FORTESCUE METALS GROUP LTD

ABN 57 002 594 872

Annual Financial Report

30 JUNE 2008

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 5-6, which is not part of this financial report.

The financial report was authorised for issue by the Directors on 16 September 2008. 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 2008.

DIRECTORS

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

Non-Executive
Mr Herb Elliott – Chairman
Mr Ken Ambrecht
Mr Joseph Steinberg
Mr Geoff Brayshaw - 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 70
Mr Elliott was elected a Non-Executive Independent Director of the Company in October 2003, Deputy Chairman in May 2005 and Chairman on 16 March 2007. Mr Elliott is a member of the Audit and Risk Management Committee and Chairman of the Remuneration Committee. Mr Elliott was Chairman of the Audit and Risk Management Committee until 5 July 2007. Mr Elliott is also Chairman of Telstra Foundation Limited and has been a Director of Ansell Limited and Pacific Dunlop Ltd. He is also Chairman of the private corporate health company Global Corporate Challenge. Previous executive roles include President of PUMA North America. Mr Elliott is the former inaugural Chairman of the National Australia Day Committee and was a Commissioner on the Australian Broadcasting Commission.

Mr Andrew Forrest – Chief Executive Officer – Age 46
Mr Forrest has been Chief Executive Officer of the Company since July 2003, was Interim Chairman from then until May 2005 and is a member of the Remuneration Committee. Mr Forrest is Non-Executive 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 Chairman of Siberia Mining Corporation Limited, Director of the West Australian Chamber of Minerals and Energy and President of Athletics Australia. Mr Forrest has extensive experience in the mining sector with specialist expertise in large scale project finance and implementation.

Mr Graeme Rowley AM – Executive Director – Age 68
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 59

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

Mr Ken Ambrecht – Non-Executive Director – Age 62

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

Mr Joseph Steinberg – Non-Executive Director – Age 64

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

Mr Geoff Brayshaw AM – Non-Executive Director – Age 58

Mr Brayshaw was appointed a Non-Executive Director of the Company on 1 July 2007 and was appointed Chairman of the Audit and Risk Management Committee on 5 July 2007. Mr Brayshaw was formerly an audit partner with a large international accounting firm and retired in June 2005. He has held a number of positions in commerce and professional bodies including National President of the Institute of Chartered Accountants in 2002, Independent Director and Audit Committee Chairman of Fortron Insurance Group, Board member of the Small Business Development Corporation and Chairman of a Trustee Company related to an Aboriginal Corporation. Mr Brayshaw is also a Non-Executive Director of Poseidon Nickel Limited (since February 2008).

DIRECTORS' MEETINGS

The numbers of meetings of the Company's Board of Directors and of each Board committee held during the financial year ended 30 June 2008, and the numbers of meetings attended by each Director were:

			Committee Meetings			
	Board Meetings		Audit		Remuneration	
Director	**A**	**B**	**A**	**B**	**A**	**B**
Mr Herb Elliott	6	6	2	2	2	2
Mr Andrew Forrest	6	6	*	*	2	2
Mr Graeme Rowley	6	6	*	*	*	*
Mr Russell Scrimshaw	6	6	*	*	*	*
Mr Ken Ambrecht	6	6	2	2	1	2
Mr Joseph Steinberg	6	6	*	*	2	2
Mr Geoff Brayshaw	6	6	2	2	*	*

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

The Remuneration Committee also acts as the Nomination Committee.

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

Director	**No of Circulating Resolutions Eligible**	**No of Circulating Resolutions Executed**
Mr Herb Elliott	3	3
Mr Andrew Forrest	3	3
Mr Graeme Rowley	3	3
Mr Russell Scrimshaw	3	3
Mr Ken Ambrecht	3	3
Mr Joseph Steinberg	3	3
Mr Geoff Brayshaw	3	3

COMPANY SECRETARIES' PARTICULARS

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

Mr Rod Campbell – Age 48
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 47
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 Fortescue during the course of the financial year was the development of the Pilbara Iron Ore and Infrastructure Project. On 15 May 2008 Fortescue commenced loading its first iron ore shipment. No significant changes in the nature of the activities of Fortescue occurred during the year.

REVIEW OF OPERATIONS

The consolidated results from operations are as follows.

	2008 $'000	2007 $'000 Restated
Operating loss after income tax	(2,516,238)	(192,256)
Total assets	5,176,591	3,512,769
Net assets/(deficit)	(1,639,684)	372,689

Fortescue's primary focus during the 2008 financial year was toward the completion of the construction phase of its integrated mine, rail and port project in the Pilbara region of Western Australia. The key milestones achieved during the period were the commencement of commercial mining in October 2007, the first train loaded with Cloudbreak ore completing the journey from the mine to Port Hedland in April 2008 and the first ship load of product departing Fortescue's port facility in May 2008.

Since May 2008, the focus has been on ramping up production levels as the operations move into full swing. An after balance date event was the achievement of "Project Completion" in July 2008. The significance of Project Completion is explained on page 7.

In summary the highlights over the 2008 financial year were:

Mine Operations
- commercial mining commenced in October 2007;
- the commissioning of the ore processing plant in April 2008;
- the loading of the first train at the mine site in April 2008.

Port Operations:
- the first train load of product delivered to the port on 6 April 2008;
- the commissioning of the in-loading and out-loading circuits in April 2008;
- the loading of the commercial first ship on 15 May 2008;

Rail Operations:
- completion of rail earthworks in March 2008;
- completion of track laying in April 2008;
- first train from Cloudbreak to the port on 29 April 2008.

Exploration:
- estimation of a 1.7 billion tonne inferred resource for the Solomon project;
- progression of drilling for the Glacier Valley magnetite JV with Baosteel.

Community:
- the VTEC program celebrated the graduation of the first 20 students in July 2007;
- Fortescue launches its Hedland housing program in August 2007.

Corporate:

- A$504 million equity raising in July 2007;
- a 10 for 1 share split approved and enacted in December 2007; and
- the opening of Fortescue's first international office in Shanghai in October 2007.

DIVIDENDS

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

ENVIRONMENTAL REGULATIONS

Fortescue's exploration and mining activities are governed by a range of environmental legislation and regulations. During this financial year, activities at all Fortescue sites have increased. Monitoring is conducted at these sites to ensure that activities continue to operate in accordance with the environmental regulations. Our performance has been within the requirements of our environment licences. Fortescue is also proactively working to ensure that the environmental impact from the ground disturbance activities such as construction and mining is minimal. Proactive techniques employed include clearing controls to limit vegetation disturbance, trapping and relocation of priority fauna species, progressive rehabilitation 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.

The recent introduction of the National Greenhouse and Energy Reporting Act 2007 establishes a mandatory corporate reporting system for greenhouse gas emissions, energy consumption and production from 1 July 2008. Fortescue will also be subject to the reporting obligations of the Energy Efficiency Opportunity Act 2006. This Act requires certain entities to assess their energy use and report publicity on the results.

Fortescue is currently establishing the necessary systems to enable full compliance with the requirements of this Act and will be able to detail this information in future reports once a full year of mining operations has occurred.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Significant changes in the state of affairs of Fortescue during the financial year as part of the development of the Pilbara Iron Ore and Infrastructure Project were an increase in contributed equity of $503,929,000 (from $574,003,000 to $1,077,932,000) and a decrease in cash assets of $1,489,964,000 (from $1,682,201,000 to $192,237,000). Net cash received from the increase in contributed equity coupled with the utilisation of available cash reserves was used primarily for the continuing development of the Pilbara Iron Ore and Infrastructure Project.

The net increase in borrowings of $3,395,037,000 during the 2008 financial year is largely due to the $3,466,134,000 (tax-effected $2,426,294,000) revaluation of the Subordinated Loan Note in line with changes in management estimates, prevailing market conditions and economic forecasts. This fair value adjustment to the Subordinated Loan Note was the primary cause of Fortescue's 2008 loss attributable to members of $2,516,238,000. This loss has reduced total equity in excess of the increase in contributed equity in 2008, decreasing net assets of Fortescue by $2,012,373,000 (from $372,689,000 to a net deficit of $1,639,684,000).

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

Other significant changes in the State of Affairs of Fortescue are described below:

- Fortescue announced a major new resource discovery at its Solomon Project with the estimation of an Inferred Resource of 1.014 billion tonnes (56% Fe) at Solomon's Serenity Deposit and 700 million tonnes (56% Fe) at the Solomon East Deposit;
- On 19 December 2007 Fortescue undertook a reorganisation of capital by way of a share split whereby each fully paid ordinary share was split into ten fully paid ordinary shares; and
- On 15 May 2008 Fortescue commenced loading its first commercial shipment of iron ore from the "Herb Elliott Port" at Port Hedland for delivery to major Chinese customer Baosteel.

EVENTS SUBSEQUENT TO REPORTING DATE

Project Completion
On 18 July 2008 Fortescue received independent sign off certifying the achievement of "Project Completion" for the first stage of its integrated mine, rail and port facilities in the Pilbara region of Western Australia. Project Completion includes operations having mined, railed and shipped two million tonnes within a four week period, which has been verified by the Project's Independent Engineer, Behre Dolbear Australia. Achieving Project Completion satisfies certain covenants within Fortescue's financial arrangements and allows the Company to pursue its stated ambition to expand and further develop growth projects across the Chichester Ranges.

Cyclone George Inquiry
Fortescue was served with a notice by Worksafe following an investigation into the Cyclone George incident in March last year. Fortescue has been charged with one offence and its subsidiary, The Pilbara Infrastructure Pty Ltd ("TPI"), with 17 offences under the Occupational Safety & Health Act 1984. The charges each carry a maximum penalty of $400,000 valuing Fortescue's maximum penalty at $7,200,000. Fortescue has handed the matter to its solicitors and will be defending the charges.

Proposed Issue of Preference Shares
On 29 August 2008 the Company lodged a Notice of Meeting for an Extraordinary General Meeting ("EGM") to seek shareholder approval for a proposed change in Fortescue's constitution to allow for the issuance of preference shares. Preference shares are a form of funding that Fortescue intends to use in its broad capital raising program to finance its expansion plans for the port, rail and mine project.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

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

DIRECTORS' INTERESTS

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

Director	Ordinary Shares
Mr Herb Elliott	2,540,689
Mr Andrew Forrest	1,005,493,300
Mr Graeme Rowley	19,515,690
Mr Russell Scrimshaw	8,000,000
Mr Ken Ambrecht	6,283,833
Mr Joseph Steinberg	277,986,000
Mr Geoff Brayshaw	17,225

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

Date Options Granted	Expiry Date	Issue Price of Shares	Number under Option
1 June 2005	31 December 2009	$0.27	8,813,380
25 January 2006	25 January 2011	$0.57	2,656,250
1 June 2006	1 June 2011	$0.70	3,729,530
2 October 2006	30 June 2010	$0.82	750,000
9 October 2006	30 June 2010	$0.88	200,000
28 October 2006	30 June 2010	$0.93	200,000

All options expire on the earlier of their expiry date or termination of the employee's employment. These options were issued pursuant to the Fortescue Metals Group's Incentive Option Scheme and have been allotted to individuals on condition that they serve specified time periods as an employee of 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 Issued	Issue Price of Shares
1 June 2005	-	367,550	$2.67
25 January 2006	-	6,250	$5.69
1 June 2006	-	63,047	$7.03
2 October 2006	-	-	$8.22
9 October 2006	-	-	$8.78
28 October 2006	-	-	$9.29
1 June 2005	4,346,593	3,336,620	$0.27
25 January 2006	935,552	687,500	$0.57
1 June 2006	1,366,421	615,000	$0.70
2 October 2006	274,658	250,000	$0.82
9 October 2006	54,932	-	$0.88
28 October 2006	54,932	-	$0.93

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. Conditions of the policy also preclude disclosure to third parties of the amount paid for the policy.

REMUNERATION REPORT (AUDITED)

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

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

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

A PRINCIPLES USED TO DETERMINE THE NATURE AND AMOUNT OF REMUNERATION

Key Management Personnel have the authority and responsibility for planning, directing and controlling the activities of the Company and other executives. Key Management Personnel and the five most highly remunerated executive officers for the Company and Fortescue, in accordance with S300A of the Corporations Act 2001, are defined on page 14.

Fortescue's remuneration strategy is designed to build a performance oriented culture and attract, retain and motivate its employees, encouraging them to meet their full potential. In line with this strategy, Fortescue provides a competitive base salary and bonus structure, and an opportunity to participate in the success of the Company as a shareholder.

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

The remuneration strategy is based on the following principles:

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

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

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

REMUNERATION REPORT (CONTINUED)

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

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

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

The remuneration structure that has been adopted by Fortescue consists of the following components:

- Fixed Remuneration ("FR") being annual salary;
- Salary Sacrifice Share Plan ("SSSP"); and
- Incentive Schemes, comprising:
    i. Fortescue's High Performance Bonus Plan ("FHPBP") being an annual bonus available to all employees and executives, able to be taken as cash or equity;
    ii. Performance Rights Plan ("PRP"); and
    iii. Fortescue Metals Group's Incentive Option Scheme ("FMGIOS")

Fixed Remuneration

Fixed remuneration ("FR") 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. Fixed Remuneration is targeted at 75th percentile of the market as defined by a comparator group of ASX listed companies in addition to considering the individual contribution and competence levels.

Salary Sacrifice Share Plan

Further to Fortescue's aim of encouraging employee share ownership, all Fortescue employees have an opportunity to participate in the Salary Sacrifice Share Plan ("SSSP"). The SSSP was introduced in July 2008. Employees nominate the amount of pre-tax salary that they wish to salary sacrifice per annum (up to 50%). In addition, employees are able to nominate to sacrifice up to 100 per cent of any future bonuses.

Incentive Schemes

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

Fortescue High Performance Bonus Plan

No bonuses were provided during the 2008 financial year. During the 2008 financial year a new Fortescue High Performance Bonus Plan ("FHPBP") was introduced. The FHPBP is better aligned to shareholder interests of capital growth through the setting of clear and structured operational performance criteria. It is also considered to be better aligned to program participant's interests through providing a clear structure for earnings rewards and flexibility by providing the option of receiving reward through cash or equity. The FHPBP is available to all permanent full time and part time Fortescue employees.

As no bonuses were provided during the 2008 financial year a one-off bonus scheme will run from the date that Fortescue achieved First Ore on Ship on 15 May 2008 through to 31 December 2008. The ongoing bonus scheme will operate in financial years, from 1 July to 30 June, and begins for the 2009 financial year. This means that for the period 1 July 2008 to 31 December 2008 employees will be eligible for two bonus

REMUNERATION REPORT (CONTINUED)

awards, being a combination of the one-off bonus scheme and the first half of the 2009 financial year ongoing bonus scheme.

The bonus under the FHPBP for the one-off bonus scheme and the ongoing bonus scheme is made up of four components (outlined below) that give employees the potential to earn up to 100 percent of their base salary each year as a bonus:

- Individual performance bonus (up to 10%);
- Team performance bonus (15%);
- High performance company bonus (up to 25%); and
- Outstanding individual performance bonus (up to 50%).

The key aims of the FHPBP are to:

- Assist in driving and achieving business objectives;
- Support Fortescue's culture of high performance;
- Assist in the attraction of high calibre people and in retaining our best people; and
- Create the opportunity for all Fortescue employees to become shareholders in the Company.

For a bonus to be awarded, Fortescue must have achieved its business targets and key performance indicators ("KPI's"). Business targets and KPI's are set on an annual basis prior to the commencement of the performance year by the CEO in conjunction with the Board. KPI's and business targets are specific to the bonus category. The bonus becomes "live" following shipment by the Company of a pre-determined amount of 'GOOD' tonnes of iron ore.

'GOOD' tonnes are those that are:

- Extracted, transported and shipped safely, with respect to the environment and our values and commitments regarding cultural heritage;
- Within financial targets; and
- Within quality specifications.

At the end of the performance year the CEO makes recommendations to the Board for bonus awards for his direct reports based on the achievement of targets in each of the four bonus categories. For all other employees a one up manager approval applies with final CEO approval prior to the finalisation and payment of any award.

All employees and executives have the option to take the annual bonus in cash, superannuation or deferred shares or a combination of each. If the employee or executive elects to take the bonus as deferred shares, they will be granted an equivalent bonus value in the form of shares. Shares are held in trust on behalf of the employee or executive. The employee or executive will however have beneficial ownership of the shares and earn dividends on the shares. Subject to any restrictions under the Fortescue share trading policy the employee or executive is able to trade those shares.

REMUNERATION REPORT (CONTINUED)

The value of any bonus taken as shares will also be matched by share rights of up to 1 share right for each share. The level of matching will be determined on an annual basis prior to the end of the performance year by the CEO in conjunction with the Board. Share Rights are subject to time based vesting and will vest to the employee or executive in accordance with the following time frame:

- Up to one third of the original issue after 24 months;
- Up to two thirds of the original issue after 36 months; and
- Up to 100% of the original issue after 48 months.

Upon vesting the employee or executive will have beneficial ownership of the shares and the shares will commence earning dividends.

Irrespective of vesting periods all Share Rights will be forfeited if an employee resigns or sells the base award of shares.

PRP
Under the PRP, 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 PRP 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. 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 PRP 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 performance rights have been issued by the Company to date. The PRP is currently not considered a key platform in the remuneration and retention strategy of Fortescue. Management believe the current FHPBP combined with non-vested options already issued to key employees and executives is achieving Fortescue's required remuneration and retention outcomes.

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.

No options were issued during the 2008 financial year. Similarly to the PRP the FMGIOS is currently not considered a key future platform in the remuneration and retention strategy of Fortescue. Management believe the current FHPBP combined with non-vested options already issued to key employees and executives in previous financial years is achieving Fortescue's required remuneration and retention outcomes.

A table of unissued shares under option, including expiry date and number of options yet to be exercised, is included in the Directors' Report on page 8. Options previously issued remain effective for the short to medium term retention of key Fortescue employees and executives. Available options expire between 31 December 2009 and 1 June 2011.

REMUNERATION REPORT (CONTINUED)

Remuneration structure

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

- high retention of overall employees, key management personnel and other executives;
- the achievement of targeted construction and production goals; and
- the continued strong increase in the Company's share price during the 2008 financial year.

Consequences of performance on shareholders wealth

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

	2008 AIFRS '000	**2007 AIFRS '000**	**2006 AIFRS '000**	**2005 AIFRS '000**	**2004 AGAAP '000**
Revenue	$460,325	$335,252	$11,830	$3,438	$4,267
Net profit/(loss)	($2,516,238)	($192,256)	($2,146)	($4,519)	$602
Dividends paid	-	-	-	-	-
$ Change in share price	$8.52*	$2.43*	$0.66*	$0.29*	$0.03*
% Change in share price	252%	256%	228%	469%	143%

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

Non-Executive Directors

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

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

Non-Executive Directors do not receive share options. Non-Executive Directors may opt each year to receive a percentage of their remuneration in the Company's shares under the Non-Executive Director Share plan ("NEDSP"), which would be acquired on market. All Non-Executive Directors participated in the arrangement during 2008 except for Mr Joseph Steinberg who elects not to receive any Directors' fees or Board Committee fees.

Executive Directors

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

REMUNERATION REPORT (CONTINUED)

B DETAILS OF REMUNERATION

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

Directors:
Herb Elliott
Andrew Forrest
Graeme Rowley
Russell Scrimshaw
Ken Ambrecht
Joseph Steinberg
Geoff Brayshaw – appointed 1 July 2007

Executive Officers:
Alan Watling – *Chief Operating Officer*
Gordon Cowe – *Director of Projects* – appointed 1 July 2008
Chris Catlow – *Chief Financial Officer*

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

Graeme Rowley – *Executive Director Operations* (equal value)
Russell Scrimshaw – *Executive Director Commercial* (equal value)
Alan Watling – *Chief Operating Officer*
Chris Catlow – *Chief Financial Officer*
John Blanning – *Head of Mining Operations*
William Ramsey –*Expansion Project Specialist*

REMUNERATION REPORT (CONTINUED)

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

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

		Short-term				Post-employment	Other long term		Share-based payments			
		Salary & fees $	Cash bonus $	Non-monetary benefits $	Total $	Super-annuation benefits $	Long service leave $	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)	2008	163,974	-	-	163,974	8,026	-	-	-	172,000	-	-
	2007	-	-	-	-	85,766	-	-	-	85,766	-	-
Mr K Ambrecht	2008	84,000	-	-	84,000	-	-	-	-	84,000	-	-
	2007	318,295	-	-	318,295	-	-	-	-	318,295	-	-
Mr J Steinberg	2008	-	-	-	-	-	-	-	-	-	-	-
	2007	-	-	-	-	-	-	-	-	-	-	-
Mr G Brayshaw – (appointed 1 July 2007)	2008	86,364	-	-	86,364	8,636	-	-	-	95,000	-	-
	2007	-	-	-	-	-	-	-	-	-	-	-
Executive												
Mr A Forrest, CEO	2008	100,000	-	88,648	188,648	10,000	-	-	-	198,648	-	-
	2007	101,000	110,000 [1]	-	211,000	10,100	-	-	-	221,100	50%	-
Mr G Rowley, Executive Director	2008	472,727	-	-	472,727	47,273	-	-	-	520,000	-	-
Operations	2007	423,153	380,000 [1]	-	803,153	42,315	-	-	-	845,468	45%	-
Mr R Scrimshaw, Executive Director	2008	472,727	-	-	472,727	47,273	-	-	-	520,000	-	-
Commercial	2007	373,617	252,294 [1]	-	625,911	36,383	-	-	-	662,294	38%	-

REMUNERATION REPORT (CONTINUED)

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 $	Long service leave $	Termination benefits $	Options (A) $	Total $	Proportion of remuneration performance related %	Value of options as proportion of remuneration %
Other key management personnel												
Mr A Watling, Chief Operating Officer	2008	649,217	-	-	649,217	31,199	-	-	49,908	730,324	-	7%
	2007	392,119	300,000 [1]	-	692,119	39,212	-	-	98,258	829,589	36%	12%
Mr C Catlow, Chief Financial Officer	2008	381,818	-	-	381,818	38,182	-	-	115,101	535,101	-	22%
	2007	339,089	300,000 [1]	-	639,089	33,909	-	-	115,101	788,099	38%	15%
Gordon Cowe, Director of Projects –	2008	-	-	-	-	-	-	-	-	-	-	-
appointed 1 July 2008	2007	-	-	-	-	-	-	-	-	-	-	-
Other executives												
Mr J Blanning, Head of Mining	2008	477,273	-	-	477,273	47,727	-	-	148,630	673,630	-	22%
	2007	357,954	-	-	357,954	35,796	-	-	110,204	503,954	-	22%
Mr W Ramsey, Expansion Project	2008	472,727	-	-	472,727	47,273	-	-	115,101	635,101	-	18%
Specialist	2007	498,484	-	-	498,484	49,091	-	-	115,101	662,676	-	17%
Total : directors and other management	2008	3,360,827	-	88,648	3,449,475	285,589	-	-	428,740	4,163,804		
personnel (consolidated and company)	2007	2,803,711	1,342,294	-	4,146,005	332,572	-	-	438,664	4,917,241		

[1] *Bonuses were approved in September 2006 by the Board of Directors under the previous bonus plan as reward for Fortescue achieving its funding and budget scheduling targets. Payments were a percentage of fixed remuneration based on contribution to achievement of the targets.*

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

REMUNERATION REPORT (CONTINUED)

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

(A) The fair value of the options is calculated at the date of grant using the 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 the relevant 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	$0.20	$0.27	$0.27	26.40%	5.75%	-
25 January 2006	25 January 2011	$0.46	$0.57	$0.62	26.80%	5.13%	-
1 June 2006	1 June 2011	$0.58	$0.70	$0.77	26.80%	5.75%	-
2 October 2006	30 June 2010	$0.56	$0.82	$0.85	25.50%	5.75%	-

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

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	
	2008	2007	2008	2007	2008	2007
Directors of Fortescue Metals Group Ltd						
Mr H Elliott	100%	100%	-	-	-	-
Mr A Forrest	100%	50%	-	50%	-	-
Mr G Rowley	100%	55%	-	45%	-	-
Mr R Scrimshaw	100%	62%	-	38%	-	-
Mr K Ambrecht	100%	100%	-	-	-	-
Mr J Steinberg	-	-	-	-	-	-
Mr G Brayshaw	100%	100%	-	-	-	-
Other key management personnel						
Mr A Watling	93%	52%	-	36%	7%	12%
Mr C Catlow	78%	47%	-	38%	22%	15%
Mr G Cowe	-	-	-	-	-	-
Other executives						
Mr J Blanning	78%	78%	-	-	22%	22%
Mr W Ramsey	82%	83%	-	-	18%	17%

REMUNERATION REPORT (CONTINUED)

C SERVICE AGREEMENTS (audited)

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

Mr Andrew Forrest, *Chief Executive Officer*
- Term of agreement – *Unspecified*
- Base salary, inclusive of superannuation, for the year ended 30 June 2008 of $110,000 to be reviewed annually by the Remuneration Committee.

Mr Graeme Rowley, *Executive Director Operations*
- Term of agreement – Unspecified
- Base salary, inclusive of superannuation, for the year ended 30 June 2008 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 2008 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 2008 of $795,000, 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 2008 of $420,000, to be reviewed annually by the Remuneration Committee.

Mr John Blanning**,** *Head of Mining*
- Term of agreement – Unspecified
- Base salary, inclusive of superannuation, for the year ended 30 June 2008 of $525,000, to be reviewed annually by the Remuneration Committee

Mr William Ramsey, *Expansion Project Specialist*
- Term of agreement – Unspecified
- Base salary, inclusive of superannuation, for the year ended 30 June 2008 of $520,000, to be reviewed annually by the Remuneration Committee.

All service agreements are able to be terminated on one months' notice or by providing one month's pay in lieu of notice.

REMUNERATION REPORT (CONTINUED)

Details of performance related remuneration

Details of Fortescue's policy in relation to the proportion of remuneration that is performance related is discussed on page 9. The relative proportions of remuneration that are linked to performance are disclosed on page 17.

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

D SHARE-BASED REMUNERATION

All options refer to options over ordinary shares of the Company, which are exercisable on a one-for-one basis under the FMGIOS. No performance rights under the PRP have been issued.

The terms and conditions of each grant of options affecting remuneration of Key Management Personnel and other executives in the previous, current or future reporting periods are set out on page 17.

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

Options over equity instruments granted as remuneration

Details of options over ordinary shares in the Company that were granted as remuneration to each Director, Key Management Person and other executive of the Company and Fortescue are set out below. When exercisable, each option is convertible into one ordinary share of Fortescue Metals Group Ltd. Further information on options is set out in note 36 to the financial statements.

Name	Number of options granted during the year		Number of options vested during the year	
	2008*	2007*	2008*	2007*
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	-	-	500,000	500,000
Mr C Catlow	-	-	250,000	250,000
Mr G Cowe	-	-	-	-
Other executives				
Mr J Blanning	-	1,000,000	250,000	250,000
Mr W Ramsey	-	-	250,000	500,000

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

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

REMUNERATION REPORT (CONTINUED)

The assessed fair value at grant date of options granted to individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables above. Fair values at grant date are independently determined using the 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. No options were granted during the financial year ended 30 June 2008.

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

No terms of equity-settled share based payment transactions (including options granted as remuneration to a key management person) have been altered or modified by the Company during the financial year ended 30 June 2008.

Exercise of options granted as remuneration

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

Name	Date of exercise of options	Number of ordinary shares issued on exercise of options during the year	
		2008*	2007*
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	30/11/07	1,000,000	-
Mr C Catlow	-	-	-
Mr G Cowe	-	-	-
Other executives			
Mr J Blanning	24/01/08	250,000	-
Mr W Ramsey	01/02/08	250,000	-
Mr W Ramsey	27/04/07	-	500,000

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

E ADDITIONAL INFORMATION

Details of remuneration - 2008 cash bonuses and options

For each cash bonus and grant of options included in the tables on pages 15 to 17 and 19 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 are 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.

REMUNERATION REPORT (CONTINUED)

Name	Cash bonus Paid %	Cash bonus Forfeited %	Options Year Granted	Options Vested %	Options Forfeited %	Options Financial years in which options may vest	Options Minimum total value of grant yet to vest $	Options 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	-	-	2005	75%	-	30/06/2009	-	21,835
Mr C Catlow	-	-	2006	50%	-	30/06/2010	-	180,693
Mr G Cowe	-	-	-	-	-	-	-	-
Other executives								
Mr J Blanning	-	-	2007	50%	-	30/06/2010	-	297,266
Mr W Ramsey	-	-	2006	75%	-	30/06/2010		180,693

Further details relating to option transactions during the 2008 financial year 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 $
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	7%	-	5,393,000	-
Mr C Catlow	22%	-	-	-
Mr G Cowe	-	-	-	-
Other executives				
Mr J Blanning	22%	-	1,204,500	-
Mr W Ramsey	18%	-	1,482,750	-

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) Pty Ltd, formerly BDO Chartered Accountants) for audit and non-audit services provided during the year are set out below.

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

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

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

	Consolidated	
Amounts received or due and receivable by auditors for:	**2008**	**2007**
	$	**$**
Audit Services:		
Audit and review of financial reports (BDO Kendalls Audit & Assurance (WA) Pty Ltd)	225,632	99,023
Services other than statutory audit:		
Other assurance services		
Financial due diligence (BDO Consultants (WA) Pty Ltd)	47,584	63,179
Risk advisory services (BDO Risk Advisory Services (QLD) Pty Ltd)	20,637	-
Total Remuneration	293,853	162,202

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration under section 307C of the *Corporations Act 2001* is set out on page 24.

ROUNDING OFF

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

AUDITOR

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

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

Herb Elliott
Chairman

Dated at Perth this 19th day of September 2008.

BDO Kendalls

BDO Kendalls Audit & Assurance (WA) Pty Ltd
128 Hay Street
SUBIACO WA 6008
PO Box 700
WEST PERTH WA 6872
Phone 61 8 9380 8400
Fax 61 8 9380 8499
aa.perth@bdo.com.au
www.bdo.com.au

ABN 79 112 284 787

19 September 2008

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

Dear Sirs

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

As lead auditor of Fortescue Metals Group Limited for the year ended 30 June 2008, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

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

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

Glyn OBrien

GD O'Brien
Director

BDO Kendalls

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

FORTESCUE METALS GROUP LTD
INCOME STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

	Note	Consolidated 2008 $'000	Consolidated 2007 $'000 Restated	Company 2008 $'000	Company 2007 $'000 Restated
Revenue	4	**201,059**	-	**32,776**	-
Cost of sales	5	**(128,881)**	-	**(22,115)**	-
Gross profit		**72,178**	-	**10,661**	-
Interest revenue		**66,267**	111,438	**18,984**	-
Other income	6	**192,999**	223,814	**5,560**	-
Financial expenses	7	**(3,895,600)**	(592,333)	**(3,254)**	(2,528)
Administration expenses	8	**(31,737)**	(23,393)	**(31,737)**	(23,393)
Profit/(loss) before income tax		**(3,595,893)**	(280,474)	**214**	(25,921)
Income tax benefit	9	**1,079,655**	88,218	**814**	13,251
Profit/(loss) attributable to members of the Company		**(2,516,238)**	(192,256)	**1,028**	(12,670)
Loss per share:					
Basic loss per share (cents)	28	**(155.30)**	(12.06)		
Diluted loss 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 2008

	Note	Consolidated 2008 $'000	Consolidated 2007 $'000 Restated	Company 2008 $'000	Company 2007 $'000 Restated
CURRENT ASSETS					
Cash and cash equivalents	10	**192,237**	1,682,201	**284**	48,092
Trade and other receivables	11	**158,742**	257,533	**3,222,103**	373,164
Inventories	12	**51,738**	-	**-**	-
Financial assets	13	**38**	38	**38**	38
Derivatives held at fair value	14	**-**	3,168	**-**	-
Other current assets	15	**1,655**	1,283	**1,655**	1,283
Total Current Assets		**404,410**	1,944,223	**3,224,080**	422,577
NON-CURRENT ASSETS					
Trade and other receivables	11	**2,445**	2,438	**2,445**	2,438
Exploration and evaluation expenditure	17	**4,027**	5,101	**-**	-
Development Expenditure	18	**1,510,132**	510,330	**-**	-
Property, plant and equipment	20	**1,861,854**	838,138	**7,242**	8,996
Intangible assets	21	**32,727**	5,320	**32,727**	5,320
Deferred tax assets	16	**1,360,995**	207,218	**132,468**	116,017
Other financial assets	13	**1**	1	**1**	1
Total Non-Current Assets		**4,772,181**	1,568,546	**174,883**	132,772
TOTAL ASSETS		**5,176,591**	3,512,769	**3,398,963**	555,349
CURRENT LIABILITIES					
Borrowings	23	**358,294**	265,816	**-**	-
Provisions	24	**22,644**	-	**-**	-
Trade and other payables	22	**164,405**	66,246	**2,339,054**	2,544
Derivatives held at fair value	14	**15,162**	-	**-**	-
Total Current Liabilities		**560,505**	332,062	**2,339,054**	2,544
NON-CURRENT LIABILITIES					
Borrowings	23	**5,948,329**	2,645,770	**-**	-
Trade and other payables	22	**116,381**	43,248	**-**	-
Deferred tax liabilities	16	**191,060**	119,000	**2,741**	530
Total Non-Current Liabilities		**6,255,770**	2,808,018	**2,741**	530
TOTAL LIABILITIES		**6,816,275**	3,140,080	**2,341,795**	3,074
NET ASSETS / (DEFICIT)		**(1,639,684)**	372,689	**1,057,168**	552,275
EQUITY					
Contributed equity		**1,077,932**	574,003	**1,077,932**	574,003
Reserves		**3,832**	3,896	**3,832**	3,896
Accumulated losses		**(2,721,448)**	(205,210)	**(24,596)**	(25,624)
TOTAL EQUITY / (DEFICIENCY IN EQUITY)	29	**(1,639,684)**	372,689	**1,057,168**	552,275

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 2008

	Note	Consolidated 2008 $'000	Consolidated 2007 $'000	Company 2008 $'000	Company 2007 $'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash receipts from customers		**164,165**	-	**19,729**	-
Interest received		**63,373**	111,438	**18,984**	-
Payments to suppliers and employees		**(178,563)**	(19,034)	**(41,607)**	(19,034)
Exploration and evaluation expenditure		**(11,299)**	(5,101)	**-**	-
Development Expenditure		**(774,731)**	(539,252)	**-**	(299,127)
Payments for purchase of infrastructure assets		**(1,162,572)**	(829,142)	**-**	-
Interest paid		**(241,558)**	(153,025)	**-**	(2,254)
Net cash outflow from operating activities	10(a)	**(2,141,185)**	(1,434,116)	**(2,894)**	(320,415)
CASH FLOWS FROM INVESTING ACTIVITIES					
Payments for purchase of other plant and equipment		**(525)**	(2,501)	**(525)**	(2,501)
Payments for purchase of intangible assets		**(27,437)**	(5,320)	**(27,437)**	(5,320)
Proceeds from disposal of plant and equipment		**177,578**	29	**-**	29
Net cash inflow/ (outflow) from investing activities		**149,616**	(7,792)	**(27,962)**	(7,792)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from the issue of share capital		**506,736**	425,933	**506,736**	425,933
Proceeds from borrowings		**-**	2,964,044	**-**	132,760
Payment of transaction costs		**(10,220)**	-	**(10,220)**	-
Repayment of borrowings		**-**	(197,135)	**-**	(197,135)
Transfers to subsidiaries		**-**	-	**(513,468)**	-
Deposits received		**73,133**	43,248	**-**	-
Net cash inflow/ (outflow) from financing activities		**569,649**	3,236,090	**(16,952)**	361,558
Net increase/(decrease) in cash and cash equivalents		**(1,421,920)**	1,794,182	**(47,808)**	33,351
Cash and cash equivalents at 1 July		**1,682,201**	18,054	**48,092**	18,054
Effect of exchange rate changes on cash and cash equivalents		**(68,044)**	(130,035)	**-**	(3,313)
Cash and cash equivalents at 30 June	10	**192,237**	1,682,201	**284**	48,092

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 2008

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)
Effect of change in accounting policy	-	(123,826)	-	(123,826)
Total recognised income and expense for the year	-	(192,256)	-	(192,256)
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	(205,210)	3,896	372,689

Consolidated	Contributed equity $'000	Accumulated losses $'000	Reserves $'000	Total Equity $'000
Opening balance at 1 July 2007	574,003	(205,210)	3,896	372,689
Net loss for the period	-	(2,277,107)	-	(2,277,107)
Effect of change in accounting policy	-	(239,131)	-	(239,131)
Total recognised income and expense for the year	-	(2,516,238)	-	(2,516,238)
Transactions with equity holders in their capacity as equity holders:				
Issue of share capital	505,986	-	-	505,986
Exercise of options	4,497	-	(1,760)	2,737
Forfeited options	-	-	(236)	(236)
Transaction costs	(6,554)	-	-	(6,554)
Equity settled share based payment transactions	-	-	1,932	1,932
	503,929	-	(64)	503,865
Closing balance at 30 June 2008	1,077,932	(2,721,448)	3,832	(1,639,684)

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 2008

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)
Effect of change in accounting policy	-	(1,578)	-	(1,578)
Total recognised income and expense for the year	-	(12,670)	-	(12,670)
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	(25,624)	3,896	552,275

Company	Contributed equity $'000	Accumulated losses $'000	Reserves $'000	Total Equity $'000
Opening balance at 1 July 2007	574,003	(25,624)	3,896	552,275
Net loss for the period	-	(12,261)	-	(12,261)
Effect of change in accounting policy	-	13,289	-	13,289
Total recognised income and expense for the year	-	1,028	-	1,028
Transactions with equity holders in their capacity as equity holders:				
Issue of share capital	505,986	-	-	505,986
Exercise of options	4,497	-	(1,760)	2,737
Forfeited options	-	-	(236)	(236)
Transaction costs	(6,554)	-	-	(6,554)
Equity settled share based payment transactions	-	-	1,932	1,932
	503,929	-	(64)	503,865
Closing balance at 30 June 2008	1,077,932	(24,596)	3,832	1,057,168

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 2008 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 and the financial report of the Company comply with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board.

The financial statements were approved by the Board of Directors on 16 September 2008.

(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(j) and 3(k).

(c) Functional and presentation 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 98/100 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 dollars 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 16 – utilisation of tax losses
Note 17 – measurement of recoverable amount of exploration assets
Note 18 – measurement of the recoverable amounts of development expenditure
Note 23 – valuation of borrowings
Note 24 – site rehabilitation
Note 32 – financial risk management
Note 36 – measurement of share-based payments
Note 37 – contingent liabilities

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.

Certain comparative amounts have been reclassified to conform to the current year's presentation.

(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 2008 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 all those entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. They are de-consolidated from the date that control ceases.

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

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

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

(b) Segment Reporting

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

NOTE 3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Foreign Currency Transactions and Balances

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

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

(d) Revenue Recognition

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

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

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

(ii) Traded freight
Revenue from freight services is recognised on the bill of lading date of the customer. Revenue from a longer term contract to provide freight services is recognised by reference to the stage of completion of the contract. The stage of completion of the contract is determined by recognising revenue from time and material contracts at contractual rates over the life of the contract.

(iii) Interest
Interest revenue on cash balances is recognised when it becomes receivable, using the effective interest method.

NOTE 3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Income Tax

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

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

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

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

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

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

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

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

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

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

NOTE 3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Business Combinations

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 statement 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.

(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. A provision for impairment of trade receivables is established when there is objective evidence that Fortescue will not be able to collect all amounts due.

(j) Investments and Other Financial Assets

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 and financial assets at fair value through profit and loss, re-evaluates this designation at each reporting period.

Unless otherwise indicated, the carrying amounts of Fortescue's financial assets are a reasonable approximation of their fair values.

NOTE 3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary assets. They are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition or issue and subsequently carried at amortised cost using the effective interest rate method, less provision for impairment. The effect of discounting on these financial instruments in not considered to be material.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment such that Fortescue will be unable to collect all of the amounts due under the terms receivable, the amount of such provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable). For trade receivables, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the income statement on confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

(ii) Fair value through profit or loss

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

The fair value of Fortescue’s interest rate derivative is based on broker quotes for similar instruments.

Interest rate derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. Fortescue has not qualified its interest rate derivatives as hedging instruments therefore changes to their fair value at each reporting date are taken immediately to the income statement.

(iii) Available for sale financial assets

Non-derivative financial assets not included in the above categories are classified as available for sale and comprise Fortescue’s investments in corporate bonds. They are carried at fair value with changes in fair value recognised directly in the available for sale reserve. Where there is a significant or prolonged decline in the fair value of an available for sale financial asset (which constitutes objective evidence of impairment), the full amount of the impairment, including any amount previously charged to equity, is recognised in the income statement. Purchases and sales of available for sale financial assets are recognised on settlement date with any change in fair value between trade date and settlement date being recognised in the available for sale reserve. On sale, the amount held in the available for sale reserve associated with that asset is removed from equity and recognised in the income statement. Interest on corporate bonds classified as available for sale is calculated using the effective interest method and is recognised in financial income in the income statement.

(iv) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets carried at amortised cost using the effective interest rate method 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.

NOTE 3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Financial liabilities

Fortescue classifies its financial liabilities into one of two categories, depending on the purpose for which the asset was acquired. Unless otherwise indicated, the carrying amounts of Fortescue's financial liabilities are a reasonable approximation of their fair values.

(i) Fair value through profit or loss

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

(ii) Financial liabilities measured at amortised cost

Other financial liabilities include the following items:

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

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

(l) Equity Financial Instruments

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

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

(n) Inventories

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

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

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

NOTE 3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Property, Plant and Equipment

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

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

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. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation
Depreciation on assets, other than land, is calculated using the straight line method or units or production method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives.

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.

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

(i) Straight line method

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

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

Land is not depreciated

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

NOTE 3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ii) Units of production method

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

(p) Intangible Assets

(i) IT development and software

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

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

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

(ii) Research and development

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

(q) Mineral Exploration and Evaluation Expenditure

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

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

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

NOTE 3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(r) 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.

(s) Borrowings

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

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.

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.

(t) Borrowing Costs

Borrowing costs are expensed as incurred. This is a change in the accounting policy of Fortescue, refer note 3(ah).

(u) 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.

NOTE 3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Rehabilitation

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

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

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

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

(w) 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.

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

(iii) Share-based payments
Share-based remuneration benefits are provided to employees via the Fortescue Metals Group Incentive Option Scheme (“FMGIOS”) and Performance Rights Plan (“PRP”). Information relating to these schemes is set out in note 36.

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

NOTE 3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The fair value at grant date is independently determined using the 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 reporting date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate. The impact of the revision to original estimates, if any, is recognised in the income statement with a corresponding adjustment to equity.

Under the PRP, 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.

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

(x) 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.

(y) Loss Per Share

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

(ii) Diluted loss per share
Diluted loss per share adjusts the figures used in the determination of basic loss per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

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

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

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

NOTE 3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(aa) 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.

(ab) Other Income

Other income comprises 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 or loss, foreign currency gains and gains on hedging instruments that are recognised in profit and loss. 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.

(ac) 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.

(ad) Development Expenditure

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

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

NOTE 3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

(ae) Deferred Stripping

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

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

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

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

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

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

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

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

NOTE 3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(af) Rounding of Amounts

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

(ag) New Accounting Standards and Interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2008 reporting periods. Fortescue’s and the Company’s assessment of the impact of these new standards and interpretations is set out below.

(i) AASB 8 *Operating Segments and AASR 2007-3 Amendments to Accounting Standards arising from AASB 8*
AASB 8 and AASB 2007-3 are effective for annual reporting periods commencing on or after 1 January 2009. AASB 8 will result in a significant change in the approach to segment reporting, as it requires adoption of a ‘management approach’ to reporting on financial performance. The information being reported will be based on what the key decision makers’ use internally for evaluating segment performances and deciding how to allocate resources to operating segments. Fortescue has not yet decided when to adopt AASB 8. Application of AASB 8 may result in different segments, segment results and different types of information being reported in the segment note of the financial report. However, at this stage, it is not expected to affect any of the amounts recognised in the financial statements.

(ii) Revised AASB 123 Borrowing Costs and AASB 2007-6 *Amendments to Australian Accounting Standards arising from AASB 123* [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 & 12]
The revised AASB 123 is applicable to annual reporting periods commencing on or after 1 January 2009. It has removed the option to expense all borrowing costs and – when adopted – will require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. Fortescue has adopted the current benchmark treatment of expensing all borrowing costs and will have to change its accounting policy and no longer expense all borrowing costs when this new standard becomes mandatory.

(iii) AASB-I 14 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*
AASB-I 14 will be effective for annual reporting periods commencing on or after 1 January 2008. It provides guidance on the maximum amount that may be recognised as an asset in relation to a defined benefit plan and the impact of minimum funding requirements on such an asset. Fortescue does not have any defined benefit plans.

(iv) Revised AASB 101 *Presentation of Financial Statements and* AASB 2007-8 *Amendments to Australian Accounting Standards arising from AASB 101*
A revised AASB 101 was issued in September 2007 and is applicable for annual reporting periods beginning on or after 1 January 2009. It requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity, but will not affect any of the amounts recognised in the financial statements. If an entity has made a prior period adjustment or

NOTE 3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

has reclassified items in the financial statements, it will need to disclose a third balance sheet (statement of financial position), this one being as at the beginning of the comparative period. Fortescue intends to apply the revised standard from 1 July 2009.

(v) Revised AASB 3 *Business Combinations*
The revised AASB 3 is applicable to annual reporting periods commencing on or after 1 July 2009. The revised standard introduces more detailed guidance on accounting for step acquisitions, adjustments to contingent consideration assets acquired that the purchaser does not intend to use, reacquired rights and share based payments as part of purchase consideration. Also, all acquisition costs will have to be expensed instead of being recognised as part of goodwill. Fortescue has not yet decided when to adopt the revised AASB 3. At this stage, it is not expected to affect any of the amounts recognised in the financial statements.

(vi) AASB 2008-1 *Amendments to AASB 2 – Share based payments – vesting conditions and cancellations*
AASB 2008-1 is applicable for periods commencing on or after 1 January 2009. The definition of vesting conditions has changed and the accounting treatment clarified for cancellations to share based payment arrangements by the counterparty. This is to ensure that conditions other than performance conditions do not result in a "true up" of the share based payment expense and are treated in a manner similar to market conditions. To date the Company has not issued any options to employees that include non-vesting conditions and as such there will be no impact on the financial statements when this revised standard is adopted for the first time.

(vii) AASB 2008-5 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project*
AASB 2008-5 is applicable for periods commencing on or after 1 July 2009. These amendments reflect accounting changes for presentation, recognition and measurement, as well as terminology and editorial changes. One amendment of AASB 123 *Borrowing Costs* is that borrowing costs are now defined to include the interest expense calculated using the effective interest method. As such, various components of the definition have been deleted as these are included in the effective interest calculation. There will be no impact as these amendments merely clarify existing practice. The other major amendment applicable to Fortescue will be to AASB 136 *Impairment of Assets*, which requires additional disclosure requirements about discounted cash flow assumptions used for the fair value less costs to sell method. These amendments have no financial impact on Fortescue, only additional disclosure requirements.

(viii) AASB 2008-6 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project*
AASB 2008-6 is applicable for periods commencing on or after 1 July 2009. If a parent entity is committed to a sale plan involving loss of control of a subsidiary that meets the criteria for classification as held-for-sale under AASB 5, all the assets and liabilities of that subsidiary must be classified as held for sale. There will be no impact on Fortescue as these requirements are only required to be applied prospectively to situations where there is a plan involving loss of control in annual periods commencing on or after 1 January 2009.

(ix) AASB 2008-7 *Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
AASB 2008-7 is applicable for periods commencing on or after 1 January 2009. The change deals with the removal of the definition of the "cost method" in AASB 127, meaning that pre and post-acquisition dividends no longer need to be differentiated and all dividends are to be recognised as revenue. However, whenever a dividend is received from a subsidiary, associate or jointly controlled entity, an impairment test will be required under AASB 136 where there is an indicator for impairment. There will be no impact as these requirements are only required to be applied

NOTE 3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

prospectively for periods commencing on or after 1 January 2009. However, any pre-acquisition dividends received after this date may result in additional impairment changes on investments in subsidiaries, associates and jointly controlled entities. This is because such amounts would previously have been written off directly against the cost of the investment, whereas in future they will be recognised as revenue which may result in the investment being stated at an amount exceeding recoverable amount.

(ah) Change in accounting policy

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

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

The change in accounting policy was applied retrospectively and comparatives have been restated. The change in accounting policy had the following impact on the consolidated financial statements.

	Consolidated		The Company	
	2008 $’000	2007 $’000	2008 $’000	2007 $’000
Loss attributable to members of the Company for the year ended 30 June	(2,277,107)	(68,430)	(12,261)	(11,092)
Increase in other income	66,267	111,438	18,984	-
Increase in financial expense	(407,882)	(288,332)	-	(2,254)
Increase in income tax benefit/(expense)	102,484	53,068	(5,695)	676
Final profit/ (loss) attributable to members of the Company	(2,516,238)	(192,256)	1,028	(12,670)
Net assets/(deficit) as at 30 June	(1,400,553)	496,515	1,043,879	553,853
Decrease in development expenditure	(341,615)	(176,894)	-	-
Increase/(decrease) in intercompany receivable	-	-	18,984	(2,254)
Increase/(decrease) in deferred tax liability	102,484	53,068	(5,695)	676
Final net assets/ (deficit) at 30 June	(1,639,684)	372,689	1,057,168	552,275
Increase/(decrease) in accumulated losses	239,131	123,826	(13,289)	1,578

The change in accounting policy had an impact of increasing Fortescue’s loss per share by 14.76 cents per share (2007: 7.77 cents per share) on basic earnings per share. Diluted loss per share has not been calculated for the consolidated entity as any conversion of options would result in a decrease in the net loss per share.

NOTE 4. REVENUE

	Consolidated 2008 $'000	Consolidated 2007 $'000	Company 2008 $'000	Company 2007 $'000
Sale of iron ore	129,904	-	-	-
Shipping revenue	71,155	-	-	-
	201,059	-	32,776	-

NOTE 5. COST OF SALES

	Consolidated 2008 $'000	Consolidated 2007 $'000	Company 2008 $'000	Company 2007 $'000
Operating expenses	125,719	-	22,085	-
Depreciation and amortisation expense	3,162	-	30	-
	128,881	-	22,115	-
(a) Operating expenses				
Mining costs	39,378	-	-	-
Rail costs	8,867	-	-	-
Port costs	4,790	-	-	-
Shipping costs	60,852	-	-	-
Government royalty	11,832	-	-	-
	125,719	-	22,085	-
(b) Depreciation and amortisation expense				
Depreciation of infrastructure assets	1,739	-	-	-
Amortisation of intangible assets	30	-	30	-
Amortisation of development expenditure	1,393	-	-	-
	3,162	-	30	-

NOTE 6. OTHER INCOME

	Consolidated 2008 $'000	Consolidated 2007 $'000	Company 2008 $'000	Company 2007 $'000
Fair value gains on interest swaps	-	3,168	-	-
Net foreign exchange gain – Subordinated Loan Note	16,313	88,307	-	-
Net foreign exchange gain - other	176,686	132,339	5,560	-
	192,999	223,814	5,560	-

NOTE 7. FINANCIAL EXPENSES

	Consolidated		Company	
	2008 $'000	2007 $'000 Restated	2008 $'000	2007 $'000 Restated
Fair value adjustment to Subordinated Loan Note	3,466,134	304,001	-	-
Interest expense – Subordinated Loan Note	161,878	53,784	-	-
Interest expense - other	246,004	234,548	-	2,254
Debt establishment costs	3,254	-	3,254	-
Fair value loss on interest swaps	18,330	-	-	-
Net foreign exchange loss - other	-	-	-	274
	3,895,600	592,333	3,254	2,528

NOTE 8. ADMINISTRATION EXPENSES

Wages and salaries, including superannuation	1,513	1,944	1,513	1,944
Other associated personnel expenses	11,160	3,078	11,160	3,078
Increase in liability for annual leave	3,158	966	3,158	966
Share based payment expense	1,696	1,807	1,696	1,807
Legal costs	4,319	3,192	4,319	3,192
Depreciation	2,279	2,687	2,279	2,687
Other administration expenses	7,612	9,719	7,612	9,719
	31,737	23,393	31,737	23,393

NOTE 9. INCOME TAX BENEFIT

(a) Income tax benefit

Current tax	10,020	61,314	-	41,707
Adjustment for prior periods – current tax	2,475	-	2,475	-
Deferred tax	1,067,160	22,054	(1,661)	67,531
Tax losses recognised – current year	-	4,850	-	6,249
Consolidation adjustment (see note 16)	-	-	-	(102,236)
	1,079,655	88,218	814	13,251

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

Loss /(profit) before tax	3,595,893	280,474	(214)	25,921
Income tax benefit / (expense) calculated at 30% (2007: 30%)	1,078,768	84,142	(64)	7,776
Sundry non-deductible/ (deductible) expenses	(146)	(232)	(155)	(232)
Share based payments	(509)	(542)	(509)	(542)
Benefits of tax losses and temporary differences not previously brought to account	-	4,850	-	6,249
Adjustment for prior periods – current tax	1,542	-	1,542	-
Income tax benefit for the year	1,079,655	88,218	814	13,251

NOTE 9. INCOME TAX (continued)

(d) Tax consolidation legislation

The Company and its wholly-owned Australian controlled entities implemented the tax consolidation legislation from 1 July 2003. The accounting policy in relation to this legislation is set out in note 3(e).

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

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

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

NOTE 10. CASH AND CASH EQUIVALENTS - CURRENT

	Consolidated		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Cash on hand	26	20	26	20
Cash at bank	192,211	1,682,181	258	48,072
Cash and cash equivalents	192,237	1,682,201	284	48,092

NOTE 10a. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	Consolidated		Company	
	2008 $'000	**2007 $'000 Restated**	**2008 $'000**	**2007 $'000 Restated**
Profit/(loss) for the year	(2,516,238)	(192,256)	1,028	(12,670)
Depreciation of other plant and equipment	2,279	2,687	2,279	2,687
Amortisation of intangible assets	30	-	30	-
Depreciation of infrastructure assets	1,739	-	-	-
Amortisation of development expenditure	1,393	-	-	-
Profit on disposal of assets	-	(21)	-	(21)
Provision – employee entitlements	3,158	966	3,158	966
Equity-settled share based payment transactions	1,696	1,807	1,696	1,807
Net effective interest on borrowings	165,338	-	-	-
Debt establishment costs	3,254	-	3,254	-
Fair value adjustment on interest rate swaps	18,330	(3,168)	-	-
Fair value adjustment on Subordinated Loan Note	3,466,134	304,001	-	-
Exploration, development and AUC expenditure capitalised	(2,195,428)	(1,161,659)	-	178,248
Tax (benefit)/expense	(1,079,655)	88,218	(814)	13,251
Net unrealised (gain)/loss on foreign exchange	(168,418)	(220,647)	-	274
Operating profit/(loss) before changes in working capital	(2,296,388)	(1,180,072)	10,631	184,542
Changes in assets and liabilities during the year:				
Increase/ (decrease) in payables	95,002	79,153	-	(14,130)
(Increase) /decrease in financial assets	-	285	-	285
(Increase) /decrease in receivables and prepayments	111,939	(192,196)	(13,525)	(375,625)
(Increase) /decrease in inventory	(51,738)	-	-	-
(Increase)/decrease in net tax asset	-	(141,286)	-	(115,487)
Net cash used in operating activities	(2,141,185)	(1,434,116)	(2,894)	(320,415)

NOTE 11. TRADE AND OTHER RECEIVABLES

	Consolidated		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
CURRENT				
Trade debtors	50,059	-	13,047	-
GST receivables	16,882	13,666	16,882	13,666
Security deposits	89,972	243,755	-	2,963
Intercompany receivables	-	-	3,190,345	356,423
Other receivables	1,829	112	1,829	112
	158,742	257,533	3,222,103	373,164
NON-CURRENT				
Loan receivable	2,445	2,438	2,445	2,438
	2,445	2,438	2,445	2,438

Information about Fortescue and the Company's exposure to foreign currency risk, interest rate risk and price risk are disclosed in Note 32. Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair value.

NOTE 12. INVENTORIES - CURRENT

	Consolidated		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Raw materials and stores – at cost	14,203	-	-	-
Iron ore stockpiles – at cost	37,535	-	-	-
	51,738	-	-	-

Inventories recognised as expense during the year ended 30 June 2008 amounted to $53,035,000 (2007 - nil).

NOTE 13. FINANCIAL ASSETS

CURRENT				
Listed investments – at cost	38	38	38	38
	38	38	38	38
NON-CURRENT				
Unquoted investments – at cost	1	1	1	1
	1	1	1	1

Unquoted investments are available-for-sale assets.

NOTE 14. DERIVATIVE AT FAIR VALUE - CURRENT

	Consolidated		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Interest rate derivative asset held at fair value	-	3,168	-	-
Interest rate derivative liability at fair value	(15,162)	-	-	-
Net interest rate derivative held at fair value	(15,162)	3,168	-	-

Changes in fair values of financial assets at fair value through profit or loss are recorded in other income or financial expenses in the income statement.

(a) Risk exposure

Information about Fortescue's and the Company's exposure to credit risk, foreign exchange and price risk is provided in note 32.

NOTE 15. OTHER CURRENT ASSETS – CURRENT

	Consolidated		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Prepayments	1,655	1,283	1,655	1,283
	1,655	1,283	1,655	1,283

NOTE 16. DEFERRED TAX ASSETS AND LIABIITIES – NON CURRENT

During the year ended 30 June 2007 $115.4 million of previously unrecognised tax losses were recognised as management considered it probable that future taxable profits would be available against which they could be utilised.

Deferred tax assets and liabilities are attributable to the following:

Consolidated	Assets		Liabilities		Net	
	2008 $'000	2007 $'000 Restated	2008 $'000	2007 $'000 Restated	2008 $'000	2007 $'000 Restated
Exploration and evaluation	-	-	(1,799)	(1,530)	(1,799)	(1,530)
Development expenditure	45,314	-	-	(7,483)	45,314	(7,483)
Net unrealised foreign exchange gains	-	-	(168,957)	(100,771)	(168,957)	(100,771)
Borrowing costs	-	-	(17,098)	(7,720)	(17,098)	(7,720)
Net effective interest on Subordinated Loan Note	48,564	-	-	-	48,564	-
Net effective interest on Senior Secured Notes	11,086	-	-	-	11,086	-
Fair value adjustments on interest rate swap	(5,499)	-	-	(950)	(5,499)	(950)
Fair value adjustment on Subordinated Loan Note	1,131,040	91,200	-	-	1,131,040	91,200
Provisions	1,554	428	-	-	1,554	428
Business related costs	691	-	-	-	691	-
Other items	354	195	(3,206)	(546)	(2,852)	(351)
Revenue tax losses	127,891	115,395	-	-	127,891	115,395
Deferred tax assets/(liabilities)	1,360,995	207,218	(191,060)	(119,000)	1,169,935	88,218
Set off of tax	-	-	-	-	-	-
Deferred tax assets/(liabilities)	1,360,995	207,218	(191,060)	(119,000)	1,169,935	88,218

Company	Assets		Liabilities		Net	
	2008 $'000	2007 $'000 Restated	2008 $'000	2007 $'000 Restated	2008 $'000	2007 $'000 Restated
Revenue tax losses	127,891	115,395	-	-	127,891	115,395
Provisions	1,554	428	-	-	1,554	428
Exploration and evaluation	-	-	-	-	-	-
Development expenditure	-	-	(905)	381	(905)	381
Net unrealised foreign exchange gains	-	-	(1,836)	(911)	(1,836)	(911)
Borrowing costs	1,010	3	-	-	1,010	3
Business related costs	1,659	-	-	-	1,659	-
Other items	354	191	-	-	354	191
Tax (assets)/liabilities	132,468	116,017	(2,741)	(530)	129,727	115,487
Set off tax	-	-	-	-	-	-
Net tax (assets)/liabilities	132,468	116,017	(2,741)	(530)	129,727	115,487

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

Movement in temporary differences during the year

Consolidated	Balance 1 July 06 $'000	Recognised in profit or loss $'000	Recognised in equity $'000	Balance 30 June 07 $'000	Recognised in profit or loss $'000	Recognised in equity $'000	Balance 30 June 08 $'000
Exploration and evaluation	(48,442)	46,912	-	(1,530)	(269)	-	(1,799)
Development expenditure	(332)	(7,151)	-	(7,483)	52,797	-	45,314
Net unrealised foreign exchange gains	(782)	(99,989)	-	(100,771)	(68,186)	-	(168,957)
Borrowing costs	4	(7,724)	-	(7,720)	(9,378)	-	(17,098)
Fair value adjustments on interest rate swap	-	(950)	-	(950)	(4,549)	-	(5,499)
Fair value adjustment on Subordinated Loan Note	-	91,200	-	91,200	1,039,840	-	1,131,040
Net effective interest on Subordinated Loan Note	-	-	-	-	48,564	-	48,564
Net effective interest on Senior Secured Notes	-	-	-	-	11,086	-	11,086
Provisions	174	254	-	428	1,126	-	1,554
Other items	146	(497)	-	(351)	(2,501)	-	(2,852)
Revenue tax losses	49,232	66,163	-	115,395	12,496	-	127,891
Business related costs	-	-	-	-	(1,371)	2,062	691
	-	88,218	-	88,218	1,079,655	2,062	1,169,935

Company	Balance 1 July 06 $'000	Recognised in profit or loss $'000	Recognised in equity $'000	Balance 30 June 07 $'000	Recognised in profit or loss $'000	Recognised in equity $'000	Balance 30 June 08 $'000
Revenue tax losses	47,833	67,562	-	115,395	12,496	-	127,891
Other items	145	46	-	191	163	-	354
Provisions	174	254	-	428	1,126	-	1,554
Exploration and evaluation	(47,042)	47,042	-	-	-	-	-
Development expenditure	(332)	713	-	381	(1,286)	-	(905)
Net unrealised foreign exchange gains	(782)	(129)	-	(911)	(925)	-	(1,836)
Borrowing costs	4	(1)	-	3	1,007	-	1,010
Business related costs	-	-	-	-	(403)	2,062	1,659
	-	115,487	-	115,487	12,178	2,062	129,727

Consolidation Adjustments

	Consolidated		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Total increase/(reduction) to tax expense of company	-	-	(12,041)	(102,236)
Total increase/(decrease) to inter-company assets of company	-	-	12,041	102,236

NOTE 17. EXPLORATION AND EVALUATION EXPENDITURE – NON CURRENT

	Consolidated		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Carrying amount at beginning of year	5,101	182,914	-	178,248
Expenditure	11,299	6,605	-	6,170
Transfers to development expenditure	(12,373)	(184,418)	-	(184,418)
Carrying amount at end of year	4,027	5,101	-	-

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	
	2008 $'000	2007 $'000 Restated	2008 $'000	2007 $'000 Restated
Development expenditure at cost	1,511,525	510,330	-	-
Accumulation amortisation	(1,393)	-	-	-
	1,510,132	510,330	-	-
Reconciliation of movement in carrying amounts				
Balance at beginning of year	510,330	-	-	-
Expenditure	966,178	325,912	-	325,912
Net additions of rehabilitation assets	22,644	-	-	-
Transfer from exploration	12,373	184,418	-	184,418
Transferred to subsidiaries	-	-	-	(510,330)
Amortisation of development expenditure	(1,393)	-	-	-
Balance at end of year	1,510,132	510,330	-	-

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

NOTE 19. CONSOLIDATED ENTITIES

Company	Class of share	Country of Incorporation	Equity Holding 2008 %	Equity Holding 2007 %	Cost to Company 2008 $	Cost to Company 2007 $
Parent Entity						
Fortescue Metals Group Ltd		Australia			-	-
Controlled Entities						
International Bulk Ports Pty Ltd	Ordinary	Australia	100	100	1	1
The Pilbara Infrastructure Pty Ltd @	Ordinary	Australia	100	100	-	-
FMG Resources Pty Ltd	Ordinary	Australia	100	100	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	1
Karribi Developments Pty Ltd	Ordinary	Australia	100	100	1	1
FMG Magnetite Pty Ltd	Ordinary	Australia	100	100	1	1
FMG North Pilbara Pty Ltd	Ordinary	Australia	100	100	1	1
FMG Pacific Limited	Ordinary	New Zealand	100	-	1	-
					407	406

@ 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

Fortescue acquired the shelf company FMG Pacific Limited during the financial year ended 30 June 2008.

NOTE 20. PROPERTY, PLANT AND EQUIPMENT – NON CURRENT

	Consolidated 2008 $'000	Consolidated 2007 $'000	Company 2008 $'000	Company 2007 $'000
Land and buildings – at cost	341	316	341	316
Accumulated depreciation	(6)	(2)	(6)	(2)
	335	314	335	314
Plant and other office equipment – at cost	10,366	9,947	10,366	9,947
Accumulated depreciation	(4,098)	(2,482)	(4,098)	(2,482)
	6,268	7,465	6,268	7,465
Motor vehicles – at cost	212	151	212	151
Accumulated depreciation	(42)	(14)	(42)	(14)
	170	137	170	137
Computer equipment	2,325	2,305	2,325	2,305
Accumulated depreciation	(1,856)	(1,225)	(1,856)	(1,225)
	469	1,080	469	1,080
Infrastructure assets[1]	1,856,351	-	-	-
Accumulated depreciation	(1,739)	-	-	-
	1,854,612	-	-	-
Assets under construction	-	829,142	-	-
Total property, plant and equipment	1,861,854	838,138	7,242	8,996

NOTE 20. PROPERTY, PLANT AND EQUIPMENT – NON CURRENT (continued)

	Consolidated		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Reconciliation of movements in carrying amounts				
Land and Buildings				
Carrying amount at beginning of year	314	315	314	315
Additions	25	-	25	-
Depreciation	(4)	(1)	(4)	(1)
Carrying amount at end of year	335	314	335	314
Plant and other equipment				
Carrying amount at beginning of year	7,465	3,556	7,465	3,556
Additions	419	5,371	419	5,371
Disposals	-	(7)	-	(7)
Depreciation	(1,616)	(1,455)	(1,616)	(1,455)
Carrying amount at end of year	6,268	7,465	6,268	7,465
Motor vehicles				
Carrying amount at beginning of year	137	3	137	3
Additions	61	144	61	144
Disposals	-	(4)	-	(4)
Depreciation	(28)	(6)	(28)	(6)
Carrying amount at end of year	170	137	170	137
Computer equipment				
Carrying amount at beginning of year	1,080	-	1,080	-
Additions	20	2,305	20	2,305
Depreciation	(631)	(1,225)	(631)	(1,225)
Carrying amount at end of year	469	1,080	469	1,080
Infrastructure assets[1]				
Carrying amount at beginning of year	-	-	-	-
Transfers	1,856,351	-	-	-
Depreciation	(1,739)	-	-	-
Carrying amount at end of year	1,854,612	-	-	-
Assets under construction				
Carrying amount at beginning of year	829,142	-	-	-
Additions	1,217,951	829,142	-	-
Disposals	(190,742)	-	-	-
Transfers	(1,856,351)	-	-	-
Carrying amount at end of year	-	829,142	-	-

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

NOTE 21. INTANGIBLE ASSETS – NON-CURRENT

	Consolidated		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Software				
Software at cost	32,757	5,320	32,757	5,320
Amortisation	(30)	-	(30)	-
	32,727	5,320	32,727	5,320
Reconciliation of movement in carrying amounts				
Carrying amount at beginning of year	5,320	-	5,320	-
Additions	27,437	5,320	27,437	5,320
Amortisation	(30)	-	(30)	-
Balance at end of year	32,727	5,320	32,727	5,320

NOTE 22. TRADE AND OTHER PAYABLES

CURRENT				
Trade payables	-	3	-	3
Intercompany payables	-	-	2,329,931	-
Other payables and accruals	164,405	66,243	9,123	2,541
	164,405	66,246	2,339,054	2,544
NON-CURRENT				
Deposits received	116,381	43,248	-	-
	116,381	43,248	-	-

NOTE 23. INTEREST BEARING LOANS AND BORROWINGS

CURRENT					
Subordinated Loan Note	(ii)	130,139	14,834	-	-
Senior Secured Notes	(iii)	228,155	250,982	-	-
		358,294	265,816	-	-
NON-CURRENT					
Syndicated Secured Loan	(i)	-	-	-	-
Subordinated Loan Note	(ii)	3,882,461	386,067	-	-
Senior Secured Notes	(iii)	2,065,868	2,259,703	-	-
		5,948,329	2,645,770	-	-

NOTE 23. INTEREST BEARING LOANS AND BORROWINGS (continued)

No borrowings (non-current and current) were issued or repaid during the financial year ended 30 June 2008. The Subordinated Loan Note was revalued at 30 June 2008 based on prevailing market conditions and economic forecasts.

		Carrying amount		
	Currency	Current A$'000	Non-current A$'000	Total AUD A$'000
Balance at 1 July 2007	AUD	265,816	2,645,770	2,911,586
Fair value adjustment of Subordinated Loan Note	AUD	-	3,466,134	3,466,134
Revaluation / reclassification	AUD	92,478	(163,575)	(71,097)
Balance at 30 June 2008	AUD	358,294	5,948,329	6,306,623

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

					Carrying amount	
	Note	Currency	Face value A$'000	Current A$'000	Non-current A$'000	Total AUD A$'000
Balance at 1 July 2006	(i)	AUD		-	67,268	67,268
New issues :						
Syndicated Secured Loan	(i)	USD	117,827	-	129,867	129,867
Subordinated loan note facility	(ii)	USD	117,827	14,834	386,067	400,901
Senior Secured Notes	(iii)	USD	1,272,534	135,577	1,177,019	1,312,596
Senior Secured Notes	(iii)	USD	377,047	37,808	350,460	388,268
Senior Secured Notes	(iii)	USD	294,568	28,799	267,407	296,206
Senior Secured Notes	(iii)	EUR	499,129	48,798	464,817	513,615
Repayments :						
Syndicated Secured Loan	(i)	USD	176,741	-	(197,135)	(197,135)
Balance at 30 June 2007				265,816	2,645,770	2,911,586

i) Syndicated loan

The Company put in place during the financial year ended 30 June 2006 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 prior to completion of the 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 a nil drawn down balance as at 30 June 2007 with no additional amount drawn down during the current financial year.

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 during the previous financial year.

NOTE 23. INTEREST BEARING LOANS AND BORROWINGS (continued)

The key terms and conditions of the facility are:

- Interest under the note is calculated at 4% of the revenue, net of government royalties, from the sale of iron ore FOB Port Hedland from the tenements of the Cloudbreak and Christmas Creek areas only. 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. As at 30 June 2008 the total assets of the Issuer of this note, FMG Chichester Pty Ltd, pledged as security over the note is $2,077.9 million.

  The note was revalued at 30 June 2008 to $4,012,600,000 (30 June 2007: $400,901,000) in line with changes in the following management estimates, prevailing market conditions and economic forecasts:
- Production has been revised to reflect Fortescue's expectations that production from Christmas Creek and Cloudbreak will reach 160mtpa during the term of the facility;
- Future iron ore prices have been updated to reflect forecasts by an independent resource sector analyst; and
- Foreign exchange forecasts have been updated based on views provided by international banks.

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 previous 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 have been 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. Total assets of the Project Guarantors as at 30 June 2008 is $4,864.9 million.
- They are listed on the Singapore Exchange Securities Trading Limited ("the SGX-ST").

NOTE 24. PROVISIONS - CURRENT

	Consolidated		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Site rehabilitation				
Balance at 1 July	-	-	-	-
Provisions made during the year	22,644	-	-	-
Unwind of discount	-	-	-	-
Balance at 30 June	22,644	-	-	-

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

NOTE 25. EMPLOYEES

	Consolidated		Company	
	2008	2007	2008	2007
Average number of employees during the financial year	667	279	667	275

Note 36 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 Statements of Changes in Equity.

DATE	Ordinary shares fully paid:	Number of Shares	Issue Price	$'000
1 July 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	1,114
	Exercise of options	89,375	$5.69	508
	Exercise of options	2,500	$7.03	17
	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
	Transfer option expense from reserve for converted options	-	-	829
30 June 2007	Balance at end of financial year	265,687,743		577,666
	Shares issued	14,063,000	$35.98	505,986
	Exercise of options issued under the Fortescue Metals Group Incentive Option Scheme ("FMGIOS")	3,217,216	$0.85	2,737
	Transfer option expense from reserve for converted options	-	-	1,760
	Reorganisation of capital*	2,521,395,801		-
30 June 2008	Balance at end of financial year	2,804,363,760		1,088,149

NOTE 26. ISSUED CAPITAL (continued)

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

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. The movement in the share based payments reserve is disclosed in the Statements of Changes in Equity.

(b) *Asset revaluation reserve*
The asset revaluation reserve records revaluations of non-current assets and has a carrying value as at 30 June 2008 of $880,000. There has been no movement in the asset revaluation reserve during the 2007 or 2008 financial years. Under certain circumstances dividends can be declared from this reserve.

NOTE 28. LOSS PER SHARE

Basic loss per share
The calculation of basic loss per share at 30 June 2008 was based on the loss attributable to ordinary shareholders of $2,516,238,000 (2007: loss $192,256,000) and a weighted average number of ordinary shares outstanding during the financial year ended 30 June 2008 of 1,620,211,000 (2007: 1,593,887,000), calculated as follows:

Loss attributable to ordinary shares	**Consolidated**	
	2008	**2007**
	$’000	**$’000**
		Restated
Net loss for continuing operations	(2,516,238)	(192,256)

	Consolidated	
	2008	**2007**
Loss attributable to ordinary shareholders	(2,516,238)	(192,256)
Weighted average number of ordinary shares used in the calculation of basic loss per share (’000)	1,620,211	1,593,887
Basic loss per share (in cents)	(155.30)	(12.06)

Diluted loss 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 to the Subordinated Loan Note of $3,466,134,000 (refer note 7) recorded in FMG Chichester Pty Ltd. 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.

As at 30 June 2008 Fortescue has a net deficit position on its balance sheet of $1,639,684,000. This net deficit is primarily the result of the $3,466,134,000 (refer note 7) fair value adjustment to the Subordinated Loan Note. Interest under the note is calculated at 4% of the revenue, net of government royalties, from the sale of iron ore FOB Port Hedland from the tenements of the Cloudbreak and Christmas Creek areas only. This fair value adjustment is non-cash and reflects expected significant increases in revenues to be generated from the Pilbara Iron Ore and Infrastructure Project.

Under current accounting standards Fortescue is required to account for the fair value impact of higher projected revenues on its Subordinated Loan Note borrowings liability. Conversely, Fortescue has adopted the cost method of accounting for its assets, which does not show the fair value impact on its assets resulting from higher projected revenues and higher future cash inflows.

The Directors believe Fortescue will be able to meet all of its debts as and when they fall due in line with current cash flow forecasts.

NOTE 30. SEGMENT REPORTING

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

NOTE 31. AUDITORS REMUNERATION

	Consolidated		**Company**	
	2008 $'000	**2007 $'000**	**2008 $'000**	**2007 $'000**
Audit services				
Auditors of Fortescue				
BDO Kendalls Audit & Assurance (WA) Pty Ltd				
Auditing – the financial report	226	99	226	99
Other services				
Auditors of Fortescue				
BDO Consultants (WA) Pty Ltd:				
Financial due diligence	47	63	47	63
BDO Risk Advisory Services (QLD) Pty Ltd				
Risk advisory services	21	-	21	-
	294	162	294	162

NOTE 32. FINANCIAL RISK MANAGEMENT

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

General objectives, policies and processes

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

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

Financial risks

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

NOTE 32. FINANCIAL RISK MANAGEMENT (continued)

Principal Financial Instruments

Fortescue and the Company hold the following financial instruments:

	Consolidated 2008 $'000	Consolidated 2007 $'000	Company 2008 $'000	Company 2007 $'000
Financial assets				
Cash and cash equivalents	192,237	1,682,201	284	48,092
Trade receivables	50,059	-	13,047	-
Security deposits	89,972	243,755	-	2,963
Intercompany receivables	-	-	3,190,345	356,423
Other receivables	1,829	112	1,829	112
Loan receivable	2,445	2,438	2,445	2,438
Derivative held at fair value	-	3,168	-	-
Financial assets	38	38	38	38
	336,580	1,931,712	3,207,988	410,066

	Consolidated 2008 $'000	Consolidated 2007 $'000	Company 2008 $'000	Company 2007 $'000
Financial liabilities				
Trade and other payables	164,405	66,246	9,123	2,544
Derivative held at fair value	15,162	-	-	-
Intercompany payables	-	-	2,329,931	-
Deposits received	116,381	43,248	-	-
Borrowings	6,306,623	2,911,586	-	-
	6,602,571	3,021,080	2,339,054	2,544

(a) Market risk

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

NOTE 32. FINANCIAL RISK MANAGEMENT (continued)

(i) Foreign exchange risk

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

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

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting. Fortescue has not entered into any forward exchange contracts as at 30 June 2008 and is currently fully exposed to foreign exchange risk.

Fortescue's exposure to foreign currency risk at the reporting date was as follows:

	30 June 2008		30 June 2007	
	USD $'000*	**EURO $'000***	**USD $'000***	**EURO $'000***
Cash and cash equivalents	158,024	25,944	1,147,236	129,379
Security deposits	14,409	1,838	61,566	6,267
Trade receivables	37,012	13,047	-	-
Derivative held at fair value	(15,162)	-	3,168	-
Deposits received	(106,381)	-	(33,248)	-
Borrowings	(5,774,693)	(531,930)	(2,397,971)	(513,615)
Total exposure	(5,686,791)	(491,101)	(1,219,249)	(377,969)

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

	30 June 2008		30 June 2007	
	USD $'000*	**EURO $'000***	**USD $'000***	**EURO $'000***
Cash and cash equivalents	-	-	30,023	-
Trade receivables	-	13,047	-	-
Total exposure	-	13,047	30,023	-

* = Balances reflect Australian dollar equivalent values.

NOTE 32. FINANCIAL RISK MANAGEMENT (continued)

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

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

This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2007.

	Consolidated		Company	
	Equity $'000	Profit or loss $'000	Equity $'000	Profit or loss $'000
30 June 2008				
USD	189,522	189,522	-	-
Euro	16,370	16,370	(435)	(435)
30 June 2007				
USD	25,307	25,307	(1,429)	(1,429)
Euro	12,593	12,593	-	-

A 5 percent weakening of the Australian dollar against the US dollar and euro at 30 June would have:

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

This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2007.

	Consolidated		Company	
	Equity $'000	Profit or loss $'000	Equity $'000	Profit or loss $'000
30 June 2008				
USD	(209,471)	(209,471)	-	-
Euro	(18,093)	(18,093)	456	456
30 June 2007				
USD	(29,988)	(29,988)	1,499	1,499
Euro	(13,925)	(13,925)	-	-

(ii) Commodity price risk
Fortescue and the Company are exposed to commodity price risk. Contract iron ore prices are set by the global market annually on 1 April of each year for the following 12 months. Fortescue has not entered into any forward commodity price contracts as at 30 June 2008 and is currently fully exposed to commodity price risk. Fortescue's exposure to commodity price risk at the reporting date was as follows:

	Consolidated		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Borrowings	(4,012,600)	(400,901)	-	-
Trade receivables	22,372	-	-	-
Total exposure	(3,990,228)	(400,901)	-	-

NOTE 32. FINANCIAL RISK MANAGEMENT (continued)

Sensitivity analysis
Trade receivables relate to USD iron ore commodity sales.

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

A 10 percent strengthening of the future iron ore price included in trade receivables and the valuation model at 30 June would have decreased equity and increased Fortescue's loss by the amounts shown below. This is because under current accounting standards Fortescue is required to account for the fair value impact of higher projected revenues on its Subordinated Loan Note borrowing liability. Conversely, Fortescue has adopted the cost method of accounting for its assets which does not show the fair value impact on its assets resulting from higher revenues and higher future cash inflows. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2007.

	Consolidated		Company	
	Equity $'000	**Profit or loss $'000**	**Equity $'000**	**Profit or loss $'000**
30 June 2008	(395,911)	(395,911)	-	-
30 June 2007	(26,557)	(26,557)	-	-

A 10 percent weakening of the future iron ore price included in trade receivables and the valuation model for Fortescue's Subordinated Loan Note at 30 June would have increased equity and decreased Fortescue's loss by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2007.

	Consolidated		Company	
	Equity $'000	**Profit or loss $'000**	**Equity $'000**	**Profit or loss $'000**
30 June 2008	395,911	395,911	-	-
30 June 2007	26,557	26,557	-	-

(iii) Cash flow and fair value interest rate risk

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

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

NOTE 32. FINANCIAL RISK MANAGEMENT (continued)

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

	30 June 2008		30 June 2007	
	Weighted average interest rate %	Balance $'000	Weighted average interest rate %	Balance $'000
Borrowings – Subordinated Loan Note	564.06%	4,012,600	56.58%	400,901
Borrowings – Senior Secured Notes	9.75%	262,030	9.75%	296,206
Interest rate swaps	7.08%	15,162	10.36%	(3,168)
Net exposure to cash flow interest rate risk		4,289,792		693,939

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

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

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

At 30 June 2008, the notional principal amount and period of expiry of the interest rate swap contract is as follows:

	2008 $'000	2007 $'000
4 – 5 years	262,030	296,206
	262,030	296,206

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 2008 a loss of $17,193,220 (2007 gain of $3,167,947) was recognised.

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

Interest rate swap contract – Operating Leases
US$133.57 million of variable interest rate operating lease contracts were entered into during the 30 June 2008 financial year. It is policy to protect Fortescue from exposure to increasing interest rates. Accordingly Fortescue has entered into interest rate swap contracts under which it is obliged to receive interest at variable rates and to pay interest at fixed rates. The fixed interest rate is at 3.27% - 3.99% and the variable interest rate is based on 3 month LIBOR.

NOTE 32. FINANCIAL RISK MANAGEMENT (continued)

At 30 June 2008, the notional principal amount and period of expiry of the interest rate swap contracts are as follows:

	2008 $'000	2007 $'000
4 – 5 years	133,570	-
	133,570	-

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

The gain or loss from measuring the hedging instrument at fair value is recognised in the income statement immediately. In the year ended 30 June 2008 a loss of $1,137,026 (2007 $nil) was recognised.

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

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

Fortescue is exposed to a concentration of risk with all iron ore customers being Chinese companies. Fortescue has adopted a policy of only dealing with credit worthy counterparties as a means of mitigating the risk of financial loss from defaults. Cash and cash equivalents are held in various financial institutions with long-term investment grade credit rating and with the capacity for payment of financial commitments considered strong. Fortescue measures credit risk on a fair value basis.

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

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

(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. Fortescue manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Financing arrangements
Fortescue and the Company are fully drawn on their borrowing facilities at the reporting date.

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

NOTE 32. FINANCIAL RISK MANAGEMENT (continued)

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

Fortescue – At 30 June 2008	Less than 6 months $'000	6-12 months $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Total contractual cash flows $'000	Carrying amount liabilities $'000
Non-interest bearing	164,405	-	116,381	-	-	280,786	280,786
Variable rate	47,251	98,286	278,207	2,556,832	4,794,578	7,775,154	4,289,794
Fixed rate	89,461	88,002	177,462	532,874	2,147,881	3,035,680	2,031,991
	301,117	186,288	572,050	3,089,706	6,942,459	11,091,620	6,602,571

Fortescue – At 30 June 2007	Less than 6 months $'000	6-12 months $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Total contractual cash flows $'000	Carrying amount liabilities $'000
Non-interest bearing	66,246	-	43,248	-	-	109,494	109,494
Variable rate	14,833	29,666	96,009	585,861	676,196	1,402,565	693,939
Fixed rate	102,649	101,533	203,624	611,430	2,675,542	3,694,778	2,217,647
	183,728	131,199	342,881	1,197,291	3,351,738	5,206,837	3,021,080

The Company – At 30 June 2008	Less than 6 months $'000	6-12 months $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Total contractual cash flows $'000	Carrying amount liabilities $'000
Non-interest bearing	2,339,054	-	-	-	-	2,339,054	2,339,054
Variable rate	-	-	-	-	-	-	-
Fixed rate	-	-	-	-	-	-	-
	2,339,054	-	-	-	-	2,339,054	2,339,054

The Company – At 30 June 2007	Less than 6 months $'000	6-12 months $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Total contractual cash flows $'000	Carrying amount liabilities $'000
Non-interest bearing	2,544	-	-	-	-	2,544	2,544
Variable rate	-	-	-	-	-	-	-
Fixed rate	-	-	-	-	-	-	-
	2,544	-	-	-	-	2,544	2,544

(d) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. 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.

NOTE 32. FINANCIAL RISK MANAGEMENT (continued)

(e) Capital management

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

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

There were no changes in Fortescue's approach to capital management during the year.

Fortescue has not breached any covenants during the 2008 financial year.

Fortescue's capital management portfolio at 30 June 2008 and 30 June 2007 was as follows:

	Consolidated		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Total borrowings	6,306,623	2,911,586	-	-
Less: cash and cash equivalents	(192,237)	(1,682,201)	(284)	(48,092)
Net debt	6,114,386	1,229,385	(284)	(48,092)
Total equity/ (deficiency)	(1,639,684)	372,689	1,057,168	552,275
Total capital	4,474,702	1,602,074	1,056,884	504,183

NOTE 33. OPERATING LEASES

LEASES AS LESSEE

Non-cancellable operating lease rentals are payable as follows:

	Consolidated		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Less than one year	73,707	4,942	9,728	4,942
Between one and five years	230,521	9,310	7,839	9,310
More than five years	63,002	149	-	149
	367,230	14,401	17,567	14,401

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

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

NOTE 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 $3.5 million over the next financial year (2007: $4.0 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 $178.8 million (2007: $776.0 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 2008 Fortescue has commitments to capital expenditure contracted for at the reporting date but not recognised as liabilities for mobile mining equipment orders of $541.0 million (2007: $275.2 million) related to the development and production of its Pilbara Iron Ore and Infrastructure Project. The majority of this equipment is expected to be funded through operating leases.

NOTE 35. KEY MANAGEMENT PERSONNEL DISCLOSURES

Key management personnel remuneration
The Key Management Personnel remuneration included in 'administration expenses' (see note 8) are as follows:

	Consolidated		Company	
	2008	**2007**	**2008**	**2007**
	$	**$**	**$**	**$**
Short-term employee benefits	2,499,475	3,289,567	2,499,475	3,289,567
Other long term benefits	-	-	-	-
Post-employment benefits	190,589	247,685	190,589	247,685
Termination benefits	-	-	-	-
Equity compensation benefits	165,009	213,359	165,009	213,359
	2,855,073	3,750,611	2,855,073	3,750,611

Balances above are recognised on a gross basis. Wages and salaries, disclosed as part of administration expenses in note 8, are recognised net of salary recoveries.

Individual Directors and executives remuneration 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.

NOTE 35. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

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:

2008

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

2007

	Held at 1 July 2006	Granted as remuneration	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	-	-	-	-	-	-	-
J Steinberg	-	-	-	-	-	-	-
G Brayshaw	-	-	-	-	-	-	-
Other key management personnel							
A Watling	200,000	-	-	-	200,000	50,000	100,000
C Catlow	100,000	-	-	-	100,000	25,000	25,000
G Cowe	-	-	-	-	-	-	-
	300,000	-	-	-	300,000	75,000	125,000

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

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.

2008

Ordinary shares

Name	Held at 1 July 2007	Received on exercise of options	Purchases	Share split *	Sales	Held at 30 June 2008
Directors of Fortescue Metals Group Ltd						
A Forrest	102,307,830	-	-	907,090,470	(3,905,000)	1,005,493,300
G Rowley	2,023,569	-	-	18,212,121	(720,000) (A)	19,515,690
H Elliott	550,000	-	7,560	4,951,179	(2,968,050) (A)	2,540,689
R Scrimshaw	800,000	-	-	7,200,000	-	8,000,000
K Ambrecht	650,000	-	7,618	5,851,215	(225,000)	6,283,833
J Steinberg	26,400,000	-	1,398,600 (B)	250,187,400	-	277,986,000
G Brayshaw	-	-	4,418	12,807	-	17,225
Other key management personnel						
A Watling	-	100,000	-	900,000	-	1,000,000
C Catlow	800,000	-	-	7,200,000	-	8,000,000
G Cowe	-	-	-	-	-	-
TOTAL	133,531,399	100,000	1,418,196	1,201,605,192	(7,818,050)	1,328,836,737

A – The Directors relevant direct or indirect interest in these Fortescue Metals Group Ltd shares may have been disposed of. These disposals do not reflect sales to the benefit of the Directors. These matters are the subject of legal review.

B – LUK-Fortescue LLC acquired 1,398,600 shares in the Company during the current financial year. LUK-Fortescue LLC is a wholly owned subsidiary of Leucadia National Corporation and prior to the relevant placement was the registered holder of 26,400,000 ordinary shares. Messrs. Steinberg and Cumming have an oral agreement pursuant to which they will consult with each other as to the election of a mutually acceptable Board of Directors of Leucadia National Corporation. As their collective voting power in Leucadia National Corporation exceeds 20%, Mr. Steinberg is deemed under s608(3)(a) of the Corporations Act to have a relevant interest in the Fortescue shares in which Leucadia National Corporation has a relevant interest.

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

NOTE 35. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

2007
Ordinary shares

Name	Held at 1 July 2006	Received on exercise of options	Purchases	Share split	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	550,000	-	-	-	-	550,000
R Scrimshaw	1,077,600	-	-	-	(277,600)	800,000
K Ambrecht	750,000	-	-	-	(100,000)	650,000
J Steinberg	-	-	26,400,000	-	-	26,400,000
G Brayshaw	-	-	-	-	-	-
Other key management personnel						
A Watling	-	-	-	-	-	-
C Catlow	800,000	-	-	-	-	800,000
G Cowe	-	-	-	-	-	-
TOTAL	107,508,999	-	26,400,000	-	(377,600)	133,531,399

Other transactions with key management personnel

The Company has revised its estimate in relation to the liability to Leucadia National Corporation ("Leucadia") under the terms of the Subordinated Loan Note (see Note 23: Interest Bearing Loans and Borrowings). The note was revalued at 30 June 2008 to $4,012,600,000 (30 June 2007: $400,901,000). Leucadia is a company related to Mr Joseph Steinberg, who is a director of Fortescue Metals Group Ltd.

At 30 June 2008 Mr Joseph Steinberg, who is a director of Fortescue Metals Group Ltd, held €500,000.00 9.75% Senior Secured Notes due 2013. Interest paid and payable for the year was $39,990.16. The balance as at 30 June 2008 was $820,209.97 (30 June 2007: Nil).

Non-key management personnel disclosures

Subsidiaries
Loans are made by the Company to wholly owned subsidiaries for capital purchases. Loans outstanding between the Company and its controlled entities have no fixed date of repayment and is non-interest bearing. During the financial year ended 30 June 2008, such loans to subsidiaries totalled $3,190.3 million receivable (2007: $356.4 million) and $2,329.9 million payable (2007: $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.

During the 2007 financial year the Board established the Performance Rights Plan ("PRP"). Under the PRP, 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 PRP 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.

No share options or Performance Rights were issued during the current financial year. The PRP and FMGIOS are currently not considered key platforms in the remuneration and retention strategy of Fortescue.

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

Grant date / employee entitled	Number of instruments*	Vesting conditions	Contractual life of options
Option grant to key management in June 2005	20,000,000	Four years of service	5 years
Option grant to key management in January 2006	4,300,000	Four years of service	5 years
Option grant to key management in June 2006	5,000,000	Four years of service	5 years
Total share options	29,300,000		

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

NOTE 36. SHARE BASED PAYMENTS (continued)

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

	Weighted average exercise price 2008	Number of options 2008	Weighted average exercise price 2007	Number of options 2007
Outstanding at 1 July	$4.23	2,560,675	$3.86	2,930,000
Exercised between 1 July and 19 December	$3.34	(436,847)	$2.67	(319,950)
Granted between 1 July and 19 December	-	-	$8.45	140,000
Outstanding at 19 December	$4.42	2,123,828	$4.00	2,750,050
Option split on 19 December	-	19,114,452	-	-
Outstanding at 20 December	$0.44	21,238,280	$4.00	2,750,050
Exercised between 20 December and 30 June	$0.43	(2,945,370)	$4.15	(189,375)
Outstanding at 30 June	$0.44	18,292,910	$4.23	2,560,675
Exercisable at 30 June	$0.39	11,474,800	$3.55	1,078,992

The options outstanding at 30 June 2008 have an exercise price in the range of $0.27 to $0.93 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	$0.20	$0.27	$0.27	26.40%	5.75%	-
25 January 2006	25 January 2011	$0.46	$0.57	$0.62	26.80%	5.13%	-
1 June 2006	1 June 2011	$0.58	$0.70	$0.77	26.80%	5.75%	-
2 October 2006	31 December 2009	$0.56	$0.82	$0.85	25.50%	5.75%	-
9 October 2006	31 December 2009	$0.58	$0.88	$0.89	25.50%	5.75%	-
28 October 2006	31 December 2009	$0.62	$0.93	$0.96	25.50%	5.75%	-

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

** Adjusted in line with the reorganisation of capital of Fortescue Metals Groups Ltd effected on 19 December 2007. Each option was split into ten options.*

Employee expenses

	Consolidated 2008 $'000	Consolidated 2007 $'000	The Company 2008 $'000	The Company 2007 $'000
Share options granted in 2005- equity settled	499	892	499	892
Share options granted in 2006- equity settled	1,220	1,220	1,220	1,220
Share options granted in 2007- equity settled	213	155	213	155
Total expense recognised as employee costs	1,932	2,267	1,932	2,267

NOTE 37. CONTINGENT LIABILITIES

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

The ASIC statement of claim alleges a breach by the Company and by the CEO of the continuous disclosure provisions of the Corporations Act under Section 674 and also a breach under Section 1041H relating to deceptive and misleading conduct. ASIC is seeking civil penalties of up to $6,000,000 from the Company and $5,600,000 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.

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

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

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 and subsequent re-engagement under a cost plus arrangement. 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. The total amount being disputed under the Alliance termination and Final Payment Claim of the cost plus arrangement is approximately $49.2 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.

Cyclone George Inquiry
Fortescue was served with a notice by Worksafe following an investigation into the Cyclone George incident in March last year. Fortescue has been charged with one offence and its subsidiary, The Pilbara Infrastructure Pty Ltd ("TPI"), with 17 offences under the Occupational Safety & Health Act 1984. The charges each carry a maximum penalty of $400,000 valuing Fortescue's maximum penalty at $7,200,000. Fortescue has handed the matter to its solicitors and will be defending the charges.

NOTE 38. SUBSEQUENT EVENTS

Project Completion
On 18 July 2008 Fortescue received independent sign off certifying the achievement of "Project Completion" for the first stage of its integrated mine, rail and port facilities in the Pilbara region of Western Australia. Project Completion includes operations having mined, railed and shipped two million tonnes within a four week period, which has been verified by the Project's Independent Engineer Behre Dolbear Australia. Achieving Project Completion satisfies certain covenants within Fortescue's financial arrangements and allows Fortescue to pursue its stated ambition to expand and further develop growth projects across the Chichester Ranges.

Cyclone George Inquiry
On 27 July 2008 Fortescue was served with a notice by Worksafe following an investigation into the Cyclone George incident in March last year. Fortescue has been charged with one offence and its subsidiary, The Pilbara Infrastructure Pty Ltd ("TPI"), with 17 offences under the Occupational Safety & Health Act 1984. The charges each carry a maximum penalty of $400,000 valuing Fortescue's maximum penalty at $7,200,000. Fortescue has handed the matter to its solicitors and will be defending the charges.

Proposed Issue of Preference Shares
On 29 August 2008 the Company lodged a Notice of Meeting for an Extraordinary General Meeting ("EGM") to seek shareholder approval for a proposed change in Fortescue's constitution to allow for the issuance of preference shares. Preference shares are a form of funding that Fortescue intends to use in its broad capital raising program to finance its expansion plans for the port, rail and mine project.

NOTE 39. DEED OF CROSS GUARANTEE

Fortescue Metals Group Ltd and its controlled entities, except Fortescue Pacific Limited, 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' is represented by the above companies is the same as the consolidated group, and as there are no other parties to the Deed of Cross Guarantee that are controlled by the Company, they also represent the 'Extended Closed Group'. The income statement and summary movements in consolidated retained profits for the year ended 30 June 2008 along with the consolidated balance sheet as at 30 June 2008 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

Declaration by Directors

The Directors of the Company declare that:

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

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

   (b) giving a true and fair view of the financial position as at 30 June 2008 and of the performance for the year ended on that date of the Company and the consolidated entity.

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

3. The remuneration disclosures included on pages 9 to 21 of the Directors' Report (as part of the audited Remuneration Report), for the year ended 30 June 2008, comply with Section 300A of the *Corporations Act 2001*.

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

The entities identified in note 39 are parties to the deed of cross guarantee under which each company guarantees the debts of the others. At the date of this declaration there are reasonable grounds to believe that the companies which are parties to this deed of cross guarantee will as a consolidated entity be able to meet any obligations or liabilities to which they are, or may become, subject to, by virtue of the deed of cross guarantee described in note 39.

Dated at Perth this 19th day of September 2008.

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

Mr Herb Elliott
Chairman

BDO Kendalls

BDO Kendalls Audit & Assurance (WA) Pty Ltd
128 Hay Street
SUBIACO WA 6008
PO Box 700
WEST PERTH WA 6872
Phone 61 8 9380 8400
Fax 61 8 9380 8499
aa.perth@bdo.com.au
www.bdo.com.au

ABN 79 112 284 787

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

We have audited the accompanying financial report of Fortescue Metals Group Limited, which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements,* that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

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

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

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

BDO Kendalls

Auditor's Opinion

In our opinion:

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

   (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2008 and of their performance for the year ended on that date; and

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

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

Report on the Remuneration Report

We have audited the Remuneration Report included within the Directors' Report for the year ended 30 June 2008. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001.* Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion, the Remuneration Report of Fortescue Metals Group Limited for the year ended 30 June 2008, complies with section 300A of the *Corporations Act 2001.*

BDO Kendalls Audit and Assurance (WA) Pty Ltd

BDO Kendalls
Glyn O'Brien

GD O'Brien
Director

Dated this 19th day of September 2008
Perth, Western Australia