FORTESCUE METALS GROUP LTD

ABN 57 002 594 872

Annual Financial Report

30 JUNE 2009

Registered Office and Principal Place of Business;

Level 2
87 Adelaide Terrace
East Perth
Western Australia 6004.

TABLE OF CONTENTS

This financial report covers both Fortescue Metals Group Ltd as an individual entity (the "Company") and the consolidated entity consisting of Fortescue Metals Group Ltd and its subsidiaries ("Fortescue"). The financial report is presented in United States ("US") currency.

Fortescue Metals Group Ltd is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 2
87 Adelaide Terrace
East Perth
Western Australia 6004

A description of the nature of Fortescue's operations and its principal activities is included in the Directors' Report on pages 2-24, which does not form part of this financial report.

The financial report was authorised for issue by the Directors on 10 August 2009. The Company has the power to amend and reissue the financial report.

Through the use of the internet, we have ensured that our corporate reporting is timely, complete, and available globally at minimum cost to the Company. All press releases, financial reports and other information are available on the Company's website at www.fmgl.com.au.

DIRECTORS' REPORT

Your Directors present their report on the consolidated entity ("Fortescue"), consisting of Fortescue Metals Group Ltd (the "Company") and the entities it controlled at the end of, or during, the year ended 30 June 2009.

DIRECTORS

The Directors of the Company in office during the financial year and until the date of this report are as follows:

Non-Executive
Mr Herb Elliott – Chairman
Mr Ken Ambrecht
Mr Joseph Steinberg
Mr Geoff Brayshaw
Mr Owen Hegarty – appointed 13 October 2008
Dr Ian Burston – appointed 13 October 2008
Mr Li Xiaowei – appointed 12 June 2009
Executive
Mr Andrew Forrest
Mr Graeme Rowley
Mr Russell Scrimshaw

Directors were in office for the entire period unless otherwise stated.

Names, qualifications, independence status, experience, special responsibilities and other directorships

Mr Herb Elliott AC, MBE – Chairman - Age 71
Mr Elliott was elected a Non-Executive Independent Director of the Company in October 2003, Deputy Chairman in May 2005 and Chairman on 16 March 2007. Mr Elliott is a member of the Audit and Risk Management Committee and Chairman of the Remuneration Committee. Mr Elliott was Chairman of the Audit and Risk Management Committee until 5 July 2007. Mr Elliott is also Chairman of Telstra Foundation Limited and has been a Director of Ansell Limited and Pacific Dunlop Ltd. He is also Chairman of the private corporate health company Global Corporate Challenge. Previous executive roles include President of PUMA North America. Mr Elliott is the former inaugural Chairman of the National Australia Day Committee and was a Commissioner on the Australian Broadcasting Commission. Mr Elliott is a Doctor of the Queensland University of Technology.

Mr Andrew Forrest – Chief Executive Officer – Age 47
Mr Forrest is the founder and Chief Executive Officer of Fortescue and has been CEO of the Company since July 2003. He was also Interim Chairman from July 2003 until May 2005 and is a member of the Company's Remuneration Committee. Mr Forrest is Non-Executive Chairman of Poseidon Nickel Ltd and the Australian Children's Trust. He is an adjunct professor of the China Southern University and a long standing fellow of the Australian Institute of Mining and Metallurgy. His previous roles include Chief Executive Officer and Deputy Chairman of Anaconda Nickel Limited (now Minara Resources Ltd), Chairman of the Murrin Murrin Joint Venture, Non-Executive Chairman of Moly Mines Ltd, Non-Executive Chairman of Arafura Pearls Ltd, Non-Executive Chairman of Siberia Mining Corporation Limited, Director of the West Australian Chamber of Minerals and Energy and President of Athletics Australia. Mr Forrest has extensive experience in the mining sector and has won multiple global finance awards.

Mr Graeme Rowley AM – Executive Director – Age 69
Mr Rowley has been an Executive Director of the Company since October 2003. Previously he was an executive with Rio Tinto plc, holding senior positions in Hamersley Iron and Argyle Diamonds. Mr Rowley's previous directorships have included the Dampier Port Authority, the Pilbara Development Commission, the Council for the West Pilbara College of TAFE and the Western Australian State Government's Technical Advisory Council. Mr Rowley has extensive experience in operational management of both iron ore ship loading facilities and heavy haul railway within the unique Pilbara environment.

Mr Russell Scrimshaw – Executive Director – Age 60
Mr Scrimshaw was a Non-Executive Director of the Company from October 2003 to June 2005, at which time he became Executive Director, Commercial. Mr Scrimshaw was a board member of Commonwealth Properties Ltd, EDS Australia, Mobilesoft Ltd, Telecom New Zealand Australia Pty Ltd, the Garvan Institute Foundation and Athletics Australia. He is also an Associate Member of the Australian Society of Certified Practicing Accountants. Mr Scrimshaw previously held senior executive positions within the Commonwealth Bank of Australia, Optus, Alcatel, IBM and Amdahl USA.

Mr Ken Ambrecht – Non-Executive Director – Age 63
Mr Ambrecht is a Non-Executive Independent Director of the Company and is a member of the Audit and Risk Management Committee and the Remuneration Committee. Mr Ambrecht is the Principal of KCA Associates LLC., an investment banking and advisory firm. He is a Non-Executive Director of American Financial Corporation Inc and Dominion Petroleum Ltd. Mr Ambrecht was previously a Managing Director at First Albany Capital and the Royal Bank of Canada following a 25 year career at Lehman Brothers in New York as Managing Director in the capital markets division.

Mr Joseph Steinberg – Non-Executive Director – Age 65
Mr Steinberg was appointed a Non-Executive Independent Director of the Company in August 2006 and he sits on the Remuneration Committee. Mr Steinberg has been President since January 1979 and a Director since December 1978 of Leucadia National Corporation Inc. ("Leucadia") of the United States of America. Mr Steinberg was invited onto the Fortescue Board to represent Leucadia following its investment in Fortescue in August 2006. Mr Steinberg is also President and Director of The FINOVA Group, Inc., Jordan Industries, Inc. and Chairman of HomeFed Corporation. He is a Trustee of New York University and serves on several non-profit boards. Mr. Steinberg served as a director of White Mountains Insurance Group, Ltd. from June 2001 through to June 2005. Mr Steinberg received an AB in government in 1966 from New York University and an MBA from Harvard Business School in 1970. He served in the United States Peace Corps from 1966 to 1968.

Mr Geoff Brayshaw AM – Non-Executive Director – Age 59
Mr Brayshaw was appointed a Non-Executive Director of the Company on 1 July 2007 and was appointed Chairman of the Audit and Risk Management Committee on 5 July 2007. Mr Brayshaw was formerly an audit partner with a large international accounting firm and retired in June 2005. He has held a number of positions in commerce and professional bodies including National President of the Institute of Chartered Accountants in 2002, Independent Director and Audit Committee Chairman of Fortron Insurance Group Limited, Board member of the Small Business Development Corporation and was formerly the Chairman of a Trustee Company related to an Aboriginal Corporation. Mr Brayshaw is also a Non-Executive Director and Chairman of the Audit Committee of Poseidon Nickel Limited.

Mr Owen Hegarty – Non-Executive Director – Age 61
Mr Hegarty was appointed a Non-Executive Director on 13 October 2008. He has nearly 40 years experience in the mining industry in Australia and internationally. Mr Hegarty had 25 years with the Rio Tinto Group where he was Managing Director of Rio Tinto Asia and Managing Director of the Group's Australian copper and gold business. He was the founding Managing Director from 1995 through to the merger in 2008 of the Oxiana Ltd Group, which grew from a small exploration company to a multi-billion dollar Australian and Asia focused base and precious metals producer, developer and explorer. Oxiana Ltd Group became Oz Minerals Ltd. Mr Hegarty is also a Non-Executive Director of Range River Gold Limited and Executive Chairman of Hong Kong listed G-Resources Ltd. He is a fellow of the Australasian Institute of Mining and Metallurgy (AusIMM) and was awarded the 2005 AusIMM Institute Medal for his leadership and achievements in the mining industry. He was elected a Director of the AusIMM in October and took up the position in January 2009.

Dr Ian Burston AM – Non-Executive Director – Age 74
Dr Burston was appointed a Non-Executive Director on 13 October 2008. Dr Burston has more than 30 years of top-level experience in Western Australian and international mining. Most recently he was Executive Chairman of Cape Lambert Iron Ore between May 2007 and August 2008 and previously served as Non-Executive Chairman of Cape Lambert from July 2006 to May 2007. Dr Burston has been Non-Executive Chairman of Imdex Ltd since November 2000 and Chairman and Director of NRW Holdings Ltd since July 2007. He has been a Non-Executive Director of Mincor Resources since January 2003 and served as Executive Chairman and Chief Executive Officer of Aztec Resources Ltd between June 2003 and February 2006. He is also a Director of Kanzai Mining Corp. Formerly, Dr Burston held positions as Managing Director of Hamersley Iron Pty Limited, Aurora Gold Ltd and Portman Limited and Chief Executive Officer of Kalgoorlie Consolidated Mines Pty Ltd. Previously he worked for the CRA Group (now part of Rio Tinto) where he worked for 22 years in various senior executive positions.

Dr Burston was awarded the Order of Australia (General Division) in 1993 and was elected Western Australian Citizen of the Year in 1992.

Mr Li Xiaowei – Non-Executive Director – Age 57
Mr Li joined the Board as a Non-Executive Director on 12 June 2009 following Fortescue's Subscription Agreement with Hunan Valin Iron and Steel Group Co Ltd ("Hunan Valin") on 25 February 2009. Chairman of Hunan Valin since 1999, Mr Li is also Vice President of China Iron & Steel Association. A graduate of Zhongnan University of Economics and Law, specialising in Business Enterprise Management, Mr Li also holds an M.A. from the Graduate School of the Chinese Academy of Social Sciences. He has previously served as Vice Chairman of Lianyuan Iron and Steel Co Ltd, Deputy General Manager of Hunan Provincial Metallurgy Enterprises Group and General Manager of Valin Iron & Steel group.

DIRECTORS' MEETINGS

The numbers of meetings of the Company's Board of Directors and of each Board committee held during the financial year ended 30 June 2009, and the numbers of meetings attended by each Director were:

			Committee Meetings			
	Board Meetings		Audit		Remuneration	
Director	**A**	**B**	**A**	**B**	**A**	**B**
Mr Herb Elliott	19	19	5	5	3	3
Mr Andrew Forrest	18	19	*	*	3	3
Mr Graeme Rowley	19	19	*	*	*	*
Mr Russell Scrimshaw	18	19	*	*	*	*
Mr Ken Ambrecht	19	19	5	5	3	3
Mr Joseph Steinberg	18	19	*	*	3	3
Mr Geoff Brayshaw	19	19	5	5	*	*
Mr Owen Hegarty	11	14	*	*	1	1
Dr Ian Burston	11	14	2	3	*	*
Mr Li Xiaowei	1	1	*	*	*	*

A = Number of meetings attended
B = Number of meetings held during the time the Director held office or was a member of the committee during the year
** = Not a member of the relevant committee*

The Remuneration Committee also acts as the Nomination Committee.

In addition to the scheduled Board and Committee meetings a number of matters were resolved by circulating Board Resolutions.

Director	**No of Circulating Resolutions Eligible**	**No of Circulating Resolutions Executed**
Mr Herb Elliott	3	3
Mr Andrew Forrest	3	3
Mr Graeme Rowley	3	3
Mr Russell Scrimshaw	3	3
Mr Ken Ambrecht	3	3
Mr Joseph Steinberg	3	3
Mr Geoff Brayshaw	3	3
Mr Owen Hegarty	3	3
Dr Ian Burston	3	3
Mr Li Xiaowei	-	-

COMPANY SECRETARIES' PARTICULARS

The following people held the position of Company Secretary at the end of the financial year.

Mr Rod Campbell – Age 49
Mr Campbell was appointed Company Secretary of the Company in November 2004. Prior to that time Mr Campbell was State Manager Western Australia for RaboBank Australia Ltd and before that was a Senior Manager with State Bank NSW Ltd. Mr Campbell holds a Bachelor of Agricultural Economics from the University of New England and a Diploma from the Securities Institute of Australia.

Mr Christopher Catlow – Age 48
Mr Catlow was previously Chief Financial Officer of the Company from September 2003 to January 2009 and has been Company Secretary since November 2003. Mr Catlow has extensive experience in the resources sector, having previously been a Director of Consolidated Rutile Ltd and Sierra Rutile Ltd. He was also Executive General Manager Finance of Iluka Resources Limited and Chief Financial Officer of Energy Equity Corporation Limited and Gold Fields Australia Pty Ltd. Mr Catlow is a Fellow of the Institute of Chartered Accountants in Australia.

PRINCIPAL ACTIVITIES

The principal activity of Fortescue during the course of the financial year was the operation of an integrated logistics chain starting with the mining of iron ore from Fortescue's Cloudbreak mine site, the railing of product along Fortescue's heavy haul rail line through to the loading of ships at the Fortescue's port facility at Port Hedland.

More recently Fortescue's second mine at Christmas Creek has commenced operations with product being trucked to the Cloudbreak ore processing facility for inclusion in the product blend. Fortescue also maintains an aggressive exploration and metallurgical program which is progressively developing tenement areas outside of the current mining sites.

No significant changes in the nature of the activities of Fortescue occurred during the year.

REVIEW OF OPERATIONS

The ramp up of operations continued during the year with the total amount of ore shipped being 27.3 million tonnes "Mt" which was derived from a total volume of ore mined of 31.0 Mt.

There were a number of operating milestones achieved during the year with over 1,100 train journeys from the Cloudbreak mine site to the Herb Elliott port site at Port Hedland with a current round trip cycle time now under 19 hours. Other highlights included a ship loading rate of 100,349 tonnes being achieved within a 12 hour shift period and a production rate through the ore processing facility at Cloudbreak of 129,008 tonnes achieved within a 24 hour period.

On a financial side, Fortescue completed a share placement of 260 million shares for total consideration of US$452 million (A$645 million) to Hunan Valin Iron & Steel Company in April 2009.

OPERATIONS

The consolidated results from operations are as follows.

	2009 US$'000	2008 US$'000 Represented
Net profit/(loss) after income tax	508,042	(771,770)
Total assets	4,408,917	3,126,563
Net assets/(deficit)	850,692	(63,158)

CORPORATE

On 1 January 2009 Fortescue elected to adopt US dollars ("USD") as the functional currency of the Company and all of its subsidiaries. The functional currency of an entity is the currency of the primary economic environment in which the entity operates, which should reflect the economic substance of the underlying events and circumstances relevant to the Company. Fortescue's transition from an exploration to a production company has resulted in generating significant cash inflows from iron ore sales. These inflows are denominated in US dollars, which combined with Fortescue's significant USD Senior Secured Notes and Subordinated Loan Note, indicate that a significant proportion of cash inflows and cash outflows going forward will be denominated in USD.

The consolidated financial report for the financial year ended 30 June 2009, including comparative information ("Represented"), has been presented in US dollars.

DIVIDENDS

No dividends have been paid or declared by the Company to members since the end of the previous financial year and the Directors do not recommend the payment of a dividend in respect of the current financial year.

ENVIRONMENTAL REGULATIONS

Fortescue's exploration and mining activities are governed by a range of environmental legislation and regulations. During this financial year, activities at all Fortescue sites have increased. Monitoring is conducted at these sites to ensure that activities continue to operate in accordance with the environmental regulations. Our performance has been within the requirements of our environmental licences.

Fortescue's operations have been inspected by the Department of Minerals and Petroleum ("DMP"), Department of Environment and Conservation ("DEC"), Department of Water and the Commonwealth Department of the Environment, Water, Heritage and the Arts ("DEWHA") a combined total of six times during the financial year. Fortescue was able to demonstrate a high level of compliance with licence and ministerial conditions across all inspections.

Greenhouse gas and energy date reporting requirements
Fortescue is subject to the public reporting requirements of the *Energy Efficient Opportunities Act 2006* and the *National Greenhouse and Energy Reporting Act 2007* and the *National Environmental Protection (National Pollutant Inventory) Measure*. These requirements relate to the financial year and will be reported later in 2009.

The *Energy Efficiency Opportunities Act 2006* requires Fortescue to assess its energy usage, including the identification, investigation and evaluation of energy saving opportunities, and to report publicly on the assessments undertaken. As required under this Act, Fortescue has registered with the Commonwealth Department of Resources, Energy and Tourism and will report to them by the end of 2009.

The *National Greenhouse and Energy Reporting Act 2007* requires Fortescue to report its annual greenhouse gas emissions and energy use. The first measurement period for this Act ran from 1 July 2008 to 30 June 2009. Fortescue has implemented systems and processes for the collection and calculation of the data and will be able to prepare and submit its initial report to the Greenhouse and Energy Data Officer by the required deadline of 31 October 2009.

To the best of the Director's knowledge, Fortescue has adequate systems in place to ensure compliance with the requirements of the environmental legislation described above and is not aware of any breach of those requirements during the financial year and up to the date of the Director's Report.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Significant changes in the state of affairs of Fortescue during the financial year as part of the development and operation of the Cloudbreak and Christmas Creek iron ore mines in the Pilbara were an increase in contributed equity of $483,085,000 (from $746,791,000 to $1,229,876,000) and an increase in cash assets of $521,760,000 (from $133,182,000 to $654,942,000). Net cash received from the increase in contributed equity coupled with the utilisation of available cash reserves was used primarily for the continuing development of the Pilbara Iron Ore and Infrastructure Project.

The increase in contributed equity is explained in the Statements of Changes in Equity. The increase in net cash is explained in the Cash Flow Statements.

Other significant changes in the state of affairs of Fortescue are described below:

- Fortescue's second mine, Christmas Creek, commenced development during the second half of this financial year with ore mining beginning in June 2009;
- On 5 December 2008 Fortescue exercised suspension of all its 10 long term CFR shipping contracts of Affreightment and Consecutive Voyage Contracts. Subsequent to this Fortescue negotiated settlement agreements with Bocimar International NV ("Bocimar") (4 February 2009) and Classic Maritime ("Classic") (27 May 2009) leaving only five disputed contracts remaining. The Bocimar and Classic contracts were the five largest disputed contracts;
- On 19 December 2008 Fortescue also terminated one of its time charter contracts. This disputed contract negotiation is ongoing;
- On 25 February 2009 Fortescue signed its Share Subscription Agreement with Hunan Valin Iron and Steel Group Company ("Hunan Valin") to enable Hunan Valin to proceed with its acquisition of 260 million new Fortescue shares issued at a subscription price of A$2.48 (US$1.74) per share to raise A$645 million (US$452 million) in new equity capital. Subsequent to Australian and Chinese government approvals this issue was effected in the fourth quarter of this financial year.

EVENTS SUBSEQUENT TO REPORTING DATE

On 29 July 2009 Fortescue announced a 1.23 billion tonne Inferred Resource Estimate for its Glacier Valley tenement area. Glacier Valley is held by Fortescue but is subject to a joint venture ("JV") arrangement with an Australian subsidiary of China's Baosteel Group Corporation ("Baosteel"). The exploration expenditure associated with the resource definition enables Baosteel to move to a 35% interest in the JV. Upon expenditure of an additional agreed amount to cover feasibility studies Baosteel can move to a 50% interest.

The tenement is approximately 100 kilometres south of Fortescue's Herb Elliott port facility at Port Hedland and approximately 25 kilometres to the east of the Fortescue rail line.

No other significant events requiring disclosure have occurred since 30 June 2009.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

In the opinion of the Directors it may prejudice the interests of the Company to provide additional information (except as reported in this Directors' Report), in relation to likely developments and business strategies of the operations of Fortescue and the expected results of those operations in subsequent financial years.

DIRECTORS' INTERESTS

The relevant interest of each Director in the shares and options issued by the Company, as notified by the Directors to the Australian Securities Exchange in accordance with S205G(1) of the Corporations Act 2001, at the date of this report is as follows:

Director	Ordinary Shares
Mr Herb Elliott	2,167,938
Mr Andrew Forrest	972,828,300
Mr Graeme Rowley	19,235,690
Mr Russell Scrimshaw	8,000,000
Mr Ken Ambrecht	6,313,130
Mr Joseph Steinberg	277,986,000
Mr Geoff Brayshaw	33,149
Mr Owen Hegarty	-
Dr Ian Burston	-
Mr Li Xiaowei	-

In February 2009, 600,000 incentive options were issued to Mr Russell Scrimshaw. This issue was approved at a general meeting of the Company on 23 June 2009. The terms and conditions of these options are set out below. No other Directors held options during the year.

SHARE OPTIONS

Options granted to Directors and Officers of the Company

During or since the end of the financial year, the Company granted options for no consideration over unissued ordinary shares in the Company to the following Directors and to the following key management personnel and other executives of the Company as part of their remuneration:

	Number of options granted	Exercise price	Expiry date
Directors			
R Scrimshaw	600,000	A$2.50	11 February 2014
Key management personnel			
Mr M Minosora	600,000	A$2.50	11 February 2014
Mr P Hallam	600,000	A$2.50	11 February 2014
Other executives			
Mr P Huston	600,000	A$2.50	11 February 2014
	2,400,000		

All options were granted during the financial year. No options have been granted since the end of the financial year.

Unissued Shares Under Options

The number of options on issue in the Company at the date of this report is as follows. All of these options are unlisted and over the ordinary shares of the Company.

Date Options Granted	Expiry Date	Issue Price of Shares	Number under Option
1 June 2005	31 December 2009	A$0.27	2,221,380
25 January 2006	25 January 2011	A$0.57	1,987,000
1 June 2006	1 June 2011	A$0.70	2,968,750
11 February 2009	11 February 2014	A$2.50	2,400,000

SHARE OPTIONS (continued)

All options expire on the earlier of their expiry date or termination of the employee's employment. These options were issued pursuant to the Fortescue Metals Group's Incentive Option Scheme and have been allotted to individuals on condition that they serve specified time periods as an employee of Fortescue before becoming entitled to exercise the options. These options do not entitle the holder to participate in any share issue of the Company or any other body corporate.

Shares Issued on Exercise of Options
During or since the end of the financial year, the Company issued ordinary shares as a result of the exercise of options as follows (there were no amounts unpaid on the shares issued):

Date Options Granted	Number Vested	Number of Shares Issued	Issue Price of Shares
1 June 2005	8,309,130	4,744,500	A$0.27
25 January 2006	2,010,938	694,250	A$0.57
1 June 2006	2,998,110	1,029,530	A$0.70
11 February 2009	-	-	A$2.50

DIRECTORS AND OFFICERS INDEMNITIES AND INSURANCE

Since the end of the previous financial year, the Company has paid premiums to insure the Directors and Officers of Fortescue.

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

REMUNERATION REPORT (AUDITED)

The remuneration report is set out under the following main headings:

A Principles used to determine the nature and amount of remuneration
B Details of remuneration
C Service agreements
D Share based remuneration
E Additional information

The information provided in this remuneration report has been audited as required by section 308(3C) of the *Corporations Act 2001*.

A PRINCIPLES USED TO DETERMINE THE NATURE AND AMOUNT OF REMUNERATION
Key Management Personnel have the authority and responsibility for planning, directing and controlling the activities of Fortescue and other executives. Key Management Personnel and the five most highly remunerated executive officers for the Company and Fortescue, in accordance with S300A of the Corporations Act 2001, are defined on pages 15 and 16.

Fortescue's remuneration strategy is designed to build a performance oriented culture and attract, retain and motivate its employees, encouraging them to meet their full potential. In line with this strategy, Fortescue provides market competitive fixed remuneration and incentives.

The objective of Fortescue's remuneration strategy is to ensure that reward for performance is competitive and appropriate for the results delivered. The strategy seeks to align employee and executive reward with the achievement of strategic objectives and results that contribute to the creation of value for shareholders.

The remuneration strategy is based on the following principles:

- High levels of employee share ownership will drive an alignment of employee and shareholder interests;
- Remuneration and reward will be competitive and reasonable within the sector that Fortescue operates;
- Performance linkage and alignment of executive remuneration to performance of Fortescue and the individual executive; and
- Transparency in terms of disclosure and compliance with relevant legislative requirements.

Fortescue has structured a remuneration framework that is market competitive and complementary to the reward strategy of the organisation.

The Board has established a Remuneration Committee. The Remuneration Committee operates in accordance with its charter as approved by the Board. The Remuneration Committee is chaired by Mr Herb Elliott and is comprised in the majority by Independent Non-Executive Directors. During the year the Remuneration Committee met three (3) times.

The role of the Remuneration Committee is to provide assistance and recommendations to the Board in fulfilling its Corporate Governance responsibilities related to the following:

- Chief Executive Officer ("CEO") and Executive Director remuneration;
- Senior executive remuneration;
- Short term and long term incentive plans;
- Matters relating to Fortescue's recruitment, retention and termination policies;
- CEO succession planning; and
- Nomination and review of applicants for a Board Director position.

REMUNERATION REPORT (Continued)

The Committee may engage independent external consultants and advisors to provide any necessary information to assist in the discharge of its responsibilities.

The remuneration structure that has been adopted by Fortescue consists of the following components:
- Fixed Remuneration ("FR") being annual salary;
- Salary Sacrifice Share Plan ("SSSP"); and
- Incentive Schemes ("FMGIOS")

Fixed Remuneration
Fixed Remuneration ("FR") consists of base remuneration (which is calculated on a total cost basis), as well as employer contributions to superannuation funds. Fixed Remuneration is reviewed against relevant comparator companies listed within the ASX, in addition to considering the individual contribution and competence levels.

Salary Sacrifice Share Plan
Further to Fortescue's aim of encouraging employee share ownership, all Fortescue employees have an opportunity to participate in the Salary Sacrifice Share Plan ("SSSP"). Employees nominate the amount of pre-tax salary that they wish to salary sacrifice per annum (up to 50%).

In the federal budget on 12 May 2009, the government announced with immediate effect the removal of the ability to defer tax on shares acquired under employee share schemes. Since the announcement on 12 May 2009, a number of changes to the Government's Budget proposal have been announced, however the Government's final position on the income tax treatment of salary sacrifice share plans remains uncertain. Due to the uncertainty, Fortescue has decided to suspend the SSSP until final legislation is enacted.

Incentive Schemes
Fortescue's current incentive based remuneration structure is focused on short to medium term incentives and is designed to reward employees and executives for meeting or exceeding their objectives.

For an incentive to be awarded, Fortescue must have achieved its business targets and key performance indicators ("KPI's"). At the end of the performance period the CEO makes recommendations to the Board for incentive awards for his direct reports based on the achievement of targets. For all other employees a one up manager approval applies with final CEO approval prior to the finalisation and payment of any award.

All employees and executives have the option to take incentives in cash or superannuation. Non-Executive Directors do not participate in any incentive schemes established by the Company.

As occurred in 2008, the KPIs established for the 2009 Incentive Plan were not met and in consequence no payments were triggered under the Company's formal incentive plan established prior to the 2009 financial year. However, the results achieved in the fourth quarter of the 2009 financial year were nevertheless outstanding. To acknowledge those achievements in particular and more generally, the contribution of employees in Fortescue's record breaking progression from project to producer, the Board approved an ex gratia payment of 10% of base salary (or 15% if applied to share purchase) for all employees on permanent contracts.

The conditions for the payment include that Eligible staff must have been in the Company's employ on 30 June 2009 and that they must have served a full 12 month's employment. For those who had not satisfied that condition as at 30 June, their entitlement to the payment will become due upon completion of 12 month's employment. The 5% extra payment incentive for receiving shares issued by the company (for an equivalent after tax value), is designed to encourage share ownership amongst employees. These issued shares are subject to a 12 month share escrow provision to encourage long term ownership.

REMUNERATION REPORT (Continued)

Fortescue Metals Group Incentive Options Scheme ("FMGIOS")
A component of Fortescue's remuneration packaging is the provision of options pursuant to the FMGIOS which was recently refreshed by approval at a general meeting in June 2009. During the 2009 financial year 2,400,000 options were issued to certain senior executives.

The FMGIOS is considered a long term incentive and retention mechanism as it contains vesting conditions whereby the options become exercisable progressively over a 4 year period. The change in share price is the key performance criteria for the FMGIOS as the realised value arising from options issued under the FMGIOS is dependent upon an increase in the share price to above the exercise price of the options. The options issued in 2009 are subject to a share price condition whereby they only become exercisable if the shares trade at or above A$6.00 for 5 consecutive days noting that the volume weighted average market price at the time of the options grant was A$2.50.

A table of unissued shares under option, including expiry date and number of options yet to be exercised, is included in the Directors' Report on page 9. Available options expire between 31 December 2009 and 11 Feb 2014.

Remuneration structure
The Remuneration Committee considers that the above remuneration structure is generating the desired outcomes, evidenced by:

- High retention of overall employees, key management personnel and other executives; and
- Fortescue's record breaking progression from project to producer.

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

	2009	2008	2007	2006	2005
Revenue from iron ore operations – US$'000	1,830,953	139,294	-	-	-
Net profit/(loss) – US$'000	508,042	(771,770)	(31,860)	(1,487)	(579)
Dividends paid	-	-	-	-	-
$ Change in share price	(A$8.11)	A$8.52*	A$2.43*	A$0.66*	A$0.24*
% Change in share price	(68%)	252%	256%	275%	480%

* Movements have been adjusted to provide reasonable comparative amounts in light of Fortescue's reorganisation of capital in December 2007, whereby each fully paid ordinary share was split into ten fully paid ordinary shares.

Non-Executive Directors
Total remuneration for all Non-Executive Directors, last voted upon by shareholders at the 2007 AGM, is not to exceed A$750,000 per annum and is set based on advice from external advisors with reference to the fees paid to other Non-Executive Directors of comparable companies. Non-Executive Directors' base fees are presently up to A$80,000 per annum.

The Chairman's base fee is A$162,000 per annum. The Chairman also receives an additional A$10,000 per annum being fees in recognition of his membership of the Audit Committee and position as Chairman of the Remuneration Committee. Non-Executive Directors do not receive performance related remuneration. Directors' fees cover all main Board activities. Non-Executive Directors who sit on a Board Committee receive an additional A$4,000 per annum per committee and the chair of a committee, other than the Audit Committee, receives A$6,000 per annum. The Chairman of the Audit Committee receives an additional A$15,000 per annum.

REMUNERATION REPORT (Continued)

Non-Executive Directors do not receive share options. Non-Executive Directors may elect each year to receive a percentage of their remuneration in the Company's shares under the Non-Executive Director Share plan ("NEDSP"), which would be acquired on market. Several Non-Executive Directors participated in the arrangement during 2009.

Executive Directors
Executive Director fees are disclosed in part B of the Remuneration Report.

B DETAILS OF REMUNERATION

Amount of remuneration
The key management personnel (as defined in AASB 124 *Related Party Disclosures*) of the Company and Fortescue who have authority and responsibility for planning, directing and controlling the activities of the entity includes the Directors and the following executive officers as set out below:

Directors:
Herb Elliott
Andrew Forrest
Graeme Rowley
Russell Scrimshaw
Ken Ambrecht
Joseph Steinberg
Geoff Brayshaw
Owen Hegarty – appointed 13 October 2008
Ian Burston – appointed 13 October 2008
Li Xiaowei – appointed 12 June 2009

Executive Officers:
Paul Hallam – *Chief Operating Officer* – appointed 17 November 2008
Michael Minosora – *Chief Financial Officer* – appointed 19 January 2009
Alan Watling – *former Chief Operating Officer* – resigned 9 January 2009
Gordon Cowe – *Director of Projects* – appointed 1 July 2008 and resigned 30 June 2009
Chris Catlow – *former Chief Financial Officer, now Director, Investment and Business Development*

The five named Company executives and relevant Fortescue executives who received the highest remuneration are set out below:

Alan Watling – *former Chief Operating Officer* – resigned 9 January 2009
John Blanning – former Head of Mining – resigned 14 January 2009
Graeme Rowley – *Executive Director Operations*
Russell Scrimshaw – *Executive Director Commercial*
Chris Catlow – *former Chief Financial Officer, now Director, Investment and Business Development*

REMUNERATION REPORT (Continued)

DIRECTORS' AND EXECUTIVE OFFICERS' REMUNERATION (COMPANY AND CONSOLIDATED)

Details of the nature and amount of each major element of remuneration of each Director, other Key Management Personnel and other executives of the Company and Fortescue are:

		Short-term				Post-employment	Other long term		Share-based payments			
		Salary & fees US$	**Cash bonus US$***	**Non-monetary benefits US$**	**Total US$**	**Super-annuation benefits US$**	**Long service leave US$**	**Termination benefits US$**	**Options (A) US$**	**Total US$**	**Proportion of remuneration performance related %**	**Value of options as proportion of remuneration %**
Directors of Fortescue Metals Group Ltd *Non-Executive*												
Mr H Elliott (Chairperson)	2009	54,713	-	-	54,713	65,655	-	-	-	120,368	-	-
	2008	113,601	-	-	113,601	5,560	-	-	-	119,161	-	-
Mr K Ambrecht	2009	58,841	-	-	58,841	-	-	-	-	58,841	-	-
	2008	58,195	-	-	58,195	-	-	-	-	58,195	-	-
Mr J Steinberg	2009	-	-	-	-	-	-	-	-	-	-	-
	2008	-	-	-	-	-	-	-	-	-	-	-
Mr G Brayshaw	2009	60,496	-	-	60,496	6,050	-	-	-	66,546	-	-
	2008	59,833	-	-	59,833	5,983	-	-	-	65,816	-	-
Mr Owen Hegarty – appointed October 2008	2009	38,706	-	-	38,706	3,870	-	-	-	42,576	-	-
Dr Ian Burston – appointed 13 October 2008	2009	42,576	-	-	42,576	-	-	-	-	42,576	-	-
Mr Li Xiaowei – appointed 12 June 2008	2009	-	-	-	-	-	-	-	-	-	-	-
Executive												
Mr A Forrest, CEO	2009	70,048	11,334	86,387	167,769	8,138	-	-	-	175,907	6%	-
	2008	69,280	-	61,415	130,695	6,928	-	-	-	137,623	-	-
Mr G Rowley, Executive Director Operations	2009	486,935	55,106	1,610	543,651	75,459	-	-	-	619,110	9%	-
	2008	327,505	-	-	327,505	32,750	-	-	-	360,255	-	-
Mr R Scrimshaw, Executive Director Commercial	2009	506,258	55,106	-	561,364	56,136	-	-	65,977	683,477	18%	10%
	2008	327,505	-	-	327,505	32,750	-	-	-	360,255	-	-

REMUNERATION REPORT (Continued)

DIRECTORS' AND EXECUTIVE OFFICERS' REMUNERATION (COMPANY AND CONSOLIDATED) continued

		Short-term				Post-employment	Other long term		Share-based payments			
		Salary & fees US$	Cash bonus US$*	Non-monetary benefits US$	Total US$	Super-annuation benefits US$	Long service leave US$	Termination benefits US$	Options (A) US$	Total US$	Proportion of remuneration performance related %	Value of options as proportion of remuneration %
Other key management personnel												
Mr P Hallam – Chief Operating Officer – appointed 17 November 2008	2009	218,325	65,723	14,960	299,008	79,455	-	-	65,977	444,440	30%	15%
Mr M Minosora – Chief Financial Officer – appointed 19 January 2009	2009	206,534	46,961	-	253,495	25,349	-	-	65,977	344,821	33%	19%
Mr C Catlow – Director, Investment and Business Development	2009	413,922	66,177	1,610	481,709	48,010	-	-	80,626	610,345	24%	13%
	2008	264,524	-	-	264,524	26,452	-	-	79,742	370,718	22%	22%
Gordon Cowe, Director of Projects – appointed 1 July 2008, resigned 30 June 2009	2009	438,381	-	-	438,381	12,546	-	-	-	450,927	-	-
	2008	-	-	-	-	-	-	-	-	-	-	-
Mr A Watling, Chief Operating Officer – resigned 9 January 2009	2009	252,033	3,018	258,010	513,061	36,630	-	60,705	-	610,396	-	-
	2008	449,778	-	-	449,778	21,615	-	-	34,576	505,969	7%	7%
Other executives												
Mr J Blanning, Head of Mining – resigned 14 January 2009	2009	184,504	1,812	42,421	228,737	18,631	-	288,048	103,973	639,389	17%	16%
	2008	330,655	-	-	330,655	33,065	-	-	102,971	466,691	22%	22%
Mr W Ramsey, Head of Expansion Projects	2008	327,505	-	-	327,505	32,750	-	-	79,742	439,997	18%	18%
Total : directors and other management personnel (consolidated and company)	2009	3,032,272	305,237	404,998	3,742,507	435,929	-	348,753	382,530	4,909,719		
	2008	2,328,381	-	61,415	2,389,796	197,853	-	-	297,031	2,884,680		

* Bonuses recognised during the 2009 financial year were accrued as at 30 June 2009, therefore no bonuses were paid during the 2009 financial year. The bonus was issued in recognition of dramatically improved performance during the last quarter across all operations of Fortescue.

All key management personnel and other executives are employed by the parent entity.

REMUNERATION REPORT (Continued)

Notes in relation to the table of Directors, other Key Management Personnel and other executive's remuneration

(A) The fair value of the options is calculated at the date of grant using the Binomial model and allocated to each reporting period evenly over the period from grant date to vesting date. Under the terms of the FMGIOS the options will progressively vest over a four (4) year period, with 25% vested on each anniversary. The value disclosed is the portion of the fair value of the options allocated to the relevant reporting period. In valuing the options, expected market conditions have been taken into account (refer to Section D below).

The following factors and assumptions were used in determining the fair value of options on grant date:

Grant Date	Expiry Date	Fair value per option*	Exercise price*	Price of shares on grant date*	Expected volatility[1]	Risk free interest rate	Dividend yield
1 June 2005	31 December 2009	A$0.20	A$0.27	A$0.27	26.40%	5.75%	-
25 January 2006	25 January 2011	A$0.46	A$0.57	A$0.62	26.80%	5.13%	-
1 June 2006	1 June 2011	A$0.58	A$0.70	A$0.77	26.80%	5.75%	-
11 February 2009	11 February 2014	A$1.61	A$2.50	A$2.42	25.50%	6.50%	-

[1] *Expected volatility is calculated using the AGSM risk measurement for the period*
** Adjusted in line with the reorganisation of capital of Fortescue Metals Groups Ltd effected on 19 December 2007. Each option was split into ten options.*

The relative proportions of remuneration that are linked to performance and those that are fixed are as follows:

Name	Fixed remuneration		At risk - STI		At risk - LTI	
	2009	2008	2009	2008	2009	2008
Directors of Fortescue Metals Group Ltd						
Mr H Elliott	100%	100%	-	-	-	-
Mr A Forrest	94%	100%	6%	-	-	-
Mr G Rowley	91%	100%	9%	-	-	-
Mr R Scrimshaw	82%	100%	8%	-	10%	-
Mr K Ambrecht	100%	100%	-	-	-	-
Mr J Steinberg	-	-	-	-	-	-
Mr G Brayshaw	100%	100%	-	-	-	-
Mr O Hegarty	100%	-	-	-	-	-
Dr I Burston	100%	-	-	-	-	-
Mr L Xiaowei	-	-	-	-	-	-
Other key management personnel						
Mr P Hallam	70%	-	15%	-	15%	-
Mr M Minosora	67%	-	14%	-	19%	-
Mr C Catlow	76%	78%	11%	-	13%	22%
Mr A Watling	100%	93%	-	-	-	7%
Mr G Cowe	100%	-	-	-	-	-
Other executives						
Mr J Blanning	83%	78%	1%	-	16%	22%
Mr W Ramsey	-	82%	-	-	-	18%

REMUNERATION REPORT (Continued)

C SERVICE AGREEMENTS

Remuneration and other terms of employment for the Executive Directors, other Key Management Personnel and other executives are formalised in a service agreement. The major provisions of the agreements relating to remuneration are set out below.

Mr Andrew Forrest, *Chief Executive Officer*
- Term of agreement – *Unspecified.*
- Base salary, inclusive of superannuation, for the year ended 30 June 2009 of A$110,000 to be reviewed annually by the Remuneration Committee.
- Three month termination clause.

Mr Graeme Rowley, *Executive Director Public Policy*
- Term of agreement – Unspecified.
- Base salary, inclusive of superannuation, for the year ended 30 June 2009 of A$795,000 to be reviewed annually by the Remuneration Committee.
- Three month termination clause.

Mr Russell Scrimshaw, *Executive Director Commercial*
- Term of agreement – Unspecified.
- Base salary, inclusive of superannuation, for the year ended 30 June 2009 of A$795,000 to be reviewed annually by the Remuneration Committee.
- One month termination clause.

Mr Paul Hallam, *Chief Operating Officer*
- Term of agreement – Unspecified.
- Base salary, inclusive of superannuation, for the year ended 30 June 2009 of A$700,000, to be reviewed annually by the Remuneration Committee.
- Three month termination clause.

Mr Michael Minosora, *Chief Financial Officer*
- Term of agreement – Unspecified.
- Base salary, inclusive of superannuation, for the year ended 30 June 2009 of A$700,000 to be reviewed annually by the Remuneration Committee.
- Three month termination clause.

Mr Christopher Catlow, *Director, Investment and Business Development*
- Term of agreement – Unspecified.
- Base salary, inclusive of superannuation, for the year ended 30 June 2009 of A$650,000, to be reviewed annually by the Remuneration Committee.
- Three month termination clause.

REMUNERATION REPORT (Continued)

Details of performance related remuneration
Details of Fortescue's policy in relation to the proportion of remuneration that is performance related is discussed on page 12. The relative proportions of remuneration that are linked to performance are disclosed on page 17.

Bonuses are approved by the Board of Directors as reward for Fortescue achieving its business targets and KPI's.

D SHARE-BASED REMUNERATION
All options refer to options over ordinary shares of the Company, which are exercisable on a one-for-one basis under the FMGIOS.

The terms and conditions of each grant of options affecting remuneration of each Director, Key Management Personnel and other executives in the previous, current or future reporting periods are set out on page 9.

Options granted under the plan carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share.

Options over equity instruments granted as remuneration
Details of options over ordinary shares in the Company that were granted as remuneration to each Director, Key Management Personnel and other executives of the Company and Fortescue are set out below. When exercisable, each option is convertible into one ordinary share of Fortescue Metals Group Ltd. Further information on options is set out in note 38 to the financial statements.

Name	Number of options granted during the year		Number of options vested during the year	
	2009	2008*	2009	2008*
Directors				
Mr H Elliott	-	-	-	-
Mr K Ambrecht	-	-	-	-
Mr J Steinberg	-	-	-	-
Mr G Brayshaw	-	-	-	-
Mr A Forrest	-	-	-	-
Mr G Rowley	-	-	-	-
Mr R Scrimshaw	600,000	-	-	-
Mr O Hegarty	-	-	-	-
Dr I Burston	-	-	-	-
Mr L Xiaowei	-	-	-	-
Other key management personnel				
Mr P Hallam	600,000	-	-	-
Mr M Minosora	600,000	-	-	-
Mr C Catlow	-	-	250,000	250,000
Mr G Cowe	-	-	-	-
Mr A Watling	-	-	-	500,000
Other executives				
Mr J Blanning	-	-	250,000	250,000
Mr W Ramsey	-	-	-	250,000

* The reorganisation of capital of Fortescue Metals Group Ltd was effected on 19 December 2007. The reorganisation was by way of a share split whereby each fully paid ordinary share was split into ten fully paid ordinary shares. To maintain the value of options issued by Fortescue, Fortescue's options were also reorganised through an option split whereby each option was split into ten options. The numbers of options vested and the number of options granted during the year in 2008 have been adjusted to account for this option split.

The options were provided at no cost to the recipients. All options expire on the earlier of their expiry date or termination of the individual's employment. The options are exercisable on an annual basis four years from grant date.

REMUNERATION REPORT (Continued)

The assessed fair value at grant date of options granted to individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables above. Fair values at grant date are independently determined using the Binomial option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

During the financial year the Company issued 2,400,000 employee options. Under the terms of the FMGIOS the options will progressively vest over a four (4) year period, with 25% vested on each anniversary. In addition, Directors have imposed a further requirement that the exercise of options is conditional upon Fortescue shares trading above AU$6 for a set period. The price target was over double the price of shares on grant date. The options have been issued at an exercise price of AU$2.50, which is in accordance with the FMGIOS whereby the price must be at or greater than the volume weighted average price for the five days prior to the offer date, which was 11 February 2009.

The following factors and assumptions were used in determining the fair value of options on grant date (in Australian dollars):

Grant date	Expiry date	Fair value per option	Exercise price	Price of shares on grant date	Expected volatility	Risk free interest rate	Dividend yield
11 February 2009	11 February 2014	A$1.61	A$2.50	A$2.42	25.50%[1]	6.5%	-

[1] *Expected volatility is calculated using the AGSM risk measurement for the period*

Modification of terms of equity-settled share-based payment transactions

No terms of equity-settled share based payment transactions (including options granted as remuneration to a key management person) have been altered or modified by the Company during the financial year ended 30 June 2009.

Exercise of options granted as remuneration

Details of ordinary shares in the Company provided as a result of the exercise of options to each Director of Fortescue Metals Group Ltd, other key management personnel and other executives of Fortescue are set out below:

Name	Date of exercise of options	Number of ordinary shares issued on exercise of options during the year		Amount Paid per Share A$
		2009	2008*	
Directors of Fortescue Metals Group Ltd				
Mr H Elliott	-	-	-	-
Mr K Ambrecht	-	-	-	-
Mr J Steinberg	-	-	-	-
Mr G Brayshaw	-	-	-	-
Mr A Forrest	-	-	-	-
Mr G Rowley	-	-	-	-
Mr R Scrimshaw	-	-	-	-
Mr O Hegarty	-	-	-	-
Dr I Burston	-	-	-	-
Mr L Xiaowei	-	-	-	-
Other key management personnel				
Mr P Hallam	-	-	-	-
Mr M Minosora	-	-	-	-
Mr C Catlow	-	-	-	-
Mr A Watling	30/11/07	-	1,000,000	0.27
Mr A Watling	18/07/08	500,000	-	0.27
Mr G Cowe	-	-	-	-
Other executives				
Mr J Blanning	24/01/08	-	250,000	0.82
Mr J Blanning	07/10/08	150,000	-	0.82
Mr J Blanning	31/01/09	100,000	-	0.82
Mr W Ramsey	01/02/08	-	250,000	0.57

REMUNERATION REPORT (Continued)

* The reorganisation of capital of Fortescue Metals Group Ltd was effected on 19 December 2007. The reorganisation was by way of a share split whereby each fully paid ordinary share was split into ten fully paid ordinary shares. To maintain the value of options issued Fortescue's options were also reorganised through an option split whereby each option was split into ten options. The numbers of shares issued on exercise of options during the year in 2008 have been adjusted to account for this option split.

E ADDITIONAL INFORMATION

Details of remuneration - 2009 cash bonuses and options

For each cash bonus and grant of options included in the tables on pages 15 and 16, the percentage of the available bonus or grant that was paid, or that vested, in the financial year, and the percentage that was forfeited because the person did not meet the service and performance criteria is set out below. The bonuses recognised in the 2009 financial year are payable in 2010. The options were issued pursuant to the FMGIOS and may be exercised 25% after one year, 50% after two years, 75% after three years and in full after four years from grant date. No options will vest if conditions are not satisfied, hence the minimum value of the option yet to vest is nil. The maximum value of the options that is yet to vest has been determined as the amount of the grant date fair value of the options that is yet to be expensed.

	Cash bonus*		Options					
Name	Paid %	Forfeited %	Year Granted	Vested %	Forfeited %	Financial years in which options may vest	Minimum total value of grant yet to vest US$	Maximum total value of grant yet to vest US$
Directors of Fortescue Metals Group Ltd								
Mr H Elliott	-	-	-	-	-	-	-	-
Mr K Ambrecht	-	-	-	-	-	-	-	-
Mr J Steinberg	-	-	-	-	-	-	-	-
Mr G Brayshaw	-	-	-	-	-	-	-	-
Mr A Forrest	6%	-	-	-	-	-	-	-
Mr G Rowley	9%	-	-	-	-	-	-	-
Mr R Scrimshaw	8%	-	2009	-	-	30/06/2013	-	578,882
Mr O Hegarty	-	-	-	-	-	-	-	-
Dr I Burston	-	-	-	-	-	-	-	-
Mr L Xiaowei	-	-	-	-	-	-	-	-
Other key management personnel								
Mr P Hallam	15%	-	2009	-	-	30/06/2013	-	578,882
Mr M Minosora	14%	-	2009	-	-	30/06/2013	-	578,882
Mr C Catlow	11%	-	2006	75%	-	30/06/2010	-	45,442
Mr A Watling	-	-	2005	50%	50%	30/06/2009	-	-
Mr G Cowe	-	-	-	-	-	-	-	-
Other executives								
Mr J Blanning	-	-	2007	50%	50%	30/06/2010	-	-
Mr W Ramsey	-	-	2006	100%	-	30/06/2010	-	-

* Bonuses recognised during the 2009 financial year were accrued as at 30 June 2009, therefore no bonuses were paid during the 2009 financial year.

REMUNERATION REPORT (Continued)

Further details relating to option transactions during the 2009 financial year are set out below

Name	A Remuneration consisting of options %	B Value at grant date US$	C Value at exercise date US$	D Value at lapse date US$
Directors of Fortescue Metals Group Ltd				
Mr H Elliott	-	-	-	-
Mr K Ambrecht	-	-	-	-
Mr J Steinberg	-	-	-	-
Mr G Brayshaw	-	-	-	-
Mr A Forrest	-	-	-	-
Mr G Rowley	-	-	-	-
Mr R Scrimshaw	10%	644,859	-	-
Mr O Hegarty	-	-	-	-
Dr I Burston	-	-	-	-
Mr L Xiaowei	-	-	-	-
Other key management personnel				
Mr P Hallam	15%	644,859	-	-
Mr M Minosora	19%	644,859	-	-
Mr C Catlow	13%	-	-	-
Mr A Watling	-	-	2,720,279	-
Mr G Cowe	-	-	-	-
Other executives				
Mr J Blanning	16%	-	266,487	-
Mr W Ramsey	-	-	-	-

A = The percentage of the value of remuneration consisting of options, based on the value of options expensed during the current year.
B = The value at grant date calculated in accordance with AASB 2 *Share-based Payment* of options granted during the year as part of remuneration.
C = The value at exercise date of options that were granted as part of remuneration and were exercised during the year, being the intrinsic value of the options at that date.
D = The value at lapse date of options that were granted as part of remuneration and that lapsed during the year. Lapsed options refer to options that vested but expired unexercised.

Securities Policy

Fortescue's security trading policy provides guidance on acceptable transactions in dealing in the Company's various securities, including shares, debt notes and options. Fortescue's security trading policy defines dealing in company securities to include:

(a) Subscribing for, purchasing or selling Company Securities or entering into an agreement to do any of those things;
(b) Advising, procuring or encouraging another person (including a family member, friend, associate, colleague, family company or family trust) to trade in Company Securities; and
(c) Entering into agreements or transactions which operate to limit the economic risk of a person's holdings in Company Securities.

The securities trading policy details acceptable and unacceptable times for trading in Company Securities including detailing potential civil and criminal penalties for misuse of "inside information". The Directors must not deal in Company Securities without providing written notification to the Chairman. The Chairman must not deal in Company Securities without the prior approval of the Chief Executive Officer. The Directors are responsible for disclosure to the market of all transactions or contracts involving the Company's shares.

This is the end of the audited Remuneration Report.

NON-AUDIT SERVICES

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with Fortescue is important.

Details of the amounts paid or payable to the auditor BDO Kendalls Audit & Assurance (WA) Pty Ltd for audit and non-audit services provided during the year are set out below.

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

- all non-audit services have been reviewed by the Audit Committee to ensure they do not impact the impartiality and objectivity of the auditor.
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

During the year the following fees were paid or payable for services provided by the auditor of the Company, its related practices and non-related audit firms.

	Consolidated	
Amounts received or due and receivable by auditors for:	**2009 US$**	**2008 US$ Represented**
Audit Services:		
BDO Kendalls Audit & Assurance (WA) Pty Ltd		
- Audit and review of financial reports	251,035	156,318
- Other assurance services	25,210	-
Services other than statutory audit:		
BDO Consultants (WA) Pty Ltd		
- Financial due diligence	9,590	32,966
BDO Risk Advisory Services (QLD) Pty Ltd		
- Risk advisory services	-	14,298
Total Remuneration	285,835	203,582

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration under section 307C of the *Corporations Act 2001* is set out on page 25.

ROUNDING OFF

Fortescue is of the kind referred to in ASIC Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts. Amounts in the financial report and Directors' Report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

AUDITOR

BDO Kendalls Audit & Assurance (WA) Pty Ltd continues in office in accordance with section 327 of the *Corporations Act 2001.*

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

Herb Elliott
Chairman

Dated at Perth this 10th day of August 2009.

BDO Kendalls

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ABN 79 112 284 787

10 August 2009

The Directors
Fortescue Metals Group Limited
Level 2, 87 Adelaide Terrace
EAST PERTH WA 6004

Dear Sirs

DECLARATION OF INDEPENDENCE BY GLYN O'BRIEN TO THE DIRECTORS OF FORTESCUE METALS GROUP LIMITED

As lead auditor of Fortescue Metals Group Limited for the year ended 30 June 2009, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

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

Glyn O'Brien

Glyn O'Brien
Director

BDO Kendalls

BDO Kendalls Audit & Assurance (WA) Pty Ltd
Perth, Western Australia

FORTESCUE METALS GROUP LTD
INCOME STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009

		Consolidated		Company	
		2009	**2008**	**2009**	**2008**
		US$'000	**US$'000**	**US$'000**	**US$'000**
	Note		**Represented**		**Represented**
Revenue	9	1,830,953	139,294	39,747	22,707
Cost of sales	10	(1,350,696)	(90,868)	(54,660)	(16,900)
Gross profit		480,257	48,426	(14,913)	5,807
Interest revenue		9,884	45,910	4,143	13,152
Other income	11	26,717	-	1,037	-
Fair value adjustment to Subordinated Loan Note	28	1,124,411	(1,070,182)	-	-
Net foreign exchange gain/(loss) on borrowings	12	(568,342)	224,893	(8,427)	-
Net foreign exchange gain/(loss) – other	13	114,598	(30,091)	1,507	3,852
Other financial expenses	14	(490,945)	(301,953)	(12,279)	(2,254)
Administration expenses	15	(34,620)	(20,409)	(34,620)	(20,409)
Profit/(loss) before income tax		661,960	(1,103,406)	(63,552)	148
Income tax benefit/(expense)	16	(153,918)	331,636	19,404	564
Profit/(loss) attributable to members of the Company		508,042	(771,770)	(44,148)	712
Earnings/(loss) per share:					
Basic earnings/(loss) per share (cents)	17	17.77	(47.63)		
Diluted earnings/(loss) per share (cents)	17	17.70	(47.63)		

The above income statements should be read in conjunction with the accompanying notes.

FORTESCUE METALS GROUP LTD
BALANCE SHEETS
AS AT 30 JUNE 2009

	Note	Consolidated 2009 US$'000	Consolidated 2008 US$'000 Represented	Company 2009 US$'000	Company 2008 US$'000 Represented
CURRENT ASSETS					
Cash and cash equivalents	18	654,942	133,182	452,263	197
Trade and other receivables	19	183,188	109,976	512,443	618,096
Inventories	20	121,122	35,844	-	-
Financial assets	21	31	26	31	26
Other current assets	22	1,498	1,147	1,498	1,147
Total Current Assets		960,781	280,175	966,235	619,466
NON-CURRENT ASSETS					
Trade and other receivables	19	13,512	1,694	127	1,694
Exploration and evaluation expenditure	23	11,889	2,790	-	-
Development expenditure	24	1,423,222	1,046,219	-	-
Property, plant and equipment	25	1,641,919	1,289,892	4,066	5,017
Intangible assets	26	25,144	22,673	25,144	22,673
Deferred tax assets	27	332,449	483,119	296,131	91,774
Other financial assets	21	1	1	1	1
Total Non-Current Assets		3,448,136	2,846,388	325,469	121,159
TOTAL ASSETS		4,408,917	3,126,563	1,291,704	740,625
CURRENT LIABILITIES					
Borrowings	28	319,823	264,065	10,224	-
Provisions	29	55,582	15,688	-	-
Trade and other payables	30	339,085	113,899	14,623	6,320
Derivatives held at fair value	31	31,397	10,504	-	-
Total Current Liabilities		745,887	404,156	24,847	6,320
NON-CURRENT LIABILITIES					
Borrowings	28	2,250,482	2,572,570	104,585	-
Trade and other payables	30	349,602	80,629	-	-
Deferred tax liabilities	27	212,254	132,366	426	1,899
Total Non-Current Liabilities		2,812,338	2,785,565	105,011	1,899
TOTAL LIABILITIES		3,558,225	3,189,721	129,858	8,219
NET ASSETS / (DEFICIT)		850,692	(63,158)	1,161,846	732,406
EQUITY					
Contributed equity	32	1,229,876	746,791	1,229,876	746,791
Reserves	33	(74,622)	2,655	(6,842)	2,655
Accumulated losses		(304,562)	(812,604)	(61,188)	(17,040)
TOTAL EQUITY / (DEFICIENCY IN EQUITY)	34	850,692	(63,158)	1,161,846	732,406

The above balance sheets should be read in conjunction with the accompanying notes.

FORTESCUE METALS GROUP LTD
CASH FLOW STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009

		Consolidated		Company	
		2009	2008	2009	2008
		US$'000	US$'000	US$'000	US$'000
	Note		Represented		Represented
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash receipts from customers		1,852,369	113,734	48,786	13,668
Interest received		9,884	43,905	4,143	13,152
Payments to suppliers and employees		(1,198,145)	(123,709)	(69,426)	(28,825)
Interest paid		(190,760)	(167,351)	-	-
Net cash inflow/(outflow) from operating activities	35	473,348	(133,421)	(16,497)	(2,005)
CASH FLOWS FROM INVESTING ACTIVITIES					
Exploration and evaluation expenditure		(11,317)	(7,828)	-	-
Development expenditure		(406,122)	(536,734)	-	-
Payments for purchase of infrastructure assets		(544,630)	(805,430)	-	-
Payments for purchase of other plant and equipment		(68)	(364)	(68)	(364)
Payments for purchase of intangible assets		(2,786)	(19,008)	(2,786)	(19,008)
Transfers to subsidiaries		-	-	(142,676)	(355,731)
Proceeds from disposal of plant and equipment		223,180	123,026	-	-
Net cash inflow/(outflow) from investing activities		(741,743)	(1,246,338)	(145,530)	(375,103)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from the issue of share capital		453,433	351,067	453,433	351,067
Proceeds from borrowings		96,992	-	96,992	-
Payment of transaction costs		-	(7,080)	-	(7,080)
Repayment of borrowings		(57,221)	-	-	-
Deposits received		209,806	50,666	-	-
Repayment of deposits		(2,400)	-	-	-
Net cash inflow/(outflow) from financing activities		700,610	394,653	550,425	343,987
Net increase/(decrease) in cash and cash equivalents		432,215	(985,106)	388,398	(33,121)
Cash and cash equivalents at 1 July		133,182	1,165,429	197	33,318
Effect of exchange rate changes on cash and cash equivalents		89,545	(47,141)	63,668	-
Cash and cash equivalents at 30 June	18	654,942	133,182	452,263	197

The above cash flow statements should be read in conjunction with the accompanying notes.

FORTESCUE METALS GROUP LTD
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2009

	Note	Contributed equity US$'000 Represented	Accumulated losses US$'000 Represented	Reserves US$'000 Represented	Total Equity US$'000 Represented
Consolidated					
Previous opening balance at 1 July 2007		397,669	(142,169)	2,699	258,199
Correction of error	8	-	101,335	-	101,335
Restated opening balance at 1 July 2007		397,669	(40,834)	2,699	359,534
Net loss for the period		-	(1,577,580)	-	(1,577,580)
Correction of error	8	-	971,480	-	971,480
Effect of change in accounting policy	7(j)	-	(165,670)	-	(165,670)
Total recognised income and expense for the year		-	(771,770)	-	(771,770)
Transactions with equity holders in their capacity as equity holders:					
Issue of share capital	32	350,547	-	-	350,547
Exercise of options	32/33	3,116	-	(1,219)	1,897
Forfeited options	33	-	-	(163)	(163)
Share issue costs	32	(4,541)	-	-	(4,541)
Equity settled share based payment transactions	33	-	-	1,338	1,338
		349,122	-	(44)	349,078
Restated closing balance at 30 June 2008		746,791	(812,604)	2,655	(63,158)

	Note	Contributed equity US$'000	Accumulated losses US$'000	Reserves US$'000	Total Equity US$'000
Consolidated					
Restated opening balance at 1 July 2008		746,791	(812,604)	2,655	(63,158)
Net loss for the period		-	508,042	-	508,042
Foreign currency translation	33	-	-	(77,202)	(77,202)
Total recognised income and expense for the year		-	508,042	(77,202)	430,840
Transactions with equity holders in their capacity as equity holders:					
Issue of share capital	32	481,560	-	-	481,560
Exercise of options	32/33	2,818	-	(1,474)	1,344
Forfeited options	33	-	-	(41)	(41)
Share issue costs	32	(1,293)	-	-	(1,293)
Equity settled share based payment transactions	33	-	-	1,440	1,440
		483,085	-	(75)	483,010
Closing balance at 30 June 2009		1,229,876	(304,562)	(74,622)	850,692

Amounts are stated net of tax.

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

FORTESCUE METALS GROUP LTD
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2009

Company	Note	Contributed equity US$'000 Represented	Accumulated losses US$'000 Represented	Reserves US$'000 Represented	Total Equity US$'000 Represented
Opening balance at 1 July 2007		397,669	(17,752)	2,699	382,616
Net loss for the period		-	(8,495)	-	(8,495)
Effect of change in accounting policy	7(j)	-	9,207	-	9,207
Total recognised income and expense for the year		-	712	-	712
Transactions with equity holders in their capacity as equity holders:					
Issue of share capital	32	350,547	-	-	350,547
Exercise of options	32/33	3,116	-	(1,219)	1,897
Forfeited options	33	-	-	(163)	(163)
Share issue costs	32	(4,541)	-	-	(4,541)
Equity settled share based payment transactions	33	-	-	1,338	1,338
		349,122	-	(44)	349,078
Closing balance at 30 June 2008		746,791	(17,040)	2,655	732,406

Company	Note	Contributed equity US$'000	Accumulated losses US$'000	Reserves US$'000	Total Equity US$'000
Opening balance at 1 July 2008		746,791	(17,040)	2,655	732,406
Net loss for the period		-	(44,148)	-	(44,148)
Foreign currency translation	33	-	-	(9,422)	(9,422)
Total recognised income and expense for the year		-	(44,148)	(9,422)	(53,570)
Transactions with equity holders in their capacity as equity holders:					
Issue of share capital	32	481,560	-	-	481,560
Share issue costs	32	(1,293)	-	-	(1,293)
Exercise of options	32/33	2,818	-	(1,474)	1,344
Forfeited options	33	-	-	(41)	(41)
Equity settled share based payment transactions	33	-	-	1,440	1,440
		483,085	-	(75)	483,010
Closing balance at 30 June 2009		1,229,876	(61,188)	(6,842)	1,161,846

Amounts are stated net of tax.

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

NOTE 1. REPORTING ENTITY

Fortescue Metals Group Ltd (the "Company") is a company domiciled in Australia. The address of the Company's registered office is Level 2, 87 Adelaide Terrace East Perth WA 6004. The consolidated financial statements of the Company as at and for the year ended 30 June 2009 comprise the Company and its subsidiaries (together referred to as "Fortescue"). Fortescue's principal activity is the development and operation of the Cloudbreak and Christmas Creek iron ore mines in the Pilbara in Western Australia.

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the year presented, unless otherwise stated.

NOTE 2. BASIS OF PREPARATION

(a) Statement of compliance

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Australian Accounting Interpretations and the Corporations Act 2001. The financial report of Fortescue Metals Group Limited also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Certain comparative amounts have been reclassified to conform to the current year's presentation.

On 1 January 2009 Fortescue elected to adopt US dollars ("USD") as the functional currency of the Company and all of its subsidiaries. The functional currency of an entity is the currency of the primary economic environment in which the entity operates, which should reflect the economic substance of the underlying events and circumstances relevant to the Company. Fortescue's transition from an exploration to a production company has resulted in generating significant cash inflows from iron ore sales. These inflows are denominated in US dollars, which combined with Fortescue's significant USD Senior Secured Notes and Subordinated Loan Note, indicate that a significant proportion of cash inflows and cash outflows going forward will be denominated in USD.

The consolidated financial report for the financial year ended 30 June 2009, including comparative information, has been presented in US dollars.

During the 2008 financial year Fortescue decided to change its accounting policy on accounting for borrowing costs (note 7(j)) and expense all borrowing costs incurred. The change in accounting policy was applied retrospectively and comparatives restated.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following:

- derivative financial instruments are measured at fair value
- financial instruments at fair value through profit and loss are measured at fair value
- available-for-sale financial assets are measured at fair value

(c) Functional and presentation currency

Transactions in foreign currencies have been converted at rates of exchange ruling on the date of those transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

NOTE 2. BASIS OF PREPARATION (Continued)

Items included in the financial statements of each of Fortescue's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The parent and consolidated financial statements are presented in United States ("US") dollars, which is Fortescue Metals Group Limited's functional and presentation currency.

NOTE 3. CRITICAL ACCOUNTING ESTIMATES AND SIGNIFICANT JUDGEMENTS

The preparation of the consolidated financial statements requires management to make judgements and estimates that affect how certain assets, liabilities, revenue, expenses and equity are reported. At each reporting period, management evaluates its judgements and estimates based on historical experience and on other various factors it believes to be reasonable under the circumstances, the results of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Fortescue has identified the following critical accounting policies under which significant judgements and estimates are made. Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

Reserve Estimates
Reserves are estimates of the amount of product that can be economically and legally extracted from Fortescue's current mining tenements. In order to calculate reserves, estimates and assumptions are required about a range of geological, technical and economic factors, including quantities, grades, production techniques, recovery rates, production costs, transports costs, commodity demand, commodity prices and exchange rates. Estimating the quantity and/or grade of reserves requires the size, shape and depth of ore bodies or fields to be determined by analysing geological data such as drilling samples. This process may require complex and difficult geological judgements and calculations to interpret the data.

In the Chichester Range project sites, Fortescue has estimated a reserve of 1.625 billion tonnes (Bt) from a resource of 2.2Bt, which includes 141.4 million tonnes (Mt) of proved and 1,483.6MT of probable reserves, as classified under Australasian Code for Reporting of Mineral Resources and Ore Reserves December 2004 ("JORC Code"). The JORC Code requires the use of reasonable investment assumptions to calculate reserves.

Because the economic assumptions used to estimate reserves change from period to period, and because additional geological data is generated during the course of operations, estimates of reserves may change from period to period. Changes in reported reserves may affect Fortescues financial results and financial position in a number of ways, including the following:

- Asset carrying values may be affected due to changes in estimated future cash flows
- Depreciation and amortisation charges in the income statement may change where such charges are determined by the units of production basis, or where the useful economic lives of assets change
- The carrying value of deferred tax assets may change due to changes in estimates of the likely recovery of tax benefits.

NOTE 3. CRITICAL ACCOUNTING ESTIMATES AND SIGNIFICANT JUDGEMENTS (Continued)

Exploration and evaluation expenditure
Fortescue's accounting policy for exploration and evaluation expenditure results in expenditure being capitalised for an area of interest where it is considered likely to be recoverable by future exploitation or sale or where the activities have not reached a stage which permits a reasonable assessment of the existence of reserves. This policy requires management to make certain estimates as to future events and circumstances, in particular whether an economically viable extraction operation can be established. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised the expenditure under the policy, a judgement is made that recovery of the expenditure is unlikely, the relevant capitalised amount will be written off to the income statement.

Development expenditure
Development activities commence after commercial viability and technical feasibility of the project is established. Judgement is applied by management in determining when a project is commercially viable and technically feasible. Any judgements may change as new information becomes available. If, after having commenced the development activity, a judgement is made that a development asset is impaired, the appropriate amount will be written off to the income statement.

Property, plant and equipment – recoverable amount
In accordance with Fortescue's accounting policy, each asset or cash generating unit is evaluated every reporting period to determine whether there are any indications of impairment. If any such indication exists, a formal estimate of recoverable amount is performed and an impairment loss recognised to the extent that carrying amount exceeds recoverable amount. The recoverable amount of an asset or cash generating group of assets is measured at the higher of fair value less costs to sell and value in use.

The determination of fair value and value in use requires management to make estimates about expected production and sales volumes, commodity prices, reserves (see 'Reserve estimates' above), operating costs, rehabilitation costs and future capital expenditure. Changes in circumstances will alter these projections, which may impact the recoverable amount of the assets. In such circumstances, some or all of the carrying value of the assets may be impaired and the impairment would be charged against the income statement.

Rehabilitation
Fortescue's accounting policy for the recognition of rehabilitation provisions requires significant estimates including the magnitude of possible works required for removal or treatment of waste materials and the extent of work required and the associated costs of rehabilitation work. These uncertainties may result in future actual expenditure differing from the amounts currently provided.

The provision recognised for each site is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for operating sites are recognised in the balance sheet by adjusting the rehabilitation asset and provision.

Subordinated Loan Note Valuation
The Company put in place a US$100 million Subordinated Loan Note during the 2007 financial year. The key terms and conditions of the facility are:

- Interest under the note is calculated as 4% of the revenue, net of government royalties, from the sale of iron ore FOB Port Hedland from the tenements of the Cloudbreak and Christmas Creek areas only. Accordingly the interest is only payable when Fortescue is in production and is only relevant to iron ore produced from these two tenement areas for a period of 13 years from 18 August 2006;
- The note is unsecured and deeply subordinated to any secured debt. In the event that an interest payment is earned but not payable due to secured lender restrictions, the amount unpaid will accrue interest at a market interest rate until payment is made.

NOTE 3. CRITICAL ACCOUNTING ESTIMATES AND SIGNIFICANT JUDGEMENTS (Continued)

The note was revalued at 30 June 2009 to US$381,631,000 (30 June 2008: US$ 1,247,336,000) in line with changes in the following management estimates, prevailing market conditions and economic forecasts:

- Production was revised to reflect Fortescue's forecast production profile as at 30 June 2009 of production levels from Christmas Creek and Cloudbreak reaching a maximum of 95mtpa in February 2012 (2008: forecast reaching a maximum 160mtpa in December 2010);
- Future iron ore prices were updated to reflect lower forecasts provided by Metalytics Pty Ltd being an independent resource sector analyst of future iron ore prices;
- The discount rate has been applied since inception and reflects the implicit interest rate of 42% of the Subordinated Loan Note;
- Expected royalty rates have not changed since 30 June 2008 and reflect current royalty rates payable to the Western Australian state government; and
- The total reserve estimate of Cloudbreak and Christmas Creek has not changed since 30 June 2008.

Explanation of the revaluation of the Subordinated Loan Note from US$1,247,336,000 to US$381,631,000 is included in note 28(i). Explanation of the correction of error resulting from a change in estimates is included in note 8.

NOTE 4. CRITICAL ACCOUNTING POLICIES

(a) Revenue Recognition

Revenue is measured at the fair value of the gross consideration received or receivable. Fortescue recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of Fortescue's activities. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. Fortescue bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(i) Sale of goods
Revenue from the sale of goods and disposal of other assets is recognised when persuasive evidence, usually in the form of an executed sales agreement, or an arrangement exists, indicating there has been a transfer of risks and rewards to the customer, no further work or processing is required by Fortescue, the quantity and quality of the goods has been determined with reasonable accuracy, the price is fixed or determinable, and collectability is reasonably assured. This is generally when title passes.

The majority of Fortescue's sales agreements specify that title passes when the product is delivered to the destination specified by the customer, which is typically the vessel on which the product will be shipped. In practical terms, revenue is generally recognised on the bill of lading date, which is the date the commodity is delivered to the shipping agent. These sales agreements also allow for an adjustment to the sales price based on a survey of the goods by the customer (an assay for mineral content); therefore recognition of the sales revenue is based on the most recently determined estimate of product specifications.

(ii) Traded freight
Revenue from freight services is recognised on the bill of lading date of the customer.

(iii) Interest
Interest revenue on cash balances is recognised using the effective interest method.

NOTE 4. CRITICAL ACCOUNTING POLICIES

(b) Property, Plant and Equipment

Recognition and measurement
Each class of property, plant and equipment is stated at historical cost less, where applicable, any accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing an asset to a working condition ready for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalised as part of the equipment.

Subsequent costs
Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Fortescue and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation
Depreciation on assets, other than land, is calculated using the straight line method or units or production method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives. Land is not depreciated.

Gains and losses on disposal are determined by comparing proceeds with carrying amount. These are included in the income statement.

(i) Straight line method
Assets within operations where production is not expected to fluctuate significantly from one year to another or which have a physical life that differs from the related mine are depreciated on a straight line basis as follows:

Buildings	25-40 years
Machinery	10-15 years
Vehicles	3-5 years
Furniture, fittings and equipment	3-8 years
Infrastructure	5-15 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

(ii) Units of production method
Where the useful life of infrastructure assets is directly linked to the extraction of ore from the mine, these infrastructure assets are depreciated using the units of production method. In applying the units of production method, depreciation is normally calculated using the quantity of material extracted from the mine in the period as a percentage of the total quantity of material to be extracted in current and future periods based on proved and probable reserves.

NOTE 4. CRITICAL ACCOUNTING POLICIES (Continued)

(c) Impairment of Assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Assets that have suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(d) Mineral Exploration and Evaluation Expenditure

Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. Exploration and evaluation expenditure includes:

- researching and analysing historical exploration data;
- gathering exploration data through topographical, geochemical and geophysical studies;
- exploratory drilling, trenching and sampling;
- determining and examining the value and grade of the resource;
- surveying transportation and infrastructure requirements;
- conducting market and finance studies;
- administration costs that are directly attributable to a specific exploration area; and
- licensing costs.

These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area, or where activities in the area have not yet reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest. Accumulated costs in relation to an abandoned area are written off in full in the income statement in the year in which the decision to abandon the area is made.

(e) Development Expenditure

Once a mining project has been established as commercially viable and technically feasible, expenditure other than that on land, buildings and plant and equipment is capitalised under development expenditure. Development expenditure costs include past capitalised exploration and evaluation costs, pre-production development costs, development excavation, development studies and other subsurface expenditure pertaining to that area of interest. Costs related to surface plant and equipment and any associated land and buildings are accounted for as property, plant and equipment.

Development costs are accumulated in respect of each separate area of interest. Costs associated with commissioning new assets in the period before they are capable of operating in the manner intended by management, are capitalised. Development costs incurred after the commencement of production are capitalised to the extent they are expected to give rise to a future economic benefit.

When an area of interest is abandoned or the Directors decide that it is not commercial or technically feasible, any accumulated cost in respect of that area is written off in the financial period the decision is made. Each area of interest is reviewed at the end of each accounting period and accumulated cost written off to the income statement to the extent that they will not be recoverable in the future.

NOTE 4. CRITICAL ACCOUNTING POLICIES (Continued)

Amortisation of carried forward exploration and development costs is charged on a unit of production basis over the life of economically recoverable reserves.

Development assets are assessed for impairment if facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For the purposes of impairment testing, development assets are allocated to cash-generating units to which the development activity relates. The cash generating unit shall not be larger than the area of interest.

(f) Rehabilitation

The mining, extraction and processing activities of Fortescue give rise to obligations for site rehabilitation. Rehabilitation obligations can include facility decommissioning and dismantling; removal or treatment of waste materials; land rehabilitation; and site restoration. The extent of work required and the associated costs are estimated based on feasibility and engineering studies using current restoration standards and techniques. Provisions for the cost of each rehabilitation program are recognised at the time that environmental disturbance occurs.

Rehabilitation provisions are initially measured at the expected value of future cash flows required to rehabilitate the relevant site, discounted to their present value. The value of the provision is progressively increased over time as the effect of discounting unwinds. When provisions for rehabilitation are initially recognised, the corresponding cost is capitalised as an asset, representing part of the cost of acquiring the future economic benefits of the operation. The capitalised cost of rehabilitation activities is recognised in 'Development Expenditure' as rehabilitation assets and amortised accordingly.

Where rehabilitation is expected to be conducted systematically over the life of the operation, rather than at the time of closure, provision is made for the present obligation or estimated outstanding continuous rehabilitation work at each balance sheet date and the costs charged to the income statement in line with remaining future cash flows.

At each reporting date the rehabilitation liability is re-measured to account for any new disturbance, updated cost estimates, changes to the estimated lives of operations, new regulatory requirements and revisions to discount rates. Changes to the rehabilitation liability are added to or deducted from the related rehabilitation asset and amortised accordingly.

(g) Deferred Stripping

Overburden and other mine waste materials are often removed during the initial development of a mine in order to access the mineral deposit. This activity is referred to as development stripping. The directly attributable costs (inclusive of an allocation of relevant overhead expenditure) are capitalised as development costs. Capitalisation of development stripping costs ceases and amortisation of those capitalised costs commences upon extraction of ore. Amortisation of capitalised development stripping costs is determined on a unit of production basis for each separate area of interest.

Capitalised development and production stripping costs are classified as 'Development Expenditure". Development stripping costs are considered in combination with other assets of an operation for the purpose of undertaking impairment assessments.

Removal of waste material normally continues throughout the life of a mine. This activity is referred to as production stripping and commences upon extraction of ore.

NOTE 4. CRITICAL ACCOUNTING POLICIES (Continued)

The costs of production stripping are charged to the income statement as operating costs when the ratio of waste material to ore extracted for an area of interest is expected to be reasonably constant throughout its estimated life.

When the ratio of waste to ore is not expected to be constant, production stripping costs are accounted for as follows:

- All costs are initially charged to the income statement and classified as operating costs;
- When the current ratio of waste to ore is greater than the estimated life-of-mine ratio, a portion of the stripping costs (inclusive of an allocation of relevant overhead expenditure) is capitalised; and
- In subsequent years when the ratio of waste to ore is less than the estimated life-of-mine ratio, a portion of capitalised stripping costs is charged to the income statement as operating costs.

The amount of production stripping costs capitalised or charged in a financial year is determined so that the stripping expense for the financial year reflects the estimated life-of-mine ratio. Changes to the estimated life-of-mine ratio are accounted for prospectively from the date of the change.

The Cloudbreak and Christmas Creek area of interest has minimal overburden to remove from these alluvial mines, therefore production stripping costs for these mines are not deferred but charged to the income statement as they are incurred.

(h) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities which are not an incremental cost relating to the actual draw-down of the facility, are expensed to the income statement.

Preference shares which are mandatorily redeemable on a specific date are classified as liabilities. The dividend on these preference shares are recognised in the income statement as interest costs.

Borrowings and other financial liabilities are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in other income or other expenses.

Borrowings are classified as current liabilities unless Fortescue has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

NOTE 5. SIGNIFICANT ACCOUNTING POLICIES – INCOME STATEMENT

(a) Foreign Currency Transactions and Balances

Items included in the financial statements of each of Fortescue's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in United States ("US") dollars, which is Fortescue Metals Group Limited's functional and presentation currency.

NOTE 5. SIGNIFICANT ACCOUNTING POLICIES – INCOME STATEMENT (Continued)

Group companies
The results and financial position of all Fortescue entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
- income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings designated as hedges of such investments, are taken to equity. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences are recognised in the income statement, as part of the gain or loss on sale where applicable.

Transactions in foreign currencies have been converted at rates of exchange ruling on the date of those transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation differences on financial assets and liabilities carried at fair value are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale financial assets are included in equity.

(b) Borrowing Costs

Borrowing costs are expensed as incurred. Borrowing costs include interest expense on borrowings, foreign currency gains and losses on borrowings, and any other costs incurred in connection with the arrangement of borrowings. Borrowing costs are recognised in the income statement using the effective interest method.

(c) Other Income

Other income comprises, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss and loss and non-operational revenue.

(d) Finance Costs

Finance costs comprise borrowing costs, unwinding of the discount on provisions, changes in fair value of derivatives, borrowing costs and impairment losses recognised on financial assets.

NOTE 6. SIGNIFICANT ACCOUNTING POLICIES – BALANCE SHEET

(a) Cash and Cash Equivalents

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(b) Trade and Other Receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. An allowance for impairment of trade receivables is established when there is objective evidence that Fortescue will not be able to collect all amounts due.

(c) Financial Assets

Fortescue classifies its investments into the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

(i) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and include trade receivables. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are included in trade and other receivables (note 19).

(ii) Derivatives
Financial assets at fair value through profit or loss are financial assets held for trading. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

This category comprises only interest rate swaps. They are carried in the balance sheet at fair value with changes in fair value recognised in the income statement. Other than interest rate derivative financial instruments, Fortescue does not have any assets held for trading nor has it designated any other financial assets as being at fair value through profit or loss.

The fair value of Fortescue's interest rate derivative is based on comparisons to variable LIBOR rates.

(iii) Available for sale financial assets
Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date. Investments are designated as available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term. These instruments are recognised at fair value, with changes in fair value being recognised directly in a reserve, unless the change is a decrease below original cost which is considered to be significant or prolonged, in which case the decrease is recognised in the income statement.

NOTE 6. SIGNIFICANT ACCOUNTING POLICIES – BALANCE SHEET (Continued)

Recognition and derecognition
Regular purchased and sales of financial assets are recognised on trade-date – the date on which Fortescue commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transactions costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and Fortescue has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in equity. Changes in the fair value of other monetary and non-monetary securities classified as available-for-sale are recognised in equity.

Details on how the fair value of financial instruments is determined are disclosed in note 6(f).

Impairment
Fortescue assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset preciously recognised in equity – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments classified as available-for-sale which subsequently reverse are not reversed through the income statement.

If there is evidence of impairment for any of Fortescue's financial assets carried at amortised cost, the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows. The cash flows are discounted at the financial asset's original effective interest rate. The loss is recognised in the income statement. If the impairment loss subsequently reverses, the reversal is recognised in the income statement.

(d) Financial liabilities

Fortescue classifies its financial liabilities into one of two categories, depending on the purpose for which the asset was acquired.

(i) Fair value through profit or loss

This category comprises only 'out of-the-money derivatives'. They are carried in the balance sheet at fair value with changes in fair value recognised in the income statement. Other than these derivative financial instruments, Fortescue does not have any liabilities held for trading nor has it designated any financial liabilities as being at fair value through profit or loss.

NOTE 6. SIGNIFICANT ACCOUNTING POLICIES – BALANCE SHEET (Continued)

(ii) Financial liabilities measured at amortised cost

Other financial liabilities include the following items:

- Trade payables and other short-term monetary liabilities, which are initially recognised initially at fair value and subsequently carried at amortised cost using the effective interest method; and
- Borrowings are initially recognised at fair value, net of any transaction costs directly attributable to the issue of the instrument. Interest bearing borrowings are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the balance sheet. Interest expense in this context includes initial amortisation of transaction costs and those payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

Fair value is calculated by discounting estimated future cash flows using a market rate of interest.

(e) Equity Financial Instruments

Financial instruments issued by Fortescue are treated as equity only to the extent that they do not meet the definition of a financial liability. Fortescue's ordinary shares are classified as equity instruments. There have been no changes in what Fortescue considers to be equity since the previous period.

(f) Fair Value Estimation

The fair value of financial assets and financial liabilities must be estimated for measurement disclosure purposes. Fair values have been determined based on the following methods.

Financial instruments traded in active markets
The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by Fortescue is the current bid price.

Financial instruments not traded in active markets
The fair value of financial instruments that are not traded in an active market (for example over-the-counter derivatives) is determined using valuation techniques. Fortescue uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held and then adjusted to reflect risk of the particular instrument. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

Trade receivables and payables
The nominal value less estimated credit adjustments of current trade receivables and payables are assumed to approximate their fair values due to their short term nature. The fair value of non-current financial assets and liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to Fortescue for similar financial instruments.

Borrowings
Fair value, which is determined for disclosure purposes, is calculated based on the present value of the future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option. For finance leases the market rate of interest is determined by reference to similar lease agreements.

NOTE 6. SIGNIFICANT ACCOUNTING POLICIES – BALANCE SHEET (Continued)

Share-based payment transactions
The fair value of employee share options is measured using the Binomial model. Measurement inputs include share price at measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

(g) Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is determined primarily on the basis of weighted average costs. Cost for raw materials and stores is purchase price and for partly processed and saleable products cost is derived on an absorption costing basis. For this purpose the costs of production include:

- labour costs, materials and contractor expenses which are directly attributable to the extraction and processing of ore;
- the amortisation of development expenditure and depreciation of property, plant and equipment used in the extraction and processing of ore; and
- production overheads, including attributable mining and manufacturing overheads.

Stockpiles represent ore that has been extracted and is available for further processing. If there is significant uncertainty as to when the stockpiled ore will be processed it is expensed as incurred. Where the future processing of this ore can be predicted with confidence e.g., because it exceeds the mine's cut off grade, it is valued at the lower of cost and net realisable value. If the ore will not be processed within 12 months after the balance sheet date it is included within non-current assets. Quantities are assessed primarily through surveys and assays.

(h) Intangible Assets

(i) IT development and software
Costs incurred in developing products or systems and costs incurred in acquiring software and licenses that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software and systems. Costs capitalised include external direct costs of materials and service, direct payroll and payroll related costs of employees' time spent on the project.

IT development costs include only those costs directly attributable to the development phase and are only recognised following completion of technical feasibility and where Fortescue has an intention and ability to use the asset.

Intangible assets that have a physical life that differs from the related mine are amortised on a straight line basis over periods generally ranging from 3 to 6 years. Where the useful life of intangible assets is directly linked to the extraction of ore from the mine, these assets are amortised on the units of production method.

NOTE 6. SIGNIFICANT ACCOUNTING POLICIES – BALANCE SHEET (Continued)

(ii) Research and development
Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will, after considering its commercial and technical feasibility, be completed and generate future economic benefits and its costs can be measured reliably. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Capitalised research and development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life.

(i) Trade and Other Payables

These amounts represent liabilities for goods and services provided to Fortescue prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(j) Provisions

Provisions for legal claims are recognised when: Fortescue has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

(k) Employee Benefits

(i) Wages and salaries, annual leave and sick leave
Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables and accruals in respect of employees services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

NOTE 6. SIGNIFICANT ACCOUNTING POLICIES – BALANCE SHEET (Continued)

(ii) Long service leave
The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Share-based payments
Share-based remuneration benefits are provided to employees via the Fortescue Metals Group Incentive Option Scheme ("FMGIOS") and Performance Rights Plan ("PRP"). Information relating to these schemes is set out in note 38.

The fair value of options granted under the FMGIOS and PRP are recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is independently determined using the Binomial option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The fair value of the options granted is measured to reflect expected market vesting conditions, but excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each reporting date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate. The impact of the revision to original estimates, if any, is recognised in the income statement with a corresponding adjustment to equity.

(iv) Defined contribution superannuation funds
Obligations for contributions to defined contribution superannuation funds are recognised as an expense in profit and loss as they are incurred.

(v) Bonus plans
Fortescue recognises a liability and an expense for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

(l) Contributed Equity

Ordinary shares are classified as equity. Mandatorily redeemable preference shares are classified as liabilities. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

NOTE 7. SIGNIFICANT ACCOUNTING POLICIES - OTHER

(a) Principles of Consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at 30 June 2009 and the results of all subsidiaries for the year then ended.

Subsidiaries are all those entities (including special purpose entities) controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Company.

In the Company's financial statements, investments in subsidiaries are carried at cost.

(ii) Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Accounting policies of subsidiaries are consistent with the parent.

(b) Segment Reporting

A business segment is identified for a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is identified when products or services are provided within a particular economic environment subject to risks and returns that are different from those of segments operating in other economic environments.

(c) Income Tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

NOTE 7. SIGNIFICANT ACCOUNTING POLICIES – OTHER (Continued)

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Tax consolidation legislation
Fortescue has implemented the tax consolidation legislation as of 1 July 2003 and is therefore taxed as a single entity from that date.

The head entity, Fortescue Metals Group Ltd, and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a standalone taxpayer in its own right.

In addition to its own current and deferred tax amounts, the Company also recognises the current tax liabilities (or assets) and the deferred tax assets it has assumed from unused tax losses and unused tax credits from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements within the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the group. Any differences between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

(d) Business Combinations

The purchase method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the fair value of the instruments is their published market price at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of Fortescue's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less that Fortescue's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

NOTE 7. SIGNIFICANT ACCOUNTING POLICIES – OTHER (Continued)

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

(e) Earnings Per Share

(i) Basic earnings per share
Basic earnings per share is calculated by dividing the loss attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

(ii) Diluted earnings per share
Diluted loss per share adjusts the figures used in the determination of basic loss per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of additional shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(f) Goods and Services Tax ("GST")

Revenues, expenses and assets are recognised net of the amount of associated GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office ("ATO"). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(g) Leases

Leases of property, plant and equipment where Fortescue, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to Fortescue as lessee are classified as operating leases (note 43). Payments made under operating leases (net of any incentives received from the lessor), except for investment property, are charged to the income statement on a straight-line basis over the period of the lease.

(h) Rounding of Amounts

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

NOTE 7. SIGNIFICANT ACCOUNTING POLICIES – OTHER (Continued)

(i) New Accounting Standards and Interpretations

Certain new accounting standards and interpretations have been published but are not yet effective for 30 June 2009 reporting periods. Fortescue's and the Company's assessment of the impact of these new standards and interpretations is set out below.

(i) AASB 8 Operating Segments and AASB 2007-3 *Amendments to Australian Accounting Standards arising from AASB 8* (effective from 1 January 2009)
AASB 8 will result in a significant change in the approach to segment reporting, as it requires adoption of a 'management approach' to reporting on financial performance. The information being reported will be based on what the key decision makers use internally for evaluating segment performance and deciding how to allocate resources to operating segments. Fortescue will adopt AASB 8 from 1 July 2009. It is likely to result in an increase in the number of reportable segments presented. In addition, the segments will be reported in a manner that is more consistent with the internal reporting provided to the chief operating decision-maker.

(ii) Revised AASB 123 Borrowing Costs and AASB 2007-6 *Amendments to Australian Accounting Standards arising from AASB 123* (effective from 1 January 2009)
The revised AASB 123 has removed the option to expense all borrowing costs and - when adopted - will require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. The application of this standard constitutes a change in accounting policy and will be applied prospectively. This means Fortescue will apply the standard to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after the application date (1 July 2009).

(iii) Revised AASB 101 Presentation of Financial Statements and AASB 2007-8 *Amendments to Australian Accounting Standards arising from AASB 101* (effective from 1 January 2009)

The September 2007 revised AASB 101 requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity, but will not affect any of the amounts recognised in the financial statements. If an entity has made a prior period adjustment or has reclassified items in the financial statements, it will need to disclose a third balance sheet (statement of financial position), this one being as at the beginning of the comparative period. Fortescue will apply the revised standard from 1 July 2009.

(iv) AASB 2008-1 *Amendments to Australian Accounting Standard - Share-based Payments: Vesting Conditions and Cancellations* (effective from 1 January 2009)
AASB 2008-1 clarifies that vesting conditions are service conditions and performance conditions only and that other features of a share-based payment are not vesting conditions. It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. Fortescue will apply the revised standard from 1 July 2009, but it is not expected to affect the accounting for Fortescue's share-based payments.

(v) Revised AASB 3 Business Combinations, AASB 127 Consolidated and Separate Financial Statements and AASB 2008-3 *Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127* (effective periods commencing on or after 1 July 2009)

NOTE 7. SIGNIFICANT ACCOUNTING POLICIES – OTHER (Continued)

The revised AASB 3 continues to apply the acquisition method to business combinations, but with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently remeasured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs must be expensed. This is different to Fortescue's current policy which is set out in note 7(d) above.

The revised AASB 127 requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is remeasured to fair value, and a gain or loss is recognised in profit or loss. This is consistent with Fortescue's current accounting policy if significant influence is not retained.

Fortescue will apply the revised standards prospectively to all business combinations and transactions with non-controlling interests from 1 July 2009.

(vi) AASB 2008-6 Further *Amendments to Australian Accounting Standards arising from the Annual Improvements Project* (effective 1 July 2009)
The amendments to AASB 5 Discontinued Operations and AASB 1 First-Time Adoption of Australian-Equivalents to International Financial Reporting Standards are part of the IASB's annual improvements project published in May 2008. They clarify that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control. Relevant disclosures should be made for this subsidiary if the definition of a discontinued operation is met. Fortescue will apply the amendments prospectively to all partial disposals of subsidiaries from 1 July 2009.

(vii) AASB 2008-7 *Amendments to Australian Accounting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* (effective 1 July 2009)

In July 2008, the AASB approved amendments to AASB 1 First-time Adoption of International Financial Reporting Standards and AABS 127 Consolidated and Separate Financial Statements. Fortescue will apply the revised rules prospectively from 1 July 2009. After that date, all dividends received from investments in subsidiaries, jointly controlled entities or associates will be recognised as revenue, even if they are paid out of pre-acquisition profits, but the investments may need to be tested for impairment as a result of the dividend payment. Under the Company's current policy, these dividends are deducted from the cost of the investment. Furthermore, when a new intermediate parent entity is created in internal reorganisations it will measure its investment in subsidiaries at the carrying amounts of the net assets of the subsidiary rather than the subsidiary's fair value.

(viii) AASB Interpretation 16 *Hedges of a Net Investment in a Foreign Operation* (effective 1 October 2008)
AASB-I 16 clarifies which foreign currency risks qualify as hedged risk in the hedge of a net investment in a foreign operation and that hedging instruments may be held by any entity or entities within Fortescue. It also provides guidance on how an entity should determine the amounts to be reclassified from equity to profit or loss for both the hedging instrument and the hedged item. Fortescue will apply the interpretation prospectively from 1 July 2009.

NOTE 7. SIGNIFICANT ACCOUNTING POLICIES – OTHER (Continued)

(ix) AASB 2008-8 *Amendment to IAS 39 Financial Instruments: Recognition and Measurement* (effective 1 July 2009).

AASB 2008-8 amends AASB 139 "Financial Instruments: Recognition and Measurement" and must be applied retrospectively in accordance with AASB 108 "Accounting Policies, Changes in Accounting Estimates and Errors". The amendment makes two significant changes. It prohibits designating inflation as a hedgeable component of a fixed rate debt. It also prohibits including time value in the one-sided hedged risk when designating options as hedges. Fortescue will apply the amended standard from 1 July 2009. It is not expected to have a material impact on Fortescue's financial statements.

(x) AASB Interpretation 17 *Distribution of Non-cash Assets to Owners* and AASB 2008-13 *Amendments to Australian Accounting Standards arising from AASB Interpretation 17*

AASB-I 17 applies to situations where an entity pays dividends by distributing non-cash assets to its shareholders. These distributions will need to be measured at fair value and the entity will need to recognise the difference between the fair value and the carrying amount of the distributed assets in the income statement on distribution. This is different to Fortescue's current policy which is to measure distributions of non-cash assets at their carrying amounts. The interpretation further clarifies when a liability for the dividend must be recognised and that it is also measured at fair value. Fortescue will apply the interpretation prospectively from 1 July 2009.

(j) Change in accounting policy in comparative year

AASB 123 "Borrowing Costs" permits two alternative treatments for borrowing costs. The standard benchmark treatment requires all borrowing costs to be expensed in the period incurred. An allowable alternative treatment expenses all borrowing costs except that it allows capitalisation of borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset, less any investment income on the temporary investment of those borrowings. Prior to the 2008 financial year Fortescue accounted for borrowing costs using the allowable alternative treatment and capitalised borrowing costs related to qualifying assets.

During the 2008 financial year Fortescue decided to adopt the benchmark treatment and expense all borrowing costs as incurred. The Directors believe this provides a more conservative approach and better matches the short term future economic benefits of these borrowings, rather than expensing them over the life of the asset.

NOTE 7. SIGNIFICANT ACCOUNTING POLICIES – OTHER (Continued)

The change in accounting policy was applied retrospectively. The change in accounting policy had the following impact on the 2008 consolidated financial statements.

	Consolidated 2008 US$'000 Represented	Company 2008 US$'000 Represented
Loss attributable to members of the Company for the year ended 30 June 2007	(606,100)	(8,495)
Increase in other income	45,910	13,152
Increase in financial expense	(282,581)	-
Increase in income tax benefit/(expense)	71,001	(3,945)
Final profit/(loss) attributable to members of the Company 2008	(771,770)	712
Net assets/(deficit) as at 30 June 2007	(102,512)	723,199
Decrease in development expenditure	(236,671)	-
Increase/(decrease) in intercompany receivable	-	13,152
Increase/(decrease) in deferred tax liability	71,001	(3,945)
Final net assets/(deficit) at 30 June 2008	(63,158)	732,406
Increase/(decrease) in accumulated losses	165,670	(9,207)

NOTE 8. CORRECTION OF ERRORS

In August 2006 the Company put in place a US$100 million Subordinated Loan Note. The terms of this facility are set out Note 28(i) to the financial statements. At inception of the loan an error in the application of the AASB 139 requirements for determining the effective interest rate method occurred. The error relates to the incorrect application of the effective interest rate method to the Subordinated Loan Note liability under AASB 139 by recognition of a "day 1 loss" instead of applying the 42% interest rate implicit in the Note based on the face value of US$100 million. The day 1 loss totalling US$202 million was incorrectly recognised in the 30 June 2007 income statement which should have been reflected in the effective interest of the Notes. The corrected implicit interest rate at inception of the Subordinated Loan Note liability has resulted in a reduction of the Subordinated Loan Note liability at 30 June 2008 from US$2,779,929,000 to US$1,247,336,000. This has resulted in a decrease in losses for the year ended 30 June 2007 of US$101,335,000 and 30 June 2008 of US$971,480,000.

An error, where material, is corrected through applying the correct accounting treatment at the date of the error and adjusting the comparatives in the financial statements in the year that the correction was accounted for.

NOTE 8. CORRECTION OF ERRORS (Continued)

The impact of the restatement on prior year comparatives for the consolidated entity is as follows:

	Consolidated	
	2008 US$'000 Represented	2007 US$'000 Represented
Loss attributable to members of the Company for the year ended 30 June	(1,743,250)	(133,195)
Fair value adjustment to Subordinated Loan Note (refer note 28(i))	1,331,156	202,378
Increase/(decrease) in financial expense	(4,419)	3,566
Net foreign exchange gain/(loss) on borrowings	61,092	(61,180)
Increase in income tax benefit/(expense)	(416,349)	(43,429)
Restated profit/ (loss) attributable to members of the Company	(771,770)	(31,860)
Net assets/(deficit) as at 30 June	(1,135,974)	258,199
Decrease in borrowings	1,387,830	144,764
Increase/(decrease) in deferred tax liability	(416,349)	(43,429)
Opening accumulated loss adjustment	101,335	-
Restated net assets/ (deficit) at 30 June	(63,158)	359,534
Increase/(decrease) in accumulated losses	(1,072,815)	(101,335)

The correction of error had an impact in the 2008 financial year of decreasing Fortescue's loss per share by 59.96 cents per share on basic loss per share. Diluted loss per share has not been calculated for the consolidated entity as any conversion of options would result in a decrease in the net loss per share.

NOTE 9. REVENUE

	Consolidated		Company	
	2009 US$'000	2008 US$'000 Represented	2009 US$'000	2008 US$'000 Represented
Sale of iron ore	1,571,884	89,997	-	-
Shipping revenue	259,069	49,297	39,747	22,707
	1,830,953	139,294	39,747	22,707

NOTE 10. COST OF SALES

	Consolidated		Company	
	2009 US$'000	2008 US$'000 Represented	2009 US$'000	2008 US$'000 Represented
Operating expenses	1,261,850	87,098	53,288	15,300
Depreciation and amortisation expense	88,846	3,770	1,372	1,600
	1,350,696	90,868	54,660	16,900
(a) Operating expenses				
Mining costs	470,636	21,496	-	-
Rail costs	60,419	4,903	-	-
Port costs	48,304	2,079	-	-
Operating Leases	104,107	8,264	-	-
Shipping costs	490,053	42,158	53,288	15,300
Government royalty	88,331	8,198	-	-
	1,261,850	87,098	53,288	15,300
(b) Depreciation and amortisation expense				
Depreciation of property, plant and equipment	35,946	2,784	1,019	1,579
Amortisation of intangible assets	353	21	353	21
Amortisation of development expenditure	52,547	965	-	-
	88,846	3,770	1,372	1,600

NOTE 11. OTHER INCOME

Profit on debt buy back	11,544	-	-	-
Debt forgiven on deposits received	6,928	-	-	-
Lease income on facilities	2,906	-	-	-
Other income	5,339	-	1,037	-
	26,717	-	1,037	-

NOTE 12. NET FOREIGN EXCHANGE GAIN/(LOSS) - BORROWINGS

Net Foreign Exchange Gain/(Loss) on Borrowings				
Net foreign exchange gain/(loss) – Jul 08 – Dec 08	(559,915)	121,626	-	-
Net foreign exchange gain(loss) – Jan 09 – Jun 09	(8,427)	103,267	(8,427)	-
	(568,342)	224,893	(8,427)	-

Fortescue has significant borrowings denominated in US currency. During the period from 1 July 2008 to 1 January 2009 the functional currency was AUD and accordingly the change in exchange rates during this period has resulted in the recognition of the above exchange losses.

NOTE 13. NET FOREIGN EXCHANGE GAIN/(LOSS) - OTHER

Net Foreign Exchange Gain/(Loss) - Other				
Net foreign exchange gain/(loss) – Jul 08 – Dec 08	35,818	(138,806)	26,557	(571)
Net foreign exchange gain(loss) – Jan 09 – Jun 09	78,780	108,715	(25,050)	4,423
	114,598	(30,091)	1,507	3,852

NOTE 14. OTHER FINANCIAL EXPENSES

	Consolidated		Company	
	2009 US$'000	2008 US$'000 Represented	2009 US$'000	2008 US$'000 Represented
Interest expense – Subordinated Loan Note[1]	258,706	116,568	-	-
Interest expense – Senior Secured Notes	197,998	170,432	-	-
Interest expense – Preference Shares	9,309	-	9,309	-
Debt establishment costs	4,358	2,254	2,970	2,254
Fair value loss on interest swaps	20,574	12,699	-	-
	490,945	301,953	12,279	2,254

[1] Interest expense of US$258.7 million (2008: US$116.6 million) represents the difference in present value of the Subordinated Loan Note between 1 July 2008 and 30 June 2009, prior to any Subordinated Loan Note revaluation during the financial year ended 30 June 2009 (refer note 28).

Interest is yet to be paid on the Subordinated Loan Note. The amount recognised as payable as at 30 June 2009 is US$70.9 million (2008: US$4.9 million). These amounts are likely to be paid in July 2010 together with accrued interest at 9.5% per annum.

NOTE 15. ADMINISTRATION EXPENSES

Wages and salaries, incl superannuation	6,044	1,048	6,044	1,048
Share based payments expense	1,399	1,175	1,399	1,175
Legal costs	8,899	2,995	8,899	2,995
Other administration expenses	18,278	15,191	18,278	15,191
	34,620	20,409	34,620	20,409

Fortescue's gross wages and salaries, including superannuation, for the financial year ended 30 June 2009 was US$141,712,000 (2008: US$52,506,000). Wages and salaries, including superannuation, are charged to applicable cost centres related to their activity and are costed to capital, cost of sales or administration expenses where appropriate.

NOTE 16. INCOME TAX BENEFIT/(EXPENSE)

	Consolidated		Company	
	2009 US$'000	2008 US$'000 Represented	2009 US$'000	2008 US$'000 Represented
(a) Income tax benefit/(expense)				
Current tax	(57,105)	6,942	(89,260)	-
Adjustment for prior periods – current tax	23,638	1,715	771	1,715
Deferred tax	(120,451)	322,979	107,893	(1,151)
	(153,918)	331,636	19,404	564
(b) Numerical reconciliation of income tax benefit/(expense) to prima facie tax payable:				
Loss /(profit) before tax	(661,960)	1,103,406	63,552	(148)
Income tax benefit / (expense) calculated at 30% (2007: 30%)	(198,588)	331,022	19,066	(44)
Sundry non-deductible/ (deductible) expenses	3,440	(101)	(23)	(107)
Share based payments	(409)	(353)	(409)	(353)
Research and development	16,740	-	-	-
Investment allowance	1,261	-	-	-
Adjustment for prior periods – current tax	23,638	1,068	770	1,068
Income tax benefit/(expense) for the year	(153,918)	331,636	19,404	564

NOTE 16. INCOME TAX BENEFIT/(EXPENSE) (Continued)

(c) Tax consolidation legislation

The Company and its wholly-owned Australian controlled entities implemented the tax consolidation legislation from 1 July 2003. The accounting policy in relation to this legislation is set out in note 7(c).

On adoption of the tax consolidation legislation, the entities in the tax consolidation group entered into a tax sharing agreement which, in the opinion of the Directors, limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, Fortescue Metals Group Ltd.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate the Company for any current tax payable assumed and are compensated by the Company for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to the Company under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments. The funding amounts are recognised as current intercompany receivables or payables.

NOTE 17. EARNINGS PER SHARE

Basic loss per share
The calculation of basic earnings/(loss) per share at 30 June 2009 was based on the profit/(loss) attributable to ordinary shareholders of US$508,042,000 (2008: loss US$771,770,000) and a weighted average number of ordinary shares outstanding during the financial year ended 30 June 2009 of 2,858,944,000 (2008: 1,620,211,000), calculated as follows:

Profit/(loss) attributable to ordinary shares	**Consolidated**	
	2009	**2008**
	US$'000	**US$'000**
		Represented
Net profit/(loss) for the year	508,042	(771,770)

	Consolidated	
	2009	**2008**
		Represented
Profit/(loss) attributable to ordinary shareholders (US$'000)	508,042	(771,770)
Weighted average number of ordinary shares ('000)	2,858,944	1,620,211
Basic earnings/(loss) per share (in cents)	17.77	(47.63)
Diluted earnings/(loss) per share		
Profit/(Loss) attributable to ordinary shareholders (US$'000)	508,042	(771,770)
Weighted average number of ordinary shares and potential ordinary shares ('000)	2,871,071	1,620,211
Diluted earnings/(loss) per share (in cents)	17.70	(47.63)

During the 2008 financial year the Company's potential ordinary shares, being its options granted, are not considered dilutive as the conversion to these options would result in a decrease in the net loss per share.

NOTE 18. CASH AND CASH EQUIVALENTS - CURRENT

	Consolidated		Company	
	2009 US$'000	2008 US$'000 Represented	2009 US$'000	2008 US$'000 Represented
Cash on hand	21	18	21	18
Cash at bank	654,921	133,164	452,242	179
Cash and cash equivalents	654,942	133,182	452,263	197

NOTE 19. TRADE AND OTHER RECEIVABLES

Current				
Trade debtors	109,162	34,681	-	9,039
GST receivables	14,678	11,696	16,513	11,696
Security deposits	56,119	62,332	-	-
Intercompany receivables	-	-	492,872	596,094
Other receivables	3,229	1,267	3,058	1,267
	183,188	109,976	512,443	618,096
Non-Current				
Amounts held pending arbitration of shipping contracts	2,657	-	-	-
Receivables from sale and leaseback transactions	10,728	-	-	-
Loan receivable	127	1,694	127	1,694
	13,512	1,694	127	1,694

Information about Fortescue and the Company's exposure to foreign currency risk, interest rate risk and price risk are disclosed in Note 36. Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair value.

NOTE 20. INVENTORIES

	Consolidated		Company	
	2009 US$'000	2008 US$'000 Represented	2009 US$'000	2008 US$'000 Represented
Raw materials and stores – at cost	25,500	9,840	-	-
Iron ore stockpiles – at cost	95,622	26,004	-	-
	121,122	35,844	-	-

Inventories recognised as expense during the year ended 30 June 2009 amounted to US$683,466,000 (2008: US$36,742,000)

NOTE 21. FINANCIAL ASSETS

	Consolidated		Company	
	2009 US$'000	2008 US$'000 Represented	2009 US$'000	2008 US$'000 Represented
Current				
Listed investments – at fair value	31	26	31	26
	31	26	31	26
Non-Current				
Unquoted investments – at cost	1	1	1	1
	1	1	1	1

Unquoted investments are available-for-sale assets.

NOTE 22. OTHER CURRENT ASSETS

Prepayments	1,498	1,147	1,498	1,147
	1,498	1,147	1,498	1,147

NOTE 23. EXPLORATION AND EVALUATION EXPENDITURE

Carrying amount at beginning of year	2,790	3,534	-	-
Expenditure	11,267	7,828	-	-
Transfers to development expenditure	(2,168)	(8,572)	-	-
Carrying amount at end of year	11,889	2,790	-	-

The ultimate recoupment of costs carried forward for exploration assets is dependent on the successful development and commercial exploitation or sale of the respective areas.

NOTE 24. DEVELOPMENT EXPENDITURE

	Consolidated		Company	
	2009 US$'000	2008 US$'000 Represented	2009 US$'000	2008 US$'000 Represented
Development expenditure at cost	1,476,734	1,047,184	-	-
Accumulation amortisation	(53,512)	(965)	-	-
	1,423,222	1,046,219	-	-
Reconciliation of movement in carrying amounts				
Balance at beginning of year	1,046,219	353,557	-	-
Expenditure	375,121	669,367	-	-
Net additions of rehabilitation assets	52,261	15,688	-	-
Transfer from exploration	2,168	8,572	-	-
Amortisation of development expenditure	(52,547)	(965)	-	-
Balance at end of year	1,423,222	1,046,219	-	-

All expenditure for Port, Rail and Mine Development is included in Development Expenditure and Property, Plant and Equipment. The recoverable amount of development expenditure is determined as the higher of its fair value less costs to sell and its value in use (discounted future cash flows).

NOTE 25. PROPERTY, PLANT AND EQUIPMENT

	Consolidated		Company	
	2009 US$'000	2008 US$'000 Represented	2009 US$'000	2008 US$'000 Represented
Land and buildings	236	236	236	236
Accumulated depreciation	(7)	(4)	(7)	(4)
	229	232	229	232
Plant and other office equipment	7,249	7,181	7,249	7,181
Accumulated depreciation	(3,646)	(2,839)	(3,646)	(2,839)
	3,603	4,342	3,603	4,342
Motor vehicles	147	147	147	147
Accumulated depreciation	(51)	(29)	(51)	(29)
	96	118	96	118
Computer equipment	1,611	1,611	1,611	1,611
Accumulated depreciation	(1,473)	(1,286)	(1,473)	(1,286)
	138	325	138	325
Infrastructure assets[1]	1,399,452	1,286,080	-	-
Accumulated depreciation	(36,132)	(1,205)	-	-
	1,363,320	1,284,875	-	-
Assets under construction	274,533	-	-	-
Total property, plant and equipment	1,641,919	1,289,892	4,066	5,017

NOTE 25. PROPERTY, PLANT AND EQUIPMENT (continued)

	Consolidated		Company	
	2009 US$'000	2008 US$'000 Represented	2009 US$'000	2008 US$'000 Represented
Reconciliation of movements in carrying amounts				
Land and Buildings				
Carrying amount at beginning of year	232	218	232	218
Additions	-	17	-	17
Depreciation	(3)	(3)	(3)	(3)
Carrying amount at end of year	229	232	229	232
Plant and other equipment				
Carrying amount at beginning of year	4,342	5,172	4,342	5,172
Additions	68	290	68	290
Disposals	-	-	-	-
Depreciation	(807)	(1,120)	(807)	(1,120)
Carrying amount at end of year	3,603	4,342	3,603	4,342
Motor vehicles				
Carrying amount at beginning of year	118	95	118	95
Additions	-	42	-	42
Disposals	-	-	-	-
Depreciation	(22)	(19)	(22)	(19)
Carrying amount at end of year	96	118	96	118
Computer equipment				
Carrying amount at beginning of year	325	748	325	748
Additions	-	14	-	14
Depreciation	(187)	(437)	(187)	(437)
Carrying amount at end of year	138	325	138	325
Infrastructure assets[1]				
Carrying amount at beginning of year	1,284,875	-	-	-
Transfers	-	1,286,080	-	-
Additions	353,323	-	-	-
Disposals	(239,951)	-	-	-
Depreciation	(34,927)	(1,205)	-	-
Carrying amount at end of year	1,363,320	1,284,875	-	-
Assets under construction				
Carrying amount at beginning of year	-	574,430	-	-
Additions	274,533	843,796	-	-
Disposals	-	(132,146)	-	-
Transfers	-	(1,286,080)	-	-
Carrying amount at end of year	274,533	-	-	-

[1] *Infrastructure assets consist of Mine, Port and Rail infrastructure assets as part of the Pilbara Iron Ore and Infrastructure Project*

NOTE 26. INTANGIBLE ASSETS – NON-CURRENT

	Consolidated		Company	
	2009 US$'000	2008 US$'000 Represented	2009 US$'000	2008 US$'000 Represented
Software				
Software at cost	25,518	22,694	25,518	22,694
Amortisation	(374)	(21)	(374)	(21)
	25,144	22,673	25,144	22,673
Reconciliation of movement in carrying amounts				
Carrying amount at beginning of year	22,673	3,686	22,673	3,686
Additions	2,824	19,008	2,824	19,008
Amortisation	(353)	(21)	(353)	(21)
Balance at end of year	25,144	22,673	25,144	22,673

NOTE 27. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable to the following:

Consolidated	Assets		Liabilities		Net	
	2009 US$'000	2008 US$'000 Represented	2009 US$'000	2008 US$'000 Represented	2009 US$'000	2008 US$'000 Represented
Exploration and evaluation	-	-	(4,813)	(1,246)	(4,813)	(1,246)
Property, plant and equipment	-	31,394	(189,472)	-	(189,472)	31,394
Net unrealised foreign exchange gains	5,309	-	-	(117,053)	5,309	(117,053)
Borrowing costs		-	(13,726)	(11,845)	(13,726)	(11,845)
Senior Secured Notes	13,614	3,871	-	-	13,614	3,871
Subordinated Loan Note	77,424	357,452	-	-	77,424	357,452
Provisions	38,917	1,077	-	-	38,917	1,077
Business related costs	793	479	-	-	793	479
Other items	1,756	243	(4,243)	(2,222)	(2,487)	(1,979)
Revenue tax losses	194,636	88,603	-	-	194,636	88,603
Deferred tax assets/(liabilities)	332,449	483,119	(212,254)	(132,366)	120,195	350,753
Set off of tax	-	-	-	-	-	-
Deferred tax assets/(liabilities)	332,449	483,119	(212,254)	(132,366)	120,195	350,753

Company	Assets		Liabilities		Net	
	2009 US$'000	2008 US$'000 Represented	2009 US$'000	2008 US$'000 Represented	2009 US$'000	2008 US$'000 Represented
Revenue tax losses	194,636	88,603	-	-	194,636	88,603
Provisions	6,454	1,077	-	-	6,454	1,077
Property, plant and equipment	2,322	-	-	(627)	2,322	(627)
Net unrealised foreign exchange gains	89,660	-	-	(1,272)	89,660	(1,272)
Borrowing costs	-	700	(426)	-	(426)	700
Business related costs	1,303	1,149	-	-	1,303	1,149
Other items	1,756	245	-	-	1,756	245
Tax (assets)/liabilities	296,131	91,774	(426)	(1,899)	295,705	89,875
Set off tax	-	-	-	-	-	-
Net tax (assets)/liabilities	296,131	91,774	(426)	(1,899)	295,705	89,875

NOTE 27. DEFERRED TAX ASSETS AND LIABIITIES – NON CURRENT (continued)

Movement in temporary differences during the year

Consolidated	Balance 1 July 07 US$'000 Represented	Recognised in profit or loss US$'000 Represented	Recognised in equity US$'000 Represented	Balance 30 June 08 US$'000 Represented	Recognised in profit or loss US$'000	Recognised in equity US$'000	Balance 30 June 09 US$'000
Exploration and evaluation	(1,060)	(186)	-	(1,246)	(3,567)	-	(4,813)
Property, plant and equipment	(5,184)	36,578	-	31,394	(220,866)	-	(189,472)
Net unrealised foreign exchange gains	(69,814)	(47,239)	-	(117,053)	199,564	(77,202)	5,309
Borrowing costs	(5,348)	(6,497)	-	(11,845)	(1,881)	-	(13,726)
Subordinated Loan Note	19,754	337,697	-	357,451	(280,027)	-	77,424
Senior Secured Notes	-	3,871	-	3,871	9,743	-	13,614
Provisions	297	780	-	1,077	37,840	-	38,917
Other items	(903)	(1,076)	-	(1,979)	(508)	-	(2,487)
Revenue tax losses	79,946	8,657	-	88,603	106,033	-	194,636
Business related costs	-	(949)	1,429	480	(249)	562	793
	17,688	331,636	1,429	350,753	(153,918)	(76,640)	120,195

Company	Balance 1 July 07 US$'000 Represented	Recognised in profit or loss US$'000 Represented	Recognised in equity/as intercompany US$'000 Represented	Balance 30 June 08 US$'000 Represented	Recognised in profit or loss US$'000	Recognised in equity/as intercompany US$'000	Balance 30 June 09 US$'000
Revenue tax losses	79,946	783	7,874	88,603	(89,260)	195,293	194,636
Other items	132	113	-	245	1,511	-	1,756
Provisions	297	780	-	1,077	5,377	-	6,454
Property, plant and equipment	264	(891)	-	(627)	2,949	-	2,322
Net unrealised foreign exchange gains	(631)	(641)	-	(1,272)	100,354	(9,422)	89,660
Borrowing costs	1	699	-	700	(1,126)	-	(426)
Business related costs	-	(279)	1,428	1,149	(401)	555	1,303
	80,009	564	9,302	89,875	19,404	186,426	295,705

Consolidation Adjustments	Consolidated 2009 US$'000	Consolidated 2008 US$'000 Represented	Company 2009 US$'000	Company 2008 US$'000 Represented
Total increase/(reduction) to tax expense of company	-	-	-	(8,342)
Total increase/(decrease) to inter-company assets of company	-	-	-	8,342

NOTE 28. BORROWINGS

		2009 US$'000	2008 US$'000 Represented	2009 US$'000	2008 US$'000 Represented
Current					
Subordinated Loan Note	(i)	103,359	105,999	-	-
Senior Secured Notes	(ii)	206,240	158,066	-	-
Preference shares	(iii)	10,224	-	10,224	-
		319,823	264,065	10,224	-
Non-Current					
Subordinated Loan Note	(i)	278,272	1,141,337	-	-
Senior Secured Notes	(ii)	1,867,625	1,431,233	-	-
Preference shares	(iii)	104,585	-	104,585	-
		2,250,482	2,572,570	104,585	-

All borrowings are interest bearing. Information about Fortescue and the Company's exposure to interest rate risk can be found in Note 36.

The following reconciliations (non-current and current) detail the movements in Fortescues' borrowing accounts throughout the 2008 and 2009 financial years:

	Current US$'000	Non-Current US$'000	Total US$'000
Subordinated Loan Note			
Balance at 1 July 2007	12,589	120,391	132,980
Fair value adjustment	49,627	1,020,555	1,070,182
Interest expense	-	116,568	116,568
Foreign exchange gains	-	(72,394)	(72,394)
Debt transfer	43,783	(43,783)	-
Balance at 30 June 2008 (Represented)	105,999	1,141,337	1,247,336
Balance at 1 July 2008	105,999	1,141,337	1,247,336
Fair value adjustment	(2,640)	(1,121,771)	(1,124,411)
Interest expense	-	258,706	258,706
Balance at 30 June 2009	103,359	278,272	381,631

The Subordinated Loan Note was revalued at 30 June 2009 based on prevailing market conditions and economic forecasts.

	Current US$'000	Non-Current US$'000	Total US$'000
Senior Secured Notes			
Balance at 1 July 2007	173,880	1,565,522	1,739,402
Interest expense	-	170,432	170,432
Interest repayments	-	(168,036)	(168,036)
Foreign exchange gain	(15,814)	(136,685)	(152,499)
Balance at 30 June 2008 (Represented)	158,066	1,431,233	1,589,299
Balance at 1 July 2008	158,066	1,431,233	1,589,299
Interest expense	-	197,998	197,998
Interest repayments	-	(186,998)	(186,998)
Debt buy back	(9,198)	(71,999)	(81,197)
Foreign exchange losses to June 2009	57,372	497,391	554,763
Balance at 30 June 2009	206,240	1,867,625	2,073,865

NOTE 28. BORROWINGS (continued)

	Current US$'000	Non-Current US$'000	Total US$'000
Preference Shares			
Balance at 1 July 2008	-	-	-
Recognition of issue of preference shares	10,224	86,768	96,992
Interest expense	-	9,309	9,309
Foreign exchange losses to June 2009	-	13,579	13,579
Interest repayments	-	(5,071)	(5,071)
Balance at 30 June 2009	10,224	104,585	114,809

i) Subordinated Loan Note (through its wholly owned subsidiary Chichester Metals Pty Ltd – previously FMG Chichester Pty Ltd)

The Company put in place a US$100 million Subordinated Loan Note during the 2007 financial year. The key terms and conditions of the facility are:

- Interest under the note is calculated as 4% of the revenue, net of government royalties, from the sale of iron ore FOB Port Hedland from the tenements of the Cloudbreak and Christmas Creek areas only. Accordingly the interest is only payable when Fortescue is in production and is only relevant to iron ore produced from these two tenement areas for a period of 13 years from 18 August 2006;
- The note is unsecured and deeply subordinated to any secured debt. In the event that an interest payment is earned but not payable due to secured lender restrictions, the amount unpaid will accrue interest at a market interest rate until payment is made.

At inception of the loan an error in the application of the AASB 139 requirements for determining the effective interest rate method occurred (refer note 8).

The note was revalued at 30 June 2009 to US$381,631,000 (30 June 2008: US$ 1,247,336,000) in line with changes in the following management estimates, prevailing market conditions and economic forecasts:

- Production was revised to reflect Fortescue's forecast production profile as at 30 June 2009 of production levels from Christmas Creek and Cloudbreak reaching a maximum of 95mtpa in February 2012 (2008: forecast reaching a maximum 160mtpa in December 2010);
- Future iron ore prices were updated to reflect lower forecasts provided by Metalytics Pty Ltd being an independent resource sector analyst of future iron ore prices;
- The discount rate has been applied since inception and reflects the implicit interest rate of 42% of the Subordinated Loan Note;
- Expected royalty rates have not changed since 30 June 2008 and reflect current royalty rates payable to the Western Australian state government; and
- The total reserve estimate of Cloudbreak and Christmas Creek has not changed since 30 June 2008.

ii) Senior Secured Notes (through its wholly owned subsidiary FMG Resources (August 2006) Pty Ltd – previously FMG Finance Pty Ltd

The Company raised US$1,650 million in US dollar denominated and €315 million in Euro denominated Senior Secured Notes in August 2006 to facilitate the construction and initial operation of the Pilbara Iron Ore and Infrastructure Project.

NOTE 28. BORROWINGS (continued)

During the financial year Fortescue bought back parcels of its own listed debt through the Singapore Stock Exchange. This debt has subsequently been extinguished. A summary of the transactions are included below:

Note Description	Face value	Principal Debt Purchased	Purchase Price	Amount Paid
10.625% notes due 2016	US$1.00	$US54,000,000	$US0.710	US$38,340,000
10.000% notes due 2013	US$1.00	$US2,500,000	$US0.709	US$1,772,500
9.750% notes due 2013	€1.00	€16,200,000	€0.624	€10,106,500

The key terms and conditions of the notes are:

- US$320 million of Senior Secured Notes due 2013 bearing interest at 10.000% per annum accruing from August 18, 2006. Interest is payable on March 1 and September 1 of each year, beginning on March 1, 2007.
- €315 million of Senior Secured Notes due 2013 bearing interest at 9.750% per annum accruing from August 18, 2006. Interest is payable on March 1 and September 1 of each year, beginning on March 1, 2007.
- US$1,080 million of Senior Secured Notes due 2016 bearing interest at 10.625% per annum accruing from August 18, 2006. Interest is payable on March 1 and September 1 of each year, beginning on March 1, 2007. The Company has swapped these notes to a fixed rate of 9%.
- US$250 million of Senior Secured Notes due 2011 bearing interest at three-month LIBOR plus 4.000% per annum, accruing from August 18, 2006. Interest is payable on March 1, June 1, September 1 and December 1 of each year, beginning on December 1, 2006. Fortescue has a floating-to-fixed interest rate swap over its US$250 million Senior Secured Notes due 2011, swapping these notes to a fixed rate of 9% per annum.

Other key terms of the notes are:

- They rank pari passu in right of payment with all existing and future senior indebtedness.
- They are secured by, among other security documents, fixed and floating charges over the assets of FMG Resources (August 2006) Pty Ltd, (previously FMG Finance Pty Ltd), and the project-related assets of Chichester Metals Pty Ltd (previously FMG Chichester Pty Ltd), Pilbara Mining Alliance Pty Ltd and The Pilbara Infrastructure Pty Ltd (the "Project Guarantors"), a charge, assignment or pledge over the bank accounts in which proceeds of the Senior Secured Notes will be deposited, share mortgages over all of the shares in the capital of the Project Guarantors and FMG Resources (August 2006) Pty Ltd, a featherweight charge over all of the assets and undertakings of Fortescue and mortgages of the real property leasehold rights of the Project and the Project mining tenements.
- They are listed on the Singapore Exchange Securities Trading Limited (the "SGX-ST").

iii) Preference shares recognised as debt

The Company issued 1,400 fully paid non-converting, redeemable preference shares at a price of $AUD100,000 per share on 30 September 2008. These preference shares have been recognised as debt in the financial statements as unlike ordinary shareholders there is not a right for preferential shareholders to share in the residual interests of the assets of Fortescue. A holder of Preference Shares is not entitled to share in the distribution of any surplus assets of the Company beyond its Redemption Amount. The Preference Shares rank in priority to FMG's ordinary shares for the payment of distributions in accordance with these terms.

The Preference Shares confers upon the holder the right in a winding up or return of capital to payment of an amount equal to the Redemption Amount, in priority to any other class of shares ranking behind it.

The Preference Shares shall rank *pari passu* with the most senior ranking preference shares of the Company and in priority to all other preference shares that are expressed to rank junior to the Preference Shares and the Company's ordinary shares, in a winding up of the Company.

NOTE 28. BORROWINGS (continued)

The key terms for these preference shares are;

- Dividend coupon rate of 9% fixed p.a. payable six monthly either in cash, or where cash distributions are not able to be made by Fortescue, additional preference shares or ordinary shares (calculated on the basis of the volume weighted average share price) as elected by Fortescue;
- Term of 8.5 years;
- Redeemable by Fortescue at any time subject to minimum 30 days notice;
- Preference shares to rank in priority to Fortescue's ordinary shares on a winding up and in relation to the payment of distributions; and
- Limited voting rights

NOTE 29. PROVISIONS

	Consolidated		Company	
	2009 US$'000	2008 US$'000 Represented	2009 US$'000	2008 US$'000 Represented
Site rehabilitation				
Balance at 1 July	15,688	-	-	-
Provisions made during the year	39,894	15,688	-	-
Balance at 30 June	55,582	15,688	-	-

In accordance with State Government legislative requirements, a provision for site rehabilitation has been recognised in relation to Fortescue's iron ore operations. The provision has been made in full for all disturbed areas at the reporting date based on current estimates of costs to rehabilitate such areas, discounted to their present value based on expected future cash flows.

NOTE 30. TRADE AND OTHER PAYABLES

Current				
Trade payables	55,043	-	-	-
Other payables and accruals	284,042	113,899	14,623	6,320
	339,085	113,899	14,623	6,320

Non-Current				
Deposits received	349,602	80,629	-	-
	349,602	80,629	-	-

On 5 December 2008 Fortescue exercised suspension of all its 10 long term CFR shipping contracts of Affreightment and Consecutive Voyage Contracts. Subsequent to this Fortescue negotiated settlement agreements with Bocimar International NV ("Bocimar") (4 February 2009) and Classic Maritime ("Classic") (27 May 2009) leaving only five disputed contracts remaining. The Bocimar and Classic contracts were the five largest disputed contracts. Fortescue has accrued for the liability outstanding as at 30 June 2009 that it believes reflects (i) outstanding potential settlements remaining on its disputed contracts; and (ii) outstanding liabilities to be settled with Bocimar International NV and Classic Maritime. The details of this amount has not been separately disclosed for commercial reasons.

NOTE 31. DERIVATIVE AT FAIR VALUE - CURRENT

Interest rate derivative held at fair value	31,397	10,504	-	-
	31,397	10,504	-	-

(a) Risk exposure

Information about Fortescue's and the Company's exposure to credit risk, foreign exchange and price risk is provided in note 36.

NOTE 32. CONTRIBUTED EQUITY

A reconciliation of the movement in capital and reserves for the Company and Fortescue can be found in the Statements of Changes in Equity.

DATE	Ordinary shares fully paid:	Number of Shares	Issue Price	US$'000
1 July 2007	Balance at beginning of financial year	265,687,743		397,669
	Shares issued	14,063,000	US$24.93	350,547
	Exercise of options issued under the Fortescue Metals Group Incentive Option Scheme ("FMGIOS")	3,217,216	US$0.59	1,897
	Share issue costs	-	-	(4,541)
	Transfer option expense from reserve for converted options	-	-	1,219
	Reorganisation of capital*	2,521,395,801		-
30 June 2008	Balance at end of financial year	2,804,363,760		746,791
	Shares issued	280,535,780	US$1.71	481,560
	Exercise of options issued under the Fortescue Metals Group Incentive Option Scheme ("FMGIOS")	4,697,159	US$0.29	1,379
	Transfer option expense from reserve for converted options	-	-	1,439
	Share issue costs	-	-	(1,293)
30 June 2009	Balance at end of financial year	3,089,596,699		1,229,876

* The reorganisation of capital of Fortescue Metals Group Ltd was effected on 19 December 2007. The reorganisation was by way of a share split whereby each fully paid ordinary share was split into ten fully paid ordinary shares.

Fully paid ordinary shares entitle the holder to participate in dividends and to one vote per share at meetings of the Company. Ordinary shares participate in the proceeds on winding up of the Company in proportion to the number of shares held.

Effective 1 July 1998, the Company Law Review Act abolished the concept of par value shares and the concept of authorised capital. Accordingly, the Company does not have authorised capital or par value in respect of its issued shares.

NOTE 33. RESERVES

(a) *The share based payments reserve*

The share based payments reserve records items recognised as expenses on valuation of employee share options. The movement in the share based payments reserve is disclosed in the Statements of Changes in Equity.

(b) *Asset revaluation reserve*

The asset revaluation reserve records revaluations of non-current assets and has a carrying value as at 30 June 2009 of $610,000. There has been no movement in the asset revaluation reserve during the 2008 or 2009 financial years.

(c) *Foreign currency translation reserve*

Foreign currency differences arising on the revaluation of Australian deferred tax assets and liabilities to US dollar deferred tax assets and liabilities are recognised directly in equity in the foreign currency translation reserve ("FCTR").

A reconciliation of reserves in included below:

Consolidated	**Share based payment reserve US$'000**	**Asset revaluation reserve US$'000**	**Foreign currency translation reserve US$'000**	**Total reserves US$'000**
Opening balance at 1 July 2007	2,089	610	-	2,699
Exercise of options	(1,219)	-	-	(1,219)
Forfeited options	(163)	-	-	(163)
Equity settled share based payment transactions	1,338	-	-	1338
Closing balance at 30 June 2008 (Represented)	2,045	610	-	2,655
Opening balance at 1 July 2008	2,045	610	-	2,655
Exercise of options	(1,474)	-	-	(1,474)
Forfeited options	(41)	-	-	(41)
Deferred tax translation to USD	-	-	(77,202)	(77,202)
Equity settled share based payment transactions	1,440	-	-	1,440
Closing balance at 30 June 2009	1,970	610	(77,202)	(74,622)

Amounts are stated net of tax.

Company	**Share based payment reserve US$'000**	**Asset revaluation reserve US$'000**	**Foreign currency translation reserve US$'000**	**Total reserves US$'000**
Opening balance at 1 July 2007	2,089	610	-	2,699
Exercise of options	(1,219)	-	-	(1,219)
Forfeited options	(163)	-	-	(163)
Equity settled share based payment transactions	1,338	-	-	1,338
Closing balance at 30 June 2008 (Represented)	2,045	610	-	2,655
Opening balance at 1 July 2008	2,045	610	-	2,655
Deferred tax translation to USD	-	-	(9,422)	(9,422)
Exercise of options	(1,474)	-	-	(1,474)
Forfeited options	(41)	-	-	(41)
Equity settled share based payment transactions	1,440	-	-	1,440
Closing balance at 30 June 2009	1,970	610	(9,422)	(6,842)

Amounts are stated net of tax.

NOTE 34. TOTAL EQUITY

Total equity for Fortescue is lower than that of the Company. It is not considered that this represents an impairment event as there will be significant profit generated through operation of the Cloudbreak and Christmas Creek iron ore mines. The Directors believe Fortescue will be able to meet all of its debts as and when they fall due in line with current cash flow forecasts.

NOTE 35. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	Consolidated		Company	
	2009 US$'000	2008 US$'000 Represented	2009 US$'000	2008 US$'000 Represented
Profit/(loss) for the year	508,042	(771,770)	(44,148)	712
Depreciation of property, plant and equipment	35,946	2,784	1,019	1,579
Amortisation of intangible assets	353	21	353	21
Amortisation of development expenditure	52,547	965	-	-
Profit on extinguishment of debt	(11,544)	-	-	-
Provision – employee entitlements	3,700	2,188	3,700	2,188
Equity-settled share based payment transactions	1,399	1,175	1,399	1,175
Net effective interest on borrowings	466,013	118,965	9,309	-
Debt establishment costs	4,358	2,254	2,970	2,254
Fair value adjustment on interest rate swaps	20,574	12,699	-	-
Fair value adjustment on Subordinated Loan Note	(1,124,411)	1,070,182	-	-
Tax (benefit)/expense	153,918	(331,636)	(19,404)	(564)
Realised (gain)/loss on foreign exchange	(127,246)	-	1,796	-
Unrealised (gain)/loss on foreign exchange	541,304	(177,772)	8,427	-
Operating profit/(loss) before changes in working capital	524,953	(69,945)	(34,579)	7,365
Changes in assets and liabilities during the year:				
Increase/ (decrease) in payables	134,954	(105,183)	-	-
(Increase) /decrease in receivables and prepayments	(101,281)	77,551	18,082	(9,370)
(Increase) /decrease in inventory	(85,278)	(35,844)	-	-
Net cash from/(used in) operating activities	473,348	(133,421)	(16,497)	(2,005)

NOTE 36. FINANCIAL RISK MANAGEMENT

In common with all other business, Fortescue is exposed to risks that arise from its use of financial instruments. This note describes Fortescue's objectives, policies and processes for managing those risks and methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

General objectives, policies and processes
The Board has overall responsibility for the determination of Fortescue's risk management objectives and policies, and whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Audit and Risk Management Committee. The Audit and Risk Management Committee receives reports as required from the Chief Financial Officer through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

NOTE 36. FINANCIAL RISK MANAGEMENT (Continued)

Fortescue's Audit and Risk management Committee oversees how management monitors compliance with the Company's and Fortescue's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company and Fortescue. Fortescue's Audit and Risk Management Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit and Risk Management Committee.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting Fortescue's competitiveness and flexibility. Further details regarding these policies are set out below.

Financial risks
Fortescue's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. Fortescue's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of Fortescue. Fortescue uses interest rate swaps to hedge interest rate risk exposures. Derivatives are exclusively used for hedging purposes, i.e. not as trading or other speculative instruments. Fortescue uses different methods to measure different types of risk to which it is exposed.

Principal Financial Instruments
Fortescue and the Company hold the following financial instruments:

	Consolidated		Company	
	2009	2008	2009	2008
	US$'000	US$'000	US$'000	US$'000
Financial assets		Represented		Represented
Cash and cash equivalents	654,942	133,182	452,263	197
Trade receivables	109,162	34,681	-	9,039
Security deposits	56,119	62,332	-	-
Intercompany receivables	-	-	492,872	596,094
Other receivables	3,229	1,267	3,058	1,267
Loan receivable	127	1,694	127	1,694
Amounts held pending arbitration of shipping contracts	2,657	-	-	-
Receivables from sale and leaseback transactions	10,728	-	-	-
Financial assets	31	26	31	26
	836,995	233,182	948,351	608,317

	Consolidated		Company	
	2009	2008	2009	2008
	US$'000	US$'000	US$'000	US$'000
Financial liabilities		Represented		Represented
Trade and other payables	339,085	113,899	14,623	6,320
Derivative held at fair value	31,397	10,504	-	-
Deposits received	349,602	80,629	-	-
Borrowings	2,570,305	2,836,635	114,809	-
	3,290,389	3,041,667	129,432	6,320

(a) Market risk

Market risk arises from Fortescue's use of interest bearing and foreign currency financial instruments. It is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk), foreign exchange rates (currency risk) or other market factors (other price risk).

NOTE 36. FINANCIAL RISK MANAGEMENT (Continued)

(i) Foreign exchange risk

Fortescue's policy is, where possible, to allow group entities to settle liabilities denominated in their functional currency (USD) with the cash generated from their own operations in that currency. Where group entities have liabilities denominated in a currency other than their functional currency (and have insufficient reserves of that currency to settle them) cash already denominated in that currency will, where possible, be transferred from other entities within Fortescue.

Fortescue operates internationally and is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the Australian dollar and Euro. Fortescue is exposed to currency risk on cash reserves, deposits received, trade receivables and borrowings.

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting. Fortescue has not entered into any forward exchange contracts as at 30 June 2009 and is currently fully exposed to foreign exchange risk.

NOTE 36. FINANCIAL RISK MANAGEMENT (Continued)

Fortescue's principal financial instruments at the reporting date are broken down into their various currencies below. Fortescue's exposure to foreign currency risk at the reporting date relates to AUD and Euro denominated financial instruments.

Fortescue	30 June 2009				30 June 2008			
	USD US$'000	AUD US$'000	EURO US$'000	Total US$'000	USD US$'000 Represented	AUD US$'000 Represented	EURO US$'000 Represented	Total US$'000 Represented
Financial Assets								
Cash and cash equivalents	141,753	486,663	26,526	654,942	109,479	4,621	19,082	133,182
Trade receivables	75,823	17,777	15,562	109,162	34,681	-	-	34,681
Security deposits	12,152	42,018	1,949	56,119	9,983	51,076	1,273	62,332
Other receivables	-	3,229	-	3,229	-	1,267	-	1,267
Loan receivable	-	127	-	127	-	1,694	-	1,694
Amounts held pending arbitration of shipping contracts	2,657	-	-	2,657	-	-	-	-
Receivables from sale and leaseback transactions	10,728	-	-	10,728	-	-	-	-
Financial assets	-	31	-	31	-	26	-	26
Total financial assets	243,113	549,845	44,037	836,995	154,143	58,684	20,355	233,182
Financial Liabilities								
Derivative held at fair value	31,397	-	-	31,397	10,504	-	-	10,504
Trade and other payables	-	339,085	-	339,085	-	113,899	-	113,899
Deposits received	349,602	-	-	349,602	73,701	6,928	-	80,629
Borrowings	2,021,242	114,809	434,254	2,570,305	2,468,114	-	368,521	2,836,635
Total financial liabilities	2,402,241	453,894	434,254	3,290,389	2,552,319	120,827	368,521	3,041,667

The carrying amounts of the Company's financial assets and liabilities are denominated in US dollars except as set out below:

Company	30 June 2009				30 June 2008			
	USD US$'000	AUD US$'000	EURO US$'000	Total US$'000	USD US$'000 Represented	AUD US$'000 Represented	EURO US$'000 Represented	Total US$'000 Represented
Financial Assets								
Cash and cash equivalents	-	452,263	-	452,263	-	197	-	197
Trade receivables	-	-	-	-	9,039	-	-	9,039
Intercompany receivables	-	492,872	-	492,872	-	596,094	-	596,094
Other receivables	-	3,058	-	3,058	-	1,267	-	1,267
Loan receivable	-	127	-	127	-	1,694	-	1,694
Financial assets	-	31	-	31	-	26	-	26
Total financial assets	-	948,351	-	948,351	9,039	599,278	-	608,317
Financial Liabilities								
Trade and other payables	-	14,623	-	14,623	-	6,320	-	6,320
Borrowings	-	114,809	-	114,809	-	-	-	-
Total financial liabilities	-	129,432	-	129,432	-	6,320	-	6,320

NOTE 36. FINANCIAL RISK MANAGEMENT (continued)

Sensitivity analysis
A 5 percent strengthening of the US dollar against the Australian dollar and Euro at 30 June on a net basis would have:

- decreased equity and decreased Fortescue's profit, primarily through a higher valuation of Fortescue's Euro borrowings, by the amounts shown below; and
- increased equity and decreased the Company's loss, primarily through higher cash and intercompany receivable balances.

This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2008.

	Consolidated		**Company**	
	Equity US$'000	**Profit or loss US$'000**	**Equity US$'000**	**Profit or loss US$'000**
30 June 2009				
AUD	4,798	4,798	40,946	40,946
Euro	(19,511)	(19,511)	-	-
30 June 2008 (Represented)				
AUD	(3,107)	(3,107)	29,648	29,648
Euro	(17,408)	(17,408)	-	-

A 5 percent weakening of the US dollar against the Australian dollar and Euro at 30 June on a net basis would have:

- increased equity and increased Fortescue's profit, primarily through a lower valuation of Fortescue's Euro borrowings, by the amounts shown below; and
- decreased equity and increased the Company's loss, primarily through lower costs and intercompany receivable balances.

This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2008.

	Consolidated		**Company**	
	Equity US$'000	**Profit or loss US$'000**	**Equity US$'000**	**Profit or loss US$'000**
30 June 2009				
AUD	(4,798)	(4,798)	(40,946)	(40,946)
Euro	19,511	19,511	-	-
30 June 2008 (Represented)				
AUD	3,107	3,107	(29,648)	(29,648)
Euro	17,408	17,408	-	-

(ii) Commodity price risk
Fortescue and the Company are exposed to commodity price risk. Contract iron ore prices are set by the global market annually on 1 April of each year for the following 12 months. Fortescue has not entered into any forward commodity price contracts as at 30 June 2009 and is currently fully exposed to commodity price risk. Fortescue's exposure to commodity price risk at the reporting date was as follows:

NOTE 36. FINANCIAL RISK MANAGEMENT (continued)

	Consolidated		Company	
	2009 US$'000	2008 US$'000 Represented	2009 US$'000	2008 US$'000 Represented
Subordinated loan note	(381,631)	(1,247,336)	-	-
Trade receivables	109,162	34,681	-	9,039
Total exposure	(272,469)	(1,212,655)	-	9,039

Sensitivity analysis
Trade receivables relate primarily to USD iron ore commodity sales and are subject to price risk due to potential final adjustment to the sales price based on a survey of the goods by the customer.

Borrowings relates to Fortescue's Subordinated Loan Note. Fortescue's Subordinated Loan Note is calculated at 4% of the revenue, net of government royalties, from the sale of iron ore FOB Port Hedland from the tenements of the Cloudbreak and Christmas Creek areas only. The valuation of the note is based on several forecasts including future iron ore prices.

A 10 percent strengthening of the future iron ore price included in trade receivables and the valuation model at 30 June would have decreased equity and decreased Fortescue's profit by the amounts shown below. This is because under current accounting standards Fortescue is required to account for the fair value impact of higher projected revenues on its Subordinated Loan Note borrowing. Conversely, Fortescue has adopted the cost method of accounting for its assets which does not show the fair value impact on its assets resulting from higher revenues and higher future cash inflows. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2008.

	Consolidated		Company	
	Equity US$'000	Profit or loss US$'000	Equity US$'000	Profit or loss US$'000
30 June 2009	(20,204)	(20,204)	-	-
30 June 2008 (Represented)	(120,636)	(120,636)	904	904

A 10 percent weakening of the future iron ore price included in trade receivables and the valuation model for Fortescue's Subordinated Loan Note at 30 June would have increased equity and increased Fortescue's profit by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2008.

	Consolidated		Company	
	Equity US$'000	Profit or loss US$'000	Equity US$'000	Profit or loss US$'000
30 June 2009	20,204	20,204	-	-
30 June 2008 (Represented)	120,636	120,636	(904)	(904)

NOTE 36. FINANCIAL RISK MANAGEMENT (continued)

(iii) Cash flow and fair value interest rate risk

Interest rate risk

It is Fortescue's policy either to eliminate interest rate risk over the cash flows on its long-term debt finance through the use of fixed rate instruments or to mitigate the risk through the use of floating-to-fixed interest rate swaps. Fortescue currently has a floating-to-fixed interest rate swap over its US$250 million Senior Secured Notes due 2011 and various operating lease contracts. Whilst this is an economic hedge of the cash flow risk Fortescue does not apply hedge accounting.

Fortescue invests surplus cash in term deposits and in doing so exposes itself to the fluctuations in interest rates that are inherent in such a market.

As at reporting date, Fortescue had the following variable rate borrowings (US$250 million Senior Secured Notes due 2011 and the Subordinated Loan Note) and interest rate swap contracts outstanding:

	30 June 2009		**30 June 2008**	
	Weighted average interest rate	**Balance $'000**	**Weighted average interest rate Represented**	**Balance $'000 Represented**
Borrowings – Subordinated Loan Note	170.31%	381,631	662.62%	1,247,336
Borrowings – Senior Secured Notes	9.75%	253,083	9.75%	181,534
Interest rate swaps	8.49%	31,397	7.08%	10,504
Net exposure to cash flow interest rate risk		666,111		1,439,374

The Company did not hold any variable rate borrowings or interest rate swap contracts.

An analysis by maturities is provided in (c) below.

Interest rate swap contract – Senior Secured Notes

US$250 million of the Senior Secured Notes Facility is denominated in floating rate notes. It is policy to protect Fortescue from exposure to increasing interest rates. Accordingly Fortescue has entered into interest rate swap contracts under which it is obliged to receive interest at variable rates and to pay interest at fixed rates. The fixed interest rate is at 5% and the variable interest rate is based on 3 month LIBOR.

At 30 June 2009, the notional principal amount and period of expiry of the interest rate swap contract is as follows:

	2009 $'000	**2008 $'000 Represented**
2 - 3 years	250,000	250,000
	250,000	250,000

The contract requires settlement of net interest receivable or payable each 90 days. The settlement dates coincide with the dates on which interest is payable on the underlying Senior Secured Notes. The contracts are settled on a net basis.

The gain or loss from measuring the hedging instrument at fair value is recognised in the income statement immediately. In the year ended 30 June 2009 a loss of US$13,166,000 (2008 loss of US$11,911,000) was recognised.

NOTE 36. FINANCIAL RISK MANAGEMENT (continued)

All borrowings other than the US$250 million Senior Secured Floating Rate Notes above and operating lease contracts below are issued at fixed interest rates which minimises cash flow interest rate risk.

Interest rate swap contract – Operating Leases
US$10.65 million of variable interest rate operating lease contracts were entered into during the 30 June 2009 financial year. It is policy to protect Fortescue from exposure to increasing interest rates. Accordingly Fortescue has entered into interest rate swap contracts under which it is obliged to receive interest at variable rates and to pay interest at fixed rates. The fixed interest rate is at 2.88% - 3.99% and the variable interest rate is based on 3 month LIBOR.

At 30 June 2009, the notional principal amount and period of expiry of the interest rate swap contracts are as follows:

	2009 $'000	2008 $'000 Represented
3 - 4 years	144,225	92,537
	144,225	92,537

The contracts require settlement of net interest receivable or payable each 90 days.

The gain or loss from measuring the hedging instrument at fair value is recognised in the income statement immediately. In the year ended 30 June 2009 a loss of US$7,408,000 (2008 loss of US$787,000) was recognised.

Sensitivities
If variable interest rates had changed by -/+ 50 basis points from the year-end rates with all other variables held constant the impact on Fortescue's post tax profit and equity position would not have been material.

(b) Credit risk
Credit risk is managed on a consolidated basis. Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to Fortescue. Credit risk arises from cash and cash equivalents, derivative financial instruments, deposits with banks and financial institutions and credit exposures to customers, including outstanding receivables and committed transactions.

Fortescue is exposed to a concentration of risk with all iron ore customers being Chinese companies. Fortescue has adopted a policy of only dealing with credit worthy counterparties as a means of mitigating the risk of financial loss from defaults. Cash and cash equivalents are held in various financial institutions with long-term investment grade credit rating and with the capacity for payment of financial commitments considered strong. Fortescue has not recognised any bad debt expense in the 2009 or 2008 financial years.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets as summarised in the Principal Financial Instruments section of this note. For commodity trade receivables Fortescue mitigates its credit risk in most cases by obtaining security in the form of letters of credit prior to ship loading covering approximately 95% of the value of iron ore shipped, thereby reducing credit risk to an acceptable level as determined by the Board.

Fortescue has no receivables past due as at 30 June 2009 (2008: $nil), nor does it consider there to be any potential impairment loss on these receivables.

NOTE 36. FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Fortescue manages liquidity risk by continuously monitoring forecast and actual cash flows.

Financing arrangements

Fortescue and the Company are fully drawn on their borrowing facilities as at 30 June 2009 and 30 June 2008.

Maturities of financial liabilities

The tables below analyse Fortescue and the Company's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

The maturity profiles below are undiscounted. The expected maturity profile of Fortescue and the Company's financial liabilities are analysed below:

Fortescue – At 30 June 2009	**Less than 6 months $'000**	**6-12 months $'000**	**Between 1 and 2 years $'000**	**Between 2 and 5 years $'000**	**Over 5 years $'000**	**Total contractual cash flows $'000**	**Carrying amount liabilities $'000**
Non-interest bearing	381,885	42,800	80,200	183,802	-	688,687	688,687
Variable rate	85,819	50,222	113,989	769,436	1,117,831	2,137,297	634,714
Fixed rate	86,499	85,172	171,671	1,018,669	1,442,121	2,804,132	1,966,988
	554,203	178,194	365,860	1,971,907	2,559,952	5,630,116	3,290,389

Fortescue – At 30 June 2008 (Represented)	**Less than 6 months $'000**	**6-12 months $'000**	**Between 1 and 2 years $'000**	**Between 2 and 5 years $'000**	**Over 5 years $'000**	**Total contractual cash flows $'000**	**Carrying amount liabilities $'000**
Non-interest bearing	113,899	-	-	-	-	113,899	194,528
Variable rate	47,251	83,124	278,206	2,556,832	4,794,578	7,759,991	1,428,870
Fixed rate	83,809	82,443	166,252	499,213	2,027,347	2,859,064	1,418,269
	244,959	165,567	444,458	3,056,045	6,821,925	10,732,954	3,041,667

The Company – At 30 June 2009	**Less than 6 months $'000**	**6-12 months $'000**	**Between 1 and 2 years $'000**	**Between 2 and 5 years $'000**	**Over 5 years $'000**	**Total contractual cash flows $'000**	**Carrying amount liabilities $'000**
Non-interest bearing	14,623	-	-	-	-	14,623	14,623
Variable rate	-	-	-	-	-	-	-
Fixed rate	5,112	5,112	10,224	30,671	143,441	194,560	114,809
	19,735	5,112	10,224	30,671	143,441	209,183	129,432

NOTE 36. FINANCIAL RISK MANAGEMENT (continued)

The Company – At 30 June 2008 (Represented)	Less than 6 months $'000	6-12 months $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Total contractual cash flows $'000	Carrying amount liabilities $'000
Non-interest bearing	6,320	-	-	-	-	6,320	6,320
Variable rate	-	-	-	-	-	-	-
Fixed rate	-	-	-	-	-	-	-
	6,320	-	-	-	-	6,320	6,320
Fortescue							
Derivatives (Interest Rate Swaps)							
30 June 2009	3,988	4,320	9,591	13,498	-	31,397	31,397
30 June 2008	1,502	1,669	3,705	3,628	-	10,504	10,504

There are no derivatives in the Company.

(d) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for measurement and disclosure purposes. The carrying amount of financial assets and financial liabilities recorded in the financial statements represents their respective fair values (determined in accordance with the accounting policies disclosed in notes 3-7 to the financial statements) except for borrowings disclosed in Note 28.

The fair value of borrowings for disclosure purposes would be estimated by discounting the future contractual cash flows at the current market interest rate that is available to Fortescue for similar financial instruments. However, due to the unique nature of Fortescue's borrowings and the lack of an active market due to the current financial crisis, there is no comparable instrument against which Fortescue can benchmark in order to determine the fair value of its borrowings.

(e) Capital management

In managing its capital, Fortescue's primary objective is to ensure its continued ability to provide a consistent return for its equity shareholders through capital growth. Fortescue considers its capital to comprise its ordinary share capital, accumulated losses, subordinated loan notes and senior secured notes.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

There were no changes in Fortescue's approach to capital management during the year. Fortescue has not breached any covenants during the 2009 or 2008 financial years. Fortescue's capital management portfolio at 30 June 2009 and 30 June 2008 was as follows:

	Consolidated		Company	
	2009 $'000	2008 $'000 Represented	2009 $'000	2008 $'000 Represented
Total borrowings	2,570,305	2,836,635	114,809	-
Less: cash and cash equivalents	(654,942)	(133,182)	(452,263)	(197)
Net debt	1,915,363	2,703,453	(337,454)	(197)
Total equity/ (deficiency)	850,692	(63,158)	1,161,846	732,406
Total capital	2,766,055	2,640,295	824,392	732,209
Gearing ratio	69%	102%	(41%)	(0%)

The reduction in the gearing ratio during 2009 resulted primarily from the revaluation of the Subordinated Loan Note.

NOTE 37. KEY MANAGEMENT PERSONNEL DISCLOSURES

Key management personnel remuneration

The Key Management Personnel remuneration included in 'administration expenses' in the income statement are as follows:

	Consolidated		Company	
	2009 US$	2008 US$ Represented	2009 US$	2008 US$ Represented
Short-term employee benefits	3,513,770	1,731,634	3,513,770	1,731,634
Other long term benefits	-	-	-	-
Post-employment benefits	417,298	132,040	417,298	132,040
Termination benefits	60,705	-	60,705	-
Equity compensation benefits	278,557	114,318	278,557	114,318
	4,270,330	1,977,992	4,270,330	1,977,992

Balances above are recognised on a gross basis. Wages and salaries, disclosed as part of administration expenses in the income statement, are recognised net of salary recoveries.

Apart from the details disclosed in this note, no Director has entered into a material contract with the Company or Fortescue since the end of the previous financial year and there were no material contracts involving Directors' interests existing at year-end.

Option over equity instruments

The movement during the reporting period in the number of options over ordinary shares in the Company held directly, indirectly or beneficially, by each Key Management Person, including their related parties, is as follows:

2009	Held at 1 July 2008	Granted as remuneration	Exercised	Other changes during the year	Balance at 30 June 2009	Vested during the year	Vested and exercisable at 30 June 2009
Directors of Fortescue Metals Group Ltd							
A Forrest	-	-	-	-	-	-	-
G Rowley	-	-	-	-	-	-	-
H Elliott	-	-	-	-	-	-	-
R Scrimshaw	-	600,000	-	-	600,000	-	-
K Ambrecht	-	-	-	-	-	-	-
J Steinberg	-	-	-	-	-	-	-
G Brayshaw	-	-	-	-	-	-	-
O Hegarty	-	-	-	-	-	-	-
I Burston	-	-	-	-	-	-	-
L Xiaowei	-	-	-	-	-	-	-
Other key management personnel							
P Hallam	-	600,000	-	-	600,000	-	-
M Minosora	-	600,000	-	-	600,000	-	-
C Catlow	1,000,000	-	-	-	1,000,000	250,000	750,000
A Watling	1,000,000	-	(500,000)	(500,000)#	-	-	-
G Cowe	-	-	-	-	-	-	-
	2,000,000	1,800,000	(500,000)	(500,000)	2,800,000	250,000	750,000

 # Options forfeited upon resignation/cessation of employment

NOTE 37. KEY MANAGEMENT PERSONNEL DISCLOSURES (Continued)

2008

	Held at 1 July 2007	Granted as remuneration	Exercised	Other changes during the year*	Balance at 30 June 2008	Vested during the year	Vested and exercisable at 30 June 2008
Directors of Fortescue Metals Group Ltd							
H Elliott	-	-	-	-	-	-	-
A Forrest	-	-	-	-	-	-	-
G Rowley	-	-	-	-	-	-	-
R Scrimshaw	-	-	-	-	-	-	-
K Ambrecht	-	-	-	-	-	-	-
J Steinberg	-	-	-	-	-	-	-
G Brayshaw	-	-	-	-	-	-	-
Other key management personnel							
A Watling	200,000	-	(1,000,000)	1,800,000	1,000,000	500,000	500,000
C Catlow	100,000	-	-	900,000	1,000,000	250,000	500,000
G Cowe	-	-	-	-	-	-	-
	300,000	-	(1,000,000)	2,700,000	2,000,000	750,000	1,000,000

* The reorganisation of capital of Fortescue Metals Group Ltd was effected on 19 December 2007. The reorganisation was by way of a share split whereby each fully paid ordinary share was split into ten fully paid ordinary shares. To maintain the value of options issued by Fortescue, Fortescue's options were also reorganised through an option split whereby each option was split into ten options. The numbers of options vested during the 2008 financial year have been adjusted to account for this option split.

Movements in shares

The movement during the reporting period in the number of ordinary shares in the Company held directly, inadvertently or beneficially, by each Key Management Person, including their related parties, are set out below.

2009
Ordinary shares

Name	Held at 1 July 2008	Received on exercise of options	Purchases	Share split*	Sales	Held at 30 June 2009
Directors of Fortescue Metals Group Ltd						
A Forrest	1,005,493,300	-	-	-	(32,665,000)(A)	972,828,300
G Rowley	20,235,690	-	-	-	(1,000,000)	19,235,690
H Elliott	2,540,689	-	27,249	-	(400,000)	2,167,938
R Scrimshaw	8,000,000	-	400,000	-	(400,000)	8,000,000
K Ambrecht	6,283,833	-	29,297	-	-	6,313,130
J Steinberg	277,986,000	-	-	-	-	277,986,000
G Brayshaw	17,225	-	15,924	-	-	33,149
O Hegarty	-	-	-	-	-	-
I Burston	-	-	-	-	-	-
L Xiaowei (B)	-	-	-	-	-	-
Other key management personnel						
P Hallam	-	-	-	-	-	-
M Minosora	-	-	-	-	-	-
C Catlow	8,000,000	-	-	-	(3,310,000)	4,690,000
A Watling	1,000,000	500,000	-	-	(1,500,000)	-
G Cowe	-	-	-	-	-	-
TOTAL	1,329,556,737	500,000	472,470	-	(39,275,000)	1,291,254,207

NOTE 37. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

Ordinary shares

Name	Held at 1 July 2007	Received on exercise of options	Purchases	Share split *	Sales	Held at 30 June 2008
Directors of Fortescue Metals Group Ltd						
A Forrest	102,307,830	-	-	907,090,470	(3,905,000)	1,005,493,300
G Rowley	2,095,569	-	-	18,860,121	(720,000) (C)	20,235,690
H Elliott	550,000	-	7,560	4,951,179	(2,968,050) (C)	2,540,689
R Scrimshaw	800,000	-	-	7,200,000	-	8,000,000
K Ambrecht	650,000	-	7,618	5,851,215	(225,000)	6,283,833
J Steinberg	26,400,000	-	1,398,600 (D)	250,187,400	-	277,986,000
G Brayshaw	-	-	4,418	12,807	-	17,225
Other key management personnel						
A Watling	-	100,000	-	900,000	-	1,000,000
C Catlow	800,000	-	-	7,200,000	-	8,000,000
G Cowe	-	-	-	-	-	-
TOTAL	133,603,399	100,000	1,418,196	1,202,253,192	(7,818,050)	1,329,556,737

(A) – Mr Forrest's relevant direct or indirect interest in those Company shares have been disposed of for nil cash consideration, and were disposed of as separate gift transactions.

(B) – Mr Xiaowei is Chairman of Hunan Valin Iron and Steel Group Company ("Valin"), which holds 535,000,000 Fortescue shares as at 30 June 2009.

(C) – The Directors relevant direct or indirect interest in these Fortescue Metals Group Ltd shares have been disposed of as a result of a transaction with Opes Prime and are subject to a scheme of arrangement. These disposals do not reflect sales to the benefit of the Directors.

(D) – LUK-Fortescue LLC held 277,986,000 shares in the Company as at 30 June 2009. LUK-Fortescue LLC is a wholly owned subsidiary of Leucadia National Corporation. Messrs. Steinberg and Cumming have an oral agreement pursuant to which they will consult with each other as to the election of a mutually acceptable Board of Directors of Leucadia National Corporation. As their collective voting power in Leucadia National Corporation exceeds 20%, Mr. Steinberg is deemed under s608(3)(a) of the Corporations Act to have a relevant interest in the Fortescue shares in which Leucadia National Corporation has a relevant interest.

* The reorganisation of capital of Fortescue Metals Group Ltd was effected on 19 December 2007. The reorganisation was by way of a share split whereby each fully paid ordinary share was split into ten fully paid ordinary shares.

Other transactions with key management personnel

The Company has revised its estimate in relation to the liability to Leucadia National Corporation ("Leucadia") under the terms of the Subordinated Loan Note (see Note 28). The note was revalued at 30 June 2009 to US$381,631,000 (30 June 2008: US$1,247,336,000). Leucadia is a company related to Mr Joseph Steinberg, who is a director of Fortescue Metals Group Ltd.

At 30 June 2009 Mr Joseph Steinberg, who is a director of Fortescue Metals Group Ltd, held €500,000.00 9.75% Senior Secured Notes due 2013. Interest paid and payable for the year was US$34,612. The balance as at 30 June 2009 was US$705,517 (30 June 2007: US$568,241).

NOTE 37. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

Dr Ian Burston was appointed as a Non-Executive Director of Fortescue Metals Group Ltd on 13 October 2008. He is also Chairman and Director of NRW Holdings Ltd ("NRW"). NRW provide mining contracting services to the Cloudbreak and Christmas Creek mines. Since his appointment Fortescue has incurred US$69.6 million for services rendered by NRW on the Pilbara Iron Ore and Infrastructure project. As at 30 June 2009 amounts owed to NRW by Fortescue were US$18.6 million.

Non-key management personnel disclosures

Subsidiaries
Loans are made by the Company to wholly owned subsidiaries for capital purchases. Loans outstanding between the Company and its controlled entities have no fixed date of repayment and is non-interest bearing. During the financial year ended 30 June 2009, such loans to subsidiaries totalled US$492.9 million receivable (2008: US$596.1 million). These loans have been recognised as current receivables.

NOTE 38. SHARE BASED PAYMENTS

Shareholders approved the implementation of the Fortescue Metals Group Incentive Option Scheme ("FMGIOS") at the 2005 AGM. The FMGOIS entitles key management personnel and senior employees to purchase shares in the Company. In accordance with these programmes options are exercisable at the market price of the shares at the date of grant.

During the financial year the Company issued 2,400,000 employee options to certain key executives. Under the terms of the FMGIOS the options will progressively vest over a 4 year period, with 25% vested on each anniversary. In addition, Directors have imposed a further requirement that the exercise of options is conditional upon Fortescue shares trading above AU$6 for a set period. The price target was approximately double the share price at inception. The options have been issued at an exercise price of AU$2.50, which is in accordance with the FMGIOS whereby the price must be at or greater that the volume weighted average price for the five days prior to the offer date, which was 11 February 2009.

The following factors and assumptions were used in determining the fair value of options on grant date (in Australian dollars):

Grant date	Expiry date	Fair value per option	Exercise price	Price of shares on grant date	Expected volatility	Risk free interest rate	Dividend yield
11 February 2009	11 February 2014	A$1.61	A$2.50	A$2.42	25.50%[1]	6.5%	-

[1] *Expected volatility is calculated using the AGSM risk measurement for the period*

The terms and conditions of the grants are as follows, whereby all options are settled by physical delivery of shares:

Grant date / employee entitled	Number of instruments*	Vesting conditions	Contractual life of options
Option grant to key management in June 2005	20,000,000	Four years of service	5 years
Option grant to key management in January 2006	4,300,000	Four years of service	5 years
Option grant to key management in June 2006	5,000,000	Four years of service	5 years
Option grant to key management in February 2009	2,400,000	Four years of service	5 years
Total share options	31,700,000		

NOTE 38. SHARE BASED PAYMENTS (Continued)

* Adjusted in line with the reorganisation of capital of Fortescue Metals Groups Ltd effected on 19 December 2007. The reorganisation was by way of a share split whereby each fully paid ordinary share was split into ten fully paid ordinary shares. Options were also split whereby each option was split into ten options.

The number and weighted average exercise prices of share options are as follows:

	Weighted average exercise price 2009 US$	Number of options 2009	Weighted average exercise price 2008 US$ Represented	Number of options 2008
Outstanding at 1 July	0.27	18,292,910	2.93	2,560,675
Exercised between 1 July and 19 December	0.25	(3,012,500)	2.31	(436,847)
Granted between 1 July and 19 December	-	-	-	-
Outstanding at 19 December	0.31	15,280,410	3.06	2,123,828
Option split on 19 December	-	-	-	19,114,452
Outstanding at 20 December	0.31	15,280,410	0.30	21,238,280
Exercised between 20 December and 30 June	0.26	(1,760,290)	0.30	(2,945,370)
Granted between 20 December and 30 June	1.64	2,400,000	-	-
Forfeited between 20 December and 30 June	0.33	(4,299,740)	-	-
Outstanding at 30 June	0.73	11,620,380	0.30	18,292,910
Exercisable at 30 June	0.46	7,896,005	0.27	11,474,800

The options outstanding at 30 June 2009 have an exercise price in the range of US$0.22 to US$2.03 and a weighted average contractual life of 4 years.

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the Binomial model. The contractual life of the option is used as an input into this model.

The following factors and assumptions were used in determining the fair value of options on grant date:

Grant Date	Expiry Date	Fair value per option*	Exercise price*	Price of shares on grant date*	Expected volatility[1]	Risk free interest rate	Dividend yield
1 June 2005	31 December 2009	A$0.20	A$0.27	A$0.27	26.40%	5.75%	-
25 January 2006	25 January 2011	A$0.46	A$0.57	A$0.62	26.80%	5.13%	-
1 June 2006	1 June 2011	A$0.58	A$0.70	A$0.77	26.80%	5.75%	-
11 February 2009	11 February 2014	A$1.61	A$2.50	A$2.42	25.50%	6.50%	-

[1] *Expected volatility is calculated using the AGSM risk measurement for the period*
** Adjusted in line with the reorganisation of capital of Fortescue Metals Groups Ltd effected on 19 December 2007. Each option was split into ten options.*

Employee expenses

	Consolidated 2009 US$'000	Consolidated 2008 US$'000 Represented	Company 2009 US$'000	Company 2008 US$'000 Represented
Share options granted in 2005 – equity settled	143	346	143	346
Share options granted in 2006 – equity settled	876	845	876	845
Share options granted in 2007 – equity settled	120	147	120	147
Share options granted in 2009 – equity settled	301	-	301	-
Total expense recognised as employee costs	1,440	1,338	1,440	1,338

NOTE 39. CONTINGENT LIABILITIES

ASIC Proceedings
The Australian Securities and Investment Commission ("ASIC") has commenced legal proceedings against Fortescue and its Chief Executive Officer in relation to market disclosure of certain agreements signed by the Company in 2004. The agreements in question relate to those signed with China Railway Engineering Corporation ("CREC"), China Harbour Engineering Corporation ("CHEC") and China Metallurgical Construction Corporation ("MCC").

The ASIC statement of claim alleges a breach by the Company and by the CEO of the continuous disclosure provisions of the Corporations Act under Section 674 and also a breach under Section 1041H relating to deceptive and misleading conduct. ASIC is seeking civil penalties of up to A$6,000,000 from the Company and A$5,600,000 for the CEO and an order that he compensate Fortescue for any pecuniary penalty it may be required to pay.

The trial has been completed and the parties are awaiting a decision from the Court.

Fatality at Mine Site
On 11 January 2008 an incident occurred during the construction of the processing plant at the Cloudbreak Mine site involving an employee of United Construction and which tragically resulted in the employee's death.

The Company understands that a Coronial inquest and Worksafe investigation into the circumstances surrounding the fatality has commenced but at this time there is insufficient information to quantify any potential damages resulting from this event.

Cyclone George Fatalities
Following an investigation into events surrounding Cyclone George which occurred in March 2007. Fortescue was charged on 18 March 2009 with one offence and its subsidiary, The Pilbara Infrastructure Pty Ltd ("TPI"), charged with 18 offences under the Occupational Safety & Health Act 1984. Each charge has a maximum penalty of A$400,000 thus comprising a potential aggregate maximum penalty to Fortescue and its subsidiary of A$7,200,000. Fortescue's solicitors have been instructed to defend the charges.

Shipping contracts
On 5 December 2008 Fortescue announced the contractual suspension or termination of all its long term shipping contracts of Affreightment and Consecutive Voyage Contracts. Some ship owners are disputing Fortescue's right to take such action, which has led to a number of claims being lodged in the UK arbitration system (being the legal domicile for maritime disputes pursuant to the relevant contracts). The arbitration process for these claims is currently underway in London and Fortescue has engaged specialist UK maritime legal advisers.

The Company has since reached agreements with two of the ship owners being messrs Bocimar International NV and Classic Maritime Inc. There are 5 suspended shipping contracts remaining with tenures ranging from 3 to 5 years.

Fortescue has accrued for the estimated liabilities associated with the remaining suspended contracts in the 30 June 2009 financial report.

United Industries WA Pty Ltd Action
An action has been commenced against Fortescue's wholly owned subsidiaries, Chichester Metals Pty Ltd ("Chichester") and The Pilbara Infrastructure Pty Ltd ("TPI"), following the termination of the services contract. Solicitors have been instructed to defend the action and a counter claim has been lodged. It is not possible to quantify potential damages, if any, resulting from this event.

NOTE 40. SUBSEQUENT EVENTS

On 29 July 2009 Fortescue announced a 1.23 billion tonne Inferred Resource Estimate for its Glacier Valley tenement area. Glacier Valley is held by Fortescue but is subject to a joint venture ("JV") arrangement with an Australian subsidiary of China's Baosteel Group Corporation ("Baosteel"). The exploration expenditure associated with the resource definition enables Baosteel to move to a 35% interest in the JV. Upon expenditure of an additional agreed amount to cover feasibility studies Baosteel can move to a 50% interest.

The tenement is approximately 100 kilometres south of Fortescue's Herb Elliott port facility at Port Hedland and approximately 25 kilometres to the east of the Fortescue rail line.

No other significant events requiring disclosure have occurred since 30 June 2009.

NOTE 41. SUBSIDIARIES

Company	Class of share	Country of Incorporation	Equity Holding 2009 %	Equity Holding 2008 %	Cost to Company 2009 US$	Cost to Company 2008 US$
Parent Entity						
Fortescue Metals Group Ltd		Australia			-	-
Controlled Entities						
International Bulk Ports Pty Ltd	Ordinary	Australia	100	100	1	1
The Pilbara Infrastructure Pty Ltd @	Ordinary	Australia	100	100	-	-
FMG Resources Pty Ltd	Ordinary	Australia	100	100	275	275
FMG Pilbara Pty Ltd	Ordinary	Australia	100	100	1	1
Chichester Metals Pty Ltd #	Ordinary	Australia	100	100	-	-
FMG Resources (Aug 2006) Pty Ltd*	Ordinary	Australia	100	100	-	-
Pilbara Mining Alliance Pty Ltd	Ordinary	Australia	100	100	1	1
Karribi Developments Pty Ltd	Ordinary	Australia	100	100	1	1
FMG Magnetite Pty Ltd	Ordinary	Australia	100	100	1	1
FMG North Pilbara Pty Ltd	Ordinary	Australia	100	100	1	1
FMG Pacific Limited	Ordinary	New Zealand	100	-	1	-
FMG International Pte Ltd	Ordinary	Singapore	100	-	1	-
Pilbara Housing Services Pty Ltd	Ordinary	Australia	100	-	1	-
					284	281

@ The Pilbara Infrastructure Pty Ltd is a subsidiary of International Bulk Ports Pty Ltd
# Chichester Metals Pty Ltd (previously FMG Chichester Pty Ltd) is a subsidiary of FMG Pilbara Pty Ltd
*FMG Resources (August 2006) Pty Ltd (previously FMG Finance Pty Ltd) is a subsidiary of Chichester Metals Pty Ltd

NOTE 42. SEGMENT REPORTING

Fortescue operates exclusively in the iron ore exploration and production industry in Australia.

NOTE 43. OPERATING LEASES

LEASES AS LESSEE

Non-cancellable operating lease rentals are payable as follows:

	Consolidated 2009 US$'000	Consolidated 2008 US$'000 Represented	Company 2009 US$'000	Company 2008 US$'000 Represented
Less than one year	127,800	51,064	4,453	6,740
Between one and five years	328,738	159,705	2,982	5,431
More than five years	1,660	43,648	-	-
	458,198	254,417	7,435	12,171

NOTE 43. OPERATING LEASES (Continued)

Fortescue leases various offices and other premises under non-cancellable operating leases expiring within one to seven years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

Fortescue also leases various motor vehicles, office equipment and plant and machinery under non-cancellable operating leases. The leases have varying terms.

NOTE 44. COMMITMENTS

(a) *Exploration Tenement Leases – Commitments for Expenditure.*
In order to maintain current rights of tenure to exploration tenements, Fortescue is required to outlay lease rentals and to meet the minimum expenditure requirements of US$5.1million over the next financial year (2008: US$2.4 million).

Financial commitments for subsequent periods are contingent upon future exploration results and cannot be estimated. These obligations are subject to renegotiation upon expiry of the exploration leases or when application for a mining licence is made and have not been provided for in the accounts.

(b) *Project Commitments*
Commitments exist in relation to the project for up to US$87.3 million (2008: US$123.9 million) over the next financial year, being the current contracts and orders in relation to the construction of the Pilbara Iron Ore and Infrastructure project.

(c) *Capital Commitments*
As at 30 June 2009 Fortescue has commitments to capital expenditure contracted for at the reporting date but not recognised as liabilities for mobile mining equipment orders of US$22.2million (2008: US$374.8 million) related to the development and production of its Pilbara Iron Ore and Infrastructure Project. The majority of this equipment is expected to be funded through operating leases.

NOTE 45. AUDITORS REMUNERATION

	Consolidated 2009 US$'000	Consolidated 2008 US$'000 Represented	Company 2009 US$'000	Company 2008 US$'000 Represented
Audit and assurance services				
Auditors of Fortescue				
BDO Kendalls Audit & Assurance (WA) Pty Ltd				
Audit and review	251	156	251	156
Other assurance services	25	-	25	-
Other services				
Auditors of Fortescue				
BDO Consultants (WA) Pty Ltd:				
Financial due diligence	10	33	10	33
BDO Risk Advisory Services (QLD) Pty Ltd				
Risk advisory services	-	14	-	14
	286	203	286	203

NOTE 46. DEED OF CROSS GUARANTEE

Fortescue Metals Group Ltd and its controlled entities, except FMG Pacific Limited and FMG International Pte Ltd, are parties to a deed of cross guarantee under which each company guarantees the debts of the others:

Holding Entity
- Fortescue Metals Group Ltd

Group Entities
- FMG Pilbara Pty Ltd
- Chichester Metals Pty Ltd (previously FMG Chichester Pty Ltd)
- FMG Resources (Aug 2006) Pty Ltd (previously FMG Finance Pty Ltd)
- FMG Magnetite Pty Ltd
- FMG North Pilbara Pty Ltd
- Pilbara Mining Alliance Pty Ltd
- Karribi Developments Pty Ltd
- FMG Resources Pty Ltd
- International Bulk Ports Pty Ltd
- The Pilbara Infrastructure Pty Ltd

By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare a financial report and Directors' Report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission.

a) Consolidated income statement and a summary of movements in consolidated retained profits

The 'Closed Group' is represented by the above companies is the same as the consolidated group, and as there are no other parties to the Deed of Cross Guarantee that are controlled by the Company, they also represent the 'Extended Closed Group'. The income statement and summary movements in consolidated accumulated losses for the year ended 30 June 2009 along with the consolidated balance sheet as at 30 June 2009 for the Closed Group are materially the same as that of the consolidated group.

FORTESCUE METALS GROUP LTD AND ITS CONTROLLED ENTITIES
ACN 002 594 872

Declaration by Directors

The Directors of the Company declare that:

1. The financial statements, comprising the income statement, balance sheet, cash flow statement, statement of changes in equity, accompanying notes, are in accordance with the Corporations Act 2001 and:

   (a) comply with Accounting Standards and the Corporations Regulations 2001; and

   (b) give a true and fair view of the financial position as at 30 June 2009 and of the performance for the year ended on that date of the company and the consolidated entity.

2. In the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

3. The remuneration disclosures included in the Directors' Report (as part of audited Remuneration Report), for the year ended 30 June 2009, comply with section 300A of the Corporations Act 2001.

4. The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A.

Parties identified in note 46 are parties to the deed of cross guarantee under which each company guarantees the debts of the others. At the date of this declaration there are reasonable grounds to believe that the companies which are parties to this deed of cross guarantee will as a consolidated entity be able to meet any obligations or liabilities to which they are, or may become, subject to, by virtue of the deed of cross guarantee described in note 46.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the Directors by:

Mr Herb Elliott
Chairman

Dated at Perth this 10th day of August 2009.

BDO Kendalls

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INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF FORTESCUE METALS GROUP LIMITED

We have audited the accompanying financial report of Fortescue Metals Group Limited, which comprises the balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the entity comprising the disclosing entity and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2, the directors also state, in accordance with Accounting Standard AASB101 Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

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

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

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001* would be in the same terms if it had been given to the directors at the time that this auditor's report was made.

Auditor's Opinion

In our opinion:

(a) the financial report of Fortescue Metals Group Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2009 and of their performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

Report on the Remuneration Report

We have audited the Remuneration Report included within the Directors' Report for the year ended 30 June 2009. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001.* Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion, the Remuneration Report of Fortescue Metals Group Limited for the year ended 30 June 2009, complies with section 300A of the *Corporations Act 2001.*

BDO Kendalls Audit and Assurance (WA) Pty Ltd

BDO Kendalls
Glyn O'Brien

Glyn O'Brien
Director

Dated this 10th day of August 2009
Perth, Western Australia