

## IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER  
(1) QUALIFIED INSTITUTIONAL BUYERS ("QIBs") UNDER RULE 144A OR  
(2) NON-U.S. PERSONS OUTSIDE OF THE UNITED STATES

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

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

THE FOLLOWING PRELIMINARY OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. ANY INVESTMENT DECISION SHOULD BE MADE ON THE BASIS OF THE FINAL TERMS AND CONDITIONS OF THE SECURITIES AND THE INFORMATION CONTAINED IN THIS PRELIMINARY OFFERING CIRCULAR. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORIZED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED THEREIN.

**Confirmation of your Representation:** In order to be eligible to view this preliminary offering circular or make an investment decision with respect to the securities, investors must be either (1) "qualified institutional buyers" or "QIBs" (within the meaning of Rule 144A under the Securities Act) or (2) non-U.S. persons (within the meaning of Regulation S under the Securities Act) outside the United States. This preliminary offering circular is being sent at your request and by accepting the e-mail and accessing this preliminary offering circular, you shall be deemed to have represented to us that (1) you and any customers you represent are either (a) QIBs or (b) non-U.S. persons outside the United States, (2) the electronic mail address that you gave us and to which this e-mail has been delivered is not located in the United States and (3) you consent to delivery of this preliminary offering circular by electronic transmission.

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

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. No action has been or will be taken in any jurisdiction by the initial purchaser or any of its affiliates that would, or is intended to,

permit a public offering of the securities, or possession or distribution of the offering circular (in preliminary, proof or final form) or any other offering or publicity material relating to the securities, in any country or jurisdiction where action for that purpose is required. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the initial purchaser or any affiliate of the initial purchaser is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the initial purchaser or such affiliate on behalf of FMG Resources (August 2006) Pty Ltd (the "Issuer") in such jurisdiction.

This preliminary offering circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently neither J.P. Morgan Securities LLC nor the Issuer, or any person who controls J.P. Morgan Securities LLC or any affiliate of any such person, accepts any liability or responsibility whatsoever in respect of any difference between the preliminary offering circular distributed to you in electronic format and the hard copy version available to you on request from J.P. Morgan Securities LLC or the Issuer.

The information in this preliminary offering circular is not complete and may be changed. This preliminary offering circular is not an offer to sell the securities, nor a solicitation to buy the securities, in any jurisdiction where the offer or sale is not permitted.



## FMG Resources (August 2006) Pty Ltd

(ACN 118 887 835)

US\$1,500,000,000

% Senior Secured Notes due 2022

Issue price: %

Interest payable and

FMG Resources (August 2006) Pty Ltd (the "Issuer"), a direct wholly-owned subsidiary of Fortescue Metals Group Ltd (ACN 002 594 872) ("Fortescue"), is offering US\$1,500 million aggregate principal amount of % Senior Secured Notes due 2022 (the "Senior Secured Notes"). The Senior Secured Notes will bear interest at the rate of % per annum, and will mature on , 2022. The Issuer will pay interest in cash on the Senior Secured Notes on and of each year, beginning on , 2015. Interest will accrue from , 2015.

The Senior Secured Notes will be senior secured obligations of the Issuer, and will rank *pari passu* in right of payment with all existing and future senior unsubordinated indebtedness of the Issuer, including the Senior Secured Credit Facility (as further described herein), except indebtedness mandatorily preferred by law. The payment obligations under the Senior Secured Notes will be guaranteed on a senior secured basis by Fortescue and by each of its existing and future direct and indirect restricted subsidiaries other than the Issuer (the "Note Guarantees"). Fortescue and its subsidiaries that are guaranteeing the payment obligations under the Senior Secured Notes are referred to herein as the "Note Guarantors." The Note Guarantees will be senior secured obligations and will rank *pari passu* with other senior indebtedness of the Note Guarantors, except indebtedness mandatorily preferred by law. The Senior Secured Notes and the Note Guarantees will be structurally subordinated to all liabilities of Fortescue's subsidiaries that do not guarantee the Senior Secured Notes. The obligations of the Issuer, Fortescue and each of the Note Guarantors under the Senior Secured Notes will be secured by, among other security documents, a first priority fixed charge over all the assets of the Issuer, Fortescue and each of the Note Guarantors (subject to certain exceptions as further described under "Description of the Senior Secured Notes"). The Issuer, Fortescue and the majority of the other existing Note Guarantors are organized under the laws of the Commonwealth of Australia, while certain Note Guarantors are organized under the laws of the United States, Singapore and Guernsey.

The Issuer may redeem some or all of the Senior Secured Notes at any time at the redemption prices described in this offering circular, plus accrued and unpaid interest to the applicable redemption date. The Issuer may also redeem all, but not less than all, of the Senior Secured Notes upon the occurrence of certain changes in applicable tax law. Upon certain change of control events or a sale of assets in certain circumstances, the Issuer may be required to offer to repurchase the Senior Secured Notes.

**See "Risk factors" on page 26 for a discussion of certain risks that you should consider in connection with an investment in the Senior Secured Notes.**

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

We expect that delivery of the Senior Secured Notes will be made to investors in book-entry form through the facilities of The Depository Trust Company ("DTC") on or about , 2015.

Sole Book-Runner

**J.P. Morgan**

, 2015

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

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As used in this offering circular, except as otherwise indicated or the context otherwise requires, the terms “Fortescue,” the “Company,” “we” and “our” refers to Fortescue Metals Group Ltd. The term “Issuer” refers to FMG Resources (August 2006) Pty Ltd. The term “Group” refers to Fortescue together with its consolidated subsidiaries. The term “Note Guarantors” refers to Fortescue and its existing and future direct and indirect restricted subsidiaries, other than the Issuer.

Fortescue’s fiscal year ends on June 30 of each year. In this offering circular, “fiscal 2014” means the 12-month period ended June 30, 2014, and other fiscal years are referred to in a corresponding manner, “first half of fiscal 2015” means the six months ended December 31, 2014, and “first half of fiscal 2014” means the six months ended December 31, 2013 and “calendar 2014” means the 12-month period ended December 31, 2014, and other calendar years are referred to in a corresponding manner. See “Appendix A—Glossary” for certain mining and other defined terms.

## IMPORTANT INFORMATION FOR INVESTORS

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

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

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

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

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

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

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

This offering circular is only being distributed to, and is only directed at, (i) persons who are outside the United Kingdom, or (ii) investment professionals falling within Article 19(5) of the *Financial Services and Market Act 2000 (Financial Promotion) Order 2005* (the “Order”), or (iii) high net worth entities, and other persons to whom it may be lawfully communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as “relevant persons”). The Senior Secured Notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Senior Secured Notes will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this offering circular or any of its contents.

This offering circular is not, and is not intended to be a disclosure document within the meaning of Section 9 of the *Corporations Act 2001* (Cth) (the “Corporations Act”) or a product disclosure statement for

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

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”), the Initial Purchaser has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “Relevant Implementation Date”) it has not made and will not make an offer of Senior Secured Notes to the public in that Relevant Member State prior to the publication of a prospectus in relation to the Senior Secured Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of Senior Secured Notes to the public in that Relevant Member State at any time:

- to any legal entity which is a “qualified investor” as defined in the Prospectus Directive;
- to fewer than 100 natural or legal persons or, if the Relevant Member State has implemented the relevant provision of the 2010 PD amending Directive, 150 natural or legal persons (other than “qualified investors” as defined in the Prospective Directive), subject to obtaining the prior consent of the Initial Purchaser for any such offer; or
- in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Senior Secured Notes shall required the publication of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer of Senior Secured Notes to the public” in relation to any Senior Secured Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Senior Secured Notes to be offered so as to enable an investor to decide to purchase or subscribe the Senior Secured Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression “Prospectus Directive” means Directive 2003/71/EC and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the relevant member state, and includes any relevant implementing measure in each Relevant Member State; and “2010 PD Amending Directive” means Directive 2010/73/EU.

The Issuer reserves the right to withdraw this offering of the Senior Secured Notes at any time. The Issuer and the Initial Purchaser also reserve the right to reject any offer to purchase the Senior Secured Notes in whole or in part for any reason or no reason and to allot to any prospective purchaser less than

the full amount of the Senior Secured Notes sought by it. The Initial Purchaser and certain of its related entities may acquire, for their own accounts, a portion of the Senior Secured Notes.

#### NOTICE TO NEW HAMPSHIRE RESIDENTS

**NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE UNIFORM SECURITIES ACT (“RSA 421-B”) WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF THE STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE OF THE STATE OF NEW HAMPSHIRE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.**

#### ENFORCEMENT OF CIVIL LIABILITIES

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

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

The liability of PricewaterhouseCoopers, an Australian partnership (“PwC Australia”), with respect to claims arising out of its respective audit reports is subject to the limitations set forth in the Institute of Chartered Accountants in Australia Scheme (WA) approved by the Western Australia Professional Standards Council (the “WA Accountants Scheme”) or such other applicable scheme approved pursuant to the *Professional Standards Act 1997* (WA) (the “WA Professional Standards Act”). The WA Professional

Standards Act and the WA Accountants Scheme limit PwC Australia's civil liability arising in tort, contract or otherwise directly or vicariously from anything done or omitted by PwC Australia in the performance of its professional services to Fortescue including, without limitation, audits of Fortescue's financial statements. The limit does not apply to liability for breach of trust or fraud or dishonesty. The WA Professional Standards Act and the WA Accountants Scheme have not been subject to judicial consideration and therefore how the limitation will be applied by the courts and the effect of limitations on the enforcement of foreign judgments are untested. The current WA Accountants Scheme limits the liability of participating members of the Institute of Chartered Accountants in Australia arising from services provided on or after October 8, 2014 (with previous liability capping schemes continuing to apply to services provided from October 8, 2007 up to this date).

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

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

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

#### **CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

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

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

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

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

#### **CAUTIONARY NOTE REGARDING INDUSTRY DATA**

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

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

## CAUTIONARY NOTE REGARDING ORE RESERVES AND MINERAL RESOURCES

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

“Ore Reserves,” as defined in the JORC Code, are the economically mineable part of a Measured Mineral Resource and/or an Indicated Mineral Resource. Ore Reserve estimates include diluting materials and allowances for losses, which may occur when the material is mined or extracted and is defined by studies at pre-feasibility or feasibility level as appropriate that include application of considerations used to convert Mineral Resources to Ore Reserves, and include, but are not limited to, mining, processing, metallurgical, infrastructure, economic, marketing, legal, environmental, social and governmental factors (“Modifying Factors”). Such studies demonstrate that, at the time of reporting, extraction could reasonably be justified. The reference point at which Ore Reserves are defined, usually the point where the ore is delivered to the processing plant, must be stated. It is important that, in all situations where the reference point is different, such as for a saleable product, a clarifying statement is included to ensure that the reader is fully informed as to what is being reported. Ore Reserves are sub-divided in order of increasing confidence into Probable and Proved Ore Reserves.

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

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

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

Fortescue’s estimated Ore Reserves and Mineral Resources (including both the Chichester Hub and the Solomon Hub) are reported on a dry product tonnes basis under the JORC Code.

## CURRENCY OF PRESENTATION AND EXCHANGE RATES

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

For your convenience, Fortescue has translated some Australian dollar amounts into U.S. dollar amounts at the noon buying rate for Australian dollars in New York City for cable transfers in Australian dollars as certified for customs purposes by the Federal Reserve Bank of New York (the "noon buying rate"). In providing these translations, Fortescue is not representing that the Australian dollar amounts actually represent these U.S. dollar amounts or that it could have converted those Australian dollars into U.S. dollars at the rates indicated. The following table contains information for the noon buying rate for the periods indicated. The noon buying rate on April 10, 2015 was A\$1.00 = US\$0.7674.

	<u>At period end</u>	<u>Average rate<sup>(1)</sup> (US\$ dollars)</u>	<u>High</u>	<u>Low</u>
<b>Year ended</b>				
June 30, 2011.....	1.0732	1.0001	1.0970	0.8380
June 30, 2012.....	1.0236	1.0388	1.1026	0.9453
June 30, 2013.....	0.9165	1.0222	1.0591	0.9165
June 30, 2014.....	0.9427	0.9140	0.9705	0.8715
<b>Six months ended</b>				
December 31, 2013.....	0.8929	0.9121	0.9708	0.8858
December 31, 2014.....	0.8173	0.8812	0.9488	0.8097
<b>Month ended</b>				
July 2014.....	0.9301	0.9389	0.9488	0.9301
August 2014.....	0.9344	0.9309	0.9352	0.9263
September 2014.....	0.8737	0.9042	0.9376	0.8737
October 2014.....	0.8791	0.8781	0.8904	0.8675
November 2014.....	0.8524	0.8644	0.8737	0.8520
December 2014.....	0.8173	0.8257	0.8521	0.8097
January 2015.....	0.7762	0.8063	0.8212	0.7758
February 2015.....	0.7810	0.7797	0.7898	0.7713
March 2015.....	0.7625	0.7724	0.7869	0.7582
April 2015 <sup>(2)</sup> .....	0.7674	0.7653	0.7715	0.7566

### **Notes:**

<sup>(1)</sup> For the fiscal years indicated, the average of the noon buying rates on the last day of each month during the year. For the six months ended December 31, 2013 and 2014, the average of the noon buying rates on the last day of each month during the six-month period. For the months indicated, the average of the noon buying rates on each day of the month.

<sup>(2)</sup> Through April 10, 2015.

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

## PRESENTATION OF FINANCIAL INFORMATION

The Group's consolidated financial statements for the first half of fiscal 2015 and 2014, and for fiscal 2014, 2013 and 2012, which are included elsewhere in this offering circular, have been prepared in accordance with Australian Accounting Standards ("AAS") and also comply with the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. Consequently, the Group's consolidated annual financial statements are not comparable to the financial statements of U.S. companies prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"). There

are differences between AAS and IFRS and U.S. GAAP that may be material, and no quantitative reconciliation or narrative discussion of these differences is included in this offering circular. Investors should therefore consult their own professional advisor for an understanding of the differences between AAS and IFRS and U.S. GAAP and how those differences might affect such financial information.

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

In addition to reporting the Company's financial results under AAS and IFRS, an internal financial measure, "Adjusted EBITDA," is used by management to report the operating performance of the business. Adjusted EBITDA is defined as Underlying EBITDA before the impact of any re-estimation of the Unsecured Loan Notes, gains on disposal of assets and interest in joint ventures and net foreign exchange gains or losses. Underlying EBITDA is defined as profit or loss for the period before income tax adjusted for depreciation and amortization, exploration, development and other expenses, finance income and expenses and gain or loss on refinancing. Although Adjusted EBITDA and Underlying EBITDA are not measures of performance that are recognized under AAS or IFRS, management believes that they are useful to an investor in evaluating Fortescue. For instance, Adjusted EBITDA eliminates exceptional items considered by management to be outside the core operating activity of the business and subject to volatility that may distort a year to year comparison of the operating results of the business. In particular, management considers the re-estimation of the Unsecured Loan Notes, gains on disposal of joint venture assets and interests and foreign exchange gains and losses to be outside the core operations of the Company and, as such, they are considered not to be reflective of operating performance. Adjusted EBITDA and Underlying EBITDA, as calculated by Fortescue, may differ from similarly titled measures reported by other companies. Adjusted EBITDA and Underlying EBITDA do not purport to represent operating income, net income or cash generated by operating activities and should not be considered in isolation or as a substitute for measures of performance in accordance with AAS or IFRS.

#### **AVAILABLE INFORMATION**

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

None of the Issuer or the Note Guarantors is subject to the periodic reporting and other information requirements of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"), or expects to become subject to such requirements. To permit compliance with the Securities Act in connection with resales of the Senior Secured Notes, the Issuer agrees that, for so long as the Senior Secured Notes outstanding are "restricted securities" within the definition of Rule 144(a)(3) under the Securities Act, the Issuer will furnish, upon the request of any holder or beneficial owner of the Senior Secured Notes, such information as is specified in paragraph (d)(4) of Rule 144A under the Securities Act to such holder or beneficial owner or to a prospective purchaser of such Senior Secured Notes that is reasonably believed to be a "qualified institutional buyer" ("QIB"), in order to permit compliance by such holder or beneficial owner with Rule 144A in connection with the resale of such Senior Secured Notes unless, at the time of such request, the Issuer is subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act, or is included in the list of foreign private issuers that claim exemption from the registration requirements of Section 12(g) of the Exchange Act (and therefore is required to furnish the SEC with certain information pursuant to Rule 12g3-2(b) under the Exchange Act).

#### **AUSTRALIAN EXCHANGE CONTROL RESTRICTIONS**

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

countries or named individuals or entities subject to international sanctions or associated with terrorism or money laundering.

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

## OFFERING CIRCULAR SUMMARY

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

### **Business overview**

Fortescue is engaged in the production and export of iron ore in the Pilbara region of Western Australia. Fortescue is the third largest iron ore producer in Australia and the world’s fourth largest exporter into the seaborne iron ore market (being the market for iron ore which is transported by ocean bulk vessels), based on Metalytics’ export statistics for calendar 2014. The Company is a significant supplier to the steel mills in Asia, principally China.

Fortescue is currently producing iron ore from five mines, including one at Cloudbreak and two at Christmas Creek, which are collectively referred to as the “Chichester Hub,” and one at each of Firetail and Kings, which are jointly referred to as the “Solomon Hub.” Each of the five mines has its own OPF.

The Chichester Hub comprises two operating sites, Cloudbreak and Christmas Creek, and three OPFs which process ore from multiple pits. Cloudbreak is located approximately 250 kilometers southeast of the township of Port Hedland, and Christmas Creek is located approximately 50 kilometers east of Cloudbreak. Iron ore was first shipped from the Chichester Hub through Cloudbreak in May 2008. Since then, mining and processing from Cloudbreak has increased rapidly, with approximately 37.2Mt mined from Cloudbreak in calendar 2014. Mining at Christmas Creek began in April 2009, with approximately 63.2Mt mined in calendar 2014.

The Solomon Hub comprises two operating mines, Firetail and Kings, each with its own OPF which process ore from multiple pits. Firetail is located approximately 60 kilometers north of the township of Tom Price and approximately 120 kilometers west of the railway that links the Chichester Hub to Port Hedland. Kings is located approximately 10 kilometers west of Firetail. The development of the Solomon Hub was announced in November 2010 as part of the US\$9.2 billion expansion of port, rail and mining operations to expand the Company’s production capacity from 55Mtpa to 155Mtpa (the “155Mtpa Expansion”). At the Solomon Hub, mining operations commenced through Firetail in October 2012 with the Firetail OPF commissioned in May 2013. Mining operations commenced at Kings in May 2012, with the Kings OPF commissioned in March 2014. The Company mined approximately 59Mt from the Solomon Hub in calendar 2014.

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

Integral to Fortescue’s growth and ongoing operations has been the development of its rail and port infrastructure. Fortescue’s railway is comprised of more than 620 kilometers of track, with an average of 13 trains making the approximately five-hour journey each day to haul iron ore from the Chichester and Solomon Hubs to Fortescue’s Herb Elliott Port, which is located in Port Hedland. Construction of the port commenced in February 2006 and shipping began in May 2008. Since operations at the port commenced, four additional berths have been constructed and commissioned, together with two additional stackers, two shiploaders and the installation and commissioning of two new train unloaders. The port now consists of five berths and three in-load and out-load circuits. Construction of the fifth ship loading berth, AP5, was

completed in March 2015 and is expected to increase port capacity by 15-20Mtpa. See “Business description—Rail and port transportation infrastructure—Port infrastructure” for more details.

With the official completion of its 155Mtpa Expansion in March 2014, all components of Fortescue’s expanded Chichester and Solomon Hubs, as well as its integrated rail and port infrastructure, are now operating at or above the initial targeted capacity of 155Mtpa. Fortescue intends to capitalize on its expanded operations, rail and port infrastructure and target production in excess of 155Mtpa at a lower average cash cost per wmt of Fortescue mined ore shipped, than currently achieved.

The map below shows Fortescue’s current operations.



Fortescue’s tenement holdings (including both granted tenements and applications for tenements) in the Pilbara cover an area of more than 85,000 square kilometers, representing the largest tenement holding in

the Pilbara. As of June 30, 2014, Fortescue had estimated Ore Reserves at the Chichester Hub of approximately 1,470Mt (of which 444Mt were Proved Ore Reserves and 1,026Mt were Probable Ore Reserves) and estimated Ore Reserves at the Solomon Hub of approximately 903Mt (of which 143Mt were Proved Ore Reserves and 760Mt were Probable Ore Reserves). For more information, see “Ore Reserves and Mineral Resources” and “Business description—Ore Reserves, Mineral Resources and geology.”

Fortescue focuses on being a low cost exporter of iron ore, principally to China. Fortescue shipped approximately 80.3Mt of Fortescue mined ore in the first half of fiscal 2015, representing an annualized rate of approximately 160.6Mtpa, and 118.4Mt in fiscal 2014, substantially all of which was sold to steel mill customers in China.

For the first half of fiscal 2015 and fiscal 2014, Fortescue reported revenue of US\$4.9 billion and US\$11.8 billion, profit after income tax of US\$0.3 billion and US\$2.7 billion and Adjusted EBITDA of US\$1.4 billion and US\$5.6 billion, respectively. For a reconciliation of profit after income tax to Adjusted EBITDA, see “—Summary historical consolidated financial and operating data.”

Fortescue is listed on the ASX (ASX: FMG) with a market capitalization of approximately A\$5.9 billion (US\$4.6 billion) as of April 20, 2015 and is a constituent of the S&P/ASX 50 index. As of December 31, 2014, Fortescue employed a total staff of 4,975.

## Company strengths

### *Strong cash flows from operations*

Fortescue has been able to deliver rapid production growth with low operating costs, and has efficiently managed the capital expenditures required to construct the Chichester and Solomon Hubs and associated rail and port infrastructure. As Fortescue has transitioned from the development and expansion stage to becoming a major global iron ore producer with its mines operating at full production capacity, it has seen a strong increase in its cash flow from operating activities.

The below table shows Fortescue’s cash flow from operating activities between fiscal 2008 and the first half of fiscal 2015.

**Cash flows from operating activities (US\$ millions)**



Source: Fortescue.

Fortescue’s strong cash inflows from operating activities were supported historically by expansion of production and increasing iron ore prices and continued in the first half of fiscal 2015 through a combination of increasing iron ore shipments and lower operating costs. Total iron ore shipped for the first half of fiscal 2015 was approximately 82.7Mt, representing an annualized rate of approximately 165Mtpa

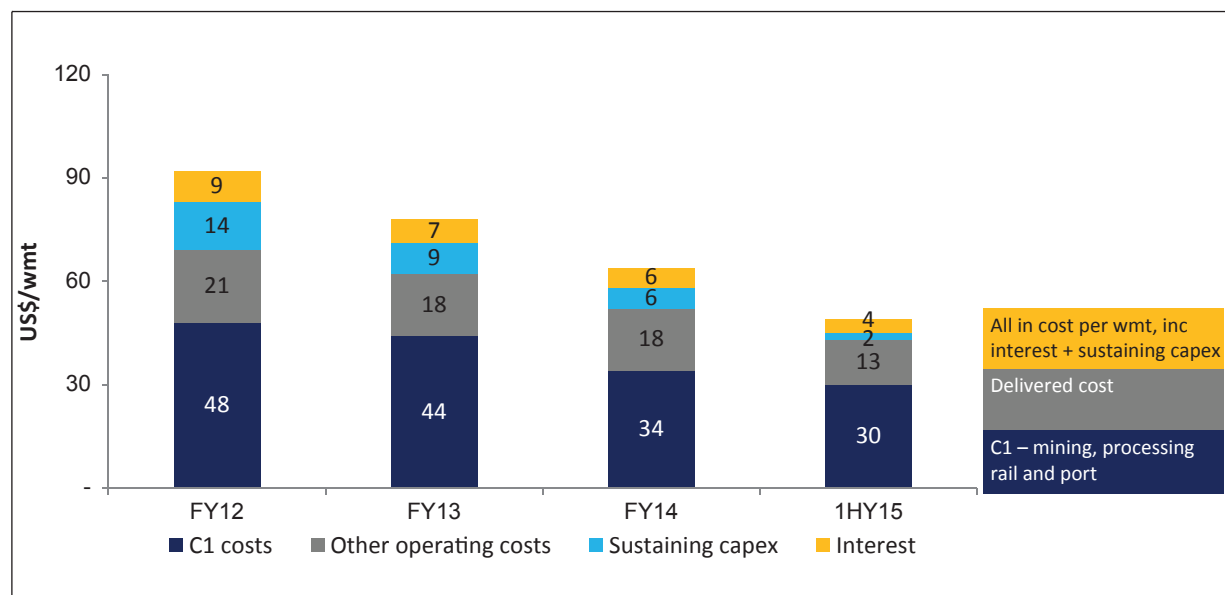
and a 53% increase to the first half of fiscal 2014, while total iron ore shipped for fiscal 2014 was approximately 124.2Mt, a 54% increase, compared to 80.9Mt shipped in fiscal 2013.

### ***Low cost producer***

Fortescue focuses on being a low cost exporter of iron ore, principally to China, through its highly efficient mining operations and modern rail and port transportation infrastructure. The development and control of Fortescue's rail, port and mining infrastructure has been integral to the Company's growth and profitability.

Advancements in engineering and mining technology (including rail alignment, wagon design and the use of surface miners) help Fortescue achieve cost-effective mining and ore transportation from the Chichester and Solomon Hubs to its Herb Elliott Port in Port Hedland for export to steel mill customers in China and other parts of Asia.

The following chart provides an overview of Fortescue's "all-in" cost per unit to deliver ore to China in fiscal 2012, fiscal 2013, fiscal 2014 and the first half of fiscal 2015, including "C1 cash costs," shipping costs, government royalties, administrative expenses, interest and sustaining capital.



Source: Fortescue.

### ***Notes:***

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

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

For the first half of fiscal 2015, Fortescue's average cash cost per wmt of Fortescue mined ore shipped was approximately US\$30.30 per wmt, representing an 8% decrease compared to US\$33.08 per wmt in the first half of fiscal 2014. This decrease primarily resulted from increased production and shipping volumes, lower strip ratios, enhanced processing capability, productivity and efficiency initiatives across all mines, OPFs and infrastructure assets, and a weakening in the Australian dollar against the U.S. dollar in the first half of fiscal 2015. Fortescue's average cash costs continued to decline in the first quarter of calendar 2015.

to US\$25.90 per wmt. See “Recent developments—Quarterly Report for the period ending March 31, 2015”.

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

- Additional improvement in mining and processing operations, including blending of products, optimizing mine scheduling, improving OPF metallurgical performance to reduce cut-off grades, thereby allowing Fortescue to lower strip ratios, as reflected in the below chart showing the Group’s strip ratios during each of fiscal 2012, 2013 and 2014 and the first half of fiscal 2015. Strip ratios for the first half of fiscal 2015 and 2014, and for fiscal 2014, 2013 and 2012, are summarized in the table below;

	Six months ended December 31,		Year ended June 30,		
	2014	2013	2014	2013	2012
Strip ratios .....	2.2x	3.1x	2.9x	3.9x	4.3x

- Trialing of autonomous trucks at the Kings mine;
- Optimization of the Group’s rail operations, including increasing the number of ore cars per train set and the reduction of cycle times and average loadout times;
- Efficiencies in the Group’s port operations, including improved load and unload times following the recent construction of a fifth ship loading berth at Anderson Point in Port Hedland, which will extend Fortescue’s total Port Hedland shipping capacity by around 15 to 20Mtpa; and
- The Fortescue River Gas Pipeline was commissioned in March 2015. Fortescue is currently converting Solomon Hub operations from diesel to gas, which is intended to lower energy costs and the Group’s carbon footprint.

#### ***State-of-the-art owned operations including rail and port infrastructure***

During the past several years, Fortescue has developed state-of-the-art operations, which include five OPFs and a fully integrated rail and port infrastructure. Fortescue’s railway—one of the only large-scale, new railway developments undertaken in the Pilbara in several decades—supports axle loads that are among the highest of any heavy haul railway globally (42 tonnes), which allows the Company to transport more of its product using fewer trains than its major competitors. Furthermore, the combination of the railway’s innovative track layout (with large radius curves) and electro-pneumatic braking system allows trains to maintain higher speeds for longer periods while providing faster stopping times, reduced maintenance requirements and increased efficiency. For example, the unloading loop at Port Hedland allows a full train to arrive and commence unloading before a prior train has departed and is also constructed to allow multiple future duplications of the unloading circuit to enable expansion as necessary. The Rail/Edge Incremental Train Control System, which has been fully implemented across Fortescue’s rail system, provides Fortescue with improved train scheduling and optimization of the rail network as well as increased network safety and capacity through the introduction of in-cab signaling, virtual signals, digital communications and GPS tracking.

The Herb Elliott Port was engineered for scale and efficiency. Construction of the port commenced in February 2006 and shipping began in May 2008. Much of the port operations are automated, including the train unloader, stacker and reclaimer facilities. Since operations at the port began, Fortescue has constructed and commissioned four additional berths, two additional stackers, two additional shiploaders and two new train unloaders. As a result, the port now consists of five berths and three in-load and out-load circuits.

#### ***Significant reserves and resources position with long life production***

Fortescue has substantial hematite Ore Reserves and Mineral Resources across its tenement holdings, including the Chichester Hub, Greater Chichester, the Solomon Hub, Eliwana & Flying Fish (formerly known as the Western Hub) and Nyidinghu. In addition, Fortescue holds an effective overall 60.72% interest in both the North Star and Glacier Valley deposits, with the remaining interests being held by a

subsidiary of the Formosa Plastics Group (“Formosa”) and Baosteel Group Corporation (“Baosteel”) through the Iron Bridge Joint Venture.

The following tables show the development of Fortescue’s Ore Reserves and Mineral Resources in fiscal 2010, 2011, 2012, 2013 and 2014.

<b>Ore Reserves<sup>(1)(2)</sup></b>	<b>Year ended June 30,</b>				
	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
	<b>(million tonnes)</b>				
Chichester Hub (Proved) .....	98	38	31	449	444
Chichester Hub (Probable) .....	1,441	1,509	1,464	1,069	1,026
<b>Chichester Hub (Proved &amp; Probable) .....</b>	<b>1,540</b>	<b>1,547</b>	<b>1,495</b>	<b>1,518</b>	<b>1,470</b>
Solomon Hub (Proved) .....	—	—	—	98	143
Solomon Hub (Probable) .....	—	716	716	729	760
<b>Solomon Hub (Proved &amp; Probable) .....</b>	<b>—</b>	<b>716</b>	<b>716</b>	<b>827</b>	<b>903</b>
<b>Combined Chichester and Solomon Hubs (Proved &amp; Probable) .</b>	<b>1,540</b>	<b>2,263</b>	<b>2,211</b>	<b>2,345</b>	<b>2,374</b>

**Notes:**

<sup>(1)</sup> In September 2011, Fortescue elected to report its estimated Ore Reserves for the Chichester Hub as of June 30, 2011 on a product tonnes basis. Probable Reserves for the Solomon Hub for fiscal 2011 and all Chichester Hub Ore Reserve estimates prior to fiscal 2011 have been estimated on a run-of-mine (“ROM”) tonnes basis. As a result, the estimates in the table above are not directly comparable. See “Ore Reserves and Mineral Resources.”

<sup>(2)</sup> The data in this table has been prepared in accordance with JORC 2004 Code or the JORC 2012 Code as was incorporated into the ASX listing rules at the relevant time. For further information refer to “Ore Reserves and Mineral Resources.”

<b>Mineral Resources<sup>(1)</sup></b>	<b>Year ended June 30,</b>				
	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014<sup>(2)</sup></b>
	<b>(million tonnes)</b>				
<b>Chichester Hub<sup>(3)</sup></b>					
Measured .....	167	240	420	668	790
Indicated .....	1,588	1,724	1,891	1,569	1,484
Inferred .....	389	586	1,068	985	947
<b>Chichester Hub (Measured, Indicated and Inferred) .....</b>	<b>2,143</b>	<b>2,550</b>	<b>3,379</b>	<b>3,222</b>	<b>3,221</b>
<b>Solomon Hub<sup>(4)</sup></b>					
Measured .....	108	108	108	133	167
Indicated .....	750	791	791	1,053	973
Inferred .....	2,000	2,171	2,348	818	1,079
<b>Solomon Hub (Measured, Indicated and Inferred) .....</b>	<b>2,859</b>	<b>3,070</b>	<b>3,247</b>	<b>2,003</b>	<b>2,219</b>
<b>Combined Chichester and Solomon Hubs (Measured, Indicated and Inferred)<sup>(3)(4)</sup> .....</b>	<b>5,003</b>	<b>5,620</b>	<b>6,626</b>	<b>5,226</b>	<b>5,440</b>

**Notes:**

<sup>(1)</sup> The data in this table has been prepared in accordance with a combination of the JORC 2004 Code and the JORC 2012 Code, in each case as incorporated into the ASX listing rules at the relevant time. For further information refer to “Ore Reserves and Mineral Resources—JORC reporting.”

<sup>(2)</sup> On January 8, 2015, Fortescue released a market announcement entitled “Chichester Range Mineral Resource Update” in respect of an increase in Indicated and Inferred Mineral Resources at sites along the Chichester Range and, as of the date of that announcement, Chichester Hub had total Mineral Resources of 3,329Mt, including Measured Mineral Resources of 790Mt, Indicated Mineral Resources of 1,539Mt and Inferred Mineral Resources of 999Mt. The Mineral Resources for the Chichester Hub included in this table, however, reflect amounts disclosed by the Group in the market announcement entitled “Mineral Resource & Ore Reserve Statement as at 30 June 2014” released to the ASX on August 20, 2014. For further information, please see “Ore Reserves and Mineral Resources.”

<sup>(3)</sup> Excluding Greater Chichester Mineral Resources.

<sup>(4)</sup> Excluding Greater Solomon Mineral Resources.

Fortescue's significant reserve and resource position underpins the long life nature of its operations, with the ability to further extend their life through continued exploration and expansion as required. The Chichester Hub currently has approximately 16 years of mine life remaining based on Ore Reserves, while the Solomon Hub currently has approximately 15 years of mine life remaining based on Ore Reserves, assuming a combined production rate of 150Mtpa.

Fortescue's tenement holdings (including both granted tenements and applications for tenements) in the Pilbara cover an area of more than 85,000 square kilometers, representing the largest tenement holding in the Pilbara. Fortescue believes that approximately one-third of its tenement portfolio is highly prospective for iron ore, which provides scope for the discovery of substantial additional iron ore resources in the future, further underpinning its operations. See "Ore Reserves and Mineral Resources."

### ***Strong market acceptance of Fortescue's high-grade, value-in-use iron ore products***

Through Fortescue's sales and marketing activities, the Company has successfully demonstrated the "value-in-use" of its suite of products. The introduction of the Solomon Hub iron ore products has allowed the Company to expand its range with the introduction of Kings CID Fines and Fortescue Blend Fines. These and other key products in Fortescue's targeted product mix are described further below:

- *Fortescue Blend Fines*: a combination of Brockman Fines (Firetail mine) and Chichester Special Fines with a typical iron content of 58.3% Fe and 2.4%  $\text{Al}_2\text{O}_3$ . Although Brockman Fines has slightly higher phosphorus content than other ores, when blended with Fortescue's lower phosphorus Chichester Special Fines, it results in a higher grade product with lower impurities. Fortescue understands that customers are typically using Fortescue Blend Fines as a base loading (15-40%) of their sinter blend as a function of its acceptable silica, aluminium oxide and phosphorus content and coarse sizing, which gives rise to its positive sintering and metallurgical characteristics.
- *Kings CID Fines*: based on Solomon Channel Iron Deposits primarily from the Kings mine, with typical Fe of 57.3% and 2.0%  $\text{Al}_2\text{O}_3$  which are competitive with other internationally traded low alumina CID ores.
- *Rocket Fines*: Fortescue's premium hematite product with an iron content of approximately 59.0% and 1.9%  $\text{Al}_2\text{O}_3$  which competes effectively with other high-grade Australian and Brazilian products with a calcinated iron content of approximately 64.5% Fe.
- *Super Special Fines*: a product produced from the Chichester Hub with typical Fe of 56.4% and a relatively low silica, aluminum oxide and phosphorus content and positive sintering characteristics.

Fortescue has successfully expanded its customer base in China and other parts of Asia and established itself as an alternative supplier for steel mills seeking quality iron ore product at competitive prices. Fortescue has shipped product to a high proportion of the top Chinese steel mills and, as of the date of this offering circular, has signed agreements with Chinese steel mills and iron ore distributors, which on-sell to Chinese steel mills, for the purchase of more than 135Mtpa. In addition, Fortescue has recently renewed a two-year supply contract with a major steel mill in Korea and has shipped trial cargoes of Kings CID Fines to a customer in Japan. See "Business description—Sales and marketing."

### ***Experienced management team with proven operational and development expertise***

Fortescue has a highly experienced management team with a successful track record of profitable growth, successful exploration and development and proactive management in volatile iron ore markets. This team includes Neville Power, Fortescue's Chief Executive Officer with over 27 years of experience in mining and steel-making operations, Peter Meurs, Fortescue's Director of Developments with over 25 years of experience in major project development, Nick Cernotta, Fortescue's Director of Operations with over 30 years of experience in mining and resources industry and Stephen Pearce, Fortescue's Chief Financial Officer with over 27 years of financial experience as well as other key management members who have significant international and broad-based senior management experience.

Fortescue's management team also has demonstrated experience in major project development and operations, including iron ore mining and port and rail infrastructure in the Pilbara, having guided the

Company from a greenfield development to production capacity of 155Mtpa in just over eight years. Since Fortescue's first shipment of iron ore in May 2008, it has processed and shipped approximately 455.2Mt of Fortescue mined iron ore, through to the end of the first half of fiscal 2015.

Fortescue believes that the experience its management team gained in the construction of the Chichester and Solomon Hubs and the associated rail and port infrastructure, including the relationships forged with its major suppliers and contractors, as well as its experience dealing with difficult iron ore market environments, will contribute to the ongoing successful operation of its business.

## **Business strategy**

### ***Optimize operating costs and production efficiencies***

Fortescue aims to continue to lower its costs by continuing to improve its operating efficiencies, leveraging economies of scale, and continuing to source cost savings through innovation and technology. Fortescue also uses external consultants to benchmark itself against its industry peers and to identify improvement opportunities in the areas of mine planning, ore haulage, ore processing, rail haulage and port operations, with the goal of identifying and implementing industry best practice.

The following outlines a number of initiatives that Fortescue is implementing with the goal of further reducing its operating costs at minimal capital expense.

#### ***Mining and processing operations***

Fortescue is focused on continual operational improvement and identifies improvement initiatives through its budget process and mine life planning, which has resulted in cost reductions from a number of initiatives, including among other things, blending of products, optimizing mine scheduling and improving OPF metallurgical performance to reduce cut-off grades, thereby allowing Fortescue to lower strip ratios. Fortescue will also continue to review investment opportunities in complimentary infrastructure to maximize OPF throughput.

#### ***Autonomous Haulage Solution***

Fortescue currently has 20 autonomous trucks in operation at the Kings mine, which are expected to deliver improved safety, as well as operational efficiencies. The system continues to be tested for optimization and efficiencies, with a possibility of future use in other areas of the Group's operations.

#### ***Railway fleet optimization***

Fortescue continues to optimize efficiencies in the Group's rail infrastructure. For instance, the Group has increased the number of ore cars per 13-train sets to 250 (from 240), reduced cycle times below 24 hours per train and improved average loadout time. In addition, the company has increased the axle loads of its ore cars, which were already among the highest of any heavy haul railway globally, to 42 tonnes.

#### ***Port efficiencies and AP5***

In addition to ongoing efforts to optimize the efficiency of the Group's port operations, Fortescue recently completed construction of a fifth ship loading berth at Anderson Point in Port Hedland, which is located adjacent to its fourth berth. Construction of AP5 was completed on schedule and commissioned on March 22, 2015. AP5 is expected to extend Fortescue's total Port Hedland shipping capacity by around 15 to 20Mtpa through greater flexibility in managing its ship loading capacity. See "Business description—Rail and port transportation infrastructure—Port infrastructure" for more details.

#### ***Fortescue River Gas Pipeline***

In an effort to lower energy costs and reduce its carbon footprint, Fortescue is executing a plan to transition its operations from diesel to natural gas, in the form of compressed natural gas, pipeline natural

gas or potentially liquefied natural gas (“LNG”). The first step in this transition is the construction of a 270-kilometer gas pipeline (“Fortescue River Gas Pipeline”), which will deliver natural gas from the Dampier to Bunbury Pipeline to the main power station in the Solomon Hub, which is currently owned and operated by TransAlta Corporation. The Fortescue River Gas Pipeline was commissioned in March 2015. See “Business description—Optimization and other development activities—Fortescue River Gas Pipeline” for more details.

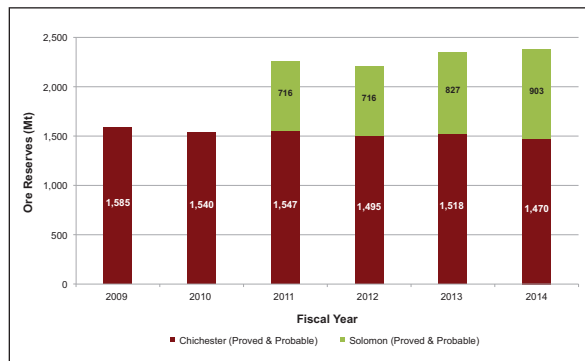
### ***Strengthen record of safety, environmental and social performance***

Fortescue remains committed to continuous improvement of the Group’s safety performance by providing an increasingly safe workplace for all of its employees and contractors. For instance, in the third quarter of fiscal 2014, the Company commenced the “Safety Excellence” project to further embed safety as part of its culture, enhance safety leadership and improve sharing of lessons from incidents. See “Business description—Safety.” Fortescue also continues to develop and implement an Environmental Management System that sets forth guidelines in managing environmental issues and promoting environmental excellence (see “Business description—Environmental policy and reporting”) and to further strengthen its balanced, diverse and inclusive workforce through such measures as the Fortescue’s Vocational Training and Employment Centers, which provide Aboriginal people with a pathway towards guaranteed employment with the Company, and its Billion Opportunities program to award contracts to Aboriginal business and joint ventures (see “Business description—Aboriginal engagement”).

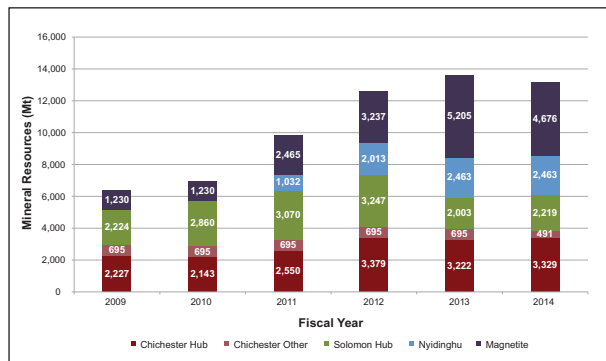
### ***Replace and expand reserves and resources***

The following charts demonstrate the success of Fortescue’s historical exploration efforts, which have resulted in an increase in Ore Reserves and Mineral Resources over the period from fiscal 2009 to fiscal 2014.

**Ore Reserve history, by location**



**Mineral Resource history, by location**



#### **Notes:**

- (1) The data in these graphs were prepared in accordance with JORC 2004 Code or the JORC 2012 Code as was incorporated into the ASX listing rules at the relevant time. For further information refer to “Ore Reserves and Mineral Resources.”
- (2) As of June 30, 2014, Fortescue had total magnetite Mineral Resources of 4,676Mt (fiscal 2013: 5,205Mt). See “Business description—Optimization and other development activities—Iron Bridge magnetite project” for further information.
- (3) On January 8, 2015, Fortescue released a market announcement entitled “Chichester Range Mineral Resource Update” in respect of an increase in Indicated and Inferred Mineral Resources at sites along the Chichester Range. The Chichester Hub Mineral Resources in this table are extracted from that announcement. As of June 30, 2014, Chichester Hub had total Measured Mineral Resources of 790Mt, total Indicated Mineral Resources of 1,484Mt and total Inferred Mineral Resources of 947Mt. For further information refer to “Ore Reserves and Mineral Resources.”

Fortescue’s total tenement holdings (including both granted tenements and applications for tenements) in the Pilbara have grown from 487 square kilometers in July 2003 to more than 85,000 square kilometers as of December 31, 2014. Such a large tenement portfolio provides significant scope for the discovery of

further reserves and resources in the future and Fortescue remains committed to the replacement of its Ore Reserves and Mineral Resources in the long term to further extend its mine life. For more information, see “Ore Reserves and Mineral Resources” and “Business description—Ore Reserves, Mineral Resources and geology.”

## **Recent developments**

### *Quarterly Report for the period ended March 31, 2015*

Fortescue reduced mining activity during the quarter to draw down on excess mined iron ore stocks to reduce working capital levels and release cash from the balance sheet. As a result, Fortescue mined 35.5Mt of ore, 19% less than the previous quarter and 20% higher than the March 2014 quarter.

Shipments during the March 2015 quarter were 40.4Mt, 2% lower than the previous quarter and 28% higher than the March 2014 quarter. Shipments included 39.4 million Fortescue equity tonnes and 1.0 million third party tonnes.

Production costs continue to reduce through initiatives including ongoing mining efficiencies, productivity improvements and consolidation of mining contractors. C1 cash costs in the March 2015 quarter averaged US\$25.90 per wmt, a 9% improvement over the prior quarter and 26% lower than the March 2014 quarter. The improved costs reflect the continuous operational focus across all sites, a lower Australian dollar and lower fuel prices.

Fortescue’s total delivered cost to customers has also continued to decrease and was US\$34 per wmt inclusive of C1 cash costs and shipping, royalty and administration costs, 17% lower than the prior quarter.

The average 62% Platts CFR index was US\$62 per dmt during the March 2015 quarter compared to US\$74 per dmt in the December 2014 quarter, a 16% decline over the previous quarter.

Fortescue’s product is sold under contractual terms that provide for finalization of the contract price over varying periods following delivery. A sharp decline in the iron ore price during the March 2015 quarter lowered Fortescue’s underlying contractual 62% Platts CFR price from an average of US\$62 per dmt to US\$55 per dmt, inclusive of 17Mt of open contracts which were marked to market at March 31, 2015 (provisional pricing). Realization on a final contractual basis, after the impact of provisional pricing, was maintained at 85% or US\$48 per dmt for the March 2015 quarter.

### *Withdrawal of Tender Offer and Related Refinancing*

On March 5, 2015, the Company announced the launch of a US\$2.5 billion senior secured debt issuance and an offer to holders of its 2017, 2018 and 2019 Senior Unsecured Notes to tender for repurchase, subject to a cap on the 2019 Senior Unsecured Notes. The Company also announced its intention to extend the maturity of its existing US\$4.9 billion Senior Secured Credit Facility. On March 18, 2015, the Company announced that it had chosen not to pursue the US\$2.5 billion senior secured debt issuance and that it had withdrawn the related tender offer and the extension of its existing Senior Secured Credit Facility.

### *Changes to Fortescue management*

On January 19, 2015, Dr. Jean Baderschneider was appointed to the Fortescue Board. Dr. Baderschneider is a highly regarded leader in both business and civil society and brings to the Board her extensive international experience in procurement, strategic sourcing and supply chain management.

On February 17, 2015, Mr. Ian Wells was appointed as Company Secretary. Mr. Wells has extensive experience in senior finance and management roles in the mining, energy infrastructure and healthcare industries and, prior to his appointment as Company Secretary, Mr. Wells served as Fortescue Group Manager, Treasury and Business Planning.

See “Management” for further information.

#### *Fortescue updates Mineral Resources estimates*

Total Fortescue Mineral Resources (hematite) have increased from 11,606Mt as of June 30, 2014 to 11,901Mt as of January 8, 2015, when Fortescue released a market announcement entitled “Chichester Range Mineral Resource Update” in respect of an increase in Indicated and Inferred Mineral Resources at sites along the Chichester Range as a result of continued brownfield exploration activities in that region.

See “Ore Reserves and Mineral Resources” and “Business description—Ore Reserves, Mineral Resources and geology” for further information.

#### *Consolidation of Christmas Creek mining services contracts*

On February 20, 2015, Fortescue agreed to consolidate its mining services arrangements at its Christmas Creek operations into a single mining contract with Downer EDI Mining Pty Ltd (“Downer EDI”), which commenced on April 20, 2015. Downer EDI, which currently provides mining services to one of Fortescue’s two mines and ore processing facilities (“OPFs”) at Christmas Creek, has taken over operations with respect to the other mine and OPF from Macmahon Contractors Pty Ltd. (“Macmahon”) as of April 20, 2015. The new contract is valued at approximately A\$650 million and will expire on September 30, 2016, with two options to extend for a further six months each.

See “Business description—Mining operations at the Chichester Hub—Mining services agreements” for further information.

#### *Commissioning of the Fortescue River Gas Pipeline*

In an effort to lower energy costs and reduce its carbon footprint, Fortescue is executing a plan to transition its operations from diesel to natural gas, in the form of compressed natural gas, pipeline natural gas or potentially LNG. The first step in this transition is the construction of a 270-kilometer gas pipeline (“Fortescue River Gas Pipeline”), which will deliver natural gas from the Dampier to Bunbury Pipeline to the main power station in the Solomon Hub, which is currently owned and operated by TransAlta Corporation. The Fortescue River Gas Pipeline was commissioned in March 2015. See “Business description—Optimization and other development activities—Fortescue River Gas Pipeline” for more details.

#### *Commissioning of the Fifth Berth at Anderson Point, Port Hedland*

Fortescue recently completed construction of a fifth ship loading berth at Anderson Point in Port Hedland, which is located adjacent to its fourth berth. Construction of AP5 was completed on schedule and commissioned on March 22, 2015. AP5 is expected to extend Fortescue’s total Port Hedland shipping capacity by around 15 to 20Mtpa through greater flexibility in managing its ship loading capacity.

#### *Credit Rating Development*

On April 14, 2015, Standard & Poor’s Rating Services (“Standard & Poor’s”) announced that it had placed eight iron ore miners, including Fortescue, on a negative credit watch. On April 22, 2015, Standard & Poor’s announced that it had downgraded Fortescue’s corporate family rating to BB from BB+. Standard & Poor’s also downgraded FMG Resources (August 2006) Pty Ltd’s senior unsecured rating to BB- from BB and senior secured rating to BBB- from BBB.

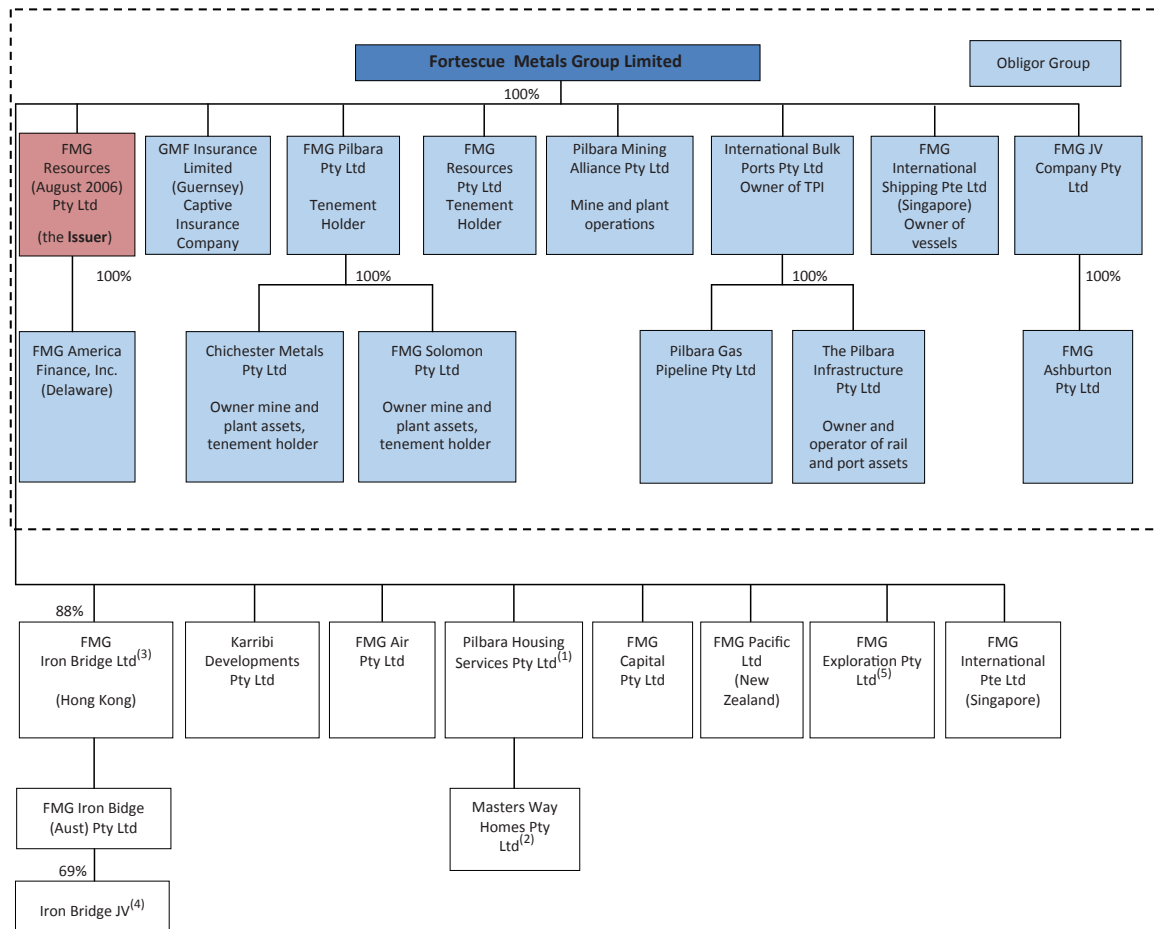
On April 16, 2015, Moody’s Investors Service, Inc. (“Moody’s”) announced that it had downgraded Fortescue’s corporate family rating to Ba2 from Ba1, with negative outlook. Moody’s also downgraded FMG Resources (August 2006) Pty Ltd’s senior unsecured rating to Ba3 from Ba2 and senior secured rating to Ba1 from Baa3, with negative outlook.

#### *Roster changes following organizational review*

Fortescue announced on April 14, 2015 that, after undertaking an organizational review, it will bring work rosters across its operation into line with standard rosters worked in the Pilbara iron ore industry. As a result, Fortescue’s operational rosters will move from a predominantly eight days on, six days off cycle to a two weeks on, one week off cycle.

## Corporate structure

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



### Notes:

- (1) Trustee of Fortescue Employee Housing Plan Trust.
- (2) Trustee of Master Way Homes Unit Trust.
- (3) 12% of FMG Iron Bridge Ltd. is held by a subsidiary of Baosteel.
- (4) An unincorporated joint venture in which FMG Iron Bridge (Aust) Pty Ltd owns a 69% unincorporated interest. Formosa owns the remaining 31% unincorporated interest.
- (5) FMG Minerals Pty Ltd and African Fortescue, Limitada are wholly owned subsidiaries of FMG Exploration Pty Ltd.

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

Chichester Metals Pty Ltd (“Chichester”) was incorporated in May 2004 under the Corporations Act. Chichester owns the tenements in the Chichester Range that supply ore to the existing operations and a number of other tenements that may be part of any future expansion activities.

FMG Solomon Pty Ltd (“FMG Solomon”) was incorporated in December 2007 under the Corporations Act. FMG Solomon owns the tenements in the area in and around the Solomon Hub that supply ore to the existing operations and a number of other tenements that may be part of any future expansion activities.

Pilbara Mining Alliance Pty Ltd is a subsidiary of Fortescue that was incorporated in June 2006 under the Corporations Act for the purpose of entering into the Group's contract mining arrangements.

The Pilbara Infrastructure Pty Ltd ("TPI") is an indirect subsidiary of Fortescue that was incorporated in December 2002 under the Corporations Act. TPI does not own any material assets other than its interest in the rail and port assets forming a part of the Group's existing operations. TPI constructed the railway from Cloudbreak to Christmas Creek, and the extension of the mainline to the Solomon Hub.

The Issuer (formerly FMG Finance Pty Ltd) is a subsidiary of Fortescue that was incorporated in March 2006 under the Corporations Act to act as a special purpose finance company, including in connection with the issuance of the Unsecured Senior Notes and the Senior Secured Notes described in this offering circular.

FMG America Finance, Inc. ("FMG America") is an indirect subsidiary of Fortescue that was incorporated in October 2012 in the U.S. state of Delaware to act as a special purpose finance company for the Group in connection with the Senior Secured Credit Facility.

FMG International Shipping Pte. Ltd. ("FMG International Shipping") was incorporated in June 2014 in Singapore under the *Singapore Companies Act* for the purposes of owning very large ore carriers ("VLOCs") that will be used to transport iron ore.

GMF Insurance Limited ("GMF Insurance") is a subsidiary of Fortescue that was incorporated in Guernsey in September 2013 under the laws of the Bailiwick of Guernsey as a form of captive insurance company to provide additional insurances to the Group for risks not covered by the Group's existing insurances.

Certain of Fortescue's subsidiaries, the "Restricted Subsidiaries," will be Note Guarantors under the terms of the Senior Secured Notes, while other of Fortescue's subsidiaries will be "Unrestricted Subsidiaries" on the date of the issuance of the Senior Secured Notes and, as such, will not guarantee the Senior Secured Notes and will not be subject to the restrictive covenants in the indenture governing the Senior Secured Notes. Under certain circumstances, Fortescue will also be permitted to designate other subsidiaries as "Unrestricted Subsidiaries" in the future. See "Description of the Senior Secured Notes" for further information.

As of December 31, 2014, subsidiaries of Fortescue that will be designated as "Unrestricted Subsidiaries" under the Senior Secured Notes had total assets of 3% of Fortescue's consolidated total assets, and in calendar 2014, generated 3% of Fortescue's consolidated net income. As of December 31, 2014, such subsidiaries had no borrowings or finance lease liabilities.

## SUMMARY HISTORICAL CONSOLIDATED FINANCIAL AND OPERATING DATA

The following tables present summary historical consolidated financial and operating data of the Group for the two most recent fiscal half-years and the four most recent fiscal years. The results of operations are not necessarily indicative of the results to be expected for any future period. The summary historical consolidated financial data as of, and for the six months ended December 31, 2014 and 2013 has been derived from, and is qualified in entirety by reference to, the Company's unaudited consolidated interim financial statements included elsewhere in this offering circular and the summary historical consolidated financial data as of, and for the fiscal years ended, June 30, 2014, 2013 and 2012 have been derived from, and are qualified in entirety by reference to, the Company's audited consolidated financial statements included elsewhere in this offering circular. The summary historical consolidated financial and operating data of the Group as of, and for the year ended, June 30, 2011 have been derived from the audited consolidated financial statements of the Group, which have been filed with the ASX, through which they are publicly available. The summary historical consolidated financial and operating data of the Group set forth below is not necessarily indicative of the Group's future results of operations or financial condition.

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

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

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

	Six months ended December 31,		Year ended June 30,			
	2014	2013	2014	2013	2012	2011
	(US\$ in millions)		(US\$ in millions)			
<b>Consolidated income statement:</b>						
Operating sales revenue <sup>(1)</sup> .....	\$ 4,858	\$ 5,873	\$11,753	\$ 8,120	\$ 6,716	\$ 5,475
Cost of sales.....	<u>(4,108)</u>	<u>(3,039)</u>	<u>(7,002)</u>	<u>(5,140)</u>	<u>(4,008)</u>	<u>(2,758)</u>
Gross profit <sup>(1)</sup> .....	750	2,834	4,751	2,980	2,708	2,717
Other income.....	77	124	126	291	171	14
Other expenses <sup>(2)</sup> .....	<u>(81)</u>	<u>(144)</u>	<u>(244)</u>	<u>(252)</u>	<u>(111)</u>	<u>(251)</u>
Profit before income tax and net finance expenses <sup>(3)</sup> .....	746	2,814	4,633	3,019	2,768	2,480
Finance income.....	9	12	21	33	60	25
Finance expenses <sup>(4)</sup> .....	<u>(315)</u>	<u>(409)</u>	<u>(741)</u>	<u>(586)</u>	<u>(565)</u>	<u>(1,173)</u>
Profit before income tax.....	440	2,417	3,913	2,466	2,263	1,332
Income tax expense.....	<u>(109)</u>	<u>(694)</u>	<u>(1,173)</u>	<u>(720)</u>	<u>(704)</u>	<u>(313)</u>
Profit after income tax.....	\$ 331	\$ 1,723	\$ 2,740	\$ 1,746	\$ 1,559	\$ 1,019

### Notes:

<sup>(1)</sup> For fiscal 2011, (a) operating sales revenue is derived by adding together "operating sales revenue" (US\$5,442 million), "third party port access" (US\$17 million) and "provision of services" (US\$16 million) and (b) "gross profit" is derived by subtracting "cost of sales" (US\$2,758 million) from "operating sales revenue" (derived as indicated previously), each as reflected in the audited

consolidated financial statements of the Group for fiscal 2011, which have been filed with the ASX, through which they are publicly available.

- <sup>(2)</sup> For fiscal 2011, other expenses is derived by adding together “administration expenses” (US\$97 million), “re-estimation of unsecured loan notes” (US\$93 million) and “net foreign exchange loss” (US\$61 million), each as reflected in the audited consolidated financial statements of the Group for fiscal 2011, which have been filed with the ASX, through which they are publicly available.
- <sup>(3)</sup> For fiscal 2011, profit before income tax and net finance expenses is derived by subtracting (x) the sum of “cost of sales” (US\$2,758 million), “administration expenses” (US\$97 million), “re-estimation of unsecured loan notes” (US\$93 million) and “net foreign exchange loss” (US\$61 million) from (y) the sum of “operating sales revenue” (US\$5,442 million) and “other income” (US\$47 million), each as reflected in the audited consolidated financial statements of the Group for fiscal 2011, which have been filed with the ASX, through which they are publicly available.
- <sup>(4)</sup> For fiscal 2011, finance expenses is derived by adding together “finance costs” (US\$454 million) and “refinancing cost” (US\$719 million), each as reflected in the audited consolidated financial statements of the Group for fiscal 2011, which have been filed with the ASX, through which they are publicly available.

	As of December 31, 2014 (US\$ in millions)	As of June 30, 2014 2013 2012 2011 (US\$ in millions)			
<b>Consolidated balance sheet:</b>					
<b>Current assets</b>					
Cash and cash equivalents .....	\$ 1,574	\$ 2,398	\$ 2,158	\$ 2,343	\$2,663
Trade and other receivables .....	397	585	409	588	401
Inventories .....	1,201	1,467	961	617	417
Other current assets .....	63	27	36	102	15
Current tax receivable .....	13	—	8	—	—
<b>Total current assets .....</b>	<b>3,248</b>	<b>4,477</b>	<b>3,572</b>	<b>3,650</b>	<b>3,496</b>
<b>Non-current assets</b>					
Trade and other receivables .....	6	5	6	37	17
Property, plant and equipment <sup>(1)</sup> .....	18,139	18,068	17,159	11,357	5,093
Intangible assets .....	52	67	40	19	21
Other non-current assets .....	72	77	90	—	—
<b>Total non-current assets .....</b>	<b>18,269</b>	<b>18,217</b>	<b>17,295</b>	<b>11,413</b>	<b>5,131</b>
<b>Total assets .....</b>	<b>21,517</b>	<b>22,694</b>	<b>20,867</b>	<b>15,063</b>	<b>8,627</b>
<b>Current liabilities</b>					
Trade and other payables .....	944	1,338	1,043	1,182	813
Deferred income .....	777	936	38	—	—
Borrowings and finance lease liabilities .....	147	154	205	283	214
Provisions .....	148	176	128	100	—
Current tax payable .....	—	666	—	551	91
<b>Total current liabilities .....</b>	<b>2,016</b>	<b>3,270</b>	<b>1,414</b>	<b>2,116</b>	<b>1,118</b>
<b>Non-current liabilities</b>					
Trade and other payables .....	196	101	155	225	185
Deferred income .....	846	556	331	5	—
Borrowings and finance lease liabilities .....	8,904	9,403	12,486	8,218	4,658
Provisions .....	484	467	387	516	132
Deferred joint venture contributions .....	219	160	—	—	—
Deferred tax liabilities .....	1,232	1,154	805	221	100
<b>Total non-current liabilities .....</b>	<b>11,881</b>	<b>11,841</b>	<b>14,164</b>	<b>9,185</b>	<b>5,075</b>
<b>Total liabilities .....</b>	<b>13,897</b>	<b>15,111</b>	<b>15,578</b>	<b>11,301</b>	<b>6,193</b>
<b>Net assets .....</b>	<b>7,620</b>	<b>7,583</b>	<b>5,289</b>	<b>3,762</b>	<b>2,434</b>
<b>Equity</b>					
Contributed equity .....	1,294	1,289	1,291	1,293	1,295
Reserves .....	60	69	(49)	41	13
Retained earnings .....	6,252	6,211	4,043	2,428	1,126
<b>Total equity attributable to equity holders of the Company .....</b>	<b>7,606</b>	<b>7,569</b>	<b>5,285</b>	<b>3,762</b>	<b>2,434</b>
Non-controlling interest .....	14	14	4	—	—
<b>Total equity .....</b>	<b>\$ 7,620</b>	<b>\$ 7,583</b>	<b>\$ 5,289</b>	<b>\$ 3,762</b>	<b>\$2,434</b>

**Notes:**

<sup>(1)</sup> For fiscal 2011, property, plant and equipment is derived by adding together “property, plant and equipment” (US\$1,671 million) and “exploration, evaluation and development expenditure” (US\$3,422 million) as reflected in the audited consolidated financial statements of the Group for fiscal 2011, which have been filed with the ASX, through which they are publicly available.

	Six months ended December 31,		Year ended June 30,			
	2014	2013	2014	2013	2012	2011
	(US\$ in millions, unless otherwise indicated)		(US\$ in millions, unless otherwise indicated)			
<b>Other data:</b>						
Adjusted EBITDA <sup>(1)</sup> .....	\$ 1,367	\$ 3,160	\$ 5,580	\$ 3,321	\$ 2,879	\$ 2,811
Ratio of Adjusted EBITDA to net finance expenses <sup>(1)(2)</sup> .....	4.5x	8.0x	7.8x	6.0x	5.7x	2.4x
Net cash flows:						
Net cash inflows from operating activities .....	905	3,646	6,248	3,004	2,808	2,778
Net cash outflows from investing activities .....	(507)	(900)	(1,392)	(6,166)	(5,990)	(1,481)
Net cash (outflows) / inflows from financing activities.....	(1,169)	(1,964)	(4,625)	2,989	2,793	73
<b>Operating data:</b>						
Ore mined (million wmt) .....	86.5	66.9	140.4	94.6	64.6	44.2
Overburden and other waste removed (million wmt).....	191.8	205.7	404.5	364.5	276.8	162.3
Ore processed (million wmt).....	75.6	53.7	126.0	76.1	53.9	40.6
Ore railed (million wmt).....	81.4	54.8	126.4	81.6	57.7	39.6
Ore shipped—Fortescue mined ore (million wmt) <sup>(3)</sup> .....	80.3	50.8	118.4	75.9	53.9	39.3
Average revenue per wmt of Fortescue mined ore shipped (US\$/wmt) <sup>(4)</sup> .....	\$ 58.95	\$ 113.43	\$ 97.00	\$ 103.94	\$ 120.39	\$ 136.82
Average cash cost per wmt of Fortescue mined ore shipped (US\$/wmt) <sup>(5)</sup> .....	\$ 30.30	\$ 33.08	\$ 33.84	\$ 44.09	\$ 48.44	\$ 44.35

**Notes:**

<sup>(1)</sup> Adjusted EBITDA is defined as Underlying EBITDA before the impact of any re-estimation of the Unsecured Loan Notes, any gain on disposal of assets and interest in joint ventures and net foreign exchange gains or losses. Underlying EBITDA is defined as profit or loss for the period before income tax adjusted for depreciation and amortization, exploration, development and other expenses, finance income and expenses and gain or loss on refinancing. Although Adjusted EBITDA and Underlying EBITDA are not measures of performance that are recognized under AAS and IFRS, management believes that they are useful to an investor in evaluating Fortescue. For instance, Adjusted EBITDA eliminates exceptional items considered by management to be outside the core operating activity of the business and subject to volatility that may distort a year to year comparison of the operating results of the business. In particular, management considers the re-estimation of the Unsecured Loan Notes, gains on disposal of joint venture assets and interests and foreign exchange gains and losses to be outside the core operations of the Company and, as such, they are considered not to be reflective of operating performance.

Adjusted EBITDA and Underlying EBITDA, as calculated by Fortescue, may differ from similarly titled measures reported by other companies. Adjusted EBITDA and Underlying EBITDA do not purport to represent operating income, net income or cash generated by operating activities and should not be considered in isolation or as a substitute for measures of performance in accordance with AAS or IFRS. In addition, because Adjusted EBITDA and Underlying EBITDA are not calculated identically by all companies, the presentation here may not be comparable to other similarly titled measures of other companies. The table below reconciles the AAS/IFRS measure of profit after income tax to Underlying EBITDA and Adjusted EBITDA.

	Six months ended December 31,		Year ended June 30,			
	2014	2013	2014	2013	2012	2011
	(US\$ in millions)		(US\$ in millions)			
Profit after income tax .....	\$ 331	\$1,723	\$2,740	\$1,746	\$1,559	\$1,019
Add back: income tax expense .....	109	694	1,173	720	704	313
Deduct: finance income .....	(9)	(12)	(21)	(33)	(60)	(25)
Add back: finance expenses <sup>(a)</sup> .....	315	409	741	586	565	1,173
Deduct: gain on refinancing .....	—	—	—	(23)	—	—
Add back: depreciation and amortization <sup>(b)</sup> .....	658	399	965	463	266	170
Add back: exploration, development and other expenses <sup>(c)</sup> .....	36	7	38	116	1	7
<b>Underlying EBITDA .....</b>	<b>1,440</b>	<b>3,220</b>	<b>5,636</b>	<b>3,575</b>	<b>3,035</b>	<b>2,657</b>
Re-estimation of Unsecured Loan Notes <sup>(d)</sup> .....	—	—	—	(34)	(156)	93
Gain on disposal of assets and interest in joint ventures <sup>(e)</sup> .....	(2)	(108)	(109)	(124)	—	—
Foreign exchange (gain)/loss .....	(71)	48	53	(96)	—	61
<b>Adjusted EBITDA .....</b>	<b>\$1,367</b>	<b>\$3,160</b>	<b>\$5,580</b>	<b>\$3,321</b>	<b>\$2,879</b>	<b>\$2,811</b>

(a) For fiscal 2011, finance expenses is derived by adding together “finance costs” (US\$454 million) and “refinancing cost” (US\$719 million), each as reflected in the audited consolidated financial statements of the Group for fiscal 2011, which have been filed with the ASX, through which they are publicly available.

(b) For the first half of fiscal 2015 and 2014 and fiscal 2014, 2013 and 2012, depreciation and amortization includes aggregate depreciation and amortization expense included in “cost of sales” and “other expenses” in the Group’s consolidated income statement for the applicable periods. For fiscal 2011, depreciation and amortization is derived by adding together “depreciation of property, plant and equipment” (US\$115 million), “amortisation of development expenditure” (US\$51 million) and “amortisation of intangible assets” (US\$4 million), each as reflected in the audited consolidated financial statements of the Group for fiscal 2011, which have been filed with the ASX, through which they are publicly available.

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

(d) On August 18, 2006, the Group issued US\$100 million in aggregate principal amount of the Unsecured Loan Notes to a subsidiary of Leucadia as part of a larger capital raising. The Unsecured Loan Notes were repaid in full in October 2012. Until they were repaid, the re-estimation of the Unsecured Loan Notes was undertaken quarterly. See “Management’s discussion and analysis of financial condition and results of operations—Other factors that affect reported financial performance—The Unsecured Loan Notes.”

(e) Gains on disposal of assets and interest in joint venture in fiscal 2013 relate to the sale of a 25% interest in the Nullagine Iron Ore Joint Venture (“NIOJV”) to BC Iron Limited in December 2012. Following the sale, the Group’s overall interest in the NIOJV was 25%. See “Business description—Other existing operations.” Gains on disposal of assets and interest in joint venture in fiscal 2014 relate to the sale of a 31% interest in the Iron Bridge magnetite project (the “Iron Bridge Joint Venture”) to Formosa Steel IB Pty Ltd, a subsidiary of Formosa, in October 2013. See “Business description—Optimization and other development activities—Iron Bridge magnetite project.”

<sup>(2)</sup> Net finance expenses is defined as finance expenses less finance income.

<sup>(3)</sup> “Ore shipped—Fortescue mined ore” includes total wmt of ore mined, processed and shipped by Fortescue. “Ore shipped—Fortescue mined ore” does not include ore that Fortescue ships, but does not own or take title to, pursuant to third-party access agreements, as part of its provision of shipping services (*i.e.*, access to its port infrastructure) to third parties, ore purchased from third parties and shipped, or joint venture ore shipped (attributable to BC Iron Limited). See “Business description—Other existing operations.” “Fortescue’s share of joint venture ore” represents the portion of ore mined by the NIOJV and shipped by Fortescue which is attributable to Fortescue. A reconciliation of total ore shipped to “Ore shipped—Fortescue mined ore” is provided in the table below:

	Six months ended December 31,		Year ended June 30,			
	2014	2013	2014	2013	2012	2011
	(million wmt)		(million wmt)			
Total ore shipped.....	82.7	53.9	124.2	80.9	57.5	40.9
Ore purchased from third parties and shipped.....	—	—	—	—	—	(0.5)
Ore shipped pursuant to third-party access agreements.....	(1.8)	(2.5)	(4.3)	(3.1)	(1.8)	(1.0)
Fortescue's share of joint venture ore.....	(0.5)	(0.7)	(1.5)	(1.9)	(1.8)	(0.1)
<b>Ore shipped—Fortescue mined ore .....</b>	<b>80.3</b>	<b>50.8</b>	<b>118.4</b>	<b>75.9</b>	<b>53.9</b>	<b>39.3</b>

<sup>(4)</sup> Defined as operating sales revenue (excluding joint venture and third-party ore), divided by tonnes of Fortescue mined ore shipped, as indicated in the table below:

	Six months ended December 31,		Year ended June 30,			
	2014	2013	2014	2013	2012	2011
Operating sales revenue (US\$ in millions) <sup>(a)</sup> .....	\$4,858	\$ 5,873	\$11,753	\$ 8,120	\$ 6,716	\$ 5,475
Sale of third-party ore and joint venture ore (US\$ in millions) ..	(30)	(63)	(126)	(168)	(192)	(65)
Other revenue (US\$ in millions) <sup>(b)</sup> .....	(94)	(48)	(142)	(63)	(35)	(33)
<b>Operating sales revenue (excluding third-party ore) (US\$ in millions) .....</b>	<b>\$4,734</b>	<b>\$ 5,762</b>	<b>\$11,485</b>	<b>\$ 7,889</b>	<b>\$ 6,489</b>	<b>\$ 5,377</b>
Ore shipped—Fortescue-mined ore (million wmt) .....	80.3	50.8	118.4	75.9	53.9	39.3
<b>Average revenue per wmt of Fortescue mined ore shipped (US\$ per wmt).....</b>	<b>\$58.95</b>	<b>\$113.43</b>	<b>\$ 97.00</b>	<b>\$103.94</b>	<b>\$120.39</b>	<b>\$136.82</b>

(a) For fiscal 2011, operating sales revenue is derived by adding together “operating sales revenue” (US\$5,442 million), “third party port access” (US\$17 million) and “provision of services” (US\$16 million), each as reflected in the audited consolidated financial statements of the Group for fiscal 2011, which have been filed with the ASX, through which they are publicly available.

(b) For fiscal 2011, other revenue is derived by adding together “third party port access” (US\$17 million) and “provision of services” (US\$16 million), each as reflected in the audited consolidated financial statements of the Group for fiscal 2011, which have been filed with the ASX, through which they are publicly available.

<sup>(5)</sup> Average cash cost per wmt of Fortescue mined ore shipped is calculated as total direct costs divided by wmt of Fortescue mined iron ore shipped. Direct costs consist of operating cost of sales and operating leases. Operating cost of sales consists of mining and processing costs and rail and port operating expenses. Average cash cost per wmt of Fortescue mined ore shipped for the first half of fiscal 2015 and 2014 and fiscal 2014, 2013, 2012 and 2011, are summarized in the table below:

	Six months ended December 31,		Year ended June 30,			
	2014	2013	2014	2013	2012	2011
	(US\$ per wmt)		(US\$ per wmt)			
Operating cost of sales.....	\$29.80	\$32.38	\$33.21	\$42.34	\$45.75	\$40.94
Operating leases .....	0.50	0.69	0.63	1.75	2.69	3.41
<b>Average cash cost per wmt of Fortescue mined ore shipped.....</b>	<b>\$30.30</b>	<b>\$33.08</b>	<b>\$33.84</b>	<b>\$44.09</b>	<b>\$48.44</b>	<b>\$44.35</b>

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

## THE OFFERING

*The summary below describes the principal terms of the Senior Secured Notes and the Note Guarantees. Certain of the terms and conditions described below are subject to important limitations and exceptions. The “Description of the Senior Secured Notes” section of this offering circular contain a more detailed description of the terms and conditions of the Senior Secured Notes and the Note Guarantees. Capitalized terms used but not otherwise defined below take the meanings set out in the “Description of the Senior Secured Notes.”*

<b>Issuer</b>	FMG Resources (August 2006) Pty Ltd.
<b>Securities offered</b>	US\$1,500 million principal amount of                      % Senior Secured Notes due 2022 (the “Senior Secured Notes”).
<b>Maturity</b>	, 2022.
<b>Interest rate</b>	The Senior Secured Notes will bear interest at the rate of                      % per annum, accruing from                      , 2015.
<b>Interest payment dates</b>	Semi-annually on                      and                      of each year, beginning on                      , 2015.
<b>Ranking of the Senior Secured Notes</b>	<p>The Senior Secured Notes will be general obligations of the Issuer, and will be senior in right of payment to any existing and future Indebtedness of the Issuer expressly subordinated in right of payment to the Senior Secured Notes, and will rank at least <i>pari passu</i> in right of payment with all other unsubordinated Indebtedness of the Issuer.</p> <p>The Senior Secured Notes will be entitled to a first priority Lien on the Collateral, subject to Permitted Liens, the Intercreditor Agreement and the Security Documents, and will be shared on a <i>pari passu</i> basis with the lenders under the Senior Secured Credit Facility and creditors under any Permitted Pari Passu Secured Indebtedness, which will rank senior in right of payment to any unsecured obligations of the Issuer. See “Description of the Senior Secured Notes,” “Description of Collateral” and “Description of the Intercreditor Agreement.”</p> <p>The Issuer has no revenue-generating operations of its own. To make payments on the Senior Secured Notes, the Issuer will depend upon payments from Fortescue and the Note Guarantors. The Senior Secured Notes will be structurally subordinated to all liabilities of Fortescue’s subsidiaries that do not guarantee the Senior Secured Notes.</p> <p>As of December 31, 2014, after giving effect to this offering and the use of the net proceeds therefrom, the Issuer would have had US\$9,331 million of total borrowings and finance lease liabilities, including US\$6,376 million of secured indebtedness (excluding finance lease liabilities), assuming that all of the outstanding 2017 Unsecured Senior Notes and 2018 Unsecured Senior Notes are redeemed and that the balance of the net proceeds of the offering are used to repay, redeem, repurchase or otherwise retire outstanding indebtedness.</p> <p>See “Use of proceeds” and “Capitalization” for further information.</p>
<b>Note Guarantors</b>	The Senior Secured Notes will be guaranteed by Fortescue and each of its existing and future direct and indirect Restricted Subsidiaries (other than the Issuer). See “Description of the Senior Secured Notes—Brief description of the notes and the Note Guarantees—The Note Guarantees.”

As of December 31, 2014, subsidiaries of Fortescue that will be designated as Unrestricted Subsidiaries under the Senior Secured Notes had total assets of 3% of Fortescue's consolidated total assets, and in calendar 2014, generated 3% of Fortescue's consolidated net income. As of December 31, 2014, such subsidiaries had no borrowings or finance lease liabilities.

**Note Guarantees**

The Senior Secured Notes will be guaranteed (the "Note Guarantees") on a senior secured basis by the Note Guarantors and all future direct and indirect Restricted Subsidiaries of Fortescue.

**Ranking of the Note Guarantees**

The Note Guarantees will be general obligations of the Note Guarantors, and will be senior in right of payment to all future obligations of the applicable Note Guarantor expressly subordinated in right of payment to the Note Guarantee. The Note Guarantees will be structurally subordinated to all liabilities of Fortescue's subsidiaries that do not guarantee the Senior Secured Notes.

The Note Guarantees will be entitled to a first priority Lien on the Collateral, subject to any Permitted Liens and the Intercreditor Agreement, which will be shared on a *pari passu* basis with the lenders under the Senior Secured Credit Facility and creditors under any Permitted Pari Passu Secured Indebtedness, and will rank senior in right of payment to any unsecured obligations of the applicable Note Guarantor with respect to the Collateral.

**Collateral**

The obligations of the Issuer under the Senior Secured Notes and the Note Guarantors under the Note Guarantees will, on the date that (a) the Trustee, on behalf of holders, enters into the Intercreditor Agreement (as defined below) and (b) Fortescue satisfies applicable requirements under the Intercreditor Agreement, be secured by security granted by the Issuer and the Note Guarantors on a first priority basis (subject to Permitted Liens, the Intercreditor Agreement and the Security Documents) of all the assets (other than certain excluded assets) owned by the Issuer or the Note Guarantors (subject to Permitted Liens and the Intercreditor Agreement), whether owned on the date of the indenture or thereafter acquired. See "Description of the Senior Secured Notes" and "Description of Collateral."

The Issuer and the Note Guarantors have agreed under the Security Documents to use all reasonable endeavors (without being required to suffer material commercial detriment) to obtain any authorizations that may be required to permit the grant of security over certain assets excluded from the collateral package as soon as reasonably possible, and, with respect to certain contracts, to use all reasonable endeavors to obtain such consent for as long as the administrative agent under the Senior Secured Credit Facility requires. The Issuer and the Note Guarantors, as applicable, will secure their respective obligations under the Senior Secured Notes and the Note Guarantees by security granted, on a first priority basis (subject to Permitted Liens, the Intercreditor Agreement and the Security Documents), of certain assets excluded from the collateral package with effect automatically after obtaining the requisite consents or authorizations.

**Collateral Agent**

Credit Suisse AG, Sydney Branch (the "Collateral Agent").

**Security Documents**

The Intercreditor Agreement, General Security Deeds, the security agreements, pledge agreements, agency agreements, mortgages, deeds of trust, collateral assignments, collateral agency agreements, debentures and any other

agreements or instruments that may evidence or create any security interest in favor of the Collateral Agent in any or all of the Collateral.

**Intercreditor Agreement**

The Trustee will accede to the first lien intercreditor agreement dated October 18, 2012 as amended on November 15, 2013 between (a) Credit Suisse AG, Cayman Islands Branch as the administrative agent under the Senior Secured Credit Facility (the “Administrative Agent”), (b) the Issuer and the Note Guarantors (each in their capacity as obligors under the Senior Secured Credit Facility) and (c) the Collateral Agent (the “Intercreditor Agreement”).

Pursuant the Intercreditor Agreement, the Collateral Agent has agreed to act as collateral agent for the Trustee and the lenders under the Senior Secured Credit Facility as well as the creditors under any Permitted Additional Secured Indebtedness. The Intercreditor Agreement describes the respective priorities of each party (including holders of the Senior Secured Notes) and sharing arrangements of the Collateral, as well as provides for the process to enforce the Collateral. Under the Intercreditor Agreement, the Administrative Agent initially has the right to direct the Collateral Agent to initiate foreclosures, release liens in accordance with the Security Documents and take other actions with respect to the Collateral, and the Trustee and the representatives of other secured creditors under any Permitted Additional Secured Indebtedness that are party to the Intercreditor Agreement have no right to direct the Collateral Agent to take actions with respect to the Collateral. As long as the Administrative Agent is the representative having such rights under the Intercreditor Agreement, the Trustee, as representative of the holders of Senior Secured Notes, will have limited rights to direct the Collateral Agent to take any action under the Intercreditor Agreement.

For additional description of the Intercreditor Agreement, see “Description of the Intercreditor Agreement.”

**Trustee**

The Bank of New York Mellon.

**Optional redemption of the Senior Secured Notes**

Prior to \_\_\_\_\_, 2018, the Issuer may redeem, at its option, some or all of the Senior Secured Notes at a “make-whole” redemption price, together with accrued and unpaid interest and additional amounts, if any, on such Senior Secured Notes to the date of redemption, as more fully described under “Description of the Senior Secured Notes—Optional redemption—Optional redemption of notes at make-whole price.”

On or after \_\_\_\_\_, 2018, the Issuer may redeem, at its option, some or all of the Senior Secured Notes at a premium that will decrease over time as described under “Description of the Senior Secured Notes—Optional redemption—Optional redemption of notes on or after \_\_\_\_\_, 2018,” plus accrued and unpaid interest and additional amounts, if any, to the date of redemption.

If, within two years following the date of the indenture, Fortescue completes one or more sales of Equity Interests with net cash proceeds of at least US\$1.0 billion that are applied to repay Indebtedness, the Issuer may redeem, at its option, some or all of the Senior Secured Notes at a reduced premium as more fully described in “Description of the Senior Secured Notes—Optional Redemption—Optional redemption following sale of Equity Interests.”

Prior to \_\_\_\_\_, 2018, the Issuer may redeem, at its option, up to 40% of the aggregate principal amount of the Senior Secured Notes with the net proceeds of any equity offering at \_\_\_\_\_ % of their principal amount, plus accrued and unpaid interest and additional amounts to the date of redemption, provided that at least 60% of the aggregate principal amount of the Senior Secured Notes remains outstanding immediately following the redemption. See “Description of the Senior Secured Notes—Optional redemption—Optional redemption of notes upon equity offerings.”

The Issuer will have the right to redeem the notes at 101% of the aggregate principal amount thereof following the consummation of a Change of Control if at least 90% of the Senior Secured Notes outstanding prior to such consummation are purchased pursuant to a Change of Control Offer with respect to such Change of Control. See “Description of the Senior Secured Notes—Optional redemption—Optional redemption of notes upon Change of Control.”

The Issuer may also redeem the Senior Secured Notes, in whole but not in part, at any time, upon giving proper notice, if the Issuer becomes obligated to pay additional amounts to holders of the Senior Secured Notes as a result of a change in the tax laws of any relevant jurisdiction, at a price equal to the principal amount of the Senior Secured Notes, plus accrued and unpaid interest and additional amounts, if any, on the Senior Secured Notes to the date of redemption. See “Description of the Senior Secured Notes—Redemption for changes in withholding taxes.”

#### **Change of control**

If a Change of Control occurs, as that term is defined in “Description of the Senior Secured Notes—Certain definitions,” the Issuer will be required to offer to repurchase the Senior Secured Notes at 101% of the aggregate principal amount of the Senior Secured Notes repurchased, plus accrued and unpaid interest and additional amounts, if any, as of the date of repurchase, as described under the heading, “Description of the Senior Secured Notes—Repurchase at the option of holders—Change of control.”

#### **Asset sales**

Upon certain asset sales, the Issuer may use the net cash proceeds of such asset sales to repay, repurchase or redeem principal in respect of any First Lien Secured Obligations; *provided* that to the extent no such principal remains outstanding or the payment of such principal out of the proceeds of such Asset Sale is not required or has been validly waived under the terms of the Senior Secured Term Loan, to repay, repurchase or redeem principal of any First Lien Secured Obligations (excluding, in any such case, any Indebtedness owed to Fortescue or an Affiliate of Fortescue), *provided* further that a pro rata portion of such proceeds must be allocated to make an offer (in accordance with the procedures set forth below for an Asset Sale Offer) to all holders of notes to purchase, at a purchase price equal to 100% of the principal amount thereof, plus accrued and unpaid interest, the principal amount of notes and purchase any notes tendered (and not validly withdrawn) in connection therewith, as described further under the heading “Description of the Senior Secured—Repurchase at the option of holders—Asset sales.”

#### **Withholding taxes**

All payments by the Issuer in respect of the Senior Secured Notes, and by Note Guarantors in respect of the Note Guarantees, will be made without withholding or deduction for any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of any taxing authority within the

jurisdiction of incorporation of the Issuer and each Note Guarantor, any jurisdiction in which the Issuer or the relevant Note Guarantor is resident for tax purposes or any jurisdiction through which the payments are made, unless such withholding or deduction is required by law or by regulation or governmental policy having the force of law. In that event, the Issuer or the Note Guarantors, as the case may be, will, with certain exceptions as further described in “Description of the Senior Secured Notes,” pay such additional amounts that will result in receipt by the holder of each Note or any Note Guarantee, as the case may be, of such amounts as would have been received by such holder had no such withholding or deduction been required.

**Certain indenture provisions**

The indenture governing the Senior Secured Notes (the “indenture”) will contain covenants limiting the Issuer’s and the Note Guarantors’ ability to, among other things:

- create or incur liens;
- incur certain additional indebtedness or issue disqualified capital stock;
- pay dividends, redeem subordinated debt or make other restricted payments;
- make certain investments or acquisitions;
- enter into certain transactions with affiliates;
- merge, consolidate or sell, assign, transfer, lease or otherwise dispose of all or substantially all of the Group’s assets; and
- incur dividend or other payment restrictions affecting Fortescue’s restricted subsidiaries.

These covenants will be subject to a number of important exceptions and qualifications (including the ability to incur a significant amount of new and secured indebtedness) and are described in more detail in “Description of the Senior Secured Notes—Certain covenants.”

**Transfer restrictions**

The Issuer and Note Guarantors have not registered and do not intend to register the Senior Secured Notes or the Note Guarantees under the Securities Act, and the Senior Secured Notes and the Note Guarantees are subject to restrictions on transfer. For a discussion of these restrictions, see “Transfer restrictions.”

**Absence of public market for the Senior Secured Notes**

The Senior Secured Notes are a new issue of securities and there is currently no established trading market for the Senior Secured Notes. We do not intend to apply for a listing of the Senior Secured Notes on any securities exchange or an automated dealer quotation system. Accordingly, there can be no assurance as to the development or liquidity of any market for the Senior Secured Notes. The Initial Purchaser has advised us that they currently intend to make a market in the Senior Secured Notes. However, they are not obligated to do so, and any market making with respect to the Senior Secured Notes may be discontinued without notice.

**Form and denomination**

The Senior Secured Notes will be issued only in fully registered form, without coupons, in denominations of US\$2,000 of principal amount and integral multiples of US\$1,000 in excess thereof.

The Senior Secured Notes will be issued initially in the form of two or more global notes, including a Rule 144A global note and a Regulation S global note (the “Global Securities”), which will collectively represent the aggregate principal amount of the Senior Secured Notes being offered under this offering circular and will be in fully registered form without coupons. The global notes representing the Senior Secured Notes will be deposited with the custodians for the book-entry depositaries. The book-entry depositaries will issue depositary interests in respect of each global note representing the Senior Secured Notes to DTC and will then record such interests in their respective books and records in the name of DTC’s nominee. Ownership of book-entry interests in the depositary interests will be limited to persons who have accounts with DTC and transfers will be effected only through records maintained in book-entry form by DTC and its respective participants.

Except as set out under the section “Description of the Senior Secured Notes—Book-entry, delivery and form,” participants or indirect participants in DTC will not be entitled to receive physical delivery of notes in definitive form or to have notes issued and registered in their names and, while the Senior Secured Notes are in global form, will not be considered the owners or holders thereof under the indenture governing the Senior Secured Notes.

**Use of proceeds**

It is estimated that the net proceeds from this offering will be approximately US\$1,475 million after deducting estimated discounts and commissions to the Initial Purchaser and the fees and expenses of this offering. The Issuer will use the net proceeds to redeem the outstanding 2017 Unsecured Senior Notes and 2018 Unsecured Senior Notes and for general corporate purposes, including to repay, redeem, repurchase or otherwise retire outstanding indebtedness. The Issuer will send irrevocable redemption notices in respect of the outstanding 2017 Unsecured Senior Notes and 2018 Unsecured Senior Notes on the date of closing of this offering. The Issuer will deposit with the trustee for the 2017 Unsecured Senior Notes and 2018 Unsecured Senior Notes an amount sufficient to redeem the outstanding 2017 Unsecured Senior Notes and 2018 Unsecured Senior Notes and satisfy and discharge the respective indentures. The redemption date will be approximately 30 days after delivery of the redemption notices.

See “Use of proceeds” for further information.

**Governing law**

The indenture, the Senior Secured Notes, the Note Guarantees and the Intercreditor Agreement will be governed by the laws of the State of New York.

**Risk factors**

In evaluating an investment in the Senior Secured Notes, prospective investors should carefully consider, along with the other information in this offering circular, the specific factors set forth under “Risk factors” for risks involved with an investment in the Senior Secured Notes.

**Original Issue Discount**

If the issue price of the Senior Secured Notes is less than or equal to 98.50% of their principal amount, then the Senior Secured Notes will be issued with original issue discount (“OID”) for United States federal income tax purposes. In such case, United States holders (as defined in “Tax considerations—United States taxation—United States holders”) generally will be required to include such OID in their income as it accrues for United States federal income tax purposes in advance of receipt of any payment on the Senior Secured Notes to which the income is attributable. See “Tax considerations—United States taxation—United States holders—Original Issue Discount.”

## RISK FACTORS

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

### **Operational risks relating to the business of the Group**

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

The Group's business is highly dependent on the sale of a single product, iron ore, which, including sales of joint venture iron ore, constituted 98.1%, 98.8%, 99.2% and 99.5% of the Group's total operating sales revenue in the first half of fiscal 2015 and fiscal 2014, 2013 and 2012, respectively. Consequently, fluctuations in the market price of iron ore directly affect the pricing of iron ore and the Group's business, results of operations, profitability and financial position. The price of iron ore has demonstrated considerable volatility in recent years. For instance, after rising from a low of US\$57.50 per tonne on March 20, 2009 to reach an all-time high of US\$193.00 per tonne on February 15, 2011, the Platts CFR 62% index fell to US\$71.75 per tonne on December 31, 2014 and to US\$51.25 per tonne on March 31, 2015. As of April 17, 2015, the Platts CFR 62% index was US\$51.50 per tonne. This volatility is also reflected in Fortescue's average sales price for iron ore, which was US\$66 per dry metric tonne ("dmt") for the first half of fiscal 2015, as compared to US\$124 per dmt for the first half of fiscal 2014, and US\$106 per dmt for fiscal 2014, as compared to US\$114 and US\$131 per dmt for fiscal 2013 and 2012, respectively. Additionally, the Group's average revenue per wmt of Fortescue mined ore shipped decreased from US\$136.82 per wmt in fiscal 2011 to US\$120.39 per wmt, US\$103.94 per wmt and US\$97.00 per wmt in fiscal 2012, 2013 and 2014, respectively, and decreased from US\$113.43 per wmt in the first half of fiscal 2014 to US\$58.95 per wmt in the first half of fiscal 2015.

Global prices for iron ore, like other commodity prices, can fluctuate widely and are affected by many factors beyond the control of the Group, such as global iron ore production and inventory levels, imbalance in the supply and demand for iron ore and steel in local, national and global markets, actual and expected global macroeconomic and political conditions, inflation rates, exchange rates, consolidation in the steel industry (which could lead to a weaker position for iron ore suppliers in price negotiations), investments by commodity funds and others and actions of participants in the commodity markets. Global prices for iron ore are directly impacted by changes in the performance of the global steel industry, which is highly cyclical and volatile and may be impacted by vertical backward integration and the use of scrap in the future, each of which could reduce demand for, and the price of, global seaborne iron ore. Additionally, there are indications that supply in the global seaborne iron ore industry in the short-to-medium term will outweigh demand due to increased output in coming years as a result of increased iron ore production by large, low cost producers, including BHP Billiton Ltd. ("BHP Billiton"), Rio Tinto Group ("Rio Tinto") and Vale S.A. ("Vale"). See "—Operational risks relating to the business of the Group—Competition from the Group's principal competitors may adversely affect the Group's financial performance" below. Such an imbalance between supply and demand has had and may continue to have a downward pressure on iron ore prices that, in turn, may materially and adversely affect the production, earnings, asset values, financial position and growth prospects of the Group.

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

***Adverse economic developments in China could have a negative impact on the Group's business, which relies heavily on demand for seaborne iron ore in the Chinese market.***

China has been the main driver of global demand for iron ore over the last several years. According to Metalystics, in the year ended December 31, 2014, China accounted for approximately 58.4% of global iron ore consumption. Chinese-based purchasers of the Group's iron ore constituted 95.6%, 96.3%, 97.7% and 96.5% of the Group's total operating sales revenue in the first half of fiscal 2015 and fiscal 2014, 2013 and 2012, respectively. Consequently, the Group's business is highly dependent on, and highly exposed to changes in, demand for iron ore in China.

According to the National Bureau of Statistics of China, between calendar 2001 and 2013, China had an average annual GDP growth rate of approximately 10.0%. However, China's economic growth has slowed in recent years, with an annual GDP growth rate of approximately 7.4% in calendar 2014. Further slowing of Chinese economic growth as a result of deteriorating general economic conditions or otherwise, particularly if such contraction impacts sectors of the Chinese economy, such as the real estate sector, which is one of the principal consumers of steel in China, may result in lower demand for the Group's iron ore and lower iron ore prices, which could have an adverse effect on the Group's business, results of operations, profitability and financial position.

Unlike certain major competitors, the Group's sole product is iron ore and therefore, any decline in the demand for iron ore in China would have a direct and material impact on the Group's business and financial position. In addition, if the Chinese market is able to source more of its iron ore requirements domestically (for example, if volatility in the freight market negatively impacts the competitiveness of the Group's supply of iron ore) or from the Group's competitors in the seaborne iron ore industry, the Group may experience weakened demand for its iron ore. Recently, China has reduced tax rates imposed on domestic iron miners, which may increase Chinese demand for domestic iron ore. The occurrence of such circumstances could have a material adverse effect on the Group's business, results of operations, profitability and financial position.

***Competition from the Group's principal competitors may adversely affect the Group's financial performance.***

The supply of seaborne iron ore to the global market is dominated by three major suppliers, BHP Billiton, Rio Tinto and Vale, which collectively had a market share of approximately 62.5% as of December 31, 2014. These major competitors all have substantial existing infrastructure, leverage from scale and substantially greater financial resources and higher grade iron ore resources than the Group. As a result, they generally have a greater capacity than the Group to respond to competitive pressures and market dynamics in the seaborne iron ore market. There can be no assurance that the Group will be able to respond successfully to such competitive pressures or the competitive activities of the other major suppliers in its markets, which may drive down iron ore prices generally or the prices of iron ore at the same grade as those iron ore products principally sold by the Group, and adversely affect the Group's financial results and growth prospects.

Rio Tinto, BHP Billiton and Vale have recently announced increases in their iron ore production in the short-to-medium term. For instance, in January 2015, Rio Tinto announced iron ore production of 295.4Mt for the year ended December 31, 2014, and has indicated it will continue plans to expand production to 350-360Mtpa from its operations in the Pilbara region, while BHP Billiton announced a half-year production record of 113Mt for the first half of their fiscal year ended December 31, 2014. In July 2014, Vale also announced a program to expand its iron ore production over the next five years by approximately 46% to 453Mtpa for the year ended December 31, 2018 from 311Mt for the year ended December 31, 2013. Additionally, in November 2014, Roy Hill announced that it had completed more than two thirds of its 55Mtpa combined iron ore mine, port and rail project in the Chichester range of the Pilbara region with the first shipment expected to commence by the end of calendar 2015.

The expected increase in the production of seaborne iron ore may result in oversupply in the global seaborne iron ore market, which may in turn put further downward pressure on iron ore prices and adversely affect the Group's financial results and growth prospects.

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

Cost pressure may continue to occur in the industry for global seaborne iron ore. As the prices for global seaborne iron ore are determined by the global commodity markets in which the Group operates, Fortescue does not generally have the ability to offset any increase in cost pressure through corresponding price increases on the iron ore sold by the Group, which can adversely affect the Group's operating margins. Notwithstanding Fortescue's ongoing efforts to reduce costs, the inability to reduce costs sufficiently, or any timing lag between a decline in prices and the ability to reduce costs, may have an adverse impact on the Group's operating margins for an extended period.

The Group's operations are resource intensive and, as a result, its costs and operating margins may be adversely affected by the availability or cost of energy (including electric power), water, fuel (including natural gas and diesel fuel), tires or other key inputs. If the price of these inputs increases or the Group experiences interruptions in, or constraints on, its supply of energy, fuel, water or other key inputs increases, the Group's costs could increase and its results of operations could be adversely affected.

The Group's operations are located in a remote part of the Pilbara and, as a result, sources of power and water are not readily available. Because of the remote location of the site of the existing operations and the Group's limited ability to procure alternative sources for utilities, Fortescue may experience interruptions to the supply of electric power, water, diesel fuel or natural or compressed natural gas due to a variety of factors beyond the Group's control, including fluctuations in climate, inadequate infrastructure capacity, interruptions in supply due to equipment failure or other causes and the inability to extend contracts with the Group's suppliers on acceptable terms or at all. Any such interruptions, or any malfunctions with the Group's water processing or power generation plants, could interrupt the Group's operations and have an adverse effect on its business, results of operations, profitability and financial position.

***The seaborne iron ore mining industry is highly exposed to the cyclicity of global economic activity.***

The global seaborne iron ore mining industry primarily supplies iron ore to developing economies, particularly China, for use as a raw material in the production of steel. Industrial production tends to be the most cyclical and volatile component of global economic activity while, at the same time, investment in iron ore mining requires a substantial amount of funds in order to replenish reserves, expand and maintain production capacity, build infrastructure and preserve the environment. Sensitivity to industrial production, together with the need for significant long-term capital investments, are important sources of risk for the financial performance and growth of the Group and the global seaborne iron ore mining industry generally.

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

The exploration for and the development of mineral deposits involves significant risks that even a combination of careful evaluation, experience and knowledge cannot eliminate. The Group's production and exploration activities may be hampered by technical difficulties and failures, industrial and environmental accidents, industrial disputes, cost overruns, late delivery of supplies, unexpected shortages or increases in the cost of consumables, spare parts, plant and equipment, unanticipated metallurgical problems that affect extraction costs, unusual or unexpected geological formations or pressures, power interruption, critical equipment or transportation infrastructure failure, information technology failure, fire, explosions or other accidents, major weather events or acts of force majeure, land claims and compensation and other unforeseen contingencies. These factors, and any prolonged downtime or shutdowns of the Group's production or transportation facilities, could materially adversely affect the Group's ability to produce and ship iron ore, its ability to satisfy its contractual obligations under various supply contracts, its financial performance and its ability to pay the principal and interest on the Senior Secured Notes when due.

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

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

Mineral Resources estimates are capable of being directly reclassified as Ore Reserves under the JORC Code. Mineral Resources that are not Ore Reserves do not have demonstrated economic viability. A Mineral Resource is not the equivalent of a commercially mineable ore body or a reserve.

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

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

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

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

The terms and conditions of employment of the Group's operational employees engaged in port, rail and mining are currently covered by an enterprise agreement with four unions of operational employees, which was established in May 2013 and will expire in May 2017. Under the terms of the enterprise agreement, industrial action is unlawful when an in-term enterprise agreement is in place. However, there can be no assurance that a work slowdown, work limitation, work stoppage or related disruptions will not occur as a result of workplace safety or other unlawful industrial action that could adversely affect the Group's business, results of operations, profitability and financial position.

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

***The Group's performance may be impacted by the performance of its mining contractors and equipment suppliers.***

The Group has relationships with certain contractors and suppliers that support its operations, including its major mining contractor, Downer EDI, and its equipment suppliers, such as Caterpillar Financial

Australia Limited. See “Business description—Mining operations at the Chichester Hub—Mining services agreement” and “Business description—Mining operations at the Solomon Hub—Mining services agreement” for further information regarding the Group’s significant mining contracts. If such contractors and suppliers do not perform in accordance with their existing contracts and obligations in a manner that is consistent with the Group’s values and business strategy, the Group will be exposed to increased cost, disruption to operations, or another adverse impact that may affect the financial performance of the Group.

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

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

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

For instance, in fiscal 2014, the Group took over iron ore processing operations at the Solomon Hub from Leighton and at Christmas Creek from Crushing Services International Pty Ltd, in part due to the deaths of two contractor employees in August 2013 and December 2013 and serious injury to another contractor employee in October 2013. The Group may incur liability to third parties as a result of the actions of its contractors. The occurrence of one or more of these risks could adversely affect the Group’s business, results of operations, profitability and financial position.

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

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

Any sustained disruption to the availability of information technology system, or any cyber security attack that impacts information technology systems availability or the security and privacy of digital information, may have a material adverse impact on the operations of the Group and may affect the financial performance of the Group.

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

Mining, rail, port and construction operations in Australia are subject to a variety of general and industry-specific regulations concerning mining and processing, environmental requirements (including site specific environmental licenses, permits and statutory authorizations), the health and safety of employees, social impacts, land tenure and use, infrastructure creation and access, trade and export, royalties, taxation, accounting policies and other matters. The Group also operates in an industry that is subject to community and stakeholder expectations. In addition, certain types of operations require the design and use of mining and construction methods and equipment, submission of impact statements and approval thereof by government authorities. For instance, the Group will be required to rehabilitate the lands that it mines in accordance with applicable environmental laws and regulations. Estimates of ongoing rehabilitation costs, which are principally incurred as mining progresses, are significant and based principally on current legal and regulatory requirements that may change materially.

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

Changes to these laws and regulations may adversely affect the Group's operations and financial performance. If material additional expenditures are required to comply with such new laws and regulations or changes in existing ones, this could adversely affect the Group's existing business or any future expansion activities and the financial condition of the Group, including its ability to pay interest and principal on the Senior Secured Notes.

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

Further, a breach of the laws or regulations to which the Group is subject may result in increased litigation, the imposition of fines and penalties or the suspension or closure of mining operations or associated infrastructure. Certain laws and regulations are evolving in a manner that may mean stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. In addition, the Group cannot guarantee that, despite precautions, breaches of such regulations, whether inadvertent or not, or consequences of the Group's activities such as environmental pollution, will not subject it to liability that would materially or adversely affect the financial condition and results of operations of the Group and consequently, its ability to pay principal and interest on the Senior Secured Notes when due.

***The Group is subject to exchange rate risks.***

The Group's functional currency is the U.S. dollar and revenue from iron ore sales and a majority of the Group's financing arrangements are denominated in U.S. dollars. However, a significant portion of operating expenses for the Group, including expenses for the Group's current or future initiatives and projects to enhance operational efficiency, are incurred in Australian dollars. The Australian dollar has depreciated against the U.S. dollar in the last six months and as of December 31, 2014, June 30, 2014 and December 31, 2013, the noon buying rate was A\$1.00 = US\$0.8173, A\$1.00 = US\$0.9427 and A\$1.00 = US\$0.8929, respectively. As of April 10, 2015, the noon buying rate was A\$1.00 = US\$0.7674. The Group has not historically had a policy of entering into long-term hedging arrangements relating to changes or fluctuations in foreign exchange rates. Accordingly, appreciation of the Australian dollar against the U.S. dollar or prolonged periods of exchange rate volatility could adversely affect the Group's profitability and financial position and increase the effective costs of the Group's initiatives and projects to enhance operational efficiency. Even if the Group enters into hedging arrangements in the future, there can be no assurance that it will be successful in managing its exposure to exchange rate fluctuations.

***The introduction of a carbon emissions mechanism may affect the Group's operations and financial performance.***

On November 24, 2014, the Australian Federal Parliament passed a bill to implement an "Emissions Reduction Fund," which is intended to provide incentives for emissions reduction activities, rather than impose costs on emissions. The *Carbon Farming Initiative Amendment Act 2014* (Cth) expands the *Carbon Credits (Carbon Farming Initiative) Act 2011* (Cth).

The Emissions Reduction Fund will reward businesses, land owners, state and local governments, community organizations and individuals for undertaking meaningful action to reduce their carbon emissions through the issuing of credits for each tonne of emissions reduced and purchasing those credits back through a reverse auction process, with the first auction to commence on April 15, 2015. Credits may also be sold to individuals and organization wishing to offset their emissions. Participation in the crediting and purchasing aspects of the Emissions Reduction Fund is voluntary. In addition, from July 1, 2016, businesses that have direct emissions of more than 100,000 tonnes a year will be required to pay a penalty, however, the Australian Government is continuing to consult on arrangements for this 'safeguarding' mechanism and the rules and regulations providing for details of this mechanism are not expected to be released until late 2015.

The Group's costs, particularly its energy costs and costs of production, may increase as a result of the implementation of the Emissions Reduction Fund. Regulation of greenhouse gas emissions in China and other jurisdictions in which the Group's customers are located, as well as regulations passed in relation to international shipping, could also have an adverse effect on the demand for the Group's products, particularly as the production of steel from iron ore is a carbon intensive process. In addition, climate change, both from a physical standpoint and as a result of new legislation and regulations, may have other adverse impacts on the Group's operations or financial performance.

***The Group operates in regions that may be particularly vulnerable to the impacts of climate change.***

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

***The Pilbara is subject to unpredictable weather and cyclones that could result in production delays or increased costs for the Group.***

The Pilbara is exposed to adverse weather events, including cyclones. Cyclones are seasonal, occurring during the summer and autumn months with concentration around the January to March period. The number of cyclones per annum is variable but averages approximately three per season. Cyclones create heavy rain and high winds, which could cause the shutdown of existing mining activities and the ship-loading facilities at Port Hedland or interruptions to rail operations, and could result in delays or increased costs for the Group's operations. Future cyclones or other unpredictable weather events could result in production delays or increased costs for the Group.

***The Group is involved in ongoing legal proceedings that, if resolved to its detriment, could negatively affect its business, results of operations, profitability and financial position.***

The Group is exposed to potential legal and other claims or disputes in the course of its business, including contractual disputes, property damage, personal liability claims and regulatory actions. the Group's business, results of operations and financial condition may be adversely affected by legal proceedings, the

outcome of which cannot be predicted with certainty. For a description of the Group's current material legal proceedings, see "Business description—Legal proceedings."

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

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

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

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

The Group's current development projects include the first stage of the Iron Bridge magnetite project and the construction of eight VLOCs. See "Business description—Sales and marketing—Shipping" and "Business description—Rail and port transportation infrastructure—Port infrastructure." The Group intends to implement these development activities while it operates its existing business. Although the Group has implemented rigorous protocols designed to minimize disruption of its existing operations and ensure the safety of its staff, equipment and shipping customers during such activities, no assurance can be given that these measures will be successful. If the operations of its existing business are disrupted or if the Group is subject to liability for industrial accidents during construction, the Group's results of operations and cash flows may be adversely affected, which may impair the Group's ability to make payments of principal and interest on the Senior Secured Notes when due.

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

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

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

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

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

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

***The feasibility of new mineral projects may change over time.***

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

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

#### **Risks relating to the Senior Secured Notes**

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

The Group has substantial financial indebtedness and debt service obligations and cannot assure you that it will have sufficient cash flow to pay the interest expenses or principal associated with its outstanding indebtedness. As of December 31, 2014, the Group had an aggregate principal amount of US\$9,103 million of borrowings and finance lease liabilities outstanding (carrying value of US\$9,051 million, which is net of borrowing costs and inclusive of interest accrued and unpaid as of December 31, 2014) and, after giving effect to the issuance of the Senior Secured Notes and the application of the proceeds therefrom, assuming that all of the outstanding 2017 Unsecured Senior Notes and 2018 Unsecured Senior Notes are redeemed and that the balance of the net proceeds of the offering are used to repay, redeem, repurchase or otherwise retire outstanding indebtedness, the Group would have had US\$9,331 million of borrowings and finance lease liabilities as of December 31, 2014. Additionally, the Group may be able to incur a significant amount of additional indebtedness pursuant to the indenture governing the Senior Secured Notes in the future, including additional secured indebtedness. See the section entitled "Description of the Senior Secured Notes."

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

(vii) increasing the Group's cost of borrowing; and (viii) making it more difficult for the Group to satisfy its obligations with respect to the Senior Secured Notes and its other debt.

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

***Despite restrictions in the indenture governing the Senior Secured Notes, the Group will still be able to incur substantial additional indebtedness. This could create considerable leverage and related risks.***

The Group may be able to incur a significant amount of additional indebtedness pursuant to the indenture governing the Senior Secured Notes in the future, including additional secured indebtedness. Although covenants under the indenture governing the Senior Secured Notes will limit the Group's ability to incur additional indebtedness, these restrictions are subject to a number of qualifications and exceptions and, under certain circumstances, debt incurred in compliance with these restrictions could be substantial. In addition, subject to certain exceptions, the Group is not required to repay any existing indebtedness with the proceeds of such additional indebtedness. The indenture governing the Senior Secured Notes will also allow the Group to incur certain additional secured debt which will rank *pari passu* in right of payment and the right of payment of holders of the Senior Secured Notes in the event of any bankruptcy, liquidation or reorganization of the Issuer, Fortescue or the Note Guarantors may be diluted by any increase in the secured indebtedness. The indenture governing the Senior Secured Notes will also allow Fortescue's Unrestricted Subsidiaries (as defined under "Description of the Senior Secured Notes") to incur additional debt, all of which would be effectively structurally senior to the Senior Secured Notes. In addition, the indenture governing the Senior Secured Notes will not prohibit the Group from incurring obligations that do not constitute indebtedness as defined therein. To the extent that the Group incurs additional indebtedness or such other obligations, the risk associated with substantial additional indebtedness described above, including the Group's possible inability to service its debt, will increase. See the sections entitled "Description of the Senior Secured Notes" and "Description of other indebtedness."

***Not all of Fortescue's subsidiaries are guarantors and therefore the Senior Secured Notes will be structurally subordinated in right of payment to the indebtedness and other liabilities of Fortescue's existing and future subsidiaries that do not guarantee the Senior Secured Notes. Your right to receive payments on the Senior Secured Notes could be adversely affected if any of these non-guarantor subsidiaries declare bankruptcy, liquidate or reorganize.***

The Senior Secured Notes and the Note Guarantees will be structurally subordinated to all of the liabilities of Fortescue's subsidiaries that do not guarantee the Senior Secured Notes and would be required to be paid before the holders of the Senior Secured Notes have a claim, if any, against those subsidiaries and their assets. Therefore, if there was a dissolution, bankruptcy, liquidation or reorganization of any such subsidiary, the holders of the Senior Secured Notes would not receive any amounts with respect to the Senior Secured Notes from the assets of such subsidiary until after the payment in full of the claims of creditors, including trade creditors and preferred shareholders, of such subsidiary.

Fortescue conducts a significant portion of its business operations through its subsidiaries. Fortescue's ability to meet its obligations under its debt, in part, depends on the earnings and cash flows of its subsidiaries and the ability of its subsidiaries to pay dividends or advance or repay funds to it. The ability of these subsidiaries to make dividend payments to Fortescue will be affected by, among other factors, the obligations of these entities to their creditors, requirements of corporate and other law, and restrictions contained in agreements entered into by or relating to these entities.

As of December 31, 2014, subsidiaries of Fortescue that will be designated as Unrestricted Subsidiaries under the Senior Secured Notes had total assets of 3% of Fortescue's consolidated total assets, and in calendar 2014, generated 3% of Fortescue's consolidated net income. As of December 31, 2014, such subsidiaries had no borrowings or finance lease liabilities.

In addition, Fortescue's subsidiaries that provide, or will provide, Note Guarantees will be automatically released from those guarantees upon the occurrence of certain events, including the following:

- the designation of that subsidiary guarantor as an "Unrestricted Subsidiary;"
- upon legal or covenant defeasance pursuant to the terms of the indenture governing the Senior Secured Notes; or
- the sale or other disposition, including the sale of substantially all the assets, of that subsidiary guarantor.

If any Note Guarantee is released, no holder of the Senior Secured Notes will have a claim as a creditor against such subsidiary, and the indebtedness and other liabilities, including trade payables and preferred stock, if any, whether secured or unsecured, of that subsidiary will be effectively senior to the claim of any holders of the Senior Secured Notes.

***Insolvency proceedings will be governed by Australian insolvency laws, in the case of the Issuer and Note Guarantors incorporated in Australia, which are different from the insolvency laws of certain other jurisdictions.***

Fortescue and other Note Guarantors representing a majority of the total assets of the Group as of December 31, 2014, are incorporated in Australia, while FMG International Shipping is incorporated in Singapore, GMF Insurance is incorporated in Guernsey and FMG America is incorporated in Delaware. The insolvency laws applicable in Australia are different from the insolvency laws of the United States, Singapore, Guernsey and certain other jurisdictions. In particular, the voluntary administration procedure under the Corporations Act, which provides for the potential re-organization of an insolvent company, differs significantly from Chapter 11 under the U.S. Bankruptcy Code. If the Issuer becomes insolvent, the treatment and ranking of holders of the Senior Secured Notes, its other creditors and shareholders under Australian law may be different than the treatment and ranking of holders of the Senior Secured Notes, its other creditors and shareholders if it were subject to the bankruptcy laws of the United States or certain other jurisdictions. For instance, the High Court of Australia has ruled that shareholders may, in certain circumstances, rank alongside unsecured creditors in a winding-up where shareholders have an independent damages claim against the debtor company arising out of the purchase of their shares.

The Note Guarantors incorporated in Singapore and Guernsey will also be subject to insolvency laws in such jurisdictions, which may differ materially from the insolvency laws of Australia and the United States. The differences in insolvency laws in Australia, Singapore, Guernsey, the United States and other jurisdictions may impact your ability to recover amounts due under the Senior Secured Notes from the Note Guarantors following insolvency of such Note Guarantors.

***The Note Guarantees, along with any future guarantees of the Senior Secured Notes, will be subject to certain limitations on enforcement and may be limited by applicable law or subject to certain defenses that may limit their validity and enforceability.***

Fortescue and other Note Guarantors representing a majority of the total assets of the Group as of December 31, 2014, are incorporated in Australia, while FMG International Shipping is incorporated in Singapore, GMF Insurance is incorporated in Guernsey and FMG America is incorporated in Delaware. The Note Guarantors will guarantee the payment of the Senior Secured Notes on a senior secured basis, which will provide the holders of the Senior Secured Notes with a direct claim against each Note Guarantor. However, enforcement of the Note Guarantees will be subject to certain generally available defenses. These laws and defenses include those that relate to corporate benefit, fraudulent conveyance or transfer, voidable preference or similar laws, regulations or defenses affecting the rights of creditors generally.

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

- are insolvent transactions;

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

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

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

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

Note Guarantors incorporated in Singapore, Guernsey and the United States may also be subject to similar or additional limitations on enforcement or legal defenses that may limit the validity and enforceability of their respective Note Guarantees. Such local law requirements can make the Note Guarantees and any judgments obtained in the United States difficult or impossible to enforce in Australia, Singapore or Guernsey. These contractual and/or statutory limitations could significantly reduce the amount that can be claimed or recovered from these Note Guarantees. If any of the Note Guarantees are avoided, it is possible that you will be left with a claim solely against the Issuer.

***Restrictions and covenants in the indenture governing the Senior Secured Notes will limit the ability of the Issuer and the Note Guarantors to take certain actions and impose consequences in the event of a failure to comply with such restrictions and covenants.***

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

- incur additional indebtedness and guarantee indebtedness, which may limit the Issuer's and the Note Guarantors' ability to finance any additional capital expenditures for its existing operations and to finance its expansion activities (if necessary);
- pay dividends on or make distributions with respect to capital stock or make certain other restricted payments;
- enter into agreements that restrict distributions from restricted subsidiaries;
- sell or otherwise dispose of assets, including capital stock of restricted subsidiaries;
- enter into transactions with affiliates;
- create or incur liens;
- enter into sale/leaseback transactions;
- merge, consolidate or sell substantially all of the Issuer's and the Note Guarantors' assets;
- make investments and acquire assets;
- make certain payments on indebtedness;

- issue certain preferred membership interests or similar equity securities; and
- conduct certain business operations other than as set forth in the indenture governing the Senior Secured Notes.

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

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

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

***Service of process, enforcement of judgments and bringing of original actions against each member of the Group or its directors, executive officers and managers may be difficult.***

Your ability to bring an action against a member of the Group may be limited. Each member of the Group (other than FMG America) is a corporation incorporated outside the United States.

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

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

In addition, your ability to bring action against the accountants of the Group may be limited. As described under “Independent accountants,” the liability of the Group’s accountant is subject to certain limitations under Australian law.

***If the issue price of the Senior Secured Notes is less than or equal to 98.50% of their principal amount, then the Senior Secured Notes will be issued with OID for United States federal income tax purposes.***

If the issue price of the Senior Secured Notes is less than or equal to 98.50% of their principal amount, then the Senior Secured Notes will be issued with OID for United States federal income tax purposes. In such case, United States holders (as defined in “Tax considerations—United States taxation—United States holders”), whether on the cash or accrual method of accounting, generally will be required for

United States federal income tax purposes to include such OID in gross income (as ordinary income) as it accrues on a constant yield to maturity basis in advance of receipt of any payment on the Senior Secured Notes to which the income is attributable. See “Tax considerations—United States taxation—United States holders—Original Issue Discount.”

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

Upon the occurrence of specified kinds of change of control events, the Issuer will be required to (a) offer to repurchase all outstanding Senior Secured Notes and the Unsecured Senior Notes at a price equal to 101% of the aggregate principal amount of such notes, together with accrued and unpaid interest, if any, to the date of repurchase and (b) repay all amounts owing under the Senior Secured Credit Facility. Similarly, under certain circumstances, the Issuer may be required to make an offer to repurchase Senior Secured Notes and the Unsecured Senior Notes if the Group makes certain asset sales. In addition, the terms of the Senior Secured Credit Facility require that the proceeds of certain asset sales must be used to repay the Senior Secured Credit Facility before any other indebtedness, including the Senior Secured Notes.

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

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

***Holders of the Senior Secured Notes may not be able to determine when a change of control giving rise to their right to have the Senior Secured Notes repurchased has occurred following a sale of “substantially all” of the Group’s assets.***

The definition of “Change of Control” in the indenture governing the Senior Secured Notes will include a phrase relating to the sale of “all or substantially all” of the Group’s assets. There is no precise established definition of the phrase “substantially all” under applicable law. Accordingly, the ability of a holder of Senior Secured Notes to require the Issuer to repurchase its Senior Secured Notes as a result of a sale of less than all of the Group’s assets to another person may be uncertain.

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

The Senior Secured Notes are being offered and sold pursuant to an exemption from registration under U.S. and applicable state securities laws, and we do not currently intend to register the Senior Secured

Notes in the United States. The holders of the Senior Secured Notes will not be entitled to require us to register the Senior Secured Notes in the United States for resale. Therefore, you may transfer or resell the notes in the United States only in a transaction registered under or exempt from the registration requirements of the United States and applicable state securities laws. Accordingly, you may be required to bear the risk of your investment for an indefinite period of time. See the section entitled “Transfer restrictions” in this offering circular.

***It is not certain that an active trading market will develop for the Senior Secured Notes. The failure of a market to develop for the Senior Secured Notes could affect the liquidity and value of the Senior Secured Notes.***

The Senior Secured Notes will be a new issue of securities, and there is no existing market for the Senior Secured Notes. We expect the Senior Secured Notes to be eligible for trading by “qualified institutional buyers,” as defined under the Rule 144A, but we do not intend to list the Senior Secured Notes on any national securities exchange or include the Senior Secured Notes in any automated quotation system. An active market may not develop for the Senior Secured Notes, and there can be no assurance as to the liquidity of any market that may develop for the Senior Secured Notes. If an active market does not develop, the market price and liquidity of the Senior Secured Notes may be adversely affected. The Group has been informed by the Initial Purchaser that the Initial Purchaser intends to make a market in the Senior Secured Notes after this offering is completed. However, the Initial Purchaser is under no obligation to do so and may cease its market making activities at any time in its sole discretion.

The liquidity of the trading market, if any, in the Senior Secured Notes, and the market price quoted for the Senior Secured Notes, may be adversely affected by changes in the overall market for high yield securities, changes in the Group’s financial performance or prospects or in the financial performance or prospects of companies in the Group’s industry generally, the number of holders of the Senior Secured Notes, prevailing interest rates, and the interest of securities dealers in making a market in the Senior Secured Notes. Historically, the market for high-yield debt has been subject to disruptions that have caused substantial fluctuations in the prices of these securities. The market for the Senior Secured Notes may be subject to similar disruptions. Any such disruptions may adversely affect the value of the Senior Secured Notes. As a result, the Group cannot assure you that an active trading market will develop or be maintained for the Senior Secured Notes. If an active market does not develop or is not maintained, the market price and liquidity of the Senior Secured Notes may be adversely affected.

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

The Group’s debt currently has a non-investment grade rating, and any rating assigned could be lowered or withdrawn entirely by a rating agency if, in that rating agency’s judgment, future circumstances relating to the basis of the rating, such as adverse changes, so warrant. Consequently, real or anticipated changes in the Group’s credit rating will generally affect the market value of the Senior Secured Notes. Credit ratings are not recommendations to purchase, hold or sell the Senior Secured Notes. Additionally, credit ratings may not reflect the potential effect of risks relating to the structure or marketing of the Senior Secured Notes.

### **Risks relating to the Collateral**

***Certain collateral may not be granted if consents are not obtained or may be subject to the terms of certain contracts.***

Pursuant to the terms of the Security Documents, if the consent of any contract counterparty is required under the terms of certain material contracts (“Material Contracts”) for the granting of the security interest under the Security Documents, the Issuer and the Note Guarantors are required to use all reasonable endeavors (without incurring material commercial detriment) to obtain such consent, provided that if having used such reasonable endeavors for so long as the Collateral Agent requires such consent is not obtained, it shall not be an event of default.

The Group has, since October 18, 2012, undertaken the process of seeking the consent of each relevant counterparty. As of the date of this offering circular, such consents have either been obtained or the requirement to continue to seek such consent has been waived by the Collateral Agent.

In the minority of cases where consent has not been obtained despite using all reasonable endeavors, such Material Contracts and any associated assets do not and will not form part of the Collateral. In addition, for future Material Contracts, it is possible that the Group will not be able to obtain the necessary counterparty consent despite expending all reasonable efforts, and the rights and interests under such future Material Contracts and any associated assets will not be granted as security and will be excluded from the Collateral securing the Senior Secured Notes.

***The Group may not have sufficient proceeds from the sale of any assets serving as collateral securing the Senior Secured Notes to satisfy the amounts due on the Senior Secured Notes in the event of a default.***

The proceeds of sale of any assets serving as collateral securing the Senior Secured Notes may not be sufficient to repay all of the Senior Secured Notes in the event of default or following a foreclosure upon the collateral or liquidation of the Group's assets. The value of the collateral securing the Senior Secured Notes and the amount to be received by the holders will depend on many factors, including, among others, market and economic conditions at the time of sale, the availability of buyers, the quantity of assets being sold, the ability to sell the collateral in an orderly manner, the speed at which the assets are to be sold and other factors. There is also a risk that some of the assets may only be usable, and thus retain value, as part of the operating business of the Group. Accordingly, any sale of such asset separate from the sale of certain operating businesses of the Group may not be feasible or of significant value.

If the proceeds are not sufficient to satisfy payments due on the Senior Secured Notes, then holders (to the extent not repaid from the proceeds of the sale of the collateral) would only have an unsecured claim against the remaining assets of the Group. The remaining assets of the Group may not be sufficient to satisfy all unsecured claims in full (including any claims from other unsecured creditors).

***The Group will retain the ability to dispose of certain assets serving as collateral securing the Senior Secured Notes which may reduce the value of the collateral securing the Senior Secured Notes.***

The indenture governing the Senior Secured Notes permits certain members of the Group to complete a sale of assets which form part of the collateral securing the Senior Secured Notes. Except with respect to a sale of "all or substantially all" of the Group's assets, the indenture does not limit the scope of permitted asset sales, so long as the proceeds of such sales are applied in accordance with the indenture to make capital expenditures, to repay indebtedness, to reinvest in replacement assets or for other permitted purposes. From time to time, the Group may enter into strategic partnerships or consummate asset sales as permitted under the indenture. In the event that an asset is sold or otherwise released, the security interest in that asset will be released and the value of the collateral securing the Senior Secured Notes may decrease.

***The Collateral Agent, acting at the direction of the parties to the Senior Secured Credit Facility, will control most actions with respect to the Collateral that secures the Senior Secured Notes.***

The rights of holders of the Senior Secured Notes with respect to the Collateral are subject to an Intercreditor Agreement among the Collateral Agent, the Facility Agent to the Senior Secured Credit Facility, the Trustee, who is the authorized representative for the Senior Secured Notes offered hereby, each grantor party thereto and each additional representative from time to time party thereto. Under the Intercreditor Agreement, any actions that may be taken with respect to the Collateral, including the ability to cause the commencement of enforcement proceedings against the Collateral, to control such proceedings and to approve amendments to releases of the Collateral from the lien of, and waive past defaults under, such documents relating to the Collateral, will be controlled by the Collateral Agent, acting at the direction of the Facility Agent to the Senior Secured Credit Facility.

In addition, the Senior Secured Credit Facility and the indenture will permit the Issuer or the Note Guarantors to issue additional series of Senior Secured Notes or other indebtedness that also have a first

priority lien (subject to Permitted Liens, the Intercreditor Agreement and the Security Documents) on the Collateral. After the earliest to occur of: (1) the termination and discharge of the Senior Secured Credit Facility, (2) the Cut-Off Date (as defined in “Description of the Intercreditor Agreement”) and (3) the date on which the outstanding principal amount of loans under the Senior Secured Credit Facility is less than US\$900,000,000, at which time the Facility Agent to the Senior Secured Credit Facility will no longer have the right under the Intercreditor Agreement to direct the actions of the Collateral Agent with respect to the Collateral, that right passes to the authorized representative of holders of the next largest outstanding principal amount of Indebtedness secured by a first priority lien on the Collateral. If the Issuer issues additional first priority lien indebtedness in the future in an aggregate principal amount that is greater than the Senior Secured Notes offered hereby and then outstanding, then the authorized representative of such holders of such additional indebtedness would be permitted to direct the Collateral Agent to exercise rights under the Intercreditor Agreement, rather than the authorized representative for the Senior Secured Notes offered hereby.

Under the Intercreditor Agreement, the Trustee, as authorized representative of holders of the Senior Secured Notes offered hereby, may not object, following the filing of a bankruptcy petition, to any debtor-in-possession financing or to the use of the shared collateral to secure that financing, subject to conditions and limited exceptions. After such a filing, the value of the Collateral could materially deteriorate, and holders of the Senior Secured Notes would be unable to raise an objection.

The Collateral will also be subject to any and all exceptions, defects, encumbrances, liens and other imperfections as may be accepted by the Collateral Agent, acting at the direction of the Facility Agent to the Senior Secured Credit Facility, prior to termination of the Senior Secured Credit Facility. The existence of any such exceptions, defects, encumbrances, liens and other imperfections could adversely affect the value of the Collateral as well as the ability of the Collateral Agent to realize or foreclose on the Collateral for the benefit of holders of the Senior Secured Notes. The Issuer, the Note Guarantors and the Initial Purchaser have not analyzed the effect of, or participated in any negotiations relating to, such exceptions, defects, encumbrances, liens and imperfections, and the existence thereof could adversely affect the value of the Collateral that will secure the Senior Secured Notes and Note Guarantees as well as the ability of the Collateral Agent to realize or foreclose on the Collateral for the benefit of holders of the Senior Secured Notes.

***There are circumstances other than repayment or discharge of the Senior Secured Notes under which the Collateral will be released automatically, without your consent or the consent of the Trustee, and you may not realize any payment upon disposition of such Collateral.***

Under various circumstances, the Collateral will be released automatically, including a sale, transfer or other disposal in a transaction not prohibited under the indenture and, with respect to the Collateral upon which the Senior Secured Notes and the Note Guarantees have a lien, upon any release in connection with a foreclosure or exercise of remedies with respect to that Collateral by the Collateral Agent, acting at the direction of the Facility Agent to the Senior Secured Credit Facility, prior to the termination of the Senior Secured Credit Facility. Even though holders of the Senior Secured Notes share ratably with the lenders under the Senior Secured Credit Facility, the Collateral Agent, acting at the direction of the Facility Agent to the Senior Secured Credit Facility, until the termination of the Senior Secured Credit Facility, will initially control actions with respect to the Collateral, whether or not holders of the Senior Secured Notes agree or disagree with those actions. See “—The Collateral Agent, acting at the direction of the parties to the Senior Secured Credit Facility, will control most actions with respect to the Collateral that secures the Senior Secured Notes.”

***Rights of holders of the Senior Secured Notes in the Collateral may be adversely affected by the failure to perfect security interests in the Collateral.***

Applicable law provides that a security interest in certain tangible and intangible assets can only be properly perfected and its priority retained through certain actions undertaken by the secured party.

In Australia, perfection of security interests granted by an Australian entity or granted by any entity over collateral which is “personal property” for the purposes of the *Personal Properties Securities Act 2009* (Cth) (the “PPSA”) located in Australia is achieved through registration on a central register established

under the PPSA. However, there are certain security interests, such as purchase money security interests, that are afforded ‘super priority’ under the PPSA. In addition, in respect of certain types of collateral (such as bank accounts and inventory), a security interest which is perfected by a person having possession or taking ‘control’ of the relevant collateral will have priority over registered security interests.

The creation, perfection and enforcement of security over collateral which is not PPSA personal property (such as interests in land, fixtures attached to land, statutory licenses such as mining tenements and petroleum licenses, water rights and general law liens) is not governed by the PPSA. The creation, perfection and enforcement of these types of excluded property are governed by, among others, the real property and mining title legislation applying in the States and Territories of Australia and the Corporations Act. In relation to collateral over which the security interests are not perfected, a subsequent perfected security interest may take priority over the prior unperfected security interest.

There can be no assurance that the Collateral Agent will have taken or will take all actions necessary to create properly perfected security interests in the collateral, which may result in the loss of the priority of the security interest in favor of the holders of the Senior Secured Notes to which they would otherwise have been entitled.

In particular, in relation to collateral other than PPSA personal property, the security interests in favor of the Collateral Agent will only be perfected by registration under the applicable real property and mining titles legislation in relation to certain material mining tenements and real property.

In addition, the mortgages and security interests granted in favor of the Collateral Agent to secure the Senior Secured Notes are not in all cases required to be created or perfected by the date of issuance of the Senior Secured Notes (the “Issue Date”). See “Description of the Senior Secured Notes—Security” and “Description of Collateral.” If any Australian security provider were to become subject to liquidation proceedings, any security interests perfected after the Issue Date would face a greater risk of being invalidated than if they had been perfected on or about the Issue Date. Security interests perfected after the Issue Date may be treated under Australian insolvency law as if they were delivered to secure previously existing indebtedness. Where administration or liquidation proceedings are commenced within 6 months of perfection of the security interest, a security interest given to secure previously existing indebtedness is materially more likely to be avoided as a preference by a liquidator than if delivered and promptly perfected on or about the Issue Date. Accordingly, if administration or liquidation proceedings were commenced after the Issue Date of the Senior Secured Notes and the security interests had been perfected less than 6 months before commencement of such administration or liquidation proceedings, the security interests securing the Senior Secured Notes may be particularly subject to challenge as a result of having been delivered after the Issue Date. The liquidator would have to prove that the Issuer or Note Guarantor granting such security interest was insolvent at the time of granting the security interest. Under Australian law, a company is insolvent when it is unable to pay its debts as and when they fall due.

If the liquidator establishes the necessary elements of an “unfair preference,” the onus would then fall upon the secured party to show that:

- the transaction was entered into in good faith, meaning without knowledge that it would prejudice creditors;
- it had no reasonable grounds to suspect that the relevant guarantor was insolvent or would become insolvent and a reasonable person in the secured party’s circumstances would have had no such ground for so suspecting; and
- the secured party provided valuable consideration.

To the extent that an “unfair preference” challenge succeeded, holders of the Senior Secured Notes would lose the benefit of the security that the collateral was intended to provide.

In addition, where a company goes into liquidation, any security interest which is registered after the latest of:

- six months before the commencement of the liquidation or any preceding administration; or
- 20 business days after the security interest was granted; or
- a later time ordered by the court,

would vest in the grantor company and become available to unsecured creditors.

In addition, applicable law provides that certain PPSA personal property acquired after the grant of a general security interest, such as equipment subject to a certificate of title, serial numbered property which must be registered by serial number under the PPSA and certain proceeds, can only be perfected at the time such property and rights are acquired and identified.

Similar issues may arise under the laws of Singapore, Guernsey and Delaware as a result of failure to perfect security interests over that portion of the Collateral held by FMG International Shipping, GMF Insurance and FMG America, respectively.

The Company and the Note Guarantors have limited obligations to perfect the security interest of the holders of the Senior Secured Notes in specified collateral. In particular, as mentioned above, in relation to property other than PPSA personal property, the security interests in favor of the Collateral Agent, if granted, will be perfected only in relation to certain material mining tenements and real property. Further, there can be no assurance that the Collateral Agent will monitor, or that we will inform the Trustee or the Collateral Agent of, the future acquisition of property and rights that constitute collateral, and that the necessary action will be taken to properly perfect the security interest in such after-acquired collateral. Neither the Trustee nor the Collateral Agent has an obligation to monitor the acquisition of additional property or rights that constitute collateral or the perfection of any security interest. Such failure may result in the failure to grant a security interest in after-acquired property or the loss of the security interest in the collateral or the respective priority of the security interest in favor of the Senior Secured Notes against third parties.

***Rights of holders of the Senior Secured Notes in Collateral may be adversely affected by administration proceedings in Australia or other applicable jurisdictions.***

The right of the Collateral Agent to take possession and control of and dispose of the collateral securing the Senior Secured Notes offered hereby upon acceleration is likely to be significantly impaired by the insolvency law of Australia and, to a lesser extent, Singapore, Guernsey and Delaware, if administration proceedings are commenced by or against any security provider in its respective jurisdiction of incorporation prior to enforcement of the relevant security interest.

During the period of the administration of a company in Australia, a statutory moratorium prevents certain actions from being taken, except with the administrator's written consent or with leave of the court, including:

- the commencement or continuation of any action or proceeding against the company; or
- the enforcement of any security interest over the property of the company.

There are a number of exceptions to the moratorium, the main one being that a secured creditor with a security interest over the whole, or substantially the whole, of the company's property may enforce it during the first 13 business days following the date the administrator gave notice to the secured creditor of its appointment, or, if notice is not required, following the date administration begins (the "decision period"). If such a security interest is not enforced by the secured creditor during the decision period, the secured creditor will be caught by the general moratorium. In addition, to obtain the benefit of the exception, the secured creditor with a security interest over the whole, or substantially the whole, of the company's property must enforce the security interest over all of the property secured by that security interest.

In practice there are often significant challenges for a secured creditor in obtaining an adequate level of comfort that it will in fact hold security over "the whole or substantially the whole" of a company's property or that it will in fact be able to enforce over "the whole or substantially the whole" of a company's property.

Where a significant part of a company's property is made up of government licenses or contractual rights (such as leases and sales and other contracts), which commonly prohibit or restrict security or assignment, it may be that the secured creditor does not in fact have a security interest over "the whole or substantially the whole" of such company's property. No guidance has been given by the legislation or the courts as to how the words "the whole or substantially the whole" should be interpreted; they are not

defined in the Act, nor have they been judicially considered in this context. In the case of the Company and the Note Guarantors, certain significant assets consist of rights and interests under contracts or government licenses (such as mining tenements) that are material to the operations of the Group. Some of these contracts, including certain material contracts of the Company and Note Guarantors, contain restrictions on the granting of a security interest over the Company's or the relevant Guarantor's rights and interests under that contract and, in certain cases, in the assets the subject of that contract. In addition, Governmental approval under the applicable mining legislation is required in relation to the grant of security over most mining tenements, and to any transfer of such mining tenements (including pursuant to enforcement of security). In relation to certain contracts of the Company and the Note Guarantors, the Company or relevant Guarantor is required to use all reasonable endeavors to obtain the counterparty's consent to the grant of a security interest over the Company's or applicable Guarantor's rights under that contract (and, in certain cases, the assets the subject of that contract). However, if such consents are not obtained, and if the Collateral Agent has waived or were to waive such requirement, this would result in no security being granted over the applicable assets. If no security were to be granted over such assets and, during the course of administration proceedings, a court were to deem that such assets comprised a significant part of the Company's and the Guarantors' property, this may result in the court declining to view the security interest created in favor of the Collateral Agent as applying to "the whole or substantially the whole" of the Company's and the Guarantors' assets, in which case the Collateral Agent would be caught by the statutory moratorium and would be prevented from enforcing the security interest or commencing proceedings against the Company and the Note Guarantors during the moratorium period.

If a secured party is not permitted to enforce its security interest as a result of the statutory moratorium, Australian law permits the administrator to continue to retain and to use the secured property, and the proceeds, products, rents or profits of the secured property during the administration period. Disposal of the company's property is only permitted:

- in the ordinary course of the company's business;
- with the written consent of the secured creditor; or
- with leave of the court and, in this regard, leave will only be granted if arrangements have been made to adequately protect the secured party's interests.

An administrator is personally liable for debts it incurs in the performance or exercise of any of its functions and powers as administrator. The administrator is entitled to be indemnified out of the company's property for debts and liabilities it has incurred as administrator, as well as its own remuneration. This right of indemnity is secured by a lien on the company's property. The administrator's lien generally has priority over all the company's unsecured debts and debts secured by a security interest over circulating assets (typically accounts or inventory).

At the end of the administration period, the company will either be placed into deed of company arrangement (in order to implement a restructuring or rehabilitation of the company or to wind down a company and deal with its creditors) or liquidation.

A deed of company arrangement binds all creditors of the company in respect of all claims arising on or before commencement of the administration. However, it does not affect the rights of a secured creditor, except:

- where the secured creditor voted in favor of the execution of the deed and the deed contains provisions in respect of the secured creditor; or
- the court otherwise orders.

Similarly, when a company is placed into liquidation, the statutory moratorium is lifted and the secured creditor can enforce its security interest over the property of the company, except to the extent that the court otherwise orders. The placing into administration of the Company or Note Guarantors could have a material adverse effect on the ability of the holders of the Senior Secured Notes to benefit from or enforce any security interests over the Collateral.

## **USE OF PROCEEDS**

It is estimated that the net proceeds from this offering will be approximately US\$1,475 million after deducting estimated discounts and commissions to the Initial Purchaser and the fees and expenses of this offering. The Issuer will use the net proceeds to redeem the outstanding 2017 Unsecured Senior Notes and 2018 Unsecured Senior Notes and for general corporate purposes, including to repay, redeem, repurchase or otherwise retire outstanding indebtedness from time to time, through tender offers, redemptions, purchases in privately negotiated transactions, open market purchases or a combination thereof. The Issuer will send irrevocable redemption notices in respect of the outstanding 2017 Unsecured Senior Notes and 2018 Unsecured Senior Notes on the date of closing of this offering. The Issuer will deposit with the trustee for the 2017 Unsecured Senior Notes and 2018 Unsecured Senior Notes an amount sufficient to redeem the outstanding 2017 Unsecured Senior Notes and 2018 Unsecured Senior Notes and satisfy and discharge the respective indentures. The redemption date will be approximately 30 days after delivery of the redemption notices.

## CAPITALIZATION

The financial data presented below represents historical consolidated financial information for the Group as of December 31, 2014, which has been derived from and is qualified in its entirety by reference to, the unaudited consolidated interim financial statements included in this offering circular and prepared in accordance with AAS and IFRS. The following table sets forth: (i) the Group's consolidated cash and cash equivalents, long-term borrowings and finance lease liabilities and total capitalization of the Group, as of December 31, 2014 and (ii) the Group's consolidated cash and cash equivalents, long-term borrowings and finance lease liabilities and total capitalization after giving effect to (A) the offering of the Senior Secured Notes and the application of the net proceeds therefrom, to redeem all of the outstanding 2017 Unsecured Senior Notes and 2018 Unsecured Senior Notes including redemption premium and accrued interest of approximately US\$62 million on such redeemed notes, (B) an increase of US\$140 million in finance lease liabilities due to the completion of the Fortescue River Gas Pipeline and (C) a decrease in the Senior Secured Credit Facility due to a principal repayment of US\$12.5 million made on March 31, 2015.

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

	As of December 31, 2014	
	Historical	As adjusted
	(US\$ in millions)	
<b>Cash and cash equivalents:</b> .....	<b>\$ 1,574</b>	<b>\$ 1,587</b>
Borrowings and finance lease liabilities:		
Notes offered hereby <sup>(1)</sup> .....	—	1,500
Secured		
Senior Secured Credit Facility <sup>(2)</sup> .....	4,888	4,876
Unsecured		
2017 Unsecured Senior Notes <sup>(2)</sup> .....	1,000	—
2018 Unsecured Senior Notes <sup>(2)</sup> .....	400	—
2019 Unsecured Senior Notes <sup>(2)</sup> .....	1,500	1,500
2022 Unsecured Senior Notes <sup>(2)</sup> .....	1,000	1,000
Finance lease liabilities <sup>(2)(3)</sup> .....	315	455
<b>Total borrowings and finance lease liabilities<sup>(2)</sup>.....</b>	<b>9,103</b>	<b>9,331</b>
Shareholders' equity:		
Contributed equity.....	1,294	1,294
Reserves.....	60	60
Retained earnings.....	6,252	6,252
Non-controlling interest.....	14	14
<b>Total equity.....</b>	<b>7,620</b>	<b>7,620</b>
<b>Total capitalization<sup>(4)</sup>.....</b>	<b>\$16,723</b>	<b>\$16,951</b>

### Notes:

<sup>(1)</sup> Represents gross proceeds excluding costs and fees.

<sup>(2)</sup> Represents aggregate principal amount outstanding. As of December 31, 2014, the Group's borrowings and finance lease liabilities had a carrying value of US\$9,051 million, which is net of borrowing costs and inclusive of accrued but unpaid interest as of December 31, 2014. See "Description of other indebtedness" for further information about the Senior Secured Credit Facility, the Unsecured Senior Notes and the finance lease liabilities. The as adjusted amount gives effect to adjustment (C) above.

<sup>(3)</sup> Represents present value of minimum lease payments, as calculated in accordance with AAS and IFRS. See note 17 to the Company's audited consolidated financial statements for fiscal 2014, and "Management's discussion and analysis of financial condition and results of operations—Finance lease liabilities" for a description of Fortescue's finance lease liabilities. The as adjusted amount gives effect to adjustment (B) above.

<sup>(4)</sup> Total capitalization represents total borrowings and finance lease liabilities plus total equity.

## SELECTED HISTORICAL CONSOLIDATED FINANCIAL AND OPERATING DATA

The following tables present selected historical consolidated financial and operating data of the Group for the two most recent fiscal half-years and the four most recent fiscal years. The results of operations are not necessarily indicative of the results to be expected for any future period. The selected historical consolidated financial data as of, and for the six months ended December 31, 2014 and 2013 has been derived from, and is qualified in entirety by reference to, the Company's unaudited consolidated interim financial statements included elsewhere in this offering circular and the selected historical consolidated financial data as of, and for the fiscal years ended, June 30, 2014, 2013 and 2012 have been derived from, and are qualified in entirety by reference to, the Company's audited consolidated financial statements included elsewhere in this offering circular. The selected historical consolidated financial and operating data of the Group as of, and for the year ended, June 30, 2011 have been derived from audited consolidated financial statements of the Group, which have been filed with the ASX, through which they are publicly available. The summary historical consolidated financial and operating data of the Group set forth below is not necessarily indicative of the Group's future results of operations or financial condition.

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

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

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

	Six months ended December 31,		Year ended June 30,			
	2014	2013	2014	2013	2012	2011
	(US\$ in millions)		(US\$ in millions)			
<b>Consolidated income statement:</b>						
Operating sales revenue <sup>(1)</sup>	\$ 4,858	\$ 5,873	\$11,753	\$ 8,120	\$ 6,716	\$ 5,475
Cost of sales	(4,108)	(3,039)	(7,002)	(5,140)	(4,008)	(2,758)
Gross profit <sup>(1)</sup>	750	2,834	4,751	2,980	2,708	2,717
Other income	77	124	126	291	171	14
Other expenses <sup>(2)</sup>	(81)	(144)	(244)	(252)	(111)	(251)
Profit before income tax and net finance expenses <sup>(3)</sup>	746	2,814	4,633	3,019	2,768	2,480
Finance income	9	12	21	33	60	25
Finance expense <sup>(4)</sup>	(315)	(409)	(741)	(586)	(565)	(1,173)
Profit before income tax	440	2,417	3,913	2,466	2,263	1,332
Income tax expense	(109)	(694)	(1,173)	(720)	(704)	(313)
<b>Profit after income tax</b>	<b>\$ 331</b>	<b>\$ 1,723</b>	<b>\$ 2,740</b>	<b>\$ 1,746</b>	<b>\$ 1,559</b>	<b>\$ 1,019</b>

<sup>(1)</sup> For fiscal 2011, (a) operating sales revenue is derived by adding together "operating sales revenue" (US\$5,442 million), "third party port access" (US\$17 million) and "provision of services" (US\$16 million) and (b) "gross profit" is derived by subtracting "cost of sales" (US\$2,758 million) from "operating sales revenue" (derived as indicated previously), each as reflected in the audited consolidated financial statements of the Group for fiscal 2011, which have been filed with the ASX, through which they are publicly available.

<sup>(2)</sup> For fiscal 2011, other expenses is derived by adding together "administration expenses" (US\$97 million), "re-estimation of unsecured loan notes" (US\$93 million) and "net foreign exchange loss" (US\$61 million), each as reflected in the audited consolidated financial statements of the Group for fiscal 2011, which have been filed with the ASX, through which they are publicly available.

- (3) For fiscal 2011, profit before income tax and net finance expenses is derived by subtracting (x) the sum of “cost of sales” (US\$2,758 million), “administration expenses” (US\$97 million), “re-estimation of unsecured loan notes” (US\$93 million) and “net foreign exchange loss” (US\$61 million) from (y) the sum of “operating sales revenue” (US\$5,442 million) and “other income” (US\$47 million), each as reflected in the audited consolidated financial statements of the Group for fiscal 2011, which have been filed with the ASX, through which they are publicly available.
- (4) For fiscal 2011, finance expenses is derived by adding together “finance costs” (US\$454 million) and “refinancing cost” (US\$719 million), each as reflected in the audited consolidated financial statements of the Group for fiscal 2011, which have been filed with the ASX, through which they are publicly available.

	As of December 31, 2014	As of June 30,			
	(US\$ in millions)	2014	2013	2012	2011
<b>Consolidated balance sheet:</b>					
<b>Current assets</b>					
Cash and cash equivalents .....	\$ 1,574	\$ 2,398	\$ 2,158	\$ 2,343	\$2,663
Trade and other receivables .....	397	585	409	588	401
Inventories .....	1,201	1,467	961	617	417
Other current assets .....	63	27	36	102	15
Current tax receivable .....	13	—	8	—	—
<b>Total current assets .....</b>	<b>3,248</b>	<b>4,477</b>	<b>3,572</b>	<b>3,650</b>	<b>3,496</b>
<b>Non-current assets</b>					
Trade and other receivables .....	6	5	6	37	17
Property, plant and equipment <sup>(1)</sup> .....	18,139	18,068	17,159	11,357	5,093
Intangible assets .....	52	67	40	19	21
Other non-current assets .....	72	77	90	—	—
<b>Total non-current assets .....</b>	<b>18,269</b>	<b>18,217</b>	<b>17,295</b>	<b>11,413</b>	<b>5,131</b>
<b>Total assets .....</b>	<b>21,517</b>	<b>22,694</b>	<b>20,867</b>	<b>15,063</b>	<b>8,627</b>
<b>Current liabilities</b>					
Trade and other payables .....	944	1,338	1,043	1,182	813
Deferred income .....	777	936	38	—	—
Borrowings and finance lease liabilities .....	147	154	205	283	214
Provisions .....	148	176	128	100	—
Current tax payable .....	—	666	—	551	91
<b>Total current liabilities .....</b>	<b>2,016</b>	<b>3,270</b>	<b>1,414</b>	<b>2,116</b>	<b>1,118</b>
<b>Non-current liabilities</b>					
Trade and other payables .....	196	101	155	225	185
Deferred income .....	846	556	331	5	—
Borrowings and finance lease liabilities .....	8,904	9,403	12,486	8,218	4,658
Provisions .....	484	467	387	516	132
Deferred joint venture contributions .....	219	160	—	—	—
Deferred tax liabilities .....	1,232	1,154	805	221	100
<b>Total non-current liabilities .....</b>	<b>11,881</b>	<b>11,841</b>	<b>14,164</b>	<b>9,185</b>	<b>5,075</b>
<b>Total liabilities .....</b>	<b>13,897</b>	<b>15,111</b>	<b>15,578</b>	<b>11,301</b>	<b>6,193</b>
<b>Net assets .....</b>	<b>7,620</b>	<b>7,583</b>	<b>5,289</b>	<b>3,762</b>	<b>2,434</b>
<b>Equity</b>					
Contributed equity .....	1,294	1,289	1,291	1,293	1,295
Reserves .....	60	69	(49)	41	13
Retained earnings .....	6,252	6,211	4,043	2,428	1,126
<b>Total equity attributable to equity holders of the Company .....</b>	<b>7,606</b>	<b>7,569</b>	<b>5,285</b>	<b>3,762</b>	<b>2,434</b>
Non-controlling interest .....	14	14	4	—	—
<b>Total equity .....</b>	<b>\$ 7,620</b>	<b>\$ 7,583</b>	<b>\$ 5,289</b>	<b>\$ 3,762</b>	<b>\$2,434</b>

**Notes:**

- (1) For fiscal 2011, property, plant and equipment is derived by adding together “property, plant and equipment” (US\$1,671 million) and “exploration, evaluation and development expenditure” (US\$3,422 million) as reflected in the audited consolidated financial statements of the Group for fiscal 2011, which have been filed with the ASX, through which they are publicly available.

	Six months ended December 31,		Year ended June 30,			
	2014	2013	2014	2013	2012	2011
	(US\$ in millions)		(US\$ in millions)			
<b>Consolidated statement of cash flows</b>						
Cash flows from operating activities:						
Cash receipts from customers.....	\$ 5,111	\$ 6,865	\$12,618	\$ 8,725	\$ 6,625	\$ 5,405
Payments to suppliers and employees .....	(3,542)	(3,159)	(6,220)	(5,026)	(3,694)	(2,627)
Income tax paid.....	(664)	(60)	(150)	(695)	(123)	—
<b>Net cash inflow from operating activities .....</b>	<b><u>905</u></b>	<b><u>3,646</u></b>	<b><u>6,248</u></b>	<b><u>3,004</u></b>	<b><u>2,808</u></b>	<b><u>2,778</u></b>
Cash flows from investing activities:						
Payments for property, plant and equipment— Fortescue.....	(436)	(1,354)	(1,931)	(6,355)	(6,044)	(1,477)
Payments for property, plant and equipment— joint operations .....	(142)	(2)	(64)	—	—	—
Receipts of / (payments for) deposits and guarantees.....	—	162	160	3	(70)	(36)
Proceeds from disposal of plant and equipment and sale of jointly controlled assets.....	3	213	262	155	71	10
Other.....	68	81	181	31	53	22
<b>Net cash outflow from investing activities .....</b>	<b><u>(507)</u></b>	<b><u>(900)</u></b>	<b><u>(1,392)</u></b>	<b><u>(6,166)</u></b>	<b><u>(5,990)</u></b>	<b><u>(1,481)</u></b>
Cash flows from financing activities:						
Proceeds from the issue of share capital.....	—	—	—	—	—	2
Proceeds from borrowings and finance leases <sup>(1)</sup>	—	—	—	7,330	3,638	3,438
Repayment of borrowings and finance leases ..	(526)	(1,169)	(3,092)	(3,232)	(15)	(2,677)
Interest and finance costs paid.....	(290)	(454)	(853)	(893)	(584)	(464)
Dividends paid.....	(274)	(293)	(581)	(131)	(251)	(96)
Settlement of derivative held at fair value .....	—	—	—	—	—	(12)
Proceeds from customer deposits.....	—	—	—	—	100	—
Repayment of customer deposits .....	(50)	(35)	(82)	(80)	(95)	(118)
Purchases of shares held by employee share trust.....	(29)	(13)	(17)	(20)	—	—
Transactions with non-controlling interests.....	—	—	—	15	—	—
<b>Net cash (outflow)/inflow from financing activities .....</b>	<b><u>(1,169)</u></b>	<b><u>(1,964)</u></b>	<b><u>(4,625)</u></b>	<b><u>2,989</u></b>	<b><u>2,793</u></b>	<b><u>73</u></b>
<b>Net (decrease)/increase in cash and cash equivalents.....</b>	<b><u>(771)</u></b>	<b><u>782</u></b>	<b><u>231</u></b>	<b><u>(173)</u></b>	<b><u>(389)</u></b>	<b><u>1,370</u></b>
Cash and cash equivalents at the beginning of the period .....	2,398	2,158	2,158	2,343	2,663	1,236
Effect of exchange rate changes on cash and cash equivalents .....	(53)	(16)	9	(12)	69	57
<b>Cash and cash equivalents at the end of the period .....</b>	<b>\$ 1,574</b>	<b>\$ 2,924</b>	<b>\$ 2,398</b>	<b>\$ 2,158</b>	<b>\$ 2,343</b>	<b>\$ 2,663</b>

**Notes:**

<sup>(1)</sup> For fiscal 2011, proceeds from borrowings and finance leases is derived by subtracting (x) “funding facilities establishment fees” (US\$12 million) from (y) “proceeds from borrowings and finance lease liabilities” (US\$3,450 million), each as reflected in the audited consolidated financial statements of the Group for fiscal 2011, which have been filed with the ASX, through which they are publicly available.

	Six months ended December 31,		Year ended June 30,			
	2014	2013	2014	2013	2012	2011
<b>Operating data:</b>						
Ore mined (million wmt) .....	86.5	66.9	140.4	94.6	64.6	44.2
Overburden and other waste removed (million wmt) .....	191.8	205.7	404.5	364.5	276.8	162.3
Ore processed (million wmt) .....	75.6	53.7	126.0	76.1	53.9	40.6
Ore railed (million wmt) .....	81.4	54.8	126.4	81.6	57.7	39.6
Ore shipped—Fortescue-mined ore (million wmt) <sup>(1)</sup> .....	80.3	50.8	118.4	75.9	53.9	39.3
Average revenue per wmt of Fortescue mined ore shipped (US\$/wmt) <sup>(2)</sup> .....	\$58.95	\$113.43	\$97.00	\$103.94	\$120.39	\$136.82
Average cash cost per wmt of Fortescue mined ore shipped (US\$/wmt) <sup>(3)</sup> .....	\$30.30	\$ 33.08	\$33.84	\$ 44.09	\$ 48.44	\$ 44.35

**Notes:**

<sup>(1)</sup> “Ore shipped—Fortescue mined ore” includes total wmt of ore mined, processed and shipped by Fortescue. “Ore shipped—Fortescue mined ore” does not include ore that Fortescue ships, but does not own or take title to, pursuant to third-party access agreements, as part of its provision of shipping services (*i.e.*, access to its port infrastructure) to third parties, ore purchased from third parties and shipped, or joint venture ore shipped (attributable to BC Iron Limited). See “Business description—Other existing operations.” “Fortescue’s share of joint venture ore” represents the portion of ore mined by the NIOJV and shipped by Fortescue which is attributable to Fortescue. A reconciliation of total ore shipped to “Ore shipped—Fortescue mined ore” for the first half of fiscal 2015 and 2014, and for fiscal 2014, 2013, 2012 and 2011, is provided in the table below:

	Six months ended December 31,		Year ended June 30,			
	2014	2013	2014	2013	2012	2011
	(million wmt)		(million wmt)			
Total ore shipped .....	82.7	53.9	124.2	80.9	57.5	40.9
Ore purchased from third parties and shipped .....	—	—	—	—	—	(0.5)
Ore shipped pursuant to third-party access agreements .....	(1.8)	(2.5)	(4.3)	(3.1)	(1.8)	(1.0)
Fortescue’s share of joint venture ore .....	(0.5)	(0.7)	(1.5)	(1.9)	(1.8)	(0.1)
<b>Ore shipped—Fortescue mined ore .....</b>	<b>80.3</b>	<b>50.8</b>	<b>118.4</b>	<b>75.9</b>	<b>53.9</b>	<b>39.3</b>

<sup>(2)</sup> Defined as operating sales revenue (excluding joint venture and third-party ore), divided by tonnes of Fortescue mined ore, as indicated in the table below:

	Six months ended December 31,		Year ended June 30,			
	2014	2013	2014	2013	2012	2011
Operating sales revenue (US\$ in millions) <sup>(a)</sup> ..	\$4,858	\$ 5,873	\$11,753	\$ 8,120	\$ 6,716	\$ 5,475
Sale of third-party ore and joint venture ore (US\$ in millions) .....	(30)	(63)	(126)	(168)	(192)	(65)
Other revenue (US\$ in millions) <sup>(b)</sup> .....	(94)	(48)	(142)	(63)	(35)	(33)
<b>Operating sales revenue (excluding third- party ore) (US\$ in millions) .....</b>	<b>\$4,734</b>	<b>\$ 5,762</b>	<b>\$11,485</b>	<b>\$ 7,889</b>	<b>\$ 6,489</b>	<b>\$ 5,377</b>
Ore shipped—Fortescue-mined ore (million wmt) .....	80.3	50.8	118.4	75.9	53.9	39.3
<b>Average revenue per wmt of Fortescue mined ore shipped (US\$ per wmt) .....</b>	<b>\$58.95</b>	<b>\$113.43</b>	<b>\$ 97.00</b>	<b>\$103.94</b>	<b>\$120.39</b>	<b>\$136.82</b>

(a) For fiscal 2011, operating sales revenue is derived by adding together “operating sales revenue” (US\$5,442 million), “third party port access” (US\$17 million) and “provision of services” (US\$16 million), each as reflected in the audited consolidated financial statements of the Group for fiscal 2011, which have been filed with the ASX, through which they are publicly available.

(b) For fiscal 2011, other revenue is derived by adding together “third party port access” (US\$17 million) and “provision of services” (US\$16 million), each as reflected in the audited consolidated financial statements of the Group for fiscal 2011, which have been filed with the ASX, through which they are publicly available.

<sup>(3)</sup> Average cash cost per wmt of Fortescue mined ore shipped is calculated as total direct costs divided by wmt of Fortescue mined iron ore shipped. Direct costs consist of operating cost of sales and operating leases. Operating cost of sales consists of mining and processing costs and rail and port operating expenses. Average cash cost per wmt of Fortescue mined ore shipped for the first half of fiscal 2015 and 2014, and for fiscal 2014, 2013, 2012 and 2011, are summarized in the table below:

	<b>Six months ended December 31,</b>		<b>Year ended June 30,</b>			
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
	<b>(US\$ per wmt)</b>		<b>(US\$ per wmt)</b>			
Operating cost of sales .....	\$29.80	\$32.38	\$33.21	\$42.34	\$45.75	\$40.94
Operating leases .....	0.50	0.69	0.63	1.75	2.69	3.41
<b>Average cash cost per wmt of Fortescue mined ore shipped .....</b>	<b>\$30.30</b>	<b>\$33.08</b>	<b>\$33.84</b>	<b>\$44.09</b>	<b>\$48.44</b>	<b>\$44.35</b>

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

### Overview

Fortescue is engaged in the production and export of iron ore in the Pilbara region of Western Australia. Fortescue is the third largest producer in Australia of iron ore and the world's fourth largest exporter into the seaborne iron ore market (being the market for iron ore which is transported by ocean bulk vessels), based on Metalytics' export statistics for calendar 2014. The Company is a significant supplier to the steel mills in Asia, principally China.

Fortescue is currently producing iron ore from five mines, including one at Cloudbreak and two at Christmas Creek, which are collectively referred to as the "Chichester Hub," and one at each of Firetail and Kings, which are jointly referred to as the "Solomon Hub." Each of the five mines has its own OPF. With the official completion of its 155Mtpa Expansion in March 2014, all components of Fortescue's expanded Chichester and Solomon Hubs, as well as its integrated rail and port infrastructure, are now operating at or above the initial targeted capacity of 155Mtpa. Fortescue intends to capitalize on its expanded operations, rail and port infrastructure and target production in excess of 155Mtpa in the future at lower average cash cost per wmt of Fortescue mined ore shipped than currently achieved.

Fortescue's tenement holdings (including both granted tenements and applications for tenements) in the Pilbara cover an area of more than 85,000 square kilometers, representing the largest tenement holding in the Pilbara. As of June 30, 2014, Fortescue had estimated Ore Reserves at the Chichester Hub of approximately 1,470Mt (of which 444Mt were Proved Ore Reserves and 1,026Mt were Probable Ore Reserves) and estimated Ore Reserves at the Solomon Hub of approximately 903Mt (of which 143Mt were Proved Ore Reserves and 760Mt were Probable Ore Reserves).

For the first half of fiscal 2015 and fiscal 2014, Fortescue reported revenue of US\$4.9 billion and US\$11.8 billion, profit after income tax of US\$0.3 billion and US\$2.7 billion and Adjusted EBITDA of US\$1.4 billion and US\$5.6 billion, respectively. For a reconciliation of profit after income tax to Adjusted EBITDA, see "Offering circular summary—Summary historical consolidated financial and operating data."

For a discussion of our production, cost performance and average sales prices for the three months ended March 31, 2015, see "Offering circular summary—Recent developments—Quarterly Report for the period ended March 31, 2015."

Fortescue focuses on being a low cost exporter of iron ore, principally to China. Fortescue shipped approximately 80.3Mt of Fortescue mined ore in the first half of fiscal 2015, representing an annualized rate of approximately 160.6Mtpa, and 118.4Mt of Fortescue mined ore in fiscal 2014, substantially all of which was sold to steel mill customers in China.

### Key drivers of the business and trends

The key drivers of Fortescue's business performance are the volume of ore mined and shipped, global iron ore prices and mining, processing, rail and port costs. Capital expenditures have been and are expected to remain an important factor affecting the Company's business.

### ***Production at the existing operations***

The most significant factor affecting Fortescue's results of operations over the last three and a half fiscal years has been the ramp-up of production at the Chichester Hub and the commencement and ramp-up of production from the Solomon Hub as part of the 155Mtpa Expansion.

The 155Mtpa Expansion, which was announced in November 2010 and completed in March 2014, included construction of three advanced OPFs (including a second OPF at Christmas Creek and OPFs at the Solomon Hub), two of which have wet processing capability, over 250 kilometers of new rail track (including the Fortescue Hamersley Line extension between the mainline track and the Solomon Hub), 300 kilometers of new roads and 50 kilometers of conveyor systems, two additional shipping berths and two train unloaders with associated stock yard expansion at Herb Elliott Port, two sealed airstrips, an automated rail ore car refurbishment facility, a new power station at the Solomon Hub 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 the Christmas Creek mine and the Solomon Hub and expansion of Fortescue's mobile mining fleet.

During the 155Mtpa Expansion, the volume of ore mined, processed and shipped has increased substantially. Production data for the first half of fiscal 2015 and 2014, and for fiscal 2014, 2013 and 2012, is summarized in the table below.

	Six months ended		Year ended June 30,		
	December 31, 2014	December 31, 2013	2014	2013	2012
	(million wmt)				
Ore mined .....	86.5	66.9	140.4	94.6	64.6
Ore processed .....	75.6	53.7	126.0	76.1	53.9
Ore shipped—Fortescue mined ore <sup>(1)</sup> .....	80.3	50.8	118.4	75.9	53.9

#### ***Notes:***

<sup>(1)</sup> Excludes third-party ore shipped by Fortescue.

### ***Prices for iron ore on world markets***

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

Although annual benchmark pricing was the primary form of pricing for seaborne iron ore market before 2009, the Platts IODEX CFR 62% Fe ("Platts CFR 62% Fe") index, which publishes a daily price on a CFR basis in U.S. dollars per dmt, is now the predominant basis for pricing in the seaborne iron ore market. Since 2009, market prices for seaborne ore have fluctuated significantly, primarily as a result of demand from Chinese steel manufacturers, the high cost of Chinese domestic ore product and increases in supply in the global seaborne iron ore industry. For instance, after rising from a low of US\$57.50 per tonne on March 20, 2009 to reach an all-time high of US\$193.00 per tonne on February 15, 2011, the Platts CFR 62% index fell to US\$71.75 per tonne on December 31, 2014 and to US\$51.25 per tonne on March 31, 2015. As of April 17, 2015, the Platts CFR 62% index was US\$51.50 per tonne. See "Risk factors—Operational risks relating to the business of the Group—The Group's business is highly dependent on the demand for, and the price of, iron ore, which may face downward pressure as a result of a supply and demand imbalance in the global seaborne iron ore industry which may negatively affect the Group's results."

Fortescue's customer agreements are based on a dry metric tonne unit ("dmtu") index price based on the Platts index FOB price for 62% Fe iron ore (per dmtu), derived from the Platts CFR 62% price, averaged over an agreed period and adjusted for Fe grade and impurities. Under the Platts CFR 62% index, iron ore prices in the Asian seaborne market are quoted as including freight to China. Fortescue realizes approximately 85% of the 62% Platts CFR index. While Fortescue prices relative to the 62% Platts CFR index, the 58% MBIO (P) index approximates the realized price across its product range.

The chart below shows the Platts (62% Fe) index prices between January 1, 2009 and April 17, 2015, quoted for both FOB and CFR.



Source: Fortescue.

Fortescue's average sales price was US\$66 per dmt for the first half of fiscal 2015, as compared to US\$124 per dmt for the first half of fiscal 2014, and was US\$106 per dmt for fiscal 2014, as compared to US\$114 per dmt for fiscal 2013 and US\$131 per dmt for fiscal 2012. For the first quarter of calendar 2015, Fortescue's average sales price was US\$48 per dmt.

### Cost of sales

Cost of sales, which Fortescue reports as consisting of operating expenses and depreciation and amortization, is a key factor in the Company's competitive position as a relatively low-cost iron ore producer. The Company's reported cost of sales for the first half of fiscal 2015 and 2014, and for fiscal 2014, 2013 and 2012, are set forth in the table below.

	Six months ended December 31,		Year ended June 30,		
	2014	2013	2014	2013	2012
	(US\$ in millions)		(US\$ in millions)		
<b>Operating expenses:</b>					
Mining costs.....	\$2,117	\$1,433	\$3,442	\$2,851	\$2,202
Rail costs.....	123	109	238	182	139
Port costs.....	154	103	252	181	125
Operating leases .....	40	35	74	133	145
Shipping costs .....	687	556	1,210	769	672
Government royalty .....	298	386	775	499	366
Other operating expenses <sup>(1)</sup> .....	45	37	87	88	99
<b>Total operating expenses .....</b>	<b>3,464</b>	<b>2,659</b>	<b>6,078</b>	<b>4,703</b>	<b>3,748</b>
<b>Depreciation and amortization expense:</b>					
Depreciation and amortization <sup>(2)</sup> .....	644	380	924	437	260
<b>Cost of sales .....</b>	<b>\$4,108</b>	<b>\$3,039</b>	<b>\$7,002</b>	<b>\$5,140</b>	<b>\$4,008</b>

**Notes:**

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

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

Operating expenses for mining, rail and port costs are related to the Company's levels of iron ore production and are also affected by other factors, including labor, foreign exchange (US\$:AU\$) and oil prices. In addition, Fortescue is required to pay certain government royalties, which are calculated as a percentage of cash received from the sale of iron ore. Operating expenses for mining are also affected by levels of overburden and other waste, and the Company's total waste to ore ratio (or "strip ratio"), which have generally decreased over the last three and a half fiscal years, with the commencement of mining at the Solomon Hub and the introduction of the Fortescue blend product, lowering strip ratios at the Chichester Hub. Overburden and strip ratios for the first half of fiscal 2015 and 2014, and for fiscal 2014, 2013 and 2012, are summarized in the table below.

	Six months ended December 31,		Year ended June 30,		
	2014	2013	2014	2013	2012
Overburden and other waste removed (Mt).....	191.8	205.7	404.5	364.5	276.8
Strip ratios .....	2.2x	3.1x	2.9x	3.9x	4.3x

The Company is party to plant and machinery operating leases under which it leases certain key equipment used in its mining, rail and port operations, including surface miners, trucks, loaders, tractors, graders, locomotives, ore cars, reclaimers, stackers, shiploaders, train loadout equipment and conveyors. See "Description of other indebtedness—Operating lease facilities." Operating lease payments have generally decreased from fiscal 2012 to fiscal 2014, stabilizing during fiscal 2014 as the Company reached its full operational capacity to deliver the 155Mtpa run rate during this period. Certain leases have been canceled following completion of the lease term.

Shipping costs reflect the cost of transporting ore from the Herb Elliott Port to Fortescue's predominantly Chinese customer base. The Company currently has a portfolio of around 60 shipping contracts in place with the remaining tenure of such contracts ranging from three months to seven years across a mix of vessel segments ranging from 161,000 tonne capsize vessels up to 297,000 tonne ore carriers. Fortescue manages its contractual obligations by using these ships to move its own product or re-letting vessels to third parties. The Company also charters additional vessels as necessary, based on negotiations with customers and ship owners at market rates. The Company's policy is to control shipping at the Herb Elliott Port in order to maximize iron ore through-put and the efficient use of its port infrastructure. For this reason, Fortescue seeks to enter into iron ore sales agreements on a delivered (CFR) basis, rather than allowing customers to arrange for their own shipping.

Depreciation and amortization has increased over the last three and a half fiscal years as a result of additions of property, plant and equipment to the Company's asset base and an increase in development expenditures, as well as increased production and shipping volumes. Construction costs are not depreciated until the associated project is available for use. As of December 31, 2014, the carrying value of property, plant and equipment, development assets and assets under development totaled US\$18,139 million.

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

Average cash cost per wmt of Fortescue mined ore shipped is calculated as total direct costs divided by wmt of Fortescue mined iron ore shipped. Direct costs consist of operating cost of sales and operating leases. Operating cost of sales consists of mining and processing costs and rail and port operating expenses. Total direct costs and average cash cost per wmt of Fortescue mined ore shipped for the first half of fiscal 2015 and 2014, and for fiscal 2014, 2013 and 2012, are summarized in the table below:

	Six months ended December 31,		Year ended June 30,		
	2014	2013	2014	2013	2012
Operating cost of sales (US\$ in millions).....	\$2,394	\$1,645	\$3,932	\$3,214	\$2,466
Operating leases (US\$ in millions).....	40	35	74	133	145
<b>Total direct costs for Fortescue mined ore (US\$ in millions) .....</b>	<b>\$2,434</b>	<b>\$1,680</b>	<b>\$4,006</b>	<b>\$3,347</b>	<b>\$2,611</b>
Ore shipped—Fortescue mined ore (million wmt) <sup>(1)</sup> .....	80.3	50.8	118.4	75.9	53.9
<b>Average cash cost per wmt of Fortescue mined ore shipped (US\$ per wmt)<sup>(2)</sup> .....</b>	<b>\$30.30</b>	<b>\$33.08</b>	<b>\$33.84</b>	<b>\$44.09</b>	<b>\$48.44</b>

**Notes:**

<sup>(1)</sup> Excludes third-party ore shipped by Fortescue.

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

**Capital expenditures**

Capital expenditures to maintain, develop and expand the Company’s operations are an important factor in the Company’s production capacity that have had a material impact on the Company’s financial performance and are expected to have a material impact on the Company’s liquidity and funding requirements for the foreseeable future. Total capital expenditures (cash flows) were US\$6,044 million during fiscal 2012 and increased to US\$6,355 million in fiscal 2013, principally as a result of continued expenditures in connection with the 155Mtpa Expansion. Total capital expenditures (cash flows) decreased in fiscal 2014 to US\$1,995 million, primarily as a result of the completion of the 155Mtpa Expansion, and continued to decrease to US\$578 million (including US\$142 million of joint venture expenditure) in the first half of fiscal 2015, primarily as a result of the completion of the 155Mtpa Expansion and the Company’s focus on efficiencies and cost saving initiatives as the operations have ramped up and operating at or above full capacity across all sites. Capital expenditures in the first half of fiscal 2015 related principally to construction of the fifth ship loading berth at Anderson Point in Port Hedland, the purchase of additional ore cars and train locomotives during the period, payment of the first instalment for the VLOCs, optimization and sustaining capital, ongoing development, feasibility studies and exploration expenditure. Capital expenditures in fiscal 2014 related principally to the completion of the 155Mtpa Expansion, optimization and sustaining capital, ongoing development and feasibility studies and exploration expenditure. See “—Liquidity and capital resources—Capital expenditures.”

**Other factors that affect reported financial performance**

In addition to the key business drivers discussed above, other factors affecting the Company’s reported financial results include foreign exchange rate fluctuations, the Iron Bridge magnetite project, changes in finance expenses and, in respect of fiscal 2013 and prior reporting periods only, accounting for the Unsecured Loan Notes.

**Foreign exchange rate fluctuation**

Fortescue’s functional and reporting currency is the U.S. dollar, which is also the functional currency of the majority of its subsidiaries. The functional currency of an entity is the currency of the primary economic environment in which the entity operates and reflects the economic substance of the underlying events and circumstances relevant to the Company. The Company’s operations and assets are concentrated in Australia and as such, its operating costs and a significant portion of its capital expenditures are influenced by movements in the Australian dollar relative to the U.S. dollar.

Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities denominated in a currency that is not the entity’s functional currency. A summary of the sensitivity of the

Group's financial assets and liabilities to foreign exchange risk is shown in note 34 "Financial risk management" to the audited consolidated financial statements for fiscal 2014. Foreign exchange gains or losses reflected in the Company's income statement result from realized gains or losses on transactions denominated in currencies other than the Company's functional currency and unrealized gains or losses arising from the revaluation of monetary assets and liabilities denominated in currencies other than the functional currency. See "Risk factors—Operational risks relating to the business of the Group—The Group is subject to exchange rate risks."

A foreign exchange gain of US\$71 million was reflected in the income statement for the first half of fiscal 2015, as compared to a loss of US\$48 million for the first half of fiscal 2014. Foreign exchange gains or losses reflected in the income statements for fiscal 2014 and 2013 included a loss of US\$53 million and a gain of US\$96 million, respectively. There was no foreign exchange gain or loss in fiscal 2012. These gains and losses arose primarily from movements in the exchange rates between the U.S. dollar and the Australian dollar during and at the end of each reporting period.

### ***Iron Bridge magnetite project***

In October 2013, Fortescue completed the formation of the Iron Bridge Joint Venture with a subsidiary of Formosa to develop FMG Iron Bridge Ltd's magnetite assets in North Star and Glacier Valley in northern Pilbara. As part of the transaction, Formosa acquired a 31% unincorporated interest in the Iron Bridge Joint Venture (which comprises the Iron Bridge joint venture and the Glacier Valley joint venture) for US\$123 million, generating a gain on disposal of assets and interest in joint ventures of US\$109 million. Fortescue's 69% unincorporated joint venture interest in the Iron Bridge Joint Venture is held through its 88% owned subsidiary, FMG Iron Bridge Ltd. Consequently, Fortescue holds an effective overall 60.72% interest in both the North Star and Glacier Valley deposits, with the remaining interest being held by Formosa and Baosteel.

As part of the transaction, Formosa agreed to fund the first US\$527 million of capital expenditure on the first stage of the Iron Bridge project development, agreed to purchase up to 3Mtpa of iron ore at market prices to supply iron ore to its steel mill currently under construction in Vietnam and elected to prepay US\$500 million upfront to TPI to access Fortescue's port facilities at Herb Elliott Port under separate infrastructure access agreements.

A second stage of the Iron Bridge magnetite project will only proceed upon agreement among the joint venture partners. For further information, see "Business description—Optimization and other development activities—Iron Bridge magnetite project."

### ***Net finance expenses***

Net finance expenses include interest expense, net of interest capitalized in relation to the long lead construction projects, losses on early debt redemption of borrowings and finance lease liabilities and interest income. Net finance expenses for the first half of fiscal 2015 and 2014, and for fiscal 2014, 2013 and 2012 are summarized below.

	Six months ended December 31,		Year ended June 30,		
	2014	2013	2014	2013	2012
	(US\$ in millions)		(US\$ in millions)		
<b>Finance income:</b>					
Interest income .....	\$ 9	\$ 12	\$ 21	\$ 33	\$ 60
<b>Total finance income .....</b>	<b>9</b>	<b>12</b>	<b>21</b>	<b>33</b>	<b>60</b>
<b>Finance expenses:</b>					
Interest expense on borrowings and finance lease liabilities .....	282	433	747	892	731
Interest capitalized .....	(6)	(75)	(75)	(342)	(196)
Loss on early redemption of borrowings and finance leases .....	28	45	53	—	—
Other .....	11	6	16	36	30
<b>Total finance expenses .....</b>	<b>315</b>	<b>409</b>	<b>741</b>	<b>586</b>	<b>565</b>
<b>Net finance expenses .....</b>	<b>\$ 306</b>	<b>\$ 397</b>	<b>\$ 720</b>	<b>\$ 553</b>	<b>\$ 505</b>

Interest on borrowings and finance leases increased from fiscal 2012 to fiscal 2013, but decreased from fiscal 2013 to fiscal 2014, and also decreased in the first half of fiscal 2015 compared to the first half of fiscal 2014, in each case consistent with the Company's debt position during such periods. The capitalized interest is attributable to the specific and general borrowings incurred to finance long-lead construction items, principally those related to the 155Mtpa Expansion. Capitalized interest increased from fiscal 2012 to fiscal 2013 consistent with the higher capital expenditure and decreased from fiscal 2013 to fiscal 2014 with a further decrease in the first half of fiscal 2015 as the 155Mtpa Expansion was completed and assets became available for use.

During fiscal 2014, Fortescue commenced an accelerated debt reduction program which included repayment of the Issuer's US\$2,040 million aggregate principal amount of 7% Senior Notes due 2015, the Issuer's US\$600 million aggregate principal amount of 6.375% Senior Notes due 2016, and US\$273 million in finance lease liabilities and redemption of A\$140 million of preference shares issued by the Company on September 30, 2008. Additionally, during the first half of fiscal 2015, Fortescue repaid US\$500 million aggregate principal amount of the 2018 Unsecured Senior Notes. Among other things, this debt reduction program led to a decrease in the Group's interest expense on borrowings and finance lease liabilities from US\$433 million for the first half of fiscal 2014 to US\$282 million for the first half of fiscal 2015, and from US\$892 million in fiscal 2013 to US\$747 million in fiscal 2014. The decrease in the Group's interest expense on borrowings and finance lease liabilities also resulted from a decrease in the interest rate applicable to the Senior Secured Credit Facility from LIBOR plus 4.75% between October 2012 and November 2013 to LIBOR plus 3.25% from November 2013 to May 2014 with an additional decrease to LIBOR plus 2.75% from May 2014 to February 2015. The interest rate has increased from LIBOR plus 2.75% in February 2015 to LIBOR plus 3.25% as of the date of this offering circular. See "Description of other indebtedness—Senior Secured Credit Facility."

### ***The Unsecured Loan Notes***

On August 18, 2006, the Group issued US\$100 million in aggregate principal amount of the Unsecured Loan Notes to a subsidiary of Leucadia as part of a larger capital raising. Interest payable under the Unsecured Loan Notes was calculated at 4% of revenue, net of government royalties, from the sales of iron ore FOB at Port Hedland during the relevant interest period from the Cloudbreak and Christmas Creek tenement areas only.

The Unsecured Loan Notes were repaid in full in October 2012. The accounting treatment of the Unsecured Loan Notes for fiscal 2012 and fiscal 2013 was consistent with Australian Accounting Standard AASB139, Financial Instruments: Recognition and Measurement. AASB139 required an initial measurement of the fair value of the Unsecured Loan Notes, after which the Unsecured Loan Notes were measured at amortized cost using the effective interest method. Gains or losses from changes in re-estimation were recognized as profit or loss through the income statement.

Until they were repaid, the re-estimation of the Unsecured Loan Notes was undertaken quarterly and the key drivers of the re-estimation and effective interest expense were forecast production profile of the Cloudbreak and Christmas Creek mines, forecast iron ore prices, government royalty rates, the implicit interest rate of the Unsecured Loan Notes and the Ore Reserves estimates for the Cloudbreak and Christmas Creek tenements.

### **Critical accounting policies**

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

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

- Income taxes;
- Iron ore reserve estimates;
- Exploration and evaluation expenditure;
- Development expenditure;
- Property, plant and equipment—recoverable amount; and
- Rehabilitation estimates.

Information about these estimates and assumptions is contained in note 36 “Critical accounting estimates and judgments” to the audited consolidated financial statements for fiscal 2014. Estimates and assumptions regarding Ore Reserves are described in more detail below.

### ***Ore Reserve estimates***

Ore Reserves are estimates of the amount of product that can be economically and legally extracted from Fortescue’s current mining tenements. Fortescue’s Ore Reserves and Mineral Resources estimates are classified under the JORC Code. The JORC Code requires the use of reasonable investment assumptions to estimate Ore Reserves. In order to estimate 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, transports costs, commodity demand, commodity prices and exchange rates. Estimating the quantity and/or grade of Ore Reserves requires the size, shape and depth of ore bodies or fields to be determined by analyzing geological data such as drilling samples. This process may require complex and difficult geological judgments and estimates to interpret the data.

Because the economic assumptions used to estimate Ore Reserves change from period to period, and because additional geological data is generated during the course of operations, estimates of Ore Reserves may change from period to period. Changes in reported Ore 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 amortization charges in the income statement 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.

See “Cautionary note regarding Ore Reserves and Mineral Resources” and “Ore Reserves and Mineral Resources.”

### **Results of operations**

The income statements for the six months ended December 31, 2014 and 2013 are sourced from the unaudited consolidated interim financial statements, the income statements for the fiscal years ended June 30, 2014 and 2013 are sourced from the audited consolidated financial statements for fiscal 2014 and the income statement for the fiscal year ended June 30, 2012 is sourced from the audited consolidated financial statements for fiscal 2013.

The income statements reported by the Company for the first half of fiscal 2015 and 2014, and for fiscal 2014, 2013 and 2012, are summarized in the table below.

	Six months ended December 31,		Year ended June 30,		
	2014	2013	2014	2013	2012
	(US\$ in millions)		(US\$ in millions)		
Operating sales revenue .....	\$ 4,858	\$ 5,873	\$11,753	\$ 8,120	\$ 6,716
Cost of sales .....	(4,108)	(3,039)	(7,002)	(5,140)	(4,008)
<b>Gross profit .....</b>	<b>750</b>	<b>2,834</b>	<b>4,751</b>	<b>2,980</b>	<b>2,708</b>
Other income .....	77	124	126	291	171
Other expenses .....	(81)	(144)	(244)	(252)	(111)
<b>Profit before income tax and net finance expenses ....</b>	<b>746</b>	<b>2,814</b>	<b>4,633</b>	<b>3,019</b>	<b>2,768</b>
Finance income .....	9	12	21	33	60
Finance expenses .....	(315)	(409)	(741)	(586)	(565)
<b>Profit before income tax .....</b>	<b>440</b>	<b>2,417</b>	<b>3,913</b>	<b>2,466</b>	<b>2,263</b>
Income tax expense .....	(109)	(694)	(1,173)	(720)	(704)
<b>Profit after income tax .....</b>	<b>\$ 331</b>	<b>\$ 1,723</b>	<b>\$ 2,740</b>	<b>\$ 1,746</b>	<b>\$ 1,559</b>

In addition to reporting the Company's financial results under AAS and IFRS, an internal financial measure, "Adjusted EBITDA," is used by management to report the operating performance of the business. Adjusted EBITDA is defined as Underlying EBITDA before the impact of any re-estimation of the Unsecured Loan Notes, any gain on disposal of assets and interest in joint ventures and net foreign exchange gains or losses. Underlying EBITDA is defined as profit or loss before income tax adjusted for depreciation and amortization, exploration, development and other expenses, finance income and expenses and gain or loss on refinancing.

This measure is used because it eliminates exceptional items considered by management to be outside the core operating activity of the business and subject to volatility that may distort a year to year comparison of the operating results of the business. In particular, management considers the re-estimation of the Unsecured Loan Notes, gains on disposal of joint venture assets and interests and foreign exchange gains and losses to be outside the core operations of the Company and, as such, they are considered to not be reflective of operating performance. Adjusted EBITDA increased from US\$2,879 million in fiscal 2012 to US\$3,321 million in fiscal 2013 (an increase of US\$442 million, or 15%, over fiscal 2012), to US\$5,580 million in fiscal 2014 (an increase of US\$2,259 million, or 68%, over fiscal 2013). Adjusted EBITDA decreased to US\$1,367 million in the first half of fiscal 2015 from US\$3,160 million in the first half of fiscal 2014.

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

The following table reconciles reported profit after income tax to Underlying EBITDA and to Adjusted EBITDA for the first half of fiscal 2015 and 2014, and for fiscal 2014, 2013 and 2012.

	Six months ended December 31,		Year ended June 30,		
	2014	2013	2014	2013	2012
	(US\$ in millions)		(US\$ in millions)		
Profit after income tax .....	\$ 331	\$1,723	\$2,740	\$1,746	\$1,559
Add back: income tax expense.....	109	694	1,173	720	704
Deduct: finance income .....	(9)	(12)	(21)	(33)	(60)
Add back: finance expenses .....	315	409	741	586	565
Deduct: gain on refinancing .....	—	—	—	(23)	—
Add back: depreciation and amortization <sup>(1)</sup> .....	658	399	965	463	266
Add back: exploration, development and other expenses <sup>(2)</sup> ....	36	7	38	116	1
<b>Underlying EBITDA .....</b>	<b>1,440</b>	<b>3,220</b>	<b>5,636</b>	<b>3,575</b>	<b>3,035</b>
Re-estimation of Unsecured Loan Notes <sup>(3)</sup> .....	—	—	—	(34)	(156)
Gain on disposal of assets and interest in joint ventures <sup>(4)</sup> ....	(2)	(108)	(109)	(124)	—
Foreign exchange (gain)/loss.....	(71)	48	53	(96)	—
<b>Adjusted EBITDA .....</b>	<b>\$1,367</b>	<b>\$3,160</b>	<b>\$5,580</b>	<b>\$3,321</b>	<b>\$2,879</b>

**Notes:**

- <sup>(1)</sup> Depreciation and amortization includes aggregate depreciation and amortization expense included in “cost of sales” and “other expenses” in the Group’s consolidated income statement for the applicable periods.
- <sup>(2)</sup> Exploration, development and other expenses includes provisions for obsolete inventory, write-offs of certain specifically identified assets and write-offs of previously capitalized exploration expenditure on relinquished tenements during the applicable periods.
- <sup>(3)</sup> On August 18, 2006, the Group issued US\$100 million in aggregate principal amount of the Unsecured Loan Notes to a subsidiary of Leucadia as part of a larger capital raising. The Unsecured Loan Notes were repaid in full in October 2012. Until they were repaid, the re-estimation of the Unsecured Loan Notes was undertaken quarterly. See “—Other factors that affect reported financial performance—Unsecured Loan Notes.”
- <sup>(4)</sup> Gains on disposal of assets and interest in joint venture in fiscal 2013 relate to the sale of a 25% interest in the NIOJV to BC Iron Limited in December 2012. Following the sale, the Group’s overall interest in the NIOJV was 25%. See “Business description—Other existing operations.” Gains on disposal of assets and interest in joint venture in fiscal 2014 relate to the sale of a 31% interest in the Iron Bridge Joint Venture to Formosa Steel IB Pty Ltd, a subsidiary of Formosa, in October 2013. See “Business description—Optimization and other development activities—Iron Bridge magnetite project.”

***Comparison of performance for the first half of fiscal 2015 to the first half of fiscal 2014***

Fortescue achieved strong operational performance during the first half of fiscal 2015 with increased mining, processing and shipping rates compared with the first half of fiscal 2014. This increase primarily resulted from completion of the 155Mtpa Expansion and subsequent ramp up of the Group’s mining, processing, rail and port operations.

Total Fortescue mined ore shipped in the first half of fiscal 2015 was 80.3Mt, an increase of 58% over total Fortescue mined ore shipped in the first half of fiscal 2014. Profit after tax decreased by 81%, from US\$1,723 million for the first half of fiscal 2014 to US\$331 million for the first half of fiscal 2015. Adjusted EBITDA decreased by 57%, from US\$3,160 million for the first half of fiscal 2014 to US\$1,367 million for the first half of fiscal 2015.

***Operating sales revenue***

Operating sales revenue decreased from US\$5,873 million in the first half of fiscal 2014 to US\$4,858 million in the first half of fiscal 2015, a decrease of US\$1,015 million, or 17%, as a result of a significant decrease in iron ore prices, which was partially offset by a significant increase in the volume of iron ore mined, processed and shipped during the period. See “—Key drivers of the business and trends—Prices for iron ore on world markets” for a description of recent price movements. See also “Business description—Sales and marketing—Customer base and sales agreements.”

### *Cost of sales*

Cost of sales, which comprise operating leases, mining costs, rail costs, port costs, shipping costs, government royalty and depreciation and amortization, increased by US\$1,069 million, or 35%, from US\$3,039 million in the first half of fiscal 2014 to US\$4,108 million in the first half of fiscal 2015. The increase was the result of an increase in the volume of iron ore mined, processed and shipped, and higher depreciation due to an increased asset base following completion of the 155Mtpa Expansion, which was partially offset by an 8% decrease in average cash cost per wmt of Fortescue mined ore shipped from US\$33.08 per wmt in the first half of fiscal 2014 to US\$30.30 per wmt in the first half of fiscal 2015. The Company's strip ratio decreased from 3.1:1 in the first half of fiscal 2014 to 2.2:1 in the first half of fiscal 2015, primarily due to the optimized scheduling and improvement of the OPFs' metallurgical performance, which lowered required ore cut-off grades, and the ramp-up of mines at the Solomon Hub, which have lower strip ratios compared with Fortescue's other mines.

*Operating lease expenses:* Operating lease expenses increased by US\$5 million in the first half of fiscal 2015, from US\$35 million in the first half of fiscal 2014 to US\$40 million in the first half of fiscal 2015, as a result of Fortescue's re-negotiation of certain of its lease arrangements. See "Description of other indebtedness—Operating lease facilities."

*Mining costs:* Mining costs, which include related processing costs, increased by US\$684 million, or 48%, from US\$1,433 million in the first half of fiscal 2014 to US\$2,117 million in the first half of fiscal 2015, as the result of the increase in the volume of iron ore mined and processed as a result of the completion of the 155Mtpa Expansion. The Company mined 86.5Mt of ore in the first half of fiscal 2015, an increase of 19.6Mt over the 66.9Mt of ore mined in the first half of fiscal 2014, and processed 75.6Mt in the first half of fiscal 2015, as compared to 53.7Mt of ore processed in the first half of fiscal 2014. Levels of overburden and other waste removal decreased to 191.8Mt in the first half of fiscal 2015, from 205.7Mt in the first half of fiscal 2014. In addition, mining and processing cash costs per tonne (excluding allocated operating lease costs) averaged US\$26.36 per tonne of ore shipped for the first half of fiscal 2015, as compared to an average cost of US\$28.21 per tonne in the first half of fiscal 2014, a decrease of 7%. This was primarily attributable to increased production and shipping volumes, lower strip ratios, enhanced processing capability, productivity and efficiency initiatives across all mines, OPFs and infrastructure assets, and a weakening in the Australian dollar against the U.S. dollar in the first half of fiscal 2015.

*Rail costs:* Rail costs increased by US\$14 million, or 13%, from US\$109 million for the first half of fiscal 2014 to US\$123 million in the first half of fiscal 2015, primarily as a result of an increase in the volume of iron ore transported by rail. The Company delivered 81.4Mt to port via its rail infrastructure in the first half of fiscal 2015, as compared to 54.8Mt delivered in the first half of fiscal 2014. On a per tonne basis, rail cash costs per tonne (excluding allocated operating lease costs) decreased by US\$0.62 per tonne in the first half of fiscal 2015, averaging US\$1.53 per tonne compared to US\$2.15 per tonne in the first half of fiscal 2014, largely due to the increased volume of iron ore transported by rail in the first half of fiscal 2015.

*Port costs:* Port costs increased by US\$51 million, or 50%, from US\$103 million for the first half of fiscal 2014 to US\$154 million in the first half of fiscal 2015, primarily as a result of an increase in the volume of iron ore handled through the Company's port facilities. On a per tonne basis, port cash costs per tonne (excluding allocated operating lease costs) decreased by US\$0.11 per tonne in the first half of fiscal 2015, averaging US\$1.92 per tonne compared to US\$2.03 per tonne in the first half of fiscal 2014, largely due to the increased volume of iron ore shipped in the first half of fiscal 2015.

*Shipping costs:* Shipping costs increased by US\$131 million, or 24%, from US\$556 million in the first half of fiscal 2014 to US\$687 million in the first half of fiscal 2015, primarily as a result of an increase in the volume of iron ore shipped. In addition to railing and shipping its own ore, Fortescue also provides shipping services (i.e., access to its port infrastructure) to third parties from time to time on a fee-for-service basis. Fortescue ships this third-party ore pursuant to third-party access agreements, but does not take title to or otherwise have ownership interests in the third-party ore. Costs associated with shipping third-party ore are included in Fortescue's reported shipping costs. The Company shipped 1.8Mt of third-party ore in the first half of fiscal 2015, compared to 2.5Mt of third-party ore in the first half of fiscal 2014. Average shipping cash costs per tonne of Fortescue mined ore shipped (excluding third-party ore, Fortescue's share of joint venture ore and allocated operating lease costs) decreased to US\$8.56 in the first

half of fiscal 2015, as compared to average costs of US\$10.94 per tonne for the first half of fiscal 2014, largely due to volatility in the BCI 5 index rates.

*Government royalties:* Government royalty expenses decreased by US\$88 million, or 23%, from US\$386 million in the first half of fiscal 2014 to US\$298 million in the first half of fiscal 2015. This decrease in royalties was consistent with the decrease in revenues from sales of iron ore during the same period.

*Depreciation and amortization:* Aggregate depreciation and amortization expense increased by US\$259 million, or 65%, from US\$399 million in the first half of fiscal 2014 to US\$658 million in the first half of fiscal 2015. The majority of the Company's depreciable mine assets are depreciated using the "units of production" method, under which depreciation is calculated using the quantity of material extracted from the mine in the period as a percentage of the total quantity of material to be extracted based on Proved and Probable Ore Reserves. The majority of the Company's rail and port infrastructure is depreciated over 50 years on a straight-line basis. The increase in the first half of fiscal 2015 was primarily driven by an increased asset base following completion of the 155Mtpa Expansion as well as increased production and shipping volumes.

#### *Other income*

Other income decreased from US\$124 million in the first half of fiscal 2014 to US\$77 million in the first half of fiscal 2015. This decrease primarily resulted from a gain on disposal of assets and interest in joint ventures in the first half of fiscal 2014, which resulted from Formosa's purchase of a 31% unincorporated interest in the Iron Bridge Joint Venture, as well as a net foreign exchange gain of US\$71 million in the first half of fiscal 2015 compared with a net foreign exchange loss of US\$48 million in first half of fiscal 2014 recorded in other expenses.

#### *Other expenses*

Other expenses decreased from US\$144 million in the first half of fiscal 2014 to US\$81 million in the first half of fiscal 2015, primarily as a result of a decrease in corporate administration costs and a net foreign exchange loss of US\$48 million in the first half of fiscal 2014 compared to a gain of US\$71 million in the first half of fiscal 2015 recorded in other income.

#### *Finance income*

Finance income in the first half of fiscal 2015 decreased by US\$3 million, or 25%, to US\$9 million from US\$12 million in the first half of fiscal 2014, primarily as a result of lower interest rates applicable to the Company's short term deposits.

#### *Finance expenses*

Finance expenses in the first half of fiscal 2015 decreased by US\$94 million, or 23%, to US\$315 million from US\$409 million in the first half of fiscal 2014, primarily as a result of a decrease in total borrowings and finance lease liabilities, a decrease in associated losses on early redemption of debt prior to maturity, offset by lower capitalized interest.

#### *Taxes*

In the first half of fiscal 2015, income tax expense was US\$109 million, compared to US\$694 million in the first half of fiscal 2014. The effective tax rate in the first half of fiscal 2015 was 25% compared to an effective tax rate in the first half of fiscal 2014 of 29%, primarily as a result of non-assessable foreign exchange gains and permanent tax differences on certain expenditures.

#### *Comparison of performance for fiscal 2014 to fiscal 2013*

Fortescue achieved strong operational performance during the fiscal 2014 with increased mining, processing and shipping rates as compared to fiscal 2013. This primarily resulted from the completion of

the 155Mtpa Expansion, including delivery of all construction projects outstanding at the time and ramp-up of operations across all mines, rail and port infrastructure.

Total Fortescue-mined ore shipped in fiscal 2014 was 118.4Mt, an increase of 56% over the 75.9Mt total Fortescue-mined ore shipped in fiscal 2013. Profit after tax increased by 57%, from US\$1,746 million for fiscal 2013 to US\$2,740 million for fiscal 2014. Adjusted EBITDA increased by 68%, from US\$3,321 million for fiscal 2013 to US\$5,580 million for fiscal 2014.

#### *Operating sales revenue*

Operating sales revenue increased from US\$8,120 million in fiscal 2013 to US\$11,753 million in fiscal 2014, an increase of US\$3,633 million, or 45%, primarily due to the increase in the volume of iron ore mined, processed and shipped, which was partially offset by a 7% decrease in fiscal 2014 in the average realized iron ore price per dry tonne shipped.

#### *Cost of sales*

Cost of sales increased by US\$1,862 million, or 36%, from US\$5,140 million in fiscal 2013 to US\$7,002 million in fiscal 2014. The increase was the result of an increase in the volume of iron ore mined, processed and shipped, and higher depreciation due to an increased asset base following completion of the 155Mtpa Expansion, which was partially offset by a 23% decrease in average cash cost per wmt of Fortescue mined ore shipped from US\$44.09 per wmt in fiscal 2013 to US\$33.84 per wmt in fiscal 2014. The Company's strip ratio decreased from 3.9:1 in fiscal 2013 to 2.9:1 in fiscal 2014, primarily due to optimization of the scheduling, and improvement in the metallurgical performance, of the Group's OPFs, which resulted in lower required ore cut-off grades, the ramp-up of the Kings mine, which has a lower strip ratio compared with Fortescue's other mines, as well as increased production and shipping volumes.

*Operating lease expenses:* Operating lease expenses decreased by US\$59 million in fiscal 2014, from US\$133 million in fiscal 2013 to US\$74 million in fiscal 2014, primarily due to the purchase of an OPF and port equipment in fiscal 2014 that had previously been subject to operating leases which expired in the second half of fiscal 2014. See "—Operating lease facilities."

*Mining costs:* Mining costs, which include related processing costs, increased by US\$591 million, or 21%, from US\$2,851 million in fiscal 2013 to US\$3,442 million in fiscal 2014, as the result of the increase in the volume of iron ore mined and processed as a result of completion of the 155Mtpa Expansion. The Company mined 140.4Mt of ore in fiscal 2014, an increase of 45.8Mt over the 94.6Mt of ore mined in fiscal 2013, and processed 126.0Mt in fiscal 2014, as compared to 76.1Mt of ore processed in fiscal 2013. Levels of overburden and other waste removal increased to 404.5 Mt in fiscal 2014, from 364.5Mt in fiscal 2013. In addition, mining and processing cash costs per tonne (excluding allocated operating lease costs) averaged US\$29.07 per tonne of ore shipped for fiscal 2014, as compared to an average cost of US\$37.55 per tonne in fiscal 2013, a decrease of 23%. This was primarily attributable to an increase in lower cost production at mines in the Solomon Hub, improved processing capacity and other operational efficiencies, an increase in production of Fortescue Blend Fines, which is a blend of low impurity Chichester Special Fines and higher grade Brockman Fines, which in turn resulted in lower strip ratios at the Chichester Hub, and the weakening of the Australian dollar against the U.S. dollar in fiscal 2014.

*Rail costs:* Rail costs increased by US\$56 million, or 31%, from US\$182 million for fiscal 2013 to US\$238 million in fiscal 2014, primarily as a result of an increase in the volume of iron ore transported by rail. The Company delivered 126.4Mt to port via its rail infrastructure in fiscal 2014, as compared to 81.6Mt delivered in fiscal 2013. On a per tonne basis, rail cash costs per tonne (excluding allocated operating lease costs) decreased by US\$0.39 per tonne in fiscal 2014, averaging US\$2.01 per tonne compared to US\$2.40 per tonne in fiscal 2013, largely due to the Company's focus on operational efficiencies, economies of scale arising from the completion of the 155Mtpa Expansion and favorable exchange rates.

*Port costs:* Port costs increased by US\$71 million, or 39%, from US\$181 million for fiscal 2013 to US\$252 million in fiscal 2014, primarily as a result of an increase in the volume of iron ore handled through the Company's port facilities. On a per tonne basis, port cash costs per tonne (excluding allocated operating lease costs) decreased by US\$0.26 per tonne in fiscal 2014, averaging US\$2.13 per tonne,

compared to US\$2.39 per tonne in fiscal 2013, largely due to the Company's focus on operational efficiencies, economies of scale arising from the completion of the 155Mtpa Expansion and favorable exchange rates.

*Shipping costs:* Shipping costs increased by US\$441 million, or 57%, from US\$769 million in fiscal 2013 to US\$1,210 million in fiscal 2014, primarily as a result of an increase in the volume of iron ore shipped. In addition to railing and shipping its own ore, Fortescue also provides shipping services (i.e., access to its port infrastructure) to third parties from time to time on a fee-for-service basis. Fortescue ships this third-party ore pursuant to third-party access agreements, but does not take title to or otherwise have ownership interests in the third-party ore. Costs associated with shipping third-party ore are included in Fortescue's reported shipping costs. The Company shipped 4.3Mt of third-party ore in fiscal 2014, compared to 3.1Mt of third-party ore in fiscal 2013. Average shipping cash costs per tonne of Fortescue mined ore shipped (excluding third-party ore, Fortescue's share of joint venture ore and allocated operating lease costs) increased to US\$10.22 in fiscal 2014, as compared to an average cost of US\$10.13 per tonne for fiscal 2013, primarily due to the increase in the BCI 5 index from an annual average of US\$7.64 per tonne to US\$9.34 per tonne and partially offset by the redelivery of several expensive legacy vessels and the impact of increased discounted index linked contracts.

*Government royalties:* Government royalty expenses increased by US\$276 million, or 55%, from US\$499 million in fiscal 2013 to US\$775 million in fiscal 2014. This increase in royalties was consistent with the increase in revenues from sales of iron ore during the same period.

*Depreciation and amortization:* Aggregate depreciation and amortization expense increased by US\$502 million, or 108%, from US\$463 million in fiscal 2013 to US\$965 million in fiscal 2014. The majority of the Company's depreciable mine assets are depreciated using the "units of production" method, under which depreciation is calculated using the quantity of material extracted from the mine in the period as a percentage of the total quantity of material to be extracted based on Proved and Probable Ore Reserves. The majority of the Company's rail and port infrastructure is depreciated over 50 years on a straight-line basis. The increase in fiscal 2014 was primarily driven by an increased asset base following completion of the 155Mtpa Expansion, as well as increased production and shipping volumes.

#### *Other income*

Other income decreased from US\$291 million in fiscal 2013 to US\$126 million in fiscal 2014. This decrease primarily resulted from a smaller gain on disposal of assets and interest in joint ventures in fiscal 2014 (US\$109 million), which resulted from Formosa's purchase of a 31% unincorporated interest in the Iron Bridge Joint Venture, as compared to fiscal 2013 (US\$124 million) as well as a net foreign exchange loss of US\$53 million in fiscal 2014 (recorded in other expenses) compared with a net foreign exchange gain of US\$96 million in fiscal 2013. Other income in fiscal 2013 also included a gain on re-estimation of Unsecured Loan Notes of US\$34 million and net gain on refinancing of US\$23 million, neither of which occurred in fiscal 2014. See "—Other factors that affect reported financial performance—The Unsecured Loan Notes."

#### *Other expenses*

Other expenses decreased from US\$252 million in fiscal 2013 to US\$244 million in fiscal 2014, primarily as a result of lower asset write-off expenses for mining equipment identified as obsolete in fiscal 2014 (US\$22 million as compared with US\$71 million in fiscal 2013), partially offset by net foreign exchange loss of US\$53 million in fiscal 2014 compared to a gain of US\$96 million in fiscal 2013 (recorded in other income).

#### *Finance income*

Finance income in fiscal 2014 decreased by US\$12 million, or 36%, to US\$21 million from US\$33 million in fiscal 2013, primarily as a result of lower interest rates applicable to the Company's short term deposits.

### *Finance expenses*

Finance expenses in fiscal 2014 increased by US\$155 million, or 26%, to US\$741 million from US\$586 million in fiscal 2013, primarily as a result of lower capitalized interest offset by decreased total borrowings and finance lease liabilities. The interest terms underlying the interest expense for the Unsecured Senior Notes are contained in note 34 “Financial risk management” and note 17 “Borrowings and finance lease liabilities” to the Company’s audited consolidated financial statements for fiscal 2014 included elsewhere in this offering circular.

### *Taxes*

In fiscal 2014, income tax expense was US\$1,173 million, compared to US\$720 million in fiscal 2013. The effective tax rate in fiscal 2014 was 30% compared to an effective tax rate in fiscal 2013 of 29%.

### *Comparison of performance for fiscal 2013 to fiscal 2012*

Fortescue achieved strong operational performance during the fiscal 2013 with increased mining, processing and shipping rates as compared to fiscal 2012, in large part due to completion of additional milestones in the 155Mtpa Expansion, including the commissioning of Firetail in December 2012 and a ramp up in volumes of iron ore mined at Christmas Creek and, to a lesser extent, Cloudbreak.

Total Fortescue-mined ore shipped in fiscal 2013 was 75.9Mt, an increase of 41% over the 53.9Mt total Fortescue-mined ore shipped in fiscal 2012. Profit after tax increased by 12%, from US\$1,559 million for fiscal 2012 to US\$1,746 million for fiscal 2013. Adjusted EBITDA increased by 15%, from US\$2,879 million for fiscal 2012 to US\$3,321 million for fiscal 2013.

### *Operating sales revenue*

Operating sales revenue increased from US\$6,716 million in fiscal 2012 to US\$8,120 million in fiscal 2013, an increase of US\$1,404 million, or 21%, primarily due to an increase in the volume of iron ore mined, processed and shipped in fiscal 2013.

### *Cost of sales*

Cost of sales increased by US\$1,132 million, or 28%, from US\$4,008 million in fiscal 2012 to US\$5,140 million in fiscal 2013. The increase was the result of an increase in the volumes of ore mined, processed and shipped, which was partially offset by a 9% decrease in average cash cost per wmt of Fortescue mined ore shipped from US\$48.44 per wmt in fiscal 2012 to US\$44.09 per wmt in fiscal 2013. The Company’s strip ratio decreased from 4.3:1 in fiscal 2012 to 3.9:1 in fiscal 2013, primarily due to the commissioning of the wet processing plants at the Chichester mines, which enabled mining of lower cut-off grade ores, and the introduction of ore from mines in the Solomon Hub, which have a lower strip ratio compared with mines in the Chichester Hub.

*Operating lease expenses:* Operating lease expenses decreased by US\$12 million in fiscal 2013, from US\$145 million in fiscal 2012 to US\$133 million in fiscal 2013, primarily due to the expiry of certain operating lease contracts during this period. See “—Operating lease facilities.”

*Mining costs:* Mining costs, which include related processing costs, increased by US\$649 million, or 29%, from US\$2,202 million in fiscal 2012 to US\$2,851 million in fiscal 2013. This was primarily attributable to an increase in the volume of iron ore mined and processed in fiscal 2013. The Company mined 94.6Mt of ore in fiscal 2013, an increase of 30.0Mt over the 64.6Mt of ore mined in fiscal 2012, and processed 76.1Mt in fiscal 2013, as compared to 53.9Mt of ore processed in fiscal 2012. Levels of overburden and other waste removal increased to 364.5Mt in fiscal 2013, from 276.8Mt in fiscal 2012. In addition, mining and processing cash costs per tonne (excluding allocated operating lease costs) averaged US\$37.55 per tonne of ore shipped for fiscal 2013, as compared to an average cost of US\$40.78 per tonne in fiscal 2012, a decrease of 8%, largely due to the commissioning of the wet plants at the Chichester Hub mines, which enabled the mining of lower cut off grades to decrease strip ratios, incorporating the low cost ore from the Solomon Hub mines and maintaining focus on operational efficiencies and cost reductions.

*Rail costs:* Rail costs increased by US\$43 million, or 31%, from US\$139 million for fiscal 2012 to US\$182 million in fiscal 2013 primarily as a result of an increase in the volume of iron ore transported by rail in fiscal 2013. The Company delivered 81.6Mt to port via its rail infrastructure in fiscal 2013, as compared to 57.7Mt delivered in fiscal 2012. On a per tonne basis, rail cash costs per tonne (excluding allocated operating lease costs) decreased by US\$0.20 per tonne in fiscal 2013, averaging US\$2.40 per tonne compared to US\$2.60 per tonne in fiscal 2012.

*Port costs:* Port costs increased by US\$56 million, or 45%, from US\$125 million for fiscal 2012 to US\$181 million in fiscal 2013 primarily as a result of an increase in the volume of iron ore processed through the Company's port facilities in fiscal 2013. On a per tonne basis, port cash costs per tonne (excluding allocated operating lease costs) increased by US\$0.09 per tonne in fiscal 2013, averaging US\$2.39 per tonne compared to US\$2.30 per tonne in fiscal 2012.

*Shipping costs:* Shipping costs increased by US\$97 million, or 14%, from US\$672 million in fiscal 2012 to US\$769 million in fiscal 2013, primarily as a result of an increase in the volume of iron ore shipped in fiscal 2013. The Company also shipped 3.1Mt of third-party ore in fiscal 2013, compared to 1.8 Mt of third-party ore in fiscal 2012. Average shipping cash costs per tonne of Fortescue mined ore shipped (excluding third-party ore, Fortescue's share of joint venture ore and allocated operating lease costs) decreased to US\$10.13 in fiscal 2013, as compared to an average cost of US\$12.47 per tonne for fiscal 2012, primarily due to the decrease in the BCI 5 index from an annual average of US\$9.02 per tonne in fiscal 2012 to US\$7.64 per tonne in fiscal 2013.

*Government royalties:* Government royalty expenses increased by US\$133 million, or 36%, from US\$366 million in fiscal 2012 to US\$499 million in fiscal 2013. This increase in royalties was consistent with the increase in revenues from sales of iron ore during the same period.

*Depreciation and amortization:* Aggregate depreciation and amortization expense increased by US\$197 million, or 74%, from US\$266 million in fiscal 2012 to US\$463 million in fiscal 2013. The increase in fiscal 2013 was primarily driven by an increased asset base as the result of commissioning of the Firetail mine in December 2012 as well as the completion of other 155Mtpa Expansion milestones during fiscal 2013.

#### *Other income*

Other income increased from US\$171 million in fiscal 2012 to US\$291 million in fiscal 2013. This increase primarily resulted from a net foreign exchange gain of US\$96 million in fiscal 2013 as well as a gain on disposal of assets in interests in joint venture of US\$124 million, which was primarily attributable to the sale of a 25% interest in the NIOJV to BC Iron Limited in December 2012, and a net gain on refinancing of US\$23 million. This increase was partially offset by a decrease in the gain on re-estimation of Unsecured Loan Notes from US\$156 million in fiscal 2012 to US\$34 million in fiscal 2013. See "—Other factors that affect reported financial performance—The Unsecured Loan Notes."

#### *Other expenses*

Other expenses increased from US\$111 million in fiscal 2012 to US\$252 million in fiscal 2013, primarily as a result of higher asset write-off expense for mining equipment identified as obsolete in fiscal 2013 (US\$71 million as compared with US\$1 million in fiscal 2012) as well as exploration, development and other expenses of US\$45 million incurred in fiscal 2013.

#### *Finance income*

Finance income in fiscal 2013 decreased by US\$27 million, or 45%, to US\$33 million from US\$60 million in fiscal 2012, primarily as a result of lower interest rates applicable to the Company's short term deposits.

#### *Finance expenses*

Finance expenses in fiscal 2013 increased by US\$21 million, or 4%, to US\$586 million from US\$565 million in fiscal 2012, primarily as a result of higher total borrowings and finance lease liabilities.

This increase was offset by an increase in interest capitalized to development expenditure of US\$342 million in fiscal 2013 compared with US\$196 million of interest capitalized in fiscal 2012. The interest terms underlying the interest expense for the Unsecured Senior Notes are contained in note 17 “Borrowings and finance lease liabilities” and note 22 “Financial risk management” to the Company’s audited consolidated financial statements for fiscal 2013 included elsewhere in this offering circular.

### *Taxes*

In fiscal 2013, income tax expense was US\$720 million, compared to US\$704 million in fiscal 2012. The effective tax rate in fiscal 2013 was 29% compared to an effective tax rate in fiscal 2012 of 31%.

### *Balance sheet*

Summaries of the balance sheets reported by the Company as of December 31, 2015 and as of June 30, 2014, 2013 and 2012 are set forth in the table below.

	As of December 31, 2014 (US\$ in millions)	As of June 30, 2014      2013      2012 (US\$ in millions)		
Cash and cash equivalents .....	\$ 1,574	\$ 2,398	\$ 2,158	\$ 2,343
Property, plant and equipment.....	18,139	18,068	17,159	11,357
Current and non-current borrowings and finance lease liabilities <sup>(1)</sup> .....	(9,051)	(9,557)	(12,691)	(8,501)
Deferred income.....	(1,623)	(1,492)	(369)	(5)
Provisions.....	(632)	(643)	(515)	(616)
Deferred tax liabilities .....	(1,232)	(1,154)	(805)	(221)
Current tax receivable / (payable) .....	13	(666)	8	(551)
Working capital <sup>(2)</sup> .....	654	714	327	23
Other net (liabilities) / assets.....	(222)	(85)	17	(67)
<b>Net assets</b> .....	<b><u>\$ 7,620</u></b>	<b><u>\$ 7,583</u></b>	<b><u>\$ 5,289</u></b>	<b><u>\$ 3,762</u></b>

### *Notes:*

<sup>(1)</sup> See “Description of other indebtedness” included elsewhere in this offering circular.

<sup>(2)</sup> Working capital is current and non-current trade receivables plus inventories less current trade payables less customer deposits.

In line with increased production, net assets have increased from US\$3,762 million in fiscal 2012 to US\$5,289 million in fiscal 2013, and to US\$7,583 million in fiscal 2014, and further increased to US\$7,620 million in the first half of fiscal 2015. Fortescue’s net assets principally comprise cash balances, the Company’s operating asset base, borrowings and working capital. The movements in cash and cash equivalents are described under “—Liquidity and capital resources.”

Property, plant and equipment increased from US\$11,357 million in fiscal 2012 to US\$17,159 million in fiscal 2013, and to US\$18,068 million in fiscal 2014, and further increased to US\$18,139 million in the first half of fiscal 2015. The increase in property, plant and equipment primarily related to the completion of OPFs and other mining activity as part of the expansion of Christmas Creek, the development of rail and port infrastructure and the ramp up of the 20Mtpa Firetail mine and OPF in fiscal 2013, the official opening of the Kings mine, which marked the completion of the 155Mtpa Expansion, in fiscal 2014 and the construction of the fifth ship loading berth at Anderson Point in Port Hedland during the first half of fiscal 2015, which, when completed, is expected to extend Fortescue’s total Port Hedland shipping capacity by around 15 to 20Mtpa.

Total borrowings and finance lease liabilities increased from US\$8,501 million in fiscal 2012 to US\$12,691 million in fiscal 2013, but decreased to US\$9,557 million in fiscal 2014, and further decreased to US\$9,051 million in the first half of fiscal 2015. The movements in borrowings and other financial liabilities primarily related to an increase in borrowings in fiscal 2013 as a result of issue of the US\$5.0 billion Senior Secured Credit Facility and a decrease in borrowings in fiscal 2014 and the first half of fiscal 2015 primarily as a result of repayment of the Issuer’s US\$2,040 million aggregate principal amount of 7%

Senior Notes due 2015, the Issuer's US\$600 million aggregate principal amount of 6.375% Senior Notes due 2016 and US\$273 million in finance lease liabilities and redemption of A\$140 million of preference shares issued by the Company on September 30, 2008 during fiscal 2014 and partial repayment of US\$500 million aggregate principal amount of the 2018 Unsecured Senior Notes in the first half of fiscal 2015.

Deferred income, included within current and non-current trade and other payables, consisted of prepayments for iron ore from Chinese steel mills and port access prepayments received from Formosa, Fortescue's partner in the Iron Bridge Joint Venture. Iron ore prepayments increased from nil in fiscal 2012 to US\$369 million in fiscal 2013, and increased to US\$1,048 million in fiscal 2014 and further increased to US\$1,234 million in the first half of fiscal 2015. Port capacity access prepayment increased from nil in fiscal 2013 to US\$444 million in fiscal 2014, but has decreased to US\$389 million in the first half of fiscal 2015 as a result of amortization of such port capacity access prepayments.

Provisions consist mainly of employee benefits and a site rehabilitation provision and has increased from US\$439 million in the first half of fiscal 2014 to US\$632 million in the first half of fiscal 2015, primarily as a result of an increase in the restoration and rehabilitation estimates.

The movement in net deferred tax liabilities (deferred tax assets less deferred tax liabilities) arises from temporary differences between the carrying value of assets and liabilities under AAS and IFRS and the carrying value for tax purposes. The deferred tax liability is also affected by the extent of tax losses that are available to the Company to use against future taxable profits. The Company's strong earnings before tax for fiscal 2012, 2013 and 2014 resulted in all carried forward tax losses being utilized. This resulted in a movement in the net deferred tax balance between fiscal 2013 and fiscal 2014 from a deferred tax asset to a liability as represented in the Group's balance sheet in the form of a non-current deferred tax liability and a current tax payable.

Working capital is current trade and other receivables plus inventories less current trade and other payables. Working capital balances increased from US\$23 million in fiscal 2012 to US\$327 million in fiscal 2013 and to US\$714 million in fiscal 2014, but decreased to US\$654 million in the first half of fiscal 2015. The US\$304 million increase in working capital from fiscal 2012 to fiscal 2013 principally related to a decrease in current trade and other receivables of US\$179 million, an increase in inventories of US\$344 million and a decrease in current trade and other payables of US\$139 million, while the further US\$387 million increase in working capital from fiscal 2013 to fiscal 2014 principally related to an increase in current trade and other receivables of US\$176 million and an increase in inventories of US\$506 million in fiscal 2014, which was partially offset by a US\$295 million increase in current trade and other payables in fiscal 2014 compared to fiscal 2013. The US\$171 million decrease in working capital from the first half fiscal 2014 to the first half of fiscal 2015 principally related to a decrease in iron ore inventories as a result of an increase in shipments of iron ore in the first half of fiscal 2015.

## Liquidity and capital resources

The cash flow statements reported by the Company for the first half of fiscal 2015 and 2014, and for fiscal 2014, 2013 and 2012, are summarized in the table below.

	Six months ended December 31,		Year ended June 30,		
	2014	2013	2014	2013	2012
	(US\$ in millions)		(US\$ in millions)		
<b>Net cash inflows from operating activities</b> .....	<b>\$ 905</b>	<b>\$ 3,646</b>	<b>\$ 6,248</b>	<b>\$ 3,004</b>	<b>\$ 2,808</b>
<b>Net cash (outflows) from investing activities</b> .....	<b>(507)</b>	<b>(900)</b>	<b>(1,392)</b>	<b>(6,166)</b>	<b>(5,990)</b>
Net cash flows from financing activities:					
Proceeds from borrowings and finance leases .....	—	—	—	7,330	3,638
Repayment of borrowings and finance leases .....	(526)	(1,169)	(3,092)	(3,232)	(15)
Interest and finance costs paid .....	(290)	(454)	(853)	(893)	(584)
Dividends paid .....	(274)	(293)	(581)	(131)	(251)
Proceeds from customer deposits .....	—	—	—	—	100
Repayment of customer deposits .....	(50)	(35)	(82)	(80)	(95)
Purchase of shares by employee share trust .....	(29)	(13)	(17)	(20)	—
Transactions with non-controlling interest .....	—	—	—	15	—
<b>Net cash (outflow)/inflow from financing activities</b> .....	<b>(1,169)</b>	<b>(1,964)</b>	<b>(4,625)</b>	<b>2,989</b>	<b>2,793</b>
Net (decrease)/increase in cash and cash equivalents .....	(771)	782	231	(173)	(389)
Cash and cash equivalents at the beginning of the period .....	2,398	2,158	2,158	2,343	2,663
Effect of exchange rate changes on cash and cash equivalents .....	(53)	(16)	9	(12)	69
<b>Cash and cash equivalents at the end of the period</b> ...	<b>\$ 1,574</b>	<b>\$ 2,924</b>	<b>\$ 2,398</b>	<b>\$ 2,158</b>	<b>\$ 2,343</b>

### *Cash flow from operating activities*

Net cash flows from operating activities increased from a cash inflow of US\$2,808 million in fiscal 2012 to a cash inflow of US\$3,004 million in fiscal 2013 and further increased to a cash inflow of US\$6,248 million in fiscal 2014. In general, the increased net cash flows from operating activities during fiscal 2012, 2013 and 2014 resulted from the transition of the Company from development stage to a major iron ore producer as a result of completion of the 155Mtpa Expansion. Net cash flows from operating activities decreased from a cash inflow of US\$3,646 million in the first half of fiscal 2014 to a cash inflow of US\$905 million in the first half of fiscal 2015, primarily due to a significant reduction in iron ore spot prices received which impacted cash receipts from customers. Operating cash inflows included proceeds from iron ore prepayments of US\$330 million in fiscal 2013, proceeds from iron ore prepayments of US\$712 million and proceeds from port access prepayments of US\$500 million in fiscal 2014 and proceeds from iron ore prepayments of US\$496 million in the first half of fiscal 2015.

### *Cash flow from investing activities*

Cash flows from investing activities primarily consist of payments for exploration and development activities and purchases of property, plant and equipment. Cash outflows from investing activities increased from US\$5,990 million in fiscal 2012 to US\$6,166 million in fiscal 2013, and decreased to US\$1,392 million in fiscal 2014. Cash outflows from investing activities decreased from US\$900 million in the first half of fiscal 2014 to US\$507 million in the first half of fiscal 2015. The pattern of increasing expenditures in fiscal 2013 and decreasing expenditures in fiscal 2014 and the first half of fiscal 2015 is consistent with the ramp-up of operations and completion of the 155Mtpa Expansion. Further information on capital expenditure is provided under “—Capital expenditures” below.

### *Cash flow from financing activities*

Cash flows from financing activities consisted of a cash inflow of US\$2,793 million in fiscal 2012, a cash inflow of US\$2,989 million in fiscal 2013 and a cash outflow of US\$4,625 million in fiscal 2014, as well as a cash outflow of US\$1,169 million in the first half of fiscal 2015 as compared to a cash outflow

of US\$1,964 million in the first half of fiscal 2014. Financing activities in fiscal 2013 principally consisted of proceeds from borrowings and finance leases of US\$7,330 million, net of interest and finance costs paid of US\$893 million, repayment of customer deposits in the amount of US\$80 million and repayments of borrowings and finance leases in the amount of US\$3,232 million. The cash outflow from financing activities in fiscal 2014 resulted from the fact that the Company did not incur any new borrowings or finance leases in fiscal 2014 and repaid US\$3,092 million of borrowings and finance leases. As of December 31, 2014, total repayments of borrowings and finance lease liabilities made since December 2012 totaled US\$3.7 billion. See “—Other factors that affect reported financial performance—Finance expenses.”

### ***Capital expenditures***

Capital expenditures in fiscal 2012 and 2013 principally related to mining capital in connection with the 155Mtpa Expansion. Capital expenditures declined significantly in fiscal 2014 and the first half of fiscal 2015, principally as a result of the progressive completion of significant milestones in connection with the 155Mtpa Expansion. Total capital expenditures for the first half of fiscal 2015 and fiscal 2014, 2013 and 2012 are shown in the table below:

	Six months ended December 31,	Year ended June 30,		
	2014 <sup>(1)</sup>	2014	2013	2012
	(US\$ in millions)	(US\$ in millions)		
<b>Total capital expenditures<sup>(2)</sup></b> .....	\$677	\$1,955	\$6,394	\$6,092

#### ***Notes:***

<sup>(1)</sup> Total capital expenditure for the first half of fiscal 2015 includes US\$154 million of capital expenditure in connection with the Iron Bridge magnetite project. See “Business description—Optimization and other development activities—Iron Bridge magnetite project.”

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

Expenditures for optimization and sustaining capital in fiscal 2014 decreased to US\$870 million from US\$939 million in fiscal 2013, and capital expenditures for ongoing development and feasibility studies in fiscal 2014 decreased to US\$24 million from US\$42 million in fiscal 2013. Fortescue currently anticipates that capital expenditure for fiscal 2015 will be approximately US\$650 million, excluding expenditure in connection with the Iron Bridge magnetite project, the first stage of which is being funded by Formosa. See “—Other factors that affect reported financial performance—Iron Bridge magnetite project.”

The Group currently maintains plant and machinery operating leases in which a significant portion of the risks and rewards of ownership are not transferred to Fortescue as lessee. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease. Current material operating leases include facilities for Caterpillar mining fleet and trucks, and a rolling stock lease facility for rail ore cars and locomotives. See “—Operating lease facilities.”

### **Contractual obligations**

The following table sets forth the scheduled maturities of the Group’s contractual obligations as of December 31, 2014.

	Less than 1 year	1 to 5 years	More than 5 years	Total
	(US\$ in millions)			
Operating lease commitments.....	\$ 75	\$ 113	\$ 29	\$ 217
Mineral tenement leases <sup>(1)</sup> .....	24	139	92	255
Long-term borrowings <sup>(2)</sup> .....	515	9,382	1,172	11,069
Capital commitments <sup>(3)</sup> .....	276	480	—	756
<b>Total</b> .....	<b>\$890</b>	<b>\$10,114</b>	<b>\$1,293</b>	<b>\$12,297</b>

**Notes:**

- <sup>(1)</sup> Represents amounts payable under the terms and conditions of the titles to various mining tenements, pursuant to which the Group has an obligation to meet rentals and minimum levels of exploration expenditures per annum as required by the Department of Industry and Resources of Western Australia to maintain their current exploration and mining tenement holdings, as well as local government rates and taxes. Financial commitments for periods of one year or more are contingent upon future exploration and, as such, the amounts for such periods in the above table are estimates.
- <sup>(2)</sup> Represents principal and interest commitments on the Senior Secured Credit Facility and the Unsecured Senior Notes.
- <sup>(3)</sup> Represents amounts payable under contracts and purchase orders, including approximately US\$556 million for the purchase of eight highly efficient VLOCs to be delivered between November 2016 and March 2018.

In June and July 2014, Fortescue entered into arrangements for the construction of eight highly efficient, very large ore carriers. Construction has commenced and delivery is scheduled between November 2016 and March 2018 with the majority of payments due on delivery. The investment will initially be funded by existing operating cash flows and, due to the timing of cash payments, is not expected to impact Fortescue's debt repayment strategy. Fortescue's total commitment for the purchase of these VLOCs is approximately US\$556 million.

**Off balance sheet arrangements**

The Company's off balance sheet arrangements include lease commitments, commitments for capital expenditures, commitments for expenditures on exploration tenement leases and contingent liabilities. The Company expects that these contractual commitments for expenditures will be met from internal cash flows. Information in relation to the Company's material off balance arrangements as of December 31, 2014 is provided in note 13 "Contingent liabilities" and note 14 "Commitments" to the unaudited consolidated interim financial statements included elsewhere in this offering circular.

**Quantitative and qualitative disclosures about market risk**

As is the case with all other businesses, Fortescue is exposed to financial risks. The Company's objectives and policies to manage these risks are disclosed in note 34 "Financial risk management" to the audited consolidated financial statements for fiscal 2014 included elsewhere in this offering circular.

## ORE RESERVES AND MINERAL RESOURCES

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

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

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

An “Indicated Mineral Resource” is that part of a Mineral Resource for which quantity, grade (or quality), densities, shape and physical characteristics are estimated with sufficient confidence to allow application of Modifying Factors in sufficient detail to support mine planning and evaluation of the economic viability of the deposit. Geological evidence is derived from adequately detailed and reliable exploration, sampling and testing gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes, and is sufficient to assume geological and grade (or quality) continuity between points of observation where data and samples are gathered. An Indicated Mineral Resource has a lower level of confidence than that applying to a Measured Mineral Resource and may only be converted to a Probable Ore Reserve.

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

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

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

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

## **JORC reporting**

The latest estimates of Ore Reserves for the operating hematite properties (Chichester Hub and Solomon Hub), Mineral Resources for the Solomon Hub hematite development properties as well as the North Star and Glacier Valley magnetite development properties (in each case as first reported in the market announcement entitled “Mineral Resource & Ore Reserve Statement as at 30 June 2014” and released to ASX on August 20, 2014), Mineral Resources for the Greater Solomon and Eliwana & Flying Fish (formerly known as the Western Hub) (as first reported in the market announcement entitled “Fortescue Substantially Increases Greater Solomon Mineral Resources” and released to ASX on May 20, 2014) and Mineral Resources for the Chichester Hub and the Kutayi and Mt. Lewin deposits of the Greater Chichester hematite development properties (as first reported in the market announcement entitled “Chichester Range Mineral Resource Update” and released to ASX on January 8, 2015) are all reported in accordance with the JORC 2012 Code. The latest estimates of the Mineral Resources for the White Knight and Investigator deposits (as first reported in the market announcement entitled “Second Quarter Activities and Cashflow Reports” released to ASX on January 31, 2007, with the Investigator deposit being reported under its previous name “Flinders”) of the Greater Chichester hematite development properties and Mineral Resources for Nyidinghu (as first reported in the market announcement entitled “Increase in Nyidinghu Resource to 2.46 Billion Tonnes” and released to ASX on March 13, 2013) are reported to JORC 2004 Code standards and have not been updated to comply with the JORC 2012 Code on the basis that the information has not materially changed since those latest estimates were first reported. This information will be updated to meet JORC 2012 Code standards according to Fortescue’s development priorities. Ore Reserves and Mineral Resources in this offering circular are reported “as at June 30, 2014” in accordance with when the current estimates were last publicly reported by Fortescue, except in respect of Mineral Resources for the Chichester Hub and Greater Chichester development properties for which an updated estimate was released to ASX on January 8, 2015 and which are reported in this offering circular “as at January 8, 2015.”

Ore Reserves and Mineral Resources reported in this offering circular are reported in accordance with the JORC 2012 Code or, where the ASX Listing Rules permit, the JORC 2004 Code. The successive versions of the JORC Code have been incorporated into the ASX Listing Rules.

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

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

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

## **Ore Reserves**

As of June 30, 2014, Ore Reserve estimates for the Chichester Hub were 1,470Mt, of which 444Mt were Proved Ore Reserves and 1,026Mt were Probable Ore Reserves, with an average iron grade of approximately 57.4% and reported on a dry product tonnes basis. Ore Reserve estimates for the Solomon

Hub were 903Mt as of June 30, 2014, of which 143Mt were Proved Ore Reserves and 760Mt were Probable Ore Reserves with an average iron grade of approximately 57.2%, as reported on a dry product tonnes basis. There are no current Ore Reserves for either hematite or magnetite deposits outside of the Chichester and Solomon Hubs.

Detailed information regarding the Proved Ore Reserves and Probable Ore Reserves for each of these locations as of June 30, 2014 are set forth below.

**Ore Reserves**  
(As of June 30, 2014)<sup>(1)</sup>

<b>Mine/Hub by category</b>	<b>Tonnes (Mt)</b>	<b>Iron (Fe %)</b>	<b>Silica (SiO<sub>2</sub> %)</b>	<b>Aluminum oxide (Al<sub>2</sub>O<sub>3</sub> %)</b>	<b>Phosphorus (P %)</b>	<b>Loss on ignition (LOI %)</b>
<b><i>Cloudbreak</i></b>						
Proved <sup>(2)</sup> .....	132	57.7	4.20	2.35	0.048	8.7
Probable .....	368	57.5	4.55	2.33	0.052	8.1
<b>Total .....</b>	<b>500</b>	<b>57.6</b>	<b>4.46</b>	<b>2.33</b>	<b>0.051</b>	<b>8.3</b>
<b><i>Christmas Creek</i></b>						
Proved <sup>(2)</sup> .....	312	57.3	5.72	2.45	0.043	7.9
Probable .....	659	57.3	4.91	2.62	0.044	7.9
<b>Total .....</b>	<b>970</b>	<b>57.3</b>	<b>5.17</b>	<b>2.57</b>	<b>0.044</b>	<b>7.9</b>
<b><i>Combined Chichester Hub</i></b>						
Proved <sup>(2)</sup> .....	444	57.4	5.27	2.42	0.045	8.2
Probable .....	1,026	57.4	4.78	2.52	0.047	7.9
<b>Total Chichester Hub Ore Reserves<sup>(2)</sup> .....</b>	<b>1,470</b>	<b>57.4</b>	<b>4.93</b>	<b>2.49</b>	<b>0.046</b>	<b>8.0</b>
<b><i>Firetail</i></b>						
Proved <sup>(2)</sup> .....	39	59.2	5.66	2.66	0.133	6.4
Probable .....	136	58.5	6.84	2.63	0.106	6.2
<b>Total .....</b>	<b>174</b>	<b>58.7</b>	<b>6.58</b>	<b>2.64</b>	<b>0.112</b>	<b>6.3</b>
<b><i>Kings<sup>(3)</sup></i></b>						
Proved <sup>(2)</sup> .....	105	57.6	6.14	2.22	0.061	8.5
Probable .....	624	56.7	6.57	2.67	0.064	8.9
<b>Total .....</b>	<b>729</b>	<b>56.9</b>	<b>6.50</b>	<b>2.61</b>	<b>0.064</b>	<b>8.8</b>
<b><i>Combined Solomon Hub</i></b>						
Proved <sup>(2)</sup> .....	143	58.0	6.01	2.34	0.081	7.9
Probable .....	760	57.1	6.61	2.66	0.072	8.4
<b>Total Solomon Hub Ore Reserves .....</b>	<b>903</b>	<b>57.2</b>	<b>6.52</b>	<b>2.61</b>	<b>0.073</b>	<b>8.3</b>
<b><i>Combined Chichester Hub and Solomon Hub Ore Reserves</i></b>						
Proved <sup>(2)</sup> .....	587	57.6	5.45	2.40	0.053	8.1
Probable .....	1,786	57.3	5.56	2.58	0.057	8.1
<b>Total Hematite Ore Reserves<sup>(4)</sup> .....</b>	<b>2,374</b>	<b>57.3</b>	<b>5.53</b>	<b>2.54</b>	<b>0.056</b>	<b>8.1</b>

**Notes:**

<sup>(1)</sup> As disclosed in the market announcement entitled “Mineral Resource & Ore Reserve Statement as at 30 June 2014” released to the ASX on August 20, 2014. Ore Reserves are quoted at an iron cut-off grade of approximately 53% for BID and 51% for CID.

<sup>(2)</sup> Proved Ore Reserves are quoted inclusive of mine and port ore stockpiles.

<sup>(3)</sup> In the “Mineral Resource & Ore Reserve Statement as at 30 June 2014,” Kings is referred to as “Kings & Queens.”

<sup>(4)</sup> Chichester Hub Ore Reserves are inclusive of the Cloudbreak and Christmas BID deposits.

## Mineral Resources

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

As of January 8, 2015, on which date Fortescue released a market announcement entitled "Chichester Range Mineral Resource Update" in respect of an increase in Indicated and Inferred Mineral Resources at sites along the Chichester Range, total Mineral Resources at Fortescue's operating properties in the Chichester Hub (Cloudbreak and Christmas Creek) were estimated at 3,329Mt with an average iron ore grade of approximately 56.7% while total Mineral Resources at Fortescue's development properties in the Chichester Range ("Greater Chichester") were estimated at 491Mt with an average iron ore grade of approximately 57.1%.

As of June 30, 2014, total Mineral Resources at Fortescue's operating properties in the Solomon Hub (Firetail and Kings) were estimated at 2,219Mt with an average iron ore grade of approximately 56.1% while total Mineral Resources at development properties in the Solomon Hub ("Greater Solomon") were estimated at 2,658Mt with an average iron ore grade of approximately 56.8%.

As of June 30, 2014, total Inferred Mineral Resources for the Eliwana & Flying Fish deposits (formerly known as the Western Hub) were estimated at 740Mt with an average iron ore grade of approximately 59.1%. Total Mineral Resources for the Nyidinghu project were estimated at 2,463Mt, with an average iron ore grade of approximately 57.4%.

The Mineral Resources at the Chichester Hub, Greater Chichester, Solomon Hub, Greater Solomon, the Eliwana & Flying Fish deposits and Nyidinghu each contain hematite iron ore. In addition, Fortescue has magnetite iron ore Mineral Resources located in adjacent deposits at North Star and Glacier Valley. North Star has total Mineral Resources of 2,648Mt, with an average mass recovery of approximately 24.6%, while Glacier Valley has total Inferred Mineral Resources of 2,028Mt with an average mass recovery of approximately 23.5%. In each case, such resources are based on a mass recovery above a Davis Tube Recovery ("DTR") cut-off of 9%. See "Business description—Optimization and other development activities—Iron Bridge magnetite project."

Detailed information regarding the amount of Measured, Indicated and Inferred Mineral Resources for each of these locations, as applicable, as of January 8, 2015 (for the Chichester Hub and Greater Chichester) and June 30, 2014 (for the Solomon Hub, Greater Solomon, the Eliwana & Flying Fish deposits, Nyidinghu, North Star and Glacier Valley) are set forth in the tables below.

## Mineral Resources (Chichester Hub)

(As of January 8, 2015)<sup>(1)</sup>

### Chichester Hub

<b>Mineral Resources by category<sup>(2)</sup></b>	<b>Tonnes (Mt)</b>	<b>Iron (Fe %)</b>	<b>Silica (SiO<sub>2</sub> %)</b>	<b>Aluminum oxide (Al<sub>2</sub>O<sub>3</sub> %)</b>	<b>Phosphorus (P %)</b>	<b>Loss on ignition (LOI %)</b>
<i><b>Cloudbreak</b></i>						
Measured <sup>(3)</sup> .....	274	57.5	4.86	3.06	0.054	8.7
Indicated.....	457	56.7	5.80	3.34	0.059	8.2
Inferred.....	499	56.3	6.11	3.36	0.057	8.3
<b>Total.....</b>	<b>1,231</b>	<b>56.7</b>	<b>5.72</b>	<b>3.29</b>	<b>0.057</b>	<b>8.4</b>
<i><b>Christmas Creek</b></i>						
Measured <sup>(3)</sup> .....	516	57.3	5.93	2.97	0.047	8.0
Indicated.....	1,082	56.6	5.97	3.37	0.049	7.9
Inferred.....	500	56.4	6.55	3.21	0.059	7.2
<b>Total.....</b>	<b>2,098</b>	<b>56.7</b>	<b>6.10</b>	<b>3.23</b>	<b>0.051</b>	<b>7.7</b>
<i><b>Combined Chichester Hub</b></i>						
Measured <sup>(3)</sup> .....	790	57.4	5.56	3.00	0.049	8.2
Indicated.....	1,539	56.6	5.92	3.36	0.052	8.0
Inferred.....	999	56.4	6.33	3.29	0.058	7.8
<b>Total.....</b>	<b>3,329</b>	<b>56.7</b>	<b>5.96</b>	<b>3.25</b>	<b>0.053</b>	<b>8.0</b>

#### Notes:

<sup>(1)</sup> On January 8, 2015, Fortescue released a market announcement entitled “Chichester Range Mineral Resource Update” in respect of an increase in Indicated and Inferred Mineral Resources at sites along the Chichester Range.

<sup>(2)</sup> Chichester Hub Mineral Resources are quoted at an iron cut-off grade of 54%. Solomon Hub Mineral Resources are quoted at an iron cut-off grade of 51%.

<sup>(3)</sup> Measured Mineral Resource estimates include mine and port ore stockpiles.

### Greater Chichester

<b>Mineral Resources by category<sup>(1)</sup></b>	<b>Tonnes (Mt)</b>	<b>Iron (Fe %)</b>	<b>Silica (SiO<sub>2</sub> %)</b>	<b>Aluminum oxide (Al<sub>2</sub>O<sub>3</sub> %)</b>	<b>Phosphorus (P %)</b>	<b>Loss on ignition (LOI %)</b>
<i><b>Combined Greater Chichester<sup>(2)</sup></b></i>						
Indicated.....	82	57.9	6.30	2.99	0.053	6.8
Inferred.....	409	57.0	6.66	3.61	0.059	6.8
<b>Total Greater Chichester.....</b>	<b>491</b>	<b>57.1</b>	<b>6.60</b>	<b>3.51</b>	<b>0.058</b>	<b>6.8</b>

#### Notes:

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

<sup>(2)</sup> Greater Chichester Mineral Resources include the Investigator, White Knight, Mt. Lewin and Kutayi deposits. In prior years, the Greater Chichester Mineral Resources included the Mineral Resources for Mt. Nicholas. Following a review of its previously published Mineral Resources, it was determined that, where feasible, the iron cut-off grades outside the operating properties should be consistent with the iron cut-off grades within the operating properties. As a result, the Mt. Nicholas estimate, originally announced in April 2004, was removed from Fortescue’s Mineral Resources, given that the estimate was reported using an iron cut-off grade lower than the cut-off grade currently applied to estimates in the Chichester Hub. Mineral Resources as of January 8, 2015 for the Chichester Hub and the Kutayi and Mt. Lewin deposits of Greater Chichester are all reported in accordance with the JORC 2012 Code, while Mineral Resources as of January 8, 2015 for the White Knight and Investigator deposits of Greater Chichester were prepared under the JORC 2004 Code and first reported in the market announcement entitled “Second Quarter Activities & Cashflow Reports” released to ASX on January 31, 2007, with the Investigator deposit being reported under its previous name “Flinders”. The Mineral Resources for the White Knight and Investigator deposits have not been updated since to comply with the JORC 2012 Code on the basis that the information has not materially changed since it was last reported. It will be updated to meet JORC 2012 Code standards according to Fortescue’s development priorities.

## Mineral Resources (other than Chichester Hub)

(As of June 30, 2014)<sup>(1)</sup>

### Solomon Hub

<b>Mineral Resources by category<sup>(2)</sup></b>	<b>Tonnes (Mt)</b>	<b>Iron (Fe %)</b>	<b>Silica (SiO<sub>2</sub> %)</b>	<b>Aluminum oxide (Al<sub>2</sub>O<sub>3</sub> %)</b>	<b>Phosphorus (P %)</b>	<b>Loss on ignition (LOI %)</b>
<b><i>Firetail</i></b>						
Measured <sup>(3)</sup> .....	45	58.0	5.80	3.35	0.141	7.3
Indicated .....	155	58.9	6.11	2.64	0.107	6.4
Inferred .....	170	57.6	6.85	3.25	0.110	6.9
<b>Total .....</b>	<b>371</b>	<b>58.2</b>	<b>6.41</b>	<b>3.00</b>	<b>0.112</b>	<b>6.7</b>
<b><i>Kings<sup>(4)</sup></i></b>						
Measured <sup>(3)</sup> .....	121	56.4	7.43	2.87	0.068	8.5
Indicated .....	818	55.7	7.75	3.22	0.065	8.8
Inferred .....	909	55.6	7.86	3.41	0.076	8.6
<b>Total .....</b>	<b>1,848</b>	<b>55.7</b>	<b>7.78</b>	<b>3.29</b>	<b>0.071</b>	<b>8.7</b>
<b><i>Combined Solomon Hub</i></b>						
Measured <sup>(3)</sup> .....	167	56.8	6.99	3.00	0.088	8.2
Indicated .....	973	56.2	7.49	3.12	0.072	8.4
Inferred .....	1,079	55.9	7.70	3.38	0.082	8.3
<b>Total .....</b>	<b>2,219</b>	<b>56.1</b>	<b>7.55</b>	<b>3.24</b>	<b>0.078</b>	<b>8.3</b>

#### Notes:

<sup>(1)</sup> As disclosed in the market announcement entitled “Mineral Resource & Ore Reserve Statement as at 30 June 2014” released to the ASX on August 20, 2014.

<sup>(2)</sup> Solomon Hub Mineral Resources are quoted at an iron cut-off grade of 51%.

<sup>(3)</sup> Measured Mineral Resource estimates include mine and port ore stockpiles.

<sup>(4)</sup> In the “Mineral Resource & Ore Reserve Statement as at 30 June 2014,” Kings is referred to as “Kings & Queens.”

### Development Properties

#### *Hematite Resources*

<b>Development Property Hematite Mineral Resources by location<sup>(1)</sup></b>	<b>Tonnes (Mt)</b>	<b>Iron (Fe %)</b>	<b>Silica (SiO<sub>2</sub> %)</b>	<b>Aluminum oxide (Al<sub>2</sub>O<sub>3</sub> %)</b>	<b>Phosphorus (P %)</b>	<b>Loss on ignition (LOI %)</b>
<b><i>Greater Solomon<sup>(2)</sup></i></b>						
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
<b>Total .....</b>	<b>2,658</b>	<b>56.8</b>	<b>6.91</b>	<b>3.69</b>	<b>0.082</b>	<b>7.3</b>
<b><i>Eliwana &amp; Flying Fish<sup>(3)</sup></i></b>						
Indicated .....	—	—	—	—	—	—
Inferred .....	740	59.1	5.21	2.88	0.091	6.5
<b>Total .....</b>	<b>740</b>	<b>59.1</b>	<b>5.21</b>	<b>2.88</b>	<b>0.091</b>	<b>6.5</b>
<b><i>Nyidinghu</i></b>						
Measured .....	23	59.6	3.56	2.21	0.139	8.0
Indicated .....	580	58.1	4.52	2.95	0.148	8.6
Inferred .....	1,860	57.2	5.00	3.36	0.147	8.8
<b>Total .....</b>	<b>2,463</b>	<b>57.4</b>	<b>4.87</b>	<b>3.25</b>	<b>0.147</b>	<b>8.8</b>

**Notes:**

- <sup>(1)</sup> Mineral Resources for Nyidinghu are reported to and were prepared under the JORC 2004 Code and first disclosed in the market announcement entitled “Increase in Nyidinghu Resource to 2.46 Billion Tonnes” and released to ASX on March 13, 2013. The information has not been updated since to comply with the JORC 2012 Code on the basis that the information has not materially changed since it was last reported. It will be updated to meet JORC 2012 Code standards according to Fortescue’s development priorities. Mineral Resources for each of Greater Solomon and the Eliwana & Flying Fish deposits are reported to JORC 2012 Code standards.
- <sup>(2)</sup> Greater Solomon Mineral Resources include the Serenity, Sheila Valley, Mount MacLeod, Queens Extension, Cerberus, Stingray and Raven deposits. The Indicated Mineral Resource is located at the Serenity deposit. The majority of additional Inferred Mineral Resources are from extensions at Sheila Valley with smaller contributions from Serenity and Mount Macleod.
- <sup>(3)</sup> Formerly known as the Western Hub.

**Magnetite Resources**

<b>Magnetite Mineral Resources by location<sup>(1)</sup></b>	<b>Tonnes (Mt)</b>	<b>Mass Recovery (%)</b>	<b>Iron (Fe %)</b>	<b>Silica (SiO<sub>2</sub> %)</b>	<b>Aluminum oxide (Al<sub>2</sub>O<sub>3</sub> %)</b>
<b>North Star</b>					
Measured .....	44	27.2	32.2	39.8	2.0
Indicated .....	679	28.0	32.2	39.6	1.9
Inferred .....	<u>1,926</u>	<u>23.4</u>	<u>30.6</u>	<u>40.9</u>	<u>2.5</u>
<b>Total .....</b>	<b><u>2,648</u></b>	<b><u>24.6</u></b>	<b><u>31.0</u></b>	<b><u>40.6</u></b>	<b><u>2.3</u></b>
<b>Glacier Valley</b>					
Measured .....	—	—	—	—	—
Indicated .....	—	—	—	—	—
Inferred .....	<u>2,028</u>	<u>23.5</u>	<u>32.8</u>	<u>38.7</u>	<u>1.6</u>
<b>Total .....</b>	<b><u>2,028</u></b>	<b><u>23.5</u></b>	<b><u>32.8</u></b>	<b><u>38.7</u></b>	<b><u>1.6</u></b>
<b>Combined Development Property Magnetite Mineral Resources</b>					
Measured .....	44	27.2	32.2	39.8	2.0
Indicated .....	679	28.0	32.2	39.6	1.9
Inferred .....	<u>3,953</u>	<u>23.5</u>	<u>31.7</u>	<u>39.8</u>	<u>2.1</u>
<b>Total .....</b>	<b><u>4,676</u></b>	<b><u>24.2</u></b>	<b><u>31.8</u></b>	<b><u>39.8</u></b>	<b><u>2.0</u></b>

**Notes:**

- <sup>(1)</sup> Mineral Resources for the adjacent North Star and Glacier Valley deposits are reported to JORC 2012 Code standards. Average concentrate quality based on DTR results below a 53 micron grind size are less than 66% Fe and 6% SiO<sub>2</sub>.

**Competent persons**

The information relating to estimates of Mineral Resources at the Chichester Hub operating properties and the Kutayi and Mt. Lewin deposits of the Chichester development properties as at January 8, 2015 in this offering circular is extracted from the market announcement entitled “Chichester Range Mineral Resource Update” released on January 8, 2015 and available at <http://asx.com.au>. Fortescue confirms that it is not aware of any new information or data that materially affects the information included in the original market announcements and that all materials assumptions and technical parameters underpinning the estimates of Mineral Resources in the market announcement continue to apply and have not materially changed. Fortescue confirms that the form and context in which the Competent Person’s findings are presented have not been materially modified from the original market announcement.

The information relating to estimates of Ore Reserves for the operating hematite properties (Chichester Hub and Solomon Hub) and Mineral Resources for the Solomon Hub hematite properties as well as the North Star and Glacier Valley magnetite properties as at June 30, 2014 in this offering circular is extracted from the market announcement entitled “Mineral Resource & Ore Reserve Statement as at 30 June 2014”

released on August 20, 2014 and available at <http://asx.com.au>. Fortescue confirms that it is not aware of any new information or data that materially affects the information included in the original market announcements and that all materials assumptions and technical parameters underpinning the estimates of Mineral Resources and Ore Reserves in the market announcement continue to apply and have not materially changed. Fortescue confirms that the form and context in which the Competent Person's findings are presented have not been materially modified from the original market announcement.

The information relating to estimates of Mineral Resources for the Greater Solomon and Eliwana & Flying Fish (formerly known as the Western Hub) hematite properties as at June 30, 2014 in this offering circular is extracted from the market announcement entitled "Substantial Increase in Greater Solomon Mineral Resource" released on May 20, 2014 and available at <http://asx.com.au>. Fortescue confirms that it is not aware of any new information or data that materially affects the information included in the original market announcements and that all materials assumptions and technical parameters underpinning the estimates of Mineral Resources in the market announcement continue to apply and have not materially changed. Fortescue confirms that the form and context in which the Competent Person's findings are presented have not been materially modified from the original market announcement.

The detail in this offering circular that relates to Mineral Resources reported under the JORC 2004 Code is based on information compiled by Mr. Stuart Robinson, Mr. Clayton Simpson, Mr. Nicholas Nitschke, Mr. David Frost-Barnes, except in the case of Mineral Resources for North Star and Glacier Valley as of June 30, 2014, which is based on information compiled by 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.

Mr. Robinson is a Fellow of, and Messrs Simpson, Nitschke 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, Frost-Barnes and Widenbar have sufficient experience relevant to the type of mineralization and type of deposit under consideration to each be qualified as a Competent Person as defined in the JORC Code and consents to the inclusion in this offering circular of the matters based on their respective information in the context in which it appears.

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

## **U.S. definitions**

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

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

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

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

## BUSINESS DESCRIPTION

### Overview

Fortescue is engaged in the production and export of iron ore in the Pilbara region of Western Australia. Fortescue is the third largest iron ore producer in Australia and the world's fourth largest exporter into the seaborne iron ore market (being the market for iron ore which is transported by ocean bulk vessels), based on Metalystics' export statistics for calendar 2014. The Company is a significant supplier to the steel mills in Asia, principally China.

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



The Chichester Hub comprises two operating sites, Cloudbreak and Christmas Creek, and three OPFs which process ore from multiple pits. Cloudbreak is located approximately 250 kilometers southeast of the township of Port Hedland, and Christmas Creek is located approximately 50 kilometers east of Cloudbreak. Iron ore was first shipped from the Chichester Hub through Cloudbreak in May 2008. Since then, mining and processing from Cloudbreak has increased rapidly, with approximately 37.2Mt mined from Cloudbreak in calendar 2014. Mining at Christmas Creek began in April 2009, with approximately 63.2Mt mined in calendar 2014.

The Solomon Hub comprises two operating mines, Firetail and Kings, each with its own OPF which process ore from multiple pits. Firetail is located approximately 60 kilometers north of the township of Tom Price and approximately 120 kilometers west of the railway that links the Chichester Hub to Port Hedland. Kings is located approximately 10 kilometers west of Firetail. The development of the Solomon Hub was announced in November 2010 as part of the 155Mtpa Expansion. At the Solomon Hub, mining operations commenced through Firetail in October 2012 with the Firetail OPF commissioned in May 2013. Mining operations commenced at Kings in May 2012, with the Kings OPF commissioned in March 2014. The Company mined approximately 59Mt from the Solomon Hub in calendar 2014.

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

Integral to Fortescue's growth and ongoing operations has been the development of its rail and port infrastructure. Fortescue's railway is comprised of more than 620 kilometers of track, with an average of 13 trains making the approximately five-hour journey each day to haul iron ore from the Chichester and Solomon Hubs to Fortescue's Herb Elliott Port, which is located in Port Hedland. Construction of the port commenced in February 2006 and shipping began in May 2008. Since operations at the port commenced, four additional berths have been constructed and commissioned, together with two additional stackers, two shiploaders and the installation and commissioning of two new train unloaders. The port now consists of five berths and three in-load and out-load circuits. A fifth ship loading berth was recently completed in March 2015 and is expected to increase port capacity by 15-20Mtpa.

With the official completion of its 155Mtpa Expansion in March 2014, all components of Fortescue's expanded Chichester and Solomon Hubs, as well as its integrated rail and port infrastructure, are now operating at or above the initial targeted capacity of 155Mtpa. Fortescue intends to capitalize on its expanded operations, rail and port infrastructure and target production in excess of 155Mtpa at a lower average cash cost per wmt of Fortescue mined ore shipped, than currently achieved.

Fortescue's tenement holdings (including both granted tenements and applications for tenements) in the Pilbara cover an area of more than 85,000 square kilometers, representing the largest tenement holding in the Pilbara. As of June 30, 2014, Fortescue had estimated Ore Reserves at the Chichester Hub of approximately 1,470Mt (of which 444Mt were Proved Ore Reserves and 1,026Mt were Probable Ore Reserves) and estimated Ore Reserves at the Solomon Hub of approximately 903Mt (of which 143Mt were Proved Ore Reserves and 760Mt were Probable Ore Reserves). For more information, see "Ore Reserves and Mineral Resources" and "—Ore Reserves, Mineral Resources and geology."

For the first half of fiscal 2015 and fiscal 2014, Fortescue reported revenue of US\$4.9 billion and US\$11.8 billion, profit after income tax of US\$0.3 billion and US\$2.7 billion and Adjusted EBITDA of US\$1.4 billion and US\$5.6 billion, respectively. For a reconciliation of profit after income tax to Adjusted EBITDA, see "Offering circular summary—Summary historical consolidated financial and operating data."

Fortescue focuses on being a low cost exporter of iron ore, principally to China. Fortescue shipped approximately 80.3Mt of Fortescue mined ore in the first half of fiscal 2015, representing an annualized rate of approximately 160.6Mtpa, and 118.4Mt in fiscal 2014, substantially all of which was sold to steel mill customers in China.

For further discussion, see "Recent developments—Quarterly Report for the period ended March 31, 2015."

## Company strengths

### *Strong cash flow from operations*

Fortescue has been able to deliver rapid production growth with low operating costs, and has efficiently managed the capital expenditures required to construct the Chichester and Solomon Hubs and associated rail and port infrastructure. As Fortescue has transitioned from the development and expansion stage to becoming a major global iron ore producer with its mines operating at full production capacity, it has seen a strong increase in its cash flow from operating activities.

The below table shows Fortescue's cash flow from operating activities between fiscal 2008 and the first half of fiscal 2015.

**Cash flows from operating activities (US\$ millions)**



Source: Fortescue.

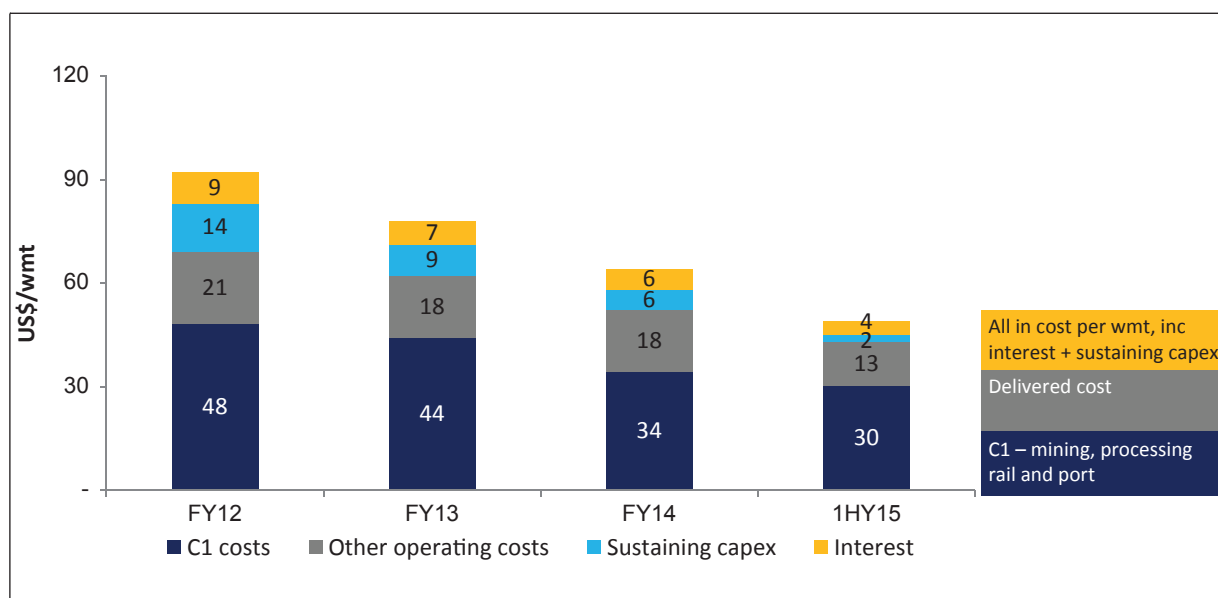
Fortescue's strong cash inflows from operating activities were supported historically by expansion of production and increasing iron ore prices and continued in the first half of fiscal 2015 through a combination of increasing iron ore shipments and lower operating costs. Total iron ore shipped for the first half of fiscal 2015 was approximately 82.7Mt, representing an annualized rate of approximately 165Mtpa and a 53% increase to the first half of fiscal 2014, while total iron ore shipped for fiscal 2014 was approximately 124.2Mt, a 54% increase, compared to 80.9Mt shipped in fiscal 2013.

### *Low cost producer*

Fortescue focuses on being a low cost exporter of iron ore, principally to China, through its highly efficient mining operations and modern rail and port transportation infrastructure. The development and control of Fortescue's rail, port and mining infrastructure has been integral to the Company's growth and profitability.

Advancements in engineering and mining technology (including rail alignment, wagon design and the use of surface miners) help Fortescue achieve cost-effective mining and ore transportation from the Chichester and Solomon Hubs to its Herb Elliott Port in Port Hedland for export to steel mill customers in China and other parts of Asia.

The following chart provides an overview of Fortescue's "all-in" cost per unit to deliver ore to China in fiscal 2012, fiscal 2013, fiscal 2014 and the first half of fiscal 2015, including "C1 cash costs," shipping costs, government royalties, administrative expenses, interest and sustaining capital.



Source: Fortescue.

**Notes:**

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

<sup>(2)</sup> "FY" denotes fiscal year ending June 30 and "HY" denotes fiscal half year ended December 31.

For the first half of fiscal 2015, Fortescue's average cash cost per wmt of Fortescue mined ore shipped was approximately US\$30.30 per wmt, representing an 8% decrease compared to US\$33.08 per wmt in the first half of fiscal 2014. This decrease primarily resulted from increased production and shipping volumes, lower strip ratios, enhanced processing capability, productivity and efficiency initiatives across all mines, OPFs and infrastructure assets, and a weakening in the Australian dollar against the U.S. dollar in the first half of fiscal 2015. Fortescue's average cash costs continued to decline in the first quarter of calendar 2015 to US\$25.90 per unit. See "Recent developments—Quarterly Report for the period ended March 31, 2015."

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

- Additional improvement in mining and processing operations, including blending of products, optimizing mine scheduling, improving OPF metallurgical performance to reduce cut-off grades, thereby allowing Fortescue to lower strip ratios, as reflected in the below chart showing the Group's strip ratios during each of fiscal 2012, 2013 and 2014 and the first half of fiscal 2015. Strip ratios for the first half of fiscal 2015 and 2014, and for fiscal 2014, 2013 and 2012, are summarized in the table below;

	Six months ended December 31,		Year ended June 30,		
	2014	2013	2014	2013	2012
Strip ratios .....	2.2x	3.1x	2.9x	3.9x	4.3x

- Trialing of autonomous trucks at the Kings mine;
- Optimization of the Group's rail operations, including increasing the number of ore cars per train set and the reduction of cycle times and average loadout times;
- Efficiencies in the Group's port operations, including improved load and unload times together with the recent construction of a fifth ship loading berth at Anderson Point in Port Hedland, which will extend Fortescue's total Port Hedland shipping capacity by around 15 to 20Mtpa; and
- The Fortescue River Gas Pipeline was commissioned in March 2015. Fortescue is currently converting Solomon Hub operations from diesel to gas, which is intended to lower energy costs and the Group's carbon footprint.

### *State-of-the-art owned operations including rail and port infrastructure*

During the past several years, Fortescue has developed state-of-the-art operations, which include five OPFs and a fully integrated rail and port infrastructure. Fortescue's railway—one of the only large-scale, new railway developments undertaken in the Pilbara in several decades—supports axle loads that are among the highest of any heavy haul railway globally (42 tonnes), which allows the Company to transport more of its product using fewer trains than its major competitors. Furthermore, the combination of the railway's innovative track layout (with large radius curves) and electro-pneumatic braking system allows trains to maintain higher speeds for longer periods while providing faster stopping times, reduced maintenance requirements and increased efficiency. For example, the unloading loop at Port Hedland allows a full train to arrive and commence unloading before a prior train has departed and is also constructed to allow multiple future duplications of the unloading circuit to enable expansion as necessary. The Rail/Edge Incremental Train Control System, which has been fully implemented across Fortescue's rail system, provides Fortescue with improved train scheduling and optimization of the rail network as well as increased network safety and capacity through the introduction of in-cab signaling, virtual signals, digital communications and GPS tracking.

The Herb Elliott Port was engineered for scale and efficiency. Construction of the port commenced in February 2006 and shipping began in May 2008. Much of the port operations are automated, including the train unloader, stacker and reclaimer facilities. Since operations at the port began, Fortescue has constructed and commissioned four additional berths, two additional stackers, two additional shiploaders and two new train unloaders. As a result, the port now consists of five berths and three in-load and out-load circuits.

### *Significant reserves and resources position with long life production*

Fortescue has substantial hematite Ore Reserves and Mineral Resources across its tenement holdings, including the Chichester Hub, Greater Chichester, the Solomon Hub, Eliwana & Flying Fish (formerly known as the Western Hub) and Nyidinghu. In addition, Fortescue holds an effective overall 60.72% interest in both the North Star and Glacier Valley deposits, with the remaining interests being held by Formosa and Baosteel through the Iron Bridge Joint Venture.

The following tables show the development of Fortescue's Ore Reserves and Mineral Resources in fiscal 2010, 2011, 2012, 2013 and 2014.

<u>Ore Reserves<sup>(1)(2)</sup></u>	<u>Year ended June 30,</u>				
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
	<u>(million tonnes)</u>				
Chichester Hub (Proved) .....	98	38	31	449	444
Chichester Hub (Probable) .....	<u>1,441</u>	<u>1,509</u>	<u>1,464</u>	<u>1,069</u>	<u>1,026</u>
<b>Chichester Hub (Proved &amp; Probable) .....</b>	<b><u>1,540</u></b>	<b><u>1,547</u></b>	<b><u>1,495</u></b>	<b><u>1,518</u></b>	<b><u>1,470</u></b>
Solomon Hub (Proved) .....	—	—	—	98	143
Solomon Hub (Probable) .....	—	716	716	729	760
<b>Solomon Hub (Proved &amp; Probable) .....</b>	<b><u>—</u></b>	<b><u>716</u></b>	<b><u>716</u></b>	<b><u>827</u></b>	<b><u>903</u></b>
<b>Combined Chichester and Solomon Hubs (Proved &amp; Probable) .....</b>	<b><u>1,540</u></b>	<b><u>2,263</u></b>	<b><u>2,211</u></b>	<b><u>2,345</u></b>	<b><u>2,374</u></b>

**Notes:**

- (1) In September 2011, Fortescue elected to report its estimated Ore Reserves for the Chichester Hub as of June 30, 2011 on a product tonnes basis. Probable Reserves for the Solomon Hub for fiscal 2011 and all Chichester Hub Ore Reserve estimates prior to fiscal 2011 have been estimated on a run-of-mine (“ROM”) tonnes basis. As a result, the estimates in the table above are not directly comparable. See “Ore Reserves and Mineral Resources.”
- (2) The data in this table has been prepared in accordance with JORC 2004 Code or the JORC 2012 Code as was incorporated into the ASX listing rules at the relevant time. For further information refer to “Ore Reserves and Mineral Resources.”

<b>Mineral Resources<sup>(1)</sup></b>	<b>Year ended June 30.</b>				
	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014<sup>(2)</sup></b>
<b>Chichester Hub<sup>(3)</sup></b>					
Measured.....	167	240	420	668	790
Indicated .....	1,588	1,724	1,891	1,569	1,484
Inferred .....	389	586	1,068	985	947
<b>Chichester Hub (Measured, Indicated and Inferred) .....</b>	<b>2,143</b>	<b>2,550</b>	<b>3,379</b>	<b>3,222</b>	<b>3,221</b>
<b>Solomon Hub<sup>(4)</sup></b>					
Measured.....	108	108	108	133	167
Indicated .....	750	791	791	1,053	973
Inferred .....	2,000	2,171	2,348	818	1,079
<b>Solomon Hub (Measured, Indicated and Inferred) .....</b>	<b>2,859</b>	<b>3,070</b>	<b>3,247</b>	<b>2,003</b>	<b>2,219</b>
<b>Combined Chichester and Solomon Hubs (Measured, Indicated and Inferred)<sup>(3)(4)</sup> .....</b>	<b>5,003</b>	<b>5,620</b>	<b>6,626</b>	<b>5,226</b>	<b>5,440</b>

**Notes:**

- (1) The data in this table has been prepared in accordance with a combination of the JORC 2004 Code and the JORC 2012 Code, in each case as incorporated into the ASX listing rules at the relevant time. For further information refer to “Ore Reserves and Mineral Resources—JORC reporting.”
- (2) On January 8, 2015, Fortescue released a market announcement entitled “Chichester Range Mineral Resource Update” in respect of an increase in Indicated and Inferred Mineral Resources at sites along the Chichester Range and, as of the date of that announcement, Chichester Hub had total Mineral Resources of 3,329Mt, including Measured Mineral Resources of 790Mt, Indicated Mineral Resources of 1,539Mt and Inferred Mineral Resources of 999Mt. The Mineral Resources for the Chichester Hub included in this table, however, reflect amounts disclosed by the Group in the market announcement entitled “Mineral Resource & Ore Reserve Statement as at 30 June 2014” released to the ASX on August 20, 2014. For further information, please see “Ore Reserves and Mineral Resources.”
- (3) Excluding Greater Chichester Mineral Resources.
- (4) Excluding Greater Solomon Mineral Resources.

Fortescue’s significant reserve and resource position underpins the long life nature of its operations, with the ability to further extend their life through continued exploration and expansion as required. The Chichester Hub currently has approximately 16 years of mine life remaining based on Ore Reserves, while the Solomon Hub currently has approximately 15 years of mine life remaining based on Ore Reserves, assuming a combined production rate of 150Mtpa.

Fortescue’s tenement holdings (including both granted tenements and applications for tenements) in the Pilbara cover an area of more than 85,000 square kilometers, representing the largest tenement holding in the Pilbara. Fortescue believes that approximately one-third of its tenement portfolio is highly prospective for iron ore, which provides scope for the discovery of substantial additional iron ore resources in the future, further underpinning its operations. See “Ore Reserves and Mineral Resources.”

**Strong market acceptance of Fortescue’s high-grade, value-in-use iron ore products**

Through Fortescue’s sales and marketing activities, the Company has successfully demonstrated the “value-in-use” of its suite of products. The introduction of the Solomon Hub iron ore products has allowed the Company to expand its range with the introduction of Kings CID Fines and Fortescue Blend Fines. These, and other key products in Fortescue’s targeted product mix are described further below:

- *Fortescue Blend Fines*: a combination of Brockman Fines (Firetail mine) and Chichester Special Fines with a typical iron content of 58.3% Fe and 2.4% Al<sub>2</sub>O<sub>3</sub>. Although Brockman Fines has

slightly higher phosphorus content than other ores, when blended with Fortescue's lower phosphorus Chichester Special Fines, it results in a higher grade product with lower impurities. Fortescue understands that customers are typically using Fortescue Blend Fines as a base loading (15-40%) of their sinter blend as a function of its acceptable silica, aluminium oxide and phosphorus content and coarse sizing, which gives rise to its positive sintering and metallurgical characteristics.

- *Kings CID Fines*: based on Solomon Channel Iron Deposits primarily from the Kings mine, with typical Fe of 57.3% and 2.0%  $\text{Al}_2\text{O}_3$  which are competitive with other internationally traded low alumina CID ores.
- *Rocket Fines*: Fortescue's premium hematite product with an iron content of approximately 59.0% and 1.9%  $\text{Al}_2\text{O}_3$  which competes effectively with other high-grade Australian and Brazilian products with a calcinated iron content of approximately 64.5% Fe.
- *Super Special Fines*: a product produced from the Chichester Hub with typical Fe of 56.4% and a relatively low silica, aluminum oxide and phosphorus content and positive sintering characteristics.

Fortescue has successfully expanded its customer base in China and other parts of Asia and established itself as an alternative supplier for steel mills seeking quality iron ore product at competitive prices. Fortescue has shipped product to a high proportion of the top Chinese steel mills and, as of the date of this offering circular, has signed agreements with Chinese steel mills and iron ore distributors, which on-sell to Chinese steel mills, for the purchase of more than 135Mtpa. In addition, Fortescue has recently renewed a two-year supply contract with a major steel mill in Korea and has shipped trial cargoes of Kings CID Fines to a customer in Japan. See "—Sales and marketing."

#### ***Experienced management team with proven operational and development expertise***

Fortescue has a highly experienced management team with a successful track record of profitable growth, successful exploration and development and proactive management in volatile iron ore markets. This team includes Neville Power, Fortescue's Chief Executive Officer with over 27 years of experience in mining and steel-making operations, Peter Meurs, Fortescue's Director of Developments with over 25 years of experience in major project development, Nick Cernotta, Fortescue's Director of Operations with over 30 years of experience in mining and resources industry and Stephen Pearce, Fortescue's Chief Financial Officer with over 27 years of financial experience as well as other key management members who have significant international and broad-based senior management experience.

Fortescue's management team also has demonstrated experience in major project development and operations, including iron ore mining and port and rail infrastructure in the Pilbara, having guided the Company from a greenfield development to production capacity of 155Mtpa in just over eight years. Since Fortescue's first shipment of iron ore in May 2008, it has processed and shipped approximately 455.2Mt of Fortescue mined iron ore, through to the end of the first half of fiscal 2015.

Fortescue believes that the experience its management team gained in the construction of the Chichester and Solomon Hubs and the associated rail and port infrastructure, including the relationships forged with its major suppliers and contractors, as well as its experience dealing with difficult iron ore market environments, will contribute to the ongoing successful operation of its business.

#### **Business strategy**

##### ***Optimize operating costs and production efficiencies***

Fortescue aims to continue to lower its costs by continuing to improve its operating efficiencies, leveraging economies of scale, and continuing to source cost savings through innovation and technology. Fortescue also uses external consultants to benchmark itself against its industry peers and to identify improvement opportunities in the areas of mine planning, ore haulage, ore processing, rail haulage and port operations, with the goal of identifying and implementing industry best practice.

The following outlines a number of initiatives that Fortescue is implementing with the goal of further reducing its operating costs at minimal capital expense.

### *Mining and processing operations*

Fortescue is focused on continual operational improvement and identifies improvement initiatives through its budget process and mine life planning, which has resulted in cost reductions from a number of initiatives, including among other things, blending of products, optimizing mine scheduling and improving OPF metallurgical performance to reduce cut-off grades, thereby allowing Fortescue to lower strip ratios. Fortescue will also continue to review investment opportunities in complimentary infrastructure to maximize OPF throughput.

### *Autonomous Haulage Solution*

Fortescue currently has 20 autonomous trucks in operation at the Kings mine, which are expected to deliver improved safety, as well as operational efficiencies. The system continues to be tested for optimization and efficiencies, with a possibility of future use in other areas of the Group's operations.

### *Railway fleet optimization*

Fortescue continues to optimize efficiencies in the Group's rail infrastructure. For instance, the Group has increased the number of ore cars per 13-train sets to 250 (from 240), reduced cycle times below 24 hours per train and improved average loadout time. In addition, the company has increased the axle loads of its ore cars, which were already among the highest of any heavy haul railway globally, to 42 tonnes.

### *Port efficiencies and AP5*

In addition to ongoing efforts to optimize the efficiency of the Group's port operations, Fortescue recently completed construction of a fifth ship loading berth at Anderson Point in Port Hedland, which is located adjacent to its fourth berth. Construction of AP5 was completed on schedule and commissioned on March 22, 2015. AP5 is expected to extend Fortescue's total Port Hedland shipping capacity by around 15 to 20Mtpa through greater flexibility in managing its ship loading capacity.

### *Fortescue River Gas Pipeline*

In an effort to lower energy costs and reduce its carbon footprint, Fortescue is executing a plan to transition its operations from diesel to natural gas, in the form of compressed natural gas, pipeline natural gas or potentially LNG. The first step in this transition is the construction of a 270-kilometer gas pipeline ("Fortescue River Gas Pipeline"), which will deliver natural gas from the Dampier to Bunbury Pipeline to the main power station in the Solomon Hub, which is currently owned and operated by TransAlta Corporation. The Fortescue River Gas Pipeline was commissioned in March 2015. See "—Optimization and other development activities—Fortescue River Gas Pipeline" for more details.

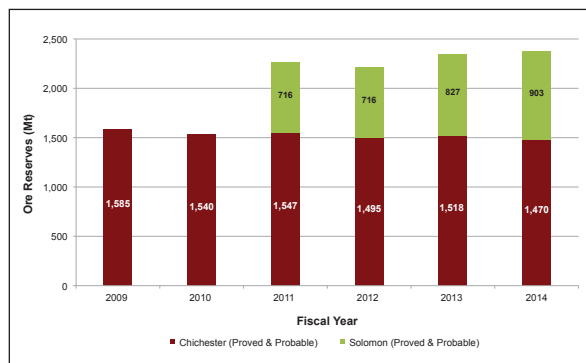
### *Strengthen record of safety, environmental and social performance*

Fortescue remains committed to continuous improvement of the Group's safety performance by providing an increasingly safe workplace for all of its employees and contractors. For instance, in the third quarter of fiscal 2014, the Company commenced the "Safety Excellence" project to further embed safety as part of its culture, enhance safety leadership and improve sharing of lessons from incidents. See "—Safety." Fortescue also continues to develop and implement an Environmental Management System that sets forth guidelines in managing environmental issues and promoting environmental excellence (see "—Environmental policy and reporting") and to further strengthen its balanced, diverse and inclusive workforce through such measures as the Fortescue's Vocational Training and Employment Centers, which provide Aboriginal people with a pathway towards guaranteed employment with the Company, and its Billion Opportunities program to award contracts to Aboriginal business and joint ventures (see "—Aboriginal engagement").

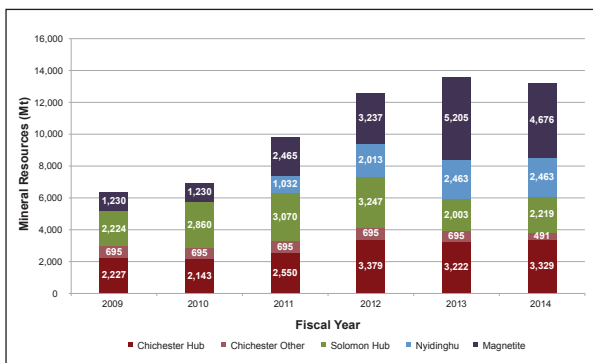
## Replace and expand reserves and resources

The following charts demonstrate the success of Fortescue's historical exploration efforts, which have resulted in an increase in Ore Reserves and Mineral Resources over the period from fiscal 2009 to fiscal 2014.

**Ore Reserve history, by location**



**Mineral Resource history, by location**



### Notes:

- (1) The data in these graphs were prepared in accordance with JORC 2004 Code or the JORC 2012 Code as was incorporated into the ASX listing rules at the relevant time. For further information refer to "Ore Reserves and Mineral Resources."
- (2) As of June 30, 2014, Fortescue had total magnetite Mineral Resources of 4,676Mt (fiscal 2013: 5,205Mt). See "Business description—Optimization and other development activities—Iron Bridge magnetite project" for further information.
- (3) On January 8, 2015, Fortescue released a market announcement entitled "Chichester Range Mineral Resource Update" in respect of an increase in Indicated and Inferred Mineral Resources at sites along the Chichester Range. The Chichester Hub Mineral Resources in this table are extracted from that announcement. As of June 30, 2014, Chichester Hub had total Measured Mineral Resources of 790Mt, total Indicated Mineral Resources of 1,484Mt and total Inferred Mineral Resources of 947Mt. For further information refer to "Ore Reserves and Mineral Resources."

Fortescue's total tenement holdings (including both granted tenements and applications for tenements) in the Pilbara have grown from 487 square kilometers in July 2003 to more than 85,000 square kilometers as of December 31, 2014. Such a large tenement portfolio provides significant scope for the discovery of further reserves and resources in the future and Fortescue remains committed to the replacement of its Ore Reserves and Mineral Resources in the long term to further extend its mine life. For more information, see "Ore Reserves and Mineral Resources" and "—Ore Reserves, Mineral Resources and geology."

### Location

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

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

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

The Solomon Hub is located in the Hamersley Ranges in the Pilbara, approximately 300 kilometers southwest of the township of Port Hedland and 60 kilometers north of the township of Tom Price. It is

connected to the mainline by the 130-kilometer Fortescue Hamersley Line, which was completed in December 2012. The Solomon Hub is accessible by road from the township of Tom Price and currently consists of two iron ore mines:

- The Firetail mine, which is accessible by road or plane, with Fortescue operating its own sealed airstrip which services the Solomon Hub.
- The Kings mine, which is situated approximately 10 kilometers east of Firetail.

## **History**

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

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

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

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

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

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

## **Industry overview**

### ***Iron ore consumption***

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

According to Metalytics, in the year ended December 31, 2014, China accounted for approximately 58.4% of global iron ore consumption. China is also the largest importer of iron ore globally, with approximately 914Mt imported during calendar 2014, accounting for approximately 65.2% of global iron ore imports during the same period.

China's actual demand for iron ore is still growing, although the rate of growth in China's iron ore demand declined during calendar 2014 compared with prior years, which was driven by slower GDP growth as China has moved towards a more balanced growth model from previous mainly investment-driven

growth. According to the National Bureau of Statistics of China, although China had an average annual GDP growth rate of approximately 10.0% between calendar 2001 and 2013, the rate of its economic growth slowed in calendar 2014, with an annual GDP growth rate of approximately 7.4%. The economic growth of China and other developing countries and resultant demand for iron ore resources is forecast to underpin future growth in global production and export of iron ore. See “Risk factors—Operational risks relating to the business of the Group—Adverse economic developments in China could have a negative impact on the Group’s business, which relies heavily on demand for seaborne iron ore in the Chinese market.”

### ***Iron ore production***

Total iron ore production has grown significantly over the last ten years, primarily as a result of demand for, and the production of, steel in China and other emerging economies. China has undergone a steel-intensive phase of growth over this period which increased demand for iron ore to support its domestic steel manufacturing industry, although the rate of growth in the demand for iron ore in China slowed in calendar 2014 and is expected to continue to slow in calendar 2015. Growth in global iron ore production over the next ten years is expected to be underpinned by increased production in the traditional iron ore producing regions, especially Australia and Brazil.

The seaborne iron ore market represents more than half of the global iron ore market and is dominated by producers in Australia and Brazil and is highly consolidated, with the top three industry participants (BHP Billiton and Rio Tinto of Australia and Vale of Brazil) collectively accounting for an estimated 62.5% of global seaborne iron ore trade in the year ended December 31, 2014, according to Metalystics. Metalystics estimates that Fortescue represented approximately 11.1% of the global seaborne iron ore trade in calendar 2014, making Fortescue the fourth largest participant in the seaborne market.

Rio Tinto, BHP Billiton and Vale have recently announced increases in their iron ore production in the short-to-medium term. For instance, in January 2015, Rio Tinto announced iron ore production of 295.4Mt for the year ended December 31, 2014, and has indicated it will continue plans to expand production to 350-360Mtpa from its operations in the Pilbara region, while BHP Billiton announced a half-year production record of 113Mt for the first half of their fiscal year ended December 31, 2014. In July 2014, Vale also announced a program to expand its iron ore production over the next five years by approximately 46% to 453Mtpa for the year ended December 31, 2018 from 311Mt for the year ended December 31, 2013. Additionally, in November 2014, Roy Hill announced that it had completed more than two thirds of its 55Mtpa combined iron ore mine, port and rail project in the Chichester range of the Pilbara region with the first shipment expected to commence by the end of calendar 2015. See “Risk factors—Operational risks relating to the business of the Group—Competition from the Group’s principal competitors may adversely affect the Group’s financial performance.”

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

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

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

## Ore Reserves, Mineral Resources and geology

### Chichester Hub

#### Ore Reserves and Mineral Resources

As of June 30, 2014, total estimated Ore Reserves for the Chichester Hub were 1,470Mt, of which 444Mt were Proved Ore Reserves and 1,026Mt were Probable Ore Reserves, with an average iron grade of approximately 57.4% and reported on a dry product tonnes basis. For more information, see “Ore Reserves and Mineral Resources.”

As of January 8, 2015, when Fortescue released its market announcement entitled “Chichester Range Mineral Resource Update,” total estimated Mineral Resources at the Chichester Hub were estimated at 3,329Mt, of which 790Mt were Measured Mineral Resources, 1,539Mt were Indicated Mineral Resources and 999Mt were Inferred Mineral Resources, with an average iron ore grade of approximately 56.7% and reported on a dry product tonnes basis.

#### Chichester Hub Ore Reserves by location as of June 30, 2014<sup>(1)</sup>

<u>Mine/Hub by category</u>	<u>Tonnes (Mt)</u>	<u>Iron (Fe %)</u>	<u>Silica (SiO<sub>2</sub> %)</u>	<u>Aluminum oxide (Al<sub>2</sub>O<sub>3</sub> %)</u>	<u>Phosphorus (P %)</u>	<u>Loss on ignition (LOI %)</u>
<b><i>Cloudbreak</i></b>						
Proved <sup>(2)</sup> .....	132	57.7	4.20	2.35	0.048	8.7
Probable .....	<u>368</u>	<u>57.5</u>	<u>4.55</u>	<u>2.33</u>	<u>0.052</u>	<u>8.1</u>
<b>Sub Total .....</b>	<b>500</b>	<b>57.6</b>	<b>4.46</b>	<b>2.33</b>	<b>0.051</b>	<b>8.3</b>
<b><i>Christmas Creek</i></b>						
Proved <sup>(2)</sup> .....	312	57.3	5.72	2.45	0.043	7.9
Probable .....	<u>659</u>	<u>57.3</u>	<u>4.91</u>	<u>2.62</u>	<u>0.044</u>	<u>7.9</u>
<b>Sub Total .....</b>	<b>970</b>	<b>57.3</b>	<b>5.17</b>	<b>2.57</b>	<b>0.044</b>	<b>7.9</b>
<b><i>Combined Chichester Hub</i></b>						
Proved <sup>(2)</sup> .....	444	57.4	5.27	2.42	0.045	8.2
Probable .....	<u>1,026</u>	<u>57.4</u>	<u>4.78</u>	<u>2.52</u>	<u>0.047</u>	<u>7.9</u>
<b>Total Chichester Hub Ore Reserves<sup>(3)</sup> ....</b>	<b><u>1,470</u></b>	<b><u>57.4</u></b>	<b><u>4.93</u></b>	<b><u>2.49</u></b>	<b><u>0.046</u></b>	<b><u>8.0</u></b>

#### Notes:

<sup>(1)</sup> As disclosed in the market announcement entitled “Mineral Resource & Ore Reserve Statement as at 30 June 2014” released to the ASX on August 20, 2014. Ore Reserves are quoted at an iron cut-off grade of approximately 53% for BID and 51% for CID.

<sup>(2)</sup> Proved Ore Reserves are quoted inclusive of mine and port ore stockpiles. See “Ore Reserves and Mineral Resources.”

<sup>(3)</sup> Chichester Hub Ore Reserves are inclusive of the Cloudbreak and Christmas BID deposits.

**Chichester Hub and Greater Chichester Mineral Resources by location as of January 8, 2015<sup>(1)</sup>**

<u>Mineral Resources by category<sup>(2)</sup></u>	<u>Tonnes (Mt)</u>	<u>Iron (Fe %)</u>	<u>Silica (SiO<sub>2</sub> %)</u>	<u>Aluminum oxide (Al<sub>2</sub>O<sub>3</sub> %)</u>	<u>Phosphorus (P %)</u>	<u>Loss on ignition (LOI %)</u>
<b><i>Cloudbreak</i></b>						
Measured <sup>(3)</sup> .....	274	57.5	4.86	3.06	0.054	8.7
Indicated .....	457	56.7	5.80	3.34	0.059	8.2
Inferred .....	499	56.3	6.11	3.36	0.057	8.3
<b>Sub Total .....</b>	<b>1,231</b>	<b>56.7</b>	<b>5.72</b>	<b>3.29</b>	<b>0.057</b>	<b>8.4</b>
<b><i>Christmas Creek</i></b>						
Measured <sup>(3)</sup> .....	516	57.3	5.93	2.97	0.047	8.0
Indicated .....	1,082	56.6	5.97	3.37	0.049	7.9
Inferred .....	500	56.4	6.55	3.21	0.059	7.2
<b>Sub Total .....</b>	<b>2,098</b>	<b>56.7</b>	<b>6.10</b>	<b>3.23</b>	<b>0.051</b>	<b>7.7</b>
<b><i>Combined Chichester Hub</i></b>						
Measured <sup>(3)</sup> .....	790	57.4	5.56	3.00	0.049	8.2
Indicated .....	1,539	56.6	5.92	3.36	0.052	8.0
Inferred .....	999	56.4	6.33	3.29	0.058	7.8
<b>Total Chichester Hub .....</b>	<b>3,329</b>	<b>56.7</b>	<b>5.96</b>	<b>3.25</b>	<b>0.053</b>	<b>8.0</b>
<b><i>Combined Greater Chichester<sup>(4)</sup></i></b>						
Indicated .....	82	57.9	6.30	2.99	0.053	6.8
Inferred .....	409	57.0	6.66	3.61	0.059	6.8
<b>Total Greater Chichester .....</b>	<b>491</b>	<b>57.1</b>	<b>6.60</b>	<b>3.51</b>	<b>0.058</b>	<b>6.8</b>

**Notes:**

- <sup>(1)</sup> On January 8, 2015, Fortescue released a market announcement entitled “Chichester Range Mineral Resource Update” in respect of an increase in Indicated and Inferred Mineral Resources at sites along the Chichester Range.
- <sup>(2)</sup> Chichester Hub Mineral Resources are quoted at an iron cut-off grade of 54%.
- <sup>(3)</sup> Measured Mineral Resource estimates include mine and port ore stockpiles.
- <sup>(4)</sup> Greater Chichester Mineral Resources include the Investigator, White Knight, Mt. Lewin and Kutayi deposits. In prior years, the Greater Chichester Mineral Resources included the Mineral Resources for Mt. Nicholas. Following a review of its previously published Mineral Resources, it was determined that, where feasible, the iron cut-off grades outside the operating properties should be consistent with the iron cut-off grades within the operating properties. As a result, the Mt. Nicholas estimate, originally announced in April 2004, was removed from Fortescue’s Mineral Resources, given that the estimate was reported using an iron cut-off grade lower than the cut-off grade currently applied to estimates in the Chichester Hub. Mineral Resources as of January 8, 2015 for the Chichester Hub and the Kutayi and Mt. Lewin deposits of Greater Chichester are all reported in accordance with the JORC 2012 Code, while Mineral Resources as of January 8, 2015 for the White Knight and Investigator deposits of Greater Chichester were prepared under the JORC 2004 Code and first reported in the market announcement entitled “Second Quarter Activities & Cashflow Reports” released to ASX on January 31, 2007, with the Investigator deposit being reported under its previous name “Flinders”. The Mineral Resources for the White Knight and Investigator deposits have not been updated since to comply with the JORC 2012 Code on the basis that the information has not materially changed since it was last reported. It will be updated to meet JORC 2012 Code standards according to Fortescue’s development priorities.

**Geology**

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

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

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

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

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

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

*Greater Chichester*—In addition to the Chichester Hub, the Company has identified other potential mining areas in the Chichester Range, referred to as “Greater Chichester.” In general, the geology of the mining areas within Greater Chichester is similar to that of Christmas Creek and Cloudbreak.

Mt. Lewin is located approximately 70 kilometers south east of Christmas Creek along the Chichester Range. The mineralization of Mt. Lewin strikes approximately east-west and dips shallowly south at less than five degrees on average, and thicknesses are on average approximately eight meters but can vary up to about 20 meters. In the northern portions of this deposit, mineralization occurs at or near surface, while southern portions may be covered by up to 40 meters of alluvium.

The White Knight area is located about 40 to 50 kilometers west of Cloudbreak directly along strike on the Chichester Range. The geology is very similar to Cloudbreak with an approximate east-west strike and shallow southerly dip. The mineralization is less continuous than at Cloudbreak and occurs as several discrete pods along about 10 kilometers of strike. Typically the top of mineralization is within 10 to 20 meters of surface and is three to 20 meters thick with an average of about seven meters. Drilling at the White Knight area commenced in December 2004 and is nominally on an 800 by 100 meter grid.

Investigator is also located along the Chichester Range, approximately 40 to 50 kilometers west of White Knight. It is effectively geologically the same as Cloudbreak with east-west strike and shallow southerly dip. Mineralization occurs in several discrete pods, and in some zones starts at surface, while others may be covered by up to 30 meters of alluvium. Drilling commenced in 2005 and was completed on a nominal 800 by 100 meter grid. Further infill drilling was completed in 2009 and 2010, but the Mineral Resources estimate for this tenement has not yet been updated. The route for the railway to the Solomon Hub crosses Fortescue’s Investigator tenements.

Kutayi is also located in the Chichester Range, 35 kilometers south east of Christmas Creek. This deposit, which was described in Fortescue’s January 8, 2015 market announcement entitled “Chichester Range Mineral Resource Update” in respect of an increase in Indicated and Inferred Mineral Resources at sites along the Chichester Range, covers an area of approximately 15.75 square kilometers with mineralization up to 40 meters thick extending from the surface to depths of up to 50 meters.

## Solomon Hub

### Ore Reserves and Mineral Resources

Total estimated Ore Reserves for the Solomon Hub were 903Mt as of June 30, 2014, of which 143Mt were Proved Ore Reserves and 760Mt Probable Ore Reserves, with an average iron grade of approximately 57.2% and reported on a dry tonnes basis. Total estimated Mineral Resources at the Solomon Hub were estimated at 2,219Mt, of which 167Mt were Measured Mineral Resources, 973Mt were Indicated Mineral Resources and 1,079Mt were Inferred Mineral Resources, with an average iron ore grade of approximately 56.1% Fe and reported on a dry tonnes basis. For more information, see “Ore Reserves and Mineral Resources.”

#### Solomon Hub Ore Reserves by location as of June 30, 2014<sup>(1)</sup>

<u>Mine/Hub by category</u>	<u>Tonnes (Mt)</u>	<u>Iron (Fe %)</u>	<u>Silica (SiO<sub>2</sub> %)</u>	<u>Aluminum oxide (Al<sub>2</sub>O<sub>3</sub> %)</u>	<u>Phosphorus (P %)</u>	<u>Loss on ignition (LOI %)</u>
<b>Firetail</b>						
Proved <sup>(2)</sup> .....	39	59.2	5.66	2.66	0.133	6.4
Probable .....	<u>136</u>	<u>58.5</u>	<u>6.84</u>	<u>2.63</u>	<u>0.106</u>	<u>6.2</u>
<b>Total</b> .....	<b>174</b>	<b>58.7</b>	<b>6.58</b>	<b>2.64</b>	<b>0.112</b>	<b>6.3</b>
<b>Kings<sup>(3)</sup></b>						
Proved <sup>(2)</sup> .....	105	57.6	6.14	2.22	0.061	8.5
Probable .....	<u>624</u>	<u>56.7</u>	<u>6.57</u>	<u>2.67</u>	<u>0.064</u>	<u>8.9</u>
<b>Total</b> .....	<b>729</b>	<b>56.9</b>	<b>6.50</b>	<b>2.61</b>	<b>0.064</b>	<b>8.8</b>
<b>Combined Solomon Hub</b>						
Proved <sup>(2)</sup> .....	143	58.0	6.01	2.34	0.081	7.9
Probable .....	<u>760</u>	<u>57.1</u>	<u>6.61</u>	<u>2.66</u>	<u>0.072</u>	<u>8.4</u>
<b>Total Solomon Hub Ore Reserves</b> .....	<b><u>903</u></b>	<b><u>57.2</u></b>	<b><u>6.52</u></b>	<b><u>2.61</u></b>	<b><u>0.073</u></b>	<b><u>8.3</u></b>

#### Notes:

<sup>(1)</sup> As disclosed in the market announcement entitled “Mineral Resource & Ore Reserve Statement as at 30 June 2014” released to the ASX on August 20, 2014. Ore Reserves are quoted at an iron cut-off grade of approximately 53% for BID and 51% for CID.

<sup>(2)</sup> Proved Ore Reserves are quoted inclusive of mine and port ore stockpiles.

<sup>(3)</sup> In the “Mineral Resource & Ore Reserve Statement as at 30 June 2014,” Kings is referred to as “Kings & Queens.”

**Solomon Hub and Greater Solomon Mineral Resources by location as of June 30, 2014<sup>(1)</sup>**

<b>Mineral Resources by category</b>	<b>Tonnes (Mt)</b>	<b>Iron (Fe %)</b>	<b>Silica (SiO<sub>2</sub> %)</b>	<b>Aluminum oxide (Al<sub>2</sub>O<sub>3</sub> %)</b>	<b>Phosphorus (P %)</b>	<b>Loss on ignition (LOI %)</b>
<b><i>Firetail</i></b>						
Measured <sup>(2)</sup> .....	45	58.0	5.80	3.35	0.141	7.3
Indicated .....	155	58.9	6.11	2.64	0.107	6.4
Inferred .....	<u>170</u>	<u>57.6</u>	<u>6.85</u>	<u>3.25</u>	<u>0.110</u>	<u>6.9</u>
<b>Sub Total .....</b>	<b>371</b>	<b>58.2</b>	<b>6.41</b>	<b>3.00</b>	<b>0.112</b>	<b>6.7</b>
<b><i>Kings<sup>(3)</sup></i></b>						
Measured <sup>(2)</sup> .....	121	56.4	7.43	2.87	0.068	8.5
Indicated .....	818	55.7	7.75	3.22	0.065	8.8
Inferred .....	<u>909</u>	<u>55.6</u>	<u>7.86</u>	<u>3.41</u>	<u>0.076</u>	<u>8.6</u>
<b>Sub Total .....</b>	<b>1,848</b>	<b>55.7</b>	<b>7.78</b>	<b>3.29</b>	<b>0.071</b>	<b>8.7</b>
<b><i>Combined Solomon Hub<sup>(4)</sup></i></b>						
Measured <sup>(2)</sup> .....	167	56.8	6.99	3.00	0.088	8.2
Indicated .....	973	56.2	7.49	3.12	0.072	8.4
Inferred .....	<u>1,079</u>	<u>55.9</u>	<u>7.70</u>	<u>3.38</u>	<u>0.082</u>	<u>8.3</u>
<b>Total Solomon Hub .....</b>	<b>2,219</b>	<b>56.1</b>	<b>7.55</b>	<b>3.24</b>	<b>0.078</b>	<b>8.3</b>
<b><i>Combined Greater Solomon<sup>(5)(6)</sup></i></b>						
Measured <sup>(2)</sup> .....	—	—	—	—	—	—
Indicated .....	254	56.6	6.70	3.45	0.083	8.3
Inferred .....	<u>2,404</u>	<u>56.8</u>	<u>6.93</u>	<u>3.71</u>	<u>0.081</u>	<u>7.2</u>
<b>Total Greater Solomon .....</b>	<b>2,658</b>	<b>56.8</b>	<b>6.91</b>	<b>3.69</b>	<b>0.082</b>	<b>7.3</b>

**Notes:**

<sup>(1)</sup> As disclosed in the market announcement entitled “Mineral Resource & Ore Reserve Statement as at 30 June 2014” released to the ASX on August 20, 2014.

<sup>(2)</sup> Measured Mineral Resource estimates include mine and port ore stockpiles.

<sup>(3)</sup> In the “Mineral Resource & Ore Reserve Statement as at 30 June 2014,” Kings is referred to as “Kings & Queens.”

<sup>(4)</sup> Solomon Hub Mineral Resources are quoted at an iron cut-off grade of 51%.

<sup>(5)</sup> Greater Solomon Mineral Resources include the Serenity, Sheila Valley, Mount MacLeod, Queens Extension, Cerberus, Stingray and Raven deposits. The Indicated Mineral Resource is located at the Serenity deposit. The majority of additional Inferred Mineral Resource is from extensions at Sheila Valley with smaller contributions from Serenity and Mount Macleod.

<sup>(6)</sup> Mineral Resources for Greater Solomon are reported to JORC 2012 Code standards and are in addition to Mineral Resources for the Combined Solomon Hub.

**Geology**

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

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

The material overlying the CID material is of younger age and has also been eroded from iron rich material. Some of this clastic material is concentrated into horizons of elevated iron grade, termed Detrital Iron Deposits (“DID”), which form part of the sequence of overlying later Tertiary aged alluvials.

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

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

*Firetail*—As of June 30, 2014, Firetail had Ore Reserves of 174Mt, of which 39Mt were Proved Ore Reserves and 136Mt were Probable Ore Reserves, with an average iron grade of approximately 58.7%, and Mineral Resources of 371Mt of which 45Mt were Measured Mineral Resources, 155Mt were Indicated Mineral Resources and 170Mt were Inferred Mineral Resources, with an iron grade of approximately 58.2% Fe. The Ore Reserves are included in the Mineral Resources. See “Ore Reserves and Mineral Resources.” The majority of these Mineral Resources are high grade BID located within the Brockman Iron Formation, well known for its premium quality iron ore. Throughout the Hamersley Province, the Brockman Iron Formation hosts the majority of bedded mineralization. Geographically, the Firetail deposit is split into two “limbs” of an irregular “V” shape with each limb approximately seven kilometers in length. Thickness of mineralization units averages around 20 meters, but can extend up to 60 meters in places. The strip ratio at Firetail is generally less than 1:1, facilitating cost-efficient ore extraction.

*Kings*—Kings occupies the majority of the Solomon region and is 35 kilometers in total length, running in a general east-west direction. As of June 30, 2014, Kings had Ore Reserves of 729Mt, of which 105Mt were Proved Ore Reserves and 624Mt were Probable Ore Reserves, with an average iron grade of approximately 56.9%, and Mineral Resources of 1,848Mt, of which 121Mt were Measured Mineral Resources, 818Mt were Indicated Mineral Resources and 909Mt were Inferred Mineral Resources, with an iron grade of approximately 55.7%.

The Probable Ore Reserves and Mineral Resources at Kings predominantly consist of buried CID, with lesser amounts of BID and DID. CID of economic grades and large tonnages is a unique type of iron mineralization found nowhere else in the world apart from the Hamersley Ranges in Western Australia. As this deposit is so extensive, it has been further divided into “sub deposits” based on geographic variances. These are “Valley of the Queens” in the west, “Trinity” in the central meander region, “Valley of the Kings” in the central-east region, and “Zion,” the region of outcropping CID near the Nanutarra-Munjina road. The strip ratio at Kings is approximately 2:1, facilitating efficient mining of the ore.

*Greater Solomon*—In addition to the Solomon Hub, the Company has identified other potential mining areas in the Solomon region, referred to as “Greater Solomon,” comprising the Sheila Valley, Serenity, Mt. MacLeod, Queens Extension, Cerberus, Stingray and Raven deposits, all of which are within 50 kilometers of the Solomon Hub.

Mineralization within the Sheila Valley, Serenity, Cerberus and Queens Extension deposits is hosted by buried CID, BID and DID. Outcropping geology in the area is the Dales Gorge, Whaleback Shale and Joffre Members of the Brockman Iron Formation which contain BID mineralization. Incised into this bedrock geology are large channel systems which contain DID and CID mineralization. In general, the geology of the mining areas within Greater Solomon is similar to that of Firetail and Kings.

Sheila Valley is a north-south trending valley approximately 20 kilometers long straddling the Rio Tinto Hamersley railway line, with several broad open valleys between five kilometers and 16 kilometers in length, as tributaries into the main system. The width of the mineralization across the valley is up to one kilometer. Mineralization occurs from the surface and up to depths of approximate 150 meters throughout these deposits. The defined mineralized units are up to 60 meters in thickness. As of June 30, 2014, Sheila Valley had Inferred Mineral Resources of 815Mt, with an average in-ground iron ore grade of approximately 57.1% Fe. The majority of the Inferred Mineral Resources at Sheila Valley are BID and DID, with minor amounts of CID. Immediately west of the Valley of the Queens deposit at the northern end of Sheila Valley, the Queens Extension is a continuation of the Valley of the Queens deposit,

approximately three kilometers long, and has Inferred Mineral Resources of 79Mt, with an average in-ground iron ore grade of approximately 55.6%.

A further project area, Serenity, is a meandering broad valley system covering an area of 18 kilometers in a north-south direction and 16 kilometers in an east-west direction. The average width of mineralization across the valleys is approximately 800 meters. As of June 30, 2014, Serenity had Indicated Mineral Resources of 254Mt, with an average in-ground iron ore grade of approximately 56.6% and Inferred Mineral Resources of 1,274Mt, with an average iron grade of approximately 56.5%. The Cerberus deposit is located in a 400 meter wide valley covering an area approximately four kilometers (north-to-south) that is located north-east of Serenity. The Cerberus deposit had Inferred Mineral Resources of 76Mt, with an average in-ground iron ore grade of approximately 56.7%

The Stingray and Mt. MacLeod deposits are located south of the Hamersley Ranges 40 kilometers northwest and northeast of Tom Price, respectively. Mineralization within these deposits is BID mainly hosted by Marra Mamba Iron Formation. Outcropping geology in the area is the Mount Newman, MacLeod and Nammuldi Members of the Marra Mamba Iron Formation.

The Mt. MacLeod deposit has two area of mineralization 17 kilometers apart. The northern area is six kilometers in length and 800 meters across and the southern area is three kilometers in length and 400 meters across. Mineralization occurs at depths of up to 60-100 meters across the deposits. The thickness of mineralization is generally 15-20 meters and up to 50 meters at Mt. MacLeod. As of June 30, 2014, Mt. MacLeod had Inferred Mineral Resources of 201Mt, with an average in-ground iron ore grade of approximately 57.4%. A similar small deposit called Stingray occurs about 30 kilometers west of the Mt. MacLeod deposit and is approximately 15 kilometers south of Serenity. The Stingray deposit has five areas of mineralization ranging in size from 800 meters to two kilometers in length and 150 meters to 300 meters in width covering an area of 10 kilometers in an east-west direction and three kilometers north-south. As of June 30, 2014, Stingray had 36Mt of Inferred Mineral Resources, with an average in-ground iron ore grade of approximately 58.5%.

The Raven deposit is located in the Hamersley Ranges 25 kilometers west of Serenity and 75 kilometers north-west of Tom Price. Mineralization consists of BID hosted by the Dales Gorge Member of the Brockman Iron Formation. Outcropping geology is the Sales Gorge and Whaleback Shale Members of the Brockman Iron Formation and McRae Shale. Mineralization at the Raven deposits covers an area of approximately two kilometers by 700 meters. Mineralization occurs at the surface and up to depths of 130 meters. The thickness of the mineralization averages 60 meters. As of June 30, 2014, the Raven deposit had 52Mt of Inferred Mineral Resources, with an average in-ground iron ore grade of approximately 58.7%.

### ***Eliwana & Flying Fish***

#### ***Mineral Resources***

On March 23, 2011, Fortescue announced a maiden Mineral Resource estimate for the Eliwana & Flying Fish deposits (formerly known as the Western Hub). Total estimated Mineral Resources at the Eliwana & Flying Fish deposits were estimated at 740Mt as of June 30, 2014, all of which are Inferred Mineral Resources, with an iron grade of approximately 59.1%.

#### **Eliwana & Flying Fish<sup>(1)</sup> Mineral Resources as of June 30, 2014<sup>(1)</sup>**

<b>Mineral Resources by category</b>	<b>Tonnes (Mt)</b>	<b>Iron (Fe %)</b>	<b>Silica (SiO<sub>2</sub> %)</b>	<b>Aluminum oxide (Al<sub>2</sub>O<sub>3</sub> %)</b>	<b>Phosphorus (P %)</b>	<b>Loss on ignition (LOI %)</b>
<b>Eliwana &amp; Flying Fish<sup>(2)</sup></b>						
Measured.....	—	—	—	—	—	—
Indicated .....	—	—	—	—	—	—
Inferred .....	<u>740</u>	<u>59.1</u>	<u>5.21</u>	<u>2.88</u>	<u>0.091</u>	<u>6.5</u>
<b>Total .....</b>	<b><u>740</u></b>	<b><u>59.1</u></b>	<b><u>5.21</u></b>	<b><u>2.88</u></b>	<b><u>0.091</u></b>	<b><u>6.5</u></b>

#### ***Notes:***

<sup>(1)</sup> As disclosed in the market announcement entitled “Mineral Resource & Ore Reserve Statement as at 30 June 2014” released to the ASX on August 20, 2014.

<sup>(2)</sup> Formerly known as the Western Hub.

## Geology

The Eliwana & Flying Fish deposits are located in the Hamersley Ranges region of Western Australia, approximately 80 kilometers north-west of the Tom Price township. Outcropping geology extends from the Dales Gorge, Whaleback Shale and Joffre Members of the Brockman Iron Formation, to the Newman, Mt. MacLeod and Nammuldi Members of the Marra Mamba Iron Formation. Mineralization on the outcropping or buried extents of these BID is the primary focus for ore deposits in the Eliwana & Flying Fish deposits, however outcropping and drilled mineralized intercepts of CID and DID have also been recognized through this region.

Within the Eliwana & Flying Fish deposits, the mineralization covers a relatively narrow zone that follows the outcrop of mineralized Marra Mamba and Brockman Iron Formations. Mineralization is predominantly hosted by BID with some DID. Mineralization is distributed variably within an area of approximately 60 kilometers in an east-west direction and 3.5 kilometers in a north-south direction. Mineralization occurs at surface and extends to depths up to 300 meters below the surface. As of June 30, 2014, the Eliwana deposit had Inferred Mineral Resources of 560Mt, with an average in-ground iron ore grade of approximately 58.8%, while the Flying Fish deposit had Inferred Mineral Resources of 180Mt with an average in-ground iron ore grade of approximately 59.1%.

## Nyidinghu

### Mineral Resources

On February 25, 2011, Fortescue announced an initial Mineral Resources estimate of 1,032Mt for a new discovery of Brockman ore at the Nyidinghu project. Total Mineral Resources at Nyidinghu were estimated at 2,463Mt as of June 30, 2014, with an iron grade of approximately 57.4%, of which 23Mt were Measured Mineral Resources, 580Mt were Indicated Mineral Resources and 1,860Mt were Inferred Mineral Resources.

### Nyidinghu Mineral Resources by ore type as of June 30, 2014<sup>(1)</sup>

<u>Mineral Resources by category<sup>(2)</sup></u>	<u>Tonnes (Mt)</u>	<u>Iron (Fe %)</u>	<u>Silica (SiO<sub>2</sub> %)</u>	<u>Aluminum oxide (Al<sub>2</sub>O<sub>3</sub> %)</u>	<u>Phosphorus (P %)</u>	<u>Loss on ignition (LOI %)</u>
<b>Nyidinghu</b>						
Measured .....	23	59.6	3.56	2.21	0.139	8.0
Indicated .....	580	58.1	4.52	2.95	0.148	8.6
Inferred .....	<u>1,860</u>	<u>57.2</u>	<u>5.00</u>	<u>3.36</u>	<u>0.147</u>	<u>8.8</u>
<b>Total .....</b>	<b><u>2,463</u></b>	<b><u>57.4</u></b>	<b><u>4.87</u></b>	<b><u>3.25</u></b>	<b><u>0.147</u></b>	<b><u>8.8</u></b>

### Notes:

<sup>(1)</sup> As disclosed in the market announcement entitled "Mineral Resource & Ore Reserve Statement as at 30 June 2014" released to the ASX on August 20, 2014.

<sup>(2)</sup> Mineral Resources for Nyidinghu are reported to JORC 2004 Code standards and will be updated to meet JORC 2012 Code standards according to development priorities.

## Geology

The Nyidinghu project is located 35 kilometers south of the Cloudbreak on the edge of the Hamersley Ranges and is open to the north where intersections of over 100 meters have been encountered. Preliminary estimations suggest that the strip ratio at Nyidinghu will be less than 2:1.

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

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

### ***Magnetite resources***

Fortescue has identified several large potential magnetite ore mining sites in the Northern Pilbara. These deposits were first explored by Fortescue in 2007. The first magnetite area identified was the Glacier Valley deposit, where the initial Mineral Resources was outlined in 2010. In 2010, Fortescue identified another magnetite area called North Star, which is directly along the strike of the Glacier Valley deposit. Fortescue entered into a joint venture with Formosa in October 2013, through which it is currently developing first stage mining operations at North Star. Total Mineral Resources for the magnetite tenement areas in North Star and Glacier Valley were 4,676Mt as of June 30, 2014, of which 44Mt were Measured Mineral Resources, 679Mt were Indicated Mineral Resources and 3,953Mt were Inferred Mineral Resources, at an average mass recovery of 24.2% and an average iron grade of approximately 31.8%. The magnetite Mineral Resources at Glacier Valley and North Star are estimated based on a mass recovery above a DTR cut-off of 9%.

Fortescue's 69% unincorporated interest in the Iron Bridge Joint Venture (which comprises the Iron Bridge joint venture and the Glacier Valley joint venture) is held by FMG Iron Bridge Ltd, which is jointly owned by Fortescue (88%) and a subsidiary of Baosteel (12%). Formosa's 31% unincorporated interest is held by its subsidiary, Formosa Steel IB Pty Ltd. Fortescue holds an effective overall 60.72% interest in both the North Star and Glacier Valley deposits, with the remaining interests being held by Formosa and Baosteel.

### **Magnetite Mineral Resources by location, as of June 30, 2014<sup>(1)</sup>**

<b><u>Magnetite Mineral Resources by location<sup>(1)</sup></u></b>	<b><u>Tonnes (Mt)</u></b>	<b><u>Mass Recovery (%)</u></b>	<b><u>Iron (Fe %)</u></b>	<b><u>Silica (SiO<sub>2</sub> %)</u></b>	<b><u>Aluminum oxide (Al<sub>2</sub>O<sub>3</sub> %)</u></b>
<b>North Star</b>					
Measured .....	44	27.2	32.2	39.8	2.0
Indicated .....	679	28.0	32.2	39.6	1.9
Inferred .....	<u>1,926</u>	<u>23.4</u>	<u>30.6</u>	<u>40.9</u>	<u>2.5</u>
<b>Total .....</b>	<b><u>2,648</u></b>	<b><u>24.6</u></b>	<b><u>31.0</u></b>	<b><u>40.6</u></b>	<b><u>2.3</u></b>
<b>Glacier Valley</b>					
Measured .....	—	—	—	—	—
Indicated .....	—	—	—	—	—
Inferred .....	<u>2,028</u>	<u>23.5</u>	<u>32.8</u>	<u>38.7</u>	<u>1.6</u>
<b>Total .....</b>	<b><u>2,028</u></b>	<b><u>23.5</u></b>	<b><u>32.8</u></b>	<b><u>38.7</u></b>	<b><u>1.6</u></b>
<b>Combined Development Property Magnetite Mineral Resources<sup>(2)</sup></b>					
Measured .....	44	27.2	32.2	39.8	2.0
Indicated .....	679	28.0	32.2	39.6	1.9
Inferred .....	<u>3,953</u>	<u>23.5</u>	<u>31.7</u>	<u>39.8</u>	<u>2.1</u>
<b>Total .....</b>	<b><u>4,676</u></b>	<b><u>24.2</u></b>	<b><u>31.8</u></b>	<b><u>39.8</u></b>	<b><u>2.0</u></b>

#### ***Notes:***

<sup>(1)</sup> As disclosed in the market announcement entitled "Mineral Resource & Ore Reserve Statement as at 30 June 2014" released to the ASX on August 20, 2014.

<sup>(2)</sup> Mineral Resources for the adjacent North Star and Glacier Valley deposits are reported to JORC 2012 Code standards. Average concentrate quality based on DTR results below a 53 micron grind size are less than 66% Fe and 6% SiO<sub>2</sub>.

### ***Glacier Valley***

The project area is located approximately 100 kilometers south of Port Hedland and approximately 25 kilometers to the east of Fortescue's rail corridor in the Northern Pilbara. Mineralization is contained within

the Pincunah Member, which forms an arcuate ridge with over 10 kilometer strike of mineralization, plus several off set extensions which do not have resources determined at this stage. The Pincunah Member is composed of banded iron formation (“BIF”) minor shale’s and volcanoclastic layers. Glacier Valley is the southern extension of this ridge and has been drilled at a wider spacing of 200-400m x 100m, with a smaller zone of 100m x 100m infill.

As of June 30, 2014, total Mineral Resources at Glacier Valley, all of which are Inferred, were estimated at approximately 2,028Mt. The type of mineralization developed at Glacier Valley is primarily magnetite mineralization hosted by “banded” iron-formation (composed of alternating bands of iron oxides (magnetite and minor hematite) and cherty silica, stilpnomelane and carbonate) with an average “in situ” iron ore grade estimated to be 31.8% and an average mass recovery of 23.5%. Concentrate grades from DTR analyses indicate these deposits. These minerals can potentially be beneficiated to a processed iron ore grade of approximately 66% Fe.

#### *North Star*

The North Star deposit is located immediately north and along strike of the Glacier Valley deposit, and contains BIF hosted magnetite mineralization similar to the Glacier Valley deposit. North Star occupies the Northern part of the Pincunah ridge and has been extensively drilled down to a 50 meter x 50 meter pattern over the current first stage development area in the central part of the deposit.

Total Mineral Resources estimated to be contained at North Star at June 30, 2014, were 2,648Mt, of which 44Mt were Measured Mineral Resources, 679Mt were Indicated Mineral Resources and 1,926Mt were Inferred Mineral Resources, at an average mass recovery of 24.6% and an average iron ore grade of 31.0%. DTR concentrate iron ore grades average 66% for the recovered product.

### **Mining operations at the Chichester Hub**

#### ***Overview***

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

*Cloudbreak Mine*—Cloudbreak is Fortescue’s flagship mine, and is the closest known major deposit of hematite iron ore to Port Hedland. Mining began in 2008 with more than 27Mt mined in the first 12 months of operation (production). Since then, mining and processing at Cloudbreak have increased, reaching run-rate production of more than 41.3Mtpa of ore processed through wet plant processing for the quarter ended December 31, 2014. Once the mined ore is screened, crushed and desanded, it is stockpiled and transported by rail to the Herb Elliott Port.

Approximately 37.2Mt and 44.0Mt was mined at Cloudbreak in calendar 2014 and calendar 2013, respectively.

*Christmas Creek*—Christmas Creek, which has two mines, is located 50 kilometers east of Cloudbreak. Christmas Creek commenced mining operations in May 2009. Previously, ore mined from Christmas Creek was hauled by road in trucks to the OPF at Cloudbreak where it was blended with the Cloudbreak material before being transported by rail to the port. In June 2011, Fortescue completed the first phase of its planned expansion to 55Mtpa, which increased total production capacity at the Chichester Hub from 40 Mtpa to 55Mtpa. This principally involved the opening of four new mine pits at Christmas Creek, the construction of an OPF at Christmas Creek, the build-out of its existing railway to connect Christmas Creek to Cloudbreak, and the construction of a primary stockyard, power station, 800-room operations camp and load-out facility at Christmas Creek. In December 2012, Fortescue completed the further expansion of Chichester Hub, increasing production capacity to 95Mtpa. The expansion included the construction of a second OPF, overland conveyor, remote crushing facility and expanded power facilities and distribution infrastructure. In support of the increased production, camp facilities were expanded to accommodate 1600-room operations together with the commissioning of a dedicated airstrip, the Graeme Rowley Aerodrome servicing Christmas Creek exclusively.

Approximately 63.2Mt and 56.9Mt was mined at Christmas Creek in calendar 2014 and calendar 2013, respectively.

### ***Mining method***

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

The thickness of the hardcap, which overlies the ore, is typically between five and 7.5 meters. Removing the hardcap involves either “rip and doze” or “drill and blast” methods, depending on the thickness. Once the hardcap mining and overburden removal has progressed into a second and third panel, ore mining is initiated in the first panel. This three panel configuration advances along the strike.

Once overburden removal is completed in the first strip, a second strip is mined, with waste from the second strip deposited behind the ore mined in the initial strip.

Currently, the majority of ore mining is carried out by a fleet of surface miners owned by Fortescue. Where the location or nature of the ore body is unsuitable, conventional “drill and blast” methods are used.

Surface miners operate using rotating cutters that shave 0.1 to 0.6 meters from the material surface as the machine advances. Surface miners are used in coal, bauxite, gypsum, salt and limestone applications and are particularly suited for selectively mining horizontal or flatly-dipping thin seams, such as the seams at Fortescue’s Chichester Hub mines. The advantages of surface miners include: the minimalization of the need for drilling and blasting (and the related delays in production due to safety practices associated with blasting); more consistent ROM particle size; a reduction in the need for primary and secondary crushing; an improved ability to mine selectively; the minimalization of waste dilution and an improvement in ore quality; and a relatively low capital cost per unit of product mined.

Fortescue has worked with Wirtgen and Vermeer to design larger surface miner machines (the Wirtgen 4200 and Vermeer T1655 surface miners) that are tailored to its Pilbara iron ore operations. The Wirtgen 4200 surface miner has a cutting drum that is 4.2 meters wide compared to 2.5 meters wide on the Wirtgen 2500 surface miners that were previously used, which allows it to mine at approximately 1,200 tonnes per hour versus approximately 600 tonnes per hour for the 2500 surface miners. The other significant advantage of the Wirtgen 4200 surface miner is its ability to directly convey ore into 190 tonne trucks (the Wirtgen 2500 surface miner is limited to 90 tonne trucks), thereby increasing the efficiency of the transport system to the run of the mine pad. Fortescue predominantly uses Wirtgen 4200 surface miners in its Chichester fleet. In 2012 Fortescue added seven of the newly developed Vermeer T1655 surface miners to its Christmas Creek operations. With its 4.5 meter cutting drum, it is capable of matching the performance of the larger Wirtgen 4200 surface miners. Eleven T1255 Vermeer surface miners, which are used for detail work, complete the surface miner fleet composition.

### ***Mining services agreements***

#### ***Downer EDI***

Chichester, Downer EDI, Fortescue (as Chichester’s guarantor) and Downer EDI Limited (as Downer EDI’s guarantor) entered into a contract, dated August 4, 2010 as varied by a deed of amendment and restatement dated August 15, 2014, under which Downer EDI provides large scale iron ore mining and overburden removal services at Christmas Creek (primarily in connection with the first OPF) including, among other things, managing, supervising and conducting drill and blast services; loading and hauling of iron ore, overburden and associated waste; and managing ore stockpiles and ROM management, including feeding ore from ROM stockpiles to the first OPF.

As part of the consolidation of mining services arrangements at Chichester’s Christmas Creek operations, this agreement will terminate on April 20, 2015. See “—Consolidated mining services agreement” below.

## *Macmahon*

Chichester and Macmahon Contractors Pty Ltd (“Macmahon”) entered into a contract in October 2012 with a mining commencement date of January 1, 2013, under which Macmahon provided large scale iron ore mining and overburden removal services at Christmas Creek (primarily in connection with the second OPF) including, among other things, managing, supervising and conducting drill and blast services; loading and hauling of iron ore, overburden and associated waste and managing ore stockpiles and ROM management, including feeding ore from ROM stockpiles to the second OPF. Macmahon provided a parent company guarantee in favor of Chichester for its liabilities under the contract.

As part of the consolidation of its mining services arrangements at Christmas Creek, on February 20, 2015, Chichester issued a “Notice of Termination for Convenience” to Macmahon pursuant to the agreement, which entitles Chichester to terminate the agreement at any time and for any reason, at its total discretion. The agreement terminated in respect of the whole of the services provided by Macmahon, effective April 20, 2015. As Chichester terminated the agreement for convenience, Chichester must pay Macmahon for services rendered, costs of certain materials, unavoidable break costs for Macmahon’s key subcontracts and demobilization costs as well as an early termination fee of A\$10 million. See “—Consolidated mining services agreement” below.

## *Consolidated mining services agreement*

On February 20, 2015, Chichester announced that it had consolidated its mining services arrangements at its Christmas Creek operations into a single mining services contract with Downer EDI. Downer EDI’s previous mining services agreement was terminated and replaced by a new consolidated mining services agreement which has been executed and commenced on April 20, 2015. Under the consolidated mining services agreement, Downer EDI will perform similar services to those performed by Macmahon and itself under the previous mining services agreements, including drill and blast, overburden mining, ore harvesting and haulage and ROM management services, at the Christmas Creek mine site (in connection with both the first and second OPF). The agreement contemplates a mining commencement date of April 20, 2015, and the mining period is scheduled to expire on September 30, 2016, with two options exercisable by Chichester to extend the agreement for a further six months each.

Chichester will pay Downer EDI for its services at various rates set out in the measurement and payment schedule attached to the agreement. The aggregate contract price will depend on a range of variable factors, including under rise and fall provisions. However, the contract is valued at approximately A\$650 million through to its expiry on September 30, 2016.

Downer EDI can terminate the agreement if Chichester defaults in its payment obligations (subject to a 7-day cure period) or if an act of insolvency occurs with respect to Chichester. If Downer EDI terminates the agreement in such circumstances, Chichester must pay Downer EDI for services rendered, the costs of certain materials and demobilization costs. In addition, upon termination of the agreement, Chichester will be required to purchase from Downer EDI (or any relevant subcontractor) certain of its major and minor mining fleet as well as certain of the mining fleet of its subcontractors.

## *Ore haulage*

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

## *Water management*

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

management tool since mid-2008 in order to store fresher waters for future use and to maintain ecological water requirements.

At Cloudbreak, dewatering for BWT operation and reinjection of the excess water began in August 2008 and the dewatering abstraction is currently 30 gegaliters (“GL”) per year. The site requires 5GL per year for ore processing and dust suppression, and the remaining 25GL (approximately 85% of dewatering) is returned to hydrochemically-similar aquifers through injection bores. Brackish water is injected laterally along the orebody into future mining areas, and saline water is injected south of the operations into a highly permeable calcrete. Current dewatering is primarily brackish, but this will change in the future as mining extends further south. Saline water will be injected to aquifers with higher background salinity and will require a higher level of monitoring and control during both surface conveyance and injection.

There are a number of drivers for injection of the excess dewatering draw. The first is the preservation of the brackish water resource for ore processing over the life of the mine, without which Cloudbreak would have to establish a large external water source relatively early in the mine life. The second benefit of injection is the minimization of the drawdown footprint of the dewatering operation, particularly toward the Fortescue Marsh where ecological functioning is poorly understood but ecological values are known to be high. A third and important driver is the prevention of environmental and cultural concerns associated with the surface discharge of excess water.

As mining progresses, dewatering at Cloudbreak is expected to increase and reach around 60GL per year, of which approximately 80% will be reinjected. Mining activities at Christmas Creek have yet to mine below the water table, but mining and dewatering will ultimately be on a similar scale to Cloudbreak. The same water management principles will be applied and the waters of the two operations will be managed together through a combined Chichester Water Management Scheme with associated operational and cost efficiencies.

### ***Processing***

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

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

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

The desand plant is capable of processing 22Mtpa of fines and is designed to upgrade the low-grade ROM to reduce impurities (e.g., aluminum oxide ( $\text{Al}_2\text{O}_3$ ) content reduced from 2.5% to 1.9%) in the final product by removing fine clays as well as sand-sized shale and chert particles.

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

There are two OPFs at Christmas Creek, one at each of the Christmas Creek mines. The Christmas Creek OPFs consist of a separate screen house with scrubber-trommels and screens linked by conveyors to a crushing house, and a beneficiation facility referred to as the “desand” plant. The desand plant is similar to the one at Cloudbreak and consists of only two modules. This wet front-end feature processes wet ore more efficiently while simultaneously reducing the moisture in the final product to levels that lie within

customer requirements through the use of de-watering screens. The Christmas Creek OPFs are capable of producing fines product only.

As part of the initial expansion and development of the Group's production to 95Mtpa, the first Christmas Creek OPF constructed was expanded by adding an additional screen increasing nominal capacity from 19Mtpa to a nominal 25Mtpa of ROM based on feed type.

The second Christmas Creek OPF was commissioned in September 2012 and has a nominal capacity of 25Mtpa. It was constructed to support a total of approximately 50Mtpa of iron ore product from the Christmas Creek operations. The second OPF is of a similar design to the first OPF but with additional desand and crushing capacity. A jigging facility was commissioned in June 2013, enhancing the upgrade potential of the ore fraction between one millimeter and eight millimeters in size.

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

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

## **Mining operations at the Solomon Hub**

### ***Overview***

Mining operations within the Solomon Hub consist of the Firetail and Kings mines:

*Firetail Mine*—Mining began at Firetail in October 2012, with the Firetail OPF commencing operations in May 2013. The Firetail OPF reached run-rate production of more than 27.2Mtpa of ore processed for the quarter ended December 31, 2014.

Approximately 24.7Mt and 15.5Mt was mined at Firetail in calendar 2014 and calendar 2013, respectively.

*Kings Mine*—Mining began at Kings in May 2012, with the Kings OPF project completed in March 2014, which was the last milestone in the 155Mtpa Expansion.

Approximately 34.8Mt and 10.1Mt was mined at Kings in calendar 2014 and calendar 2013, respectively.

### ***Mining method***

Fortescue employs drill and blast mining methods at the Solomon Hub, which is widely considered to be a conventional method of mining iron ore and waste. Fortescue considers the conventional drill and blast mining method to be optimal from a cost perspective for the Solomon Hub mines.

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

Fortescue's mining fleet at the Solomon Hub primarily consists of four Liebherr R996, four R9400 and five R9250 excavators, 69 220-tonne Caterpillar 793F and 15 136-tonne Caterpillar 785 haul trucks and five Atlas Copco D65 and Pit Viper (PV271) drills (capable of drilling 110-203 millimeter and 171-270 millimeter diameter holes, respectively). The rehandle fleet consists of four Caterpillar 994 and four Komatsu WA1200 front end loaders and Caterpillar 793F haul trucks.

At the Kings mine, Fortescue is trialing Caterpillar Autonomous 793F trucks, with approximately 20 such trucks currently in operation. The autonomous trucks are supported by the Cat Minestar and Command system, which enables haul trucks to be in operation and controlled remotely without the requirement of haul truck operators in the trucks.

### ***Mining services agreement***

FMG Solomon and Leighton entered into a contract dated September 24, 2012 as varied by a deed of amendment and restatement dated December 8, 2014, under which Leighton provides mining services at the Solomon Hub, including mining operations (including drilling, loading and blasting) and management, operations and maintenance of accommodation and village facilities, non-process infrastructure, mobile maintenance and ancillary equipment. FMG Solomon retains responsibility for mine and operations planning and overall responsibility of the Solomon site. The contract contemplates the commencement of mining on October 1, 2012 with an initial mining period of five years and six months from the date of the contract. FMG Solomon may extend the contract term by 18 months if it gives notice to Leighton six months prior to the expiry of the initial mining period. Leighton must provide a parent company guarantee in favor of FMG Solomon for its obligations and liabilities under the contract.

FMG Solomon pays Leighton at various rates set out in the agreed measurement and payment schedule attached to the contract. The pricing scheme provides for a “costs plus” payment method, which FMG Solomon can amend to a fixed rate payment method by notice to Leighton. The aggregate contract price will depend on a range of variable factors, including under rise and fall provisions. However, the aggregate contract price is expected to be in the order of approximately A\$2.8 billion.

Leighton can terminate in certain circumstances, including where FMG Solomon breaches any term of the contract (subject to a 28-day cure period), becomes insolvent or does not pay a contract sum within 20 days of it becoming due and payable. If Leighton terminates, FMG Solomon must pay Leighton for services rendered, costs of materials, break-fees for Leighton’s subcontracts, an early termination amount of A\$20 million and demobilization costs. FMG Solomon is also required to purchase certain equipment from Leighton upon termination.

### ***Ore haulage***

Transportation of the ore to the OPFs in each area is achieved using regular haul trucks. Material is transported between Firetail and Kings to enhance blending as required.

### ***Water management***

The primary aquifer in the Solomon Hub area is associated with secondary permeability within the ochreous goethite Lower CID unit. The enhanced permeability is thought to be derived from interconnected vugs and cavities within the highly altered/weathered Lower CID. Groundwater in the Solomon Hub areas is also associated with:

- Alluvial, colluvial and detrital deposits within the palaeochannels which overlie the CID deposits.
- Calcrete deposits which form from carbonate precipitation at palaeo water tables within the alluvial deposits along the palaeochannels. The existence and thickness of the calcrete deposits is variable within the project area.

Upper CID unit which overlies the Lower CID unit generally has low permeability, minimizing groundwater flow. However, increased permeability and thus groundwater flow is encountered at the contact between the Upper and Lower CID units.

The current dewatering rate is 5.5GL per year and site water requirements are currently around 15GL per year. The dewatering rate fluctuates over the life of the project between 1.7GL and 17GL per year.

To meet the site water requirements an external borefield currently supplies 5.5GL per year from the Southern Fortescue Palaeochannel. There are also two small water supply systems in the CID aquifer that supply up to 4GL per year. There are currently plans for a second external borefield to be developed over the next few years as the current abstraction from the CID is not sustainable long term.

In the second half of 2014, return water from the tailings storage facility should start to be recovered and used in the OPFs on site, the current target for return is 40% of all water that goes out to the facility.

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

### ***Processing***

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

The Solomon Hub is comprised of two OPFs: the Firetail OPF wet processes Brockman BID and DID from the Firetail and Kings mine, and the Kings OPF will wet process CID and DID from the Kings mine. The OPF at Firetail is designed to treat a 90:10 BID:DID blend of ore at a nominal feed rate of approximately 25Mtpa while the OPF at the Kings mine is designed to treat CID ore at a nominal feed rate of approximately 46Mtpa.

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

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

Following processing, the products from both OPFs are conveyed to the stockyard via a stacker. Two independent ore stockpiles are required for the Brockman BID ore and the CID ore and are serviced by two separate stacking systems at each site. The stockpiles are designed to provide five operating day storage, equating to a total capacity of 300,000 tonnes from the Firetail and Kings mines (based on production of 20Mtpa and 40Mtpa, respectively, from these sites). A bucket wheel reclaimer, operating at a nominal 10,000 tonnes per hour has been installed to reclaim ore from each of the stockpiles and feed it into an automated train loading facility.

In May 2014, construction of a 5Mtpa DID processing plant at the Solomon Hub was approved. This facility is intended to allow DID to be processed, eliminating the need for Fortescue to construct a costly wet plant processing addition to the Firetail OPF and to free the Kings OPF to process Kings CID Fines. However, as the construction of the DID processing plant is non-critical to operations at the Solomon Hub, the project has been placed on hold and construction will commence under more favorable market conditions.

During the quarter ended June 30, 2014, Fortescue and Leighton completed a successful transition of full operational responsibilities for the two Solomon Hubs OPFs and the train loadout facility to Fortescue.

### **Rail and port transportation infrastructure**

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

### ***Rail infrastructure***

Fortescue's purpose-designed railway was initially built to service the Cloudbreak mine. The rail was subsequently extended to connect Christmas Creek and Cloudbreak directly to Port Hedland and, in December 2012, the Fortescue Hamersley Line, which comprises approximately 130 kilometers of track, was completed, thereby connecting the Solomon Hub to the mainline.

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

The train fleet consisting of 21 SD70, 15 General Electric Dash 9—44CW, nine SD90 4300 and eight EMD SD90 6000 MAC diesel locomotives and 3,384 ore cars, plus 30 fuel tankers, 37 ballast cars, 10 side tippers, 19 rail carrying cars and eight compressor cars. The fuel and ballast cars play vital roles in the productivity and efficiency of the railway and its maintenance, as well as provide a fuel service to the mine. The average age of the fleet is three years, which typically has a useful economic life of 20-30 years based on management estimates. As of December 31, 2014, approximately 89% of the rolling stock was owned, with the balance leased under operating leases.

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

Upon arrival at Port Hedland, the ore is unloaded and stacked into stockpiles ready for shipment. The train unloaders at the port are designed for simultaneous unloading of two rail wagons over the course of 90 seconds, which enables a full 250 wagon train to be unloaded every 3.5 hours. Ore from the wagons is dumped into a surge hopper and emptied by two apron feeders onto a conveyor to be taken to the stockpile area.

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

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

### ***Port infrastructure***

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

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

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

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

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

The construction of the fifth ship loading berth at Anderson Point in Port Hedland—which is expected to increase port capacity by 15-20Mtpa—was recently completed on schedule and commissioned on March 22, 2015.

### **Safety**

Following the deaths of two contractor employees at its Christmas Creek operations in August 2013 and December 2013 and the serious injury to another contractor employee in October 2013, Fortescue undertook a number of initiatives to reinforce safety as its highest priority. During fiscal 2014, Fortescue undertook a comprehensive review of safety standards, systems and processes across all its sites (with input from approximately 6,000 employees and contractors) and commenced its “Safety Excellence” project in the third quarter of fiscal 2014. The project is delivering results through embedding safety as a value, enhancing safety leadership, improving safety outcomes among contracting partners and improved sharing of incident lessons.

The total recordable injury frequency rate per million hours worked was 5.6 as of December 31, 2014, a 21% improvement over the result as of December 31, 2013.

### **Other existing operations**

While Fortescue's principal operations include the operation of iron ore mines and associated transportation infrastructure, the Company also generates external revenue from the provision of

accommodations, the sale of ore purchased from third parties and the provision of loading, railing and shipping services (i.e., access to its port infrastructure) to third parties.

In addition to mining, railing and shipping ore from its own mines at the Chichester and Solomon Hubs, Fortescue, through its wholly-owned subsidiary FMG Pilbara Pty Ltd, currently holds a 25% participating interest in the Nullagine Iron Ore Joint Venture (“NIOJV”), following the sale of 25% of its participating joint venture interest to BC Iron Limited in December 2012, taking BC Iron Limited’s overall interest in NIOJV to 75%. The NIOJV is located approximately 140 kilometers north of the township of Newman in the Pilbara region of Western Australia. The NIOJV has been mining and shipping iron ore since operations commenced in November 2010. The NIOJV uses Fortescue’s infrastructure at Christmas Creek, located 50 kilometers south of the Nullagine mine, to transport its ore by rail to Port Hedland from where it is shipped directly to overseas customers. Fortescue provides shipping services to NIOJV (and other third parties from time to time) on a fee-for-service basis pursuant to third-party access agreements. The NIOJV mined 5.7Mt and shipped 5.8Mt during fiscal 2014.

Consistent with Fortescue’s commitment to an open access rail and port system in Western Australia, the Company is in active negotiations to provide rail, port, marketing and shipping services to third-party iron ore producers. As of the date of this offering circular, these negotiations have not resulted in any legally binding agreements or understandings. However, should one or more of these negotiations be successfully concluded, they could involve significant levels of investment in new rail and port infrastructure as well as new responsibilities for marketing and shipping material amounts of third party iron ore. Any new contracts may involve significant risks and uncertainties.

## **Optimization and other development activities**

### ***Fortescue River Gas Pipeline***

In an effort to lower energy costs and reduce its carbon footprint, Fortescue is executing a plan to transition its operations from diesel to natural gas, in the form of compressed natural gas, pipeline natural gas or, potentially, LNG. The first step in this transition is the construction of the Fortescue River Gas Pipeline, a 270-kilometer gas pipeline that will deliver natural gas from the Dampier to Bunbury Pipeline to the main power station in the Solomon Hub, which is currently owned and operated by TransAlta Corporation. This pipeline has been constructed by the Fortescue River Gas Pipeline joint venture owned by DBP Development Group (a wholly-owned subsidiary of DUET Group) and TEC Pilbara Pty Ltd (a wholly-owned subsidiary of TransAlta Corporation) and was commissioned in March 2015. The pipeline will also be operated by the Fortescue River Gas Pipeline joint venture. See “Description of other indebtedness—Finance lease liabilities.”

Fortescue is also considering a number of other strategies to reduce the cost of energy to the business. These include conversion of power generation stations in the Chichester Hub to gas through the extension of the Fortescue River Gas Pipeline to the Chichester Hub. Beyond the gasification of power stations, Fortescue is also evaluating options to introduce lower gas priced fuels into its wider activities, particularly the introduction of LNG selectively into the heavy haul fleet. There are a number of technical and commercial barriers which may result in these options being deferred until such time as they can be proven in reliable service.

### ***Iron Bridge magnetite project***

In June 2012, Fortescue merged two of its magnetite tenement areas, North Star and Glacier Valley, into a Hong Kong domiciled entity known as FMG Iron Bridge Ltd, which is 88% owned by Fortescue with the remaining 12% held by a subsidiary of Baosteel. The North Star and Glacier Valley magnetite deposits are located about 100 kilometers south of Port Hedland. Total Mineral Resources for the magnetite tenement areas in North Star and Glacier Valley were 4,676Mt as of June 30, 2014, of which 44Mt were Measured Mineral Resources, 679Mt were Indicated Mineral Resources and 3,953Mt were Inferred Mineral Resources, at an average mass recovery of 24.2% and an average iron grade of approximately 31.8%.

In October 2013, FMG Iron Bridge Ltd formed an unincorporated joint venture with Formosa whereby Formosa acquired a 31% unincorporated joint venture interest in the Iron Bridge Joint Venture for US\$123 million. See “Management’s discussion and analysis of financial condition and results of operations—Other

factors that affect reported financial performance—Iron Bridge magnetite project.” Construction activities for the first stage of the Iron Bridge magnetite project have commenced and continue to achieve planned milestones, including commencement of load commissioning activities at the main 1.5Mtpa ore processing facilities and the mining of the first 450,000 tonnes of mined feed. Construction of the crushing plant, the slurry pipeline and the concentrate handling facility is expected to be completed in the first quarter of calendar 2015, with completion of commissioning and testing following in the second quarter of calendar 2015.

Fortescue’s 69% unincorporated interest in the Iron Bridge Joint Venture is held by FMG Iron Bridge Ltd, which is jointly owned by Fortescue (88%) and a subsidiary of Baosteel (12%). Formosa’s 31% unincorporated interest is held by its subsidiary, Formosa Steel IB Pty Ltd. Fortescue holds an effective overall 60.72% interest in both the North Star and Glacier Valley deposits, with the remaining interests being held by Formosa and Baosteel. Fortescue currently has no contingent or other financial commitments in respect of the Iron Bridge Joint Venture.

FMG Iron Bridge Ltd. and its subsidiaries will be Unrestricted Subsidiaries upon issuance of the Senior Secured Notes and are not expected to guarantee, or provide any collateral in respect of, the Senior Secured Notes upon issuance or in the future.

### **Exploration activities**

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

### **Sales and marketing**

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

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

While China is the driver of continuing growth in world demand for seaborne traded iron ore and the main customer at present for Fortescue ore, Fortescue also recognizes the need for sales diversification. Given Fortescue’s competitive advantage of proximity to the Asian markets, the Company has also recently focused marketing efforts on steel mills in Taiwan, Japan and Korea. This has led to a number of trial shipments to other large Asian (non-Chinese) steel mills. Fortescue is seeking to develop several medium-to-long-term agreements for expansion tonnage with these non-Chinese steel mills once their existing long term agreements with major suppliers expire. Fortescue recently renewed a two-year off-take agreement with a major Korean steel mill, which Fortescue will supply with both Rocket Fines and Kings CID Fines.

The key iron ore pricing references applicable to major Australian producers are the 62% Platts and MBIO (Premium) 58% indices. These indices are essentially determined by reference to the spot market created by the sales price achieved for Rio Tinto’s Pilbara Blend, BHP Billiton’s MAC and Newman Fines (62% Platts), and BHP Billiton’s Yandi (MBIO 58%+ Premium). Fortescue’s suite of products is sold with reference to the 62% Platts index with a market price comparable to other products which have similar “value in use” properties for steel production. Fortescue realizes approximately 85% of the 62% Platts CFR index. While Fortescue prices relative to the 62% Platts CFR index, the 58% MBIO (P) index approximates the realized price across its product range.

### ***Product range***

While the Company's existing operations have the capability of producing an un-screened lump ore product with minor modification, Fortescue has chosen to focus on producing and marketing various fines products, including Rocket Fines (59% Fe) and Super Special Fines (56.4% Fe) from the Chichester Hub, King CID Fines (57.3% Fe) and Brockman Fines (60% Fe) from the Solomon Hub (Kings mine and Firetail mine, respectively) and Fortescue Blend Fines (58.3% Fe), which is blend of Brockman Fines and Chichester Special Fines (58% Fe) from the Chichester Hub. Fortescue, through the NIOJV, also markets a fines product known as Bonnie Fines. The decision to focus on these products is driven largely by the relatively strong demand for fines product from the Chinese steel mills. Fortescue understands that its steel mills customers are typically using Fortescue Blend Fines as a base loading (15-40%) of their sinter blend, as a function of its acceptable silica, aluminum oxide and phosphorus content and the positive sintering characteristics, which include coarse fines, low ultra fines, fast sintering speed and reduced fuel requirements. Super Special Fines complement and share similar sintering and metallurgical characteristics to Fortescue Blend Fines.

Following the completion of the 155Mtpa Expansion, Fortescue has sold principally Rocket Fines and Super Special Fines and Fortescue Blend Fines (blended from Brockman Fines and Chichester Special Fines), although the Company has increasingly marketed Kings CID Fines as a standalone product to compete with competitor premium CID ores, namely BHP Billiton/Rio Tinto Yandi Fines.

Rocket Fines is mined from the Company's Chichester Hub, with an Fe grade of approximately 59%. Rocket Fines were the first iron ore product to be shipped by the Company in 2008. Rocket Fines are characterized by their relatively low silica, aluminum oxide and phosphorus content and positive sintering and metallurgical characteristics, which is a function of the coarse sizing. Rocket Fines are low in ultra and intermediate (-1 to + 0.1 millimeter) sized fines. The mineralogy of Rocket Fines results in the fines not being sensitive to over melting and which achieves strength in the blast furnace iron making process.

Super Special Fines contains approximately 56.4% Fe and acceptable levels of silica, aluminum oxide and phosphorus. Rocket Fines and Super Special Fines are the same iron ore type but have different chemical compositions. Compared with Rocket Fines, Super Special Fines has lower iron content and higher levels of silica, aluminum oxide and manganese compared to Rocket Fines. Super Special Fines is in high demand from steel mills in China particularly those that have smaller (1000m<sup>3</sup>) to mid-sized (2000-3000m<sup>3</sup>) blast furnaces. Super Special Fines are low in ultra and intermediate (-1 to + 0.1 millimeter) sized fines, which is a product advantage and results in positive sintering and metallurgical characteristics.

Brockman Fines have historically been the basis for Pilbara ore sales and steelmaking blends. Brockman Fines from the Firetail deposit in the Solomon Hub has an Fe grade of approximately 60% but is also slightly higher in phosphorus content than other ores. When blended with Fortescue's existing Chichester Special Fines, the overall iron grade improves to approximately 58.3% Fe and the resulting product, known as Fortescue Blend Fines, offers a higher grade product offering compared with existing average ore grades from the Chichester Hub. In both Fortescue and customer-based test work and customer plant usage Fortescue Blend Fines has demonstrated improvement in both iron-making cost and plant performance.

Kings CID Fines are similar in specification and metallurgical properties to other Australian ores of the same type, namely BHP Billiton Yandi and Rio Tinto Yandi. CID ore products have increased in market share in the last decade due to the complementary effect on other ores, and largely form the basis of current expansions and mining developments at other major Australian producers due to increasing market demand. CID ores are used at a different optimum ratio in each mill and therefore, are not usually blended prior to delivery. Kings CID Fines has relatively low silica, aluminum oxide and phosphorus content and contributes to improved metallurgical properties of sintered products. Test work results from Fortescue sponsored work as well as customer sinter pot tests has confirmed that Kings CID Fines is a suitable replacement for competitor CID fines in the sinter blend as it improves steel mill plant performance and metallurgical quality of the sinter. In August 2014, Fortescue commenced shipping Kings CID Fines to customers in China and Korea. In addition, Fortescue has recently renewed a two-year supply contract with a major steel mill in Korea which Fortescue will supply with both Rocket Fines and Kings CID Fines. Kings CID Fines is the same CID ore type as BHP Billiton Yandi, which is the most popular iron ore brand in the sub-60% iron grade segment. The sintering and metallurgical properties of Kings CID Fines

are equal to or better than BHP Billiton Yandi, and since its introduction to the market by Fortescue in mid-2014, there has been considerable demand for Kings CID Fines.

### ***Customer base and sales agreements***

Fortescue has successfully expanded its customer base in China and other parts of Asia and established itself as a compelling alternative for steel mills through the provision of high “value in use” iron ore products at competitive prices. Fortescue has shipped product to a high proportion of the top Chinese steel mills and, as of the date of this offering circular, has signed agreements with Chinese steel mills and iron ore distributors, which on-sell to Chinese steel mills, for the purchase of more than 135Mtpa. During the first half of fiscal 2015, revenue from sales of iron ore to one China-based iron ore distributor, with whom Fortescue has developed an important relationship, accounted for US\$2,352 million, or 48%, of the Group’s total operating sales revenue. In addition, Fortescue has recently renewed a two-year supply contract with a major steel mill in Korea and has shipped trial cargoes of Kings CID Fines to a customer in Japan.

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

Sales agreements with each of Fortescue’s customers are based on supply terms primarily of two or more years. Fortescue’s customer agreements are based on the published Platts 62% CFR dmtu index price, adjusted for Fe grade on a dmtu basis and on a relativity to other comparable ores in the Pilbara. See “Management’s discussion and analysis of financial condition and results of operations—Key drivers of the business and trends—Prices for iron ore on world markets.” Going forward, Fortescue’s pricing arrangements are expected to remain index-based.

### ***Shipping***

Fortescue’s shipping strategy is to implement flexible arrangements that maximize ore throughput while building a profitable shipping book. Key principles include:

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

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

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

Fortescue currently has around 60 shipping contracts on foot across a number of vessel segments with rolling contract tenure noting this number may vary from month to month as existing contracts end and new contracts commence. The existing contracts include around:

- nine vessels on time charter ranging from three months to six years remaining duration;
- 41 vessels on consecutive voyage contracts ranging from four months to seven years remaining duration; and
- 11 contracts of affreightment for 18 shipments per month ranging from four months to six years remaining duration.

While these contracts include vessels from a number of market segments ranging from small capesize vessels of 161,000 tonne capacity up to 297,000 tonne ore carriers, there is a focus on standard 180,000 tonne capesize vessels, 206,000 tonne bulk carriers and 230-260,000 tonne large ore carriers.

This portfolio of contracts with a range of vessel type and contract tenure is indicative of the overall strategy to ensure security of supply and maintain scheduling flexibility at the Herb Elliott Port. In addition, Fortescue has identified that utilization of large, shallow drafted ore carriers could optimize port infrastructure and increase total throughput at the Herb Elliott Port by maximizing loadable cargo across the natural tidal cycle. In June and July 2014, Fortescue entered into arrangements for the construction of eight highly efficient VLOCs. The investment will initially be funded by existing operating cash flows and, due to the timing of cash payments, is not expected to impact Fortescue's debt repayment strategy. Fortescue's total commitment for the purchase of these VLOCs is approximately US\$556 million. Delivery of the VLOCs is scheduled between November 2016 and March 2018, with the majority of payments also due shortly before delivery. See "Management's discussion and analysis of financial condition and results of operations—Contractual obligations."

Fortescue's shipping strategy is to lock in construction of these VLOCs which are being designed to complement the port infrastructure to improve load rates, efficiencies and reduce operating costs. Flexibility has been built into the ownership structure of these VLOCs which will allow Fortescue to explore alternative financing structures at a later date. The investment will initially be funded by existing operating cash flows and due to the timing of cash payments, is not expected to impact Fortescue's debt repayment strategy. Fortescue expects the operating cost of these vessels to be well below the current forward market rates for large capesize vessels and to deliver throughput benefits and operational savings at the port.

### ***Revenue collection***

Shipments to China are based on letters of credit which are opened by the customer in favor of Chichester. Fortescue's policy is to have an irrevocable letter of credit opened by the customer for a particular shipment before cargo is transferred to the customer at the discharge port. Each letter of credit covers approximately 95% of the provisional invoice amount for the cargo and 100% of CFR vessel costs, which entitles Fortescue to receive payment from the bank within one business day, with the remainder due after cargos are verified at the discharge port. For fiscal 2014 and the first half of fiscal 2015, Fortescue had average debtor days of less than 30 days.

### **Employees**

As of December 31, 2014, the Group employed a total staff of 4,975, including 2,576 staff employed at the two mining operations within the Chichester Hub and 565 staff employed within the Solomon Hub. In addition, as of December 31, 2014, over 8,147 contractors were engaged in the Group's operations as service, project or construction contractors. As of December 31, 2014, approximately 343 of the Group's employees and 446 of its contractors were based in Port Hedland to work at Herb Elliott Port. All of the Group's operational employees engaged in port, rail and mining are covered by an enterprise agreement established in May 2013, which will expire in May 2017. While there can be no assurance that a work slowdown, work limitation, work stoppage or related disruptions will not occur as a result of workplace safety or other illegal industrial action, the Group believes its highly competitive remuneration arrangements, high quality accommodation facilities and good employee work conditions will mitigate risks associated with this possibility. See "Risk factors—Risks relating to the business of the Group—Labor disruptions could affect the Group's production levels and lead to increased costs."

### **Aboriginal engagement**

As part of its vision to create partnerships which deliver lasting benefits to Aboriginal communities, Fortescue has developed initiatives to provide training and employment opportunities to indigenous Australians. Through the Company's Vocational Training and Employment Centers ("VTECs"), Fortescue provides Aboriginal people with a pathway towards guaranteed employment with the Company. The VTECs run a program designed to equip local Aboriginal people with the skills to gain employment in the mining sector and guarantee graduates employment with Fortescue. Under its "Summit 300" initiative, Fortescue

reached its target to employ an additional 300 Aboriginal people by June 30, 2011. In fiscal 2014, the Company's VTECs trained and provided jobs for 129 Aboriginal people, and at June 30, 2014, Fortescue employed 557 Aboriginal people across its operations comprising 12.2% of the total workforce.

Fortescue is also committed to providing Aboriginal communities with economic development opportunities. In fiscal 2014, a total of A\$497 million in contracts were awarded to Aboriginal businesses and joint ventures, as part of Fortescue's Billion Opportunities program. Additionally, in the first half of fiscal 2015, a total of A\$165 million in contracts were awarded to Aboriginal businesses and joint ventures, bringing the total value of contracts awarded under the program to A\$1.75 billion as of December 31, 2014.

## **Insurance**

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

## **Environmental policy and reporting**

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

## **Legal proceedings**

### ***TPI/Brockman proceedings***

On October 4, 2013, Fortescue, through its subsidiary, TPI, lodged an application with the WA Supreme Court for Judicial Review of the Economic Regulation Authority's (the "ERA") determination of TPI's Floor and Ceiling costs of relevant route sections of TPI's railway and its decision to approve negotiations under section 10 of the *Railways (Access) Code 2000* (WA) (the "Code") in relation to the proposal for rail access made by Brockman Iron Pty Ltd ("Brockman"). TPI contends that the ERA made errors of law in its determination and failed to accord TPI procedural fairness in making the decision and determination.

On October 4, 2013, TPI also commenced proceedings in the WA Supreme Court for a Declaration that Brockman's proposal for access to TPI's railway is invalid and does not enliven the operation of the Code. In TPI's view, Brockman's proposal is not genuine and that Brockman is merely seeking an option to access TPI's railway at some undetermined future time, subject to the development of Brockman's Marillana mine and required port infrastructure, and further, that Brockman is not capable of entering into a binding agreement to use and pay for the use of TPI's railway.

The proceedings against Brockman and the Judicial Review application proceeded to trial and were heard from August 18, 2014 to August 22, 2014. On September 26, 2014, the WA Supreme Court made orders that quashed the ERA's determination of TPI's Floor and Ceiling costs and required the ERA to determine Floor and Ceiling costs of the relevant route sections of TPI's railway, the subject of Brockman's

proposal for rail access, according to law. On September 26, 2014, the WA Supreme Court delivered a decision concluding that Brockman's proposal for rail access was a valid proposal.

On October 17, 2014, TPI commenced appeal proceedings in the Supreme Court of Western Australia's Court of Appeal, against the dismissal of TPI's application for declarations against Brockman and the ERA's decision to approve negotiations under section 10 of the Code ("Appeal Proceedings"). It is anticipated that the appeal proceedings would be heard by the Court of Appeal during July/August 2015. If TPI is successful in its appeal, it will bring an end to Brockman's proposal for rail access, and, if not, Brockman is likely to continue with its efforts to satisfy the legal requirements for access to TPI's railway.

## DESCRIPTION OF AUSTRALIAN LEGAL MATTERS

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

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

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

### Mining law and approvals

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

#### *Mining Act*

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

- *exploration licenses*—permitting entry on the land and undertaking operations for the purposes of exploration for minerals. The holder of an exploration license in which an economic discovery has been made generally has a priority right to apply to convert the license to a mining lease, provided they have complied with the Mining Act and tenement conditions and obtained the necessary approvals, by filing a conversion application during the term of the exploration license. No legal or equitable interest in an exploration license can be transferred or otherwise dealt with during the first year of its term without the prior written consent of the Mining Minister;
- *mining leases*—the holder of a mining lease is entitled, subject to the Mining Act, to work and mine the land, take and remove any minerals and do all things necessary to effectively carry out mining operations in, on or under the land. However, the grant of a mining lease does not in itself confer authority to produce minerals. Further approvals are generally required before production may commence, including approvals with respect to environmental impact. The holder of a mining lease owns all minerals lawfully mined from the land in accordance with the mining lease. A royalty is required to be paid to the State with respect to all minerals recovered from a mining lease at the rate prescribed for the relevant commodity in the *Mining Act and Mining Regulations 1981* (WA) ("Mining Regulations");
- *miscellaneous licenses*—a miscellaneous license may be granted pursuant to the Mining Act over any land where the purpose of the licence is directly connected with mining operations and is for a prescribed purpose under the Mining Regulations (e.g., a road or pipeline). The holder of a miscellaneous license does not have exclusive rights to the land over which the miscellaneous license is granted for mining purposes. The Group's Special Railway License has been granted as a miscellaneous license under the Mining Act, as varied in accordance with the Infrastructure State Agreement (as defined below).

The grant of a mining tenement is generally at the discretion of the Western Australian Minister for Mines and Petroleum or a mining registrar appointed under the Mining Act. The grant of a mining tenement will only authorize the holder to undertake activities in relation to iron ore if the tenement has been endorsed for iron ore by the Minister for Mines.

Conditions are imposed on the grant of tenements pursuant to the Mining Act. These can include conditions relating to the environment, payment of annual rent, required minimum expenditure and a

standard schedule of general exclusions and conditions established pursuant to the Mining Act. If any of the tenement conditions are not complied with, the tenement may be subject to forfeiture.

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

### ***Mining State Agreement***

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

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

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

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

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

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

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

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

### **Port and rail approvals and regulations**

#### ***Infrastructure State Agreement***

On November 10, 2004, TPI and Fortescue entered into an Infrastructure State Agreement with the State in relation to the development of a multi-user railway (the “Railway”) and multi-user port facilities (the “Port”) in the Pilbara (“Infrastructure State Agreement”). The Infrastructure State Agreement was ratified by the State Parliament of Western Australia in the *Railway and Port (The Pilbara Infrastructure Pty Ltd) Agreement Act 2004* (WA). The Infrastructure State Agreement was amended with effect from

December 11, 2010 to permit the Minister to approve of proposals to accommodate expansions of the port facilities, rail spur lines and train loading and unloading facilities.

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

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

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

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

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

### ***Port lease***

On October 14, 2010, PHPA and TPI executed a port lease under the Port Authorities Act together with a Port Additional Infrastructure License (the “Port Lease Agreement”), which will terminate on the same date as the Special Railway License (potentially a 50-year term).

The wharf, stockpile and screen house areas are leased to TPI under the Port Lease and the areas on which the conveyor, access roads and power and supply infrastructure have been constructed are licensed to TPI.

The PHPA is not permitted to charge a rental amount on a basis which is different from the basis of charging other users or impose charges other than rental amounts for services or matters which are different from charges which the PHPA imposes on others, except where the difference can be commercially justified or recognizes a contribution to common user infrastructure or other particular exceptions. Following approval, TPI cannot increase the capacity of the Port Facilities, change the nature and characteristics of the

proposals or otherwise modify any of the activities approved by the Minister without prior Ministerial consent.

### ***Open access to port facilities***

The Infrastructure State Agreement contemplates that TPI must maintain an access regime that is approved by the Transport Minister and which provides for access to the Port Facilities and Additional Infrastructure. The Pilbara Infrastructure Port Access Regime was approved by the Minister for State Development in 2009. TPI is obligated to use all reasonable endeavors to promote access to, and attract customers for, the Railway and the Port Facilities and any additional infrastructure. TPI is required to invest in additional infrastructure to expand the capacity of the Port Facilities and additional infrastructure to accommodate demand for access, provided such investment can be justified commercially. If there is a disagreement between the Minister and TPI as to whether any particular proposed investment can be justified commercially, either party may refer the dispute to arbitration.

### **Native title and Aboriginal heritage law**

#### ***Native title law***

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

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

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

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

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

#### ***Land access agreements***

Fortescue, TPI and Chichester have entered into land access agreements with six native title claimant groups, namely the Nyiyaparli, Palyku, Kariyarra, Martu Idja Banyjima, Puutu Kunti Kurrama and Pinikura and Eastern Guruma native title claimant groups. Five of those six land access agreements relate to tenements comprising the Group’s Chichester Hub and Solomon Hub and tenure required for the Group’s

existing railway and port facilities. The remaining land access agreement with the Pinikura claimant group relates to tenements affected by the proposed development of the Eliwana & Flying Fish deposits (formerly known as the Western Hub).

Pursuant to these agreements, a native title claimant group is not allowed to object to future acts pertaining to the land that is the subject of the agreement, including the grant of all mining tenure and other interests necessary for the mining projects contemplated under the agreements.

The Group also has agreements with the Njamal and the Warram with respect to the North Star project.

TPI has also complied with the procedure outlined in the Native Title Act in respect of the Special Railway License and Lateral Access Road Licenses. Native title has been extinguished in the area covering any land at the port that has been vested in the Port Hedland Port Authority.

The Group monitors any registered native title claimants with respect to the areas it operates within and will, if required, comply with the relevant procedures under the Native Title Act.

### ***Aboriginal heritage sites and objects affecting the Group's tenements***

Under the *Aboriginal Heritage Act 1972* (WA), the Group will be prevented from conducting ongoing operational activities or constructing any part of any expansion activities in the vicinity of any registered or unregistered Aboriginal sites that would damage, or in any way alter, an Aboriginal site, or any object on or under an Aboriginal site, unless consent is obtained from the Minister for Indigenous Affairs.

To determine whether there are any Aboriginal heritage sites on its tenements, the Group conducts archaeological and ethnographic heritage surveys via a team of traditional owners, one to two archaeologists (or anthropologists) and one to two representatives of Fortescue. Fortescue ensures that survey requests are formally submitted and negotiated with the claimant group before on-ground work begins. In addition, all proposed drill lines or tracks are flagged and pegged before the Group performs any on-ground work.

Under the *Federal Aboriginal and Torres Strait Island Heritage Protection Act 1984* (Cth), the Group will be prevented from conducting ongoing operational activities or constructing any part of any expansion activities in the vicinity of any area or object of particular significance to Aboriginal people:

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

We are not aware of any specific Ministerial declaration that affects the Group's activities.

## **Environmental approvals and law**

### ***Environmental law***

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

The Mining Act, the relevant state agreement acts and the conditions imposed under the Tenements and other approvals and licences require mining companies to ensure that upon cessation of their activities, the mine is returned as far as possible to its previous natural condition. In particular, it is generally a requirement that a company, before it can start mining, have processes in place to manage and minimize the environmental impact for environmental protection. Many conditions are standard to all mining tenements and usually require a proposal be submitted to the Environment Branch of the Western Australian Department of Mines and Petroleum ("Department of Mines") for management under the Mining Act or the Department of State Development for management under the relevant state agreement act, stipulating the environmental requirements for the project and tenements are subject to forfeiture for a breach of condition.

If a proposed industrial, mining or infrastructure activity presents a risk of significant impact on the environment, a company will be required to undertake, in advance of commencing operations, an environmental impact assessment. This document will be reviewed by the EPA, which will forward recommendations to the State Environment Minister. If satisfied that the proposal may be implemented, the State Environment Minister will subsequently issue a Ministerial approval and statement of conditions that is binding on the company. Even where a project is not significant enough to attract a Ministerial approval and statement of conditions, some aspects of an operation will require licensing (such as refining operations or bulk loading facilities at ports).

An action which is part of a proposal that has been referred to the EPA may also require referral to the Australian Federal Minister for the Environment under the EPBC Act. Under a bilateral agreement between the Commonwealth and the State of Western Australia, the Commonwealth Government accredits and relies upon the environmental assessment procedures of the State government, in order to avoid duplication of environmental assessment procedures at both State and federal level. However, each jurisdiction will still come to its own conclusion regarding approval.

The Environmental Protection Act also provides for the grant of works approvals and licences to enable the conduct of activities that would pollute or cause environmental harm in contravention of that Act. Failure to comply with the conditions in a Ministerial approval, or with conditions in a works approval or license, may lead to monetary penalties or criminal liability (with up to 5 year's imprisonment) in addition to various court orders or other enforcement action.

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

#### ***Environmental approvals required for the Group's operations***

The Group has to date obtained numerous key authorizations in accordance with the Environmental Protection Act, *Environment Protection and Biodiversity Conservation Act 1999* (Cth) ("EPBC Act"), *Rights in Water and Irrigation Act 1914* (WA) ("RIWA Act") and other applicable legislation. Further approvals will be required with respect to the Group's continued operations of the mine, port and rail and in relation to any expansions or new development. The Group will apply for such further authorizations as and when they are required.

#### **Foreign Investment Review Board**

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

Due to the level and nature of foreign ownership of Fortescue's shares, Fortescue is currently a "foreign person." Depending on whether Fortescue remains a "foreign person" and on the availability of certain exemptions, notifications may be required in relation to any future acquisitions of mining tenements under the Mining Act and other leases or licenses of land. If the Treasurer considers the acquisition to be contrary to the national interest, then he may oppose the acquisition.

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

### **Australian corporate tax**

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

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

If Fortescue defaults on its tax liabilities, then, subject to the limitations described below, each member of the Tax Consolidated Group, including the Issuer and each Note Guarantor, may become jointly and severally liable for such tax liabilities.

This joint and several liability can be limited where the head company and subsidiaries enter into a valid tax sharing agreement (“TSA”). In that event, the liability of each Tax Consolidated Group member is limited to the amount calculated under the TSA. To be valid, the TSA must (among other things) determine a “reasonable allocation” of the group liability among members of the group and any statutory request by the Australian Taxation Office (“ATO”) for a copy of that agreement must be complied with. In Fortescue’s view, the members of the Tax Consolidated Group have entered into a valid TSA.

## MANAGEMENT

### Board of Directors

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

<u>Name</u>	<u>Age</u>	<u>Position</u>
Andrew Forrest .....	53	Non-Executive Chairman
Owen L. Hegarty .....	66	Non-Executive Vice Chairman
Neville Power.....	56	Chief Executive Officer and Executive Director
Peter Meurs.....	58	Executive Director
Mark Barnaba.....	51	Lead Independent Director
Elizabeth Gaines .....	51	Non-Executive Director
Cao Huiquan.....	48	Non-Executive Director
Geoff Raby .....	61	Non-Executive Director
Sharon Warbuton.....	44	Non-Executive Director
Jean Baderschneider.....	61	Non-Executive Director

#### *Mr. Andrew Forrest, Non-Executive Chairman*

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

Mr. Forrest is the founder, Chairman and a member of the Company's Remuneration and Nomination Committee. Mr. Forrest is also the founder and Chairman of Minderoo Foundation, Australia's largest philanthropic organization, which operates GenerationOne, The Australian Employment Covenant and Walk Free, a global campaign to end modern slavery. Mr. Forrest is involved in numerous charitable and community service projects. 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 to Chair the Review of Indigenous Training and Employment Programmes on behalf of the Office of Prime Minister and Cabinet of Australia. He is Commonwealth ambassador for employment and engagement with disadvantaged communities and Chair of the Foundation of the Art Gallery of Western Australia.

He is an Adjunct Professor of the China Southern University and a long standing Fellow of the Australian Institute of Mining and Metallurgy. He is Co-Chairman of the Senior Business Leaders' Forum, the leading advisory body for China and Australia's top businesses and the principal sponsor of the BOAO Forum for Asia, one of Asia's leading political and business forums.

His previous executive roles include founding Chairman, Chief Executive Officer, Deputy Chairman of Minara Resources Limited, Chairman of the Murrin Murrin Joint Venture and Chairman of Poseidon Nickel. Non-Executive roles previously included Director of the Australian Export Finance and Insurance Corporation, Director of the West Australian Chamber of Minerals and Energy and President of Athletics Australia.

Mr. Forrest has extensive experience in the mining sector and has won multiple global finance awards as well as The Australian Sports Medal, The Australian Centenary Medal, the Australian Medical Society's (Western Australia) 2012 President's Award, the Western Australian Governor's Award for Citizen of the Year for Regional Development, Australian Social Entrepreneur of the Year, West Australia Citizen of the Year and a number of peak industry bodies' Lifetime Achievement awards.

#### *Mr. Owen L. Hegarty, Non-Executive Vice Chairman*

Mr. Hegarty was appointed as Vice Chairman in November 2014, having served as a Non-Executive Director since October 2008.

Mr. Hegarty has over 40 years' experience in the global mining industry, including 25 years with Rio Tinto plc where he was Managing Director of Rio Tinto Asia and also Managing Director of the Australian

copper and gold business. He was the founder and CEO of Oxiana Limited (now Oz Minerals Limited) which grew from a small exploration company to a multi-billion dollar Australia, Asia and Pacific focused base and precious metals explorer, developer and producer. 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 Limited, a gold mining company and Executive Vice Chairman of CST Mining Group Limited, also a Hong Kong listed mining company. He is a Director of the AusIMM, a member of the South Australian Minerals and Petroleum Expert Group, and a Director of the WA based Mining Hall of Fame Foundation. He is the founding patron of the Coalition for Eco-Efficient Comminution—a not-for-profit organization aimed at increasing energy efficiency in mining and minerals processing. Mr. Hegarty is also Chairman of Tigers Realm Minerals Pty Limited, a private Melbourne-based mining company growing a diversified mining group, Chairman of EMR Capital, a private equity investment manager focused on resources and Non-Executive Director of Tigers Realm Coal Limited. From July 1994 to June 2010, Mr. Hegarty was a Director of Range River Gold Limited.

***Mr. Neville Power, Chief Executive Officer and Executive Director***

Mr. Power was appointed Chief Executive Officer of Fortescue Metals Group on July 18, 2011 after joining the company in February 2011. On September 1, 2011, following the resignation of Mr. Ian Cumming, Mr. Power accepted an invitation of the Board to serve as an Executive Director.

Mr. Power previously held the position of 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 A\$4 billion per annum and 3,500 staff. In this role, Mr. Power was responsible for some of Australia's most significant projects including the Brisbane Airport Link, Sydney's Royal North Shore Hospital redevelopment and the Victorian Desalination project. Mr. Power spent more than 10 years in senior executive positions with Smorgon Steel Group Ltd where he was progressively promoted as the Group grew through acquisitions and expansion and, in February 2001, was appointed Chief Executive of the Reinforcing and Steel Products Division. 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 Engineering from University of Southern Queensland and a Master of Business Administration (MBA) from the University of Queensland.

***Mr. Peter Meurs, Executive Director***

Mr. Meurs joined Fortescue in May 2010 to take control of its Expansion and Development Projects and was appointed to the Board of Directors in February 2013. He is now the Director Developments for Fortescue. His responsibilities range from exploration to studies and project development through to delivery of major capital expansion. As part of this he had direct responsibility for the delivery of Fortescue's 155Mtpa Expansion and future development plans.

Prior to Mr. Meurs joining Fortescue, he held the position of Managing Director at WorleyParsons. Mr. Meurs was a key contributor to the growth and development of WorleyParsons after joining the company in 1988. During his time at WorleyParsons, Mr. Meurs held 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, a Fellow of the Institution of Engineers Australia and is also a member of the Australian Institute of Company Directors.

As of the date of this offering circular, Mr. Meurs is on a leave of absence as Director Developments.

***Mr. Mark Barnaba, Lead Independent Director***

Mr. Barnaba was appointed as Lead Independent Director in November 2014, having served as a Non-Executive Director since February 2010. Mr. Barnaba joined the Audit and Risk Management Committee in

June 2011 and has since been appointed as the Chairman of the Audit and Risk Committee. Mr. Barnaba has also served as a member of the Remuneration and Nomination Committee since August 18, 2011.

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 honors 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. In January 2015, Mr. Barnaba was awarded a Member of the Order of Australia.

***Ms. Elizabeth Gaines, Non-Executive Director***

Ms. Gaines was appointed as a Non-Executive Director on 22 February 2013.

Ms. Gaines is an Executive Director and the Chief Executive Officer of Helloworld Limited. Prior to this, Ms. Gaines was the Chief Operating Officer & Chief Financial Officer 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 STS UK Holdco I Pty Limited (and its subsidiaries), Mantra Group Holdings I Pty Limited and Global Voyager Group Admin Pty Limited. Ms. Gaines also serves as a director of the Australian Federation of Travel Agents Limited.

***Mr. Cao Huiquan, Non-Executive Director***

Mr. Cao was appointed as a Non-Executive Director in February 2012 pursuant to the terms of the Subscription Agreement, dated February 24, 2009, between Hunan Valin Iron and Steel Group Company Ltd and Fortescue.

Mr. Cao is Chairman of Hunan Valin Iron and Steel Group Co., Ltd, the Chairman and Chief Executive Officer of Valin Iron & Steel Co., Ltd and the General Manager of Valin Xiangtan Iron & Steel Group Co., Ltd. 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 received a Ph.D. of Engineering of Central Iron & Steel Research Institute, and was enrolled in the EMBA programme of China Europe International Business School in 2009. Mr. Cao previously held positions as General Manager of Hunan Xiangtan Iron & Steel Co., Ltd, General Manager of Hunan Valin Iron & Steel Co., Ltd and General Manager of Lianyuan Iron and Steel Group Co., Ltd.

***Dr. Geoff Raby, Non-Executive Director***

Dr. Raby was appointed as a Non-Executive Director on August 18, 2011.

Dr. Raby was Australia's Ambassador to the People's Republic of China (2007-2011). Prior to that, he was a Deputy Secretary in DFAT. He has extensive experience in international affairs and trade, having been Australia's Ambassador to the World Trade Organization (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). Dr. Raby is currently a Director of OceanaGold Corporation and SmartTrans Holding Limited.

***Ms. Sharon Warbuton, Non-Executive Director***

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

Ms. Warburton is the Executive Director of Strategy with Brookfield Multiplex. Prior to this position, Ms. Warburton was Chief Planning and Strategy Officer of United Arab Emirates based company, ALDAR Properties, 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.

***Dr. Jean Baderschneider, Non-Executive Director***

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

Dr. Baderschneider, a highly regarded leader in both business and civil society, brings extensive international experience in procurement, strategic sourcing and supply chain management along with a deep understanding of high-risk operations and locations and complex partnerships. With 35 years of experience, Dr. Baderschneider retired from ExxonMobil in 2013 where she was Vice-President, Global Procurement. She has been responsible for operations all over the world, including Africa, Middle East and Asia.

Dr. Baderschneider is a past member of the Board of Directors of the Institute for Supply Management and the Executive Board of the National Minority Supplier Development Council (NMSDC). She was a Presidential appointee to the US Department of Commerce's National Advisory Council of Minority Business Enterprises in February 2011. She is a past board member of The Center of Advanced Purchasing Studies (CAPS) and the Procurement Council of both The Conference Board and the Corporate Executive Board. Dr. Baderschneider is a member of the Advisory Councils of President Lincoln's Cottage, a Historic Site of the National Trust for Historic Preservation, and Ford's Theatre. In addition, she is a member of the Board of Trustees of the Maret School in Washington, D.C., and of the Advisory Council of the ILR School at Cornell University and a long-time member of Cornell's President's Council of Cornell Women.

Dr. Baderschneider has a Masters degree from the University of Michigan and a Ph.D. from Cornell University.

**Executive officers**

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

<u>Name</u>	<u>Age</u>	<u>Position</u>
Neville Power <sup>(1)</sup> .....	56	Chief Executive Officer and Executive Director
Stephen Pearce.....	50	Chief Financial Officer
Peter Meurs <sup>(1)</sup> .....	58	Director of Developments
Nick Cernotta.....	53	Director of Operations
Peter Huston.....	58	General Counsel
Ian Wells.....	45	Company Secretary

**Notes:**

<sup>(1)</sup> See "—Board of Directors" for the biographies of Messrs. Powers and Meurs.

***Mr. Stephen Pearce, Chief Financial Officer***

Mr. Pearce joined Fortescue in March 2010 with more than 20 years' experience in senior management roles in the mining, oil and gas and utilities industries. Prior to joining Fortescue, 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. (now Lone Star Resources Limited), 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.

He is currently Chairman of the Lions Eye Institute and a Non-Executive Director of Cedar Woods Limited.

***Mr. Nick Cernotta, Director of Operations***

Mr. Cernotta joined Fortescue in March 2014 as Director of Operations.

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. He has a Bachelor of Mining Engineering. Prior to joining Fortescue, 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 responsibility for health, safety and environmental, maintenance, engineering, business improvement and technical services.

***Mr. Peter Huston, General Counsel***

Mr. Huston joined Fortescue in January 2005 and has over 20 years' experience in legal and commercial advisory roles. Prior to joining Fortescue, Mr. Huston spent 12 years as a Partner of the law firm now known as Norton Rose. Mr. Huston is Chairman of Resolute Mining Limited and holds several other directorships. Mr. Huston is a well-regarded corporate lawyer in Perth.

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

***Mr. Ian Wells, Company Secretary***

Mr. Wells was appointed Company Secretary in February 2015. Prior to this appointment, Mr. Wells held the position of Group Manager, Treasury and Business Planning. Mr. Wells has more than 20 years' experience in senior finance and management roles in the mining, energy infrastructure and healthcare industries. Mr. Wells previously held the position of Chief Financial Officer of Singapore Power's subsidiary Jemena Limited, one of Australia's largest owners and operators of energy infrastructure. Mr. Wells was the Acting CFO of Alinta Limited when it was acquired through an on-market acquisition by the Babcock and Brown, Singapore Power Consortium in 2007. Mr. Wells has also held senior management positions in the healthcare industry and has extensive financial experience including financial and management accounting, capital management, mergers and acquisitions and capital raising. Mr. Wells is also a director of not-for-profit Alzheimer's Australia WA and a member of the Salvation Army business advisory committee.

Mr. Wells holds a Bachelor of Business in Accounting is a Fellow of CPA Australia, and a Certified Finance and Treasury Professional.

**Board structure**

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

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

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

The Board's responsibilities include:

- appointing the Chief Executive Officer;
- determining the strategic direction of Fortescue as an outcome of executive management recommendations and measuring performance against approved strategies;
- adopting operating budgets at the commencement of each fiscal year and monitoring progress on a regular basis against budget by both financial and non-financial key performance indicators;
- monitoring and overseeing Fortescue's financial position and risk management priorities;
- evaluating the performance of the Chief Executive Officer and determining remuneration;
- determining that satisfactory arrangements are in place for auditing Fortescue's financial affairs;
- ensuring that policies and compliance systems consistent with Fortescue's objectives and industry best practice are in place and providing the necessary framework for Fortescue and its officers to act legally, ethically and responsibly on all matters; and
- ensuring that the reasonable views of all stakeholders are taken into account.

The Board currently consists of 12 directors, of which ten are Non-Executive Directors and two are Executive Directors. The Deputy Non-Executive Chairman and seven of the other Non-Executive Directors are considered to be independent. As a result of his substantial shareholdings in Fortescue, Mr. Forrest is not independent. Mr. Rowley is also not independent as a result of his shareholdings in Fortescue. Mr. Cao is not independent, as he represents Valin, which is a material customer and shareholder of Fortescue. Regardless, all directors are required to bring independent judgment to bear in their board decision making. The Chairman is elected by the full Board.

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

#### ***Audit and Risk Management Committee***

The Audit and Risk Management Committee must consist of at least three Non-Executive Directors with a Non-Executive Director as the Chairman of the Committee. Current members of the Audit and Risk Committee are Mark Barnaba (Chairman), Sharon Warburton and Elizabeth Gaines. The Audit and Risk Management Committee meets and reports to the Board.

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

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

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

#### ***Remuneration and Nomination Committee***

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

Committee are Sharon Warburton (Chair), Mark Barnaba, Owen Hegarty, Andrew Forrest and Elizabeth Gaines. The duties of this committee include advising the Board with respect to:

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

### **Employment agreements**

Compensation and other terms of employment for the Executive Directors, other key management personnel and other executives are formalized in service agreements. These service agreements set out the salary and superannuation (retirement) benefits of employment, as well as basic terms and conditions of employment and an employees' code of conduct. Under the terms of these agreements, Fortescue or the employee may terminate the employment at any time upon giving between one and three month's written notice. Information on the terms of the service agreements relating to Fortescue's key management and personnel in fiscal 2014 is included in the Remuneration Report included elsewhere in this offering circular.

### **Compensation of directors and executive officers**

For information on the compensation of Fortescue's directors and Fortescue's key management personnel in fiscal 2014, please see the Remuneration Report included elsewhere in this offering circular.

### **Fortescue Incentive Option Scheme**

The Incentive Option Scheme is designed to provide Fortescue's employees (including Executive Directors) with an ownership interest in Fortescue and to attract, motivate and retain them. Set out below is a summary of the terms and conditions of Fortescue's Incentive Option Scheme.

#### ***Eligible participants***

Persons eligible to participate in the Incentive Option Scheme are full- or part-time employees, including Executive Directors, of Fortescue or an associated company, or such other persons as the Board, in its discretion, determines.

#### ***Administration***

The Board, or persons appointed by the Board, are responsible for the administration of the Incentive Option Scheme. Subject to the rules of the Incentive Option Scheme, the Board may make regulations and establish procedures for the administration of the Incentive Option Scheme.

#### ***Offers of Incentive Options***

The Board may, in their absolute discretion, based on skills, experience, level of remuneration and length of service, offer Options pursuant to the Incentive Option Scheme ("Incentive Options") to eligible participants from time to time and impose conditions, including performance-related conditions, on the exercise of those Incentive Options. Eligible participants may renounce an offer in favor of a nominated associate; however, the Board has the discretion to not allow that renunciation without giving any reason.

### ***Incentive Options***

Each Incentive Option will be granted for zero consideration and will entitle the holder to subscribe for one Share. Incentive Options will not be quoted on ASX. Incentive Options may not be transferred or encumbered without the prior approval of the Board.

### ***Exercise price***

The exercise price for Incentive Options will be determined by the Board but must be no less than the greater of the volume weighted average share price of Fortescue's ordinary shares traded on ASX for the five trading days immediately preceding the date on which the Incentive Options are granted and A\$0.20.

### ***Trigger events***

If a notice of meeting is dispatched to consider a scheme of arrangement with respect to Fortescue, a takeover bid for Fortescue is announced or Fortescue receives a bidder's statement for such a bid, or any person, either alone or together with any group of associates, acquires a relevant interest in more than 50% of the issued shares, the Board may, notwithstanding the rules of the Incentive Options Scheme, determine a specific period during which Incentive Options may be exercised so as to permit holders to participate in any change of control that arise. The Incentive Options will lapse to the extent they are not exercised within that specific period.

Alternatively, if such an event occurs, the Board may use their reasonable endeavors to procure that an offer is made to holders of Incentive Options on like terms. If the offer is not accepted within the period for acceptance, the Incentive Options will become immediately exercisable for a period of ten days and then lapse if they are not exercised.

### ***Expiry date***

The expiry date for Incentive Options will be five years after the date of the grant of the Incentive Options, or as determined by the Board.

### ***Lapsing of Incentive Options***

Unless otherwise determined by the Board, an Incentive Option will lapse if it is not exercised prior to 5:00 pm on its expiry date or earlier if any conditions which must be satisfied before the Incentive Option can be exercised ("Exercise Conditions") are not met.

Unless otherwise determined by the Board, an Incentive Option will also lapse earlier if the participant ceases to be an employee or director of Fortescue or an associated company (for any reason) and any Exercise Condition has not been met or, if all Exercise Conditions have been met, a period of 15 days has passed since the date of cessation. However, if the participant dies, becomes permanently disabled, retires from the workforce or is made redundant, and all Exercise Conditions have been met, an Incentive Option will not lapse on the date of cessation and may be exercised at any time up to 6 months following that date (or until the expiry date if that occurs earlier).

### ***Exercising Incentive Options***

Once all Exercise Conditions have been satisfied and Incentive Options are otherwise capable of being exercised, Incentive Options may be exercised at any time prior to their expiry date by notice to Fortescue in the prescribed form.

### ***Vesting conditions***

Incentive Options granted to a participant will vest and become exercisable in stages with 25% of the Incentive Options vesting at each of the first four anniversaries of the date the Incentive Options were granted.

### ***Adjustments***

Subject to the ASX Listing Rules and the rules of the Incentive Option Scheme, the Board may adjust the terms of exercise of Incentive Options.

### ***Amendments to rules of the Incentive Options Scheme***

The Board may, subject to the ASX Listing Rules, amend the rules of the Incentive Options Scheme without being required to obtain shareholder approval, but will require the approval of the holders of Incentive Options if the amendment reduces the rights attached to those Incentive Options, unless the amendment is introduced to comply with legislation governing or regulating the operation of the Incentive Option Scheme or like schemes, to correct any manifest error or mistake, or to enable the Company or an associated company to comply with applicable laws or the requirements of a regulatory body.

### **Fortescue Long Term Incentive Plan**

The Long Term Incentive Plan is designed to strengthen the alignment of Executives with shareholders by focusing on sustained performance over an extended period (minimum three years). The Long Term Incentive Plan is offered in the form of a grant of performance rights. Each performance right entitles the holder (subject to the achievement of specified performance conditions) to one fully paid ordinary share in the Company for nil consideration.

### ***Administration***

The Board, or a duly appointed committee of the Board, is responsible for the operation of the Long Term Incentive Plan.

### ***Participants***

Full-time and part-time employees and Executive Directors and consultants of Fortescue or its subsidiaries, are all eligible to participate in the Long Term Incentive Plan (“Eligible Employee”). Non-Executive Directors are not eligible to participate in the Long Term Incentive Plan.

Generally, participation in the Long Term Incentive Plan is limited to the top 50 roles in the Company.

### ***Eligibility***

The Board determines the eligibility of participants, by considering:

- the seniority of the participant and the position the participant occupies within Fortescue;
- the length of service of the participant with Fortescue;
- the record of employment of the participant with Fortescue;
- the potential contribution of the participant to the growth and profitability of Fortescue;
- the extent (if any) of the existing participation of any of Fortescue’s Incentive Plan; and
- any other matters the Board considers relevant.

### ***Invitations***

The Board has discretion to issue invitations to participants offering the grant of Performance Rights.

### ***Performance Conditions***

Vesting of the Performance Rights is conditional on the participant satisfying the pre-determined performance conditions (“Performance Conditions”). The Company uses absolute return on equity as the performance measure for assessment of LTI awards.

### ***Number of Performance Rights***

The Board has discretion to determine the number of Performance Rights offered to participants, provided that the number of shares offered to a participant, when combined with:

- the number of shares which may be issued upon exercise of options granted under the Incentive Option Scheme, the Employee Bonus Share Plan or upon the exercise of Performance Rights granted under the Long Term Incentive Plan or Executive and Senior Staff Incentive Plan; and
- the number of shares issued during the previous five years under any employee incentive plan of Fortescue (including the Incentive Option Scheme, Employee Bonus Share Plan, the Long Term Incentive Plan and Executive and Senior Staff Incentive Plan),

must not exceed 5% of Fortescue's issued capital at any time. Further, in determining the number of Performance Rights to be granted to participants, the Board will consider current market practice and take into account the overall cost to Fortescue of grants under the Long Term Incentive Plan.

### ***Frequency of Performance Rights***

The Board will consider the grant of Performance Rights to participants annually, unless it determines otherwise.

### ***Performance Period***

The performance period applicable to the Performance Rights is not more than three years from the date of grant ("Performance Period").

### ***Vesting of Performance Rights***

The Performance Rights will vest proportionately to the achievement of the absolute return on equity performance measure at the conclusion of the Performance Period. Any Performance Rights which have not vested within the performance period will lapse. Notwithstanding the preceding sentence, the Performance Rights will vest immediately to the extent the Performance Conditions have been met if there is a Change of Control Event or upon the retirement or retrenchment of the participant. A "Change of Control Event" is defined as a person or group of associated persons become entitled to sufficient shares in Fortescue to give that person the ability in a general meeting to replace all or the majority of the Board.

Subject to the foregoing, unless otherwise determined by the Board, all Performance Rights held by a participant lapse immediately upon the participant ceasing to be an Eligible Employee.

### ***Fortescue Executive and Senior Staff Incentive Plan***

The Executive and Senior Staff Incentive Plan is designed to align the interests of Fortescue's employees and shareholders and support a culture of employee share ownership by providing targeted but competitive remuneration and short-term incentives for key employees. Set out below is a summary of the terms and conditions of Fortescue's Executive and Senior Staff Incentive Plan.

A maximum incentive opportunity is established at the beginning of the performance period which is delivered as a minimum of 50% in ordinary shares and maximum of 50% in cash. The plan allows participants to elect to receive up to 100% of their incentive in shares. Share rights are granted based on the election of the participant and represent the maximum number of shares that may be awarded subject to performance.

### ***Administration***

The Board, or a duly appointed committee of the Board, is responsible for the operation of the Executive and Senior Staff Incentive Plan.

### ***Participants***

Full-time and part-time employees and Executive Directors and consultants of Fortescue or its subsidiaries, are all eligible to participate in the Performance Share Plan (“Eligible Employee”). Non-Executive Directors are not eligible to participate in the Performance Share Plan.

Generally, participation in the Executive and Senior Staff Incentive Plan is limited to the top 50 roles in the Company.

### ***Eligibility***

The Board determines the eligibility of participants, by considering:

- the seniority of the participant and the position the participant occupies within Fortescue;
- the length of service of the participant with Fortescue;
- the record of employment of the participant with Fortescue;
- the potential contribution of the participant to the growth and profitability of Fortescue;
- the extent (if any) of the existing participation of the participant in any of Fortescue’s incentive plans; and
- any other matters the Board considers relevant.

### ***Invitations***

The Board has discretion to issue invitations to participants offering the grant of Performance Rights.

### ***Performance Conditions***

Vesting of the Performance Rights is conditional on the participant satisfying the pre-determined performance conditions (“Performance Conditions”). There will be three performance categories that will cover:

- Fortescue’s annual performance relative to budget and stretch budget targets established by the Board including but not limited to safety, production and cost measures;
- Fortescue’s growth performance, which cover general performance targets relating to measurable items such as growth in Ore Reserves and Mineral Resources, expansion of mine plan areas or increases in net asset values; and
- the individual performance of the participant with respect to targets set by the participant’s immediate line manager.

### ***Number of Performance Rights***

The Board has discretion to determine the number of Performance Rights offered to participants, provided that the number of shares offered to a participant, when combined with:

- the number of shares which may be issued upon exercise of options granted under the Incentive Option Scheme, the Employee Bonus Share Plan or upon the exercise of Performance Rights granted under the Long Term Incentive Plan or Executive and Senior Staff Incentive Plan; and
- the number of shares issued during the previous five years under any employee incentive plan of Fortescue (including the Incentive Option Scheme, Employee Bonus Share Plan, the Long Term Incentive Plan and Executive and Senior Staff Incentive Plan),

must not exceed 5% of Fortescue’s issued capital at any time. Further, in determining the number of Performance Rights to be granted to participants, the Board will consider current market practice and take into account the overall cost to Fortescue of grants under the Performance Share Plan.

### ***Frequency of Performance Rights***

The Board will consider the grant of Performance Rights to participants annually, unless it determines otherwise.

### ***Performance Period***

The performance period applicable to the Performance Rights is not more than one year from the date of grant ("Performance Period").

### ***Vesting of Performance Rights***

The Performance Rights will vest proportionately to the achievement of Company, growth and individual Performance Conditions within the Performance Period. Any Performance Rights which have not vested within the Performance Period will lapse. Notwithstanding the preceding sentence, the Performance Rights will vest immediately to the extent the Performance Conditions have been met if there is a Change of Control Event or upon the retirement or retrenchment of the participant. A "Change of Control Event" is defined as a person or group of associated persons become entitled to sufficient shares in Fortescue to give that person the ability in a general meeting to replace all or the majority of the Board.

Subject to the foregoing, unless otherwise determined by the Board, all Performance Rights held by a participant lapse immediately upon the participant ceasing to be an Eligible Employee.

### **Fortescue Staff Incentive Plan**

The purpose of the Staff Incentive Plan is to provide eligible employees with an opportunity to acquire an ownership interest in Fortescue.

### ***Eligible employees***

The Board may determine the full-time or part-time employees of the Group, who are eligible to participate in the Staff Incentive Plan from time to time.

### ***Administration***

The Staff Incentive Plan is to be administered by the Board in accordance with its rules. The Board may make further provisions for the operation of the Staff Incentive Plan which are consistent with such rules.

### ***Invitations to participate***

The Board may, from time to time, invite eligible employees to participate in the Staff Incentive Plan and subscribe for, or acquire, shares on such terms and conditions as the Board may decide, including:

- the number of shares which that employee may subscribe for or acquire;
- the amount payable (if any) for the subscription or acquisition of the shares or the method by which such amount is to be calculated; and
- any arrangement by which the eligible employee has elected to receive all of their incentive in cash or shares.

An invitation is personal to the eligible employee and cannot be transferred or renounced in favor of another person. Upon receipt of an invitation to participate in the Staff Incentive Plan, the eligible employee must elect whether they wish to receive any award made under the Staff Incentive Plan in cash or shares by completing the acceptance and election process in the form and within the timeframe determined by the Board. If the participant elects to receive their incentive in shares, the value of their award is increased by 50%.

### ***Share awards***

At the conclusion of the performance period and subject to the achievement of the pre-determined performance targets, Fortescue will issue or cause to be transferred to that employee such number of shares equal to the value of their incentive award. The amount of shares issued or transferred will be the value of the participant's incentive payment divided by the average of the daily volume weighted average price of Fortescue shares traded on the ASX over the 15 days prior to issue.

The Shares will rank *pari passu* with the shares on issue and Fortescue will apply to ASX as required by the ASX Listing Rules for such shares to be quoted.

### ***Restrictions on dealing with Staff Incentive Plan Shares***

Shares are awarded under the Staff Incentive Plan are awarded in two tranches as follows:

- Tranche 1—shares to the value of the original incentive payment; and
- Tranche 2—shares to the value of the 50% uplift.

Tranche 1 shares are subject to a one-year or three-year non-disposal period (dependent on the election of the participant) from the date of award.

Tranche 2 shares are subject to a one-year or three-year non-disposal period (dependent on the election of the participant) from the date of award. In addition, a forfeiture condition applies to Tranche 2 shares for a period of twelve months from the date of award.

### ***Amendments to the Staff Incentive Plan***

The Board may at any time by written instrument, amend all or any provision of the Employee Share Plan rules. However, an amendment cannot materially reduce the rights of any participant in the Staff Incentive Plan as they existed before the date of the amendment, unless such amendment is introduced:

- for the purpose of complying with any present or future State, Territory or Commonwealth legislation or the ASX Listing Rules;
- to correct any manifest error or mistake; or
- to enable the Staff Incentive Plan or any member of the Group to comply with any applicable law, Fortescue's constitution or a requirement of the ASIC or any other regulatory body.

### **Fortescue Salary Sacrifice Share Plan**

The objective of Fortescue's Salary Sacrifice Share Plan is to provide its employees with the opportunity to own an interest in the company. It also allows the employees to share in any dividends declared, participate in any bonus issues and vote as a shareholder of Fortescue.

Employees of Fortescue are eligible to participate in the Salary Sacrifice Share Plan if they:

- are a permanent full-time or permanent part-time employee of Fortescue; or
- are a fixed-term employee of Fortescue, where their term of employment is for a period of 12 months or more,

and:

- are still an employee as of the relevant acquisition date; and
- are an Australian resident for tax purposes.

Employees of Fortescue can determine the amount of their pre-tax salary that they would like to salary sacrifice per annum, up to a maximum of A\$5,000 (to be deducted each pay in equal amounts) to acquire shares under the Salary Sacrifice Share Plan.

Each month, within seven working days of the employee's salary deduction, shares are acquired by the trustee of the Salary Sacrifice Share Plan ("Plan Trustee") (on behalf of the employee) in value equal to the amount of their salary sacrifice contribution, rounded down to the nearest whole share. Shares are acquired through an on-market purchase on the ASX.

As only whole numbers of shares can be purchased or issued, any residual monies remaining from the employee's contributions are added to the next month's acquisition of shares. If the employee leaves Fortescue, it must elect to have all of its shares transferred to the employee or sold by the Plan Trustee (on behalf of the employee).

## PRINCIPAL SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

### Principal shareholders

The following table sets out, as of April 17, 2015, persons known to Fortescue to be the holder of at least 5% of its Shares. All of the fully paid ordinary shares of each member of the Group are owned, directly or indirectly, by Fortescue.

<u>Title of class</u>	<u>Name of beneficial owner</u>	<u>Number of shares beneficially owned</u>	<u>Percent of class</u>
Ordinary Shares.....	The Minderoo Group Pty Ltd <sup>(1)</sup>	1,019,216,637	32.73%
Ordinary Shares.....	JP Morgan Nominees Australia Limited	300,898,494	9.66%
Ordinary Shares.....	Valin Investments (Singapore) Pte Ltd	228,007,497	7.32%
Ordinary Shares.....	HSBC Custody Nominees (Australia) Limited	222,537,019	7.15%
Ordinary Shares.....	National Nominees Limited	165,756,678	5.32%
Ordinary Shares.....	HSBC Custody Nominees (Australia) Limited	156,150,417	5.01%

<sup>(1)</sup> The Minderoo Group Pty Ltd (formerly The Metal Group Pty Ltd) is controlled by Andrew Forrest, Chairman of Fortescue. Andrew Forrest also owns 33,363 shares directly. In addition, 18,229,247 shares are held by Vertical Nominees Pty Ltd, as trustee of a trust controlled by Andrew Forrest.

### Related party transactions

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 executive officers to purchase shares in Fortescue. The arrangement, which constitutes a share-based payment transaction, has been measured with the reference to the fair value of the benefit received by such executive officers and is recognized 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 a grant date using a Monte-Carlo simulation model. The total share-based payment expense in relation to the arrangement was US\$492,750 for the first half of fiscal 2015, and US\$985,499 for each of fiscal 2014, 2013 and 2012.

### Share ownership of directors and executive officers

As of April 17, 2015, Mr. Forrest beneficially owns approximately 32.66% of Fortescue's shares through The Minderoo Group Pty Ltd, directly owns 33,363 shares, and beneficially owns 18,229,247 shares through Vertical Nominees Pty Ltd.

Each of Fortescue's other directors and executive officers own less than 1% of Fortescue's shares.

## DESCRIPTION OF OTHER INDEBTEDNESS

As of December 31, 2014, the Company's long-term debt consisted of the Senior Secured Credit Facility and the Unsecured Senior Notes (including the 2017 Unsecured Senior Notes, the 2018 Unsecured Senior Notes, the 2019 Unsecured Senior Notes and the 2022 Unsecured Senior Notes), each of which are summarized below. In addition, the Group is a party to certain finance and operating leases, which are also summarized below.

### Senior Secured Credit Facility

On October 18, 2012, the Issuer entered into a syndicated term loan facility agreement under which it borrowed US\$5.0 billion. Such borrowings were refinanced on November 15, 2013 in the amount of US\$4,950 million under the syndicated term loan facility agreement, of which US\$4,888 million was outstanding as of December 31, 2014. The coupon rate for the Senior Secured Credit Facility is currently LIBOR plus 3.25% with a LIBOR floor of 1%. Principal repayments of 0.25% of the original amount of loans made or converted on November 15, 2013 are made quarterly. The facility is repayable at the issuer's option. The Senior Secured Credit Facility is currently scheduled to mature on June 30, 2019.

The Senior Secured Credit Facility contains certain negative covenants that are similar to those described in this offering circular in respect of the Senior Secured Notes, including limitations on the borrowers' and the guarantors' ability to create or incur liens, incur certain additional indebtedness or issue disqualified capital stock, pay dividends, redeem subordinated debt or make other restricted payments, enter into certain transactions with affiliates, sell certain assets, enter into certain sales and leaseback transactions, merge, consolidate or sell, assign, transfer, lease or otherwise dispose of all or substantially all of the Group's assets and incur dividend or other payment restrictions affecting Fortescue's restricted subsidiaries. In addition, the Senior Secured Credit Facility contains customary affirmative covenants and event of default provisions.

The Senior Secured Credit Facility is guaranteed by certain members of the Group, including Fortescue, the Issuer, International Bulk Ports Pty Ltd, TPI, FMG Resources Pty Ltd, FMG Pilbara Pty Ltd, Chichester, Pilbara Mining Alliance Pty Ltd, and FMG Solomon Pty Ltd.

The Senior Secured Credit Facility is secured by security over all of the assets of the Issuer, Fortescue and the other Note Guarantors, subject to certain agreed upon exceptions, which security will be shared on a *pari passu* basis with the Senior Secured Notes.

The Collateral Agent, acting at the direction of the parties to the Senior Secured Credit Facility, will control most actions with respect to the Collateral that secures the Senior Secured Credit Facility and the Senior Secured Notes. See "Risk factors—Risks relating to the Collateral" and "Description of the Intercreditor Agreement."

### Unsecured Senior Notes

#### *2017 Unsecured Senior Notes*

On March 19, 2012, the Issuer completed an offering of US\$1,000 million aggregate principal amount of 6.000% Unsecured Senior Notes due 2017. The 2017 Unsecured Senior Notes mature on March 19, 2017, and are guaranteed by Fortescue and certain of its subsidiaries specified in the indenture governing the 2017 Unsecured Senior Notes. The indenture governing the 2017 Unsecured Senior Notes contains certain negative and affirmative covenants, including, among others, covenants limiting the ability of the Issuer and the guarantors specified therein to, among other things, (a) incur certain additional indebtedness or issue disqualified capital stock; (b) pay dividends, redeem subordinated debt or make other restricted payments; (c) make certain investments or acquisitions; (d) create or incur liens; (e) enter into certain transactions with affiliates; (f) merge, consolidate or sell, assign, transfer, lease or otherwise dispose of all or substantially all of the Group's assets; and (g) incur dividend or other payment restrictions affecting Fortescue's restricted subsidiaries. These covenants are subject to a number of important exceptions and qualifications as specified in the indenture governing the 2017 Unsecured Senior Notes.

The Issuer will use a portion of the proceeds of the offering to redeem the outstanding 2017 Unsecured Senior Notes. See "Use of proceeds."

### *2018 Unsecured Senior Notes*

On December 10, 2010, the Issuer completed an offering of US\$900 million aggregate principal amount of 6.875% Unsecured Senior Notes due 2018. The 2018 Unsecured Senior Notes mature on February 1, 2018, and are guaranteed by Fortescue and certain of its subsidiaries specified in the indenture governing the 2018 Unsecured Senior Notes. The indenture governing the 2018 Unsecured Senior Notes contains certain negative and affirmative covenants substantially similar to those included in the 2017 Unsecured Senior Notes, which are subject to a number of important exceptions and qualifications as specified in the indenture governing the 2018 Unsecured Senior Notes.

On October 17, 2014, the Issuer partially redeemed US\$500 million in aggregate principal amount of the 2018 Unsecured Senior Notes, resulting in US\$400 million aggregate principal amount being outstanding as of December 31, 2014.

The Issuer will use a portion of the proceeds of the offering to redeem the outstanding 2018 Unsecured Senior Notes. See "Use of proceeds."

### *2019 Unsecured Senior Notes*

On October 25, 2011, the Issuer completed an offering of US\$1,500 million aggregate principal amount of 8.25% Unsecured Senior Notes due 2019. The 2019 Unsecured Senior Notes mature on November 1, 2019, and are guaranteed by Fortescue and certain of its subsidiaries specified in the indenture governing the 2019 Unsecured Senior Notes. The indenture governing the 2019 Unsecured Senior Notes contains certain negative and affirmative covenants substantially similar to those included in the 2017 Unsecured Senior Notes, which are subject to a number of important exceptions and qualifications as specified in the indenture governing the 2019 Unsecured Senior Notes.

### *2022 Unsecured Senior Notes*

On March 19, 2012, the Issuer completed an offering of US\$1,000 million aggregate principal amount of 6.875% Unsecured Senior Notes due 2022. The 2022 Unsecured Senior Notes mature on April 1, 2022, and are guaranteed by Fortescue and certain of its subsidiaries specified in the indenture governing the 2022 Unsecured Senior Notes. The indenture governing the 2022 Unsecured Senior Notes contains certain negative and affirmative covenants substantially similar to those included in the 2017 Unsecured Senior Notes, which are subject to a number of important exceptions and qualifications as specified in the indenture governing the 2022 Unsecured Senior Notes.

### **Finance lease liabilities**

On October 4, 2010, the Group entered into a contract with Crushing Services International Pty Ltd ("Crushing Services") for the construction and operation of OPFs at Christmas Creek. The October 4, 2010 contract, as well as the June 30, 2011 contract award letter to Crushing Services for additional ore processing works, each include a provision for the transfer of the ore processing infrastructure to the Group upon wet commissioning of the OPF.

Upon wet commissioning, the risks and rewards of asset ownership in these contracts are attributable to Fortescue, and as such the contract is categorized as a finance lease for accounting purposes. Wet commissioning of the first OPF at Christmas Creek occurred in the quarter ended June 30, 2011, and the October 4, 2010 Crushing Services contract has been categorized as a finance lease, the OPF has been recognized as a finance lease asset and a corresponding finance liability has been recognized.

On January 13, 2014, the Group assumed full ownership and operational responsibility for the two Christmas Creek OPFs by purchasing the plants from Crushing Services in accordance with the options granted by Crushing Services under the original Build Own Operate contracts.

In September 2012, the Group sold the power station located at the Solomon Hub to TransAlta Corporation and entered into a long term Power Purchase Agreement with TransAlta Corporation for 100% of the power station's capacity over the life of the relevant mines.

During fiscal 2014, the Company repaid the finance lease liabilities associated with both Christmas Creek OPFs and, as a result, as of the date of this offering circular, the Group's finance lease liabilities largely consist of liabilities under the TransAlta Power Purchase Agreement discussed above.

In an effort to lower energy costs and reduce its carbon footprint, Fortescue is executing a plan to transition its operations from diesel to natural gas, in the form of compressed natural gas, pipeline natural gas or, potentially, LNG. The first step in this transition is the construction of the Fortescue River Gas Pipeline, a 270-kilometer gas pipeline that will deliver natural gas from the Dampier to Bunbury Pipeline to the main power station in the Solomon Hub. This pipeline has been constructed by the Fortescue River Gas Pipeline joint venture owned by DBP Development Group and TEC Pilbara Pty Ltd and was commissioned in March 2015. The pipeline development agreement constitutes a finance lease, with a liability of US\$140 million. See "Business description—Optimization and other development activities—Fortescue River Gas Pipeline."

### **Operating lease facilities**

As of the date of this offering circular, the Group has an aggregate of six sets of operating leases relating to equipment, with initial acquisition costs totaling approximately US\$572 million. The equipment that is the subject of those operating leases includes trucks, excavator shovels and back hoes, dozers, graders, locomotives, rail ore cars and one Bombardier Global Express aircraft. The existing operating leases have terms ranging from 48 months to 60 months and expire at varying dates up to May 2019. During fiscal 2014, the Group has purchased relevant OPF and port equipment under the existing operating leases that expired in July 2013 and August 2013, respectively.

The obligations of the lessees under each of the operating leases have been guaranteed by Fortescue, and (with the exception of the lease for the Bombardier Global Express aircraft) the guarantors of the Unsecured Senior Notes. Several of the guarantee and undertaking deeds relating to operating leases contain certain negative covenants similar to certain of the negative covenants that apply to the Unsecured Senior Notes.

## DESCRIPTION OF THE INTERCREDITOR AGREEMENT

The Trustee, for itself and on behalf of the holders of the Senior Secured Notes will accede to the first lien intercreditor agreement dated October 18, 2012 as amended on November 15, 2013, between (a), the Administrative Agent under the Senior Secured Credit Facility, as representative for the secured parties under the Senior Secured Credit Facility, (b) the Issuer and each Note Guarantor (each in their capacity as obligors under the Senior Secured Credit Facility) and (c) the Collateral Agent (the “Intercreditor Agreement”). The Intercreditor Agreement sets forth the relative rights and obligations of the lenders under the Senior Secured Credit Facility, the holders of the Senior Secured Notes and the creditors (or their representatives) of any Permitted Pari Passu Secured Indebtedness with respect to the Collateral. In addition to defined terms used in this offering circular, including but not limited to those terms defined in “Description of the Senior Secured Notes—Certain definitions,” set forth below are certain defined terms used in the Intercreditor Agreement:

- “Collateral” means all assets and properties subject to Liens created pursuant to any Security Document to secure one or more series of Obligations.
- “Event of Default” means any Event of Default under and as defined in the Senior Secured Credit Facility, the indenture or the agreements or instruments governing any Permitted Pari Passu Secured Indebtedness, as the context requires, provided that any notice, lapse of time or other condition precedent to the occurrence of such Event of Default in the relevant instrument shall have been satisfied.
- “Lien” means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind (including a “security interest” within the meaning of section 12(1) of the PPSA but excluding any deemed security interest referred to in section 12(3) of the PPSA that does not secure the payment or performance of an obligation) in respect of such asset, whether or not filed, recorded or otherwise perfected under applicable law, including any conditional sale or other title retention agreement, any lease in the nature thereof and any option or other agreement to sell or give a security interest in.
- “Obligations” means (i) with respect to the Senior Secured Notes, all Obligations (as defined in “Description of the Senior Secured Notes—Certain definitions”) under the Senior Secured Notes, the Note Guarantees and the indenture, (ii) with respect to the Senior Secured Credit Facility, the unpaid principal of and interest on (including interest accruing after the maturity of the loans thereunder and interest accruing after the filing of any petition in bankruptcy, or the commencement of any insolvency, reorganization or like proceeding, relating to the borrowers thereunder, whether or not a claim for post-filing or post-petition interest is allowed in such proceeding) the loans and all other obligations and liabilities of the borrowers to the Administrative Agent or to any lender under the Senior Secured Credit Facility (or, in the case of specified swap agreements, any affiliate of any such lender), whether direct or indirect, absolute or contingent, due or to become due, or now existing or hereafter incurred, which may arise under, out of, or in connection with, the Senior Secured Credit Facility, any other loan document, any specified swap agreement or any other document made, delivered or given in connection therewith, whether on account of principal, interest, reimbursement obligations, fees, indemnities, costs, expenses (including all fees, charges and disbursements of counsel to the Administrative Agent or to any lender that are required to be paid by the borrowers pursuant thereto) or otherwise, and (iii) certain additional obligations in respect of any Permitted Pari Passu Secured Indebtedness.
- “Security Documents” means the General Security Deeds (as defined in “Description of the Senior Secured Notes—Certain definitions”) and each other agreement, instrument or other document entered into in favor of the Collateral Agent, or the Collateral Agent and any other Secured Parties, for purposes of securing any series of Obligations.
- “Secured Parties” means the (i) Trustee, on behalf of itself and the holders of the Senior Secured Notes, (ii) the Administrative Agent and the lenders under the Senior Secured Credit Facility and each counterparty to certain specified swap agreements and (iii) and creditors of Permitted Pari Passu Secured Indebtedness.

- “Shared Collateral” means, at any time (i) Collateral in which the holders of two or more series of Obligations (or their respective representatives) hold a valid and perfected security interest at such time and (ii) any cash or other assets received from a guarantor of any series of Obligations that has provided a guarantee of two or more series of Obligations in connection with the enforcement of such guarantee. If more than two series of Obligations are outstanding at any time and the holders of fewer than all series of Obligations hold a valid and perfected security interest in any Collateral at such time or have the benefit of a guarantee at such time, then such Collateral, cash or other assets, as applicable, shall constitute Shared Collateral for those series of Obligations that hold a valid and perfected security interest in such Collateral at such time or have the benefit of such guarantee at such time, as applicable, and shall not constitute Shared Collateral for any series of Obligations that does not have a valid and perfected security interest in such Collateral at such time or have the benefit of such guarantee at such time, as applicable. Notwithstanding the foregoing, solely for purposes of the definition of “Shared Collateral,” (i) each series of Secured Parties shall be deemed to hold a valid and perfected security interest in any Collateral over which any other series of Secured Parties holds a valid and perfected security interest, unless such first series of Secured Parties is subject to an impairment with respect to such Collateral and (ii) any guarantee of any series of Obligations shall be deemed a guarantee of each other series of Obligations unless such other series of Obligations is subject to an impairment with respect to such guarantee.

The Intercreditor Agreement may be amended from time to time to add other secured parties thereto without the consent of the Secured Parties thereto to add other secured parties.

### **Designation of the Applicable Representative**

Under the Intercreditor Agreement, as described below, the “Applicable Representative” has the right to direct the Collateral Agent to initiate foreclosures, release liens in accordance with the Security Documents and take other actions with respect to the Shared Collateral, and the representatives of other series of Obligations party to the Intercreditor Agreement have no right to direct the Collateral Agent to take actions with respect to the Shared Collateral.

Initially, the Applicable Representative is the Administrative Agent under the Senior Secured Credit Facility. As long as such administrative agent is the Applicable Representative, the Trustee, as representative of the holders of the Senior Secured Notes, will have limited rights to direct the Collateral Agent to take any action under the Intercreditor Agreement.

The Administrative Agent under the Senior Secured Credit Facility will remain the Applicable Representative until the earliest of:

- (1) the discharge of all Obligations under the Senior Secured Credit Facility;
- (2) the Cut-Off Date (as defined below), unless the Cut-Off Date has been stayed, deemed not to have occurred or rescinded pursuant to the definition thereof; and
- (3) the date on which the outstanding principal amount of loans under the Senior Secured Credit Facility is less than US\$900,000,000.

After such date, the Applicable Representative will be the representative of the series of Obligations that constitutes the largest outstanding principal amount of any then outstanding series of Obligations, other than the Obligations under the Senior Secured Credit Facility. We refer to such representative as the “Non-Controlling Representative.”

The “Cut-Off Date” means, with respect to any Non-Controlling Representative, the date which is at least 180 days (throughout which 180 day period such person was the Non-Controlling Representative) after the occurrence of both (i) an Event of Default (under and as defined in the instrument under which such Non-Controlling Representative is appointed as the representative) and (ii) the Collateral Agent’s and each other relevant representative’s receipt of written notice from such Non-Controlling Representative certifying that (x) such an Event of Default has occurred and is continuing and (y) the Obligations of the series with respect to which such Non-Controlling Representative is the representative are currently due and payable in full (whether as a result of acceleration thereof or otherwise) in accordance with the terms of the applicable instrument governing such Obligations; provided the Cut-Off Date shall be stayed and shall not occur and shall be deemed not to have occurred and be rescinded (1) at any time the Administrative Agent under the

Senior Secured Credit Facility or the Collateral Agent has commenced and is diligently pursuing any enforcement action with respect to any Shared Collateral or (2) at any time any grantor which has granted a security interest in such Shared Collateral is then a debtor under or with respect to (or otherwise subject to) any insolvency or liquidation proceeding.

### **Role of the Applicable Representative**

Pursuant to the Intercreditor Agreement:

- (i) the Applicable Representative shall have the sole right to instruct the Collateral Agent to act or refrain from acting with respect to the Shared Collateral;
- (ii) the Collateral Agent shall not follow any instructions with respect to the Shared Collateral from any representative of any Non-Controlling Secured Party (as defined below) or other party to the Intercreditor Agreement (other than the Applicable Representative); and
- (iii) no representative of any Non-Controlling Secured Party or other party to the Intercreditor Agreement (other than the Applicable Representative) will instruct the Collateral Agent to commence any judicial or non-judicial foreclosure proceedings with respect to, seek to have a trustee, receiver, liquidator or similar official appointed for or over, attempt any action to take possession of, exercise any right, remedy or power with respect to, or otherwise take any action to enforce its interests in or realize upon, or take any other action available to it in respect of, any Shared Collateral.

A “Non-Controlling Secured Party” means any Secured Party whose representative is not the Applicable Representative. So long as the Administrative Agent under the Senior Secured Credit Facility is the Applicable Representative, the Trustee and the holders of the Senior Secured Notes will be Non-Controlling Secured Parties.

Notwithstanding the equal priority of the liens on any Shared Collateral, the Collateral Agent, acting on the instructions of the Applicable Representative, may deal with the Collateral as if the Applicable Representative had a senior lien on such Collateral. No representative of any Non-Controlling Secured Party may contest, protest or object to any foreclosure proceeding or action brought by the Collateral Agent or any exercise by the Collateral Agent of any rights and remedies relating to the Shared Collateral. Each representative of each series of Obligations party to the Intercreditor Agreement will not contest or support any other person in contesting, in any proceeding (including any insolvency or liquidation proceeding), the perfection, priority, validity or enforceability of a lien held by or on behalf of any of the secured parties in all or any part of the Shared Collateral, or the provisions of the Intercreditor Agreement.

In addition, each representative of each series of Obligations party to the Intercreditor Agreement (i) will not challenge or question, or support any other person in challenging or questioning, in any proceeding the validity or enforceability of any Obligations of any series or any Security Document or the validity, attachment, perfection or priority of any Lien under any Security Document or the validity or enforceability of the priorities, rights or duties established by, or other provisions of, the Intercreditor Agreement, (ii) will not take or cause to be taken any action the purpose or intent of which is, or could be, to interfere with, hinder or delay, in any manner, whether by judicial proceedings or otherwise, any sale, transfer or other disposition of the Shared Collateral by the Collateral Agent (acting on the instructions of the Applicable Representative), (iii) subject to certain exceptions, shall have no right to (A) direct the Collateral Agent or any other secured party to exercise any right, remedy or power with respect to any Shared Collateral (including pursuant to any intercreditor agreement) or (B) consent to the exercise by the Collateral Agent or any other secured party of any right, remedy or power with respect to any Shared Collateral (including pursuant to any intercreditor agreement), (iv) will not institute any suit or assert in any insolvency or litigation proceeding or other proceeding or any claim against the Collateral Agent or any other Secured Party seeking damages from or other relief by way of specific performance, instructions or otherwise with respect to any Shared Collateral, and none of the Collateral Agent, any Applicable Representative or any other Secured Party shall be liable for any action taken or omitted to be taken by the Collateral Agent, such Applicable Representative or other Secured Party with respect to any Shared Collateral in accordance with the provisions of the Intercreditor Agreement, (v) will not seek, and waives any right to have any Shared Collateral or any part thereof marshaled upon any foreclosure or other disposition of such Shared

Collateral and (vi) will not attempt, directly or indirectly, whether by judicial proceedings or otherwise, to challenge the enforceability of any provision of the Intercreditor Agreement.

### **Distribution of Enforcement Proceeds**

If an Event of Default has occurred and is continuing and the Collateral Agent or any Secured Party is taking action to enforce rights in respect of any Shared Collateral, or any distribution is made in respect of any Shared Collateral in any insolvency or liquidation proceeding of any grantor of Collateral or otherwise, or the Collateral Agent or any Secured Party receives any payment pursuant to any intercreditor agreement (other than the Intercreditor Agreement) with respect to any Shared Collateral, then the proceeds of any sale, collection or other liquidation or disposition of any such Shared Collateral received by the Collateral Agent or any Secured Party and the proceeds of any such distribution, shall be applied in the following order:

- (i) first, to the payment of all amounts owing to the Collateral Agent (in its capacity as such) pursuant to the terms of the Intercreditor Agreement, and any instrument pursuant to which any Obligations were incurred and any Security Document;
- (ii) second, subject to certain limited exceptions, to the extent proceeds remain after the application pursuant to clause (i), to the payment in full of the Obligations of each series on a ratable basis in accordance with the amounts of such Obligations owed to them on the date of any such distribution and the terms of the applicable instrument pursuant to which such Obligations were incurred; and
- (iii) third, after the discharge of the Obligations of each series, to the person or persons legally entitled thereto, as determined by the Applicable Representative.

### **Turnover**

If any representative of any series of Obligations party to the Intercreditor Agreement obtains possession of any Shared Collateral or realizes any proceeds or payment in respect of any such Shared Collateral, pursuant to any Security Document or by the exercise of any rights available to it under applicable law or in any insolvency or liquidation proceeding or through any other exercise of remedies (including pursuant to any intercreditor agreement), at any time prior to the discharge of each series of Obligations, then such representative shall hold such Shared Collateral, proceeds or payment in trust for the other parties to the Intercreditor Agreement and promptly transfer such Shared Collateral, proceeds or payment, as the case may be, to the Collateral Agent, to be distributed in accordance with the provisions described in the immediately preceding paragraph.

### **Automatic Release of Liens**

If, at any time, the Collateral Agent (acting on the instructions of the Applicable Representative) forecloses upon or otherwise exercises remedies against any Shared Collateral, and in connection therewith takes action to release any Liens over such Shared Collateral, then (whether or not any insolvency or liquidation proceeding is pending at the time) the Liens in favor of the Collateral Agent for the benefit of each series of Secured Parties upon such Shared Collateral will automatically be released and discharged; provided that any proceeds of any Shared Collateral realized therefrom shall be applied as described in “—Distribution of Enforcement Proceeds” above. If, at any time, the Collateral Agent forecloses upon or otherwise exercises remedies against any Shared Collateral, and in connection therewith substantially all the equity interests of any guarantor are sold or transferred, then (whether or not any insolvency or liquidation proceeding is pending at the time) the guarantee of such guarantor shall be released, discharged and terminated without any further action by any secured party required.

### **Exculpatory Provisions in Favor of Collateral Agent**

The Intercreditor Agreement provides that the Collateral Agent shall not have any duties or obligations except those expressly set forth therein and in the other Security Documents. Without limiting the generality of the foregoing, the Collateral Agent:

- (i) shall not be subject to any fiduciary or other implied duties, regardless of whether an Event of Default has occurred and is continuing;
- (ii) shall not have any duty to take any discretionary action or exercise any discretionary powers, except discretionary rights and powers expressly contemplated by the Intercreditor Agreement or by the other Security Documents that the Collateral Agent is required to exercise as directed in writing by the Applicable Representative; provided that the Collateral Agent shall not be required to take any action that, in its opinion or the opinion of its counsel, may expose the Collateral Agent to liability or that is contrary to any Security Document or applicable law;
- (iii) shall not, except as expressly set forth in the Intercreditor Agreement and in the other Security Documents, have any duty to disclose, and shall not be liable for the failure to disclose, any information relating to a grantor or any of its affiliates that is communicated to or obtained by the Collateral Agent or any of its affiliates in any capacity;
- (iv) shall not be liable for any action (including any action for the purposes of PPSA) taken or not taken by it (1) with the consent or at the request of the Applicable Representative or (2) in the absence of its own gross negligence or willful misconduct or (3) in reliance on a certificate of an authorized officer of Fortescue stating that such action is permitted by the terms of the Intercreditor Agreement;
- (v) shall be deemed not to have knowledge of any Event of Default under any series of Obligations unless and until notice describing such Event of Default is given to the Collateral Agent by the representative of such Obligations or a grantor; and
- (vi) shall not be responsible for or have any duty to ascertain or inquire into (1) any statement, warranty or representation made in or in connection with the Intercreditor Agreement or any other Security Document, (2) the contents of any certificate, report or other document delivered under the Intercreditor Agreement or any other Security Document, (3) the performance or observance by any other person of any of the covenants, agreements or other terms or conditions set forth in the Intercreditor Agreement or any other Security Document, or the occurrence of any default or Event of Default, (4) the validity, enforceability, effectiveness or genuineness of the Intercreditor Agreement, any other Security Document or any other agreement, instrument or document, or the creation, perfection or priority of any lien purported to be created by the Security Documents, (5) the value or the sufficiency of any Collateral for any series of Obligations, including the Senior Secured Notes, or (6) the satisfaction of any condition set forth in any instrument pursuant to which a series of Obligations whose representative is party to the Intercreditor Agreement is incurred, other than to confirm receipt of items expressly required to be delivered to the Collateral Agent.

In addition, the Collateral Agent shall not be required to expend, advance or risk its own funds or otherwise incur any financial liability in the performance of any of its duties under the Intercreditor Agreement or in any of the Security Documents or in the exercise of any of its rights or powers thereunder unless it is indemnified to its satisfaction and the Collateral Agent shall have no liability to any person for any loss occasioned by any delay in taking or failure to take any such action while it is awaiting an indemnity satisfactory to it.

Neither the Collateral Agent nor the Trustee shall be responsible for or liable for the existence, genuineness, value, sufficiency or protection of any Collateral, for the legality, enforceability, effectiveness or sufficiency of the Security Documents or the Intercreditor Agreement, for the creation, perfection, priority, sufficiency or protection of any of the Liens, or for any defect or deficiency as to any such matters, or for any failure to demand, collect, foreclose or realize upon or otherwise enforce any of the Liens or Security Documents or any delay in doing so. Nor will the Collateral Agent nor the Trustee be responsible for (i) the right or title of any person in or to, or the value of, or sufficiency of any part of the Collateral created by the Security Documents, (ii) the priority of any Lien on the Collateral created by the

Security Documents, or (iii) the existence of any other Lien affecting any asset secured under a Security Document.

The Security Documents will provide that the Issuer and the Note Guarantors shall jointly and severally indemnify the Collateral Agent for all loss, liability, claim, taxes, costs, damage or expense incurred by or in connection with the acceptance or administration of the Collateral Agent's performance of its duties under the Intercreditor Agreement and under any Security Document and under applicable law, including the costs and expenses of enforcing the Intercreditor Agreement, any Security Document and any Collateral and defending itself against or investigating any claim; except to the extent that such loss, liability, claim, taxes, costs, damage or expense is found by a final and nonappealable decision of a court of competent jurisdiction to have resulted from the Collateral Agent's gross negligence or willful misconduct.

## DESCRIPTION OF THE SENIOR SECURED NOTES

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

The Issuer will issue the % Senior Secured Notes due 2022 (the “notes”) under an indenture (the “indenture”) among itself, Fortescue, the other Note Guarantors and The Bank of New York Mellon, as trustee (the “Trustee”) in a private transaction that is not subject to the registration requirements of the Securities Act. See “Transfer restrictions.”

The following description is a summary of the material provisions of the indenture, the notes, the Note Guarantees and the Security Documents. It does not restate those agreements in their entirety. We urge you to read the indenture because it, and not this description, defines your rights as holders of notes and the rights and obligations of the Trustee. Copies of the indenture are available upon request to Fortescue. Certain defined terms used in this description but not defined below under “—Certain definitions” have the meanings assigned to them in the indenture.

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

### Brief description of the notes and the Note Guarantees

#### *The notes*

The notes will:

- be general obligations of the Issuer;
- be senior in right of payment to any existing and future obligations of the Issuer expressly subordinated in right of payment to the notes;
- rank at least *pari passu* in right of payment with all other unsubordinated obligations of the Issuer (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law);
- be guaranteed by the Note Guarantors on a senior basis;
- be effectively subordinated to all existing and future obligations of the other Subsidiaries of Fortescue that are not Note Guarantors;
- be entitled to a first priority Lien on the Collateral pledged by the Issuer (subject to Permitted Liens, the Intercreditor Agreement and the Security Documents), shared on a *pari passu* basis with the lenders under the Senior Secured Term Loan and creditors under any Permitted *Pari Passu* Secured Indebtedness; and
- together with the Indebtedness under the Senior Secured Term Loan and any Permitted *Pari Passu* Secured Indebtedness, rank effectively senior in right of payment to any First Lien Junior Secured Obligations and unsecured obligations of the Issuer with respect to the value of the Collateral pledged by the Issuer securing the notes (subject to any priority rights of such unsecured obligations pursuant to applicable law).

#### *The Note Guarantees*

The Issuer’s payment Obligations under the indenture and the notes will be jointly and severally guaranteed by Fortescue and all of its Restricted Subsidiaries (other than the Issuer) on an unconditional basis.

Each guarantee of the notes will:

- be a general obligation of the applicable Note Guarantor;
- be senior in right of payment to all future obligations of the applicable Note Guarantor expressly subordinated in right of payment to the Note Guarantee;
- be entitled to a first priority Lien on the Collateral pledged by the applicable Note Guarantor (subject to Permitted Liens, the Intercreditor Agreement and the Security Documents), shared on a *pari passu* basis with the lenders under the Senior Secured Term Loan and creditors under any Permitted *Pari Passu* Secured Indebtedness; and
- together with the Indebtedness under the Senior Secured Term Loan and any Permitted *Pari Passu* Secured Indebtedness, rank effectively senior in right of payment to any First Lien Junior Secured Obligations and the unsecured obligations of the applicable Note Guarantor with respect to the value of the Collateral securing the Note Guarantee (subject to any priority rights of such unsecured obligations pursuant to applicable law).

Not all of Fortescue's Subsidiaries will guarantee the notes. In the event of a bankruptcy, liquidation or reorganization of any of these non-guarantor Subsidiaries, the non-guarantor Subsidiaries will pay the holders of their debt and their trade creditors before they will be able to distribute any of their assets to Fortescue or any of the Note Guarantors.

As of the date of the indenture, not all of Fortescue's Subsidiaries will be "Restricted Subsidiaries." In addition, under the circumstances described below under the caption "—Certain covenants—Designation of restricted and unrestricted subsidiaries," we will be permitted to designate certain of Fortescue's Subsidiaries as "Unrestricted Subsidiaries." The Unrestricted Subsidiaries will not be subject to the restrictive covenants in the indenture. The Unrestricted Subsidiaries will not guarantee the notes. As of December 31, 2014, subsidiaries of Fortescue that will be designated as Unrestricted Subsidiaries under the Senior Secured Notes had total assets of 3% of Fortescue's consolidated total assets, and in calendar 2014, generated 3% of Fortescue's consolidated net income. As of December 31, 2014, the Unrestricted Subsidiaries had no borrowings or finance lease liabilities.

### **Principal, maturity and interest**

The notes will be unlimited in aggregate principal amount, of which US\$1,500 million in aggregate principal amount will be issued by the Issuer in this offering. The Issuer may issue additional notes (the "additional notes") under the indenture from time to time after this offering. Any issuance of additional notes is subject to all of the covenants in the indenture, including the covenant described below under the caption "—Certain covenants—Incurrence of indebtedness and issuance of disqualified stock." The notes and any additional notes subsequently issued under the indenture will be substantially identical other than the issuance dates and the dates from which interest will accrue. Unless the context otherwise requires, for all purposes of the indenture and this "Description of the Senior Secured Notes," references to the notes include any additional notes actually issued. Because, however, any additional notes may not be fungible with the notes for federal income tax purposes, they may have a different CUSIP number or numbers, be represented by a different global note or notes and otherwise be treated as a separate class or classes of notes for other purposes.

Interest on the notes will accrue at the rate of      % per annum and will be payable in cash semiannually in arrears on      and      , commencing on      , 2015. The Issuer will make each interest payment to the holders of record on the immediately preceding      and      . The notes will mature on      , 2022.

The notes and any additional notes subsequently issued under the indenture will be treated as a single class for all purposes under the indenture, including without limitation, waivers, amendments, redemptions and offers to purchase.

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

Interest on the notes will accrue from the date of original issuance or, if interest has already been paid, from the date it was most recently paid. Interest will be computed on the basis of a 360-day year

comprised of twelve 30-day months. Interest on overdue principal, premium, if any, and interest on the notes will accrue at a rate that is 1.00% higher than the then-applicable interest rate on such notes.

### **Paying agent and registrar for the Notes**

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

### **Transfer and exchange**

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

### **Note Guarantees**

The Issuer's payment Obligations under the indenture and the notes will be unconditionally guaranteed by Fortescue and all of its Restricted Subsidiaries (other than the Issuer). These Note Guarantees will be joint and several obligations of the Note Guarantors. The Note Guarantees, along with any future guarantees of the notes, will be subject to certain limitations on enforcement and may be limited by applicable law or subject to certain defenses that may limit their validity and enforceability.

The Note Guarantee of a Note Guarantor will be released:

- (1) in connection with any merger, consolidation, amalgamation or sale or other disposition of all or substantially all of the assets of that Note Guarantor where the surviving Person or the acquiring Person is not (either before or after giving effect to the transaction) the Issuer or another Note Guarantor, if the transaction does not violate the "Asset Sale" provisions of the indenture;
- (2) except in the case of Fortescue, in connection with any sale or other disposition of all of the Capital Stock of that Note Guarantor to a Person that is not (either before or after giving effect to such transaction) the Issuer or another Note Guarantor, if the sale or other disposition does not violate the "Asset Sale" provisions of the indenture;
- (3) if Fortescue designates such Note Guarantor to be an Unrestricted Subsidiary in accordance with the applicable provisions of the indenture; or
- (4) upon legal defeasance or covenant defeasance or satisfaction and discharge of the indenture as provided below under the captions "—Legal defeasance and covenant defeasance" and "—Satisfaction and discharge."

See "—Repurchase at the option of holders—Asset sales."

### **Security**

The obligations of the Issuer under the notes and the Note Guarantors under the Note Guarantees will, on the date that the Trustee on behalf of the holders enters into the Intercreditor Agreement, be secured by pledges by the Issuer and the Note Guarantors on a first priority basis, as the case may be, of all the assets (other than Excluded Property) owned by the Issuer or the Note Guarantors (subject to Permitted Liens, the Intercreditor Agreement and the Security Documents), whether owned on the date of the indenture or thereafter acquired. The Collateral will be shared on a *pari passu* basis by the Trustee and holders of the notes, the lenders under the Senior Secured Term Loan and holders of any Permitted *Pari Passu* Secured Indebtedness (collectively, the "First Lien Secured Creditors"). As of December 31, 2014, the aggregate principal amount outstanding under the Senior Secured Term Loan was US\$4,888 million.

The Issuer and the Note Guarantors have agreed under the Security Documents to use all reasonable endeavors (without being required to suffer material commercial detriment) to obtain any consents that may

be required to permit the pledge of certain assets comprising Excluded Property as soon as reasonably possible, and, with respect to certain contracts, to use all reasonable endeavors to obtain such consent for as long as the administrative agent under the Senior Secured Term Loan requires. The Issuer and the Note Guarantors, as applicable, will secure their respective obligations under the notes and the Note Guarantees by pledges, on a first priority basis (subject to Permitted Liens and the Intercreditor Agreement), of certain assets comprising Excluded Property with effect automatically after obtaining the requisite consents or authorizations. See “Description of Collateral.”

In addition, Fortescue, the Note Guarantors and the Issuer will, subject to the requirements of the indenture, be permitted to incur Permitted Additional Secured Indebtedness and the obligations under any Permitted Additional Secured Indebtedness will constitute Secured Obligations. See “—Permitted Additional Secured Indebtedness.” In the event of a default on the notes or the other Secured Obligations and a foreclosure on the Collateral, any foreclosure proceeds would be shared by the First Lien Secured Creditors in proportion to the outstanding amounts of each class of such Secured Obligations. The proceeds realizable from the Collateral securing the notes and the Note Guarantees (as reduced by the amounts owed to other creditors of First Lien Secured Obligations under the Intercreditor Agreement) are unlikely to be sufficient to satisfy the Issuer’s and each Note Guarantor’s obligations under the notes and the Note Guarantees, and the Collateral may be reduced or diluted under certain circumstances, including the issuance of additional notes, the incurrence of Permitted *Pari Passu* Secured Indebtedness and the disposition of assets comprising the Collateral, subject to the terms of the indenture. See “—Release of security” and “Risk factors—Risks relating to the Collateral—The Group may not have sufficient proceeds from the sale of any assets serving as collateral securing the Senior Secured Notes to satisfy the amounts due on the Senior Secured Notes in the event of a default.”

No appraisals of the Collateral have been prepared in connection with this offering of the notes. There can be no assurance that the proceeds of any sale of the Collateral, in whole or in part, pursuant to the indenture and the Security Documents following an Event of Default, would be sufficient to satisfy amounts due on the notes or the Note Guarantees. By its nature, some or all of the Collateral will be illiquid and may have no readily ascertainable market value. Accordingly, there can be no assurance that the Collateral would be sold in a timely manner or at all.

### **Permitted Additional Secured Indebtedness**

On or after the date of the indenture, the Issuer and each Note Guarantor may create Liens on the Collateral that are (i) *pari passu* in right and priority of payment with the first priority Lien (subject to Permitted Liens and the terms and conditions of the Security Documents) for the benefit of the holders of Notes and lenders under the Senior Secured Term Loan, in order to secure Indebtedness of the Issuer (including additional notes) or Fortescue or any other Note Guarantor and any *Pari Passu* Guarantee with respect to such Indebtedness (such Indebtedness and any such *Pari Passu* Guarantee, “Permitted *Pari Passu* Secured Indebtedness”) and (ii) junior in right and priority of payment with the Lien for the benefit of the First Lien Secured Creditors, in order to secure Indebtedness of the Issuer or Fortescue or any other Note Guarantor and any *Pari Passu* Guarantee with respect to such Indebtedness (such Indebtedness and any such *Pari Passu* Guarantee, “Permitted Junior Secured Indebtedness” and, together with Permitted *Pari Passu* Secured Indebtedness, “Permitted Additional Secured Indebtedness”); provided that (u) the Issuer or the Note Guarantor, as the case may be, was permitted to Incur such Indebtedness under the first paragraph of the covenant under the caption “—Certain covenants—Incurrence of indebtedness and issuance of disqualified stock” or clause (1), (2) or (4) of the definition of Permitted Debt; (v) the creation of the Lien on the Collateral securing such Indebtedness was permitted under clause (1) (other than sub-clause (y) of such clause), (8) or (16) of the definition of Permitted Liens; (w) the holders of such Indebtedness (or their representative) become party to the Intercreditor Agreement referred to below or, in the case of Permitted Junior Secured Indebtedness, enter into separate intercreditor agreement with the Trustee on behalf of the holders of notes, the administrative agent under the Senior Secured Term Loan, holders of any other Permitted *Pari Passu* Secured Indebtedness (or their representative), the Issuer, the Note Guarantors and the Collateral Agent in form and substance satisfactory to the administrative agent under the Senior Secured Term Loan, the Trustee and the creditors (or their representative) of such other Permitted *Pari Passu* Secured Indebtedness; (x) the agreement in respect of such Indebtedness contains provisions with respect to releases of the Collateral and such *Pari Passu* Guarantee that are substantially similar to and no more

restrictive on the Issuer or Note Guarantor, as the case may be, than the provisions of the indenture, the Note Guarantees and the Security Documents; (y) the instruments governing such Indebtedness do not contain any encumbrances and restrictions of the type referred to in the first paragraph under the covenant under the caption “—Certain covenants—Dividend and other payment restrictions affecting subsidiaries” that are more materially more restrictive taken as a whole than those contained in the indenture and the Security Documents; and (z) the Issuer and such Note Guarantor deliver to the Trustee and the Collateral Agent an opinion of counsel and an officer’s certificate with respect to compliance with the conditions stated immediately above and other corporate and collateral matters in connection with the Security Documents, in each case in form and substance as set forth in the Security Documents. The Trustee and the Collateral Agent will be permitted and authorized, without the consent of any holder of notes to enter into any amendments to the Security Documents or the indenture, to enter into any separate intercreditor agreement described in (w) above and take any other action necessary to permit the creation and registration of Liens on the Collateral to secure Permitted Additional Secured Indebtedness in accordance with this paragraph.

### **Intercreditor Agreement**

The Trustee on behalf of the holders of notes will be required under the indenture to accede to the first lien intercreditor agreement dated October 18, 2012 as amended on November 15, 2013 between (a) the administrative agent under the Senior Secured Term Loan, (b) the Issuer and the Note Guarantors (each in their capacity as obligors under the Senior Secured Term Loan) and (c) the Collateral Agent (the “Intercreditor Agreement”). Pursuant to the Intercreditor Agreement, the Collateral Agent agrees to act as collateral agent for the Trustee in addition to acting as collateral agent for the lenders under the Senior Secured Term Loan and creditors (or their representatives) of any Permitted Additional Secured Indebtedness with respect to the Collateral securing the Secured Obligations. See “Description of the Intercreditor Agreement.”

By accepting the notes, each Holder shall be deemed to have consented to the execution and delivery of the Intercreditor Agreement by the Trustee on its behalf, any amendments or modifications thereto, and any future intercreditor agreement required under the indenture.

### **Enforcement of security**

The first priority Lien (subject to Permitted Liens, the Intercreditor Agreement and the Security Documents) securing the notes and the Note Guarantees will be held by the Collateral Agent, subject to sharing under the Intercreditor Agreement. The Collateral Agent for itself and the First Lien Secured Creditors will hold such Liens and security interests in the Collateral granted pursuant to the Security Documents with sole authority as directed by such First Lien Secured Creditors or their respective representatives to exercise remedies in accordance with the Security Documents. Under the Intercreditor Agreement, the administrative agent under the Senior Secured Term Loan initially has the right to direct the Collateral Agent to initiate foreclosures, release liens in accordance with the Security Documents and take other actions with respect to the Collateral, and the representatives of other series of obligations party to the Intercreditor Agreement have no right to direct the Collateral Agent to take actions with respect to the Collateral. As long as such administrative agent is the representative having such rights under the Intercreditor Agreement, the Trustee, as representative of the holders of notes, will have limited rights to direct the Collateral Agent to take any action under the Intercreditor Agreement.

### **Release of security**

The security created in respect of the Collateral granted under the Security Documents may be released in certain circumstances, including:

- upon repayment in full of the notes;
- upon defeasance and discharge of the notes as provided below under the caption “—Legal defeasance and covenant defeasance”;
- upon certain dispositions of the Collateral in compliance with the covenants under the caption “Repurchase at the option of holders—Asset sales,” or in accordance with the provision under the caption “—Merger, consolidation or sale of assets”; and

- with respect to Collateral granted by a Note Guarantor, upon the release of the Note Guarantee of such Note Guarantor in accordance with the terms of the indenture.

### **Additional amounts**

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

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

- (1) any Taxes that would not have been so imposed but for:
  - (A) the existence of any present or former connection between the holder or beneficial owner of such note or Note Guarantee and the Relevant Taxing Jurisdiction other than merely holding such note or Note Guarantee, including such holder or beneficial owner being or having been a national, domiciliary or resident of or treated as a resident thereof or being or having been physically present or engaged in a trade or business therein or having or having had a permanent establishment therein;
  - (B) the presentation of such note (in cases in which presentation is required) more than 30 days after the later of the date on which the payment of the principal of, or interest or premium, if any, on, such note became due and payable pursuant to the terms thereof or was made or duly provided for, except to the extent that the holder or beneficial owner thereof would have been entitled to such Additional Amounts if it had presented such note for payment on any date within such 30-day period;
  - (C) the failure of the holder or beneficial owner to comply with any certification, identification or other reporting requirement concerning nationality, residence, identity or connection with the Relevant Taxing Jurisdiction of the holder or beneficial owner of such note if compliance is required by law, regulation or by an applicable income tax treaty to which the Relevant Taxing Jurisdiction is a party, as a precondition to exemption for, or reduction in the rate of tax, assessment or other governmental charge;
  - (D) the failure of the holder or beneficial owner of such note to respond to a timely request of the Issuer, the Trustee, the paying agent or the relevant Note Guarantor, as the case may be, addressed to the holder or beneficial owner to furnish information to the Issuer, the Trustee, the paying agent or the relevant Note Guarantor, as the case may be, concerning such holder’s or beneficial owner’s nationality, residence or identity, in each case, if and to the extent that furnishing such information to the Issuer, the Trustee, the paying agent or the relevant Note Guarantor, as the case may be, would have reduced or eliminated any taxes as to which Additional Amounts would have otherwise been payable to such holder or beneficial owner; *provided that*, for this purpose, the holder or beneficial owner shall be deemed to have furnished such information to the Issuer, the Trustee, the paying agent or the relevant Note Guarantor, as

the case may be, upon facsimile transmission of such information to the Issuer or the relevant Note Guarantor, as the case may be; or

- (E) the presentation of such note for payment in the Relevant Taxing Jurisdiction, unless such note could not have been presented for payment elsewhere;
- (2) any Taxes which are Australian Withholding Tax in respect of any interest paid to an Offshore Associate of the Issuer or the Note Guarantor, as the case may be;
- (3) any estate, inheritance, gift, sales, excise, transfer, personal property Tax or similar Tax;
- (4) any Taxes which are payable otherwise than by withholding from payments of (or in respect of) principal of, or any premium or interest on, the notes;
- (5) any payment under or with respect to a note to any holder who is a fiduciary or partnership or any Person other than the sole beneficial owner of such payment, to the extent that a beneficiary or settlor with respect to such fiduciary, a member of such a partnership or the beneficial owner of such payment would not have been entitled to the Additional Amounts had such beneficiary, settlor, member or beneficial owner been the actual holder of such note;
- (6) any withholding or deduction imposed on a payment to an individual required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of November 26th and 27th of 2000 on the taxation of savings income or any law implementing or complying with or introduced in order to conform to, such Directive;
- (7) any withholding or deduction that is imposed on a note presented for payments by or on behalf of a holder or beneficial owner who would be able to avoid a withholding or deduction by presenting the relevant note to another paying agent in a Member State; or
- (8) any combination of items (1) through (7) above.

If the Issuer or any Note Guarantor will be obligated to pay Additional Amounts with respect to any payment under or with respect to the notes or the relevant Note Guarantee, as applicable, the Issuer or such Note Guarantor, as applicable, will deliver to the Trustee at least 30 days prior to the date of that payment (unless the obligation to pay Additional Amounts arises after the 30th day prior to that payment date, in which case the Issuer or the Note Guarantor, as applicable, shall notify the Trustee promptly thereafter but in no event later than two Business Days prior to the date of payment) notice of payment in the form of an officer's certificate. In either circumstance, the officer's certificate must state that Additional Amounts will be payable and the amount so payable. The officer's certificate must also set forth any other information necessary to enable the paying agent to pay Additional Amounts to holders and beneficial owners on the relevant payment date.

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

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

The Issuer or a Note Guarantor will pay any present or future stamp, court or documentary taxes or any other excise or property taxes, charges or similar levies that arise in any jurisdiction from the execution, delivery, enforcement or registration of the notes, the Note Guarantees, the indenture or any other related document or instrument, or the receipt of any payments with respect to the notes or the Note Guarantees, excluding taxes, charges or similar levies imposed by any jurisdiction outside of Australia, the United States, the jurisdiction of incorporation of any successor of the Issuer or any jurisdiction in which a paying agent is located, and the Issuer will agree to fully indemnify the holders or the Trustee for any such taxes paid by the holders or the Trustee.

## Optional redemption

*Optional redemption of notes at make-whole price.* Prior to \_\_\_\_\_, 2018 the Issuer will be entitled at its option to redeem some or all of the notes at a redemption price equal to 100% of the principal amount of the notes plus the Applicable Premium as of, and accrued and unpaid interest to, the redemption date (subject to the right of holders of the notes on the relevant record date to receive interest due on the relevant interest payment date). Notice of such redemption must be mailed to each holder's registered address, not less than 30 nor more than 60 days prior to the redemption date.

*Optional redemption of notes on or after \_\_\_\_\_, 2018.* Except pursuant to the provisions described above under “—Optional redemption of notes at make-whole price” and below under “—Optional redemption of notes upon equity offerings,” the notes will not be redeemable at the Issuer's option prior to \_\_\_\_\_, 2018. On or after \_\_\_\_\_, 2018 the Issuer may redeem all or a part of the notes upon not less than 30 nor more than 60 days' notice, at the redemption prices (expressed as percentages of principal amount) set forth below, plus accrued and unpaid interest on the notes redeemed to the applicable redemption date, if redeemed during the 12-month period beginning on \_\_\_\_\_ of the years indicated below, subject to the rights of holders of notes on the relevant record date to receive interest on the relevant interest payment date:

<u>Period</u>	<u>Percentage</u>
2018 .....	%
2019 .....	%
2020 .....	%
2021 and thereafter .....	100.000%

*Optional redemption following sale of Equity Interests.* Notwithstanding the foregoing, if within two years following the date of the indenture, Fortescue completes one or more sales of common Equity Interests of Fortescue (other than Disqualified Stock) other than to a Subsidiary of Fortescue which result in receipt by Fortescue of aggregate net cash proceeds of at least US\$1.0 billion and such net cash proceeds are applied in full to repay Indebtedness of Fortescue or its Restricted Subsidiaries (excluding, in any such case, any Indebtedness owed to Fortescue or an Affiliate of Fortescue) that is not revolving Indebtedness, then the redemption prices set forth in the immediately preceding paragraph shall be replaced by the redemption prices set forth below provided that as a condition to such redemption prices being effective, Fortescue shall deliver to the Trustee and the holders of the notes an officer's certificate which sets forth in reasonable detail the details of such issuances of Equity Interests and repayment of Indebtedness:

<u>Period</u>	<u>Percentage</u>
2018 .....	%
2019 .....	%
2020 and thereafter .....	100.000%

*Optional redemption of notes upon equity offerings.* At any time prior to \_\_\_\_\_, 2018, the Issuer may on any one or more occasions redeem, upon not less than 30 nor more than 60 days' notice, up to 40% of the original aggregate principal amount of the notes (calculated after giving effect to any issuance of additional notes) at a redemption price of \_\_\_\_\_ % of the principal amount thereof, plus accrued and unpaid interest to the redemption date, with the net cash proceeds of one or more sales of common Equity Interests of Fortescue (other than Disqualified Stock); *provided that:*

- (1) at least 60% of the aggregate principal amount of the notes originally issued under the indenture (calculated after giving effect to any issuance of additional notes) remains outstanding immediately after the occurrence of such redemption; and
- (2) the redemption occurs within 120 days of the date of the closing of such sale of Equity Interests.

Unless the Issuer defaults in the payment of the redemption price, interest will cease to accrue on the notes or portions thereof called for redemption on the applicable redemption date.

*Optional redemption of notes upon Change of Control.* The Issuer will have the right to redeem the notes at 101% of the principal amount thereof following the consummation of a Change of Control if at least 90% of the notes outstanding prior to such consummation are purchased pursuant to a Change of Control Offer with respect to such Change of Control.

### **Redemption for changes in withholding taxes**

The Issuer may, at its option, redeem all, but not less than all, of the then outstanding notes at any time upon giving prior written notice to the Trustee and giving not less than 30 nor more than 60 days' notice to the holders (which notice shall be irrevocable), at a redemption price equal to 100% of the aggregate principal amount thereof, plus accrued and unpaid interest and premium, if any, thereon to the date fixed by the Issuer for redemption (a "Tax Redemption Date") and all Additional Amounts, if any, that will become due on the Tax Redemption Date as a result of such redemption or otherwise (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date), if the Board of Directors of Fortescue determines in good faith that (a) the Issuer or a Note Guarantor has become obligated or on the occasion of the next interest payment date in respect of the notes, will be obligated to pay Additional Amounts and (b) the payment obligation cannot be avoided by the Issuer or a Note Guarantor taking reasonable measures available to it (including making payment through a paying agent located in another jurisdiction), as a result of:

- (1) any change in, repeal of, or amendment to, the laws or treaties (or any regulations, protocols or rulings promulgated thereunder) of Australia or any other Relevant Taxing Jurisdiction affecting taxation, which change or amendment becomes effective on or after the date of the indenture (or, if the Relevant Taxing Jurisdiction has changed since the date of the indenture, the date on which the then current Relevant Taxing Jurisdiction became the applicable Relevant Taxing Jurisdiction under the indenture),
- (2) any change in the existing official position regarding the application, administration or interpretation of such laws, treaties, regulations or rulings (including a holding, judgment or order by a court of competent jurisdiction), which change, amendment, application or interpretation becomes effective on or after the date of the indenture (or, if the Relevant Taxing Jurisdiction has changed since the date of the indenture, the date on which the then current Relevant Taxing Jurisdiction became the applicable Relevant Taxing Jurisdiction under the indenture), or
- (3) the issuance of definitive notes due to the notification by DTC or each of Euroclear and Clearstream that it is unwilling or unable to continue to act as, or ceases to be, a clearing agency in respect of the notes, if no successor is able to be appointed by the Issuer within 120 days of the notification.

The notice of redemption may not be given earlier than 180 days prior to the earliest date on which the Issuer or any Note Guarantor, as the case may be, would be obligated to pay Additional Amounts if a payment in respect of the notes were then due. 10 days prior to the publication or, where relevant, mailing of any notice of redemption of the notes pursuant to the foregoing, the Issuer will deliver to the Trustee (1) an officer's certificate stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer to so redeem have occurred and (2) an opinion of counsel or written advice of a qualified tax expert, such counsel or tax expert being from an internationally recognized law or accounting firm satisfactory to the Trustee, that the Issuer has or will become obliged to pay Additional Amounts as a result of the circumstances referred to in clause (1), (2) or (3) in the preceding paragraph.

The Trustee shall accept and shall be entitled to conclusively rely upon the officer's certificate and opinion or such written advice as sufficient evidence of the satisfaction of the conditions precedent described above.

### **Mandatory redemption**

The Issuer will not be required to make mandatory redemption or sinking fund payments with respect to the notes. However, under certain circumstances, the Issuer may be required to offer to purchase the notes as described under the caption "—Repurchase at the option of holders." The Issuer may at any time and from time to time purchase notes in the open market or otherwise.

## **Repurchase at the option of holders**

### ***Change of control***

If a Change of Control occurs, each holder of notes will have the right to require the Issuer to repurchase all or any part (equal to US\$2,000 or an integral multiple of US\$1,000) of that holder's notes pursuant to an offer (a "Change of Control Offer") on the terms set forth in the indenture. In the Change of Control Offer, the Issuer will offer a payment (a "Change of Control Payment") in cash equal to 101% of the aggregate principal amount of notes repurchased plus accrued and unpaid interest on the notes repurchased to the date of purchase, subject to the rights of holders of notes on the relevant record date to receive interest due on the relevant interest payment date. Within ten days following any Change of Control, the Issuer will mail a notice to each holder, with a copy in writing to the Trustee, describing the transaction or transactions that constitute the Change of Control and offering to repurchase notes on the date (the "Change of Control Payment Date") specified in the notice, which date will be no earlier than 30 days and no later than 60 days from the date such notice is mailed, pursuant to the procedures required by the indenture and described in such notice. The Issuer will comply with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent those laws and regulations are applicable in connection with the repurchase of the notes as a result of a Change of Control. To the extent that the provisions of any securities laws or regulations conflict with the Change of Control provisions of the indenture, the Issuer will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Change of Control provisions of the indenture by virtue of such compliance.

A Change of Control Offer may be made in advance of a Change of Control, and conditioned upon such Change of Control, if a definitive agreement is in place for the Change of Control at the time of making the Change of Control Offer.

On the Change of Control Payment Date, the Issuer will, to the extent lawful:

- (1) accept for payment all notes or portions of notes properly tendered pursuant to the Change of Control Offer;
- (2) deposit by 10:00 a.m. Eastern Time with the paying agent an amount equal to the Change of Control Payment in respect of all notes or portions of notes properly tendered; and
- (3) deliver or cause to be delivered to the Trustee the notes properly accepted together with an officer's certificate stating the aggregate principal amount of notes or portions of notes being purchased by the Issuer.

The paying agent will promptly deliver to each holder of notes properly tendered the Change of Control Payment for such notes, and the Trustee will promptly authenticate and mail (or cause to be transferred by book entry) to each holder a new note equal in principal amount to any unpurchased portion of the notes surrendered, if any. The Issuer will publicly announce the results of the Change of Control Offer on or as soon as practicable after the Change of Control Payment Date. Notes (or portions thereof) purchased by the Issuer pursuant to a Change of Control Offer will be cancelled and cannot be reissued. Notes purchased by a third party (described below) will have the status of notes issued and outstanding.

The provisions described above that require the Issuer to make a Change of Control Offer following a Change of Control will be applicable whether or not any other provisions of the indenture are applicable. Except as described above with respect to a Change of Control, the indenture does not contain provisions that permit the holders of the notes to require that the Issuer repurchase or redeem the notes in the event of a takeover, recapitalization or similar transaction.

The Issuer will not be required to make a Change of Control Offer upon a Change of Control if (1) a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the indenture applicable to a Change of Control Offer made by the Issuer and purchases all notes properly tendered and not withdrawn under the Change of Control Offer or (2) notice of redemption in respect of all of the outstanding notes has been given pursuant to the indenture as described above under the caption "—Optional redemption," unless and until there is a default in payment of the applicable redemption price, plus accrued and unpaid interest to the proposed date of redemption.

The definition of Change of Control includes a phrase relating to the direct or indirect sale, lease, transfer, conveyance or other disposition of “all or substantially all” of the properties or assets of Fortescue and its Restricted Subsidiaries taken as a whole. Although there is a limited body of case law interpreting the phrase “substantially all,” there is no precise established definition of the phrase under the laws of the State of New York, which is the applicable law that governs the indenture. Accordingly, the ability of a holder of notes to require the Issuer to repurchase its notes as a result of a sale, lease, transfer, conveyance or other disposition of less than all of the assets of Fortescue and its Restricted Subsidiaries taken as a whole to another Person or group may be uncertain.

### ***Asset sales***

Fortescue will not, and will not permit any of its Restricted Subsidiaries to, consummate an Asset Sale unless:

- (1) Fortescue (or the Restricted Subsidiary, as the case may be) receives consideration at the time of the Asset Sale at least equal to the Fair Market Value of the assets or Equity Interests issued or sold or otherwise disposed of; and
- (2) at least 75% of the consideration received in the Asset Sale by Fortescue or such Restricted Subsidiary is in the form of cash or Cash Equivalents. For purposes of this provision, each of the following will be deemed to be Cash Equivalents:
  - (a) any liabilities, as shown on Fortescue’s most recent consolidated balance sheet, of Fortescue or any of its Restricted Subsidiaries (other than contingent liabilities and liabilities that are by their terms subordinated to the notes or any Note Guarantee) that are assumed by the transferee of any such assets or that are otherwise cancelled or terminated in connection with the transaction with such transferee, in each case without Fortescue or such Restricted Subsidiary having further liability for such assumed, cancelled or terminated liabilities;
  - (b) any securities, notes or other obligations received by Fortescue or any such Restricted Subsidiary from such transferee that are converted by Fortescue or such Restricted Subsidiary into cash or Cash Equivalents within 120 days of receipt thereof, to the extent of the cash and Cash Equivalents received in that conversion;
  - (c) any Designated Non-cash Consideration received by Fortescue or any of its Restricted Subsidiaries in such Asset Sale; *provided* that the aggregate Fair Market Value of such Designated Non-cash Consideration, taken together with the Fair Market Value at the time of receipt of all other Designated Non-cash Consideration received pursuant to this clause (c) less the amount of Net Proceeds previously realized in cash or Cash Equivalents from prior Designated Non-cash Consideration is less than the greater of (x) 2.0% of Total Assets at the time of the receipt of such Designated Non-cash Consideration (with the Fair Market Value of each item of Designated Non-cash Consideration being measured at the time received and without giving effect to subsequent changes in value) and (y) \$390 million; and
  - (d) any stock or assets of the kind referred to in clause (2) or (4) of the next paragraph of this covenant.

Within 365 days after the receipt of any Net Proceeds from an Asset Sale, Fortescue (or the applicable Restricted Subsidiary, as the case may be) may apply such Net Proceeds at its option:

- (1) to repay, repurchase or redeem principal in respect of Indebtedness outstanding under the Senior Secured Term Loan, *provided* that to the extent no such principal remains outstanding or the payment of such principal out of the proceeds of such Asset Sale is not required or has been validly waived under the terms of the Senior Secured Term Loan, to repay, repurchase or redeem principal of any First Lien Secured Obligations (excluding, in any such case, any Indebtedness owed to Fortescue or an Affiliate of Fortescue), *provided* further that a pro rata portion of such proceeds must be allocated to make an offer (in accordance with the procedures set forth below for an Asset Sale Offer) to all holders of notes to purchase, at a purchase price equal to 100% of the principal amount thereof, plus accrued and unpaid interest, the principal amount of notes and purchase any notes tendered (and not validly withdrawn) in connection therewith;

- (2) to acquire all or substantially all of the assets of, or any Capital Stock of, another Permitted Business, if, after giving effect to any such acquisition of Capital Stock, the Permitted Business is or becomes a Restricted Subsidiary of Fortescue and if the assets that were the subject of such Asset Sale were of Fortescue or a Note Guarantor, such Restricted Subsidiary shall become a Note Guarantor;
- (3) to make capital expenditures; or
- (4) to acquire other assets that are not classified as current assets under A-IFRS and that are used or useful in a Permitted Business.

In the cases of clauses (2) through (4) above, a binding commitment shall be treated as a permitted application of the Net Proceeds from the date of such commitment; *provided* that such binding commitment shall be treated as a permitted application of the Net Proceeds from the date of such commitment until the earlier of (x) the date of which such acquisition or expenditure is consummated and (y) the 180th day following the expiration of the aforementioned 365-day period. Notwithstanding anything herein to the contrary, no Liens, other than the Liens described in paragraphs (5), (9), (11), (12), (13), (15), (18) and (20) of the definition of Permitted Liens, shall be permitted on any Capital Stock or other assets acquired by Fortescue or its Restricted Subsidiaries described in clauses (2) through (4) of the immediately preceding paragraph unless, after giving pro forma effect to the acquisition of such Capital Stock or other assets (including any secured Indebtedness assumed or otherwise applicable thereto) and assuming that US\$6.5 billion of Permitted Credit Facilities Debt was outstanding, the Senior Secured Leverage Ratio of Fortescue would not exceed 2.00 to 1.00.

Pending the final application of any Net Proceeds, the Issuer may temporarily reduce revolving credit borrowings or temporarily invest the Net Proceeds in any manner not prohibited by the indenture.

Any Net Proceeds from Asset Sales that are not applied or invested as provided in the second paragraph of this covenant (it being understood that any portion of such Net Proceeds used to make an offer to purchase notes, as described in clause (1) above, shall be deemed to have been invested whether or not such offer is accepted) will be deemed to constitute "Excess Proceeds." When the aggregate amount of Excess Proceeds exceeds \$50.0 million, within ten Business Days thereof, the Issuer will use the Excess Proceeds to repay, repurchase or redeem principal in respect of Indebtedness outstanding under the Senior Secured Term Loan, provided that to the extent no such principal remains outstanding or the payment of such principal out of the proceeds of such Asset Sale is not required or has been validly waived under the terms of the Senior Secured Term Loan, the Issuer will make an offer ("Asset Sale Offer") to all holders of notes (and, if any First Lien Secured Obligation contains provisions similar to those set forth in the indenture with respect to offers to purchase or redeem with the proceeds of sales of assets, absent a waiver of such provisions, the Issuer shall make an Asset Sale Offer to holders of such First Lien Secured Obligations) to purchase the maximum principal amount of notes and such other First Lien Secured Obligations that may be purchased out of the Excess Proceeds. The offer price in any Asset Sale Offer will be equal to 100% of the principal amount, plus accrued and unpaid interest to the date of purchase and will be payable in cash. If any Excess Proceeds remain after consummation of an Asset Sale Offer, the Issuer may use those Excess Proceeds for any purpose not otherwise prohibited by the indenture. If the aggregate principal amount of notes and other First Lien Secured Obligations tendered into such Asset Sale Offer exceeds the amount of Excess Proceeds, the Trustee will select the notes and such other First Lien Secured Obligations to be purchased on a *pro rata* basis. Upon completion of each Asset Sale Offer, the amount of Excess Proceeds will be reset at zero. Any Excess Proceeds not so used in such an Asset Sale Offer may be used for any purpose that is not prohibited by the indenture. Notes (or portions thereof) purchased pursuant to an Asset Sale Offer will be cancelled and cannot be reissued.

The Issuer will comply with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent those laws and regulations are applicable in connection with each repurchase of notes pursuant to an Asset Sale Offer. To the extent that the provisions of any securities laws or regulations conflict with the Asset Sale provisions of the indenture, the Issuer will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Asset Sale provisions of the indenture by virtue of such compliance.

If a Change of Control Offer or an Asset Sale Offer is made, there can be no assurance that the Issuer will have available funds sufficient to pay the Change of Control purchase price or Asset Sale Offer purchase price for all the notes that might be delivered by holders seeking to accept the Change of Control

Offer or Asset Sale Offer. It is also possible that the events that constitute a Change of Control or the Asset Sale that gave rise to the Asset Sale Offer may also be events of default under other Indebtedness. These events may permit the lenders under such other Indebtedness to accelerate the Indebtedness outstanding thereunder. If the Issuer is required to repurchase or redeem the notes pursuant to a Change of Control Offer or an Asset Sale Offer, as applicable, and repay certain amounts outstanding under other Indebtedness, if such Indebtedness is accelerated it would probably require third-party financing. Neither the Issuer nor Fortescue nor the other Note Guarantors can be sure that they would be able to obtain third-party financing on acceptable terms, or at all. If such other Indebtedness is a Secured Obligation and is not paid, the lenders thereunder may seek to enforce security interests in the collateral securing such Indebtedness, thereby limiting the Issuer's ability to raise cash to purchase the notes, and reducing the practical benefit of the offer to purchase provisions to the holders. The Issuer's ability to pay cash to the holders of notes upon a repurchase may also be limited by the Issuer's then existing financial resources. See "Risk factors—Risks relating to the Senior Secured Notes—The Issuer may be unable to repurchase the Senior Secured Notes or repay or repurchase its other outstanding debt upon a change of control or asset sale."

### ***Selection and notice***

If less than all of the notes are to be redeemed at any time, such notes will be redeemed on a *pro rata* basis unless otherwise required by law or applicable stock exchange or depository requirements.

No notes of \$2,000 or less can be redeemed in part. Notices of redemption will be mailed by first class mail at least 30 but not more than 60 days before the redemption date to each holder of notes to be redeemed at its registered address, except that redemption notices may be mailed more than 60 days prior to a redemption date if the notice is issued in connection with a defeasance of the notes or a satisfaction and discharge of the indenture. Notices of redemption may not be conditional.

If any note is to be redeemed in part only, the notice of redemption that relates to that note will state the portion of the principal amount of that note that is to be redeemed. A new note in principal amount equal to the unredeemed portion of the original note will be issued in the name of the holder of notes upon cancellation of the original note. Notes called for redemption become due on the date fixed for redemption. On and after the redemption date, interest ceases to accrue on notes or portions of notes called for redemption.

### **Certain covenants**

#### ***Changes in covenants when notes rated investment grade***

If on any date following the date of the indenture:

- (1) the notes are rated by at least two of the three Rating Agencies as having an Investment Grade Rating; and
- (2) no Default or Event of Default shall have occurred and be continuing,

then, beginning on that day (a "Covenant Suspension Date") and subject to the provisions of the following paragraph, the covenants specifically listed under the following captions in this offering memorandum will be suspended:

- (1) "—Repurchase at the option of holders—Asset sales";
  - (2) "—Restricted payments";
  - (3) "—Incurrence of indebtedness and issuance of disqualified stock";
  - (4) "—Dividend and other payment restrictions affecting subsidiaries";
  - (5) "—Designation of restricted and unrestricted subsidiaries";
  - (6) "—Transactions with affiliates";
  - (7) clause (a)(5) of the covenant described below under the caption "—Merger, consolidation or sale of assets"; and
  - (8) "—Limitation on sale and leaseback transactions" (other than clause (1)(b) thereof)
- (collectively, the "Suspended Covenants").

Upon the occurrence of a Covenant Suspension Date, the Issuer shall notify the Trustee in writing that such Covenant Suspension Date has occurred and the amount of Excess Proceeds from Net Proceeds shall be reset at zero. During any period that the foregoing covenants have been suspended, Fortescue's Board of Directors may not designate any of its Subsidiaries as Unrestricted Subsidiaries pursuant to the covenant described below under the caption "—Designation of restricted and unrestricted subsidiaries" or clause (2) of the definition of "Unrestricted Subsidiary."

In the event that Fortescue and its Restricted Subsidiaries are not subject to the Suspended Covenants for any period of time as a result of the foregoing, and on any subsequent date (the "Reversion Date") at least two of the three Rating Agencies no longer rate the notes as having an Investment Grade Rating, then Fortescue and its Restricted Subsidiaries will thereafter again be subject to the Suspended Covenants with respect to future events. The Issuer shall notify the Trustee in writing that such Reversion Date has occurred. The period of time between the Covenant Suspension Date and the Reversion Date is referred to herein as the "Suspension Period." Notwithstanding that the Suspended Covenants may be reinstated, no Default or Event of Default will be deemed to have occurred as a result of a failure to comply with the Suspended Covenants during the Suspension Period (or upon termination of the Suspension Period or after that time based solely on events that occurred during the Suspension Period with respect to any Suspended Covenant). On the Reversion Date, all Indebtedness incurred and Disqualified Stock issued during the Suspension Period will be classified to have been incurred or issued pursuant to clause (2) of the second paragraph of "—Incurrence of indebtedness and issuance of disqualified stock." Calculations made after the Reversion Date of the amount available to be made as Restricted Payments under "—Restricted payments" will be made as though the covenant described under "—Restricted payments" had been in effect from the date of the indenture and during the Suspension Period.

In addition, for purposes of the covenant described under "—Transactions with affiliates," all agreements and arrangements entered into by Fortescue or any Restricted Subsidiaries with an Affiliate of Fortescue during the Suspension Period prior to such Reversion Date will be deemed to have been entered into on or prior to the date of the indenture and for purposes of the covenant described under "—Dividend and other payment restrictions affecting subsidiaries," all contracts entered into during the Suspension Period prior to such Reversion Date that contain any of the restrictions contemplated by such covenant will be deemed to have been existing as of the date of the indenture.

There can be no assurance that the notes will ever achieve an Investment Grade Rating or that any such rating will be maintained. The Issuer shall notify the Trustee in writing upon the occurrence of a Covenant Suspension Date or a Reversion Date.

### ***Restricted payments***

Fortescue will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly:

- (1) declare or pay any dividend or make any distribution on account of Fortescue's or any of its Restricted Subsidiaries' Equity Interests (including, without limitation, any payment in connection with any merger, amalgamation or consolidation involving Fortescue or any of its Restricted Subsidiaries) or to the direct or indirect holders of Fortescue's or any of its Restricted Subsidiaries' Equity Interests in their capacity as such (other than (A) dividends or distributions payable in Equity Interests (other than Disqualified Stock) of Fortescue and other than dividends or distributions payable to Fortescue or a Restricted Subsidiary of Fortescue or (B) dividends or distributions by a Restricted Subsidiary so long as, in the case of any dividend or distribution payable on or in respect of any class or series of securities issued by a Restricted Subsidiary that is not a Wholly-Owned Restricted Subsidiary, each of Fortescue and all other Restricted Subsidiaries, if any, that hold any Equity Interests of such Restricted Subsidiary, as the case may be, receives at least its pro rata share of such dividend or distribution in accordance with its percentage ownership of such class or series of Equity Interests with respect to which any such dividend or distribution is made);
- (2) purchase, redeem or otherwise acquire or retire for value (including, without limitation, in connection with any merger, amalgamation or consolidation involving Fortescue) any Equity Interests of Fortescue or any direct or indirect parent of Fortescue;

- (3) make any payment on or with respect to, or purchase, redeem, defease or otherwise acquire or retire for value any Indebtedness of the Issuer or any Note Guarantor that is contractually subordinated to the notes or to any Note Guarantee (“Subordinated Indebtedness”)(excluding any intercompany Indebtedness between or among Fortescue and any of its Restricted Subsidiaries that is held by the Issuer or any Note Guarantor and any Existing Indebtedness), except a payment of interest or principal at the Stated Maturity thereof; or
- (4) make any Restricted Investment

(all such payments and other actions set forth in these clauses (1) through (4) above being collectively referred to as “Restricted Payments”), unless, at the time of and after giving effect to such Restricted Payment:

- (A) no Default or Event of Default has occurred and is continuing or would occur as a consequence of such Restricted Payment;
- (B) Fortescue would, at the time of such Restricted Payment and after giving pro forma effect thereto as if such Restricted Payment had been made at the beginning of the applicable semi-annual period, have been permitted to incur at least \$1.00 of additional Indebtedness pursuant to the Fixed Charge Coverage Ratio test set forth in the first paragraph of the covenant described below under the caption “—Incurrence of indebtedness and issuance of disqualified stock”; and
- (C) such Restricted Payment, together with the aggregate amount of all other Restricted Payments made by Fortescue and its Restricted Subsidiaries since July 1, 2012 (excluding Restricted Payments permitted by clauses (2), (3), (4), (5), (6), (7), (8) (but solely to the extent of Restricted Payments made in respect of Indebtedness that is not Subordinated Indebtedness and not Disqualified Stock), (9), (10), (11) and (12) of the next succeeding paragraph), is less than the sum, without duplication, of:
  - (i) 50% of the Consolidated Net Income of Fortescue and its Restricted Subsidiaries for the period (taken as one accounting period) from the beginning of the first fiscal semi-annual period commencing July 1, 2012 to the end of Fortescue’s most recently ended fiscal semi-annual period for which internal financial statements are available at the time of such Restricted Payment (or, if such Consolidated Net Income for such period is a deficit, less 100% of such deficit); plus
  - (ii) 100% of the aggregate net proceeds, including cash and the Fair Market Value of property other than cash, received by Fortescue since July 1, 2012 as a contribution to its common equity capital or from the issue or sale of Equity Interests of Fortescue (other than Disqualified Stock and Excluded Contributions) or from the issue or sale of convertible or exchangeable Disqualified Stock or convertible or exchangeable debt securities of Fortescue that have been converted into or exchanged for such Equity Interests (other than Equity Interests (or Disqualified Stock or debt securities) sold to a Subsidiary of Fortescue); plus
  - (iii) the return, after the date of the indenture, on any Restricted Investment made after July 1, 2012 pursuant to this clause (C) as a result of any repayment, redemption, liquidating distribution or any other realization for cash or Cash Equivalents to the extent not otherwise included in the Consolidated Net Income of Fortescue and its Restricted Subsidiaries for such period; plus
  - (iv) to the extent that any Unrestricted Subsidiary is designated as a Restricted Subsidiary after July 1, 2012, or has been merged into, consolidated or amalgamated with or into, or transfers or conveys its assets substantially as an entirety to Fortescue or a Restricted Subsidiary, 100% of the Fair Market Value of the Investment in such Subsidiary as of the date of such designation, combination or transfer (or of the assets transferred or conveyed, as applicable); plus
  - (v) 100% of any dividends received by Fortescue or any Restricted Subsidiary after July 1, 2012 from an Unrestricted Subsidiary of Fortescue to the extent that such dividends were not otherwise included in the Consolidated Net Income of Fortescue and its Restricted Subsidiaries for such period.

So long as no Default has occurred and is continuing or would be caused thereby, the preceding provisions will not prohibit:

- (1) the payment of any dividend or the consummation of any irrevocable redemption within 60 days after the date of declaration of the dividend or giving of the redemption notice, as the case may be, if at the date of declaration or notice, the dividend or redemption payment would have complied with the provisions of the indenture;
- (2) the making of any Restricted Payment in exchange for, or out of the net cash proceeds of the substantially concurrent sale (other than to a Subsidiary of Fortescue) of, Equity Interests of Fortescue (other than Disqualified Stock) or from the substantially concurrent contribution of ordinary equity capital to Fortescue; provided that the amount of any such net cash proceeds that are utilized for any such Restricted Payment will be excluded from clause (C)(ii) of the preceding paragraph;
- (3) the repurchase, redemption, defeasance or other acquisition or retirement for value of Subordinated Indebtedness with the net cash proceeds from a substantially concurrent incurrence of Permitted Refinancing Indebtedness;
- (4) the repurchase, redemption or other acquisition or retirement for value of any Equity Interests of Fortescue or any of its Restricted Subsidiaries held by any current or former officer, director or employee (and their respective permitted transferees under the applicable benefit plan, if any, under which such Equity Interests were issued) of Fortescue or any of its Restricted Subsidiaries pursuant to any equity subscription agreement, stock option agreement, shareholders' agreement or similar agreement; *provided* that the aggregate price paid for all such repurchased, redeemed, acquired or retired Equity Interests may not exceed \$2.5 million in any calendar year (with unused amounts in any calendar year being carried over to succeeding calendar years subject to a maximum of \$5.0 million in any calendar year); *provided further* that such amount in any calendar year may be increased by an amount not to exceed;
  - (A) the net cash proceeds received by Fortescue or any of its Restricted Subsidiaries from the sale of Equity Interests (other than Disqualified Stock) of Fortescue to members of management, directors or consultants of Fortescue and its Restricted Subsidiaries that occurs after the date of the indenture (*provided* that the amount of such cash proceeds utilized for any such repurchase, retirement or other acquisition, or dividend will not increase the amount available for Restricted Payments under clause (C) of the immediately preceding paragraph); *plus*
  - (B) the net cash proceeds of key man life insurance policies received by Fortescue and its Restricted Subsidiaries (to the extent contributed to Fortescue) after the date of the indenture;
- (5) the repurchase of Equity Interests deemed to occur upon (a) the exercise of stock options to the extent such Equity Interests represent a portion of the exercise price of those stock options; or (b) the withholding of a portion of the Equity Interests granted or awarded to an employee to pay for the taxes payable by such employee upon such grant or award;
- (6) the declaration and payment of regularly scheduled or accrued dividends to holders of any class or series of Disqualified Stock of Fortescue or any of its Restricted Subsidiaries issued on or after the date of the indenture in accordance with the Fixed Charge Coverage Ratio test described below under the caption “—Incurrence of indebtedness and issuance of disqualified stock”;
- (7) Investments that are made with Excluded Contributions;
- (8) the repayment, redemption, repurchase, defeasance or other acquisition or retirement for value of any subordinated Indebtedness or Disqualified Stock at a purchase price not greater than 101% of the principal amount thereof or liquidation preference in the event of a change of control pursuant to a provision no more favorable to the holders thereof than “—Repurchase at the option of holders—Change of control”; *provided* that, prior to the making of any such Restricted Payment pursuant to this clause (8), the Issuer shall have made a Change of Control Offer and repurchased all notes issued under the indenture that were validly tendered for payment in connection with the offer to purchase;

- (9) the repayment of intercompany debt among Fortescue and its Restricted Subsidiaries that was permitted to be incurred under the indenture;
- (10) cash payments in lieu of fractional shares in connection with the exercise of warrants, options or other securities convertible into or exchangeable into ordinary shares of Fortescue;
- (11) the declaration and payment of dividends or distributions to holders of any class or series of Designated Preferred Stock (other than Disqualified Stock) issued after the date of the indenture; *provided, however*, that (A) for the most recently ended two full fiscal semi-annual periods for which publicly-filed financial statements are available immediately preceding the date of issuance of such Designated Preferred Stock, after giving effect to such issuance (and the payment of dividends or distributions) on a pro forma basis, Fortescue could incur an additional \$1.00 of Indebtedness pursuant to the Fixed Charge Coverage Ratio and (B) the aggregate amount of dividends declared and paid pursuant to this clause (11) does not exceed the net cash proceeds actually received by Fortescue from any such sale of Designated Preferred Stock (other than Disqualified Stock) issued after the date of the indenture; and
- (12) other Restricted Payments in an aggregate amount not to exceed \$100.0 million since the date of the indenture.

The amount of all Restricted Payments (other than cash or Cash Equivalents) will be the Fair Market Value on the date of the Restricted Payment of the asset(s) or securities proposed to be transferred or issued by Fortescue or such Restricted Subsidiary, as the case may be, pursuant to such Restricted Payment. The Fair Market Value of any assets or securities that are required to be valued by this covenant will be determined by the Board of Directors of Fortescue. The Board of Directors' determination must be based upon an opinion or appraisal issued by an accounting appraisal or investment banking firm of national standing if the Fair Market Value exceeds \$100.0 million.

For purposes of determining compliance with any U.S. dollar-denominated restriction on the making of a Restricted Payment or any Permitted Investment, the U.S. dollar-equivalent of such Restricted Payment or Permitted Investment denominated in a foreign currency shall be calculated based on the relevant currency exchange rate in effect on the date such Restricted Payment or Permitted Investment was made.

#### ***Incurrence of indebtedness and issuance of disqualified stock***

Fortescue will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, create, incur, issue, assume, guarantee or otherwise become directly or indirectly liable, contingently or otherwise, with respect to (collectively, "incur") any Indebtedness (including Acquired Debt), and Fortescue will not issue any Disqualified Stock and will not permit any of its Restricted Subsidiaries to issue any Disqualified Stock or shares of preferred stock; *provided, however*, that Fortescue may incur Indebtedness (including Acquired Debt) or issue Disqualified Stock, and the Issuer and the Note Guarantors may incur Indebtedness (including Acquired Debt), if the Fixed Charge Coverage Ratio for Fortescue's most recently ended two full fiscal semi-annual periods for which internal financial statements are available immediately preceding the date on which such additional Indebtedness is incurred or such Disqualified Stock is issued, as the case may be, would have been at least 2.50 to 1.00, determined on a pro forma basis (including a pro forma application of the net proceeds therefrom), as if the additional Indebtedness had been incurred or the Disqualified Stock had been issued, as the case may be, at the beginning of such two full semi-annual periods.

The first paragraph of this covenant will not prohibit the incurrence of any of the following items of Indebtedness (collectively, "Permitted Debt"):

- (1) the incurrence by Fortescue and its Restricted Subsidiaries of Indebtedness and letters of credit under Credit Facilities in an aggregate principal amount at any one time outstanding under this clause (1) (with letters of credit being deemed to have a principal amount equal to the maximum potential liability of Fortescue and its Restricted Subsidiaries thereunder) not to exceed US\$6.5 billion;
- (2) the incurrence by Fortescue and its Restricted Subsidiaries of Existing Indebtedness;

- (3) the incurrence by Fortescue or any of its Restricted Subsidiaries of Indebtedness represented by Capital Lease Obligations, mortgage financings, or purchase money obligations or the Attributable Debt with respect to sale and leaseback transactions, in each case, incurred for the purpose of financing all or any part of the purchase price or cost of design, development, construction, installation or improvement of property (real or personal and including Capital Stock), plant or equipment used in the business of Fortescue or any of its Restricted Subsidiaries (in each case, whether through the direct purchase of such assets or the Equity Interests of any Person owning such assets), together with any renewals, extensions and refinancings thereof, in an aggregate principal amount not to exceed, at any time outstanding, the greater of (x) \$1,940 million and (y) 10.0% of Total Assets;
- (4) the incurrence by Fortescue or any of its Restricted Subsidiaries of Permitted Refinancing Indebtedness;
- (5) the incurrence by Fortescue or any of its Restricted Subsidiaries of intercompany Indebtedness between or among Fortescue and any of its Restricted Subsidiaries; *provided, however*, that:
  - (a) if the Issuer or any Note Guarantor is the obligor on such Indebtedness and the payee is not the Issuer or a Note Guarantor, such Indebtedness must be expressly subordinated to the prior payment in full in cash of all Obligations then due with respect to the notes, in the case of the Issuer, or the Note Guarantee, in the case of a Note Guarantor; and
  - (b) (i) any subsequent issuance or transfer of Equity Interests that results in any such Indebtedness being held by a Person other than Fortescue or a Restricted Subsidiary of Fortescue and (ii) any sale or other transfer of any such Indebtedness to a Person that is not either Fortescue or a Restricted Subsidiary of Fortescue, will be deemed, in each case, to constitute an incurrence of such Indebtedness by Fortescue or such Restricted Subsidiary, as the case may be, that was not permitted by this clause (5);
- (6) the incurrence by Fortescue or any of its Restricted Subsidiaries of Hedging Obligations in the ordinary course of business for purposes of risk mitigation;
- (7) the guarantee by the Issuer or any of the Note Guarantors of Indebtedness of Fortescue or a Restricted Subsidiary of Fortescue that was permitted to be incurred by another provision of this covenant; *provided* that if the Indebtedness being guaranteed is subordinated to or *pari passu* with the notes, then the guarantee shall be subordinated or *pari passu*, as applicable, to the same extent as the Indebtedness guaranteed;
- (8) the incurrence by Fortescue or any of its Restricted Subsidiaries of Indebtedness in respect of workers' compensation claims, payment obligations in connection with health or other types of social security benefits, unemployment or other insurance or self-insurance obligations in the ordinary course of business;
- (9) the incurrence by Fortescue or any of its Restricted Subsidiaries of Indebtedness (A) in respect of performance bonds, commercial letters of credit and surety or appeal bonds or deposits provided in the ordinary course of business; (B) in respect of performance bonds, bank guarantees or similar obligations for or in connection with pledges, deposits or payments made or given in relation to such performance bonds, bank guarantees or similar instruments in the ordinary course of business in connection with or to secure statutory, regulatory or similar obligations, including obligations under mining, health, safety, reclamation, mine closure or other environmental obligations or in relation to infrastructure arrangements owned or provided to or applied for by Fortescue or any of its Restricted Subsidiaries and (C) arising from guarantees to suppliers, lessors, licensees, contractors, franchises or customer obligations (other than Indebtedness) incurred in the ordinary course of business;
- (10) the incurrence by Fortescue or any of its Restricted Subsidiaries of Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument inadvertently drawn against insufficient funds, so long as such Indebtedness is covered within ten Business Days;
- (11) Indebtedness or Disqualified Stock of Persons that are acquired by Fortescue or any of its Restricted Subsidiaries or merged into a Restricted Subsidiary in accordance with the terms of the

indenture; *provided, however*, that such Indebtedness or Disqualified Stock is not incurred in contemplation of such acquisition or merger or to provide all or a portion of the funds or credit support required to consummate such acquisition or merger; *provided further, however*, that, for any such Indebtedness outstanding under this clause (11), after giving effect to such acquisition and the incurrence of such Indebtedness, Fortescue would be permitted to incur at least \$1.00 of additional Indebtedness pursuant to the Fixed Charge Coverage Ratio test set forth in the first paragraph of this covenant;

- (12) the incurrence of Indebtedness arising from agreements of Fortescue or a Restricted Subsidiary providing for indemnification, adjustment of purchase price, earn outs, or similar obligations, in each case, incurred or assumed in connection with the disposition or acquisition of any business, assets or a Restricted Subsidiary in accordance with the terms of the indenture, other than Guarantees of Indebtedness incurred or assumed by any Person acquiring all or any portion of such business, assets or such Restricted Subsidiary for the purpose of financing such acquisition;
- (13) the incurrence by Fortescue or any of its Restricted Subsidiaries of unsecured intercompany Indebtedness from any Unrestricted Subsidiary of Fortescue in connection with the cash management operations of Fortescue and its Subsidiaries; *provided, however*, that:
  - (a) such Indebtedness must be expressly subordinated to the prior payment in full in cash of all Obligations then due with respect to the notes, in the case of the Issuer, or the Note Guarantee, in the case of a Note Guarantor; and
  - (b) (i) any subsequent issuance or transfer of Equity Interests that results in any such Indebtedness being held by a Person other than an Unrestricted Subsidiary of Fortescue and (ii) any sale or other transfer of any such Indebtedness to a Person that is not an Unrestricted Subsidiary of Fortescue, will be deemed, in each case, to constitute an incurrence of such Indebtedness by Fortescue or such Restricted Subsidiary, as the case may be, that was not permitted by this clause (13); and
- (14) the incurrence by Fortescue or any of its Restricted Subsidiaries of additional Indebtedness or the issuance by Fortescue of its Disqualified Stock or preferred stock in an aggregate principal amount (or accreted value, as applicable), or having an aggregate liquidation preference, at any time outstanding not to exceed in aggregate \$250.0 million.

Fortescue will not incur, and will not permit the Issuer or any Note Guarantor to incur, any Indebtedness (including Permitted Debt) that is contractually subordinated in right of payment to any other Indebtedness of the Issuer or such Note Guarantor unless such Indebtedness is also contractually subordinated in right of payment to the notes and the applicable Note Guarantee on substantially identical terms; *provided, however*, that no Indebtedness will be deemed to be contractually subordinated in right of payment to any other Indebtedness of the Issuer solely by virtue of being unsecured or by virtue of being secured on a first or junior lien basis.

For purposes of determining compliance with this “Incurrence of indebtedness and issuance of disqualified stock” covenant, in the event that an item of proposed Indebtedness meets the criteria of more than one of the categories of Permitted Debt described in clauses (1) through (14) above, or is entitled to be incurred pursuant to the first paragraph of this covenant, the Issuer will be permitted to classify such item of Indebtedness on the date of its incurrence, or later reclassify all or a portion of such item of Indebtedness, in any manner that complies with this covenant. When the notes (excluding any additional notes) are issued and authenticated under the indenture, all such notes, and all Indebtedness under the Senior Secured Term Loan, shall be deemed to have been incurred in reliance on clause (1) under Permitted Debt and, notwithstanding the foregoing, the Issuer shall not be permitted to later reclassify all or any portion of such Indebtedness. The accrual of interest, the accretion or amortization of original issue discount, the payment of interest on any Indebtedness in the form of additional Indebtedness with the same terms, the reclassification of preferred stock as Indebtedness due to a change in accounting principles, and the payment of dividends on Disqualified Stock in the form of additional shares of the same class of Disqualified Stock will not be deemed to be an incurrence of Indebtedness or an issuance of Disqualified Stock for purposes of this covenant; *provided* that, in each such case, the amount of any such accrual, accretion or payment is included in Fixed Charges of Fortescue as accrued.

For purposes of determining compliance with any U.S. dollar-denominated restriction on the incurrence of any Indebtedness, the U.S. dollar-equivalent principal amount of Indebtedness denominated in a foreign currency shall be calculated based on the relevant currency exchange rate in effect on the date such Indebtedness was incurred; *provided* that if such Indebtedness is incurred to refinance other Indebtedness denominated in a foreign currency, and such refinancing would cause the applicable U.S. dollar-denominated restriction to be exceeded if calculated at the relevant currency exchange rate in effect on the date of such refinancing, such U.S. dollar-denominated restriction shall be deemed not to have been exceeded so long as the principal amount of such refinancing Indebtedness in the foreign currency so denominated does not exceed the principal amount of such Indebtedness in the foreign currency so denominated being refinanced.

Notwithstanding any other provision of this covenant, the maximum amount of Indebtedness that Fortescue or any Restricted Subsidiary may incur pursuant to this covenant shall not be deemed to be exceeded solely as a result of (x) fluctuations in exchange rates or currency values or (y) in the case of any unsecured Existing Indebtedness, movements in the Carrying Amount (as defined below) thereof.

The amount of any Indebtedness outstanding as of any date will be:

- (1) the accreted value of the Indebtedness, in the case of any Indebtedness issued with original issue discount;
- (2) the greater of (x) the aggregate face amount of the Indebtedness and (y) the “carrying amount” (the “Carrying Amount”) of the Indebtedness as determined in a manner consistent with prior practice and reflected on the balance sheet as at the end of the most recently ended fiscal semi-annual period for which internal financial statements of Fortescue are available, in the case of any unsecured Existing Indebtedness;
- (3) the principal amount of the Indebtedness, in the case of any other Indebtedness; and
- (4) in respect of Indebtedness of another Person secured by a Lien on the assets of the specified Person, the lesser of:
  - (a) the Fair Market Value of such assets at the date of determination; and
  - (b) the amount of the Indebtedness of the other Person.

### ***Liens***

Fortescue will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, create, incur, assume or suffer to exist any Lien of any kind on any asset now owned or hereafter acquired, except Permitted Liens; *provided* that no Lien will be permitted to subsist over any Excluded Property described in paragraphs (a) and (d) of the definition thereof other than Permitted Liens of the type described in clauses (3), (4), (5), (9), (11), (12), (13), (17), (18) and (20) of the definition thereof. If Fortescue or any Restricted Subsidiary creates any additional Lien (other than a Permitted Lien) upon any property or asset not constituting Collateral to secure any other obligations permitted to be incurred hereunder, it must concurrently grant a first priority Lien (subject to Permitted Liens, the Intercreditor Agreement and the applicable Security Documents) upon such property or asset as security for its obligations under the notes and the indenture such that the property or asset subject to such Lien becomes Collateral subject to the Intercreditor Agreement.

### ***Limitation on sale and leaseback transactions***

Fortescue will not, and will not permit any of its Restricted Subsidiaries to, enter into any sale and leaseback transaction; *provided* that Fortescue or any Restricted Subsidiary may enter into a sale and leaseback transaction if:

- (1) Fortescue or such Restricted Subsidiary, as applicable, could have (a) incurred Indebtedness in an amount equal to the Attributable Debt relating to such sale and leaseback transaction under the covenant described above under the caption “—Incurrence of indebtedness and issuance of disqualified stock” and (b) incurred a Lien to secure such Indebtedness pursuant to the covenant described above under the caption “—Liens”;

- (2) the gross cash proceeds of that sale and leaseback transaction are at least equal to the Fair Market Value of the property that is the subject of such sale and leaseback transaction; and
- (3) the transfer of assets in that sale and leaseback transaction is permitted by, and Fortescue or such Restricted Subsidiary applies the proceeds of such transaction in compliance with, the covenant described above under the caption “—Repurchase at the option of holders—Asset sales.”

***Dividend and other payment restrictions affecting subsidiaries***

Fortescue will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, create or permit to exist or become effective any consensual encumbrance or restriction on the ability of any Restricted Subsidiary to:

- (1) pay dividends or make any other distributions on its Capital Stock to Fortescue or any of its Restricted Subsidiaries, or with respect to any other interest or participation in, or measured by, its profits, or pay any Indebtedness owed to Fortescue or any of its Restricted Subsidiaries;
- (2) make loans or advances to Fortescue or any of its Restricted Subsidiaries;
- (3) create, incur or permit to exist any Lien upon any of its property or assets to secure the obligations under the notes, the Note Guarantees and the indenture; or
- (4) sell, lease or transfer any of its properties or assets to Fortescue or any of its Restricted Subsidiaries.

However, the preceding restrictions will not apply to encumbrances or restrictions existing under or by reason of:

- (1) agreements governing Existing Indebtedness (including the Unsecured Senior Notes and the indentures governing the Unsecured Senior Notes) and the Credit Facilities (including the Senior Secured Term Loan) as in effect on the date of the indenture and any amendments, restatements, modifications, renewals, supplements, refundings, replacements or refinancings of those agreements; provided that the amendments, restatements, modifications, renewals, supplements, refundings, replacements or refinancings are not materially more restrictive, taken as a whole, with respect to such dividend and other payment restrictions than those contained in those agreements on the date of the indenture;
- (2) the indenture, the notes, the Note Guarantees and other Notes Documents;
- (3) applicable law, rule, regulation, order, approval, license, permit or similar restriction;
- (4) any instrument governing Indebtedness or Capital Stock of a Person acquired by Fortescue or any of its Restricted Subsidiaries as in effect at the time of such acquisition (except to the extent such Indebtedness or Capital Stock was incurred in connection with or in contemplation of such acquisition), which encumbrance or restriction is not applicable to any Person, or the properties or assets of any Person, other than the Person, or the property or assets of the Person, so acquired; *provided* that, in the case of Indebtedness, such Indebtedness was permitted by the terms of the indenture to be incurred;
- (5) non-assignment provisions or subletting restrictions in contracts, leases and licenses entered into in the ordinary course of business;
- (6) Permitted Debt described in clause (3) of the definition thereof that impose restrictions on the property purchased or leased of the nature described in clause (4) of the preceding paragraph;
- (7) any agreement for the sale or other disposition of Capital Stock or assets of a Restricted Subsidiary that restricts distributions by that Restricted Subsidiary pending the closing of such sale or other disposition;
- (8) Permitted Refinancing Indebtedness; *provided* that the restrictions contained in the agreements governing such Permitted Refinancing Indebtedness are not materially more restrictive, taken as a whole, than those contained in the agreements governing the Indebtedness being refinanced;
- (9) Liens permitted to be incurred under the provisions of the covenant described above under the caption “—Liens” that limit the right of the debtor to dispose of the assets subject to such Liens;

- (10) provisions limiting the disposition or distribution of assets or property or transfer of Capital Stock in joint venture agreements, asset sale agreements, sale-leaseback agreements, stock sale agreements, limited liability company organizational documents and other similar agreements entered into with the approval of Fortescue's Board of Directors, which limitation is applicable only to the assets, property or Capital Stock that are the subject of such agreements;
- (11) restrictions on cash, Cash Equivalents or other deposits or net worth imposed by customers under contracts entered into in the ordinary course of business;
- (12) other Indebtedness of Note Guarantors that is incurred subsequent to the date of the indenture pursuant to the first paragraph of the covenant under "—Incurrence of indebtedness and issuance of disqualified stock";
- (13) encumbrances or restrictions on property that exist at the time the property was acquired by Fortescue or a Restricted Subsidiary of Fortescue, which encumbrance or restriction is not applicable to any other property or assets of Fortescue or such Restricted Subsidiary;
- (14) contractual encumbrances or restrictions in effect on the date of the indenture, and any amendments, restatements, modifications, renewals, supplements, refundings, replacements or refinancings of those agreements; *provided* that the amendments, restatements, modifications, renewals, supplements, refundings, replacements or refinancings are not materially more restrictive, taken as a whole, with respect to such encumbrances or restrictions than those contained in those agreements on the date of the indenture; or
- (15) any encumbrances or restrictions imposed by any amendments or refinancings of the contracts, instruments or obligations referred to above in clauses (2), (3), (4), (5), (9) and (14); *provided* that the amendments, restatements, modifications, renewals, supplements, refundings, replacements or refinancings are not materially more restrictive, taken as a whole, than such encumbrances or restrictions prior to any such amendment, restatement, modification, renewal, supplement, refunding, replacement or refinancing.

***Merger, consolidation or sale of assets***

*Fortescue.* Fortescue will not, directly or indirectly: (1) consolidate, amalgamate or merge with or into another Person (whether or not Fortescue is the surviving corporation); or (2) sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of the properties or assets of Fortescue and its Restricted Subsidiaries, taken as a whole, in one or more related transactions, to another Person, unless:

- (1) either: (A) Fortescue is the surviving corporation; or (B) the Person formed by or surviving any such consolidation, amalgamation or merger (if other than Fortescue) or to which such sale, assignment, transfer, conveyance or other disposition has been made is a corporation, partnership or limited liability company organized or existing under the laws of Australia or any state thereof, the United States, any state thereof or the District of Columbia;
- (2) the first priority Liens (subject to Permitted Liens and the terms and conditions of the Security Documents) granted to the Collateral Agent under the Security Documents in the assets of Fortescue or the assets subject to such disposition, as the case may be, shall remain in full force and effect and perfected to at least the same extent as in effect immediately prior to such consolidation, amalgamation or merger or such disposition;
- (3) the Person formed by or surviving any such consolidation, amalgamation or merger (if other than Fortescue) or the Person to which such sale, assignment, transfer, conveyance or other disposition has been made assumes all the obligations of Fortescue under (i) the applicable Note Guarantee and the indenture pursuant to a supplemental indenture thereto and (ii) the Security Documents pursuant to agreements or instruments satisfactory to the Collateral Agent (and shall cause such instruments to be filed and recorded in such jurisdictions and take such other actions as may otherwise be required to comply with the requirements of the immediately preceding clause (2));
- (4) immediately after such transaction, no Default or Event of Default exists;
- (5) Fortescue or the Person formed by or surviving any such consolidation, amalgamation or merger (if other than Fortescue), or to which such sale, assignment, transfer, conveyance or other disposition

has been made would, on the date of such transaction after giving pro forma effect thereto and any related financing transactions as if the same had occurred at the beginning of the applicable two semi-annual period, (A) be permitted to incur at least \$1.00 of additional Indebtedness pursuant to the Fixed Charge Coverage Ratio test set forth in the first paragraph of the covenant described above under the caption “—Incurrence of indebtedness and issuance of disqualified stock” or (B) the Fixed Charge Coverage Ratio for the successor entity and its Restricted Subsidiaries would not be less than such ratio for Fortescue and its Restricted Subsidiaries immediately prior to such transaction; and

- (6) if the Person formed by or surviving any such consolidation, amalgamation or merger is a Person other than Fortescue, the Trustee is provided with an opinion of counsel stating that such consolidation or merger is permitted by the terms of the indenture.

Clauses (4) and (5) of the foregoing requirements shall not apply to any transaction or series of transactions involving the sale, assignment, conveyance, transfer, lease or other disposition of any properties or assets by any Restricted Subsidiary of Fortescue to any Note Guarantor or the Issuer, or the consolidation, amalgamation or merger of any Restricted Subsidiary with or into any other Note Guarantor or the Issuer, or solely with respect to such requirements that are contained in clauses (4) and (5) above, a merger between Fortescue and an Affiliate newly incorporated solely for the purpose of converting or reforming Fortescue in another jurisdiction.

*The Issuer.* The Issuer will not, directly or indirectly: (1) consolidate, amalgamate or merge with or into another Person (whether or not the Issuer is the surviving corporation); or (2) sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of the properties or assets of the Issuer and its Subsidiaries taken as a whole, in one or more related transactions, to another Person, unless:

- (1) either: (A) the Issuer is the surviving corporation; or (B) the Person formed by or surviving any such consolidation, amalgamation or merger (if other than the Issuer) or to which such sale, assignment, transfer, conveyance or other disposition has been made is a corporation, partnership or limited liability company organized or existing under the laws of Australia or any state thereof, the United States, any state thereof or the District of Columbia;
- (2) the first priority Liens (subject to Permitted Liens and the terms and conditions of the Security Documents) granted to the Collateral Agent under the Security Documents in the assets of the Issuer or the assets subject to such disposition, as the case may be, shall remain in full force and effect and perfected to at least the same extent as in effect immediately prior to such consolidation, amalgamation or merger or such disposition;
- (3) the Person formed by or surviving any such consolidation, amalgamation or merger (if other than the Issuer) or the Person to which such sale, assignment, transfer, conveyance or other disposition has been made assumes all the obligations of the Issuer under (i) the notes and the indenture pursuant to a supplemental indenture thereto and (ii) the Security Documents pursuant to agreements or instruments satisfactory to the Collateral Agent (and shall cause such instruments to be filed and recorded in such jurisdictions and take such other actions as may otherwise be required to comply with the requirements of the immediately preceding clause (2));
- (4) immediately after such transaction, no Default or Event of Default exists; and
- (5) the Trustee is provided with an opinion of counsel stating that such consolidation or merger complies with the provisions of the indenture.

The foregoing requirements shall not apply to any transaction or series of transactions involving the sale, assignment, conveyance, transfer, lease or other disposition of any properties or assets by any Restricted Subsidiary of the Issuer to the Issuer or any Note Guarantor, or the consolidation or merger of any such Restricted Subsidiary with or into the Issuer, or solely with respect to such requirements that are contained in clause (4) above, a merger between the Issuer and an Affiliate newly incorporated solely for the purpose of converting or reforming the Issuer in another jurisdiction.

*The Subsidiary Note Guarantors.* Subject to certain limitations in the indenture governing the release of a Note Guarantor that is a Restricted Subsidiary upon the sale or disposition of such Note Guarantor, each Note Guarantor that is a Restricted Subsidiary will not, directly or indirectly: (1) consolidate, amalgamate or merge with or into another Person (whether or not such Note Guarantor is the surviving corporation); or

(2) sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of the properties or assets of such Note Guarantor and its Subsidiaries taken as a whole, in one or more related transactions, to another Person, unless either:

(1)

- (A) either (a) such Note Guarantor is the surviving corporation; or (b) the Person formed by or surviving any such consolidation, amalgamation or merger (if other than such Note Guarantor) or to which such sale, assignment, transfer, conveyance or other disposition has been made is a corporation partnership or limited liability company organized or existing under the laws of Australia or any state thereof, the United States, any state thereof or the District of Columbia;
- (B) the first priority Liens (subject to Permitted Liens and the terms and conditions of the Security Documents) granted to the Collateral Agent under the Security Documents in the assets of the applicable Note Guarantor or the assets subject to such disposition, as the case may be, shall remain in full force and effect and perfected to at least the same extent as in effect immediately prior to such consolidation, amalgamation or merger or such disposition; and
- (C) the Person formed by or surviving any such consolidation, amalgamation or merger (if other than such Note Guarantor) or the Person to which such sale, assignment, transfer, conveyance or other disposition has been made assumes all the obligations of such Note Guarantor under (i) the applicable Note Guarantee and the indenture pursuant to a supplemental indenture thereto and (ii) the Security Documents pursuant to agreements or instruments satisfactory to the Collateral Agent (and shall cause such instruments to be filed and recorded in such jurisdictions and take such other actions as may otherwise be required to comply with the requirements of the immediately preceding clause (B)); or

(2) the transaction is made in compliance with the covenant described under “—Repurchase at the option of holders—Asset sales.”

The foregoing requirements shall not apply to any transaction or series of transactions involving the sale, assignment, conveyance, transfer, lease or other disposition of any properties or assets by any Restricted Subsidiary of Fortescue to the Issuer or any Note Guarantor, or the restructuring, consolidation or merger of any such Restricted Subsidiary with or into any Note Guarantor, so long as such Note Guarantor is the surviving corporation.

### ***Transactions with affiliates***

Fortescue will not, and will not permit any of its Restricted Subsidiaries to, make any payment to, or sell, lease, transfer or otherwise dispose of any of its properties or assets to, or purchase any property or assets from, or enter into or make or amend any transaction, contract, agreement, understanding, loan, advance or guarantee with, or for the benefit of, any Affiliate of Fortescue (each, an “Affiliate Transaction”), unless:

- (1) the Affiliate Transaction is on terms that are not materially less favorable to Fortescue or the relevant Restricted Subsidiary than those that would have been obtained in a comparable transaction by Fortescue or such Restricted Subsidiary with an unrelated Person; and
- (2) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of \$10.0 million, the Issuer delivers to the Trustee a resolution of the Board of Directors of Fortescue set forth in an officer’s certificate certifying that such Affiliate Transaction complies with this covenant and that such Affiliate Transaction has been approved by a majority of the disinterested members of the Board of Directors of Fortescue.

The Trustee shall accept and shall be entitled to conclusively rely upon any officer’s certificate furnished pursuant to this clause.

The following items will not be deemed to be Affiliate Transactions and, therefore, will not be subject to the provisions of the prior paragraph:

- (1) any employment agreement, employee benefit plan, stock purchase, grant or option plan, indemnification agreement for any officer, director, employee or consultant or any similar

arrangement entered into by Fortescue or any of its Restricted Subsidiaries in the ordinary course of business and payments pursuant thereto;

- (2) transactions exclusively between or among Fortescue and/or its Restricted Subsidiaries and transactions made pursuant to clause (13) of the definition of Permitted Debt;
- (3) transactions entered into with a Person (other than an Unrestricted Subsidiary of Fortescue) that is an Affiliate of Fortescue solely because Fortescue owns, directly or through a Restricted Subsidiary, an Equity Interest in, or controls, such Person;
- (4) payment of reasonable directors' fees;
- (5) any issuance of Equity Interests (other than Disqualified Stock) of Fortescue to Affiliates of Fortescue or to any director, officer, employee or consultant of Fortescue or any Restricted Subsidiary;
- (6) Restricted Payments that do not violate the provisions of the indenture described above under the caption "—Restricted payments" and Permitted Investments described in clause (8) of the definition thereof;
- (7) any agreement as in effect on the date of the indenture and any transaction contemplated thereby and, solely with respect to any such agreements involving aggregate consideration in excess of \$25,000,000, or any transaction contemplated thereby and any amendment thereto or any replacement agreement thereto so long as any such amendment or replacement agreement is not more disadvantageous to Fortescue or any of its Restricted Subsidiaries, in each case, in any material respect than the original agreement as in effect on the date of the indenture;
- (8) transactions with Affiliates of Fortescue for the use of rail, port and other transportation and processing infrastructure; *provided* that such transactions comply with the provisions set forth in clauses (1) and (2)(a) of the immediately preceding paragraph; and
- (9) off-take agreements with Valin; *provided* that such agreements comply with the provisions set forth in clause (1) of the immediately preceding paragraph.

### ***Business activities***

Fortescue will not, and will not permit any of its Restricted Subsidiaries to, engage in any business other than Permitted Businesses, except to such extent as would not be material to Fortescue and its Restricted Subsidiaries taken as a whole.

### ***Additional Note Guarantees***

If Fortescue or any of its Restricted Subsidiaries acquires or creates another Restricted Subsidiary or redesignates an Unrestricted Subsidiary as a Restricted Subsidiary, or if any Unrestricted Subsidiary is deemed to become a Restricted Subsidiary, then that newly acquired, created or redesignated Restricted Subsidiary will become a Note Guarantor and execute a supplemental indenture.

Fortescue will not permit any of its Restricted Subsidiaries (other than the Issuer), directly or indirectly, to Guarantee or pledge any assets to secure the payment of any other Indebtedness of Fortescue or any Note Guarantor unless such Restricted Subsidiary is a Note Guarantor or simultaneously executes and delivers a supplemental indenture providing for the Guarantee of the payment of the notes by such Restricted Subsidiary, which Guarantee shall be senior to or *pari passu* with such Subsidiary's Guarantee of such other Indebtedness.

### ***Additional Collateral; Acquisition of Property or Assets***

If after the date of the indenture any Person becomes a Note Guarantor as contemplated by the covenant described under the caption "—Additional Note Guarantees," the Issuer and/or any Note Guarantor which owns the Equity Interests of such Note Guarantor, as applicable shall cause such Note Guarantor, and such Note Guarantor will, execute and deliver to the Collateral Agent such amendments to the Security Documents, additional Security Documents, certificates (including stock certificates endorsed to the Collateral Agent or endorsed in blank, if a security interest can be perfected thereby in the relevant

jurisdiction), instruments and other documents, and take such other actions, as may be necessary to create and perfect (or comply with any equivalent requirement) in favor of the Collateral Agent, for the benefit of the holders of notes, creditors of the Senior Secured Term Loan and creditors of any Permitted Pari Passu Secured Indebtedness, under the laws of each applicable jurisdiction, (i) a first priority pledge of the Equity Interests of such Note Guarantor owned by the Issuer or such Note Guarantor and (ii) a first priority security interest (subject to Permitted Liens, the Intercreditor Agreement and the Security Documents) in all the assets of such Note Guarantor, in each case except to the extent that such Equity Interests or assets constitute Excluded Property or such Equity Interests or assets have already been pledged to the Collateral Agent pursuant to the terms of the indenture.

### ***Designation of restricted and unrestricted subsidiaries***

The Board of Directors of Fortescue may designate any Restricted Subsidiary (other than the Issuer) to be an Unrestricted Subsidiary if no Default or Event of Default exists or would result from such designation. If a Restricted Subsidiary is designated as an Unrestricted Subsidiary, the aggregate Fair Market Value of all outstanding Investments owned by Fortescue and its Restricted Subsidiaries in the Subsidiary designated as Unrestricted will be deemed to be an Investment made as of the time of the designation and will reduce the amount available for Restricted Payments under the covenant described above under the caption “—Restricted payments” or under one or more clauses of the definition of Permitted Investments, as determined by Fortescue. That designation will only be permitted if the Investment would be permitted at that time and if the Restricted Subsidiary otherwise meets the definition of an Unrestricted Subsidiary. The Board of Directors of Fortescue may redesignate any Unrestricted Subsidiary to be a Restricted Subsidiary if that redesignation would not cause a Default.

Any designation of a Subsidiary of Fortescue as an Unrestricted Subsidiary will be evidenced to the Trustee by filing with the Trustee a certified copy of a resolution of the Board of Directors of Fortescue giving effect to such designation and an officer’s certificate certifying that such designation complied with the preceding conditions and was permitted by the covenant described above under the caption “—Restricted payments.” If, at any time, any Unrestricted Subsidiary would fail to meet the preceding requirements as an Unrestricted Subsidiary, it will thereafter cease to be an Unrestricted Subsidiary for purposes of the indenture and any Indebtedness of such Subsidiary will be deemed to be incurred by a Restricted Subsidiary of Fortescue as of such date and, if such Indebtedness is not permitted to be incurred as of such date under the covenant described under the caption “—Incurrence of indebtedness and issuance of disqualified stock,” the Issuer will be in default of such covenant. The Board of Directors of Fortescue may at any time designate any Unrestricted Subsidiary to be a Restricted Subsidiary of Fortescue; provided that such designation will be deemed to be an incurrence of Indebtedness by a Restricted Subsidiary of Fortescue of any outstanding Indebtedness of such Unrestricted Subsidiary, and such designation will only be permitted if (1) such Indebtedness is permitted under the covenant described under the caption “—Incurrence of indebtedness and issuance of disqualified stock,” calculated on a pro forma basis as if such designation had occurred at the beginning of the two semi-annual reference period; and (2) no Default or Event of Default would be in existence following such designation. If any Unrestricted Subsidiary is deemed to become or be designated a Restricted Subsidiary, it will (1) become a Note Guarantor and execute a supplemental indenture in accordance with the covenant described under the caption “—Additional Note Guarantees” and (2) comply with the covenant described under the caption “—Additional Collateral; Acquisition of Property or Assets” and the other provisions of the indenture.

As of the date of this offering memorandum, the Unrestricted Subsidiaries consisted of:

- Karribi Developments Pty Ltd;
- FMG Magnetite Pty Ltd;
- FMG North Pilbara Pty Ltd;
- FMG Capital Pty Ltd;
- Pilbara Housing Services Pty Ltd;
- Masters Way Homes Pty Ltd;
- FMG Pacific Ltd;
- FMG International Pte Ltd;

- Pilbara Power Pty Limited;
- Pilbara Ports Pty Ltd;
- FMG Iron Bridge Limited;
- FMG Iron Bridge (Aust) Pty Limited;
- FMG Air Pty Ltd;
- Glacier Valley Management Company Pty Limited;
- Pilbara Water and Power Pty Limited;
- FMG Exploration Pty Limited;
- FMG Minerals Pty Limited;
- Pilbara Iron Ore Pty Limited;
- Fortescue Services Pty Limited;
- FMG Personnel Pty Limited;
- VTEC Services Pty Limited;
- FMG IOC Pty Limited;
- FMG Mining Services Pty Limited;
- FMG Training Pty Limited;
- African Fortescue Limitada;
- FMG GV Pty Ltd;
- IB Operations Pty Ltd;
- FMG Nyidinghu Pty Ltd;
- FMG International Marketing Pte Ltd; and
- FMG Procurement Services Pty Ltd.

### ***Reports***

Fortescue will provide to the Trustee and each Holder of notes or will provide to the Trustee for forwarding to each Holder of notes upon request, without cost to such Holder of notes: (i) as soon as available after the end of each fiscal year (and, in any event, within 120 days after the close of such fiscal year), annual reports in English, including financial statements (containing a consolidated balance sheet as of the end of such fiscal year and immediately preceding fiscal year and consolidated statements of income, retained earnings and cash flows for such fiscal year and the immediately preceding fiscal year) with a report thereon by an internationally recognized independent firm of chartered accountants, (ii) as soon as available (and, in any event, within 60 days after the close of the first six months in each fiscal year) interim semi-annual reports in English, containing a condensed consolidated balance sheet as of the end of each interim period covered thereby and as of the end of the immediately preceding fiscal year and condensed consolidated statements of earnings and cash flows for each interim period covered thereby and for the comparable period of the immediately preceding fiscal year and (iii) as soon as available quarterly reports required to be filed under the rules of the ASX. Fortescue need not provide those annual or interim reports to the Trustee and each Holder of notes if and to the extent that Fortescue files or furnishes those reports with the ASX and those reports are available on the ASX website within the time periods referred to in clauses (i), (ii) and (iii) above.

Fortescue will also, for so long as any notes remain “restricted” securities, furnish or cause to be furnished to the holders of the notes, beneficial owners of the notes, securities analysts and prospective investors upon request the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

### **Events of default and remedies**

Each of the following is an “Event of Default”:

- (1) default for 30 days in the payment when due of interest on the notes;

- (2) default in the payment when due (at maturity, upon redemption or otherwise) of the principal of, or premium, if any, on, the notes;
- (3) failure by Fortescue or any of its Restricted Subsidiaries to comply with the provisions described under the captions “—Repurchase at the option of holders—Change of control” or “—Certain covenants—Merger, consolidation or sale of assets”;
- (4) failure by Fortescue or any of its Restricted Subsidiaries for 60 days after notice to Fortescue by the Trustee or the holders of at least 25% in aggregate principal amount of the notes then outstanding voting as a single class to comply with any of the other agreements in the indenture or any other Notes Document;
- (5) default under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Indebtedness for money borrowed by Fortescue or any of its Restricted Subsidiaries (or the payment of which is guaranteed by Fortescue or any of its Restricted Subsidiaries), whether such Indebtedness or Guarantee now exists, or is created after the date of the indenture, if that default:
  - (a) is caused by a failure to pay principal of, or interest or premium, if any, on, such Indebtedness after the expiration of the grace period provided in such Indebtedness on the date of such default (a “Payment Default”); or
  - (b) results in the acceleration of such Indebtedness prior to its express maturity, and, in each case, the principal amount of any such Indebtedness, together with the principal amount of any other such Indebtedness under which there has been a Payment Default or the maturity of which has been so accelerated, aggregates \$100.0 million or more;
- (6) failure by Fortescue or any of its Restricted Subsidiaries to pay final judgments (other than any judgment as to which a reputable and solvent third-party insurer has accepted full coverage) entered by a court or courts of competent jurisdiction aggregating in excess of \$100.0 million, which judgments are not paid, discharged or stayed for a period of 60 days;
- (7) certain events of bankruptcy or insolvency described in the indenture with respect to the Issuer, Fortescue or any of its Restricted Subsidiaries that is a Significant Subsidiary or any group of Restricted Subsidiaries of Fortescue that, taken together, would constitute a Significant Subsidiary;
- (8) any Note Guarantee is held in any judicial proceeding to be unenforceable or invalid or ceases for any reason to be in full force and effect, or any Note Guarantor, the Issuer, or any Person acting on behalf of any Note Guarantor or the Issuer, denies or disaffirms its obligations under its Note Guarantee to which it is a party (other than by reason of a release of a Note Guarantor in accordance with the terms of the indenture); and
- (9) any security interest purported to be created by any Security Document shall, other than as a result of any action or inaction by a holder, the Trustee, a Secured Debt Representative or the Collateral Agent not resulting from the breach or non-compliance with any Notes Document by the Issuer or any Note Guarantor, cease to be, or shall be asserted by the Issuer or any Note Guarantor not to be, a valid, perfected security interest with the priority it purports to have in any material portion of the Collateral covered thereby.

In the case of an Event of Default arising from certain events of bankruptcy or insolvency, with respect to Fortescue, any Restricted Subsidiary of Fortescue that is a Significant Subsidiary or any group of Restricted Subsidiaries of Fortescue that, taken together, would constitute a Significant Subsidiary, all outstanding notes will become due and payable immediately without further action or notice. If any other Event of Default occurs and is continuing, the Trustee, if it has notice of such event may, and at the written direction of the holders of at least 25% in aggregate principal amount of the then outstanding notes shall, declare all the notes to be due and payable immediately.

Subject to certain limitations, holders of a majority in aggregate principal amount of the then outstanding notes may direct the Trustee in its exercise of any trust or power. The Trustee may withhold from holders of the notes notice of any continuing Default or Event of Default if it determines that

withholding notice is in their interest, except a Default or Event of Default relating to the payment of principal, interest or premium, if any.

In case an Event of Default occurs and is continuing, the Trustee will be under no obligation to exercise any of the rights or powers under the indenture at the request or direction of any holders of notes unless such holders have offered to the Trustee indemnity or security satisfactory to it against any claim, loss, liability or expense. Except to enforce the right to receive payment of principal, interest or premium, if any, when due, no holder of a note may pursue any remedy with respect to the indenture or the notes unless:

- (1) such holder has previously given the Trustee notice that an Event of Default is continuing;
- (2) holders of at least 25% in aggregate principal amount of the then outstanding notes have requested the Trustee in writing to pursue the remedy;
- (3) such holders have offered the Trustee security or indemnity satisfactory to it against any claim, loss, liability or expense;
- (4) the Trustee has not complied with such request within 60 days after the receipt of the request and the offer of security or indemnity; and
- (5) holders of a majority in aggregate principal amount of the then outstanding notes have not given the Trustee a direction inconsistent with such request within such 60-day period.

The indenture will provide that, at any time after a declaration of acceleration with respect to the notes as described in the first paragraph under the caption “—Events of default and remedies,” the holders of a majority in principal amount of the notes may rescind and cancel such declaration and its consequences:

- (1) if the rescission would not conflict with any judgment or decree;
- (2) if all existing Events of Default have been cured or waived (except nonpayment of principal, interest or premium, if any, that has become due solely because of the acceleration);
- (3) to the extent the payment of such interest is lawful, interest on overdue installments of interest and overdue principal and premium, if any, which has become due otherwise than by such declaration of acceleration, has been paid; and
- (4) in the event of the cure or waiver of an Event of Default of the type described in clause (5) of the description above of Events of Default, the Trustee shall have received an officer’s certificate and an opinion of counsel that such Event of Default has been cured or waived.

No such rescission shall affect any subsequent Default or impair any right consequent thereto.

The holders of a majority in aggregate principal amount of the then outstanding notes by written notice to the Trustee may, on behalf of the holders of all of the notes, waive any existing Default or Event of Default and its consequences under the indenture except a continuing Default or Event of Default in the payment of interest or premium, if any, on, or the principal of, the notes.

The Issuer is required to deliver to the Trustee annually an officer’s certificate regarding compliance with the indenture. Upon becoming aware of any Default or Event of Default, the Issuer is required to deliver to the Trustee an officer’s certificate specifying such Default or Event of Default.

#### **No personal liability of directors, officers, employees and stockholders**

No past, present or future director, officer, employee, incorporator or stockholder of the Issuer or any Note Guarantor, as such, will have any liability for any obligations of the Issuer or the Note Guarantors under the notes, the indenture, the Note Guarantees, the Security Documents or the other Notes Documents or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each holder of notes by accepting a note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the notes. The waiver may not be effective to waive liabilities under the federal securities laws.

## Legal defeasance and covenant defeasance

The Issuer may at any time, at the option of its Board of Directors evidenced by a resolution set forth in an officer's certificate, elect to have all of its obligations discharged with respect to the outstanding notes and all obligations of the Note Guarantors discharged with respect to their Note Guarantees ("Legal Defeasance") except for:

- (1) the rights of holders of outstanding notes to receive payments in respect of the principal of, or interest or premium, if any, on, such notes when such payments are due from the trust referred to below;
- (2) the Issuer's obligations with respect to the notes concerning issuing temporary notes, mutilated, destroyed, lost or stolen notes and the maintenance of an office or agency for payment and money for security payments held in trust;
- (3) the rights, powers, trusts, duties and immunities of the Trustee, and the Issuer's and the Note Guarantors' obligations in connection therewith; and
- (4) the Legal Defeasance and Covenant Defeasance provisions of the indenture.

In addition, the Issuer may, at its option and at any time, elect to have the obligations of the Issuer and the Note Guarantors released with respect to certain covenants (including its obligation to make Change of Control Offers and Asset Sale Offers) that are described in the indenture ("Covenant Defeasance") and thereafter any omission to comply with those covenants will not constitute a Default or Event of Default with respect to the notes. In the event Covenant Defeasance occurs, certain events (not including non-payment, bankruptcy, receivership, conservatorship and insolvency events) described under "—Events of default and remedies" will no longer constitute an Event of Default with respect to the notes. If the Issuer exercises its Legal Defeasance option or Covenant Defeasance option, the Liens on the Collateral, as they pertain to the notes and the Note Guarantees, will be released (but without prejudice to the rights of holders of the notes in the trust referred to in (1) below).

In order to exercise either Legal Defeasance or Covenant Defeasance:

- (1) the Issuer must irrevocably deposit with the Trustee, in trust, for the benefit of the holders of the notes, cash in U.S. dollars, non-callable Government Securities, or a combination of cash in U.S. dollars and non-callable Government Securities, in amounts as will be sufficient, in the opinion of a nationally recognized independent investment bank, appraisal firm or firm of public accountants, to pay the principal of, and interest and premium, if any, on, the outstanding notes on the stated date for payment thereof or on the applicable redemption date, as the case may be, and to cover all amounts payable to the Trustee, and the Issuer must specify whether the notes are being defeased to such stated date for payment or to a particular redemption date;
- (2) in the case of Legal Defeasance, the Issuer must deliver to the Trustee an opinion of counsel reasonably acceptable to the Trustee confirming that (a) the Issuer has received from, or there has been published by, the Internal Revenue Service a ruling or (b) since the date of the indenture, there has been a change in the applicable federal income tax law, in either case to the effect that, and based thereon such opinion of counsel will confirm that, the holders of the outstanding notes will not recognize income, gain or loss for federal income tax purposes as a result of such Legal Defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred;
- (3) in the case of Covenant Defeasance, the Issuer must deliver to the Trustee an opinion of counsel reasonably acceptable to the Trustee confirming that the holders of the outstanding notes will not recognize income, gain or loss for federal income tax purposes as a result of such Covenant Defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred;
- (4) no Default or Event of Default has occurred and is continuing on the date of such deposit (other than a Default or Event of Default resulting from the borrowing of funds to be applied to such deposit or the granting of any Lien to secure such borrowings) and the deposit will not result in a breach or violation of, or constitute a default under, any other instrument to which the Issuer or any Note Guarantor is a party or by which the Issuer or any Note Guarantor is bound;

- (5) such Legal Defeasance or Covenant Defeasance will not result in a breach or violation of, or constitute a default under, any material agreement or instrument (other than the indenture) to which Fortescue or any of its Subsidiaries is a party or by which Fortescue or any of its Subsidiaries is bound;
- (6) the Issuer must deliver to the Trustee an officer's certificate stating that the deposit was not made by the Issuer with the intent of preferring the holders of notes over the other creditors of the Issuer with the intent of defeating, hindering, delaying or defrauding any creditors of the Issuer or others; and
- (7) the Issuer must deliver to the Trustee an officer's certificate and an opinion of counsel, each stating that all conditions precedent relating to the Legal Defeasance or the Covenant Defeasance have been complied with.

### **Satisfaction and discharge**

The indenture will be discharged and will cease to be of further effect as to all notes issued thereunder, when:

- (1) either:
  - (a) all notes that have been authenticated, except lost, stolen or destroyed notes that have been replaced or paid and notes for whose payment money has been deposited in trust and thereafter repaid to the Issuer, have been delivered to the Trustee for cancellation; or
  - (b) all notes that have not been delivered to the Trustee for cancellation have become due and payable by reason of the mailing of a notice of redemption or otherwise or will become due and payable within one year and the Issuer or any Note Guarantor has irrevocably deposited or caused to be deposited with the Trustee as trust funds in trust solely for the benefit of the holders, cash in U.S. dollars, non-callable Government Securities, or a combination of cash in U.S. dollars and non-callable Government Securities, in amounts as will be sufficient, without consideration of any reinvestment of interest, to pay and discharge the entire Indebtedness on the notes not delivered to the Trustee for cancellation for principal and premium, if any, and accrued interest to the date of maturity or redemption;
- (2) no Default or Event of Default has occurred and is continuing on the date of the deposit (other than a Default or Event of Default resulting from the borrowing of funds to be applied to such deposit) and the deposit will not result in a breach or violation of, or constitute a default under, any other instrument to which the Issuer or any Note Guarantor is a party or by which the Issuer or any Note Guarantor is bound;
- (3) the Issuer or any Note Guarantor has paid or caused to be paid all sums payable by it under the indenture, including all amounts payable to the Trustee; and
- (4) the Issuer has delivered irrevocable instructions to the Trustee under the indenture to apply the deposited money toward the payment of the notes at maturity or on the redemption date, as the case may be.

In addition, the Issuer must deliver an officer's certificate and an opinion of counsel to the Trustee stating that all conditions precedent to satisfaction and discharge have been satisfied.

### **Amendment, supplement and waiver**

Except as provided in the next three succeeding paragraphs, the indenture, the notes, the Note Guarantees or the Security Documents (subject to the terms of the Intercreditor Agreement) may be amended or supplemented with the consent of the holders of at least a majority in aggregate principal amount of the notes then outstanding (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, notes), and any existing Default or Event of Default or compliance with any provision of the indenture or the notes, the Note Guarantees or any other Notes Document may be waived with the consent of the holders of a majority in aggregate principal amount of the then outstanding notes (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, notes).

Without the consent of each holder of notes affected, an amendment, supplement or waiver may not (with respect to any notes held by a non-consenting holder):

- (1) reduce the principal amount of notes whose holders must consent to an amendment, supplement or waiver;
- (2) reduce the principal of or change or have the effect of changing the fixed maturity of any notes, or change the date on which any notes may be subject to redemption or reduce the redemption price therefor;
- (3) reduce the rate of or change the time for payment of interest, including default interest, on any note;
- (4) waive a Default or Event of Default in the payment of principal of, or interest or premium, if any, on, the notes (except a rescission of acceleration of the notes by the holders of at least a majority in aggregate principal amount of the then outstanding notes and a waiver of the Payment Default that resulted from such acceleration as contemplated in the fifth paragraph under the caption “—Events of default and remedies”);
- (5) make any note payable in money other than that stated in the notes;
- (6) make any change in the provisions of the indenture relating to waivers of past Defaults or the rights of holders of notes to receive payments of principal of, or interest or premium, if any, on, the notes;
- (7) amend, change or modify in any material respect the obligation of the Issuer to make and consummate a Change of Control Offer after the occurrence of a Change of Control or make and consummate an Asset Sale Offer with respect to any Asset Sale that has been consummated or, modify any of the provisions or definitions with respect thereto;
- (8) release any Note Guarantor from any of its obligations under its Note Guarantee or the indenture, except in accordance with the terms of the indenture; or
- (9) make any change in the preceding and succeeding amendment and waiver provisions.

Subject to the terms of the Intercreditor Agreement, without the consent of the holders holding at least 66<sup>2</sup>/<sub>3</sub>% in aggregate principal amount of the notes then outstanding, no amendment, supplement or waiver may (i) release any material portion of the Collateral from any Lien under the indenture or any Security Document, except in accordance with the terms of the indenture and the Security Documents, or (ii) to make any change in the provisions of the indenture, the notes, the Note Guarantees or the Security Documents related to the Collateral that would adversely affect the interests of the holders of the notes in any material respect. As of the date of this offering circular, the Applicable Representative is the Administrative Agent under the Senior Secured Credit Facility. As long as such Administrative Agent is the Applicable Representative, the Trustee, as representative of the holders of the Senior Secured Notes, will have limited rights to direct the Collateral Agent to take any action under the Intercreditor Agreement. See “Description of the Intercreditor Agreement—Designation of the Applicable Representative” and “—Role of the Applicable Representative” for future information.

Notwithstanding the preceding, but subject to the terms of the Intercreditor Agreement, the Issuer, the Note Guarantors, the Trustee and/or the Collateral Agent, as applicable, may, without the consent of any holder, amend or supplement the indenture, the notes, the Note Guarantees or the Security Documents:

- (1) to cure any ambiguity, defect or inconsistency;
- (2) to provide for uncertificated notes in addition to or in place of certificated notes;
- (3) to provide for the assumption of the Issuer’s or a Note Guarantor’s obligations to holders of notes and Note Guarantees in the case of a merger or consolidation or sale of all or substantially all of the Issuer’s or such Note Guarantor’s assets, as applicable;
- (4) to make any change that would provide any additional rights or benefits to the holders of notes or that does not adversely affect the legal rights under the indenture of any such holder;
- (5) to conform the text of the indenture, the notes, the Note Guarantees, or the Notes Documents to any provision of this “Description of the Senior Secured Notes” to the extent that such provision

in this “Description of the Senior Secured Notes” was intended to be a verbatim recitation of a provision of the indenture, the notes, the Note Guarantees or the Notes Documents;

- (6) to enter into any (i) amendment to or restatement of the Intercreditor Agreement that is necessary to permit the Issuer or the Note Guarantors to take any action that is not otherwise prohibited by the terms of the indenture or the Security Documents and (ii) separate intercreditor agreement in respect of First Priority Junior Secured Obligations;
- (7) to add additional Collateral to secure the notes or any Note Guarantee;
- (8) to release any Collateral from any Lien under the indenture or any Security Document in accordance with the terms of the indenture and the Security Documents;
- (9) to permit additional Indebtedness to be secured by the Collateral in accordance with the terms of the indenture and the Security Documents, as applicable;
- (10) to provide for the issuance of additional notes in accordance with the limitations set forth in the indenture; or
- (11) to add additional Note Guarantees with respect to the notes or release Note Guarantors from Note Guarantees as provided by the terms of the indenture and the Note Guarantees.

The consent of the holders of the notes will not be necessary under the indenture to approve the particular form of any proposed amendment. It will be sufficient if such consent approves the substance of the proposed amendment.

In executing any amendment to the indenture (including a supplemental indenture), the notes, the Note Guarantees or the Security Documents, the Trustee will be entitled to receive and shall be fully protected in relying upon an officer’s certificate and an opinion of counsel stating that the execution of such amendment or supplemental indenture is authorized and permitted by the indenture and the Intercreditor Agreement and that all conditions precedent with respect to such amendment or supplemental indenture have been complied with.

#### **No immunity**

The Notes Documents will provide that to the extent that the Issuer or any of the Note Guarantors may be entitled, in any jurisdiction in which judicial proceedings may at any time be commenced with respect to the indenture or any other Notes Document, to claim for itself or its revenues, assets or properties any immunity from suit, the jurisdiction of any court, attachment prior to judgment, attachment in aid of execution of judgment, set-off, execution of a judgment or any other legal process, and to the extent that in any such jurisdiction there may be attributed to such Person such an immunity (whether or not claimed), each of the Indenture Parties hereby irrevocably agrees not to claim and hereby irrevocably waives such immunity to the fullest extent permitted by the law of the applicable jurisdiction.

#### **Judgment currency**

The Notes Documents will provide that the transactions contemplated thereby are part of an international transaction in which the specification of U.S. dollars and payment in the United States is of the essence, and the obligations of each of the Indenture Parties under the indenture and under the other Notes Documents to make payment to (or for the account of) the Trustee and each holder of the notes (each, an “Entitled Person”) in U.S. dollars shall not be discharged or satisfied by any tender or recovery pursuant to any judgment expressed in or converted into any other currency or in another place except to the extent that such tender or recovery results in the effective receipt by the Entitled Persons in the United States of the full amount of U.S. dollars payable to the Entitled Persons under the Notes Documents. If for the purpose of obtaining or enforcing judgment in any court it is necessary to convert a sum due under any Notes Document in U.S. dollars into another currency (for the purposes of this “Judgment Currency” provision, hereinafter the “judgment currency”), the rate of exchange which shall be applied shall be that at which, in accordance with normal banking procedures, the Entitled Persons could purchase such U.S. dollars in the United States with the judgment currency on the Business Day next preceding the day on which such judgment is rendered. The obligation of each of the Indenture Parties in respect of any such sum due from it to the Entitled Persons hereunder shall, notwithstanding the rate of exchange actually applied in rendering

such judgment, be discharged only to the extent that on the Business Day following the receipt by such Entitled Person of any sum adjudged to be due hereunder in the judgment currency such Entitled Person may in accordance with normal banking procedures purchase and transfer U.S. dollars to the United States with the amount of the judgment currency so adjudged to be due; and each of the Indenture Parties will, as a separate obligation and notwithstanding any such judgment, agree to indemnify such Entitled Person on demand, in U.S. dollars, for the amount (if any) by which the sum originally due to such Entitled Person in U.S. dollars hereunder exceeds the amount of the U.S. dollars so purchased and transferred.

#### **Agent for service of process**

The Issuer and each of the Note Guarantors will irrevocably (1) submit to the non-exclusive jurisdiction of any U.S. federal or New York State court located in the Borough of Manhattan, the City of New York in connection with any suit, action or proceeding arising out of, or relating to the notes, the Note Guarantees and the indenture or any transaction contemplated thereby and (2) designate and appoint Corporation Service Company, 1180 Avenue of the Americas, Suite 210, New York, NY 10036, as its authorized agent for receipt of service of process in any such suit, action or proceeding.

#### **English language**

The indenture and all other Notes Documents shall be in the English language, except as required by applicable law (in which event certified English translations thereof shall be provided by the Issuer to the Trustee). All documents, certificates, reports or notices to be delivered or communications to be given or made by any party thereto pursuant to the terms of the indenture or any other Notes Document shall be in the English language or, if originally written in another language, shall be accompanied by an accurate English translation upon which the parties thereto shall have the right to rely for all purposes of the indenture and the other Notes Documents.

#### **Governing law**

The indenture, the notes, the Note Guarantees and the Intercreditor Agreement will be governed by, and construed in accordance with, the laws of the State of New York and, except for the Intercreditor Agreement, without regard to the conflict of laws principles thereof. The Security Documents (other than the Intercreditor Agreement) will generally be governed by the laws of the jurisdictions in which the Collateral to be pledged is located.

#### **Concerning the Trustee**

The holders of a majority in aggregate principal amount of the then outstanding notes will have the right to direct the time, method and place of conducting any proceeding for exercising any remedy available to the Trustee, subject to certain exceptions and conditions as stated in the indenture. The indenture provides that in case an Event of Default occurs and is continuing, the Trustee will be required, in the exercise of its power, to use the degree of care of a prudent person in the conduct of his own affairs. The Trustee will be under no obligation to exercise any of its rights or powers under the indenture at the request of any holder of notes, unless such holder has offered to the Trustee security and indemnity satisfactory to it against any claim, loss, liability or expense.

#### **Additional information**

Anyone who receives this offering memorandum may obtain a copy of the indenture without charge by writing to Fortescue Metals Group Limited, Level 2, 87 Adelaide Terrace, East Perth, WA 6004, Australia, Attention: Stuart Gale.

#### **Book-entry, delivery and form**

The notes are being offered and sold to qualified institutional buyers in reliance on Rule 144A ("Rule 144A Notes"). The notes also may be offered and sold in offshore transactions in reliance on Regulation S ("Regulation S Notes"). Except as set forth below, the notes will be issued in registered, global form in

minimum denominations of \$2,000 and integral multiples of \$1,000 in excess thereof. Notes will be issued at the closing of this offering only against payment in immediately available funds.

Rule 144A Notes initially will be represented by one or more notes in registered, global form without interest coupons (collectively, the “Rule 144A Global Notes”). Regulation S Notes initially will be represented by one or more notes in registered, global form without interest coupons (collectively, the “Regulation S Global Notes” and, together with the Rule 144A Global Notes, the “Global Notes”). The Global Notes will be deposited upon issuance with the Trustee as custodian for DTC, and registered in the name of DTC or its nominee, in each case, for credit to an account of a direct or indirect participant in DTC as described below. Through and including the 40th day after the later of the commencement of this offering and the closing of this offering (such period through and including such 40th day, the “Restricted Period”), beneficial interests in the Regulation S Global Notes may be held only through the Euroclear System (“Euroclear”) and Clearstream Banking, S.A. (“Clearstream”) (as indirect participants in DTC), unless transferred to a person that takes delivery through a Rule 144A Global Note in accordance with the certification requirements described below. Beneficial interests in the Global Notes may not be exchanged for beneficial interests in the other Global Notes at any time except in the limited circumstances described below. See “—Exchanges between Regulation S Notes and Rule 144A Notes.”

Except as set forth below, the Global Notes may be transferred, in whole and not in part, only to another nominee of DTC or to a successor of DTC or its nominee. Beneficial interests in the Global Notes may not be exchanged for definitive notes in registered certificated form (“Certificated Notes”) except in the limited circumstances described below. See “—Exchange of Global Notes for Certificated Notes.” Except in the limited circumstances described below, owners of beneficial interests in the Global Notes will not be entitled to receive physical delivery of notes in certificated form.

The notes (including beneficial interests in the Global Notes) will be subject to certain restrictions on transfer and will bear a restrictive legend as described under “Transfer restrictions.” In addition, transfers of beneficial interests in the Global Notes will be subject to the applicable rules and procedures of DTC and its direct or indirect participants (including, if applicable, those of Euroclear and Clearstream), which may change from time to time.

### **Depository procedures**

The following description of the operations and procedures of DTC, Euroclear and Clearstream are provided solely as a matter of convenience. These operations and procedures are solely within the control of the respective settlement systems and are subject to changes by them. Neither the Issuer nor the Trustee takes responsibility for these operations and procedures and urges investors to contact the system or their participants directly to discuss these matters.

DTC has advised the Issuer that DTC is a limited-purpose trust company created to hold securities for its participating organizations (collectively, the “Participants”) and to facilitate the clearance and settlement of transactions in those securities between the Participants through electronic book-entry changes in accounts of its Participants. The Participants include both U.S. and non-U.S. securities brokers and dealers (including the initial purchaser), banks, trust companies, clearing corporations and certain other organizations. Access to DTC’s system is also available to other entities such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Participant, either directly or indirectly (collectively, the “Indirect Participants”). Persons who are not Participants or Indirect Participants may beneficially own securities held by or on behalf of DTC only through the Participants or the Indirect Participants. The ownership interests in, and transfers of ownership interests in, each security held by or on behalf of DTC are recorded on the records of the Participants and Indirect Participants.

DTC has also advised the Issuer that, pursuant to procedures established by it:

- (1) upon deposit of the Global Notes, DTC will credit the accounts of the Participants designated by the initial purchaser with portions of the principal amount of the Global Notes; and
- (2) ownership of these interests in the Global Notes will be shown on, and the transfer of ownership of these interests will be effected only through, records maintained by DTC (with respect to the Participants and the Indirect Participants) or by the Participants and the Indirect Participants (with respect to other owners of beneficial interest in the Global Notes).

Investors in the Rule 144A Global Notes who are Participants may hold their interests therein directly through DTC. Investors in the Rule 144A Global Notes who are not Participants may hold their interests therein indirectly through organizations (including Euroclear and Clearstream) which are Participants. Upon issuance we intend to deliver beneficial interests in the Regulation S Global Notes solely through Euroclear or Clearstream. Euroclear and Clearstream will hold interests in the Regulation S Global Notes on behalf of their participants through customers' securities accounts in their respective names on the books of their respective depositories, which are Euroclear Bank S.A./N.V., as operator of Euroclear, and Citibank, N.A., as operator of Clearstream. All interests in a Global Note, including those held through Euroclear or Clearstream, may be subject to the procedures and requirements of DTC. Those interests held through Euroclear or Clearstream may also be subject to the procedures and requirements of such systems. The laws of some states require that certain Persons take physical delivery in definitive form of securities that they own. Consequently, the ability to transfer beneficial interests in a Global Note to such Persons will be limited to that extent. Because DTC can act only on behalf of the Participants, which in turn act on behalf of the Indirect Participants, the ability of a Person having beneficial interests in a Global Note to pledge such interests to Persons that do not participate in the DTC system, or otherwise take actions in respect of such interests, may be affected by the lack of a physical certificate evidencing such interests.

**Except as described below, owners of interests in the Global Notes will not have notes registered in their names, will not receive physical delivery of notes in certificated form and will not be considered the registered owners or "holders" thereof under the indenture for any purpose.**

Payments in respect of the principal of, and interest and premium, if any, on, a Global Note registered in the name of DTC or its nominee will be payable to DTC in its capacity as the registered holder under the indenture. Under the terms of the indenture, the Issuer and the Trustee will treat the Persons in whose names the notes, including the Global Notes, are registered as the owners of the notes for the purpose of receiving payments and for all other purposes. Consequently, none of the Issuer, any Note Guarantor, the Trustee or any agent of the Issuer or the Trustee has or will have any responsibility or liability for:

- (1) any aspect of DTC's records or any Participant's or Indirect Participant's records relating to or payments made on account of beneficial ownership interest in the Global Notes or for maintaining, supervising or reviewing any of DTC's records or any Participant's or Indirect Participant's records relating to the beneficial ownership interests in the Global Notes; or
- (2) any other matter relating to the actions and practices of DTC or any of its Participants or Indirect Participants.

DTC has advised the Issuer that its current practice, upon receipt of any payment in respect of securities such as the notes (including principal and interest), is to credit the accounts of the relevant Participants with the payment on the payment date unless DTC has reason to believe that it will not receive payment on such payment date. Each relevant Participant is credited with an amount proportionate to its beneficial ownership of an interest in the principal amount of the relevant security as shown on the records of DTC. Payments by the Participants and the Indirect Participants to the beneficial owners of notes will be governed by standing instructions and customary practices and will be the responsibility of the Participants or the Indirect Participants and will not be the responsibility of DTC, the Trustee or the Issuer. None of the Issuer, any Note Guarantor or the Trustee will be liable for any delay by DTC or any of the Participants or the Indirect Participants in identifying the beneficial owners of the notes, and the Issuer and the Trustee may conclusively rely on and will be protected in relying on instructions from DTC or its nominee for all purposes.

Subject to the transfer restrictions set forth under "Transfer restrictions" transfers between the Participants will be effected in accordance with DTC's procedures, and will be settled in same-day funds, and transfers between participants in Euroclear and Clearstream will be effected in accordance with their respective rules and operating procedures.

Subject to compliance with the transfer restrictions applicable to the notes described herein, cross-market transfers between the Participants, on the one hand, and Euroclear or Clearstream participants, on the other hand, will be effected through DTC in accordance with DTC's rules on behalf of Euroclear or Clearstream, as the case may be, by their respective depositories; however, such cross-market transactions will require delivery of instructions to Euroclear or Clearstream, as the case may be, by the counterparty in

such system in accordance with the rules and procedures and within the established deadlines (Brussels time) of such system. Euroclear or Clearstream, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its respective depositary to take action to effect final settlement on its behalf by delivering or receiving interests in the relevant Global Note in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Euroclear participants and Clearstream participants may not deliver instructions directly to the depositories for Euroclear or Clearstream.

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of notes only at the direction of one or more Participants to whose account DTC has credited the interests in the Global Notes and only in respect of such portion of the aggregate principal amount of the notes as to which such Participant or Participants has or have given such direction. However, if there is an Event of Default under the notes, DTC reserves the right to exchange the Global Notes for legended notes in certificated form, and to distribute such notes to its Participants.

Although DTC, Euroclear and Clearstream have established procedures to facilitate transfers of interests in the Global Notes among participants in DTC, Euroclear and Clearstream, they are under no obligation to perform or to continue to perform such procedures, and may discontinue such procedures at any time. None of the Issuer, the Trustee and any of their respective agents will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

#### **Exchange of Global Notes for Certificated Notes**

A Global Note is exchangeable for Certificated Notes if:

- (1) DTC (a) notifies the Issuer that it is unwilling or unable to continue as depositary for the Global Notes or (b) has ceased to be a clearing agency registered under the Exchange Act and, in either case, the Issuer fails to appoint a successor depositary;
- (2) the Issuer, at its option, notifies the Trustee in writing that it elects to cause the issuance of the Certificated Notes; or
- (3) there has occurred and is continuing a Default or Event of Default with respect to the notes and any holder of the notes or any beneficial interest therein requests that Certificated Notes be issued.

In addition, beneficial interests in a Global Note may be exchanged for Certificated Notes upon prior written notice given to the Trustee by or on behalf of DTC in accordance with the indenture. In all cases, Certificated Notes delivered in exchange for any Global Note or beneficial interests in Global Notes will be registered in the names, and issued in any approved denominations, requested by or on behalf of the depositary (in accordance with its customary procedures) and will bear the applicable restrictive legend referred to in “Transfer restrictions,” unless that legend is not required by applicable law.

#### **Exchange of Certificated Notes for Global Notes**

Certificated Notes may not be exchanged for beneficial interests in any Global Note unless the transferor first delivers to the Trustee a written certificate (in the form provided in the indenture) to the effect that such transfer will comply with the appropriate transfer restrictions applicable to such notes. See “Transfer restrictions.”

#### **Exchanges between Regulation S Notes and Rule 144A Notes**

Prior to the expiration of the Restricted Period, beneficial interests in the Regulation S Global Note may be exchanged for beneficial interests in the Rule 144A Global Note only if:

- (1) such exchange occurs in connection with a transfer of the notes pursuant to Rule 144A; and
- (2) the transferor first delivers to the Trustee a written certificate (in the form provided in the indenture) to the effect that the notes are being transferred to a Person:
  - (a) who the transferor reasonably believes to be a qualified institutional buyer within the meaning of Rule 144A;

- (b) purchasing for its own account or the account of a qualified institutional buyer in a transaction meeting the requirements of Rule 144A; and
- (c) in accordance with all applicable securities laws of the states of the United States and other jurisdictions.

Beneficial interests in a Rule 144A Global Note may be transferred to a Person who takes delivery in the form of an interest in the Regulation S Global Note, whether before or after the expiration of the Restricted Period, only if the transferor first delivers to the Trustee a written certificate (in the form provided in the indenture) to the effect that such transfer is being made in accordance with Rule 903 or 904 of Regulation S or Rule 144 (if available) and that, if such transfer occurs prior to the expiration of the Restricted Period, the interest transferred will be held immediately thereafter through Euroclear or Clearstream.

Transfers involving exchanges of beneficial interests between the Regulation S Global Notes and the Rule 144A Global Notes will be effected by DTC by means of an instruction originated by the Trustee through the DTC Deposit/Withdraw at Custodian system. Accordingly, in connection with any such transfer, appropriate adjustments will be made to reflect a decrease in the principal amount of the Regulation S Global Note and a corresponding increase in the principal amount of the Rule 144A Global Note or vice versa, as applicable. Any beneficial interest in one of the Global Notes that is transferred to a Person who takes delivery in the form of an interest in the other Global Note will, upon transfer, cease to be an interest in such Global Note and will become an interest in the other Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in such other Global Note for so long as it remains such an interest. The policies and practices of DTC may prohibit transfers of beneficial interests in the Regulation S Global Note prior to the expiration of the Restricted Period.

#### **Same day settlement and payment**

The Issuer will make payments in respect of the notes represented by the Global Notes (including principal, interest and premium, if any) by wire transfer of immediately available funds to the paying agent, who in turn will deposit such funds in the accounts specified by DTC or its nominee. The paying agent will make all payments of principal, interest and premium, if any, with respect to Certificated Notes by wire transfer of immediately available funds to the accounts specified by the holders of the Certificated Notes. The notes represented by the Global Notes are expected to be eligible to trade in DTC's Same-Day Funds Settlement System, and any permitted secondary market trading activity in such notes will, therefore, be required by DTC to be settled in immediately available funds. The Issuer expects that secondary trading in any Certificated Notes will also be settled in immediately available funds.

Because of time zone differences, the securities account of a Euroclear or Clearstream participant purchasing an interest in a Global Note from a Participant will be credited, and any such crediting will be reported to the relevant Euroclear or Clearstream participant, during the securities settlement processing day (which must be a business day for Euroclear and Clearstream) immediately following the settlement date of DTC. DTC has advised the Issuer that cash received in Euroclear or Clearstream as a result of sales of interests in a Global Note by or through a Euroclear or Clearstream participant to a Participant will be received with value on the settlement date of DTC but will be available in the relevant Euroclear or Clearstream cash account only as of the business day for Euroclear or Clearstream following DTC's settlement date.

#### **Certain definitions**

Set forth below are certain defined terms used in the indenture. Reference is made to the indenture for a full disclosure of all defined terms used therein, as well as any other capitalized terms used herein for which no definition is provided.

*"2017 Notes"* means the US\$1,000 million aggregate principal amount of 6.000% Senior Note due 2017, issued by the Issuer in March 2012.

*"2018 Notes"* means the US\$400 million aggregate principal amount of 6.875% Senior Notes due 2018, issued by the Issuer in December 2010.

“2019 Notes” means the US\$1,500 million aggregate principal amount of 8.25% Senior Notes due 2019, issued by the Issuer in October 2011.

“2022 Notes” means the US\$1,000 million aggregate principal amount of 6.875% Senior Notes due 2022, issued by the Issuer in March 2012.

“A-IFRS” means Australian equivalents of the International Financial Reporting Standards as in effect on the date of the indenture.

“Acquired Debt” means, with respect to any specified Person:

- (1) Indebtedness of any other Person existing at the time such other Person is merged with or consolidated or amalgamated with or into or became a Restricted Subsidiary of such specified Person, whether or not such Indebtedness is incurred in connection with, or in contemplation of, such other Person merging with or consolidating or amalgamating with or into, or becoming a Restricted Subsidiary of, such specified Person; *provided, however*, that Indebtedness of such acquired Person which is redeemed, defeased, retired or otherwise repaid at the time of or immediately upon consummation of the transactions by which such Person merges with or consolidates or amalgamates with or into or becomes a Restricted Subsidiary of such Person shall not be Acquired Debt; and
- (2) Indebtedness secured by a Lien encumbering any asset acquired by such specified Person.

“Affiliate” of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For purposes of this definition, “control,” as used with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by agreement or otherwise. For purposes of this definition, the terms “controlling,” “controlled by” and “under common control with” have correlative meanings.

“Applicable Premium” means, with respect to a note at any redemption date, the greater of (i) 1.00% of the principal amount of such note and (ii) the excess of (A) the present value at such redemption date of (1) the redemption price of such note on (such redemption price set forth in the table appearing above under “—Optional redemption—Optional redemption of notes on or after \_\_\_\_\_, 2018”) plus (2) all required remaining scheduled interest payments due on such note through \_\_\_\_\_, 2018 (but excluding accrued and unpaid interest to the redemption date), computed using a discount rate equal to the Treasury Rate plus \_\_\_\_\_%, over (B) the outstanding principal amount of such note on such redemption date.

“Asset Sale” means:

- (1) the sale, lease, conveyance or other disposition of any assets or rights of Fortescue or any Restricted Subsidiary; *provided* that the sale, lease, conveyance or other disposition of all or substantially all of the assets of Fortescue and its Restricted Subsidiaries taken as a whole will be governed by the provisions of the indenture described above under the caption “—Repurchase at the option of holders—Change of control” and/or the provisions described above under the caption “—Merger, consolidation or sale of assets” and not by the provisions of the Asset Sale covenant; and
- (2) the issuance or sale of Equity Interests in any of Fortescue’s Restricted Subsidiaries (other than to Fortescue or another Restricted Subsidiary).

Notwithstanding the preceding, none of the following items will be deemed to be an Asset Sale:

- (1) any single transaction or series of related transactions that involves assets or Equity Interests of any Restricted Subsidiary having a Fair Market Value not exceeding \$25.0 million;
- (2) a transfer of assets between or among Fortescue, the Issuer and one or more of the other Note Guarantors;
- (3) the sale, lease, conveyance or other disposition of inventory, products or services in the ordinary course of business;
- (4) the sale, discounting, compromise or settlement of accounts receivable in the ordinary course of business or in a bankruptcy or similar proceeding;

- (5) any sale or other disposition of damaged, worn out, obsolete or no longer useful assets or properties (including, without limitation, disposal of equipment and property in connection with the closure or abandonment of a mine), in the ordinary course of business;
- (6) the sale or other disposition of cash or Cash Equivalents;
- (7) licenses and sublicenses by Fortescue or any of its Restricted Subsidiaries of software, trademarks or other intellectual property in the ordinary course of business and which do not materially interfere with the business of Fortescue;
- (8) a Restricted Payment that does not violate the covenant described above under the caption “—Certain covenants—Restricted payments” or a Permitted Investment;
- (9) any sale or disposition of Equity Interest in, or subordinated Indebtedness of, an Unrestricted Subsidiary;
- (10) the granting of Permitted Liens;
- (11) the surrender of waiver of contract rights or settlement, release or surrender of contract, tort or other claims;
- (12) any exchange of assets (including a combination of assets and Cash Equivalents) for non-current assets related to a Permitted Business with a Fair Market Value not less than the Fair Market Value of the assets being exchanged; and
- (13) the sale, lease, conveyance or other disposition of mining tenements in the ordinary course of business and consistent with past practice.

“Associate” has the meaning given to it in Section 128F(9) of the Income Tax Assessment Act 1936 (Commonwealth).

“ASX” means ASX Limited or any successor thereof.

“*Attributable Debt*” in respect of a sale and leaseback transaction means, at the time of determination, the present value of the obligation of the lessee for net rental payments during the remaining term of the lease included in such sale and leaseback transaction including any period for which such lease has been extended or may, at the option of the lessor, be extended. Such present value shall be calculated using a discount rate equal to the rate of interest implicit in such transaction, determined in accordance with A-IFRS; *provided, however*, that if such sale and leaseback transaction results in a Capital Lease Obligation, the amount of Indebtedness represented thereby will be determined in accordance with the definition of “Capital Lease Obligation.”

“*Australian Withholding Tax*” means any Australian Tax required to be withheld or deducted from any interest or other payment under Division 11A of Part III of the Income Tax Assessment Act 1936 (Commonwealth) or Subdivision 12-F of Schedule 1 to the Taxation Administration Act 1953 (Commonwealth).

“*Bankruptcy Code*” means the Bankruptcy Reform Act of 1978, as amended, and codified as 11 U.S.C. §§ 101 et seq.

“*Beneficial Owner*” has the meaning assigned to such term in Rule 13d-3 and Rule 13d-5 under the Exchange Act, except that in calculating the beneficial ownership of any particular “person” (as that term is used in Section 13(d)(3) of the Exchange Act), such “person” will be deemed to have beneficial ownership of all securities that such “person” has the right to acquire by conversion or exercise of other securities, whether such right is currently exercisable or is exercisable only after the passage of time. The terms “Beneficially Owns” and “Beneficially Owned” have a corresponding meaning.

“*Board of Directors*” means:

- (1) with respect to a corporation, the board of directors of the corporation or any committee thereof duly authorized to act on behalf of such board;
- (2) with respect to a partnership, the Board of Directors of the general partner of the partnership;
- (3) with respect to a limited liability company, the managing member or members or any controlling committee of managing members thereof; and
- (4) with respect to any other Person, the board or committee of such Person serving a similar function.

“*Business Day*” means a day other than a Saturday, Sunday or other day on which banking institutions are authorized or required by law to close in New York, New York, Perth or Sydney, Australia.

“*Capital Lease Obligation*” means, at the time any determination is to be made, the amount of the liability in respect of a capital lease that would at that time be required to be capitalized on a balance sheet prepared in accordance with A-IFRS, and the Stated Maturity thereof shall be the date of the last payment of rent or any other amount due under such lease prior to the first date upon which such lease may be prepaid by the lessee without payment of a penalty.

“*Capital Stock*” means:

- (1) in the case of a corporation, ordinary shares or corporate stock;
- (2) in the case of an association or business entity, any and all shares, interests, participations, rights or other equivalents (however designated) of corporate stock;
- (3) in the case of a partnership or limited liability company, partnership interests (whether general or limited) or membership interests; and
- (4) any other interest or participation that confers on a Person the right to receive a share of the profits and losses of, or distributions of assets of, the issuing Person, but excluding from all of the foregoing any debt securities convertible into Capital Stock, whether or not such debt securities include any right of participation with Capital Stock.

“*Cash Equivalents*” means:

- (1) U.S. dollars, Australian dollars and Euros;
- (2) securities issued or directly and fully guaranteed or insured by the government of the United States, Australia or a member of the Specified Members of the European Union (collectively, the “Specified Countries”) or any agency or instrumentality thereof having maturities of not more than two years from the date of acquisition;
- (3) readily marketable direct obligations issued by any state of the United States or any political subdivision thereof, or any state of Australia, in each case, having one of the two highest rating categories obtainable from either Moody’s or S&P;
- (4) certificates of deposit, time deposits and eurodollar time deposits with maturities of one year or less from the date of acquisition, bankers’ acceptances with maturities not exceeding one year and overnight bank deposits, in each case, with any lender party to the Credit Facilities or any bank organized under the laws of any Specified Country or any state thereof (or, in the case of the United States, the District of Columbia) or a branch of a foreign bank located in a Specified Country, in each case, having at the date of acquisition thereof combined net capital and surplus in excess of US\$500.0 million;
- (5) repurchase obligations with a term of not more than seven days for underlying securities of the types described in clauses (2), (3) and (4) above entered into with any financial institution meeting the qualifications specified in clause (4) above;
- (6) commercial paper having one of the two highest ratings obtainable from Moody’s or S&P and in each case maturing within one year after the date of acquisition; and
- (7) money market funds at least 95% of the assets of which constitute Cash Equivalents of the kinds described in clauses (1) through (6) of this definition.

“*Change of Control*” means the occurrence of any of the following:

- (1) any direct or indirect sale, lease, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one transaction or a series of related transactions, of all or substantially all of the assets of Fortescue and its Subsidiaries, taken as a whole, to any Person or group of related Persons for purposes of Section 13(d) of the Exchange Act (a “Group”), other than a transaction in which the transferee is controlled by one or more Permitted Holders;
- (2) the adoption of a plan relating to the liquidation or dissolution of Fortescue or the Issuer or, following the occurrence of a transaction permitted under the caption “—Merger, consolidation or sale of assets,” any successor thereof;

- (3) any Person or Group (other than one or more Permitted Holders) is or becomes the Beneficial Owner, directly or indirectly, in the aggregate of more than 50% of the total voting power of the Voting Stock of Fortescue; or
- (4) Fortescue shall cease to own, directly or indirectly, all of the outstanding Capital Stock of the Issuer or, following the occurrence of a transaction permitted under the caption “—Merger, consolidation or sale of assets,” any successor thereof.

“*Collateral*” means all collateral securing, or purported to be securing, directly or indirectly, the notes, any Note Guarantee or the obligations under the indenture pursuant to the Security Documents (for the avoidance of doubt, Collateral does not include Excluded Property).

“*Consolidated Cash Flow*” means, with respect to any period, the Consolidated Net Income of Fortescue for such period *plus*, without duplication:

- (1) an amount equal to any extraordinary loss plus any net loss realized by Fortescue or any of its Restricted Subsidiaries in connection with an Asset Sale, to the extent such losses were deducted in computing such Consolidated Net Income; *plus*
- (2) the provision for all taxes based on income, profits or capital of such Person and its Restricted Subsidiaries for such period, to the extent that such provision for taxes was deducted in computing such Consolidated Net Income; *plus*
- (3) the Fixed Charges of Fortescue and its Restricted Subsidiaries for such period, to the extent that such Fixed Charges were deducted in computing such Consolidated Net Income; *plus*
- (4) depreciation, depletion, amortization (including amortization of goodwill, financing costs and other intangibles but excluding amortization of prepaid cash expenses that were paid in a prior period) and other non-cash expenses (including without limitation write-downs and impairment of property, plant, equipment and intangibles and other long-lived assets, but excluding any such non-cash charges, losses or expense to the extent that it represents an accrual of or reserve for cash expenses in any future period or amortization of a prepaid cash expense that was paid in a prior period) of Fortescue and its Restricted Subsidiaries for such period to the extent that such depreciation, amortization and other non-cash expenses were deducted in computing such Consolidated Net Income; *plus*
- (5) any non-recurring fees, expense or charges related to any public offering of Equity Interests, Permitted Investments, acquisitions or Indebtedness permitted to be incurred by the indenture (in each case, whether or not successful), to the extent that such fees, expenses and charges were deducted in computing Consolidated Net Income; *plus*
- (6) all one-off financing costs (whether paid, payable, added to principal or amortized) incurred by Fortescue or any Restricted Subsidiaries in connection with the Credit Facilities and the offering of the notes and any refinancing of any part or the whole of the Credit Facilities or the notes to the extent that such one-off financing costs were deducted in computing Consolidated Net Income; *plus*
- (7) all costs, fees and expenses (and taxes on them) and all stamp duty, registration and other similar taxes incurred by Fortescue or any Restricted Subsidiaries (including by way of reimbursement of any person) for the purpose of or in connection with any acquisition to the extent that such costs, fees and expenses (and taxes on them) and all stamp duty, registration and other similar taxes were deducted in computing Consolidated Net Income; *minus*
- (8) non-cash items increasing such Consolidated Net Income for such period, other than the reversal of the accrual of or reserve for cash expenses in any future period; *minus*
- (9) an amount equal to any extraordinary gain plus any net gain realized by Fortescue or any of its Restricted Subsidiaries in connection with an Asset Sale, to the extent such gains were realized in computing such Consolidated Net Income;

in each case, on a consolidated basis for Fortescue and its Restricted Subsidiaries in accordance with A-IFRS.

Notwithstanding the preceding, the provision for taxes based on the income or profits of, and the depreciation and amortization and other non-cash expenses of, a Restricted Subsidiary of Fortescue will be added to Consolidated Net Income to compute Consolidated Cash Flow of Fortescue only to the extent (and in the same proportion, including via reason of minority interest) that the net income or loss of such Restricted Subsidiary was included in calculating Consolidated Net Income.

“*Consolidated Net Income*” means, for any period, the aggregate of the net income (loss) of Fortescue and its Restricted Subsidiaries for such period, on a consolidated basis, determined in accordance with A-IFRS and before any reduction in respect of preferred stock dividends; *provided* that:

- (1) the net income (but not loss) of any Person that is not Fortescue or a Restricted Subsidiary or that is accounted for by the equity method of accounting will be included only to the extent of the amount of dividends or similar distributions actually received in cash by Fortescue or a Restricted Subsidiary;
- (2) solely for purposes of clause (C)(i) of the first paragraph under “—Certain covenants—Restricted payments,” the net income (loss) of any Restricted Subsidiary that is not a Note Guarantor will be excluded to the extent that the declaration or payment of dividends or similar distributions by that Restricted Subsidiary of that net income (loss) is not at the date of determination permitted without any prior governmental approval (that has not been obtained) or, directly or indirectly, by operation of the terms of its charter or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to that Restricted Subsidiary or its stockholders or members, (other than (x) restrictions with respect to the payment of dividends or similar distributions that have been legally waived and (y) restrictions pursuant to the notes and the indenture);
- (3) any gain or loss, together with any related provision for taxes on such gain or loss realized in connection with (a) any Asset Sale or (b) the disposition of any securities by Fortescue or any of its Restricted Subsidiaries or the extinguishment of any Indebtedness of Fortescue or any of its Restricted Subsidiaries shall be excluded;
- (4) the cumulative effect of a change in accounting principles will be excluded;
- (5) notwithstanding clause (1) above, the net income of any Unrestricted Subsidiary will be excluded, whether or not distributed to the specified Person or one of its Subsidiaries;
- (6) any non-cash compensation charges shall be excluded, including, but not limited to, (a) any income or charge attributable to a post-employment benefit program other than the current service costs and any past service costs and curtailments and settlements attributable to such program and (b) any expense referable to equity-settled share-based compensation of employees;
- (7) any non-cash gains or losses from the effect of mark-to-market adjustments relating to Hedging Obligations, currency movements, commodity price movements or liabilities of Fortescue or any of its Restricted Subsidiaries shall be excluded until realized in cash (at which time they will be included);
- (8) any Exceptional Item shall be excluded; and
- (9) any non-cash impairment charges relating to goodwill or intangible assets shall be excluded.

“*Consolidated Total Debt*” means, with respect to any Person, as of any date of determination, the consolidated Indebtedness of such Person and its Restricted Subsidiaries as of such date.

“*Consolidated Total Secured Debt*” means, with respect to any Person, as of any date of determination, the consolidated Indebtedness of such Person and its Restricted Subsidiaries as of such date that is secured by a Lien on assets of such Person or any of its Restricted Subsidiaries.

“*Credit Facilities*” means one or more debt facilities (including, without limitation, one or more credit agreements or export credit facilities), in each case, with banks or other institutional lenders providing for revolving credit loans, term loans, receivables financing (including through the sale of receivables to such lenders or to special purpose entities formed to borrow from such lenders against such receivables), letters of credit and/or notes or bond financings, including under the Senior Secured Term Loan and the notes offered hereby, in each case, as amended, restated, modified, renewed, refunded, replaced (whether upon or after termination or otherwise) or refinanced in whole or in part from time to time that extend the maturity of, refinance, replace or otherwise restructure (including increasing the amount of available borrowings

thereunder (provided that such increase in borrowings is permitted to be incurred pursuant to (i) clause (1) of the definition of the term “Permitted Debt” and/or (ii) the first paragraph of the covenant described under the caption “—Incurrence of indebtedness and issuance of disqualified stock”; and *provided further*, that, to the extent that any Indebtedness under this clause (ii) is secured, such Indebtedness is secured by a Permitted Lien described in clause (1)(b) of the definition thereof) or adding Subsidiaries of Fortescue as additional borrowers or guarantors thereunder) all or any portion of the Indebtedness under such agreement or any successor or replacement agreement and whether by the same or any other agent, lender or group of lenders.

“*Default*” means any event that is, or with the passage of time or the giving of notice or both would be, an Event of Default.

“*Designated Non-cash Consideration*” means the Fair Market Value of non-cash consideration received by Fortescue or any of its Restricted Subsidiaries in connection with an Asset Sale that is designated as “Designated Non-cash Consideration” pursuant to an officer’s certificate, setting forth the basis of such valuation.

“*Designated Preferred Stock*” means preferred stock of Fortescue (other than Disqualified Stock) that is issued for cash (other than to a Subsidiary of Fortescue or an employee stock ownership plan or trust established by Fortescue or any of its Subsidiaries) and is designated as Designated Preferred Stock pursuant to an officer’s certificate on the issuance date thereof, the cash proceeds of which are excluded from the calculation set forth in clause (C)(ii) of the first paragraph under “—Certain covenants—Restricted payments.”

“*Disposition*” with respect to any property, means any sale, lease, sale and leaseback, assignment, conveyance, transfer or other disposition thereof. The terms “*Dispose*” and “*Disposed of*” shall have correlative meanings.

“*Disqualified Stock*” means any Capital Stock that, by its terms (or by the terms of any security into which it is convertible, or for which it is exchangeable, in each case, at the option of the holder of the Capital Stock), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or redeemable at the option of the holder of the Capital Stock, in whole or in part, on or prior to the date that is 91 days after the date on which the notes mature. Notwithstanding the preceding sentence, any Capital Stock that would constitute Disqualified Stock solely because the holders of the Capital Stock have the right to require its issuer to repurchase such Capital Stock upon the occurrence of a change of control or an asset sale will not constitute Disqualified Stock if the terms of such Capital Stock provide that such issuer may not repurchase or redeem any such Capital Stock pursuant to such provisions unless such repurchase or redemption complies with the covenant described above under the caption “—Certain covenants—Restricted payments.” The amount of Disqualified Stock deemed to be outstanding at any time for purposes of the indenture will be the maximum amount that Fortescue and its Restricted Subsidiaries may become obligated to pay upon the maturity of, or pursuant to any mandatory redemption provisions of, such Disqualified Stock, exclusive of accrued dividends.

“*Equity Interests*” means Capital Stock and all warrants, options or other rights to acquire Capital Stock (but excluding any debt security that is convertible into, or exchangeable for, Capital Stock).

“*Exceptional Item*” means any material item of income or expense that represents:

- (1) any gain or loss arising from:
  - (a) write-downs of inventories to net realizable value or of property, plant and equipment to recoverable amount, and reversals of such write-downs;
  - (b) restructuring the activities of Fortescue or any Restricted Subsidiary and any reversals of any provision for the costs of such a restructuring; or
  - (c) disposals or settlements of liabilities of Fortescue or any Restricted Subsidiary that fall within the definition of Consolidated Total Debt; or
- (2) any extraordinary gain or loss or any gain or loss of an unusual or non-recurring nature, together with any related provision for taxes (any determination of whether any expense or charge is non-

recurring or unusual shall be made by Fortescue's chief financial officer (or such person acting in a similar capacity) pursuant to such officer's good faith judgment).

*"Excluded Contributions"* means the net cash proceeds received by Fortescue after the date of the indenture from:

- (1) contributions to its ordinary equity capital; and
- (2) the sale (other than to a Subsidiary of Fortescue) of Capital Stock (other than Disqualified Stock) of Fortescue;

in each case designated as "Excluded Contributions" pursuant to an officer's certificate, the net cash proceeds of which are excluded from the calculation set forth in clause (C)(ii) of the first paragraph under "—Certain covenants—Restricted payments."

*"Excluded Property"* has the meaning given to such term in the General Security Deeds.

*"Existing Indebtedness"* means Indebtedness of Fortescue and its Subsidiaries (other than Indebtedness under the Credit Facilities) in existence on the date of the indenture (including, for the avoidance of doubt, the Unsecured Senior Notes), until such amounts are repaid.

*"Fair Market Value"* means the value that would be paid by a willing buyer to an unaffiliated willing seller in a transaction not involving distress or necessity of either party, determined in good faith by the Board of Directors of Fortescue (unless otherwise provided in the indenture).

*"First Lien Junior Secured Obligations"* means all obligations under any Permitted Junior Secured Indebtedness incurred after the date of the indenture in accordance with the indenture.

*"First Lien Secured Obligations"* means all obligations under (i) the Senior Secured Term Loan, (ii) the notes, the Note Guarantees and the indenture and (iii) any Permitted Pari Passu Secured Indebtedness incurred after the date of the indenture in accordance with the indenture.

*"Fitch"* means Fitch, Inc. or any subsidiary thereof.

*"Fixed Charge Coverage Ratio"* means, with respect to any specified Person for any period, the ratio of the Consolidated Cash Flow of such Person for such period to the Fixed Charges of such Person for such period. In the event that the specified Person or any of its Restricted Subsidiaries incurs, assumes, guarantees, repays, repurchases, redeems, defeases or otherwise discharges any Indebtedness (other than ordinary working capital borrowings) or issues, repurchases or redeems Disqualified Stock subsequent to the commencement of the period for which the Fixed Charge Coverage Ratio is being calculated and on or prior to the date on which the event for which the calculation of the Fixed Charge Coverage Ratio is made (the "Calculation Date"), then the Fixed Charge Coverage Ratio will be calculated giving pro forma effect to such incurrence, assumption, Guarantee, repayment, repurchase, redemption, defeasance or other discharge of Indebtedness, or such issuance, repurchase or redemption of Disqualified Stock, and the use of the proceeds therefrom, as if the same had occurred at the beginning of the applicable two semi-annual reference period.

For purposes of calculating the Fixed Charge Coverage Ratio, acquisitions, dispositions, mergers, consolidations, amalgamations and discontinued operations (as determined in accordance with A-IFRS), and any related financing transactions, that the specified Person or any of its Restricted Subsidiaries has both determined to make and made after the date of the indenture and during the two semi-annual reference period or subsequent to such reference period and on or prior to or simultaneously with the Calculation Date shall be calculated on a pro forma basis assuming that all such acquisitions, dispositions, mergers, consolidations, amalgamations and discontinued operations (and the change of any associated Fixed Charges and the change in Consolidated Cash Flow resulting therefrom) had occurred on the first day of the two semi-annual reference period, including any pro forma expense and cost reductions and other operating improvements that have occurred or are reasonably expected to occur in the reasonable judgment of the chief financial or accounting officer; *provided* that such expenses, cost reductions or other operating improvements were identified and quantified in an officer's certificate delivered to the Trustee at the time of the consummation of such acquisition, disposition, merger, consolidation, amalgamation or discontinued operation and such officer's certificate states that the chief financial or accounting officer of Fortescue believes in good faith that actions will be commenced or initiated within 90 days of such date to effect such expenses, cost reductions or other operating improvements. Any Person that is a Restricted Subsidiary

on the Calculation Date will be deemed to have been a Restricted Subsidiary at all times during such two semi-annual period, and if, since the beginning of the two semi-annual reference period, any Person that subsequently became a Restricted Subsidiary or was merged with or into Fortescue or any of its other Restricted Subsidiaries since the beginning of such period shall have made any acquisition, Investment, disposition, merger, consolidation, amalgamations or discontinued operations, in each case with respect to an operating unit of a business, that would have required adjustment pursuant to this definition, then the Fixed Charge Coverage Ratio shall be adjusted giving pro forma effect thereto for such period as if such acquisition, Investment, disposition, merger, consolidation, amalgamations or discontinued operations had occurred at the beginning of the applicable two semi-annual reference period. Any Person that is not a Restricted Subsidiary on the Calculation Date will be deemed not to have been a Restricted Subsidiary at any time during such two semi-annual period.

For purposes of this definition, whenever pro forma effect is to be given to any transaction, the pro forma calculations shall be made in good faith by a responsible financial or accounting officer of Fortescue. If any Indebtedness bears a floating rate of interest and is being given pro forma effect, the interest on such Indebtedness shall be calculated as if the rate in effect on the Calculation Date had been the applicable rate for the entire period. Interest on Indebtedness shall take into account any Hedging Obligations applicable to such Indebtedness; *provided* that Hedging Obligations with a remaining term of less than 12 months shall be taken into account for the number of months remaining. Interest on a Capital Lease Obligation shall be deemed to accrue at an interest rate reasonably determined by the chief financial or accounting officer of Fortescue to be the rate of interest implicit in such Capital Lease Obligation in accordance with A-IFRS. For purposes of making the computation referred to above, interest on any Indebtedness under a working capital or revolving credit facility computed on a pro forma basis shall be computed based upon the average daily balance of such Indebtedness during the applicable period. Interest on Indebtedness that may optionally be determined at an interest rate based upon an election of a prime or similar rate, a eurocurrency interbank offered rate, or other rate, shall be deemed to have been based upon the rate actually elected, or, if no such election has been made, then based upon such optional rate as Fortescue may designate.

“*Fixed Charges*” means, with respect to any specified Person for any period, the sum, without duplication, of:

- (1) the consolidated interest expense of such Person and its Restricted Subsidiaries for such period, whether paid or accrued, including, without limitation, amortization of debt issuance costs and original issue discount, non-cash interest payments, the interest component of any deferred payment obligations, the interest component of all payments associated with Capital Lease Obligations, (solely for purposes of determining compliance with the covenant described under “—Limitation on sale and leaseback transactions”) imputed interest with respect to Attributable Debt, commissions, discounts and other fees and charges incurred in respect of letter of credit or bankers’ acceptance financings, and net of the effect of all payments made or received pursuant to Hedging Obligations in respect of interest rates; *plus*
- (2) the consolidated interest expense of such Person and its Restricted Subsidiaries that was capitalized during such period; *plus*
- (3) any interest on Indebtedness of another Person that is guaranteed by such Person or one of its Restricted Subsidiaries or secured by a Lien on assets of such Person or one of its Restricted Subsidiaries, whether or not such Guarantee or Lien is called upon; *plus*
- (4) the product of (a) all dividends, whether paid or accrued and whether or not in cash, on any series of Disqualified Stock of such Person or any of its Restricted Subsidiaries, other than dividends on Equity Interests payable solely in Equity Interests of Fortescue (other than Disqualified Stock) or to Fortescue or a Restricted Subsidiary, times (b) a fraction, the numerator of which is one and the denominator of which is one minus the then current combined federal, state and local statutory tax rate of such Person, expressed as a decimal;

in each case, determined on a consolidated basis and in accordance with A-IFRS.

“*General Security Deeds*” means (a) the General Security Deed dated as of October 18, 2012, among Fortescue, the Issuer, the Note Guarantors party thereto and the Collateral Agent; (b) the General Security

Deed dated as of February 27, 2013 between FMG Ashburton Pty Ltd (CAN 161 551 873), FMG JV Company Pty Ltd (CAN 161 548 956) and the Collateral Agent; and (c) the General Security Deed dated as of July 17, 2013 between Pilbara Gas Pipeline Pty Ltd (ACN 163 526 207) and the Collateral Agent.

“*Guarantee*” means a guarantee other than by endorsement of negotiable instruments for collection in the ordinary course of business, direct or indirect, in any manner including, without limitation, by way of a pledge of assets or through letters of credit or reimbursement agreements in respect thereof, of all or any part of any Indebtedness (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take or pay or to maintain financial statement conditions or otherwise).

“*Hedging Obligations*” means, with respect to any specified Person, the obligations of such Person under:

- (1) interest rate swap agreements (whether from fixed to floating or from floating to fixed), interest rate cap agreements and interest rate collar agreements;
- (2) other agreements or arrangements designed to manage interest rates or interest rate risk; and
- (3) other agreements or arrangements designed to protect such Person against fluctuations in currency exchange rates or commodity prices.

“*Indebtedness*” means, with respect to any specified Person, any indebtedness of such Person (excluding accrued expenses and trade payables), whether or not contingent:

- (1) in respect of borrowed money;
- (2) evidenced by bonds, notes, debentures or similar instruments;
- (3) representing all Obligations for the reimbursement of any obligor on any letter of credit, banker’s acceptance or similar credit transaction, whether or not then due;
- (4) representing Capital Lease Obligations or Attributable Debt in respect of sale and leaseback transactions;
- (5) representing the balance deferred and unpaid of the purchase price of any property or services due more than six months after such property is acquired or such services are completed; or
- (6) representing the termination value of any Hedging Obligations;

if and to the extent any of the preceding items (other than letters of credit, Attributable Debt and Hedging Obligations) would appear as a liability upon a balance sheet of the specified Person prepared in accordance with A-IFRS.

In addition, the term “Indebtedness” includes all Indebtedness of others secured by a Lien on any asset of the specified Person (whether or not such Indebtedness is assumed by the specified Person) and, to the extent not otherwise included, the Guarantee by the specified Person of any Indebtedness of any other Person.

Notwithstanding the foregoing, “Indebtedness” shall not include (i) accrued expenses and royalties arising in the ordinary course of business, (ii) obligations to satisfy customer prepayment arrangements arising in the ordinary course of business, (iii) asset retirement obligations, (iv) obligations in respect of reclamation, mine or site rehabilitation and (v) workers compensation obligations (including superannuation, pensions and retiree medical care) that are not overdue by more than 90 days.

“*Indenture Parties*” means, collectively, the Issuer and the Note Guarantors.

“*Insolvency or Liquidation Proceeding*” means:

- (1) any case commenced by or against the Issuer or any Note Guarantor under the Bankruptcy Code or any similar U.S. federal, state or foreign law for the relief of debtors, any other proceeding for the reorganization, recapitalization or adjustment or marshalling of the assets or liabilities of the Issuer or any Note Guarantor, any receivership, administration or assignment, arrangement, moratorium or composition with or for the benefit of creditors relating to the Issuer or any Note Guarantor or any similar case or proceeding relative to the Issuer or any Note Guarantor or its creditors, as such, in each case whether or not voluntary;

- (2) any liquidation, provisional liquidation, dissolution, marshalling of assets or liabilities or other winding up of or relating to the Issuer or any Note Guarantor, in each case whether or not voluntary and whether or not involving bankruptcy or insolvency; or
- (3) any other proceeding of any type or nature (i) having a substantially similar effect to (1) or (2) above or (ii) in which substantially all claims of creditors of the Issuer or any Note Guarantor are determined and any payment or distribution is or may be made on account of such claims.

*“Investment Grade Rating”* means a rating equal to or higher than (i) in the case of Moody’s, Baa3, (ii) in the case of S&P, BBB-, (iii) in the case of Fitch, BBB- and (iv) in the case of any other Rating Agency described in clause (2) of the definition thereof, an equivalent or higher rating.

*“Investments”* means, with respect to any Person, all direct or indirect investments by such Person in other Persons (including Affiliates) in the forms of loans (including Guarantees or other obligations), advances or capital contributions (excluding commission, travel and similar advances to officers and employees made in the ordinary course of business), purchases or other acquisitions for consideration of Indebtedness, Equity Interests or other securities, or all or substantially all of the assets of, any Person, together with all items that are or would be classified as investments on a balance sheet prepared in accordance with A-IFRS. If Fortescue or any Subsidiary of Fortescue sells or otherwise disposes of any Equity Interests of any direct or indirect Subsidiary of Fortescue such that, after giving effect to any such sale or disposition, such Person is no longer a Subsidiary of Fortescue, Fortescue will be deemed to have made an Investment on the date of any such sale or disposition equal to the Fair Market Value of the Fortescue’s Investments in such Subsidiary that were not sold or disposed of in an amount determined as provided in the final paragraph of the covenant described above under the caption “—Certain covenants—Restricted payments.” The acquisition by Fortescue or any Subsidiary of Fortescue of a Person that holds an Investment in a third Person will be deemed to be an Investment by Fortescue or such Subsidiary in such third Person in an amount equal to the Fair Market Value of the Investments held by the acquired Person in such third Person in an amount determined as provided in the final paragraph of the covenant described above under the caption “—Certain covenants—Restricted payments.” Except as otherwise provided in the indenture, the amount of an Investment will be determined at the time the Investment is made and without giving effect to subsequent changes in value.

*“Lien”* means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such asset, whether or not filed, recorded or otherwise perfected under applicable law, including any conditional sale or other title retention agreement, any lease in the nature thereof and any option or other agreement to sell or give a security interest in.

*“Moody’s”* means Moody’s Investors Service, Inc. and any successor to its rating agency business.

*“Net Proceeds”* means the aggregate cash proceeds received by Fortescue or any of its Restricted Subsidiaries in respect of any Asset Sale (including, without limitation, any cash received upon the sale or other disposition of any Designated Non-cash Consideration received in any Asset Sale and any cash payments received by way of deferred payment of principal pursuant to a note or installment receivable or otherwise, only as and when received but excluding the assumption, payment or redemption by the acquiring person of Indebtedness in connection with such Asset Sale or other consideration received in any non-cash form), net of the direct costs relating to such Asset Sale and the sale of such Designated Non-cash Consideration, including, without limitation, legal, accounting and investment banking fees, and sales commissions, and any relocation expenses incurred as a result thereof, taxes paid or payable as a result of the Asset Sale, in each case, after taking into account any available tax credits or deductions and any tax sharing arrangements and any reserve for adjustment in respect of the sale price of such asset or assets established in accordance with A-IFRS, including without limitation, pension and post-employment benefit liabilities and liabilities related to environmental matters or against any indemnification obligations associated with such transaction.

*“Non-Recourse Debt”* means Indebtedness:

- (1) as to which neither Fortescue nor any of its Restricted Subsidiaries (a) provides credit support of any kind (including any undertaking, agreement or instrument that would constitute Indebtedness), (b) is directly or indirectly liable as a guarantor or otherwise (other than as a result of a non-

recourse pledge of the Equity Interests or subordinated Indebtedness of an Unrestricted Subsidiary), or (c) constitutes the lender with respect to any Indebtedness that is not subordinated Indebtedness;

- (2) no default with respect to which (including any rights that the holders of the Indebtedness may have to take enforcement action against an Unrestricted Subsidiary) would permit upon notice, lapse of time or both any holder of any other Indebtedness of Fortescue or any of its Restricted Subsidiaries to declare a default on such other Indebtedness or cause the payment of such other Indebtedness to be accelerated or payable prior to its Stated Maturity; and
- (3) as to which the lenders have been notified in writing that they will not have any recourse to the stock or assets of Fortescue or any of its Restricted Subsidiaries (other than the Equity Interests or subordinated Indebtedness of an Unrestricted Subsidiary that is the subject of a non-recourse pledge).

“*Note Guarantee*” means the Guarantee by each Note Guarantor of the Issuer’s payment Obligations under the indenture and the notes, executed pursuant to the provisions of the indenture.

“*Note Guarantors*” means each of:

- (1) Fortescue and each of its Restricted Subsidiaries (other than the Issuer) in existence on the date of the indenture; and
- (2) any other Restricted Subsidiary of Fortescue that executes a Note Guarantee in accordance with the provisions of the indenture, and their respective successors and assigns, in each case, until the Note Guarantee of such Person has been released in accordance with the provisions of the indenture.

“*Notes Documents*” means the indenture, the notes, the Note Guarantees and the Security Documents.

“*Obligations*” means any principal (including reimbursement obligations with respect to letters of credit whether or not drawn), interest (including in the case of the notes, all interest accrued thereon after the commencement of any Insolvency or Liquidation Proceeding, even if such interest is not enforceable, allowable or allowed as a claim in such proceeding), premium (if any), fees, indemnifications, reimbursements, expenses, damages and other liabilities payable under the documentation governing any Indebtedness.

“*Offshore Associate*” means an Associate:

- (A) (1) which is a non-resident of Australia and does not become a registered holder of a note or receive a payment in carrying on a business in Australia at or through a permanent establishment of the Associate in Australia; or
- (2) which is a resident of Australia and which becomes a registered holder or receives a payment in carrying on a business in a country outside Australia at or through a permanent establishment of the Associate in that country; and
- (B) which does not become a registered holder of a note and receive payment in the capacity of a clearing house, custodian, funds manager or responsible entity of a registered scheme.

“*Pari Passu Guarantee*” means a guarantee by the Issuer or any Note Guarantor of Indebtedness which is Permitted Additional Secured Indebtedness of the Issuer or any Note Guarantor (including additional notes); *provided* that (i) the Issuer and such Note Guarantor were permitted to Incur such Indebtedness under “Permitted Additional Secured Indebtedness,” and (ii) (x) if such guarantee relates to First Lien Secured Obligations, it ranks *pari passu* with the notes (in the case of a guarantee by the Issuer) or any outstanding Note Guarantee of such Note Guarantor and is secured with a first priority Lien (subject to Permitted Liens and the terms and conditions of the Security Documents) on the Collateral on a *pari passu* basis with all other First Lien Secured Obligations; or (y) if such guarantee relates to First Lien Junior Secured Obligations, it ranks *pari passu* or is subordinated with the notes (in the case of a guarantee by the Issuer) or any outstanding Note Guarantee of such Note Guarantor and is secured with a Lien on the Collateral ranking junior in right and priority of payment with the first priority Lien (subject to Permitted Liens and the terms and conditions of the Security Documents) securing the First Lien Secured Obligations.

“*Permitted Business*” means the lines of business conducted by Fortescue and its Restricted Subsidiaries on the date of the indenture and any business incidental, substantially similar or complementary to or which is reasonably related thereto (including, for the avoidance of doubt, the mining, production,

processing, sale and/or transportation of metals, minerals, energy or other natural resource products and the operation of rail, port and shipping businesses).

*“Permitted Holders”* means, collectively, (i) Andrew Forrest, (ii) his immediate family members, (iii) each trust and other estate planning vehicle (A) established for the benefit of Andrew Forrest or the benefit of any of his immediate family members and (B) in respect of which Andrew Forrest or any of his immediate family members controls and (iv) each controlled Affiliate of Andrew Forrest or any of his immediate family members.

*“Permitted Investments”* means:

- (1) any Investment in the Issuer, Fortescue or any other Note Guarantor (which, for the avoidance of doubt, does not include any purchase, redemption or other acquisition or retirement for value of any Equity Interests of Fortescue or any direct or indirect parent of Fortescue);
- (2) any Investment in cash or Cash Equivalents;
- (3) any Investment by Fortescue or any Restricted Subsidiary of Fortescue in a Person, if as a result of such Investment:
  - (a) such Person becomes a Restricted Subsidiary; or
  - (b) such Person, in one or series of related transactions, is merged, consolidated or amalgamated with or into, or transfers or conveys substantially all of its assets to, or is liquidated into, Fortescue or a Restricted Subsidiary;
- (4) any Investment acquired as consideration in an Asset Sale that was made pursuant to and in compliance with the covenant described above under the caption “—Repurchase at the option of holders—Asset sales” or any other disposition of assets not constituting an Asset Sale;
- (5) any acquisition of assets or Capital Stock solely in exchange for the issuance of Equity Interests (other than Disqualified Stock) of Fortescue;
- (6) any Investments received (i) in compromise or resolution of (A) obligations of trade creditors or customers that were incurred in the ordinary course of business of Fortescue or any of its Restricted Subsidiaries, including pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of any trade creditor or customer; or (B) litigation, arbitration or other disputes with Persons who are not Affiliates; or (ii) as a result of a foreclosure by Fortescue or any of its Restricted Subsidiaries with respect to any secured Investment made in accordance with the indenture or other transfer of title with respect to any secured Investment in default;
- (7) Investments represented by Hedging Obligations that are made in the ordinary course of business and not for speculative purposes;
- (8) loans or advances to officers, directors or employees made in the ordinary course of business of Fortescue or any Restricted Subsidiary of Fortescue in an aggregate principal amount not to exceed \$10.0 million at any one time outstanding;
- (9) repurchases of the notes;
- (10) Investments existing, or made pursuant to binding commitments existing, on the date of the indenture that are described in this offering memorandum and any Investment that replaces, refinances or refunds an existing Investment; *provided* that the new Investment is in an amount that does not exceed the amount replaced, refinanced or refunded, and is made in the same Person as the Investment replaced, refinanced or refunded; *provided* further that the amount of any such Investment may be increased (x) as required by the terms of such Investment as in existence on the date of the indenture or (y) as otherwise permitted by the terms of the indenture;
- (11) other Investments in any Person operating a Permitted Business (including in Unrestricted Subsidiaries and/or joint ventures) having an aggregate Fair Market Value (measured on the date each such Investment was made and without giving effect to subsequent changes in value), when taken together with all other Investments made pursuant to this clause (11) that are at the time outstanding not to exceed the greater of (x) \$485 million and (y) 2.5% of Total Assets;

- (12) Guarantees issued in accordance with the covenants described under “—Incurrence of indebtedness and issuance of disqualified stock”;
- (13) investments consisting of purchases and acquisitions of inventory, supplies, materials and equipment or purchases of contract rights or licenses or leases of intellectual property, in each case in the ordinary course of business;
- (14) lease deposits and other similar deposits in the ordinary course of business; and (15) additional Investments by Fortescue or any Restricted Subsidiary having an aggregate Fair Market Value (measured on the date each such Investment was made and without giving effect to subsequent changes in value), taken together with all other Investments made pursuant to this clause (15) that are at the time outstanding not to exceed the greater of (x) US\$485 million and (y) 2.5% of Total Assets at the time of the Investment; *provided, however*, that if any Investment pursuant to this clause (15) is made in a Person that is not a Restricted Subsidiary of Fortescue at the date of the making of such Investment and such Person becomes a Restricted Subsidiary of Fortescue after such date, such Investment shall thereafter be deemed to have been made pursuant to clause (1) above and shall cease to have been made pursuant to this clause (15) for so long as such Person continues to be a Restricted Subsidiary; *provided, however*, that, with respect to any Investment, Fortescue may, in its sole discretion, allocate all or any portion of any Investment to one or more of the above clauses (1) through (15) so that the entire Investment would be a Permitted Investment.

“*Permitted Liens*” means:

- (1) Liens on assets of Fortescue or any of its Restricted Subsidiaries securing (a) Permitted Debt described under clause (1) of the definition thereof (“Permitted Credit Facilities Debt”) and (b) Indebtedness permitted to be incurred pursuant to the Fixed Charge Coverage Ratio set forth under “—Incurrence of indebtedness and issuance of disqualified stock”; *provided that*, (x) after giving pro forma effect to the incurrence of such Indebtedness and assuming that US\$6.5 billion of Permitted Credit Facilities Debt was outstanding, the Senior Secured Leverage Ratio of Fortescue would not exceed 2.00 to 1.00 and (y) such Indebtedness is Permitted Additional Secured Indebtedness;
- (2) Liens in favor of the Issuer or the Note Guarantors;
- (3) Liens on property of a Person existing at the time such Person is merged with or into or consolidated or amalgamated with Fortescue or any Subsidiary of Fortescue; *provided that* such Liens were in existence prior to the contemplation of such merger, consolidation or amalgamation and do not extend to any assets other than those of the Person merged into or consolidated or amalgamated with Fortescue or the Subsidiary;
- (4) Liens on property (including Capital Stock) existing at the time of acquisition of the property by Fortescue or any Subsidiary of Fortescue; *provided that* such Liens were in existence prior to, such acquisition, and not incurred in contemplation of, such acquisition;
- (5) Liens or deposits to secure the performance of statutory or regulatory obligations, or surety or appeal, indemnity or performance bonds, warranty and contractual requirements or good faith deposits in connection with bids, tenders, contracts or leases or Liens over cash collateral *provided* in connection with any performance bonds issued to any government department or regulatory authority or similar party in accordance with any laws, regulations or conditions applying to any real property, mining tenements, permits, licenses or rights held by Fortescue or any Restricted Subsidiary or other obligations of a like nature incurred in the ordinary course of business;
- (6) Liens securing reimbursement obligations with respect to commercial letters of credit which encumber documents and other assets relating to such letters of credit and products and proceeds thereof;
- (7) Liens to secure Permitted Debt described under clause (3) of the definition thereof that covers only the assets acquired with or financed or refinanced by such Indebtedness; *provided that* (a) such Permitted Debt shall not exceed the cost of the property or assets acquired, together, in the case of real property, with the cost of the construction thereof and improvements thereto, and

shall not be secured by a Lien on any property or assets of Fortescue or any Restricted Subsidiary of Fortescue other than such property or assets so acquired or constructed and improvements thereto and (b) the Lien securing such Permitted Debt shall be created within 180 days of such acquisition or construction or, in the case of a refinancing of any purchase money obligations, within 180 days of such refinancing;

- (8) Liens existing on the date of the indenture that secure Existing Indebtedness to the extent and in the manner such Liens are in effect on such date;
- (9) Liens for taxes, assessments or governmental charges or claims that are not yet delinquent or that are being contested in good faith by appropriate proceedings promptly instituted and diligently concluded; *provided* that any reserve or other appropriate provision as is required in conformity with A-IFRS has been made therefor;
- (10) Liens incurred or deposits made in the ordinary course of business to secure payment of workers' compensation or to participate in any fund in connection with workmen's compensation, unemployment insurance, old-age pensions or other social security programs;
- (11) Liens imposed by law, such as carriers', warehousemen's, landlord's, lessor's, suppliers, banks, repairmen's and mechanics' Liens, and Liens of landlords securing obligations to pay lease payments that are not yet due and payable or in default, in each case, incurred in the ordinary course of business;
- (12) contract mining agreements and leases or subleases granted to others that do not materially interfere with the ordinary conduct of business of Fortescue or any of its Restricted Subsidiaries;
- (13) easements, rights of way, zoning and similar restrictions, reservations (including severances, leases or reservations of minerals or water rights), restrictions or encumbrances in respect of real property that were not incurred in connection with Indebtedness and that do not in the aggregate materially adversely affect the value of said properties or materially impair their use in the operation of the business of such Person;
- (14) Liens securing Hedging Obligations so long as such Hedging Obligations relate to Indebtedness that is permitted to be incurred under the indenture;
- (15) Liens created for the benefit of (or to secure) the notes (or the Note Guarantees);
- (16) Liens to secure any Permitted Debt described in clause (4) of the definition thereof; provided, however, that:
  - (a) the new Lien shall be limited to all or part of the same property and assets that secured or, under the written agreements pursuant to which the original Lien arose, could secure the original Lien (plus improvements and accessions to, such property or proceeds or distributions thereof); and
  - (b) the Indebtedness secured by the new Lien is not increased to any amount greater than the sum of (x) the outstanding principal amount, or, if greater, committed amount, of such Permitted Debt and (y) an amount necessary to pay any fees and expenses, including premiums, related to such renewal, refunding, refinancing, replacement, defeasance or discharge;
- (17) judgment Liens not giving rise to an Event of Default so long as any appropriate legal proceedings that may have been duly initiated for the review of such judgment shall not have been finally terminated or the period within which such legal proceedings may be initiated shall not have been expired;
- (18) licenses of intellectual property in the ordinary course of business;
- (19) Liens on Capital Stock of an Unrestricted Subsidiary that secure Indebtedness or other obligations of such Unrestricted Subsidiary;
- (20) covenants restricting or prohibiting access to or from real property abutting on controlled access highways, which covenants do not adversely impair in any material respect the use of the real property concerned in the operation of the business conducted on such real property;
- (21) any option, contract or other agreement to sell an asset; *provided* that such sale is not otherwise prohibited under the indenture.

- (22) any netting or set-off arrangement entered into by Fortescue or any Restricted Subsidiary in the ordinary course of business for the purpose of netting debit and credit balances;
- (23) any conditional sale, title retention, consignment or similar arrangements entered into by Fortescue or a Restricted Subsidiary in the ordinary course of business on the supplier's usual terms of sale;
- (24) any cross charge between members of a joint venture over joint venture assets or the interests of the joint venturer in such joint venture securing obligations to contribute to that joint venture or to repay other joint venturers who contribute to the joint venture in default of the chargor doing so;
- (25) Liens encumbering customary initial deposits and margin deposits and similar encumbrances attaching to commodity trading accounts or other brokerage accounts incurred in the ordinary course of business;
- (26) Liens to secure Project Debt over the project assets and, if the project assets comprise all or substantially all of the business of the relevant Subsidiary, the shareholding or other interest of such Subsidiary held by any of Fortescue or any Restricted Subsidiary, provided that, after giving pro forma effect to the incurrence of such Project Debt and assuming that US\$6.5 billion of Permitted Credit Facilities Debt was outstanding, the Senior Secured Leverage Ratio of Fortescue would not exceed 2.00 to 1.00; and
- (27) Liens incurred in the ordinary course of business of Fortescue or any Restricted Subsidiary of Fortescue on assets other than the Collateral with respect to obligations not constituting Indebtedness that do not exceed the greater of (x) US\$970 million and (y) 5.0% of Total Assets.

*"Permitted Refinancing Indebtedness"* means any Indebtedness of Fortescue or any of its Restricted Subsidiaries issued in exchange for, or the net proceeds of which are used to renew, refund, refinance, replace, supplement, extend, substitute, defease or discharge Indebtedness incurred under the first paragraph of the covenant described above under the caption "Incurrence of indebtedness and issuance of disqualified stock" or other "Permitted Debt" of Fortescue or any of its Restricted Subsidiaries described in clauses (2), (4) or (11) of the definition thereof; *provided* that:

- (1) the principal amount (or accreted value, if applicable) of such Permitted Refinancing Indebtedness does not exceed the principal amount (or accreted value, if applicable) of the Indebtedness renewed, refunded, refinanced, replaced, supplemented, extended, substituted, defeased or discharged plus all accrued interest on the Indebtedness and the amount of all fees and expenses, including premiums, incurred in connection therewith;
- (2) such Permitted Refinancing Indebtedness has a final maturity date equal to or later than the final maturity date of, and has a Weighted Average Life to Maturity equal to or greater than the remaining Weighted Average Life to Maturity of, the Indebtedness being renewed, refunded, refinanced, replaced, supplemented, extended, substituted, defeased or discharged; *provided, however*, that if such Permitted Refinancing Indebtedness constitutes Existing Indebtedness, then such Permitted Refinancing Indebtedness may have (a) a final maturity date equal to or later than the first anniversary of the final maturity date of the notes and (b) a Weighted Average Life to Maturity equal to or greater than the remaining Weighted Average Life to Maturity of the notes as if the final maturity date of the notes was actually on the first anniversary thereof;
- (3) other than in the case of any Existing Indebtedness, if the Indebtedness being renewed, refunded, refinanced, replaced, supplemented, extended, substituted, defeased or discharged is subordinated in right of payment to the notes and the Note Guarantees, such Permitted Refinancing Indebtedness is subordinated in right of payment to, the notes and the Note Guarantees on terms at least as favorable to the holders of notes and the Note Guarantees as those contained in the documentation governing the Indebtedness being renewed, refunded, refinanced, replaced, supplemented, extended, substituted, defeased or discharged;
- (4) such Indebtedness is incurred either by Fortescue or by the Restricted Subsidiary who is the obligor on the Indebtedness being renewed, refunded, refinanced, replaced, supplemented, extended, substituted, defeased or discharged; and

- (5) the Permitted Refinancing Indebtedness is not secured by any Liens except on assets to the same extent (or to any lesser extent) than that which secured the Indebtedness being renewed, refunded, refinanced, replaced, supplemented, extended, substituted, defeased or discharged.

“*Person*” means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization, limited liability company or government or other entity.

“*Project Debt*” means Indebtedness incurred by a Subsidiary of Fortescue in connection with a project of such Subsidiary for the ownership, creation, development or exploitation of any of its assets where the recourse of the provider of such Indebtedness is substantially limited to (x) the assets of such project and (y) the shares or other equity interests or other interests in such Subsidiary.

“*Rating Agency*” means (1) each of Moody’s, S&P and Fitch and (2) if Moody’s, S&P or Fitch ceases to rate the notes, a “nationally recognized statistical rating organization” within the meaning of Section 3(a)(62) of the Exchange Act selected by Fortescue as a replacement agency for Moody’s, S&P or Fitch, as the case may be.

“*Restricted Investment*” means an Investment other than a Permitted Investment.

“*Restricted Subsidiary*” of a Person means any Subsidiary of such Person that is not an Unrestricted Subsidiary.

“*S&P*” means Standard & Poor’s Rating Services and any successor to its rating agency business.

“*SEC*” means the Securities and Exchange Commission.

“*Secured Obligations*” means, collectively, all Obligations under the Senior Secured Term Loan, the indenture, the notes, the Security Documents and any Permitted Additional Secured Indebtedness incurred after the date of the indenture in accordance with the indenture.

“*Security Documents*” means, collectively, the Intercreditor Agreement and General Security Deeds, the security agreements, pledge agreements, agency agreements, mortgages, deeds of trust, collateral assignments, collateral agency agreements, debentures and any other agreements or instruments that may evidence or create any security interest in favor of the Collateral Agent in any or all of the Collateral, and shall also include any separate intercreditor agreement as described in clause (w) under the caption “—Permitted Additional Secured Indebtedness” in respect of First Lien Junior Secured Obligations.

“*Senior Secured Term Loan*” means that certain amended and restated syndicated facility agreement, dated as of November 15, 2013, among the Issuer, Fortescue, the several banks and other financial institutions or entities from time to time parties thereto from time to time, Credit Suisse AG, Cayman Islands Branch, as administrative agent and Credit Suisse AG, Sydney Branch, as collateral agent, as amended, restated, amended and restated or supplemented.

“*Senior Secured Leverage Ratio*” means, on any date of determination and with respect to any Person, the ratio of:

- (1) the aggregate amount of Consolidated Total Secured Debt of such Person outstanding on such date of determination;  
to
- (2) the aggregate amount of Consolidated Cash Flow for such Person and its Restricted Subsidiaries for the then most recent two consecutive semi-annual fiscal periods for which such Person’s financial statements have been provided to the Trustee or filed with the ASX pursuant to the “Reports” covenant.

The foregoing calculation shall be made on a pro forma basis using the adjustments set forth in the definition of Fixed Charge Coverage Ratio, and any Indebtedness, Disqualified Stock or preferred stock to be repaid or redeemed on the transaction date will be excluded.

“*Significant Subsidiary*” means any Subsidiary that would be a “significant subsidiary” as defined in Article 1, Rule 1-02 of Regulation S-X, promulgated pursuant to the Securities Act, as such Regulation is in effect on the date of the indenture.

“*Specified Members of the European Union*” means members of the European Union whose sovereign ratings are at least “AAA” as rated by S&P and at least “Aaa” by Moody’s.

*“Stated Maturity”* means, with respect to any installment of interest or principal on any series of Indebtedness, the date on which the payment of interest or principal was scheduled to be paid in the documentation governing such Indebtedness as of the date of the indenture, and will not include any contingent obligations to repay, redeem or repurchase any such interest or principal prior to the date originally scheduled for the payment thereof.

*“Subsidiary”* means, with respect to any specified Person:

- (1) any corporation, partnership, limited liability company or other entity of which shares of stock or other ownership interests having ordinary voting power (other than stock or such other ownership interests having such power only by reason of the happening of a contingency) to elect a majority of the Board of Directors or other managers of such corporation, partnership or other entity are at the time owned, or the management of which is otherwise controlled, directly or indirectly through one or more intermediaries, or both, by such Person; and
- (2) any partnership (a) the sole general partner or the managing general partner of which is such Person or a Subsidiary of such Person, or (b) the only general partners of which are that Person or one or more Subsidiaries of that Person (or any combination thereof).

For the avoidance of doubt, unless otherwise qualified, all references to a “Subsidiary” or to “Subsidiaries” in the indenture shall refer to a Subsidiary or Subsidiaries of Fortescue.

*“Total Assets”* means, as of any date of determination, the consolidated total assets of Fortescue determined in accordance with A-IFRS and set forth on a consolidated balance sheet of Fortescue and its Restricted Subsidiaries as of the end of the most recently ended fiscal semi-annual period for which internal financial statements are available less the aggregate amount of cash and Cash Equivalents of Fortescue and its Restricted Subsidiaries set forth on such consolidated balance sheet.

*“Treasury Rate”* means, at any redemption date, the yield to maturity as of such redemption date of constant maturity United States Treasury securities (as compiled and published in the most recent Federal Reserve Statistical Release H. 15 (519) that has become publicly available at least two Business Days prior to such redemption date (or, if such statistical release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from such redemption date to , 2018; *provided, however*, that if no published maturity exactly corresponds with such date, then the Treasury Rate shall be interpolated or extrapolated on a straight-line basis from the arithmetic mean of the yields for the next shortest and next longest published maturities; *provided further, however*, that if the period from such redemption date to , 2018 is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used.

*“Unsecured Senior Notes”* means the 2017 Notes, the 2018 Notes, the 2019 Notes and the 2022 Notes and the guarantees in respect thereof.

*“Unrestricted Subsidiary”* means any Subsidiary of Fortescue that is designated by the Board of Directors of Fortescue as an Unrestricted Subsidiary pursuant to a resolution of the Board of Directors, but only to the extent that such Subsidiary:

- (1) has no Indebtedness other than Non-Recourse Debt;
- (2) except as permitted by the covenant described above under the caption “—Transactions with affiliates,” is not party to any agreement, contract, arrangement or understanding with Fortescue or any Restricted Subsidiary of Fortescue unless the terms of any such agreement, contract, arrangement or understanding are no less favorable to Fortescue or such Restricted Subsidiary than those that might be obtained at the time from Persons who are not Affiliates of Fortescue;
- (3) is a Person with respect to which neither Fortescue nor any of its Restricted Subsidiaries has any direct or indirect obligation (a) to subscribe for additional Equity Interests or (b) to maintain or preserve such Person’s financial condition or to cause such Person to achieve any specified levels of operating results; and
- (4) has not guaranteed or otherwise directly or indirectly provided credit support for any Indebtedness of Fortescue or any of its Restricted Subsidiaries.

*“Valin”* means Hunan Valin Iron and Steel Group Company Ltd.

“*Voting Stock*” of any specified Person as of any date means the Capital Stock of such Person that is at the time entitled to vote in the election of the Board of Directors of such Person.

“*Weighted Average Life to Maturity*” means, when applied to any Indebtedness at any date, the number of years obtained by dividing:

- (1) the sum of the products obtained by multiplying (a) the amount of each then remaining installment, sinking fund, serial maturity or other required payments of principal, including payment at final maturity, in respect of the Indebtedness, by (b) the number of years (calculated to the nearest one-twelfth) that will elapse between such date and the making of such payment; by
- (2) the then outstanding principal amount of such Indebtedness.

“*Wholly-Owned Restricted Subsidiary*” of any specified Person means a Restricted Subsidiary of such Person all of the outstanding Capital Stock or other ownership interests of which (other than directors’ qualifying shares) will at the time be owned by such Person or by one or more Wholly-Owned Restricted Subsidiaries of such Person.

## DESCRIPTION OF COLLATERAL

### **Australian law and security**

Australian law recognizes the concept of a corporate security interest covering all present and future assets which can secure all present and future liabilities owing to a relevant secured creditor class. A regime on security interests has been in operation throughout Australia since January 30, 2012 pursuant to the PPSA, which covers personal property, including intermediated securities, financial property, goods, tangible property and intangible property. A limited number of types of property are excluded from the operation of the PPSA, for example, land, fixtures attached to land, statutory licenses such as mining tenements and petroleum licenses, water rights and general law liens etc. These types of excluded property are governed by, among others, the real property and mining title legislation applying in the States and Territories of Australia and the Corporations Act.

This description is limited to property which is located in, and subject to the laws of Australia.

### **Relevant forms of security under Australian law**

#### *General*

The principal forms of security taken under Australian law are the mortgage (which can either be a legal mortgage or an equitable mortgage) and the PPSA security interest and the charge (it is also possible under Australian law to take a pledge or a lien but these are not as common in financing transactions). After the introduction of the PPSA, it is common in Australia to take a PPSA general security interest over personal property, a mortgage over real property and mining tenements and a fixed and floating charge over any other assets.

#### *Mortgage*

A mortgage takes effect to create a security interest in the relevant secured asset to the holder of the security, with a power to sell the asset or complete the transfer. Assets that are subject to a mortgage cannot be disposed of by the owner of the secured asset without a release being provided by the holder of the security over the asset or without the purchase occurring subject to the mortgage. With a mortgage of mining tenements or real property which is part of the Torrens title system in Australia, there is no assignment of the mining tenement or real property to the holder of the security. Similarly, there is no transfer of ownership under an equitable mortgage.

#### *PPSA security interest*

The PPSA adopts a “functional approach” to security interests and expands the concept of security interest to include arrangements which have not traditionally been regarded as security interests under Australian law. This means that the PPSA regulates any interest in relation to personal property that, in substance, secures payment or performance of an obligation, and will include arrangements such as finance leases and retention of title arrangements. For the purposes of the PPSA, questions of legal title to property will not be relevant.

A special class of security interest has also been created under the PPSA known as purchase money security interests (“PMSIs”). They rank in priority to most perfected security interests and arise in particular circumstances. These include suppliers and manufacturers who supply collateral (that is, the secured property) on credit terms often by what is referred to as retention of title arrangements, collateral delivered on commercial consignment, collateral obtained through a leasing arrangement or loans advanced for the purchase of specific assets, secured only over those assets.

Under the PPSA, unless otherwise agreed, the security interest attaches to all property immediately. Parties can freely negotiate permitted dealings which determines how the assets subject to the security interest may be transferred. The concepts of “circulating” and “non-circulating” assets have been introduced primarily for the purposes of priority arrangements and insolvency laws (see section entitled “Certain Australian priority limitations” below). A security interest will be over circulating assets if the grantor may deal with the assets in the ordinary course of its business free of the security interest. There are also special

categories of assets such as currency, deposits in accounts with authorized deposit-taking institutions (excluding term deposits), inventory and book debts which will always be circulating assets, unless:

- the security interest holder has registered the security interest on the PPSR indicating that it has control over the assets and it has, in fact, that control;
- the assets are goods and the security interest holder has possession of those goods; or
- in the case of “accounts” (primarily book debts), these are assigned to the security holder.

### *Charge*

A charge does not transfer ownership of the secured asset, but gives a security interest over the charged property which confers a power of sale to satisfy the secured debt. Charges are of two types: fixed and floating. An asset covered by a fixed charge cannot be disposed of free of the security interest of a security holder without the holder giving a release of the security interest. An asset covered by a floating charge, on the other hand, can be disposed of by the security provider free of the security interest without a release from the holder of the security interest being required. A floating charge can “crystallize” into a fixed charge by notice to the security provider or immediately on the occurrence of an event specified in the security document.

### *Perfection—land and mining tenements*

Securities over interests in land must be registered at the relevant register in the State or Territory in which the land is situated in order to perfect the security and to gain priority over subsequent security interests. Certain securities over mining tenements must also be registered at the relevant register in the State or Territory in which the mining tenements are situated in order to perfect the security and to gain priority over subsequent security interests.

## **Perfection of security interests in Australia**

### *Perfection—personal property*

There are a number of steps to be taken under the PPSA to perfect the security interest. The first step to perfection is that the security interest must attach to the relevant collateral—this will occur when the grantor has rights or power to transfer rights in the personal property and either value is given for the security interest or the grantor performs an act that creates the security interest (such as signing an agreement for the creation of the security interest).

Perfection requires as an additional step either that the security interest is in writing and registered on the PPSR or that the security holder has “possession” of the relevant personal property or, in relation to certain personal property, “control.” The registration option is applicable to any collateral class and this will be the most common manner in which perfection is completed. Perfection by possession can be taken over any collateral that is capable of being possessed as well as over certain intangible property such as certificated shares. Perfection by control is, however, a limited form of perfection restricted to certain collateral classes. These classes include: (i) an account with an authorized deposit taking institution in Australia, (ii) an intermediated security, (iii) an investment instrument, (iv) a negotiable instrument and (v) a right evidenced by a letter of credit. In certain cases multiple means of perfection are, therefore, possible.

Where security is granted by an Australian company by means of a security agreement (unless perfection occurs solely by possession or control, which is unlikely), a failure to register a security interest on the PPSR within the first to occur of 20 business days after signing of the security agreement and the company entering into insolvency or, if later, at least six months before the commencement of a winding-up or administration of the grantor of that security interest will result in that security interest vesting in the grantor. Also, the secured creditor’s priority may be adversely affected, as perfected security interests generally take priority over unperfected security interests and third parties leasing or taking transfer of the collateral will generally take free of all unperfected security interests.

### *Perfection—serial numbered property*

Where personal property, such as equipment, has a serial number, it must (for consumer property) or in most cases may (for commercial property) be described by serial number in the financing statement used to register the security interest. Goods only have a serial number for the purposes of the PPSA if the regulations require or permit the collateral to be described by serial number in a registered financing statement. Aircraft that is an aircraft engine, airframe, helicopter or small aircraft, when described as commercial property, must be described by serial number for there to be an effective registration. In the context of commercial finance, serial numbered goods which may be registered by serial number include motor vehicles, watercraft and certain intangible property (like patents and trademarks).

### *Stamp duty*

To the extent that collateral is located in New South Wales (for the purposes of the *Duties Act 1997* (NSW)), the relevant security document must be duly stamped in NSW in order to be fully perfected. The other States and Territories of Australia no longer impose ad valorem duty on mortgages.

### *Restrictions*

Under Australian law the general rule is that a security interest can be taken over any type of asset. However, the grant of a security interest may be prevented or restricted by the asset itself, e.g., restrictions in contracts or real property leases. Taking and enforcing security over some assets requires governmental approval, for example in certain Australian jurisdictions (including Western Australia), perfected security over mining tenements requires Ministerial consent, and mining tenements may not be transferred (including upon enforcement of security) without Ministerial consent (which may be subject to conditions such as a requirement to ensure performance bonds remain in place or are replaced). In relation to assets subject to a state agreement with Government, government approval is generally required to take security and to transfer those assets to any proposed transferee on enforcement.

The grant of security to, and enforcement of security by, foreign (i.e. non-Australian) persons or entities may require approval under the FATA, related regulations and Australia's Foreign Investment Policy, unless the security is held solely for the purposes of a moneylending agreement (being an agreement entered into in good faith in the ordinary course of carrying on a business of lending money, not being an agreement dealing with any matter unrelated to the carrying on of that business). The enforcement of security held directly or indirectly by a foreign government or related entity (which may include, for example, sovereign wealth funds and financiers with government ownership, including pursuant to "bail-out" arrangements) requires prior approval of the Foreign Investment Review Board.

Contractual undertakings may prohibit the taking of security, the taking of security without consent, and/or any transfer of the relevant rights or assets upon enforcement by way of sale. Under some contracts, the taking of enforcement action may be a default, which could result in the relevant contract being terminated.

### **Secured Moneys (Senior Secured Notes)**

The security granted in favor of the Collateral Agent will secure all moneys ("Secured Moneys") owing by the Issuer in respect of the Senior Secured Notes. The Secured Moneys also include moneys owing to other financiers on a *pari passu* basis in accordance with the Intercreditor Agreement, including amounts owing to the lenders under the Senior Secured Credit Facility and amounts owing to creditors under any Permitted Additional Secured Indebtedness. The beneficiaries of the security granted in favor of the Collateral Agent are, together with the Collateral Agent, referred to as the Secured Parties. See "Description of the Senior Secured Notes" and "Description of the Intercreditor Agreement."

## Security documents

To secure payment of the Secured Moneys, the Issuer and the Note Guarantors (together the “Grantors”) have entered into the documents listed below (the “Security Documents”).

- General Security Deeds: Subject to agreed exceptions as summarized further below, the Grantors incorporated in Australia entered into a number of General Security Deeds under which they each provide security to the Collateral Agent over all of their respective assets and undertakings, including:
  - PPSA personal property (including shares in subsidiaries and other entities) and non-PPSA personal property;
  - mining tenements;
  - real property.
- Mining Mortgages: Subject to agreed exceptions as summarized further below, Chichester and FMG Pilbara have provided security by way of mining mortgages granted in favor of the Collateral Agent over their interests in certain material mining tenements (the Grantors’ interest in certain other mining tenements is subject to the security created under the General Security Deeds, but the security over those other tenements is not perfected by registration with the mining tenement registry under the applicable legislation);
- Leasehold Mortgage: TPI has provided security by way of a mortgage over certain leasehold interests;
- Featherweight Security: Subject to agreed exceptions as summarized further below, the Grantors incorporated in Australia entered into a number of Featherweight Floating Charges under which they each provide security for a total recoverable amount of A\$10,000 to the Collateral Agent over all of their respective assets and undertakings which constitute ‘Excluded Property’ and is subject to a Priority Permitted Lien referred to in paragraphs (a)(i) to (v) of that definition if the terms of that Priority Permitted Lien do not permit the grant of security interests under the General Security Deeds over the relevant asset;
- Guernsey Security: In respect of GMF Insurance and subject to agreed exceptions as summarized further below, GMF Insurance has provided Guernsey-law governed security over GMF Insurance’s bank accounts and Fortescue has provided Guernsey-law governed security over the shares of GMF Insurance; and
- Singapore Security: In respect of FMG International Shipping and subject to agreed exceptions as summarized further below, FMG International Shipping is expected to provide prior to, or shortly after, the closing date a Singapore-law governed security over all of its assets and undertakings.

There are certain exclusions from the secured property, the subject of the security, where it has been assessed that the benefit of seeking to obtain security is outweighed by the burden of granting the security.

Under the Mining State Agreement and the Infrastructure State Agreement if the applicable Grantor defaults which the State considers material in the performance of covenants under the State Agreement or in the case of the Mining State Agreement, the Agreement Mining Tenements or any leases or licenses granted under the Mining State Agreement and in the case of the Infrastructure State Agreement, the Special Railway Licence, Port Lease Port Additional Infrastructure Licence or Port Railway Licence (as defined in the Infrastructure State Agreement) or the applicable guarantor repudiates the State Agreement and such matters are not remedied with 180 days after notice from the State then the State may determine the relevant State Agreement. If the applicable Grantor goes into liquidation and unless within three months of such liquidation the interest of the applicable guarantor is assigned to an assignee approved by the Minister under the assignment provisions in the State Agreement, the State may determine the Agreement.

On the determination of the Mining State Agreement, except as otherwise agreed by the Minister, the rights of the applicable guarantor to, in or under the State Agreement and the rights of Chichester or any mortgagee or chargee to, in or under Agreement Mining Tenements (other than exploration licenses which are State Agreement Tenements) and any other leases and licenses under the Mining State Agreement, shall cease and determine. Upon cessation of the State Agreement unless otherwise agreed by the Minister, all buildings, erections and other improvements erected on any land then occupied by Chichester under the

Agreement Mining Tenements and any leases or licenses shall become and remain the absolute property of the State.

The applicable guarantor has the right within three months of the determination of the State Agreement to notify the State that it wants to remove any of its fixed or movable plant and equipment from the State Agreement Tenements, in which case the State has an option exercisable over three months to purchase such fixed or movable plant and equipment at a fair valuation.

On the determination of the Infrastructure Agreement, except as otherwise agreed by the Minister, the rights of the Company to, in or under the Infrastructure State Agreement and the rights of TPI or any mortgagee or chargee to, in or under the Special Railway Licence, Port Lease, Port Additional Infrastructure Licence or Port Railway Licence (as defined in the Infrastructure State Agreement) and any other leases and licenses under the Infrastructure State Agreement, shall cease and determine. Upon cessation of the Infrastructure State Agreement the Minister may by notice require TPI, at its cost, remove the railway on the Special Railway Licence and any Additional Infrastructure from the Rail Corridor and return the land to its previous condition and the Port Facilities (being the infrastructure at the Port) and Railway which within the Port area and Additional Infrastructure constructed under the Infrastructure State Agreement shall become and remain the absolute property of the Port Authority and unless it has been removed the railway on the Special Railway Licence and any Additional Infrastructure from the Rail Corridor shall become the absolute property of the State, in each case without the payment of compensation or consideration to TPI and free and discharged of all mortgages and other encumbrances.

In certain circumstances, where the Grantors are permitted under the Senior Secured Notes to grant security over an asset or right in favor of a third party, the security in favor of the Secured Parties over that asset or right will automatically become a “featherweight” security. The featherweight security provides the Grantor with unfettered powers to dispose of and encumber assets which are the subject of the featherweight security. This includes by granting prior ranking security over those assets in favor of a third party. A featherweight charge is intended to enable the Collateral Agent to have security over the whole or substantially the whole of the assets of the relevant Grantor in circumstances where an administrator has been appointed to that Grantor. Consequently, this charge is only enforceable after the appointment of an administrator to the Grantor.

Other than in the case of the featherweight charges (which are only enforceable after the appointment of an administrator), subject to the terms of the Intercreditor Agreement, the security provided for under the Security Documents becomes enforceable when an Event of Default occurs under the Senior Secured Notes and is continuing. See “Description of the Senior Secured Notes” and “Description of the Intercreditor Agreement” in relation to the arrangements under the Intercreditor Agreement in respect of enforcement of security and the giving of instructions to the Collateral Agent.

### **Certain Australian priority limitations**

Under Australian law, the priority of a security described in the Security Documents (a “Security”) is subject to claims:

- (a) under a security created in favor of a third party before the creation of the Security of which a Secured Party has actual or constructive notice;
- (b) in the case of property that is not PPSA personal property, of a third party who acquires the legal interest for value without notice of the Security or who acquires a registered interest in land under any relevant Torrens title statute or leasehold interest granted by the State or registered interest in a mining tenement under relevant legislation;
- (c) in the case of any encumbrance created in favor of a third party after the creation of the Security, an equitable encumbrance where as a result of fraud, negligence or other conduct of a party, the equities as between the equitable encumbrance and a Secured Party are no longer equal, or a legal fixed charge taken by a chargee over the property of the grantor the subject of a floating charge that had not crystallized at the time of creation of that fixed charge;
- (d) under statute, including certain local government rates, land taxes and other general taxes, or under general law;

- (e) because of the operation of provisions of the Corporations Act which give priority to certain security interests over circulating assets to certain claims of employees and persons in similar categories, to costs of an administrator or receiver and costs of realization of assets, when a receiver is appointed over a property of the relevant grantor of the security interest or the relevant grantor of the security interest is in administration or wound up;
- (f) by virtue of the fact that the priority accorded as a result of perfection under the PPSA does not extend to a security interest over property which is not personal property regulated under the PPSA;
- (g) because a security interest over property that is not PPSA personal property may in certain circumstances lose priority over a subsequent security interest in respect of advances made after the holder of the original security interest has actual or possible constructive notice of the subsequent security interest;
- (h) because of certain provisions of the PPSA including those which:
  - (A) give transitional protection for a period of two years to certain security interests over personal property which are not registered on the PPSR;
  - (B) give priority to security interests perfected by “control”;
  - (C) give priority to “purchase money security interests”;
  - (D) give priority to acquirers of “chattel paper” and holders of negotiable documents of title in certain circumstances;
  - (E) give priority to certain types of security interest registered on the PPSR before the Security Documents;
 as those terms in inverted commas are defined in the PPSA;
- (i) if the interest on which such claims rely is a legal estate in the relevant secured property (such as a legal mortgage) taken in good faith for value and without notice of the interest of the Security, or is a registered interest in land under any relevant Torrens title statute or leasehold interest granted by the State or a registered interest in a mining tenement;
- (j) in non-PPSA personal property subject to a priority regime under statute (such as a regime which accords priority in accordance with time of registration);
- (k) the interest of a person who has acquired personal property free of a security interest by virtue of the provisions of the PPSA;
- (l) if a Secured Party expressly or impliedly concedes priority to that other claim;
- (m) with respect to reservations, covenants, easements or other affectations recorded on the relevant certificate of title or other title document in relation to or otherwise affecting related property; or
- (n) charges, mortgages and other encumbrances existing on an asset at the time of its acquisition.

A transfer of shares secured by a Security will be void as against the company in which the shares are issued: (a) after the commencement of a winding up by the court of that company, unless the court otherwise orders; (b) after the passing of a resolution for voluntary winding up of that company, unless made with the sanction of the liquidator, and (c) during the administration of that company (pursuant to the Corporations Act), except so far as the court otherwise orders.

## ENFORCEMENT OF LIENS

In Australia, liens usually take the form of mortgages, general PPSA security interests or charges, depending on the type of property, but the practical effects of which are essentially the same. See “Description of Collateral—Relevant Forms of Security Under Australian Law” above which deals with the form of security interests. Certain claims may rank in priority to the Security as specified in the section entitled “Description of the Collateral—Certain Australian priority limitations.”

Liens created by companies in Australia may be registered on, for personal property, the PPSR, and for liens over real property and mining tenements, such other appropriate government register, such as the land titles office or mining tenements registry in the relevant State or Territory. Failure to register a lien in the appropriate registry may result in loss of certain rights of the secured party, or make them ineffective at law. Failure to register can also affect the lien holder’s priority which, in general terms, is dependent upon the order in which liens are registered. See “Description of Collateral—Certain Australian priority limitations.”

The rights of a secured party to enforce their security interest in insolvency are subject to a requirement that the security interest be registered and in respect of the PPSA, perfected. This is because an unregistered, or unperfected security interest vests in the grantor company upon insolvency. If the security interest was not registered or perfected and therefore vested in the grantor, the creditor or secured party would continue to have rights to prove the outstanding amount to the liquidator.

A creditor whose debt is secured by liens over property of the debtor can, under the terms of the laws, upon the occurrence of an event of default, enforce his lien by taking possession of the property or exercising his power of sale of, or most usually, if available under the relevant lien, his power to appoint a receiver over, the property which is the subject of the lien (the “collateral”). The powers of a receiver (who is usually an independent certified practicing accountant) are contained in the lien and at law and would include a power to manage the collateral, to sell it and to pay the net proceeds of sale to the creditor who appointed him (after satisfying any prior liens, payment of expenses, preferred creditors under the Corporations Act and his remuneration).

A receiver appointed under a lien usually takes possession of all the collateral to the exclusion of all lower ranking secured creditors and all unsecured and subordinated creditors. Although a receiver is expressed, for liability purposes, to be the agent of the debtor, his primary responsibility is to repay the moneys owed to the creditor who appointed him from the management or sale of the debtor’s property without having regard to the claims of other creditors (other than the claims of holders of prior ranking liens) except for general duties to act reasonably and in good faith and exercise a duty of care in his power of sale. During receivership, the debtor’s legal personality remains intact, and the directors retain their positions even though their powers of management are supplanted by those of the receiver. If the unsecured creditors seek to liquidate the debtor, the liquidator can only take control of property of the debtor which is not subject to liens and must wait until the secured debts have been satisfied, the receiver discharged and any remaining collateral released from the lien before he can exercise any rights over it.

The only exception to the ability of the secured creditor to enforce the collateral is where the debtor seeks protection from its creditors by appointing an administrator. A debtor may be put into administration by resolution of its board of directors. An administrator can also be appointed over the debtor by a secured creditor having a lien over the “whole or substantially the whole” of the assets of the debtor. If the directors of the debtor appoint the administrator, then within eight business days of that administrator being appointed, a meeting of the debtor’s creditors is to be held to give the creditors the opportunity to reject the director’s choice of administrator and appoint another administrator.

The function of an administrator is to investigate the affairs of the company and report to all the creditors, both secured and unsecured, whether the company should be liquidated, enter into a deed of company arrangement or be released from administration altogether. During the period of the investigation by the administrator, all actions against the debtor and its directors and all enforcements of liens are stopped without the leave of the court.

An administrator has to give immediate notice of his appointment to all secured creditors and a creditor who has a lien over “the whole or substantially the whole” of the company’s assets has a period of 13 business days (the “Decision Period”) to decide whether it will displace the administrator by appointing

a receiver. If it does so, the receivership proceeds in the normal way. Creditors who do not have a security over “the whole or substantially the whole” of the company’s assets or who do not appoint a receiver during the Decision Period cannot subsequently enforce their liens during the period of the administration without the leave of the court.

The PPSA contains enforcement provisions which complement rights and remedies available at law.

If an Event of Default under the Senior Secured Notes were to occur, then subject to the terms of the Intercreditor Agreement, the Collateral becomes enforceable (without the need for any notice) and the Collateral Trustee may appoint a receiver (or “controller” as it is referred to under the Security Documents) to take possession of the Collateral, manage it and exercise the power to sell the property. See “Description of the Senior Secured Notes” and “Description of the Intercreditor Agreement” in relation to the arrangements under the Intercreditor Agreement in respect of enforcement of security and the giving of instructions to the Collateral Agent.

The receiver will be required to apply money received in relation to enforcing the Collateral in accordance with the Intercreditor Agreement. See “Description of the Intercreditor Agreement.”

## TAX CONSIDERATIONS

### United States taxation

This section describes the material United States federal income tax consequences of owning the Senior Secured Notes we are offering. It applies to you only if you acquire Senior Secured Notes in this offering at the offering price and you hold your Senior Secured Notes as capital assets for tax purposes. This section does not apply to you if you are a member of a class of holders subject to special rules, such as:

- a dealer in securities,
- a trader in securities that elects to use a mark-to-market method of accounting for your securities holdings,
- a bank,
- a life insurance company,
- a tax-exempt organization,
- a person that owns Senior Secured Notes that are a hedge or that are hedged against interest rate risks,
- a person that owns Senior Secured Notes as part of a straddle or conversion transaction for tax purposes,
- a person that purchases or sells Senior Secured Notes as part of a wash sale for tax purposes, or
- a United States holder (as defined below) whose functional currency for tax purposes is not the U.S. dollar.

If you purchase Senior Secured Notes at a price other than the offering price, the amortizable bond premium or market discount rules may also apply to you. You should consult your tax advisor regarding this possibility.

This section is based on the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations under the Internal Revenue Code, published rulings and court decisions, all as currently in effect. These laws are subject to change, possibly on a retroactive basis.

If a partnership holds the Senior Secured Notes, the United States federal income tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. A partner in a partnership holding the Senior Secured Notes should consult its tax advisor with regard to the United States federal income tax treatment of an investment in the Senior Secured Notes.

***Please consult your own tax advisor concerning the consequences of owning these Senior Secured Notes in your particular circumstances under the Internal Revenue Code and the laws of any other taxing jurisdiction.***

### United States holders

This subsection describes the tax consequences to a United States holder. You are a United States holder if you are a beneficial owner of a Senior Secured Note and you are:

- an individual who is a citizen or resident of the United States,
- a domestic corporation,
- an estate whose income is subject to United States federal income tax regardless of its source, or
- a trust if a United States court can exercise primary supervision over the trust's administration and one or more United States persons are authorized to control all substantial decisions of the trust.

If you are not a United States holder, this subsection does not apply to you and you should refer to “—United States alien holders” below.

***Original Issue Discount.*** If the issue price of the Senior Secured Notes is less than or equal to 98.50% of their principal amount, then the Senior Secured Notes will be treated as issued with OID for United States federal income tax purposes in an amount equal to the excess of the principal amount of the Senior

Secured Notes over the issue price for the Senior Secured Notes. If the Senior Secured Notes are so treated, a United States holder will be required to include such OID as ordinary income on a constant yield basis over the term of the Senior Secured Notes, in addition to stated interest and whether the United States holder reports on the cash or accrual basis of accounting for United States federal income tax purposes. Thus, the United States holder will be required in such case to include OID in income in advance of the receipt of the cash to which such OID is attributable. A United States holder may elect to treat all interest on a Senior Secured Note as OID and calculate the amount includible in gross income under the constant yield method described above. The election is made for the taxable year in which the United States holder acquired the Senior Secured Note, and may not be revoked without the consent of the IRS. United States holders should consult with their tax advisors about this election.

*Payments of interest.* You will be taxed on interest on your Senior Secured Notes, including any additional amounts with respect thereto as described under “Description of the Senior Secured Notes and Guarantees—Additional amounts,” as ordinary income at the time you receive the interest or when it accrues, depending on your method of accounting for tax purposes.

You must include any tax withheld from the interest payment as ordinary income even though you do not in fact receive it. You may be entitled to deduct or credit this tax, subject to applicable limits. Interest paid by the Issuer on the Senior Secured Notes is income from sources outside the United States for purposes of the rules regarding the foreign tax credit allowable to a United States holder and will, depending on your circumstances, be either “passive” or “general” income for purposes of computing the foreign tax credit. The rules governing foreign tax credits are complex and you should consult your tax advisor regarding the availability of the foreign tax credit in your situation.

If a Change of Control occurs, the Issuer will be required to make an offer to each holder of Senior Secured Notes to repurchase the Senior Secured Notes at a repurchase price equal to 101% of the aggregate principal amount of Senior Secured Notes repurchased (see “Description of the Senior Secured Notes and Guarantees—Certain covenants—Offer to redeem upon Change of Control Triggering Event”). This requirement could potentially subject the Senior Secured Notes to special rules that apply to contingent payment debt instruments. These special rules generally require a holder of a contingent payment debt instrument to accrue interest income at a rate higher than the stated interest rate on the debt instrument and to treat as interest income (rather than capital gain) any gain recognized on a sale, exchange or retirement of the debt before the resolution of the contingencies.

Notwithstanding the possibility of such contingent payments, under applicable United States Treasury regulations, payments on a Senior Secured Note that are subject to a remote or incidental contingency may be ignored. Fortescue believes that the prospect of a Change of Control occurring should be considered a remote or incidental contingency, and therefore that the Senior Secured Notes are not subject to the rules governing contingent payment debt instruments. For the purpose of filing tax or information returns with the Internal Revenue Service (the “IRS”), we will not treat the Senior Secured Notes as contingent payment debt instruments. Our determination that the Senior Secured Notes are not contingent payment debt instruments is binding on you unless you explicitly disclose in the manner required by applicable United States Treasury Regulations that your determination is different from ours. It is possible, however, that the IRS may take a contrary position from that described above, in which case the timing and character of your income from the Senior Secured Notes may be different from that described herein.

*Purchase, sale and retirement of the Senior Secured Notes.* You will generally recognize capital gain or loss on the sale, exchange, redemption, retirement, or other taxable disposition of your Senior Secured Notes equal to the difference between the amount you realize on such disposition, excluding any amounts attributable to accrued but unpaid interest which will be treated as interest payments, and your tax basis in your Senior Secured Notes. Your tax basis in your Senior Secured Notes generally will be their cost plus any accrued OID. Capital gain of a non-corporate United States holder is generally taxed at preferential rates where the property is held for more than one year. The deductibility of capital losses is subject to limitations.

*Medicare tax.* A United States holder that is an individual or estate, or a trust that does not fall into a special class of trusts that is exempt from such tax, is subject to a 3.8% tax on the lesser of (1) the United States holder’s “net investment income” (or “undistributed net investment income” in the case of an estate and trust) for the relevant taxable year and (2) the excess of the United States holder’s modified adjusted

gross income (or adjusted gross income for estates and trusts) for the taxable year over a certain threshold (which in the case of individuals is between US\$125,000 and US\$250,000, depending on the individual's circumstances). A holder's net investment income generally includes its interest income, any accrued OID and its net gains from the disposition of Senior Secured Notes, unless such interest income, any accrued OID or net gains are derived in the ordinary course of the conduct of a trade or business (other than a trade or business that consists of certain passive or trading activities). If you are a United States holder that is an individual, estate or trust, you are urged to consult your tax advisors regarding the applicability of the Medicare tax to your income and gains in respect of your investment in the Senior Secured Notes.

### **United States alien holders**

This subsection describes the tax consequences to a United States alien holder. For purposes of this discussion under “—United States alien holders,” references to “interest” generally also include any OID. You are a United States alien holder if you are a beneficial owner of a Senior Secured Note and you are, for United States federal income tax purposes:

- a nonresident alien individual,
- a foreign corporation, or
- an estate or trust that in either case is not subject to United States federal income tax on a net income basis on income or gain from a Senior Secured Note.

If you are a United States holder, this subsection does not apply to you.

Under United States federal income and estate tax law, and subject to the discussion of backup withholding below, if you are a United States alien holder of Senior Secured Notes, interest on Senior Secured Notes paid to you is exempt from United States federal income tax, including withholding tax, whether or not you are engaged in a trade or business in the United States, unless:

- you are an insurance company carrying on a United States insurance business to which the interest is attributable, within the meaning of the Internal Revenue Code, or
- you both
  - have an office or other fixed place of business in the United States to which the interest is attributable, and
  - derive the interest in the active conduct of a banking, financing or similar business within the United States, or are a corporation with a principal business of trading in stocks and securities for its own account.

*Purchase, sale, retirement and other disposition of the Senior Secured Notes.* If you are a United States alien holder of Senior Secured Notes, you generally would not be subject to United States federal income tax on gain realized on the sale, exchange or retirement of Senior Secured Notes unless:

- the gain is effectively connected with your conduct of a trade or business in the United States, or
- you are an individual, you are present in the United States for 183 or more days during the taxable year in which the gain is realized and certain other conditions exist.

For purposes of the United States federal estate tax, the Senior Secured Notes will be treated as situated outside the United States and will not be includible in the gross estate of a holder who is neither a citizen nor a resident of the United States at the time of death.

### **Information with respect to foreign financial assets**

Owners of “specified foreign financial assets” with an aggregate value in excess of US\$50,000 (and in some circumstances, a higher threshold) may be required to file an information report with respect to such assets with their tax returns. “Specified foreign financial assets” may include any financial accounts maintained by foreign financial institutions, as well as the following, but only if they are held for investment and not held in accounts maintained by financial institutions: (i) stocks and securities issued by non-U.S. persons, (ii) financial instruments and contracts that have non-U.S. issuers or counterparties and

(iii) interests in foreign entities. Holders are urged to consult their tax advisors regarding the application of this reporting requirement to their ownership of the Senior Secured Notes.

### **Backup withholding and information reporting**

For purposes of this discussion, under “—Backup withholding and information reporting,” references to “interest” generally also include any OID. If you are a noncorporate United States holder, information reporting requirements, on IRS Form 1099, generally would apply to payments of principal and interest on a note within the United States, and the payment of proceeds to you from the sale of Senior Secured Notes effected at a United States office of a broker.

Additionally, backup withholding may apply to such payments if you fail to provide your taxpayer identification number, fail to comply with applicable certification requirements or are notified by the IRS that you have failed to report all interest and dividends required to be shown on your federal income tax returns.

If you are a non-United States holder, you are generally exempt from backup withholding and information reporting requirements with respect to payments of principal and interest made to you outside the United States by us or another non-United States payor. You are also generally exempt from backup withholding and information reporting requirements in respect of payments of principal and interest made within the United States and the payment of the proceeds from the sale of Senior Secured Notes effected at a United States office of a broker, as long as either (i) the payor or broker does not have actual knowledge or reason to know that you are a United States person and you have furnished a valid IRS Form W-8 or other documentation upon which the payor or broker may rely to treat the payments as made to a non-United States person, or (ii) you otherwise establish an exemption.

Payment of the proceeds from the sale of Senior Secured Notes effected at a foreign office of a broker generally will not be subject to information reporting or backup withholding. However, a sale effected at a foreign office of a broker could be subject to information reporting in the same manner as a sale within the United States (and in certain cases may be subject to backup withholding as well) if (i) the broker has certain connections to the United States, (ii) the proceeds or confirmation are sent to the United States or (iii) the sale has certain other specified connections with the United States.

You generally may obtain a refund of any amounts withheld under the backup withholding rules that exceed your income tax liability by filing a refund claim with the IRS.

### **Australian taxation**

The following taxation summary is of a general nature only and addresses only some of the key Australian tax implications that may arise for a holder of a Senior Secured Note as a result of acquiring or holding the Note. The following is not intended to be and should not be taken as a comprehensive taxation summary for a prospective holder of a Note. This Australian taxation summary is not exhaustive and should be treated with appropriate caution. In particular, the Australian taxation summary does not deal with the position of certain classes of holders (including, dealers in securities, custodians or other third parties who hold instruments on behalf of other persons). This Australian taxation summary only applies to non-resident holders of the Senior Secured Notes, other than those persons holding the Senior Secured Notes in carrying on a business in Australia at or through a permanent establishment.

The Australian Taxation summary is based on the Australian taxation laws in force and the administrative practices of the ATO generally accepted as of the date of this offering circular. Any of these may change in the future without notice and legislation introduced to give effect to announcements may contain provisions that are currently not contemplated and may have retrospective effect.

This Australian Taxation summary is not intended to be, nor should it be construed as legal or tax advice to any particular investor. Holders of the Senior Secured Notes should consult their professional advisers in relation to their tax position. Holders of the Senior Secured Notes who may be liable to taxation in jurisdictions other than Australia in respect of their acquisition, holding or disposal of Senior Secured Notes are particularly advised to consult their professional advisers as to whether they are so liable (and, if so, under the laws of which jurisdictions), since the following comments relate only to certain Australian taxation aspects of the Senior Secured Notes. In particular, holders of the Senior Secured Notes should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in

respect of the Senior Secured Notes even if such payments may be made without withholding or deduction for or on account of taxation under the laws of Australia.

In the opinion of Allen & Overy, the following presents a summary of the material Australian income tax consequences as of the date of this offering circular arising under the *Income Tax Assessment Act 1936* (Cth) (“1936 Act”), the *Taxation Administration Act 1953* (“TA Act”), the *Income Tax Assessment Act 1997* (“1997 Act,” and together with the 1936 Act and the TA Act, the “Tax Acts”) regulations, rulings and judicial interpretations now in effect, all of which are subject to change, possibly with retrospective effect with respect to an investment in the Senior Secured Notes by any investor who is not a resident of Australia for the purposes of the Tax Acts and does not hold the Senior Secured Notes in connection with carrying on a business at or through a permanent establishment in Australia.

Allen & Overy has not reviewed and expresses no opinion with respect to any financial projections or other tax assumptions used within this document.

### **Interest on the Senior Secured Notes**

Under current Australian law, payments of interest from, broadly speaking, an Australian resident to a non-resident of Australia are subject to a 10% withholding tax unless an exemption applies, or the interest is attributable to a permanent establishment of the non-resident in Australia. If the interest is attributable to a permanent establishment of the non-resident in Australia, subject to any relevant double tax agreement (“DTA”), normal Australian income tax rates apply.

Interest, for the purpose of withholding tax, is defined in section 128A(1AB) of the 1936 Act to include amounts in the nature of, or in substitution for, interest and certain other amounts. It would also include any original issue discount on the Senior Secured Notes.

There are a number of possible exemptions from withholding tax contained in the Tax Acts including the “public offer” exemption, tax treaty exemptions, and pension fund exemption (each discussed further below).

### **Public offer exemption**

Under section 128F of the 1936 Act, interest payments made by a resident Australian company to a non-resident are exempt from interest withholding tax in the following circumstances:

- (a) the company was a resident of Australia when it issued the debenture; and
- (b) the company is a resident of Australia when the interest is paid; and
- (c) the issue of the debenture satisfies the public offer test set out in subsections (3) or (4) of section 128F of the 1936 Act.

The “public offer test” will be satisfied if the issue of the Senior Secured Notes resulted from the Senior Secured Notes being offered for issue:

- (a) to at least 10 persons each of whom:
  - (i) was carrying on a business of providing finance, or investing or dealing in securities, in the course of operating in financial markets; and
  - (ii) was not known, or suspected, by the company to be an associate (see subsection (9) of section 128F of the 1936 Act)) of any of the other persons covered by this paragraph; or
- (b) to at least 100 persons whom it was reasonable for the company to have regarded as either:
  - (i) having acquired debentures or debt interests in the past; or
  - (ii) being likely to be interested in acquiring debentures or debt interests; or
- (c) as a result of being accepted for listing on a stock exchange, where the company had previously entered into an agreement with a dealer, manager or underwriter, in relation to the placement of the Senior Secured Notes, requiring the company to seek such listing; or
- (d) as a result of negotiations being initiated publicly in electronic form, or in another form, that was used by financial markets for dealing in debentures or debt interests; or

- (e) to a dealer, manager or underwriter, in relation to the placement of the Senior Secured Notes, who, under an agreement with the company, offered the Senior Secured Notes for sale within 30 days in a way covered by any of paragraphs (a) to (d).

The issue of the Senior Secured Notes by the Issuer also satisfies the public offer test if the Senior Secured Notes are classified as “global bonds” for the purposes of the 1936 Act.

A Senior Secured Note will be a global bond if:

- (a) it describes itself as a global bond or a global note; and
- (b) it is issued to a clearing house or to a person as trustee or agent for, or otherwise on behalf of, one or more clearing houses; and
- (c) in connection with the issue, the clearing house or houses:
  - (i) confer rights in relation to the debenture or debt interest on other persons; and
  - (ii) record the existence of the rights; and
- (d) before the issue:
  - (i) the company; or
  - (ii) a dealer, manager or underwriter, in relation to the placement of debentures or debt interests, on behalf of the company;  
announces that, as a result of the issue, such rights will be able to be created; and
- (e) the announcement is made in a way or ways covered by any of paragraphs (3)(a) to (e) of section 128F of the 1936 Act (reading a reference in those paragraphs to “debentures or debt interests” as if it were a reference to such a right, and a reference to the “company” as if it included a reference to the dealer, manager or underwriter); and
- (f) under the terms of the debenture or debt interest, interests in the debenture or debt interest are able to be surrendered, whether or not in particular circumstances, in exchange for other debentures or debt interests issued by the company that are not themselves global bonds.

The public offer test will not be satisfied in relation to the issue of the Senior Secured Notes if, at the time of issue, the Issuer knew or had reasonable grounds to suspect that a Senior Secured Note or an interest in a Senior Secured Note was being, or would later be, acquired directly or indirectly by an “Offshore Associate” of the Issuer. A person is an Offshore Associate of the Issuer if the person is an “associate” (within the meaning of section 128F(9) of the 1936 Act) of the Issuer (other than in the capacity of a dealer, manager or underwriter in relation to the placement of the Senior Secured Notes, or a clearing house, custodian, funds manager or responsible entity of a registered scheme) and the associate of the Issuer is either:

- a non-resident and the Senior Secured Note or an interest in the Senior Secured Notes is not acquired in carrying on a business at or through a permanent establishment in Australia; or
- an Australian resident and the Senior Secured Note or an interest in the Senior Secured Notes is acquired in carrying on a business in a country outside Australia at or through a permanent establishment of the associate in that country.

Accordingly, the Senior Secured Notes should not be acquired by any Offshore Associate of the Issuer, subject to the exceptions referred to above.

Even if the public offer test is initially satisfied in respect of the Senior Secured Notes, if the Senior Secured Notes later come to be held by an Offshore Associate of the Issuer, and at the time of payment of interest on the Note, the Issuer knows or has reasonable grounds to suspect that such person is an Offshore Associate, the exemption under section 128F does not apply to interest paid by the Issuer to the Offshore Associate in respect of those Senior Secured Notes, unless the Offshore Associate receives the payment in the capacity of a clearing house, paying agent, custodian, funds manager or responsible entity of a registered scheme.

The definition of “associate” includes, among other things, persons who have a majority voting interest in the Issuer, or who are able to influence or control the Issuer, and persons in whom the Issuer has a

majority voting interest, or whom the Issuer is able to influence or control (however this is not a complete statement of the definition).

Apart from payments of interest made to a non-resident's Australian permanent establishment discussed above (to which Australian interest withholding tax will not apply), when the tests in section 128F of the 1936 Act have been satisfied (including the requirements in relation to Offshore Associates), payments of interest made by the Issuer with respect to the Senior Secured Notes to a person who is not a resident of Australia within the meaning of the 1936 Act who has acquired or thereafter acquires any of the Senior Secured Notes will not incur any Australian interest withholding tax.

The Issuer intends to issue the Senior Secured Notes in a manner which will satisfy the requirements of section 128F.

### **Treaty exemption**

If the Senior Secured Notes do not meet the public offer test then another exemption may potentially apply. Under certain DTAs, including those with the United States of America, the United Kingdom, Norway, Finland, the Republic of France, Japan, the Republic of South Africa, New Zealand and Switzerland (each, a "Specified Country"), an exemption from interest withholding tax may apply for interest derived by:

- (a) the government of the relevant Specified Country and certain governmental authorities and agencies in the Specified Country; and
- (b) certain unrelated banks, and financial institutions which substantially derive their profits by carrying on a business of raising and providing finance, which are resident in the Specified Country, and which are dealing wholly independently with the Issuer (interest paid under a back-to-back loan or economically equivalent arrangement will not qualify for this exemption).

The Australian government is progressively amending its other DTAs to include similar kinds of interest withholding tax exemptions. Prospective investors should obtain their own independent tax advice as to whether any of the exemptions under the relevant DTAs may apply to their particular circumstances.

### **Pension fund exemption**

An exemption is available in respect of interest paid to a non-resident superannuation fund where that fund is a superannuation fund maintained solely for foreign residents and the interest arising from the Senior Secured Notes is exempt from income tax in the country in which such superannuation fund is resident.

### **Payments under Note Guarantees**

In the event of default by the Issuer, each Note Guarantor may be required to make certain payments under the Note Guarantees. The Australian withholding taxation implications of any such payments will depend on whether the amounts paid under the Note Guarantees in respect of the Senior Secured Notes constitute payments of interest (as defined in section 128A(1AB) of the 1936 Act).

To the extent that a payment made by a Note Guarantor does not constitute interest, the Note Guarantor would not have an obligation to deduct interest withholding tax. Whether such payments would be interest for Australian withholding tax purposes is not clear.

To the extent that these Note Guarantees amounts do constitute interest, withholding tax may be payable. However, even if payments under the Note Guarantees do constitute interest, the Commissioner of Taxation ("Commissioner") in Australia has issued a Taxation Determination stating that guarantee payments would be treated as exempt from withholding tax under section 128F of the 1936 Act if the requirements of that section are satisfied with respect to the underlying notes. Provided that the guarantee arrangement ruled on in the Taxation Determination is not materially different to the arrangement under the Note Guarantees, the Commissioner will be required to apply the principles in the Taxation Determination to any payments under the Note Guarantees unless and until the Taxation Determination is withdrawn.

### **Gains on disposition or redemption of the Senior Secured Notes**

Under current Australian tax law, non-resident holders of the Senior Secured Notes who have never held the Senior Secured Notes in carrying on business at or through a permanent establishment in Australia will not be subject to Australian income tax on profits derived from the sale or disposal of the Senior Secured Notes where the profits do not have an Australian source.

The source of any profit on the disposal of the Senior Secured Notes will depend on the factual circumstances of the actual disposal. Generally, where the Senior Secured Notes are acquired and disposed of pursuant to contractual arrangements entered into and concluded outside Australia, and the seller and the purchaser are non-residents of Australia and do not transact at or through an Australian permanent establishment, the profits should not have an Australian source.

Where a holder of Senior Secured Notes who is not a resident of Australia and who does not hold the Senior Secured Notes in carrying on a business at or through a permanent establishment in Australia sells the Senior Secured Notes to either:

- (1) a resident of Australia (not in connection with that resident carrying on a business at or through a permanent establishment outside Australia); or
- (2) to a non-resident of Australia carrying on business in Australia at or through a permanent establishment in Australia where the purchase is in connection with that permanent establishment,

then the gain may be deemed to be interest and may be subject to a 10% withholding tax, unless section 128F applies to the Senior Secured Notes as outlined above or one of the other exemptions applies.

### **TFN withholding taxes—Senior Secured Notes**

Assuming the requirements of section 128F are satisfied with respect to the Senior Secured Notes, then the tax file number (“TFN”) requirements under the Tax Act do not apply to payments to a holder of Senior Secured Notes who is not a resident of Australia and does not hold those Senior Secured Notes in the course of carrying on a business at or through a permanent establishment in Australia. Payments to other persons in respect of the Senior Secured Notes may be subject to withholding where that person does not quote a TFN or Australian Business Number or provide proof of an appropriate exemption.

### **Garnishee directions by the Commissioner of taxation (Commissioner)**

The Commissioner may give a direction under section 255 of the 1936 Act or section 260-5 of Schedule 1 of the TA Act (or any other analogous provision under another statute) requiring the Issuer to deduct from any payment to any other entity (including any holder) any amount in respect of tax payable by that other entity. If the Issuer is served with such a direction in respect of a holder, then the Issuer will comply with that direction and, accordingly, will make any deduction or withholding in connection with that direction. For example, in broad terms, if an amount was owing by Issuer to a holder and that holder had an outstanding Australian tax-related liability owing to the Commissioner, the Commissioner may issue a notice to the Issuer requiring it to pay the Commissioner the amount owing to the holder.

### **Other taxes**

There are no ad valorem stamp, issue, registration or similar taxes payable in Australia on the issue or transfer of any Senior Secured Notes (except in certain circumstances where the transfer occurs in Australia otherwise than for full market value).

Neither the issue nor receipt of the Senior Secured Notes will give rise to a liability for goods and services tax (“GST”) in Australia because the supply of Senior Secured Notes will consist of either an input taxed financial supply or a GST-free supply. Further, the payment of principal or interest by the Issuer would not give rise to any GST liability in Australia.

## PLAN OF DISTRIBUTION

Subject to the terms and conditions stated in the purchase agreement among the Issuer, the Note Guarantors and the Initial Purchaser, the Issuer has agreed to sell to the Initial Purchaser, and the Initial Purchaser has agreed to purchase from the Issuer, the entire principal amount of the Senior Secured Notes.

The obligations of the Initial Purchaser under the purchase agreement, including its agreement to purchase the Senior Secured Notes from us, are several and not joint. The Initial Purchaser will purchase all of the Senior Secured Notes pursuant to the purchase agreement if any of the Senior Secured Notes are purchased.

The Initial Purchaser initially proposes to offer the Senior Secured Notes for resale at the issue price that appears on the cover page of this offering circular. After the initial offering, the Initial Purchaser may change the offering price and any other selling terms. The Initial Purchaser may offer and sell Senior Secured Notes through certain of their affiliates.

In the purchase agreement, Fortescue and the Issuer have agreed that:

- they will not offer, sell, contract to sell or otherwise dispose of any of their debt securities (other than the Senior Secured Notes) for a period of 30 days after the date of this offering circular without the prior consent of J.P. Morgan Securities LLC.
- they will indemnify the Initial Purchaser against certain liabilities, including liabilities under the Securities Act, or contribute to payments that the Initial Purchaser may be required to make in respect of those liabilities.

The Senior Secured Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except to qualified institutional buyers in reliance on Rule 144A under the Securities Act, and to persons in offshore transactions in reliance on Regulation S under the Securities Act. The Initial Purchaser has agreed that, except as permitted by the purchase agreement, it will not offer, sell or deliver the Senior Secured Notes (i) as part of its distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the closing date, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each broker/dealer to which it sells Senior Secured Notes in reliance on Regulation S during such 40-day period, a confirmation or other notice detailing the restrictions on offers and sales of the Senior Secured Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act. Resales of the Senior Secured Notes are restricted as described under “Transfer restrictions.”

In addition, until 40 days after the commencement of the offering, an offer or sale of Senior Secured Notes within the United States by a broker/dealer (whether or not it is participating in the offering), may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than pursuant to Rule 144A.

No prospectus or other disclosure document in relation to the Senior Secured Notes or the Note Guarantees has been lodged with ASIC or the ASX.

The Initial Purchaser has represented and agreed that it:

- (a) has not made or invited, and will not make or invite, an offer of the Senior Secured Notes for issue, sale or purchase in Australia (including an offer or invitation which is received by a person in Australia); and
- (b) has not distributed or published, and will not distribute or publish, this offering circular or any other offering material or advertisement relating to the Senior Secured Notes or the Note Guarantees in Australia,

unless in either case (a) or (b):

- (i) the minimum aggregate consideration payable by each offeree is at least A\$500,000 (or the equivalent in another currency, in either case disregarding moneys lent by the offeror or its associates) or the offer otherwise does not require disclosure to investors in accordance with Part 6D.2 or Chapter 7 of the Corporations Act;

- (ii) the offer is not to a “retail client” for the purposes of Section 761G of the Corporations Act; and
- (iii) such action complies with all applicable laws, regulations and directives in relation to the offer, invitation or distribution and does not require any document to be lodged with, or registered by, ASIC.

Notes issued pursuant to this offering memorandum may not be offered for sale (or transferred or assigned) to any person located in, or a resident of, Australia for at least 12 months after their issue, except in circumstances where the person is a person to whom a disclosure document or product disclosure statement is not required to be given under Chapter 6D or Chapter 7 of the Corporations Act.

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”), the Initial Purchaser has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “Relevant Implementation Date”) it has not made and will not make an offer of Senior Secured Notes to the public in that Relevant Member State prior to the publication of a prospectus in relation to the Senior Secured Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of Senior Secured Notes to the public in that Relevant Member State at any time:

- to any legal entity which is a “qualified investor” as defined in the Prospectus Directive;
- to fewer than 100 natural or legal persons or, if the Relevant Member State has implemented the relevant provision of the 2010 PD amending Directive, 150 natural or legal persons (other than “qualified investors” as defined in the Prospectus Directive), subject to obtaining the prior consent of the Initial Purchaser for any such offer; or
- in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Senior Secured Notes shall required the publication of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer of Senior Secured Notes to the public” in relation to any Senior Secured Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Senior Secured Notes to be offered so as to enable an investor to decide to purchase or subscribe the Senior Secured Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression “Prospectus Directive” means Directive 2003/71/EC and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the relevant member state, and includes any relevant implementing measure in each Relevant Member State; and “2010 PD Amending Directive” means Directive 2010/73/EU.

In the purchase agreement, the Initial Purchaser represents, warrants and agrees as follows:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of *Financial Services and Markets Act 2000* (the “FSMA”)) received by it in connection with the issue or sale of the Senior Secured Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Note Guarantors; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Senior Secured Notes in, from or otherwise involving the United Kingdom.

This offering circular or any other offering material relating to the Senior Secured Notes has not been and will not be registered as a prospectus with the Monetary Authority of Singapore, and the Senior Secured Notes will be offered in Singapore pursuant to exemptions under Section 274 and Section 275 of the *Securities and Futures Act*, Chapter 289 of Singapore (the “Securities and Futures Act”). Accordingly, the Senior Secured Notes may not be offered or sold, or be the subject of an invitation for subscription or purchase, nor may this offering circular or any other offering material relating to the notes be circulated or distributed, whether directly or indirectly, to any person in Singapore other than (a) to an institutional

investor pursuant to Section 274 of the Securities and Futures Act, (b) to a relevant person, or any person pursuant to Section 275(1A) of the Securities and Futures Act, and in accordance with the conditions specified in Section 275 of the Securities and Futures Act or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act. Where the Notes are subscribed or purchased under Section 275 of the Securities and Futures Act by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the Securities and Futures Act)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is hold investments and each beneficiary is an individual who is an accredited investor.

securities (as defined in Section 239(1) of the Securities and Futures Act) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferable for six months after that corporation or that trust has acquired the Notes pursuant to an offer under Section 275 of the Securities and Futures Act except:

- (i) to an institutional investor or a relevant person defined in Section 275(2) of the Securities and Futures Act or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the Securities and Futures Act;
- (ii) where no consideration is or will be given for the transfer;
- (iii) where the transfer is by operation of law; or
- (iv) pursuant to Section 276(7) of the Securities and Futures Act or Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005.

The Initial Purchaser and each of its affiliates have not (i) offered or sold, and will not offer or sell, in Hong Kong, by means of any document, the Senior Secured Notes other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO") and any rules made under that Ordinance or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32) of the laws of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance or (ii) issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere any advertisement, invitation or document relating to the Senior Secured Notes which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the Senior Secured Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO or any rules made under that Ordinance. The contents of this offering circular have not been reviewed by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to the offering. If you are in any doubt about any of the contents of this offering circular, you should obtain independent professional advice.

The Senior Secured Notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948, as amended) (the "FIEL"). The Initial Purchaser has represented and agreed that it will not offer or sell the Senior Secured Notes in Japan or to, or for the account or benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan) or to, or for the account or benefit of, others for reoffering or resale, directly or indirectly, in Japan or to, or for the account or benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEL, and in compliance with the other relevant laws, regulations and ministerial guidelines of Japan.

Fortescue has agreed to indemnify the Initial Purchaser against liabilities or to contribute to payments which it may be required to make in that respect.

The Senior Secured Notes are a new issue of securities for which there currently is no established trading market. In addition, the Senior Secured Notes are subject to certain restrictions on resale and

transfer as described under “Transfer restrictions.” We do not intend to apply for the Senior Secured Notes to be listed on any securities exchange or to arrange for the Senior Secured Notes to be quoted on any quotation system. The Initial Purchaser has advised Fortescue that it intends to make a market in the Senior Secured Notes, but it is not obligated to do so. The Initial Purchaser may discontinue any market making in the Senior Secured Notes at any time in its sole discretion. Accordingly, Fortescue cannot assure you that a liquid trading market will develop for the Senior Secured Notes, that you will be able to sell your Senior Secured Notes at a particular time or that the prices that you receive when you sell will be favorable.

You should be aware that the laws and practices of certain countries require investors to pay stamp taxes and other charges in connection with purchase of securities.

In connection with this offering, the Initial Purchaser may purchase and sell Senior Secured Notes in the open market. These transactions may include over-allotment, syndicate covering transactions and stabilizing transactions. Over-allotment involves sales of Senior Secured Notes in excess of the principal amount of Senior Secured Notes to be purchased by the Initial Purchaser in this offering, which creates a short position for the Initial Purchaser. Syndicate covering transactions involve purchases of the Senior Secured Notes in the open market after the distribution has been completed in order to cover short positions. Stabilizing transactions consist of certain bids or purchases of Senior Secured Notes made for the purpose of preventing or retarding a decline in the market price of the Senior Secured Notes while this offering is in progress. Any of these activities may have the effect of preventing or retarding a decline in the market price of the Senior Secured Notes. They may also cause the price of the Senior Secured Notes to be higher than the price that otherwise would exist in the open market in the absence of these transactions. The Initial Purchaser may conduct these transactions in the over-the-counter market or otherwise. If the Initial Purchaser commences these transactions, it may discontinue them at any time.

The Initial Purchaser or its affiliates from time to time have engaged, and may in the future engage, in investment banking, commercial banking and other financial advisory and commercial dealings with Fortescue and its affiliates in the ordinary course of business for which they have received or may receive customary fees and commissions. The Initial Purchaser or its affiliates may also hold equity or debt securities of Fortescue from time to time, including the Unsecured Senior Notes, for their own account or for the account of customers. Affiliates of J.P. Morgan Securities LLC are lenders and arrangers under the Senior Secured Credit Facility and such entities have and will receive customary fees in such capacity.

The Initial Purchaser or its affiliates has a lending relationship with the Issuer, and as a result, the Initial Purchaser or its affiliates routinely hedge, and the Initial Purchaser or its affiliates may hedge, their credit exposure to the Issuer consistent with their customary risk management policies. Typically, the Initial Purchaser and its affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in the Issuer’s securities, including potentially the Senior Secured Notes offered hereby. Any such credit default swaps or short positions could adversely affect future trading prices of the Senior Secured Notes offered hereby.

## TRANSFER RESTRICTIONS

Neither the Senior Secured Notes nor the Note Guarantees have been nor will be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act) except to (a) qualified institutional buyers in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A and (b) persons in offshore transactions in reliance on Regulation S.

Each purchaser of Senior Secured Notes offered otherwise than in reliance on Regulation S (the “Restricted Senior Secured Notes”) will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Rule 144A or Regulation S under the Securities Act are used herein as defined therein):

- (1) The purchaser (A) (i) is a qualified institutional buyer, (ii) is aware that the sale to it is being made in reliance on Rule 144A and (iii) is acquiring such Senior Secured Notes for its own account or for the account of a qualified institutional buyer or (B) is not in the United States or a U.S. person and is purchasing such Senior Secured Notes in an offshore transaction pursuant to Regulation S.
- (2) The purchaser understands that the Restricted Senior Secured Notes are being offered in a transaction not involving any public offering in the United States within the meaning of the Securities Act, that such Senior Secured Notes have not been and, except as described in this offering circular, will not be registered under the Securities Act and that (A) if in the future it decides to offer, resell, pledge or otherwise transfer any of the Senior Secured Notes, such Senior Secured Notes may be offered, resold, pledged or otherwise transferred only (i) in the United States to a person whom the seller reasonably believes is a qualified institutional buyer in a transaction meeting the requirements of Rule 144A, (ii) outside the United States in a transaction complying with the provisions of Rule 903 or Rule 904 under the Securities Act, (iii) pursuant to an exemption from registration under the Securities Act provided by Rule 144 (if available) or (iv) pursuant to an effective registration statement under the Securities Act, in each of cases (i) through (iv) in accordance with any applicable securities laws of any State of the United States, and that (B) the purchaser will, and each subsequent holder is required to, notify any subsequent purchaser of the Senior Secured Notes from it of the resale restrictions referred to in (A) above.
- (3) The purchaser understands that the Restricted Senior Secured Notes will, until the expiration of the applicable holding period with respect to the Senior Secured Notes set forth in Rule 144 of the Securities Act, unless otherwise agreed by Fortescue and the holder thereof, bear a legend substantially to the following effect (the “Restricted Legend”):

THIS NOTE (OR ITS PREDECESSOR) WAS ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE UNITED STATES SECURITIES ACT OF 1933 (THE “SECURITIES ACT”), AND THIS NOTE MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. EACH PURCHASER OF THIS NOTE IS HEREBY NOTIFIED THAT THE SELLER OF THIS NOTE MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A THEREUNDER.

THE HOLDER OF THIS NOTE AGREES FOR THE BENEFIT OF THE COMPANY AND THE TRUSTEE THAT (A) THIS NOTE MAY BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED, ONLY (I) IN THE UNITED STATES TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (II) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 UNDER THE SECURITIES ACT, (III) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE) OR (IV) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH OF CASES (I) THROUGH (IV) IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES, AND (B)

THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THIS NOTE FROM IT OF THE RESALE RESTRICTIONS REFERRED TO IN (A) ABOVE.

Each purchaser of Senior Secured Notes offered in reliance on Regulation S will be deemed to have represented and agreed that it is not a U.S. person and is purchasing such Senior Secured Notes in an offshore transaction (as such terms are defined in Regulation S) pursuant to Regulation S and understands that such Senior Secured Notes will, unless otherwise agreed by the Issuer and the holder thereof, bear a legend substantially to the following effect (the “Regulation S Legend”):

THIS NOTE (OR ITS PREDECESSOR) WAS ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), AND MAY NOT BE TRANSFERRED IN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY U.S. PERSON EXCEPT PURSUANT TO AN AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND ALL APPLICABLE STATE SECURITIES LAWS. TERMS USED ABOVE HAVE THE MEANINGS GIVEN TO THEM IN REGULATION S UNDER THE SECURITIES ACT.

Restricted Senior Secured Notes may be exchanged for Senior Secured Notes not bearing the Restricted Senior Secured Notes Legend but bearing the Regulation S Legend upon certification by the transferor in the form set forth in the indenture governing the Senior Secured Notes that the transfer of any such Restricted Senior Secured Notes has been made in accordance with Rule 903 or Rule 904 under the Securities Act. We understand that under current market practices settlement of the transfer of any such Senior Secured Notes may be effected through the facilities of DTC, but that prior to the 40th day after the latest of the commencement of this offering and the last original issue date of the Senior Secured Notes, any such transfer may only occur through the facilities of Euroclear and/or Clearstream, Luxembourg.

Each purchaser of the Senior Secured Notes will be deemed to have represented and agreed as follows:

- (1) Either: (A) the purchaser is not a Plan (which term includes (i) employee benefit plans that are subject to Part 4 of Subtitle B of Title 1 of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), (ii) plans, individual retirement accounts and other arrangements that are subject to Section 4975 of the Internal Revenue Code of 1986, as amended (the “IRS Code”), or to provisions under applicable Federal, state, local, non-U.S. or other laws or regulations that are similar to such provisions of ERISA or the IRS Code (“Similar Laws”) and (iii) entities, such as collective investment funds and separate accounts, the underlying assets of which are considered to include “plan assets” of such plans, accounts and arrangements) and it is not purchasing the Senior Secured Notes on behalf of, or with the “plan assets” of, any Plan; or (B) the purchaser’s purchase, holding and subsequent disposition of the Senior Secured Notes either (i) will not constitute or result in a prohibited transaction under ERISA or the IRS Code and are otherwise permissible under all applicable Similar Laws or (ii) are entitled to exemptive relief from the prohibited transaction provisions of ERISA and the IRS Code in accordance with one or more available statutory, class or individual prohibited transaction exemptions and are otherwise permissible under all applicable Similar Laws; and
- (2) The purchaser will not transfer the Senior Secured Notes to any person or entity, unless such person or entity could itself truthfully make the foregoing representations, warranties and covenants.

Each purchaser acknowledges that if any of the acknowledgements, representations or warranties deemed to have been made by its purchase of the Senior Secured Notes are no longer accurate, it shall promptly notify us and the Initial Purchaser. If it is acquiring any Senior Secured Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing representations, warranties and agreements on behalf of each such account. Each purchaser also acknowledges that any purported transfer of a Senior Secured Note in violation of any transfer restrictions stated herein is void *ab initio* and of no legal force or effect.

## **LEGAL MATTERS**

Certain legal matters in connection with the offering will be passed upon for us by Sullivan & Cromwell, Melbourne, Australia, as to matters of U.S. federal, Delaware State and New York State law, by Allen & Overy, Perth, Western Australia, as to matters of Australian law, by Allen & Overy, Singapore, as to matters of Singaporean law, and by Appleby, Guernsey, as to matters of Guernsey law. Certain legal matters relating to the offering will be passed upon for the Initial Purchaser by Skadden, Arps, Slate, Meagher & Flom, Sydney, Australia, and Simpson Thacher & Bartlett LLP, New York, New York as to certain matters of U.S. federal and New York State law and by Gilbert + Tobin, Sydney, New South Wales, as to matters of Australian law.

## INDEPENDENT ACCOUNTANTS

BDO Audit (WA) Pty Ltd (“BDO Audit”), which was appointed as Fortescue auditor in 2001, agreed to resign as the auditor with effect from the close of the Company’s Annual General Meeting on November 14, 2012. Fortescue decided to change accounting firms to take advantage of PwC Australia international skill and expertise. At the time of BDO Audit’s resignation, there were no disagreements with BDO Audit on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures. The decision to change accounting firms was approved by the Company’s Audit Committee, its shareholders and the Australian Securities and Investments Commission.

During fiscal 2012 and 2011, the Company had no disagreements with BDO Audit on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures, which disagreements, if not resolved to BDO Audit’s satisfaction, would have caused BDO Audit to make reference in connection with their opinion to the subject matter of the disagreement.

The Audit Committee approved the engagement of PwC Australia as the Group’s new independent accountants at the Audit Committee meeting prior to the Company’s Annual General Meeting held on November 14, 2012. The appointment of PwC Australia as the new independent accountants was approved by the shareholders of the Company at the Annual General Meeting held on November 14, 2012.

The audited consolidated financial statements of Fortescue and its subsidiaries as of and for the fiscal years ended June 30, 2014, 2013 and 2012 included in this offering circular have been audited by PwC Australia, independent accountants, as stated in their report appearing in this offering circular.

With respect to the financial information of the Group as at, and for each of the half years ended, December 31, 2014 and 2013, PwC Australia, the Group’s independent auditors, have reported that they have applied limited procedures in accordance with professional standards for a review of such information. As stated in PwC Australia’s report in respect of the Group’s historical consolidated financial data as of, and for the six months ended December 31, 2014 and 2013, which is included elsewhere in this offering circular, PwC Australia did not audit and they do not express an audit opinion on such financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied.

For a discussion of limitations on liability of PwC Australia, please see “Enforcement of civil liabilities” included elsewhere in this offering circular.

## APPENDIX A—GLOSSARY

<b>155Mtpa Expansion</b>	A US\$9.2 billion expansion of port, rail and mining operations to extend the Company's production capacity from 55Mtpa to 155Mtpa, which was announced in November 2010 and completed in March 2014.
<b>2017 Unsecured Senior Notes</b>	US\$1,000 million aggregate principal amount of 6.000% Senior Notes due 2017, issued by the Issuer in March 2012.
<b>2018 Unsecured Senior Notes</b>	US\$900 million aggregate principal amount of 6.875% Senior Notes due 2018, issued by the Issuer in December 2010.
<b>2019 Unsecured Senior Notes</b>	US\$1,500 million aggregate principal amount of 8.25% Senior Notes due 2019, issued by the Issuer in October 2011.
<b>2022 Unsecured Senior Notes</b>	US\$1,000 million aggregate principal amount of 6.875% Senior Notes due 2018, issued by the Issuer in March 2012.
<b>AAS</b>	Australian Accounting Standards.
<b>Adjusted EBITDA</b>	Underlying EBITDA before the impact of any re-estimation of the Unsecured Loan Notes, gains on disposal of assets and interest in joint ventures and net foreign exchange gains or losses.
<b>AP5</b>	Fifth ship loading berth at Anderson Point in Port Hedland.
<b>ASIC</b>	The Australian Securities and Investments Commission.
<b>ASX</b>	ASX Limited (ACN 008 624 691), the operator of the Australian Securities Exchange.
<b>ASX Listing Rules</b>	The Listing Rules of the ASX.
<b>Baosteel</b>	Baosteel Group Corporation.
<b>BCI 5 index</b>	Baltic Capesize Index, Route 5. The BCI 5 index refers to the market price of moving raw materials by sea by capesize vessels between Western Australia and Qingdao, China.
<b>beneficiation</b>	Beneficiation is a process whereby ore is pulverized into fine particles and the higher grade material is separated, often magnetically, from the gangue (waste).
<b>BID</b>	Bedded Iron Deposit.
<b>BIF</b>	Banded Iron Formation.
<b>Brockman</b>	Brockman Iron Pty Ltd.
<b>Brockman Fines</b>	A standalone Brockman type product containing approximately 60% Fe upon shipment and produced by Fortescue from the Firetail mine. Brockman Fines are higher grade coarse fines material and have a relatively low silica, aluminum oxide, positive sintering characteristics but slightly higher phosphorus content compared with other ores.
<b>CFR</b>	A delivery term that indicates that the shipment price includes the cost of goods, freight costs and marine costs associated with a particular delivery.
<b>Chichester</b>	Chichester Metals Pty Ltd (ACN 109 264 262) (formerly known as FMG Chichester Pty Ltd).
<b>Chichester Hub</b>	Two of the Group's operating iron ore mines, Cloudbreak and Christmas Creek, located in the Pilbara, approximately 250 kilometers south east of Fortescue's Herb Elliott Port at Port Hedland.
<b>Chichester Special Fines</b>	A product containing approximately 58% Fe upon shipment and produced by Fortescue from the Chichester Hub. Chichester Special Fines are lower impurity coarse fines material and have a relatively low silica, aluminum oxide and phosphorus content and positive sintering characteristics but slightly higher fuel rate and lower sintering yields compared with other ores.

<b>CID</b>	Channel Iron Deposit.
<b>Code</b>	<i>Railways (Access) Code 2000</i> (WA).
<b>Collateral Agent</b>	Credit Suisse AG, Sydney Branch.
<b>Competition and Consumer Act 2010</b>	<i>Competition and Consumer Act 2010</i> (Cth).
<b>consolidated net income</b>	Profit after income tax adjusted for gains / losses on sale of assets, non-cash compensation charges, non-cash foreign exchange differences, write-down of assets and gains / losses on debt refinancing, all of which are post taxation.
<b>Corporations Act</b>	<i>Corporations Act 2001</i> (Cth).
<b>DFAT</b>	Department of Foreign Affairs and Trade.
<b>DID</b>	Detrital Iron Deposit.
<b>dmt</b>	Dry metric tonnes.
<b>dmtu</b>	Dry metric tonne unit.
<b>Downer EDI</b>	Downer EDI Mining Pty Ltd (ACN 003 872 848).
<b>DTR</b>	Davis Tube Recovery, a quantitative analysis used to measure magnetic content in iron ore samples.
<b>Environmental Protection Act</b>	<i>Environmental Protection Act 1986</i> (WA).
<b>ERA</b>	Economic Regulation Authority.
<b>Exchange Act</b>	U.S. Securities Exchange Act of 1934, as amended.
<b>exploration license</b>	An area over which the holder has the exclusive right to explore for minerals beneath the surface. An exploration license must be converted to Mining Lease for extractive mining to occur. See “Description of Australian legal matters.”
<b>Fe</b>	The chemical symbol for iron.
<b>FIEL</b>	Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948, as amended).
<b>FMG America</b>	FMG America Finance, Inc.
<b>FMG International Shipping</b>	FMG International Shipping Pte. Ltd.
<b>FMG Pilbara</b>	FMG Pilbara Pty Ltd (ACN 106 943 828).
<b>FMG Solomon</b>	FMG Solomon Pty Ltd (ACN 128 959 179).
<b>FOB</b>	A delivery term that indicates that the shipment is “free on board,” and the price payable for the iron ore at its port of origin, excluding shipping arrangements.
<b>Formosa</b>	Formosa Plastics Group.
<b>Fortescue</b>	Fortescue Metals Group Limited (ACN 002 594 872).
<b>Fortescue Blend Fines</b>	Fortescue’s main hematite fines iron ore product containing approximately 58.3% Fe and 2.4% Al <sub>2</sub> O <sub>3</sub> upon shipment and produced by Fortescue by blending Chichester Special Fines with higher grade Brockman Fines. Fortescue Blend Fines are coarse fines material and combine the benefits of low impurity Chichester Special Fines and higher iron content of Firetail Brockman Fines. They have a relatively low silica, aluminum oxide and phosphorus content and positive sintering characteristics.
<b>GL</b>	Gigaliters (one billion liters).
<b>GMF Insurance</b>	GMF Insurance Limited.

<b>Greater Chichester</b>	Fortescue's development properties in the Chichester Range, including the Investigator, White Knight, Mt. Lewin and Kutayi deposits.
<b>Greater Solomon</b>	Fortescue's development properties in the Solomon region, including the Sheila Valley, Serenity, Mt. MacLeod, Queens Extension, Cerberus, Stingray and Raven deposits.
<b>Group</b>	Fortescue and its consolidated subsidiaries.
<b>hematite</b>	An iron ore compound with an average iron ore content of between 57% and 63% Fe. Hematite deposits are typically large, close to the surface and mined via open pits.
<b>high-grade</b>	A product containing greater than 60.2% Fe.
<b>IFRS</b>	International Financial Reporting Standards.
<b>Indicated Mineral Resource</b>	As defined in the JORC Code, that part of a Mineral Resource for which quantity, grade, densities, shape and physical characteristics are estimated with sufficient confidence to allow application of Modifying Factors in sufficient detail to support mine planning and evaluation of the economic viability of the deposit. Geological evidence is derived from adequately detailed and reliable exploration, sampling and testing gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes, and is sufficient to assume geological and grade continuity between points of observation where data and samples are gathered. An Indicated Mineral Resource has a lower level of confidence than that applying to a Measured Mineral Resource and may only be converted to a Probable Ore Reserve.
<b>Inferred Mineral Resource</b>	As defined in the JORC Code, that part of a Mineral Resource for which quantity and grade are estimated on the basis of limited geological evidence and sampling geological evidence is sufficient to imply but not verify geological and grade (or quality) continuity. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. An Inferred Mineral Resource has a lower level of confidence than that applying to an Indicated Mineral Resource and must not be converted to an Ore Reserve. It is reasonably expected that the majority of Inferred Mineral Resources could be upgraded to Indicated Mineral Resources with continued exploration.
<b>Iron Bridge Joint Venture</b>	A joint venture established in October 2013 by Fortescue and Formosa to develop FMG Iron Bridge Ltd's magnetite assets in North Star and Glacier Valley in northern Pilbara. The Iron Bridge Joint Venture comprises the Iron Bridge joint venture and the Glacier Valley joint venture.
<b>Issuer</b>	FMG Resources (August 2006) Pty Ltd (ACN 118 887 835) (formerly known as FMG Finance Pty Ltd).
<b>JORC 2004 Code</b>	The Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves 2004 Edition prepared by the Joint Ore Reserves Committee of the Australian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Mineral Council of Australia.
<b>JORC 2012 Code</b>	The Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves 2012 Edition prepared by the Joint Ore Reserves Committee of the Australian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Mineral Council of Australia.
<b>JORC Code</b>	The JORC 2004 Code and/or the JORC 2012 Code, as applicable.

<b>Kings CID Fines</b>	A standalone low-alumina product containing approximately 57.3% Fe and 2.0% Al <sub>2</sub> O <sub>3</sub> produced from the Kings mine. Kings CID Fines are coarse fines material and have a relatively low silica, aluminum oxide and phosphorus content and positive sintering characteristics.
<b>Leighton</b>	Leighton Contractors Pty Ltd.
<b>Leucadia</b>	Leucadia National Corporation.
<b>low-grade magnetite</b>	A product typically containing less than 60% Fe but at least 25% Fe content.  An iron ore compound that is typically a lower grade ore than hematite iron ore because of a lower iron content. Magnetite ore requires significant beneficiation to form a saleable concentrate. After beneficiation, magnetite ore can be pelletized for direct use as a high-grade raw material for steel production.
<b>Measured Mineral Resource</b>	As defined in the JORC Code, that part of a Mineral Resource for which quantity, grade, densities, shape and physical characteristics are estimated with confidence sufficient to allow the application of Modifying Factors to support detailed mine planning and final evaluation of the economic viability of the deposit. Geological evidence is derived from detailed and reliable exploration, sampling and testing gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes, and is sufficient to confirm geological and grade continuity between points of observation where data and samples are gathered. A Measured Mineral Resource has a higher level of confidence than that applying to either an Indicated Mineral Resource or an Inferred Mineral Resource. It may be converted to a Proved Ore Reserve or under certain circumstances to a Probable Ore Reserve.
<b>Metalytics</b>	Metalytics Pty Limited.
<b>Mineral Resource</b>	As defined in the JORC Code, a concentration or occurrence of solid material of economic interest in or on the Earth's crust in such form, grade (or quality), and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, grade (or quality), continuity and other geological characteristics of a Mineral Resource are known, estimated or interpreted from specific geological evidence and knowledge, including sampling. Mineral Resources are sub-divided, in order of increasing geological confidence, into Inferred, Indicated and Measured Mineral Resources.
<b>Mining Act</b>	<i>Mining Act 1978 (WA).</i>
<b>Mining Lease</b>	Authorization granted by state mining authorities entitling the holder to mine for and dispose of any minerals on the land in respect of which the Mining Lease is granted. See "Description of Australian legal matters."
<b>Minister</b>	In relation to the applicable legislation, the Minister responsible for such legislation.
<b>Modifying Factors</b>	As defined in the JORC Code, considerations used to convert Mineral Resources to Ore Reserves. These factors include, but are not restricted to, mining, processing, metallurgical, infrastructure, economic, marketing, legal, environmental, social and governmental factors.
<b>Mt</b>	Million tonnes of iron ore.
<b>Mtpa</b>	Million tonnes of iron ore per annum.
<b>Native Title Act</b>	<i>Native Title Act 1993 (Cth).</i>
<b>NIOJV</b>	A joint venture in which Fortescue's wholly-owned subsidiary, FMG Pilbara Pty Ltd, holds a 25% participating interest, with the remaining 75% participating interest held by BC Iron Limited.

<b>Note Guarantors</b>	Fortescue and each of its existing and future direct and indirect restricted subsidiaries that guarantees the Issuer's payment obligations under the Senior Secured Notes.
<b>OPF</b>	Ore Processing Facility.
<b>Option</b>	An option to acquire a Share.
<b>Ore Reserves</b>	As defined in the JORC Code, the economically mineable part of a Measured and/or Indicated Mineral Resource. Ore Reserve estimates include diluting materials and allowances for losses, which may occur when the material is mined or extracted and is defined by studies at pre-feasibility or feasibility level as appropriate that include application of Modifying Factors. These studies demonstrate that, at the time of reporting, extraction could reasonably be justified. The reference point at which Ore Reserves are defined, usually the point where the ore is delivered to the processing plant, must be stated. It is important that, in all situations where the reference point is different, such as for a saleable product, a clarifying statement is included to ensure that the reader is fully informed as to what is being reported. Ore Reserves are subdivided in order of increasing confidence into Probable and Proved Ore Reserves.
<b>Pilbara</b>	The Pilbara region of Western Australia.
<b>Probable Ore Reserve</b>	As defined in the JORC Code, the economically mineable part of an Indicated Mineral Resources, and in some circumstances, a Measured Mineral Resource. The confidence in the Modifying Factors applying to a Probable Ore Reserve is lower than that applying to a Proved Ore Reserve.
<b>Proved Ore Reserve</b>	As defined in the JORC Code, the economically mineable part of a Measured Mineral Resource. A Proved Ore Reserve implies a high degree of confidence in the Modifying Factors.
<b>Rocket Fines</b>	A product containing approximately 59% Fe and 1.9% Al <sub>2</sub> O <sub>3</sub> upon shipment and produced by Fortescue from the Chichester Hub. Rocket Fines are coarse fines material and have a relatively low silica, aluminum oxide and phosphorus content and positive sintering characteristics.
<b>ROM</b>	Run-of-mine, or ore that is produced from Fortescue's mine and refined through further processing.
<b>Securities Act</b>	U.S. Securities Act of 1933, as amended.
<b>Senior Secured Credit Facility</b>	The US\$5.0 billion syndicated term loan facility entered into pursuant to a syndicated facility agreement, dated October 18, 2012 (as amended and restated on November 15, 2013), among Issuer, as Australian borrower, FMG America, as U.S. Borrower, Fortescue and certain subsidiaries of Fortescue and the several lenders from time to time parties thereto, Credit Suisse AG, Cayman Islands Branch, as Administrative Agent and the Collateral Agent.
<b>SFO</b>	Securities and Futures Ordinance (Chapter 571 of the Law of Hong Kong).
<b>Share</b>	A fully paid ordinary share in the capital of Fortescue.
<b>Solomon Hub</b>	Two of the Group's operating iron ore mines, Firetail and Kings.
<b>strip ratio</b>	Company's total waste to ore ratio.
<b>Super Special Fines</b>	A product containing approximately 56.4% Fe upon shipment and produced by Fortescue from the Chichester Hub with acceptable silica, aluminum oxide and phosphorus content and positive sintering characteristics.
<b>TPI</b>	The Pilbara Infrastructure Pty Ltd (ACN 103 096 340).
<b>Trustee</b>	The Bank of New York Mellon.

<b>Underlying EBITDA</b>	Profit or loss for the period before income tax adjusted for depreciation and amortization, exploration, development and other expenses, finance income and expenses and gain or loss on refinancing.
<b>Unsecured Loan Notes</b>	US\$100 million of unsecured loan notes issued by Chichester issued to a wholly owned, indirect subsidiary of Leucadia, which were repaid in October 2012.
<b>Unsecured Senior Notes</b>	The 2017 Unsecured Senior Notes, the 2018 Unsecured Senior Notes, the 2019 Unsecured Senior Notes and the 2022 Unsecured Senior Notes.
<b>VLOC</b>	Very large ore carrier.
<b>wmt</b>	Wet metric tonnes.

## FINANCIAL STATEMENTS

The following excerpts have been extracted from Fortescue's annual financial reports as filed with the ASX. Pagination within these reports may not correspond to the "F-page" designation in this offering circular.

### **Excerpt from Financial Report for the half years ended December 31, 2014 and 2013**

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### **Excerpt from Financial Report for the years ended June 30, 2014 and 2013**

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Notes to the Consolidated Financial Statements .....	F-46
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### **Excerpt from Financial Report for the years ended June 30, 2013 and 2012**

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Directors' Declaration .....	F-159
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# AUDITOR'S INDEPENDENCE DECLARATION

For the half year ended 31 December 2014



## Auditor's Independence Declaration

As lead auditor for the review of Fortescue Metals Group Limited for the half-year ended 31 December 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 review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

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

A handwritten signature in black ink, appearing to read 'Henry' with a stylized flourish at the end.

Nick Henry  
Partner  
PricewaterhouseCoopers

Perth  
16 February 2015

# CONSOLIDATED INCOME STATEMENT AND CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the half year ended 31 December 2014

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		31 December 2014 US\$m	31 December 2013 US\$m
<b>Consolidated income statement</b>	<b>Notes</b>		
Operating sales revenue	3	4,858	5,873
Cost of sales	5	(4,108)	(3,039)
<b>Gross profit</b>		<b>750</b>	<b>2,834</b>
Other income	4	77	124
Other expenses	6	(81)	(144)
<b>Profit before income tax and net finance expenses</b>		<b>746</b>	<b>2,814</b>
Finance income	7	9	12
Finance expenses	7	(315)	(409)
<b>Profit before income tax</b>		<b>440</b>	<b>2,417</b>
Income tax expense		(109)	(694)
<b>Profit after income tax</b>		<b>331</b>	<b>1,723</b>
Profit is attributable to:			
Equity holders of the Company		331	1,714
Non-controlling interest		-	9
<b>Profit after income tax</b>		<b>331</b>	<b>1,723</b>
		31 December 2014 US\$m	31 December 2013 US\$m
<b>Consolidated statement of comprehensive income</b>			
<b>Profit after income tax</b>		<b>331</b>	<b>1,723</b>
Other comprehensive income: items that may be reclassified to profit or loss			
Gains on cash flow hedges taken to equity		-	23
Losses transferred to the initial carrying amount of hedged items		-	67
<b>Total comprehensive income, net of tax</b>		<b>331</b>	<b>1,813</b>
Total comprehensive income attributable to:			
Equity holders of the Company		331	1,804
Non-controlling interest		-	9
<b>Total comprehensive income, net of tax</b>		<b>331</b>	<b>1,813</b>
		<b>Cents</b>	<b>Cents</b>
<b>Earnings per share for profit attributable to the ordinary equity holders of the Company:</b>			
Basic earnings per share		10.63	55.05
Diluted earnings per share		10.62	55.01

*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 31 December 2014

	Notes	31 December 2014 US\$m	30 June 2014 US\$m
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		1,574	2,398
Trade and other receivables		397	585
Inventories		1,201	1,467
Other current assets		63	27
Current tax receivable		13	-
<b>Total current assets</b>		<b>3,248</b>	<b>4,477</b>
<b>Non-current assets</b>			
Trade and other receivables		6	5
Property, plant and equipment	8	18,139	18,068
Intangible assets		52	67
Other non-current assets		72	77
<b>Total non-current assets</b>		<b>18,269</b>	<b>18,217</b>
<b>Total assets</b>		<b>21,517</b>	<b>22,694</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables		944	1,338
Deferred income	9	777	936
Borrowings and finance lease liabilities	10	147	154
Provisions		148	176
Current tax payable		-	666
<b>Total current liabilities</b>		<b>2,016</b>	<b>3,270</b>
<b>Non-current liabilities</b>			
Trade and other payables		196	101
Deferred income	9	846	556
Borrowings and finance lease liabilities	10	8,904	9,403
Provisions		484	467
Deferred joint venture contributions		219	160
Deferred tax liabilities		1,232	1,154
<b>Total non-current liabilities</b>		<b>11,881</b>	<b>11,841</b>
<b>Total liabilities</b>		<b>13,897</b>	<b>15,111</b>
<b>Net assets</b>		<b>7,620</b>	<b>7,583</b>
<b>Equity</b>			
Contributed equity	11(b)	1,294	1,289
Reserves		60	69
Retained earnings		6,252	6,211
<b>Equity attributable to equity holders of the Company</b>		<b>7,606</b>	<b>7,569</b>
Non-controlling interest		14	14
<b>Total equity</b>		<b>7,620</b>	<b>7,583</b>

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

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the half year ended 31 December 2014

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	31 December 2014 US\$m	31 December 2013 US\$m
<b>Cash flows from operating activities</b>		
Cash receipts from customers	5,111	6,865
Payments to suppliers and employees	(3,542)	(3,159)
Income tax paid	(664)	(60)
<b>Net cash inflow from operating activities</b>	<b>905</b>	<b>3,646</b>
<b>Cash flows from investing activities</b>		
Payments for property, plant and equipment - Fortescue	(436)	(1,354)
Payments for property, plant and equipment - joint operations	(142)	(2)
Receipts of deposits and guarantees	-	162
Proceeds from disposal of plant and equipment and sale of jointly controlled assets	3	213
Other	68	81
<b>Net cash outflow from investing activities</b>	<b>(507)</b>	<b>(900)</b>
<b>Cash flows from financing activities</b>		
Repayment of borrowings and finance leases	(526)	(1,169)
Interest and finance costs paid	(290)	(454)
Dividends paid	(274)	(293)
Repayment of customer deposits	(50)	(35)
Purchase of shares by employee share trust	(29)	(13)
<b>Net cash outflow from financing activities</b>	<b>(1,169)</b>	<b>(1,964)</b>
Net (decrease) increase in cash and cash equivalents	(771)	782
Cash and cash equivalents at the beginning of the financial period	2,398	2,158
Effects of exchange rate changes on cash and cash equivalents	(53)	(16)
<b>Cash and cash equivalents at the end of the financial period</b>	<b>1,574</b>	<b>2,924</b>

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

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the half year ended 31 December 2014

	Attributable to equity holders of the Company				Non-con- trolling interest	Total equity
	Contributed equity	Reserves	Retained earnings	Total		
	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m
<b>Balance at 1 July 2013</b>	<b>1,291</b>	<b>(49)</b>	<b>4,043</b>	<b>5,285</b>	<b>4</b>	<b>5,289</b>
Profit for the period	-	-	1,714	1,714	9	1,723
Other comprehensive income	-	90	-	90	-	90
<b>Total comprehensive income for the period, net of tax</b>	<b>-</b>	<b>90</b>	<b>1,714</b>	<b>1,804</b>	<b>9</b>	<b>1,813</b>
<b>Transactions with owners in their capacity as owners, net of tax:</b>						
Purchase of shares under employee share plans	(13)	-	-	(13)	-	(13)
Employee share awards exercised net of employee contributions	13	(4)	-	9	-	9
Equity settled share-based payment transactions	-	17	-	17	-	17
Dividends paid	-	-	(282)	(282)	-	(282)
<b>Balance at 31 December 2013</b>	<b>1,291</b>	<b>54</b>	<b>5,475</b>	<b>6,820</b>	<b>13</b>	<b>6,833</b>
<b>Balance at 1 July 2014</b>						
<b>Balance at 1 July 2014</b>	<b>1,289</b>	<b>69</b>	<b>6,211</b>	<b>7,569</b>	<b>14</b>	<b>7,583</b>
Profit for the period	-	-	331	331	-	331
<b>Total comprehensive income for the period, net of tax</b>	<b>-</b>	<b>-</b>	<b>331</b>	<b>331</b>	<b>-</b>	<b>331</b>
<b>Transactions with owners in their capacity as owners, net of tax:</b>						
Purchase of shares under employee share plans	(29)	-	-	(29)	-	(29)
Employee share awards exercised net of employee contributions	34	(13)	-	21	-	21
Equity settled share-based payment transactions	-	4	-	4	-	4
Dividends paid	-	-	(290)	(290)	-	(290)
<b>Balance at 31 December 2014</b>	<b>1,294</b>	<b>60</b>	<b>6,252</b>	<b>7,606</b>	<b>14</b>	<b>7,620</b>

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the half year ended 31 December 2014

## 1 Basis of preparation

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

### (a) Statement of compliance

These general purpose consolidated interim financial statements have been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The consolidated financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the annual financial report for the year ended 30 June 2014, and any public announcements made by the Company during the half year ended 31 December 2014 in accordance with the continuous disclosure requirements of the *Corporations Act 2001* and the *ASX Listing Rules*.

The financial statements were approved by the Board of Directors on 16 February 2015.

The Company is of a kind referred to in ASIC Class Order 98/100, issued by the Australian Securities and Investments Commission (ASIC), 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.

### (b) Significant accounting policies

The accounting policies applied by the Group in the financial statements are consistent with those applied by the Group in its 30 June 2014 consolidated financial statements.

Certain new accounting standards and interpretations have been published that are not mandatory for the 31 December 2014 interim reporting period and have not been applied in these financial statements. New, amended and revised standards that are mandatory for the interim period ended 31 December 2014 have been applied in these financial statements and did not have a significant impact on the reported results.

Where applicable, certain comparatives have been adjusted to conform with the current period presentation.

## 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the half year ended 31 December 2014

## 2 Segment information (continued)

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

	Notes	31 December 2014 US\$m	31 December 2013 US\$m
<b>Underlying EBITDA</b>		<b>1,440</b>	<b>3,220</b>
Finance income	7	9	12
Finance expenses	7	(315)	(409)
Depreciation and amortisation	5,6	(658)	(399)
Exploration, development and other	6	(36)	(7)
<b>Net profit before tax</b>		<b>440</b>	<b>2,417</b>
Income tax expense		(109)	(694)
<b>Net profit after tax</b>		<b>331</b>	<b>1,723</b>

### (a) Geographical information

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

	31 December 2014 US\$m	31 December 2013 US\$m
<b>Revenue from external customers</b>		
China	4,645	5,739
Other	213	134
	<b>4,858</b>	<b>5,873</b>

### (b) Major customer information

Revenue from one customer amounted to US\$2,352 million (2013: US\$756 million), arising from the sale of iron ore and the related shipment of product.

## 3 Operating sales revenue

	31 December 2014 US\$m	31 December 2013 US\$m
Sale of iron ore	4,734	5,762
Sale of joint venture iron ore	30	63
Other revenue	94	48
	<b>4,858</b>	<b>5,873</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the half year ended 31 December 2014

## 4 Other income

	31 December 2014 US\$m	31 December 2013 US\$m
Net foreign exchange gain	71	-
Gain on disposal of assets and interest in joint venture	2	108
Other	4	16
	<b>77</b>	<b>124</b>

## 5 Cost of sales

	31 December 2014 US\$m	31 December 2013 US\$m
Mining costs	2,117	1,433
Rail costs	123	109
Port costs	154	103
Operating leases	40	35
Shipping costs	687	556
Government royalty	298	386
Depreciation and amortisation	644	380
Other operating expenses	45	37
	<b>4,108</b>	<b>3,039</b>

## 6 Other expenses

	31 December 2014 US\$m	31 December 2013 US\$m
Administration expenses	31	70
Exploration, development and other	36	7
Depreciation and amortisation	14	19
Net foreign exchange loss	-	48
	<b>81</b>	<b>144</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the half year ended 31 December 2014

## 7 Finance income and finance expenses

	31 December 2014 US\$m	31 December 2013 US\$m
<b>Finance income</b>		
Interest income	9	12
	<b>9</b>	<b>12</b>
<b>Finance expenses</b>		
Interest expense on borrowings and finance lease liabilities	282	433
Interest capitalised	(6)	(75)
Loss on early redemption of senior unsecured notes	28	45
Other	11	6
	<b>315</b>	<b>409</b>
<b>Net finance expenses</b>	<b>306</b>	<b>397</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the half year ended 31 December 2014

## 8 Property, plant and equipment

	Plant and equipment US\$m	Land and buildings US\$m	Exploration and evaluation US\$m	Assets under development US\$m	Development US\$m	Total US\$m
<b>Year ended 30 June 2014</b>						
Opening net book value	8,547	632	264	5,290	2,426	17,159
Transfers of assets	4,885	345	50	(6,972)	1,624	(68)
Additions	12	-	99	1,842	2	1,955
Capitalised interest	-	-	-	75	-	75
Foreign exchange losses reclassified from reserves	-	-	-	67	-	67
Disposals	(139)	-	(1)	-	(14)	(154)
Depreciation	(847)	(47)	-	-	(136)	(1,030)
Changes in restoration and rehabilitation estimate	-	-	-	-	87	87
Assets written off	(22)	-	-	-	-	(22)
Other	(6)	3	(4)	11	(5)	(1)
<b>Closing net book value</b>	<b>12,430</b>	<b>933</b>	<b>408</b>	<b>313</b>	<b>3,984</b>	<b>18,068</b>
<b>At 30 June 2014</b>						
Cost	14,090	1,013	408	313	4,397	20,221
Accumulated depreciation	(1,660)	(80)	-	-	(413)	(2,153)
<b>Net book value</b>	<b>12,430</b>	<b>933</b>	<b>408</b>	<b>313</b>	<b>3,984</b>	<b>18,068</b>
<b>Half year ended 31 December 2014</b>						
Opening net book value	12,430	933	408	313	3,984	18,068
Transfers of assets	139	(12)	(1)	(132)	2	(4)
Additions	3	-	34	634	6	677
Capitalised interest	-	-	-	6	-	6
Disposals	-	(1)	-	-	-	(1)
Depreciation	(465)	(27)	-	-	(101)	(593)
Assets written off	-	-	(5)	(9)	-	(14)
<b>Closing net book value</b>	<b>12,107</b>	<b>893</b>	<b>436</b>	<b>812</b>	<b>3,891</b>	<b>18,139</b>
<b>At 31 December 2014</b>						
Cost	14,232	1,000	436	812	4,405	20,885
Accumulated depreciation	(2,125)	(107)	-	-	(514)	(2,746)
<b>Net book value</b>	<b>12,107</b>	<b>893</b>	<b>436</b>	<b>812</b>	<b>3,891</b>	<b>18,139</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the half year ended 31 December 2014

## 9 Deferred income

	31 December 2014 US\$m	30 June 2014 US\$m
Iron ore prepayments	666	825
Port access prepayment	111	111
<b>Total current deferred income</b>	<b>777</b>	<b>936</b>
Iron ore prepayments	568	223
Port access prepayment	278	333
<b>Total non-current deferred income</b>	<b>846</b>	<b>556</b>

## 10 Borrowings and finance lease liabilities

	31 December 2014 US\$m	30 June 2014 US\$m
<b>Current</b>		
Senior unsecured notes	64	79
Senior secured credit facility	81	73
Finance lease liabilities	2	2
<b>Total current borrowings and finance lease liabilities</b>	<b>147</b>	<b>154</b>
<b>Non-current</b>		
Senior unsecured notes	3,871	4,366
Senior secured credit facility	4,720	4,722
Finance lease liabilities	313	315
<b>Total non-current borrowings and finance lease liabilities</b>	<b>8,904</b>	<b>9,403</b>
<b>Total borrowings and finance lease liabilities</b>	<b>9,051</b>	<b>9,557</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the half year ended 31 December 2014

## 10 Borrowings and finance lease liabilities (continued)

### (a) Summary of movements in borrowings and finance lease liabilities

	Senior unsecured notes US\$m	Senior secured credit facility US\$m	Finance leases US\$m	Preference shares US\$m	Total US\$m
<b>Year ended 30 June 2014</b>					
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)
<b>Balance at 30 June 2014</b>	<b>4,445</b>	<b>4,795</b>	<b>317</b>	<b>-</b>	<b>9,557</b>
<b>Half year ended 31 December 2014</b>					
Balance at 1 July	4,445	4,795	317	-	9,557
Interest expense	152	110	20	-	282
Interest and finance lease repayments	(164)	(79)	(21)	-	(264)
Transaction costs	2	-	-	-	2
Foreign exchange gain	-	-	(1)	-	(1)
Repayment	(500)	(25)	-	-	(525)
<b>Balance at 31 December 2014</b>	<b>3,935</b>	<b>4,801</b>	<b>315</b>	<b>-</b>	<b>9,051</b>

In October 2014, Fortescue repaid US\$500 million of the US\$900 million senior unsecured notes ahead of maturity in 2018.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the half year ended 31 December 2014

## 11 Contributed equity

### (a) Share capital

	31 December 2014 Shares	30 June 2014 Shares
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 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
1 July 2014	Opening balance	3,113,798,151		1,289
	Purchase of shares under employee share plans	(8,082,221)	\$3.60	(29)
	Employee share awards exercised net of employee contributions	8,082,221	\$4.17	34
31 December 2014	Closing balance	3,113,798,151		1,294

### (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.

## 12 Dividends

### (a) Declared during the period

	31 December 2014 US\$m	31 December 2013 US\$m
Final fully franked dividend for the year ended 30 June 2014: A\$0.10 per share (30 June 2013: A\$0.10 per share)	290	282

### (b) Dividends proposed and not recognised as a liability

	31 December 2014 US\$m	31 December 2013 US\$m
Interim fully franked dividend for the half year ended 31 December 2014: A\$0.03 per share (31 December 2013: A\$0.10 per share)	73	280

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the half year ended 31 December 2014

## 13 Contingent liabilities

Fortescue had no material contingent liabilities or contingent assets at 31 December 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 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.

## 14 Commitments

	Capital US\$m	Operating leases US\$m	Total US\$m
<b>30 June 2014</b>			
Within one year	519	79	598
Between one and five years	252	176	428
	<b>771</b>	<b>255</b>	<b>1,026</b>
<b>31 December 2014</b>			
Within one year	276	75	351
Between one and five years	480	141	621
	<b>756</b>	<b>216</b>	<b>972</b>

## 15 Subsequent events

On 16 February 2015 the Directors declared a fully franked interim dividend of three Australian cents per ordinary share payable on 7 April 2015.

**In the Directors' opinion:**

- (a) the interim financial statements and notes set out on pages 11 to 24 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
  - (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the half year ended on that date, and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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



---

Mr Andrew Forrest  
Chairman

Dated in Perth this 16th day of February 2015.



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

### ***Report on the Half-Year Financial Report***

We have reviewed the accompanying half-year financial report of Fortescue Metals Group Limited (the Company), which comprises the consolidated statement of financial position as at 31 December 2014, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for Fortescue Metals Group Limited Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled during that half-year.

### ***Directors' responsibility for the half-year financial report***

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

### ***Auditor's responsibility***

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Fortescue Metals Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### ***Independence***

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

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

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

### *Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Fortescue Metals Group Limited is not in accordance with the *Corporations Act 2001* including:

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the half-year ended on that date;
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Nick Henry

Nick Henry  
Partner

Perth  
16 February 2015

# 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
<b>Approach to Safety Measure in the event of a fatality</b>	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
<b>Total Fixed Remuneration (TFR)</b>	<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>
<b>Executive and Senior Staff Incentive Plan (ESSIP)</b>	<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>
<b>Long Term Incentive Plan (LTI)</b>	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.

# 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 <sup>1</sup>	FY14 ESSIP Cash Paid	FY14 ESSIP <sup>4</sup> 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 <sup>2</sup>	261,941	57,721	82,784	402,446
D Woodall <sup>3</sup>	410,017	-	-	410,017

<sup>1</sup> Fixed remuneration includes cash salary, paid leave and superannuation.

<sup>2</sup> Mr Cernotta was appointed on 24 March 2014.

<sup>3</sup> Mr Woodall resigned on 12 December 2013.

<sup>4</sup> The actual share value to the individual is not realised until the shares are awarded. For the purpose of this report the nominal ESSIP share value for 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

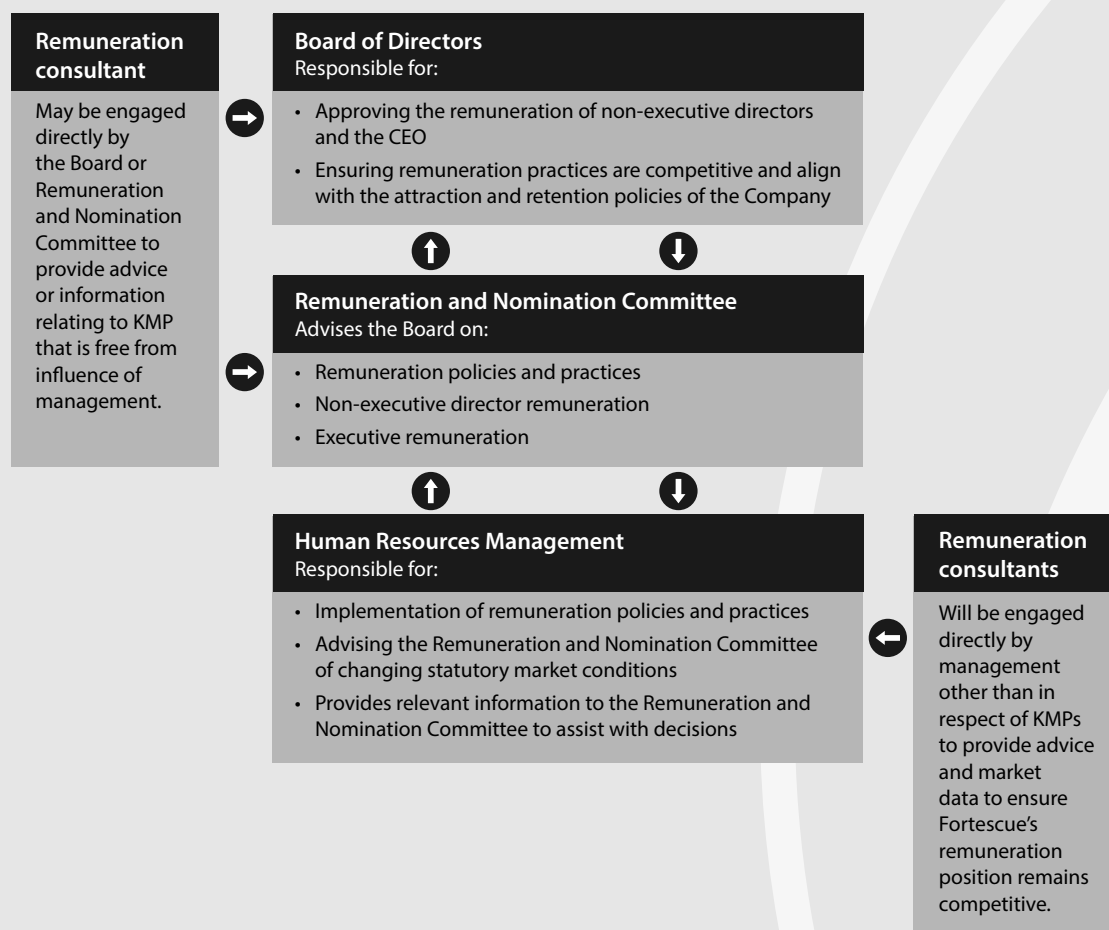
At Fortescue, we believe that robust governance is critical to underpinning the effectiveness of our remuneration strategy.

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.

# REMUNERATION REPORT

## 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

Remuneration strategy principle	Purpose	Practice
High levels of share ownership	Drive alignment of employee and shareholder interests	A minimum 50 per cent of the ESSIP paid in shares with Executives able to elect up to 100 per cent in shares. LTIP awarded as shares
Market competitive remuneration	Attract and retain key talent and be competitive against relevant companies	Remuneration is benchmarked against the ASX 100 Resources and ASX 30 Indices
Performance focus	Provide fair reward in line with individual and company achievements	Executive remuneration mix targets a minimum of 63 per cent of the total opportunity 'at risk'
Fit for purpose	Include flexibility to reflect clear linkage to business strategy	Business strategy is prioritised; market practice is only one input in determining the relevant framework
Strategic alignment	Support delivery of long term business strategy and growth aspirations	Incentives are measured on financial and non-financial performance to support sustainable growth
Shareholder and Executive alignment	LTI rewarding sustained performance over a three year period	A significant portion of executive remuneration granted as performance rights vesting subject to short and long term performance hurdles

## 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:

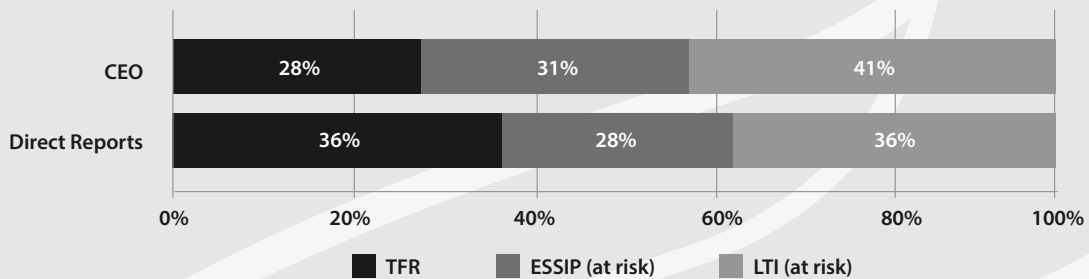
- Total Fixed Remuneration (TFR);
- Executive & Senior Staff Incentive Plan (ESSIP); and
- Long Term Incentive Plan (LTI).

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.

# REMUNERATION REPORT

## 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.

# REMUNERATION REPORT

The performance objectives in 2014 are shown below:

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

<sup>1</sup> Financial Targets.

<sup>2</sup> Non-Financial Targets.

<sup>3</sup> 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.

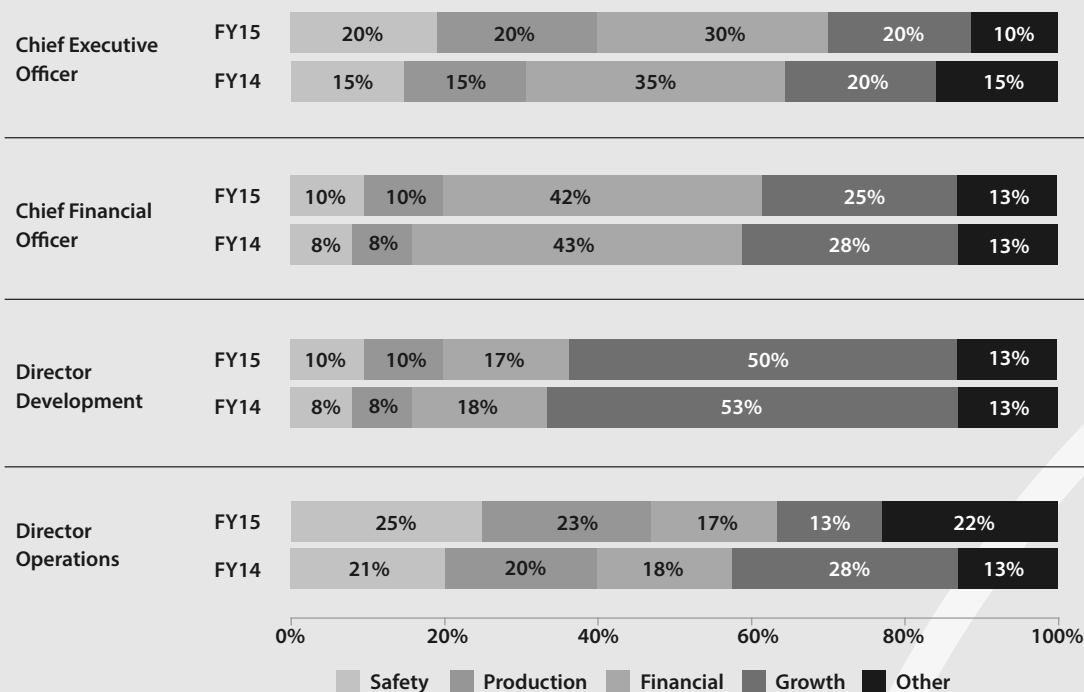
Payment of ESSIP awards are made in September after the release of the Company's audited results and with final approval from the Board.

## 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.

# REMUNERATION REPORT

## 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 <sup>1</sup>	ESSIP outcome awarded (per cent of TFR)	ESSIP Cash awarded	ESSIP share value at award <sup>2</sup>
<b>Executive Directors</b>									
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
<b>Executives</b>									
S Pearce	1,050,000	75	100	-	-	787,500	85	-	957,043
N Cernotta <sup>3</sup>	950,000	75	50	0.27	96,627	96,627	60	57,791	82,784

<sup>1</sup> The value at grant is the participant's elected weighting in shares (minimum 50 per cent of the total award) divided by the strike price used to determine the number of share rights granted being the VWAP of Fortescue shares traded over the first five trading days of the Plan year (\$A3.1653).

<sup>2</sup> The actual share value to the individual is not realised until the shares are awarded. For the purpose of this report the nominal ESSIP share value for 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).

<sup>3</sup> 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	FY 13	Average AROE	
		FY 14	Vesting
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

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

<sup>1</sup> ESSIP cash value payable in respect to FY14 to be paid in September 2014.

<sup>2</sup> The estimated fair value was determined using a trinomial option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date, expected price volatility of the underlying share, the effect of additional market conditions, the expected dividend yield, estimated share conversion factor and the risk free interest rate for the term of the right.

<sup>3</sup> Other share based payments relate to financial assistance of way of guarantee to Mr Meurs by The Minderoo Group Pty Ltd to purchase Fortescue shares under an approved arrangement. The fair value at grant date was determined using a Monte Carlo simulation model, which takes into account the following inputs: the life of the instruments, the price of the underlying share, the expected volatility of the underlying share price, the dividends expected on the underlying share, the risk free interest rate for the life of the instruments, the loan value per share, the interest, fees and charges on the loan and the terms of the margin call.

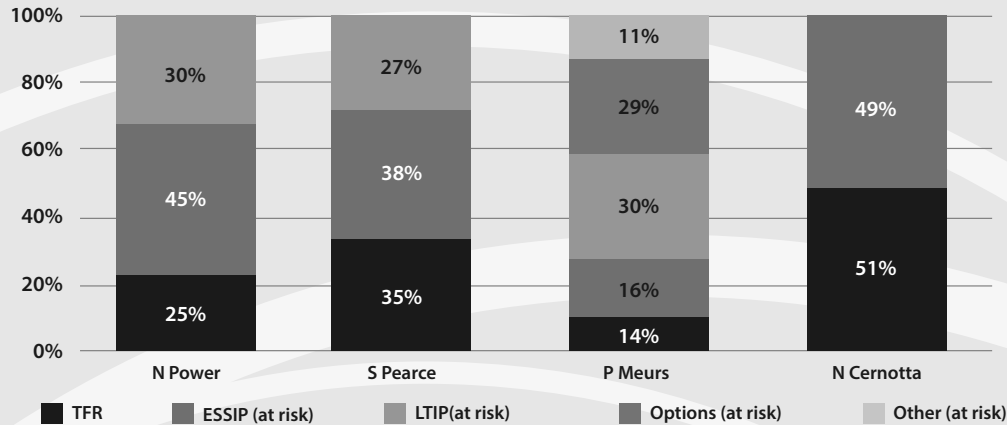
<sup>4</sup> Mr Cernotta was appointed on 24 March 2014.

<sup>5</sup> Mr Woodall resigned on 12 December 2013.

<sup>6</sup> 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

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 employee Benefits	End of Service	Share-based payments				Total
	Cash Salary and fees	ESSIP Cash value <sup>1</sup>	Non-monetary benefits	Superannuation	Termination benefits	ESSIP Share value <sup>2</sup>	LTIP Share value <sup>2</sup>	Options <sup>2</sup>	Other share-based payments <sup>3</sup>	Total
2013	\$A	\$A	\$A	\$A	\$A	\$A	\$A	\$A	\$A	\$A
<b>Executive Directors</b>										
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 <sup>6</sup>	853,272	8,145,544
<b>Executives</b>										
S Pearce	1,018,000	276,617	7,000	25,000	-	319,212	249,071	-	-	1,894,900
J Frankcombe <sup>4</sup>	582,705	-	-	14,583	45,532	-	-	-	-	642,820
D Woodall <sup>5</sup>	404,817	101,726	2,917	11,650	-	152,973	64,230	-	-	738,313

<sup>1</sup> ESSIP cash value payable in respect to FY13 was paid in September 2013.

<sup>2</sup> The estimated fair value was determined using a trinomial option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date, expected price volatility of the underlying share, the effect of additional market conditions, the expected dividend yield, estimated share conversion factor and the risk free interest rate for the term of the right.

<sup>3</sup> Other share based payments relate to financial assistance of way of guarantee to Mr Meurs by The Minderoo Group Pty Ltd to purchase Fortescue shares under an approved arrangement. The fair value at grant date was determined using a Monte Carlo simulation model, which takes into account the following inputs: the life of the instruments, the price of the underlying share, the expected volatility of the underlying share price, the dividends expected on the underlying share, the risk free interest rate for the life of the instruments, the loan value per share, the interest, fees and charges on the loan and the terms of the margin call.

<sup>4</sup> Mr Frankcombe resigned on 26 January 2013.

<sup>5</sup> Mr Woodall was appointed on 14 January 2013.

<sup>6</sup> 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 <sup>1</sup>	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	-

<sup>1</sup> The estimated fair value was determined using a trinomial option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date, expected price volatility of the underlying share, the effect of additional market conditions, the expected dividend yield, estimated share conversion factor and the risk free interest rate for the term of the right.

## 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 <sup>1</sup>	937,500	2,187,500

<sup>1</sup> 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 <sup>1</sup>	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 <sup>2</sup>	80,336	8,608	-	9,117	98,061

<sup>1</sup> G Brayshaw retired on 13 November 2013.

<sup>2</sup> S Warburton was appointed 13 November 2013.

# REMUNERATION REPORT

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 <sup>1</sup>	52,037	10,593	-	-	62,630
O Hegarty	127,273	6,818	-	13,409	147,500
C Huiquan <sup>2</sup>	-	-	-	-	-
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 <sup>3</sup>	44,865	-	-	4,487	49,352

<sup>1</sup> Mr Ambrecht retired on 14 November 2012.

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

<sup>3</sup> 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 <sup>1</sup>	Exercised / converted	Forfeited / lapsed	Balance at the end of the year	Vested	Unvested	Not exercisable
<b>Directors of Fortescue</b>								
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 <sup>2</sup>	-	-	-	-	-	-	-	-
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
<b>Other key management personnel of Fortescue</b>								
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 <sup>2</sup>	52,032	453,395	(20,566)	(484,861)	-	-	-	-

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

<sup>2</sup> Mr Brayshaw and Mr Woodall ceased employment during the 2014 financial year.

# REMUNERATION REPORT

2013	Balance at the start of the year	Granted <sup>1</sup>	Exercised / converted	Forfeited / lapsed	Balance at the end of the year	Vested	Unvested	Not exercisable
<b>Directors of Fortescue</b>								
A Forrest	-	-	-	-	-	-	-	-
N Power	419,255	341,158	(245,369)	(173,886)	341,158	-	341,158	341,158
G Rowley	-	-	-	-	-	-	-	-
H Elliott	-	-	-	-	-	-	-	-
K Ambrecht <sup>2</sup>	-	-	-	-	-	-	-	-
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
<b>Other key management personnel of Fortescue</b>								
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 <sup>2</sup>	37,076	132,673	(23,398)	(146,351)	-	-	-	-

<sup>1</sup> 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.

<sup>2</sup> 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 <sup>1</sup>	Held at 30 June 2014
<b>Directors of Fortescue</b>								
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 <sup>2</sup>	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
<b>Other key management personnel of Fortescue</b>								
S Pearce	382,304	55,923	-	21,745	(175,000)	-	-	284,972
N Cernotta	-	-	-	-	-	-	-	-
D Woodall <sup>2</sup>	-	20,566	-	-	-	-	(20,566)	-

<sup>1</sup> 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.

<sup>2</sup> 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 <sup>1</sup>	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 <sup>2</sup>	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 <sup>2</sup>	19,571	23,398	-	-	-	-	(42,969)	-	

<sup>1</sup> 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.

<sup>2</sup> Mr Ambrecht and Mr Frankcombe ceased employment during the 2013 financial year.

# AUDITOR'S INDEPENDENCE DECLARATION



## 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 black ink, appearing to read 'Nick Henry'.

Nick Henry  
Partner

Perth  
20 August 2014

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# CONSOLIDATED INCOME STATEMENT AND CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2014

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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)
<b>Gross profit</b>		<b>4,751</b>	<b>2,980</b>
Other income	4	126	291
Other expenses	6	(244)	(252)
<b>Profit before income tax and net finance expenses</b>		<b>4,633</b>	<b>3,019</b>
Finance income	7	21	33
Finance expenses	7	(741)	(586)
<b>Profit before income tax</b>		<b>3,913</b>	<b>2,466</b>
Income tax expense	8	(1,173)	(720)
<b>Profit for the year after income tax</b>		<b>2,740</b>	<b>1,746</b>
Profit for the year is attributable to:			
Equity holders of the Company		2,730	1,746
Non-controlling interest		10	-
<b>Profit for the year after income tax</b>		<b>2,740</b>	<b>1,746</b>

Consolidated statement of comprehensive income	Notes	2014 US\$m	2013 US\$m
<b>Profit for the year after income tax</b>		<b>2,740</b>	<b>1,746</b>
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	-
<b>Total comprehensive income for the year, net of tax</b>		<b>2,832</b>	<b>1,631</b>
Total comprehensive income for the year is attributable to:			
Equity holders of the Company		2,822	1,631
Non-controlling interest		10	-
<b>Total comprehensive income for the year, net of tax</b>		<b>2,832</b>	<b>1,631</b>

	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
<b>Assets</b>			
<b>Current assets</b>			
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
<b>Total current assets</b>		<b>4,477</b>	<b>3,572</b>
<b>Non-current assets</b>			
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
<b>Total non-current assets</b>		<b>18,217</b>	<b>17,295</b>
<b>Total assets</b>		<b>22,694</b>	<b>20,867</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
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	-
<b>Total current liabilities</b>		<b>3,270</b>	<b>1,414</b>
<b>Non-current liabilities</b>			
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
<b>Total non-current liabilities</b>		<b>11,841</b>	<b>14,164</b>
<b>Total liabilities</b>		<b>15,111</b>	<b>15,578</b>
<b>Net assets</b>		<b>7,583</b>	<b>5,289</b>
<b>Equity</b>			
Contributed equity	20(b)	1,289	1,291
Reserves	21(a)	69	(49)
Retained earnings		6,211	4,043
<b>Equity attributable to equity holders of the Company</b>		<b>7,569</b>	<b>5,285</b>
Non-controlling interest		14	4
<b>Total equity</b>		<b>7,583</b>	<b>5,289</b>

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

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2014

	Notes	2014 US\$m	2013 US\$m
<b>Cash flows from operating activities</b>			
Cash receipts from customers		12,618	8,725
Payments to suppliers and employees		(6,220)	(5,026)
Income tax paid		(150)	(695)
<b>Net cash inflow from operating activities</b>	<b>31</b>	<b>6,248</b>	<b>3,004</b>
<b>Cash flows from investing activities</b>			
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
<b>Net cash outflow from investing activities</b>		<b>(1,392)</b>	<b>(6,166)</b>
<b>Cash flows from financing activities</b>			
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
<b>Net cash (outflow) inflow from financing activities</b>		<b>(4,625)</b>	<b>2,989</b>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>231</b>	<b>(173)</b>
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)
<b>Cash and cash equivalents at the end of the financial year</b>	<b>9</b>	<b>2,398</b>	<b>2,158</b>
<b>Non-cash investing and financing activities</b>	<b>31</b>		

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

## 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.

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# 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
<b>EBITDA</b>		<b>5,636</b>	<b>3,575</b>
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)
<b>Net profit before tax</b>		<b>3,913</b>	<b>2,466</b>
Income tax expense	8	(1,173)	(720)
<b>Net profit after tax</b>		<b>2,740</b>	<b>1,746</b>

### (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
<b>Revenues from external customers</b>		
China	11,315	7,933
Other	438	187
	<b>11,753</b>	<b>8,120</b>

### (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
	<b>11,753</b>	<b>8,120</b>

# 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
	<b>126</b>	<b>291</b>

## 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
	<b>7,002</b>	<b>5,140</b>

- (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
	<b>244</b>	<b>252</b>

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# 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
<b>Net finance expenses</b>		
<b>Finance income</b>		
Interest income	21	33
	<b>21</b>	<b>33</b>
<b>Finance expenses</b>		
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
	<b>741</b>	<b>586</b>
<b>Net finance expenses</b>	<b>720</b>	<b>553</b>

- (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
	<b>1,173</b>	<b>720</b>

### (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)
<b>Income tax expense</b>	<b>1,173</b>	<b>720</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

## 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.

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## 9 Cash and cash equivalents

	2014 US\$m	2013 US\$m
Cash at bank	1,541	690
Short term deposits	857	1,468
	<b>2,398</b>	<b>2,158</b>

## 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
<b>Total current receivables</b>	<b>585</b>	<b>409</b>
Other receivables	5	6
<b>Total non-current receivables</b>	<b>5</b>	<b>6</b>

# 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
<b>Total other current assets</b>	<b>27</b>	<b>36</b>
Prepayments	77	90
<b>Total other non-current assets</b>	<b>77</b>	<b>90</b>

# 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
<b>Year ended 30 June 2013</b>							
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)
<b>Closing net book value</b>		<b>8,547</b>	<b>632</b>	<b>264</b>	<b>5,290</b>	<b>2,426</b>	<b>17,159</b>
<b>At 30 June 2013</b>							
Cost		9,397	668	264	5,290	2,702	18,321
Accumulated depreciation		(850)	(36)	-	-	(276)	(1,162)
<b>Net book value</b>		<b>8,547</b>	<b>632</b>	<b>264</b>	<b>5,290</b>	<b>2,426</b>	<b>17,159</b>
<b>Year ended 30 June 2014</b>							
Opening net book value		8,547	632	264	5,290	2,426	17,159
Transfers of assets		4,885	345	50	(6,972)	1,624	(68)
Additions		12	-	99	1,842	2	1,955
Capitalised interest	7	-	-	-	75	-	75
Foreign exchange losses reclassified from reserves	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)
<b>Closing net book value</b>		<b>12,430</b>	<b>933</b>	<b>408</b>	<b>313</b>	<b>3,984</b>	<b>18,068</b>
<b>At 30 June 2014</b>							
Cost		14,090	1,013	408	313	4,397	20,221
Accumulated depreciation		(1,660)	(80)	-	-	(413)	(2,153)
<b>Net book value</b>		<b>12,430</b>	<b>933</b>	<b>408</b>	<b>313</b>	<b>3,984</b>	<b>18,068</b>

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)
<b>Closing net book value</b>	<b>67</b>	<b>40</b>
Cost	136	68
Accumulated amortisation	(69)	(28)
<b>Closing net book value</b>	<b>67</b>	<b>40</b>

## 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
<b>Total current payables</b>	<b>1,338</b>	<b>1,043</b>
Customer deposits	55	129
Other payables and accruals	46	26
<b>Total non-current payables</b>	<b>101</b>	<b>155</b>

## 16 Deferred income

	2014 US\$m	2013 US\$m
Iron ore prepayments	825	38
Port access prepayment	111	-
<b>Total current deferred income</b>	<b>936</b>	<b>38</b>
Iron ore prepayments	223	331
Port access prepayment	333	-
<b>Total non-current deferred income</b>	<b>556</b>	<b>331</b>

# 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
<b>Total current borrowings and finance lease liabilities</b>	<b>154</b>	<b>205</b>
Senior unsecured notes	4,366	6,970
Senior secured credit facility	4,722	4,776
Finance lease liabilities	315	613
Preference shares	-	127
<b>Total non-current borrowings and finance lease liabilities</b>	<b>9,403</b>	<b>12,486</b>
<b>Total borrowings and finance lease liabilities</b>	<b>9,557</b>	<b>12,691</b>

### (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
<b>30 June 2013</b>							
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)
<b>Balance at 30 June 2013</b>	<b>7,091</b>	<b>4,828</b>	<b>642</b>	<b>130</b>	<b>-</b>	<b>-</b>	<b>12,691</b>
<b>30 June 2014</b>							
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)
<b>Balance at 30 June 2014</b>	<b>4,445</b>	<b>4,795</b>	<b>317</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,557</b>

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 <sup>(i)</sup>	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
			<b>4,400</b>	<b>4,445</b>		

<sup>(i)</sup> 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 <sup>(i)</sup>	Principal repayments	Maturity
October 2012	November 2013	5,000	LIBOR + 4.25%	0.25% quarterly	18 October 2017
November 2013	May 2014	4,950	LIBOR + 3.25%	0.25% quarterly	30 June 2019
May 2014	Current	4,925	LIBOR + 2.75%	0.25% quarterly	30 June 2019

<sup>(i)</sup> 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
<b>30 June 2013</b>				
Future minimum lease payments	95	393	972	1,460
Effect of discounting	(72)	(263)	(483)	(818)
<b>Present value of minimum lease payments</b>	<b>23</b>	<b>130</b>	<b>489</b>	<b>642</b>
<b>30 June 2014</b>				
Future minimum lease payments	40	208	674	922
Effect of discounting	(40)	(199)	(366)	(605)
<b>Present value of minimum lease payments</b>	<b>-</b>	<b>9</b>	<b>308</b>	<b>317</b>

### (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
<b>Total current provisions</b>	<b>176</b>	<b>128</b>
Employee benefits	4	6
Restoration and rehabilitation	463	381
<b>Total non-current provisions</b>	<b>467</b>	<b>387</b>

### (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)
<b>Carrying amount at 30 June</b>	<b>170</b>	<b>127</b>

### (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 <sup>(i)</sup>	87	(132)
Unwinding of discount	4	7
Payments for restoration and rehabilitation activities	(6)	(1)
<b>Carrying amount at 30 June</b>	<b>473</b>	<b>388</b>

<sup>(i)</sup> A provision for restoration and rehabilitation has been recognised in relation to Fortescue's iron ore operations. The provision has been made in full for all disturbed areas at the reporting date based on current estimates of costs to rehabilitate and for the costs of infrastructure removal, discounted to their present value based on expected timing of future cash flows.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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)

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# 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
<b>Foreign currency translation reserve</b>		
Balance at 1 July	-	-
Currency translation differences arising during the year	2	-
<b>Balance 30 June</b>	<b>2</b>	<b>-</b>
<b>Hedging reserve</b>		
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)
<b>Balance at 30 June</b>	<b>-</b>	<b>(90)</b>

### (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	-
	<b>562</b>	<b>131</b>

### (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
	<b>290</b>	<b>282</b>

### (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
<b>Audit and other assurance services</b>		
Audit and review of financial statements	774	668
Other assurance services	140	82
<b>Total audit and assurance services</b>	<b>914</b>	<b>750</b>
<b>Other services</b>		
Consulting services	705	461
<b>Total remuneration of PricewaterhouseCoopers Australia</b>	<b>1,619</b>	<b>1,211</b>

### (b) Network firms of PricewaterhouseCoopers Australia

<b>Audit and other assurance services</b>		
Audit and review of financial statements	47	43
<b>Total remuneration of network firms of PricewaterhouseCoopers Australia</b>	<b>47</b>	<b>43</b>

### (c) Other audit firms

Audit and other services	26	25
Audit and review of financial statements - BDO Wellington, New Zealand	26	25
<b>Total auditors' remuneration</b>	<b>1,692</b>	<b>1,279</b>

## 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 <sup>(i)</sup> US\$m	Operating leases <sup>(ii)</sup> US\$m	Total US\$m
<b>30 June 2013</b>			
Within one year	574	72	646
Between one and five years	9	104	113
<b>Total</b>	<b>583</b>	<b>176</b>	<b>759</b>
<b>30 June 2014</b>			
Within one year	519	79	598
Between one and five years	252	176	428
<b>Total</b>	<b>771</b>	<b>255</b>	<b>1,026</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

## 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 Munderoo 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):

			Equity holding		Investment	
			2014	2013	2014	2013
Controlled entities	Country of incorporation	Class of shares	%	%	US\$	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	-

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

## 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
<b>Adjustments for calculation of diluted earnings per share:</b>		
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	Balance at the end of the year	Vested and exercisable at the end of the year	Remaining contractual life
	A\$	Number	Number	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 Minderoo 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)
<b>Working capital adjustments:</b>		
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)
<b>Net cash inflow from operating activities</b>	<b>6,248</b>	<b>3,004</b>
	<b>2014 US\$m</b>	<b>2013 US\$m</b>
<b>Non-cash investing and financing activities</b>		
Acquisition of plant and equipment through finance leases	(9)	(223)
Other	(42)	26
<b>Total non-cash financing and investing activities</b>	<b>(51)</b>	<b>(197)</b>

# 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
<b>Balance sheet</b>		
Current assets	633	657
Non-current assets	8,572	5,480
<b>Total assets</b>	<b>9,205</b>	<b>6,137</b>
Current liabilities	1,267	156
Non-current liabilities	94	568
<b>Total liabilities</b>	<b>1,361</b>	<b>724</b>
<b>Net assets</b>	<b>7,844</b>	<b>5,413</b>
<b>Equity</b>		
Contributed equity	1,289	1,291
Reserves	56	21
Retained earnings	6,499	4,101
<b>Total equity</b>	<b>7,844</b>	<b>5,413</b>
Profit for the year <sup>(i)</sup>	2,960	1,690
<b>Total comprehensive profit for the year</b>	<b>2,960</b>	<b>1,690</b>

<sup>(i)</sup> 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
<b>30 June 2013</b>				
<b>Financial assets</b>				
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
<b>Total financial assets</b>	<b>1,654</b>	<b>889</b>	<b>2</b>	<b>2,545</b>
<b>Financial liabilities</b>				
Borrowings and finance lease liabilities	12,224	467	-	12,691
Trade and other payables	380	816	2	1,198
<b>Total financial liabilities</b>	<b>12,604</b>	<b>1,283</b>	<b>2</b>	<b>13,889</b>
<b>30 June 2014</b>				
<b>Financial assets</b>				
Cash and cash equivalents	2,110	288	-	2,398
Trade and other receivables	487	65	1	553
<b>Total financial assets</b>	<b>2,597</b>	<b>353</b>	<b>1</b>	<b>2,951</b>
<b>Financial liabilities</b>				
Borrowings and finance lease liabilities	9,548	9	-	9,557
Trade and other payables	619	822	-	1,441
<b>Total financial liabilities</b>	<b>10,167</b>	<b>831</b>	<b>-</b>	<b>10,998</b>

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
<b>30 June 2013</b>							
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
<b>Total</b>	<b>1,503</b>	<b>455</b>	<b>939</b>	<b>11,574</b>	<b>3,933</b>	<b>18,404</b>	<b>13,889</b>
<b>30 June 2014</b>							
Non-interest bearing	1,376	-	55	-	-	1,431	1,431
Fixed rate	187	177	355	2,786	3,485	6,990	4,772
Variable rate	119	117	234	737	4,678	5,885	4,795
<b>Total</b>	<b>1,682</b>	<b>294</b>	<b>644</b>	<b>3,523</b>	<b>8,163</b>	<b>14,306</b>	<b>10,998</b>

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

## 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

## 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

## 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.

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# 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

## 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

## 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

## 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.

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## 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.

## DIRECTORS' DECLARATION

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.

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS



## **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*.

**PricewaterhouseCoopers, ABN 52 780 433 757**  
Brookfield Place, 125 St Georges Terrace, PERTH WA 6000, GPO Box D198, PERTH WA 6840  
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# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS



## **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*.

*PricewaterhouseCoopers*

PricewaterhouseCoopers

*Nick Henry*

Nick Henry  
Partner

Perth  
20 August 2014



# REMUNERATION REPORT

The Directors of Fortescue Metals Group Limited ('the Company' or 'Fortescue') are pleased to present the Remuneration Report for the year ended 30 June 2013. 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
- b) FY13 overview and year ahead
- c) Governance of our remuneration
- d) Executive remuneration strategy
- e) Executive remuneration structure
- f) Key components of Executive remuneration
- g) How Fortescue performed over the past five years
- h) Securities trading policy
- i) Executive contract terms
- j) Detailed remuneration for Executives
- k) Non-Executive director remuneration

Whilst the functional and reporting currency of Fortescue is in 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.

# REMUNERATION REPORT

## 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 Fortescue for FY13 were:

### NON-EXECUTIVE DIRECTORS

A Forrest	Chairman
H Elliott	Deputy Chairman and Lead Independent Director
K Ambrecht	Non-Executive Director – Retired 14 November 2012
M Barnaba	Non-Executive Director
G Brayshaw	Non-Executive Director – Retiring at 2013 AGM
E Gaines	Non-Executive Director – Appointed 22 February 2013
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

### EXECUTIVE DIRECTORS

N Power	Chief Executive Officer
P Meurs	Executive Director Developments – Appointed 22 February 2013

### EXECUTIVES

J Frankcombe	Director Operations – Resigned 26 January 2013
S Pearce	Chief Financial Officer
D Woodall	Director Operations – Appointed 14 January 2013

There were no changes to KMP after the reporting date.

## b) FY13 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 FY13:

--

# REMUNERATION REPORT

Change made	Rationale
Introduction of a long term incentive plan (LTI) delivering rights to Fortescue shares that vest subject to the achievement of absolute return on equity (AROE) targets measured over a three year performance period.	<p>To enhance the longer-term strategic alignment of executive remuneration with shareholder interests through the introduction of a performance measure that reflects shareholder returns.</p> <p>AROE is a critical measure of Fortescue's performance and ensures that Executives have a more holistic focus on and are incentivised by shareholder returns on both a short-term and long-term basis.</p> <p>For details of the plan, see section (e) of this report.</p>
Participants' Executive and Senior Staff Incentive Plan (ESSIP) opportunity has been reduced by 25 per cent to accommodate the introduction of the LTI grant.	As a result of the introduction of the LTI plan, the overall remuneration mix has been rebalanced with a 25 per cent reduction in maximum ESSIP opportunity and potential LTI upside, based on performance exceeding AROE targets, of up to four times the value of the ESSIP reduction.
Replaced the Relative Total Shareholder Return performance objective under the ESSIP with an AROE performance objective.	AROE is a critical measure of Fortescue's performance and ensures that Executives have a more holistic focus on and are incentivised by shareholder returns on both a short-term and long-term basis.

## FY13 Remuneration Outcomes – Linking Performance and Pay

The following explains how fixed and variable remuneration outcomes were driven by company performance in FY13.

### Fixed Remuneration

In consideration of market fixed remuneration rates, current business climate and enhancing the emphasis on 'at risk' remuneration, no change was made to Executive fixed remuneration. Fixed remuneration remains at July 2011 levels.

### Variable Remuneration

#### FY13 Executive and Senior Staff Incentive Plan

Awards made in relation to the FY13 ESSIP reflect the achievement of two of three company performance objectives, delivering a significant improvement in safety performance and reduction in C1 costs, the achievement of Company growth objectives including AROE and efficiency of reserves mined and individual performance objectives. Refer to section (e) for more detail.

The outcome represents an average payment of 78 per cent of maximum opportunity compared with an average payment of 49 per cent of maximum opportunity in FY2012.

#### FY13 Long Term Incentive Plan (LTI)

LTI grants were made in December 2012, replacing 25 per cent of the ESSIP opportunity to further enhance the longer term 'at risk' remuneration mix for Executives. The performance period for the 2013 LTI is 1 July 2012 to 30 June 2015 and final award outcomes for the 2013 LTI plan will be reported in the 2015 remuneration report.

# REMUNERATION REPORT

## Executive Total Earnings in 2013

Details of remuneration received by the Chief Executive Officer and executives prepared in accordance with statutory requirements and accounting standards are detailed on page 31. The table below sets out the total earnings for the Chief Executive Officer and executives in FY13 – sometimes referred to as ‘actual’ pay. The table includes fixed remuneration, the cash component of the ESSIP earned for FY13 performance and the value of the share component of the FY13 ESSIP that vested.

Name	Fixed remuneration <sup>1</sup>	FY 13 ESSIP Cash Paid	FY13 ESSIP <sup>4</sup> Shares Awarded	Total Actual Remuneration Earned in 2013
N Power	1,800,000	708,770	453,559	2,962,329
S Pearce	1,050,000	276,617	177,013	1,503,630
J Frankcombe <sup>2</sup>	597,288	n/a	n/a	597,288
P Meurs	1,050,000	174,830	261,049	1,485,879
D Woodall <sup>3</sup>	419,384	101,726	65,098	586,208

<sup>1</sup> Fixed remuneration includes cash salary, paid leave, superannuation, and non-monetary benefits

<sup>2</sup> Mr Frankcombe resigned on 26 January 2013

<sup>3</sup> Mr Woodall commenced on 14 January 2013

<sup>4</sup> ESSIP share value for FY13 is the value of the participant's elected weighting in shares (minimum 50 per cent of the total award) divided by the VWAP of Fortescue Shares for the first five trading days of the plan year (A\$4.9464) multiplied by the 5 day VWAP of Fortescue shares for the first five trading days of FY14 (A\$3.1653).

## c) Governance of our remuneration

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

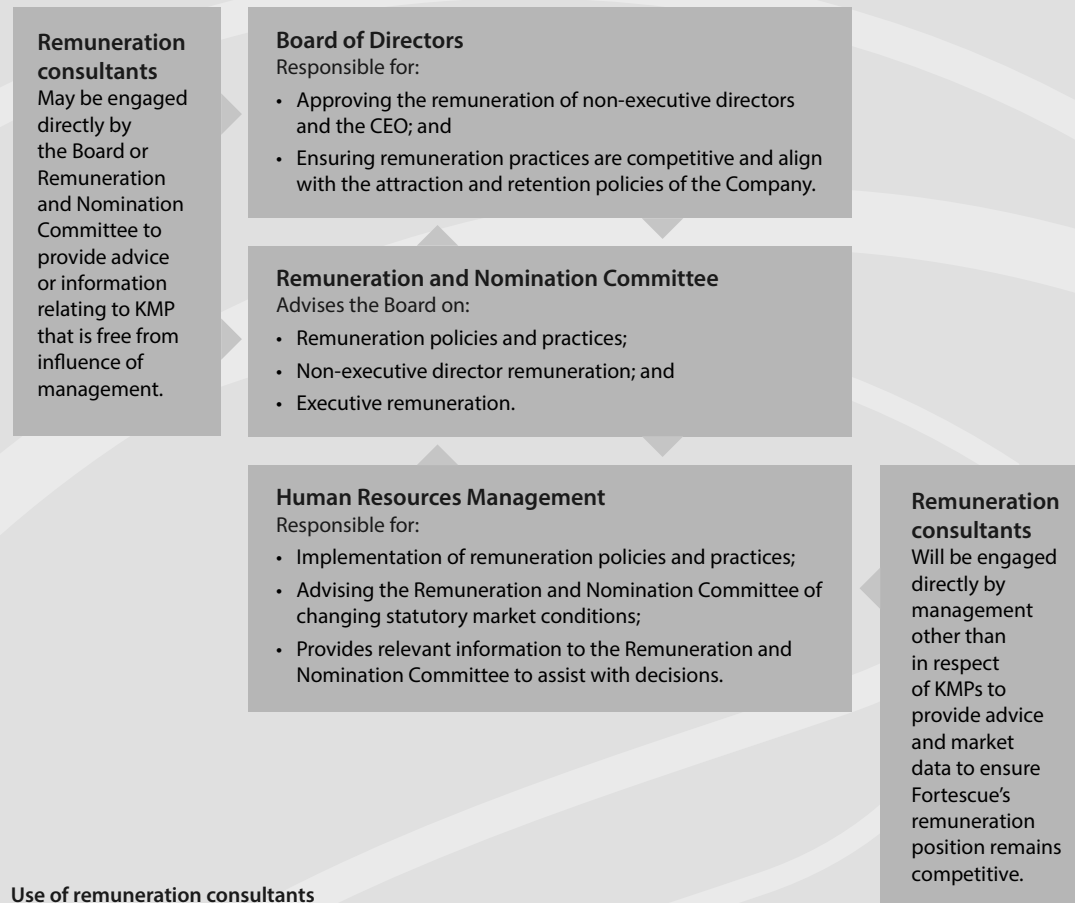
The Remuneration and Nomination Committee operates under a Board-approved charter. This includes responsibility for renewing and reporting to the Board on Executive remuneration policy and practices such as remuneration levels and incentive plans. It also includes recruitment, retention, performance 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 FY13 consisted solely of Non-Executive Directors. The Chief Executive Officer and others may be invited to attend meetings by the Committee Chairman as required, but have no vote on matters before the Committee.

# REMUNERATION REPORT

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 financial year 2013, Egan Associates provided the following remuneration recommendations (as defined in the Corporations Act 2001):

- Review of company incentive structure

The above 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 fees paid for the remuneration recommendations was A\$10,250 (ex GST). Other services provided by Egan Associates included other advisory services and the fees for all other services was \$24,925 (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 Chairman 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; and
- Egan Associates provided the remuneration recommendation only to the Chairman 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.

# REMUNERATION REPORT

## 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 the ASX 100 Resources and ASX 30 and also seeks input from independent remuneration consultants regarding Executive remuneration as detailed in section (b). The overall intent is to ensure the executive remuneration program 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

Remuneration strategy principle	Purpose	Practice
High levels of share ownership	Drive alignment of employee and shareholder interests	LTIP awarded as shares. A minimum 50 per cent of the ESSIP paid in shares with Executives able to elect up to 100 per cent in shares
Market competitive remuneration	Attract and retain key talent and be competitive against relevant companies	Remuneration is benchmarked against the ASX 100 Resources and ASX 30 Indices
Performance focus	Provide fair reward in line with individual and company achievements	Executive remuneration mix targets a minimum of 63 per cent of the total opportunity 'at risk'
Fit for purpose	Include flexibility to reflect clear linkage to business strategy	Business strategy is prioritised; market practice is only one input in determining the relevant framework
Strategic alignment	Support delivery of long-term business strategy and growth aspirations	Incentives are measured on financial and non-financial performance to support sustainable growth
Shareholder and Executive alignment	Introduction of a LTI (to apply from FY13) rewarding sustained performance over a three year period	A significant portion of executive remuneration granted as performance rights vesting subject to short and long-term performance hurdles

# REMUNERATION REPORT

## 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 the FY13 comprised:

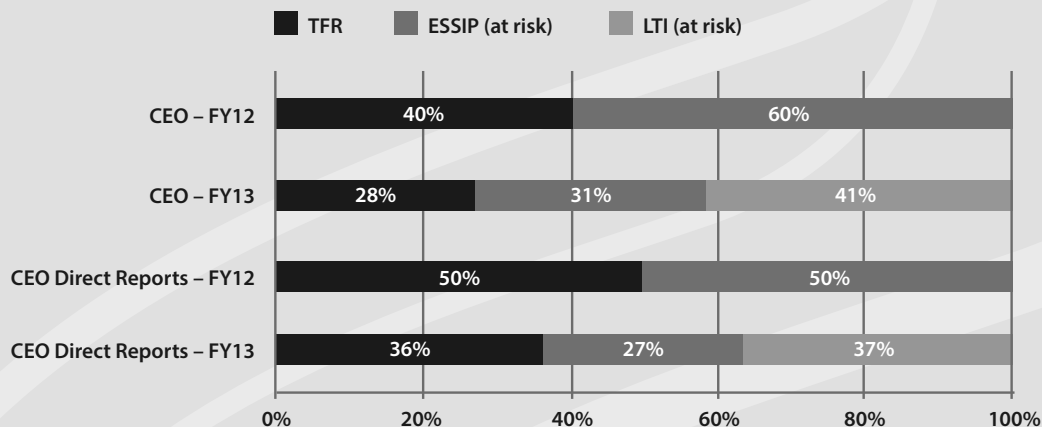
- Total Fixed Remuneration (TFR);
- Executive & Senior Staff Incentive Plan (ESSIP); and
- Long Term Incentive Plan (LTI).

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 twenty 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 set. Information provided by Egan Associates revealed that current total remuneration levels are generally consistent with this policy.

### Remuneration Mix

The table below demonstrates the revised remuneration mix for performance at stretch, which is reflective of the introduction of the LTI, and reduction in ESSIP opportunity, for KMPs for FY13:



*\* Note: the table above represents the target remuneration mix for the CEO and CEO direct reports in 2013 and does not take into consideration options granted to Mr Meurs at the start of his employment or his voluntary participation in the Executive Loan Plan.*

The above table clearly illustrates the significantly increased 'at-risk' components of the new remuneration structure compared to the corresponding FY2012 structure. The new structure serves to reinforce the pay-for-performance alignment desired by shareholders and their representatives / advisers.

# REMUNERATION REPORT

## 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.

## f) Key components of Executive remuneration

### Total Fixed Remuneration

TFR is made up of 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 & 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, linking Executive remuneration to 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. The maximum incentive opportunity for KMPs in 2013 is shown below:

Chief Executive Officer	112.5 per cent of TFR*	1 participant
CEO Direct Reports	75 per cent of TFR*	3 participants

*\* Note that the maximum possible value of awards under the ESSIP will be determined by the number of objectives achieved and the value of the Fortescue shares at time of vesting.*

*\* Due to the introduction of the LTI plan in FY13, there has been a corresponding reduction in maximum ESSIP opportunity from FY13. The maximum ESSIP opportunities for FY13 have been reduced by 25 per cent.*

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 financials objectives are met.

# REMUNERATION REPORT

The performance objectives in 2013 are shown below:

Company Annual Performance		Weighting	Results per cent	Outcome per cent
Production <sup>(2)</sup>	Target tonnes shipped	8	Not met	0
Safety <sup>(2)</sup>	Target percentage reduction (15 per cent) in Total Recordable Injury Frequency Rate (TRIFR)	8	Met	8
Cost <sup>(1)</sup>	Target cost per tonne shipped	8	Met	11 <sup>4</sup>
Company Growth Performance				
Growth <sup>(2)</sup>	Deliver agreed actions from the 2012 Board Strategic Planning Workshop	8	Partially met	2
Financial <sup>(1,3)</sup>	Achieve target annual Absolute Return on Equity (AROE) of >15 per cent	10	Met	10
Physical <sup>(2)</sup>	Target percentage of reserves mined is converted (after processing losses) to product, inclusive of quality measurement (e.g. grade expectations and real mined tonnage)	8	Met	8
Individual Performance				
	4 objectives based on the business plan at 12.5 per cent each	50	Partially met	avg 39

<sup>(1)</sup> Financial Targets

<sup>(2)</sup> Non-Financial Targets

<sup>(3)</sup> The 2012 Remuneration Report stated Relative Total Shareholder Return as a growth performance measure for the 2013 ESSIP. Its replacement with AROE was approved by the Board after the report was lodged.

<sup>(4)</sup> A key element of our culture is to set challenging stretch targets and strive to outperform those targets. In the 2013 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.

The CEO's Individual Performance Objectives for the reporting period related to:

- specific deliverables for the T155 Expansion Project;
- funding options for future growth opportunities;
- specific projects related to operating costs; and
- strengthening and maintaining Fortescue's differentiating culture.

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 the ESSIP works: an example

The ESSIP is designed so that participants are generally rewarded the same result as a Fortescue investor over the financial year.

### Example:

Executive A has an incentive opportunity of \$100,000. The minimum value of the share component of this incentive opportunity is \$50,000.

At the beginning of the year, the share component is divided by the volume weighted average price (VWAP) of Fortescue shares over the first five trading days of the year (eg in July 2012). In July 2012, the relevant VWAP was A\$4.95. This results in an award of 10,108 shares at the end of the year to Executive A provided the performance conditions are met.

Executive A may elect to receive up to 100 per cent of the incentive opportunity in shares.

# REMUNERATION REPORT

## Historical ESSIP performance

Due to the rigorous annual incentive program and challenging hurdles set by the Board, the conditions for incentive awards have not been fully met in a number of years.

Accordingly, senior management, including KMPs, have not fully received their incentive in the majority of the last five years. The table below outlines the actual results of the FY2012 ESSIP against the targets that were set:

Company Annual Performance		Weighting	Results per cent	Outcome per cent
Production	Achieve: budgeted tonnes shipped	10	Not met	0
Safety	Achieve: 15 per cent reduction in Total Recordable Injury Frequency Rate (TRIFR)	10	Met	10
Cost	Achieve: target cost per tonne shipped	10	Not met	0
Company Growth Performance				
Physical	Achieve: target % of reserves mined converted (after processing losses) to product, inclusive of quality measurement (e.g. grade expectations and real mined tonnage).	10	Not met	0
Financial	Achieve: Relative TSR > 50th percentile benchmarked against ASX100 Resources index. 50 per cent payment @ 50th percentile progressing to 100 per cent at 75th percentile.	10	Partially met	5.4
Individual Performance				
	4 objectives based on the business plan at 12.5 per cent each	50	Partially met	avg 43

## ESSIP performance in FY13

Performance rights granted under the ESSIP at the beginning of FY13 are shown below. All the performance rights issued convert to ordinary shares if all ESSIP objectives are met. The third column details the actual number of share rights that will be converted to ordinary shares based on actual performance:

	ESSIP performance rights issued	ESSIP performance rights lapsed	ESSIP performance rights forfeited	Performance rights to convert to shares for FY13 ESSIP performance
Executive				
N Power	204,695	61,404	-	143,291
S Pearce	79,604	23,681	-	55,923
J Frankcombe <sup>1</sup>	79,604	-	(79,604)	-
P Meurs	111,445	28,973	-	82,472
D Woodall	31,219	10,653	-	20,566

<sup>1</sup> Mr Frankcombe resigned on 26 January 2013.

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

# REMUNERATION REPORT

The table below details the maximum ESSIP cash and share awards against the actual outcomes for the 2013 year. The share components are based on the share weighting election of each Executive:

2013 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	ESSIP outcome awarded (per cent of TFR)	ESSIP Cash awarded	ESSIP Shares <sup>1</sup>
<b>Executive Directors</b>									
N Power	1,800,000	112.5	50	-	1,012,500	1,012,500	79	708,770	453,559
<b>Key Management Personnel</b>									
S Pearce	1,050,000	75	50	-	393,750	393,750	53	276,617	177,013
P Meurs	1,050,000	75	70	-	236,250	551,250	56	174,830	261,049
D Woodall	900,000	75	50	0.46	154,418	154,418	49	101,726	65,098

<sup>1</sup> ESSIP share value for FY13 is the value of the participant's elected weighting in shares (minimum 50 per cent of the total award) divided by the VWAP of Fortescue shares for the first five trading days of the Plan year (A\$4.9464) multiplied by the five day VWAP of Fortescue shares for the first 5 days of FY2014 (A\$3.1653).

<sup>2</sup> Mr Woodall commenced on 14 January 2013.

## Long Term Incentive Plan

As stated previously, the Board resolved to introduce a new LTI plan in 2013 with awards considered annually. The purpose of the LTI is to reinforce the criticality of AROE as Fortescue progresses from a multi-project focus to one of the largest producers of iron ore in the world. The Board believes that the introduction of the LTI at this time will continue to support the retention and motivation of our Executives and other key talent, increase the long-term focus of the incentive schemes and reinforce alignment with shareholder interests.

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

The number of Rights issued to each participant under the FY13 LTI is based on the amount equal to the 25 per cent reduction in ESSIP (Base Award). The Executive has the ability to earn up to four times the Base Award should the average AROE achieved over the three year performance period exceed target. There is no opportunity to retest LTI performance.

The Company uses AROE as the performance measure for the LTI.

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

A minimum 15 per cent (FY14: 20 per cent) annual AROE hurdle rate was selected for the following reasons:

- 15 per cent exceeds the Company's cost of equity;
- the average AROE for the ASX 100 Resources Index from 2008 to 2012 is 5.3 per cent; and
- the 80th percentile AROE for the ASX 100 Resources Index from 2008 to 2012 is 21 per cent.

# REMUNERATION REPORT

The vesting schedule is as follows:

Average AROE	FY13	FY14	Conversion Factor
	<15%	<20%	Nil
	20%	23%	2x the base award
	25%	26.67%	3x the base award
	30% +	30% +	4x the base award

Rights will convert to shares at the end of the three year vesting period if 15 per cent per annum (FY14: 20 per cent per annum) average AROE is achieved, increasing (on a linear scale) to a maximum of 4 times the base award when an average AROE of 30 per cent per annum or more is achieved. 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 of less than 15 per cent per annum will see 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 \$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 FY13, Fortescue's share price was impacted by volatility in global capital and commodity markets, decreasing from the FY2012 closing price of A\$ 4.85 to A\$3.04 at the end of 2013. This represents a 37 per cent reduction compared with the ASX100 Resource Index which fell 6 per cent over the corresponding period.

	2013	2012	2011	2010	2009
Revenue from iron ore operations – US\$million	8,057	6,681	5,442	3,220	1,831
Net profit/(loss) – US\$million	1,746	1,559	1,022	581	508
A\$ dividends paid	\$0.10	\$0.08	\$0.03	-	-
A\$ change in share price	\$(1.81)	\$(1.45)	\$2.23	\$0.43	\$(8.11)*
per cent change in share price	(37)	(23)	54	12	(68)

An explanation of how fixed and variable remuneration outcomes were driven by company performance in FY13 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.

# REMUNERATION REPORT

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	Mr Neville Power	1,800,000	112.5	150	Three months written notice (or three months TFR in lieu)
Chief Financial Officer	Mr Stephen Pearce	1,050,000	75	100	Three months written notice (or three months TFR in lieu)
Director Development	Mr Peter Meurs	1,050,000	75	100	Three months written notice (or three months TFR in lieu)
Director Operations	Mr David Woodall	900,000	75	100	Three months written notice (or three months TFR in lieu)

*\* Total Fixed Remuneration as of 30 June 2013. Reviewed annually by the R&NC. Remains at July 2011 levels.*

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 payment 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 2013

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

<sup>1</sup> ESSIP cash value payable in respect to FY13 to be paid in September 2013.

<sup>2</sup> The value of ESSIP and LTIP performance rights was assessed using trinomial pricing model that takes into account the price of Fortescue shares at the grant date, expected price volatility of the underlying share, the term of the right, the expected dividend yield, estimated share conversion factor and the risk-free interest rate for the term of the right and represents the accounting value expensed in FY13.

<sup>3</sup> The fair value of options is determined at grant date using either or trinomial lattice 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, estimated conversion factor and the risk free interest rate for the term of the option.

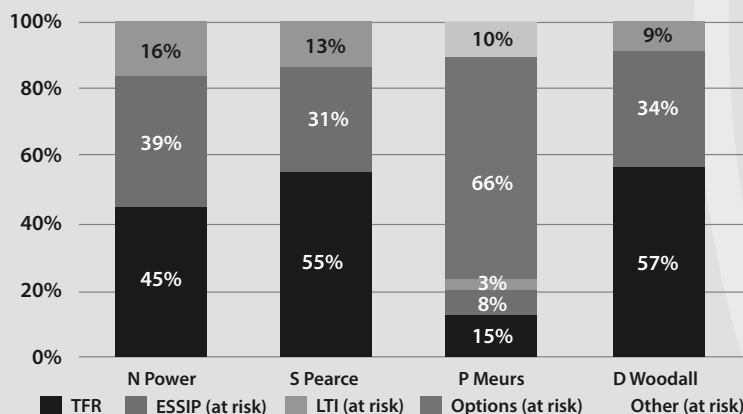
<sup>4</sup> Other share based payments relate to financial assistance by way of guarantee provided to Mr Meurs by The Metal Group Pty Ltd to purchase Fortescue shares under an approved arrangement. The fair value at grant date was determined using a Monte Carlo simulation model, which takes into account the following inputs: the life of the instruments, the price of the underlying share, the expected volatility of the underlying share price, the dividends expected on the underlying share, the risk-free interest rate for the life of the instruments, the loan value per share, the interest, fees and charges on the loan and the terms of the margin call.

<sup>5</sup> Mr Frankcombe resigned on 26 January 2013.

<sup>6</sup> Mr Woodall commenced on 14 January 2013.

<sup>7</sup> Once vested, the options are subject to a further share price performance condition. Half of the options require a share price of \$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 13 May 2015.

The graph below represents the actual remuneration mix for KMP in FY13.



# REMUNERATION REPORT

## Executive Remuneration for year ending 30 June 2012

	Short-term employee Benefits		Post Employment Benefits	End of Service	Share-based payments				Total
	Cash Salary and fees \$A	ESSIP Cash value for 2012 Plan Year \$A	Non- monetary benefits \$A	Supere- rann- uation \$A	Accrued leave entitlements \$A	ESSIP Share value for 2012 Plan Year <sup>2</sup> \$A	Options <sup>3</sup> \$A	Other share- based payments <sup>4</sup> \$A	Total \$A
2012									
Executive Directors									
A Forrest <sup>5</sup>	130,216	-	17,677	17,784	-	-	-	-	165,677
N Power <sup>6</sup>	1,755,442	-	7,000	37,558	-	1,214,679	-	-	3,014,679
Key Management Personnel									
S Pearce	1,020,083	343,350	7,000	25,000	-	263,910	-	-	1,659,343
P Hallam <sup>7</sup>	170,903	-	1,224	2,749	15,049	-	(91,930) <sup>8</sup>	-	97,995
J Frankcombe <sup>9</sup>	461,977	150,185	-	22,917	-	115,437	-	-	750,516
P Meurs	999,250	146,948	7,000	47,917	-	263,547	5,833,968 <sup>10</sup>	853,272	8,151,902

<sup>1</sup> ESSIP cash value is a minimum of 50% of the estimated award.

<sup>2</sup> ESSIP estimated share value for 2012 Plan Year is the value of the participant's elected weighting in shares (minimum 50 per cent of the total estimated award) divided by the VWAP of Fortescue shares for the first five trading days of the Plan year (\$6.44) multiplied by the five day VWAP of Fortescue shares for the first 5 days of FY13 (\$4.95).

<sup>3</sup> The fair value of options is determined at grant date using a trinomial lattice 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.

<sup>4</sup> Other share based payments relate to financial assistance by way of guarantee provided to Mr. Meurs by The Metal Group Pty Ltd to purchase Fortescue shares under an approved arrangement. The fair value at grant date was determined using a Monte Carlo simulation model, which takes into account the following inputs: the life of the instruments, the price of the underlying share, the expected volatility of the underlying share price, the dividends expected on the underlying share, the risk-free interest rate for the life of the instruments, the loan value per share, the interest, fees and charges on the loan and the terms of the margin call.

<sup>5</sup> Mr Forrest commenced as Chairman on 18 July 2011, ceasing to be an Executive Director at this time. The amounts above include the full year earnings as CEO and Chairman. Non-monetary benefits include occasional private use of the Company aircraft taking into account the individual's contribution towards usage.

<sup>6</sup> Mr Power commenced as Chief Executive Officer on 18 July 2011, prior to this he held the position of Chief Operating Officer. The amounts above include the full year earnings as CEO and COO.

<sup>7</sup> Mr Hallam retired on 4 September 2011.

<sup>8</sup> Mr Hallam forfeited 300,000 options on retirement.

<sup>9</sup> Mr Frankcombe commenced on 16 January 2012.

<sup>10</sup> 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 13 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 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 lodgment 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 2013 was A\$925,453 (2012: 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.

### 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 year ended 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	No. Share Rights Granted	Value per share right <sup>1</sup>	Value of Rights at Grant Date	% Performance Achieved	Vested	Forfeited/ Lapsed
N Power	10/12/12	1/7/13 to 30/6/15	136,463	\$15.40	\$2,101,530	Determined in 2015	n/a	-
S Pearce	10/12/12	1/7/13 to 30/6/15	53,069	\$15.40	\$817,263	Determined in 2015	n/a	-
J Frankcombe <sup>2</sup>	10/12/12	1/7/13 to 30/6/15	53,069	\$15.40	\$817,263	n/a	n/a	53,069
P Meurs	10/12/12	1/7/13 to 30/6/15	53,069	\$15.40	\$817,263	Determined in 2015	n/a	-
D Woodall	08/02/13	1/7/13 to 30/6/15	20,813	\$18.84	\$392,117	Determined in 2015	n/a	-

<sup>1</sup> The value of LTI performance rights was assessed using a trinomial pricing model that takes into account the price of Fortescue shares at the grant date, expected price volatility of the underlying share, the term of the right, the expected dividend yield, estimated conversion factor and the risk-free interest rate for the term of the right.

<sup>2</sup> Mr Frankcombe resigned on 26 January 2013.

### Details of share based payments relating to LTI.

#### 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.

# REMUNERATION REPORT

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	
	2013	2012
Directors of Fortescue Metals Group Limited		
Other key management personnel of the Company		
P Meurs <sup>1</sup>	2,187,500	2,187,500

<sup>1</sup> 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 13 May 2015.

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 will be granted to individuals equally over the grant to vesting date period. The amount is included in the remuneration tables above. The fair values at grant date are determined using the trinomial lattice or binomial option pricing models that take 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 and the risk free interest rate for the term of the option.

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 in 2013.

## k) Non-Executive director remuneration

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

Non-Executive directors receive fees for both Board and Committee membership. The maximum aggregate remuneration payable to non-Executive directors is \$2.0m, which was approved by shareholders at the annual general meeting on 19 November 2010. There have been no changes to the aggregate fee pool over the last 12 months. The current fees (inclusive of superannuation) are outlined in the table below:

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 Board Member	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.

# REMUNERATION REPORT

As confirmed by Egan Associates, in aggregate, each individual non-Executive director's 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).

2013	Base fees \$A	Committee Chairman fees	Committee fees	Other benefits	Superann- uation	Total
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	36,364	5,455	-	16,909	186,001
K Ambrecht <sup>1</sup>	52,037	-	10,593	-	-	62,630
O Hegarty	127,273	-	6,818	-	13,409	147,500
C Huiquan <sup>2</sup>	-	-	-	-	-	-
G Raby	140,000	-	60,000	-	-	200,000
H Scruggs	140,000	-	22,500	-	-	162,500
M Barnaba	127,273	13,636	19,091	-	16,000	176,000
E Gaines <sup>3</sup>	44,865	-	-	-	4,487	49,352

<sup>1</sup> Mr Ambrecht retired on 14 November 2012.

<sup>2</sup> Mr Huiquan has elected not to receive board fees in his role as Hunan Valin's representative on Fortescue's Board.

<sup>3</sup> Ms Gaines commenced on 22 February 2013.

2012	Base fees \$A	Committee Chairman fees	Committee fees	Other benefits	Superann- uation	Total
H Elliott	170,919	1,344	4,545	-	17,681	194,489
G Rowley	115,152	-	5,972	-	12,112	133,236
G Brayshaw	115,152	21,212	1,818	-	13,818	152,000
K Ambrecht	126,667	-	16,167	-	-	142,834
I Burston <sup>1</sup>	15,918	-	663	-	-	16,581
O Hegarty	115,152	-	5,303	-	12,045	132,500
L Xiaowei <sup>2</sup>	80,000	-	-	-	-	80,000
C Huiquan <sup>3</sup>	46,667	-	-	-	-	46,667
G Raby <sup>4</sup>	111,269	-	52,301	-	-	163,570
H Scruggs <sup>5</sup>	108,639	-	10,639	-	-	119,278
M Barnaba	115,152	9,090	9,737	-	13,398	147,377
R Scrimshaw <sup>6</sup>	19,349	-	-	(91,930)	2,017	(70,564)

<sup>1</sup> Dr Burston resigned on 18 August 2011.

<sup>2</sup> Mr Li resigned on 29 February 2012.

<sup>3</sup> Mr Cao commenced on 1 March 2012 and has elected not to receive board fees in his role as Hunan Valin's representative on Fortescue's Board.

<sup>4</sup> Dr Raby commenced on 18 August 2011.

<sup>5</sup> Mr Scruggs commenced on 25 August 2011.

<sup>6</sup> Mr Scrimshaw resigned as Non-Executive Director on 27 August 2011.

# AUDITOR'S INDEPENDENCE DECLARATION



## Auditor's Independence Declaration

As lead auditor for the audit of Fortescue Metals Group Limited for the year ended 30 June 2013, 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 dark ink, appearing to read 'Nick Henry'.

Nick Henry  
Partner  
PricewaterhouseCoopers

Perth  
22 August 2013

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# CONSOLIDATED INCOME STATEMENT AND CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2013

Consolidated income statement	Notes	2013 US\$m	2012 US\$m
Operating sales revenue	4	8,120	6,716
Cost of sales	6	(5,140)	(4,008)
<b>Gross profit</b>		<b>2,980</b>	<b>2,708</b>
Other income	5	291	171
Other expenses	7	(252)	(111)
<b>Profit before income tax and net finance expenses</b>		<b>3,019</b>	<b>2,768</b>
Finance income	8	33	60
Finance expenses	8	(586)	(565)
<b>Profit before income tax</b>		<b>2,466</b>	<b>2,263</b>
Income tax expense	9	(720)	(704)
<b>Profit for the year after income tax</b>		<b>1,746</b>	<b>1,559</b>
Profit for the year is attributable to:			
Equity holders of the parent		1,746	1,559
Non-controlling interest		-	-
<b>Profit for the year after income tax</b>		<b>1,746</b>	<b>1,559</b>

Consolidated statement of comprehensive income	Notes	2013 US\$m	2012 US\$m
<b>Profit for the year after income tax</b>		<b>1,746</b>	<b>1,559</b>
Other comprehensive income			
Items that may be reclassified to profit and loss			
(Losses)/gains on cash flow hedges taken to equity	21(a)	(80)	109
Gains transferred to the initial carrying amount of hedged items	21(a)	(35)	(87)
<b>Total comprehensive income for the year, net of tax</b>		<b>1,631</b>	<b>1,581</b>
Total comprehensive income for the year is attributable to:			
Equity holders of the parent		1,631	1,581
Non-controlling interest		-	-
<b>Total comprehensive income for the year, net of tax</b>		<b>1,631</b>	<b>1,581</b>

	Notes	Cents	Cents
Earnings per share for profit attributable to the ordinary equity holders of the Company:			
Basic earnings per share	32(a)	56.07	50.07
Diluted earnings per share	32(a)	56.05	50.06

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 2013

	Notes	2013 US\$m	2012 US\$m
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	10	2,158	2,343
Trade and other receivables	11	409	588
Inventories	12	961	617
Other current assets	13	126	102
Current tax receivable		8	-
<b>Total current assets</b>		<b>3,662</b>	<b>3,650</b>
<b>Non-current assets</b>			
Trade and other receivables	11	6	37
Property, plant and equipment	14	17,159	11,357
Intangible assets	15	40	19
<b>Total non-current assets</b>		<b>17,205</b>	<b>11,413</b>
<b>Total assets</b>		<b>20,867</b>	<b>15,063</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	16	1,043	1,182
Borrowings and finance lease liabilities	17	205	283
Provisions	18	128	100
Deferred income		38	-
Current tax payable		-	551
<b>Total current liabilities</b>		<b>1,414</b>	<b>2,116</b>
<b>Non-current liabilities</b>			
Trade and other payables	16	155	225
Borrowings and finance lease liabilities	17	12,486	8,218
Provisions	18	387	516
Deferred tax liabilities	19	805	221
Deferred income		331	5
<b>Total non-current liabilities</b>		<b>14,164</b>	<b>9,185</b>
<b>Total liabilities</b>		<b>15,578</b>	<b>11,301</b>
<b>Net assets</b>		<b>5,289</b>	<b>3,762</b>
<b>Equity</b>			
Contributed equity	20(b)	1,291	1,293
Reserves	21(a)	(49)	41
Retained earnings		4,043	2,428
Equity attributable to equity holders of the Company		5,285	3,762
Non-controlling interest		4	-
<b>Total equity</b>		<b>5,289</b>	<b>3,762</b>

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

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2013

	Notes	2013 US\$m	2012 US\$m
<b>Cash flows from operating activities</b>			
Cash receipts from customers		8,725	6,625
Payments to suppliers and employees		(5,026)	(3,694)
Income tax paid		(695)	(123)
<b>Net cash inflow from operating activities</b>	<b>34</b>	<b>3,004</b>	<b>2,808</b>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(6,355)	(6,044)
Movement in deposits and guarantees		3	(70)
Proceeds from disposal of plant and equipment and partial sale of jointly controlled assets		155	71
Interest received		31	53
<b>Net cash outflow from investing activities</b>		<b>(6,166)</b>	<b>(5,990)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings and finance leases		7,330	3,638
Repayment of borrowings and finance leases		(3,232)	(15)
Interest and finance costs paid		(893)	(584)
Proceeds from customer deposits		-	100
Repayment of customer deposits		(80)	(95)
Dividends paid		(131)	(251)
Purchase of shares by employee share trust		(20)	-
Transactions with non-controlling interest		15	-
<b>Net cash inflow from financing activities</b>		<b>2,989</b>	<b>2,793</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(173)</b>	<b>(389)</b>
Cash and cash equivalents at the beginning of the financial year		2,343	2,663
Effects of exchange rate changes on cash and cash equivalents		(12)	69
<b>Cash and cash equivalents at the end of the financial year</b>	<b>10</b>	<b>2,158</b>	<b>2,343</b>
Non-cash investing and financing activities	34		

*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 2013

	Attributable to equity holders of the Company				Non-controlling interest	
	Contributed equity US\$m	Reserves US\$m	Retained earnings US\$m	Total US\$m	US\$m	Total equity US\$m
Balance at 1 July 2011	1,295	13	1,126	2,434	-	2,434
Profit for the year	-	-	1,559	1,559	-	1,559
Other comprehensive income	-	22	-	22	-	22
<b>Total comprehensive income for the year, net of tax</b>	<b>-</b>	<b>22</b>	<b>1,559</b>	<b>1,581</b>	<b>-</b>	<b>1,581</b>
Transactions with owners in their capacity as owners, net of tax:						
Issue of share capital	1	-	-	1	-	1
Purchase of shares under employee share plans	(14)	-	-	(14)	-	(14)
Employee share awards exercised net of employee contributions	11	-	-	11	-	11
Forfeited options	-	(1)	-	(1)	-	(1)
Equity settled share-based payment transactions	-	7	-	7	-	7
Dividends paid	-	-	(257)	(257)	-	(257)
<b>Balance at 30 June 2012</b>	<b>1,293</b>	<b>41</b>	<b>2,428</b>	<b>3,762</b>	<b>-</b>	<b>3,762</b>
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)
<b>Total comprehensive income for the year, net of tax</b>	<b>-</b>	<b>(115)</b>	<b>1,746</b>	<b>1,631</b>	<b>-</b>	<b>1,631</b>
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
<b>Balance at 30 June 2013</b>	<b>1,291</b>	<b>(49)</b>	<b>4,043</b>	<b>5,285</b>	<b>4</b>	<b>5,289</b>

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

## 1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. 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. Fortescue is a for-profit entity for the purposes of preparing these financial statements.

### (a) Basis of preparation

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*.

#### (i) 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.

#### (ii) 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.

#### (iii) 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 the financial statements, are disclosed in note 2.

#### (iv) 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.

### (b) Principles of consolidation

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 income statement and 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 and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of financial position respectively.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

## 1 Summary of significant accounting policies (continued)

### (c) Joint ventures – jointly controlled assets

The Group undertakes a number of business activities through joint ventures. Joint ventures are established through contractual arrangements that require the unanimous consent of each of the venturers regarding the strategic financial and operating policies of the venture (joint control).

When a Group entity undertakes its activities under joint venture arrangements directly, the Group's share of jointly controlled assets and liabilities incurred jointly with other venturers are recognised in the financial statements of the relevant entity and classified according to their nature. Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on an accruals basis. Income from the sale or use of the Group's share of the output of jointly controlled assets, and its share of joint venture expenses, are recognised when it is probable that the economic benefits associated with the transactions will flow to or from the Group and the amount can be measured reliably. All such amounts are measured in accordance with the terms of each agreement, which is usually in proportion to the Group's interest in the jointly controlled assets.

The transactions, balances and unrealised gains on transactions between the Group and joint ventures are eliminated to the extent of the Group's ownership interest.

### (d) 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.

### (e) 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.

### (f) Foreign currency translation

#### (i) 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.

#### (ii) 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

## 1 Summary of significant accounting policies (continued)

### (iii) 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.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

### (g) Revenue recognition

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

#### (i) Sale of products

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

Fortescue recognises revenue from the sale of iron ore when the risks and rewards of ownership transfer 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.

### (h) 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 2013

## 1 Summary of significant accounting policies (continued)

### (i) 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 substantially 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 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 has implemented the tax consolidation legislation as of 1 July 2002 and is therefore taxed as a single entity from that date.

The head entity, Fortescue Metals Group Limited, and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a standalone taxpayer in its own right.

In addition to its own current and deferred tax amounts, the Company 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 tax consolidated group.

Assets or liabilities arising under tax funding agreements within the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the 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 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

## 1 Summary of significant accounting policies (continued)

### (j) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions 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.

### (k) 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.

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

The amount of the impairment allowance is recognised in 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.

### (l) Inventories

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

- labour costs, materials and contractor expenses which are directly attributable to the extraction and processing of iron ore;
- production overheads, including attributable mining and manufacturing overheads;
- the depreciation of mine development assets and of property, plant and equipment used in the extraction, processing and transportation of iron ore; 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.

### (m) 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

## 1 Summary of significant accounting policies (continued)

### (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.

### (n) Financial liabilities

#### (i) Trade payables

Trade and other payables are initially recognised at fair value and subsequently measured at amortised cost. These amounts 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.

### (o) 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 such as forward contracts and non-derivative instruments 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 hedged instruments 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

## 1 Summary of significant accounting policies (continued)

### (p) 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 exploration, evaluation and development expenditure. Upon commissioning, which is the date when the asset is in the location and condition necessary for it to be capable of operating in the manner intended by management, the assets are transferred into property, plant and equipment or development assets, as appropriate.

Cost may also include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Borrowing costs related to the acquisition or construction of qualifying assets are capitalised. When separate parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalised as part of the equipment.

#### (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.

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.

#### 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

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period with the effect of any changes in estimate accounted for on a prospective basis.

#### Units of production method

Where the useful life of an asset is directly linked to the extraction of iron ore from a mine, the asset is depreciated using the units of production method. The units of production method is an amortised charge proportional to the depletion of the estimated proven and probable reserves at the mine.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

## 1 Summary of significant accounting policies (continued)

### (iv) Exploration, evaluation and development expenditure

Exploration and evaluation activities involve the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource. Exploration and evaluation expenditure incurred is accumulated 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

## 1 Summary of significant accounting policies (continued)

### (q) 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.

Waste removal costs incurred during the production stage of mine, referred to as deferred stripping costs, are expensed as incurred and form part of operational costs.

### (r) 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.

### (s) Rehabilitation provision

Provisions are recognised when Fortescue has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. The mining, extraction and processing activities of Fortescue give rise to obligations for site rehabilitation. Rehabilitation obligations can include facility decommissioning and dismantling, removal or treatment of waste materials, land rehabilitation and site restoration. The extent of work required and the associated costs are estimated using current restoration standards and techniques. Provisions for the cost of each rehabilitation program are recognised at the time that environmental disturbance occurs.

Rehabilitation provisions are initially measured at the expected value of future cash flows required to rehabilitate the relevant site, discounted to their present value. The judgements and estimates applied for the estimation of the rehabilitation provisions are discussed in note 2.

When provisions for closure and rehabilitation are initially recognised, the corresponding cost is capitalised into the cost of the related assets and is amortised using the units of production method. 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

## 1 Summary of significant accounting policies (continued)

### (t) 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.

### (u) 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.

### (v) 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 are used to finance an asset form part of general borrowings, the amount capitalised is calculated using a weighted average of rates applicable to relevant general borrowings during the 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

## 1 Summary of significant accounting policies (continued)

### (w) 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 other payables 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 using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience 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.

### (x) 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 33.

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.

The fair value at grant date is 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 option or right.

The fair value of the options and rights granted is measured to reflect expected market vesting conditions, but excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each reporting date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate. The impact of the revision to original estimates, if any, is recognised in profit and loss with a corresponding adjustment to equity.

### (y) 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.

### (z) 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

## 1 Summary of significant accounting policies (continued)

### (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.

### (aa) Goods and Services Tax (GST)

Revenue, 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.

### (ab) Comparatives

Where applicable, certain comparatives have been adjusted to conform with current year presentation.

### (ac) New accounting standards and interpretations

#### (i) New and amended standards adopted by the Group

New standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2012 have not affected the amounts recognised in the current period or any prior period and are not likely to affect future periods. However, amendments made to AASB 101 *Presentation of Financial Statements* effective 1 July 2012 now requires the statement of comprehensive income to separately disclose other comprehensive income between items that may be reclassified to profit or loss if certain conditions are met and those that are not permitted to be reclassified to profit or loss.

#### (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 2013 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 impact on the way the Group accounts for its financial instruments.
- AASB 10 *Consolidated Financial Statements* (effective for the annual reporting periods commencing on or after 1 January 2013). AASB 10 introduces certain changes to the consolidation principles, including the concept of de facto control and changes in relation to special purpose entities. Fortescue has determined that AASB 10 will have no impact on the Group's current composition.
- AASB 11 *Joint Arrangements* (effective for the annual reporting periods commencing on or after 1 January 2013). AASB 11 changes the classification and accounting for joint arrangements based on the specified rights and obligations of the agreement. Fortescue has determined that AASB 11 will have no impact on accounting for its existing joint arrangements.
- AASB 12 *Disclosure of Interests in Other Entities* and AASB 128 *Investments in Associates and Joint Ventures* and AASB 2011-7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Venture Arrangements Standards* (effective 1 January 2013). AASB 12 sets out the required disclosures for entities reporting under AASB 10 and AASB 11. Application of this standard by Fortescue will not affect any amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Group's investments.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

## 1 Summary of significant accounting policies (continued)

- AASB 13 *Fair Value Measurement* (effective for annual reporting periods commencing on or after 1 January 2013). AASB 13 establishes a single framework for measuring fair value of financial and non-financial items recognised at fair value. Fortescue is continuing to assess the impact of AASB 13 and has yet to determine which, if any, of its current measurement techniques will have to change as the result of the new guidance. Based on the preliminary analysis, no material impact is expected.
- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* (effective for the annual reporting periods commencing on or after 1 January 2013). IFRIC 20 will be adopted by Fortescue from 1 July 2013. It 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 benefit of waste removal during the production stage of a mine is realised solely in the form of iron ore inventory produced. IFRIC 20, therefore, will have no material impact on the way waste removal costs are currently being recognised.

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

## 2 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. 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.

### (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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

## 2 Critical accounting estimates and judgements (continued)

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

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

## 3 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.

### (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.

	2013 US\$m	2012 US\$m
Revenues from external customers		
China	7,933	6,479
Other	187	237
	<b>8,120</b>	<b>6,716</b>

### (b) Major customer information

Revenue from one customer amounted to US\$1,274 million (2012: US\$1,022 million), arising from the sale of iron ore and related shipment of the product.

## 4 Operating sales revenue

	2013 US\$m	2012 US\$m
Sale of iron ore	7,889	6,489
Sale of third party product	168	192
Other revenue	63	35
	<b>8,120</b>	<b>6,716</b>

## 5 Other income

	2013 US\$m	2012 US\$m
Gain on disposal of interest in joint venture	124	-
Net foreign exchange gain	96	-
Re-estimation of unsecured loan notes	34	156
Net gain on refinancing	23	-
Other	14	15
	<b>291</b>	<b>171</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

## 6 Cost of sales

	2013 US\$m	2012 US\$m
Mining costs	2,851	2,202
Rail costs	182	139
Port costs	181	125
Operating leases	133	145
Shipping costs	769	672
Government royalty	499	366
Depreciation and amortisation	437	260
Other operating expenses	88	99
	<b>5,140</b>	<b>4,008</b>

Total employee benefits expense included in cost of sales and administration expenses is US\$635 million (2012: US\$492 million).

## 7 Other expenses

	2013 US\$m	2012 US\$m
Administration expenses	110	104
Impairment (i)	71	1
Exploration, development and other	45	-
Depreciation and amortisation	26	6
	<b>252</b>	<b>111</b>

(i) Fortescue recognised an impairment charge of US\$71 million in relation to specific items of mining equipment that were identified as obsolete.

## 8 Finance income and finance expenses

	2013 US\$m	2012 US\$m
<b>Net finance expenses</b>		
Finance income		
Interest income	33	60
	<b>33</b>	<b>60</b>
Finance expenses		
Interest expense on borrowings and finance lease liabilities	892	731
Interest capitalised (i)	(342)	(196)
Other	36	30
	<b>586</b>	<b>565</b>
<b>Net finance expenses</b>	<b>553</b>	<b>505</b>

(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 2013, the capitalisation rate used for specific borrowings was 6.88 per cent (2012: 6.45 per cent) and 7.09 per cent (2012: nil) for general borrowings.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

## 9 Income tax expense

### (a) Income tax expense

	2013 US\$m	2012 US\$m
Current tax	136	583
Deferred tax	584	121
	<b>720</b>	<b>704</b>

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

	2013 US\$m	2012 US\$m
Profit before income tax	2,466	2,263
Tax at the Australian tax rate of 30.0% (2012: 30.0%)	740	679
Research and development	(20)	(9)
Foreign exchange variations and other translation adjustments	9	1
Share-based payments	2	4
Net tax outcome of internal restructure	1	16
Adjustments in respect of income tax expense of prior periods	(5)	13
Other items	(7)	-
<b>Income tax expense</b>	<b>720</b>	<b>704</b>

### (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 1(i).

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, which is issued as soon as practicable after the end of each financial year. The head entity 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

## 9 Income tax expense (continued)

### (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 2013 Fortescue has a net deferred tax asset balance of US\$3,765 million (2012: US\$3,505 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.

## 10 Cash and cash equivalents

	2013 US\$m	2012 US\$m
Cash at bank	690	129
Short-term deposits	1,468	2,214
	<b>2,158</b>	<b>2,343</b>

## 11 Trade and other receivables

	2013 US\$m	2012 US\$m
Trade debtors	171	262
GST receivables	46	104
Security deposits	166	186
Other receivables	26	36
<b>Total current receivables</b>	<b>409</b>	<b>588</b>
Other receivables	6	37
<b>Total non-current receivables</b>	<b>6</b>	<b>37</b>

Information about Fortescue and its exposure to foreign currency risk, interest rate risk and price risk are disclosed in note 22. The carrying value of the receivables approximates their fair value.

Disclosures relating to receivables from related parties are set out in note 28.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

## 11 Trade and other receivables (continued)

As at 30 June 2013, trade receivables of US\$4 million (2012: US\$6 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:

	2013 US\$m	2012 US\$m
Less than 30 days	2	2
Between 30 and 60 days	1	-
Greater than 60 days	1	4
	4	6

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.

## 12 Inventories

	2013 US\$m	2012 US\$m
Iron ore stockpiles	646	470
Raw materials and stores	315	147
	961	617

Raw materials and iron ore stockpiles are stated at cost. Inventories expensed through cost of sales, including depreciation, during the year ended 30 June 2013 amounted to US\$3,784 million (2012: US\$2,871 million).

## 13 Other current assets

	2013 US\$m	2012 US\$m
Prepayments	108	90
Derivative instruments held at fair value	12	2
Joint venture cash and cash equivalents	6	10
	126	102

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

## 14 Property, plant and equipment

	Notes	Plant and equipment US\$m	Land and buildings US\$m	Exploration and evaluation US\$m	Assets under development US\$m	Development US\$m	Total US\$m
<b>Year ended 30 June 2012</b>							
Opening net book value		1,575	96	142	1,904	1,376	5,093
Transfers of assets		1,377	55	(19)	(1,987)	572	(2)
Additions		16	-	158	5,904	14	6,092
Capitalised interest	8	-	-	-	196	-	196
Foreign exchange gains reclassified from reserves	21(a)	-	-	-	(87)	-	(87)
Disposals		(31)	(18)	-	-	-	(49)
Depreciation		(166)	(6)	-	-	(90)	(262)
Changes in restoration and rehabilitation estimate	18(b)	-	-	-	-	377	377
Impairment	7	-	-	(1)	-	-	(1)
<b>Closing net book value</b>		<b>2,771</b>	<b>127</b>	<b>280</b>	<b>5,930</b>	<b>2,249</b>	<b>11,357</b>
<b>At 30 June 2012</b>							
Cost		3,146	143	280	5,930	2,517	12,016
Accumulated depreciation		(375)	(16)	-	-	(268)	(659)
<b>Net book value</b>		<b>2,771</b>	<b>127</b>	<b>280</b>	<b>5,930</b>	<b>2,249</b>	<b>11,357</b>
<b>Year ended 30 June 2013</b>							
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	8	-	-	-	342	-	342
Foreign exchange gains reclassified from reserves	21(a)	-	-	-	(35)	-	(35)
Disposals		(43)	(3)	(2)	-	(19)	(67)
Depreciation		(358)	(12)	-	(76)	(97)	(543)
Changes in restoration and rehabilitation estimate	18(b)	-	-	-	-	(132)	(132)
Impairment	7	(71)	-	-	-	-	(71)
Other	7	(1)	-	(30)	(13)	(1)	(45)
<b>Closing net book value</b>		<b>8,547</b>	<b>632</b>	<b>264</b>	<b>5,290</b>	<b>2,426</b>	<b>17,159</b>
<b>At 30 June 2013</b>							
Cost		9,397	668	264	5,290	2,702	18,321
Accumulated depreciation		(850)	(36)	-	-	(276)	(1,162)
<b>Net book value</b>		<b>8,547</b>	<b>632</b>	<b>264</b>	<b>5,290</b>	<b>2,426</b>	<b>17,159</b>

Transfers of assets at cost 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\$662 million (2012: US\$278 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 2013

## 15 Intangible assets

	2013 US\$m	2012 US\$m
Opening net book value	19	21
Transfers of assets	41	2
Amortisation	(20)	(4)
<b>Closing net book value</b>	<b>40</b>	<b>19</b>
Computer software	68	27
Accumulated amortisation	(28)	(8)
<b>Closing net book value</b>	<b>40</b>	<b>19</b>

## 16 Trade and other payables

	2013 US\$m	2012 US\$m
Trade payables	372	616
Customer deposits	73	81
Other payables and accruals	598	485
<b>Total current payables</b>	<b>1,043</b>	<b>1,182</b>
Customer deposits	129	201
Other payables and accruals	26	24
<b>Total non-current payables</b>	<b>155</b>	<b>225</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

## 17 Borrowings and finance lease liabilities

	2013 US\$m	2012 US\$m
<b>Current</b>		
Senior unsecured notes	121	126
Senior secured credit facility	52	-
Finance lease liabilities	29	12
Preference shares	3	3
Unsecured loan notes	-	127
Syndicated lease facility	-	15
	<b>205</b>	<b>283</b>
<b>Non-current</b>		
Senior unsecured notes	6,970	6,956
Senior secured credit facility	4,776	-
Finance lease liabilities	613	170
Preference shares	127	138
Unsecured loan notes	-	770
Unsecured bank facility	-	100
Syndicated lease facility	-	84
	<b>12,486</b>	<b>8,218</b>
<b>Total borrowings and finance lease liabilities</b>	<b>12,691</b>	<b>8,501</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

## 17 Borrowings and finance lease liabilities (continued)

### (a) Summary of movements in borrowings and finance lease liabilities

Movements in borrowings and finance lease liabilities during the financial year are set out below:

	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
<b>30 June 2012</b>							
Balance at 1 July	3,565	-	209	154	944	-	4,872
Initial recognition	3,462	-	99	-	-	100	3,661
Interest expense	374	-	15	11	331	-	731
Interest and finance lease repayments	(319)	-	(29)	(13)	(222)	-	(583)
Re-estimation of unsecured loan notes	-	-	-	-	(156)	-	(156)
Foreign exchange gain	-	-	(13)	(11)	-	-	(24)
<b>Balance at 30 June 2012</b>	<b>7,082</b>	<b>-</b>	<b>281</b>	<b>141</b>	<b>897</b>	<b>100</b>	<b>8,501</b>
<b>30 June 2013</b>							
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)
<b>Balance at 30 June 2013</b>	<b>7,091</b>	<b>4,828</b>	<b>642</b>	<b>130</b>	<b>-</b>	<b>-</b>	<b>12,691</b>

Information about Fortescue's exposure to interest rate risk and foreign exchange rate risk can be found in note 22.

### (b) Refinancing

In October 2012 Fortescue established a senior secured credit facility of US\$5.0 billion. The proceeds from the facility were used to repay the unsecured loan notes, refinance all existing secured bank facilities and provide Fortescue with additional liquidity. As a result a net gain of US\$23 million was recognised in profit and loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

## 17 Borrowings and finance lease liabilities (continued)

### (c) 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 earlier repayment options with interest repayable bi-annually:

US\$m	Currency	Interest rate	Date of issue	Date of maturity	Face value	Carrying value
Senior unsecured notes	USD	7.000%	8 November 2010	1 November 2015	2,040	2,038
Senior unsecured notes	USD	6.375%	15 December 2010	1 February 2016	600	614
Senior unsecured notes	USD	6.875%	15 December 2010	1 February 2018	900	921
Senior unsecured notes	USD	8.250%	25 October 2011	1 November 2019	1,500	1,505
Senior unsecured notes	USD	6.000%	19 March 2012	1 April 2017	1,000	1,006
Senior unsecured notes	USD	6.875%	19 March 2012	1 April 2022	1,000	1,007
					<b>7,040</b>	<b>7,091</b>

#### (ii) Senior secured credit facility

Fortescue established a senior secured credit facility of US\$5.0 billion during October 2012, which is repayable at any time at Fortescue's option. The facility's coupon rate is LIBOR plus 4.25 per cent with a LIBOR floor of one per cent representing the minimum LIBOR base used to calculate the coupon rate. Principal repayments of 0.25 per cent are made quarterly with the final residual principal repayment at maturity in October 2017.

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.

#### (iii) Finance lease liabilities

The Group's finance lease liabilities relate to contractual commitments associated with Fortescue's OPFs at Christmas Creek and 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 the 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
<b>30 June 2012</b>				
Future minimum lease payments	49	228	84	361
Effect of discounting	(17)	(55)	(8)	(80)
<b>Present value of minimum lease payments</b>	<b>32</b>	<b>173</b>	<b>76</b>	<b>281</b>
<b>30 June 2013</b>				
Future minimum lease payments	95	393	972	1,460
Effect of discounting	(72)	(263)	(483)	(818)
<b>Present value of minimum lease payments</b>	<b>23</b>	<b>130</b>	<b>489</b>	<b>642</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

## 17 Borrowings and finance lease liabilities (continued)

### (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. A dividend coupon rate of nine per cent is payable bi-annually either in cash or by issue of additional preference or ordinary shares, as elected by Fortescue. A holder of preference shares is not entitled to share in the distribution of any surplus assets of the Company beyond its redemption amount. The preference shares rank in priority to Fortescue's ordinary shares for the payment of distributions, have limited voting rights, and are repayable at Fortescue's option.

## 18 Provisions

	2013 US\$m	2012 US\$m
Employee benefits	121	100
Restoration and rehabilitation	7	-
<b>Total current provisions</b>	<b>128</b>	<b>100</b>
Employee benefits	6	2
Restoration and rehabilitation	381	514
<b>Total non-current provisions</b>	<b>387</b>	<b>516</b>

### (a) Provision for employee benefits

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

	2013 US\$m	2012 US\$m
Carrying amount at 1 July	102	80
Changes in employee benefits provision	122	86
Amounts paid	(97)	(64)
<b>Carrying amount at 30 June</b>	<b>127</b>	<b>102</b>

### (b) Provision for restoration and rehabilitation

Movements in rehabilitation provision during the financial year are set out below:

	2013 US\$m	2012 US\$m
Carrying amount at 1 July	514	132
Changes in restoration and rehabilitation estimate (i)	(132)	377
Unwinding of discount on the rehabilitation provision	7	5
Payments for rehabilitation activities	(1)	-
<b>Carrying amount at 30 June</b>	<b>388</b>	<b>514</b>

- (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 2013

## 19 Deferred tax liabilities

The composition and movement of deferred tax assets and (liabilities) is as follows:

	Balance 1 July 2011 US\$m	Charged/ (credited) to profit or loss US\$m	Charged/ (credited) to equity US\$m	Balance 30 June 2012 US\$m	Charged/ (credited) to profit or loss US\$m	Charged/ (credited) to equity US\$m	Balance 30 June 2013 US\$m
Exploration expenditure	(41)	(39)	-	(80)	1	-	(79)
Development	(67)	(286)	-	(353)	160	-	(193)
Property, plant and equipment	(228)	174	-	(54)	(531)	-	(585)
Consumables	(26)	(18)	-	(44)	(81)	-	(125)
Unrealised foreign exchange losses / (gains)	20	(13)	-	7	(38)	-	(31)
Senior notes	-	(6)	-	(6)	6	-	-
Unsecured loan notes	217	(13)	-	204	(204)	-	-
Accruals	1	-	-	1	-	-	1
Provisions	25	159	-	184	(27)	-	157
Other financial liabilities	-	(80)	-	(80)	116	-	36
Other items	(1)	1	-	-	14	-	14
	(100)	(121)	-	(221)	(584)	-	(805)

	Assets		Liabilities		Net assets / (liabilities)	
	2013 US\$m	2012 US\$m	2013 US\$m	2012 US\$m	2013 US\$m	2012 US\$m
Exploration expenditure	-	-	(79)	(80)	(79)	(80)
Development	75	15	(268)	(368)	(193)	(353)
Property, plant and equipment	54	92	(639)	(146)	(585)	(54)
Consumables	-	-	(125)	(44)	(125)	(44)
Unrealised foreign exchange losses / (gains)	2	7	(33)	-	(31)	7
Senior notes	-	1	-	(7)	-	(6)
Unsecured loan notes	-	204	-	-	-	204
Accruals	15	10	(14)	(9)	1	1
Provisions	157	184	-	-	157	184
Other financial liabilities	95	-	(59)	(80)	36	(80)
Other items	21	2	(7)	(2)	14	-
	419	515	(1,224)	(736)	(805)	(221)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

## 20 Contributed equity

### (a) Share capital

	30 June 2013 Number	30 June 2012 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 2011	Opening balance	3,113,498,151		1,295
	Exercise of options	300,000	\$2.64	1
	Purchase of shares under employee share plans	(2,678,467)	\$5.55	(14)
	Employee share awards exercised net of employee contributions	2,678,467	\$4.27	11
30 June 2012	Closing balance	3,113,798,151		1,293
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

### (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

	2013 US\$m	2012 US\$m
Hedging reserve	(90)	25
Share-based payments reserve	29	15
Capital reserve	12	1
	(49)	41

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

## 21 Reserves (continued)

	2013 US\$m	2012 US\$m
<b>Hedging reserve</b>		
Balance at 1 July	25	3
(Losses)/gains on cash flow hedges taken to equity	(80)	109
Gains transferred to the initial carrying amount of hedged items	(35)	(87)
<b>Balance at 30 June</b>	<b>(90)</b>	<b>25</b>
<b>Share-based payments reserve</b>		
Balance at 1 July	15	9
Forfeited options	-	(1)
Share-based payment expense	14	7
<b>Balance at 30 June</b>	<b>29</b>	<b>15</b>
<b>Capital reserve</b>		
Balance at 1 July	1	1
Transactions with non-controlling interest	11	-
<b>Balance at 30 June</b>	<b>12</b>	<b>1</b>

### (b) Nature and purpose of reserves

#### (i) 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.

#### (ii) Share-based payments reserve

The share-based payments reserve primarily records items recognised as expenses on valuation of employee share options and rights. The movement in the share-based payments reserve is disclosed in the statement of changes in equity.

#### (iii) 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.

## 22 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 & Risk Management Committee (ARMC), has ultimate responsibility for oversight of the Fortescue Risk Management Programme (RMP) and for setting appropriate risk tolerance levels. Day-to-day management responsibility for execution of the RMP 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

## 22 Financial risk management (continued)

### (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 currency exchange risk

Fortescue operates internationally and is exposed to foreign currency exchange risk arising from various currency exposures primarily with respect to the Australian dollar and Euro. Fortescue is exposed to foreign currency exchange 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 currency 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 flow in relation to the 155mtpa expansion program in Australian dollars. All of the projected cash flows related to the expansion program qualify as highly probable forecast transactions for hedge accounting purposes.

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
<b>30 June 2012</b>				
<b>Financial assets</b>				
Cash and cash equivalents	1,146	1,194	3	2,343
Trade and other receivables	282	208	1	491
Other financial assets	10	-	-	10
Derivatives held at fair value	2	-	-	2
<b>Total financial assets</b>	<b>1,440</b>	<b>1,402</b>	<b>4</b>	<b>2,846</b>
<b>Financial liabilities</b>				
Borrowings and other financial liabilities	8,178	323	-	8,501
Trade and other payables	393	1,114	-	1,507
<b>Total financial liabilities</b>	<b>8,571</b>	<b>1,437</b>	<b>-</b>	<b>10,008</b>
<b>30 June 2013</b>				
<b>Financial assets</b>				
Cash and cash equivalents	1,497	660	1	2,158
Trade and other receivables	145	223	1	369
Derivatives held at fair value	12	-	-	12
Other financial assets	-	6	-	6
<b>Total financial assets</b>	<b>1,654</b>	<b>889</b>	<b>2</b>	<b>2,545</b>
<b>Financial liabilities</b>				
Borrowings and other financial liabilities	12,224	467	-	12,691
Trade and other payables	380	816	2	1,198
<b>Total financial liabilities</b>	<b>12,604</b>	<b>1,283</b>	<b>2</b>	<b>13,889</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

## 22 Financial risk management (continued)

### (ii) Commodity price risk

The Group is exposed to commodity price risk through iron ore price movements. Fortescue has not entered into any forward commodity price contracts at 30 June 2013 (2012: nil) and is currently fully exposed to commodity price movements as follows:

	2013 US\$m	2012 US\$m
Trade receivables	171	262
Derivative held at fair value	12	-
Unsecured loan notes	-	(897)
	<b>183</b>	<b>(635)</b>

### (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 2013, Fortescue had the following variable rate financial assets and liabilities:

	2013 US\$m	2012 US\$m
Cash and cash equivalents	2,143	2,303
Senior secured credit facility	(4,828)	-
Syndicated finance lease facility	-	(99)
Unsecured bank facility	-	(100)
	<b>(2,685)</b>	<b>2,104</b>

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

### (iv) Summarised sensitivity analysis

The Group has used ranges of rate and price fluctuations that approximate the rates observed over the reporting period to estimate its sensitivity to market rates. The Group's main interest rate exposures are to LIBOR and Australian short-term interest rates; its foreign exchange risk is to the Australian Dollar and Euro rates and commodity price risk is due to spot iron ore prices.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

## 22 Financial risk management (continued)

The following table summarises the Group's financial assets and liabilities' exposure to the various elements of market risk.

		Interest rate risk				Foreign exchange risk				Commodity price risk			
		-10 bps		+10 bps		-5%		+5%		-15%		+15%	
	Carrying amount US\$m	Pre-tax profit US\$m	Other equity US\$m	Pre-tax profit US\$m	Other equity US\$m	Pre-tax profit US\$m	Other equity US\$m	Pre-tax profit US\$m	Other equity US\$m	Pre-tax profit US\$m	Other equity US\$m	Pre-tax profit US\$m	Other equity US\$m
<b>At 30 June 2012</b>													
<b>Financial assets</b>													
Cash and cash equivalents	2,343	(2)	-	2	-	(60)	-	60	-	-	-	-	-
Trade and other receivables	491	-	-	-	-	(10)	-	10	-	(40)	-	40	-
Other financial assets	10	-	-	-	-	-	-	-	-	-	-	-	-
Derivatives held at fair value	2	-	-	-	-	-	-	-	-	-	-	-	-
<b>Financial liabilities</b>													
Borrowings and other financial liabilities	8,501	-	-	-	-	(16)	-	16	-	135	-	(135)	-
Trade and other payables	1,514	-	-	-	-	(56)	-	56	-	-	-	-	-
<b>Total (decrease) / increase</b>		(2)	-	2	-	(142)	-	142	-	95	-	(95)	-
<b>At 30 June 2013</b>													
<b>Financial assets</b>													
Cash and cash equivalents	2,158	(2)	-	2	-	(33)	-	33	-	-	-	-	-
Trade and other receivables	369	-	-	-	-	(11)	-	11	-	(22)	-	22	-
Derivatives held at fair value	12	-	-	-	-	-	-	-	-	(2)	-	2	-
Other financial assets	6	-	-	-	-	-	-	-	-	-	-	-	-
<b>Financial liabilities</b>													
Borrowings and other financial liabilities	12,691	(5)	-	5	-	(23)	-	23	-	-	-	-	-
Trade and other payables	1,198	-	-	-	-	(41)	-	41	-	-	-	-	-
<b>Total (decrease) / increase</b>		(7)	-	7	-	(108)	-	108	-	(24)	-	24	-

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

## 22 Financial risk management (continued)

### (b) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to Fortescue and is managed on a consolidated basis. Credit risk arises from cash and cash equivalents at bank, 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 on receipt of a bill of lading 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 2013 and 30 June 2012.

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 11. 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 cashflows 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.

	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
<b>30 June 2012</b>							
Non-interest bearing	1,261	-	29	116	-	1,406	1,406
Fixed rate	448	399	929	6,233	5,041	13,050	8,403
Variable rate	7	11	21	164	5	208	199
<b>Total</b>	<b>1,716</b>	<b>410</b>	<b>979</b>	<b>6,513</b>	<b>5,046</b>	<b>14,664</b>	<b>10,008</b>
<b>30 June 2013</b>							
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
<b>Total</b>	<b>1,503</b>	<b>455</b>	<b>939</b>	<b>11,574</b>	<b>3,933</b>	<b>18,404</b>	<b>13,889</b>

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

## 22 Financial risk management (continued)

### (d) Fair values

All financial assets and financial liabilities, with the exception of derivatives, are initially recognised at the fair value of the consideration paid or received, net of directly attributable transaction costs. Subsequently, the financial assets and financial liabilities, other than derivatives, are measured at amortised cost. 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\$7,087 million and US\$4,988 million respectively. These fair values are determined with reference to quoted prices in active markets.

### (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 other financial 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.

## 23 Dividends

### (a) Dividends paid during the year

	2013 US\$m	2012 US\$m
Final fully franked dividend for the year ended 30 June 2012: A\$0.04 per share (30 June 2011: A\$0.04 per share)	131	123
Interim fully franked dividend for the half-year ended 31 December 2012: nil (2012: A\$0.04 per share)	-	134
	131	257

### (b) Dividends proposed and not recognised as a liability

	2013 US\$m	2012 US\$m
Final fully franked dividend: A\$0.10 per share (2012: A\$0.04 per share)	282	131
	282	131

### (c) Franking credits

At 30 June 2013, franking credits available were US\$652 million (2012: US\$13 million). The payment of the final dividend for the year ended 30 June 2013 will reduce the franking account balance by US\$121 million.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

## 24 Key management personnel disclosures

### (a) Key management personnel remuneration

	2013 US\$m	2012 US\$m
Short-term employee benefits	8	5
Share-based payments	9	7
Equity compensation benefits	-	2
	17	14

Detailed remuneration disclosures are provided in the remuneration report.

Apart from the details disclosed in this note, no Director has entered into a material contract with the Company or Fortescue since the end of the previous financial year and there were no material contracts involving Directors' interests existing at 30 June 2013.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

## 24 Key management personnel disclosures (continued)

### (b) Equity instrument disclosures relating to key management personnel

#### (i) 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:

2012	Balance at start of the year	Granted*	Exercised / converted	Forfeited / lapsed	Balance at end of the year	Vested	Unvested	Not exercisable
<b>Directors of Fortescue</b>								
A Forrest	-	-	-	-	-	-	-	-
N Power	-	419,255	-	-	419,255	-	419,255	419,255
R Scrimshaw	600,000	-	(300,000)	(300,000)	-	-	-	-
G Rowley	-	-	-	-	-	-	-	-
H Elliott	-	-	-	-	-	-	-	-
K Ambrecht	-	-	-	-	-	-	-	-
G Brayshaw	-	-	-	-	-	-	-	-
O Hegarty	-	-	-	-	-	-	-	-
M Barnaba	-	-	-	-	-	-	-	-
G Raby	-	-	-	-	-	-	-	-
H Scruggs	-	-	-	-	-	-	-	-
C Huiquan	-	-	-	-	-	-	-	-
<b>Other key management personnel of Fortescue</b>								
P Hallam	450,000	-	(150,000)	(300,000)	-	-	-	-
S Pearce	-	81,522	-	-	81,522	-	81,522	81,522
P Meurs	7,500,000	114,131	-	-	7,614,131	4,375,000	3,239,131	7,614,131
J Frankcombe	-	37,076	-	-	37,076	-	37,076	37,076

2013	Balance at start of the year	Granted*	Exercised / converted	Forfeited / lapsed	Balance at end of the year	Vested	Unvested	Not exercisable
<b>Directors of Fortescue</b>								
A Forrest	-	-	-	-	-	-	-	-
N Power	419,255	341,158	(245,369)	(173,886)	341,158	-	341,158	341,158
G Rowley	-	-	-	-	-	-	-	-
H Elliott	-	-	-	-	-	-	-	-
K Ambrecht**	-	-	-	-	-	-	-	-
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
<b>Other key management personnel of Fortescue</b>								
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**	37,076	132,673	(23,398)	(146,351)	-	-	-	-

\* Performance rights were granted in accordance with the short term and long term performance rights plans, as disclosed in note 33.

\*\* Mr Ambrecht and Mr Frankcombe resigned during the current financial year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

## 24 Key management personnel disclosures (continued)

### (ii) Share holdings

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

2012		Received on						Held at 30
Name	Held at 1 July 2011	conversion of rights	Issued	Purchases	Sales	Transfers	Other**	June 2012
<b>Ordinary Shares</b>								
<b>Directors of Fortescue</b>								
A Forrest	964,848,823	-	12,840	45,829,252*	-	-	-	1,010,690,915
R Scrimshaw	7,590,055	-	-	-	-	-	(7,590,055)	-
H Elliott	2,167,938	-	-	-	-	-	-	2,167,938
N Power	50,000	-	24,839	791,482	-	-	-	866,321
M Barnaba	-	-	-	-	-	-	-	-
G Brayshaw	52,149	-	-	-	-	-	-	52,149
O Hegarty	-	-	-	40,000	-	-	-	40,000
I Burston	20,000	-	-	-	-	-	(20,000)	-
L Xiaowei	-	-	-	-	-	-	-	-
I Cumming	-	-	-	-	-	-	-	-
G Raby	-	-	-	-	-	-	-	-
G Rowley	19,144,951	-	-	-	(1,000,000)	-	-	18,144,951
C Huiquan	-	-	-	-	-	-	-	-
H Scruggs	-	-	-	-	-	-	-	-
K Ambrecht	6,303,030	-	-	-	(1,120,000)	-	-	5,183,030
<b>Other key management personnel of Fortescue</b>								
S Pearce	45,613	-	85,785	197,590	-	-	-	328,988
P Hallam	246,667	-	-	-	-	-	(246,667)	-
P Meurs	8,152,882	-	85,785	17,632,614	-	-	-	25,871,281
J Frankcombe	-	-	-	19,571	-	-	-	19,571
2013		Received on						Held at 30
Name	Held at 1 July 2012	conversion of rights	Issued	Purchases	Sales	Transfers	Other**	June 2013
<b>Ordinary Shares</b>								
<b>Directors of Fortescue</b>								
A Forrest	1,010,690,915	-	-	10,000,000	-	-	-	1,020,690,915
H Elliott	2,167,938	-	-	-	-	-	-	2,167,938
N Power	866,321	245,369	-	-	-	-	-	1,111,690
M Barnaba	-	-	-	-	-	-	-	-
G Brayshaw	52,149	-	-	-	-	-	-	52,149
O Hegarty	40,000	-	-	-	-	-	-	40,000
G Raby	-	-	-	8,000	-	-	-	8,000
G Rowley	18,144,951	-	-	-	-	(500,000)	-	17,644,951
C Huiquan	-	-	-	-	-	-	-	-
H Scruggs	-	-	-	-	-	-	-	-
E Gaines	-	-	-	-	-	-	-	-
K Ambrecht	5,183,030	-	-	-	-	-	(5,183,030)	-
P Meurs	25,871,281	53,242	-	-	-	-	-	25,924,523
<b>Other key management personnel of Fortescue</b>								
S Pearce	328,988	53,316	-	-	-	-	-	382,304
D Woodall	-	-	-	-	-	-	-	-
J Frankcombe	19,571	23,398	-	-	-	-	(42,969)	-

\* Includes 16,632,614 shares in which A Forrest and P Meurs both have a beneficial interest.

\*\* Reflects resignation or retirement.

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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

## 24 Key management personnel disclosures (continued)

### (c) Other transactions with key management personnel

Mr Meurs is a participant in the financial arrangement provided by The Metal Group Pty Limited, as disclosed in note 28. Under this arrangement The Metal Group Pty Limited provided Mr Meurs with financial assistance by way of guarantees for the acquisition of 16,632,614 ordinary shares in the Company. The benefit received by Mr Meurs for the financial year ended 30 June 2013 was US\$908,634 (2012: US\$908,634).

Mr Barnaba is a Non-Executive Director of Fortescue and is also the Chairman of Macquarie Group WA. Dr Raby is a Non-Executive Director of Fortescue and is also a Vice Chairman of Macquarie Group China. During the financial year Fortescue entered into a financing arrangement with Macquarie Bank Limited in relation to short term insurance contracts for US\$22,095,000. The total amount payable by Fortescue in relation to the financing arrangement at 30 June 2013 is US\$4,009,000. In addition, Fortescue incurred A\$1,225,000 in relation to consulting services provided by Macquarie during the year. Total amount payable by Fortescue in relation to the consulting services at 30 June 2013 is A\$1,225,000.

## 25 Remuneration of auditors

### (a) PricewaterhouseCoopers Australia

	2013 US\$'000	2012 US\$'000
<b>Audit and other assurance services</b>		
Audit and review of financial statements	668	-
Other assurance services	82	-
<b>Other services</b>		
Other consulting services	461	-
<b>Total remuneration of PricewaterhouseCoopers Australia</b>	<b>1,211</b>	<b>-</b>

### (b) Network firms of PricewaterhouseCoopers Australia

	2013 US\$'000	2012 US\$'000
<b>Audit and other assurance services</b>		
Audit and review of financial statements	43	-
<b>Total remuneration of network firms of PricewaterhouseCoopers Australia</b>	<b>43</b>	<b>-</b>

### (c) Other audit firms

	2013 US\$'000	2012 US\$'000
<b>Audit and other assurance services</b>		
Audit and review of financial statements – BDO Audit (WA) Pty Ltd	-	523
Audit and review of financial statements – other firms	-	299
<b>Other services</b>		
Other consulting services – BDO Audit (WA) Pty Ltd	-	180
<b>Total remuneration of other audit firms</b>	<b>-</b>	<b>1,002</b>
<b>Total auditors' remuneration</b>	<b>1,254</b>	<b>1,002</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

## 26 Contingencies

Fortescue had no material contingent liabilities or contingent assets at 30 June 2013 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.

## 27 Commitments

	Capital US\$m	Operating leases US\$m	Total US\$m
30 June 2012			
Within one year	4,312	127	4,439
Between one and five years	27	159	186
<b>Total</b>	<b>4,339</b>	<b>286</b>	<b>4,625</b>
30 June 2013			
Within one year	574	72	646
Between one and five years	9	104	113
<b>Total</b>	<b>583</b>	<b>176</b>	<b>759</b>

- (i) At 30 June 2013 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

## 28 Related party transactions

### (a) Subsidiaries

Interests in subsidiaries are set out in note 29.

### (b) Key management personnel

Disclosures relating to key management personnel are set out in note 24.

### (c) Transactions with other related parties

The following amounts originated from the provision of third party port access to the joint venture. 50 per cent of these amounts were eliminated on consolidation for the six months ending December 2012, and 25 per cent since January following the sale of 25 per cent share in the Nullagine Iron Ore Joint Venture.

	2013 US\$m	2012 US\$m
Revenue	91	64
Current receivables	19	21

No other transactions have occurred with related parties other than subsidiaries, entities with joint control, Directors or key management personnel as disclosed above.

### (d) Guarantees issued

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 2013 was US\$985,499 (2012: US\$985,499).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

## 29 Subsidiaries and transactions with non-controlling interests

### (a) Significant investments in 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 1(b):

	Country of incorporation	Class of shares	Equity holding		Investment	
			2013	2012	2013	2012
			%	%	US\$	US\$
<b>Controlled entities</b>						
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	100	1	1
FMG North Pilbara Pty Limited	Australia	Ordinary	88	100	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	100	43,557,023	27,861,023
FMG Iron Bridge (Aust) Pty Limited	Australia	Ordinary	88	100	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	100	1	1
Pilbara Water and Power Pty Limited	Australia	Ordinary	88	100	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 Mining Services 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 Finance, Inc.	USA	Ordinary	100	-	1	-
FMG Nyidinghu Pty Limited	Australia	Ordinary	100	-	1	-
Pilbara Power Pty Limited	Australia	Ordinary	100	-	1	-
Pilbara Ports Pty Limited	Australia	Ordinary	100	-	1	-
Pilbara Gas Pipeline Pty Limited	Australia	Ordinary	100	-	1	-
FMG JV Company Pty Limited	Australia	Ordinary	100	-	1	-
FMG Ashburton Pty Limited	Australia	Ordinary	100	-	1	-
African Fortescue, Limitada	Mozambique	Ordinary	100	-	1	-

### (b) Transactions with non-controlling interests

In July 2012, a third party contributed US\$15 million to Fortescue's subsidiary FMG Iron Bridge Limited in exchange of shares issued by the subsidiary, representing 12 per cent of its share capital.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

## 30 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 summary of movements in consolidated retained earnings

The consolidated income statement, consolidated statement of comprehensive income and summary movements in consolidated statement of changes in equity for the year ended 30 June 2013 along with the consolidated statement of financial position as at 30 June 2013 for the closed group and the extended closed group represented by the above companies are materially the same as that of the consolidated group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

## 31 Interests in joint ventures

### (a) Jointly controlled assets

Fortescue, through its wholly owned subsidiary FMG Pilbara Pty Limited, holds a participating interest in the Nullagine Iron Ore Joint Venture (the joint venture). The joint venture's activity is the production of iron ore in the Pilbara region of Western Australia, with Fortescue entitled to receive joint venture output consistent with its participating interest in the joint venture. During the year, Fortescue sold 50 per cent of its share in the joint venture, reducing its participating interest from 50 per cent to 25 per cent. A gain of US\$124 million was recognised on the disposal of Fortescue's interest in the joint venture. Fortescue retains joint control and the Group's interests in the assets employed in the joint venture are included in the consolidated statement of financial position, in accordance with the accounting policy described in note 1(c), under the following classifications:

	2013 US\$m	2012 US\$m
<b>Current assets</b>		
Cash and cash equivalents – included in other current assets	6	10
Inventories	3	4
Other current assets	1	2
	<b>10</b>	<b>16</b>
<b>Non-current assets</b>		
Property, plant and equipment	38	74
	<b>38</b>	<b>74</b>
<b>Share of assets employed in joint venture</b>	<b>48</b>	<b>90</b>
<b>Current liabilities</b>		
Trade payables and accruals	13	29
	<b>13</b>	<b>29</b>
<b>Non-current liabilities</b>		
Loans and borrowings	1	21
Provisions	1	1
	<b>2</b>	<b>22</b>
<b>Share of liabilities employed in joint venture</b>	<b>15</b>	<b>51</b>
<b>Net assets</b>	<b>33</b>	<b>39</b>

### (b) Fortescue's share of joint venture commitments

	2013 US\$m	2012 US\$m
<b>Contracted but not provided for in the financial statements and payable:</b>		
Within one year	-	9
Between one and five years	-	2
	<b>-</b>	<b>11</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

## 32 Earnings per share

### (a) Earnings per share

	2013 Cents	2012 Cents
Basic	56.07	50.07
Diluted	56.05	50.06

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

	2013 US\$m	2012 US\$m
Profit attributable to the ordinary equity holders of the Company used in calculating basic and diluted earnings per share	1,746	1,559

### (c) Weighted average number of shares used as denominator

	2013 Number	2012 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	3,113,784,294	3,113,680,118
Adjustments for calculation of diluted earnings per share:		
Potential ordinary shares	1,443,267	783,453
Weighted average number of ordinary and potential ordinary shares used as the denominator in calculating diluted earnings per share	3,115,227,561	3,114,463,571

### (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 are set out in note 33.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

## 33 Share-based payments

### (a) Employee Option and Performance Rights Plans

During the financial year Fortescue issued 1,504,533 short term performance rights and 939,284 long term performance rights to employees and senior executives. The short term performance rights are convertible to one ordinary share per right and vest over the first financial year. The long term performance rights are convertible to a maximum of four ordinary shares per right and vest over three financial years. The vesting of both the short term and long term plans are subject to non-market vesting conditions imposed for each individual participating in the performance rights plans.

	Weighted average exercise price 2013 A\$	Number of options and rights 2013 Number	Weighted average exercise price 2012 A\$	Number of options and rights 2012 Number
Outstanding at 1 July	4.51	9,151,984	4.60	9,550,000
Granted during the year	Nil	2,443,817	Nil	651,984
Forfeited / lapsed during the year	Nil	(616,629)	2.50	(600,000)
Exercised / converted during the year	Nil	(375,325)	2.50	(450,000)
	<b>3.89</b>	<b>10,603,847</b>	<b>4.51</b>	<b>9,151,984</b>

The weighted average fair value of performance rights granted during the year ended 30 June 2013 was A\$4.03 per right for short term performance rights and A\$15.50 per right for 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 right.

Details of the options and performance rights outstanding at 30 June 2013 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 2009	2.50	600,000	600,000	7
Employee options 2010	5.00	7,500,000	-	22
Employee options 2011	5.69	400,000	-	27
Short term performance rights 2013	Nil	1,300,551	-	6
Long term performance rights 2013	Nil	803,296	-	30
		<b>10,603,847</b>	<b>600,000</b>	

### (b) Other share-based payments

The arrangement between certain of Fortescue's Executives and The Metal Group Pty Ltd, as described in note 28, 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 (2012: 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

## 33 Share-based payments (continued)

### (c) Employee expenses

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

	2013 US\$m	2012 US\$m
Share-based payment expense	14	7

## 34 Reconciliation of profit after income tax to net cash inflow from operating activities

	2013 US\$m	2012 US\$m
Profit for the year after income tax	1,746	1,559
Income tax expense	720	704
Depreciation and amortisation	463	266
Impairment	71	1
Exploration, development and other	45	-
Share-based payment expense	14	7
Re-estimation of unsecured loan notes	(34)	(156)
Net foreign exchange loss	(98)	21
Interest expense disclosed within financing activities	586	565
Interest income disclosed within investing activities	(33)	(60)
Gain on disposal of interest in joint venture	(124)	-
Other non-cash items	(18)	(7)
Working capital adjustments		
(Decrease)/increase in payables and provisions	(280)	176
Decrease/(increase) in receivables	190	(67)
Increase in inventory	(244)	(201)
<b>Net cash inflow from operating activities</b>	<b>3,004</b>	<b>2,808</b>
	<b>2013 US\$m</b>	<b>2012 US\$m</b>
Non-cash financing and investing activities		
Acquisition of plant and equipment through finance leases	(223)	(99)
Other	26	-
<b>Total non-cash financing and investing activities</b>	<b>(197)</b>	<b>(99)</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

## 35 Parent entity financial information

### (a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	2013 US\$m	2012 US\$m
<b>Balance sheet</b>		
Current assets	657	258
Non-current assets	5,480	4,744
<b>Total assets</b>	<b>6,137</b>	<b>5,002</b>
Current liabilities	156	950
Non-current liabilities	568	202
<b>Total liabilities</b>	<b>724</b>	<b>1,152</b>
<b>Net assets</b>	<b>5,413</b>	<b>3,850</b>
<b>Equity</b>		
Contributed equity	1,291	1,293
Reserves	21	15
Retained earnings	4,101	2,542
<b>Total equity</b>	<b>5,413</b>	<b>3,850</b>
Profit for the year*	1,690	797
<b>Total comprehensive income for the year</b>	<b>1,690</b>	<b>797</b>

\* Profit for the year includes dividends received from subsidiaries of US\$1,600 million (2012: US\$800 million).

### (b) Guarantees entered into by the parent entity

The parent entity has not provided any financial guarantees other than the cross guarantees given by Fortescue Metals Group Limited, as described in note 30.

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 2013 or 30 June 2012, other than as disclosed in note 26. For information about guarantees given by the parent entity, please see above.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

## 36 Events occurring after the reporting period

On 22 August 2013, the Directors declared a final fully franked dividend of ten Australian cents per ordinary share payable on 4 October 2013.

In August 2013 Fortescue and Formosa Plastics Group (Formosa) entered into a joint venture agreement to develop the FMG Iron Bridge magnetite project. The joint venture remains subject to Australian Foreign Investment Review Board and Taiwan Investment Commission approval.

Under the arrangement, Formosa, through its subsidiary Formosa Steel IB Pty Ltd, will:

- Acquire a 31 per cent unincorporated joint venture interest in FMG Iron Bridge Joint Venture for US\$123 million.
- Fund the first US\$527 million of capital expenditure on the FMG Iron Bridge Project development. This funding covers construction of Stage One which will commence on completion of the transaction at an estimated capital cost of US\$340 million.
- Participate in Stage Two of the FMG Iron Bridge Project, subject to receipt of relevant Government approvals and Joint Venture sanction. If approved, Stage Two would be funded by the balance of the Formosa's initial funding, a contribution of the next US\$1,050 million from FMG Iron Bridge Limited, followed by proportional contributions (31 per cent Formosa, 69 per cent FMG Iron Bridge Limited).
- Agree to purchase up to three million tonnes per annum of iron ore at market prices to supply Formosa Ha Tinh Steel mill when commissioned.
- Elect to prepay US\$500 million upfront to The Pilbara Infrastructure Pty Ltd to access Fortescue port facilities at Herb Elliott Port under separate infrastructure access agreements.

# DIRECTORS' DECLARATION

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 37 to 89 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 2013 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 30 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 30.

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 Directors.



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**Mr Andrew Forrest**  
Chairman

Dated at Perth this 22nd day of August 2013.

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS



## **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 statement of financial position as at 30 June 2013, the income statement and statement of comprehensive income, statement of changes in equity and 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



## ***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 2013 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 18 to 35 of the directors' report for the year ended 30 June 2013. 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 2013, complies with section 300A of the *Corporations Act 2001*.

A stylized, handwritten-style signature of 'PricewaterhouseCoopers' in a dark grey or black ink.

PricewaterhouseCoopers

A handwritten signature of 'Nick Henry' in a dark grey or black ink, with a stylized 'N' and 'H'.

Nick Henry  
Partner

Perth, WA  
22 August 2013

