



# Corporate Governance Statement FY18

Together we are Fortescue

ABN 57 002 594 872



**Fortescue**  
The New Force in Iron Ore

# Inside

|  |    |
|--|----|
| Overview of Governance                         | 01 |
| Board of Directors                             | 03 |
| Board committees and Management                | 10 |
| Risk management                                | 12 |
| Assurance functions                            | 18 |
| Security holders                               | 19 |
| Business ethics and integrity                  | 20 |
| Market disclosures                             | 21 |
| Compliance with Corporate Governance Standards | 21 |



# Overview of Governance

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

## 1 | OVERVIEW OF GOVERNANCE

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

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

### **The cornerstone principles of corporate governance at Fortescue are:**

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

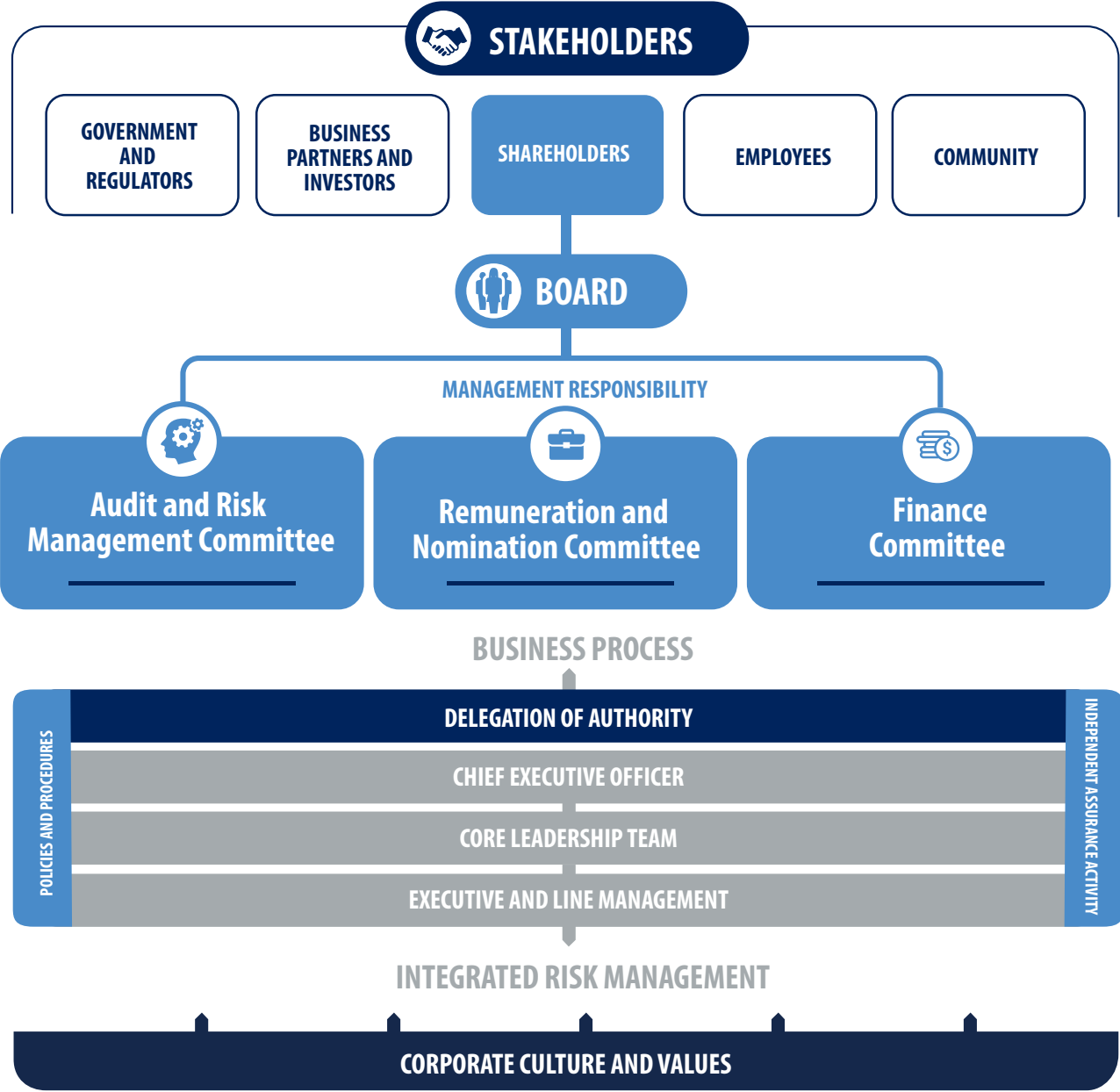
**Integrity:** Developing and maintaining a corporate culture committed to ethical behaviour and compliance with the law.

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

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

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

# Governance framework



# Board of Directors

## 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 the Company is properly managed. The Board understands the importance of a strong and healthy working relationship with management.

The Board ensures 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)
- Along with management, development of corporate objectives and strategy 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 the 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 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 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 management, and hence the CEO and management remain accountable to the Board, through those delegations, for the overall performance of the Company. Whilst the CEO and management remain accountable to the Board, the CEO and management are empowered to make decisions they believe are appropriate for the business, within the boundaries established by the Board.

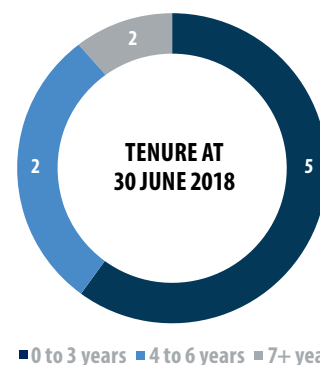
A key focus of Board meetings is monitoring the decisions of the CEO. Appropriate time is allocated during Board meetings for consideration of the CEO's report to the Board on key operational issues and progress towards achievement of corporate objectives. The Board has established the Key Performance Indicators (KPIs) against which the performance of the CEO is evaluated. These KPIs are discussed in the Remuneration Report within the FY18 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.

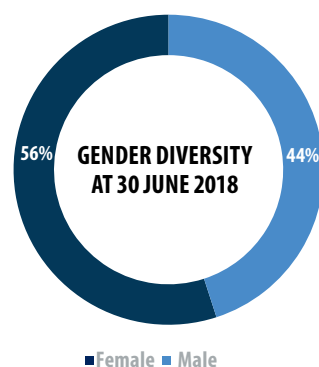
### 2.2 Board composition

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 seek election in the year of appointment.

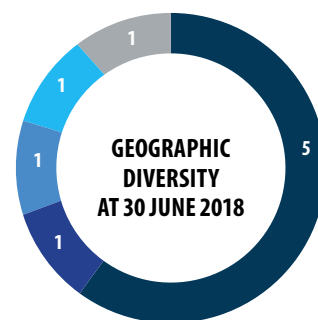
The Board believes its composition represents an appropriate balance of executive and non-executive directors to achieve the promotion of shareholder interests and effective governance of the business. The Board also has access to, and ability to engage with, senior executives who may also attend Board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



■ 0 to 3 years ■ 4 to 6 years ■ 7+ years



■ Female ■ Male



■ WA ■ Australia-Other ■ China ■ UK ■ USA

The Directors of the Company during FY18:

| Director  | Date of initial appointment | Period of Office         | Due for election / re-election |      |      |
|---|-----------------------------|--------------------------|--------------------------------|------|------|
|   |                             |                          | 2018                           | 2019 | 2020 |
| Mr Andrew Forrest AO<br>(Chairman)  | 18 July 2003                | Full year                | No                             | No   | Yes  |
| Ms Sharon Warburton<br>(Joint Deputy Chair)   | 13 November 2013            | Full year                | No                             | Yes  | No   |
| Mr Mark Barnaba AM<br>(Joint Deputy Chair, Lead Independent Director)               | 19 February 2010            | Full year                | No                             | No   | Yes  |
| Ms Elizabeth Gaines <sup>1</sup><br>(Managing Director and Chief Executive Officer) | 22 February 2013            | Full year                | n/a - Managing Director        |      |      |
| Dr Jean Baderschneider  | 19 January 2015             | Full year                | Yes                            | No   | No   |
| Mr Cao Huiquan  | 27 February 2012            | Retired 18 January 2018  | n/a                            | n/a  | n/a  |
| Dr Cao Zhiqiang   | 18 January 2018             | Since 18 January 2018    | Yes                            | No   | No   |
| Ms Penny Bingham-Hall   | 9 November 2016             | Full year                | No                             | Yes  | No   |
| Ms Jennifer Morris OAM  | 9 November 2016             | Full year                | No                             | Yes  | No   |
| Lord Sebastian Coe CH, KBE  | 25 February 2018            | Since 25 February 2018   | Yes                            | No   | No   |
| Mr Nev Power<br>(former Managing Director and Chief Executive Officer)              | 2 September 2011            | Retired 19 February 2018 | n/a                            | n/a  | n/a  |

<sup>1</sup>Ms Elizabeth Gaines assumed the role of Chief Executive Officer on 19 February 2018.

### 2.3 Meeting attendance

The Board and its Committees meet as often as is 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 joining visits to the Company's operational sites.

Attendance at Board and Committee meetings during FY18 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<br>(Chairman)  | 7                  | 7        | -                                   | -        | -                                     | -        | 2                  | 2        |
| Ms Sharon Warburton<br>(Deputy Chair)   | 7                  | 7        | 4                                   | 4        | 5                                     | 5        | 2                  | 2        |
| Mr Mark Barnaba AM<br>(Deputy Chair and Lead Independent Director)                  | 7                  | 7        | 4                                   | 4        | 5                                     | 5        | -                  | -        |
| Ms Elizabeth Gaines <sup>2</sup><br>(Managing Director and Chief Executive Officer) | 7                  | 7        | -                                   | -        | -                                     | -        | -                  | -        |
| Dr Jean Baderschneider  | 7                  | 7        | -                                   | -        | -                                     | -        | -                  | -        |
| Mr Cao Huiquan <sup>3</sup>   | 3                  | 2        | -                                   | -        | -                                     | -        | -                  | -        |
| Dr Cao Zhiqiang <sup>4</sup>  | 4                  | 4        | -                                   | -        | -                                     | -        | -                  | -        |
| Ms Penny Bingham-Hall   | 7                  | 7        | 4                                   | 4        | -                                     | -        | 2                  | 2        |
| Ms Jennifer Morris OAM  | 7                  | 7        | 4                                   | 4        | 5                                     | 5        | -                  | -        |
| Lord Sebastian Coe CH, KBE <sup>5</sup>   | 4                  | 3        | -                                   | -        | -                                     | -        | -                  | -        |
| Mr Nev Power <sup>1</sup><br>(former Managing Director and Chief Executive Officer) | 3                  | 3        | -                                   | -        | -                                     | -        | -                  | -        |

<sup>1</sup>Mr Nev Power retired from the Board on 19 February 2018.

<sup>2</sup>Ms Elizabeth Gaines was appointed as Chief Executive Officer on 19 February 2018. In addition to attending Board and relevant Committee meetings in FY18 in her capacity as an Executive Director, she also attended (by invitation) all relevant Committee meetings in her capacity as Chief Financial Officer until 19 February 2018 and subsequently as Chief Executive Officer.

<sup>3</sup>Mr Cao Huiquan retired from the Board on 18 January 2018.

<sup>4</sup>Dr Cao Zhiqiang was appointed to the Board on 18 January 2018.

<sup>5</sup>Lord Sebastian Coe CH, KBE was appointed to the Board on 25 February 2018.

Generally, Board meetings are of one day's duration and preceded by the Board Committee meetings. At least once per year, directors visit each of the major operations across several days, in conjunction with the formal Board and Committee meetings.

The Board and key members of the management team also attend a multi-day strategic 'think tank' each year that is focussed on considering the strategic issues facing Fortescue and reviewing the future direction and objectives of the Company. In addition, Board members hold meetings with management as required.

## 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.

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 the Board maintains a focus on its composition, thereby working to ensure 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.

|   |   |   |
|---|---|---|
|  <b>Leadership</b> <ul style="list-style-type: none"> <li>• Successful history in business at a senior executive level</li> <li>• Public listed Company experience</li> <li>• Understanding/influencing organisational culture</li> </ul>  |  <b>Governance</b> <ul style="list-style-type: none"> <li>• Experience in governance with complex organisations</li> <li>• Commitment to ensuring effective governance structures</li> <li>• Maintaining effective risk management and internal control</li> </ul>   |  <b>Strategy</b> <ul style="list-style-type: none"> <li>• Experience in developing and implementing successful strategy</li> <li>• Ability to provide oversight of management for the delivery of strategic objectives</li> </ul>  |
|  <b>Health, safety and environment</b> <ul style="list-style-type: none"> <li>• Experience related to workplace health and safety</li> <li>• Experience with environmental and community issues in a large organisation</li> </ul>   |  <b>Mining, resources and infrastructure</b> <ul style="list-style-type: none"> <li>• Large mining organisation experience</li> <li>• Large infrastructure organisation experience</li> </ul>  |  <b>International experience</b> <ul style="list-style-type: none"> <li>• Experience in and exposure to multiple cultural, regulatory and business environments</li> <li>• Experience with doing business in China and the Asian region</li> </ul>   |
|  <b>Financial acumen</b> <ul style="list-style-type: none"> <li>• Experience in financial accounting and reporting, corporate finance and internal financial controls</li> <li>• Experience in business analysis and financial forecasting</li> </ul>  |  <b>Business Development</b> <ul style="list-style-type: none"> <li>• Experience in developing operations in new geographies and jurisdictions</li> <li>• Knowledge and experience in providing oversight and guidance in designing and implementing appropriate operational, financial and governance structures for a multi-jurisdictional business</li> </ul> |  <b>Capital Projects</b> <ul style="list-style-type: none"> <li>• Experience in the delivery of large-scale capital projects</li> <li>• Experience in project governance and risk management</li> </ul>  |
|  <b>Stakeholder management</b> <ul style="list-style-type: none"> <li>• Experience with community relations and government affairs</li> <li>• Executive experience with industrial relations</li> </ul>  |  <b>Sales and marketing</b> <ul style="list-style-type: none"> <li>• Senior executive experience in sales and marketing</li> <li>• Building long-term, sustainable customer relations across a diverse customer base</li> <li>• Detailed knowledge of the Group's strategy, markets, and competitors</li> </ul>  |  <b>Capital Management</b> <ul style="list-style-type: none"> <li>• Experience with equity and debt funding strategies</li> <li>• Understanding of local and overseas capital and debt markets</li> <li>• Experience in capital and debt raising and management</li> </ul>   |
|  <b>Information technology and innovation</b> <ul style="list-style-type: none"> <li>• Knowledge and experience in use and governance of critical information technology</li> <li>• Understanding of potential cyber risk exposure</li> <li>• Leveraging digital technology to support growth and drive competitive advantage</li> </ul> |  <b>Tax risk management and compliance</b> <ul style="list-style-type: none"> <li>• Understanding of corporate tax requirements and tax risk management</li> <li>• Experience with oversight and application of corporate tax policies and frameworks</li> <li>• Experience in reviewing tax sensitive matters associated with major transactions</li> </ul>     |  <b>Public policy and regulation</b> <ul style="list-style-type: none"> <li>• Experience in managing how organisations adapt and respond to changing public policy settings</li> <li>• Oversight and management of regulatory frameworks and processes designed to ensure that all regulatory obligations are met</li> </ul> |

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**Fortescue is committed to providing a balanced and inclusive working environment underpinned by a documented Diversity Policy and Plan, built on the Company's Values.**





## 2.5 Diversity

Fortescue is committed to providing a balanced and inclusive working environment underpinned by a documented Diversity Policy and Plan, built on the Company's Values. The Board has implemented a Diversity Policy and measurable objectives which reflect Fortescue's commitment to ensuring 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 skills, experience and backgrounds. Fortescue believes a diversity of views and opinions is critical in building sustainable, long-term value for all key stakeholders. This diversity is inherently valuable and promotes a range of perspectives on the key challenges and risks facing the Company. This commitment to diversity is reflected in a Board with real gender equality, demonstrated by five of the nine Board members being female at the date of this Report. The average age of the Directors is 55 years, with an age range from 46 to 66.

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 FY18 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, Core Leadership Team (CLT) and the wider 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 one executive director and eight non-executive directors. Ms Elizabeth Gaines (CEO) has been an executive director for the full year in her capacity as firstly CFO and then CEO following her appointment to this role on 19 February 2018. Previously, Mr Nev Power acted as an executive director from the period 1 July 2017 until his retirement as a director on 19 February 2018. 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 role of independent directors and their composition on the Board is discussed on the following pages.

## 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.

At the date of this report, the Board has eight non-executive directors. Based on the above criteria, of the eight non-executive directors, five 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.

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. From 1 July 2017 to 25 February 2018, the Board did not have a majority of non-independent directors. Since that date, a majority of non-independent directors has been maintained. The Board is satisfied that it operates in a manner which ensures directors exercise independent judgement and the interests of shareholders are always at the forefront when important decisions are made.

The table below shows the current 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 |
|----------------------------|--------------------------|-------------|
| Mr Andrew Forrest AO       | Non executive            | No          |
| Mr Mark Barnaba AM         | Non-executive            | Yes         |
| Ms Elizabeth Gaines        | Executive                | No          |
| Dr Jean Baderschneider     | Non-executive            | Yes         |
| Dr Cao Zhiqiang            | Non-executive            | No          |
| Ms Sharon Warburton        | Non-executive            | Yes         |
| Ms Penny Bingham-Hall      | Non-executive            | Yes         |
| Ms Jennifer Morris OAM     | Non-executive            | No          |
| Lord Sebastian Coe CH, KBE | Non-executive            | Yes         |



Ms Sharon Warburton and Mr Mark Barnaba AM hold the position of joint Deputy Chairs. The Deputy Chair's role includes chairing the Board and shareholder meetings when the Chairman is unable to do so, approval of meeting agendas and ensuring a consistent quality of information is provided to the Board. The appointment of two Deputy Chairs further strengthens the overall independence of the Board and allows greater flexibility in responding to governance issues and supporting the interests of all shareholders.

Mr Mark Barnaba AM also acts as the Lead Independent Director. 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.

Transactions during the year which are classified as material related party transactions with directors or director related entities, reported to the Board, are disclosed in [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 every second year by an independent consultant and every other year by the Company Secretary

under the direction of the Chair of the Remuneration and Nomination Committee. The most recent review was undertaken by the Company Secretary in May/June 2018.

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 on 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 FY18 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 FY18 Annual Report.

## **2.12 Use of information**

The Board has implemented a Code of Conduct and Integrity designed to ensure 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.





# Board Committees and Management

**Fortescue's culture and Values operate within a strong governance framework and are the foundation of delivering on its commitments for the benefit of all stakeholders.**

**The 'tone at the top' is set by the Board so that it promotes effective and transparent governance practices throughout the business. Fortescue has a well-structured governance framework that delegates consideration of specific matters to nominated Board sub-committees. The sub-committees are responsible for providing robust oversight and challenge and to support management in the execution of the business strategy.**

## **3 | BOARD COMMITTEES AND MANAGEMENT**

### **3.1 Board Committees**

The Board has established Committees to assist in the execution of its duties and to ensure 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, under which authority is delegated by the Board. Each Committee is required to report the outcomes of its deliberations to the Board so 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   |
|--|--|---|
| <p>The role of the RNC is to assist the Board in its oversight of remuneration policy and practice and Board member nominations.</p> <p>The RNC considers a diverse range of matters related to its role, including:</p> <ul style="list-style-type: none"> <li>• Remuneration Strategy</li> <li>• Non-executive director remuneration</li> <li>• Chief Executive Officer and executive director remuneration policy</li> <li>• Core Leadership team and senior executive remuneration policy</li> <li>• Short term and long term incentive plans</li> <li>• Annual Performance Review of CEO</li> <li>• Succession planning</li> <li>• Diversity Strategy</li> <li>• Gender Pay Equity</li> <li>• Recruitment, retention and termination policies</li> <li>• Nominations and review of applicants for Director position</li> <li>• Board Committee appointments</li> </ul> <p>Full details of the Committee's activities on behalf of the Board, related to remuneration matters, are set out in the Remuneration Report.</p> | <p>The role of the ARMC is to assist the Board in ensuring effective oversight of published financial information, sound systems of internal control and effective management of risk.</p> <p>The ARMC considers a diverse range of matters related to its role including:</p> <ul style="list-style-type: none"> <li>• 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</li> <li>• Understanding and endorsing the Company's risk appetite</li> <li>• Reviewing the extent to which management has established an effective system of risk management and internal control</li> <li>• Reviewing the Company's risk profile by comparison to its risk appetite</li> <li>• Undertaking periodic reviews of the Company's most significant risks and whether risk management strategies are appropriate</li> <li>• Oversight and monitoring the activities of the corporate internal audit function and the external auditors. The role and responsibilities of the internal audit function is described in full in Section [6.1] of this Corporate Governance Statement.</li> </ul> | <p>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.</p> <p>Material investment and financing decisions are those that have a potentially significant impact on the Company including (but not limited to):</p> <ul style="list-style-type: none"> <li>• Capital markets and other debt issues or repayment</li> <li>• Major acquisitions and disposals</li> </ul> <p>Specifically, the Committee's role is to critically review and challenge any proposals presented by management which 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.</p> <p>These responsibilities have been allocated to the Committee on the basis 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.</p> |
| <b>Membership as at 30 June 2018*</b>  |  |   |
| <p>Ms Sharon Warburton (Chair)<br/>Mr Mark Barnaba AM<br/>Ms Jennifer Morris OAM</p>   | <p>Mr Mark Barnaba AM (Chair)<br/>Ms Penny Bingham-Hall<br/>Ms Jennifer Morris OAM<br/>Ms Sharon Warburton</p>   | <p>Mr Andrew Forrest AO (Chair)<br/>Ms Sharon Warburton<br/>Ms Penny Bingham-Hall</p>   |
| <b>Composition as defined by relevant Committee Charter</b>  |  |   |
| <p>Minimum three non-executive directors<br/>Majority independent directors<br/>Chair must be an independent director</p>  | <p>Minimum three non-executive directors<br/>Majority independent directors<br/>Chair must be an independent director</p>  | <p>Minimum three directors<br/>At least two members must be independent non-executive directors<br/>Chair must be a non-executive director</p>  |

\*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, was appointed as Chair of the Finance Committee on 19 July 2017.

### 3.2 Management

The Board has delegated responsibility for day-to-day activities to the CEO, CLT 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 the management team is appropriately

qualified and experienced to discharge their responsibilities and has in place procedures to assess the performance of the CEO, CLT 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 FY18 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.

# Risk management

## 4 | RISK MANAGEMENT

### 4.1 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 its 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 FY18 Corporate Social Responsibility Report available on the Company's website.

### 4.2 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.

### 4.3 Risk management

The Board recognises 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 risk is inherent to its business and effective management of risk is vital to delivering on its objectives, success and continued growth, and is committed to managing 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 2018 and the Committee is satisfied 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 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

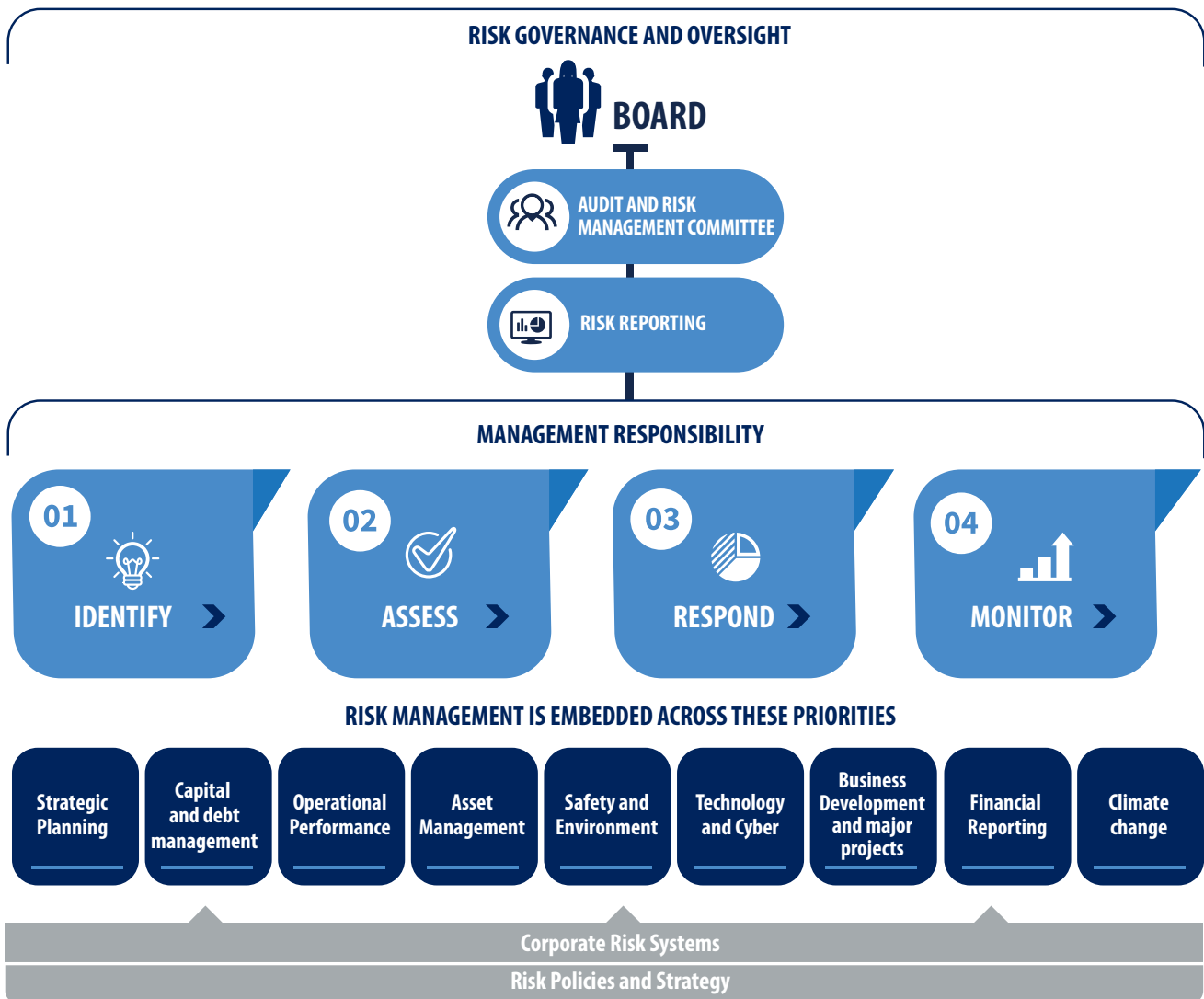
- Maintaining a business that meets the Company's obligations for health and safety, the environment, heritage, sustainability and community
- Building and maintaining a resilient business capable of achieving critical objectives in the face of extreme events which may impact business as usual conditions.

Fortescue does this by:

- Embedding risk management into critical business activities and processes
- Understanding 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 which 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 Core Leadership team 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 manage their risks and to align efforts across the business to facilitate a 'whole of business' view of risk.

# FORTESCUE RISK MANAGEMENT FRAMEWORK



## Material risk exposures

Fortescue operates in a dynamic business environment which 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 risk appetite and tolerances set by the Board and Executive Management. Fortescue's risk profile is continually reviewed and key risks are considered in the context of the following strategic priorities:

- Embedding a world-class safety culture that minimises the risk of injury to employees and contractors
- Delivering reliable and consistent production which supports flexibility in Fortescue's product strategy to meeting changing patterns in customer demand

- Optimising financial margins through management of controllable costs that ensures the business can sustain market volatility
- Supporting sustainable long term growth of the business through:
  - Delivering Pilbara projects in line with target schedules, capital and operating cost forecasts
  - Accelerating the realisation of non-iron ore development opportunities (both local and overseas) while managing the associated risks.

Consistent with prior risk updates, risks have been grouped around a number of key risk themes of:

- Economic risks driven by external factors such as market changes and government policy and regulation
- Economic risk derived from business performance and execution of Fortescue's business strategy, including business development activities

- Operational events that could negatively impact on Fortescue's operations, its people and its legal and social licence to operate
- Risks arising from major projects and business development activities.

A range of material risks has been identified by management and the Board which 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   |
|--|--|
| <b>Economic risk - External</b>  |  |
| Deterioration in economic conditions in China could impact the demand for Fortescue's products                                 | <p>Fortescue's key trading partners are iron ore distributors and 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. The last 12 months has seen a range of factors drive differential demand by Chinese steel mills for high and lower grade ores</p> <ul style="list-style-type: none"> <li>• Fortescue continues to review its product strategy and align this to its resource base and future mine developments and expansions. This includes a goal of developing products with a higher iron content, enabling the Company to better respond to customer demand fluctuations</li> <li>• Fortescue has a strong track record of supporting and enhancing Sino-Australian business relationships</li> <li>• 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</li> <li>• Fortescue also supports a range of community and sponsorship initiatives in China including support for educational establishments and students in collaboration between Australian and Chinese Universities</li> </ul> |
| Fluctuations in market demand and commodity prices (iron ore) may adversely impact the Company's results and future cash flows | <p>Fortescue is subject to the prevailing market price of iron ore, which it has a limited ability to directly influence. In addition, there may be a range of market factors that directly impact on the demand and/or price obtained for Fortescue's products. Specifically, the iron ore market conditions currently support an increased price differential between high grade and low grade ores. Fortescue continues to closely monitor market developments in China.</p> <p>During FY18, the Company continued its focus on managing this risk by:</p> <ul style="list-style-type: none"> <li>• Maintaining high quality relationships with its customers to ensure its supplies of iron ore meet their expectations in terms of quality, consistency and reliability of supply</li> <li>• Review of product strategy and the potential to optimise its longer term reserves and resource portfolio to meet its product strategy</li> <li>• Driving sustainable productivity and efficiency gains throughout its business to ensure it remains a competitive, low cost producer</li> <li>• A disciplined approach to capital management and cashflows which has enabled Fortescue to strengthen the corporate balance sheet by repayment of debt and achieve further reductions in its cost base</li> </ul>   |
| Fluctuations in currency exchange rates and interest rates may adversely impact the Company's results and future cash flows    | <p>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 other than in specific circumstances. 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</p> <ul style="list-style-type: none"> <li>• The Company's exposure to interest rate movements has decreased given the continuing reduction in its debt profile</li> <li>• The Company actively monitors interest and exchange rate movements and utilises treasury and cash management techniques to manage its exposure</li> </ul>  |
| Actions by government, political events or tax authorities could have a negative impact on Fortescue's business                | <p>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</p> <ul style="list-style-type: none"> <li>• Fortescue proactively engages with government and other regulators to ensure any potential adverse impacts of proposed regulatory changes are understood and, where possible, mitigated</li> </ul>   |
| Estimates of reserves and resources  | <p>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</p> <ul style="list-style-type: none"> <li>• Fortescue has a defined and comprehensive approach to estimate its published reserves and resources</li> <li>• A robust methodology is well established which includes systematic peer review and calibration against operational outcomes</li> <li>• 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 FY18 Annual Report contains further information</li> </ul>  |



| Material risk   | Risk management strategy   |
|---|--|
| <b>Economic Risk - Business</b>   |  |
| Productivity and cost pressures could impact profit margins and future cash flows                         | <p>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</p> <ul style="list-style-type: none"> <li>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</li> <li>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</li> <li>Fortescue adopts a risk based approach to the approval of major capital and operational expenditure which ensures the optimal allocation of financial resources to support the Company's business strategy</li> </ul>   |
| Fortescue does not fully exploit existing reserves or discover new reserves that impact on future results | <p>Resource and reserve estimates are expressions of judgement based on knowledge, experience and industry practice and failure to generate reserves to meet the Company's future productions could detrimentally impact long term shareholder return</p> <ul style="list-style-type: none"> <li>Fortescue has a program of exploration and mining which identifies and exploits new ore bodies and supports the expansion of existing ore bodies</li> <li>Fortescue has also developed innovative exploration techniques which have enabled it to commercialise previously unexploited tenements and invest in new sources of ore, including magnetite deposits</li> </ul>  |
| Major development projects experience delays to schedule or increased costs                               | <p>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 outside of its control, which may result in underestimation of cost or time required to complete a project</p> <ul style="list-style-type: none"> <li>Fortescue has a robust and agile framework for the identification, assessment and delivery of all major projects</li> <li>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</li> </ul>   |
| Violation of anti-bribery and corruptions laws  | <p>Fortescue increasingly operates (and will operate) in a number of different geographies and locations. There is a potential for increased exposure to fraud and corruption from within and external to Fortescue, leading to regulatory fines, financial loss, litigation, loss of operating licences or reputational damage</p> <ul style="list-style-type: none"> <li>Fortescue prides itself on its reputation for acting with integrity, honesty and in compliance with all applicable laws and regulations wherever it does business</li> <li>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</li> <li>In addition, Fortescue has a developed training and education program for management and employees, and periodic assessments to detect potential misconduct and monitor compliance</li> </ul> |

| Material risk   | Risk management strategy  |
|---|---|
| <b>Operational risks</b>  |   |
| Major, unplanned disruptions to operations or supply chain  | <p>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 which result in damage to Port, Rail or mine infrastructure or other factors such as labour disputes</p> <ul style="list-style-type: none"> <li>Fortescue has a comprehensive contingency plan, including business continuity plan, IT disaster recovery plans and emergency management plan in place to manage unplanned disruptions</li> <li>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</li> <li>Property and business continuity insurance also mitigates the financial impact of major unplanned disruptions</li> </ul>  |
| Failure of tailings storage facilities  | <p>Fortescue maintains tailings storage facilities (TSFs) at each of its mine sites. TSFs are reservoirs which 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</p> <ul style="list-style-type: none"> <li>Fortescue's TSFs are designed according to leading industry practice standards and are located away from any major populated areas, including mining camps</li> <li>Independent engineering reviews are undertaken every year on all TSFs 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 <i>Mines Safety and Inspection Act 1994</i> and the <i>Mining Act 1978</i></li> <li>Property and business continuity insurance also mitigates the financial impact of major unplanned disruptions arising from potential TSF failure</li> </ul> |
| Performance of key business partners is not aligned with Fortescue's expectations and they do not meet their obligations                  | <p>Fortescue has contracts with various commercial and financial counterparties. Counterparties failing to meet their obligations may unfavourably impact Fortescue's cost and production performance</p> <ul style="list-style-type: none"> <li>Fortescue works collaboratively with its business partners to achieve superior safety, operational and financial performance</li> <li>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</li> <li>Fortescue has robust mechanisms in place to regularly review all major contracts with a focus on performance</li> </ul>  |
| Information technology (IT) security breach or unsuccessful innovation impacting competitive advantage                                    | <p>The rapid pace of technological change and the sophistication of cyber security attacks pose ongoing and real risks requiring the business to maintain constant vigilance</p> <ul style="list-style-type: none"> <li>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</li> <li>The Company monitors and controls access to sensitive and private information maintained within its key systems</li> <li>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</li> <li>Fortescue monitors emerging technology trends, disruptive innovations and complementary technologies</li> </ul>   |
| Health and safety and environmental incidents and/or breaches of regulations could adversely affect our people, operations and reputation | <p>Safety is one of Fortescue's core Values and the Company's vision encompasses the achievement of global leadership in safety performance</p> <ul style="list-style-type: none"> <li>Fortescue has a comprehensive Health, Safety, Environment and Security framework that promotes responsibility and accountability at all levels within the organisation</li> <li>Fortescue has an active program of education, training, monitoring and reporting within the business which is focussed on continuous improvement and learning from experience</li> <li>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</li> </ul>   |

| Material risk  | Risk management strategy  |
|--|---|
| <b>Social and environmental sustainability risks</b>   |   |
| Breaches in Fortescue's legal and regulatory obligations may lead to fines and potential loss of licence to operate  | <p>Fortescue operates in a highly regulated industry within a complex regulatory environment at both Australian Commonwealth 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</p> <ul style="list-style-type: none"> <li>• 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</li> <li>• Fortescue has a robust policy and compliance framework that promotes responsibility and accountability at all levels within the organisation</li> <li>• 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</li> </ul>                    |
| Fortescue's operations have the potential to lead to adverse impact on local flora, fauna and Aboriginal heritage sites  | <p>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</p> <ul style="list-style-type: none"> <li>• Fortescue has rigorous control and reporting processes to minimise the potential for any adverse impacts</li> <li>• Fortescue consults with local communities, regulators and other stakeholder groups to ensure its operations are managed in an environmentally sustainable manner</li> </ul>   |
| Climate change: Physical risks resulting from increased frequency and severity of extreme weather events   | <p>Climate change is recognised as a real and evolving risk to Fortescue's current 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</p> <p>Such events could negatively affect operations through production interruptions, asset loss or damage and the physical and mental wellbeing of the Company's employees and contractors</p> <ul style="list-style-type: none"> <li>• Fortescue has formal cyclone management plans, and incident and emergency response plans at all its operating sites</li> <li>• Fortescue's assets have been designed to withstand extreme weather events with appropriate levels of tolerance</li> <li>• Property and business continuity insurance also mitigate the financial impact of major unplanned disruptions from extreme weather events</li> </ul>   |
| Climate change: Exposure to changes in regulatory requirements that may result in increased liabilities associated with its emissions profile, enhanced reporting requirements and reputation damage | <p>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</p> <p>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</p> <p>Fortescue also continues to closely monitor all legal and regulatory obligations in relation to climate change and emissions. It has robust processes and systems to meet these requirements including reporting obligations. Fortescue continues to work with local communities to ensure both that climate change risks are understood and managed and opportunities are exploited from the evolution of carbon markets</p> |

Further information on the Company's approach to managing environmental risk is included in the FY18 Corporate Social Responsibility Report (CSR) available on the Company's website. In addition, expanded additional disclosure has been provided in the CSR in relation to climate change, including more detailed commentary on risks and opportunities. This expanded disclosure is intended to align with the recommendations of the Task Force on Climate-Related Financial Disclosure (TCFD).

#### 4.4 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 2018. 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 ARMC, 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.

# Assurance functions

## 5 | ASSURANCE FUNCTIONS

### 5.1 Internal audit

An effective 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, 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 external 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.

At the request of the ARMC, during FY18 the Internal Audit function was subject to an independent external review consistent with good industry practice and the requirements of the Institute of Internal Auditors' Professional Practices Framework. Recommendations for improvement will be implemented during FY19 to ensure

Fortescue's internal audit function continues to effectively discharge its role and responsibilities in an objective, effective and efficient manner.

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.

### 5.2 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 policy to rotate audit engagement partners every five years in accordance with the *Corporations Act 2001*. In accordance with this policy, Mr Justin Carroll assumed the role of external audit partner effective from 22 August 2017.

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 FY18 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 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 PwC Australia and related entities for audit and non-audit services provided during the year are set out in note [19] to the FY18 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.

# Security holders

## 6 | 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 to all resolutions tabled at the Annual General Meeting, including election and/or re-election of directors.

The Company has implemented a Continuous Disclosure Policy which is available on the Corporate Governance section of the Company's website. The Board uses various formal and informal measures to ensure 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 production reports and media announcements, available either through the ASX platform or the Company's website
- An email alert system allowing interested parties to register for automated alerts of ASX lodgements and other information related to the Company.





# Business ethics and integrity

## 7 | BUSINESS ETHICS AND INTEGRITY

### 7.1 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 FY18 Corporate Social Responsibility Report available on the Company's website.

### 7.2 Whistleblower service

Fortescue provides various avenues for raising concerns about unethical or illegal business conduct, including behaviour which may not accord with its Values or Code of Conduct, and offers certain protection to anyone who reports concerns in good faith. This applies to all officers, employees and contractors of Fortescue in all jurisdictions where the Company operates.

There are a range of options available to employees who have questions or who wish to report suspected violations of the law, the Code of Conduct or related policies and standards. In addition to reporting any concerns to their line manager, officers, employees (as well as contractors) have the ability raise concerns with Fortescue's Corporate Governance Manager or alternatively to Fortescue's external whistleblower service.

Fortescue's whistleblower service is an external and independent reporting channel for reporting any breaches of Company policy or breaches of the law by Fortescue.

Fortescue takes this reporting channel seriously and all disclosures received through this service are investigated and reported to the executive team and the Board by Fortescue's Corporate Governance Manager. Depending on the nature of the disclosure, investigative reports may include recommendations for remedial or disciplinary action.

Persons providing information to Fortescue's whistleblower system have the option to remain anonymous, ensuring the protection of the individual as well as the integrity of the whistle-blower service.

### 7.3 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.

# Market disclosures

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## 8 | 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 Policy, a copy of which is available on the Corporate Governance section of the Company's website. This Continuous Disclosure 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 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, CEO 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.fmgj.com.au](http://www.fmgj.com.au).

# Compliance with corporate governance standards

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## 9 | 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.fmgj.com.au](http://www.fmgj.com.au)

The ASX Corporate Governance Council has released a consultation paper on proposals to update and reissue its Corporate Governance Principles and Recommendation. The new principles and recommendations (4th Edition) are expected to become effective in 2019.