



Positive accomplishments in a challenging year when realised ore prices fell

Company/ASX Code	Fortescue Metals Group Ltd/FMG
AGM date	Thursday 15 November 2018
Time and location	10am Grand Ballroom Hyatt Regency Perth 99 Adelaide Terrace
Registry	Link Market Services Ltd
Webcast	No
Poll or show of hands	Poll on all items
Monitor	Len Roy assisted by Ian Berry
Pre-AGM Meeting?	Yes, with Co-Deputy Chair Sharon Warburton & Company Secretary Cameron Wilson.

Item 1	Consideration of FY18 accounts and reports
ASA Vote	No vote required

Summary of ASA Position

FMG upheld its targeted financial year 2018 (FY18) production of 170mt with an average C1 cost of US\$12.36 wet metric tonne (wmt) however the average realised price was US\$44 dry metric tonne (dmt) compared to FY17 US\$53 dmt. The 18% reduction in revenue resulted in FY18 revenue being US\$6,887m compared to prior corresponding period (pcp) US\$8,447m.

FY18 net profit after tax (NPAT) was US\$878m with pcp being US\$2,093m. Earnings per share (EPS) dropped from 67.3cps in FY17 to 28.2cps FY18. Return on equity (ROE) fell from 23% in FY17 to 9% in FY18.

The fully franked interim dividend FY18 was A\$0.11 per share (ps) with pcp A\$0.20 ps. The fully franked final dividend FY18 was A\$0.12 ps with pcp A\$0.25 ps. (the dividend payout ratio was increased from 52% in FY17 to 62% in FY18).

Cash on hand year end (YE) 30 June 2018 was US\$863m and net tangible assets per share remained at US\$3.12 (same as FY17).

FMG has no debt repayments due until 2022 and implemented a refinancing strategy in FY18 to benefit from more attractive terms and conditions. The improvement in debt maturity profile was achieved through the establishment of an US\$1.4bn syndicated term loan, an US\$500m senior unsecured notes issue and an US\$260m cash payment. Apart from achieving lower cost of capital, FMG's balance sheet has transitioned to an investment grade structure. The company has achieved US\$3.0bn of debt repayments since July 2016 and significantly, no financial maintenance covenants apply to any of the company's debt.

Share Buy-back

FMG's share price had fallen about a third since the beginning of calendar year 2018 (CY18) and on 11 October 2018, the company announced a share buy-back program up to \$500m to apply for 12 months from 25 October 2018.

Fortescue Ore Carriers

FMG arranged an US\$473m loan to finance the design, manufacture and supply of 8 dedicated ore carriers for a minimum of 12 years on flexible terms. 7 of the carriers are in service. As at June 30 FY18 \$405m of the facility was utilised. The final carrier is expected in FY19.

Eliwana Mine & 143km rail Project.

Announced in May 2018, the \$1.275bn self-funding project will provide FMG with greater production flexibility, uphold the low production cost status, and improve average ore grades. FMG will begin offering 60% iron content product, West Pilbara Fines, to customers in second half FY19.

Summary

(As at FYE)	2018	2017	2016
NPAT (US\$m)	878	2,093	985
Return on Equity %	9	23	12
Share price (A\$)	4.39	5.22	3.50
Dividend paid (cents) A\$	36	32	5
TSR (%)	-9.58	57.66	87.45
EPS (cents) A\$	38.02	87.1	42.58
CEO total remuneration, actual (\$m)*	1.96	5.70	8.47

Note: former CEO Nev Power ceased employment 19 February 2018 and Ms Elizabeth Gains was appointed CEO effective 19 February 2018.

Item 2 Resolution 1	Adoption of the Remuneration Report
ASA Vote	For

Summary of ASA Position

The 31-page remuneration report is constructively laid out. In brief, the structure is made up of Total Fixed Remuneration TFR, STI (Executive & Senior Staff Incentive Plan -ESSIP) and LTIP. Targets are established at the beginning of each financial year. FMG acknowledge that the share price movement throughout FY18 strongly correlated with movement in the iron ore price. The

report states that in FY18 the FMG team focused on measures within their control and the board rewarded that focus.

Significant accomplishments FY18 included best in class sustainable C1 costing, debt reduction, restructured finance providing lower cost of capital & increased flexibility, plus disciplined capital management.

The Core Leadership Team (CLT) was established in FY18 and the remuneration levels were positioned lower than remuneration for prior incumbents in the respective roles noting FMG did not previously have a Deputy CEO. The current CEO TFR is 25% lower than the previous CEO reflecting market trends & benchmarks.

Note FMG functional & reporting currency is US\$ whilst all directors & executives are remunerated in A\$.

Short-term incentives (STI)

STI targets include operating cost, sustaining capital, earnings before interest tax depreciation and amortisation (EBITDA) margin, price realisation, business diversification & growth, sustaining capital expenditure. The primary financial drivers are Underlying EBITDA and net profit after tax (NPAT). Total recordable injury frequency rate (TRIFR) safety performance level decreased from 2.9 in FY17 to 3.7 in FY18 due to an increase in low severity injuries and no award was paid for the safety component. Overall, the STI award was 69% of maximum compared to 96% of maximum in FY17

STI awards where applicable are paid 50% in cash and minimum 50% in share rights. The latter may be increased up to 100% of the STI award.

The STI weightings for the current CEO are financial 60%, growth 20% and non-financial 20%.

Long-term incentive plane (LTIP)

LTI performance period continues to be three years with weightings of the three hurdles being relative total shareholder return (RTSR) 33%, average return on equity (AROE) 33% and Strategic Measures 34%. For the FY16, FY17 & FY18 all three performance measures were achieved resulting in 86% of the maximum share rights vesting under the FY16 LTIP previously approved by shareholders. The comparator group for RTSR is the ASX100 Resources Comparator Group. FMG publish the comparator group & relevant rankings on page 127 of the AR.

LTIP TSR vesting (calculated on a linear basis) is as follows;

Vesting	<60 th percentile	Nil
Threshold	at 60 th percentile	25% vesting of share rights
Target	at 80 th percentile	100% vesting of share rights
Stretch	at 100 th percentile	150% vesting of share rights

LTIP AROE vesting (calculated on a linear basis) is as follows;

Vesting	<15%	Nil
Threshold	At 30%	25% vesting of share rights
Target	30%	100% vesting of share rights
Stretch	>30%	150% vesting of share rights

ASA notes the remuneration report includes: a Claw Back Policy; Minimum shareholding policy for key management personnel (KMP) and Senior Executives; Non-executive director (NED) minimum 100% of base, CEO 100% of TFR, other KMP 75% of TFR and other executives 50% of TFR. Compliance within reasonable period – 5 years; and Notation that approximately three quarters of the value to the KMP & senior executives of the combined ESSIP & LTIP is tied to the share price at time of award.

We support the resolution.

item 3 Resolution 2.	Re-election of Dr Jean Baderschneider as a Director
ASA Vote	For

Summary of ASA Position

Originally appointed FMG NED January 2015 & with 35 years of experience in procurement, strategic sourcing & supply chain management, Dr Baderschneider holds a Masters Degree from University of Michigan & PhD from Cornell University. She was formerly VP Global Procurement for ExxonMobil. Given her relevant experience & professional qualifications we support her re-election.

Item 4 Resolution 3	Election of Dr Cao Zhiqiang as a director.
ASA Vote	For

Summary of ASA Position

Originally appointed FMG NED January 2018 Dr Cao Zhiqiang is the nominated director from shareholder Hunan Valin Iron & Steel Group Company Ltd., where he is currently Chair. He has extensive experience in technology & steel mill management plus strong background in International cooperation. Dr Cao Zhiqiang holds a PhD in science & is a senior engineer research fellow. We support his election.

Item 5 Resolution 4.	Election of Lord Sebastian Coe CH KBE as a director
ASA Vote	For

Summary of ASA Position

Lord Coe was appointed to the House of Lords in 2000. He is a Senior Advisor with Morgan Stanley & Co International plc & NED Vitality Group of health & life insurance companies. Lord Coe is Chancellor of Loughborough University and Executive Chair CSM Sport & Entertainment within the

Chime Communications Group. Elected President of the International Association of Athletics Federations (IAAF) in 2015, Lord Coe is driving significant governance reforms through the organisation and its 214 Member Federations around the world. He was previous Chair of the British Olympic Association and was Chair of the organising committee for the London 2012 Olympic Games & Paralympic games. The foregoing suggests Lord Coe has a very high workload beyond his NED responsibilities at FMG. We shall seek assurance his FMG NED responsibilities will not in any way suffer from his external workload.

Item 6 Resolution 5	Refresh approval of the Performance Rights Plan
ASA Vote	For

Summary ASA position

The FMG Performance Rights Plan was last approved by shareholders at the November 2015 AGM. In accordance with ASX Listing Rule requirements, approval is now sought from shareholders so that securities granted or issued by the company under the plan do not count towards FMG's 15% annual limit on issuing securities without shareholder approval.

The Performance Rights Plan is a major part of the FMG performance oriented culture and as such we support the resolution.

Item 7 Resolution 6	Participation in the FMG Performance Rights Plan by Ms Elizabeth Gaines
ASA Vote	For

Summary ASA position

ASX Listing Rule 10.14 states shareholder approval is required to issue equity securities to a director of the company under an employee incentive scheme. The resolution seeks approval for Ms Gaines MD & CEO to be eligible to receive equities under the terms & conditions of the FMG Performance Rights Plan over the next three years. The maximum number of Performance Rights which may be granted without further shareholder approval under the ESSIP & LTIP over the next three years is 3,353,397. Vesting conditions are outlined in the NOM document. We support the resolution.

The individuals (or their associates) involved in the preparation of this voting intention have a shareholding in this company.

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