment to developing our leaders of tomorrow. As a company we are committed to not only developing the business as a leader in iron ore mining operations but also providing the opportunity for our employees to become leaders in skills, innovation and development within their chosen careers.

Currently Fortescue employs 58 apprentices across our operations at Christmas Creek, Cloudbreak, Solomon, Port and Rail. These numbers will increase to 82 by March 2015 and after apprentices complete their training during FY15, we will sustain numbers of around 75 by the end of the 2015 calendar year, exceeding our previous expectations.

Along with the apprenticeship program, Fortescue has a well-established national qualifications program in place with current numbers showing 196 employees registered on active traineeships across the business. Qualifications within these traineeships include Diploma of Management, a Certificate IV in Engineering, Business, Process Plant Technology, Instrumentation, Work Health and Safety, Warehousing, Frontline Management and Customer Contact, Certificate III in Surface Extraction, Rail Operations and Business.

With our relentless pursuit of safety excellence and enhancing our duty of care to all employees we continued with our trade audits across the business to ensure we have the right people with the right qualifications for the position they have been employed for.

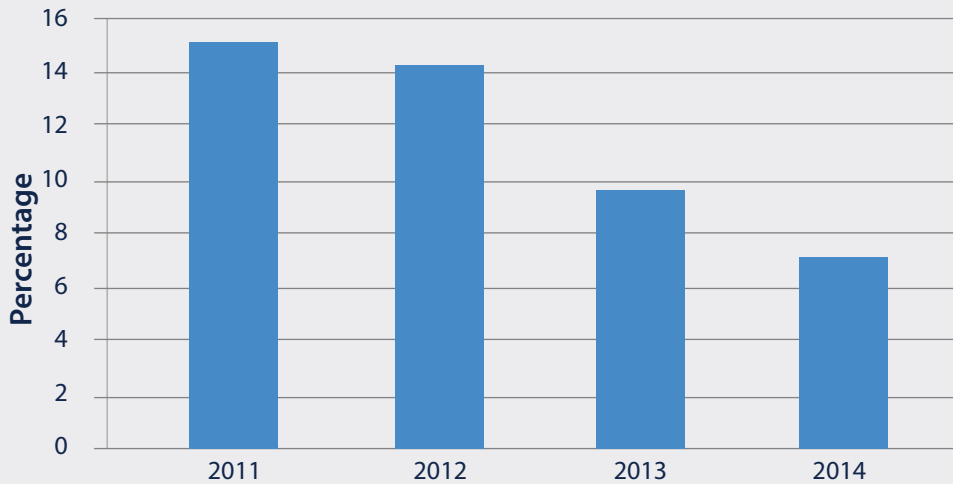
Fortescue continues to offer employees support for further education and training including tertiary study, through our education assistance program.

Fortescue is also committed to enhancing the skills and knowledge of our leaders through our leadership development programs. Our site-based Supervisory Leadership Development program has been operating for 14 months with over 150 participants. In addition, our Non-operational Supervisory Development Program was introduced in May 2014 to develop our Perth-based leaders. In late 2014, this portfolio of programs will be revised to ensure future business requirements are being met. As a result of this review, it is anticipated that a new Senior Leadership Program and Career Resiliency Program will commence.

Case Study: Our family friendly environment

Family is one of our core values at Fortescue. We offer our Fly-In Fly-Out (FIFO) employees a roster of eight days on and six days off which we believe is leading industry practice. Our leave policy allows for the purchase of an additional 10 days of leave and we are also undertaking a trial of job sharing at Cloudbreak to provide further flexibility. We acknowledge that being a parent and a FIFO worker represents many challenges and we encourage our employees to participate in The Fathering Project, a not-for-profit organisation which gives advice to fathers on how to support and encourage their children, particularly while away from home. Our Home Ownership Assistance Scheme and commitment to long-term community development in the regions where we operate also contribute to building the Fortescue family.

Voluntary employee turnover



Measuring employee engagement

Fortescue measures employee engagement in multiple ways. Voluntary employee turnover is one indication and retaining employees in the context of our Fly-In Fly-Out (FIFO) operations is an ongoing demand of doing business. Our aim is to maintain a voluntary turnover rate which compares favourably against the industry average rate of 12.3 per cent. This year our reported voluntary turnover rate was 7 per cent, compared with 9.7 per cent in the previous year. During the year, 299 employees left the business voluntarily while a further 141 left through end of contract, redundancy or dismissal. We are delighted that our voluntary turnover rate continues to decline demonstrating our employees are committed to our future.

The results of the 2014 Fortescue Values Survey were a very pleasing footnote to a year in which Fortescue's senior leadership focused on building and strengthening our culture. The survey, open to the entire workforce during June, showed a pleasing improvement in employee participation and engagement.

Employee engagement, the most significant and comparable metric from the survey, was recorded at 82 per cent demonstrating a strong increase over previous engagement rates of 71 per cent in 2013 and 76 per cent in 2012. This measure comprises responses to questions about the level employees are committed to Fortescue, prepared to promote the business and willing to "go the extra mile". It compares favourably to the industry benchmark of 70 per cent which comprises 40 Australian companies.

Participation rates for the survey were our highest ever at 81 per cent, significantly higher than 52 per cent in 2013 and 68 per cent in 2012.

Further results of the survey found 89 per cent of people who responded confirmed we act in accordance with our own values and 87 per cent are willing to go above and beyond their duties. More than 82 per cent of people who responded said they were proud to work for Fortescue and 79 per cent rated the likelihood that they would recommend Fortescue as an employer at more than 6 out of 10.

Fortescue leadership is committed to the continuing task of building our culture and achieving even better results in next year's survey.

Natural environment

Managed aquifer recharge, engagement with government on environmental management programs, heritage- traditional owner surveys, dust control, environment research and development programs, sponsorship of local fauna rehabilitation.

Built infrastructure

Renewable energy, residential housing in three communities, increased accommodation capacity, the marquee park cafe and Variety WA.

Economic

Employment, local content, local business capacity, building fees, licences and royalties.

People

Apprenticeships, traineeships, local hiring policies, leading safe behaviours, cultural awareness training and FIFO support from Port Hedland, Roebourne, Fitzroy Crossing and Carnarvon.

Host communities and Fortescue

Social

Advancing Indigenous Australians, VTEC business incubation, land compensation, culture/ arts, "I'll Give a Day Mate", Fortescue Foundation, Australian Employment Covenant, enabling Indigenous Lore tradition, Variety WA and Doctor housing.

WE PARTNER TO EMPOWER COMMUNITIES

Empowering communities and respecting cultures

We seek to empower the social, economic and institutional development of the communities in which we operate. We will be the corporate citizen of choice that is welcomed by the communities that host our activities. We will respect the culture and traditions of Indigenous people affected by our activities and strive to positively impact their lives.

What we believe in

Fortescue is committed to providing economic opportunity to transform the Pilbara.

In FY14, we will pay approximately US\$790 million in income tax with an additional US\$717 million in royalties to the Western Australian State Government's Royalties for Regions program which reinvests 25 per cent of those royalties into projects that help build regional communities, including healthcare and education.

Fortescue's commitment to local employment, residential workforces and Aboriginal people builds on this initiative and the Pilbara Cities vision to create economically strong communities.

The social, environment, infrastructure, people and economic programs as outlined in the diagram above all touch our local communities in some way. Over the longer term these programs will generate long term value for us and our local communities.

Aboriginal Engagement

Vision: Changing lives through opportunity.

Fortescue's vision drives our distinctive approach to Aboriginal engagement from our native title agreements and initiatives to our training, employment and business development. By providing opportunity and support to the traditional owners and native title holders of the lands on which we operate, we are seeing lives transformed from intergenerational poverty to full-time work and self-employment.

We have active Land Access Agreements in place with seven Traditional Owner groups in the Pilbara region, specifically the Palyku, Kariyarra, Nyiyaparli, Bunjima, Eastern Guruma, Puuti Kunti Kuruma Pinikura and Njamaal People. These Land Access Agreements, along with our management practices, help us to uphold fundamental human rights and respect for the Aboriginal communities that are impacted by our activities. This approach is aligned with our Human Rights Policy and is consistent with global frameworks including the United Nations Guiding Principles on Business and Human Rights, the United Nations Global Compact and the ICMM Principles.

Heritage

The management of Aboriginal cultural heritage and respect for Aboriginal culture and traditions are fundamental aspects of Fortescue's sustainable operations. Our Native Title agreements set out a best practice heritage management regime, which ensures compliance with the Aboriginal Heritage Act 1972 and the establishment of a rigorous consultation process with traditional owners and Native Title parties. During the year we had no incidents impacting Aboriginal heritage sites, which is evidence of the effectiveness of our management procedures and systems.

Fortescue has developed comprehensive Heritage Management Plans for each of our projects. We work closely with our Native Title partners in the conduct of heritage surveys and consult extensively over all approvals required under the Aboriginal Heritage Act 1972. We have developed excellent internal processes which ensure heritage is considered at all levels of project planning and development. We have a record of re-engineering and redesigning projects and infrastructure to avoid important Aboriginal heritage sites, including engraving sites in the vicinity of Fortescue's railway lines. Fortescue views the

protection of important Aboriginal heritage as the priority for our Heritage department and it directly employs key members from our Native Title partner communities to support us in this endeavour.

This year our Heritage team worked in partnership with traditional owners and heritage consultants to introduce Fortescue's new Heritage Consultant Standards (The Standards). The Standards will apply to all heritage consultants working on Fortescue projects, including consultants engaged through native title groups or their heritage service providers. The Standards aim to ensure that recording and reporting by heritage consultants meet the professional quality required by Fortescue and in alignment with the changes to the administration of the Aboriginal Heritage Act 1972 and proposed amendments to the Act itself. This will enable the continuation of Fortescue's high quality cultural heritage protection program, and allow us to provide the best outcomes for identifying and protecting Aboriginal sites.

We understand the importance of educating our workforce about the significance of Aboriginal heritage and culture. In consultation with our Native Title partners, Fortescue delivers a comprehensive program of cross cultural education. Everyone who starts work on a Fortescue site – both employees and contractors – is aware of Fortescue's commitments to the protection of Aboriginal heritage and the importance of Fortescue's relationships with its Native Title partners. During the year our general induction was redrafted to include a component on Fortescue's approach to Aboriginal engagement. The cross cultural education session was also delivered to over 2,800 people.

Aboriginal Employment

From the early days of Fortescue, we committed to deliver substantial outcomes in Aboriginal employment across our operations. Our first Community Development plan committed Fortescue to a long term target of 20 per cent Aboriginal employment, and we aim to reach this ambitious goal by 2020. Our Native Title agreements also committed Fortescue to the establishment and operation of the Vocational Training and Employment Centres (VTEC). At the end of FY14, our Aboriginal employment rate stood at 12.2 per cent or 553 people. VTEC was established by Fortescue in Port Hedland in 2006, and since that time it has trained and employed over 800 Aboriginal people,



VTEC Graduate Vivian Trigwell with Fortescue CEO Nev Power at the VTEC graduation in 2012

CASE STUDY

including 122 in FY14. The pre-employment program at VTEC provides job specific training and structured support to ensure the trainees develop a basic skill level while addressing their personal barriers to employment. The barriers to employment depend on the particular individual, but are broadly represented by the lack of a driver's licence, health problems, literacy and numeracy and personal issues. VTEC has developed specialist programs in each of these areas. Upon successful completion of the VTEC pre-employment training the graduate is guaranteed a job. VTEC's focus is on local Aboriginal people, particularly members of our native title groups. Over 300 of our Aboriginal employees are based in the Pilbara and annual wages paid to Fortescue's Aboriginal employees are \$66 million which represents around 10 per cent of our total payroll.

Our VTECs are located in Port Hedland and Roebourne and have been established through a successful partnership with the Pilbara Institute. We extended the VTEC program to Fitzroy Crossing in the Kimberley through a partnership with the Fitzroy Valley Men's Shed and key contractor Downer EDI. There are 20 Aboriginal people from Fitzroy Crossing flying to work with Downer EDI at Fortescue's Christmas Creek mine site in the Pilbara. To enable local Pilbara Aboriginal people to work at remote mine sites, we operate a regional fly-in fly-out service

Turning lives around VTEC and the FIVE STAR Program

Vivian Trigwell, a Yinjibarndi woman from Roebourne, launched her mining career through the Fortescue VTEC program in June 2012. Prior to working with Fortescue, Vivian had worked as a housekeeper and factory worker. Upon successful completion of the VTEC program, Vivian secured a permanent position at our Christmas Creek mine as a Civil and Infrastructure Crew Operator and has since been in this role for two years. The Fortescue FIVE STAR secondary scholarship scheme offers secondary scholarships to both Fortescue's Native Title Partners and children of Fortescue employees, of which Vivian is both. In 2013 Vivian applied for a scholarship for her daughter Nikki and was awarded a placement for Nikki to board at Perth College commencing in 2014.

The FIVE STAR program's secondary scholarship scheme has given Vivian the opportunity for her daughter to receive a world class education and attend one of the most prestigious schools in Perth. The scholarship will support Nikki for the duration of her secondary education and, dependant on Nikki's career aspirations, continue to support her post-secondary education through another FIVE STAR scheme such as a tertiary scholarship, cadetship, vocational scholarship or work-based traineeship.

In collaboration with Nikki, Vivian and Perth College, Fortescue is creating a long-term education, training and employment pathway for Nikki.

12% of our overall workforce is Aboriginal



from Port Hedland and Roebourne. We also operate a service between Fitzroy Crossing and Christmas Creek. We are committed to providing housing for our local Pilbara employees, and in particular we provide housing assistance to 250 Aboriginal employees. This housing assistance includes a home ownership scheme. We recently purchased 15 blocks of land in Roebourne and will soon begin construction on houses, which will be available for purchase for Fortescue's local Aboriginal employees.

Our operational sites have dedicated teams who work towards the successful transition of Aboriginal employees into the workforce and to promote sustainable long term employment. Fortescue is currently working on a new program for VTEC graduates which will be rolled out to our Solomon and Christmas Creek mine sites during 2015. The VTEC graduate program will include on the job structured training with continued focus on personal development while addressing employment barriers identified during the pre-employment training. Fortescue's rate of retention for our Aboriginal employees was 85 per cent during FY14, and we aim to improve that to 90 per cent over the next two years.

Our FIVE STAR program aims to provide long term professional career pathways for Aboriginal people at Fortescue. The program provides traineeships, secondary, tertiary and vocational scholarships, cadetships and leadership development. So far, 40 Aboriginal people have had the opportunity to participate in the FIVE STAR program since its creation two years ago.

Our contractors employ a further 580 Aboriginal people which represents 11 per cent of the contractor workforce on our sites. We ensure our contractors have ambitious Aboriginal employment targets embedded in their contracts. For example, key embedded operational contractors have a target of 20 per cent Aboriginal employment.

Our VTEC program inspired the model promoted by GenerationOne and now endorsed by the Federal Government. The Federal Government has committed \$45 million to fund the establishment of VTECs across the country. At Fortescue we are extremely proud of our role in the development of this nation leading approach to Aboriginal employment and training, and importantly that over 1,100 Aboriginal people are employed on Fortescue's sites.

Aboriginal Business Development

We are a national leader in the delivery of opportunities for Aboriginal businesses. Our commitment to Aboriginal business development forms a key part of the benefits delivered under our native title agreements.

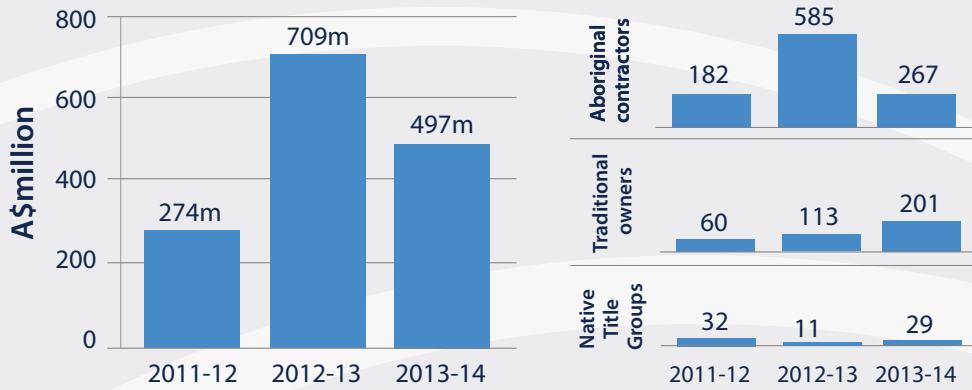
In 2011, we set a target to award \$1 billion in contracts to Aboriginal businesses by the end of 2013 through the Billion Opportunities program. The contracts were not to be just 'handed out', but were instead the responsible professional engagement of sustainable Aboriginal businesses, capable of delivering projects in a safe, timely and cost competitive manner.

In order to achieve this target, we set about transforming the approach taken to engaging Aboriginal businesses, and implemented an innovative strategy across our business to facilitate positive changes in our procurement processes. The strategy required commitment at the highest level with Chairman Andrew Forrest and CEO Nev Power championing the initiative. Fortescue's dedicated Aboriginal Business Development team worked closely with the Procurement team to deliver the strategy, which included quarantining and carving out contracts, negotiating contracts directly with Aboriginal businesses, altering tendering processes, setting and monitoring targets, the compulsory development of an Aboriginal engagement strategy by contractors and regular reporting.

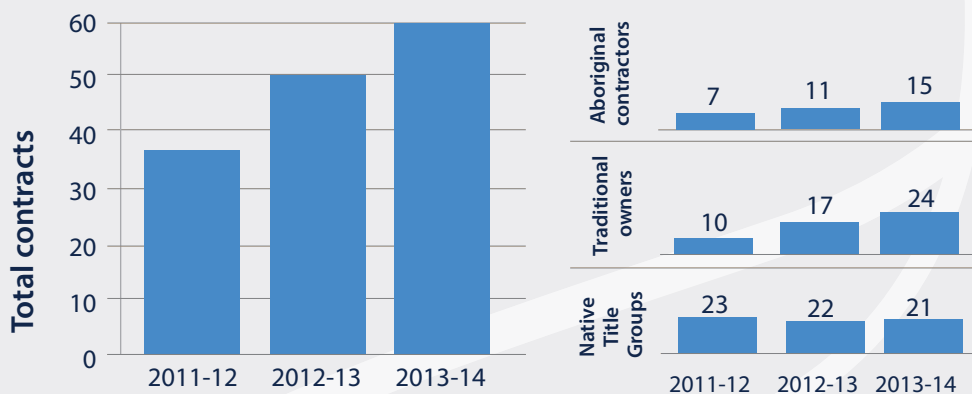
The \$1 billion target was achieved in June 2013, 18 months into the program and six months ahead of schedule. One year on, the total value of the more than 160 contracts and sub-contracts awarded to more than 60 Aboriginal businesses is greater than \$1.6 billion. That value represents approximately 10 per cent of Fortescue's total procurement since the program was launched. Importantly, for local Aboriginal people 88 per cent of these contracts were awarded to businesses associated with our Native Title partners.

We continue to build on the success of the innovative Billion Opportunities program and have proven that with the proper motivation, application and sincerity, sustainable economic engagement with Aboriginal communities is achievable.

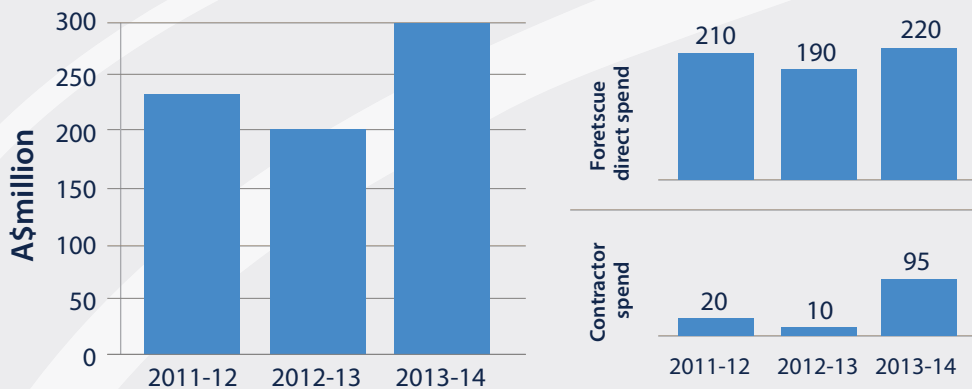
Billion Opportunities - contract value



Billion Opportunities - contracts awarded



Aboriginal business spend



CORPORATE SOCIAL RESPONSIBILITY



Fortescue's Stephen Smith with local South Hedland Brumby's owner Elise Denham and Morris Corporation Assistant Manager Adrian Awcock celebrate a new supply deal in January 2014

Largest parcel of contracts to Traditional Owners

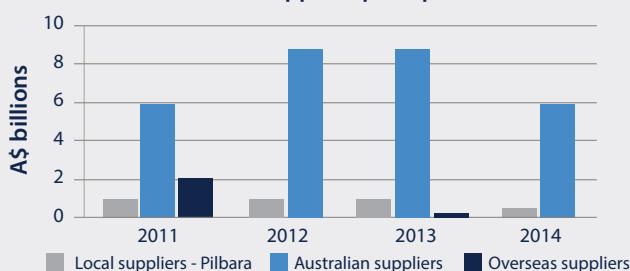
This year Fortescue awarded over \$500 million of contracts to six Aboriginal joint ventures and Morris Corporation Pty Ltd representing the largest ever package of contracts awarded to Aboriginal businesses. The contracts cover a range of services including the preparation of more than 60,000 meals a month and 60,000 room change outs. The contracts include a target of 20 per cent Aboriginal employment and a requirement to work with other Aboriginal businesses. Raylene Button, who is a member of the Kariyarra Native Title Group, commented, "I hope we lead the rest of Australia...and that more Aboriginal businesses get the opportunities we're getting". As a part of this change to our facility at Hamilton in Port Hedland, Morris Corporation began sourcing over 100 loaves of bread daily from the local Brumby's franchise. Residents now receive fresh bread for their 4.30am start as opposed to bread being trucked in weekly from Perth.

CASE STUDY

Local procurement

Fortescue purchases large volumes of goods and services to support the operation of our mines, offices and support services. We contribute to our communities through local procurement which preferences suppliers who can demonstrate either local content or Aboriginal engagement. For local content, the order of preference is the Pilbara, Western Australian and then Australian-based suppliers and we have developed local content targets for each of our operations. This commitment aims to proactively build business opportunities and broader economic development within the Pilbara communities, providing mutual support to our other training, education and employment programs.

Fortescue supplier spend profile



This is the third year that we have measured and analysed our procurement spend. The largest proportion of our procurement spend was with Australian suppliers and we maintained our proportion of spend with local Pilbara businesses.

We have also continued the work started last year in extending our Human Rights Policy which is aligned with the United Nations Guiding Principles on Business and Human Rights, the United Nations Global Compact and the ICMM Principles. The policy commits us to actively ensure that we are not complicit in human rights abuses committed by others. We have an active program with our suppliers communicating what we mean by this commitment, their compliance requirements and what constitutes best practice.

We are also sharing this experience, knowledge and capacity by engaging with Chief Procurement Officers in other businesses through the Walk Free Foundation, which aims to end modern slavery.

www.walkfreefoundation.org



L-R: Guma ICRG JV Director Clinton Wolf, Guma ICRG JV Chairperson Marcia Langton and Guma ICRG JV Director Victor Parker

Fortescue and Guma win Supplier Diversity partnership of the year at the Supply Nation awards.

Fortescue and GUMA ICRG JV Pty Ltd (Guma) were proud to accept Supply Nation's Supplier Diversity Partnership of the Year award at the Connect 2014 Gala Dinner event held at Sydney's Town Hall on 27 May 2014.

Guma was formed in 2012 as a ground-breaking 50/50 joint venture between the Niyaparli Traditional Owners of the Pilbara region of Western Australia and Indigenous Construction Resource Group (ICRG). Guma is a Supply Nation Certified Supplier and provides civil maintenance and construction services to the mining sector. The company is chaired by prominent Indigenous leader and academic Marcia Langton and led by Niyaparli Traditional Owners and Directors Raymond Drage, Michael Stream and Victor Parker.

A Supply Nation member since 2011, Fortescue first awarded a small sub-contract to Guma in 2013 through its Billion Opportunities program, which has awarded \$1.6 billion worth of contracts and sub-contracts to Aboriginal businesses.

The initial opportunity, a road maintenance sub-contract at the Cloudbreak mine, allowed Guma to demonstrate its capability to consistently deliver a safe, quality service at a competitive price. Since then, Guma has been awarded a further four contracts/sub-contracts on Fortescue projects, totalling more than \$60 million.

The partnership has facilitated the expansion and development of Guma, directly providing new business opportunities and building its capability, as well as supporting meaningful employment and workforce training for Aboriginal people on Fortescue projects. Guma employs 31 Aboriginal people which represents 61 per cent of their total workforce. These opportunities have had a positive flow on impact into the local Aboriginal communities as well as other Aboriginal communities located throughout Western Australia.

CASE STUDY

Working with neighbours

We have 19 Access Agreements in place with pastoralists relating to the granting of tenure and mining and infrastructure operations. These agreements have been struck following extensive consultation and include compensation payments, the installation and supply of pastoral infrastructure such as stock water points, fencing and stockyards to offset the impact of our activities on pastoral lands. We have a mutually beneficial relationship with all of the pastoralists on whose leases we operate and also offer pastoral leaseholders the opportunity to provide earthworks contracting services to Fortescue where appropriate, which provide them with an alternative source of income.

Fortescue also provides assistance to pastoralists during mustering activities so they may be conducted safely within or close to operational areas, and on occasion provides labour to assist them for musters.

Developing our communities

As we continue to expand our presence in the Pilbara, it is more important than ever that we continue to work closely with the community and key stakeholders to ensure that our plans for growth are closely aligned with the needs of the community.

Our Chairman Andrew Forrest has made a personal commitment to a number of community partnerships through the Minderoo Foundation. Fortescue also supports these partnerships through our participation in programs, fundraising and in-kind support. The goals of programs such as GenerationOne and the Australian Children's Trust are strongly aligned with our own goals to end the disparity between Indigenous and non-Indigenous Australians. More information can be found on these programs and their missions at www.generationone.org.au.

We have also continued our commitment to raise funds for the construction of Ronald McDonald House in Perth, which will provide much needed support to our regional employees and communities if their children require medical treatment in the future. More information can be found at www.rmhc.org.au/building-new-house.

Under our Helping Others program we provide a community support program which gives grants of up to \$5,000. We believe that our community investments are more meaningful when we develop projects with community partners whose values and program objectives are similar to ours. The grants support community projects within the council boundaries of the Town of Port Hedland, the Shire of East Pilbara and the Tom Price area. During the year we provided a total of \$179,000 in community grants to organisations located in the areas surrounding these towns. Projects ranged from education and training, healthy living and community safety to environmental responsibility and quality of life. This year recipients included the Port Hedland Junior Cricket Association and the National Aboriginal Torres Strait Islander Basketball Association as well as the Aboriginal Family Law Service and the Port Hedland Music Festival. Eligibility is based on set criteria, which is outlined by our Community Support policies available on our website www.fmgl.com.au.

Separate to the Helping Others program, over \$1 million in financial and in-kind support was provided to other, larger scale community development and support programs such as the South Hedland Wanangkura Stadium, local sporting events, housing for doctors and medical facility funding.

We are committed to developing permanent, residential workforces in Port Hedland, Karratha and Roebourne through our major projects, training and employment opportunities. There are 500 Fortescue families living in the three towns and 190 of them are FIFO workers. This reflects our earlier strategy to transition from an interim FIFO workforce based in Perth to a permanent, regional workforce based in the Pilbara.

Our Home Ownership Assistance Scheme has helped to increase the availability of affordable, local housing in the region. We own at least 70 homes which are rented by employees and our unique Home Ownership Assistance Scheme has helped families to establish long term relationships in the communities of the Pilbara. Approximately 60 families participate in the scheme which provides assistance for deposits, stamp duties, interest and utility bills. The scheme is available to Fortescue employees and applies to homes built by Fortescue as well as homes purchased on the open market. Home ownership engenders a greater sense of community belonging and is associated with increased participation in other community endeavours such as sporting clubs, education, organised events and charities. The future of our company is directly linked to the viability of such communities.

Case Study: Fortescue provides books for students in remote areas of the Nullagine and Marble Bar communities.

Fortescue has teamed up with the Books in Homes organisation to provide nine books per year to each of the participating students. In early December, Shannan Beal and Rachel Nash from the Fortescue Communications team travelled to Nullagine Primary and Marble Bar Primary to attend and present at their annual Book Giving assembly.

The program links early learning back into each child's home and helps to ensure learning is seen as an extended opportunity for both children and their parents. The program also aims to break the education inequality found in remote and Indigenous communities where resources are limited. Around 25 per cent of all books donated to the children are written by Aboriginal authors, making sure Indigenous culture and history is preserved. Books in Homes has now distributed in excess of 1.4 million books of choice to more than 400 schools across the nation since 2001.



Deadly Beats giving young people a boost

The Youth Involvement Council introduced the Deadly Beats program to Hedland in FY14. The program was aimed at boys aged 11 to 16 and ran for six weeks in November and December 2013. Deadly Beats teaches its students how to write, record and produce music together. It also helps boys feel a sense of accomplishment in completing the program from beginning to end and gives them an added boost of pride and self-confidence.

Fortescue made a generous grant to assist with operational costs of the program and received the Deadly Beats CD which featured the boys' hard work. Stacey, one of the organisers of the program said, "It's so rewarding seeing the boys grow within themselves and experience a newly found confidence within." To find out more about the Youth Involvement Council visit www.yic.com.au

CASE STUDY

Reducing our environmental impact

We are committed to managing our environmental impacts and meeting our licence requirements. We take a precautionary approach to our environmental challenges and will invest in initiatives and technologies that not only make good business sense but also reduce our environmental impact.

Fortescue respects the need to protect the environment in which we operate. As we continue to mature and grow our business, we strive to achieve effective and sustainable environmental outcomes in project development, operation and closure. As responsible corporate citizens, compliance with all relevant environmental laws and obligations is the minimum standard to which we operate and the minimum requirement against which we measure our environmental performance.

Environmental management systems

Our Environment Policy outlines our mission to maintain sound environmental management procedures to minimise our impact. The overall objectives of this policy

are achieved with the implementation of our management system and subject matter specific management plans. Our environmental commitments also align with those required by the ICMM and UNGC principles.

We have continued to progressively align all of our operations with the ISO 14001 standard for environmental management systems, which is built on the principles of assessment, control, monitoring and review. This applies to the whole project life cycle and promotes continuous improvement in the way we manage the environment. We have undertaken an internal audit to assess gaps at both site and corporate level and will progress to third party audits of this system in 2015 to identify improvement opportunities.

Environmental approvals and compliance

Fortescue's operations are governed by the conditions set out in the approvals and licences issued by Commonwealth and state government bodies. These conditions require us to meet standards of effective environmental management, planning and performance. Management Plans that assist us to meet these conditions are available on request.

Audits conducted this year against our Ministerial Statements and Western Australia Environmental Protection Authority requirements did not find any material non-compliances.

Greenhouse and Energy

Fortescue reports energy and greenhouse performance annually under the Australian Federal Government's National Greenhouse and Energy Reporting (NGER) Act 2007 and the Energy Efficiency Opportunities (EEO) Act 2006 which is designed to identify energy savings and efficiency measures. Each year our total emissions, energy use and energy production are independently audited, to a limited scope, to ensure we report accurately and reliably. We also participate in the Carbon Disclosure Project and our report can be found at www.cdp.net

Fortescue's greenhouse and energy performance is reported to the Federal Government on a financial year basis. Fortescue's total scope one and two greenhouse gas emissions for the 2013-2014 reporting period were 1,853,478 tonnes of CO₂e which was a net increase of 29 per cent over the previous 12 months. Our scope two emissions show a material increase through the expansion of our Port facility and sale of our Solomon power station to a third party.

Overall, our emissions increased as we ramped up production, however, the greenhouse gas and energy intensities associated with our operations have decreased by 1.8 per cent and an impressive 10.5 per cent respectively during the year. Monitoring intensity allows a more practical indication of total work completed as it takes into account the effects of our full chain of operations on energy consumption. Our performance over time is presented on the following page. As we move from project development and construction to processing, we expect to see our intensities continue to decrease as our mining operations mature and take advantage of more efficient energy options. This year, our Kings Valley project has lifted total production capacity to our goal of

155 million tonnes per annum and we hope to realise a consistent downward trend in greenhouse gas and energy intensity as our operational efficiency becomes steady. However, at this production capacity our forecast energy costs are more than US\$800 million per annum and energy efficiency is a significant area of focus.

Diesel fuel continues to be our largest source of fuel and is used in mining equipment, processing plants, heavy trucks and generators. It is also used in our heavy-haul locomotives to transport iron ore hundreds of kilometres from the Chichester and Solomon hubs to the port for export.

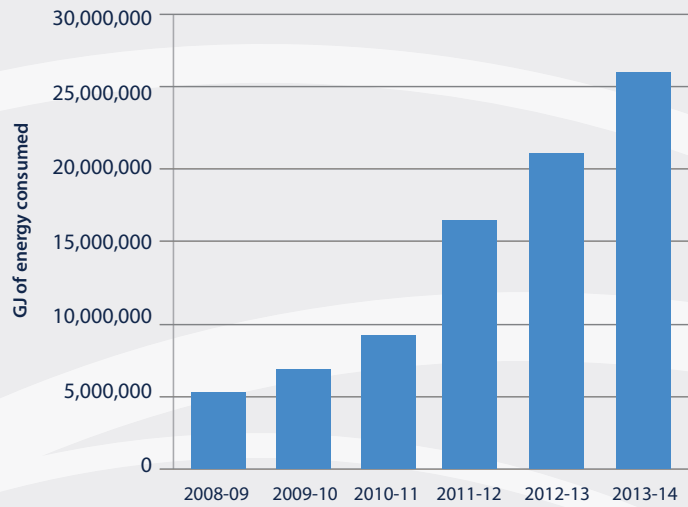
This year we have commenced a strategy to replace diesel with gas through the Dampier to Bunbury Natural Gas Pipeline and the new Fortescue River Gas Pipeline to the power station at our Solomon Hub. This will save us US\$20 million per annum and is a key part of our approach to reduce energy costs and greenhouse gas emissions and secure a lower cost energy supply to the region. Although this will not be completed until 2015, we will utilise a "virtual pipeline" by trucking compressed natural gas from Port Hedland which replaces 300,000 litres of diesel each day and saves 88,000 tonnes of greenhouse gas emissions per annum from October 2014.

Case Study: Developing our renewable energy capacity

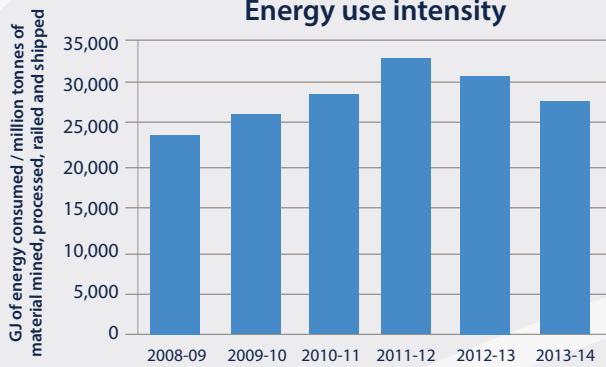
Over the last 18 months Fortescue has been developing a number of projects to familiarise the company with the use of renewable energy. We continue to search for, and assess, renewable energy opportunities and will develop these opportunities where they meet the specifications for power supply to the operations. At some sites this is in conjunction with, or in place of, existing diesel and gas fired power generation. Our rail communications system, for example, runs entirely on solar energy with 350 kilowatt of photovoltaic capacity across 450 kilometres and 130 sites, which includes batteries as back up for cloudy conditions.

This year, we have also developed various studies investigating wind monitoring at our Solomon site and waste heat to solar thermal at Christmas Creek. Our Solar Diesel Integration Strategy aims to assign solar power to mine loads and demonstrate high instantaneous solar penetration, diesel redundancy and fuel offset in supplying power to these operationally critical loads.

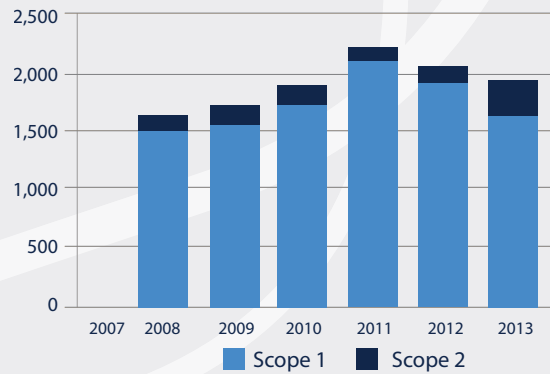
Energy use



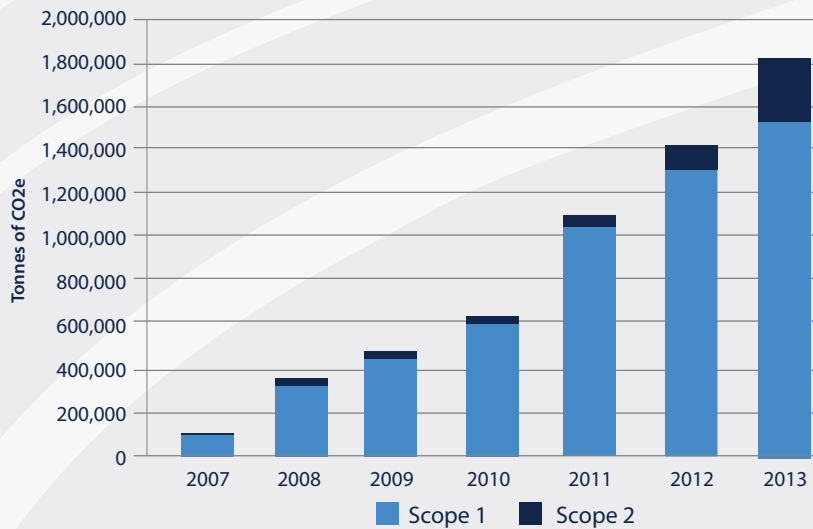
Energy use intensity



GHG emissions intensity



Total GHG emissions





Phase One of the rehabilitation works at the Chichester Hub, 2014, being undertaken by NEMMS WPH JV

Chichester Hub Rehabilitation

In 2014 Fortescue completed the rehabilitation of two waste rock dumps at our Cloudbreak and Christmas Creek sites (the Chichester Hub). The work was undertaken by NEMMS WPH JV, a joint venture between Western Plant Hire Pty Ltd and Nyiyaparli Engineering and Mine Maintenance Services. NEMMS was formed by senior Nyiyaparli Traditional Owners and is 100 per cent Indigenous-owned.

The objective of the rehabilitation work was to form stable structures that will support vegetation communities. Both sites were the subject of slope profiling, drainage infrastructure works and topsoil replacement from nearby clearing activities. Fortescue proposes to continue this approach with another three waste rock dumps at the Chichester Hub next year.

CASE STUDY

Water management

Water is a significant environmental issue and its careful management is vital to Fortescue's operations. Water scarcity, water quality, water quantity and water excess are risks to different aspects of our business. We rely on groundwater to supply our water needs with the majority of consumption used for ore processing and dust suppression. We also supply our own camps with drinking water.

Fortescue operates its own wastewater treatment plants which enables wastewater to be used in irrigation in dedicated areas or low quality on-site purposes such as dust suppression. Wastewater quality is monitored to ensure that treatment facilities are operating to standard and that water discharge will not adversely impact the environment.

We develop Groundwater Management Plans for each site as a part of regulatory approval. These plans consider water quality and quantity and help to mitigate and manage risks. We also participate in the Water Disclosure Project that helps institutional investors better understand the business risks and opportunities associated with water scarcity and other water-related issues.

We continue to use our award winning "Managed Aquifer Recharge" scheme which injects extracted groundwater back into the original aquifer once it has been used. This allows for minimal wastage of water that may otherwise be lost to evaporation or runoff. Significant monitoring is in place to ensure that the groundwater returned to the aquifer is of sufficient quality. Injection of the excess water minimises the potential impacts to neighbouring groundwater dependent ecosystems and the Fortescue Marsh. The scheme will become increasingly important due to our reliance on groundwater and the shift in our focus from project development and construction to the dewatering associated with operations and processing.

This scheme has been in place at Cloudbreak for a number of years and in 2012 the program was extended to Christmas Creek. Plans are progressing to install the infrastructure at the Solomon Hub. So far, we have been able to inject almost half of all groundwater abstracted back into the aquifers at Cloudbreak and Christmas Creek. Injection is undertaken on a continual basis to minimise the net change in the groundwater table.

Our data on water use and wastewater is presented for 1 August 2013 to 31 July 2014.

2014 Water Use

Site	Type	Volume (kL)	Use
Herb Elliott Port	Scheme Water	Not tracked	Potable supply
	Groundwater Abstraction	600,000	Process and dust suppression
Railway	Groundwater Abstraction	207,000	Fill compaction, dust suppression for rail operations and potable water supply to rail camps.
Mining Operations	Groundwater Abstraction	138,613,000	Dewatering to allow for mining below the water table, potable water supply and non-dewatering abstraction for mine use. Processing and refining ore. Dust suppression on roads.

Returns to the Environment

	Groundwater Reinjection	101,776,000	Water is injected into aquifers to minimise environmental impacts and maintain the water balance.
	Surface water discharge	-	No excess groundwater was discharged to surface during 2013/2014.
	Surface Supplementation (Solomon)	232,000	Kangeenarina Creek Supplementation Program.

2014 Wastewater data

Wastewater discharge (kL)

Site	2013	2014
Cloudbreak	133,393	123,234
Christmas Creek	302,860	242,158
Solomon	72,726	135,566

Biodiversity and land rehabilitation

Fortescue is committed to conserving the biodiversity of plant and animal life in the regions in which we operate. Prior to construction and development of any major mine site or individual operation, specialist consultants are engaged to undertake flora and fauna surveys and catalogue the species present in the region. During operation, risks to local flora and fauna are managed by the implementation of management plans and monitoring programs to assess long term biodiversity in the region. We prioritise 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 the Fortescue operational areas.

Fortescue is currently preparing an Offsets Plan in consultation with key stakeholders including the Department of the Environment, Department of Parks and Wildlife, pastoralists, Rangelands NRM and Greening Australia. The Plan is required under four of our existing approvals and will outline landscape scale activities to address threats to the following threatened fauna species: Greater Bilby, Northern Quoll, Pilbara Leaf-nosed Bat and Night Parrot.

The activities will be designed to ensure the better protection and long-term conservation of the threatened species and will be undertaken within an area of 1.1 million hectares in the Hamersley-Fortescue bioregion. The activities will address the threats of fire management, feral herbivores, feral predators and weeds. The plan will be implemented in consultation with stakeholders and other resources proponents to promote consistency in approaches to offsetting.

We are continuing to support important work on the Fortescue Marsh, a nationally recognised wetland which is the largest ephemeral wetland in the Pilbara. The area is of high conservation value and is part of an ancient and complex array of alluvial aquifers and groundwater systems. Our own environmental assessment studies have contributed to a greater understanding of the hydrology of the marsh. We continue to collaborate with State agencies and academic institutions on research projects, including surveying and mapping, to examine how the different vegetation communities relate to one another as a system. This will help us to better understand the relationship between the marsh and our own activities.

Fortescue adopts an integrated approach to land management to ensure that our rehabilitation practices are reflected throughout each stage of our mining life cycle. Activities that impact on our land include exploration drilling, excavation of operational mining pits and land clearance for infrastructure and transport development. Rehabilitation is typically undertaken using topsoil and waste rock stockpiles removed at the time of initial land disturbance. Fortescue opted in to the WA Government's Mine Rehabilitation Fund for our Solomon and Northstar sites. This is a pooled fund which requires the reporting of disturbance data, based on type and area and an annual contribution to the fund calculated as 1 per cent of total closure liability for rehabilitation. Our Cloudbreak and Christmas Creek sites are under separate, individual State Agreements that detail closure requirements.

This year we introduced the use of the RemScan unit. This is a handheld instrument for the rapid measurement of total petroleum hydrocarbons (TPH) in soil which can result from spilling or leaking of fuel. Fortescue is leading the mining industry in the implementation of this practice, and in conjunction with the construction of leading edge bio remediation practices, is succeeding in the effective and efficient management of contaminated soils. Fortescue also commissioned the use of specialised equipment that mulch non-treated timber pallets to a particle size suitable for potential use in our land rehabilitation work.

Our data on land disturbance and rehabilitation is presented for 1 January 2013 to 30 December 2013.

Land disturbance and rehabilitation in 2013

Site	Total area disturbed (ha)	2013 Rehabilitation (ha)	Total rehabilitation to date (ha)
Herb Elliott Port	365	-	-
Railway Corridor	3,613	-	889
Mining Operations	17,186	75	75



Group Manager Procurement and Supply Chain at Fortescue, Kevin McCafferty (centre) with Errol Beere (left) and Lincoln Morton (right) of Toxfree Solutions Ltd. Toxfree provide waste management services to Fortescue as PT Environmental Services Pty Ltd and is an Indigenous JV between Toxfree and PLWA

CASE STUDY

Waste and recycling

Fortescue generates a significant quantity of waste during exploration, construction, operation and closure activities. The waste streams produced are both hazardous and non-hazardous. No hazardous wastes classified under the Basel Convention were generated or disposed by Fortescue during the year. We have several plans which outline appropriate management actions for the safe handling, use, transport, storage and disposal of all waste we generate. Wherever possible we segregate recyclable materials and engage specialist contractors for collection and reprocessing.

This year, our waste to landfill reduced considerably to 33,082m³ or by 23 per cent. This can be attributed to waste reduction initiatives implemented at our Cloudbreak and Christmas Creek sites.

We are currently investigating other initiatives to reduce our waste including a bio digester unit that combines biological waste, green waste and wood chips to deliver a compost product suitable for our rehabilitation and general landscaping works. This process will decrease the amount of putrescible waste being sent to landfill. Fortescue has also assisted the WA Waste Authority (WAWA) by supplying data and information on problematic waste streams in the Pilbara and we will continue to work proactively with WAWA to find solutions to these issues.

Transforming waste management across the Chichester sites

Fortescue operates landfill facilities at Cloudbreak and Christmas Creek (collectively known as the Chichester Hub) under the management of our infrastructure services team and in partnership with a joint venture (JV) established between Pilbara Logistics WA and Toxfree. The JV currently operates with a 37 per cent Indigenous workforce and is working towards the objectives of environmental compliance, continuous improvement in recycling and reduction of waste to landfill.

To date the project has been very successful and currently demonstrates a recycling rate of 75 per cent of the waste generated. Efficiencies have been gained by separating the waste at the source and overall improvements in landfill management. A strong focus on education and waste management at site level has improved employee awareness of the strategies and has assisted waste stream management.

The table below shows the increase in volume of materials recycled across the Chichester sites and the resultant landfill space saved. Recycling at Christmas Creek has significantly improved with an increase from 37 per cent of total waste recycled in FY13 to 73 per cent of total waste recycled in FY14. This amounts to an increase of 187 per cent in materials recycled and 4,836 m³ of space saved in the Christmas Creek landfill. The data presented here is for the 2014 financial year.

Volume of materials recycled across the Chichester sites (m³)

Type	2012/2013	2013/2014
Aluminium	0.2	4.9
Paper and Cardboard	567.6	661.6
HDPE	377.9	253.5
PET	19.4	82.8
Steel	2512.7	8973.4
Landfill Space Saved	3477.8	9976.2



Leeuwin Ocean Adventure Foundation Scholarship Recipients



Centralian Secondary College CREATivE CHANGE Winners



Nambour State School promoting GenerationOne

Leading Social Change

Fortescue’s founder and Chairman Andrew Forrest, together with his wife Nicola and their family, is dedicated to helping others. The Forrest’s private company, Munderoo Group, is Fortescue’s largest shareholder and is focused on both commercial activities, including significant investments in property development in the Pilbara, cattle stations and a beef processing business and also houses one of Australia’s most significant philanthropic vehicles in the Munderoo Foundation.

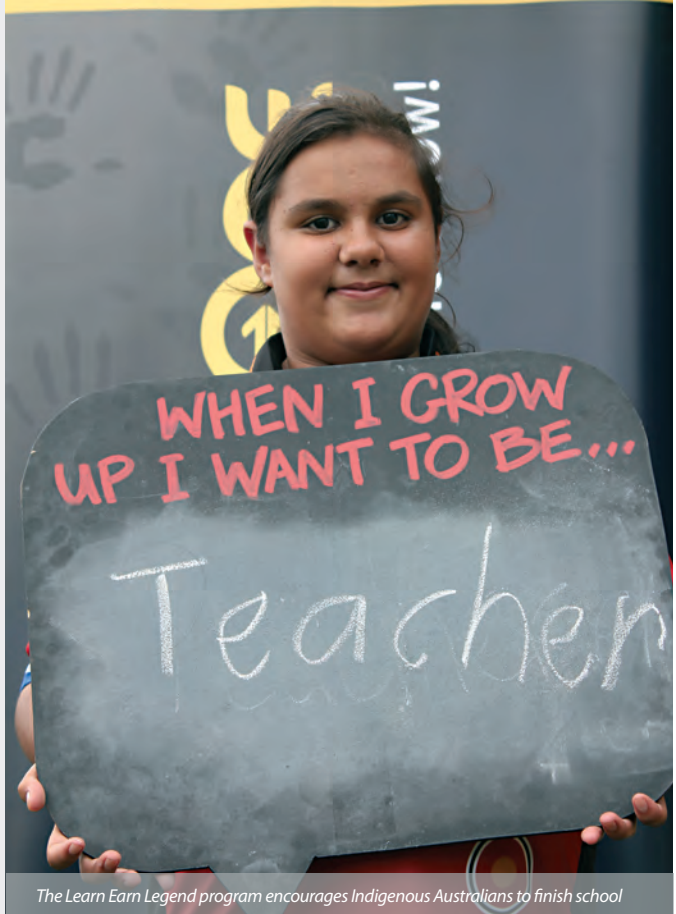
Dividends from Munderoo Group’s investment in Fortescue are being used by Munderoo Foundation to end modern slavery, fight Aboriginal disadvantage and support numerous good causes in the Australian community.

Walk Free – a movement fighting to end one of the world’s greatest evils: modern slavery

There are almost 30 million people in the world today living in conditions of modern slavery and Walk Free is leading the fight for their freedom.

Walk Free aims to eradicate modern slavery in a generation by mobilising a global activist movement, enlisting businesses, generating the highest quality research to measure slavery country by country through the Global Slavery Index and

www.generationone.org.au



The Learn Earn Legend program encourages Indigenous Australians to finish school

raising capital to drive change in those countries and industries bearing the greatest responsibility for slavery today.

In 2013, Walk Free released the first Global Slavery Index (GSI) in London. This was the first time an accurate measure of the scale of the modern slavery problem had been thoroughly researched and published. By measuring the problem and addressing prevalence country by country it is now possible to develop strategies with in-country Leadership Councils to end slavery.

Early in 2014, Walk Free formed the Global Freedom Network to eradicate slavery with the facilitation of an historic collaboration of some of the major faith leaders in the world, including the Pope (representing the Catholic Church), the Archbishop of Canterbury (representing the Anglican Church) and the Grand Imam of Cairo (representing the Sunni Muslim faith). Other faith leaders are invited to join this effort. Thanks to Fortescue, Walk Free is having incredible reach and impact on an issue of massive global importance.

Walk Free has a worldwide movement of some 7.5 million people that is growing rapidly. The combination of people power and faith leaders to drive social change, corporate engagement to ensure no-one can profit from slavery and well researched measurement through the GSI, provides the momentum for Leadership Councils and governments to work together to eradicate modern slavery.

GenerationOne – ending the disparity for Indigenous Australians

Fortescue has taken an innovative approach to ending Aboriginal disadvantage through its two Vocational Training and Employment Centres (VTECs) that provide real jobs and the training and support to succeed at those jobs. This VTEC model was the inspiration for the Australian Employment Covenant (AEC), a three-way commitment by Australian employers, the Australian Government and Aboriginal people to break the vicious cycle of unemployment and poverty. So far the AEC has secured more than 60,000 jobs for Aboriginal Australians.

Next came GenerationOne, which was founded with the goal of ending Aboriginal disparity in Australia through employment. GenerationOne has more than a quarter of a million supporters nationally. Over the past year, GenerationOne campaigned for and won commitment from the Australian Government to provide funding for a trial that connects training to a guaranteed job from an AEC employer. The goal is to break the cycle of training for training's sake that doesn't lead to a job. As part of the trial, 4,000 jobseekers will have funded training that leads to a guaranteed job. The success of the trial will be measured by job retention after six months. The goal is to prove the success of the model so that it is adopted as standard policy by the Government.

The Forrest Review: Creating Parity – commissioned by the Prime Minister

Australian Prime Minister Tony Abbott commissioned Fortescue Chairman Andrew Forrest to author The Forrest Review: Creating Parity to address issues of disparity for Aboriginal Australians. The completed Review presented to the Prime Minister in mid-2014 was the result of an extensive process of consultation with community stakeholders and reflected Andrew's deep passion for all Australians to be afforded dignity and opportunity.

Early Childhood Intervention

Minderoo has developed a strategy paper to focus attention on the importance of pre and post natal care and the earliest years of a child's development. By working closely with champions in the area of education and early childhood intervention, it will enable heroes in our community to lead the way in making a difference so that children have the best chance of developing into healthy and contributing members of society.

Community Partnerships

Minderoo is committed to supporting and advocating for many community organisations in the area of culture and the arts, plus supporting those in need. Minderoo is a proud supporter and contributor to numerous organisations from ballet to museums; Sculpture by the Sea to the Leeuwin training ship; theatre to art; supporting the families of SAS soldiers injured or killed whilst serving; assisting bushfire and flood victims; helping farmers in hardship; plus many health research and treatment foundations.

Agricultural Opportunities in China

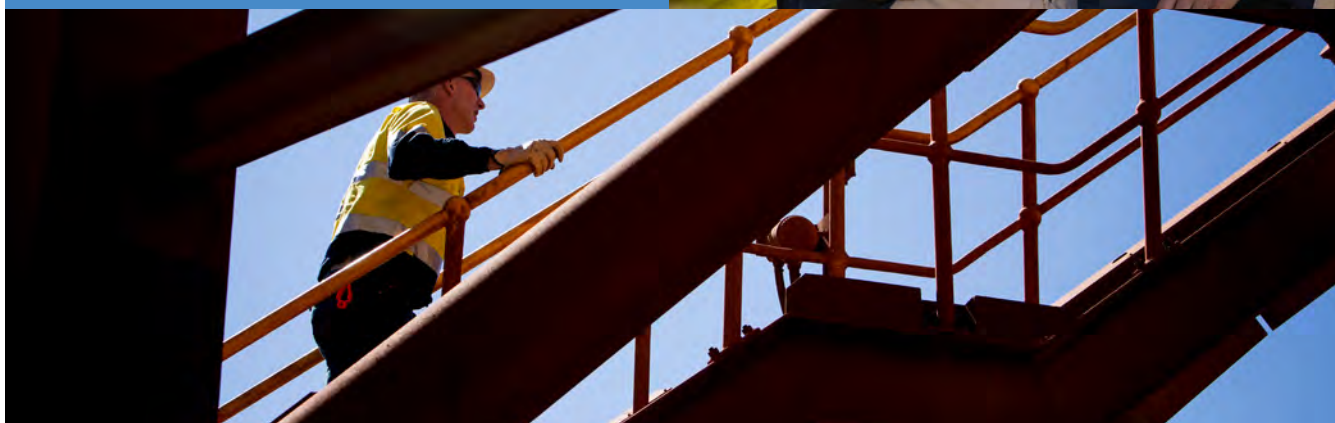
Fortescue's deep relationships with China have enabled Minderoo to take a leading role in creating the Australia-Sino One Hundred Year Agricultural and Food Safety Partnership which brings together government, business and industry leaders from Australia and China to ensure the Australian agricultural industry is prepared and able to support China's food demands. Growing demand from China for safe food from foreign sources is a huge opportunity for Australian producers.

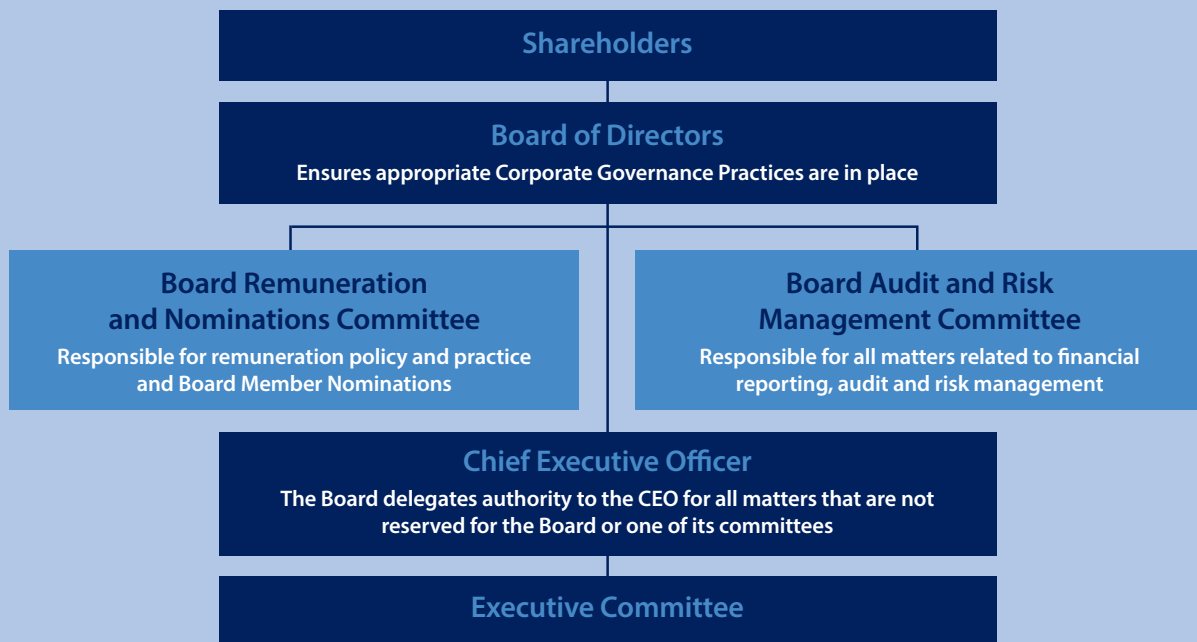
The Fortescue commercial philosophy is translated through these social initiatives so that every resource is applied to the best purpose and all outcomes are measured to ensure accountability and success with achieving objectives.



CONTENTS

Overview of governance at Fortescue	55
Board of directors	55
Board committees	62
Engagement with stakeholders	65
Risk management	65
Conduct of business	70
Market disclosures	70
Compliance with corporate governance standards	71





Fortescue Corporate Governance practices are driven by the extensive experience and diverse capabilities of our Board and Executive Team. They are informed by our commitment to long term sustainability, our obligations to stakeholders including regulatory authorities, and clear delegations of authority. This is all underpinned by our culture and supported by policies relevant to occupational health and safety, the environment and social and governance responsibilities.

Alignment with our Corporate Governance Practices is assured by independent internal and external audit functions, dedicated health and safety and environmental compliance functions and well defined accountability and reporting lines.

1. Overview of Governance at Fortescue

The essential elements of Corporate Governance at Fortescue are:

Transparency – being clear and unambiguous about the company’s structure, operations and performance, both externally and internally, and maintaining a genuine dialogue with, and providing insight to, legitimate stakeholders and the market generally.

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 for the company 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 company is managed for the benefit of its members, taking reasonable account of the interests of other legitimate stakeholders.

Integrity – developing and maintaining a corporate culture committed to ethical behaviour and compliance with the law.

The governance structure at Fortescue is represented by the diagram above.

2. Board of Directors

2.1 Role and Responsibilities

ASXCGC Recommendations 2nd Edition 1.1, 1.3, 2.5, 2.6

The Board is responsible to the shareholders for the performance of the Group. The Board’s focus is to enhance and protect the interests of shareholders and other key stakeholders and to ensure that the Group is properly managed. The Board understands the critical importance of a strong and healthy working relationship between it and the executive management team and works hard to foster and grow that relationship. The Board ensures that the management team is appropriately qualified and experienced to discharge their responsibilities.

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

- Appointing, evaluating the performance of, rewarding and if necessary removing the Chief Executive Officer (CEO);
- Developing corporate objectives and strategies with management and approving plans, new investments, major capital and operating expenditures and major funding activities proposed by management;

- Monitoring performance against defined performance expectations and reviewing operational information to understand at all times the state of health of the Group;
- Overseeing management of business risks, including safety and occupational health risks, environmental management issues and community development issues arising from our interaction with the several communities living or located in our geographic areas of operation;
- Satisfying itself that the annual financial statements of the Group fairly and accurately disclose the financial position and financial performance of the Group;
- Satisfying itself that there are appropriate reporting systems and controls in place and gain acceptable levels of assurance that proper operational, financial, compliance, risk management and internal control processes are in place and functioning appropriately. Further, approving and monitoring financial and other reporting;
- Gaining assurance that appropriate audit arrangements are in place;
- Ensuring that the Group acts legally and responsibly on all matters and gaining assurance that the Group has adopted an appropriate Code of Conduct and that Group practice is consistent with that Code; and
- Reporting to and advising shareholders

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

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

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

The Board and each of its two primary committees have established a process to evaluate their performance annually. The process is based on a formal questionnaire and interview conducted by an independent consultant and supported by the Company Secretary. The results and recommendations from the evaluation of the board and committees are anonymised and reported to the full Board for further consideration and action where required. The entire Board agrees improvement actions where appropriate and these are acted upon utilising support from the Company Secretary.

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

2.2 Board Composition

ASXCGC Recommendations 2nd Edition 2.6, 3.2, 3.3, 3.4, 3.5

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

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

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

The directors of the Group during the year were:

Name	Period of Office	Retiring and seeking re-election in 2014
Andrew Forrest (Chairman)	Full Year	Yes
Herb Elliott (Deputy Chairman, Lead Independent Director)	Full Year	Retiring and will not be seeking re-election at the 2014 AGM
Graeme Rowley	Full Year	Retiring and will not be seeking re-election at the 2014 AGM
Owen Hegarty	Full Year	Yes
Mark Barnaba	Full Year	No, due for re-election 2016
Geoff Raby	Full Year	Yes
Herbert Scruggs	Full Year	Retiring and will not be seeking re-election at the 2014 AGM
Neville Power	Full Year	N/A - Managing Director
Cao Huiquan	Full Year	No, due for re-election 2015
Elizabeth Gaines	Full Year	No, due for re-election 2016
Peter Meurs	Full Year	No, due for re-election 2016
Sharon Warburton	From 13 November 2013	No, due for re-election 2016
Geoff Brayshaw	To 13 November 2013	N/A

Changes to the composition of the Board during the year are summarised below:

- Geoff Brayshaw retired as a director of the company on 13 November 2013;
- Sharon Warburton was appointed as a non-executive director on 13 November 2013;

The primary driver for the Board in seeking new directors has been, and continues to be, the skills, experience, knowledge and other important attributes which are relevant to the needs of the Board in discharging its responsibilities to shareholders. As with all roles in the company, our policy is

to recruit the best person for each role regardless of race, gender, age, physical ability, sexuality, nationality, religious beliefs, or any other factor not relevant to their competence and performance. The Board is committed to ensuring that an environment of equal opportunity is in place and that all decisions are based on merit.

The Board has implemented a diversity policy and measurable objectives which reflect Fortescue's commitment to ensuring that there are no impediments to diversity at any level of the company. The policy can be accessed through the corporate governance section of the company's web site.

Fortescue's workforce gender profile is summarised below:

Group	Female		Female %		Male		Male %	
	FY13	FY14	FY13	FY14	FY13	FY14	FY13	FY14
Whole of Fortescue	738	793	19.7%	17.4%	3,014	3,770	80.3%	82.6%
Senior Executive*	1	4	3.2%	10.0%	30	36	96.8%	90.0%
Board Members	1	2	8.3%	16.7%	11	10	91.7%	83.3%

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

CORPORATE GOVERNANCE

The measurable diversity objectives established for FY13 and FY14 financial years and their current status is summarised below:

Objective Area	Objective	Measure and Progress
Governance	<ol style="list-style-type: none"> 1 Equity and Diversity Policy implemented. 2 Complaints Procedure implemented that is compliant with Fortescue's Values and meets Legislative requirements. 3 Prepare and submit annual EOWA Report for Fortescue. 	<ul style="list-style-type: none"> • Policy communicated to the business. Policy loaded on intranet and communicated to employees. • Complaints procedure in place. Fair Call reporting procedure in place. Investigation process for EEO, Harassment and Bullying in place. • Quality report submitted on time annually – EOWA Report submitted. • High level analysis undertaken in FY14 which showed little difference in remuneration levels for males and females in the same role.
Training and development	<ol style="list-style-type: none"> 4 Integrate Equity and Diversity Training into Induction Programs for employees and contractors. 5 Create an online Equity and Diversity Training package for leaders and employees. 6 Communicate and reinforce the Equity and Diversity Policy to the whole workforce. 	<ul style="list-style-type: none"> • Training incorporated into induction programs. • RESPECT training program developed and rolled out for leaders. • The current induction includes EEO/Diversity as the online RESPECT module for employees will be rolled out in FY15. • Online training package for leaders and employees operational. RESPECT online training program developed and rolled out for leaders in FY14. 652 leaders have completed the training. • RESPECT training program now taught to over 1,600 employees and contractors.
Awareness	<ol style="list-style-type: none"> 7 Highlight diversity in key company communications, for example internet and intranet pages. 	<ul style="list-style-type: none"> • Communicate the outcomes of the pilot "career resiliency" program for women seeking to move into leadership roles. • Include diversity in the online leadership induction program being implemented in FY15. • Nominate women for industry recognition awards.
Gender equality	<ol style="list-style-type: none"> 8 Target equal representation of women in the graduate/ vacation student intake. 9 Encourage women to participate in Graduate/ Vacation Programs / Apprenticeships and Traineeships. 10 Pilot a "career resiliency" program to provide mentoring support for women in professional and operational roles seeking to further their careers in technical roles or management positions 	<ul style="list-style-type: none"> • Report on diversity metrics on a quarterly basis and provide reports to business leaders. • Monitor tenure data and collect exit interview data to understand reasons for leaving • Monitor female participation in senior leadership roles through 6 monthly talent reviews. • Encourage women to participate in company leadership programs. • Participate in key diversity networking groups.

Objective Area	Objective	Measure and Progress
Remuneration	11 Refresh workforce profile and job evaluation. 12 Complete a more detailed gender equity analysis.	<ul style="list-style-type: none"> Annual gender pay parity review. Pay parity for equivalent positions.
Flexible work arrangements	13 Assess the effectiveness of the pilot "Job Share" arrangements being trialled throughout FY15. 14 Identify opportunities to extend flexible work arrangements.	<ul style="list-style-type: none"> Policy developed and implemented. Evaluation of Job Share arrangements increase and measure percentage of uptake. Request feedback from employees on their priority areas for improving workplace flexibility
Discrimination	15 Ongoing communication and training on the following: <ul style="list-style-type: none"> RESPECT Code of Conduct Equal Employment Harassment and Bullying Fair Treatment Whistleblowing 	<ul style="list-style-type: none"> Policies developed and implemented in FY14. Increase the number of employees and contractors to complete RESPECT training.

2.3 Skills, Knowledge and Experience of Directors

ASXCGC Recommendations 2nd Edition 2.6

The Board believes that a diverse and relevant range of skills, backgrounds, knowledge and experience is necessary at Board level to ensure effective governance of the business. This means that the Board maintains a focus on its composition, thereby working to ensure that the executive

and non-executive directors continue to have an appropriate balance of skills, experience and independence.

Retention of corporate knowledge is also important to the Board, so there is also a focus on achieving an appropriate level of retention of corporate knowledge whilst gaining access to new ideas and experience that are relevant to the business.

The following table sets out the composition of skills and experience of the Board (out of 12)

Leadership

- Successful history in business at a senior executive level. (12)
- Understanding/influencing organisational culture. (12)

Strategy

- Experience in developing and implementing successful strategy. (12)
- Ability to provide oversight of management for the delivery of strategic objectives. (12)

International Experience

- Experience in multiple cultural, regulatory and business environments. (12)
- Experience with doing business in China and the Asian region. (11)

Governance

- Experience in governance with complex organisations. (11)
- Commitment to ensuring effective governance structures. (12)

Financial Acumen

- Experience in financial accounting and reporting, corporate finance and internal financial controls. (10)

Capital Projects

- Experience in the delivery of large-scale capital projects. (9)

Health, Safety, Environment and Community

- Experience related to workplace health and safety. (11)
- Experience with environmental and community issues in a large organisation. (9)

Mining and Infrastructure

- Large mining organisation experience. (9)
- Large infrastructure organisation experience. (10)

Sales and Marketing

- Senior executive experience in sales and marketing. (8)
- Detailed knowledge of the Group's strategy, markets, and competitors. (11)

2.4 Terms of Appointment

ASXCGC Recommendations 2nd Edition 1.1

Directors, with the exception of the Managing Director, are required to retire by rotation at least once every three years and are able to offer themselves for re-election. The Board has adopted a letter of appointment that contains the terms on which directors are appointed, including the basis of remuneration. The letter can be accessed through the corporate governance section of the company's web site. Directors are expected to contribute to the Company primarily relating to the matters set out in Statement of Matters Reserved for the Board, which can also be accessed through the corporate governance section of the company's web site. In addition, directors are expected to contribute to the business of the Board committees where they are members of a Board committee. It is recognised that directors have a diverse range of skills, experience and knowledge and they are expected to contribute their considerable expertise at the boardroom table and at other times as required.

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

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

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

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

Prior to appointment, or offering themselves for re-election, non-executive directors are required to specifically acknowledge that they have the time available to fully discharge their responsibilities to the Group.

2.5 Chairman

ASXCGC Recommendations 2nd Edition 2.2, 2.3, 2.6

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

Andrew Forrest, the founder of Fortescue, was appointed to the role of Non-Executive Chairman by the Board in August 2011. Mr Forrest succeeds Mr Herb Elliott as Chairman and was previously the CEO. Mr Forrest, whilst being a non-executive director, is not an independent director due to his previous role as CEO and his significant shareholding in the company. Mr Herb Elliott is the lead independent director in the role of Deputy Non-Executive Chairman.

2.6 Independence

ASXCGC Recommendations 2nd Edition 2.1, 2.2, 2.6

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

- They are a non-executive director of the company and have not been a director for such a period that their independence may have been compromised. Any fees paid to them by the Group for services provided are not of such amounts that could make the director reliant on such remuneration. Directors must have no other material contractual relationships with the Group other than as directors of the Group;
- They are not a substantial shareholder of the Company, or an officer of, or otherwise associated with, a substantial security holder of the entity;
- They have not been employed in an executive capacity by the Group or there has been a period of three years between ceasing such employment and serving on the board
- They have not, within the last three years, been a principal of a material adviser or consultant to the Group;

- They have not, within the last three years, been in a material business relationship with the Group, or an officer of or otherwise associated directly or indirectly with, someone with such a relationship; and
- They are free from any interest which could reasonably be perceived to materially interfere with their ability to act in the best interests of the Group.

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

Directors are required to disclose circumstances that may affect, or be perceived to affect, their ability to exercise independent judgement so that the Board can make regular

assessments of independence. If a circumstance arises whereby a director may be required to consider a matter in which the director has a material personal interest, that director ceases to be involved in the decision making regarding that matter.

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

Director	Independent (Yes/No)	Director	Independent (Yes/No)
Andrew Forrest	No	Graeme Rowley	No
Herb Elliott	Yes	Mark Barnaba	Yes
Sharon Warburton	Yes	Geoff Raby	Yes
Owen Hegarty	Yes	Herbert Scruggs	Yes
Cao Huiquan	No	Nev Power	No
Elizabeth Gaines	Yes	Peter Meurs	No

As Deputy Chairman, Mr Elliott has been appointed as the Lead Independent Director to represent the interests of shareholders where the Chairman is unable to do so due to his non-independent status.

The Deputy Chairman's role includes the following responsibilities:

- Chairing the Board and shareholder meetings when the Chairman is unable to do so;
- Representing the Board as the Senior Independent Director when the Chairman is unable to do so due to his non-independent status;
- Acting as principle liaison between the Independent Directors and the Chairman; and
- Approval of meeting agendas and quality of information provided to the board.

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

2.7 Use of Information

ASXCGC Recommendations 2nd Edition 3.1, 3.5

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

2.8 Independent Advice

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

2.9 Remuneration

ASXCGC Recommendations 2nd Edition 8.3

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

2.10 Meetings

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

During the current year the Board met six times. Generally Board meetings are of one day's duration and Board committee meetings precede Board meetings on the previous day. At least once per year the Board visits each of the major operations prior to one of the Board meetings.

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

2.11 Company Secretary

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

3. Board Committees

ASXCGC Recommendations 2nd Edition 2.4, 4.1, 4.3, 4.4, 8.1, 8.4

The Board has established committees to assist in the execution of its duties and to ensure that important and complex issues are given the detailed consideration they require. The primary committees of the Board are the Remuneration & Nomination Committee and the Audit & Risk Management Committee. The Board has also formed a Finance Committee that meets as required to provide guidance and oversight for management on behalf of the Board, when major financing initiatives are underway or being finalised.

The primary committees have their own Charters approved by the Board, and under which authority is delegated by the Board. Each Committee is required to report the outcomes of its deliberations to the Board so that the Board is fully informed on all important matters before matters are resolved. The Company Secretary provides support services to each committee. Committee meeting agendas, papers and minutes are made available to all Board members.

3.1 Remuneration & Nomination Committee

ASXCGC Recommendations 2nd Edition 2.4, 2.6, 8.1, 8.2, 8.4

The Remuneration & Nominations Committee met four times during the year. Details of committee members are shown in the table below:

Name	Term	Status	Meetings	
			Held	Attended
Sharon Warburton (Co Chair ¹ from 13 November 2013)	Member from 13 November 2013	Independent non-executive director	2	2
Graeme Rowley (Co Chair ¹ from 13 November 2013)	Member from 13 November 2013	Non-independent non-executive director	2	1
Mark Barnaba (Chair to 13 November 2013)	Member for full year	Independent non-executive director	4	4
Herb Elliott	Member for full year	Independent non-executive director	4	3
Andrew Forrest	Member for full year	Non-independent non-executive director	4	4
Owen Hegarty	Member for full year	Independent non-executive director	4	4
Herbert Scruggs	Member to 13 November 2013	Independent non-executive director	1	1

¹ Graeme Rowley was appointed as Co-Chair for the committee to provide initial support for Sharon Warburton who is a recent appointment to the board.

The role of the committee is to assist the Board in its oversight of remuneration policy and practice and Board member nominations. The committee considers a diverse range of matters related to its role, including:

- Senior executive remuneration policy;
- Chief Executive Officer, non-executive and executive director remuneration policy;
- Short term and long term incentive plans;
- Recruitment, retention and termination policies;
- Succession planning;
- Nominations for Board positions and review of applicants for Board positions; and
- Board Committee appointments.

Full details of the committee's activities on behalf of the Board related to remuneration matters are set out in the Remuneration Report.

3.2 Audit & Risk Management Committee

ASXCGC Recommendations 2nd Edition 4.1, 4.2, 4.3, 4.4

The Audit & Risk Management Committee met four times during the year. Details of committee members are shown in the table below:

Name	Term	Status	Meetings	
			Held	Attended
Mark Barnaba (Committee Chair from 1 September 2013)	Member for full year	Independent non-executive director	4	4
Graeme Rowley	Member for full year	Non-Independent non-executive director	4	3
Herbert Scruggs	Member for full year	Independent non-executive director	4	4
Elizabeth Gaines	Member from 1 September 2013	Independent non-executive director	3	3
Geoff Brayshaw (Committee Chair to 1 September 2013)	Member to 13 November 2013	Independent non-executive director	2	2

The role of the committee is to assist the Board in its oversight responsibilities for all matters related to financial management and reporting, external audit, internal audit and risk management of the Group. The committee monitors management processes in relation to preparation of financial reports, including the annual financial statements, and the processes in relation to external and internal audit. The committee also assists the Board in regard to compliance with the ASX Listing Rules, the ASX Corporate Governance Principles & Recommendations and the Corporations Act requirements.

This means that the committee reviews the annual financial statements, the adequacy of the financial control

environment, applicable financial management and reporting policies (including policies relating to potential fraud and misappropriation) and developments in international financial reporting standards. The committee also monitors enterprise risk management activity and its impact on mitigating material risks to the business. The committee also monitors the work of the external and internal auditors.

In accordance with the Corporations Act, the Group has appointed external auditors whose primary role is to form an opinion as to the truth and fairness of the annual financial statements. The Group appoints an external auditor who demonstrates quality of service and independence.

CORPORATE GOVERNANCE

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

The committee believes that a robust and risk based internal audit function is a critical part of ensuring that a strong financial risk and control environment is maintained across the Group. The Corporate Risk & Assurance function is responsible for the design and delivery of internal audit activity across the Group. Internal audit activity is designed

to provide assurance that the Group's risk management and internal control frameworks are appropriately designed and operating at the level expected by the Board. Fortescue has engaged KPMG, Chartered Accountants, to support the delivery of its internal audit program. KPMG has been providing this service for the past six years. The committee approves the annual internal audit plan and monitors findings from internal audit reviews, including actions proposed by management to address issues reported by the internal auditors.

3.3 Finance Committee

The Finance Committee met two times during the year. Details of committee members are shown in the table below:

Name	Term	Status	Meetings	
			Held	Attended
Mark Barnaba (Committee Chair from 1 September 2013)	Member for full year	Independent non-executive director	2	2
Herbert Scruggs	Member from 1 September 2013	Independent non-executive director	1	1
Elizabeth Gaines	Member from 1 September 2013	Independent non-executive director	1	1
Geoff Brayshaw (Committee Chair to 13 November 2013)	Member to 13 November 2013	Independent non-executive director	2	2

The role of the committee is to meet as required to provide guidance and oversight for management, on behalf of the Board, when major financing initiatives are underway or being finalised.



More than.....
24,000
people
worked on T155

4. Engagement with Stakeholders

4.1 Shareholders

ASXCGC Recommendations 2nd Edition 6.1, 6.2

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

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

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

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

4.2 Stakeholders

At Fortescue we aspire to be the corporate citizen of choice that is welcomed by communities that host our activities. To achieve this effective communication and proactive engagement with our stakeholders is critical. We communicate using a number of mechanisms that include preferring one-on-one conversations, providing presentations to community groups, holding displays, issuing newsletters, media releases and publishing advertisements.

Our stakeholders include our people, Federal, Western Australian and local governments, communities, traditional owners of land, suppliers, customers, non-government organisations, investors and the media. Together with our stakeholders, we align to positively manage change and secure opportunities for people, economies, the natural environment, the built environment and society.

Fortescue has a strong engagement with Aboriginal people in the Pilbara, through the Native Title process as well as our Aboriginal Heritage and Vocational Training and Employment Centre teams. The company has a long-standing policy in relation to the provision of economic opportunity for Aboriginal people. This policy arose because of the desire of Aboriginal people to gain a greater share of the opportunities presented by the mining industry. This desire has been expressed consistently by Aboriginal people and is reflected in the seven Native Title agreements that we have established across the Pilbara. Fortescue provides significant assistance to Aboriginal people in training for a guaranteed job in the company. In addition Fortescue made a commitment to award \$1 billion worth of contracts to Aboriginal contractors and joint ventures by the end of 2013, this commitment was achieved six months ahead of target. One year on, the total value of the 160 contracts and sub-contracts awarded to more than 60 Aboriginal businesses is \$1.6 billion. Importantly for local Aboriginal people 88% of these contracts were awarded to businesses associated with our Native Title partners.

5. Risk Management

5.1 Material Risk Exposures

ASXCGC Recommendations 2nd Edition 7.1, 7.4

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

A range of material risks has been identified by management and the Board that could substantively impact Fortescue's ability to create or preserve value for all of its key stakeholders over the short, medium or long term. We have listed the following material risks to our business and how these risks are being managed.

Material Risks	Risk Management Strategy
<p>Fluctuations in commodity prices (iron ore) may adversely impact our results and future cashflows</p>	<p>Fortescue is subject to the prevailing market price of iron ore, which it has a limited ability to directly influence. The focus of our risk mitigation strategy has been on strengthening the corporate balance sheet by repayment of debt and aggressively pursuing continued reduction of our cost base. This delivers greater financial stability and resilience to fluctuations in commodity prices.</p>
<p>Deterioration in economic conditions in China could impact the demand for our products</p>	<p>Fortescue's key trading partners are Chinese steel mills. We maintain an active program of engagement with all of our customers to support our vision as the supplier of choice for high quality iron ore. Our significant efforts in supporting and enhancing Sino-Australian business relationships have also been widely recognised. We promote strong relationship with all levels of the Chinese government as a partner in supporting the ongoing economic development within China and resultant demand for our products.</p>
<p>Productivity and cost pressures could impact our profit margins and future cashflows</p>	<p>Australia is a high cost operating environment and delivering productivity improvements and reducing costs is an ongoing challenge. Fortescue has a highly innovative culture that promotes fresh thinking and new ideas to meet this challenge. We are global leaders in a range of technical and operational solutions that have been deployed across our business to maximise the value we obtain from our ore reserves. In addition, we have a highly collaborative approach to working with our suppliers and business partners to identify innovative solutions and cost savings. We have a disciplined and risk based approach to the approval of major capital and operational expenditure that ensures the optimal allocation of financial resources to support our business strategy.</p>
<p>Major, unplanned disruptions to our operations or supply chain</p>	<p>Any unplanned and sustained interruption to our operations or supply chain has the potential to impact our financial performance. Such disruptions can arise from natural events such as cyclones and flooding or other accidents that result in damage to our port, rail or mine infrastructure. While the likelihood of many of these risks is considered rare, Fortescue has adopted a prudent approach that involves a combination of world-class engineering design, a comprehensive crisis management strategy, operational contingency planning and structured recovery process to mitigate the impact of such events should they occur. Our insurance coverage also provides an element of financial protection associated with loss or damage to our assets.</p>
<p>Health & safety and environmental incidents and/or breaches of regulations could adversely affect our people, operations and reputation</p>	<p>The nature of our operations presents a range of health & safety and environmental exposures to our people and our business. Our business is subject to a wide range of legal and regulatory requirements at both a Federal and State level. Safety is one of Fortescue's core values and we have set ourselves the ambitious goal of being global leaders in safety and environmental performance. Fortescue has a very comprehensive HSES framework that promotes responsibility and accountability at all levels within the organisation. We have an active program of education, training, monitoring and reporting within the business that is focused on continuous improvements and learning from our experiences. We are actively engaged at both a local and global level to identify and implement leading safety and environmental practices operating within the mining and resources sector.</p>
<p>Major developments projects experience delays to schedule or increased costs</p>	<p>Fortescue maintains an active portfolio of operational projects that are designed to enhance the value of the company over the longer term. These projects include expansion of existing operations, development of new ore resources, increased use of gas as a fuel source, and the purchase of large ore carriers to support the low cost delivery of our product to customers. Each of these projects present a range of technical, operational and financial challenges. Fortescue has a robust and agile framework for the identification, assessment and delivery of all major products. This includes an uncompromising focus on operational and financial discipline supplemented by a comprehensive project management capability. Fortescue has also embedded strong risk management processes within all major projects to ensure that critical risks are effectively managed.</p>

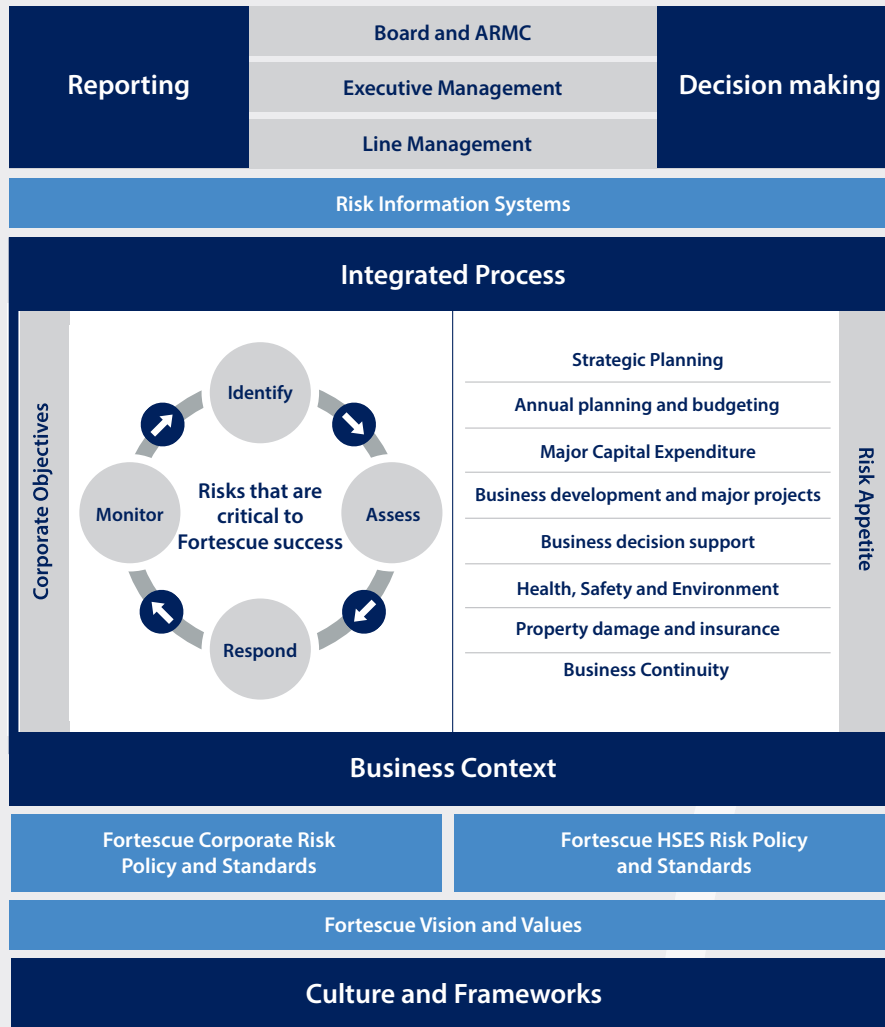
Material Risks	Risk Management Strategy
<p>Performance of our business partners is not aligned with Fortescue expectations and they do not meet their obligations</p>	<p>Fortescue has a large number of business partners that support its operations. Fortescue has an exposure to the ability of these business partners to perform against their existing contracts and obligations in a manner that is consistent with our values and business strategy. Fortescue works collaboratively with its business partners to achieve superior safety, operational and financial performance. We have transitioned major elements of our mine sites to an owner/operator model to better control performance and introduced greater flexibility within our contractual arrangements, where appropriate. We have conducted safety forums with our major contracting partners to promote a stronger safety culture across our entire workforce. We have robust mechanisms to regularly review all major contracts with a focus on performance.</p>
<p>We do not fully exploit our existing reserves or discover new reserves that impacts on our future results</p>	<p>Fortescue has a program of exploration and mining that identifies and exploits new ore bodies and supports the expansion to our existing ore bodies. Such activities have a range of risks associated with land tenure, commercial feasibility, environmental and heritage impacts and regulatory approvals. Successful exploitation of existing and future reserves is critical to our business success. Fortescue has a comprehensive product strategy which drives mine- site activity and our near mine exploration program. This expands our existing resource base to support existing infrastructure. We have also developed innovative exploration techniques that have enabled us to commercialise previously unexploited tenements and invest in new sources of ore including magnetite deposits.</p>
<p>Breaches in our legal and regulatory obligations may lead to fines and potential loss of licence to operate</p>	<p>Fortescue operates in a highly regulated industry with a complex regulatory environment at both Federal and State level. We attach a high level of importance to compliance with all relevant legal and regulatory requirements. Failure to comply with obligations can have a serious impact on our business ranging from fines and reputation damage through to temporary or permanent loss of our licence to operate. Fortescue adopts a risk based approach to managing compliance with its obligations. Ensuring compliance with our obligations is seen as a collective responsibility at all levels of the organisation and there is clear accountability and responsibility for managing compliance.</p>
<p>Information technology and security</p>	<p>Fortescue relies heavily on its information technology (IT) infrastructure to support the efficient and effective operation of its business. The company faces a range of risks associated with extended outages of its key IT systems and the security and privacy of digital information which it retains and manages. Fortescue maintains a robust IT platform which provides resilience and recovery capability in the event of a system outage. It monitors and controls access to sensitive and private information maintained within its key systems. However, the rapid pace of technological change and the sophistication of cyber security attacks pose ongoing and real risks requiring the business to maintain a constant vigil.</p>

5.2 Risk Management Framework

ASXCGC Recommendations 2nd Edition 7.1, 7.4

The Fortescue Risk Management Framework (FRMF) explains the methodology, approach and responsibility for the effective management and oversight of risk within our

business. The FRMF is aligned to ISO 31000, the international standard for risk management, and provides a consistent approach to the recognition, measurement and evaluation of risks across our business. It also supports Executive Management and the Board in meeting their corporate governance responsibilities.



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

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

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

Fortescue does this by:

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

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

5.3 Risk Governance

ASXCGC Recommendations 2nd Edition 7.1, 7.4

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

The Board has delegated the responsibility for oversight of risk management to the Audit & Risk Management Committee (ARMC). The role of the ARMC has been explained earlier in this Corporate Governance Statement, including its responsibilities for risk management.

5.4 Annual Executive Declarations

ASXCGC Recommendations 2nd Edition 7.1, 7.2, 7.3, 7.4

In accordance with the requirements of ASX Principle 7 "Recognise and manage risk" and section 295(A) of the Corporations Act 2001, an extensive annual certification process is undertaken at executive level. The process requires declarations from the most senior executives in the business to support the certifications to the Board by the Chief Executive Officer and the Chief Financial Officer pursuant to ASX Principle 7 and Section 295(A) of the *Corporations Act 2001*.

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

The ASX Principle 7 and Section 295(A) *Corporations Act 2001* certifications by the CEO and CFO were received by the Board prior to consideration and approval of the annual financial statements for the year ended 30 June 2014.

6. Conduct of Business

ASXCGC Recommendations 2nd Edition 3.1, 3.5

6.1 Employee Code of Conduct

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

In addition to Codes of Conduct, the Group operates a Whistleblower hotline and all matters reported are treated seriously and automatically referred to an appointed independent party for follow up. People who report incidents of misconduct in good faith will be granted the full protection of the Board of Fortescue. Unauthorised disclosure of the identity, or information from which the identity of a person who has made a report can be determined, is a breach of the Code of Conduct.

6.2 Securities Trading

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

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

7. Market Disclosures

ASXCGC Recommendations 2nd Edition 5.1, 5.2

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

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

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

Copies of announcements to the ASX, investor briefings, half yearly financial statements, quarterly production results, the Annual report and other relevant information are posted to the company's web site at www.fmgil.com.au.

8. Compliance with Corporate Governance Standards

The following table cross-references the ASXCGC Recommendations 2nd Edition to the relevant sections of the Corporate Governance Statement and the Remuneration Report.

ASX Corporate Governance Council recommendations checklist		Reference	Comply
Principle 1: Lay solid foundations for management and oversight			
1.1	Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.	2.1,2.4	Yes
1.2	Companies should disclose the process for evaluating the performance of senior executives.	Remuneration Report	Yes
1.3	Companies should provide the information indicated in the Guide to Reporting on Principle 1.	2.1, Remuneration Report	Yes
Principle 2: Structure the board to add value			
2.1	A majority of the board should be independent directors.	2.6	Yes
2.2	The chair should be an independent director.	2.5, 2.6	No
2.3	The roles of chair and chief executive officer should not be exercised by the same individual.	2.5	Yes
2.4	The board should establish a nomination committee.	3, 3.1	Yes
2.5	Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.	2.1	Yes
2.6	Companies should provide the information indicated in the Guide to Reporting on Principle 2.	2.1, 2.2, 2.3, 2.5, 2.6, 3.1	Yes
Principle 3: Promote ethical and responsible decision-making			
3.1	Companies should establish a code of conduct and disclose the code or summary of the code as to: <ul style="list-style-type: none"> • the practices necessary to maintain confidence in the company's integrity • the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders • the responsibility and accountability of individuals for reporting and investigating reports of unethical practices. 	2.7, 6	Yes
3.2	Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity for the board to assess annually both the objectives and progress in achieving them.	2.2	Yes
3.3	Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.	2.2	Yes
3.4	Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.	2.2	Yes
3.5	Companies should provide the information indicated in the Guide to reporting on Principle 3.	2.2, 2.7, 6	Yes

Principle 4: Safeguard integrity in financial reporting			
4.1	The board should establish an audit committee.	3	Yes
4.2	The audit committee should be structured so that it: <ul style="list-style-type: none"> • consists only of non-executive directors • consists of a majority of independent directors • is chaired by an independent chair, who is not chair of the board • has at least three members. 	3.2	Yes
4.3	The audit committee should have a formal charter.	3, 3.2	Yes
4.4	Companies should provide the information indicated in the Guide to Reporting on Principle 4.	3, 3.2	Yes
Principle 5: Make timely and balanced disclosure			
5.1	Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.	7	Yes
5.2	Companies should provide the information indicated in the Guide to Reporting on Principle 5.	7	Yes
Principle 6: Respect the rights of shareholders			
6.1	Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	4.1	Yes
6.2	Companies should provide the information indicated in the Guide to Reporting on Principle 6.	4.1	Yes
Principle 7: Recognise and manage risk			
7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	5.1, 5.2, 5.3, 5.4	Yes
7.2	The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.	5.4	Yes
7.3	The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	5.4	Yes
7.4	Companies should provide the information indicated in the Guide to Reporting on Principle 7.	5.1, 5.2, 5.3, 5.4	Yes
Principle 8: Remunerate fairly and responsibly			
8.1	The board should establish a remuneration committee.	3, 3.1	Yes
8.2	The remuneration committee should be structured so that it: <ul style="list-style-type: none"> • consists of a majority of independent directors • is chaired by an independent chair • has at least three members. 	3.1	Yes
8.3	Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	2.9, Remuneration Report	Yes
8.4	Companies should provide the information indicated in the Guide to Reporting on Principle 8.	3, 3.1	Yes



CONTENTS

Directors' report	74
Remuneration report	98
Auditor's independence declaration	120
Independent Auditor's report to the Members	121
Directors' declaration	123
Financial statements	124



DIRECTORS' REPORT

Directors' report

Your Directors submit their report on the Fortescue consolidated group, consisting of Fortescue Metals Group Limited (the Company) and the entities that it controlled during the financial year (the Group or Fortescue).

Directors

The Directors of the Company in office during the financial year and until the date of this report are as follows (Directors were in office for the entire period unless otherwise stated).



FY14 BOARD MEMBERS



Andrew Forrest
Chairman
Non-Executive Director



Herb Elliott
Deputy Chairman
Non-Executive Director



Neville Power
Chief Executive Officer
Executive Director



Graeme Rowley
Non-Executive Director



Geoff Brayshaw
Non-Executive Director
Retired 13 November 2013



Owen Hegarty
Non-Executive Director



Cao Huiquan
Non-Executive Director



Geoff Raby
Non-Executive Director



Herbert Scruggs
Non-Executive Director



Elizabeth Gaines
Non-Executive Director



Peter Meurs
Executive Director



Sharon Warburton
Non-Executive Director



Mark Barnaba
Non-Executive Director



Mark Thomas
Company Secretary

Andrew Forrest

Chairman, Non-Executive Director

Term of Office

Mr Forrest was appointed Chairman of the Company in July 2003. He became Chief Executive Officer in 2005 and resumed non-executive responsibilities as Chairman (elect) in July 2011.

Experience

Mr Forrest is Founder, Chairman and a member of the Company's Remuneration and Nomination Committee and has led the company to its A\$14 billion market capitalisation as the fourth largest seaborne iron ore producer. Under Mr Forrest, Fortescue has made significant investments in the Australian resources sector of more than US\$18 billion.

Mr Forrest is Founder and Chairman of Minderoo Foundation, Australia's largest philanthropic organisation, which operates GenerationOne, The Australian Employment Covenant and Walk Free, a global campaign to end modern slavery. He is a Councillor of the Global Citizen Commission which will report to the United Nations General Assembly in 2016 on reforming the Universal Declaration of Human Rights. In 2013, he was appointed by the Prime Minister of Australia to Chair the Review of Indigenous Training and Employment Programmes. He is Commonwealth ambassador for employment and engagement with disadvantaged communities and Chair of the Foundation of the Art Gallery of Western Australia.

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

Other current directorships (ASX listed entities)

None.

Former directorships in the last 3 years (ASX listed entities)

Non-Executive Chairman of Poseidon Nickel Limited 2007 to September 2013.

Mr Herb Elliott AC, MBE

Deputy Chairman, Non-Executive Director

Term of Office

Mr Elliott was appointed as a Non-Executive Director of the Company in October 2003, Deputy Chairman in May 2005 and Chairman in March 2007. He retired as Chairman in August 2011 and remains on the Board as Deputy Chairman and Lead Independent Director.

Experience

Mr Elliott is a member of the Remuneration and Nomination Committee. He was a member of the Audit Committee until he resigned from the committee in May 2011. Mr Elliott has been Chairman of Telstra Foundation Ltd and is a former Director of Ansell Ltd and Pacific Dunlop Ltd. He was the Inaugural Chairman of the National Australia Day Committee, a Commissioner of the Australian Broadcasting Commission and Deputy Chairman of the Australian Sport Commission. Mr Elliott was also a director of the World Olympians Association. Previous executive roles include President of PUMA North America. Mr Elliott is a Doctor of the Queensland University of Technology.

Other current directorships (ASX listed entities)

Non-Executive Chairman of dorsaVi Ltd.

Former directorships in the last 3 years (ASX listed entities)

None.

Mr Neville Power

Chief Executive Officer, Executive Director

Term of Office

Mr Power was appointed Chief Executive Officer in July 2011, after joining the Company in February of that year, and joined the Board as an Executive Director in September 2011.

Experience

Mr Power has more than 30 years' experience in the mining, steel and construction industries and has a proven track record in the delivery of major infrastructure projects, contract mining and steel manufacturing and distribution. As the CEO of Fortescue, Mr Power has presided over the tripling of Fortescue's iron ore production capacity to over 155 million tonnes per annum, establishing its position as one of the world's largest, low cost producers of iron ore.

He has long been a champion of Indigenous employment and is playing a pivotal role in strengthening and extending Fortescue's work in developing Aboriginal businesses as well as direct employment opportunities. Before joining Fortescue, Mr Power was Chief Executive Australian Operations for Thiess Pty Ltd, a wholly-owned subsidiary of Leighton Holdings, where he was responsible for the construction business with a turnover of \$4 billion per annum and 3,500 staff delivering some of Australia's most significant infrastructure projects.

Mr Power gained over 10 years' experience in steel manufacturing and distribution as Chief Executive of the Reinforcing and Steel Products Division with the Smorgon Steel Group, one of Australia's largest and most successful steel businesses.

He established his mining career with over 20 years' experience in base metals, gold and coal mining and mineral processing with Mount Isa Mines.

Mr Power has a Bachelor of Engineering and a Masters of Business Administration (MBA). He maintains an active interest in managing the family cattle property and is an avid aviator, holding both helicopter and fixed wing licenses with endorsements on a range of aircraft.

Other current directorships (ASX listed entities)

None.

Former directorships in the last 3 years (ASX listed entities)

None.

Mr Peter Meurs

Executive Director

Term of Office

Mr Meurs was appointed as an Executive Director of the Company in February 2013.

Experience

Mr Meurs is the Director Development for Fortescue. His responsibilities span from exploration through studies to delivery of major capital expansion projects. As part of this he had direct responsibility for the recently completed delivery of Fortescue's 100mt expansion and development of the plans for future developments.

Prior to Mr Meurs commencing with Fortescue in May 2010, he held the position of Managing Director at WorleyParsons. He was a key contributor to the growth and development of WorleyParsons after joining the company in 1988. During his time at WorleyParsons, Peter functioned in project management and company development roles including establishment of the foundations of the process business, the establishment and growth of alliance and integrated services contracts in Hydrocarbons and Minerals & Metals and the development of the New Zealand business.

Mr Meurs has a Bachelor Degree in Mechanical Engineering, is a Fellow of the Institution of Engineers Australia and is also a member of the Australian Institute of Company Directors.

Other current directorships (ASX listed entities)

None.

Former directorships in the last 3 years (ASX listed entities)

None.

Mr Cao Huiquan
 Non-Executive Director

Term of Office

Mr Cao Huiquan joined the Board as a Non-Executive Director in February 2012 as the nominated director on Fortescue's Board from Hunan Valin Iron and Steel Group Company Ltd.

Experience

Mr Cao graduated from the Department of Physics, Beijing University in 1988 and obtained his Master Degree of Metal Physics from University of Science and Technology Beijing in 1991. He was an on the job Ph.D. of Engineering of Central Iron & Steel Research Institute, and was enrolled in the EMBA programme, China Europe International Business School in 2009. In 1991, he joined Hunan Xiangtan Iron and Steel Co., Ltd and was appointed as General Manager in 2003. In 2005, he was appointed as General Manager of Hunan Valin Iron & Steel Co., Ltd (formerly Hunan Valin Steel Tube & Wire Co., Ltd), and then concurrently held the position of General Manager of Lianyuan Iron and Steel Group Co., Ltd since 2010. He is now the Chairman of Hunan Valin Iron and Steel Group Co., Ltd, the Chairman and CEO of Valin Iron & Steel Co., Ltd and General Manager of Valin Xiangtan Iron & Steel Group Co., Ltd.

Other current directorships (ASX listed entities)
 None.

Former directorships in the last 3 years (ASX listed entities)
 None.

Ms Elizabeth Gaines
 Non-Executive Director

Term of Office

Ms Gaines was appointed as a Non-Executive Director in February 2013.

Experience

Ms Gaines is an Executive Director and the Chief Executive Officer of Helloworld Limited. Prior to this, Ms Gaines was the Chief Operating Officer & CFO of Helloworld Limited, Chief Financial Officer of the Stella Group, Chief Finance and Operations Director of UK-based Entertainment Rights Plc and was previously Chief Executive Officer of Heytesbury Pty Limited.

Ms Gaines has held senior treasury and finance roles at BankWest in Australia and Kleinwort Benson in the UK and qualified as a Chartered Accountant with Ernst & Young. Ms Gaines is a member of the Institute of Chartered Accountants in Australia and the Australian Institute of Company Directors and holds a Bachelor of Commerce degree and Master of Applied Finance degree. Ms Gaines is a director of Mantra Group Limited and the Australian Federation of Travel Agents Limited.

Other current directorships (ASX listed entities)

Executive Director of Helloworld Limited and Non-Executive Director of Mantra Group Limited.

Former directorships in the last 3 years (ASX listed entities)

None.

Mr Graeme Rowley AM
 Non-Executive Director

Term of Office

Mr Rowley was appointed as an Executive Director in May 2003. Following his retirement from executive duties with Fortescue, Mr Rowley again became a Non-Executive Director of the Company in March 2010.

Experience

Mr Rowley was an executive with Rio Tinto plc and previously held senior positions with Hamersley Iron and Argyle Diamonds. Mr Rowley's previous directorships have included the Dampier Port Authority, the Pilbara Development Commission, the Council for the West Pilbara College of TAFE and the Western Australian State Government's Technical Advisory Council.

Mr Rowley is currently Chairman of the National Centre for Excellence in Desalination and he is also a Non-Executive Director of Admedus Ltd. Mr Rowley has extensive experience in operational management of both iron ore ship loading facilities and heavy haul railway within the unique Pilbara environment.

Other current directorships (ASX listed entities)

Non-Executive Director of Admedus Ltd.

Former directorships in the last 3 years (ASX listed entities)

None.

Mr Herbert Scruggs

Non-Executive Director

Term of Office

Mr Scruggs joined the Fortescue Board in August 2011 as a Non-Executive Director.

Experience

Mr Scruggs is Managing Director of The Cynosure Group, a U.S. based direct investment company. He is an expert in corporate recoveries and step change business improvement. A lawyer by training (BYU 1984), he has held a number of corporate, government, and civic positions including Chief of Staff to the Governor of Utah and Chairman of the University of Utah Board of Trustees. Mr Scruggs served on a number of boards of public as well as privately held companies including American Investment Bank, Barbados Light & Power, Deseret Morning News, Empire Insurance, and MK Gold – including service on multiple audit and executive committees. Mr Scruggs served as CEO of Huntsman Financial Corporation and previously worked as President of the Leucadia Asset Management Group.

He was instrumental in Leucadia's original decision to invest alongside Andrew Forrest in Fortescue. From July 2011 through December 2012, he provided, among other activities, management services to The Minderoo Group and the Australian Children's Trust, where he continues to serve as a board member.

Other current directorships (ASX listed entities)

None.

Former directorships in the last 3 years (ASX listed entities)

Non-Executive Director, Poseidon Nickel Limited, September 2012 to February 2014.

Mr Owen Hegarty

Non-Executive Director

Term of Office

Mr Hegarty was appointed as a Non-Executive Director in October 2008.

Experience

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

He was the founder and CEO of the Oxiana Ltd Group (now OZ Minerals Ltd), which grew from a small exploration company to a multi-billion dollar Australia, Asia and Pacific focused base and precious metals producer, developer and explorer. Mr Hegarty was awarded the AusIMM Institute Medal in 2006 and the G.J. Stokes Memorial Award in 2008 for his achievements in the mining industry. Mr Hegarty is Executive Vice Chairman of Hong Kong listed G-Resources Group Ltd, a gold mining company. He is also Chairman of Tigers Realm Minerals Pty Ltd, a private Melbourne based mining company and Chairman of EMR Capital, a private equity investment manager focused on resources. Mr Hegarty is a Director of the AusIMM and a member of a number of Government and industry advisory groups.

Other current directorships (ASX listed entities)

Non-Executive Director of Tigers Realm Coal Limited and Highfield Resources Limited.

Former directorships in the last 3 years (ASX listed entities)

None.

Dr Geoff Raby

Non-Executive Director

Term of Office

Dr Raby was appointed as a Non-Executive Director in August 2011.

Experience

Dr Geoff Raby was Australia's Ambassador to the People's Republic of China (2007-2011). Prior to that, he was a Deputy Secretary in the Department of Foreign Affairs and Trade (DFAT). He has extensive experience in international affairs and trade, having been Australia's Ambassador to the World Trade Organisation (1998-2001), Australia's APEC Ambassador (2003-2005), Head of DFAT's Office of Trade Negotiations and Head of the Trade Policy Issues Division at the OECD, Paris. Between 1986 and 1991 he was Head of the Economic Section at the Australian Embassy, Beijing. He has been the Chair of DFAT's Audit Committee and served as an ex officio member of the Boards of Austrade and EFIC (Export Finance and Insurance Corporation).

Other current directorships (ASX listed entities)

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

Former directorships in the last 3 years (ASX listed entities)

None.

Mr Mark Barnaba
Non-Executive Director

Term of Office

Mr Barnaba was appointed as a Non-Executive Director in February 2010.

Experience

Mr Mark Barnaba is Chairman of the Audit and Risk Management Committee and a member of the Remuneration and Nomination Committee.

Mr Barnaba currently holds the position of Chairman with Macquarie Bank Western Australia, Western Power, Edge Employment Solutions (a disability employment organization), and the University of Western Australia Business School. He also serves as an Adjunct Professor in Investment Banking and Finance and as a member of the In The Zone Editorial Committee with the University of Western Australia. Until recently, Mr Barnaba held the position of co-founder and Executive Chairman of Azure Capital and was a Non-Executive Chairman of the West Coast Eagles Football Club and a member of the Rhodes Scholarship Selection Committee.

Mr Barnaba received his Bachelor of Commerce with first class honours from the University of Western Australia in 1985 and was awarded the JA Wood University Medal for top graduate, university wide. He then went onto Harvard Business School and received an MBA in 1988, graduating with a high distinction as a Baker Scholar. In 2009, Mr Barnaba was the recipient of the Western Australian Citizen of the Year Award in Industry and Commerce.

Other current directorships (ASX listed entities)

None.

Former directorships in the last 3 years (ASX listed entities)

Adept Solutions Ltd.

Ms Sharon Warburton
Non-Executive Director

Term of Office

Ms Warburton was appointed as a Non-Executive Director in November 2013.

Experience

Ms Warburton is Executive Director of Strategy and Finance with Brookfield Multiplex. Prior to this, Ms Warburton was Chief Planning and Strategy Officer of United Arab Emirates based company, ALDAR Properties PJSC, and previously held a variety of senior executive roles with Brookfield Multiplex including Group General Manager, Mergers, Acquisitions and Operational Support and Group General Manager, Strategy and Operations. She is a Chartered Accountant and has held senior finance roles at Citigroup and Rio Tinto. She is a member of the Institute of Chartered Accountants in Australia and a Graduate of the Australian Institute of Company Directors.

Other current directorships (ASX listed entities)

None.

Former directorships in the last 3 years (ASX listed entities)

None.

Mr Mark Thomas
Company Secretary

Term of Office

Mr Thomas was appointed Company Secretary in June 2010.

Experience

Mr Thomas joined Fortescue in April 2004 in the role of Group Financial Controller and went on to become Head of Finance and IT and then Group Manager Finance. With more than 15 years experience in the mining and professional services industries, Mr Thomas has also held senior finance positions with the Goldfields Australia Group and with a number of professional service providers. He has extensive experience in accounting and finance, IT and business administration in the mining and professional services industries. Mr Thomas has a Bachelor of Commerce from the University of Western Australia, Graduate Diploma in Applied Corporate Governance, a Masters of Business Administration and is a Certified Practising Accountant and a Fellow of Chartered Secretaries Australia.

Key Management Personnel

Mr Stephen Pearce

Chief Financial Officer

Experience

Mr Pearce joined Fortescue in March 2010 with more than 20 years experience in senior management roles in the mining, oil and gas and utilities industries. He previously held the position of Managing Director and CEO of Southern Cross Electrical Engineering Limited and before that was Chief Financial Officer with Alinta Limited. Mr Pearce has previously served as Chairman of Amadeus Energy Ltd., and Chairman of Surtron Technologies Pty Ltd.

Mr Pearce has a Bachelor of Business from RMIT, a Graduate Diploma in Company Secretarial Practice and is a fellow of the Institute of Chartered Accountants Australia and New Zealand, a Chartered Secretary and Member of the Australian Institute of Company Directors.

Mr Pearce served as a member of the Western Australian Business and Industry Committee for the Salvation Army for seven years. He is currently Chairman of the Lions Eye Institute and a Non-Executive Director of Cedar Woods Limited.

Mr Nick Cernotta

Director Operations

Experience

Mr Cernotta has 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. Qualified with a Bachelor of Mining Engineer, Mr Cernotta comes to Fortescue with a solid operational background and experience in both the public and private sectors of the mineral resources industry.

Prior to joining Fortescue Metals Group, Mr Cernotta was the Chief Operating Officer for Macmahon Contracting with responsibility for all domestic underground contracting and all international offshore surface mining contracts. Mr Cernotta's short term with Macmahon preceded a fruitful and challenging career as Director of Operations for the Barrick Gold Australia Pacific Regional Business Unit, which involved a period of rapid growth through acquisition, new business development ventures and record profitability. Mr Cernotta has also held senior executive roles in mining operations and in contracting, with accountability for Health, Safety and Environmental, Maintenance, Engineering, Business Improvement and Technical Services.

Directors' meetings

The number of meetings of the Company's Board of Directors and of each Board committee held during the year ended 30 June 2014 and the number of meetings attended by each Director were:

	Board meetings		Committee meetings					
			Audit		Remuneration		Finance	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Andrew Forrest	6	5	*	*	4	4	*	*
Herb Elliott	6	5	*	*	4	3	*	*
Mark Barnaba	6	6	4	4	4	4	2	2
Sharon Warburton	2	2	*	*	2	2	*	*
Owen Hegarty	6	6	*	*	4	4	*	*
Geoff Raby	6	5	*	*	*	*	*	*
Graeme Rowley	6	4	4	3	2	1	2	2
Cao Huiquan ¹	6	3	*	*	*	*	*	*
Elizabeth Gaines	6	6	3	3	*	*	2	2
Nev Power	6	6	*	*	*	*	*	*
Peter Meurs	6	6	*	*	*	*	*	*
Herbert Scruggs	6	6	4	4	*	*	2	2
Geoff Brayshaw ²	4	4	2	2	*	*	2	2

* Not a member of the relevant committee.

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

² Mr Brayshaw retired in November 2013.

Operating and financial review

Group overview

Fortescue is the world's fourth largest iron ore producer, operating in the iron ore rich Pilbara region of Western Australia with close proximity to the growing economies of China, South East Asia and India. Fortescue has delivered unparalleled growth, evolving from a grassroots explorer in 2003, to a world leader in iron ore production.

During the 2014 financial year (FY14) Fortescue completed a 100 million tonne (mt) expansion program, increasing production capacity to 155 million tonnes per annum (mtpa). Fortescue's expansion, undertaken to support the increasing global demand for iron ore, was delivered at an unprecedented pace with an expansion cost of US\$92 per tonne.

The additional capacity of 100mtpa has been delivered through:

- Increasing the output of the existing Cloudbreak and Christmas Creek mines, the Chichester Hub, from 55mtpa to 95mtpa;
- Developing the Firetail and Kings mines, the new Solomon Hub, to produce 60mtpa;

- Increasing shipping capacity at Herb Elliott Port from 55mtpa to 155mtpa; and
- Building the Hamersley rail line to connect the Solomon Hub to Fortescue's existing main rail link from the Chichester Hub to Port Hedland and increasing the rail network capacity to 155mtpa by adding a further 125km of track.

The success of Fortescue's expansion demonstrates original thinking, innovation and determination, with new benchmarks set in safety, costs, schedule and ramp-up.

The key components of the expansion delivered in FY14 included:

- Ramp-up of Firetail operations to a 20mtpa run rate, completion and ramp-up of the Kings Valley operation;
- Completion of the main track line, rail optimisation controls and train control systems for the main line and the Hamersley line; and
- Commissioning of the fourth berth and surge bin at Port.

All components of the Rail and Port infrastructure, and the Chichester and Solomon Hubs expansions are now operational and ramped up to full production capacity. The targeted 155 million tonne rate per annum was delivered through the June 2014 quarter and a record 160 million tonnes annualised rate achieved for the month of June.

Achieving full production capacity has structurally improved Fortescue's cost base, reducing C1 operating costs by 23 per cent to US\$34/wmt in the last 12 months, with a delivered cost to customers of US\$52/wmt in FY14. From a costs perspective, Fortescue continues to drive down the global cost curve ensuring that it is well positioned to withstand future volatility in the iron ore price. Fortescue continues to focus on operational efficiencies and cost management which, together with the benefits of a full year of operations from the low cost Kings Valley mine are expected to result in C1 costs of US\$31/wmt to US\$32/wmt in FY15.

Fortescue financed its expansion through operating cash flows and debt sourced from the US high yield and term loan markets. As operational cash flows have strengthened, and capital expenditure decreased, Fortescue has commenced its accelerated debt repayment strategy. To date, US\$3.1 billion of debt has been repaid. The flexibility built into Fortescue's debt profile allows further voluntary repayments or refinancing in excess of 60 per cent of the Company's debt prior to maturity.

Fortescue remains absolutely focused on continuing to improve shareholder value through identification of additional operating efficiencies and disciplined capital management, continuing its drive towards being the safest, lowest cost and most profitable iron ore producer.



Total shipments 124.2mt
↑ 54%
for the financial year

Operations

Safety

Health and safety of our people is a core value at Fortescue and the highest priority in everything we do.

It is with deep regret that two lives were lost in Fortescue operations during the first half of the 2014 financial year. In order to prevent these tragedies in the future, Fortescue has taken decisive actions to reinforce its safety culture and performance. A number of initiatives have been implemented, with a particular focus on learnings from the two fatalities involving contractor employees at Christmas Creek.

During the year, increased focus has been placed on the review of safety leadership, culture and systems across all sites to drive improvement in safety. In addition, an independent external review was conducted across all sites, where 6,000 people participated from across each part of Fortescue's business to identify opportunities for improvement. This project is delivering results with improvement to safety outcomes from focusing on leadership, contracting processes and the sharing of incident lessons.

The Total Recordable Injury Frequency Rate per million hours worked improved by 21 per cent from 7.6 in June 2013 to 6.0 in June 2014.

Aboriginal engagement

Fortescue's unique philosophy towards engagement with Aboriginal communities, particularly our Native Title Partners, is based on providing sustainable economic opportunities through business development, training and employment.

Fortescue is now a national leader in the delivery of opportunities for Aboriginal businesses. In December 2011 Fortescue set a target to award A\$1.0 billion in contracts to Aboriginal businesses by the end of 2013 through the Billion Opportunities program. Contracts were awarded in competitive and open processes in accordance with Fortescue's normal governance around procurement and require Aboriginal businesses to be capable of delivering projects in a safe, timely and cost competitive manner. The A\$1.0 billion target was achieved in June 2013, 18 months into the program and six months ahead of schedule. One year on, the total value of the 160 contracts and sub-contracts awarded to more than 50 Aboriginal businesses is A\$1.6 billion. Importantly for Pilbara Aboriginal people, 88 per cent of these contracts were awarded to businesses associated with Fortescue's Native Title Partners.

Fortescue continues to drive excellence in Aboriginal engagement through its contracting partners. The Company's procurement policies drive local content and preferences contracting arrangements with Aboriginal businesses that meet performance and price standards. Further, Fortescue's tender and contractor documentation requires proposals to contain an Aboriginal Engagement Strategy, including binding commitments to Aboriginal employment, training, and local Aboriginal business capacity building. In FY14, the Company has seen significant increase in the commitment of Fortescue's contracting partners to provide second tier opportunities, with sub-contracts worth A\$233 million awarded to Aboriginal businesses and joint ventures in FY14.

Fortescue's Vocational Training and Employment Centre (VTEC) is a community-based, pre-employment training and support program for Aboriginal people. VTEC's vision is to change lives through employment, which is achieved by developing and delivering targeted training courses based on relevant vacancies within Fortescue and its contractors. The program also provides support in health, literacy and work experience to help Aboriginal people with their fit for work requirements and ensure long term employment. Since its establishment in 2006, VTEC has helped more than a thousand Aboriginal people through

training, support and employment. 553 employees, or 12 per cent, of Fortescue's workforce are Aboriginal.

Fortescue's VTEC program inspired the model promoted by GenerationOne and now endorsed by the Federal Government. The Federal Government has committed A\$45 million to fund the establishment of VTECs across the country. Fortescue is extremely proud of its role in the development of this nation leading approach to Aboriginal employment and training, and importantly over 1,200 Aboriginal people are employed across Fortescue's operations.

Production and shipping performance

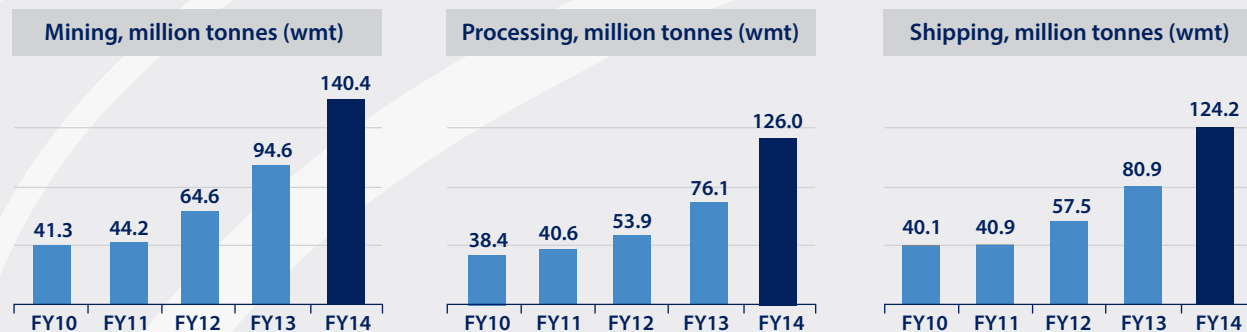
Record performance was achieved across the integrated mine, rail and port supply chain in FY14. As the expansion projects have been completed and successfully ramped up through the year, the targeted 155 million tonne annualised rate was achieved in the June 2014 quarter. Total shipments in FY14 were 124.2 million tonnes (mt) (2013: 80.9mt) including a record 13.3mt shipped in the month of June, at a 160 million tonne annualised rate.

Production and shipments on a wet metric tonne basis were as follows:

12 months to 30 June (millions of tonnes)	2014	2013	Movement
Ore mined	140.4	94.6	48%
Overburden removed	404.5	364.5	11%
Ore processed	126.0	76.1	66%
Ore shipped – Fortescue mined ore	118.4	75.9	56%
Ore shipped – Fortescue equity ore	119.9	77.8	54%
Total ore shipped including third party product	124.2	80.9	54%

Mining, processing and shipping

Fortescue delivered record mining, processing and shipping volumes for the year. Total shipments increased to 124.2mt, 54 per cent higher than the prior year, and comprised 119.9 million Fortescue equity tonnes and 4.3 million third party tonnes. Total ore mined increased by 48 per cent to 140.4mt, as operations ramped up across the Chichester and the Solomon Hubs.



As the Firetail project fully ramped up during the year, Fortescue continued to realise the benefits of blending low impurity Chichester and higher grade Firetail ore. This together with the upgrades achieved through the new processing facilities and beneficiation plants, maximises product quality enabling reduction in the cut-off grades and therefore lower strip ratios at the Chichester mines. These initiatives delivered a strip ratio of 3.5x at the Chichester Hub in FY14, consistent with the long term mine plan. The Solomon Hub strip ratio averaged 1.6x for the year, including 1.3x in the June 2014 quarter as mining was moving closer to a steady state following the ramp up of operations at the Kings Valley project.

During the year, Fortescue consolidated its processing operations through the successful transition of operational responsibilities from the contracting parties for the two Christmas Creek OPFs and the two Solomon Hub OPFs. This now gives Fortescue operational responsibility over all five of its OPFs, enabling shared learnings, synergies, economies of scale and efficiencies across the business. Significant focus continues to be placed on the safe and efficient operation of OPFs across all sites.

Rail construction was completed during the year, with rail optimisation control systems successfully commissioned on the mainline in December 2013 and on the Hamersley line in March 2014. Port operations achieved the targeted capacity of 155mtpa in July 2013, following the commissioning of the AP4 berth and integration of the third ship loader with the third outload circuit. The annualised 155mtpa run rate was first achieved at Port over a seven day period in December 2013, followed by consistent operation at or above this level through the second half of the financial year. The construction of the fifth berth at Port Hedland (AP5) is currently underway and is expected to be complete in the March 2015 quarter, increasing outload capacity by a further 15 – 20mtpa.

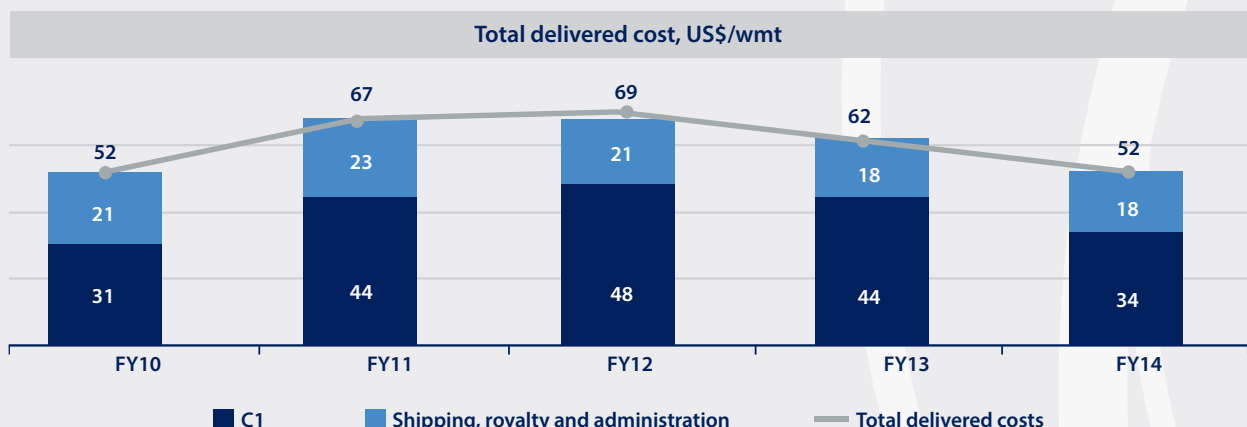
Production costs

Fortescue refers to the operating costs of mining, processing, rail and port on a per tonne basis as C1. This measure is used internally and during other external results presentations to communicate Fortescue's operating cost performance. In FY14, Fortescue delivered a 23 per cent reduction in C1 costs to US\$34/wet metric tonne (wmt) (2013: US\$44/wmt). This result reflects the benefits of lower cost Solomon operations, improved processing capacity lowering strip ratios at the Chichester Hub, focus on delivering operational efficiencies and the lower Australian dollar.

Fortescue's operating costs are largely denominated in Australian dollars and are subject to movements in exchange rates with an impact of US\$0.25/wmt to US\$0.30/wmt for every one cent movement in the US to Australian dollar.

Total delivered costs to customers, inclusive of C1 costs, shipping, state government royalties and administration charges, were US\$52/wmt or US\$56/dry metric tonne (dmt) in FY14.

Fortescue will continue to focus on cost savings initiatives and efficiencies at its mines, OPFs and infrastructure assets to improve productivity and drive further down the global cost curve.





The reconciliation of C1 costs and total delivered costs to the amounts disclosed in the financial statements is shown below.

	Note ⁽ⁱ⁾	2014 US\$m	2013 US\$m
Mining costs	5	3,442	2,851
Rail costs	5	238	182
Port costs	5	252	181
Operating leases	5	74	133
C1 costs, US\$ million		4,006	3,347
Ore shipped – Fortescue mined ore		118.4	75.9
C1, US\$/wmt		34	44
Shipping costs	5	1,210	769
Government royalty	5	775	499
Administration expenses	6	112	110
Shipping, royalty and administration, US\$/wmt		18	18
Total delivered cost, US\$/wmt		52	62

⁽ⁱ⁾ Notes to the accompanying consolidated financial statements.

Marketing

Fortescue's suite of products is sold with reference to the 62 per cent Platts CFR index, a benchmark market reference for seaborne iron ore, with a market price comparable to other products which have similar value-in-use properties for steel production.

FY14 has seen a continued increase in iron ore supply as the major Pilbara iron ore producers have ramped up production to near full capacity. The increased supply of seaborne iron ore has created volatility in iron ore prices during the June 2014 quarter. Fortescue expects iron ore

price to stabilise as supply re-balances in the short term as Chinese port inventories are drawn down, steel mills re-stock and higher cost iron ore producers leave the market.

Fortescue has continued to see strong support for its products with the average realised price of US\$106/dmt (2013: US\$114/dmt), based on average 62 per cent Platts CFR index of US\$123/dmt (2013: US\$127/dmt). As balance is restored to the iron ore supply and demand, Fortescue expects to realise between 85 to 90 per cent of the average 62 per cent Platts CFR index.



2011 Wharf expansion



2013 Fortescue employees at Kings Valley project



Train load-out module being delivered to Solomon

Development

T155 expansion

The official opening of the Kings Valley project in March 2014 marked the completion of the expansion to 155mtpa.

The project was announced in November 2010 and has delivered:

- Three advanced OPFs with wet processing capability
- Four new crushing hubs
- Over 250km of new rail track
- 300km of new roads
- 50km of conveyor systems
- Two new berths
- Two new train unloaders with associated stock yard expansion at Herb Elliott Port
- Two new aerodromes
- Highly automated rail ore car refurbishment facility
- A new power station at Solomon and expansion of power generation capacity at the Chichester Hub
- Extensive new fuel receiving and delivering facilities
- New rail rolling stock and locomotives
- Operations villages at Christmas Creek and Solomon
- Significant expansion of the mobile mining fleet

The expansion has been completed for US\$9.2 billion or US\$92 per tonne. All components of the Port, Rail, Chichester Hub and Solomon Hub expansions have been ramped up and are operating at full capacity.

Fortescue River gas pipeline

Fortescue is executing a plan to lower energy costs and reduce its carbon footprint by transitioning its Pilbara operations from diesel to natural gas. As a first step, the Fortescue River gas pipeline will deliver gas from the Dampier to Perth Pipeline to the Solomon Power Station with completion scheduled in the March 2015 quarter.

Compressed Natural Gas (CNG)

As an interim step in advance of completion of the natural gas pipeline, Fortescue will truck compressed natural gas (CNG) from facilities in Port Hedland to gas receiving facilities installed at the Solomon Power Station. Deliveries are scheduled to commence in August 2014 and will run until the Fortescue River pipeline is fully commissioned.

AP5 Project

The project to build the fifth wharf at Anderson Point, AP5, remains on schedule and on budget for completion in the March 2015 quarter. Dredging was completed in the June 2014 quarter and installation of wharf piles has commenced. All major contracts have been awarded and fabrications of wharf modules are under way in China and Western Australia.

Detrital Processing Plant

Construction of a 5mtpa detrital processing plant at Solomon will allow processing of detrital ore, eliminating the need for an expensive wet plant addition to the Firetail OPF. Project duration is estimated at 55 weeks at a cost of approximately US\$105 million.

Iron Bridge Project

Construction activities continue to achieve planned milestones for Stage 1 of the Iron Bridge magnetite project. The main construction camp is complete, access roads and earthworks at the Northstar OPF are nearing completion and pre-strip activities are progressing. Concrete works at the OPF are well advanced with commencement of structural, mechanical and piping works. A contract has been awarded for the electrical and instrumentation package of works. First production from the 1.5mtpa OPF is expected in the March 2015 quarter.

Incremental Train Control System (ITCS)

ITCS has been implemented across Fortescue's rail system and is now fully operational. The system is delivering improvements in train scheduling, operations and optimisation of the network.

Autonomous Haulage System

The trial of autonomous trucks at Solomon has demonstrated that the technology is suitable for deployment across the Firetail and Kings Valley projects.

Ship construction

During the financial year Fortescue entered into arrangements for the construction of four highly efficient very large ore carriers (VLOCs) for a total investment value of US\$275 million. The vessels are scheduled for delivery from November 2016 to May 2017 with the majority of payments due upon delivery.

The 260,000 dead weight tonnage class vessels are larger than the traditional capsize vessels that have dominated the seaborne market and incorporate design specifications ideally suited to Port Hedland's tidal conditions. The VLOCs design complements the port infrastructure and will improve load rates, efficiencies and reduce operating costs at Port. Further savings will be derived as the expected cost of operating these vessels is well below the current forward market rates for large capsize vessels.

In July 2014 Fortescue secured construction of four additional iron ore carriers to be delivered in late 2017 to early 2018, for a total investment value of US\$280 million.



2014 Port APS expansion



Incremental Train Control System

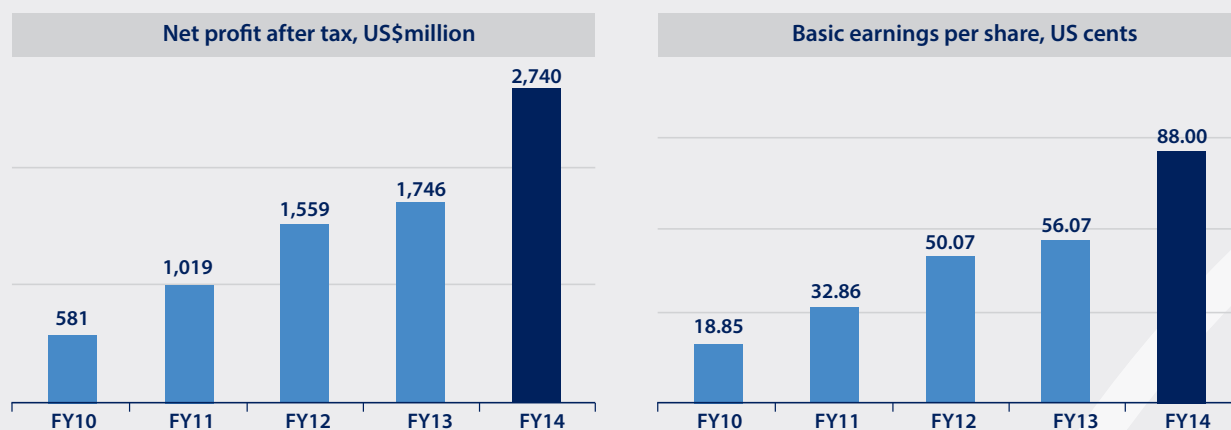


Autonomous trucks at Solomon

Financial results

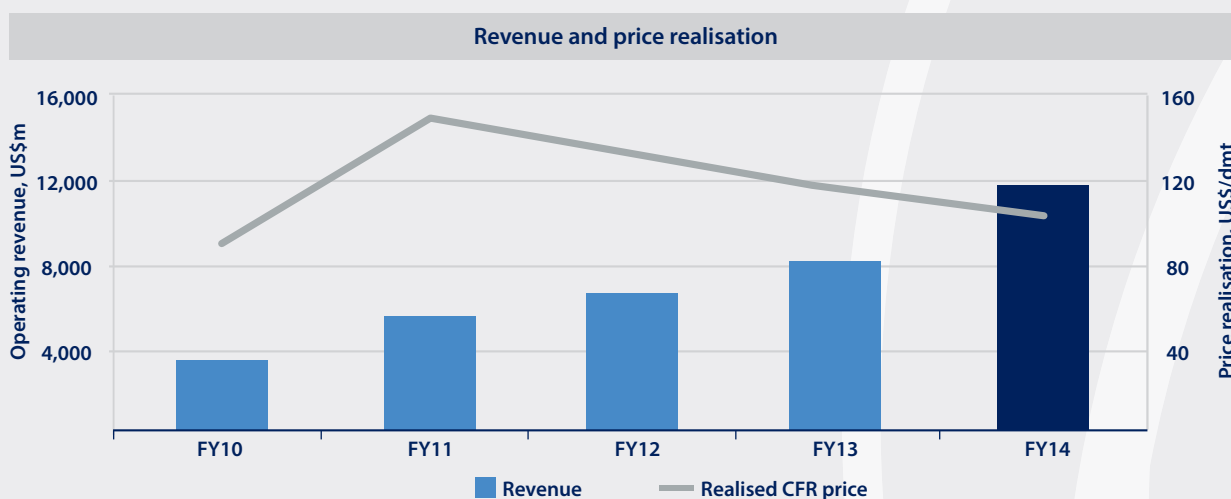
Financial results

Profit after tax for the year ended 30 June 2014 increased by 57 per cent to US\$2,740 million, increasing basic earnings per share to 88.00 cents (2013: 56.07 cents).



Fortescue's strong financial result reflects improved operational performance, as the expansion to 155mtpa was completed and record shipments of 124.2mt were delivered in FY14 (2013: 80.9mt). Financial performance highlights are discussed below.

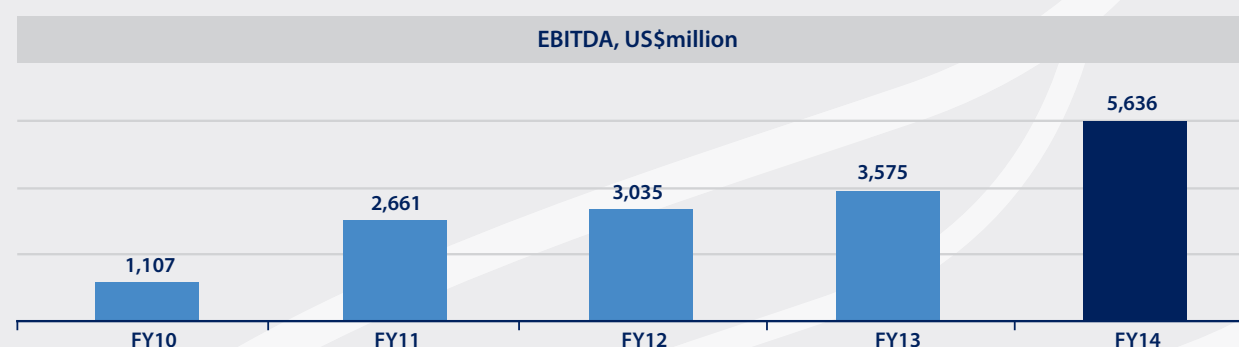
Operating sales revenue increased by 45 per cent to US\$11,753 million, due to increased shipments, and was partially offset by a seven per cent decrease in the realised CFR price. Year on year revenue growth and price realisations are illustrated in the chart below.



Fortescue uses earnings before interest, tax, depreciation and amortisation (EBITDA) as a key measure of its financial performance. In FY14, the Group's EBITDA improved by 58 per cent to US\$5,636 million. The reconciliation of EBITDA to the financial metrics reported in the financial statements under Australian accounting standards, together with the five year earnings trend, are presented on the following page.

	Note ⁽ⁱ⁾	2014 US\$m	2013 US\$m
Operating sales revenue	3	11,753	8,120
Cost of sales excluding depreciation and amortisation	5	(6,078)	(4,703)
Gain on disposal of assets and interest in joint venture	4	109	124
Net foreign exchange (loss) gain	4,6	(53)	96
Re-estimation of unsecured loan notes	4	-	34
Administration expenses	6	(112)	(110)
Other income	4	17	14
EBITDA		5,636	3,575
Finance income	7	21	33
Finance expenses	7	(741)	(586)
Net gain on refinancing	4	-	23
Depreciation and amortisation	5,6	(965)	(463)
Assets write-off	6	(22)	(71)
Exploration, development and other	6	(16)	(45)
Net profit before tax		3,913	2,466
Income tax expense	8	(1,173)	(720)
Net profit after tax		2,740	1,746

⁽ⁱ⁾ Notes to the accompanying consolidated financial statements



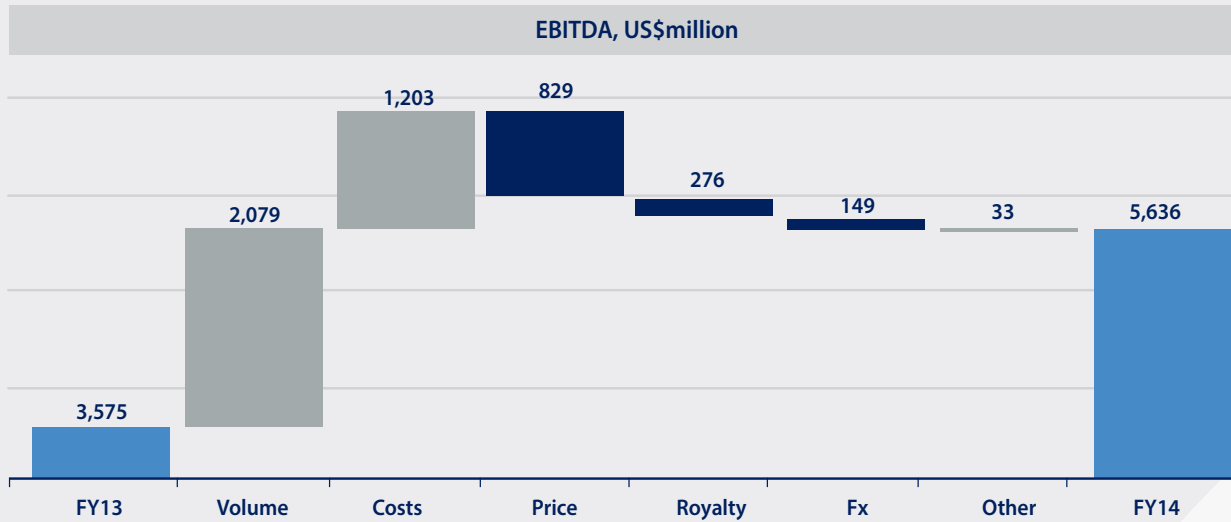
The increased shipping volumes lifted profits by US\$2,079 million, with the impact of higher revenue of US\$4,387 million offset by the increased cost base, including C1 costs of US\$1,874 million and shipping costs of US\$434 million.

The impact of higher volumes was partially offset by lower realised prices, as iron ore market prices softened in the second half of the financial year. In FY14, Fortescue realised US\$106/dmt (2013: US\$114/dmt), based on the 62 per cent CFR Platts index of US\$123/dmt (2013: US\$127/dmt).

A 23 per cent reduction has been delivered on a cost per tonne basis over the last 12 months, with C1 costs

of US\$34/wmt (2013: US\$44/wmt). The improved performance reflects lower cost Solomon production, improved processing capacity and the introduction of Fortescue blend, lowering strip ratios at the Chichester Hub, operational efficiencies and the lower Australian dollar. Total delivered cost, inclusive of state government royalties, shipping and administration charges, was US\$52/wmt (2013: US\$62/wmt).

State government royalty charges increased consistent with the higher revenue base. Fortescue pays 7.5 per cent state government royalty for the majority of its products, with a concession rate of 5 per cent applicable for beneficiated fines.



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

- In October 2013 Fortescue completed the formation of a joint venture with Formosa Plastics Group (Formosa) to develop the FMG Iron Bridge magnetite project. As part of the transaction, Formosa acquired a 31 per cent unincorporated joint venture interest for US\$123 million, generating a pre-tax gain of US\$109 million.

Formosa committed to fund the first US\$527 million of capital expenditure in the FMG Iron Bridge magnetite project and elected to prepay US\$500 million to access Fortescue's port facilities at Herb Elliott Port. The second stage of the FMG Iron Bridge magnetite project, if approved by the joint venture partners, will be funded by a contribution of the next US\$1,050 million from Fortescue's subsidiary, FMG Iron Bridge Limited.

- Net finance expenses for the year of US\$720 million (2013: US\$553 million), net of capitalised interest on expansion projects of US\$75 million (2013: \$342 million) and including net loss on early debt retirement of US\$53 million.
- Depreciation and amortisation expenses of US\$965 million (2013: US\$463 million), following completion and capitalisation of all components of the 155mtpa expansion program.
- Income tax expense for the year of US\$1,173 million (2013: US\$720 million), at an effective income tax rate of 30 per cent (2013: 29 per cent).

In FY14, Fortescue paid income tax of US\$150 million, with a further US\$666 million payable by December 2014.

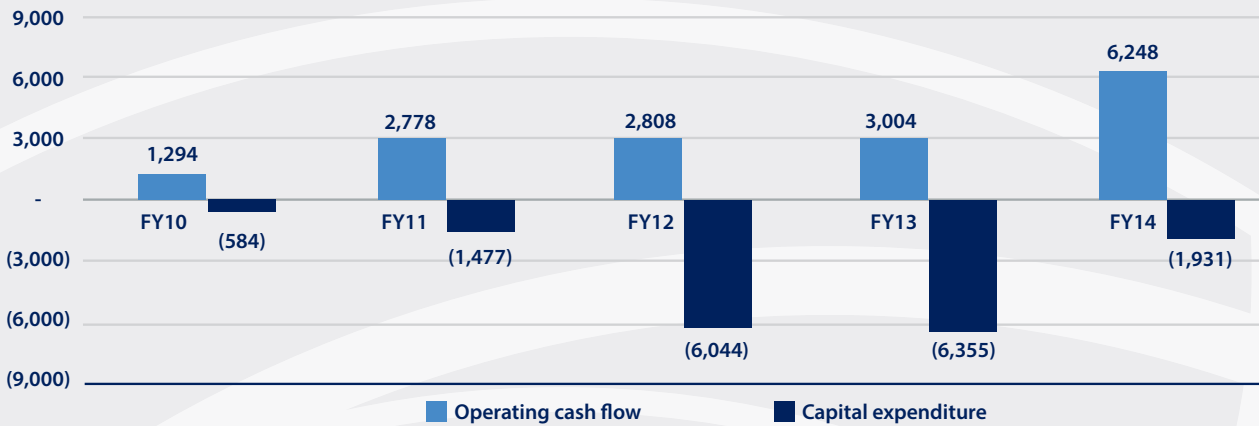
In addition, US\$717 million in state government royalties were paid to Western Australian State Government.

The number of shares on issue at 30 June 2014 was 3.1 billion and remain unchanged since last year.

Safety
is a core value at Fortescue



Operating cash flow and capital expenditure, US\$million



Cash flows and financial position

Cash and cash equivalents at 30 June 2014 were US\$2,398 million compared to US\$2,158 million at 30 June 2013.

Net cash flows from operating activities increased by 108 per cent to US\$6,248 million (2013: US\$3,004 million), reflecting increased production and lower operating costs. In FY14, Fortescue paid income tax of US\$150 million, with a further US\$666 million payable by December 2014. Operating cash flows for the financial year are inclusive of US\$712 million receipts from iron ore prepayments and US\$500 million port access charge prepayment.

Net cash outflow from investing activities, principally capital expenditure, decreased by 77 per cent to US\$1,392 million, as the capital expenditure peaked in the previous financial year following completion of the 155mtpa expansion program.

The key factors contributing to the net financing cash outflows of US\$4,625 million were:

- Early debt repayments of US\$3.1 billion, including US\$2.04 billion 2015 senior unsecured notes, US\$0.6 billion 2016 senior unsecured notes, A\$0.14 billion preference shares and US\$0.3 billion early settlement of finance leases;
- Interest and finance costs paid of US\$853 million (2013: US\$893 million); and
- Dividend payments of US\$581 million (2013: US\$131 million), including payment of final dividend of 10 Australian cents per share for the 2013 financial year in October 2013 and interim dividend of 10 Australian cents per share for the 2014 financial year in April 2014.



Fortescue operates the fastest and heaviest rail network in the world

Funding and capital management

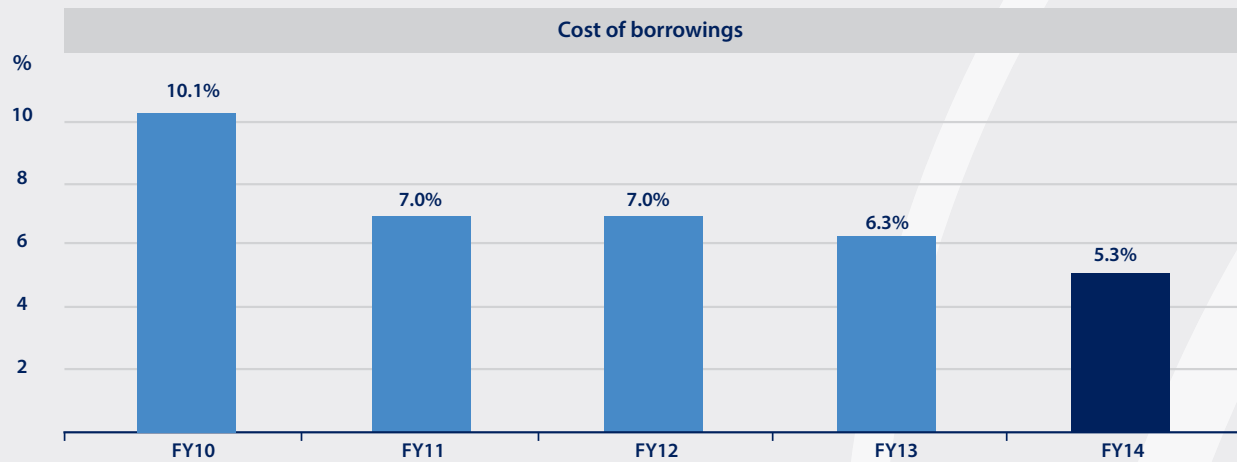
Fortescue's net debt position, including finance leases and cash on hand, improved from US\$10.5 billion at 30 June 2013 to US\$7.2 billion at 30 June 2014.

Fortescue is focused on reducing its gearing and commenced an accelerated debt reduction program in FY14, with the following initiatives successfully completed during the year:

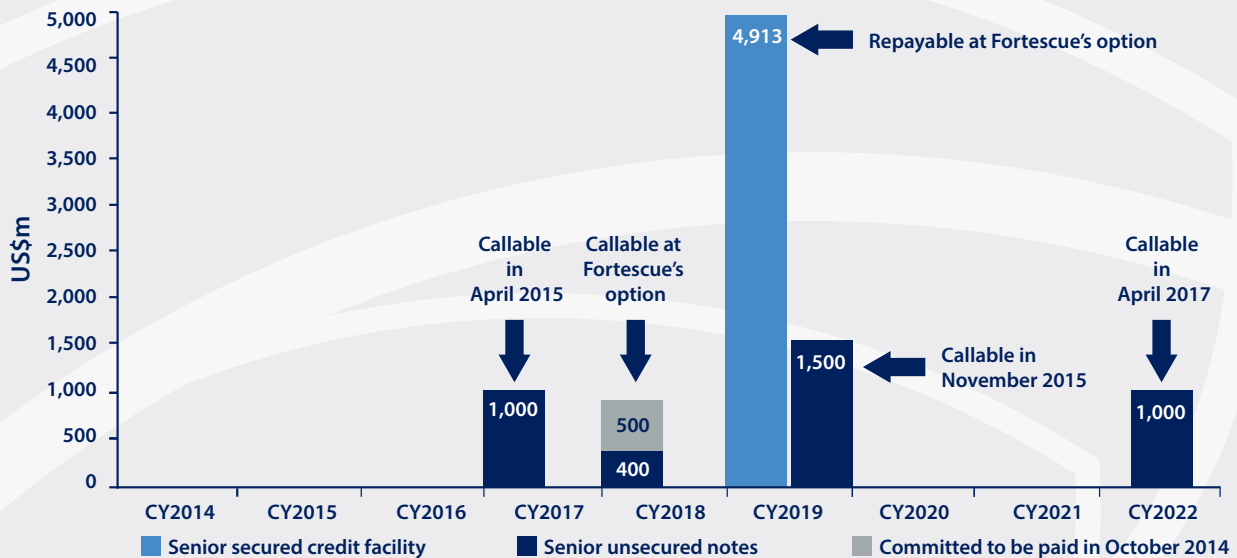
- Redemption of A\$140 million preference shares, completed in November 2013;
- Redemption of US\$2.04 billion 2015 senior unsecured notes, completed in December 2013 (US\$1.0 billion) and in March 2014 (US\$1.04 billion);
- Pay-out of the Christmas Creek OPFs finance lease liabilities of US\$0.3 billion in January 2014; and
- Redemption of US\$0.6 billion 2016 senior unsecured notes, completed in March 2014.

In November 2013 Fortescue successfully re-priced the US\$5.0 billion Term Loan, reducing the previous margin by one per cent to 3.25 per cent from November 2013 and by a further 0.5 per cent to 2.75 per cent from May 2014. The loan maturity has been extended by 21 months to 30 June 2019. The total coupon payable on the Term Loan is calculated as LIBOR, with a LIBOR floor of 1.00 per cent plus the margin.

The above debt repayment of US\$3.1 billion and re-pricing of the Term Loan delivered an interest saving of US\$165 million in FY14, with the full year savings going forward of approximately US\$300 million per annum. At 30 June 2014, Fortescue's weighted average cost of debt decreased to below six per cent per annum. The below chart illustrates Fortescue's finance expenses together with the costs of funding over the last five years. Cost of borrowings has been calculated using borrowings balances and interest rates as at the end of the financial year and excludes Unsecured Loan Notes (Leucadia notes) and finance lease liabilities.



Fortescue has built significant flexibility in its debt profile, which facilitates additional repayments and the ability to further reduce debt and move towards an initial targeted gearing level of 40 per cent. As illustrated in the debt maturity profile below, Fortescue's earliest debt maturity is in 2017. Further, a total of US\$5.8 billion, or in excess of 60 per cent, of the Company's long term debt is available for voluntary repayment in advance of maturity and at Fortescue's option.

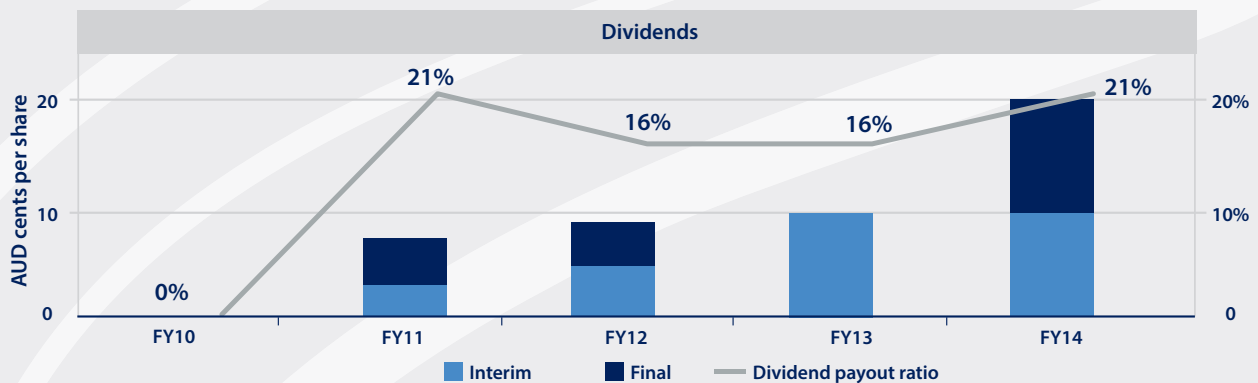


Dividends

The following dividend payments have been completed during the financial year:

- Final fully franked dividend for the year ended 30 June 2013 of 10 Australian cents per share, paid in October 2013;
- Interim fully franked dividend for the year ended 30 June 2014 of 10 Australian cents per share, paid in April 2014.

On 20 August 2014, the Directors declared a fully franked dividend of 10 Australian cents per ordinary share payable on 3 October 2014.



Fortescue considers a range of factors when determining an appropriate level of dividend, including the Company's liquidity position, mid to long term development profile and gearing levels.



Isak Buitendag, Director Health, Safety and Security



Reclaimer at Port Hedland



The electrical team in Port Hedland checking a cable relay break on a Stacker at the Port

Strategy

As Fortescue has completed its major expansion program, the focus has shifted to consolidation of the operations and maximising the output from the Company's world class assets. Whilst each component of the mine, rail and port operations have been running consistently at the target capacity over the June 2014 quarter, focus continues on ways to optimise operations to deliver additional low cost tonnes from the existing assets base.

From an operational stance Fortescue's key priority is the identification of additional efficiencies and driving the costs down further. In FY15 Fortescue expects to deliver total shipments of 155 to 160 million tonnes at C1 operating costs of US\$31/wmt to US\$32/wmt, a 30 per cent cost reduction over a two year period. Key drivers for the savings in FY15 will be a full year of production out of Kings Valley, improved processing capability, and operational efficiencies and innovations. The construction of VLOCs, scheduled for completion in 2017 – 2018, will further add to the reduction of total delivered costs as the vessels are ideally designed for our Port operations and the expected cost of operating the vessels is below the current forward market rates for large capsized vessels.

Fortescue continues to evolve its product strategy, including a successful launch of Fortescue Blend in FY14, a high quality product that maximises the benefits of low impurity Chichester and higher iron content Firetail product. In July 2014, Fortescue introduced its new low alumina, 58 per cent iron grade Kings CID product, which further complements Fortescue's product offering of high value-in-use iron ore fines.

Fortescue is committed to driving down its gearing to the initial target of 40 per cent. In order to achieve this gearing target, a further debt repayment of US\$2.0 billion to US\$2.5 billion is required, which is expected to be executed over the next 18 to 24 months. The exact timing of these repayments will depend on a number of factors, including iron ore prices and the Australian dollar exchange rate.

Once the gearing target of 40 per cent is achieved, Fortescue is planning to move to a 30 to 40 per cent dividend payout ratio.

Fortescue continues to strategically evaluate incremental growth opportunities, with a number of projects increasing output with minimal capex underway. These include the design and construction of a five million tonne per annum wet processing plant, providing a lower cost and more efficient solution for the detritals product out of Kings. The construction of AP5 berth scheduled for completion in March 2015 is also progressing well and, once complete, will increase the outload capacity by 15 to 20 million tonnes per year.

Environmental regulation and performance

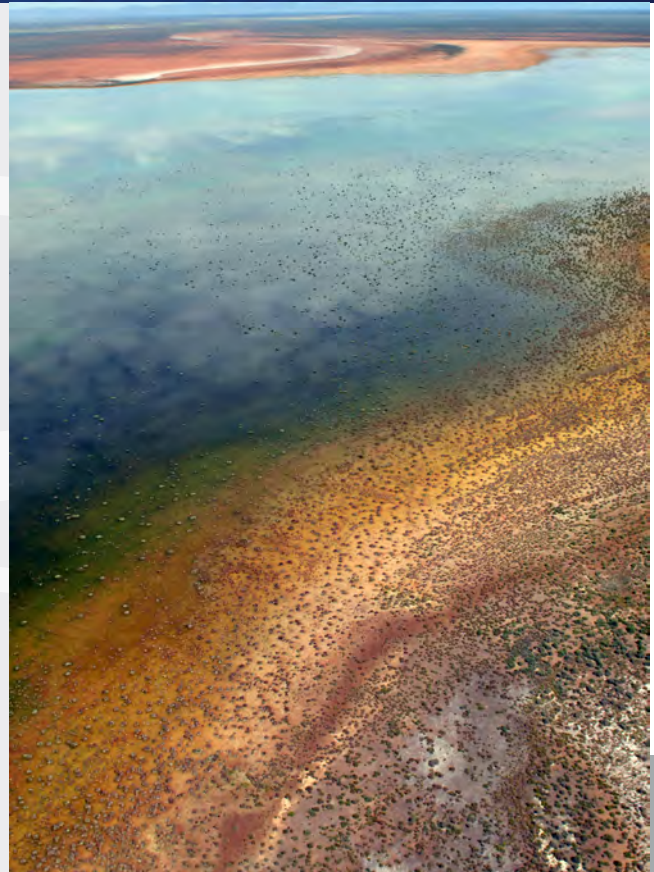
Fortescue is committed to minimising the impact of its operations on the environment. The Board takes seriously the need for continuous monitoring of environmental matters and compliance with environmental regulations.

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

Fortescue manages compliance with its environmental responsibilities and sets its objectives and targets through its Environmental Management System. Fortescue identifies risks of environmental impact from its projects and operations and sets improvement plans for the highest environmental risks. Fortescue measures its environmental performance against its regulatory requirements and corporate targets. Fortescue's environmental performance is reported to a hierarchy of management.

As a part of the Environmental Management System, Fortescue also conducts internal environmental reviews, audits and inspections to identify and quantify potential risks to Fortescue and to review compliance with its environmental obligations. The fundamental aim of each activity is to minimise or prevent adverse environmental consequences and to promote a culture of compliance. Fortescue strives to continually improve its environmental performance by a systematic review of its environmental risks. During the financial year, certain aspects of the Fortescue's operations were routinely inspected by the Department of Environment Regulation (DER) (previously the Department of Environment and Conservation) and the Department of Sustainability, Environment, Water, Population and Communities (DSEWPC). Work continued to resolve a number of potential non-compliances relating to works approvals and licences identified and reported to the DER in 2012.

During the financial year, Fortescue has submitted numerous environmental reports and statements to regulators detailing Fortescue's environmental performance and level of compliance with relevant instruments. This includes Fortescue's Compliance Assessment Reports dated March 2014, which were provided to the Office of the Environmental Protection Authority, and the Annual Environmental Reports submitted to the Department of Mines and Petroleum and the Department of State Development.



Fortescue Marshes



Ring tailed dragon



Mulgara

Greenhouse gas and energy reporting

Fortescue complies with the Australian government *National Greenhouse and Energy Reporting Act 2007 (Cth)* and the *Energy Efficiency Opportunities Act 2006 (Cth)*. Fortescue is committed to proactively managing energy consumption and greenhouse gas emissions wherever practical and is guided by a formal internal policy. The total Scope 1 and Scope 2 greenhouse gas emissions for the most recent reporting period were 1.85 million tonnes of carbon dioxide equivalents.

Fortescue's greenhouse emissions are almost entirely related to combustion of diesel fuel and, therefore, the Company was not considered a liable entity under the Clean Energy Legislation carbon scheme.

Directors' interests

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

Director	Ordinary shares	Options	Performance rights
A Forrest	1,033,479,247	-	-
H Elliott	2,167,938	-	-
N Power	1,254,981	-	2,038,602
M Barnaba	-	-	-
G Brayshaw	52,149	-	-
O Hegarty	40,000	-	-
C Huiquan	-	-	-
G Raby	8,000	-	-
G Rowley	17,644,951	-	-
H Scruggs	-	-	-
E Gaines	50,000	-	-
P Meurs	26,006,995	7,500,000	792,791
S Warburton	-	-	-

Unissued shares under options and performance rights

Details of the options and performance rights outstanding at 30 June 2014 are as follows:

	Exercise price A\$	Balance at the end of the year Number	Vested and exercisable at the end of the year Number	Remaining contractual life Months
Employee options 2010	5.00	7,500,000	-	10
Long term performance rights 2013	Nil	2,935,785	-	18
Short term performance rights 2014	Nil	3,651,255	-	6
Long term performance rights 2014	Nil	5,139,280	-	30
		19,226,320	-	

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 or criminal proceedings that may be brought against the Officers in their capacity as Officers of Fortescue, and any other payments arising from liabilities incurred by the Officers in connection with such proceedings, other than where such liabilities arise out of conduct involving a wilful breach of duty by the Officers or the improper use by the Officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to Fortescue. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities. Conditions of the policy also preclude disclosure to third parties of the amount paid for the policy.

Non-audit services

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

Details of the amounts paid or payable to the auditor PricewaterhouseCoopers Australia and related entities for audit and non-audit services provided during the year are set out in note 23 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*. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, 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; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

Future developments

Fortescue discloses its likely future developments in the **Strategy** section of this report. Further information in relation to likely developments and the impact on the operations of the Group has not been included in this report, as the Directors believe it would result in unreasonable prejudice to the Group.

Significant change in state of affairs

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

Proceedings on behalf of the Group

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

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

Rounding of amounts

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

Events occurring after the reporting period

On 20 August 2014, the Directors declared a final dividend of 10 Australian cents per ordinary share payable on 3 October 2014.

On 20 August 2014, Fortescue announced its intention to redeem US\$500 million of the 2018 senior unsecured notes in October 2014.

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



Mr Andrew Forrest
Chairman

Dated in Perth this 20th day of August 2014.

REMUNERATION REPORT

The Directors of Fortescue Metals Group Limited are pleased to present the Remuneration Report for the year ended 30 June 2014 ('FY2014 or FY14'). This report forms part of the Directors' Report and has been audited in accordance with section 308 (3c) of the *Corporations Act 2001*.

The report is outlined in the following sections:

a) Who this report covers	99
b) FY2014 overview and year ahead	100
c) Governance of our remuneration	102
d) Executive remuneration strategy	104
e) Executive remuneration structure	105
f) Key components of Executive remuneration	106
g) How Fortescue performed over the past five years	110
h) Securities trading policy	111
i) Executive contract terms	111
j) Detailed remuneration for Executives	112
k) Non-Executive Director remuneration	116
l) Equity Instrument disclosures relating to key management personnel	117

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.



a) 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 FY14 were:

Non-executive Directors

A Forrest	Chairman
H Elliott	Deputy Chairman
M Barnaba	Non-Executive Director
G Brayshaw	Non-Executive Director (<i>retired 13 November 2013</i>)
E Gaines	Non-Executive Director
O Hegarty	Non-Executive Director
C Huiquan	Non-Executive Director
G Raby	Non-Executive Director
G Rowley	Non-Executive Director
H Scruggs	Non-Executive Director
S Warburton	Non-Executive Director (<i>appointed 13 November 2013</i>)

Executive Directors

N Power	Chief Executive Officer
P Meurs	Director Development

Other key management personnel (executives)

N Cernotta	Director Operations (<i>appointed 24 March 2014</i>)
S Pearce	Chief Financial Officer
D Woodall	Director Operations (<i>resigned 12 December 2013</i>)

There were no changes to Key Management Personnel after the reporting date.

REMUNERATION REPORT

b) FY14 overview and year ahead

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

Fortescue's Board and Remuneration and Nomination Committee (R&NC) are committed to continued review and refinement of the remuneration strategy to ensure it meets the changing needs of the organisation, maintains market competitiveness, and aligns to shareholder interests.

In support of the remuneration strategy, the following table highlights key changes made in FY14:

Key Area	Description
Approach to Safety Measure in the event of a fatality	In the event of a fatality, ESSIP participants (Group Managers, General Managers and Executive) will receive no award for the Company Safety KPI and all staff at the location where the fatality occurs will receive no award against Company or Team Safety KPIs.

FY14 Remuneration Outcomes - Linking Performance and Pay

The following explains how fixed and variable remuneration outcomes were driven by company performance in FY14.

Element of Remuneration	Outcome
Total Fixed Remuneration (TFR)	<p>A market review was conducted for the CEO which resulted in an increase in total fixed remuneration to \$2,000,000 (11.1 per cent) effective from 1 July 2014. Prior to this review the CEO's fixed remuneration had not increased since February 2011.</p> <p>A market review was conducted which identified that Executive total fixed remuneration has fallen below competitive levels. Accordingly, the Board made a decision to increase fixed remuneration for Executives (on average) by 3.3 per cent to re-align with the market and increase retention opportunity. Prior to this review, fixed remuneration for Executives had not increased since July 2011.</p>
Executive and Senior Staff Incentive Plan (ESSIP)	<p>Awards made in relation to the FY14 ESSIP reflect the achievement of one of the three company performance objectives delivering a significant reduction in C1 costs, the achievement of Company growth objectives and individual performance objectives. Although the TRIFR measure was met, no award was made in respect to this measure as detailed in the FY14 changes above.</p> <p>Refer to section (f) for more detail.</p> <p>The outcome represents an average payment of 76 per cent of maximum opportunity compared with an average payment of 78 per cent of maximum opportunity in FY13.</p>
Long Term Incentive Plan (LTI)	LTI grants were made in December 2013 in respect to the FY14 LTI plan. The performance period for the FY14 LTI is 1 July 2013 to 30 June 2016 and award outcomes for the FY14 LTI plan will be reported in the 2016 remuneration report.

Executive Total Earnings in FY14

Details of remuneration received by the Chief Executive Officer and Executives prepared in accordance with statutory requirements and accounting standards are detailed on page 112. The table below sets out the total earnings for the Chief Executive Officer and Executives realised in FY14 – sometimes referred to as ‘actual’ pay. The table includes fixed remuneration, the cash component of the ESSIP earnings for FY14 performance and the value of the share component of the FY14 ESSIP that vested.

Name	Fixed remuneration ¹	FY14 ESSIP Cash Paid	FY14 ESSIP ⁴ Shares Awarded	Total Actual Remuneration Earned in 2014
N Power	1,800,000	-	2,072,780	3,872,780
S Pearce	1,050,000	-	957,043	2,007,043
P Meurs	1,050,000	-	872,335	1,922,335
N Cernotta ²	261,941	57,721	82,784	402,446
D Woodall ³	410,017	-	-	410,017

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

² Mr Cernotta was appointed on 24 March 2014.

³ Mr Woodall resigned on 12 December 2013.

⁴ 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 FY14 is the value of the participant’s elected weighting in shares (minimum 50 per cent of the total award) divided by the VWAP of Fortescue Shares for the first five trading days of the plan year (A\$3.1653) multiplied by the 5 day VWAP of Fortescue shares for the first five trading days of FY15 (\$4.5397).

REMUNERATION REPORT

c) Governance of our remuneration

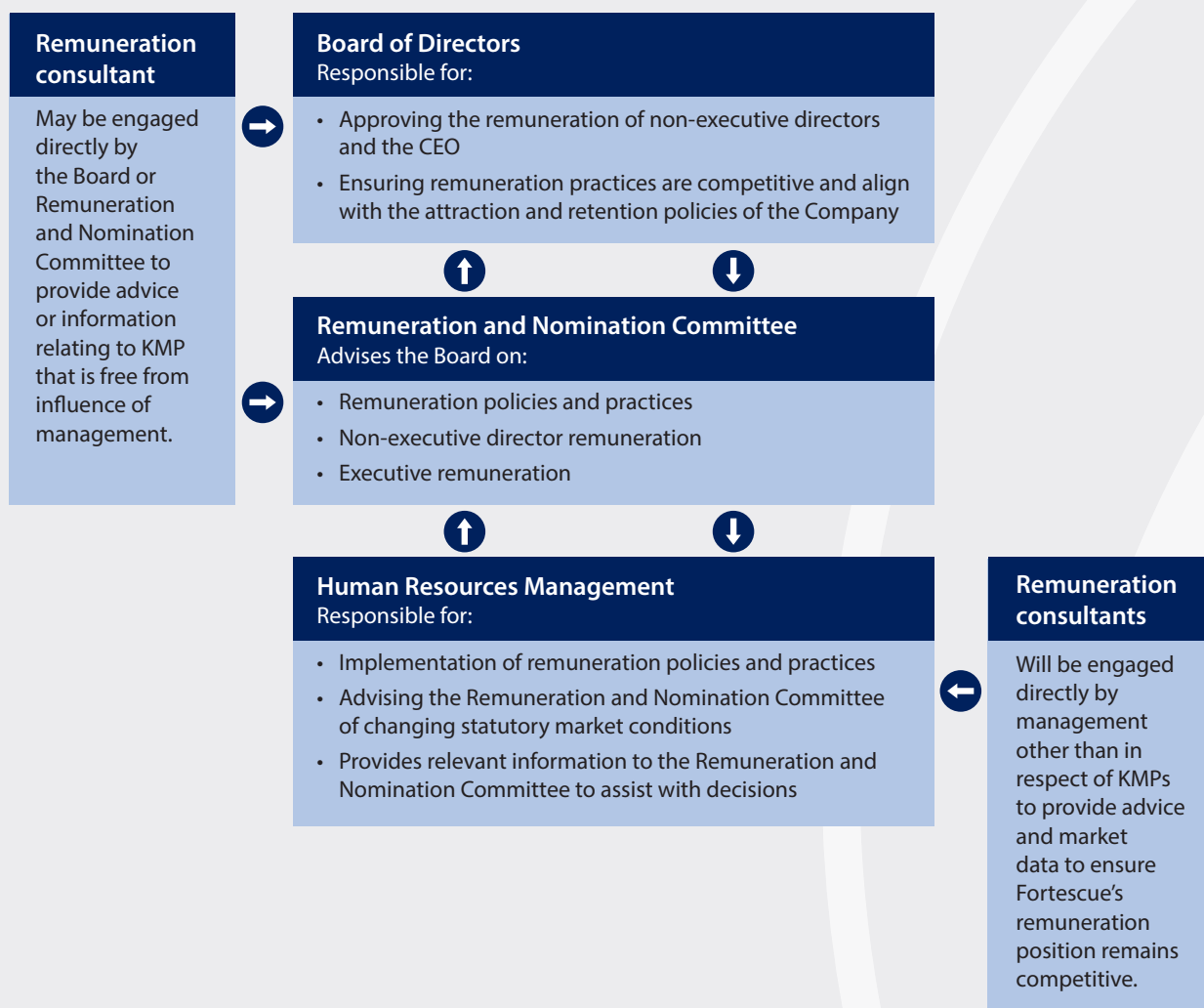
At Fortescue, we believe that robust governance is critical to underpinning the effectiveness of our remuneration strategy.

The Remuneration and Nomination Committee operates under a Board-approved charter. This includes responsibility for reviewing and reporting to the Board on Executive remuneration policy and practices such as remuneration levels and incentive plans. It also includes recruitment, retention, performance management, succession planning and termination policies and managing Board nomination, including determining candidate criteria and addressing skills and experience requirements for Board position vacancies.

A copy of the charter is available under the Corporate Governance section of the Fortescue Website.

The R&NC in FY14 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:



Use of remuneration consultants

During the year, Egan Associates provided external remuneration advice to the R&NC. During FY14, Egan Associates provided remuneration recommendations (as defined in the *Corporations Act 2001*) relating to a review of the structure for KMP remuneration.

The remuneration recommendations were provided to the R&NC as an input into decision making only. The R&NC considered the recommendations, along with other factors, in making its remuneration decisions.

The total fee was paid for the remuneration recommendations was A\$17,500 (ex GST). Other services provided by Egan Associates included other advisory services and the fees for all other services were A\$8,645 (ex GST).

The following arrangements were made to ensure that the advice was free of undue influence by members of the KMP:

- Egan Associates was engaged by the Chair of the R&NC of the Board
- Fortescue Management were not involved in the formulation of any remuneration recommendations, but provided factual information to assist Egan Associates
- Egan Associates provided the remuneration recommendation only to the Chair of the R&NC.

Due to the implementation of these measures, the Board and R&NC are satisfied that the advice provided was free from undue influence from members of Fortescue's KMP and Egan Associates have provided a written statement to this effect.

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.

d) 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 extraordinary growth and progression as one of the world's leading producers of iron ore through:

- being well positioned to deliver fair and market competitive rewards;
- supporting a clear performance focus; and
- alignment to the long term goals of the organisation.

Fortescue is committed to providing competitive remuneration packages to our Executives and senior employees. Fortescue benchmarks remuneration components against major indices such as ASX 100 Resources and ASX 30 and also seeks input from independent remuneration consultants regarding Executive remuneration as detailed in section (c) above. The overall intent is to ensure that executive remuneration is appropriately positioned to motivate, attract and retain key Executives and senior employees to deliver on the current and long term strategic activities of the Company.

How remuneration practices align with our reward strategy



e) Executive remuneration structure

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

The key components of the executive remuneration structure for FY14 comprised:

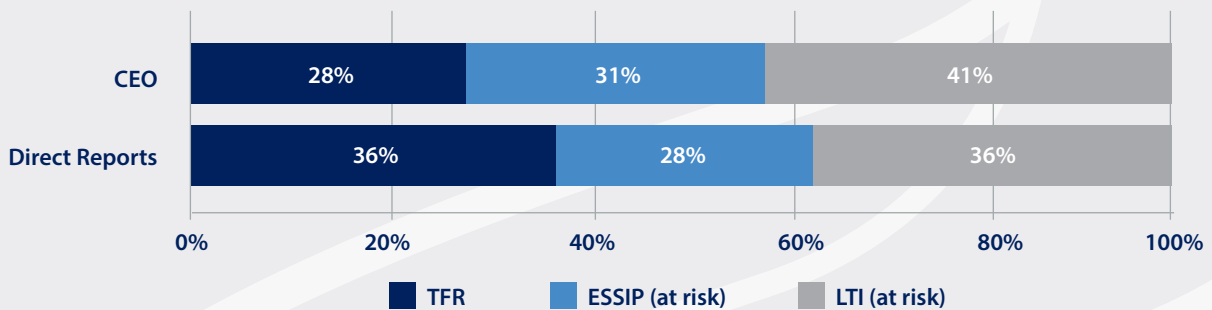
- Total Fixed Remuneration (TFR);
- Executive & Senior Staff Incentive Plan (ESSIP); and
- Long Term Incentive Plan (LTI).

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 in the top thirty listed Australian companies. 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. Information provided by Egan Associates revealed that current total remuneration levels are generally consistent with this policy.

Remuneration Mix

The table below shows the remuneration mix for performance at stretch for the CEO and Direct Reports in FY14:



* Note the table above represents the remuneration mix for stretch levels of performance for the CEO and CEO Direct Reports in FY14 and does not take into consideration options granted to Mr Peter Meurs at the start of his employment or any value that may be attributed to the guarantee provided by the Minderoo Group which supported certain senior executives in purchasing Fortescue shares on-market.

The above table clearly illustrates the significant proportion of 'at-risk' components of executive remuneration and serves to reinforce the pay-for-performance alignment.

f) Key components of Executive remuneration

Total Fixed Remuneration

TFR comprises base salary, cash allowances (such as site-based or location allowances), employee benefits and superannuation. The level of TFR is based on the Executive's responsibilities, experience and qualifications. Company and individual performance are considered during the annual remuneration review process.

Executive and Senior Staff Incentive Plan

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.

An Executive's ESSIP potential award is linked 50 per cent to Company objectives, and 50 per cent to individual performance, aligning Executive remuneration with Company performance during the Plan Year.

A maximum incentive opportunity is established at the beginning of the financial year for each Executive. The incentive 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 incentive 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. Shares rights are calculated based on the Volume Weighted Average Price (VWAP) of Fortescue shares traded over the first five trading days of the plan year (eg. 1 July 2013 to 5 July 2013).

The maximum incentive opportunity for KMPs in FY14 is shown below:

Chief Executive Officer	112.5 per cent of TFR*	1 participant
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 R&NC 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.

ESSIP performance objectives

ESSIP awards are made based on an assessment of Company and individual performance. Company performance comprises company annual performance and company growth performance, and is designed to provide both a short and long term perspective on performance, and protect the long term interests of the shareholder by seeking to ensure efficient processing of reserves mined and that financial objectives are met.

The financial performance measures were chosen as they represent the key drivers for the short term success of the Company and provide a framework for delivering long term value. The non-financial component of the ESSIP is measured with reference to an assessment against a range of measures. A majority of the non-financial measures are quantitative-based.

The performance objectives in 2014 are shown below:

		FY14 Results	CEO Weighting	CEO Outcome	Direct Reports Weighting	Direct Reports Outcome
Company Annual Performance						
Safety ²	Target percentage reduction (15 per cent) in Total Recordable Injury Frequency Rate (TRIFR)	Met*	15	0	8	0
Production ²	Target tonnes shipped	Not Met	15	0	8	0
Cost ¹	Target cost per tonne shipped	Met	15	16.4 ³	8	8.7 ³
Company Growth Performance						
Culture ²	Achieve agreed workforce culture and engagement targets	Met	15	15	0	n/a
Growth ²	Identify and independently verify additional target expansion opportunities by 30 June 2014	Met	10	10	8	8
Financial ¹	Achieve target annual Absolute Return on Equity (AROE) of >20%	Met	10	10	10	10
Financial ¹	Achieve Target free cash flow	Met	10	10	0	n/a
Physical ²	Target percentage of reserves mined is converted (after processing losses) to product, inclusive of quality measurement (e.g. grade expectations and real mined tonnage)	Met	10	10	8	8
Individual Performance						
	4 objectives based on the business plan weighted according to business impact	Partially Met	0	0	50	Avg 37.5

¹ Financial Targets.

² Non-Financial Targets.

³ A key element of our culture is to set challenging stretch targets and strive to outperform those targets. In the 2014 year we set ourselves a number of key targets in respect of cost reduction across all operating and support functions. These cost reduction targets are a high priority for the Board and they have approved an above target award to reflect the degree of outperformance by the business in this area. This is contrasted with the production measure where the business fell marginally short of the stretch target and received no award for this element.

* Although the TRIFR measure was achieved in FY14, as a result of the two fatalities during the year, ESSIP participants (Group Managers, General Managers and Executive) will receive no award for the Company Safety KPI and all staff at the location where the fatalities occurred will receive no award against Company or Team Safety KPIs.

In FY14, the CEO was measured solely against Company performance outcomes thereby ensuring the alignment between Company performance, shareholder returns and CEO reward for the performance year.

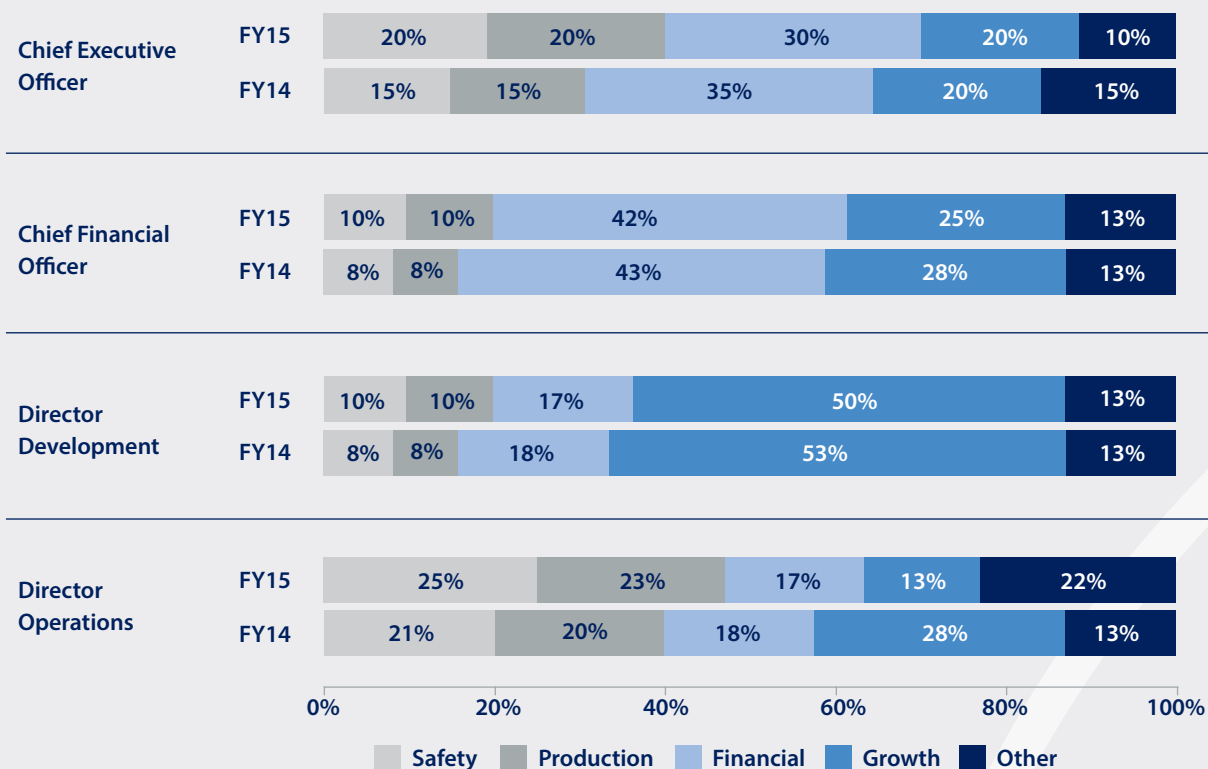
Payment of ESSIP awards are made in September after the release of the Company's audited results and with final approval from the Board.

How Objectives and Weightings are Determined

ESSIP targets and measures are set on an annual basis and are linked to the annual stretch budget and Fortescue's strategic plan. Personal objectives are set at stretch levels of performance with measures and weightings aligned to the individual's ability to influence outcomes and ensure focus on critical outcomes.

The following table shows the relationship between the primary ESSIP performance measures for the CEO and other KMP.

REMUNERATION REPORT



* Other includes measures associated with culture, engagement and functional objectives.

How the ESSIP works: an example

The ESSIP is designed so that participants are generally rewarded similarly to a Fortescue investor 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 FY14 (1 to 5 July 2013)	\$3.1653
Participant Share Weighting	70%

Maximum potential award

Cash (30 per cent of opportunity)	\$30,000
Share Rights (70 per cent of opportunity)	22,115

Example outcome

Percentage of incentive opportunity achieved (company and personal performance)	80%
Cash paid (80 per cent of cash component)	\$24,000
Shares awarded (80 per cent of share rights convert to ordinary shares)	17,692

The actual value of the shares awarded is subject to share price movement thereby ensuring alignment with shareholder interests.

ESSIP performance in FY14

Performance rights granted under the ESSIP at the beginning of FY14 are shown below. All the performance rights issued convert to ordinary shares if all ESSIP objectives are met. The last column details the actual number of share rights converted to ordinary shares based on actual performance:

Executive	ESSIP performance rights issued	ESSIP performance rights lapsed	ESSIP performance rights forfeited	Performance rights to convert to shares for FY14 ESSIP performance
N Power	639,750	183,160	-	456,590
S Pearce	248,792	37,976	-	210,816
P Meurs	248,792	56,635	-	192,157
N Cernotta	30,527	12,291	-	18,236
D Woodall	106,625	-	(106,625)	-

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

The table below details the maximum ESSIP cash and share awards against the actual outcomes for FY14. The share components are based on the share weighting election of each Executive:

2014 A\$	TFR	Maximum ESSIP opportunity (per cent of TFR)	Weighting in shares (per cent)	Service pro-rata (if applicable)	Maximum ESSIP Cash opportunity	Maximum ESSIP Shares opportunity value at grant ¹	ESSIP outcome awarded (per cent of TFR)	ESSIP Cash awarded	ESSIP share value at award ²
Executive Directors									
N Power	1,800,000	112.5	100	-	-	2,025,000	71	-	2,072,780
P Meurs	1,050,000	75	100	-	-	787,500	77	-	872,335
Executives									
S Pearce	1,050,000	75	100	-	-	787,500	85	-	957,043
N Cernotta ²	950,000	75	50	0.27	96,627	96,627	60	57,791	82,784

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 (\$A3.1653).

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 FY14 is the number of shares awarded multiplied by the five day VWAP of Fortescue shares traded over the first five trading days of FY15 (A\$4.5397).

³ Mr Cernotta was appointed on 24 March 2014.

Long Term Incentive Plan

LTI awards to executives are made under the performance share plan rules and are delivered in the form of Performance Rights (Rights). Each Right entitles the holder (subject to achievement of the specified performance conditions) to one fully paid ordinary share in the Company for nil consideration.

The Company uses absolute return on equity (AROE) as the performance measure for assessments of LTI awards.

AROE was selected as the LTI performance measure for the following reasons:

- AROE is one of the most important value metrics reflecting profit earned relative to shareholders equity (the amount of capital invested by shareholders); and
- AROE performance in excess of the Company's cost of equity capital will deliver shareholder value.

As with the ESSIP above, the long term incentive plan is designed so that participants are generally rewarded similarly to a Fortescue investor over the relevant performance period.

REMUNERATION REPORT

A minimum 20 per cent annual AROE hurdle rate was selected for the following reasons:

- 20 per cent exceeds the Company's cost of equity;
- The average AROE for the ASX 100 Resources Index from 2009 to 2013 is 8.5 per cent;
- The 80th percentile AROE for the ASX 100 Resources Index from 2009 to 2013 is 15 per cent.

The vesting schedule is as follows:

Performance	Average AROE		Vesting
	FY 13	FY 14	
Below Threshold	<15%	<20%	Nil
Threshold	15%	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 linearly.

The performance period for the FY14 LTI is from 1 July 2013 to 30 June 2016. 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.

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 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.

g) How Fortescue performed over the past five years

Fortescue continues to build on its performance over the past five years, showing strong growth in revenue and net profit to deliver shareholder wealth.

In considering Fortescue's performance and benefits for shareholder wealth, the Board have regard to the following indices in respect of the current financial year and the previous four financial years.

In FY14, Fortescue's share price increased from the FY13 closing price of A\$3.04 to A\$4.35 at the end of FY14. This represents a 43 per cent increase compared with the ASX 100 Resources index which increased 14.2 per cent over the corresponding period.

	2014	2013	2012	2011	2010
Revenue from iron ore operations – US\$million	11,611	8,057	6,681	5,442	3,220
Net profit – US\$million	2,740	1,746	1,559	1,022	581
A\$ dividends paid	\$0.20	\$0.10	\$0.08	\$0.03	-
A\$ change in share price	\$1.31	\$(1.81)	\$(1.45)	\$2.23	\$0.43
per cent change in share price	43	(37)	(23)	54	12

An explanation of how fixed and variable remuneration outcomes were driven by company performance in FY14 is included in section (b).

h) Securities trading policy

Fortescue's Securities Trading Policy provides clear guidance on how company securities may be dealt with.

The Securities Trading Policy details acceptable and unacceptable periods for trading in Company Securities including detailing potential civil and criminal penalties for misuse of confidential information.

Fortescue's Security Trading Policy provides guidance on acceptable transactions in dealing in the Company's various securities, including shares, debt notes and options.

The policy also sets out a specific governance approach for how the Chairman and Directors can deal in Company Securities. The Company's Security Trading Policy can be accessed from the Corporate Governance section of the Fortescue Website.

i) Executive contract terms

Remuneration and other terms of employment for Executives are formalized in a service agreement.

The CEO and Executives are employed on a rolling basis with no specified fixed term. The CEO and Executives are remunerated on a total fixed remuneration (TFR) basis inclusive of superannuation and allowances.

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

Position	Executive	TFR* (A\$)	Maximum ESSIP opportunity (per cent of TFR)	Maximum LTIP opportunity (per cent of TFR)	Termination clause
Chief Executive Officer	N Power	1,800,000	112.5	150	Three months written notice (or three months TFR in lieu)
Chief Financial Officer	S Pearce	1,050,000	75	100	Three months written notice (or three months TFR in lieu)
Director Development	P Meurs	1,050,000	75	100	Three months written notice (or three months TFR in lieu)
Director Operations	N Cernotta	950,000	75	100	Three months written notice (or three months TFR in lieu)

* Total Fixed Remuneration as of 30 June 2014. Reviewed annually by the R&NC.

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 R&NC Committee 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 LTI, the Executive will forfeit all entitlement to any award under the LTI. 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 LTI, the R&NC Committee at its sole discretion may elect to make a pro-rata LTI award based on service up to the termination date.

Termination benefits for KMP comply with the limits set by the Corporations Act that do not require shareholder approval.

REMUNERATION REPORT

j) Detailed remuneration for Executives

Executive Remuneration for year ending 30 June 2014

2014	Short term employee benefits			Post employment employee Benefits	End of Service	Share-based payments				Total
	Cash salary and fees	ESSIP cash value ¹	Non-monetary benefits	Superannuation	Termination benefits	ESSIP share value ²	LTIP share value ²	Options ²	Other share-based payments ³	Total
	\$A	\$A	\$A	\$A	\$A	\$A	\$A	\$A	\$A	\$A
Executive Directors										
N Power	1,775,000	-	4,633	25,000	-	2,415,361	2,147,767	-	-	6,367,961
P Meurs	1,025,000	-	4,633	25,000	-	1,016,511	835,244	2,157,179 ⁶	853,272	5,916,839
Executives										
S Pearce	1,025,000	-	45,155	25,000	-	1,115,217	835,244	-	-	3,045,616
N Cernotta ⁴	251,524	57,721	-	10,417	-	96,468	-	-	-	416,130
D Woodall ⁵	393,350	-	37,884	16,667	277,914	-	-	-	-	725,815

¹ ESSIP cash value payable in respect to FY14 to be paid in September 2014.

² 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.

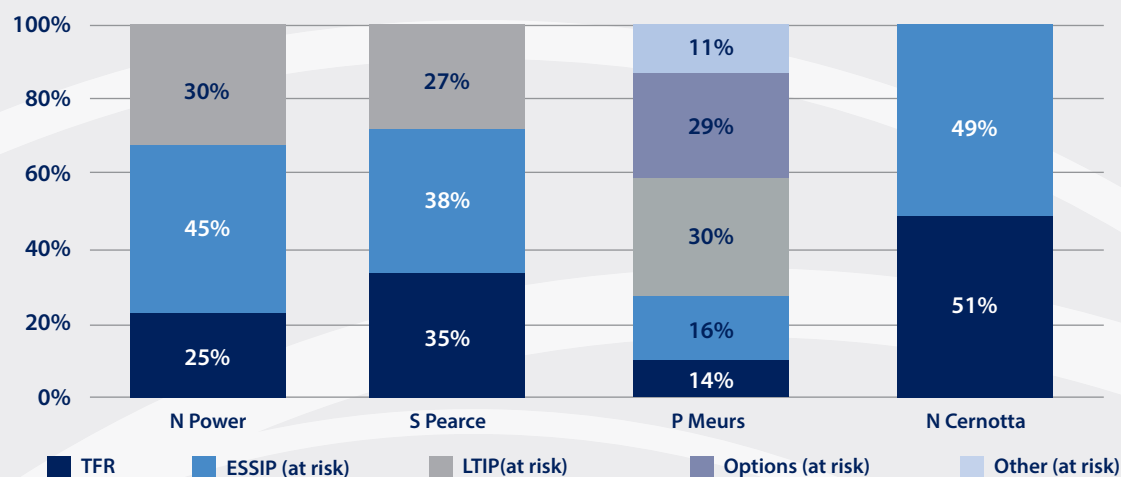
³ Other share based payments relate to financial assistance of way of guarantee to Mr Meurs by The Munderoo Group Pty Ltd to purchase Fortescue shares under an approved arrangement. The fair value at grant date was determined using a Monte Carlo simulation model, which takes into account the following 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.

⁴ Mr Cernotta was appointed on 24 March 2014.

⁵ Mr Woodall resigned on 12 December 2013.

⁶ Once vested, the options are subject to a further share price performance condition. Half of the options require a share price of \$7.00 with the second half requiring a minimum share price of \$8.00 before they can be exercised. The exercise price of each option is \$5.00 and the expiry date is May 2015.

The graph below represents the actual remuneration mix for KMP in 2014:



Executive Remuneration for year ending 30 June 2013

	Short term employee Benefits			Post Employment Benefits	End of Service	Share-based payments				Total
	Cash Salary and fees	ESSIP Cash value ¹	Non-monetary benefits	Superannuation	Termination benefits	ESSIP Share value ²	LTIP Share value ²	Options ²	Other share-based payments ³	Total
2013	\$A	\$A	\$A	\$A	\$A	\$A	\$A	\$A	\$A	\$A
Executive Directors										
N Power	1,768,000	708,770	7,000	25,000	-	820,827	640,466	-	-	3,970,063
P Meurs	1,018,000	174,830	7,000	25,000	-	446,894	249,071	5,371,477 ⁶	853,272	8,145,544
Executives										
S Pearce	1,018,000	276,617	7,000	25,000	-	319,212	249,071	-	-	1,894,900
J Frankcombe ⁴	582,705	-	-	14,583	45,532	-	-	-	-	642,820
D Woodall ⁵	404,817	101,726	2,917	11,650	-	152,973	64,230	-	-	738,313

¹ ESSIP cash value payable in respect to FY13 was paid in September 2013.

² 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.

³ Other share based payments relate to financial assistance of way of guarantee to Mr Meurs by The Munderoo 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.

⁴ Mr Frankcombe resigned on 26 January 2013.

⁵ Mr Woodall was appointed on 14 January 2013.

⁶ Once vested, the options are subject to a further share price performance condition. Half of the options require a share price of \$7.00 with the second half requiring a minimum share price of \$8.00 before they can be exercised. The exercise price of each option is \$5.00 and the expiry date is May 2015.

REMUNERATION REPORT

Share-based remuneration

Options over equity instruments granted as remuneration

During the year ending 30 June 2012, the Board of Fortescue Metals Group Limited consented to The Minderoo Group Pty Ltd (formerly the Metal Group Pty Ltd), an entity controlled by the Chairman, to offer an arrangement to provide financial assistance to allow certain senior executives of Fortescue to purchase the Company's shares on market. The arrangement was effected through a number of separate transactions and appropriate disclosures made via lodgement of an Appendix 3Y as required by the ASX Listing Rules.

The arrangement constitutes a share-based payment transaction and has been measured with reference to the fair value of the benefit received by the executives and is recognised as an expense on a straight-line basis over a four-year vesting period, in line with the service conditions. The fair value was determined at grant date using Monte-Carlo simulation model. Total share-based payment expense in relation to the arrangement for the financial year ended 30 June 2014 was A\$925,453 (2013: A\$925,453).

The purpose was to provide an opportunity for a limited number of senior individuals critical to Fortescue's performance to be incentivised and remunerated through increased direct share ownership (reinforcing alignment with shareholder interests), and further enhance Fortescue's ability to retain these individuals over the long term. The offer is provided at no cost to Fortescue and the Executive is required to arrange their own finance through a third party and is responsible for all repayments and associated costs.

Mr Meurs is a participant in the above financial arrangement. Under this arrangement The Minderoo Group Pty Limited provided Mr Meurs with financial assistance by way of a guarantee for the acquisition of 16,632,614 ordinary shares in the Company. The fair value attributed to Mr Meurs in relation to this arrangement for the financial year ended 30 June 2014 was A\$853,272(2013: A\$853,272).

There are no current plans to offer this arrangement to any additional employees.

Details of share based payments relating to LTI

The following table provides details of the number of share rights granted under the LTI during the financial years ended 30 June 2014 and 30 June 2013. The value of the rights has been determined using the amount of the grant date fair value.

Name	Grant date	Performance period	Rights granted	Fair value ¹	Value per rights at grant date	% Performance achieved	Forfeited/ Vested	Lapsed	Max value to vest
N Power	16/12/2013	1/7/13 to 30/6/16	853,000	\$5.09	\$4,341,770	Determined in 2016	n/a	-	2,894,513
	10/12/2012	1/7/12 to 30/6/15	545,852	\$3.85	\$2,101,530	Determined in 2015	n/a	-	700,510
S Pearce	16/12/2013	1/7/13 to 30/6/16	331,723	\$5.09	\$1,688,470	Determined in 2016	n/a	-	1,125,647
	10/12/2012	1/7/12 to 30/6/15	212,276	\$3.85	\$817,263	Determined in 2015	n/a	-	272,421
P Meurs	16/12/2013	1/7/13 to 30/6/16	331,723	\$5.09	\$1,688,470	Determined in 2016	n/a	-	1,125,647
	10/12/2012	1/7/12 to 30/6/15	212,276	\$3.85	\$817,263	Determined in 2015	n/a	-	272,421
N Cernotta	n/a	n/a	-	-	-	n/a	n/a	-	-
D Woodall	16/12/2013	1/7/13 to 30/6/16	284,334	\$5.09	\$1,447,260	n/a	n/a	284,334	-
	8/02/2013	1/7/12 to 30/6/15	83,249	\$4.71	\$392,103	n/a	n/a	83,249	-

¹ 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.

Legacy Incentive Option Scheme (IOS)

Details of options over ordinary shares in the Company that were granted under the legacy Incentive Option Scheme (IOS) as remuneration to KMP are set out below. The plan has now been discontinued; however some grants still remain on foot and continue to vest.

All options refer to options over ordinary shares of the Company, which are exercisable on a one for one basis under the IOS. Options granted under the plan carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share.

The terms and conditions of each grant of options affecting KMP remuneration in the current or future reporting periods are set out below.

The IOS provided eligible employees with options subject to share price performance and time conditions determined by the Board. These awards were typically targeted at KMP at the time of appointment, or to retain selected individuals critical to the Company's development. The options typically vested in 3 tranches over a 36 month period.

When exercisable, each option is convertible into one ordinary share of Fortescue Metals Group Limited.

Name	Number of options vested	
	2014	2013
Directors of Fortescue Metals Group Limited		
Other key management personnel of the Company		
P Meurs ¹	937,500	2,187,500

¹ Once vested, the options are subject to a further share price performance hurdle before they can be exercised. Half of the options require a share price of \$7.00 with the second half requiring a share price of \$8.00 before they can be exercised.

The options were provided at no cost to the recipients. All options expire on the earlier of their expiry date or termination of the individual's employment. Once performance hurdles (share price performance and time conditions) are met, the options are exercisable evenly on an annual basis over the four years from grant date.

The assessed fair value of options at grant date has been included in the remuneration tables above. 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.

There were no amendments to the terms and conditions of options awarded as remuneration since their award date.

Exercise of options granted as remuneration

No options were exercised by KMP in FY14.

REMUNERATION REPORT

k) Non-Executive director remuneration

Non-Executive director fees are not 'at-risk', to reflect the nature of their responsibilities.

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 2014 AGM.

Position	Fee (A\$)
Board Chairman*	120,000
Board Deputy Chairman	210,000
Non-Executive Director	140,000
Audit & Risk Management Committee Chairman	40,000
Audit & Risk Management Committee Member	15,000
Remuneration & Nomination Committee Chairman	15,000
Remuneration & Nomination Committee Member	7,500
China Advisory Group Board of Representatives	60,000
Finance Sub-Committee Member	6,000

*The Board Chairman has elected to receive an annual fee significantly below market and other Fortescue director norms.

As confirmed by Egan Associates, in aggregate, each individual non-Executive directors' total fees are below the market median for non-Executive directors of similarly sized companies (e.g. companies ranked on the ASX50 or ASX100 Resources).

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

The remuneration of non-Executive directors for the year ended 30 June 2014 and 30 June 2013 is detailed on the following page.

2014	Base fees \$A	Committee fees \$A	Other benefits \$A	Superannuation \$A	Total \$A
A Forrest	108,884	6,806	8,250	11,858	135,798
H Elliott	195,159	6,806	-	21,118	223,083
G Rowley	127,032	22,228	2,323	15,299	166,882
G Brayshaw ¹	52,958	11,732	-	4,136	68,826
O Hegarty	127,032	6,806	-	13,718	147,556
C Huiquan	140,000	-	-	-	140,000
G Raby	140,000	60,000	-	-	200,000
H Scruggs	133,098	17,750	-	-	150,848
M Barnaba	127,032	47,253	-	17,864	192,149
E Gaines	126,332	15,873	-	14,648	156,853
S Warburton ²	80,336	8,608	-	9,117	98,061

¹ G Brayshaw retired on 13 November 2013.

² S Warburton was appointed 13 November 2013.

2013	Base fees \$A	Committee fees \$A	Other benefits \$A	Superannuation \$A	Total \$A
A Forrest	109,091	6,818	11,093	11,591	138,593
H Elliott	190,909	6,818	-	19,773	217,500
G Rowley	127,273	13,636	7,000	14,091	162,000
G Brayshaw	127,273	41,519	-	16,909	186,001
K Ambrecht ¹	52,037	10,593	-	-	62,630
O Hegarty	127,273	6,818	-	13,409	147,500
C Huiquan ²	-	-	-	-	-
G Raby	140,000	60,000	-	-	200,000
H Scruggs	140,000	22,500	-	-	162,500
M Barnaba	127,273	32,727	-	16,000	176,000
E Gaines ³	44,865	-	-	4,487	49,352

¹ Mr Ambrecht retired on 14 November 2012.

² Mr Cao Huiquan elected not to receive Directors fees for his role as Hunan Valin's representative on the Fortescue Board.

³ Ms Gaines was appointed on 22 February 2013.

I) Equity Instrument disclosures relating to key management personnel

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:

2014	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	341,158	1,902,138	(143,291)	(61,403)	2,038,602	-	2,038,602	2,038,602
G Rowley	-	-	-	-	-	-	-	-
H Elliott	-	-	-	-	-	-	-	-
G Brayshaw ²	-	-	-	-	-	-	-	-
O Hegarty	-	-	-	-	-	-	-	-
M Barnaba	-	-	-	-	-	-	-	-
C Huiquan	-	-	-	-	-	-	-	-
H Scruggs	-	-	-	-	-	-	-	-
G Raby	-	-	-	-	-	-	-	-
E Gaines	-	-	-	-	-	-	-	-
S Warburton	-	-	-	-	-	-	-	-
P Meurs	7,664,514	739,722	(82,472)	(28,973)	8,292,791	7,500,000	792,791	8,292,791
Other key management personnel of Fortescue								
S Pearce	132,673	739,721	(55,923)	(23,680)	792,791	-	792,791	792,791
N Cernotta	-	30,527	-	-	30,527	-	30,527	30,527
D Woodall ²	52,032	453,395	(20,566)	(484,861)	-	-	-	-

¹ Performance Rights were granted in accordance with the short term and long term performance rights plans, as disclosed in note 30 of the financial accounts.

² Mr Brayshaw and Mr Woodall ceased employment during the 2014 financial year.

REMUNERATION REPORT

2013	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	419,255	341,158	(245,369)	(173,886)	341,158	-	341,158	341,158
G Rowley	-	-	-	-	-	-	-	-
H Elliott	-	-	-	-	-	-	-	-
K Ambrecht ²	-	-	-	-	-	-	-	-
G Brayshaw	-	-	-	-	-	-	-	-
O Hegarty	-	-	-	-	-	-	-	-
M Barnaba	-	-	-	-	-	-	-	-
C Huiquan	-	-	-	-	-	-	-	-
H Scruggs	-	-	-	-	-	-	-	-
G Raby	-	-	-	-	-	-	-	-
E Gaines	-	-	-	-	-	-	-	-
P Meurs	7,614,131	164,514	(53,242)	(60,889)	7,664,514	6,562,500	1,102,014	7,664,514
Other key management personnel of Fortescue								
S Pearce	81,522	132,673	(53,316)	(28,206)	132,673	-	132,673	132,673
D Woodall	-	52,032	-	-	52,032	-	52,032	52,032
J Frankcombe ²	37,076	132,673	(23,398)	(146,351)	-	-	-	-

¹ Performance Rights were granted in accordance with the short term and long term performance rights plans, as disclosed in note 30 of the financial accounts.

² Mr Ambrecht and Mr Frankcombe ceased employment during the 2013 financial year.

Share holdings (Ordinary Shares)

The numbers of shares in the Company held during the financial year by each Director of Fortescue and other key management personnel of the Groups, including their related parties, are set out below:

2014	Held at 1 July 2013	Received on conversion rights	Issued	Purchases	Sales	Transfers	Other ¹	Held at 30 June 2014
Directors of Fortescue								
A Forrest	1,020,690,915	-	-	12,788,332	-	-	-	1,033,479,247
N Power	1,111,690	143,291	-	-	-	-	-	1,254,981
G Rowley	17,644,951	-	-	-	-	-	-	17,644,951
H Elliott	2,167,938	-	-	-	-	-	-	2,167,938
G Brayshaw ²	52,149	-	-	-	-	-	(52,149)	-
O Hegarty	40,000	-	-	-	-	-	-	40,000
M Barnaba	-	-	-	-	-	-	-	-
C Huiquan	-	-	-	-	-	-	-	-
H Scruggs	-	-	-	-	-	-	-	-
G Raby	8,000	-	-	-	-	-	-	8,000
E Gaines	-	-	-	50,000	-	-	-	50,000
S Warburton	-	-	-	-	-	-	-	-
P Meurs	25,924,523	82,472	-	-	-	-	-	26,006,995
Other key management personnel of Fortescue								
S Pearce	382,304	55,923	-	21,745	(175,000)	-	-	284,972
N Cernotta	-	-	-	-	-	-	-	-
D Woodall ²	-	20,566	-	-	-	-	(20,566)	-

¹ Performance Rights were granted in accordance with the short term and long term performance rights plans, as disclosed in note 30 of the financial accounts.

² Mr Brayshaw and Mr Woodall ceased employment during the 2014 financial year.

REMUNERATION REPORT

2013		Received						Held at
Name	Held at 1 July 2012	on conversion rights	Issued	Purchases	Sales	Transfers	Other ¹	30 June 2013
Directors of Fortescue								
A Forrest	1,010,690,915	-	-	10,000,000	-	-	-	1,020,690,915
N Power	866,321	245,369	-	-	-	-	-	1,111,690
G Rowley	18,144,951	-	-	-	-	(500,000)	-	17,644,951
H Elliott	2,167,938	-	-	-	-	-	-	2,167,938
K Ambrecht ²	5,183,030	-	-	-	-	-	(5,183,030)	-
G Brayshaw	52,149	-	-	-	-	-	-	52,149
O Hegarty	40,000	-	-	-	-	-	-	40,000
M Barnaba	-	-	-	-	-	-	-	-
C Huiquan	-	-	-	-	-	-	-	-
H Scruggs	-	-	-	-	-	-	-	-
G Raby	-	-	-	8,000	-	-	-	8,000
E Gaines	-	-	-	-	-	-	-	-
P Meurs	25,871,281	53,242	-	-	-	-	-	25,924,523
Other key management personnel of Fortescue								
S Pearce	328,988	53,316	-	-	-	-	-	382,304
D Woodall	-	-	-	-	-	-	-	-
J Frankcombe ²	19,571	23,398	-	-	-	-	(42,969)	-

¹ Performance Rights were granted in accordance with the short term and long term performance rights plans, as disclosed in note 30 of the financial accounts.

² Mr Ambrecht and Mr Frankcombe ceased employment during the 2013 financial year.



Auditor's Independence Declaration

As lead auditor for the audit of Fortescue Metals Group Limited for the year ended 30 June 2014, I declare that to the best of my knowledge and belief, there have been:

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

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

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

Nick Henry
Partner

Perth
20 August 2014

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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 2014, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the Fortescue Metals Group Limited Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

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

Independence

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

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Independent auditor's report to the members of Fortescue Metals Group Limited (cont'd)

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 2014 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
- (b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the remuneration report included in pages 98 to 119 of the directors' report for the year ended 30 June 2014. 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 2014 complies with section 300A of the *Corporations Act 2001*.

A handwritten signature in blue ink that reads 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in blue ink that reads 'Nick Henry'.

Nick Henry
Partner

Perth
20 August 2014

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 124 to 168 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 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 28 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 28.

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.



Mr Andrew Forrest
Chairman

Dated in Perth this 20th day of August 2014.

CONSOLIDATED INCOME STATEMENT AND CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2014

Consolidated income statement	Notes	2014 US\$m	2013 US\$m
Operating sales revenue	3	11,753	8,120
Cost of sales	5	(7,002)	(5,140)
Gross profit		4,751	2,980
Other income	4	126	291
Other expenses	6	(244)	(252)
Profit before income tax and net finance expenses		4,633	3,019
Finance income	7	21	33
Finance expenses	7	(741)	(586)
Profit before income tax		3,913	2,466
Income tax expense	8	(1,173)	(720)
Profit for the year after income tax		2,740	1,746
Profit for the year is attributable to:			
Equity holders of the Company		2,730	1,746
Non-controlling interest		10	-
Profit for the year after income tax		2,740	1,746

Consolidated statement of comprehensive income	Notes	2014 US\$m	2013 US\$m
Profit for the year after income tax		2,740	1,746
Other comprehensive income			
Items that may be reclassified to profit or loss			
Gains (losses) on cash flow hedges taken to equity	21(a)	23	(80)
Losses (gains) transferred to the initial carrying amount of hedged items	21(a)	67	(35)
Foreign exchange gain on translation of foreign operations	21(a)	2	-
Total comprehensive income for the year, net of tax		2,832	1,631

Total comprehensive income for the year is attributable to:

Equity holders of the Company		2,822	1,631
Non-controlling interest		10	-
Total comprehensive income for the year, net of tax		2,832	1,631

	Notes	Cents	Cents
Earnings per share for profit attributable to the ordinary equity holders of the Company:			
Basic earnings per share	29(a)	88.00	56.07
Diluted earnings per share	29(a)	87.85	56.05

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

As at 30 June 2014

	Notes	2014 US\$m	2013 US\$m
Assets			
Current assets			
Cash and cash equivalents	9	2,398	2,158
Trade and other receivables	10	585	409
Inventories	11	1,467	961
Other current assets	12	27	36
Current tax receivable		-	8
Total current assets		4,477	3,572
Non-current assets			
Trade and other receivables	10	5	6
Property, plant and equipment	13	18,068	17,159
Intangible assets	14	67	40
Other non-current assets	12	77	90
Total non-current assets		18,217	17,295
Total assets		22,694	20,867
Liabilities			
Current liabilities			
Trade and other payables	15	1,338	1,043
Deferred income	16	936	38
Borrowings and finance lease liabilities	17	154	205
Provisions	18	176	128
Current tax payable		666	-
Total current liabilities		3,270	1,414
Non-current liabilities			
Trade and other payables	15	101	155
Deferred income	16	556	331
Borrowings and finance lease liabilities	17	9,403	12,486
Provisions	18	467	387
Deferred joint venture contributions		160	-
Deferred tax liabilities	19	1,154	805
Total non-current liabilities		11,841	14,164
Total liabilities		15,111	15,578
Net assets		7,583	5,289
Equity			
Contributed equity	20(b)	1,289	1,291
Reserves	21(a)	69	(49)
Retained earnings		6,211	4,043
Equity attributable to equity holders of the Company		7,569	5,285
Non-controlling interest		14	4
Total equity		7,583	5,289

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 2014

	Notes	2014 US\$m	2013 US\$m
Cash flows from operating activities			
Cash receipts from customers		12,618	8,725
Payments to suppliers and employees		(6,220)	(5,026)
Income tax paid		(150)	(695)
Net cash inflow from operating activities	31	6,248	3,004
Cash flows from investing activities			
Payments for property, plant and equipment - Fortescue		(1,931)	(6,355)
Payments for property, plant and equipment - joint operations		(64)	-
Receipts of deposits and guarantees		160	3
Proceeds from disposal of plant and equipment and sale of jointly controlled assets		262	155
Other		181	31
Net cash outflow from investing activities		(1,392)	(6,166)
Cash flows from financing activities			
Proceeds from borrowings and finance leases		-	7,330
Repayment of borrowings and finance leases		(3,092)	(3,232)
Interest and finance costs paid		(853)	(893)
Dividends paid		(581)	(131)
Repayment of customer deposits		(82)	(80)
Purchase of shares by employee share trust		(17)	(20)
Transactions with non-controlling interest		-	15
Net cash (outflow) inflow from financing activities		(4,625)	2,989
Net increase (decrease) in cash and cash equivalents			
		231	(173)
Cash and cash equivalents at the beginning of the financial year		2,158	2,343
Effects of exchange rate changes on cash and cash equivalents		9	(12)
Cash and cash equivalents at the end of the financial year	9	2,398	2,158
Non-cash investing and financing activities	31		

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 2014

	Attributable to equity holders of the Company				Non-con- trolling interest US\$m	Total equity US\$m
	Contributed equity	Reserves	Retained earnings	Total		
	US\$m	US\$m	US\$m	US\$m		
Balance at 1 July 2012	1,293	41	2,428	3,762	-	3,762
Profit for the year	-	-	1,746	1,746	-	1,746
Other comprehensive income	-	(115)	-	(115)	-	(115)
Total comprehensive income for the year, net of tax	-	(115)	1,746	1,631	-	1,631
Transactions with owners in their capacity as owners, net of tax:						
Purchase of shares under employee share plans	(20)	-	-	(20)	-	(20)
Employee share awards exercised net of employee contributions	18	-	-	18	-	18
Equity settled share-based payment transactions	-	14	-	14	-	14
Dividends paid	-	-	(131)	(131)	-	(131)
Transactions with non-controlling interest	-	11	-	11	4	15
Balance at 30 June 2013	1,291	(49)	4,043	5,285	4	5,289
Balance at 1 July 2013	1,291	(49)	4,043	5,285	4	5,289
Profit for the year	-	-	2,730	2,730	10	2,740
Other comprehensive income	-	92	-	92	-	92
Total comprehensive income for the year, net of tax	-	92	2,730	2,822	10	2,832
Transactions with owners in their capacity as owners, net of tax:						
Purchase of shares under employee share plans	(17)	-	-	(17)	-	(17)
Employee share awards exercised net of employee contributions	15	(5)	-	10	-	10
Equity settled share-based payment transactions	-	31	-	31	-	31
Dividends paid	-	-	(562)	(562)	-	(562)
Balance at 30 June 2014	1,289	69	6,211	7,569	14	7,583

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

CONTENTS TO THE NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1	Basis of preparation	129
2	Segment information	130
3	Operating sales revenue	130
4	Other income	131
5	Cost of sales	131
6	Other expenses	131
7	Finance income and finance expenses	132
8	Income tax expense	132
9	Cash and cash equivalents	133
10	Trade and other receivables	133
11	Inventories	134
12	Other assets	134
13	Property, plant and equipment	135
14	Intangible assets	136
15	Trade and other payables	136
16	Deferred income	136
17	Borrowings and finance lease liabilities	137
18	Provisions	140
19	Deferred tax assets and liabilities	141
20	Contributed equity	142
21	Reserves	142
22	Dividends	143
23	Remuneration of auditors	144
24	Contingencies	144
25	Commitments	144
26	Related party transactions	145
27	Interests in other entities	146
28	Deed of cross guarantee	147
29	Earnings per share	147
30	Share-based payments	148
31	Reconciliation of profit after income tax to net cash inflow from operating activities	150
32	Parent entity financial information	151
33	Events occurring after the reporting period	152
34	Financial risk management	152
35	Summary of significant accounting policies	156
36	Critical accounting estimates and judgements	167



1 Basis of preparation

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

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

(a) Compliance with IFRS

The consolidated 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

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

(c) Functional and presentation currency

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

(d) Critical accounting estimates

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

- Income taxes
- 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 36.

(e) Rounding of amounts

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

2 Segment information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer.

The internal reporting is provided to the chief operating decision maker on a consolidated basis. No operating segments have been aggregated to form the above consolidated information.

Fortescue uses earnings before interest, tax, depreciation and amortisation (EBITDA) as a key measure of its financial performance. The reconciliation of EBITDA to the net profit after tax is presented below.

	Note	2014 US\$m	2013 US\$m
EBITDA		5,636	3,575
Finance income	7	21	33
Finance expenses	7	(741)	(586)
Net gain on refinancing	4	-	23
Depreciation and amortisation	5,6	(965)	(463)
Assets write-off	6	(22)	(71)
Exploration, development and other	6	(16)	(45)
Net profit before tax		3,913	2,466
Income tax expense	8	(1,173)	(720)
Net profit after tax		2,740	1,746

(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.

	2014 US\$m	2013 US\$m
Revenues from external customers		
China	11,315	7,933
Other	438	187
	11,753	8,120

(b) Major customer information

Revenue from one customer amounted to US\$2,347 million (2013: US\$1,274 million), arising from the sale of iron ore and related shipment of the product.

3 Operating sales revenue

	2014 US\$m	2013 US\$m
Sale of iron ore	11,485	7,889
Sale of joint venture iron ore	126	168
Other revenue	142	63
	11,753	8,120

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

4 Other income

	2014 US\$m	2013 US\$m
Gain on disposal of assets and interest in joint venture	109	124
Net foreign exchange gain	-	96
Re-estimation of unsecured loan notes	-	34
Net gain on refinancing	-	23
Other	17	14
	126	291

5 Cost of sales

	2014 US\$m	2013 US\$m
Mining costs	3,442	2,851
Rail costs	238	182
Port costs	252	181
Operating leases	74	133
Shipping costs	1,210	769
Government royalty	775	499
Depreciation and amortisation	924	437
Other operating expenses	87	88
	7,002	5,140

- (i) Total employee benefits expense included in cost of sales and administration expenses is US\$675 million (2013: US\$635 million).

6 Other expenses

	2014 US\$m	2013 US\$m
Administration expenses	112	110
Net foreign exchange loss	53	-
Depreciation and amortisation	41	26
Assets write-off	22	71
Exploration, development and other	16	45
	244	252

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

7 Finance income and finance expenses

	2014 US\$m	2013 US\$m
Net finance expenses		
Finance income		
Interest income	21	33
	21	33
Finance expenses		
Interest expense on borrowings and finance lease liabilities	747	892
Interest capitalised (i)	(75)	(342)
Loss on early redemption of borrowings and finance leases	53	-
Other	16	36
	741	586
Net finance expenses	720	553

- (i) For specific borrowings, interest has been capitalised at the rate of interest applicable to specific borrowings that finance assets under construction, net of interest income from temporary investments on these borrowings. For general borrowings, the interest capitalised is calculated using a weighted average of rates applicable to relevant general borrowings during the period. For the year ended 30 June 2014, the capitalisation rate used for specific borrowings was 6.88 per cent (2013: 6.88 per cent) and 6.90 per cent (2013: 7.09 per cent) for general borrowings.

8 Income tax expense

(a) Income tax expense

	2014 US\$m	2013 US\$m
Current tax	824	136
Deferred tax	349	584
	1,173	720

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

	2014 US\$m	2013 US\$m
Profit before income tax	3,913	2,466
Tax at the Australian tax rate of 30 per cent (2013: 30 per cent)	1,174	740
Research and development	9	(20)
Adjustments in respect of income tax expense of prior periods	2	(5)
Foreign exchange variations and other translation adjustments	(11)	9
Tax impact of overseas jurisdiction	(9)	-
Share-based payments	(1)	2
Net tax outcome of internal restructure	-	1
Other	9	(7)
Income tax expense	1,173	720

8 Income tax expense (continued)

(c) Tax consolidation legislation

The Company and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. The accounting policy in relation to this legislation is set out in note 35(g).

On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a 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 a default by the head entity, Fortescue Metals Group Limited.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate the Company for any current tax payable assumed and are compensated by the Company for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to the Company under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable or payable under the tax funding agreement are due upon receipt of the funding advice from the head entity. The Company may also require payment of interim funding amounts to assist with its obligations to pay tax instalments. The funding amounts are recognised as non-current intercompany receivables or payables.

(d) MRRT

On 19 March 2012, the Australian Government passed through the Senate, the *Minerals Resource Rent Tax Act 2012*, with application to certain profits arising from the extraction of iron ore and coal in Australia. MRRT is considered to be income tax for Australian accounting purposes, is imposed on a project-by-project basis to upstream operations only and is applied from 1 July 2012. The effective tax rate is 22.5 per cent. At 30 June 2014, the Group had a net deferred tax asset balance of US\$4,265 million (2013: US\$3,765 million) in relation to MRRT, and it is not probable that future taxable amounts will be available for their offset. Accordingly, these deferred tax assets have not been recognised.

9 Cash and cash equivalents

	2014 US\$m	2013 US\$m
Cash at bank	1,541	690
Short term deposits	857	1,468
	2,398	2,158

10 Trade and other receivables

	2014 US\$m	2013 US\$m
Trade debtors – iron ore	486	145
Trade debtors – other	44	26
GST receivables	39	46
Security deposits	1	166
Other receivables	15	26
Total current receivables	585	409
Other receivables	5	6
Total non-current receivables	5	6

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

10 Trade and other receivables (continued)

The carrying value of the receivables approximates their fair value. Information about Fortescue's exposure to foreign currency risk, interest rate risk and price risk are disclosed in note 34.

Disclosures relating to receivables from related parties are set out in note 26.

At 30 June 2014, trade receivables of US\$9 million (2013: US\$4 million) were past due but not impaired. These relate to a number of customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2014 US\$m	2013 US\$m
Less than 30 days	7	2
Between 30 and 60 days	1	1
Beyond 60 days	1	1
	9	4

Receivables that are classified as past due are those that have not been settled within the normal terms and conditions that have been agreed with the customer. None of the receivables past due in the above table are impaired.

All other receivables within trade and other receivables are not impaired as it is expected that these amounts will be received when due.

11 Inventories

	2014 US\$m	2013 US\$m
Iron ore stockpiles	1,055	646
Warehouse stores and materials	412	315
	1,467	961

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 2014 amounted to US\$4,930 million (2013: US\$3,784 million).

12 Other assets

	2014 US\$m	2013 US\$m
Prepayments	27	18
Other	-	18
Total other current assets	27	36
Prepayments	77	90
Total other non-current assets	77	90

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

13 Property, plant and equipment

	Notes	Plant and equipment US\$m	Land and buildings US\$m	Exploration and evaluation US\$m	Assets under development US\$m	Development US\$m	Total US\$m
Year ended 30 June 2013							
Opening net book value		2,771	127	280	5,930	2,249	11,357
Transfers of assets		6,025	520	(51)	(6,959)	424	(41)
Additions		224	-	67	6,101	2	6,394
Capitalised interest	7	-	-	-	342	-	342
Foreign exchange gains reclassified from reserves	21	-	-	-	(35)	-	(35)
Disposals		(43)	(3)	(2)	-	(19)	(67)
Depreciation		(358)	(12)	-	(76)	(97)	(543)
Changes in restoration and rehabilitation estimate	18	-	-	-	-	(132)	(132)
Assets written off	6	(71)	-	-	-	-	(71)
Other		(1)	-	(30)	(13)	(1)	(45)
Closing net book value		8,547	632	264	5,290	2,426	17,159
At 30 June 2013							
Cost		9,397	668	264	5,290	2,702	18,321
Accumulated depreciation		(850)	(36)	-	-	(276)	(1,162)
Net book value		8,547	632	264	5,290	2,426	17,159
Year ended 30 June 2014							
Opening net book value		8,547	632	264	5,290	2,426	17,159
Transfers of assets		4,885	345	50	(6,972)	1,624	(68)
Additions		12	-	99	1,842	2	1,955
Capitalised interest	7	-	-	-	75	-	75
Foreign exchange losses reclassified from reserves	21	-	-	-	67	-	67
Disposals		(139)	-	(1)	-	(14)	(154)
Depreciation		(847)	(47)	-	-	(136)	(1,030)
Changes in restoration and rehabilitation estimate	18	-	-	-	-	87	87
Assets written off	6	(22)	-	-	-	-	(22)
Other		(6)	3	(4)	11	(5)	(1)
Closing net book value		12,430	933	408	313	3,984	18,068
At 30 June 2014							
Cost		14,090	1,013	408	313	4,397	20,221
Accumulated depreciation		(1,660)	(80)	-	-	(413)	(2,153)
Net book value		12,430	933	408	313	3,984	18,068

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

Property, plant and equipment includes assets held under finance leases of US\$300 million (2013: US\$662 million). The details of the finance leases under which these assets are held are disclosed in note 17.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

14 Intangible assets

	2014 US\$m	2013 US\$m
Opening net book value	40	19
Transfers of assets	68	41
Amortisation	(41)	(20)
Closing net book value	67	40
Cost	136	68
Accumulated amortisation	(69)	(28)
Closing net book value	67	40

15 Trade and other payables

	2014 US\$m	2013 US\$m
Trade payables	397	372
Customer deposits	65	73
Other payables and accruals	876	598
Total current payables	1,338	1,043
Customer deposits	55	129
Other payables and accruals	46	26
Total non-current payables	101	155

16 Deferred income

	2014 US\$m	2013 US\$m
Iron ore prepayments	825	38
Port access prepayment	111	-
Total current deferred income	936	38
Iron ore prepayments	223	331
Port access prepayment	333	-
Total non-current deferred income	556	331

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

17 Borrowings and finance lease liabilities

	2014 US\$m	2013 US\$m
Senior unsecured notes	79	121
Senior secured credit facility	73	52
Finance lease liabilities	2	29
Preference shares	-	3
Total current borrowings and finance lease liabilities	154	205
Senior unsecured notes	4,366	6,970
Senior secured credit facility	4,722	4,776
Finance lease liabilities	315	613
Preference shares	-	127
Total non-current borrowings and finance lease liabilities	9,403	12,486
Total borrowings and finance lease liabilities	9,557	12,691

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

	Senior unsecured notes US\$m	Senior secured credit facility US\$m	Finance leases/ facilities US\$m	Preference shares US\$m	Unsecured loan notes US\$m	Unsecured bank facility US\$m	Total US\$m
30 June 2013							
Balance at 1 July	7,082	-	281	141	897	100	8,501
Initial recognition	-	4,844	1,502	-	-	1,230	7,576
Interest expense	510	206	74	13	74	15	892
Interest and finance lease repayments	(501)	(184)	(66)	(13)	(117)	(12)	(893)
Re-estimation of unsecured loan notes	-	-	-	-	(34)	-	(34)
Foreign exchange gain	-	-	(39)	(11)	-	-	(50)
Repayment	-	(38)	(1,110)	-	(820)	(1,333)	(3,301)
Balance at 30 June 2013	7,091	4,828	642	130	-	-	12,691
30 June 2014							
Balance at 1 July	7,091	4,828	642	130	-	-	12,691
Initial recognition	-	-	13	-	-	-	13
Interest expense	437	248	57	5	-	-	747
Interest and finance lease repayments	(465)	(209)	(53)	(7)	-	-	(734)
Transaction costs	22	(22)	(59)	-	-	-	(59)
Foreign exchange (gain) loss	-	-	(10)	3	-	-	(7)
Repayment	(2,640)	(50)	(273)	(131)	-	-	(3,094)
Balance at 30 June 2014	4,445	4,795	317	-	-	-	9,557

Information about Fortescue's exposure to interest rate risk and foreign exchange rate risk is disclosed in note 34.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

17 Borrowings and finance lease liabilities (continued)

(b) Debt reduction program

During the year ended 30 June 2014, Fortescue commenced an accelerated debt reduction program, and successfully completed the following initiatives:

- Redemption of A\$140 million preference shares, completed in November 2013;
- Redemption of US\$2.04 billion 2015 senior unsecured notes, completed in December 2013 (US\$1.0 billion) and March 2014 (US\$1.04 billion);
- Pay-out of finance lease liabilities of US\$0.3 billion in January 2014; and
- Redemption of the US\$0.6 billion 2016 senior unsecured notes, completed in March 2014.

(c) Refinancing

In November 2013 Fortescue successfully completed the refinancing of the US\$5.0 billion term loan, reducing the margin by one per cent to 3.25 per cent, and extending the maturity date by 21 months to 30 June 2019. The total coupon payable on this facility is calculated as LIBOR, with a LIBOR floor of 1.00 per cent, plus the margin. In May 2014, the margin reduced by a further 0.50 per cent, to 2.75 per cent.

(d) Key terms of borrowings and finance lease liabilities

The key terms of borrowings and finance lease liabilities are summarised below.

(i) Senior unsecured notes

The Group's senior unsecured notes are held in its wholly-owned subsidiary FMG Resources (August 2006) Pty Limited and comprise the following tranches which have early repayment options with interest payable bi-annually:

Date of issue	Date of maturity	Call date ⁽ⁱ⁾	Face value	Carrying value	Interest rate	Currency
15 December 2010	1 February 2018	Current	900	922	6.875%	USD
25 October 2011	1 November 2019	November 2015	1,500	1,506	8.250%	USD
19 March 2012	1 April 2017	April 2015	1,000	1,009	6.000%	USD
19 March 2012	1 April 2022	April 2017	1,000	1,008	6.875%	USD
			4,400	4,445		

⁽ⁱ⁾The date when senior unsecured notes become repayable at Fortescue's option.

(ii) Senior secured credit facility

Fortescue established a senior secured credit facility of US\$5.0 billion in October 2012, which is repayable at Fortescue's option. The facility was refinanced in November 2013. The key terms of the facility prior to and after refinancing are summarised below.

From	To	US\$m	Interest rate ⁽ⁱ⁾	Principal repayments	Maturity
October 2012	November 2013	5,000	LIBOR + 4.25%	0.25% quarterly	18 October 2017
November 2013	May 2014	4,950	LIBOR + 3.25%	0.25% quarterly	30 June 2019
May 2014	Current	4,925	LIBOR + 2.75%	0.25% quarterly	30 June 2019

⁽ⁱ⁾LIBOR with a floor of one per cent.

The facility is secured by a first priority perfected lien on all of the assets of the Company and certain of its subsidiaries subject to certain limited exceptions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

17 Borrowings and finance lease liabilities (continued)

(iii) Finance lease liabilities

During the year, Fortescue repaid the finance lease liabilities associated with both Ore Processing Facilities (OPFs) at Christmas Creek. The Group's finance lease liabilities at 30 June 2014 largely relate to contractual commitments associated with the Solomon Power Station.

In the event of default, the assets revert to the lessor. The future minimum lease payments represent the Group's commitments in relation to finance leases. Finance lease liabilities include the effect of discounting as summarised below:

	Within one year US\$m	Between one year and five years US\$m	After five years US\$m	Total US\$m
30 June 2013				
Future minimum lease payments	95	393	972	1,460
Effect of discounting	(72)	(263)	(483)	(818)
Present value of minimum lease payments	23	130	489	642
30 June 2014				
Future minimum lease payments	40	208	674	922
Effect of discounting	(40)	(199)	(366)	(605)
Present value of minimum lease payments	-	9	308	317

(iv) Preference shares

In September 2008 Fortescue issued 1,400 fully paid non-convertible redeemable preference shares at A\$100,000 per share, with a term of 8.5 years. The preference shares had a dividend coupon rate of nine per cent payable bi-annually either in cash or by issue of additional preference or ordinary shares, as elected by Fortescue. A holder of preference shares was not entitled to share in the distribution of any surplus assets of the Company beyond its redemption amount. The preference shares ranked in priority to Fortescue's ordinary shares for the payment of distributions, had limited voting rights, and were repayable at Fortescue's option.

Fortescue redeemed the preference shares in full in November 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

18 Provisions

	2014 US\$m	2013 US\$m
Employee benefits	166	121
Restoration and rehabilitation	10	7
Total current provisions	176	128
Employee benefits	4	6
Restoration and rehabilitation	463	381
Total non-current provisions	467	387

(a) Provision for employee benefits

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

	2014 US\$m	2013 US\$m
Carrying amount at 1 July	127	102
Changes in employee benefits provision	167	122
Amounts paid	(124)	(97)
Carrying amount at 30 June	170	127

(b) Provision for restoration and rehabilitation

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

	2014 US\$m	2013 US\$m
Carrying amount at 1 July	388	514
Changes in restoration and rehabilitation estimate ⁽ⁱ⁾	87	(132)
Unwinding of discount	4	7
Payments for restoration and rehabilitation activities	(6)	(1)
Carrying amount at 30 June	473	388

⁽ⁱ⁾ A provision for restoration and rehabilitation has been recognised in relation to Fortescue's iron ore operations. The provision has been made in full for all disturbed areas at the reporting date based on current estimates of costs to rehabilitate and for the costs of infrastructure removal, discounted to their present value based on expected timing of future cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

19 Deferred tax assets and liabilities

The composition and movement of deferred tax assets and (liabilities) is as follows:

	Balance 1 July 2012 US\$m	Charged/ (credited) to profit or loss US\$m	Charged/ (credited) to equity US\$m	Balance 30 June 2013 US\$m	Charged/ (credited) to profit or loss US\$m	Charged/ (credited) to equity US\$m	Balance 30 June 2014 US\$m
Exploration expenditure	(80)	1	-	(79)	(4)	-	(83)
Development	(353)	160	-	(193)	(270)	-	(463)
Property, plant and equipment	(54)	(531)	-	(585)	(93)	-	(678)
Consumables	(44)	(81)	-	(125)	(60)	-	(185)
Foreign exchange losses (gains)	7	(38)	-	(31)	22	-	(9)
Senior notes	(6)	6	-	-	-	-	-
Unsecured loan notes	204	(204)	-	-	-	-	-
Accruals	1	-	-	1	-	-	1
Provisions	184	(27)	-	157	35	-	192
Other financial liabilities	(80)	116	-	36	28	-	64
Other items	-	14	-	14	(7)	-	7
	(221)	(584)	-	(805)	(349)	-	(1,154)

	Assets		Liabilities		Net assets (liabilities)	
	2014 US\$m	2013 US\$m	2014 US\$m	2013 US\$m	2014 US\$m	2013 US\$m
Exploration expenditure	-	-	(83)	(79)	(83)	(79)
Development	-	75	(463)	(268)	(463)	(193)
Property, plant and equipment	19	54	(697)	(639)	(678)	(585)
Consumables	-	-	(185)	(125)	(185)	(125)
Foreign exchange losses (gains)	-	2	(9)	(33)	(9)	(31)
Accruals	23	15	(22)	(14)	1	1
Provisions	195	157	(3)	-	192	157
Other financial liabilities	92	95	(28)	(59)	64	36
Other items	10	21	(3)	(7)	7	14
	339	419	(1,493)	(1,224)	(1,154)	(805)
Deferred tax assets (liabilities) expected to be recovered (settled) within 12 months	76	46	(223)	(165)	(147)	(119)
Deferred tax assets (liabilities) expected to be recovered (settled) beyond 12 months	263	373	(1,270)	(1,059)	(1,007)	(686)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

20 Contributed equity

(a) Share capital

	30 June 2014 Number	30 June 2013 Number
Ordinary shares fully paid	3,113,798,151	3,113,798,151

(b) Movements in ordinary share capital

Date	Details	Number of shares	Issue price	US\$m
1 July 2012	Opening balance	3,113,798,151		1,293
	Purchase of shares under employee share plans	(4,001,750)	\$4.95	(20)
	Employee share awards exercised net of employee contributions	4,001,750	\$4.45	18
	30 June 2013 Closing balance	3,113,798,151		1,291
1 July 2013	Opening balance	3,113,798,151		1,291
	Purchase of shares under employee share plans	(3,605,211)	\$4.63	(17)
	Employee share awards exercised net of employee contributions	3,605,211	\$4.23	15
	30 June 2014 Closing balance	3,113,798,151		1,289

(c) Ordinary shares

Fully paid ordinary shares entitle the holder to participate in dividends and to one vote per share at meetings of the Company. Ordinary shares participate in the proceeds on winding up of the Company in proportion to the number of shares held.

21 Reserves

(a) Reserves

	2014 US\$m	2013 US\$m
Share-based payments reserve	55	29
Capital reserve	12	12
Foreign currency translation	2	-
Hedging reserve	-	(90)
	69	(49)

Share-based payments reserve

Balance at 1 July	29	15
Exercised or converted	(5)	-
Forfeited or lapsed	(5)	-
Share-based payment expense	36	14
Balance at 30 June	55	29

Capital reserve

Balance at 1 July	12	1
Transactions with non-controlling interest	-	11
Balance at 30 June	12	12

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

21 Reserves (continued)

	2014 US\$m	2013 US\$m
Foreign currency translation reserve		
Balance at 1 July	-	-
Currency translation differences arising during the year	2	-
Balance 30 June	2	-
Hedging reserve		
Balance at 1 July	(90)	25
Gains (losses) on cash flow hedges taken to equity	23	(80)
Losses (gains) transferred to the initial carrying amount of hedged items	67	(35)
Balance at 30 June	-	(90)

(b) Nature and purpose of reserves

(i) Share-based payments reserve

The share-based payments reserve primarily records items recognised as expenses on valuation of employee share options and rights.

(ii) Capital reserve

The capital reserve records equity contributions by the holder of the non-controlling interest and revaluations of non-current assets held at fair value.

(iii) Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

(iv) Hedging reserve

The hedging reserve represents hedging gains and losses recognised on the effective portion of cash flow hedges. The cumulative deferred gain or loss on the hedge is recognised as an adjustment to the initial cost of non-financial hedged items.

22 Dividends

(a) Dividends paid during the year

	2014 US\$m	2013 US\$m
Final fully franked dividend for the year ended 30 June 2013: A\$0.10 per share (30 June 2012: A\$0.04 per share)	282	131
Interim fully franked dividend for the half-year ended 31 December 2013: A\$0.10 per share (2012: nil)	280	-
	562	131
(b) Dividends proposed and not recognised as a liability		
Fully franked dividend: A\$0.10 per share (2013: A\$0.10 per share)	290	282
	290	282

(c) Franking credits

At 30 June 2014, franking credits available were US\$539 million (2013: US\$652 million). The payment of the final dividend for the year ended 30 June 2014 will reduce the franking account balance by US\$124 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

23 Remuneration of auditors

(a) PricewaterhouseCoopers

	2014 US\$000	2013 US\$000
Audit and other assurance services		
Audit and review of financial statements	774	668
Other assurance services	140	82
Total audit and assurance services	914	750
Other services		
Consulting services	705	461
Total remuneration of PricewaterhouseCoopers Australia	1,619	1,211
(b) Network firms of PricewaterhouseCoopers Australia		
Audit and other assurance services		
Audit and review of financial statements	47	43
Total remuneration of network firms of PricewaterhouseCoopers Australia	47	43
(c) Other audit firms		
Audit and other services	26	25
Audit and review of financial statements - BDO Wellington, New Zealand	26	25
Total auditors' remuneration	1,692	1,279

24 Contingencies

Fortescue had no material contingent liabilities or contingent assets at 30 June 2014 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.

25 Commitments

	Capital ⁽ⁱ⁾ US\$m	Operating leases ⁽ⁱⁱ⁾ US\$m	Total US\$m
30 June 2013			
Within one year	574	72	646
Between one and five years	9	104	113
Total	583	176	759
30 June 2014			
Within one year	519	79	598
Between one and five years	252	176	428
Total	771	255	1,026

25 Commitments (continued)

- (i) At 30 June 2014 Fortescue had contractual commitments to capital expenditure not recognised as liabilities.
- (ii) Fortescue leases various offices and other premises under non-cancellable operating leases expiring within one to seven years. The leases have varying terms, escalation clauses and renewal rights. The terms of the leases are renegotiated on renewal.

Fortescue also leases mobile equipment, plant and machinery and office equipment under non-cancellable operating leases. The leases have varying terms.

26 Related party transactions

(a) Subsidiaries

Interests in subsidiaries are set out in note 27.

(b) Key management personnel remuneration

	2014 US\$m	2013 US\$m
Short term employee benefits	6	8
Share-based payments	10	9
	16	17

In addition to the above, Fortescue paid A\$277,914 termination benefits to key management personnel during the financial year (2013: A\$45,532).

Detailed information about the remuneration received by each key management person is provided in the remuneration report on pages 98 to 119.

(c) Transactions with other related parties

The following transactions occurred with the joint operations partners:

	2014 US\$m	2013 US\$m
Revenue	96	91
Other income	22	12
Current receivables	20	19

(d) Guarantees issued

The Minderoo Group Pty Ltd (formerly The Metal Group Pty Ltd), an entity controlled by Andrew Forrest, has entered into arrangements to provide financial assistance by way of guarantee to certain of Fortescue's Executives to purchase the Company's shares. The arrangement, which constitutes a share-based payment transaction, has been measured with the reference to the fair value of the benefit received by the Executives and is recognised as an expense on a straight-line basis over a four-year vesting period, in line with the service conditions. The fair value was determined at grant date using a Monte-Carlo simulation model. The total share-based payment expense in relation to the arrangement for the financial year ended 30 June 2014 was US\$985,499 (2013: US\$985,499).

No other transactions have occurred with related parties other than subsidiaries, entities with joint control, Directors or key management personnel as disclosed above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

27 Interests in other entities

(a) Material subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following principal subsidiaries in accordance with the accounting policy described in note 35(a):

Controlled entities	Country of incorporation	Class of shares	Equity holding		Investment	
			2014 %	2013 %	2014 US\$	2013 US\$
The Pilbara Infrastructure Pty Limited	Australia	Ordinary	100	100	1	1
FMG Pilbara Pty Limited	Australia	Ordinary	100	100	1	1
Chichester Metals Pty Limited	Australia	Ordinary	100	100	1	1
FMG Resources (August 2006) Pty Limited	Australia	Ordinary	100	100	1	1
Pilbara Mining Alliance Pty Limited	Australia	Ordinary	100	100	1	1
Karribi Developments Pty Limited	Australia	Ordinary	100	100	1	1
FMG Magnetite Pty Limited	Australia	Ordinary	88	88	1	1
FMG North Pilbara Pty Limited	Australia	Ordinary	88	88	1	1
FMG Pacific Limited	New Zealand	Ordinary	100	100	1	1
FMG International Pte Limited	Singapore	Ordinary	100	100	209,053	209,053
Pilbara Housing Services Pty Limited	Australia	Ordinary	100	100	1	1
FMG Solomon Pty Limited	Australia	Ordinary	100	100	1	1
Masters Way Homes Pty Limited	Australia	Ordinary	100	100	1	1
FMG Iron Bridge Limited	Hong Kong	Ordinary	88	88	43,557,023	43,557,023
FMG Iron Bridge (Aust) Pty Limited	Australia	Ordinary	88	88	108	108
FMG Air Pty Limited	Australia	Ordinary	100	100	1	1
FMG Capital Pty Limited	Australia	Ordinary	100	100	1	1
Glacier Valley Management Company Pty Limited	Australia	Ordinary	94	94	1	1
FMG Exploration Pty Limited	Australia	Ordinary	100	100	1	1
FMG Minerals Pty Limited	Australia	Ordinary	100	100	1	1
Pilbara Iron Ore Pty Limited	Australia	Ordinary	50	50	1	1
Fortescue Services Pty Limited	Australia	Ordinary	100	100	1	1
FMG Personnel Pty Limited	Australia	Ordinary	100	100	1	1
VTEC Services Pty Limited	Australia	Ordinary	100	100	1	1
FMG IOC Pty Limited	Australia	Ordinary	100	100	1	1
FMG Training Pty Limited	Australia	Ordinary	100	100	1	1
International Bulk Ports Pty Limited	Australia	Ordinary	100	100	1	1
FMG Resources Pty Limited	Australia	Ordinary	100	100	339	339
FMG America	USA	Ordinary	100	100	1	1
FMG Nyidinghu Pty Ltd	Australia	Ordinary	100	100	1	1
Pilbara Power Pty Limited	Australia	Ordinary	100	100	1	1
Pilbara Ports Pty Limited	Australia	Ordinary	100	100	1	1
Pilbara Gas Pipeline Pty Limited	Australia	Ordinary	100	100	1	1
FMG JV Company Pty Limited	Australia	Ordinary	100	100	1	1
FMG Ashburton Pty Limited	Australia	Ordinary	100	100	1	1
African Fortescue, Limitada	Mozambique	Ordinary	100	100	1	1
FMG Procurement Services	Australia	Ordinary	100	-	1	-
FMG International Marketing Pte Ltd	Singapore	Ordinary	100	-	1	-
FMG Personnel Services Pty Ltd	Australia	Ordinary	100	-	1	-
SS IB Pty Ltd	Australia	Ordinary	88	-	1	-
GMF Insurance Limited	Guernsey	Ordinary	100	-	4,690,502	-
FMG Chichester Personnel Pty Ltd	Australia	Ordinary	100	-	1	-
FMG International Shipping Pte Ltd	Singapore	Ordinary	100	-	1	-

27 Interests in other entities (continued)

(b) Joint operations

Fortescue, through its wholly-owned subsidiary FMG Pilbara Pty Limited, holds a 25 per cent participating interest in the Nullagine Iron Ore Joint Venture. The principal activity of Nullagine Iron Ore Joint Venture is the production of iron ore in the Pilbara region of Western Australia, with Fortescue entitled to receive joint operation output consistent with its participating interest.

In October 2013, Fortescue, through its 88 per cent owned subsidiaries FMG Magnetite Pty Ltd and FMG North Pilbara Pty Ltd, formed the Iron Bridge Joint Venture and Glacier Valley Joint Venture to develop and produce its magnetite assets in the Pilbara region of Western Australia. The Group is entitled to receive joint operation output consistent with its participating interest of 69 per cent.

28 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 2014 along with the consolidated statement of financial position as at 30 June 2014 for the closed group and the extended closed group represented by the above companies are materially the same as that of the consolidated group.

29 Earnings per share

(a) Earnings per share

	2014 Cents	2013 Cents
Basic	88.00	56.07
Diluted	87.85	56.05

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

29 Earnings per share (continued)

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

	2014 US\$m	2013 US\$m
Profit attributable to the ordinary equity holders of the Company used in calculating basic and diluted earnings per share	2,740	1,746

(c) Weighted average number of shares used as denominator

	2014 Number	2013 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	3,113,798,151	3,113,784,294
Adjustments for calculation of diluted earnings per share:		
Potential ordinary shares	5,133,166	1,443,267
Weighted average number of ordinary and potential ordinary shares used as the denominator in calculating diluted earnings per share	3,118,931,317	3,115,227,561

(d) Information on the classification of securities

(i) Options and rights

Options and rights granted to employees under the Fortescue incentive plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. Details relating to the options and rights are set out in note 30.

30 Share-based payments

(a) Employee Option and Performance Rights Plans

During the financial year Fortescue issued 3,917,818 short term performance rights and 8,038,536 long term performance rights to employees and senior executives, convertible to one ordinary share per right. The short term rights vest over one year, and the long term rights vest over three years. Vesting of both the short term and the long term rights are subject to non-market vesting conditions imposed on each individual participating in the performance rights plans.

	Weighted average exercise price 2014 A\$	Number of options and rights 2014 Number	Weighted average exercise price 2013 A\$	Number of options and rights 2013 Number
Outstanding at 1 July	3.89	10,603,847	4.51	9,151,984
Performance rights granted	-	11,956,354	-	2,443,817
Performance rights forfeited or lapsed	-	(1,360,433)	-	(616,629)
Performance rights converted	-	(973,448)	-	(375,325)
Options forfeited	5.69	(400,000)	-	-
Options exercised	2.50	(600,000)	-	-
Outstanding at 30 June	1.95	19,226,320	3.89	10,603,847

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

30 Share-based payments (continued)

The weighted average fair value of performance rights granted during the year ended 30 June 2014 was A\$5.09 per right (2013: A\$3.87) for the short term performance rights and A\$5.29 per right (2013: A\$4.03) for the long term performance rights. The estimated fair value was determined using a trinomial option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date, expected price volatility of the underlying share, the effect of additional market conditions, the expected dividend yield, estimated share conversion factor and the risk free interest rate for the term of the right.

The weighted average inputs used to determine the fair value of performance rights granted during the year ended 30 June 2014 were:

- (a) share price: A\$5.35 (2013: A\$4.07)
- (b) exercise price: nil (2013: nil)
- (c) volatility: 78 per cent (2013: 64 per cent)
- (d) option life: 21 months (2013: 24 months)
- (e) dividend yield: 2 per cent (2013: 2 per cent)
- (f) risk free interest rate: 2.5 per cent (2013: 3 per cent)

Details of options and performance rights outstanding at 30 June 2014 are presented in the following table:

	Exercise price A\$	Balance at the end of the year Number	Vested and exercisable at the end of the year Number	Remaining contractual life Months
Employee options 2010	5.00	7,500,000	-	10
Long term performance rights 2013	Nil	2,935,785	-	18
Short term performance rights 2014	Nil	3,651,255	-	6
Long term performance rights 2014	Nil	5,139,280	-	30
		19,226,320		

(b) Other share-based payments

The arrangement between certain of Fortescue's Executives and The Munderoo Group Pty Ltd, as described in note 26, constitutes a share-based payment. The assessed fair value of this share-based payment at grant date was US\$3,941,996, including US\$985,499 expensed during the financial year (2013: US\$985,499). The fair value at each grant date was determined using a Monte-Carlo simulation model that takes into account the four-year life of the instruments, the share prices at each grant date, the expected price volatility of the underlying share, the expected dividend yield risk free interest rate for the life of the instruments, the loan value per share, the loan interest rate and the terms of the margin call.

(c) Employee expenses

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

	2014 US\$m	2013 US\$m
Share-based payment expense	31	14

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

31 Reconciliation of profit after income tax to net cash inflow from operating activities

	2014 US\$m	2013 US\$m
Profit for the year after income tax	2,740	1,746
Income tax expense	1,173	720
Depreciation and amortisation	965	463
Assets write-off	22	71
Exploration, development and other	16	45
Share-based payment expense	31	14
Re-estimation of unsecured loan notes	-	(34)
Net unrealised foreign exchange loss (gain)	34	(98)
Interest expense disclosed within financing activities	688	586
Interest income disclosed within investing activities	(21)	(33)
Gain on disposal of interest in joint venture	(109)	(124)
Loss on early redemption of borrowings and finance leases	53	-
Other non-cash items	(10)	(18)
Working capital adjustments:		
Increase in deferred income	1,123	364
Increase (decrease) in payables and provisions	250	(644)
(Decrease) increase in receivables	(302)	190
Increase in inventories	(405)	(244)
Net cash inflow from operating activities	6,248	3,004
	2014 US\$m	2013 US\$m
Non-cash investing and financing activities		
Acquisition of plant and equipment through finance leases	(9)	(223)
Other	(42)	26
Total non-cash financing and investing activities	(51)	(197)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

32 Parent entity financial information

(a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	2014 US\$m	2013 US\$m
Balance sheet		
Current assets	633	657
Non-current assets	8,572	5,480
Total assets	9,205	6,137
Current liabilities	1,267	156
Non-current liabilities	94	568
Total liabilities	1,361	724
Net assets	7,844	5,413
Equity		
Contributed equity	1,289	1,291
Reserves	56	21
Retained earnings	6,499	4,101
Total equity	7,844	5,413
Profit for the year ⁽ⁱ⁾	2,960	1,690
Total comprehensive profit for the year	2,960	1,690

⁽ⁱ⁾ Profit for the year includes dividends received from subsidiaries of US\$3,200 million (2013: US\$1,600 million).

(b) Guarantees entered into by the parent entity

The parent entity has not provided any financial guarantees other than the cross guarantees, as described in note 28.

No liability was recognised by the parent entity or the consolidated entity in relation to the cross guarantees.

(c) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 30 June 2014 or 30 June 2013. For information about guarantees given by the parent entity, please see above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

33 Events occurring after the reporting period

On 20 August 2014, the Directors declared a final dividend of 10 Australian cents per ordinary share payable on 3 October 2014.

On 20 August 2014, Fortescue announced its intention to redeem US\$500 million of the 2018 senior unsecured notes in October 2014.

34 Financial risk management

Fortescue has a risk management programme that provides a structured approach to the management of risks across the business. The programme incorporates active management of financial risks arising from Fortescue's activities to ensure that such risks are maintained within tolerable levels as required by the Board of Directors. Financial risks include market risk, credit risk and liquidity risk.

The Board of Directors, through the Audit and Risk Management Committee (ARMC), has ultimate responsibility for oversight of the Fortescue Risk Management Framework (FRMF) and for setting appropriate risk tolerance levels. Day-to-day management responsibility for execution of the FRMF has been delegated to the CEO and the CFO. Periodically the CFO reports to the ARMC 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 foreign exchange rates (foreign currency exchange risk), iron ore prices (commodity price risk) or interest rates (interest rate risk).

(i) Foreign exchange risk

Fortescue operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Australian dollar and the Euro. Fortescue is exposed to currency risk on cash reserves, trade and other receivables, borrowings, trade and other payables, derivatives held at fair value and other financial assets and liabilities.

Fortescue's policy is, where possible, to allow Group entities to settle liabilities denominated in their functional currency with the cash generated from their own operations in that currency.

Fortescue's exposure to foreign exchange risks is measured using sensitivity analysis and cash flow forecasting. 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 and to hedge a portion of anticipated cash flows in relation to the 155mtpa expansion program in Australian dollars. All of the projected cash flows related to the expansion program qualified as highly probable forecast transactions for hedge accounting purposes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

34 Financial risk management (continued)

The carrying amounts of the Group's financial assets and liabilities are primarily denominated in three currencies as set out below:

	USD US\$m	AUD US\$m	EURO US\$m	Total US\$m
30 June 2013				
Financial assets				
Cash and cash equivalents	1,497	660	1	2,158
Trade and other receivables	145	223	1	369
Other financial assets	-	6	-	6
Derivatives held at fair value	12	-	-	12
Total financial assets	1,654	889	2	2,545
Financial liabilities				
Borrowings and finance lease liabilities	12,224	467	-	12,691
Trade and other payables	380	816	2	1,198
Total financial liabilities	12,604	1,283	2	13,889
30 June 2014				
Financial assets				
Cash and cash equivalents	2,110	288	-	2,398
Trade and other receivables	487	65	1	553
Total financial assets	2,597	353	1	2,951
Financial liabilities				
Borrowings and finance lease liabilities	9,548	9	-	9,557
Trade and other payables	619	822	-	1,441
Total financial liabilities	10,167	831	-	10,998

A change of five per cent in the Australian dollar against the currencies above at 30 June 2014 would have an impact on pre-tax profit and loss of US\$24 million (2013: US\$108 million). This analysis assumes that all other variables, in particular interest rates, remain constant.

(ii) Commodity price risk

The Group is exposed to commodity price risk through iron ore price movements. Fortescue had not entered into any forward commodity price contracts at 30 June 2014 (2013: nil) and is currently fully exposed to commodity price movements as follows:

	2014 US\$m	2013 US\$m
Trade receivables	486	171
Derivative held at fair value	-	12
	486	183

A change of 15 per cent in commodity prices would have an impact on the Group's pre-tax profit and loss of US\$73 million (2013: US\$24 million). This analysis assumes that all other variables, in particular foreign exchange, remain constant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

34 Financial risk management (continued)

(iii) Interest rate risk

It is Fortescue's policy to reduce interest rate risk over the cash flows on its long term debt finance within tolerable levels set by ARMC through the use of fixed rate instruments whenever appropriate.

Fortescue's main interest rate risk arises from floating rates on the senior secured credit facility and changes in rates on short term investments. The Group's fixed rate borrowings are carried at amortised cost and are not subject to interest rate risk as defined in AASB 7 *Financial Instruments: Disclosures*. Other financial instruments of the Group are non-interest bearing and are also not subject to interest rate risk as defined in AASB 7.

At 30 June 2014, Fortescue had the following variable rate assets and liabilities:

	2014 US\$m	2013 US\$m
Cash and cash equivalents	2,393	2,143
Senior secured credit facility	(4,795)	(4,828)
	(2,402)	(2,685)

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 ten basis points in interest rates in variable instruments would have an impact on the Group's pre-tax profit and loss of US\$3 million (2013: US\$7 million). This analysis assumes that all other factors remain constant, including foreign currency rates.

(b) Credit risk

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

Fortescue is exposed to a concentration of risk with the majority of its iron ore customers being located in China. This risk is mitigated by a policy of only trading with creditworthy counterparties and Fortescue further mitigates its credit risk by obtaining security in the form of letters of credit covering approximately 95 per cent of the value of iron ore shipped. Fortescue has not recognised any bad debt expense from trading counterparties in the financial years ended 30 June 2014 and 30 June 2013.

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

The analysis of receivables past due is presented in note 10. Fortescue does not consider there to be any potential impairment loss on these receivables.

(c) Liquidity risk

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

34 Financial risk management (continued)

	Less than 6 months US\$m	Between 6 and 12 months US\$m	Between 1 and 2 years US\$m	Between 2 and 5 years US\$m	Over 5 years US\$m	Total contractual cash flows US\$m	Carrying amount US\$m
30 June 2013							
Non-interest bearing	999	-	26	119	-	1,144	1,144
Fixed rate	345	301	606	6,003	3,933	11,188	7,917
Variable rate	159	154	307	5,452	-	6,072	4,828
Total	1,503	455	939	11,574	3,933	18,404	13,889
30 June 2014							
Non-interest bearing	1,376	-	55	-	-	1,431	1,431
Fixed rate	187	177	355	2,786	3,485	6,990	4,772
Variable rate	119	117	234	737	4,678	5,885	4,795
Total	1,682	294	644	3,523	8,163	14,306	10,998

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

(d) Fair values

All financial assets and financial liabilities, with the exception of derivatives, are initially recognised at the fair value of the consideration paid or received, net of directly attributable transaction costs. Subsequently, the financial assets and financial liabilities, other than derivatives, are measured at amortised cost. The carrying values of the financial assets and liabilities approximate their fair values, with the exception of the senior unsecured notes and senior secured credit facility with the fair values of US\$4,690 million and US\$4,925 million respectively. These fair values are based on quoted market prices at the end of the reporting period and as such are classified as level 1 financial instruments in the fair value hierarchy.

(e) Capital management

Fortescue's capital management policy provides a framework to maintain a strong capital structure to sustain the future development and expansion of the business and to provide consistent returns to its equity shareholders.

The capital structure of the Group consists of net debt (borrowings and finance lease liabilities as detailed in note 17 offset by cash and bank balances) and the equity of the Group (comprising issued capital, reserves and retained earnings as detailed in the statement of changes in equity).

Fortescue has built significant flexibility in its debt capital structure. This flexibility allows Fortescue to manage debt through voluntary repayment or refinancing to extend maturity dates to match the Group's long life assets.

The Group monitors capital using financial and non-financial indicators. Financial indicators include, but are not limited to, gearing, interest coverage and leverage ratios.

Target ranges for ratios are provided dependent upon the investment and commodity cycle. During periods of intensive investment, for example expansion programmes, or a commodity cycle downturn, the capital policy contemplates interim ratio levels moving to a targeted longer term level. Interim levels acknowledge and consider the requirements, in certain circumstances, for remedial action to be taken.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

35 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 entities controlled by the Company. Control is achieved when the Company has the power to govern the financial and operating policies of the entity, generally accompanying a shareholding of more than one half of the voting rights.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

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.

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

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

(ii) Joint arrangements

Joint arrangements exist 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 the rights to the assets and the obligations for the liabilities for the parties, the arrangement is classified as a joint operation. The Group recognises its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. These have been incorporated in the financial statements under the appropriate headings. Details of the joint operations are set out in note 27.

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 joint venture parties in different financial years, may give rise to deferred joint venture contribution assets or liabilities.

Joint ventures

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

(b) Employee share trust

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

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer.

35 Summary of significant accounting policies (continued)

(d) Foreign currency translation

(i) Transactions and balances

Transactions in foreign currencies have been converted at rates of exchange ruling at the date of those transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the year end translation of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when they are deferred in other comprehensive income as qualifying cash flow hedges. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

(ii) Foreign operations

The results and financial position of foreign operations that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing foreign exchange rate at the date of the balance sheet;
- income and expense items are translated at average exchange rates for the periods presented (unless exchange rates fluctuated significantly during the period, in which case the exchange rates at the dates of the transactions are used); and
- all resulting exchange differences are recognised in other comprehensive income and accumulated in equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings designated as hedges of the investment, are recognised in other comprehensive income. Should a foreign operation be sold or any borrowings forming part of the net investment be repaid, a proportionate share of the exchange difference is reclassified to profit or loss, as part of the gain or loss on sale where applicable.

(e) 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 collectibility is reasonably assured.

Fortescue recognises revenue from the sale of iron ore when the risks and rewards of ownership transfers to the buyer. The sales price is determined on a provisional basis and adjustments to the sales price may subsequently occur depending on movements in quoted market or contractual iron ore prices to the date of final pricing and final product specifications. The date of final pricing is typically when a notice of readiness is received when the vessel has arrived at its final destination. Revenue is recognised based on the estimated fair value of the total consideration receivable. The fair value of the final consideration is re-estimated at each reporting date and any changes in the fair value are recognised as an adjustment to revenue.

(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.

(f) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

35 Summary of significant accounting policies (continued)

(g) Income tax

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

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

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 profit and loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Fortescue Metals Group Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation as of 1 July 2002, namely the FMG tax consolidated group, and are therefore taxed as a single entity from that date.

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

The head entity and the controlled entities in both tax consolidated groups continue to account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in each tax consolidated group continues to be a standalone taxpayer in its own right.

In addition to its own current and deferred tax amounts, the head entity of each group also recognises the current tax liabilities, or assets, and the deferred tax assets it has assumed from unused tax losses and unused tax credits from controlled entities in the each corresponding tax consolidated group.

35 Summary of significant accounting policies (continued)

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

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

(h) 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.

(i) Trade receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. An allowance for impairment of trade receivables is established when there is objective evidence that Fortescue will not be able to collect all amounts due.

Collectibility of trade receivables is reviewed on a monthly basis. When there is objective evidence that Fortescue will not be able to collect all amounts due according to the original terms of the receivables, an allowance for impairment of trade receivables is raised. Total receivables which are known to be uncollectible are written off by reducing the carrying amount directly. Significant financial difficulties of the customer, probability that the customer will enter bankruptcy or financial re-organisation and default or delinquency in payments are considered indicators that the trade receivable may not be collected. The amount of the impairment allowance is the difference between the trade receivable 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 profit and loss within other administration expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other administration expenses.

(j) Inventories

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

- labour costs, materials and contractor expenses which are directly attributable to the extraction and processing of iron ore;
- production overheads, including attributable mining and manufacturing overheads;
- the depreciation of mine development assets and of property, plant and equipment used in the extraction, processing and transportation of iron ore; and
- transportation expenditure in bringing such inventories to their existing location and condition, together with an appropriate portion of fixed and variable overhead expenditure.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

35 Summary of significant accounting policies (continued)

(k) Financial assets

Fortescue classifies its financial assets into loans, 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.

(ii) Financial assets through profit or loss

This category comprises only derivative financial instruments. They are carried in the balance sheet at fair value with changes in fair value recognised in profit or loss.

(l) Financial liabilities

(i) Trade payables

Trade and other payables are initially recognised at fair value and subsequently carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group has an obligation to make future payments in respect of the purchase of these goods and services.

(ii) Borrowings

Borrowings are initially recognised at fair value of the consideration received, less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised.

(iii) Finance lease liabilities

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

(m) Derivatives and hedge accounting

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as hedges of foreign exchange risk associated with the cash flows of highly probable forecast transactions.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is immediately recognised in profit or loss within other income or other expense.

The Group documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

When the forecast transaction that is being hedged results in the recognition of a non-financial asset, the gains and losses previously deferred in other comprehensive income are transferred from equity and adjust the cost of the asset. When a hedging instrument expires, is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to profit or loss.

35 Summary of significant accounting policies (continued)

(n) 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. Borrowing costs related to the acquisition or construction of qualifying assets are capitalised. When separate parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalised as part of the equipment.

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

(ii) Subsequent costs

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

(iii) Depreciation

Depreciation on assets, other than land which is not depreciated, is calculated using the straight-line method or units of production method, net of residual values, over estimated useful lives. Depreciation commences on the date when an asset is available for use, that is, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Assets acquired under finance leases are depreciated over the shorter of the individual asset's useful life and the lease term.

Straight-line method

Where the useful life is not linked to the quantities of iron ore produced, assets are generally depreciated on a straight-line basis over the estimated useful lives of the assets as follows:

• Buildings	20 – 25 years
• Rolling stock	25 – 30 years
• Plant and equipment	5 – 20 years
• Furniture, fittings and equipment	3 – 8 years
• Rail and port infrastructure assets	40 – 50 years

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period with the effect of any changes in estimate accounted for on a prospective basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

35 Summary of significant accounting policies (continued)

Units of production method

Where the useful life of an asset is directly linked to the extraction of iron ore from a mine, the asset is depreciated using the units of production method. The units of production method is an amortised charge proportional to the depletion of the estimated proven and probable reserves at the mine.

(iv) Exploration, evaluation and development expenditure

Exploration and evaluation activities involve the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource. Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest.

Exploration and evaluation expenditure is capitalised and carried forward to the extent that:

- rights to tenure of the identifiable area of interest are current; and
- at least one of the following conditions is also met:
 - (i) the expenditure is expected to be recouped through the successful development of the identifiable area of interest, or alternatively, by its sale; or
 - (ii) where activities in the identifiable area of interest have not, at the reporting date, reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and activities in, or in relation to, the area of interest, are continuing.

Exploration and evaluation assets are reviewed at each reporting date for indicators of impairment and tested for impairment where such indicators exist. If the test indicates that the carrying value might not be recoverable, the asset is written down to its recoverable amount. These charges are recognised as impairment expense in profit and loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in previous years.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified from exploration and evaluation expenditure to development expenditure.

Development expenditure includes capitalised exploration and evaluation costs, pre-production development costs, development studies and other expenditure pertaining to that area of interest. Costs related to surface plant and equipment and any associated land and buildings are accounted for as property, plant and equipment.

Development costs are accumulated in respect of each separate area of interest. Costs associated with commissioning new assets in the period before they are capable of operating in the manner intended by management, are capitalised. Development costs incurred after the commencement of production are capitalised to the extent they are expected to give rise to a future economic benefit.

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 decision is made. Each area of interest is reviewed at the end of each accounting period and the accumulated costs written off to profit and loss to the extent that they will not be recoverable in the future.

Amortisation of development costs capitalised is charged on a unit of production basis over the life of estimated proven and probable reserves at the mine.

35 Summary of significant accounting policies (continued)

(o) Stripping costs

(i) Development stripping costs

Overburden and other mine waste materials are often removed during the initial development of a mine in order to access the mineral deposit. This activity is referred to as development stripping and the directly attributable costs, inclusive of an allocation of relevant overhead expenditure, are capitalised as development costs. Capitalisation of development stripping costs ceases and amortisation of those capitalised costs commences upon commercial extraction of ore. Amortisation of capitalised development stripping costs is determined on a unit of production basis for each area of interest.

Development stripping costs are considered in combination with other assets of an operation for the purpose of undertaking impairment assessments.

(ii) Production stripping costs

Overburden and other mine waste materials continue to be removed throughout the production phase of the mine. This activity is referred to as production stripping, with the associated costs charged to the income statement, as operating cost, except when all three criteria below are met:

- production stripping activity provides improved access to the specific component of the ore body, and it is probable that economic benefit arising from the improved access will be realised in future periods;
- the Group can identify the component of the ore body for which access has been improved; and
- the costs relating to the production stripping activity associated with that component can be measured reliably.

If all of the above criteria are met, production stripping costs resulting in improved access to the identified component of the ore body are capitalised as part of development asset and are amortised over the life of the component of the ore body.

The determination of components of the ore body is individual for each mine. The allocation of costs between production stripping activity and the costs of ore produced is performed using relevant production measures, typically strip ratios. Changes to the mine design, technical and economic parameters affecting life of the components and strip ratios, are accounted for prospectively.

(p) Leases

Leases of assets where Fortescue, as lessee, has substantially all the risks and rewards of ownership, are classified as finance leases. Assets acquired under finance leases are capitalised at the lower of the fair value of the underlying assets or the present value of the future minimum lease payments. The corresponding finance lease liability is classified as borrowings. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to Fortescue as lessee are classified as operating leases. Payments made under operating leases are recognised as an expense in profit and loss on a straight-line basis over the period of the lease.

(q) Rehabilitation provision

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

The mining, extraction and processing activities of Fortescue give rise to obligations for site rehabilitation. Rehabilitation obligations can include facility decommissioning and dismantling, removal or treatment of waste materials, land rehabilitation and site restoration. The extent of work required and the associated costs are estimated using current restoration standards and techniques. Provisions for the cost of each rehabilitation program are recognised at the time that environmental disturbance occurs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

35 Summary of significant accounting policies (continued)

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 36.

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.

(r) 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.

(s) Intangible assets

Costs incurred in developing products or systems and costs incurred in acquiring software and licenses that will contribute to future period financial benefits through revenue generation or cost reduction are capitalised as software.

Costs capitalised include external direct costs of materials and consultants services, direct payroll and payroll related costs of employees' time spent on the project.

IT development costs include only those costs directly attributable to the development phase and are only recognised following completion of technical feasibility and where Fortescue has an intention and ability to use the asset.

Intangible assets are amortised on a straight-line basis over periods generally ranging from 3 to 5 years.

35 Summary of significant accounting policies (continued)

(t) Finance costs

Finance costs comprise interest expense, excluding interest expenses incurred for the construction of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, unwinding of the discount on provisions and impairment losses recognised on financial assets.

Interest expense and other borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Where funds used to finance an asset form part of general borrowings, the amount capitalised is calculated using a weighted average of rates applicable to relevant general borrowings during the construction period.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

(u) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

(v) 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 for employee benefits. The liability for long service leave for which settlement can be deferred beyond 12 months from the reporting date is recognised in the non-current provision for employee benefits.

(w) Share-based payments

Share-based remuneration benefits are primarily provided to employees via the Fortescue Metals Group Incentive Option Scheme (FMGIOS) and Performance Rights Plan (PRP). Information relating to these schemes is set out in note 30.

The fair value of options granted under the FMGIOS and PRP are recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options or rights.

The fair value at grant date is independently determined using trinomial option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the effect of additional market conditions, the expected dividend yield and the risk free interest rate for the term of the option or right.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

35 Summary of significant accounting policies (continued)

The fair value of the options and rights granted is measured to reflect expected market vesting conditions, but excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each reporting date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate. The impact of the revision to original estimates, if any, is recognised in profit and loss with a corresponding adjustment to equity.

(x) 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.

(y) 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.

(z) 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.

(aa) Comparatives

Where applicable, certain comparatives have been adjusted to conform with current year presentation.

(ab) 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 2013:

- AASB 10 *Consolidated Financial Statements*. AASB 10 introduces certain changes to the consolidation principles, including the concept of de facto control and changes in relation to special purpose entities. The adoption of AASB 10 had no impact on the amounts recognised in Fortescue's financial statements.
- AASB 11 *Joint Arrangements*. AASB 11 changes the classification and accounting for joint arrangements based on the specified rights and obligations of the agreement. Fortescue has determined that its interests in joint arrangements were not affected by the adoption of the new standard.
- AASB 12 *Disclosure of Interests in Other Entities*. AASB 12 sets out the required disclosures for entities reporting under AASB 10 and AASB 11. The required disclosure of the new standard is included in note 27 Interests in Other Entities.
- AASB 13 *Fair Value Measurement*. AASB 13 establishes a single framework for measuring fair value of financial and non-financial items recognised at fair value. Fortescue does not have any significant assets or liabilities recorded at fair value at 30 June 2014, therefore this standard has not impacted on the current year financial statements.

35 Summary of significant accounting policies (continued)

- *IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine.* IFRIC 20 addresses the accounting for deferred stripping costs and requires the capitalisation of the component of waste removal costs that provides an improved access to the ore body. Fortescue has determined that, given the nature of its iron ore reserves and extraction methods used, the benefits from stripping activity during its production stage predominantly relate to the inventory produced. No adjustments to any of the carrying amounts in the financial statements are required as a result of the adoption of Interpretation 20.
- *AASB 124 Related Party Disclosures.* AASB 124 removes certain individual key management personnel disclosure requirements and have no impact on the amounts recognised in the financial statements.
- *AASB 2011-4 Amendments to Australian Accounting Standards.* AASB 2011-4 removes the individual key management personnel disclosure requirements from the financial statements to the Directors' report.

(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 2014 reporting periods. These standards and interpretations have not been early adopted.

- *AASB 9 Financial Instruments* and *AASB 2009-11 Amendments to Australian Accounting Standards* arising from AASB 9 and *AASB 2010-7 Amendments to Australian Accounting Standards* arising from AASB 9 (December 2010) (effective for annual reporting periods beginning on or after 1 January 2015). AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities. Fortescue has determined that AASB 9 will have no material impact on the way the Group accounts for its financial instruments.

36 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.

(i) Income taxes

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.

Fortescue recognises deferred tax assets relating to carried forward tax losses to the extent they can be utilised. The utilisation of the tax losses depends on the ability of the entities to generate sufficient future taxable profits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

36 Critical accounting estimates and judgements (continued)

(ii) Iron ore reserve estimates

Iron ore reserves are estimates of the amount of product that can be economically and legally extracted from Fortescue's current mining tenements. In order to calculate ore reserves, estimates and assumptions are required about a range of geological, technical and economic factors, including quantities, grades, production techniques, recovery rates, production costs, transport costs, commodity demand, commodity prices and exchange rates. Estimating the quantity and grade of ore reserves requires the size, shape and depth of ore bodies or fields to be determined by analysing geological data such as drilling samples. This requires complex and difficult geological judgements and calculations to interpret the data.

As economic assumptions used to estimate reserves change and as additional geological data is generated during the course of operations, estimates of reserves may vary from period to period. Changes in reported reserves may affect Fortescue's financial results and financial position in a number of ways, including the following:

- asset carrying values may be affected due to changes in estimated future cash flows;
- depreciation and amortisation charges in profit and loss may change where such charges are determined by the units of production basis, or where the useful economic lives of assets change; and
- the carrying value of deferred tax assets may change due to changes in estimates of the likely recovery of tax benefits.

(iii) Exploration and evaluation expenditure

Fortescue's accounting policy for exploration and evaluation expenditure results in expenditure being capitalised for an area of interest where it is considered likely to be recoverable by future exploitation or sale or where the activities have not reached a stage which permits a reasonable assessment of the existence of reserves. This policy requires management to make certain estimates as to future events and circumstances, in particular whether an economically viable extraction operation can be established. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised the expenditure under the policy, a judgement is made that recovery of the expenditure is unlikely, the relevant capitalised amount will be written off to profit and loss.

(iv) Development expenditure

Development activities commence after commercial viability and technical feasibility of the project is established. Judgement is applied by management in determining when a project is commercially viable and technically feasible. In exercising this judgement, management is required to make certain estimates and assumptions as to the future events. If, after having commenced the development activity, a judgement is made that a development asset is impaired, the relevant capitalised amount will be written off to profit and loss.

(v) Property, plant and equipment – recoverable amount

The determination of fair value and value in use requires management to make estimates about expected production and sales volumes, commodity prices, reserves (see 'iron ore reserve estimates' above), operating costs, rehabilitation costs and future capital expenditure. Changes in circumstances may alter these projections, which may impact the recoverable amount of the assets. In such circumstances, some or all of the carrying value of the assets may be impaired and the impairment would be charged to profit and loss.

(vi) 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.



US\$9.2 billion
expansion completed



increased capacity to

155
million tonnes



SHAREHOLDER INFORMATION

As at 1 September 2014

Top 20 Holders of Ordinary Shares

Rank	Name	Units	% of Issued Capital
1	Minderoo Group Pty Ltd	944,776,360	30.34%
2	J P Morgan Nominees Australia Limited	333,010,997	10.69%
3	HSBC Custody Nominees (Australia) Limited	297,853,460	9.57%
4	Valin Investments (Singapore) Pte Ltd	228,007,497	7.32%
5	National Nominees Limited	184,511,586	5.93%
6	HSBC Custody Nominees (Australia) Limited	155,582,239	5.00%
7	Valin Resources Investments (Singapore) Pte Ltd	154,267,590	4.95%
8	Emichrome Pty Ltd	94,685,358	3.04%
9	Valin Mining Investments (Singapore) Pte Ltd	70,546,904	2.27%
10	Citicorp Nominees Pty Limited	63,864,066	2.05%
11	AMNL Financing Pty Ltd	30,365,261	0.98%
12	AMNL Financing Pty Ltd	25,380,711	0.82%
13	BNP Paribas Noms Pty Ltd	18,547,257	0.60%
14	Minderoo Group Pty Ltd	14,694,305	0.47%
15	The Minderoo Foundation Pty Ltd	11,310,500	0.36%
16	WWB Investments Pty Ltd	9,534,597	0.31%
17	HSBC Custody Nominees (Australia) Limited-Gsco Eca	8,648,709	0.28%
18	AMP Life Limited	8,496,508	0.27%
19	Mr William Graeme Rowley	7,144,951	0.23%
20	UBS Wealth Management Australia Nominees Pty Ltd	6,960,060	0.22%
TOTAL		2,668,188,916	85.69%

Substantial Shareholders

Name	Total Shares	% of Issued Capital
Minderoo Group Pty Ltd and John Andrew Henry Forrest	1,033,479,247	33.19%
Hunan Valin Iron And Steel Group	458,405,492	14.72%

Range of Shares

Range	Total Holders	Units	% of Issued Capital
1 to 1,000	25,183	12,540,583	0.40%
1,001 to 5,000	25,054	64,281,276	2.06%
5,001 to 10,000	6,317	48,531,516	1.56%
10,001 to 100,000	4,587	115,324,595	3.70%
100,001 and Over	369	2,873,120,181	92.27%
	61,510	3,113,798,151	100.00%

Unmarketable Parcels

There were 3,445 members holding less than a marketable parcel of shares in the company.

TENEMENT REPORT

As at 1 September 2014

Western Australia Tenure

Holder: Chichester Metals Pty Ltd				Status: Granted				FMG mineral rights status: 100% all mineral rights			
E 45/2497-I	E 45/2498-I	E 45/2499-I	E 45/2593-I	E 45/2651-I	E 45/2652-I	E 46/467-I	E 46/516-I	E 46/518-I	E 46/519-I	E 46/566-I	E 46/567-I
E 46/568-I	E 46/569-I	E 46/590-I	E 46/595-I	E 46/600-I	E 46/601-I	E 46/610-I	E 46/611-I	E 46/612-I	E 46/623-I	E 46/664-I	E 46/666-I
E 46/675-I	E 47/1320-I	E 47/1387-I	E 47/1388-I	E 47/1434-I	E 47/2177-I	M 45/1082-I	M 45/1083-I	M 45/1084-I	M 45/1085-I	M 45/1086-I	M 45/1087-I
M 45/1088-I	M 45/1089-I	M 45/1090-I	M 45/1091-I	M 45/1092-I	M 45/1093-I	M 45/1094-I	M 45/1102-I	M 45/1103-I	M 45/1104-I	M 45/1105-I	M 45/1106-I
M 45/1107-I	M 45/1124-I	M 45/1125-I	M 45/1126-I	M 45/1127-I	M 45/1128-I	M 45/1138-I	M 45/1139-I	M 45/1140-I	M 45/1141-I	M 45/1142-I	M 46/292-I
M 46/293-I	M 46/314-I	M 46/315-I	M 46/316-I	M 46/317-I	M 46/318-I	M 46/319-I	M 46/320-I	M 46/321-I	M 46/322-I	M 46/323-I	M 46/324-I
M 46/325-I	M 46/326-I	M 46/327-I	M 46/328-I	M 46/329-I	M 46/330-I	M 46/331-I	M 46/332-I	M 46/333-I	M 46/334-I	M 46/335-I	M 46/336-I
M 46/337-I	M 46/338-I	M 46/339-I	M 46/340-I	M 46/341-I	M 46/342-I	M 46/343-I	M 46/344-I	M 46/345-I	M 46/346-I	M 46/347-I	M 46/348-I
M 46/349-I	M 46/350-I	M 46/351-I	M 46/352-I	M 46/353-I	M 46/354-I	M 46/355-I	M 46/356-I	M 46/357-I	M 46/401-I	M 46/402-I	M 46/403-I
M 46/404-I	M 46/405-I	M 46/406-I	M 46/407-I	M 46/408-I	M 46/409-I	M 46/410-I	M 46/411-I	M 46/412-I	M 46/413-I	M 46/414-I	M 46/415-I
M 46/416-I	M 46/417-I	M 46/418-I	M 46/419-I	M 46/420-I	M 46/421-I	M 46/422-I	M 46/423-I	M 46/424-I	M 46/449-I	M 46/450-I	M 46/451-I
M 46/452-I	M 46/453-I	M 46/454-I	M 47/1461								
Holder: Chichester Metals Pty Ltd				Status: Granted				FMG mineral rights status: 100% iron ore rights			
E 46/413-I											
Holder: Chichester Metals Pty Ltd				Status: Granted				FMG mineral rights status: n/a			
G 46/7	L 45/152	L 46/100	L 46/111-I	L 46/112-I	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								
Holder: Chichester Metals Pty Ltd				Status: Application				FMG mineral rights status: 100% all mineral rights			
M 45/1147	M 45/1148	M 45/1149	M 45/1150	M 46/525							
Holder: Chichester Metals Pty Ltd				Status: Application				FMG mineral rights status: n/a			
L 46/60	L 47/204	L 47/653	L 47/654	L 47/655	L 47/656	L 47/657	L 47/658	L 47/659	L 47/660	L 47/710	L 47/711
Holder: FMG Magnetite Pty Ltd				Status: Granted				FMG mineral rights status: 100% iron ore rights			
E 09/1871-I											
Holder: FMG Magnetite Pty Ltd				Status: Granted				FMG mineral rights status: n/a			
L 45/257 L 45/331-I L 45/359											
Holder: FMG Magnetite Pty Ltd				Status: Granted				FMG mineral rights status: 100% all mineral rights (NB.3)			
E 45/2510-I E 45/2535-I M 45/1226-I											
Holder: FMG Magnetite Pty Ltd				Status: Application				FMG mineral rights status: n/a			
L 45/293	L 45/294	L 45/317	L 45/318	L 45/319	L 45/320	L 45/366	L 45/367				
Holder: FMG North Pilbara Pty Ltd				Status: Granted				FMG mineral rights status: 100% all mineral rights			
E 45/3084-I M 45/1244-I											
Holder: FMG Pilbara Pty Ltd				Status: Granted				FMG Mineral rights status: 100% all mineral rights			
E 08/1432-I	E 08/1439-I	E 08/1440-I	E 08/1547-I	E 08/1548-I	E 08/1550-I	E 08/1585-I	E 08/1623-I	E 08/1626-I	E 08/1627-I	E 08/1762-I	E 08/1814-I
E 08/1816-I	E 08/1831-I	E 08/1933	E 08/1942-I	E 08/1943-I	E 08/1959-I	E 08/1962-I	E 08/2004-I	E 08/2063-I	E 08/2072-I	E 08/2117-I	E 08/2118-I
E 08/2137-I	E 08/2157-I	E 08/2175-I	E 08/2193-I	E 08/2194-I	E 08/2195-I	E 08/2196-I	E 08/2200-I	E 08/2218-I	E 08/2284-I	E 08/2298-I	E 08/2367
E 08/2398-I	E 08/2405-I	E 08/2443-I	E 08/2459	E 08/2512-I	E 08/2547-I	E 45/2841-I	E 45/2842-I	E 45/2844	E 45/2850-I	E 45/2851-I	E 45/2852-I
E 45/2853-I	E 45/2854-I	E 45/2855-I	E 45/2856-I	E 45/2857-I	E 45/2860-I	E 45/2861-I	E 45/2862-I	E 45/2866-I	E 45/2867-I	E 45/2870-I	E 45/2919
E 45/2920	E 45/2945-I	E 45/2946-I	E 45/2970-I	E 45/2971-I	E 45/2972-I	E 45/2973	E 45/3191-I	E 45/3270-I	E 45/3310-I	E 45/3318-I	E 45/3328-I
E 45/3366-I	E 45/3369	E 45/3399-I	E 45/3400-I	E 45/3402	E 45/3412-I	E 45/3414-I	E 45/3417-I	E 45/3421-I	E 45/3422-I	E 45/3423	E 45/3426-I
E 45/3428-I	E 45/3429-I	E 45/3430-I	E 45/3431-I	E 45/3433-I	E 45/3438-I	E 45/3441	E 45/3442-I	E 45/3443-I	E 45/3445-I	E 45/3448-I	E 45/3463-I
E 45/3473	E 45/3489-I	E 45/3535-I	E 45/3536-I	E 45/3545-I	E 45/3561-I	E 45/3570-I	E 45/3591-I	E 45/3600-I	E 45/3605-I	E 45/3606-I	E 45/3608-I
E 45/3611-I	E 45/3641-I	E 45/3650-I	E 45/3654-I	E 45/3659-I	E 45/3663-I	E 45/3664-I	E 45/3697-I	E 45/3698-I	E 45/3699-I	E 45/3705-I	E 45/3711-I
E 45/3739-I	E 45/3746-I	E 45/3760-I	E 45/3762-I	E 45/3764-I	E 45/3767-I	E 45/3816-I	E 45/3817-I	E 45/3845-I	E 45/3866-I	E 45/3938-I	E 45/4001-I
E 45/4040-I	E 45/4050-I	E 45/4077-I	E 45/4083-I	E 45/4093-I	E 45/4125-I	E 45/4126-I	E 45/4134-I	E 45/4135-I	E 45/4148-I	E 45/4170-I	E 45/4171-I
E 45/4191-I	E 45/4192-I	E 45/4202-I	E 45/4203	E 45/4204	E 45/4220-I	E 45/4221-I	E 45/4222-I	E 45/4227-I	E 45/4253-I	E 45/4265-I	E 45/4277
E 46/1000	E 46/1009-I	E 46/1012-I	E 46/517-I	E 46/621-I	E 46/704-I	E 46/706-I	E 46/708-I	E 46/711-I	E 46/724-I	E 46/725-I	E 46/727-I
E 46/728-I	E 46/735-I	E 46/741-I	E 46/743-I	E 46/776-I	E 46/799-I	E 46/832-I	E 46/859-I	E 46/861-I	E 46/862-I	E 46/872-I	E 46/958-I

TENEMENT REPORT

As at 1 September 2014

Holder: FMG Pilbara Pty Ltd				Status: Application		FMG Mineral rights status: 100% all mineral rights					
E 08/2088	E 08/2490	E 08/2491	E 08/2497	E 08/2498	E 08/2513	E 08/2516	E 08/2536	E 08/2546	E 08/2548	E 08/2549	E 08/2550
E 08/2557	E 08/2562	E 08/2574	E 08/2594	E 08/2595	E 08/2636	E 08/2608	E 08/2609	E 08/2610	E 08/2611	E 08/2622	E 08/2625
E 08/2626	E 08/2627	E 08/2628	E 08/2630	E 08/2631	E 45/4441	E 45/4103	E 45/4119	E 45/4239	E 45/4289	E 45/4304	E 45/4330
E 45/4337	E 45/4338	E 45/4339	E 45/4356	E 45/4369	E 45/4373	E 45/4378	E 45/4380	E 45/4381	E 45/4383	E 45/4384	E 45/4400
E 45/4401	E 45/4402	E 45/4405	E 45/4406	E 45/4407	E 45/4412	E 45/4415	E 45/4418	E 45/4424	E 45/4425	E 45/4428	E 45/4429
E 45/4448	E 46/1006	E 46/1010	E 46/1013	E 46/1019	E 46/1021	E 46/1024	E 46/1031	E 46/1032	E 46/1034	E 47/1666	E 47/1667
E 47/1818	E 47/2061	E 47/2197	E 47/2223	E 47/2559	E 47/2560	E 47/2675	E 47/2914	E 47/2918	E 47/2919	E 47/2920	E 47/2921
E 47/2922	E 47/2964	E 47/2975	E 47/2977	E 47/2982	E 47/2985	E 47/2986	E 47/2997	E 47/3000	E 47/3001	E 47/3002	E 47/3003
E 47/3004	E 47/3009	E 47/3013	E 47/3014	E 47/3016	E 47/3051	E 47/3056	E 47/3069	E 47/3070	E 47/3080	E 47/3081	E 47/3097
E 47/3098	E 47/3115	E 47/3117	E 47/3123	E 47/3124	E 47/3125	E 47/3126	E 47/3131	E 47/3133	E 47/3150	E 47/3153	E 47/3154
E 47/3155	E 47/3156	E 47/3158	E 47/3159	E 47/3161	E 47/3162	E 47/3163	E 47/3168	E 47/3184	E 47/3186	E 52/2904	E 52/2910
E 52/3000	E 52/3016	E 52/3022	E 52/3030	E 52/3060	E 52/3061	E 52/3085	E 52/3093	E 52/3094	E 52/3097	E 52/3098	E 52/3099
E 52/3107	E 52/3108	E 52/3109	E 59/1934	E 52/3143	E 52/3144	E 52/3147	E 52/3151	E 69/2722	E 69/2726	E 69/2727	E 69/2728
E 69/2729	E 69/3297	E 69/3298	E 69/3301	E 69/3318	M 47/1404	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 47/1488	M 47/1489	P 08/531	P 08/532	P 45/2922	P 47/1722	P 52/1485			
Holder: FMG Pilbara Pty Ltd				Status: Application		FMG mineral rights status: n/a					
L 47/713	L 47/714	L 47/716	L 47/718	L 47/719							
Holder: FMG Resources Pty Ltd				Status: Granted		FMG mineral rights status: 100% all mineral rights					
E 04/1537	E 04/2129	E 04/2322	E 04/2323	E 29/923	E 29/924	E 29/925	E 29/929	E 29/933	E 29/935	E 45/4349	E 45/4350
E 52/2964	E 52/2967	E 52/2968	E 52/2990	E 57/992	E 59/1956	E 69/2949	E 69/2951	E 69/3176	E 69/3177	E 69/3178	E 69/3198
E 69/3199	E 69/3201	E 69/3229	E 69/3236	E 69/3237	E 69/3242	E 69/3269	E 69/3282	E 45/4150-I			
Holder: FMG Resources Pty Ltd				Status: Granted		FMG Mineral rights status: 100% iron ore rights, 75% non-iron (NB.2)					
E 08/2280-I	E 08/2281-I	E 08/2282-I									
Holder: FMG Resources Pty Ltd				Status: Application		FMG mineral rights status: 100% all mineral rights					
E 45/3221	E 45/3224-I	E 45/3225-I	E 45/3226-I	E 52/2621-I	E 52/2947-I	E 52/2950-I	E 52/2957-I	E 52/2958-I	E 52/2959-I	E 52/2960-I	E 52/2961-I
E 52/2979-I	E 52/2981-I	E 57/738-I	E 57/756-I	E 59/1267-I	E 59/1275-I	E 59/1360-I	E 59/2004	E 69/2929-I	E 69/2930-I	E 69/2945-I	E 69/2946-I
E 69/2947-I	E 69/2948-I	E 69/2950-I	E 69/2953-I	E 69/2954-I	E 69/2955-I	E 69/2956	E 69/2963-I	E 69/2969-I	E 69/2970-I	E 69/2971-I	E 69/2993-I
E 69/3125-I	E 69/3299	E 69/3300	E 69/3302	E 69/3303	E 69/3304	E 69/3305	E 69/3310	E 69/3312	E 69/3313	E 69/3314	
Holder: Pilbara Gas Pipeline Pty Ltd				Status: Granted		FMG mineral rights status: 100% all mineral rights					
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-I	L 45/353-I
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 45/341	L 45/348	L 47/695			
Holder: Pilbara Iron Ore Pty Ltd				Status: Granted		FMG mineral rights status: 50% all mineral rights					
E 47/1191	E 47/1192	E 47/1224-I	E 47/1225-I	E 47/1235	M 47/580-I	E 47/1380-I	P 47/1414				
Holder: Pilbara Iron Ore Pty Ltd				Status: Application		FMG mineral rights status: n/a					
L 47/205											
Holder: Pilbara Water and Power Pty Ltd				Status: Granted		FMG mineral rights status: n/a					
L 45/272	L 45/289	L 45/291	L 45/292-I	L 45/325-I	L 45/360	L 45/361	L 45/364				
Holder: Pilbara Water and Power Pty Ltd				Status: Application		FMG mineral rights status: n/a					
L 45/362	L 45/363										
Holder: The Pilbara Infrastructure Pty Ltd				Status: Granted		FMG mineral rights status: n/a					
AL 70/1	G 45/286	L 45/199	L 45/222	L 45/223	L 45/224	L 46/86	L 46/87	L 46/96	L 47/375		
Holder: The Pilbara Infrastructure Pty Ltd				Status: Application		FMG mineral rights status: n/a					
L 47/661											

TENEMENT REPORT

As at 1 September 2014

Third Party Tenure

Holder: Aldershot Resources Pty Ltd	Status: Granted	FMG mineral rights status: 100% all mineral rights
E 52/1763		
Holder: Archipelago Nominees Pty Ltd	Status: Application	FMG mineral rights status: 100% all mineral rights except rock products
M45/1229		
Holder: Audax Minerals Pty Ltd	Status: Granted	FMG mineral rights status: Earning 80% interest all mineral rights
E45/2763		
Holder: BC Iron Ltd	Status: Granted	FMG mineral rights status: 25% iron ore rights
E 45/2552 E 45/2717 E 46/522 E 46/523 E 46/651 E 46/652 E 46/653 E 46/654 E 46/655 E 46/656 E 46/657 E 46/658		
E 46/663 M 46/515 M 46/522 M 46/523 E 45/3790		
Holder: BC Iron Ltd	Status: Granted	FMG mineral rights status: n/a
G 46/8 G 46/9 L 46/68 L 46/73 L 46/74 L 46/75 L 46/76 L 46/79 L 46/80 L 46/81 L 46/82		
Holder: BC Iron Nullagine Pty Ltd	Status: Granted	FMG mineral rights status: 25% iron ore rights
E 46/928-I E 46/929-I E 46/930-I E 46/931-I E 46/969-I E 46/970-I		
Holder: BC Iron Nullagine Pty Ltd	Status: Granted	FMG mineral rights status: n/a
L 46/83 L 46/84 L 46/85 L 46/93 L 46/94 L 46/95 L 46/83 L 46/84 L 46/85 L 46/93 L 46/94 L 46/95		
Holder: Blue Mist Enterprises Pty Ltd	Status: Granted	FMG mineral rights status: 100% all mineral rights
E 47/1861 E 47/1863		
Holder: Chrysalis Resources Ltd	Status: Granted	FMG mineral rights status: Option for 100% all mineral rights
E 47/1838 P 47/1538		
Holder: Cullen Exploration Pty Ltd	Status: Granted	FMG mineral rights status: 51% iron ore rights
E 08/1393-I E 47/1154-I E 47/1649-I E 47/1650-I P 08/556-I		
Holder: Cullen Exploration Pty Ltd	Status: Granted	FMG mineral rights status: Earning 51% iron ore rights
E 52/1667-I		
Holder: Cullen Exploration Pty Ltd	Status: Application	FMG mineral rights status: 51% iron ore rights
M 08/502 M 47/1490		
Holder: David Ryan	Status: Granted	FMG mineral rights status: Option for 100% all mineral rights
P47/1275		
Holder: Derek Ammon	Status: Granted	FMG mineral rights status: 40% all mineral rights (NB.4)
E 47/1140-I		
Holder: Derek Ammon	Status: Application	FMG mineral rights status: 40% all mineral rights (NB.4)
M 47/583		
Holder: Flinders Mines Ltd	Status: Granted	FMG mineral rights status: 100% iron ore rights
E 47/1011-I E 47/1016-I E 47/1306-I M 47/1407-I		
Holder: Flinders Mines Ltd	Status: Application	FMG mineral rights status: 100% iron ore rights
M 47/672 M 47/663 M 47/664 M 47/665 M 47/666 M 47/667 M 47/668 M 47/669 M 47/670 M 47/671		
Holder: Global Advanced Metals Wodgina Pty Ltd	Status: Granted	FMG mineral rights status: Right to earn 60% iron ore rights
E 45/4024 E 45/4025		
Holder: Livno Consolidated Pty Ltd	Status: Granted	FMG mineral rights status: Beneficial right to earn 100% mineral rights
E 45/4021		
Holder: Maincoast Pty Ltd	Status: Application	FMG mineral rights status: 100% all mineral rights
E70/2596		

South Australia Tenure

Holder: FMG Resources Pty Ltd				Status: Granted							
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								

NB 1 - Joint Venture with Iron Bull Ashburton Pty Ltd. Iron Bull are farming-in to earn up to an 50% interest in the non-iron mineral rights.

NB.2 - Joint Venture with Northern Star Resources Ltd. Northern Star Resources hold 25% beneficial interest in non-iron mineral rights and are farming-in to earn an additional 35 per cent.

NB.3 - FMG North Pilbara Pty Ltd/FMG Magnetite Pty Ltd are subsidiaries of FMG Iron Bridge Limited which is owned 88% by Fortescue Metals Group Ltd and 12 per cent by Baosteel Resources International Co. Ltd.

NB.4 - This has been contested and is currently being litigated



Awards

2014 Platts Global Metals Awards

– Metal Company of the Year

2014 Platts Global Metals Awards

– Rising Star Award

2014 Mines and Money Asian Mining Awards

– Project Development of the Year

2014 Mines and Money Asian Mining Awards

– Deal of the Year

2014 Gartner Asia Pacific Business Process

– Management Excellence Awards

2014 Australian Business Awards

– Community Contribution

2013 Financial Review CFO Awards

– Syndicated Loan of the Year

Worksafe Plan Gold Certificate (TPI)

2013 Australasian Institute of Marine Surveyors

– Excellence in the Application of Gears, Motors or Drives with Metso Mining and Construction

2013 SAP Award of Excellence

– Best Run Development and Testing Technology Platform

AustCham Westpac Australia China Business Awards

– Andrew Forrest

2014 Women in Industry

– Excellence in Mining Award – Julie Shuttleworth

WAITTA CIO of the Year

– Vito Forte

2013 Skilled DMC Chairman's Award

– Damien Ardagh

2013 CCI Apprenticeship Solutions

– Employer Excellence Awards Outstanding Employer of Mature Age Apprentices and Trainees (large)

Finalist Awards

2014 West Australian of the Year Award Business

– Nev Power

2014 CMEWA Safety and Health Innovation Awards

– Finalist

2013 Procurement Leaders Awards

– Excellence Award

2014 International Tetra Awards

– Best Use of Tetra for Transport

2013 Chartered Institute of Purchasing and Supply

– Procurement Professional Awards

Best Example of Socially Responsible Procurement

– Finalist

2014 Australasian Reporting Awards

– Bronze Medal

THE PATHWAY FROM CONSTRUCTION TO PRODUCTION

