FORTESCUE METALS GROUP LTD

ABN 57 002 594 872

Annual Financial Report

30 JUNE 2007

Registered Office and Principal Place of Business;

Level 2
87 Adelaide Terrace
East Perth
Western Australia 6004.

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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 the Australian 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 - 7, which is not part of this financial report.

The financial report was authorised for issue by the Directors on 24 August 2007. 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 2007.

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 (appointed Chairman 16 March 2007)
Mr Gordon Toll - retired 18 May 2007
Mr Ken Ambrecht
Mr Joseph Steinberg – appointed 18 August 2006
Mr Geoff Brayshaw – appointed 1 July 2007
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 69
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 Committee and was chairman of this committee until 5 July 2007. He is Chairman of the Remuneration & Nominations Committee. 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 Gordon Toll – Chairman – Age 60
(retired 18 May 2007)
Mr Toll was appointed as a Non Executive Independent Director of the Company in January 2005 and became Chairman in May 2005. He was a member of the Audit Committee. Mr Toll is Chairman of Linq Capital Ltd responsible entity for Linq Resources Fund (since July 2002), Executive Chairman of Compass Resources NL and Non Executive Director of Eastern Mediterranean Minerals Ltd. Mr Toll previously held senior executive positions with BHP Billiton Ltd and Rio Tinto plc and in those roles had experience in the development of iron ore projects within the Pilbara region of Western Australia. He was a Non-Executive Director of Avocet Mining plc.

Mr Andrew Forrest – Chief Executive Officer – Age 46
Mr Forrest has been Chief Executive Officer of the Company since July 2003 and was Interim Chairman from then until May 2005. Mr Forrest is Chairman of Poseidon Nickel Ltd and the Australian Children's Trust. 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 Director of Sibera Mining Corporation Limited (now Monarch Gold Ltd), Director of the West Australian Chamber of Minerals and Energy and Chairman of Athletics Australia. Mr Forrest has extensive experience in the mining sector with specialist expertise in major project finance.

Mr Graeme Rowley AM – Executive Director – Age 67
Mr Rowley has been Executive Director Operations 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 58
Mr Scrimshaw was a Non-Executive Director of the Company from October 2003 to June 2005, at which time he became Executive Director. Mr Scrimshaw is also an Associate Member of the Australian Society of Certified Practicing Accountants. Mr Scrimshaw previously held executive positions within the Commonwealth Bank of Australia, Optus, Alcatel IBM and Amdahl USA.

Mr Ken Ambrecht – Non-Executive Director – Age 61
Mr Ambrecht is a Non-Executive Independent Director of the Company and is a member of the Audit Committee and Remuneration & Nominations Committee. He is a Non-Executive Director of American Financial Corporation Inc (since April 2005), Great American Financial Resources Inc (since July 2004) and Dominion Petroleum Ltd. Mr Ambrecht was previously Managing Director of the high yield division of the Royal Bank of Canada following a 25 year career in the capital markets division of Lehman Brothers.

Mr Joseph Steinberg – Non Executive Director – Age 63
Mr Steinberg was appointed a Non Executive Independent Director of the Company in August 2006 and he sits on the Remuneration & Nominations 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 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 57
Mr Brayshaw was appointed a Non-Executive Director of the Company on 1 July 2007 and was appointed Chairman of the Audit 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, Board member of the Small Business Development Corporation and Chairman of a Trustee Company related to an Aboriginal Corporation.

DIRECTORS' MEETINGS

The numbers of meetings of the Company's Board of Directors and of each Board committee held during the year ended 30 June 2007, and the numbers of meetings attended by each Director were:

			Committee Meetings			
	Board Meetings		Audit		Remuneration	
Director	A	B	A	B	A	B
Mr Gordon Toll	8	11	2	2	1	2
Mr Herb Elliott	13	13	2	2	2	2
Mr Andrew Forrest	12	13	*	*	*	*
Mr Graeme Rowley	13	13	*	*	*	*
Mr Russell Scrimshaw	13	13	*	*	1	1
Mr Ken Ambrecht	11	13	2	2	1	1
Mr Joseph Steinberg	11	11	*	*	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 Gordon Toll	7	7
Mr Herb Elliott	7	7
Mr Andrew Forrest	7	7
Mr Graeme Rowley	6	6
Mr Russell Scrimshaw	6	6
Mr Ken Ambrecht	6	6
Mr Joseph Steinberg	4	4

COMPANY SECRETARIES' PARTICULARS

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

Mr Rod Campbell – Age 47
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 46
Mr Catlow has been Chief Financial Officer of the Company since September 2003 and 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 the Company during the course of the financial year was the development of the Pilbara Iron Ore and Infrastructure Project. No significant changes in the nature of the activities of Fortescue occurred during the year.

REVIEW OF OPERATIONS

The results from operations are as follows.

	2007 $'000	2006 $,000
Operating loss after income tax	(68,430)	(2,146)
Total assets	3,689,663	221,048
Net assets	496,515	137,106

The company raised A$3.2 billion in equity and debt in August 2006 to complete construction of the project and commence operations. The equity was provided by Leucadia National Corporation and the debt through an issue of Senior Secured Notes to the international capital markets.

Construction of the project is progressing well with the overall development approaching 50% complete. The port works are ahead of schedule, the mine site development is near schedule and the rail works are lagging schedule due largely to the impacts of the three cyclones that passed through the project area in March 2007. Since then plans have been implemented to bring the rail schedule back into line for completion in early 2008 and overall, the project remains on schedule for the first ore on ship in May 2008.

The company issued 14 million new shares in July 2007 to raise A$504 million to provide additional liquidity for these initiatives.

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 has increased. Monitoring is conducted at these sites to ensure that activities continue to operate in accordance with the environmental regulations and to date performance at sites has been within the requirements of our environment licences. Fortescue is also proactively working to ensure that the environmental impact from the construction phase of the project is as minimal as possible. Proactive techniques employed include clearing controls to limit vegetation disturbance, trapping and relocation of priority fauna species and education and training on environmental issues for all supervisors and managers. Through these and other techniques, Fortescue is aiming to raise environmental awareness within our activities and ensure we consistently meet high standards of environmental management.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

On 21 August 2006 Fortescue completed settlement of its A$3.2 billion capital raising. On completion the funds raised were paid into Fortescue's project account. The monies will be used to facilitate the construction and initial operations of Fortescue's Pilbara Iron Ore and Infrastructure Project. The total raising included US$1.65 billion in US denominated funds, €315 million in Euro denominated bands and US$400 million invested by Leucadia National Corporation.

Significant changes in the state of affairs of Fortescue during the financial year as part of the development of the Pilbara Iron Ore and Infrastructure Project were an increase in contributed equity of $426,850,000 (from $147,153,000 to $574,003,000) and an increase in borrowings of $2,844,318,000 (from $67,268,000 to $2,911,586,000). Net cash received from the increase in contributed equity and borrowings was used principally for the 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 borrowings is explained in note 24 and the increase in net cash is explained in the Statements of Cash Flows.

EVENTS SUBSEQUENT TO REPORTING DATE

On 18 July 2007 the Company issued 14,000,000 shares at A$36 per share to raise A$504,000,000. The funds raised will be used to provide additional liquidity and allow the first phase of the Pilbara Iron Ore and Infrastructure Project to be optimised.

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	560,000
Mr Andrew Forrest	102,307,830
Mr Graeme Rowley	2,023,569
Mr Russell Scrimshaw	802,600
Mr Ken Ambrecht	650,000
Mr Joseph Steinberg	27,798,600
Mr Geoff Brayshaw	1,350

No 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 did not grant options to Directors or Officers of the Company.

Unissued Shares Under Options
The number of options on issue at the date of this report is as follows. All of these options are unlisted.

Date Options Granted	Expiry Date	Issue Price of Shares	Number under Option
1 June 2005	31 December 2009	$2.67	1,442,550
25 January 2006	25 January 2011	$5.69	340,625
1 June 2006	1 June 2011	$7.03	497,500
2 October 2006	31 December 2009	$8.22	100,00
9 October 2006	31 December 2009	$8.78	20,000
28 October 2006	31 December 2009	$9.29	20,000

All options expire on the earlier of their expiry date or termination of the employee's employment. These options were issued pursuant to the Company's Employee Incentive Option Scheme and have been allotted to individuals on condition that they serve specified time periods as an employee of the Company 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	Issue Price of Shares
1 June 2005	530,000	417,450	$2.67
25 January 2006	132,500	89,375	$5.69
1 June 2006	118,750	2,500	$7.03
2 October 2006	-	-	$8.22
9 October 2006	-	-	$8.78
28 October 2006	-	-	$9.29

DIRECTORS AND OFFICERS INDEMINITIES 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.

REMUNERATION REPORT

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 compensation
E Additional information

The information provided under headings A-D includes remuneration disclosures that are required under Accounting Standard AASB 124 *Related Party Disclosures*. These disclosures have been transferred from the financial report and have been audited. The disclosures in Section E are additional disclosures required by the *Corporations Act 2001* and the *Corporations Regulations 2001* which have not been audited.

A PRINCIPLES USED TO DETERMINE THE NATURE AND AMOUNT OF REMUNERATION (audited)

Remuneration is referred to as compensation throughout this report. Key Management Personnel have the authority and responsibility for planning, directing and controlling the activities of the Company and other executives. Key Management Personnel include the directors as per pages 2 to 4 above and the five most highly remunerated executive officers for the Company, and Fortescue in accordance with S300A of the Corporations Act 2001.

The objective of Fortescue's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and conforms with market best practice for delivery of reward. The Board ensures that executive reward satisfies the following key criteria for good governance practices:

- Competitiveness and reasonableness
- Acceptability to shareholders
- Performance linkage / alignment of executive compensation
- Transparency
- Capital management

In consultation with external remuneration consultants, Fortescue has structured an executive remuneration framework that is market competitive and complimentary to the reward strategy of the organisation.

Alignment to shareholder's interests:

- Has economic profit as a core component of plan design
- Focuses on sustained growth in share price and delivering constant return on assets as well as focusing the executive on key non-financial drivers of value
- Attracts and retains high calibre executives

Alignment to program participants' interests:

- Rewards capability and experience
- Reflects competitive reward for contribution to shareholder growth
- Provides a clear structure for earning rewards
- Provides recognition for contribution

The Board has established a remuneration committee which provides advice on remuneration and incentive policies and practices and specific recommendations on remuneration packages and other terms of employment for Executive Directors, other senior executives and Non-Executive Directors. The Corporate Governance Statement provides further information on the role of this committee.

Until the current financial year, the Company used the existing Fortescue Metal's Group Incentive Option Scheme ("FMGIOS") as an appropriate long-term incentive scheme. During the financial year the Board established a new long-term incentive plan ("LTIP") as set out below that it believes provides a more appropriate reward scheme for staff participation rather than the ESOP. The ESOP is utilised where circumstances exist which lead the Directors to believe a grant of options under the FMGIOS to be more appropriate, as may be the case with Key Management Personnel of the Company. The new LTIP was approved by shareholders at the November 2006 AGM.

The remuneration scheme that has been adopted and approved by shareholders at the 2006 AGM of the Company consists of the following components:

- Fixed Compensation ("FC") being annual salary; and
- Incentive Schemes, comprising:
  i. Short Term Incentive Plan ("STIP") being an annual cash bonus
  ii. Long Term Incentive Plan ("LTIP") being Performance Rights; and
  iii. Fortescue Metal's Group Incentive Option Scheme ("FMGIOS")

Fixed Compensation
Fixed compensation ("FC") consists of base remuneration (which is calculated on a total cost basis and includes FBT charges to employee benefits including motor vehicles), as well as employer contributions to superannuation funds. Overall remuneration levels are reviewed annually by the Remuneration Committee through a process that considers both individual performances and the overall performance of the Company. In addition, external consultants provide analysis and advice to ensure the Directors' and senior executives' compensation is competitive in the marketplace. A senior executive's compensation is also reviewed on promotion.

Performance-Linked Compensation
Performance linked compensation includes both short-term and long-term incentives and is designed to reward Key Management Personnel for meeting or exceeding their financial and personal objectives. The STIP is an "at risk" bonus provided in the form of cash, while the long-term incentive is provided through the LTIP and the FMGIOS.

STIP
The STIP provides compensation to employees when key performance measures are achieved in line with business targets. The broad terms around the quantum of any STIP cash payment, under current company practice, is related to a percentage of the FC amount. The Company has set a maximum amount payable under a STIP at 100% of an individual's FC amount noting that this would only be made in recognition of extraordinary work that led to the successful completion of a project and/or objective by an individual or a team. The general practice would be to pay an amount of between 0% - 50% of the FC sum in recognition of actual performance levels.

LTIP
The Board has recently adopted a recommendation from the Remuneration and Nominations Committee to establish a more formalised remuneration policy to reflect the fact that the Company has now established the requisite financial platform to take the Company into production of iron ore. Accordingly, the Company seeks to build on the remuneration policies established to date to ensure it is well positioned to attract, motivate and retain people of the highest calibre.

The aims of the LTIP component of remuneration are to:

- align the interests of employees and shareholders;
- provide targeted but competitive remuneration and a long-term incentive for the retention of key employees; and
- support a culture of employee share ownership.

Under the LTIP, participants are offered an award of rights to acquire ordinary shares in the Company (referred to here as "Performance Rights"). The offer of Performance Rights under the LTIP takes the form of a conditional entitlement to issued shares in the Company for nil consideration at the end of the applicable performance period subject to the satisfaction of performance conditions. Unless the Board otherwise determines, where a participant is entitled to be issued shares under the LTIP, the Company will issue those shares to the participant.

Performance Rights become vested only if the performance condition is met. The vesting of the Performance Rights will be over a period that is consistent with the realisation of the long term strategic objectives of the Company as approved by the Board. Under the LTIP the minimum vesting period will be three (3) years and the maximum vesting period will be seven (7) years. Any Performance Rights not vested within seven years will lapse.

FMGIOS
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.

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

	2007 AIFRS '000	2006 AIFRS '000	2005 AIFRS '000	2004 AGAAP '000	2003 AGAAP '000
Revenue	$223,815	$11,830	$3,438	$4,267	$1,753
Net profit/(loss)	($68,430)	($2,146)	($4,519)	$602	($834)
Dividends paid	-	-	-	-	-
$ Change in share price	$24.30	$6.60	$2.85	$0.30	$0.12
% Change in share price	256%	228%	469%	143%	128%

The overall level of key management personnel's compensation takes into account the performance of Fortescue over a number of years.

Non-Executive Directors
Total compensation for all Non-Executive Directors, last voted upon by shareholders at the 2005 AGM, is not to exceed $500,000 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 $80,000 per annum.

The Chairperson receives $162,000 per annum. Non-Executive Directors do not receive performance related compensation. Directors' fees cover all main Board activities. Non-Executive Directors who sit on a Board Committee receive an additional $4,000 per annum per committee and the chair of a committee, other then the audit committee, receives $6,000 per annum. The chairman of the audit committee receives an additional $15,000 per annum.

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

B DETAILS OF REMUNERATION (audited)
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 as per pages 2 to 4 and the following executive officers:

Alan Watling – *Chief Operating Officer*
Chris Catlow – *Chief Financial Officer*
Peter Thomas – *Project Cost Controller*

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

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

		Short-term				Post-employment	Other long term		Share-based payments			
		Salary & fees $	Cash bonus $	Non-monetary benefits $	Total $	Super-annuation benefits $	$	Termination benefits	Options (A) $	Total $	Proportion of remuneration performance related %	Value of options as proportion of remuneration %
Directors of Fortescue Metals Group Ltd *Non-Executive*												
Mr H Elliott (Chairperson)	2007	-	-	-	-	85,766	-	-	-	85,766	-	-
	2006	-	-	-	-	56,000	-	-	-	56,000	-	-
Mr G Toll (resigned 17 May 2007)	2007	144,697	-	-	144,697	-	-	-	-	144,697	-	-
	2006	166,000	-	-	166,000	-	-	-	-	166,000	-	-
Mr K Ambrecht	2007	318,295	-	-	318,295	-	-	-	-	318,295	-	-
	2006	44,000	-	-	44,000	-	-	-	-	44,000	-	-
Mr J Steinberg – (appointed 18 August 2006)	2007	-	-	-	-	-	-	-	-	-	-	-
	2006	-	-	-	-	-	-	-	-	-	-	-
Mr G Brayshaw – (appointed 1 July 2007)	2007	-	-	-	-	-	-	-	-	-	-	-
	2006	-	-	-	-	-	-	-	-	-	-	-
Executive												
Mr A Forrest, CEO	2007	101,000	110,000 [1]	-	211,000	10,100	-	-	-	221,100	50%	-
	2006	100,000	-	-	100,000	10,000	-	-	-	110,000	-	-
Mr G Rowley, Executive Director Operations	2007	423,153	380,000 [1]	-	803,153	42,315	-	-	-	845,468	45%	-
	2006	345,454	-	-	345,454	34,546	-	-	-	380,000	-	-
Mr R Scrimshaw, Executive Director Commercial	2007	373,617	252,294 [1]	-	625,911	36,383	-	-	-	662,294	38%	-
	2006	225,000	-	-	225,000	25,000	-	-	-	250,000	-	-

[1] *Bonuses were approved in September 2006 by the board of directors under the STIP as reward for Fortescue achieving its funding and budget scheduling targets. Payments were a percentage of fixed compensation based on contribution to achievement of the targets.*

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

		Short-term				Post-employment	Other long term		Share-based payments			
		Salary & fees $	Cash bonus $	Non-monetary benefits $	Total $	Super-annuation benefits $	$	Termination benefits	Options $	Total $	Proportion of remuneration performance related %	Value of options as proportion of remuneration %
Key management personnel												
Mr A Watling, Chief Operating Officer	2007	392,119	300,000 [1]	-	692,119	39,212	-	-	98,258	829,589	36%	12%
	2006	272,727	150,000 [2]	-	422,727	27,273	-	-	98,258	548,258	27%	18%
Mr C Catlow, Chief Financial Officer	2007	339,089	300,000 [1]	-	639,089	33,909	-	-	115,101	788,099	38%	15%
	2006	272,727	-	-	272,727	27,273	-	-	49,194	349,194	-	14%
Mr P Thomas, Project Cost Controller	2007	327,455	270,000 [1]	-	597,455	32,305	-	-	122,120	751,880	36%-	16%
	2006	245,453	75,757 [2]	-	321,210	32,121	-	-	105,644	458,975	17%	23%
Mr J Tapp, Head of Government Relations	2007	-	-	-	-	-	-	-	-	-	-	-
	2006	209,091	-	-	209,091	20,909	-	-	68,807	298,807	-	23%
Dr J Clout, Head of Resources Strategy	2007	-	-	-	-	-	-	-	-	-	-	-
	2006	172,725	-	-	172,725	18,182	-	-	77,265	268,172	-	29%
Mr B Ramsey, Project Director	2007	-	-	-	-	-	-	-	-	-	-	-
	2006	178,974	-	=	178,974	17,897	-	-	49,194	246,065	-	20%
Total : directors and other key management personnel (consolidated and company)	2007	2,419,425	1,612,294	-	4,031,719	279,990	-	-	335,479	4,647,188	35%	7%
	2006	2,232,151	225,757	-	2,457,908	269,201	-	-	448,362	3,175,471	8%	14%

[1] *Bonuses were approved in September 2006 by the board of directors under the STIP as reward for Fortescue achieving its funding and budget scheduling targets. Payments were a percentage of fixed compensation based on contribution to achievement of the targets.*
[2] *Bonuses were approved in August 2005 by the board of directors under the STIP as reward for achieving DFS budget scheduling targets. Payments were a percentage of fixed compensation based on contribution to achievement of the targets.*

All key management personnel are employed by the parent entity.

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	
	2007	2006	2007	2006	2007	2006
Executive directors of Fortescue Metals Group Ltd						
Mr A Forrest	50%	100%	50%	-	-	-
Mr Graeme Rowley	55%	100%	45%	-	-	-
Mr R Scrimshaw	62%	100%	38%	-	-	-
Other key management personnel						
Mr A Watling	52%	55%	36%	27%	12%	18%
Mr C Catlow	47%	85%	38%	-	15%	14%
Mr P Thomas	48%	60%	36%	17%	16%	23%
Mr J Tapp	-	77%	-	-	-	23%
Dr J Clout	-	71%	-	-	-	29%

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

(a) The fair value of the options is calculated at the date of grant using the Black-Scholes model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the options allocated to this reporting period. In valuing the options, market conditions have been taken into account.

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	Risk free interest rate	Dividend yield
1 June 2005	31 December 2009	$1.97	$2.67	$2.67	26.40%	5.75%	-
25 January 2006	25 January 2011	$4.60	$5.69	$6.15	26.80%	5.13%	-
1 June 2006	1 June 2011	$5.79	$7.03	$7.68	26.80%	5.75%	-

C SERVICE AGREEMENTS (audited)

Remuneration and other terms of employment for the Executive Directors and other Key Management Personnel 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 2007 of $110,000 to be reviewed annually by the Remuneration Committee.

Mr Graeme Rowley, *Executive Director New Business*
- Term of agreement – Unspecified
- Base salary, inclusive of superannuation, for the year ended 30 June 2007 of $520,000 to be reviewed annually by the Remuneration Committee.

Mr Russell Scrimshaw, *Executive Director Commercial*
- Term of agreement – Unspecified
- Base salary, inclusive of superannuation, for the year ended 30 June 2007 of $520,000 to be reviewed annually by the Remuneration Committee.

Mr Alan Watling, *Chief Operating Officer*
- Term of agreement – Unspecified
- Base salary, inclusive of superannuation, for the year ended 30 June 2007 of $520,000, to be reviewed annually by the Remuneration Committee.

Mr Christopher Catlow, *Chief Financial Officer*
- Term of agreement – Unspecified
- Base salary, inclusive of superannuation, for the year ended 30 June 2007 of $420,000, to be reviewed annually by the Remuneration Committee.

Mr Peter Thomas, *Project Cost Controller*
- Term of agreement – Unspecified
- Base salary, inclusive of superannuation, for the year ended 30 June 2007 of $420,000, to be reviewed annually by the Remuneration Committee.

All service agreements do not provide termination payments and are able to be terminated on one months' notice.

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 9.

Bonuses were approved by the Board of Directors under the STIP as reward for Fortescue achieving its funding and budget scheduling targets.

D SHARE-BASED COMPENSATION (audited)

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

Options over equity instruments granted as compensation
Details of options over ordinary shares in the company that were granted as compensation to each director and each of the key management personnel are set out below: When exercisable, each option is convertible into one ordinary share of Fortescue Metals Group Ltd.

Name	Number of options granted during the year		Number of options vested during the year	
	2007	2006	2007	2006
Directors				
Mr H Elliott	-	-	-	-
Mr K Ambrecht	-	-	-	-
Mr J Steinberg	-	-	-	-
Mr G Brayshaw	-	-	-	-
Mr A Forrest	-	-	-	-
Mr G Rowley	-	-	-	-
Mr R Scrimshaw	-	-	-	-
Other key management personnel				
Mr A Watling	-	-	50,000	50,000
Mr C Catlow	-	100,000	25,000	-
Mr P Thomas	-	25,000	53,750	47,500
Mr J Clout	-	30,000	-	37,500
Mr J Tapp	-	40,000	-	25,000

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.

Modification of terms of equity-settled share-based payment transactions
No terms of equity-settled share-based payment transactions (including options granted as compensation to a key management person) have been altered or modified by the Company during the reporting period. A number of unallocated options from the June 2005 tranche have been issued to new employees with an additional premium payable to the company upon exercise. The premium reflects the five day average share price on the day the individual joined the company.

Exercise of options granted as compensation
Details of ordinary shares in the company provided as a result of the exercise of remuneration options to each director of Fortescue Metals Group Ltd and other key management personnel of the group are set out below

Name	Date of exercise of options	Number of ordinary shares issued on exercise of options during the year 2007	2006
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	-	-	-
Other key management personnel			
Mr A Watling	-	-	-
Mr C Catlow	-	-	-
Mr P Thomas	-	-	-

E ADDITIONAL INFORMATION (unaudited)

Details of remuneration - cash bonuses and options
For each cash bonus and grant of options included in the tables on pages 12 to 13 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. No part of the bonuses is payable in future years. 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 $	Maximum total value of grant yet to vest $
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	-	-	-	-	-	-	-	-
Other key management personnel								
Mr A Watling	100	-	2005	50%	-	30/06/2010	-	188,440
Mr C Catlow	100	-	2006	25%	-	30/06/2011	-	163,979
Mr P Thomas	100	-	2006 2005	25% 50%	- -	30/06/2010 30/06/2011	-	179,018 40,995

Further details relating to options are set out below

Name	A Remuneration consisting of options	B Value at grant date $	C Value at exercise date $	D Value at lapse date $	E Total of columns B-D $
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	-	-	-	-	-
Other key management personnel					
Mr A Watling	12%	-	-	-	-
Mr C Catlow	15%	-	-	-	-
Mr P Thomas	16%	-	-	-	-

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.

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) formerly BDO) 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*, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risk and rewards.

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:	**2007**	**2006**
	$	**$**
Audit Services:		
Audit and review of financial reports (BDO Kendalls Audit & Assurance (WA) formerly BDO)	99,023	56,715
Services other than statutory audit:		
Other assurance services		
Financial due diligence (BDO Consultants (WA))	63,179	107,261
Total Remuneration	162,202	163,976

AUDITOR'S INDEPENDENCE DECLARATION

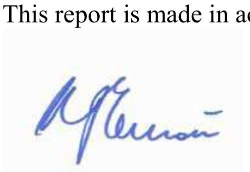
The auditor's independence declaration under section 307C of the *Corporations Act 2001* is set out on page 21 and forms part of the Directors' Report for the financial year ended 30 June 2007.

ROUNDING OFF

Fortescue is of the kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

AUDITOR
BDO Kendalls Audit & Assurance (WA) formerly BDO continue 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 24th day of August 2007.

BDO Kendalls

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www.bdo.com.au

ABN 90 360 101 594

24 August 2007

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

Dear Sirs

DECLARATION OF INDEPENDENCE BY BDO KENDALLS TO THE DIRECTORS OF FORTESCUE METALS GROUP LIMITED

As lead auditor of Fortescue Metals Group Limited for the year ended 30 June 2007, 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.

Yours faithfully
BDO Kendalls Audit & Assurance (WA)

BDO Kendalls
BM'Vey

BG McVeigh
Partner

FORTESCUE METALS GROUP LTD
INCOME STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

	Note	Consolidated		Company	
		2007	**2006**	**2007**	**2006**
		$'000	**$'000**	**$'000**	**$'000**
Revenue from continuing operations	5	**-**	-	**-**	-
Other income	6	**223,815**	11,830	**-**	11,828
Financial expenses	7	**(304,001)**	(6,543)	**(274)**	(6,543)
Personnel expense	8	**(7,795)**	(4,377)	**(7,795)**	(4,434)
Other expenses	9	**(15,598)**	(2,645)	**(15,598)**	(2,586)
Loss before income tax		**(103,579)**	(1,735)	**(23,667)**	(1,735)
Income tax benefit	11	**35,150**	-	**12,575**	-
Loss from continuing operations		**(68,430)**	(1,735)	**(11,092)**	(1,735)
Loss on sale of discontinued operation (net of income tax)	10	**-**	(411)	**-**	-
Loss for the period		**(68,430)**	(2,146)	**(11,092)**	(1,735)
Loss attributable to members of the Company		**(68,430)**	(2,146)	**(11,092)**	(1,735)
Earnings per share:					
Basic earnings per share (cents)	28	**(26.25)**	(0.96)		
Diluted earnings per share (cents)	28	**N/A**	N/A		
Continuing operations:					
Basic earnings per share (cents)	28	**(26.25)**	(0.78)		
Diluted earnings per share (cents)	28	**N/A**	N/A		
Discontinued operations:					
Basic earnings per share (cents)	28	-	(0.18)		
Diluted earnings per share (cents)	28	N/A	N/A		

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

FORTESCUE METALS GROUP LTD
BALANCE SHEETS
AS AT 30 JUNE 2007

	Note	Consolidated		Company	
		2007	2006	2007	2006
		$'000	$'000	$'000	$'000
CURRENT ASSETS					
Cash and cash equivalents	12	**1,682,201**	18,054	**48,092**	18,054
Trade and other receivables	13	**257,533**	1,373	**375,418**	6,039
Financial assets	14	**38**	323	**38**	323
Other current assets	15	**1,283**	161	**1,283**	161
Total Current Assets		**1,941,055**	19,911	**424,831**	24,577
NON-CURRENT ASSETS					
Trade and other receivables	13	**5,606**	14,323	**2,438**	14,323
Exploration and evaluation expenditure	17	**5,101**	182,914	**-**	178,248
Development Expenditure	18	**687,224**	-	**-**	-
Property, plant and equipment	21	**838,138**	3,874	**8,996**	3,874
Intangible assets	22	**5,320**	-	**5,320**	-
Deferred tax assets	16	**207,218**	-	**116,017**	-
Other financial assets	14	**1**	26	**1**	26
Total Non-Current Assets		**1,748,608**	201,137	**132,772**	196,471
TOTAL ASSETS		**3,689,663**	221,048	**557,603**	221,048
CURRENT LIABILITIES					
Borrowings	24	**265,816**	-	**-**	-
Trade and other payables	23	**66,246**	16,674	**2,544**	16,674
Total Current Liabilities		**332,062**	16,674	**2,544**	16,674
NON-CURRENT LIABILITIES					
Borrowings	24	**2,645,770**	67,268	**-**	67,268
Trade and other payables	23	**43,248**	-	**-**	-
Deferred tax liabilities	16	**172,068**	-	**1,206**	-
Total Non-Current Liabilities		**2,861,086**	67,268	**1,206**	67,268
TOTAL LIABILITIES		**3,193,148**	83,942	**3,750**	83,942
NET ASSETS		**496,515**	137,106	**553,853**	137,106
EQUITY					
Contributed equity		**574,003**	147,153	**574,003**	147,153
Reserves		**3,896**	2,907	**3,896**	2,907
Accumulated losses		**(81,384)**	(12,954)	**(24,046)**	(12,954)
TOTAL EQUITY	29	**496,515**	137,106	**553,853**	137,106

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 2007

	Note	Consolidated		Company	
		2007 $'000	2006 $'000	2007 $'000	2006 $'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash receipts from customers		**-**	834	**-**	-
Interest received		**111,438**	2,219	**-**	2,217
Payments to suppliers and employees		**(19,033)**	(7,848)	**(19,033)**	(7,032)
Exploration and evaluation expenditure		**(5,101)**	(124,316)	**-**	(124,316)
Development Expenditure		**(539,252)**	-	**(299,128)**	-
Payments for purchase of plant and equipment, assets under construction		**(829,142)**	-	**-**	-
Interest paid		**(153,025)**	-	**(2,254)**	-
Net cash outflow from operating activities	12(a)	**(1,434,115)**	(129,111)	**(320,415)**	(129,131)
CASH FLOWS FROM INVESTING ACTIVITIES					
Payments for purchase of other plant and equipment		**(2,501)**	(3,396)	**(2,501)**	(3,396)
Payments for purchase of Intangible Assets		**(5,320)**	-	**(5,320)**	-
Proceeds from disposal of plant and equipment		**29**	-	**29**	-
Cash lost on disposal of Allied Medical Ltd	10(d)	**-**	(137)	**-**	-
Net cash outflow from investing activities		**(7,792)**	(3,533)	**(7,792)**	(3,396)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from the issue of share capital		**425,933**	-	**425,933**	-
Proceeds from borrowings		**2,964,044**	67,268	**132,760**	67,268
Repayment of borrowings		**(197,135)**		**(197,135)**	
Deposits received		**43,247**	-	**-**	-
Net cash inflow from financing activities		**3,236,089**	67,268	**361,558**	67,268
Net increase/(decrease) in cash and cash equivalents		**1,794,182**	(65,376)	**33,351**	(65,259)
Cash and cash equivalents at 1 July		**18,054**	81,158	**18,054**	81,041
Effect of exchange rate changes on cash and cash equivalents		**(130,035)**	2,272	**(3,313)**	2,272
Cash and cash equivalents at 30 June	12	**1,682,201**	18,054	**48,092**	18,054

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 2007

Consolidated	Contributed equity $'000	Accumulated losses $'000	Reserves $'000	Total Equity S'000
Opening balance at 1 July 2005	69,476	(10,808)	773	59,441
Revaluation of property, plant and equipment	-	-	880	880
Net income recognised directly in equity	-	-	880	880
Net loss for the period	-	(2,146)	-	(2,146)
Total recognised income and expense for the year	-	(2,146)	880	(1,266)
Transactions with equity holders in their capacity as equity holders:				
Issue of share capital	76,797	-	-	76,797
Distribution in specie due to Allied Medical Ltd de-merger	880	-	-	880
Equity settled share based payment transactions	-	-	1,254	1,254
	77,677	-	1,254	78,931
Closing balance at 30 June 2006	147,153	(12,954)	2,907	137,106

Consolidated	Contributed equity $'000	Accumulated losses $'000	Reserves $'000	Total Equity $'000
Opening balance at 1 July 2006	147,153	(12,954)	2,907	137,106
Net loss for the period	-	(68,430)	-	(68,430)
Total recognised income and expense for the year	-	(68,430)	-	(68,430)
Transactions with equity holders in their capacity as equity holders:				
Issue of share capital	424,380	-	-	424,380
Exercise of options	2,470	-	(818)	1,652
Forfeited options	-	-	(460)	(460)
Equity settled share based payment transactions	-	-	2,267	2,267
	426,850	-	989	427,839
Closing balance at 30 June 2007	574,003	(81,384)	3,896	496,515

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 2007

Company	Contributed equity $'000	Accumulated losses $'000	Reserves $'000	Total Equity $'000
Opening balance at 1 July 2005	69,476	(11,219)	773	59,030
Revaluation of property, plant and equipment	-	-	880	880
Net income recognised directly in equity	-	-	880	880
Net loss for the period	-	(1,735)	-	(1,735)
Total recognised income and expense for the year	-	(1,735)	880	(855)
Transactions with equity holders in their capacity as equity holders:				
Issue of share capital	76,797	-	-	76,797
Distribution in specie due to Allied Medical Ltd de-merger	880	-	-	880
Equity settled share based payment transactions	-	-	1,254	1,254
	77,677	-	1,254	78,931
Closing balance at 30 June 2006	147,153	(12,954)	2,907	137,106

Company	Contributed equity $'000	Accumulated losses $'000	Reserves $'000	Total Equity $'000
Opening balance at 1 July 2006	147,153	(12,954)	2,907	137,106
Net loss for the period	-	(11,092)	-	(11,092)
Total recognised income and expense for the year	-	(11,092)	-	(11,092)
Transactions with equity holders in their capacity as equity holders:				
Issue of share capital	424,380	-	-	424,380
Exercise of options	2,470	-	(818)	1,652
Forfeited options	-	-	(460)	(460)
Equity settled share based payment transactions	-	-	2,267	2,267
	426,850	-	989	427,839
Closing balance at 30 June 2007	574,003	(24,046)	3,896	553,853

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 2007 comprise the Company and its subsidiaries (together referred to as 'Fortescue'). Fortescue's principal activity is the development of the Pilbara Iron Ore and Infrastructure Project.

NOTE 2. BASIS OF PREPARATION

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial report of Fortescue also complies with the IFRSs and interpretations adopted by the International Accounting Standards Board. The Company's financial report does not comply with IFRS as the Company has elected to apply the relief provided to parent entities by AASB 132 *Financial Instruments: Presentation and Disclosure* in respect of certain disclosure requirements.

The financial statements were approved by the Board of Directors on 24 August 2007.

(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

The methods used to measure fair values are discussed further in note 3(k).

(c) Functional and presentation currency

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"). These consolidated financial statements are presented in Australian dollars, which is the Company's functional and presentation currency.

The Company is of a kind referred to in ASIC Class Order 98/120 dated 10 July 1998 and in accordance with that Class Order, all financial information presented in Australian dollars has been rounded to the nearest thousand unless otherwise stated.

(d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

NOTE 2. BASIS OF PREPARATION (continued)

(d) Use of estimates and judgements (continued)

Note 15 – measurement of recoverable amount of exploration assets
Note 16 – measurement of the recoverable amounts of development expenditure
Note 14– utilisation of tax losses
Note 32 – measurement of share-based payments
Note 33 – contingent liabilities and contingent assets
Note 31 – financial instruments

NOTE 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods, presented in these consolidated financial statements, and have been applied consistently across Fortescue. The financial report includes separate financial statements for the Company as an individual entity and the consolidated entity consisting of the Company and its subsidiaries.

(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 2007 and the results of all subsidiaries for the year then ended. The Company and its subsidiaries together are referred to in this financial report as "Fortescue".

Subsidiaries are entities controlled by Fortescue. Control exists when Fortescue 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 presently are 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 Fortescue.

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 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 engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

(c) Foreign Currency Transactions and Balances

Transactions in foreign currencies have been converted at rates of exchange ruling on the date of those transactions. At balance date, amounts receivable and payable in foreign currencies are translated to Australian currency at rates of exchange current at that date. Realised and unrealised gains and losses are brought to account in determining the profit or loss for the financial year.

NOTE 3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Revenue Recognition

Revenue from the sale of goods and disposal of other assets is recognised when Fortescue has passed control of the goods or other assets to the buyer. Revenue is measured at the fair value of the consideration received or receivable.

Interest income on cash balances is recognised when it becomes payable. Where this interest income relates to project construction funds, the interest income is offset against interest expense and capitalized under development expenses

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.

(e) Income Tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in income statements except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax for the period is the expected tax payable on the current period's taxable income based on the notional income tax rate for each jurisdiction adjusted by changes in deferred tax attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates, which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure deferred tax. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

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.

Deferred tax is 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.

NOTE 3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Tax consolidation legislation
Fortescue has implemented the tax consolidation legislation as of 1 July 2003 and is therefore taxed as a single entry 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 stand alone 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 arising from unused tax losses and unused tax credits assumed 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.

(f) Acquisitions of Assets

The cost method of accounting is used for all acquisitions of assets regardless of whether shares or other assets are acquired. Cost is determined as the fair value of the assets given up at the date of acquisition plus costs incidental to the acquisition. Where shares are issued in an acquisition, the value of the shares is determined by reference to the fair value of the assets acquired, including goodwill where applicable.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value at the date of acquisition. The discount rate used is the rate at which a similar borrowing could be obtained under comparable terms and conditions.

Where the fair value of the identifiable net assets acquired, including any liability for restructuring costs, exceeds the cost of acquisition, the difference, representing a discount on acquisition, is accounted for by reducing proportionately the fair values of the non-monetary assets acquired until the discount is eliminated.

(g) 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). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(h) Cash and Cash Equivalents

For cash flow statements 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, and bank overdrafts.

NOTE 3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) 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.

(j) Investments and Other Financial Assets

Classification
Fortescue classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments 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 and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting period.

(i) Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

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

(iii) Held-to-maturity investments
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that Fortescue's management has the positive intention and ability to hold to maturity. If Fortescue were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the reporting date, which are classified as current assets.

(iv) 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 other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Recognition and derecognition
Regular purchases 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 transaction 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.

NOTE 3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent measurement
Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within other income or other expenses in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of revenue from continuing operations when Fortescue's right to receive payments is established.

Changes in the fair value 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.

Fair value
The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), Fortescue establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

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 previously recognised in profit or loss – 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 are not reversed through the income statement.

(k) Fair Value Estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. Fair values have been determined for measurement and/or disclosure purposes 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; the appropriate quoted market price for financial liabilities is the current ask price.

NOTE 3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. 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 trade receivables and payables are assumed to approximate their fair values due to their short term nature. The fair value of financial 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.

Non-derivative financial liabilities
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 they do not have a conversion option. For finance leases the market rate of interest is determined by reference to similar lease agreements.

Share-based payment transactions

The fair value of employee share options is measured using the Black-Scholes model. Measurement inputs include share price on a 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.

(l) 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.

NOTE 3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of the equipment.

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.

The carrying amount of plant and equipment is reviewed annually by Directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present value in determining recoverable amount.

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. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

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

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount [note 3(g)].

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement. When revalued assets are sold, it is Fortescue's policy to transfer the amounts included in other reserves in respect of those assets to retained earnings.

(m) 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 capitalized include external direct costs of materials and service, direct payroll and payroll related costs of employees' time spent on the project. Amortisation is calculated on a straight line bases over periods generally ranging from 3 to 5 years.

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

NOTE 3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ii) Research and development

Research expenditure is recognized as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognized 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 capitalized 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 recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period. Capitalised 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, which varies from 3 to 5 years.

(n) Mineral Exploration and Evaluation Expenditure

Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. 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 reasonable assessment of the existence or otherwise of economically recoverable reserves.

Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the 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.

(o) 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.

(p) 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 are paid on the establishment of loan facilities which are not an incremental cost relating to the actual draw-down of the facility, are capitalised to the balance sheet as deferred costs and amortised on a straight-line basis over the term of the facility.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

Borrowings 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.

NOTE 3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

(q) Borrowing Costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the entity's outstanding borrowings during the year, in this case 10.82% (2006 – 10.23%).

(r) 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 has been 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.

(s) 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. These liabilities represent present obligations resulting for employee's service provided to reporting date and are calculated at undiscounted amounts based on remuneration wage and salary rates that Fortescue expects to pay as at reporting date including related on-costs. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

(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 compensation benefits are provided to employees via the Fortescue Metals Group Incentive Option Scheme ("FMGIOS") and Performance Rights ("PR") scheme. Information relating to these schemes is set out in note 36.

NOTE 3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The fair value of options granted under the FMGIOS and PR 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 Black-Scholes 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 adjusted to reflect 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 balance sheet, 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.

Under the PR, shares issued by the Company to employees for no cash consideration vest over the minimum vesting period of three years. The market value of the shares issued is recognised over the vesting period as an employee benefits expense with a corresponding increase in equity.

Defined contribution superannuation funds
Obligations for contributions to defined contribution superannuation funds are recognised as an expense in profit and loss when they are due.

(t) Contributed Equity

Ordinary shares are classified as equity. 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.

(u) Earnings Per Share

(i) Basic earnings per share
Basic earnings per share is calculated by dividing the profit 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 earnings per share adjusts the figures used in the determination of basic earnings 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 shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

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

Revenues, expenses and assets are recognised net of the amount of 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.

NOTE 3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

(w) 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 33). 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.

Investment property held under an operating lease is recognised on Fortescue's balance sheet at its fair value.

(x) Other Income

Other income comprises interest income on funds invested, dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit and loss, foreign currency gains, and gains on hedging instruments that are recognised in profit and loss. Interest income is recognised as it accrues, using the effective interest method. Where this interest income relates to project construction funds, the interest income is offset against interest expense and capitalized under development expenses. Dividend income is recognised on the date that Fortescue's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

(y) Finance Expenses

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, foreign currency losses, changes in fair value of financial assets at fair value through profit and loss, impairment losses recognised on financial assets, and losses on hedging instruments that are recognised in profit or loss. Borrowing costs are recognised in profit or loss using the effective interest method. Where borrowing costs are related to the construction of the Pilbara Iron Ore and Infrastructure Project, the costs are capitalised under development expenditure and amortised over the life of the project.

(z) Discontinued Operations

A discontinued operation is a component of Fortescue's business that represents a separate major line of business or geographical area of operations that has been disposed of, or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative income statement is restated as of the operation had been discontinued from the start of the comparative period.

NOTE 3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(aa) Development Expenditure

Development expenditure costs include past 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.

The definition of an area of interest is the individual geological area where the presence of an ore field exists.

(i) Amortisation
Amortisation is not charged on costs carried forward in respect of areas of interest in the development phase until production commences. When production commences, carried forward development costs are amortised on a units of production basis over the life of economically recoverable reserves.

(bb) New Standards and Interpretations Not Yet Adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2007, but have not been applied in preparing this financial report:

- AASB 7 *Financial Instruments: Disclosures* (August 2005) replaces the presentation requirements of financial instruments in AASB 132. AASB 7 is applicable for annual reporting periods beginning on or after 1 January 2007, and will require extensive additional disclosures with respect to the Group's financial instruments and share capital.

- AASB 2005-10 Amendments to Australian Accounting Standards (September 2005) makes consequential amendments to AASB 132 *Financial Instruments: Disclosure and Presentation*, AASB 101 *Presentation of Financial Statements*, AASB 114 *Segment Reporting*, AASB 117 *Leases*, AASB 133 *Earnings Per Share*, AASB 139 *Financial Instruments: Recognition and Measurement*, AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts* arising from the release of AASB 7. AASB 2005-10 is applicable for annual reporting periods beginning on or after 1 January 2007 and is expected to only impact disclosures contained within the consolidated financial report.

- AASB 8 *Operating Segments* replaces the presentation requirements of segment reporting in AASB 114 *Segment Reporting.* AASB 8 is applicable for annual reporting periods beginning on or after 1 January 2009 and is not expected to have an impact on the financial results of the Company and the Group as the standard is only concerned with disclosures.

- AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8 makes amendments to AASB 5 *Non-current Assets Held for Sale and Discontinued Operations,* AASB 6 Exploration *for and Evaluation of Mineral Resources,* AASB 102 *Inventories,* AASB 107 *Cash Flow Statements,* AASB 119 *Employee Benefits,* AASB 127 *Consolidated and Separate Financial Statements,* AASB 134 *Interim Financial Reporting,* AASB 136 *Impairment Assets,* AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts.* AASB 2007-3 is applicable for annual reporting periods beginning on or after 1 January 2009 and must be adopted in conjunction with AASB 8 *Operating Segments.* This standard is only expected to impact disclosures contained within the financial report.

NOTE 3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- Interpretation 10 Interim Financial Reporting and Impairment prohibits the reversal of an impairment loss recognised in a previous interim period in respect of an investment in an equity instrument or a financial asset carried at cost. Interpretation 10 will become mandatory for the Group's 2008 financial statements, and will apply to investments in an equity instrument or a financial asset carried at cost prospectively from the date that the Group first applied the measurement criteria of AASB 136 and AASB 139 respectively (i.e., 1 July 2004 and 1 July 2005, respectively).

- Interpretation 11 *AASB 2 Share-based Payment -- Group and Treasury Share Transactions* addresses the classification of a share-based payment transaction (as equity or cash settled), in which equity instruments of the parent or another group entity are transferred, in the financial statements of the entity receiving the services. Interpretation 11 will become mandatory for the Group's 2008 financial report. Interpretation 11 is not expected to have any impact on the financial report. The potential effect of the Interpretation on the Company's financial report has not yet been determined.

- AASB 2007-1 Amendments to Australian Accounting Standards arising from AASB Interpretation II amends AASB 2 *Share-based Payments* to insert the transitional provisions of IFRS 2, previously contained in AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards.* AASB 2007-1 is applicable for annual reporting periods beginning on or after 1 March 2007 and is not expected to have any impact on the consolidated financial report. The potential impact on the Company has not yet been determined.

- Interpretation 12 *Service Concession Arrangements* addresses the accounting for service concession operators, but not grantors, for public to private service concession arrangements.Interpretation12 will apply for the Group's 2009 financial report. The potential effect of the interpretation on the financial report has not yet been determined. At this time an entity must adopt the revised Interpretation 4 *Determining when an arrangement contains a lease* and Interpretation 129 *Service Concession Arrangements: Disclosures.*

- AASB 2007-2 Amendments to Australian Accounting Standards arising from AASB Interpretation 12 makes amendments to AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, AASB 117 *Leases*, AASB 118 *Revenue*, AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*, AASB 121 *The Effects of Changes in Foreign Exchange Rates*, AASB 127 *Consolidated and Separate Financial Statement*, AASB 131 *Interest in Joint Ventures*, and AASB 139 *Financial Instruments: Recognition and Measurement*. AASB 2007- 2 is applicable for annual reporting periods beginning on or after 1 January 2008 and must be applied at the same time as Interpretation 12 Service Concession Arrangements.

- AASB 2007-2 Amendments to Australian Accounting Standards also amends references to "UIG Interpretation" to interpretations. This amending standard is applicable to annual reporting periods ending on or after 28 February 2007.

NOTE 3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(cc) New Standards and Interpretations Adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They have been applied in preparing this financial report:

- AASB 101 *Presentation of Financial Statements* (October 2006) removes Australian specific paragraphs (economic dependence and where functional currency is different to presentation currency) and example formats for balance sheet and income statement in appendix. AASB 101 is applicable for annual reporting periods beginning on or after 1 January 2007.

- AASB 2007-4 Amendments to Australian Accounting Standards arising from ED 151 makes amendments to AASB 1, 2, 3, 4,5,6,7, 102, 107, 108, 110, 112, 114,116, 117,118, 119, 120, 121,127, 128,129, 130, 131, 132,133, 134,136, 137, 138, 139,141, 1023 and 1038. Implements the proposals in ED 151: Australian additions to, and Deletions from, IFRSs. Changes to 34 standards. Introduction of new accounting policy choices and removal of various Australian-specific disclosure requirements (internationalising specific Australian treatments). Allows choice of reporting in cash flow statement from direct only to now include indirect, proportionate consolidation now allowed for joint ventures, tax reconciliation can now be done on tax rate basis, and changes to accounting for government grants. AASB 2007- 7 is applicable for annual reporting periods beginning on or after 1 January 2007.

- AASB 2007-7 Amendments to Australian Accounting Standards AASB 1, AASB 2, AASB 4, AASB 5, AASB 107 and AASB 128. Makes editorial amendments to six Standards, removes the encouragement in AASB 107: Cash Flow Statements to adopt a particular format for the cash flow statement and deletes superseded implementation guidance accompanying AASB 4 Insurance Contracts. AASB 2007- 7 is applicable for annual reporting periods beginning on or after 1 January 2007.

NOTE 4. FINANCIAL RISK MANAGEMENT

Fortescue's activities expose it to a variety of financial risks; market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate 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 the Group. The Group uses derivative financial instruments such as interest rate swaps to hedge certain risk exposures.

(a) Market risk

(i) Foreign exchange risk
Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

The Group operates internationally and is exposed to foreign exchange risk arising from currency exposures to the US dollar (USD). The group has a partial natural hedge in the form of USD revenues offset by significant USD costs including borrowings, fuel and capital equipment.

(ii) Fair value interest rate risk Refer to (d) below.

(b) Credit risk

The Group has no significant concentrations of credit risk. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. Derivative counterparties and cash transactions are limited to high credit quality financial institutions.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close-out market positions.

(d) Cash flow and fair value interest rate risk

Currently, as the Group has no significant long term interest-bearing assets, the Group's income and operating cash flows are not materially exposed to changes in market interest rates.

All borrowings are either fixed rate interest or an interest rate swap is in place to fix the rate.

NOTE 5. REVENUE

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Revenue from Discontinued Operations				
Sales Revenue	-	834	-	-

NOTE 6. OTHER INCOME

Interest income on cash deposits	111,438	2,219	-	2,217
Interest income on close out of convertible notes	-	9,452	-	9,452
Fair value gains on interest swaps	3,168	-	-	-
Net foreign exchange gain	220,647	159	-	159
Finance Income	335,253	11,830	-	11,828
Amount capitalised	(111,438)	-	-	-
	223,815	11,830	-	11,828

NOTE 7. FINANCIAL EXPENSE

Fair value adjustment to Leucadia subordinated note	(304,001)	-	-	-
Interest expense - convertible notes	-	(6,543)	-	(6,543)
Interest expense on borrowings	(288,332)	-	(2,254)	-
Net foreign exchange loss	-	-	(274)	-
	(592,333)	(6,543)	(2,528)	(6,543)
Amount capitalised	288,332	-	2,254	-
	(304,001)	(6,543)	(274)	(6,543)

NOTE 8. PERSONNEL EXPENSES

Wages and salaries, including superannuation	1,944	2,408	1,944	2,495
Other associated personnel expenses	3,078	344	3,078	338
Increase in liability for annual leave	966	371	966	347
Equity-settled transactions	1,807	1,254	1,807	1,254
	7,795	4,377	7,795	4,434

NOTE 9. OTHER EXPENSES

Communication costs	318	268	318	248
Office rent	380	367	380	346
Travel costs	1,058	599	1,058	586
Insurance	973	295	973	295
ASX fees	323	66	323	66
Depreciation expense	2,687	710	2,687	709
Contractors and consultants	5,903	-	5,903	-
Legal fees	3,192	256	3,192	256
Other	764	84	764	80
	15,598	2,645	15,598	2,586

NOTE 10. DISCONTINUED OPERATION

(a) Description

At the Company's Annual General Meeting held on 8 November 2005 members approved the de-merger of Allied Medical Limited through an "in specie" distribution of shares in Allied Medical Limited shares to Fortescue shareholders as at the record date of 23 November 2005.

Financial information relating to the discontinued operation for the period to the date of demerger is set out below.

(b) Financial performance and cash flow information

The financial performance and cash flow information of Allied Medical Limited presented are for the five months ended 30 November 2005 and the year ended 30 June 2005. Financial information is for the consolidated entity only as Allied Medical Limited was a 100% subsidiary of the Company.

	Period ended	
	30 November 2005 $'000	**30 June 2005 $'000**
Revenue	834	1,714
Expenses	(738)	(1,742)
Profit/(Loss) before income tax	96	(28)
Income tax expense	-	-
Profit/(Loss) after income tax of discontinued operations	96	(28)
Profit/(Loss) on demerger of the subsidiary before income tax	(507)	-
Income tax expense	-	-
Profit/(Loss) on demerger of the subsidiary	(507)	-
Profit/(Loss) from discontinued operations	(411)	(28)
The net cashflows of the discontinuing operation which have been incorporated into the statement of cash flows are as follows:		
Net cash inflow/(outflow) from ordinary activities	20	(73)
Net cash inflow/(outflow) from investing activities	-	-
Net cash inflow/(outflow) from financing activities	-	-
Net cash from/(used in) discontinued operation	20	(73)

(c) Carrying amounts of assets and liabilities

The carrying amounts of assets and liabilities as at 30 November 2005 and 30 June 2005.

	30 November 2005 $'000	**30 June 2005 $'000**
Cash and cash equivalents	137	118
Trade receivables	376	318
Other receivables	-	6
Inventories	59	137
Property, plant and equipment	5	6
Total assets	**577**	**585**
Trade creditors	37	165
Provision for employee benefits	33	9
Total liabilities	**70**	**174**
Net assets	**507**	**411**

NOTE 10. DISCONTINUED OPERATION (continued)

(d) Details of the demerger of the division

	Year ended 30 June 2007 $'000	30 June 2006 $'000
Consideration received or receivable:		
Cash	-	-
Total disposal consideration	**-**	**-**
Carrying amount of net non-cash assets sold	-	(370)
Net cash lost on disposal	-	(137)
Loss on sale before income tax	-	**(507)**
Income tax expense	-	-
Loss on sale after income tax	**-**	**(507)**

NOTE 11. INCOME TAX BENEFIT

	Consolidated 2007 $'000	Consolidated 2006 $'000	Company 2007 $'000	Company 2006 $'000
(a) Income tax benefit				
Current tax	(61,314)	(32,722)	(41,707)	(32,740)
Deferred tax	31,014	31,856	(66,855)	31,845
Benefit of prior year capital losses recouped in the current year	-	(102)	-	(102)
Tax losses recognised – current year	(4,850)	968	(6,249)	997
Consolidation adjustment (see note 16)	-	-	102,236	-
	(35,150)	-	(12,575)	-

(b) Numerical reconciliation of income tax benefit to prima facie tax payable:

	Consolidated 2007 $'000	Consolidated 2006 $'000	Company 2007 $'000	Company 2006 $'000
Loss before tax - continuing operations	(103,579)	(1,735)	(23,667)	(1,735)
Loss before tax - discontinuing operations	-	(411)	-	-
Loss before tax	(103,579)	(2,146)	(23,667)	(1,735)
Income tax benefit calculated at 30% (2006: 30%)	(31,074)	(644)	(7,100)	(520)
Sundry non-deductible/ (deductible) expenses	232	48	232	48
Share based payments	542	376	542	376
Research and development	-	(900)	-	(900)
Accounting loss on sale of operations	-	152	-	-
Taxable gain on sale of operations	-	102	-	102
Deferred Tax Asset on temporary differences and tax losses not brought to account at balance date as realisation is not regarded as probable	-	968	-	996
Benefits of tax losses and timing differences not previously brought to account	(4,850)	-	(6,249)	-
Benefit of prior year capital losses recouped in the current year	-	(102)	-	(102)
Income tax benefit for the year	(35,150)	-	(12,575)	-

NOTE 11. INCOME TAX (continued)

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
(c) Deferred Tax Asset not brought to account				
Tax losses – revenue	-	16,163	-	20,829
Tax losses – capital	44,521	44,521	44,521	44,521
	44,521	60,684	44,521	65,350
Tax effect at 30%	13,356	18,205	13,356	19,605

NOTE 12. CASH AND CASH EQUIVALENTS

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Cash on hand	20	5	20	5
Cash at bank	1,682,181	18,049	48,072	18,049
Cash and cash equivalents in the statement of cash flows	1,682,201	18,054	48,092	18,054

NOTE 12a. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

Loss for the period	(68,430)	(2,146)	(11,092)	(1,735)
Depreciation	2,687	713	2,687	712
Profit on disposal of assets	(21)	-	(21)	-
Provision – employee entitlements	966	368	966	345
Equity-settled share based payment transactions	1,807	1,254	1,807	1,254
Interest expense	-	(2,909)	-	(2,909)
Fair Value Adjustment on Interest Rate Swap	(3,168)	-	-	-
Fair Value Adjustment Leucadia Note	304,001	-	-	-
Exploration, Development and AUC expenditure capitalised	(1,338,553)	(119,577)	178,248	(119,577)
Tax Benefit	35,150		12,575	
Net unrealised (gain)/loss on foreign exchange	(220,647)	(159)	274	(159)
Operating profit/(loss) before changes in working capital	(1,286,208)	(122,456)	185,444	(122,069)
Changes in assets and liabilities during the year:				
Increase/ (decrease) in payables	79,154	6,805	(14,130)	6,932
(Increase) /decrease in financial assets	285	(320)	285	(320)
(Increase) /decrease in receivables and prepayments	(192,196)	(13,726)	(377,203)	(13,674)
(Increase) /decrease in inventory	-	79	-	-
(Increase)/decrease in net tax asset	(35,150)	-	(114,811)	-
Loss on sale of discontinued operations, net of tax	-	507	-	-
Net cash used in operating activities	(1,434,115)	(129,111)	(320,415)	(129,131)

NOTE 13. TRADE AND OTHER RECEIVABLES

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
CURRENT				
GST receivables	13,666	1,360	13,666	1,360
Security deposits	243,755	-	2,963	-
Intercompany receivables	-	-	358,677	4,666
Other receivables	112	13	112	13
	257,533	1,373	375,418	6,039
NON-CURRENT				
Loan receivable	2,438	2,402	2,438	2,402
Security deposits	-	6,211	-	6,211
Term deposits	-	5,710	-	5,710
Derivative held at fair value (note 32)	3,168	-	-	-
	5,606	14,323	2,438	14,323

NOTE 14. FINANCIAL ASSETS

CURRENT				
Listed investments	38	3	38	3
Trust accounts	-	320	-	320
	38	323	38	323
NON-CURRENT				
Unquoted investments – at cost	1	26	1	26
	1	26	1	26

Unquoted investments are available-for-sale assets.

NOTE 15. OTHER CURRENT ASSETS

Prepayments	1,283	161	1,283	161
	1,283	161	1,283	161

NOTE 16. DEFERRED TAX ASSETS AND LIABIITIES – NON CURRENT

In the 2007 financial year $16,162,550 (tax effect $4,849,000) of previously unrecognised Fortescue tax losses ($20,828,463 - tax effect $6,249,000 for the Company) were recognised as management considered it probable that future taxable profits will be available against which they can be utilised. Management revised its estimates following receiving funding to develop the Pilbara Iron Ore and Infrastructure Project.

Recognised deferred tax assets and liabilities
Deferred tax assets and liabilities are attributable to the following:

Consolidated	**Assets**		**Liabilities**		**Net**	
	2007 $'000	**2006 $'000**	**2007 $'000**	**2006 $'000**	**2007 $'000**	**2006 $'000**
Exploration and evaluation	-	-	(1,530)	(48,442)	(1,530)	(48,442)
Development expenditure	-	-	(60,551)	(332)	(60,551)	(332)
Net unrealised foreign exchange gains	-	-	(100,771)	(782)	(100,771)	(782)
Borrowing costs	-	4	(7,720)	-	(7,720)	4
Fair value adjustments on interest rate swap	-	-	(950)	-	(950)	-
Fair value adjustment on Leucadia note	91,200	-	-	-	91,200	-
Provisions	428	174	-	-	428	174
Other items	195	145	(546)	-	(351)	145
Revenue tax losses	115,395	49,233	-	-	115,395	49,233
Tax (assets) liabilities	207,218	49,556	(172,068)	(49,556)	35,150	-
Set off of tax	-	(49,556)	-	49,556	-	-
Tax (assets) liabilities	207,218	-	(172,068)	-	35,150	-

	Assets		**Liabilities**		**Net**	
Company	**2007 $'000**	**2006 $'000**	**2007 $'000**	**2006 $'000**	**2007 $'000**	**2006 $'000**
Revenue tax losses	115,395	47,833	-	-	115,395	47,833
Provisions	428	174	-	-	428	174
Exploration and evaluation	-	-	-	(47,042)	-	(47,042)
Development expenditure	-	-	(295)	(332)	(295)	(332)
Net unrealised foreign exchange gains	-	-	(911)	(782)	(911)	(782)
Borrowing costs	3	4	-	-	3	4
Other items	191	145	-	-	191	145
Tax (assets)/liabilities	116,017	48,156	(1,206)	(48,156)	114,811	-
Set off tax	-	(48,156)	-	48,156	-	-
Net tax (assets)/liabilities	116,017	-	(1,206)	-	114,811	-

NOTE 16. DEFERRED TAX ASSETS AND LIABIITIES – NON CURRENT (continued)

Movement in temporary differences during the year

Consolidated	Balance 1 July 05 $'000	Recognised in profit or loss $'000	Recognised in equity $'000	Balance 30 June 06 $'000	Recognised in profit or loss $'000	Recognised in equity $'000	Balance 30 June 07 $'000
Exploration and evaluation	(19,001)	(29,441)	-	(48,442)	46,912	-	(1,530)
Development expenditure	-	(332)	-	(332)	(60,219)	-	(60,551)
Net unrealised foreign exchange gains	-	(782)	-	(782)	(99,989)	-	(100,771)
Borrowing costs	-	4	-	4	(7,724)	-	(7,720)
Fair value adjustments on interest rate swap	-	-	-	-	(950)	-	(950)
Fair value adjustment on Leucadia note	-	-	-	-	91,200	-	91,200
Provisions	73	101	-	174	254	-	428
Other items	145	-	-	147	(498)	-	(351)
Revenue tax losses	18,783	30,450	-	49,232	66,163	-	115,395
Equity component on convertible notes	(11,634)	-	11,634	-	-	-	-
	(11,634)	-	11,634	-	35,150	-	35,150
Company							
Revenue tax losses	53,256	(5,423)	-	47,833	67,563	-	115,396
Other items	145	-	-	145	82	-	227
Provisions	73	101	-	174	254	-	428
Exploration and evaluation	(53,474)	6,432	-	(47,042)	47,042	-	-
Development expenditure	-	(332)	-	(332)	-	-	(332)
Net unrealised foreign exchange gains	-	(782)	-	(782)	(129)	-	(911)
Borrowing costs	-	4	-	4	(1)	-	3
Equity component on convertible notes	(11,634)	-	11,634	-	-	-	-
	(11,634)	-	11,634	-	114,811	-	114,811

Consolidation Adjustments

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Total increase/(reduction) to tax expense of company	-	-	(102,236)	-
Total increase/(decrease) to inter-company assets of company	-	-	102,236	-

NOTE 17. EXPLORATION AND EVALUATION EXPENDITURE – NON CURRENT

Carrying amount at beginning of year	182,914	63,337	178,248	58,671
Expenditure	6,605	119,577	6,170	119,577
Transfers to development expenditure	(184,418)	-	(184,418)	-
Carrying amount at end of year	5,101	182,914	-	178,248

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 18. DEVELOPMENT EXPENDITURE – NON CURRENT

	Consolidated		Company	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Cost				
Balance at beginning of year	-	-	-	-
Expenditure	502,806	-	502,826	-
Transfer from exploration	184,418	-	184,418	-
Transferred to subsidiaries	-	-	(687,244)	-
Balance at end of year	687,224	-	-	-

All expenditure for Port, Rail and Mine Development is included in Development Expenditure.

Amortisation of development expenditure is not recognised in the income statement until production commences.

NOTE 19. ACQUISTIONS

The following shelf companies were acquired during the financial year ended 30 June 2007:

- Karribi Developments Pty Ltd, incorporated in Australia, 100% owned by Fortescue Metals Group Ltd
- International Bulk Ports Pty Ltd, incorporated in Australia, 100% owned by Fortescue Metals Group Ltd
- FMG Magnetite Pty Ltd, incorporated in Australia, 100% owned by Fortescue Metals Group Ltd
- FMG North Pilbara Pty Ltd, incorporated in Australia, 100% owned by Fortescue Metals Group Ltd

NOTE 20. CONSOLIDATED ENTITIES

Company	Class of share	Country of Incorporation	Equity Holding 2007 %	Equity Holding 2006 %	Cost to Company 2007 $	Cost to Company 2006 $
Parent Entity						
Fortescue Metals Group Ltd		Australia		-	-	-
Controlled Entities						
International Bulk Ports Pty Ltd	Ordinary	Australia	100	-	1	-
The Pilbara Infrastructure Pty Ltd @	Ordinary	Australia	100	100	-	1
FMG Resources Pty Ltd	Ordinary	Australia	100	100	400	400
FMG Pilbara Pty Ltd	Ordinary	Australia	100	100	1	1
FMG Chichester Pty Ltd #	Ordinary	Australia	100	100	-	-
FMG Finance Pty Ltd*	Ordinary	Australia	100	100	-	-
Pilbara Mining Alliance Pty Ltd	Ordinary	Australia	100	100	1	-
Karribi Developments Pty Ltd	Ordinary	Australia	100	-	1	-
FMG Magnetite Pty Ltd	Ordinary	Australia	100	-	1	-
FMG North Pilbara Pty Ltd	Ordinary	Australia	100	-	1	-
					406	402

@ The Pilbara infrastructure Pty Ltd is a subsidiary of International Bulk Ports Pty Ltd
# FMG Chichester Pty Ltd is a subsidiary of FMG Pilbara Pty Ltd
*FMG Finance Pty Ltd is a subsidiary of FMG Chichester Pty Ltd

NOTE 21. PROPERTY, PLANT AND EQUIPMENT – NON CURRENT

	Consolidated 2007 $'000	Consolidated 2006 $'000	Company 2007 $'000	Company 2006 $'000
Land and buildings – at cost	316	316	316	316
Accumulated depreciation	(2)	(1)	(2)	(1)
	314	315	314	315
Plant and other office equipment – at cost	9,947	4,612	9,947	4,612
Accumulated depreciation	(2,482)	(1,056)	(2,482)	(1,056)
	7,465	3,556	7,465	3,556
Motor vehicles – at cost	151	7	151	7
Accumulated depreciation	(14)	(4)	(14)	(4)
	137	3	137	3
Computer equipment	2,305	-	2,305	-
Accumulated depreciation	(1,225)	-	(1,225)	-
	1,080	-	1,080	-
Assets under construction [1]	829,142	-	-	-
Total property, plant and equipment	838,138	3,874	8,996	3,874

NOTE 21. PROPERTY, PLANT AND EQUIPMENT – NON CURRENT (continued)

	Consolidated		Company	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Reconciliation of movements in carrying amounts				
Land and Buildings				
Carrying amount at beginning of year	315	115	315	115
Additions	-	201	-	201
Depreciation	(1)	(1)	(1)	(1)
Carrying amount at end of year	314	315	314	315
Plant and other equipment				
Carrying amount at beginning of year	3,556	1,051	3,556	1,045
Additions	5,371	3,215	5,371	3,215
Disposal	(7)	-	(7)	-
Demerger of Allied Medical Limited assets	-	(5)	-	-
Depreciation	(1,455)	(705)	(1,455)	(704)
Carrying amount at end of year	7,465	3,556	7,465	3,556
Motor vehicles				
Carrying amount at beginning of year	3	6	3	6
Additions	144	-	144	-
Disposal	(4)	-	(4)	-
Depreciation	(6)	(3)	(6)	(3)
Carrying amount at end of year	137	3	137	3
Computer equipment				
Carrying amount at beginning of year	-	-	-	-
Additions	2,305	-	2,305	-
Depreciation	(1,225)	-	(1,225)	-
Carrying amount at end of year	1,080	-	1,080	-
Assets under construction [1]				
Carrying amount at beginning of year	-	-	-	-
Additions	829,142	-	-	-
Carrying amount at end of year	829,142	-	-	-

[1] *Assets under construction consist of Mine, Port and Rail Assets under construction as part of the Pilbara Iron Ore and Infrastructure Project*

NOTE 22. INTANGIBLE ASSETS

	Consolidated		Company	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Software				
Cost	-	-	-	-
Accumulated amortization and impairment	-	-	-	-
Opening Net book amount	-	-	-	-
Additions - acquisition	5,320		5,320	
Amortisation charge	-	-	-	-
Closing net book amount	5,320	-	5,320	-

NOTE 23. TRADE AND OTHER PAYABLES

	Consolidated		Company	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
CURRENT				
Trade payables	3	-	3	-
Other payables and accruals	66,243	16,674	2,541	16,674
	66,246	16,674	2,544	16,674
NON-CURRENT				
Deposits received	43,248	-	-	-
	43,248	-	-	-

NOTE 24. INTEREST BEARING LOANS AND BORROWINGS

		Consolidated		Company	
	Note	2007	2006	2007	2006
		$'000	$'000	$'000	$'000
CURRENT					
Subordinated Loan Note	(ii)	14,834	-	-	-
Senior Secured Notes	(iii)	250,982	-	-	-
		265,816	-	-	-
NON-CURRENT LIABILITIES					
Syndicated Secured Loan	(i)	-	67,268	-	67,268
Subordinated Loan Note	(ii)	386,067	-	-	-
Senior Secured Notes	(iii)	2,259,703	-	-	-
		2,645,770	67,268	-	67,268

NOTE 24. INTEREST BEARING LOANS AND BORROWINGS (continued)

The following borrowings (non-current and current) were issued and repaid during the financial year ended 30 June 2007 and 30 June 2006.

	Note	Currency	Nominal interest rate	Face value AUD $'000	Carrying amount Current AUD $'000	Carrying amount Non-current AUD $'000	Carrying amount Total AUD $'000	Year of Maturity
Balance at 1 July 2006	(i)	AUD			-	67,268	67,268	
New issues :								
Syndicated Secured Loan	(i)	USD		117,827	-	129,867	129,867	2008
Subordinated loan note facility	(ii)	USD	15.00%	117,827	14,834	386,067	400,901	2019
Senior Secured Notes	(iii)	USD	10.62%	1,272,534	135,577	1,177,019	1,312,596	2016
Senior Secured Notes	(iii)	USD	10.00%	377,047	37,808	350,460	388,268	2013
Senior Secured Notes	(iii)	USD	9.00%	294,568	28,799	267,407	296,206	2011
Senior Secured Notes	(iii)	EUR	9.75%	499,129	48,798	464,817	513,615	2013
Repayments :								
Syndicated Secured Loan	(i)	USD		176,741	-	(197,135)	(197,135)	2008
Balance at 30 June 2007					265,816	2,645,770	2,911,586	
Balance at 1 July 2005 Convertible notes	(iv)				-	67,720	67,720	
New issues :								
Syndicated Secured Loan	(i)			58,914	-	67,268	67,268	2008
Repayments or conversions:								
Convertible Notes					-	(67,720)	(67,720)	
Balance at 30 June 2006					-	67,268	67,268	

i) Syndicated loan

The Company put in place during the previous financial year a US$200 million Syndicated Secured Loan Note facility with institutional investors. The facility was put in place to ensure the rapid development of its Pilbara Iron Ore and Infrastructure Project is maintained without compromising its capital raising process.

The key terms and conditions of the facility were:

- The facility term was 2 years subject to a review after 12 months;
- Pricing is based on a competitive margin over LIBOR; and
- The facility was secured over Fortescue's total assets per the consolidated balance sheet.

The Company had drawn down US$50 million as at 30 June 2006 and an additional US$100 million during the financial year ended 30 June 2007. This facility was repaid in full during the financial year ended 30 June 2007.

ii) Subordinated Loan Note (through its wholly owned subsidiary FMG Chichester Pty Ltd)

The Company put in place a US$100 million subordinated loan note facility with Leucadia National Corporation ("Leucadia") during the financial year. A fair value adjustment for the amount of $304 million was made at inception to reflect the present value of the estimated future cashflows in the accounts in accordance with the accounting policy in note 3(p). No separable embedded derivative exists under this contract as it does not have a feature that meets the definition of a derivative under AASB 139.

NOTE 24. INTEREST BEARING LOANS AND BORROWINGS (continued)

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 Cloud Break and Christmas Creek areas only. Accordingly the interest is only accrued and 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; and
- 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.

iii) Senior Secured Notes

FMG Finance raised US$1,650 million in US dollar denominated and €315 million in Euro denominated Senior Secured Notes during the financial year to facilitate the construction and initial operation of the Pilbara Iron Ore and Infrastructure Project.

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.
- 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.

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 Finance Pty Ltd and the project-related assets of 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 the shares in the capital of the Project Guarantors and FMG Finance, 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").

iv) Convertible Notes

During the year ended 30 June 2006 the Company exercised its option to convert the convertible notes into ordinary shares in the Company. The number of shares issued was 19,863,533.

	July 2005 $'000
The convertible notes were accounted for as at 1 July 2005 as follows:	
Face value of notes issued	103,590
Classified as equity securities	(35,870)
	67,720

NOTE 25. EMPLOYEES

	Consolidated		Company	
	2007	2006	2007	2006
Average number of employees during the financial year	279	171	275	171

Note 32 provides details of employee benefits related to share based payments.

NOTE 26. ISSUED CAPITAL

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

DATE	Ordinary shares fully paid:	Number of Shares	Issue Price	$'000
1 July 2005	Balance at beginning of financial year	217,822,928		98,500
	IFRS Adjustments – Convertible Notes	-	-	(26,241)
	Equity-settled transactions	3,000	$5.21	-
	Conversion of convertible notes (note 24 (iv))	8,985,644	US$4.50	29,459
	Conversion of convertible notes (note 24 (iv))	10,877,888	US$6.00	49,099
30 June 2006	Balance at end of financial year	237,689,460		150,817
	Equity-settled transactions	-	$5.21	16
	Exercise of options	417,450	$2.67	1,082
	Exercise of options	89,375	$5.69	509
	Exercise of options	6,875	$7.03	48
	Issued to Leucadia National Corporation	26,400,000	$14.93	394,270
	Issue to Fengli	1,086,958	$27.62	30,023
	Equity-settled transactions	2,000	$36.00	72
	Tfr Option Expense from Reserve for Converted Options	-	-	829
30 June 2007	Balance at end of financial year	265,687,743		577,666

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 27. RESERVES

(a) *The share based payments reserve*
The share based payments reserve records items recognised as expenses on valuation of employee share options.

(b) *Asset revaluation reserve*
The asset revaluation reserve records revaluations of non-current assets. Under certain circumstances dividends can be declared from this reserve.

NOTE 28. EARNINGS PER SHARE

Basic earnings per share
The calculation of basic earnings per share at 30 June 2007 was based on the loss attributable to ordinary shareholders of $68,430,094 (2006: loss $2,146,000) and a weighted average number of ordinary shares outstanding during the financial year ended 30 June 2007 of 260,645,000 (2006: 223,452,000), calculated as follows:

Loss attributable to ordinary shares	**Consolidated**	
	2007	**2006**
	$'000	**$'000**
Net loss for continuing operations	(68,430)	(1,735)
Net loss for discontinued operations	-	(411)
Total net loss for the period	(68,430)	(2,146)

	Consolidated	
	2007	**2006**
	'000	**'000**
Loss attributable to ordinary shareholders	($68,430)	($2,146)
Weighted average number of ordinary shares used in the calculation of basic earnings per share	260,645	223,452
Basic earnings per share (in cents)	(26.25)	(0.96)

Earnings per share for continuing and discontinued operations

Basic earnings per share	**Consolidated**	
	2007	**2006**
From continuing operations (in cents)	(26.25)	(0.78)
From discontinuing operations (in cents)	-	(0.18)

For the financial year ended 30 June 2007, earnings per share for continuing and discontinued operations has been calculated using the same figures as earnings per share, except that the loss for the period used in the calculation is the loss relating to continuing operations of $68,430,094 (2006: loss $1,735,000) and the loss relating to discontinued operations of $Nil (2006: loss $411,000).

Diluted earnings per share
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 29. TOTAL EQUITY

Total equity for Fortescue is lower than that of the Company. This was created by the fair value adjustment of the Leucadia Subordinated Loan Note processed in FMG Chichester Pty Ltd in relation to the Leucadia Subordinated Loan Note.

It is not considered that this represents an impairment event as there will be significant profit generated upon commencement of production of the Pilbara Iron Ore and Infrastructure Project.

NOTE 30. SEGMENT REPORTING

Segment information is presented in respect of Fortescue's business and geographical segments. The primary format, business segments, is based on Fortescue's management and internal reporting structure.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly income earning assets and revenue, interest-bearing loans, borrowings and expenses, and corporate assets and expenses.

Primary Reporting

Business Segments

In 2006 Fortescue had the following two business segments:

- Exploration, evaluation and development of mineral resources.
- Marketing and distribution of medical products throughout Australia and New Zealand. This business was demerged in November 2005.

In 2007 Fortescue is only involved in one business segment, the exploration, evaluation and development of mineral resources.

Secondary Reporting

Geographical Segments

Fortescue operated predominantly in the geographical location of Australia.

NOTE 30. SEGMENT REPORTING (continued)

Business Segments (continued)

	Mining & Exploration		Medical (Discontinued)		Eliminations		Consolidated		Less: Medical (Discontinued)		Consolidated (Continuing Operations)	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000	2007 $'000	2006 $'000	2007 $'000	2006 $'000	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Revenue from external customers:												
Sales	-	-	-	-	-	-	-	834	-	(834)	-	-
Total segment revenue	-	-	-	834	-	-	-	834	-	(834)	-	-
Segment result	(23,393)	(7,020)	-	94	-	-	(23,393)	(6,926)	-	(94)	(23,393)	(7,020)
Loss before financing costs	(23,393)	(7,020)	-	94	-	-	(23,393)	(6,926)	-	(94)	(23,393)	(7,020)
Net financing income/(costs)	(80,186)	5,285	-	2	-	-	(80,186)	5,287	-	2	(80,186)	5,287
Income tax benefit	35,149	-	-		-	-	35,149		-		35,149	-
Loss on sale of discontinued operation (net of income tax)	-	-	-	(507)	-	-	-	(507)	-	507	-	-
Profit for the period	(68,430)	(1,735)	-	(411)	-	-	(68,430)	(2,146)	-	411	(68,430)	(1,735)
Segment assets	3,689,663	221,048	-	-	-	-	3,689,663	221,048	-	-	3,689,663	221,048
Total assets	3,689,663	221,048	-	-	-	-	3,689,663	221,048	-	-	3,689,663	221,048
Acquisition of Property, Plant & Equipment, and Intangibles	836,926	3,396	-	-	-	-	836,926	3,396	-	-	836,926	3,396
Depreciation	2,662	695	-	-	-	-	2,662	695	-	-	2,662	695
Segment liabilities	3,193,148	83,942	-	-	-	-	3,193,148	83,942	-	-	3,193,148	83,942
Total liabilities	3,193,148	83,942	-	-	-	-	3,193,148	83,942	-	-	3,193,148	83,942
Cash flows from operating activities	(1,434,115)	(129,131)	-	20	-	-	(1,434,115)	(129,111)	-	(20)	(1,434,115)	(129,131)
Cash flows from investing activities	(7,792)	(3,533)	-	-	-	-	(7,792)	(3,533)	-	-	(7,792)	(3,533)
Cash flows from financing activities	3,236,089	67,268	-	-	-	-	3,236,089	67,268	-	-	3,236,089	67,268
Capital expenditure	1,348,995	122,993	-	-	-	-	1,348,995	122,993	-	-	1,348,995	122,993

NOTE 31. AUDITORS REMUNERATION

	Consolidated		Company	
	2007 $	2006 $	2007 $	2006 $
Audit services				
Auditors of Fortescue				
BDO Kendalls Audit & Assurance (WA) formerly BDO:				
Auditing – the financial report	99,023	56,715	99,023	56,715
Other services				
Auditors of Fortescue				
BDO Consultants(WA):				
Financial due diligence	63,179	107,261	63,179	107,261
	162,202	163,976	162,202	163,976

NOTE 32. FINANCIAL INSTRUMENTS

(a) Instruments used by the group

Fortescue is party to derivative financial instruments in order to hedge exposure to fluctuations in interest rates.

(i) Interest rate swap contract
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 2007, the notional principal amount and period of expiry of the interest rate swap contract is as follows:

	2007 $'000	2006 $'000
4 – 5 years	294,568	-
	294,568	-

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 2007 a gain of $3,167,947 was recognised.

All borrowings other than the Senior Secured Floating Rate Notes above are issued at fixed interest rates which minmises cash flow interest rate risk but exposes the group to fair value interest rate risk.

NOTE 32. FINANCIAL INSTRUMENTS (continued)

(b) Credit Risk Exposures

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in financial loss to Fortescue. Fortescue has adopted the policy of only dealing with credit worthy counterparties and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the risk of financial loss from defaults. Fortescue measures credit risk on a fair value basis.

Fortescue does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

The carrying amount of financial assets recorded in the financial statements, net of any provisions for losses, represents Fortescue's maximum exposure to credit risk without taking account of the value of any collateral or other security obtained.

(c) Interest Rate Risk

Effective interest rates and repricing analysis
In respect of income-earning financial assets and interest-bearing financial liabilities, the following tables indicate their effective interest rates at the reporting date and the periods in which they reprice.

2007 Consolidated	Note	Effective interest rate %	6 months or less $'000	6-12 months $'000	1-2 years $'000	2-5 years $'000	> 5 years $'000	Non interest bearing $'000	Total $'000
Cash and cash equivalents	10	5.32	1,682,181	-	-	-	-	20	1,682,201
Other receivables	11		-	-	-	-	-	13,779	13,779
Listed shares	12		-	-	-	-	-	32	32
Prepayments	13		-	-	-	-	-	1,283	1,283
Loan receivable	11		-	-	-	-	-	2,438	2,438
Security deposits	11	5.20	243,755	-	-	-	-	-	243,755
Unquoted investments	12		-	-	-	-	-	6	6
Derivative held at fair value	11		-	-	-	-	-	3,168	3,168
Trade and other payables	20		-	-	-	-	-	(66,247)	(66,247)
Senior secured loans	21	10.16	-	(250,982)	-	(551,112)	(1,708,591)	-	(2,510,685)
Subordinated loan note facility	21	15.00	-	(14,834)	-	(386,067)	-	-	(400,901)
			1,925,936	(265,816)	-	(937,179)	(1,708,591)	(45,521)	(1,031,171)
Company									
Cash and cash equivalents	10	5.63	116,700	-	-	-	-	20	116,720
Other receivables	11		-	-	-	-	-	13,779	13,779
Listed shares	12		-	-	-	-	-	32	32
Prepayments	13		-	-	-	-	-	1,283	1,283
Loan receivable	11		-	-	-	-	-	2,438	2,438
Security deposits	11		243,745	-	-	-	-	-	243,745
Intercompany receivables	11		-	-	-	-	-	1,246,206	1,246,206
Unquoted investments	12		-	-	-	-	-	6	6
Trade and other payables	20		-	-	-	-	-	(61,805)	(61,805)
Intercompany payable	20		-	-	-	-	-	(1,044,304)	(1,044,304)
			360,445	-	-	-	-	157,655	518,100

NOTE 32. FINANCIAL INSTRUMENTS (continued)

2006 Consolidated	Note	Effective interest rate %	6 months or less $'000	6-12 months $'000	1-2 years $'000	Non interest bearing $'000	Total $'000
Cash and cash equivalents	10	3.95	18,049	-	-	5	18,054
Other receivables	11	-	-	-	-	1,373	1,373
Listed shares	12	-	-	-	-	3	3
Prepayments	13	-	-	-	-	161	161
Loan receivable	11	-	-	-	-	2,402	2,402
Security deposits	11	-	-	-	-	6,211	6,211
Term deposits	11	3.95	-	-	5,710	-	5,710
Trust accounts	12	-	-	-	-	320	320
Unquoted investments	12	-	-	-	-	26	26
Trade and other payables	20	-	-	-	-	(16,674)	(16,674)
Syndicated loan	21	9.96	-	-	(67,268)	-	(67,268)
			18,049	-	(61,558)	(6,173)	(49,682)
Company							
Cash and cash equivalents	10	3.95	18,049	-	-	5	18,054
Other receivables	11	-	-	-	-	1,373	1,373
Listed shares	12	-	-	-	-	3	3
Prepayments	13	-	-	-	-	161	161
Loan receivable	11	-	-	-	-	2,402	2,402
Security deposits	11	-	-	-	-	6,211	6,211
Term deposits	11	3.95	-	-	5,710	-	5,710
Loans and advances – controlled entities	11	-	-	-	-	4,666	4,666
Trust accounts	12	-	-	-	-	320	320
Unquoted investments	12	-	-	-	-	26	26
Trade and other payables	20	-	-	-	-	(16,674)	(16,674)
Syndicated loan	21	9.96	-	-	(67,268)	-	(67,268)
			18,049	-	(61,558)	(1,507)	(45,016)

Fortescue has entered into interest rate swap contracts to protect against exposure to increasing interest rates in relation to the US$250 million Floating Rate Senior Secured Notes (see Note 32). All other borrowings are at fixed rates and the effect of a movement in interest rates would therefore be negligible

Cash on deposit earning interest at 30 June 2007 was $1,926 million. Construction activities will consume a significant proportion of cash reserves in the coming 12 months. A movement in interest rates would therefore not have a material impact on forecast interest earnings.

(d) Net Fair Value

The carrying amount of financial assets and financial liabilities recorded in the financial statements represents their respective net fair values, determined in accordance with the accounting policies disclosed in note 3 to the financial statements.

(e) Foreign currency risk

Fortescue is exposed to foreign currency risk on cash held, foreign currency loans and exploration and evaluation expenditure. The currency giving rise to this risk is primarily US dollars. Fortescue has not entered into any forward foreign exchange contracts as at 30 June 2007 and is currently fully exposed to foreign exchange risk.

NOTE 33. OPERATING LEASES

LEASES AS LESSEE

Non-cancellable operating lease rentals are payable as follows:

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Less than one year	4,942	965	4,942	965
Between one and five years	9,310	2,814	9,310	2,814
More than five years	149	277	149	277
	14,401	4,056	14,401	4,056

Fortescue leases various offices and other premises under non-cancellable operating leases expiring within two to eight 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 lease have varying terms.

NOTE 34. 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 $4.0 million over the next financial year (2006: $7 million).

Financial commitments for subsequent periods are contingent upon future exploration results and can not 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 $776.0 million (2006: $43.3 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 2007 Fortescue has commitments to capital expenditure contracted for at the reporting date but not recognized as liabilities for mobile mining equipment orders of $275.2 million (2006: nil) related to the development of its Pilbara Iron Ore and Infrastructure Project. The majority of this equipment is expected to be funded through operating leases.

NOTE 35. KEY MANAGEMENT PERSONNEL DISCLOSURES

The following Directors and Officers were Key Management Personnel of Fortescue at any time during the reporting period and unless otherwise indicated were Key Management Personnel for the entire period:

Directors
The following persons were Directors of the Company during the financial year:

Chairman – Non-Executive
Mr Herb Elliott (appointed Chairman 16 March 2007)

Executive Directors
Mr Andrew Forrest, *Chief Executive Officer*
Mr Graeme Rowley, *Executive Director New Business*
Mr Russell Scrimshaw, *Executive Director Commercial*

Non-Executive Directors
Mr Gordon Toll (retired 17 May 2007)
Mr Ken Ambrecht
Mr Joseph Steinberg (appointed 18 August 2006)

Officers
Mr Alan Watling, *Chief Operating Officer*
Mr Christopher Catlow, *Chief Financial Officer*
Mr Peter Thomas, *Project Cost Controller*

All Key Management Personnel are employed by the Company.

Key management personnel compensation

The Key Management Personnel compensation included in 'personnel expenses' (see note 5) are as follows:

	Consolidated		Company	
	2007	**2006**	**2007**	**2006**
	$	**$**	**$**	**$**
Short-term employee benefits	4,031,719	1,948,494	4,031,719	1,948,494
Other long term benefits	-	-	-	-
Post-employment benefits	279,990	160,837	279,990	160,837
Termination benefits	-	-	-	-
Equity compensation benefits	335,479	253,096	335,479	253,096
	4,647,188	2,362,427	4,647,188	2,362,427

The Company has taken advantage of the relief provided by Corporations Regulation 2M.6.04 and has transferred the Detailed Remuneration Disclosures to the Directors' Report. The relevant information can be found in sections A-C of the Remuneration Report.

Balances above are recognised on a gross basis. Personnel expenses disclosed in note 5 are recognised net of salary recoveries.

NOTE 35. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

Individual Directors and executives compensation disclosures

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:

2007

	Held at 1 July 2006	Granted as compensation	Exercised	Other changes during the year	Balance at 30 June 2007	Vested during the year	Vested and exercisable at 30 June 2007
Directors of Fortescue Metals Group Ltd							
A Forrest	-	-	-	-	-	-	-
G Rowley	-	-	-	-	-	-	-
H Elliott	-	-	-	-	-	-	-
R Scrimshaw	-	-	-	-	-	-	-
K Ambrecht	-	-	-	-	-	-	-
G Toll	-	-	-	-	-	-	-
J Steinberg	-	-	-	-	-	-	-
Other key management personnel							
A Watling	200,000	-	-	-	200,000	50,000	100,000
C Catlow	100,000	-	-	-	100,000	25,000	25,000
P Thomas	215,000	-	-	-	215,000	53,750	101,250
	515,000	-	-	-	515,000	128,750	226,250

2006

	Held at 1 July 2005	Granted as compensation	Exercised	Other changes during the year	Balance at 30 June 2006	Vested during the year	Vested and exercisable at 30 June 2006
Directors of Fortescue Metals Group Ltd							
A Forrest	-	-	-	-	-	-	-
G Rowley	-	-	-	-	-	-	-
H Elliott	-	-	-	-	-	-	-
R Scrimshaw	-	-	-	-	-	-	-
K Ambrecht	-	-	-	-	-	-	-
G Toll	-	-	-	-	-	-	-
J Steinberg	-	-	-	-	-	-	-
Other key management personnel							
A Watling	200,000	-	-	-	200,000	50,000	50,000
C Catlow	-	100,000	-	-	100,000	-	-
P Thomas	190,000	25,000	-	-	215,000	47,500	47,500
J Tapp	100,000	40,000	-	-	140,000	25,000	25,000
J Clout	150,000	30,000	-	-	180,000	37,500	37,500
B Ramsey	-	100,000	-	-	100,000	-	-
	640,000	295,000	-	-	935,000	160,000	160,000

NOTE 35. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

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.

2007
Ordinary shares

Name	Held at 1 July 2006	Received on exercise of options	Purchases	Sales	Held at 30 June 2007
Directors of Fortescue Metals Group Ltd					
A Forrest	102,307,830	-	-	-	102,307,830
G Rowley	2,023,569	-	-	-	2,023,569
H Elliott	560,000	-	-	-	560,000
R Scrimshaw	1,077,600	-	-	(277,600)	800,000
K Ambrecht	750,000	-	-	(100,000)	650,000
G Toll	750,000	-	-	(750,000)	-
J Steinberg	-	-	26,400,000	-	26,400,000
Other key management personnel					
A Watling	-	-	-	-	-
C Catlow	800,000	-	-	-	800,000
P Thomas	95,000	-	-	-	95,000
TOTAL	108,363,999	-	26,400,000	(1,127,600)	133,636,399

2006
Ordinary shares

Name	Held at 1 July 2005	Received on exercise of options	Purchases	Sales	Held at 30 June 2006
Directors of Fortescue Metals Group Ltd					
A Forrest	102,674,330	-	-	(366,500)	102,307,830
G Rowley	2,023,569	-	-		2,023,569
H Elliott	800,000	-	-	(250,000)	550,000
R Scrimshaw	1,077,600	-	-	-	1,077,600
K Ambrecht	750,000	-	-	-	750,000
G Toll	750,000	-	-	-	750,000
J Steinberg	-	-	-	-	-
Other key management personnel					
A Watling	-	-	-	-	-
P Thomas	110,000	-	-	(15,000)	95,000
C Catlow	800,000	-	-	-	800,000
J Tapp	-	-	-	-	-
J Clout	5,000	-	70	(2,000)	3,070
B Ramsey	-	-	22,000	-	22,000
TOTAL	108,990,499	-	22,700	(633,500)	108,379,069

NOTE 35. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

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 are non-interest bearing. During the financial year ended 30 June 2007, such loans to subsidiaries totalled $358.7 million receivable (2006: $4.7 million) and $Nil payable (2006: $Nil). These loans have been recognised as current receivables and current payables.

NOTE 36. 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.

Until the current financial year, the Company used the existing Fortescue Metal's Group Incentive Option Scheme ("FMGIOS") as an appropriate long-term incentive scheme. During the financial year the Board established a new incentive scheme as set out below that it believes provides a more appropriate reward scheme for staff participation rather than the FMGIOS. The FMGIOS is utilised where circumstances exist which lead the Directors to believe a grant of options under FMGIOS to be more appropriate, as may be the case with Key Management Personnel of the Company. The new LTIP was approved by shareholders at the November 2006 AGM.

Under the LTIP, participants are offered an award of rights to acquire ordinary shares in the Company (referred to here as "Performance Rights"). The offer of Performance Rights under the LTIP takes the form of a conditional entitlement to be issued shares in the Company for nil consideration at the end of the applicable performance period subject to the satisfaction of performance conditions. Unless the Board otherwise determines, where a participant is entitled to be issued shares under the LTIP, the Company will issue those shares to the participant.

Performance Rights become vested only if the performance condition is met. The vesting of the Performance Rights will be over a period that is consistent with the realisation of the long term strategic objectives of the Company as approved by the Board. Under the LTIP the minimum vesting period will be three (3) years and the maximum vesting period will be seven (7) years. Any Performance Rights not vested within seven years will lapse.

No share options or performance rights were issued during the current financial year.

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	2,000,000	Four years of service	5 years
Option grant to key management in January 2006	430,000	Four years of service	5 years
Option grant to key management in June 2006	500,000	Four years of service	5 years
Total share options	2,930,000		

NOTE 36. SHARE BASED PAYMENTS (continued)

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

	Weighted average exercise price 2007	Number of options 2007	Weighted average exercise price 2006	Number of options 2006
Outstanding at the beginning of the period	$3.86	2,930,000	$2.67	2,000,000
Forfeited during the period	-	-	-	-
Exercised during the period	$3.22	(509,325)	-	-
Granted during the period	$8.45	140,000	$6.41	930,000
Outstanding at the end of the period	$4.23	2,560,675	$3.86	2,930,000
Exercisable at the end of the period	$3.55	1,078,992	$2.67	500,000

The options outstanding at 30 June 2007 have an exercise price in the range of $2.67 to $9.29 and a weighted average contractual life of 5 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 Black-Scholes 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	$1.97	$2.67	$2.67	26.40%	5.75%	-
25 January 2006	25 January 2011	$4.60	$5.69	$6.15	26.80%	5.13%	-
1 June 2006	1 June 2011	$5.79	$7.03	$7.68	26.80%	5.75%	-
2 October 2006	31 December 2009	$5.56	$8.22	$8.49	25.50%	5.75%	-
9 October 2006	31 December 2009	$5.78	$8.78	$8.90	25.50%	5.75%	-
28 October 2006	31 December 2009	$6.22	$9.29	$9.58	25.50%	5.75%	-

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

Employee expenses

	Note	Consolidated 2007 $'000	Consolidated 2006 $'000	The Company 2007 $'000	The Company 2006 $'000
Share options granted in 2005- equity settled		892	983	892	983
Share options granted in 2006- equity settled		1,220	271	1,220	271
Share options granted in 2007- equity settled		155	-	155	-
Total expense recognised as employee costs		2,267	1,254	2,267	1,254

NOTE 37. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Contingent liability

ASIC Proceedings

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

NOTE 37. CONTINGENT LIABILITIES AND CONTINGENT ASSETS (continued)

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 $8,000,000 from the Company and $600,000 for the CEO and an order that he compensate Fortescue for any pecuniary penalty it may be required to pay.

Both the Company and the CEO Mr Andrew Forrest will vigorously contest the charges.

Cyclone Investigation

Fortescue deeply regrets the impact to the Pilbara project workforce of Cyclone George that passed through the Company's Pilbara project on Friday 9 March 2007. The cyclone resulted in two fatalities.

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

BGC Writ of Summons

Fortescue reports that legal action and arbitration has been initiated by BGC Contracting pursuant to an outstanding amount owing following the termination in May 2007 of the original Alliance Agreement. As advised following the cyclones in March, Fortescue restructured the rail earthworks program to include two new contractors. As part of the restructure, the BGC Alliance Agreement was terminated and BGC was re-engaged under a cost plus arrangement which is working to the mutual satisfaction of both parties. The total amount being disputed under the Alliance termination is approximately $20 million which relates to direct costs and a profit margin payment. Fortescue is contesting the disputed amount claimed and hopes that it will be resolved promptly.

Contingent asset

Payroll tax assessment
A payroll tax assessment for the amount of $1,495,989 was received from the State Revenue Department relating to options issued to The Metals Group Pty Ltd in 2003. Although disputed, the Company has paid this in full but has lodged an objection to the assessment.

NOTE 38. SUBSEQUENT EVENTS

On 18 July 2007 the Company issued 14,000,000 shares at $A36 per share to raise A$504,000,000. The raised will be used to provide additional liquidity and allow the first phase of the Pilbara Iron Ore and Infrastructure Project to be optimised.

Other than the matters discussed above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Company, the results of those operations or the state of affairs of the Company in future financial years.

NOTE 39. DEED OF CROSS GUARANTEE

Fortescue Metals Group Ltd and all its controlled entities 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
- FMG Chichester Pty Ltd
- 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' 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 retained profits for the year ended 30 June 2007 along with the consolidated balance sheet as at 30 June 2007 for the Closed Group is the same as that of the consolidated group.

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

Directors' declaration

In the Directors' opinion:

(a) the financial statements and notes set out on pages 22 to 69, are in accordance with the Corporations Act 2001, including:

(i) complying with Australian Accounting Standards, the Corporations Regulations 2001 and other mandatory professional requirements; and

(ii) giving a true and fair view of the Company's and the consolidated entity's financial position as at 30 June 2007 and of their performance, for the financial year ended on that date; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

(c) the audited remuneration disclosures that are contained in the Remuneration report in the Directors' report comply with Australian Accounting Standard AASB 124 *Related Party Disclosures* and the *Corporations Regulations 2001*; and

(d) at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group identified in note 39, which is identical to the consolidated group, will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 39.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by Section 295A of the Corporations Act 2001.

Dated at Perth this 24th day of August 2007.

This declaration is made in accordance with a resolution of the Directors:

Mr Herb Elliott
Chairman

BDO Kendalls

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INDEPENDENT AUDIT REPORT TO THE MEMBERS OF FORTESCUE METALS GROUP LIMITED

Scope

The Financial Report and Directors' Responsibility

The financial report comprises the balance sheet, income statement, cash flow statement, statement of changes in equity, accompanying notes to the financial statements, and the directors' declaration for both Fortescue Metals Group Limited (the company) and the consolidated entity, for the year ended 30 June 2007. The consolidated entity comprises both the company and the entities it controlled during that year.

As permitted by the Corporations Regulations 2001, the company has disclosed information about the compensation of key management personnel ("compensation disclosures"), as required by Accounting Standard AASB 124 *Related Party Disclosures,* under the heading "Remuneration Report" in pages 8 to 17 of the directors' report and not in the financial report.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The directors are also responsible for the preparation and presentation of the compensation disclosures contained in the directors' report in accordance with the Corporations Regulations 2001.

Audit Approach

We have conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement and that the compensation disclosures in the directors' report comply with Accounting Standard AASB 124. The nature of an audit is influenced by factors such as the use of professional judgment, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows and whether the compensation disclosures in the directors' report comply with Accounting Standard AASB 124.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report and the compensation disclosures in the directors' report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

The independence declaration given to the directors in accordance with section 307C would be in the same terms if it had been given at the date of this report.

Audit Opinion

In our opinion:

(1) the financial report of Fortescue Metals Group Limited is in accordance with:

(a) 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 2007 and of its performance for the year ended on that date; and

(ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) other mandatory financial reporting requirements in Australia; and

(2) the compensation disclosures that are contained in pages 8 to 17 of the directors' report comply with Accounting Standard AASB 124.

BDO Kendalls Audit & Assurance (WA) (formerly BDO)

BG McVeigh
Partner

Perth, Western Australia
Dated this 24th day of August 2007