

Corporate Governance Statement

2017



Together we are Fortescue

ABN 57 002 594 872



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

Fortescue supports the intent of the ASX Corporate Governance Council Principles and Recommendations 3rd Edition (Principles and Recommendations) and meets the specific requirements of the Principles and Recommendations, unless disclosed otherwise. The cornerstone principles of corporate governance at Fortescue are:

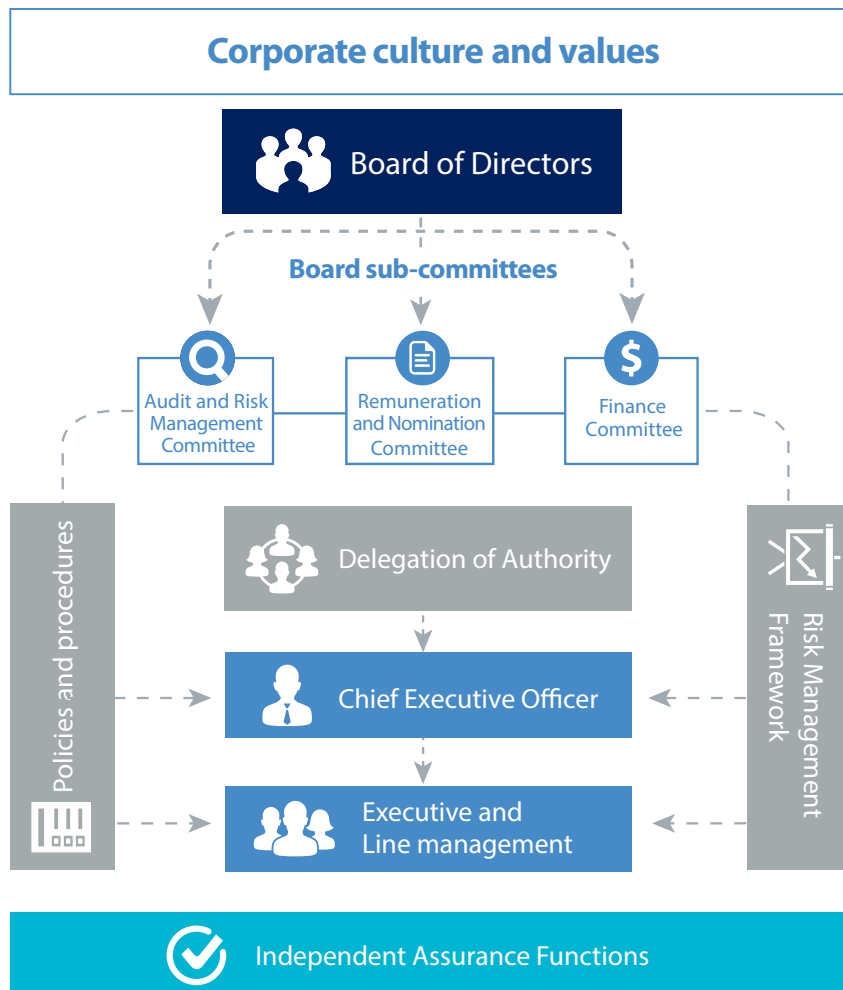
Transparency: Being clear and unambiguous about the Company's structure, operations and performance, both externally and internally, and maintaining a genuine dialogue with, and providing insight to, stakeholders and the market generally.

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

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

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

Fortescue's governance framework



2 BOARD OF DIRECTORS

2.1 Role and responsibilities

The Board is responsible to the shareholders for the performance of the Company. The Board's focus is to enhance and protect the interests of shareholders and other key stakeholders and to ensure that the Company is properly managed. The Board understands the importance of a strong and healthy working relationship with management.

The Board ensures that the management team is appropriately qualified and experienced to discharge their responsibilities and has established a *Statement of Matters Reserved for the Board* identifying the key responsibilities of the Board as follows:

- Appointing, evaluating the performance of, rewarding and, if necessary, removing the Chief Executive Officer (CEO)
- Development of corporate objectives and strategy with management and approving plans, new investments, major capital and operating expenditures and major funding activities proposed by management
- Monitoring actual performance of the Company and senior executives against defined performance expectations and reviewing operational information to understand, at all times, the state of health of the Company
- Overseeing management of business risks, including economic, environmental, operational, cyber and social sustainability risks
- Satisfying itself that the financial statements of the company fairly and accurately set out the financial position and financial performance of the company for the period under review
- Satisfying itself that there are appropriate reporting systems and controls in place to assure the Board that proper operational, financial, compliance, risk management and internal control processes are in place and functioning appropriately. Further, approving and monitoring financial and other reporting
- Ensuring that the Company acts legally and responsibly on all matters and assuring itself that the Company has adopted a Code of Conduct and the Company practice is consistent with that Code
- Assuring itself that appropriate audit arrangements are in place

- Reporting to and advising shareholders.

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

A key focus of Board meetings is monitoring the decisions of the CEO. Appropriate time is allocated during Board meetings for consideration of the CEO's report to the Board on key operational issues and progress towards achievement of corporate objectives. The Board has established the Key Performance Indicators (KPIs) against which the performance of the CEO is evaluated. These KPIs are discussed in the Remuneration Report within the 2017 Annual Report.

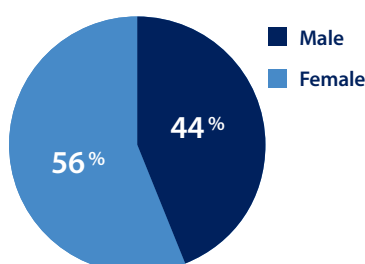
Both the Statement of Matters Reserved for the Board and the Delegations of Authority are reviewed annually to assess continued relevance and to identify any areas requiring improvement or change. Where changes are required to these documents, such changes are approved by the Board.

2.2 Board composition

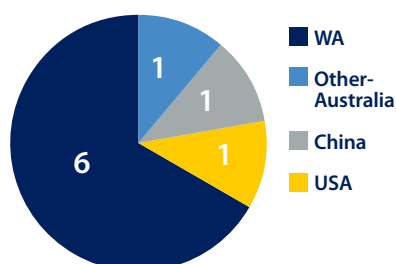
Under the Company's Constitution, the Board must have a minimum of three and a maximum of twelve directors. No director, other than the Managing Director may retain office without re-election for more than three years or past the third annual general meeting following the director's appointment, whichever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

The Board believes that its composition represents an appropriate balance of executive and non-executive directors to achieve the promotion of shareholder interests and effective governance of the business. The Board also has access to, and ability to engage with, senior executives who may also attend Board and Board Committee meetings by invitation.

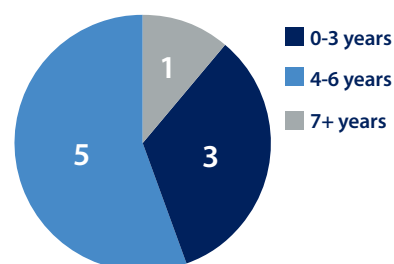
Gender Diversity at 30 June



Geographic Diversity at 30 June



Tenure at 30 June



The Directors of the Company during FY17:

Name	Date of Initial appointment	Period of office	Due for re-election		
			2017	2018	2019
Mr Andrew Forrest AO (Chairman)	18 July 2003	Full year	Yes	No	No
Mr Owen Hegarty (former Vice Chair)	14 October 2008	Retired 5 December 2016	n/a	n/a	n/a
Mr Mark Barnaba AM (Lead Independent Director)	19 February 2010	Full year	Yes	No	No
Mr Nev Power (Managing Director and Chief Executive Officer)	2 September 2011	Full year	n/a - Managing Director		
Mr Stephen Pearce (former Chief Financial Officer)	21 June 2016	Retired 23 September 2016	n/a	n/a	n/a
Ms Elizabeth Gaines (appointed as Chief Financial Officer on 6 February 2017)	22 February 2013	Full year	No	No	Yes
Ms Jean Baderschneider	19 January 2015	Full year	No	Yes	No
Mr Cao Huiquan	27 February 2012	Full year	No	Yes	No
Mr Geoff Raby	18 August 2011	Retired 5 December 2016	n/a	n/a	n/a
Ms Sharon Warburton	13 November 2013	Full year	No	No	Yes
Ms Penny Bingham-Hall	9 November 2016	Since 9 November 2016	No	No	Yes
Ms Jennifer Morris	9 November 2016	Since 9 November 2016	No	No	Yes

2.3 Meeting attendance

The Board and its Committees meet as often as necessary to fulfil their roles. Directors are required to allocate sufficient time to the Company to discharge their responsibilities effectively, including adequate time to prepare for Board and Committee meetings and in joining visits to the Company's operational sites.

Attendance at Board and Committee meetings during FY17 is summarised below:

Director	Board		Audit and Risk Management Committee		Remuneration and Nomination Committee		Finance Committee	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
Mr Andrew Forrest AO (Chairman)	6	5	-	-	4	1	3	2
Mr Owen Hegarty ¹ (former Vice Chair)	2	2	-	-	2	1	-	-
Mr Mark Barnaba ² AM (Lead Independent Director)	6	6	4	4	4	4	1	1
Mr Nev Power (Managing Director and Chief Executive Officer)	6	6	-	-	-	-	-	-
Mr Stephen Pearce ³ (former Chief Financial Officer)	1	1	-	-	-	-	-	-
Ms Elizabeth Gaines ⁴ (appointed Chief Financial Officer on 6 February 2017)	6	6	2	2	-	-	1	1
Ms Jean Baderschneider	6	6	-	-	-	-	-	-
Mr Cao Huiquan	6	6	-	-	-	-	-	-
Mr Geoff Raby ⁵	2	2	-	-	-	-	-	-
Ms Sharon Warburton ^{2,7}	6	6	3	3	4	4	2	2
Ms Penny Bingham-Hall ⁶	4	4	1	1	-	-	2	2
Ms Jennifer Morris ⁶	4	4	1	-	1	1	-	-

¹ Mr Owen Hegarty retired from the Board and Remuneration and Nomination Committee on 5 December 2016.

² Mr Mark Barnaba AM retired as the Chair of the Finance Committee and was replaced by Ms Sharon Warburton on 21 February 2017.

³ Mr Stephen Pearce retired from the Board on 23 September 2016. Mr Pearce attended one meeting in FY17 in his capacity as a Director, and he attended (by invitation) all relevant Board and Committee meetings in his capacity as Chief Financial Officer until 31 December 2016.

⁴ Ms Elizabeth Gaines was appointed as Chief Financial Officer and retired from the Audit and Risk Management Committee and Finance Committee on 6 February 2017. In addition to attending Board and relevant Committee meetings in FY17 in her capacity as a Director, she also attended (by invitation) all relevant Committee meetings in her capacity as Chief Financial Officer.

⁵ Mr Geoff Raby retired from the Board on 5 December 2016.

⁶ Ms Penny Bingham-Hall and Ms Jennifer Morris were appointed to the Board on 9 November 2016 and commenced their respective Committee memberships on 21 February 2017.

⁷ Sharon Warburton assumed role of Vice Chair of the Board on 19 July 2017.

Generally Board meetings are of one day's duration and Board Committee meetings precede the Board. At least once per year, directors visit each of the major operations across several days, in conjunction with the formal Board and Committee meetings. In addition, Board members hold meetings with management as required and holds an annual multi day strategic think tank.

2.4 Board Skills Matrix

The primary driver for the Board in seeking new directors is the skills and experience which are relevant to the needs of the Board in discharging its responsibilities to shareholders. Fortescue's policy is to assess all potential Board candidates without regard to race, gender, age, physical ability, sexuality, nationality, religious beliefs, or any other factor not relevant to their competence and performance as a potential Board member.

Leadership



- Successful history in business at a senior executive level
- Public listed company experience
- Understanding/influencing organisational culture

Strategy



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

International experience



- Experience in and exposure to multiple cultural, regulatory and business environments
- Experience with doing business in China and the Asian region

Governance



- Experience in governance with complex organisations
- Commitment to ensuring effective governance structures
- Maintaining effective risk management and internal control

Financial acumen



- Experience in financial accounting and reporting, corporate finance and internal financial controls
- Experience in business analysis and financial forecasting

Health, safety and environment



- Experience related to workplace health and safety
- Experience with environmental and community issues in a large organisation

Stakeholder management



- Experience with community relations and government affairs
- Executive experience with industrial relations

The Board believes that collectively the directors have a diverse and relevant range of skills, backgrounds, knowledge and experience to ensure effective governance of the business. The members of the Board contribute across industry knowledge, international experience perspectives and specific subject matter expertise in a range of strategic, operational and financial aspects that are critical to the long term success of Fortescue. This means that the Board maintains a focus on its composition, thereby working to ensure that the executive and non-executive directors continue to have an appropriate balance of skills, experience and independence.

The following table sets out the composition of skills and experience of the Board.

Capital Projects



- Experience in the delivery of large-scale capital projects
- Experience in project governance and risk management

Mining, resources and infrastructure



- Large mining organisation experience
- Large infrastructure organisation experience

Sales and marketing



- Senior executive experience in sales and marketing
- Building long-term, sustainable customer relations across a diverse customer base
- Detailed knowledge of the Group's strategy, markets, and competitors

Public policy and regulation



- Experience in managing how organisations adapt and respond to changing public policy settings
- Oversight and management of regulatory frameworks and processes designed to ensure that all regulatory obligations are met

Information technology and innovation



- Knowledge and experience in use and governance of critical information technology
- Understanding of potential cyber risk exposure
- Leveraging digital technology to support growth and drive competitive advantage

Tax risk management and compliance



- Understanding of corporate tax requirements and tax risk management
- Experience with oversight of corporate tax policies and frameworks application
- Experience in reviewing tax sensitive matters associated with major transactions

2.5 Diversity

Fortescue is committed to providing a balanced and inclusive working environment underpinned by a documented Diversity Policy and Plan that is built on the Company's values. The Board has implemented a Diversity Policy and measurable objectives which reflect Fortescue's commitment to ensuring that there are no impediments to diversity at any level of the Company. The policy includes targets and practices that promote diversity in a range of criteria including gender mix, Aboriginal employment and age, across all areas of the business.

The Board has a range of diverse participants across background, experience, gender mix and age. Fortescue's commitment to diversity has delivered a Board with five of the nine members female at the date of this Report, leading the way in gender diversity. The average age of the Directors is 54 years, with an age range of 20 years from 45 to 65.

The Diversity Policy can be accessed through the Corporate Governance section of the Company's website. Further information on Fortescue's diversity outcomes is included in the Corporate Social Responsibility Report available on the Company's website.

2.6 Appointment and induction of Directors

Directors, with the exception of the Managing Director are required to retire by rotation at least once every three years and are able to offer themselves for re-election. A letter of appointment sets out terms of engagement including the basis of remuneration. Prior to appointment, or offering themselves for re-election, non-executive directors are required to specifically acknowledge that they have the time available to fully discharge their responsibilities to the Company.

Prior to appointing a director, the Company undertakes a rigorous process of evaluation and checks to ensure their suitability and capacity to discharge their duties as a Board member. This evaluation covers matters such as:

- Skills and experience including the expected contribution to the collective skills and experience of the Board
- Current and prior directorships and/or executive roles
- Independence
- Any other matters (including interests, positions and associations) which could adversely affect their ability to effectively discharge their duties as a Board member.

Following appointment, directors are supported through a formal induction program to familiarise them with the operations of the business. This typically involves a combination of meetings with senior management, site visits and briefings on specific issues. This process continues throughout the director's tenure.

Directors are expected to contribute to the Company primarily in relation to the matters set out in the Statement of Matters Reserved for the Board, which can also be accessed through the Corporate Governance section of the Company's website.

In addition, directors are expected to contribute to the business of the Board Committees on which they sit. It is recognised that directors have a diverse range of skills, experience and knowledge and they are expected to contribute their considerable expertise at the boardroom table and at other times as required.

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

Directors are expected to comply with all requirements imposed upon them by the *Corporations Act 2001*, ASX Listing Rules and the Company's Constitution, a copy of which can be obtained from the Corporate Governance section of the Company's website.

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

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

2.7 Chairman

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

Mr Andrew Forrest AO, the founder of Fortescue, was appointed to the role of non-executive Chairman by the Board in August 2011. Mr Forrest, whilst being a non-executive Director, is not an independent director due to his previous role as CEO and his significant shareholding in the Company.

2.8 Executive directors

At the date of this report, the Board has two executive directors and seven non-executive directors. Mr Nev Power (CEO) and Ms Elizabeth Gaines (CFO) are the two executive directors, following Ms Gaines' appointment as CFO on 6 February 2017. Previously, Mr Stephen Pearce acted as an executive director from the period 1 July 2016 until his retirement as a director on 23 September 2016. The Board believes that an appropriate mix of non-executive and executive directors is beneficial to its role and provides strong operational and financial insights into the business. The Board has maintained a consistent complement of two executive directors in recent years. The role of independent directors and their composition on the Board is discussed further below.

2.9 Independence

All Fortescue directors have an obligation to be independent in judgement and actions. Directors are considered to be independent if they satisfy established criteria, including the following:

- They are a non-executive director of the company and have not been a director for such a period that their independence may have been compromised. Any fees paid to them by the Company for services provided are not of such amounts that could make the director reliant on such remuneration. Directors must have no other material contractual relationships with the Company other than as directors of the Company
- They are not a substantial shareholder of the Company, or an officer of, or otherwise associated with, a substantial security holder of the entity
- They have not been employed in an executive capacity by the Company or there has been a period of three years between ceasing such employment and serving on the Board
- They have not, within the last three years, been a principal of a material adviser or consultant to the Company
- They have not, within the last three years, been in a material business relationship with the Company, or an officer of or otherwise associated directly or indirectly with, someone with such a relationship
- They are free from any interest which could reasonably be perceived to materially interfere with their ability to act in the best interests of the Company.

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

Directors are required to disclose circumstances that may affect, or be perceived to affect, their ability to exercise independent judgement so that the Board can make regular assessments of independence. If a circumstance arises whereby a director may be required to consider a matter in which the director has a material personal interest, that director ceases to be involved in the decision making regarding that matter.

Changes in Board membership and composition will occur from time to time which may impact on the overall ratio of independent versus non-independent Board members. For most of FY17, Fortescue's Board maintained a majority of independent directors. Recent changes have impacted this structure. Specifically, Ms Jennifer Morris was appointed as an Independent non-executive director on 5 December 2016 and on 28 April 2017, subsequently became the Chief Executive Officer of the Walk Free Foundation. The Board has therefore determined that Ms Morris no longer meets the definition of an Independent director. Accordingly, as at 30 June 2017, the Board does not have a majority of independent directors (refer further detail below). Notwithstanding these changes, the Board is satisfied that it operates in a manner that ensures that the directors exercise independent judgement and the interests of shareholders are always at the forefront when important decisions are made by the Board.

At the date of this report, the Board has seven non-executive directors. Based on the above criteria, of the seven non-executive directors, four are considered to be independent and three are considered to be non-independent. The Board believes that it has independent directors involved in all areas of Board activity where director independence is critical, including Lead Independent Director and involvement in the various Board Committees.

The table below shows the composition of the Board by reference to their executive/non-executive status and whether they are considered to be independent and non-independent as at the date of this report:

Director	Executive/ Non Executive	Independent (Yes / No)
Mr Andrew Forrest AO	Non executive	No
Mr Mark Barnaba AM	Non-executive	Yes
Mr Nev Power	Executive	No
Ms Elizabeth Gaines	Executive	No
Ms Jean Baderschneider	Non-executive	Yes
Mr Cao Huiquan	Non-executive	No
Ms Sharon Warburton	Non-executive	Yes
Ms Penny Bingham-Hall	Non-executive	Yes
Ms Jennifer Morris	Non-executive	No

Mr Owen Hegarty held the position of Vice Chair until his retirement on 5 December 2016, and was replaced by Ms Sharon Warburton effective 19 July 2017. The Vice Chair's role includes chairing the Board and shareholder meetings when the Chairman is unable to do so and approval of meeting agendas and ensuring a consistent quality of information provided to the Board.

Mr Mark Barnaba AM was appointed as the Lead Independent Director to represent the interests of shareholders where the Chairman is unable to do so due to his non-independent status. This role includes:

- Representing the Board as the senior independent director when the Chairman is unable to do so due to his non-independent status
- Acting as principal liaison between the Independent Directors and the Chairman
- The roles of Vice Chair and Lead Independent Director have been separated to further strengthen the overall independence of the Board and to allow greater flexibility in responding to governance issues and in supporting the interests of all shareholders.

Transactions during the year which are classified as related party transactions with directors or director related entities, reported to the Board, are disclosed in the note 17 to the financial statements in accordance with International Financial Reporting Standards (IFRS).

2.10 Evaluating Board and Committee performance

The Board and each of its three primary Committees have established a process to evaluate their performance annually. The process is based on a formal questionnaire and interview conducted by an independent consultant and supported by the Company Secretary. The most recent review was undertaken by Ernst & Young in February 2017.

The results and recommendations from the evaluation of the Board and Committees are reported to the full Board for further consideration and action where required. The entire Board agrees improvement actions where appropriate and these are acted upon utilising support from the Company Secretary.

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

2.11 Remuneration and executive performance

The Board, through the Remuneration and Nomination Committee (RNC), periodically reviews the performance of senior executives. A review was performed in FY17 and the results have been incorporated into remuneration results. Details of the remuneration policies and the remuneration paid to directors (executive and non-executive) and executives are set out in the Remuneration Report section of the 2017 Annual Report.

2.12 Use of information

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

2.13 Independent advice

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

2.14 Company Secretary

The Company Secretary is directly accountable to the Board through the Chairman on all matters to do with the proper functioning of the Board. The Company Secretary is appointed and removed by the Board.

The Company Secretary is also responsible for ensuring compliance of Board procedures and advising the Board on governance matters. All directors have access to the Company Secretary for advice and support services as required. In addition to these responsibilities, the Company Secretary is responsible for oversight of the share registry services provided by Link Market Services.



TOGETHER WE ARE FORTESCUE

Effective corporate governance is a critical element contributing to the longer term success of Fortescue.

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



3 BOARD COMMITTEES

The Board has established Committees to assist in the execution of its duties and to ensure that important and complex issues are given the detailed consideration they require. The primary Committees of the Board are the Remuneration and Nomination Committee (RNC), the Audit and Risk Management Committee (ARMC) and the Finance Committee.

Each Committee has its own Charter approved by the Board, and under which authority is delegated by the Board. Each Committee is required to report the outcomes of its deliberations to the Board so that the Board is fully informed on all important matters before matters are resolved. Committee Charters are available in the Corporate Governance section of the Company's website.

Remuneration and Nomination Committee	Audit and Risk Management Committee	Finance Committee
The role of the RNC is to assist the Board in its oversight of remuneration policy and practice and Board member nominations. The RNC considers a diverse range of matters related to its role, including: • Remuneration Strategy • Non-executive Director remuneration • Chief Executive Officer and executive director remuneration policy • Senior executive remuneration policy • Short term and long term incentive plans • Annual Performance Review of CEO • Succession planning • Diversity Strategy • Gender Pay Equity • Recruitment, retention and termination policies • Nominations and review of applicants for the Board of Director position • Board Committee appointments Full details of the Committee's activities on behalf of the Board related to remuneration matters are set out in the Remuneration Report.	The role of the ARMC is to assist the Board in ensuring that there is effective oversight of published financial information, there are sound systems of internal control and effective management of risk. The ARMC considers a diverse range of matters related to its role including: • Assisting the Board in its oversight responsibilities for all matters related to corporate governance and sustainability, financial management, tax governance, risk management and reporting of the Company • Understanding and endorsing the Company's risk appetite • Reviews the extent to which management has established an effective system of risk management and internal control • Reviews the Company's risk profile by comparison to its risk appetite • Undertakes periodic review of the Company's most significant risks and whether risk management strategies are appropriate • Oversight and monitoring the activities of the corporate internal audit function and the external auditors. The role and responsibilities of the internal audit function are described in full in Section 6.1 of this Corporate Governance Statement.	The purpose of the Committee is to assist the Board in considering matters associated with material investment and financing decisions, as delegated by the Board, affecting the Company. Material investment and financing decisions are those that have a potentially significant impact on the Company including (but not limited to): • Capital markets and other debt issues or repayment • Major acquisitions and disposals Specifically, the Committee's role is to critically review and challenge any proposals presented by management that may significantly alter the Company's position in respect of the above areas. The Committee will also consider any specific matters as directed by the Board. These responsibilities have been allocated to the Committee on the basis that the primary responsibility for management of these matters sits with the Chief Executive Officer and the management team. Ultimate responsibility for oversight of these matters remains with the Board.
Membership as at 30 June 2017*		
Ms Sharon Warburton (Chair) Mr Mark Barnaba AM Ms Jennifer Morris Mr Andrew Forrest AO	Mr Mark Barnaba AM (Chair) Ms Penny Bingham-Hall Ms Jennifer Morris	Ms Sharon Warburton (Chair) Mr Andrew Forrest AO Ms Penny Bingham-Hall
Composition as defined by relevant Committee Charter		
Minimum three non-executive directors Majority independent directors Chair must be an independent director	Minimum three non-executive directors Majority independent directors Chair must be an independent director	Minimum three directors At least two members must be independent non-executive directors Chair must be a non-executive director

* From 28 April 2017 to 30 June 2017, the membership of the Remuneration and Nomination Committee (RNC) was comprised equally of two independent and two non-independent directors. On 19 July 2017, Mr Andrew Forrest AO, resigned from the RNC thus returning the membership composition to a majority of independent directors, consistent with the RNC charter. The Chair of the RNC remained independent throughout the entirety of the financial year. Mr Andrew Forrest AO, assumed the role of Chair of the Finance Committee on 19 July 2017.

4 MANAGEMENT

The Board has delegated responsibility for the day-to-day activities to the CEO and key executives and the financial limits associated with that delegation are set out in the Delegated Authority Policy established by the Board. The Board ensures that the team is appropriately qualified and experienced to discharge their responsibilities and has in place procedures to assess the performance of the CEO and key executives.

The Board sets annual performance targets, which includes Company and individual performance objectives under the Company's executive remuneration plan (detailed in the Remuneration Report of the 2017 Annual Report). These performance targets are determined by the Remuneration and Nomination Committee on behalf of the Board. These objectives are subsequently cascaded throughout the management teams.

5 RISK MANAGEMENT

5.1 Corporate culture and values

The Company actively promotes ethical and responsible decision making through its culture and values, which sets the moral compass by which the Company undertakes its business. Everyone who works for Fortescue is expected to behave in a manner consistent with the values. The Company believes that by leveraging the unique and differentiating values-based culture, Fortescue will drive business performance and achieve stretch targets.

The Fortescue values are promoted through various communications channels, including posters, websites, internal and external publications, and key messaging, to maintain visibility and encourage self-reflection. During performance reviews, each employee is assessed on the demonstration of the Fortescue values in their roles and behaviours.

Further information on Fortescue's corporate culture and values are included in the Corporate Social Responsibility Report available on the Company's website.

5.2 Policies and procedures

Fortescue's commitment to integrity and compliance has resulted in the establishment of various policies and procedures, that set out the Company's expected behaviours of its people. These expectations are consistent with Fortescue's corporate culture and values.

The Company's policies and procedures are available in the Corporate Governance section of the Company's website.

5.3 Risk management

The Board recognises that risk management and internal compliance are key elements of strong corporate governance. The Board is responsible for reviewing, ratifying and overseeing systems of risk management and internal control, and ethical and legal compliance. Fortescue recognises that risk is inherent to its business and that effective management of risk is vital to delivering on its objectives, success and continued growth, and is committed to manage all risk in a proactive and effective manner.

Fortescue Risk Management Framework

The Fortescue Risk Management Framework (FRMF) explains the methodology, approach and responsibility for the effective management and oversight of risk within the business. The FRMF is aligned to ISO 31000, the international standard for risk management, and provides a consistent approach to the recognition, measurement and evaluation of risks across the business. It also supports executive management and the Board in meeting their corporate governance responsibilities.

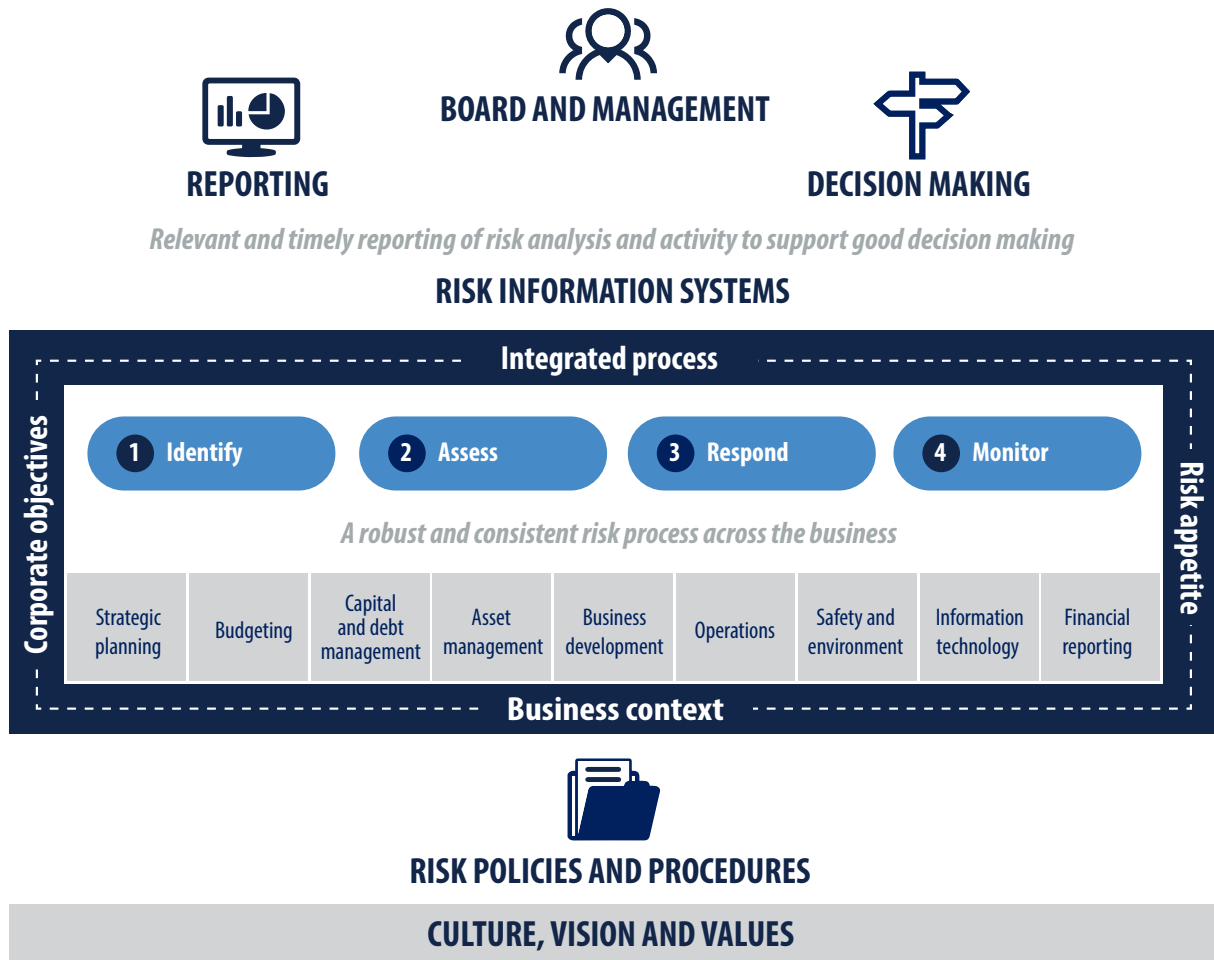
The ARMC reviews the FRMF on an annual basis. The most recent review was conducted in May 2017 and the Committee is satisfied that the framework supports a sound system of risk management and internal control.

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

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

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

RISK MANAGEMENT FRAMEWORK



Fortescue does this by:

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

In addition, the Company's Group Risk and Assurance function is focussed on supporting each part of the business to assist them to manage their risks and to align efforts across the business to facilitate a 'whole of business' view of risk.

Material risk exposures

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

A range of material risks has been identified by management and the Board that could substantively impact Fortescue's ability to create or preserve value for all of its key stakeholders over the short, medium or long term.

Material risks to the Company and how these risks are managed are listed on the following pages.

Material risk	Risk management strategy
Economic risk	
Fluctuations in commodity prices (iron ore) may adversely impact the Company's results and future cash flows	Fortescue is subject to the prevailing market price of iron ore, which it has a limited ability to directly influence. During FY17 the Company continued its focus on: • Maintaining high quality relationships with its customers to ensure that its supplies of iron ore meet their expectations in terms of quality, consistency and reliability of supply • Driving sustainable productivity and efficiency gains throughout its business • A disciplined approach to capital management and cashflows that has enabled Fortescue to strengthen the corporate balance sheet by repayment of debt and achieve further reductions in its cost base
Fluctuations in currency exchange rates and interest rates may adversely impact the Company's results and future cash flows	Fortescue is subject to the prevailing market exchange rates and interest rates, which it has a limited ability to directly influence. Fortescue does not directly hedge for exchange rate or interest rate movements. A significant portion of the Company's cost base is incurred in Australian Dollars. This could result in fluctuations in US Dollar denominated costs based on movements in exchange rates. • The Company's exposure to interest rate movements has decreased given the continuing reduction in its debt profile • The Company actively monitors interest and exchange rate movements and utilises treasury and cash management techniques to manage its exposure
Deterioration in economic conditions in China could impact the demand for Fortescue's products	Fortescue's key trading partners are Chinese steel mills. The Company's sales strategy would be exposed if there was any significant deterioration in the economic conditions in China and particularly in the demand for steel, of which iron ore is a key component. • Fortescue has a strong track record of supporting and enhancing Sino-Australian business relationships • It continues to pursue and promote strong relationships with all levels of the Chinese government as a partner in supporting the ongoing economic development within China and resultant demand for the Company's products • Fortescue also supports a range of initiatives community and sponsorship in China including support for educational establishments and students in collaboration between Australian and Chinese universities
Actions by government, political events or tax authorities could have a negative impact on our business	Significant changes in areas such as tax policy, industrial relations frameworks and environmental regulation can have a significant impact on all companies operating in the mining industry. This applies to actions undertaken at both Commonwealth and State level and in other international jurisdictions. • Fortescue proactively engages with government and other regulators to ensure that any potential adverse impacts of proposed regulatory changes are understood and where possible, mitigated.
Estimates of reserves and resources	There is a range of inherent uncertainties associated with the identification and measurement of iron ore reserves and resources. Prior valid assumptions may change in light of new information which may result in changes to the economic viability of some ore reserves. Additionally, volatility in commodity prices may result in adjustments to Fortescue's recognition of ore reserves. • Fortescue has a defined and comprehensive approach to estimate its published reserves and resources • A robust methodology is well established which includes systematic peer review and calibration against operational outcomes • The process is also supported by Competent Persons as defined in the JORC Code, and is subject to independent technical reviews and audits. The Ore Reserves and Mineral Resources section of the 2017 Annual Report contains further information.

Material risk	Risk management strategy
Operational risks	
Productivity and cost pressures could impact profit margins and future cash flows	Cost pressures may continue to occur across the resources industry. Fortescue is exposed to the price variability of its production inputs and this could negatively impact profit margins and future cash flows. - Fortescue has a strong culture of innovation which empowers its people to develop and implement productivity and efficiency improvements that ensure the Company maintains its position at the lower end of the global cost curve - Fortescue is a global leader in a range of technical and operational solutions that have been deployed across our business to maximise the value obtained from the Company's ore reserves - Fortescue adopts a risk based approach to the approval of major capital and operational expenditure that ensures the optimal allocation of financial resources to support the Company's business strategy
Fortescue does not fully exploit existing reserves or discover new reserves that impact on future results	Resource and reserve estimates are expressions of judgement based on knowledge, experience and industry practice and failure to generate reserves to meet our future productions could detrimentally impact long term shareholder return. - Fortescue has a program of exploration and mining that identifies and exploits new ore bodies and supports the expansion of existing ore bodies - Fortescue has also developed innovative exploration techniques that have enabled it to commercialise previously unexploited tenements and invest in new sources of ore, including magnetite deposits
Major, unplanned disruptions to operations or supply chain	Any unplanned and sustained interruption to operations or supply chain has the potential to impact financial performance. Such disruptions can arise from natural events such as cyclones and flooding, disruption to energy supply, cyber attack, accidents that result in damage to port, rail or mine infrastructure or other factors such as labour disputes that could also disrupt operations. - Fortescue has a comprehensive contingency plan, including business continuity plan, IT disaster recovery plans and emergency management plan in place to manage unplanned disruptions - Fortescue's diversity in both fuel sources (i.e. gas and diesel) and supplier arrangement minimises the risk related to the continuation and reliability of long term energy supplies - Property and business continuity insurance also mitigates the financial impact of major unplanned disruptions.
Failure of tailings storage facilities	Fortescue maintains tailings storage facilities (TSFs) at each of its mine sites. TSFs are reservoirs that store waste material (tailings) generated from the mining and processing of iron ore. TSFs typically include a range of infrastructure including dams, ponds, embankments, decant towers and pits. - Fortescue's TSFs are designed to leading industry practice and are located away from any major populated areas, including mining camps - Independent engineering reviews are undertaken every year on all TSF's maintained by Fortescue. In addition, the TSFs are operated and maintained in accordance with the Code of Practice issued by the Department of Mines and Petroleum (WA) and meet applicable requirements of the Mines Safety and Inspection Act 1994 and the Mining Act 1978 - Property and business continuity insurance also mitigates the financial impact of major unplanned disruptions arising from potential TSF failure
Major development projects experience delays to schedule or increased costs	Although significant time and resources are devoted to project planning, approval and review processes, many of Fortescue's development projects are highly complex and rely on factors that are outside of its control, which may result in underestimation of cost or time required to complete a project. - Fortescue has a robust and agile framework for the identification, assessment and delivery of all major projects - This includes an uncompromising focus on operational and financial discipline supplemented by a comprehensive project management capability, including project risk management and governance to ensure project objectives are achieved

Material risk	Risk management strategy
Operational risks	
Performance of key business partners is not aligned with Fortescue expectations and they do not meet their obligations	Fortescue has contracts with various commercial and financial counterparties. Counterparties failing to meet their obligations may unfavourably impact Fortescue's cost and production performance. • Fortescue works collaboratively with its business partners to achieve superior safety, operational and financial performance • Fortescue has transitioned major elements of its mine sites to an owner/operator model to better control performance and introduced greater flexibility within its contractual arrangements, where appropriate • Fortescue has robust mechanisms in place to regularly review all major contracts with a focus on performance
Information technology (IT) security breach and unsuccessful innovation impacting competitive advantage	The rapid pace of technological change and the sophistication of cyber security attacks pose ongoing and real risks requiring the business to maintain a constant vigil. • Fortescue maintains a robust IT security framework and back-up data and infrastructure which provides resilience and recovery capability in the event of a system outage • The Company monitors and controls access to sensitive and private information maintained within its key systems • Innovation presents both risks as well as opportunities. Fortescue has a robust evaluation process for the technical and commercial feasibility of IT innovation projects, including collaboration with the appropriate partner to ensure successful implementation. • Fortescue's processes are agile and allow nimble responses to emerging technology trends, disruptive innovations and complementary technologies
Health and safety and environmental incidents and/or breaches of regulations could adversely affect our people, operations and reputation	Safety is one of Fortescue's core values and the Company's vision encompasses the achievement of global leadership in safety performance. • Fortescue has a comprehensive Health, Safety, Environment and Security framework that promotes responsibility and accountability at all levels within the organisation • Fortescue has an active program of education, training, monitoring and reporting within the business that is focussed on continuous improvement and learning from experience • The Company is actively engaged at both a local and global level to identify and implement leading safety and environmental practices operating within the mining and resources sector
Violation of anti-bribery and corruptions laws	Fraud and corruption from within and external to Fortescue, leading to regulatory fines, financial loss, litigation, loss of operating licences or reputational damage. • Fortescue adheres to the applicable legislative and regulatory requirements in respect to fraud and corruption in the jurisdictions it operates in • Fortescue's Anti Bribery and Corruption Policy, as well as related policies and procedures describe the controls in place for the mitigation of this risk. This is supported by systems and processes which focus on the identification of high risk business partners and review of related business relationships • In addition, Fortescue has developed tailored training and education programs for management and employees, and periodic assessments to detect potential misconduct and monitor compliance

Material risk	Risk management strategy
Social sustainability risks	
Breaches in our legal and regulatory obligations may lead to fines and potential loss of licence to operate	Fortescue operates in a highly regulated industry with a complex regulatory environment at both Australian Federal and State level, as well as internationally. Failure to comply with obligations can have a serious impact on the business ranging from fines and reputation damage through to temporary or permanent loss of Fortescue's licence to operate. • Compliance with the Company's obligations is recognised as a collective responsibility at all levels of the organisation and there is clear accountability and responsibility for ongoing management • Fortescue has a robust policy and compliance framework that promotes responsibility and accountability at all levels within the organisation • Fortescue has an active program of education, training, monitoring and reporting within the business that is focussed on reducing the risk of material compliance breaches and learning from experience
Environmental risks	
Climate change resulting in increased frequency and severity of extreme weather events	Climate change is recognised as a real and evolving risk to Fortescue's operations in the Pilbara. The physical impacts of climate change are most likely to manifest in increased frequency and severity of extreme weather events such as cyclones. Such events could negatively affect operations through production interruptions, asset loss or damage and the physical well-being of our employees and contractors. • Fortescue has formal cyclone management plans, and incident and emergency response plans at all its operating sites • Fortescue's assets have been designed to withstand extreme weather events with appropriate levels of tolerance • Property and business continuity insurance also mitigate the financial impact of major unplanned disruptions from extreme weather events
Fortescue may be exposed to unfavourable regulatory requirements and associated liabilities/penalties in relation to emissions from its operations	The impact of climate change and increasing carbon emissions has resulted in a wide range of regulatory responses at both international, national and state level. This area continues to evolve and there is uncertainty as to the potential impacts on Fortescue's operations. Fortescue is focussed on addressing the impacts of climate change by reducing its emissions and investing in low-emission technology, switching to lower emissions fuel sources and actively improving the efficiency of its operations and energy use to reduce its contribution to climate change.
Fortescue's operations have the potential to lead to adverse impact on local flora, fauna and indigenous heritage sites	Mining operations have the inherent potential to cause damage to flora, fauna and sites of significance to Aboriginal people located in the vicinity of the Company's operations. This could include adverse impacts on local ecosystems, biodiversity, water resources and designated heritage sites. • Fortescue has rigorous control and reporting processes to minimise the potential for any adverse impacts • Fortescue consults with local communities, regulators and other stakeholder groups to ensure that its operations are managed in an environmentally sustainable manner
Further information on the Company's approach to managing environment risk is included in the Corporate Social Responsibility Report available on the Company's website.	

5.4 Annual Executive Certifications

In accordance with the requirements of ASX Principle 4 'Safeguard integrity in corporate reporting' and section 295(A) of the *Corporations Act 2001*, an extensive executive certifications process was undertaken for the year ended 30 June 2017. The process requires certifications from the most senior executives in the business to support the declaration to the Board by the Chief Executive Officer and the Chief Financial Officer pursuant to ASX Principle 4 and section 295(A) of the *Corporations Act 2001*.

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

6 ASSURANCE FUNCTIONS

6.1 Internal audit

A robust and risk based internal audit function is a critical part of ensuring that a strong financial risk and control environment is maintained across the Company. The internal audit function at Fortescue is governed by an Internal Audit Charter that is approved by the ARMC.

Fortescue's Group Risk and Assurance function is responsible for the design and delivery of internal audit activity, tailored to provide assurance that the Company's risk management and internal control frameworks are appropriately designed and operating at the level expected by the Board. The Group Manager of Risk and Assurance is supported by a combination of internal and co-sourcing resources to conduct internal audit reviews. Deloitte and Ernst & Young provide the support for the delivery of the internal audit program. Other qualified professional service providers are also used to support the internal audit program, where required.

The ARMC approves the annual internal audit plan and monitors findings issued by the Group Manager of Risk and Assurance, including actions proposed by management to address issues reported by the internal auditors. The internal audit plan is dynamic and may be revised based on changes to the risk profile of the business. Any revisions to the plan are also endorsed by the ARMC.

While internal audit and external audit are separate and independent of each other, there is strong collaboration between both audit functions to maximise the effectiveness of the wider program of audit activity and to minimise duplication of effort and resources.

6.2 External Auditor

Appointment and rotation of auditor

In accordance with the *Corporations Act 2001*, the Company has appointed an external auditor whose primary role is to form an opinion as to the truth and fairness of the annual financial statements. Any external auditor appointed must demonstrate a high quality of service and independence in accordance with all relevant legal and regulatory requirements.

PricewaterhouseCoopers (PwC) is the current external auditor of the Group. It is PwC's policy to rotate audit engagement partners every five years in accordance with the *Corporations Act 2001*. Mr Nick Henry has acted as the audit partner for PwC and was appointed on 14 November 2012. In accordance with PwC's policy, Mr Henry will rotate off the engagement, effective 22 August 2017, with Mr Justin Carroll assuming the role of external audit partner from that date.

PwC attend ARMC meetings by invitation and report annually to the Committee on its independence and the outcomes of its audit. The Committee reviews the scope of the annual audit plan and related audit fees.

Independence declaration

The auditor's independence declaration, as required under section 307C of the *Corporations Act 2001*, has been received by PwC and is set out on page 59 of the 2017 Annual Report.

Non-audit services

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

Details of the amounts paid or payable to the auditor PricewaterhouseCoopers Australia and related entities for audit and non-audit services provided during the year are set out in note 19 to the FY17 financial statements.

Attendance at annual general meeting

The audit partner from PwC attends the Annual General Meeting and is available to answer questions from shareholders in relation to the audit.

7 SECURITY HOLDERS

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

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

Information is communicated to shareholders in respect of all resolutions tabled at the Annual General Meeting, including election and/or re-election of directors.

The Company has implemented a Continuous Disclosure and Market Communications Policy which is available on the Corporate Governance section of the Company's website. The Board uses various formal and informal measures to ensure that it communicates effectively with shareholders and investors throughout the year including:

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

8 BUSINESS ETHICS AND INTEGRITY

8.1 Code of Conduct

Fortescue prides itself on its reputation for acting with integrity, honesty and in compliance with all applicable laws and regulations wherever it does business. The Company maintains a publicly stated, formal policy of zero tolerance of corruption in all its forms, including bribery. Fortescue's reputation is built on its values as a Company, the professionalism of its employees and a collective commitment to acting with integrity, accountability and transparency at all times.

The Company actively promotes ethical and responsible decision making through its values and the Code of Conduct that embodies these values. The Code can be accessed on the Corporate Governance section of the Company's website. Everyone who works for or with Fortescue, including directors, employees, contractors, suppliers and business partners is expected to comply with the Code. In addition they are required to ensure that employees, contractors, suppliers and any other parties under their supervision or direction with whom Fortescue does business are aware of and comply with the Code. New employees are required to read and acknowledge the requirements of the Code in writing before they commence with the Company.

Further information on Fortescue's approach to business ethics and integrity is set out in the Corporate Social Responsibility Report available on the Company's website.

8.2 Securities Trading

The Board has established a Securities Trading Policy which outlines the policy for directors and employees when trading in shares of the company. Under the policy, certain people are identified as designated persons and they are required to comply with the policy with regard to explicit non-trading periods which are set around financial and production reporting periods.

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

9 MARKET DISCLOSURES

The Board understands the importance of keeping shareholders and other stakeholders fully informed of material information in relation to the Company's activities on a timely basis. For this purpose, the Company has established a Continuous Disclosure and Market Communications Policy, a copy of which is available on the Corporate Governance section of the Company's website. This Continuous Disclosure and Market Communications Policy summarises the processes that have been adopted to ensure Fortescue complies with its disclosure obligations.

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

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

Copies of announcements to the ASX, investor briefings, half yearly financial report, quarterly production results, the Annual Report and other relevant information are posted to the Company's website at www.fmgf.com.au.

10 COMPLIANCE WITH CORPORATE GOVERNANCE STANDARDS

Fortescue's compliance to the Principles and Recommendations (3rd Edition) of the ASX Corporate Governance Council and a checklist cross-referencing these Principles and Recommendations to the relevant disclosures are outlined within ASX Appendix 4G.

This is available on the Company's website at www.fmgf.com.au



Fortescue
The New Force in Iron Ore

www.fmgl.com.au
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