Fortescue Metals Group Ltd

The New Force in Iron Ore

Annual Report

2005

Corporate Directory

Directors
Gordon Toll - Chairman

Herb Elliott - Deputy Chairman

Andrew Forrest - Chief Executive Officer

Graeme Rowley

Russell Scrimshaw

Kenneth Ambrecht

Secretary
Christopher James Catlow

Rod Campbell

Registered Office & Principal Place of Business
Fortescue House

50 Kings Park Road

WEST PERTH

WESTERN AUSTRALIA WA 6005

Telephone: +61 8 9266 0111

Facsimile: +61 8 9266 0188

Email: fmgl@fmgl.com.au

ABN: 57 002 594 872

ACN: 002 594 872

Website
www.fmgl.com.au

Auditors
BDO

St Georges Terrace

PERTH

WESTERN AUSTRALIA 6000

Bankers
ANZ Bank

77 St George's Terrace

PERTH

WESTERN AUSTRALIA 6000

Solicitors
Troika Legal

Level 2, Troika House

129 Melville Parade

COMO

WESTERN AUSTRALIA 6152

Stock Exchange
The Company's securities are quoted on the Official List of the Australian Stock Exchange Limited (ASX).

ASX Code
FMG

Share Registry
Computershare Investor Services Pty Limited

Level 2, Reserve Bank Building

45 St Georges Terrace

PERTH WA 6000

GPO Box D182

PERTH WA 6001

Tel: +61 8 9323 2000

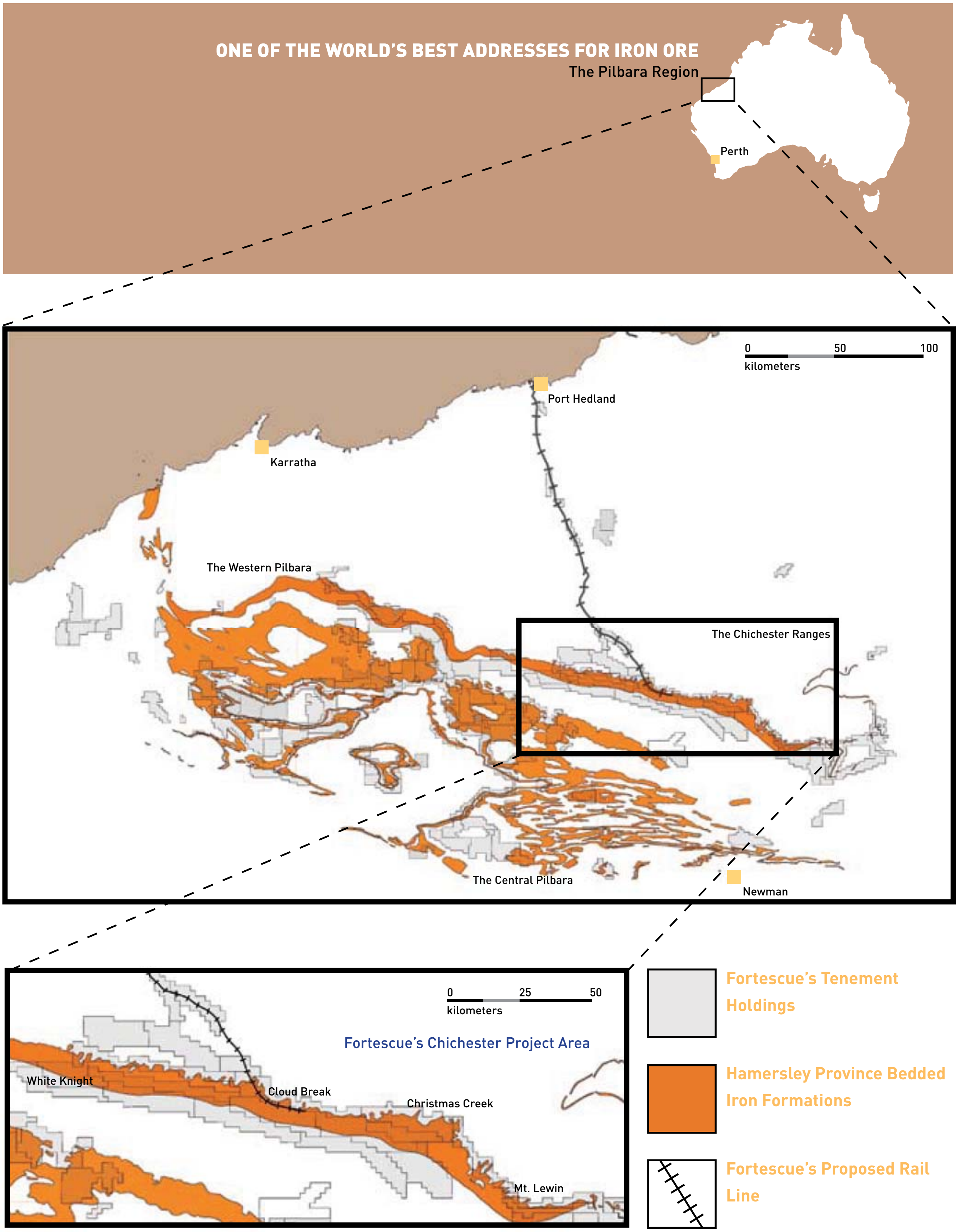
Fax: +61 8 9323 2033

For any change in personal details, please contact Computershare

Notice of Annual General Meeting
The Annual General meeting of Members of Fortescue Metals Group Ltd will be held on Level 8, Exchange Plaza, 2 The Esplanade, Perth, Western Australia on Tuesday 8th November at 9:30am

A Separate Notice of Meeting and Proxy Form are enclosed

FORTESCUE METALS GROUP LTD
THE NEW FORCE IN IRON ORE



FORTESCUE'S TOTAL PILBARA TENEMENT HOLDING NOW STANDS AT 18,394 sq. km.


Fortescue Metals Group Ltd
The New Force in Iron Ore
Annual Report
2005

CONTENTS

CHAIRMAN'S STATEMENT

As Chairman of Fortescue Metals Group Ltd it is with great pride and enthusiasm that I write this section of the annual report. Much has been achieved over the last financial year as the Company has made substantial advances in the implementation of the Pilbara Iron Ore and Infrastructure Project. From the primary building block of resource delineation, through to engineering and the completion of the infrastructure Definitive Feasibility Study "DFS", the continuing momentum demonstrates the Company's resolve to bring the project to rapid fruition.

Of great satisfaction has been the maturing of the Company as it moved from a junior explorer to a company now listed in the Standard & Poors ASX 200 Index. Encouraged by our founding shareholder the corporate structure has also evolved to ensure the Company's growth is matched by appropriate internal controls and corporate governance practices. The separation of the roles of Chairman and Chief Executive Officer during 2005 was an important development in this regard. This division of responsibilities has provided the CEO with the opportunity to focus his enormous energy into delivering the project within the time line and cost framework established. As a Non Executive Chairman I believe that in concert with my fellow Directors, your Board is now even better equipped to bring objective assessment and guidance to management in its pursuit of project implementation.

The macro environment of continuing high demand for iron ore gave rise in April 2005 to the largest annual price rise in the industry's history with a 71.5% price increase in fines ore prices for contract suppliers. The continuing supply / demand imbalance is providing Fortescue with a unique opportunity to progress its objective of becoming a major "new force" in the supply of iron ore. The so called "super cycle" for bulk commodity producers is being driven by China's seemingly inexhaustible appetite for resources. Steel is one of the basic requirements of an economy going through rapid urbanisation as China is currently experiencing. Accordingly we expect the demand for raw materials like iron ore to remain strong for the foreseeable future. Fortescue's initial model of a fully ramped production of 45 million tonnes per annum "Mta" forms the basis of the completed infrastructure DFS. Due to the growth in Fortescue's resource portfolio and it's potential markets, it is logical on the infrastructure platform we are developing, that we expand beyond this point. A model of up to 60Mta is being reviewed by management but noting this would only happen after the initial target case is achieved. Considerations such as capital, regulatory consents and operational matters will be reviewed as part of this process.

The great challenge for non-integrated steel producers such as the large and medium size Chinese mills, is the domination of iron ore supply by a few major producers. The three big suppliers, CVRD, Rio Tinto and BHP Billiton now control some 75% of the world's seaborne supply of iron ore. This high level of concentration has been further entrenched by Rio Tinto's investment in the Hope Downs project. However, this lack of procurement options continues to drive ever increasing interest in Fortescue from major iron ore consumers and traders who are actively encouraging new supply entrants.This is providing unique and historic opportunities for Fortescue and its shareholders given our access to significant iron ore resources in the Pilbara – the closest source of supply to East Asian steel mills.

The challenges of bringing together all requisite project component parts such as people, services, approvals and finance are both substantial and exciting. Fortescue is certainly not underestimating the task ahead and I hope shareholders will be encouraged and equally excited by the achievements detailed in this report. I believe the Fortescue team is responding remarkably to the challenge and opportunity as evidenced by the extraordinary advances made over the last 12 months.

I would like to take this opportunity to thank the Fortescue management team and staff for their commitment and dedication. I would also like to thank my fellow Directors for their loyal service and support. I should note that Mr Chris Linegar retired as a Director of Fortescue in February 2005 and I would like to thank him for his contribution to the Board over the time he was a Director.

To fellow shareholders I would like to thank you for your ongoing interest and support. The achievements articulated in this report should give you a very clear indication of Fortescue's resolve to develop these extraordinary opportunities. The forthcoming year will be equally demanding and the entire Management and Director team will maintain their high level of commitment and strong work ethic.

G.R. Toll

Gordon Toll
Chairman

CHIEF EXECUTIVE OFFICER'S STATEMENT

On behalf of the Fortescue team I am pleased to be able to provide the following update on the development of the Project over the last year. The Company has built on the momentum generated during the previous year and has posted numerous achievements over the last twelve months that in aggregation have built the foundation for project implementation.

The key areas and achievements are summarised below. I would like to thank all those people and organisations involved who have helped contribute to the significant advances made in their respective areas.

Exploration:

Fortescue successfully focussed on the delineation of abundant resources to underwrite the project. To date the resource estimate for all areas drilled exceeds 2.5 billion tonnes (Inferred and Indicated categories under JORC). This has been generated by a drill campaign that now has produced some 312,000 metres of samples.

To put this in perspective, Fortescue has been recorded as having spent the most money in exploration of any listed Australian exploration company over the 2004/05 financial year by Intierra Resource Information. This has been achieved at a time when industry commentators are bemoaning the fact that Australian companies are not investing enough in exploration given the strength of increasing global resource consumption.

While it is pleasing to oversee such a successful drilling program it is equally satisfying to be able to state that it has been conducted within a safe working environment. To date the lost time index "LTI" is only 16 hours out of 400,000 hours of exploration work conducted by the Company. This record is well within world's best practise benchmarks.

The Company's first planned mining area is referred to as the Chichester One Project and includes the Christmas Creek, Cloud Break and Mt Lewin deposits. The most recent JORC resource estimate for this area of 2.4 billion tonnes was announced in October based on summary detail being 1.4 billion tonnes "Bt" of Indicated classification and 1Bt of Inferred classification with an average iron "Fe" grade of 58.2%. Further infill drilling is being conducted at Christmas Creek and Cloud Break to facilitate the reclassification of the resource estimate up to either a Measured or Indicated JORC category. Such classified material can then be considered for reserve determination through the mining Definitive Feasibility Study "DFS" which is presently underway.

The Company is also undertaking initial surface mapping of the "next generation" sites within its overall tenement footprint. Some areas to the west of the Cloud Break deposit have been assessed as prospective and selective wide spaced drilling is being conducted to determine the extent and nature of the mineralisation present. Early indications show that they contain a mix of Marra Mamba, Brockman and CID iron formations of significant scale. Outcrop sampling and early drill results lend confidence in the Company's ability to further expand to satisfy the world market's desire for more independent and competitive iron ore suppliers.

Finance:

With the infrastructure DFS complete and the mining DFS imminent, the Company is positioning itself to embark on full project financing and implementation.

Fortescue was able to achieve one of the most comprehensive exploration programs and feasibility studies in Australia through the establishment of a sound financial base underwritten by the raising of US$80 million in two tranches of convertible notes which supplemented previous raisings of some A$30m. The first tranche of US$30m (conversion price of A$4.50 per share) and the second tranche of US$50m (conversion price of A$6.00 per share) were both notable in that the respective strike prices were set at a significant premium to the prevailing market prices on signing in January and February 2005. Other note terms are favourable to Fortescue as they are unsecured obligations for a term of six years and are interest free for the first three years with a coupon rate of 5% p.a for the balance of term.

With this initial finance platform established Fortescue then embarked on the broader task of raising funds to accommodate the main project finance requirements in the most optimal manner to all stakeholders. Specialist Investment banks have assisted the Company to formulate an overall financial plan with various capital raising options including direct equity, royalty securitisation and mining area joint ventures have been reviewed. The Company is progressing discussions on a number of fronts with potential partners.

Definitive Feasibility Study:

One of the most fundamental achievements during the year was the completion of the infrastructure DFS. It covered all port, rail and mine stockyard infrastructure. The study was under the management of WorleyParsons Ltd – a company widely recognised as one of the world's largest and most respected engineering and management groups. In July 2005 they provided Fortescue's Directors with a report representing the culmination of almost 2 years work during which the design and costing of these critical infrastructure items were extensively reviewed and cross referenced. The end result was the announcement by WorleyParsons of a capital estimate of A$1.95 billion based on an accuracy variance of +/- 10% which included a substantial contingency and design growth allowance of almost $250m.

The infrastructure component of the project has now moved into the detailed engineering and design phase as a precursor to tendering the various construction contracts. Of particular focus within the FEED (front end engineering & design) process is the identification of the long lead time items and to ensure they are deliverable within the overall project time frame. Most of these items relate to materials handling equipment being stackers and reclaimers together with ship and train loaders.

The DFS process for mining is currently work in progress with a completion target date this final quarter 2005. The critical areas within the mining DFS relate to ensuring more than sufficient resources are delineated to a JORC standard that can be considered for reserve status. Also under review is the mining methodology to ensure the project is able to extract the maximum scale economies while limiting the level of mining dilution that often exists in bulk mining programs. Extensive work is being conducted on the suitability of surface mining equipment which has been used in a variety of ore extraction operations. Its application to Fortescue's style of mineralisation is considered attractive given the gently dipping, shallow nature of our deposits. This is further reinforced by the physical properties of Fortescue's Marra Mamba resource being fractured in nature which supports the use of machine cutters rather than explosives to mine the ore body.

The mine model being considered by Fortescue involves the use of multi trailer road trains linking the fleet of surface miners to a conveyor belt network that can efficiently move the ore to either a rail loading point or back as waste to the mine pit area. This type of configuration should enable Fortescue to operate a highly competitive overburden extraction and ore mining operation.

Marketing:

The market for iron ore remains very buoyant as reflected in the record price rises awarded to producers in April this year. The supply / demand imbalance exists because industrialising Asian markets are consuming iron ore more aggressively than ever before. China alone consumed a record 518 million tonnes "Mt" of iron ore in 2004 and forecasts suggest a figure of 595Mt in 2005. This trend of substantial year on year consumption growth is predicted to continue. Recent forecasts by a number of global investment banks including Credit Suisse First Boston are continuing to project rising demand for iron ore as consumption data, particularly from China, is analysed.

Such reports suggest that steel consumption will continue to rise as urbanisation and industrialisation trends are maintained in countries like China and India. A model for predicting future demand trends is to measure the steel intensity of a country's population – this is the level of steel consumed per head of population. For example an industrialised country like the US has a steel intensity measure of c.400kg per head of capita. In comparison China's level is c.200kg per capita Conventional wisdom suggests that China's growth rate of around 9% p.a. will (on average) be maintained over the medium term and this will result in significant steel consumption. In turn this should lead to an increase in demand for iron ore. Beyond China another major growth prospect is India who's steel intensity is currently a long way behind China at only c.35kg per capita. In ten years time should India increase its steel intensity level to that of China in 2004, then India's demand for iron ore will place significant pressure on current supply sources.

Fortescue is positioning itself to be a supply alternative to the big three. Initial metallurgical test work on samples of the Company's resource has indicated that Fortescue should be able to provide a product range that will be complementary to the requirements of the major steel mills. The existence of micro platy hematite across substantial parts of Fortescue's resource should give the planned product blend added physical property benefits to those inherent in more traditional Pilbara Marra Mamba ores.

Fortescue's marketing team has taken a targeted approach to its objective of securing off take agreements within the world's largest iron ore market of China. The first round of negotiations provided for sales totalling 9.5 million tonnes per annum with four counterparties with contract terms ranging from 20 – 22 years. More recently the Fortescue team has increased this sales base with agreements in place for a further 7.5 million tonnes per annum being contracted with 4 Chinese steel industry companies. The tenor of these agreements are all 10 years. These counterparties have been very keen to ensure they have long term contracts to secure a supply source in view of future market growth forecasts.

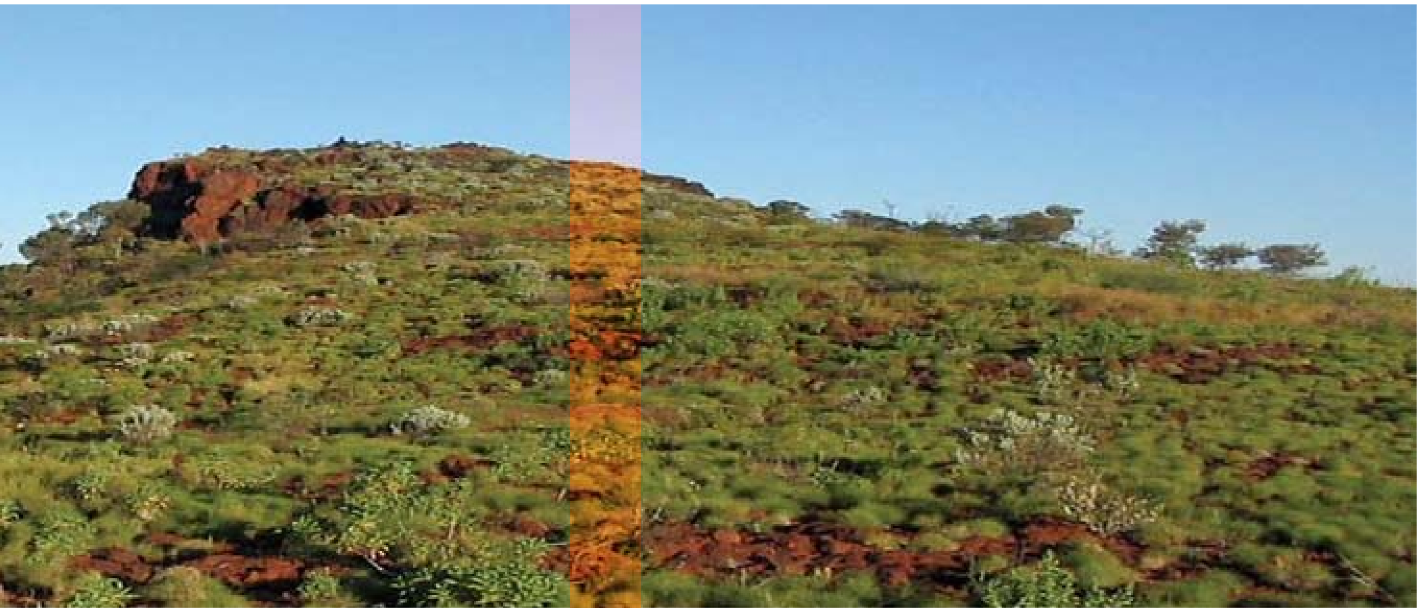
Fortescue's marketing effort will continue to focus on Asian countries. The team has cultivated good relationships in the largest of these markets being China but is also focused on developing strong relationships with steel industry companies in Japan, Korea and Taiwan. Fortescue has signed supply based Memoranda of Intent "MOI" which will account for the balance of initial planned production target of 45Mta which is being reviewed for a staged expansion case to 60Mta. While such MOI's do not represent contractual relationships they at least provide an indication of a customer's level of interest to progress beyond a general discussion status.

Tenure:

The signing of The Pilbara Infrastructure State Agreement Act in November 2004 provides the requisite legislative framework to construct and operate the planned port and rail infrastructure. Negotiation of the Mining State Agreement has concluded and documentation is now in agreed form pending approval from the Government of WA's Cabinet before enabling legislation can be enacted. Once legislated, the agreement will provide the requisite statutory authority to develop the proposed mining operation within those leases incorporated within the State Agreement being Christmas Creek, Cloud Break and Mt Lewin.

Heritage surveys form an important part of the development of the Project as land must be heritage cleared by authorised working parties before access can be confirmed. Over the last 12 months Fortescue has contracted various indigenous working groups who have collectively undertaken over 200 hours of survey work. Their role has been to survey all those tenement sites where Fortescue is seeking exploration access. The sites are surveyed by walking in grid fashion over the entire area to identify important heritage or cultural sites and artefacts that may require remedial action plans should these be within disturbance zones.

Negotiations with the four Native Title claimant groups are progressing and in August 2005 Fortescue signed an Access Agreement with the Nyiyaparli Group who have a claim registered over land which covers the majority of the Chichester deposits. While noting that there are further negotiations between the Company and the Nyiyaparli Group pursuant to that agreement, Fortescue is committed to resolving any outstanding issues with all remaining claimant groups.



Environmental:

Fortescue's environmental team has made excellent progress. A critical approval and the key to the project infrastructure was made in early October 2005. The remaining approvals including mining are heavily precedented within the Pilbara and are expected in due course.

As background, due to timing issues the Project's environmental assessment has been broken into three parts being the port and the main north – south rail line (Stage A), the Christmas Creek mining area and the east – west spur rail line (Stage B) and the Cloud Break mining area which was discovered later and therefore referred to the EPA as a separate application.

All three applications went before the Western Australian Environmental Protection Authority "EPA" and were designated to be assessed as a Public Environmental Review "PER". This is the second highest level of assessment that can be assigned to a development and is applied to projects that are considered to have a potentially significant environmental impact.

The PER process in Western Australia includes a statutory period during which the public is invited to comment on the proposed project. After receiving submissions from the public, the proponent is responsible for collating these responses and Providing a report to the EPA. Following this, a Report and Recommendation document is prepared on the project by the EPA outlining their advice to the Minister for the Environment. This document is then released for a two week statutory comment period. Subject to any appeals received from the public regarding the recommendations contained within the EPA's report, the Minister for the Environment then provides a final decision regarding the proposal with detail of any conditions that may attach to an approval.

It is pleasing to report that the Minster for the Environment has approved the Stage A application. Stage B has undergone its statutory public comment period and FMG has prepared a report on the Response to Public Submissions. The EPA is currently reviewing this information to prepare its Report and Recommendations document for the Minister for the Environment. The Cloud Break PER is currently out for public comment which will close on 24 October 2005.

The process for attaining ministerial approval involves extensive public and government department consultation. Fortescue's team has been particularly sensitive to this and has made efforts to ensure it has undertaken an inclusive process. There have been numerous community and stakeholder meetings at which Fortescue has presented and fielded questions regarding the nature and impacts of the Project. This has facilitated a relatively smooth public review process.

Conclusion:

Fortescue's Project has progressed rapidly to financial execution and implementation principally due to the shallow and simple nature of its extensive iron ore resource bodies. Combined with the strong support from the Western Australian Government, the commitment shown by the WorleyParsons team under the infrastructure Definitive Feasibility Study and the continuing efforts from a dedicated and highly experienced management team, the project has come a long way in a relative short time frame.

In many ways the convergence of a range of external and internal factors has cleared the way for the successful implementation of Fortescue's plans. The world's consumption of bulk mineral commodities is growing at a rate that is demanding the establishment of new and competitive supply lines. Simultaneously Fortescue's aggressive and targeted exploration program has resulted in resource discoveries of a magnitude rarely seen before in Australia.

While acknowledging the volume of work required to create a business capable of moving the raw material to the various world markets, I am absolutely confident that Fortescue has the people with the necessary skills, determination and energy to make it happen. I would like to thank our team for bringing the project this far and look forward to their continuing efforts to ensure delivery. I would also like to thank all stakeholders, interested parties and governments including Federal, State and Local for their support and co-operation, without which a project of this magnitude would not prosper. Finally to my fellow Directors I thank them for their ongoing guidance and instruction which will remain as invaluable as we move into the next stage of development.

Andrew Forrest
Chief Executive Officer

FORTESCUE WAS RECORDED AS INVESTING THE MOST MONEY IN EXPLORATION OF ANY LISTED AUSTRALIAN EXPLORATION COMPANY OVER THE FINANCIAL YEAR 2004/05

Fortescue Metals Group Ltd

The New Force in Iron Ore

Annual Report 2005

COMMITTED TO ACHIEVING AND DEMONSTRATING THE HIGHEST STANDARDS OF CORPORATE GOVERNANCE

CORPORATE GOVERNANCE STATEMENT

Fortescue Metals Group Ltd (the Company) and its Board of Directors are committed to achieving and demonstrating the highest standards of corporate governance. The Company and its controlled entities together are referred to as the Group in this statement.

The Board of Directors are responsible to the shareholders for the performance of the Group. Their focus is to enhance the interests of shareholders and other key stakeholders and to ensure the Group is properly managed.

Day to day management of the Group's affairs and the implementation of the corporate strategy and policy initiatives are delegated to the Chief Executive Officer and the senior executives. The relationship between the Board and senior management is critical to the Group's long term success.

A description of the Company's main corporate governance practices is set out below. The Company endeavours to follow the Australian Stock Exchange (ASX) best practice recommendations except as noted in this statement. Areas where there is divergence from these best practice recommendations, and the reasons for doing so, are listed within this report. The ASX Corporate Governance Council recognises that not all recommendations are appropriate for all companies and that only suitable recommendations should be adopted.

ASX BEST PRACTICE RECOMMENDATIONS

Principle 1: Lay Solid Foundations

Recognise and publish the respective roles and responsibilities of the Board and Management

The Company has an experienced Board of Directors with appropriate expertise across a range of sectors including mining, rail and port operations, finance and marketing. The Board has adopted a specific Director's Code of Conduct defining their roles and responsibilities. This document is available on the Company's website at www.fmgl.com.au

The Company is in the process of drafting a Directors Charter which will more fully articulate the delegation of the role and responsibilities of Directors to those of management. This document will be posted to the Company's website after it has been approved by the Board.

Principle 2: Board Structure

Have a Board of an effective composition, size and commitment to adequately discharge its responsibilities and duties

The composition of the Board is determined in accordance with the Company's constitution which is available for viewing on the Company's website. The Board is to comprise a minimum of three Directors up to a maximum of twelve Directors. Up to 30 June 2005 Fortescue had a Board of six Directors with four being classified as Non Executive. From 1 July the Company will not comply with ASX Recommendation 2.1 in that a majority of the Board will not be independent as one of the Non Executive Directors Mr Russell Scrimshaw is to undertake executive services for the Company. It is intended that this will be for a finite term of around one year.

Fortescue's Chairman Mr Gordon Toll is an independent Non Executive Director. In May 2005 Mr Andrew Forrest retired as Executive Chairman to concentrate solely on the role of Chief Executive Officer. Accordingly the roles of the Chief Executive Officer and Chairman are now separate in accordance with best practice recommendations. Until May 2005 Fortescue did not comply with Recommendation 2.3 however the Board was of the view that Mr Forrest's position as Executive Chairman was appropriate in the initial stages of project development.

Individually the Directors bring a range of experience and qualifications to their position with respective areas of expertise including iron ore mining, iron ore transport and shipping, marketing, project engineering and international finance. The detail of each Director's tenure, qualifications and prior corporate experience is detailed on page 18. The attendance of Board meetings and Committee meetings is detailed on page 19.

The function of a Nominations Committee was undertaken by the Board as a whole until June 2005 when the Remuneration Committee adopted those responsibilities. As the company did not have a Nominations Committee it did not comply with Recommendation 2.4. The Board did not consider it needed a Nominations Committee as the business was in its early stages. In response to the increasing demands on the Board associated with the Company's continuing rapid growth, the Board decided to delegate the Nominations Committee function to the Remuneration Commitee.

The charter of the Remuneration and Nomination Committee is available on the Company's website. In regards to its nominations role, the Committee is responsible to regularly review and make recommendations to the Board on the optimum size of the Board; the appropriate skills required of Directors and the appropriate evaluation methods to review the performance of the Board.

Principle 3: Ethical and responsible decision-making

Actively promote ethical and responsible-decision making

The Company has established a Directors Code of Conduct which is available on the website. This document details a range of issues relating to Directors responsibilities including those required under the Corporations Law. The Code also provides a concise summary of the general principles and duties expected of Fortescue's Directors with commentary on issues relating to professional integrity, conflicts of interest and general duties owed to the Company, stakeholders and creditors.

In June 2005 this was supplemented with a more general Employee Code of Conduct which was designed to include all Company employees including Directors and management. A copy of the Code is available on the website. The Code provides a guide to adherence of appropriate practices so as to maintain confidence in the Company's integrity. The document sets out the responsibilities and accountability of individuals for reporting or investigating reports of unethical practices.

The Board has also established a Securities Trading Policy which outlines the policy for Directors and employees when trading in shares in the Company. This policy was implemented in June 2005 and is available on the website. The policy clearly defines specific periods of time when it is generally acceptable to trade in the Company's shares. It is however recognised that these periods are not always determinable in advance as the Company will continue to make market disclosures as required as it develops its major project. Accordingly within the policy there is a requirement that any Director or employee wishing to trade shares must inform the notifications officer who will give final clearance as to timing of any sale or purchase. This is designed to protect Directors and employees from inadvertently dealing in shares at a time when an announcement may be imminent.

THE DIRECTORS BRING A RANGE OF EXPERIENCE AND QUALIFICATIONS TO THEIR POSITION WITH RESPECTIVE AREAS OF EXPERTISE INCLUDING IRON ORE MINING, IRON ORE TRANSPORT AND SHIPPING, MARKETING, PROJECT ENGINEERING AND INTERNATIONAL FINANCE

Principle 4: Financial reporting integrity

Have a structure in place to independently verify and safeguard the integrity of the Company's financial reporting.

The Chief Executive Officer and the Chief Financial Officer have provided a letter to the Board of Directors stating that the Company's financial reports present a true and fair reflection of the Company's financial position.

The Board has an Audit Committee which is comprised of three Non Executive Directors of whom all are considered independent. The Chairman of the Committee is not the Chairman of the Board. The Audit Committee has a charter which is available on the Company's website.

Prior to June 2005 the Audit Committee consisted of only two people which was contrary to Recommendation 4.3 however it was considered appropriate for the Company given its size and early stage of development. From 1 July 2005 the Audit Committee was increased to three independent Directors. Mr Scrimshaw has retired from the Committee as he will be undertaking executive services during the financial year ending 30 June 2006. His place has been taken by Mr Ambrecht and Mr Toll has also joined the Committee.

The experience of the Audit Committee members being Mr Elliott (Chairman) Mr Toll and Mr Ambrecht can be found on page 18. Detail on the number of meetings held and attended by members over the financial year ended 30 June 2005 can be found on page 19 and it should be noted that the Audit Committee during that year comprised Mr Scrimshaw and Mr Elliott.

Principle 5: Timely and balanced disclosure

Promote timely and balanced disclosure of all material matters concerning the Company

In June 2005 the Board approved the implementation of a Continuous Disclosure Policy, a copy of which is available on the Company's website. Prior to this time the procedure for determining and making relevant disclosures was described in the general corporate governance statement. The decision to upgrade the Company's disclosure procedures followed an independent review undertaken by a consultant which was completed in April 2005. It was resolved by the Board that the Company's rapid growth and development necessitated a more formalised and structured approach to disclosure.

The policy provides a broad overview of the reporting requirements including the statutory environment within which the Company operates. It identifies requirements at law under section 674 of the Corporations Act and under ASX Listing Rule 3.1 including;

issues and tests for materiality;

the type of information that needs to be disclosed;

the process for bringing such information to the attention of the Company and its nominated reporting officer;

the role of the Chief Executive Officer as ultimate decision maker for Fortescue's continuous disclosure obligations;

the role of the Board to review all disclosures made during the time since the previous meeting.

With regard to general disclosures at media briefings or public presentations only the Chairman, the Chief Executive Officer or their delegated person/s are authorised to issue public comments on behalf of the Company or provide journalists and members of the investment community with information.

FORTESCUE IS POSITIONING ITSELF TO BE A SUPPLY ALTERNATIVE TO THE BIG THREE

Principle 6: Shareholder rights

Respect the rights of shareholders and facilitate the effective exercise of those rights

The Company is developing its Shareholder Communications Strategy which is designed to encourage a two way communication channel with shareholders. The Company produces a newsletter from time to time which is available on the website. The Company also ensures it produces extensive quarterly reports which are provided to the ASX and posted to its website. The Chief Executive Officer of the Company makes regular presentations to various industry conferences. These presentations are posted to the website.

The Company ensures that its external auditor is in attendance at its Annual General Meeting and is available to answer questions regarding the audit process and preparation of financial reports.

Principle 7: Risk Management

Establish a sound system of risk oversight and management and internal control

The Company is in the process of producing a comprehensive risk management policy document. This matter is currently under review by the Audit Committee and a person has been charged with the responsibility of developing a risk management system. Once this has been completed it will be posted to the website.

The Company is very aware of the need to identify and manage its critical path risk variables. For example the Company has recently outsourced the development and operations of its information systems which are subject to ongoing review to ensure adequate safeguards and controls are in place. The Company has also recently adopted a formal safety analysis report and related Board monitoring process to ensure safety is appropriately reviewed. The Company is focused on building a strong culture of safety and holds regular safety meetings for all staff where specific issues are raised and discussed. A key objective of these meetings is the identification of work safety hazards (if any) and the appropriate remedial treatment thereof.

Principle 8: Enhanced Performance

Fairly review and actively encourage enhanced Board and management effectiveness

The Board is in the early stages of developing an appropriate Director and Executive evaluation model. A comprehensive Director questionnaire has been compiled to assist in the identification of areas of either Board and/or Management procedures that may require attention. This is the first step in developing a more formal model to ensure there is effective identification and monitoring of Board and Executive performance.

The Board's intention is that the Non Executive Directors will meet separately to the Board on an annual basis, to review the performance of Executive Directors and Senior Executive Management.

Principle 9: Remunerate fairly

Ensure that the level and composition of remuneration is sufficient and reasonable and its relationship to corporate and individual performance is defined.

The Company has a Remuneration and Nomination Committee and its Charter is available on the website. Details of remuneration paid to the Company's Directors and to its five highest paid executives is disclosed within the financial section of the Annual Report.

In summary the Company's objective as articulated under the abovementioned Charter is to ensure that all senior executives including the CEO and Executive Directors have their remuneration packages reviewed on a regular basis. Such reviews are designed to cover all aspects of packages inclusive of base pay, incentive schemes, superannuation plans and retirement rights. However it is noted that as Fortescue is not yet an operating entity, the structure of its present executive packages are deliberately basic in design. During 2005 there were a number of employees issued with share options and the details of those provided to the five highest paid executives of the Company have been identified within the remuneration section of this Annual Report. The terms and conditions of issue require the recipients to remain as employees for at least four years before they become entitled to their full allocation. Under the specific option terms they are only exercisable in stages commencing after 12 months from issue at 25% of the allotment and then increasing in the same percentage until full entitlement is achieved after 48 months of service from the issue date.

The Company does not currently comply with Recommendation 9.2 in that the Committee consists of only two people and as from July 2005 the Chairman of Committee will not be an independent Director. Notwithstanding the Board chooses to retain Mr Scrimshaw as Chairman given his prior experience in this role. Also it is intended that he will only be providing executive services for a finite period of approximately one year after which time he will resume his Non Executive role. While noting that his resumption as a Non Executive Director will not allow him to be considered independent for at least another three years, it is the Board's current desire that he continue as Committee Chairman during this time. The non-compliance due to the size of the Committee is not considered to be an issue at present due to the relatively small size of the Board. The Board believes that the functions of the Remuneration Committee are still fulfilled with two members but it is the Board's intention that as the number of Directors is increased, a further Remuneration Committee member will be added to meet the recommendation of having at least three people on the Committee.

During the year the Committee retained a specialist consultant to review the Company's remuneration arrangements taking into consideration industry benchmarks. The review confirmed the Board's understanding that some senior employees were being remunerated at levels below average market rates for like positions and responsibilities. This was accepted by those employees as appropriate given the early stage of the project's development. With the considerable progress the Company made during the year the Committee recommended that adjustments be made to certain packages to better reflect current market levels. These will come into effect during the 2005/06 financial year. It is the Remuneration Committee's intention to further review the remuneration arrangements for senior employees together with the establishment of clear performance targets as the Company moves through the project implementation stage into operations.

Principle 10: Interest of Stakeholders

Recognise the legal and other obligations of all legitimate stakeholders

The Company has established a Code of Conduct as a guide for compliance with the legal and social obligations owed by Fortescue to all stakeholders. The Company is active in the direct engagement of relevant stakeholders and this has been an important part of progressing the development of Fortescue's environmental and native title approval processes together with the enhancement of its general community relations position.

DIRECTORS' REPORT

Your Directors present their report, together with the financial report of Fortescue Metals Group Ltd ("the Company") and its controlled entities for the year ended 30 June 2005.

DIRECTORS

The Directors of the Company in office during or since the end of the financial year are:

Mr Andrew Forrest	
Mr Graeme Rowley	
Mr Herb Elliott	
Mr Russell Scrimshaw	
Mr Ken Ambrecht	
Mr Christopher Linegar	(resigned 27 January 2005)
Mr Gordon Toll	(appointed 27 January 2005)

Mr Gordon Toll – Chairman

Mr Toll was appointed as a Non Executive Director of the Company in January 2005 and was appointed as Chairman in May 2005. He is a member of the Audit Committee. Mr Toll has previously held senior executive positions with BHP Billiton Ltd and Rio Tinto plc and in those roles had experience in the development of iron ore projects within the Pilbara region of Western Australia. Mr Toll has been Chairman of Linq Capital Ltd (responsible entity for Linq Resources Fund) since July 2002 and a Non Executive Director of Compass Resources NL since July 2001.

Mr Herb Elliott AC, MBE – Deputy Chairman

Mr Elliott is a Non Executive Director of the Company and was appointed as Deputy Chairman in May 2005. Mr Elliott is Chairman of the Audit Committee and is a member of the Remuneration Committee. Mr Elliott is also currently the Chairman of Telstra Foundation Limited, a Director of Athletics Australia and has been a Director of Ansell Limited since February 2001. Previous executive roles include President of PUMA North America. Mr Elliott is the former inaugural Chairman of National Australia Day Committee and was a Commissioner on the Australian Broadcasting Commission.

Mr Andrew Forrest – Chief Executive Officer

Mr Forrest is Chief Executive Officer of the Company. Mr Forrest has been Chairman of Siberia Mining Corporation Limited since February 2003 and Moly Mining Ltd since April 2003. Previous roles include Chief Executive Officer and Deputy Chairman of Anaconda Nickel Limited and Chairman of the Murrin Murrin Joint Venture. Mr Forrest has extensive experience in the mining sector with specialist expertise in major project finance.

Mr Graeme Rowley AM – Executive Director

Mr Rowley is Executive Director of Operations of the Company. 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 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 – Non Executive Director

Mr Scrimshaw was a Non Executive Director of the Company until 30 June 2005 since but became an Executive Director effective from 1 July 2005. Up until his non executive status ceased he was a member of the Audit Committee. He is also Chairman of the Remuneration Committee and will remain so going forward. He has been Chairman of Fusia Ltd since December 2004 and a Non Executive Director of Mobilesoft Ltd since January 2005. He is a board member of the Garvan Institute and Athletics Australia and is an Associate Member of the Australian Society of Certified Practicing Accountants. Mr Scrimshaw previously held executive positions within the Commonwealth Bank of Australia and Optus and has also held senior management positions within Alcatel, IBM and Amdahl USA.

Mr Ken Ambrecht – Non Executive Director

Mr Ambrecht is a Non Executive Director of the Company and is a member of the Audit Committee. Mr Ambrecht is a Managing Director of First Albany Capital Inc., an investment bank founded in 1953 with its headquarters in New York. He has been a Non Executive Director of American Financial Capital Inc since April 2005 and Great American Financial Resources Inc since July 2004. Mr Ambrecht was previously a Managing Director of the high yield division of the Royal Bank of Canada following a 25 year career in the capital markets division of Lehman Brothers.

DIRECTORS' MEETINGS

The numbers of meetings of the Company's Board of Directors and of each Board committee held during the year ended 30 June 2005, and the numbers of meetings attended by each Director were:

Director	Board Meetings		Committee Meetings			
			Audit		Remuneration	
	A	B	A	B	A	B
Mr Andrew Forrest	4	4	*	*	*	*
Mr Graeme Rowley	4	4	*	*	*	*
Mr Herb Elliott	4	3	2	2	1	1
Mr Russell Scrimshaw	4	4	2	2	1	1
Mr Ken Ambrecht	4	2	*	*	*	*
Mr Christopher Linegar	3	2	*	*	*	*
Mr Gordon Toll	1	1	*	*	*	*

A = Number of meetings attended

B = Number of meetings held during the time the director held office or was a member of the committee during the year

* = Not a member of the relevant committee

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 Andrew Forrest	3	3
Mr Graeme Rowley	3	3
Mr Herb Elliott	3	3
Mr Russell Scrimshaw	3	3
Mr Ken Ambrecht	3	3
Mr Christopher Linegar	1	1
Mr Gordon Toll	2	2

COMPANY SECRETARIES' PARTICULARS

Mr Rod Campbell

Mr Campbell has extensive banking experience having been State Manager Western Australia for RaboBank Nederland and previously held senior managerial roles in the State Bank New South Wales. Mr Campbell holds a degree in Agricultural Economics from the University of New England and a Diploma from the Securities Institute of Australia.

Mr Christopher Catlow

Mr Catlow is a Fellow of the Institute of Chartered Accountants in Australia and is also Chief Financial Officer of the Company. 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.

PRINCIPAL ACTIVITIES

The principal activity of the Company during the course of the financial year was the development of the Pilbara Iron Ore and Infrastructure Project.

RESULTS FROM OPERATIONS

The results from operations are as follows.

	2005 $	2004 $
Operating profit/(loss) after income tax	(836,057)	601,586

DIVIDENDS

No dividends have been paid or declared 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.

REVIEW OF OPERATIONS

The highlights of the Company's operations during the year were:-

- ongoing development of the Pilbara Iron Ore and Infrastructure Project with focus on the progression of the Definitive Feasibility Study;
- delineation of further resources within the Company's Chichester Range deposits through the completion of exploration and infill drilling programs;
- continuing development of the Company's iron ore marketing program targeting key customers in China, Japan, Korea and Europe;
- revenue from marketing and distribution of medical products through its wholly owned subsidiary Allied Medical Ltd grew by 10% during the year.

ENVIRONMENTAL REGULATIONS

In the course of its normal mining and exploration activities the Company adheres to environmental regulations imposed upon it by the various regulatory authorities, particularly those regulations relating to ground disturbance and the protection of rare and endangered flora and fauna. The Company has complied with all material environmental requirements up to the date of this report.

CHANGES IN STATE OF AFFAIRS

There have been no significant changes in the state of affairs of the consolidated entity either during or since the end of the financial year.

SUBSEQUENT EVENTS

There have been no significant changes in the state of affairs of the consolidated entity since the end of the financial year.

LIKELY DEVELOPMENTS

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 in the operations of the Company and the expected results of those operations in subsequent financial years.

SHARE OPTIONS

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

No. of Options	Exercise Price $	Expiry Date
2,000,000	$2.67	31 December 2009

These options were issued pursuant to the Company's Employee Incentive 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.

DIRECTORS AND OFFICERS INSURANCES

During the financial year, the Company paid a premium of $80,750 to insure the Directors and officers of the Company and its controlled entities.

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 entities in the consolidated entity, 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 the Company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

DIRECTOR DISCLOSURES

Directors

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

Chairman – Non Executive

Mr Gordon Toll (appointed as a Non Executive Director 27 January 2005 and as Chairman 13 May 2005)

Deputy Chairman – Non Executive

Mr Herb Elliott

Executive Directors

Mr Andrew Forrest (resigned as Chairman 13 May 2005), Chief Executive Officer
Mr Graeme Rowley, Executive Director of Operations

Non Executive Directors

Mr Russell Scrimshaw
Mr Ken Ambrecht
Mr Christopher Linegar (resigned 27 January 2005))

REMUNERATION REPORT

Principles used to determine the nature and amount of remuneration

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

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

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

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

Alignment to program participants' interests:
- Rewards capability and experience
- Reflects competitive reward for contribution to shareholder growth
- Provides a clear structure for earning rewards
- Provides recognition for contribution

Details of Remuneration

Details of the remuneration of each Director of the Company and each of the five specified executives of the consolidated entity, including their personally-related entities, are set out in the following tables.

Directors

2005	Primary			Post-employment		Equity	
Name	Cash salary and fees $	Cash bonus $	Non-monetary benefits $	Super-annuation $	Retirement benefits $	Options $	Total $
G Toll	64,000	-	-	-	-	-	64,000
A Forrest	100,000	-	-	10,000	-	-	110,000
G Rowley	182,000	-	-	18,200	-	-	200,200
H Elliott	-	-	-	-	-	53,059	53,059
R Scrimshaw	55,046	-	-	4,954	-	53,059	113,059
K Ambrecht	-	-	-	-	-	53,059	53,059
C Linegar	-	-	-	-	-	53,059	53,059
Total	401,046	-	-	33,154	-	212,236	646,436

Specified Executive

2005	Primary			Post-employment		Equity	
Name	Cash salary and fees $	Cash bonus $	Non-monetary benefits $	Super-annuation $	Retirement benefits $	Options $	Total $
A Watling	156,916	-	-	15,692	-	77,359	249,967
J Williams	135,000	-	-	13,500	-	67,689	216,189
E Hannon	133,761	-	-	13,376	-	42,547	189,684
C Catlow	163,000	-	-	16,300	-	-	179,300
J Tapp	120,000	-	-	12,000	-	38,679	170,679
Total	708,677	-	-	70,868	-	226,274	1,005,819

Remuneration Provided by Way of Options

During 2005 options granted to certain Non Executive Directors at the 2003 Annual General Meeting were vested and these are identified in the table below. It should be noted that such options were approved by members at the relevant AGM and were provided to those directors in lieu of cash payments for sitting fees. At the time of proposing the resolution on Non Executive Director options in 2003, the strike prices were structured on a three tiered basis at $0.50, $0.75 and $1.00 respectively and these levels were well above the prevailing market price.

Also during 2005 a total of 2,000,000 employee options were granted and subsequently allotted to the majority of employees. The largest allocations made to certain senior executives are identified in the second table on this page with identification of the recipient together with the relevant details of conversion including timing and price.

Directors

Name	Vested No.	Granted No.	Grant Date	Value per Option at Grant Date $	Exercise Price $	First Exercise Date	Last Exercise Date
G Toll	-	-	-	-	-	-	-
A Forrest	-	-	-	-	-	-	-
H Elliott	500,000	-	28/11/03	0.18	0.75/1.00	28/11/03	28/11/06
R Scrimshaw	500,000	-	28/11/03	0.18	0.75/1.00	28/11/03	28/11/06
K Ambrecht	500,000	-	28/11/03	0.18	0.75/1.00	28/11/03	28/11/06
C Linegar	500,000	-	28/11/03	0.18	0.75/1.00	28/11/03	28/11/06
Total	2,000,000	-					

Specified Executive

Name	Vested No.	Granted No.	Grant Date	Value per Option at Grant Date $	Exercise Price $	First Exercise Date	Last Exercise Date
A Watling	-	200,000	31/12/04	1.97	2.67	01/07/06	31/12/09
J Williams	-	175,000	31/12/04	1.97	2.67	01/07/06	31/12/09
E Hannon	-	110,000	31/12/04	1.97	2.67	01/07/06	31/12/09
C Catlow	-	-	-	-	-	-	-
J Tapp	-	100,000	31/12/04	1.97	2.67	01/07/06	31/12/09
Total	-	585,000					

Service agreements

Remuneration and other terms of employment for the Executive Directors and specified officers 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 2005 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 2005 of $200,200, to be reviewed annually by the Remuneration Committee.

Mr Alan Watling, Head of Infrastructure

- Term of agreement – Unspecified
- Base salary, inclusive of superannuation, for the year ended 30 June 2005 of $192,500, to be reviewed annually by the Remuneration Committee.

Mr Jim Williams, Head of Mining

- Term of agreement – Unspecified
- Base salary, inclusive of superannuation, for the year ended 30 June 2005 of $148,500, to be reviewed annually by the Remuneration Committee.

Mr Eamon Hannon, General Manager Exploration

- Term of agreement – Unspecified
- Base salary, inclusive of superannuation, for the year ended 30 June 2005 of $159,500, to be reviewed annually by the Remuneration Committee.

Mr Christopher Catlow, Chief Financial Officer/Company Secretary

- Term of agreement – Unspecified
- Base salary, inclusive of superannuation, for the year ended 30 June 2005 of $179,300, to be reviewed annually by the Remuneration Committee.

Mr Julian Tapp, Manager Government Relations

- Term of agreement – Unspecified
- Base salary, inclusive of superannuation, for the year ended 30 June 2005 of $132,000, to be reviewed annually by the Remuneration Committee.

Option holdings

The numbers of options over ordinary share in the Company held during the financial year by each Director of the Company and each of the specified executives of the consolidated entity, including their personally-related entities, are set out below.

Directors

Name	Balance at the start of the year	Granted during the year as remuneration	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year
A Forrest	69,555,000	-	67,850,000	1,705,000[1]	-	-
G Rowley	-	-	1,000,000	(1,000,000)[1]		
H Elliott	750,000	-	750,000	-	-	-
R Scrimshaw	750,000	-	750,000	-	-	-
K Ambrecht	750,000	-	750,000	-	-	-
Total	71,805,000	-	70,100,000	705,000	-	-

[1] Transferred during the period to entities related to the project as part of an incentive scheme.

Specified Executives

Name	Balance at the start of the year	Granted during the year as remuneration	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year
A Watling	-	200,000[2]	-	-	200,000	-
J Williams	-	175,000[2]	-	-	175,000	-
E Hannon	-	110,000[2]	-	-	110,000	-
C Catlow	-	-	-	-	-	-
J Tapp	-	100,000[2]	-	-	100,000	-
Total	-	585,000	-	-	585,000	-

[2] These options were issued pursuant to the Company's Employee Incentive 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.

Share holdings

The numbers of shares in the Company held during the financial year by each Director of the Company and each of the five specified executives of the consolidated entity, including their personally-related entities, are set out below.

Directors Ordinary shares

Name	Balance at the start of the year	Received during the year on the exercise of options	Purchased during the year	Sold during the year	Balance at the end of the year
A Forrest	40,573,755	67,850,000	397,335	5,175,670	103,645,420
G Rowley	1,459,569	1,000,000	-	210,000	2,249,569
H Elliott	100,000	750,000[1]	50,000	100,000	800,000
R Scrimshaw	325,000	750,000[1]	-	-	1,075,000
K Ambrecht	-	750,000[1]	-	-	750,000
G Toll	-	-	750,000	-	750,000
Total	42,458,324	71,100,000	1,197,335	5,485,670	109,269,989

Specified Executives Ordinary shares

Name	Balance at the start of the year	Received during the year on the exercise of options	Purchased during the year	Sold during the year	Balance at the end of the year
A Watling	-	-	-	-	-
J Williams	150,000	-	-	-	150,000
E Hannon	-	-	40,300	-	40,300
C Catlow	800,000	-	-	-	800,000
J Tapp	-	-	-	-	-
TOTAL	950,000	-	40,300	-	990,300

[1] Of each of these respective holdings there are 250,000 shares held under voluntary escrow until 28 November 2005 as per the shareholder approved remuneration package voted on at the Annual General Meeting in 2003.

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 the company and/or the consolidated entity are important.

Details of the amounts paid or payable to the auditor (BDO Chartered Accountants & Advisers) 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 Professional Statement Fl, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risk and rewards.

A copy of the auditors' independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 14.

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

	Consolidated	
Amounts received or due and receivable by auditors for:	2005 $	2004 $
Audit Services		
BDO Chartered Accountants & Advisers	40,514	25,000
Other Services including taxation, advisory and assurance		
BDO Chartered Accountants & Advisers	-	800
Total Remuneration	40,514	25,800

Rounding of Amounts

The company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the Directors' report. Amounts in the Directors' report have been rounded off in accordance with that Class Order to the nearest dollar.

Auditor

BDO Chartered Accountants & Advisers continues in office in accordance with section 327 of the Corporations Act 2001.

Schedule of Mining Tenements

Tenements currently held by the consolidated entity are as follows. All tenements are 100% owned by the Company:

APPLICATION	E08/1432, E08/1439-1440, E08/1481, E08/1547-1550, E45/2707-2709, E45/2712-2714, E45/2737, E45/2748-2749, E45/2758, E46/621, E46/664-666, E47/1290, E47/1299-1302, E47/1319-1320, E47/1333-1334, E47/1342-1343, E47/1349, E47/1351-1353, E47/1355, E47/1357, E47/1361, E47/1363, E47/1370, E47/1372-1375, E47/1383-1384, E47/1387-1388, E47/1395-1399, E47/1404, E47/1419-1420, E47/1423, E47/1433, E47/1435-1436, E47/1440, E47/1442-1443, E47/1446-1449, E47/1453, E47/1460, E47/1487-1488, E47/1500, E47/1508-1520, E47/1523-1524, E47/1531, E47/1533, E47/1535, E52/1779, E52/1788-1790, L46/35-40, L47/145-147, M45/1082-1094, M45/1102-1107, M45/1124-1128, M46/292-293, M46/314-357, M46/401-424, P47/1172-1183, P47/1198-1199, P47/1210-1211, P47/1217-1219, P47/1237, P47/1252-1253, P47/1255-1262.
GRANTED	E45/2497-2499, E45/2593, E45/2651-2652, E46/413, E46/467, E46/516-519, E46/566-569, E46/590, E46/595, E46/600-601, E46/610-612, E46/622-623, E47/1434, P46/1398-1402.

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

Gordon Toll
Chairman

Dated at Perth this 26 day of August 2005.

BDO

Chartered Accountants
& Advisers

Level 8, 256 St George's Terrace Perth WA 6000
PO Box 7426 Cloisters Square Perth WA 6850
Tel: (61-8) 9360 4200
Fax: (61-8) 9481 2524
Email: bdo@bdowa.com.au
www.bdo.com.au

24 August 2004

The Directors
Fortescue Metals Group Ltd
PO Box 910
WEST PERTH WA 6872

Dear Sirs

DECLARATION OF INDEPENDENCE BY BDO CHARTERED ACCOUNTANTS TO THE DIRECTORS OF FORTESCUE METALS GROUP LTD

To the best of my knowledge and belief, there have been:

- no contraventions of the auditor independence requirements of this Act in relation to the review; and
- no contraventions of any applicable code of professional conduct in relation to this review.

Yours faithfully
BDO
Chartered Accountants & Advisers

B. McVeigh

BG McVeigh
Partner

STATEMENTS OF FINANCIAL PERFORMANCE
(FOR THE YEAR ENDED 30 JUNE 2005)

		Consolidated		Company	
	Note	2005 $	2004 $	2005 $	2004 $
Revenue from ordinary activities	2	**3,127,664**	4,266,567	**1,378,229**	2,734,453
Cost of goods sold		**1,117,215**	2,072,961	**-**	1,016,874
Employee benefits expense		**1,129,279**	374,454	**687,164**	248,498
Depreciation & amortisation expense		**279,393**	85,087	**272,009**	80,875
Consultants fees		**338,663**	556,719	**329,863**	545,453
Other expenses from ordinary activities		**1,099,171**	575,760	**897,434**	469,847
Profit / (loss) from ordinary activities before related income tax expense	3	**(836,057)**	601,586	**(808,241)**	372,906
Income tax expense relating to ordinary activities	4	**-**	-	**-**	-
Profit / (loss) from ordinary activities after related income tax expense		**(836,057)**	601,586	**(808,241)**	372,906
Total changes in equity other than those resulting from transactions with owners as owners		**(836,057)**	601,586	**(808,241)**	372,906
Basic earnings per share (cents)	19	**(0.48)**	0.64		
Diluted earnings per share (cents)	19	**N/A**	0.38		

The statements of financial performance are to be read in conjunction with the notes to the financial statements.

STATEMENTS OF FINANCIAL POSITION
(FOR THE YEAR ENDED 30 JUNE 2005)

	Note	Consolidated 2005 $	Consolidated 2004 $	Company 2005 $	Company 2004 $
CURRENT ASSETS					
Cash assets	5	**81,158,375**	5,330,037	**81,040,753**	5,139,904
Receivables	6	**1,112,872**	461,181	**788,407**	225,886
Inventories	7	**137,413**	135,583	**-**	-
Other current assets	8	**60,356**	3,384	**60,356**	-
Other Financial assets	9	**2,723**	2,723	**2,723**	2,723
Total Current Assets		**82,471,739**	5,932,908	**81,892,239**	5,368,513
NON-CURRENT ASSETS					
Receivables	10	**1,334,824**	196,642	**6,000,736**	4,797,162
Exploration and evaluation expenditure	11	**63,337,525**	10,420,932	**58,671,213**	5,820,012
Property, plant and equipment	12	**1,172,798**	453,560	**1,166,756**	433,825
Other financial assets	13	**26,000**	26,000	**26,403**	26,403
Total Non-Current Assets		**65,871,147**	11,097,134	**65,865,108**	11,077,402
Total Assets		**148,342,886**	17,030,042	**147,757,347**	16,445,915
CURRENT LIABILITIES					
Payables	14	**9,305,527**	2,878,671	**9,139,879**	2,736,793
Provisions	16	**243,046**	85,959	**234,338**	82,709
Total Current Liabilities		**9,548,573**	2,964,630	**9,374,217**	2,819,502
NON-CURRENT LIABILITIES					
Convertible notes	15	**50,203,562**	-	**50,203,562**	-
Total Non-Current liabilities		**50,203,562**	-	**50,203,562**	-
Total Liabilities		**59,752,135**	2,964,630	**59,577,779**	2,819,502
NET ASSETS		**88,590,751**	14,065,412	**88,179,568**	13,626,413
EQUITY					
Contributed equity	17	**95,716,651**	20,355,255	**95,716,651**	20,355,255
Accumulated losses	18	**(7,125,900)**	(6,289,843)	**(7,537,083)**	(6,728,842)
TOTAL EQUITY		**88,590,751**	14,065,412	**88,179,568**	13,626,413

The statements of financial position are to be read in conjunction with the notes to the financial statements.

STATEMENTS OF CASH FLOWS
(FOR THE YEAR ENDED 30 JUNE 2004)

	Note	Consolidated 2005 $	Consolidated 2004 $	Company 2005 $	Company 2004 $
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		**1,662,547**	1,593,337	**-**	60,000
Exploration expenditure		**(46,704,816)**	(6,997,629)	**(46,704,816)**	(2,353,520)
Interest received		**1,381,092**	104,911	**1,376,554**	102,480
Payments to suppliers and employees		**(4,701,631)**	(2,347,004)	**(2,962,037)**	(1,117,531)
Net cash generated from (used in) operating activities	22(a)	**(48,362,808)**	(7,646,385)	**(48,290,299)**	(3,308,571)
CASH FLOWS FROM INVESTING ACTIVITIES					
Payments for purchase of plant and equipment		**(1,002,788)**	(508,923)	**(1,002,788)**	(514,083)
Payments for purchase of equity investments		**-**	(26,000)	**-**	(26,000)
Proceeds from sale of equity investments		**-**	71,973	**-**	71,793
Loans to other entities		**(1,138,182)**	(196,642)	**(1,138,182)**	(196,642)
Loans repaid by other entities		**-**	200,000	**-**	200,000
Loans (advanced to) repaid by controlled entities		**-**	-	**-**	(4,453,535)
Net cash used in investing activities		**(2,140,970)**	(459,592)	**(2,140,970)**	(4,918,287)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from the issue of shares		**75,277,383**	12,289,420	**75,277,383**	12,289,420
Proceeds from Borrowings		**49,175,882**	-	**49,175,882**	-
Net cash (applied to) provided by financing activities		**124,453,265**	12,289,420	**124,453,265**	12,289,420
Net increase (decrease) in cash held		**73,949,487**	**4,183,443**	**74,021,996**	**4,062,562**
Cash at beginning of financial year		**5,330,037**	1,146,594	**5,139,906**	1,077,342
Effect of exchange rate changes on balances held in foreign currencies		**1,878,851**	-	**1,878,851**	-
Cash at end of financial year	5	**81,158,375**	**5,330,037**	**81,040,753**	**5,139,904**

The statements of cash flows are to be read in conjunction with the notes to the financial statements.

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This general purpose financial report has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

It is prepared in accordance with the historical cost convention. Unless otherwise stated, the accounting policies adopted are consistent with those of the previous year.

(a) Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of entities controlled by Fortescue Metals Group Ltd ("Company" or "parent entity") as at 30 June 2005 and the results of all controlled entities for the year then ended. Fortescue Metals Group Ltd and its controlled entities together are referred to in this financial report as the consolidated entity. The effects of all transaction between entities in the consolidated entity are eliminated in full. Outside equity interests in the results and equity of controlled entities are shown separately in the consolidated statement of financial performance and statement of financial position respectively.

Where control of an entity is obtained during a financial year, its results are included in the consolidated statement of financial performance from the date on which control commences. Where control of an entity ceases during a financial year its results are included for that part of the year during which control existed.

Investments in associates are accounted for in the consolidated financial statements using the equity method. Under this method, the consolidated entity's share of the post-acquisition profits or losses of associates is recognised in the consolidated statement of financial performance, and its share of post-acquisition movements in reserves is recognised in consolidated reserves. The cumulative post-acquisition movements are adjusted against the cost of the investment. Associates are those entities over which the consolidated entity exercises significant influence, but not control.

(b) Mineral Exploration and Evaluation Expenditure

Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence or otherwise of economically recoverable reserves.

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

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

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

(c) Foreign Currency Transactions

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

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Acquisitions of Assets

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

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

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

(e) Non-Current Assets

Non-current assets are included at cost less any accumulated depreciation or amortisation. The carrying amount of non-current assets 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 which will be received from the assets employment and subsequent disposal.

Where the carrying amount of a non-current asset is greater than its recoverable amount the asset is revalued to its recoverable amount. Where net cash inflows are derived from a group of assets working together, recoverable amount is determined on the basis of the relevant group of assets. To the extent that a revaluation decrement reverses a revaluation increment previously credited to, and still included in the balance of the asset revaluation reserve, the decrement is debited directly to that reserve. Otherwise the decrement is recognised as an expense in the statement of financial performance.

The expected net cash flows included in determining recoverable amounts of non-current assets are not discounted to their present values using a market-determined, risk adjusted discount rate.

Depreciation is calculated on a reducing balance method so as to write off the net cost of each non-current asset over its estimated useful life. The following estimated useful lives are used in the calculation of depreciation:

Furniture and fittings	5 – 10 years	Plant and equipment	5 years
Office equipment	3 – 5 years	Motor vehicles	5 – 10 years

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Income Tax

The Company adopts the liability method of tax-effect accounting whereby the income tax expense is based on the profit from ordinary activities adjusted for any permanent differences.

Timing differences which arise due to the different accounting periods in which items of revenue and expense are included in the determination of accounting profit and taxable income are brought to account as either a provision for deferred income tax or as a future income tax benefit at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits in relation to tax losses are not brought to account unless there is virtual certainty of realisation of the benefit.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income tax legislation and the anticipation that the Company will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

The Company and its wholly owned subsidiaries have formed an income tax consolidation group under the Tax Consolidation Regime. The Company is responsible for recognizing the current and deferred tax assets and liabilities for the tax consolidated group. The income tax consolidated group applies from 1 July 2002.

(g) Revenue Recognition

Revenue from the sale of goods and disposal of other assets is recognised when the consolidated entity has passed control of the goods or other assets to the buyer.

Revenue from the rental of plant is recognised on an accruals basis.

(h) Inventories

Inventories are measured at the lower of cost and net realisable value.

(i) Employee Entitlements

Provision is made for the Company's liability for employee entitlements arising from services rendered by employees to balance date. Employee entitlements expected to be settled within one year together with entitlements arising from wages and salaries, annual leave and sick leave which will be settled after one year, have been measured at their nominal amount.

Contributions are made by the consolidated entity to employee superannuation funds and are charged as expenses when incurred.

(j) Cash

For the purpose of the statement of cash flows, cash includes:

Cash on hand and at call deposits with banks or financial institutions, net of bank overdrafts.

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the item of expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

(l) Comparative Figures

Where required by Accounting Standards comparative figures have been adjusted to conform with changes in presentation for the current financial year.

(m) Earnings per share

The consolidated entity has applied AASB 1027 Earnings Per Share (issued June 2001).

Basic earnings per share
Basic earnings per share ("EPS") is calculated as net profit or loss, rather than excluding extraordinary items.

Diluted earnings per share
Diluted earnings per share ("DEPS") is calculated by adjusting the basic EPS earnings for the after tax effect of financing costs and the effect of conversion to ordinary shares associated with dilutive potential ordinary shares, rather than including the notional earnings on the funds that would have been received by the entity had the potential ordinary shares been converted.

The diluted EPS weighted average number of shares includes the number of ordinary shares assumed to be issued for no consideration in relation to dilutive potential ordinary shares, rather that the total number of dilutive potential ordinary shares. The number of ordinary shares assumed to be issued for no consideration represents the difference between the number that would have been issued at the exercise price and the number that would have been issued at the average price.

The identification of dilutive potential ordinary shares is based on net profit or loss from continuing ordinary operations, not net profit or loss before extraordinary items and is applied on a cumulative basis, taking into account the incremental earnings and incremental number of shares for each series of potential ordinary share.

(n) Segment reporting

The consolidated entity applies the revised AASB 1005 Segment Reporting.

Individual business segments have been identified on the basis of grouping individual products or services subject to similar risks and returns.

	Consolidated		Company	
	2005 $	2004 $	2005 $	2004 $
2. REVENUE				
Revenue from Operating Activities				
Sales Revenue	1,746,572	1,588,832	-	-
Other Revenue				
Interest received or due and receivable	1,381,260	104,911	1,376,508	102,480
Management Fees	-	-	1,675	60,000
Proceeds on Sale of Fixed Assets	-	1,900,000	-	1,900,000
Proceeds on Sale of Projects	-	600,000	-	600,000
Proceeds on Sale of Shares	-	71,973	-	71,973
Other income	(168)	851	46	1
Total Revenue from Ordinary Activities	**3,127,664**	**4,266,567**	**1,378,229**	**2,734,453**

3. LOSS FROM ORDINARY ACTIVITIES				
Loss from ordinary activities before income tax has been arrived at after charging the following:				
Foreign exchange loss - realised	540,952	-	504,952	-
Foreign exchange gain - unrealised	(851,170)	-	(851,170)	
Provision for employee entitlements	243,046	77,719	234,338	82,709
Depreciation – plant and equipment	279,393	85,087	272,009	80,875
Cost of fixed asset sold	-	537,149	-	537,149
Cost of project sold	-	407,752	-	407,752
Cost of goods sold	1,117,215	1,056,086	-	-
Cost of investments in listed securities sold	-	71,973	-	71,973
Loss on sale of plant and equipment	4,157	-	-	-

	Consolidated		Company	
	2005	2004	2005	2004
	$	$	$	$
4. INCOME TAX				
The prima facie income tax (benefit) on the operating profit (loss) from ordinary activities is reconciled to the income tax provided in the statements of financial performance as follows:				
Operating profit / (loss)	(836,058)	601,586	(808,241)	372,906
Income tax expense / (benefit) calculated at 30% (2003: 30%)	(250,817)	180,476	(242,472)	111,872
Tax effect of permanent differences:				
Unrealised capital losses recouped	-	(146,400)	-	(146,400)
Capital raising costs in equity	(21,399)	(17,204)	(21,399)	(17,204)
Other non-deductible	-	994	-	994
Exploration expenditure	(8,394,864)	-	(8,155,210)	-
Other items (net)	(352,238)	-	(233,952)	-
Future income tax benefit not brought to account	9,019,318	(17,866)	8,774,664	50,738
Income tax expense (benefit) relating to ordinary activities	-	-	-	-
Future income tax benefits not brought to account as assets				
Tax losses – revenue	39,025,195	8,960,803	38,209,683	8,960,803
Tax losses – capital	22,286,668	22,621,000	22,286,668	22,621,000
	61,311,863	31,581,803	60,496,351	31,581,803
Tax effect at 30%	18,393,558	9,474,541	18,148,905	9,474,541

The taxation benefits will only be obtained if:

(a) the consolidated entity derives assessable income of a nature and of an amount sufficient to enable the benefit from the deductions to be realised;

(b) the consolidated entity continues to comply with the conditions for deductibility imposed by law; and

(c) there are no changes in tax legislation adversely affecting the consolidated entity in realising the benefit from the deductions.

	Consolidated		Company	
	2005 $	2004 $	2005 $	2004 $
5. CASH ASSETS - CURRENT				
Cash on hand	602	196	600	194
Cash at bank	3,388,738	5,329,841	3,271,118	5,139,710
Deposits at call	77,769,035	-	77,769,035	-
	81,158,375	5,330,037	81,040,753	5,139,904

6. RECEIVABLES – CURRENT				
Trade receivables	1,128,990	477,299	788,407	225,886
Less: provision for doubtful debts	(16,118)	(16,118)	-	-
	1,112,872	461,181	788,407	225,886

7. INVENTORIES – CURRENT				
At cost	137,413	135,583	-	-

8. OTHER CURRENT ASSETS				
Prepayments	60,356	3,384	60,356	-

9. OTHER FINANCIAL ASSETS - CURRENT				
Listed investments at cost	2,723	2,723	2,723	2,723
Quoted market value of investments listed at balance date on a prescribed exchange	2,995	3,267	2,995	3,267

10. RECEIVABLES – NON-CURRENT				
Loan receivable	1,334,824	196,642	1,334,824	196,642
Loans and advances – controlled entities	-	-	4,665,912	4,600,520
	1,334,824	196,642	6,000,736	4,797,162

	Consolidated		Company	
	2005	2004	2005	2004
	$	$	$	$
11. EXPLORATION AND EVALUATION EXPENDITURE				
Exploration and evaluation phase				
Carrying amount at beginning of year	10,420,932	1,001,442	5,820,012	1,001,442
Disposal of Red Dam Project non-cash	-	(403,300)	-	(403,300)
Expenditure outlaid in cash	52,832,580	9,325,855	52,767,188	4,724,935
Expenditure non-cash	84,013	136,935	84,013	136,935
Shares issued for acquisition of interests	-	360,000	-	360,000
Carrying amount at end of year	63,337,525	10,420,932	58,671,213	5,820,012

This has been determined in accordance with Note 1 (b).

	Consolidated 2005 $	Consolidated 2004 $	Company 2005 $	Company 2004 $
12. PROPERTY, PLANT AND EQUIPMENT				
Land and Buildings	114,915	-	114,915	-
Plant and office equipment – at cost	1,417,569	530,357	1,397,701	514,700
Accumulated depreciation	(365,948)	(89,645)	(352,122)	(80,875)
	1,051,621	440,712	1,045,579	433,825
Motor vehicles – at cost	6,958	27,557	6,958	-
Accumulated depreciation	(696)	(14,709)	(696)	-
	6,262	12,848	6,262	-
Total property, plant and equipment	1,172,798	453,560	1,166,756	433,825

	Consolidated 2005 $	Consolidated 2004 $	Company 2005 $	Company 2004 $
12. PROPERTY, PLANT AND EQUIPMENT (continued)				
Reconciliation				
Plant and office equipment				
Carrying amount at beginning of year	440,712	15,615	433,825	617
Additions	978,040	516,953	965,049	515,803
Disposal	(1,183)	(5,419)	(1,183)	(1,104)
Depreciation	(365,948)	(86,437)	(352,122)	(81,491)
Carrying amount at end of year	1,051,621	440,712	1,045,569	433,825
Land and Buildings				
Carrying amount at beginning of year	-	-	-	-
Additions	114,915	-	114,915	-
Carrying amount at end of year	114,915	-	114,915	-
R & D prototype				
Carrying amount at beginning of year	-	537,149	-	537,149
Disposal	-	(537,149)	-	(537,149)
Carrying amount at end of year	-	-	-	-
Motor vehicles				
Carrying amount at beginning of year	12,848	11,064	-	-
Additions	6.958	-	6,958	-
Disposal	(12,848)	-	-	-
Depreciation	(696)	1,784	(696)	-
Carrying amount at end of year	6,262	12,848	6,262	-

13.OTHER FINANCIAL ASSETS – NON-CURRENT				
Unquoted investments – at cost	26,000	26,000	26,000	26,000
Shares in controlled entities	-	-	403	403
	26,000	26,000	26,403	26,403

13. OTHER FINANCIAL ASSETS – NON-CURRENT (continued)

Company	Class of Share	Place of Incorporation	Equity Holding 2005 %	Equity Holding 2004 %	Cost to Company 2005 $	Cost to Company 2004 $
Parent Entity						
Fortescue Metals Group Ltd		Australia	-	-	-	-
Controlled Entities						
Allied Medical Ltd	Ordinary	Australia	100	100	1	1
The Pilbara Infrastructure Pty Ltd	Ordinary	Australia	100	100	1	1
FMG Resources Pty Ltd	Ordinary	Australia	100	100	400	400
FMG Pilbara Pty Ltd	Ordinary	Australia	100	100	1	1
FMG Chichester Pty Ltd	Ordinary	Australia	100	100	-	-
					403	403

	Consolidated 2005 $	Consolidated 2004 $	Company 2005 $	Company 2004 $
14. PAYABLES – CURRENT				
Trade payables	4,161,765	2,517,976	4,041,314	2,398,518
Other payables and accruals	5,143,762	360,695	5,098,565	338,275
	9,305,527	2,878,671	9,139,879	2,736,793

15. NON-CURRENT LIABILITIES – INTEREST BEARING

Unsecured				
Convertible notes	50,203,562	-	50,203,562	-
Total Non-Current Interest Bearing Liaibilities	50,203,562	-	50,203,562	-

Convertible Notes

The Company issued US$30 million of convertible notes on 24 January 2005. The notes bear no interest for the first 38 months and then accrue interest at the rate of 5% per annum. The notes are convertible into ordinary shares of the Company, anytime at the option of the holder or at the option of the company provided that for 14 consecutive days prior to conversion the closing price of the Company's shares is greater than $6.00 and the volume of shares traded exceeds 1.5 million. If not converted the notes are repayable on 24 January 2011. The number of shares to be issued will be determined by dividing the issue price of the notes by $4.50.

The Company issued US$50 million of convertible notes on 16 February 2005. The notes bear no interest for the first three years and then accrue interest at the rate of 5% per annum. The notes are convertible into ordinary shares of the Company, at the option of the holder provided the parent entity's shares have traded above $6.00 for two consecutive days or at the option of the company provided the Company's shares have traded above $7.50 for five consecutive days. If not converted the notes are repayable on 16 February 2011. The number of shares to be issued will be determined by dividing the issue price of the notes by $6.00

		Consolidated		Company	
		2005 $	2004 $	2005 $	2004 $
15. NON-CURRENT LIABILITIES – INTEREST BEARING (continued)					
The convertible notes are presented in the statement of financial position as follows:					
Face value of notes issued		103,589,844	-	103,589,844	-
Other equity securities – value of conversion rights	17	53,386,282	-	53,386,282	-
		50,203,562	-	50,203,562	-

16. PROVISIONS – CURRENT

Employee entitlements	243,046	85,959	234,338	82,709
Average number of employees during the financial year	85	25	81	23

17. CONTRIBUTED EQUITY

	2005 Number of shares	2004 Number of shares	2005 $	2004 $
(a) Ordinary shares fully paid:				
Balance at beginning of financial year	124,298,108	66,684,972	20,355,255	10,051,859
Conversion of options at 8 cents	69,580,000	35,420,000	5,566,405	2,833,600
Conversion of options at 20 cents	1,000,000	2,611,600	200,000	522,320
Conversion of options at 50 cents	1,000,000	-	500,000	-
Conversion of options at 75 cents	1,000,000	-	750,000	-
Conversion of options at $1.00	1,000,000	-	1,000,000	-
Acquisition of Iron Ore Australia Pty Ltd	-	1,800,000	-	360,000
Issue of shares at 8 cents	-	1,000,000	-	80,000
Issue of shares at 55 cents	12,898,470	16,644,601	7,094,159	9,154,543
Issue of shares at $1	7,046,350	136,935	7,046,350	136,935
Distribution to Allied Gold Ltd shareholders	-	-	-	(2,497,277)
Cost of raising capital	-	-	-	(286,725)
Distribution to option holders	-	-	(181,800)	-
Balance at end of financial year	217,822,928	124,298,108	42,230,369	20,355,255
(b) Other equity securities (i)			53,386,282	-
			95,716,651	20,355,255

Fully paid ordinary shares entitle the holder to participate in dividends and to one vote.

(i) Other equity securities

The amount shown for other equity securities is the value of the conversion rights relating to the convertible notes, details of which are shown in note 15.

The number of options on issue at balance date was as follows:

No. of Options	Exercise Price $	Expiry Date
2,000,000	$2.67	31 December 2009
2,000,000		

All options are unlisted.

During the year the company issued 2,000,000 options. These options were issued pursuant to the Company's Employee Incentive Scheme and have been allotted to individuals on condition that they serve specified time periods as an employee with the Company before becoming entitled to exercise the options.

The value ascribed to these options is $3,930,321. This value was ascribed using the Black and Scholes option pricing model and was based on the following inputs and assumptions;

- Share price at time of issue $2.67
- Option exercise price of $2.67
- Risk free interest rate of 5.75%
- Volatility factor of 26.40%
- Term to expiry of 5 years

	Consolidated		Company	
	2005 $		2004 $	
18. ACCUMULATED LOSSES				
Accumulated losses at beginning of the year	(6,289,843)	(6,891,429)	(6,728,842)	(7,101,748)
Net profit (loss) attributable to members	(836,057)	601,586	(808,241)	372,906
Accumulated losses at end of the year	(7,125,900)	(6,289,843)	(7,537,083)	(6,728,842)

19. EARNINGS PER SHARE

BASIC EARNINGS / (LOSS) PER SHARE	Consolidated 2005 $	Consolidated 2004 $
Weighted average number of ordinary shares on issue used in calculation of basic earnings / (loss) per share	175,236,990	93,967,769
Net (loss) / profit used in the calculation of basic earnings per share	(836,057)	601,586
(EPS) in cents	(0.48)	0.64
DILUTED EARNINGS (LOSS) PER SHARE		
Weighted average number of ordinary shares on issue used in calculation of diluted earnings per share	N/A	158,988,581
Net profit used in the calculation of diluted earnings per share	N/A	601,586
(DEPS) in cents	N/A	0.38

RECONCILIATION OF EARNINGS TO NET PROFIT / (LOSS)	Consolidated 2005 $	Consolidated 2004 $
Net profit/ (loss)	(836,057)	601,586
Earnings used in the calculation of EPS	(836,057)	601,586
Earnings used in the calculation of DEPS	N/A	601,586

WEIGHTED AVERAGE NUMBER OF SHARES	Consolidated 2005	Consolidated 2004
Weighted average number of ordinary shares outstanding during the year used in calculation of EPS	N/A	93,967,769
Weighted average number of options outstanding	N/A	65,020,812
Weighted average number of ordinary shares outstanding during the year used in calculation of DEPS	N/A	158,988,581

20. SEGMENT INFORMATION

Primary Reporting	Mining & Exploration		Medical		Consolidated	
Business Segments	**2005** $	**2004** $	**2005** $	**2004** $	**2005** $	**2004** $
Revenue						
External segment revenue	1,378,229	2,734,453	1,749,435	1,592,113	3,127,664	4,326,566
Eliminations	-	-	-	-	-	(60,000)
Total segment revenue	1,378,229	2,734,453	1,749,435	1,592,113	3,127,664	4,266,566
Total revenue from ordinary activities					3,127,664	4,266,566
Result						
Segment result	(808,241)	372,906	(27,817)	228,680	(836,058)	601,586
Profit from ordinary activities after tax					(836,058)	601,586
Assets						
Segment assets	147,757,750	16,446,318	585,540	584,128	148,342,290	17,030,446
Eliminations					(404)	(404)
Total assets					148,342,886	17,030,042
Liabilities						
Segment liabilities	59,577,779	2,819,502	174,356	145,128	59,752,135	2,964,630
Eliminations					-	-
Total liabilities					59,752,135	2,964,630
Other						
Depreciation and amortisation	272,009	80,875	7,384	4,212	279,393	85,087
Liabilities						
Segment liabilities	59,577,779	2,819,502	174,356	145,128	59,752,135	2,964,630

Business Segments

The consolidated entity has the following two business segments

- Development of the Pilbara Iron Ore and Infrastructure Project
- Marketing and distribution of medical products throughout Australia and New Zealand.

Secondary Reporting

Geographical Segments

The consolidated entity operated predominantly in the geographical location of Australia.

	Consolidated		Company	
	2005 $	2004 $	2005 $	2004 $
21. AUDITORS' REMUNERATION				
Amounts received or due and receivable by auditors for:				
Auditing – the financial report	40,514	25,000	32,564	17,000
Other services	-	800	-	800
	40,514	25,800	32,564	17,800

	Consolidated		Company	
	2005 $	2004 $	2005 $	2004 $
22.(a) RECONCILIATION OF OPERATING PROFIT/(LOSS) FROM ORDINARY ACTIVITIES TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES				
Operating loss before income tax	(836,057)	601,586	(808,241)	372,906
Depreciation	279,393	85,087	272,009	80,875
Loss on sale of assets	4,157	(1,555,098)	-	(1,555,098)
Profit on sale of investment in listed securities-	-	(360)	-	(360)
Write down investments	-	-	-	1,787
Provision – employee entitlements	157,087	85,959	151,629	82,709
Exploration expenditure capitalised	(52,832,580)	(9,330,307)	(52,832,580)	(4,729,387)
Net unrealized gain on foreign exchange	(851,171)	-	(851,171)	-
Changes in assets and liabilities during the year:				
Increase/ (decrease) in payables	6,426,080	2,696,545	6,400,599	2,650,910
(Increase) /decrease in receivables and prepayments	(707,887)	(206,237)	(622,544)	(212,913)
(Increase) /decrease in inventory	(1,830)	(23,560)	-	-
Net cash (outflow) from operating activities	(48,362,808)	(7,646,385)	(48,290,299)	(3,308,571)

22.(b) NON-CASH FINANCING AND INVESTING ACTIVITIES

46,355 shares at $1.00 each and 50,288 shares at 55 cents each to various suppliers in payment for services.

23. FINANCIAL INSTRUMENTS

(a) Credit Risk Exposures

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

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

23. FINANCIAL INSTRUMENTS (continued)

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

(b) Interest Rate Risk

Cash balances are subject to very little interest rate risk as the Company only has at call bank accounts and term deposits which have variable interest rates. The interest rates earned/paid during the year are as follows:

2005	Note	Weighted Average interest rate	Floating interest rate	Fixed interest maturing in 1 year or less	Non-interest bearing	Total
Financial Assets		%	$	$	$	$
Cash	5	4.23	3,388,738	-	602	3,389,340
Short Term deposit	5	4.32	-	77,769,035	-	77,769,035
Receivables	6,8		-	-	1,173,228	1,173,228
Listed Shares	9		-	-	2,723	2,723
			3,388,738	77,769,035	1,176,553	82,334,326
Financial Liabilities						
Payables	14		-	-	9,305,527	9,305,527
Convertible Notes	15		-	-	50,203,562	50,203,562
			-	-	59,509,089	59,509,089
Net Financial Assets			3,388,738	77,769,035	(58,332,536)	22,825,237

2004	Note	Weighted Average Interest rate	Floating interest rate	Fixed interest maturing in 1 year or less	Non-interest bearing	Total
Financial Assets		%	$	$	$	$
Cash	5	1.16	5,244,841	-	196	5,245,037
Short Term deposit	5	5.2	-	85,000	-	85,000
Receivables	6,8		-	-	661,207	661,207
Listed shares	9		-	-	2,723	2,723
			5,244,841	85,000	664,126	5,993,967
Financial Liabilities						
Payables	14		-	-	2,878,671	2,878,671
			-	-	2,878,671	2,878,671
Net Financial Assets			5,244,841	85,000	(2,217,268)	3,112,573

23. FINANCIAL INSTRUMENTS (continued)

(c) Net Fair Value

The carrying amount of financial assets and financial liabilities recorded in the financial statements represents their respective net fair values, determined in accordance with the accounting policies disclosed in note 1 to the financial statements.

24. COMMITMENTS

(a) Leasing Commitments
Operating leases

	Consolidated		Company	
	2005 $	**2004 $**	**2005 $**	**2004 $**
Due within 1 year	**335,734**	255,269	**335,734**	255,269
Due greater than 1 year and less than 5	**283,844**	148,907	**283,844**	148,907
	619,578	**404,176**	**619,578**	**404,176**

(b) Exploration Tenement Leases – Commitments for Expenditure.

In order to maintain current rights of tenure to exploration tenements, the Company and consolidated entity is required to outlay lease rentals and to meet the minimum expenditure requirements of $1,393,844 over the next financial year (2004 $544,000).

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.

(c) Project Commitments

Commitments exist in relation to the project for up to $2,400,000.

25. DIRECTOR AND EXECUTIVE DISCLOSURES

Directors

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

Chairman – Non Executive

Mr Gordon Toll (appointed as a Non Executive Director 27 January 2005 and as Chairman 13 May 2005)

Executive Directors

Mr Andrew Forrest (resigned as Chairman 13 May 2005), Chief Executive Officer
Mr Graeme Rowley, Executive Director of Operations

Non Executive Directors

Mr Herb Elliott
Mr Russell Scrimshaw
Mr Ken Ambrecht
Mr Christopher Linegar (resigned 27 January 2005))

25. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

Executives (other than Directors) with the greatest authority for strategic direction and management

The following people are the top five non-director executives with authority for the strategic direction and management of the consolidated entity ("specified executives") during the financial year:

Name	Position	Employer
Mr Alan Watling	Head of Infrastructure	Fortescue Metals Group Ltd
Mr Jim Williams	Head of Mining	Fortescue Metals Group Ltd
Mr Eamon Hannon	General Manager Exploration	Fortescue Metals Group Ltd
Mr Christopher Catlow	Chief Financial Officer	Fortescue Metals Group Ltd
Mr Julian Tapp	Manager Government Relations	Fortescue Metals Group Ltd

Remuneration of Directors and executives

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

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

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

Alignment to shareholder's interests:

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

Details of remuneration

Details of the remuneration of each Director of the Company and each of the specified executives of the consolidated entity, including their personally-related entities, are set out in the following tables.

25. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

	Primary			Post-employment		Equity	
Name	Cash salary and fees $	Cash bonus $	Non-monetary benefits $	Super-annuation $	Retirement benefits $	Options $	Total $
2005 Directors							
G Toll	64,000	-	-	-	-	-	64,000
A Forrest	100,000	-	-	10,000	-	-	110,000
G Rowley	182,000	-	-	18,200	-	-	200,200
H Elliott	-	-	-	-	-	53,059	53,059
R Scrimshaw	55,046	-	-	4,954	-	53,059	113,059
K Ambrecht	-	-	-	-	-	53,059	53,059
C Linegar	-	-	-	-	-	53,059	53,059
Total	401,046	-	-	33,154	-	212,236	646,436
Specified Executives							
A Watling	156,916	-	-	15,692	-	77,359	249,967
J Williams	135,000	-	-	13,500	-	67,689	216,189
E Hannon	133,761	-	-	13,376	-	42,547	189,684
C Catlow	163,000	-	-	16,300	-	-	179,300
J Tapp	120,000	-	-	12,000	-	38,679	170,679
Total	708,677	-	-	70,868	-	226,274	1,005,819
2004 Directors							
A Forrest	95,833	-	-	9,500	-	-	105,333
G Rowley	107,500	-	-	10,750	-	-	118,250
H Elliott	-	-	-	-	-	81,941	81,941
R Scrimshaw	-	-	-	-	-	81,941	81,941
K Ambrecht	-	-	-	-	-	81,941	81,941
C Linegar	-	-	-	-	-	81,941	81,941
S Coe	-	-	-	-	-	-	-
M Caruso	12,500	-	-	-	-	-	12,500
G Steemson	32,322	-	-	1,109	-	-	33,431
D Lymburn	-	-	-	-	-	-	-
Total	248,155	-	-	21,359	-	327,764	597,278
Specified Executives							
C Catlow	77,692	-	-	7,769	-	-	85,461
Total	77,692	-	-	7,769	-	-	85,461

25. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

Remuneration Option

Options granted as remuneration

2005 Directors

Name	Vested No.	Granted No.	Grant Date	Value per Option at Grant Date $	Exercise Price $	First Exercise Date	Last Exercise Date
G Toll	-	-	-	-	-	-	-
A Forrest	-	-	-	-	-	-	-
H Elliott	500,000	-	28/11/03	0.18	0.75/1.00	28/11/03	28/11/06
R Scrimshaw	500,000	-	28/11/03	0.18	0.75/1.00	28/11/03	28/11/06
K Ambrecht	500,000	-	28/11/03	0.18	0.75/1.00	28/11/03	28/11/06
C Linegar	500,000	-	28/11/03	0.18	0.75/1.00	28/11/03	28/11/06
Total	2,000,000	-					

Specified Executives

Name	Vested No.	Granted No.	Grant Date	Value per Option at Grant Date $	Exercise Price $	First Exercise Date	Last Exercise Date
A Watling[1]	-	200,000	31/12/04	1.97	2.67	01/07/06	31/12/09
J Williams[1]	-	175,000	31/12/04	1.97	2.67	01/07/06	31/12/09
E Hannon[1]	-	110,000	31/12/04	1.97	2.67	01/07/06	31/12/09
C Catlow	-	-	-	-	-	-	-
J Tapp[1]	-	100,000	31/12/04	1.97	2.67	01/07/06	31/12/09
Total	-	585,000					

[1] The options were issued pursuant to the Company's Employee Incentive Scheme and may be exercised 25% from 1 July 2006, 25% from 1 July 2007, 25% from 1 July 2008, and the final 25% from 1 July 2009.

2004

Name	Vested No.	Granted No.	Grant Date	Value per Option at Grant Date $	Exercise Price $	First Exercise Date	Last Exercise Date
H Elliott	250,000	750,000	28/11/03	0.18	0.50	28/11/03	28/11/06
R Scrimshaw	250,000	750,000	28/11/03	0.18	0.50	28/11/03	28/11/06
K Ambrecht	250,000	750,000	28/11/03	0.18	0.50	28/11/03	28/11/06
C Linegar	250,000	750,000	28/11/03	0.18	0.50	28/11/03	28/11/06
Total	1,000,000	3,000,000					

25. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

Service agreements

Remuneration and other terms of employment for the Executive Directors and Specified Officers 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 2005 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 2005 of $200,200, to be reviewed annually by the Remuneration Committee.

Mr Alan Watling, Head of Infrastructure
- Term of agreement – Unspecified
- Base salary, inclusive of superannuation, for the year ended 30 June 2005 of $192,500, to be reviewed annually by the Remuneration Committee.

Mr Jim Williams, Head of Mining
- Term of agreement – Unspecified
- Base salary, inclusive of superannuation, for the year ended 30 June 2005 of $148,500, to be reviewed annually by the Remuneration Committee.

Mr Eamon Hannon, General Manager Exploration
- Term of agreement – Unspecified
- Base salary, inclusive of superannuation, for the year ended 30 June 2005 of $159,500, to be reviewed annually by the Remuneration Committee.

Mr Christopher Catlow, Chief Financial Officer/Company Secretary
- Term of agreement – Unspecified
- Base salary, inclusive of superannuation, for the year ended 30 June 2005 of $179,300, to be reviewed annually by the Remuneration Committee.

Mr Julian Tapp, Manager Government Relations
- Term of agreement – Unspecified
- Base salary, inclusive of superannuation, for the year ended 30 June 2005 of $132,000, to be reviewed annually by the Remuneration Committee.

25. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

Option holdings

The numbers of options over ordinary share in the company held during the financial year by each Director of the Company and each of the five specified executives of the consolidated entity, including their personally-related entities, are set out below.

Name	Balance at the start of the year	Granted during the year as remuneration	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year
2005 Directors						
A Forrest	69,555,000	-	67,850,000	1,705,000[1]	-	-
G Rowley	-	-	1,000,000	(1,000,000)[1]		
H Elliott	750,000	-	750,000	-	-	-
R Scrimshaw	750,000	-	750,000	-	-	-
K Ambrecht	750,000	-	750,000	-	-	-
TOTAL	71,805,000	-	70,100,000	705,000	-	-

[1] Transferred during the period to entities related to the project as part of an incentive scheme

Name	Balance at the start of the year	Granted during the year as remuneration	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year
Specified Executives						
A Watling	-	200,000[2]	-	-	200,000	-
J Williams	-	175,000[2]	-	-	175,000	-
E Hannon	-	110,000[2]	-	-	110,000	-
C Catlow	-	-	-	-	-	-
J Tapp	-	100,000[2]	-	-	100,000	-
TOTAL	-	585,000	-	-	585,000	-

[2] The options were issued pursuant to the Company's Employee Incentive Scheme and may be exercised 25% from 1 July 2006, 25% from 1 July 2007, 25% from 1 July 2008, and the final 25% from 1 July 2009.

25. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

Share holdings

The numbers of ordinary shares in the Company held during the financial year by each Director of the Company and each of the five specified executives of the consolidated entity, including their personally-related entities, are set out below.

2005 Ordinary shares

Name	Balance at the start of the year	Received during the year on the exercise of options	Purchased during the year	Sold During the year	Balance at the end of the year
Directors					
A Forrest	40,573,755	67,850,000	397,335	5,175,670	103,645,420
G Rowley	1,459,569	1,000,000	-	210,000	2,249,569
H Elliott	100,000	750,000[1]	100,000	100,000	850,000
R Scrimshaw	325,000	750,000[1]	-	-	1,075,000
Ken Ambrecht	-	750,000[1]	-	-	750,000
G Toll	-	-	750,000	-	750,000
TOTAL	42,458,324	71,100,000	1,247,335	5,485,670	109,319,989
Specified Executives					
A Watling	-	-	-	-	-
J Williams	150,000	-	-	-	150,000
E Hannon	-	-	40,300	-	40,300
C Catlow	800,000	-	-	-	800,000
J Tapp	-	-	-	-	-
TOTAL	950,000	-	40,300	-	990,300

[1] All have 250,000 shares under escrow until 28 November 2005 as per shareholder approved remuneration package

Other transactions with directors and specified executives

Directors

The brother of Mr Andrew Forrest, is a director and shareholder of Nullaki Air Services Pty Ltd, a company that is engaged by the Company to provide aerial services. Payments of $104,701 were made during the year for aviation services at commercial rates.

Mr Ken Ambrecht is a director and shareholder of First Albany Capital Inc, a company that was engaged by the Company to provide financial services . Payments of $633,392 were made during the year for financial services at commercial rates.

Amounts recognised as deferred assets	2005 $	2004 $
Financial Services	633,392	Nil
Exploration costs	104,701	41,119
Total	738,093	41,119

26. CONTINGENT LIABILITIES

During the year ended 30 June 2004 the consolidated entity applied to the National Competition Council for access to BHP Billiton Ltd railway facilities in the Pilbara region of Western Australia. Potential liabilities related to this application are limited to legal fees and disbursements the aggregate of which cannot be determined at this time.

27. SUBSEQUENT EVENTS

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

28. IMPACTS OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS

The Australian Accounting Standards Board (AASB) is adopting International Financial Reporting Standards (IFRS) for application to reporting periods beginning on or after 1 January 2005. The AASB has issued Australian equivalents to IFRS, and the Urgent Issues Group has issued interpretations corresponding to IASB interpretations originated by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee. These Australian equivalents to IFRS are referred to hereafter as AIFRS. The adoption of AIFRS will be first reflected in the consolidated entity's financial statements for the half-year ending 31 December 2005 and the year ending 30 June 2006.

Entities complying with AIFRS for the first time will be required to restate their comparative financial statements to amounts reflecting the application of AIFRS to the comparative period. Most adjustments required on transition to AIFRS will be made, retrospectively, against opening retained earnings as at 1 July 2004.

The consolidated entity has established a project team to manage the transition to AIFRS, including training of staff and system and internal control changes necessary to gather all the required financial information. The project team is chaired by the Chief Financial Officer and reports quarterly to the Audit Committee. The project team has prepared a detailed timetable for managing the transition and is currently on schedule.

The project team has analysed all of the AIFRS and has identified the accounting policy changes that will be required. In some cases choices of accounting policies are available, including elective exemptions under Accounting Standard AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards. These choices have been analysed to determine the most appropriate accounting policy for the consolidated entity.

The known or reliably estimable impacts on the financial report for the year ended 30 June 2005 had it been prepared using AIFRS are set out below. The expected financial effects of adopting AIFRS are shown for each line item in the statements of financial performance and statements of financial position, with the descriptions of the differences. No material impacts are expected in relation to the statements of cash flows.

Although the adjustments disclosed in this note are based on management's best knowledge of expected standards and interpretations, and current facts and circumstances, these may change. For example, amended or additional standards or interpretations may be issued by the AASB and the IASB. Therefore, until the company prepares its first full AIFRS financial statements, the possibility cannot be excluded that the accompanying disclosures may have to be adjusted.

28. IMPACTS OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS (continued)

Impact on the Statement of Financial Performance

	Note	Consolidated			Company		
		Existing GAAP $'000	Effect of Change $'000	AIFRS $'000	Existing GAAP $'000	Effect of Change $'000	AIFRS $'000
Revenue from ordinary activities		3,128	-	3,128	1,378	-	1,378
Cost of sales		1,117	-	1,117	-	-	-
Exploration expenditure written off		-	-	-	-	-	-
General & administration expenses	b	2,847	774	3,621	2,186	774	2,960
Other expenses from ordinary activities	c	-	2,909	2,909	-	2,909	2,909
Profit (loss) from ordinary activities before related income tax expense		(836)	(3,683)	(4,519)	(808)	(3,683)	(4,491)
Income tax expense relating to ordinary activities		-	-	-	-	-	-
Profit (loss) from ordinary activities after related income tax expense		(836)	(3,683)	(4,519)	(808)	(3,683)	(4,491)
Basic earnings per share (cents)		(0.50)	(2.10)	(2.60)			
Diluted earnings per share (cents)		N/A	N/A	N/A			

28. IMPACTS OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS (continued)

Impact on the Statements of Financial Position

	Note	Consolidated			Company		
		Existing GAAP $'000	Effect of Change $'000	AIFRS $'000	Existing GAAP $'000	Effect of Change $'000	AIFRS $'000
CURRENT ASSETS							
Cash assets		81,158	-	81,158	81,041	-	81,041
Receivables		1,113	-	1,113	788	-	788
Inventories		137	-	137	-	-	-
Other current assets		60	-	60	60	-	60
Other Financial assets		3	-	3	3	-	3
Total Current Assets		82,471	-	82,471	81,892	-	81,892
NON-CURRENT ASSETS							
Receivables		1,335	-	1,335	6,001	-	6,001
Exploration & development expenditure		63,338	-	63,338	58,671	-	58,671
Property, plant and equipment		1,173	-	1,173	1,167	-	1,167
Other Financial assets		26	-	26	26		26
Total Non-Current Assets		65,872	-	65,872	65,865	-	65,865
Total Assets		148,343	-	148,343	147,757	-	147,757
CURRENT LIABILITIES							
Payables		9,306	-	9,306	9,140	-	9,140
Provisions		243	-	243	234	-	234
Total Current Liabilities		9,549	-	9,549	9,374	-	9,374
NON-CURRENT LIABILITIES							
Deferred Tax	a c	-	11,634	11,634	-	11,634	11,634
Convertible Notes	c	50,204	17,516	67,720	50,204	17,516	67,720
Total Non-Current Liabilities		50,204	29,150	79,354	50,204	29,150	79,354
Total Liabilities		59,752	29,150	88,903	59,578	29,150	88,903
NET ASSETS		88,591	(29,150)	59,441	88,180	(29,150)	59,030
EQUITY							
Contributed equity	c	95,717	(26,241)	69,476	95,717	(26,241)	69,476
Reserves	b	-	774	774	-	774	774
Accumulated losses	b	(7,126)	(3,683)	(10,809)	(7,537)	(3,683)	(11,220)
TOTAL EQUITY		88,591	(29,150)	59,441	88,180	(29,150)	59,030

28. IMPACTS OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS (continued)

Notes explaining the impacts on the Statements of Financial Performance and Statements of Financial Position

(a) Income tax

The application of AASB 112 Income Taxes could result in increases in deferred tax assets and deferred tax liabilities as a consequence of the recognition of deferred taxes associated with fair value adjustments in relation to business combinations, revaluations of land and buildings and investments in associates.

Deferred tax assets could also increase due to the differing requirements for the recognition of carried forward tax losses.

There will be no impact on the cumulative financial position at 30 June 2005. This is because a deferred tax asset has not been recognised for carry forward tax losses because it is not probable that future taxable profit will be available against which the unused tax losses can be utilised.

(b) Equity-based compensation benefits

Under AASB 2 Share-based Payment, from 1 July 2004 the consolidated entity is required to recognise an expense for those options that were issued to employees under the Value Accounts Employee Option Plan after November 2002 but that had not vested by 1 January 2005.

This will result in a change to the current accounting policy under which no expense is recognised for equity- based compensation.

(c) Convertible Notes

Under ASSB 132 Financial Instruments: Disclosure and Presentation, from 1 July 2004 the consolidated entity is required to recognize compound financial instruments by measuring the liability component of the instrument first and the remainder as tax adjusted equity. Under AASB 139 Financial Instruments: Recognition and Measurement, the financial liability is measured periodically at its amortised cost. This will result in a change to the current accounting policy under which the equity component is measured first, the remainder to liability with no consequential tax effect or any charge for effective interest.

DIRECTORS' DECLARATION

FORTESCUE METALS GROUP LTD AND ITS CONTROLLED ENTITIES

ACN 002 594 872

The Directors of the Company declare that:

1. The financial statements, comprising the Statements of Financial Performance, Position and Cash Flows, and accompanying notes, are in accordance with the Corporations Act 2001 and:

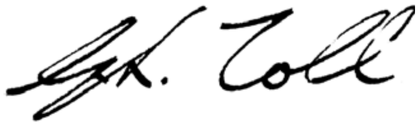
   (a) comply with Accounting Standards and the Corporations Regulations 2001; and

   (b) give a true and fair view of the financial position as at 30 June 2005 and of the performance for the year ended on that date of the company and the consolidated entity.

1. 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.

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

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 Gordon Toll
Chairman

Perth
26 August 2005

INDEPENDENT AUDIT REPORT
TO THE MEMBERS OF FORTESCUE METALS GROUP Ltd

Scope

The Financial Report and Directors' Responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Fortescue Metals Group Ltd (the Company), for the year ended 30 June 2005.

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

Audit Approach

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

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's financial position, and of its performance as represented by the results of its operations and cash flows.

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

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

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

INDEPENDENT AUDIT REPORT
TO THE MEMBERS OF FORTESCUE METALS GROUP Ltd

Independence

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

The independence declaration given to the directors in accordance with section 307C would be in the same terms if it had been given at the date of this report. 1

Audit Opinion

In our opinion, the financial report of Fortescue Metals Group Ltd is in accordance with:

(a) the Corporations Act 2001, including:

(i) giving a true and fair view of the Company's financial position as at 30 June 2005 and of its performance for the year ended on that date; and

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

(b) other mandatory financial reporting requirements in Australia.

BDO

Chartered Accountants

BG McVeigh
Partner

Dated this 26th day of August 2005
Perth, Western Australia

1 This statement is required in order to comply with ASIC Class Order 05-83 dealing with timing of the auditor's independence declaration. It is only required for audits conducted under the Corporations Act

Additional information required by the Australian Stock Exchange Limited Listing Rules and not disclosed else where in this report as follows. The information is made up to 26th September 2005.

Statement of Shareholdings

(a) Ordinary shares – Fully Paid

	Names of the 20 Largest Shareholders	Number of Shares	% Held
1	The Metal Group Pty Ltd	102,307,830	46.97
2	Citicorp Nominees Pty Ltd	17,716,266	8.13
3	Westpac Custodian Nominees Ltd	15,011,266	6.89
4	Emichrome Pty Ltd	12,773,696	5.86
5	JP Morgan Nominees Australia Ltd	8,717,674	4.00
6	Jiansu Fengli Group Co Ltd	5,989,823	2.75
7	Pan Australian Nominees	5,542,089	2.54
8	ANZ Nominees Ltd Cash Income A/C	4,088,107	1.88
9	National Nominees Limited	2,992,244	1.37
10	Mr Kie Chie Wong	2,483,169	1.14
11	Kale Capital Corporation Ltd	2,304,794	1.06
12	HSBC	2,136,730	0.98
13	Mr William Graeme Rowley	2,023,569	0.93
14	El Aura Pty Ltd	1,640.000	0.75
15	WWB Investments Pty Ltd	1,147,840	0.53
16	John Cunningham & Associates Pty Ltd	1,117,810	0.51
17	HSBC Custody Nominees (Australia) Ltd	908,710	0.42
18	Mr Henry James Adams	800,000	0.37
19	Mr Christopher James Catlow	800,000	0.37
20	Arran Ventures Ltd	750,000	0.34

Holding Range	Number of holders
1 - 1,000	743
1,001 - 5,000	909
5,001 - 10,000	286
10,001 - 100,000	282
100,001 - or more	68
	1462

Voting Rights

All ordinary fully paid shares carry one vote per share without restrictions.

Total Fully Paid Shares Issued	217,822,928
Proportion held by 20 Largest Shareholders	87.8%
Number of Shareholders holding less than a marketable parcel	68

There is no current on market buy back

(b) Options

Full details of the options on issue are given in the Directors Report.

(c) Substantial Shareholders

The names of those shareholders with a substantial shareholding in Company at 16th September 2004 are;

	Relevant Interest in Shares	% Held
THE METALS GROUP PTY LTD	102,307,830	46.97
CITICORP NOMINEES PTY LTD	17,716,266	8.13
JP MORGAN CHASE & CO & Its affiliates	16,351,641	7.51
HMC INVESTORS LLC & Its affiliates	16,144,780	7.41
EMICHROME PTY LTD & Its affiliates	15,796,569	7.25
WESTPAC CUSTODIAN NOMINEES	15,011,266	7.00

THE MARKET FOR IRON ORE REMAINS VERY BUOYANT