Fortescue
The New Force in Iron Ore

2012 ANNUAL REPORT

FOCUS ON 155

CHAIRMAN'S STATEMENT

It has been an honour to chair your company over the last 12 months as we have built our massive iron ore presence. Allow me some observations on how our customers view us.

Fortescue is already a production operation with few peers, yet based in the world's most valuable iron ore region, the Pilbara. We are one of the world's largest and most reliable producers in developing one of the world's precious bulk commodities: direct ship, direct feed, high-quality iron ore.

Fortescue supplies its customers from the position of being a strong, independent and major producer operating in a politically stable country. We give our customers the peace of mind of absolute integrity and reliability.

While we have expanded hugely this year to meet the growing demands of our customers, volatile market conditions in the new financial year have led to the deliberate slowing of some of the final steps of the current expansion. This was done to remove from our financial forecasts the capital 'spike' in our final roll-out to 155 million tonnes per annum. The knock on effect of this decision led to a much more difficult decision. To cut our cloth to our coat and to considerably reduce staff numbers in order to match our revised schedule.

Before I discuss our performance in 2012, I would like to acknowledge the very real pain this has caused in recent months. We farewelled a number of dedicated and very talented employees and contractors and I thank everyone who has left Fortescue for their invaluable contribution. Whenever the opportunity arises you will always be welcome back and, in any event, I trust that your time with us helps spring board your future career.

It has been a challenging year in many other ways. With the complex and competitive rigours of construction happening right inside complex operations, our teams have still thrived and complemented each other. In true Fortescue spirit, the Cloudbreak and Christmas Creek teams recovered from two cyclones that closed the Port Hedland port in the March quarter, to still deliver mined volumes of 19.2 million tonnes in the June quarter, up 41 per cent from the prior period. During the June quarter we also gathered in Port Hedland to celebrate the opening of our third berth at Herb Elliott Port, a major milestone in our expansion plans to 155 million tonnes per annum.

Turning to our fiscal achievements last year, despite economic disappointment in Europe and the US, Fortescue delivered strong results for the year to June 30, 2012, with a 53% increase in profit after tax of US$1.6 billion. Operating revenue rose to US$6.7 billion from US$5.4 billion as we lifted iron ore sales to 55.8 million tonnes, 40% above 2011. While such numbers speak of a significant company, as we deliver on our expansion plans you may expect even greater performance. Accordingly, on the 23rd of August, the Board declared a final fully franked dividend of 4 Australian cents per share giving you, our patient shareholders, a prudent return and taking the total dividend for the year to 8 cents.

Despite recent challenges, it's important to remember the extraordinary progress we've made since our formation in 2003. We've achieved in nine years what took our competitors many decades, thanks to our single-minded pursuit of a vision to provide an alternative but very major reliable source of iron ore to our trading partners. It's a vision that has led to the creation of thousands of jobs across Australia and significant contribution to the Australian economy with the payment and provisioning of billions of dollars in royalties, taxes and government fees.

The heaviest haul railway in the world.

Unlike some mining companies, we didn't inherit the assets from which Fortescue was built. We didn't buy and sell them before we developed them. Fortescue was built from the ground up based on grass roots exploration and our belief that despite the Pilbara driving the creation of two of the wealthiest companies in the world, it remained an invaluable asset of Australia's that is both under explored and underdeveloped. We set out to fix that.

An emerging Asia, underpinned by China, has driven demand for iron ore and pushed up prices over the last 10 years. As we prepare for China's leadership transition in 2012 we remain confident in the strength of its economy and its demand for natural resources. We continue to see strong demand from our customers, new and old, as we sign up commitments for additional tonnes of iron ore to be met by our expansion.

Our long-term confidence in Asia stems from our increasingly close relationship with our customers, with industry and with government. We had the honour of returning as a Diamond Sponsor of the Boao Forum for Asia Conference on the Chinese island province of Hainan in April for the fourth consecutive year. We are proud of our involvement in this event as we continue to build our bilateral-relationship with our largest trading partner.

May 2012: CEO Nev Power with Chairman Andrew Forrest celebrating at the opening ceremony of the third berth at Herb Elliott Port.

Also, in July, I had the privilege of leading a leadership delegation to China, including Michael Chaney (Chairman of NAB and Woodside), Michael Smith (CEO of ANZ) and Anthony Shepherd (President of the Business Council of Australia and Chairman of Transfield Services) to the preliminary meeting of the Sino-Australian Business Leaders' Partnership Initiative.

The Chinese delegation included Li Ruogu (Chairman/President of the Export-Import Bank of China), Chang Zhenming (Chairman and President of CITIC Group) and Wang Boming (President of the Stock Exchange Executive Council). We had significant discussions on deepening our international engagement driven through the common interests of our enterprises. We met with Vice Premier Wang Qishan to ensure this initiative was supported at the highest levels. This builds on previous meetings the company has enjoyed with the expected future President of China, Mr Xi Jinping.

Fortescue's cooperation with China and our willingness to take the time to understand our partners is also reflected in our establishment of a China Advisory Board to provide advice on ways to foster our economic and social bilateral relationship.

All of this said, Fortescue's primary success can be contributed to one thing: our people. As we prepare to celebrate our 10th birthday in 2013, our culture remains our greatest asset. The can-do attitude of our Fortescue Family has been at the fore over the past 12 months as our Port Hedland, rail and Chichester operations expand. Simultaneously, our expansions have gathered pace and our new Solomon mine takes shape. Despite the recent reduction in staff numbers, we remain committed to our Fortescue culture – one of family, support and enthusiastic teamwork.

A highlight for me in 2012 was the growth in employment opportunities at Fortescue for Aboriginal people. Our Vocational Training Employment Centres (VTECs), train Aboriginal people to be job-ready and guarantee them a job when they successfully complete a course. More than a thousand men and women have been through Fortescue's Indigenous training programs and the vast majority are now gainfully employed. We are also committed to building business capacity giving Aboriginal people the opportunity to create more jobs. We have a target of achieving $1 billion of contracts to Aboriginal-owned businesses and I'm proud to report we have already awarded over $500 million.

During my first year as your chairman I was privileged to lead a dynamic board and work closely with our executive team, as they achieved the many and major challenges set for them.

I would like to acknowledge the efforts of our leadership team, our new and dynamic Chief Executive Officer, Nev Power; now very well settled in; his new Director of Operations, the experienced Jamie Frankcombe; our talented and lateral thinking Director of Development, Peter Meurs; and our Chief Financial Officer, Stephen Pearce, who like his colleagues, has done an outstanding job this year and flourished during great challenge.

I look forward to sharing the next 12 months with you as we celebrate our 10th birthday and realise our dream of creating one of the world's great mining companies from scratch. While we endured hardships during the first few months of the 2013 financial year, we remain confident iron ore prices will firm and we will emerge in an even stronger position in the months and years ahead.

We have built a proud Australian company, one more determined than ever to scale the greater heights of challenge and opportunity in front of it. Thank you for all your continued, and deeply appreciated, support and loyalty to Fortescue.

Andrew Forrest

Chairman

CHIEF EXECUTIVE OFFICER'S STATEMENT

Overview

Another chapter has been written in Fortescue's exciting history following a year of strong performance built on our commitment to growing the business while achieving record production and profitability.

At the end of my first full year as CEO, I'm pleased to report that we exceeded our 55 million tonne (mt) target for the full year with a total 57.5mt shipped, including 55.8mt of Fortescue product. This record production result was an increase of 40 per cent year on year and was achieved alongside one of the biggest construction programs being undertaken in Australia as Fortescue continued to achieve milestones on the way to its commitment to 155 million tonnes per annum (mtpa).

The spirit of co-operation between operations and development was highlighted when tropical cyclone Heidi flooded all six Cloudbreak pits in January. The construction and operations teams pulled together with a single focus across the business to minimise the disruption and put the operation back on track to deliver a record year. This is clear evidence that Fortescue's strong culture based on family values and a never say die attitude continues to underpin our strong performance.

My biggest challenge and key priority is to maintain and strengthen our unique culture as we expand the company towards our goal of 155mtpa of production.

The new financial year has been marked by unprecedented market volatility which saw iron ore prices fall quickly and sharply in August and September. We responded decisively to reduce expenditure, restore liquidity and ensure Fortescue is in good shape to withstand future volatility.

Financial results

The 2012 financial result reflects the tremendous earnings power of the business as Fortescue's net profit after tax (NPAT) increased by 53 per cent to US$1.6 billion on the back of a 23 per cent increase in revenue to US$6.7 billion and a 14 per cent rise in EBITDA to US$3 billion. This was driven by the increased production from our expanded Chichester operations with the additional volumes more than compensating for the reduced product prices as net realised price fell from US$149/t last year to US$131/t this year.

Operations and expansion

The year was epitomised by the ramp up in operational activity as infrastructure was completed by the expansion team and handed over to operations, culminating in an excellent fourth quarter when both port and rail operated at a rate of approximately 70mtpa in the month of June.

Production from the Chichester operations exceeded nameplate capacity following the commissioning of the Christmas Creek reclaimer in the first quarter. Expansion work continued in parallel with the Cloudbreak wet front end and Christmas Creek second OPF progressing on target for the Chichesters to achieve 95mtpa by December 2012.

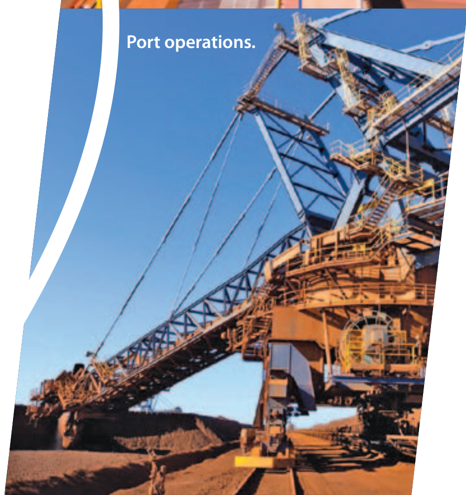
The expansion of Port facilities is at the heart of our ability to achieve our expansion plans for the future. The third berth at Herb Elliott Port was officially opened in May by the Minister for Mines and Petroleum, the Hon. Norman Moore, and our Chairman Andrew Forrest, and the second train unloader was commissioned during September this year to take total Port capacity to approximately 115mtpa.

In conjunction with the duplication work of the rail system and the additional train sets now being commissioned, this completes the infrastructure work required to allow our expansion from the Chichesters and the commencement and ramp up of the Solomon Firetail mine to take our production capacity to 115mtpa by the end of the March quarter 2013.

The Solomon mines with their low strip ratios will sit in the bottom quartile on the cost curve, which will position Fortescue as a low-cost producer globally and strengthen our international competitiveness.

Approval for the fifth berth at Port Hedland was granted in August this year which will ultimately allow us to maximise use of under-utilised Port capacity by further developing our highly efficient lay-by berth configuration to enable more efficient use of inner harbour capacity.

Solomon construction progress.



Port operations.

Community

At Fortescue, we're extremely proud to be giving back to our communities. I'm pleased to report that in FY2012 more than 300 Aboriginal people were engaged through our Vocational Training and Employment Centre (VTEC) in South Hedland and Roebourne.

Since 2006, VTEC has provided training and support to more than 1,000 Aboriginal people, a significant number of whom are now in full time employment with Fortescue or our contractors. Throughout FY2012, Aboriginal employment at Fortescue comprised more than 10 per cent of the workforce, and we remain committed to further opportunities for Aboriginal people.

VTEC Graduation, Roebourne.

Our Billion Opportunities program to award $1 billion in contracts to Aboriginal businesses has invested more than $500 million to date toward building sustainable opportunities for Aboriginal contractors and joint ventures. Further initiatives such as our National Indigenous Hockey program in Roebourne in partnership with Hockey Australia has also continued to bring the sport and spirit of hockey to Aboriginal children in the community. In FY2012, Fortescue became the major sponsors of the national men's hockey team, the world champion Kookaburras, and we were proud to cheer them on to a bronze medal at the London 2012 Olympics.

Post 30 June: Decisive action in a volatile market

In the first quarter of FY2013, the iron ore industry was presented with severe market volatility and historically low iron ore prices. Fortescue took decisive action to secure the profitability and liquidity of the company and immediately reduced operating costs by $300 million. We confirmed our commitment to complete the expansion of the Christmas Creek mine, commission the low-cost Firetail deposit at Solomon which sits in the bottom quartile of the global cost curve and deliver port and rail projects to deliver a near term growth target of 115mtpa.

The development of the Kings deposit at Solomon and the full completion of the fourth berth at Herb Elliott Port have been deferred until market conditions improve. The deferral of $1.6bn of expenditure was designed to allow the resumption of construction activities at Kings without significant penalty to reach 155mtpa.

Fortescue secured an underwritten commitment for a Senior Secured Credit Facility of up to US$4.5 billion to refinance all existing bank facilities and to provide us with additional liquidity. We have also agreed terms with Leucadia National Corporation to repay the whole of the Leucadia unsecured loan notes for US$715 million to significantly reduce the overall cost of debt for the company.

We have outlined a hierarchy of options to further strengthen the balance sheet if iron ore prices fall again for a prolonged period, including the potential sale of certain assets where the transactions clearly add shareholder value. The sale of the Solomon power station to a wholly-owned subsidiary of Canadian utility TransAlta for net proceeds of US$300 million in September was a prime example of this strategy.

Fortescue remains confident in the underlying strength of the Chinese economy and its commitment to continued economic growth, particularly the urbanisation of the central and western provinces which will sustain growth in steel production over that time.

We're encouraged by the fact that while China is clearly committed to curbing short term inflation, it's also determined to maintain focus on long term economic growth through targeted stimulus packages such as the $157 billion worth of infrastructure projects announced in September.

Conclusion

FY2012 was a year of records and milestones for Fortescue as we continued to build our capacity towards our ultimate aim of 155mtpa. While a volatile market confronted our business in the first quarter of FY2013, we have responded with decisive action to ensure we are in good shape to meet future challenges and to continue our expansion. Finally, I'm confident that our culture is stronger than ever as we look forward to another year of achievement and performance.

A special thank you to our team members, contracting partners, shareholders, traditional owners, stakeholders and Fortescue supporters who are making incredible contributions to Fortescue's pages in history.

Nev Power

Chief Executive Officer

Train unloaders one and two in operation, with the third under construction.

OPERATIONS REPORT

Fortescue continued its incredible growth story over the last 12 months with many milestones celebrated across the business, culminating in the shipment of 55.8 million equity tonnes for FY2012 to exceed full year guidance.

The result demonstrated the strength of Fortescue's mining and processing operations in the Chichesters, the performance of its world class railway in the Pilbara and its operations at Herb Elliott Port in Port Hedland.

Importantly, Fortescue exceeded guidance while maintaining a strong commitment to safety. The company's Total Recordable Injury Frequency Rate (TRIFR) fell 36% in 2012, reflecting its ongoing commitment to the Major Hazards program, contractor management and field leadership.

The first half of the year produced a number of highlights. A strong performance from the Christmas Creek mine with the ore processing facility (OPF) ramping up to the rate of 18 mtpa in the December quarter, and the team at Herb Elliott Port loading 29 vessels in December and the associated export of 5.3 million tonnes of ore. The same month also saw Fortescue load its largest ever single cargo with 248,106 tonnes loaded into the MV Wugang Innovation.

After a strong end to calendar 2011, Fortescue's operations were impacted in the March quarter by two cyclones that closed the Port Hedland port and delayed ship loading for about eight days. More than 470mm of rain was recorded at Cloudbreak within a two day period, resulting in water impacts that affected operations at Fortescue's principal mine for about two weeks. Mined tonnes from Cloudbreak and Christmas Creek fell 15 per cent from the previous quarter to 13.6 million tonnes.

Railing operations were also severely impacted as a result of these cyclonic events, however, during this quarter overall railing capacity was supplemented by the addition of a sixth rake in February 2012

OPERATIONS REPORT

that would go on to complement the improved performance of the mining operations in the last quarter of the year.

Despite a challenging few months, Fortescue recovered strongly in the June quarter to deliver record shipments of 17.1 million equity tonnes, up 42 per cent on the previous period. Highlights were: Christmas creek OPF generated 6.2 million tonnes of ore in the June quarter, representing a run rate of just under 25mtpa; railing operations achieved total railed tonnes for the quarter of 16.6mt with the company's single rail dumper operating at a rate of approximately 67mtpa; and port operations with the benefit of the now fully ramped-up two outload circuits performed at an annualised rate in excess of 70 million tonnes.

Fortescue celebrated the opening of its third berth and a second outloading circuit in Port Hedland in May, which lifted the company's outload capacity to approximately 115mpta. The milestones represented the first phase of the company's US$2.4 billion program to expand the port to support ore from the Chichester Hub, as well as the new Solomon mine, currently under construction.

The expansion of the port is a key component of Fortescue's plans to triple production to 155mtpa. A year-end review of Fortescue's expansion confirmed a US$100 million decrease in the cost of Chichesters projects and a US$200 million increase at port and rail due to accommodation shortages and cyclone recovery work.

The review also outlined a US$500 million increase in the cost of the Solomon project, lifting the overall expansion cost to US$9 billion. The cost increases were attributed to a number of factors, including design and scope changes to the Firetail and Kings OPFs as well as general prices escalation through certain variations within the OPF packages.

Significant milestones towards the expansion were achieved early in the 2013 financial year with Fortescue celebrating first ore through its second train unloader in Port Hedland in September. The train unloader is a key component of Fortescue's expansion of Herb Elliott Port and has increased Fortescue's port infrastructure capacity to 115mtpa.

The train unloader came on line only a week before Fortescue began commissioning its second OPF at Christmas Creek, which will play a key role in lifting the combined capacity of the Cloudbreak and Christmas Creek mines to 95mtpa.

Following volatile market conditions and a sharp and prolonged fall in the iron ore price in the September quarter 2012, Fortescue announced a short term deferral of its expansion to 155mtpa to smooth cashflow and secure liquidity. The company will target a production run rate of 115mtpa by the end of the March quarter 2013 with the ramp up of the Firetail operation. In late September, Fortescue awarded Leighton Contractors the mining and operations contract for the Firetail deposit.

A decision to complete the 40mtpa Kings project to take the company to 155mtpa will be based on improved and stable market conditions.

Exploration and tenements

Fortescue announced its intention during the year to consolidate production at 155mtpa before proceeding with new expansion plans. However, the company continues to develop expansion options based on its extensive resource base in the Pilbara.

In the December quarter, Fortescue announced a significant increase in the resource base of its Nyidinghu project, south of the company's Chichester operations. The total Inferred resource estimate is now just over 2 billion tonnes.

In June 2012, Fortescue merged two of its magnetite tenement areas North Star and Glacier Valley into a Hong Kong domiciled entity known as FMG Iron Bridge. Together the deposits contain over 3.2 billion tonnes of resources and, as adjoining tenements, are located in close proximity to Fortescue's main rail line to Port Hedland. Glacier Valley was previously under a JV structure with one of China's largest steel mills Shanghai Baosteel Group, which held a 35% interest and North Star was 100% Fortescue. Under the new structure Baosteel has a 12% interest in FMG Iron Bridge with Fortescue holding the balance. The merging of these interests was done to facilitate project development.

RESERVES AND RESOURCES REPORT

Ore Reserves

As of June 30, 2012, Ore Reserve estimates for the Chichester Hub were 1,495 million tonnes (mt), of which 31mt were Proven Reserves and 1,464mt were Probable Reserves, with an average iron grade of approximately 58 per cent Fe and determined on a dry product tonnes basis. Ore Reserve estimates for the Solomon Hub were 716mt as of June 30, 2012, of which all were Probable Reserves with an average iron grade of approximately 56 per cent Fe, as determined on a dry ROM tonnes basis. The 2012 Reserves for the Chichester mines were calculated by subtracting the mined quantities in the previous 12 months from the previous year's Reserve estimate. The Solomon Reserves are simply restated from the previous year as the project is still under construction.

Ore Reserves - as at June 30 2012

Chichester Hub by Category	Product Tonnes (mt)	Iron Fe%	Silica SiO_2%	Aluminium oxide Al_2O_3%	Phosphorus P%	Loss on ignition LOI %
Proved	31	59.9	3.41	1.85	0.061	8.1
Probable	1,464	58.2	5.13	2.24	0.052	7.6
Total Chichester Hub Ore Reserves	**1,495**	**58.3**	**5.09**	**2.24**	**0.052**	**7.6**

Solomon Hub by Category	ROM Tonnes (mt)	Iron Fe%	Silica SiO_2%	Aluminium oxide Al_2O_3%	Phosphorus P%	Loss on ignition LOI %
Proved	-	-	-	-	-	-
Probable	716	56.3	7.66	2.93	0.073	8.4
Total Solomon Hub Ore Reserves	**716**	**56.3**	**7.66**	**2.93**	**0.073**	**8.4**

All tonnes both ROM and Product are quoted on a dry basis. The Measured and Indicated Resources stated in the 2012 annual report are inclusive of the Mineral Resources to produce the Ore Reserves.

Mineral Resources

As of June 30, 2012, the total Chichester Hub Mineral Resources were estimated at 3,379mt with an average iron grade of approximately 57 per cent Fe. This represents a 33% increase in the Chichester Hub resource inventory and was attributable to updated resources models for both Cloudbreak and Christmas Creek. Other Mineral Resources in the Chichester Range (Chichester Other) were estimated at a total of 695mt with an average iron grade of approximately 53 per cent Fe. These are unchanged from June 2011. The total Solomon Hub Mineral Resources were estimated at 3,247mt with an average iron grade of approximately 57 per cent Fe. This represents a 6% increase in the Solomon Hub resource inventory and was attributable to an update of the Sheila Valley model as reported in the June 2012 Quarterly report. Total Inferred Mineral Resources for the Western Hub were estimated at 624mt with an average iron grade of approximately 59 per cent Fe. These are unchanged from June 2011. The total Inferred Resources for the Nyidinghu project were estimated at 2,013mt with an average iron grade of approximately 58 per cent Fe. This represents a 95% increase in the Nyidinghu resource inventory and was attributable to an updated resource model as reported in the October 2011 updated Resource Inventory announcement to the ASX.

The Mineral Resources at the Chichester Hub, Chichester Other, Solomon Hub, Western Hub and Nyidinghu project each contain hematite-goethite iron ore. In addition, Fortescue has magnetite iron ore projects for which the Company has estimated Mineral Resources of 3,236mt (including 774mt of Measured and Indicated Resources) using a Magnetic Susceptibility cut-off of 20,000 SI x 10-5, at an average iron grade of approximately 32 per cent Fe. Average Davis Tube Recovery for North Star was 25.7 per cent based on a nominal 35 µm grind size and metallurgical test-work confirms a potential product grade of 67 per cent Fe can be achieved from the North Star deposit. The new total represents a 31% increase in the Magnetite resource inventory and was attributable to updated resource models for Glacier Valley and North Star as reported in the January 2012 announcement to the ASX.

A summary of tonnes and grade regarding the amount of Measured Resources, Indicated Resources and Inferred Resources for each of these locations as of June 30, 2012 are tabulated on the next page. Detailed information in the methods of resource estimation can be found in the relevant ASX releases for each of these projects.

Mineral Resources - as at June 30 2012

Chichester Hub by category	Tonnes (mt)	Iron Fe%	Silica SiO_2%	Aluminium oxide Al_2O_3%	Phosphorus P%	Loss on ignition LOI %
Measured	420	56.7	6.15	3.05	0.045	8.2
Indicated	1,891	56.6	5.94	3.31	0.051	8.0
Inferred	1,068	56.4	6.29	3.28	0.057	7.8
Total Chichester Hub	**3,379**	**56.6**	**6.08**	**3.27**	**0.052**	**8.0**
Chichester Other by category	**Tonnes (mt)**	**Iron Fe%**	**Silica SiO_2%**	**Aluminium oxide Al_2O_3%**	**Phosphorus P%**	**Loss on ignition LOI %**
Measured	-	-	-	-	-	-
Indicated	222	50.0	10.89	6.83	0.060	8.0
Inferred	473	54.1	7.58	4.86	0.066	7.5
Total Chichester Other	**695**	**52.8**	**8.64**	**5.49**	**0.064**	**7.7**
Solomon Hub by category	**Tonnes (mt)**	**Iron Fe%**	**Silica SiO_2%**	**Aluminium oxide Al_2O_3%**	**Phosphorus P%**	**Loss on ignition LOI %**
Measured	108	58.4	5.43	2.03	0.083	8.5
Indicated	791	56.6	7.05	3.03	0.073	8.3
Inferred	2,348	56.5	7.19	3.56	0.078	7.7
Total Solomon Hub	**3,247**	**56.6**	**7.10**	**3.38**	**0.077**	**7.9**
Western Hub by category	**Tonnes (mt)**	**Iron Fe%**	**Silica SiO_2%**	**Aluminium oxide Al_2O_3%**	**Phosphorus P%**	**Loss on ignition LOI %**
Measured	-	-	-	-	-	-
Indicated	-	-	-	-	-	-
Inferred	624	58.7	5.44	3.06	0.091	6.6
Total Western Hub	**624**	**58.7**	**5.44**	**3.06**	**0.091**	**6.6**
Nyidinghu by category	**Tonnes (mt)**	**Iron Fe%**	**Silica SiO_2%**	**Aluminium oxide Al_2O_3%**	**Phosphorus P%**	**Loss on ignition LOI %**
Measured	-	-	-	-	-	-
Indicated	-	-	-	-	-	-
Inferred	2,013	57.5	4.97	3.26	0.145	8.6
Total Nyidinghu	**2,013**	**57.5**	**4.97**	**3.26**	**0.145**	**8.6**
Magnetite by category	**Tonnes (mt)**	**Iron Fe%**	**Silica SiO_2%**	**Aluminium oxide Al_2O_3%**	**Phosphorus P%**	**Loss on ignition LOI %**
Measured	102	32.7	39.14	1.78	0.102	6.5
Indicated	672	31.9	39.74	1.94	0.096	7.4
Inferred	2,463	32.3	39.18	1.84	0.100	7.9
Total Magnetite (a)	**3,237**	**32.2**	**39.30**	**1.85**	**0.099**	**7.8**

Total Iron Ore Resources	9,958	56.6	6.33	3.45	0.082	8.0
Total Magnetite Resources	3,236	32.2	39.30	1.85	0.099	7.8
Total Mineral Resources	**13,194**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**

(a) These mineral resources are held by FMG Iron Bridge Limited which is owned 88 per cent by Fortescue and 12 per cent by Baosteel.

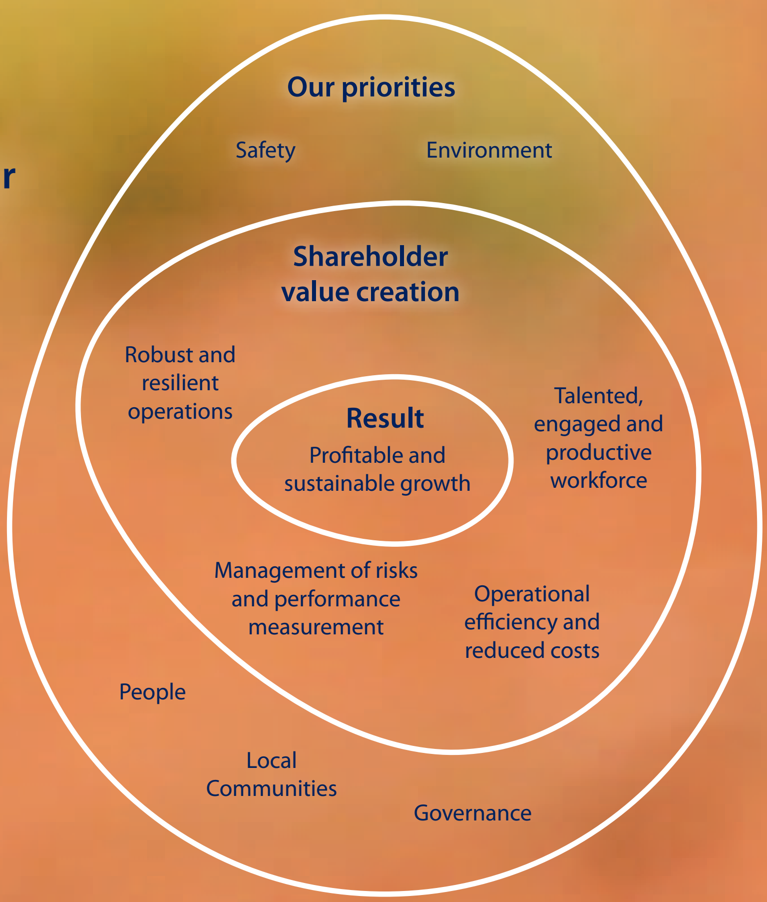
Competent Persons Statement

The detail in this report that relates to Mineral Resources is based on information compiled by Mr Stuart Robinson, Mr Lucas Tuckwell, Mr Clayton Simpson and Mr David Frost-Barnes. Messrs Robinson, Tuckwell, Simpson and Frost-Barnes are all full-time employees of Fortescue and provided technical input for Mineral Resources estimations and compilations of exploration results. Estimated Ore Reserves for the Chichester Hub for fiscal 2012 were compiled by Mr Ric Bartlett, a full time employee of Fortescue, and have been prepared on a product tonnes basis. Estimates of Ore Reserves for the Solomon Hub have been prepared on a ROM tonnes basis, and are based on the information compiled during the Solomon Feasibility and signed off by an external consultant. The work has been verified by FMG and as such the restated reserves are compiled by Mr Richard Bartlett.

Mr Robinson is a Fellow of, and Messrs Tuckwell, Simpson and Bartlett are Members of, the Australasian Institute of Mining and Metallurgy. Mr Frost-Barnes is a member of the Institute of Materials, Minerals and Mining. Messrs Robinson, Tuckwell, Simpson, Bartlett and Frost-Barnes have sufficient experience which is relevant to the type of mineralisation and type of deposit under consideration to each be qualified as a Competent Person as defined in the JORC Code. Messrs Robinson, Tuckwell, Simpson, Frost-Barnes and Bartlett have each consented to the inclusion in this report of the matters based on their information in the form and context in which it appears.

CORPORATE SOCIAL RESPONSIBILITY

We are committed to ensuring CSR principles are embedded within our business operations and we will use our governance framework and management systems to continuously improve our performance.



CORPORATE SOCIAL RESPONSIBILITY

What Corporate Social Responsibility means to us

At Fortescue, we recognise that Corporate Social Responsibility (CSR) is integral to everything we do. As our business grows, we strive to protect our people and those of our contractors, the environment, and the local communities in which we operate. We are committed to ensuring CSR principles are embedded within our business operations and we will use our governance framework and management systems to continuously improve our performance.

Fortescue recognises that along with effective financial management we also need to manage our non-financial performance. This means that we review all of our business risks and opportunities effectively. We look to integrate the principles of efficiency, frugality, future planning and the other Fortescue values into everything that we do. Applying these principles will help us to manage our risks and take advantage of the opportunities that they provide, both of which contribute to our resilience as a business over the long term.

Our approach to managing and reporting on our CSR performance

As a business we are committed to identifying key CSR risks and opportunities, managing our impacts, improving outcomes and reporting on our performance. You will find information on how we do this in this report.

This is the third year we have presented a review of our CSR performance in our Annual Report. In previous years we have referred to our "Sustainability" performance rather than CSR. This year we have adopted CSR terminology to better align with industry practice and ISO 26000.

Every year we strive to improve disclosures on our CSR performance. We believe this helps our stakeholders to learn about our business and make informed decisions in engaging with us. This year is the first time we have presented our performance against targets in a CSR scorecard. This provides our stakeholders with a snapshot of our performance. To enhance reporting of our CSR we have continued to improve our internal collection and reporting of CSR data throughout the year.

As we did in 2011 we have used the Global Reporting Initiative (GRI) G3 reporting guidelines and the mining sector supplement to guide our CSR performance reporting. Our reporting has been independently confirmed as GRI B application level. A copy of our GRI level check is available on our website at www.fmgl.com.au. At present the only information within this CSR section that is independently assured is our greenhouse gas emissions and energy data.

CORPORATE SOCIAL RESPONSIBILITY

Our CSR scorecard and key programs to deliver on our commitments

Our Commitments	Key 2013 Programs	Our Targets	Performance 2010	Performance 2011	Performance 2012
Governance **We will identify and manage our business risks, implement effective governance systems and report on our performance annually.**	• Review and strengthen governance systems to reflect the greater global focus of the business. • Integration of CSR risks in our Risk Management Program. • Undertake a detailed assessment of supply chain against our human rights policy. • Assess our performance against the ICMM Sustainable Development Principles.	Compliance with ASX Governance Principles	✓	✓	✓
		Integration of CSR into Risk Management Programs	N/A	N/A	Under-way
		Disclosure of CSR Performance in accordance with GRI Level B	✓	✓	✓
		Consideration of ICMM Sustainable Development Principles in our management systems.	N/A	N/A	Under-way
Health and Safety **We will foster a safety culture that aligns with our core values and achieves a safe workplace for our employees and contractors.**	• Major Hazard Management Program. • Continue implementation of our HSES contractor management system. • Continue to focus on the behavioural-based Field Leadership process. • Refine the health and safety management system.	Zero fatalities	0	1	0
		Lost Time Injury frequency rate to reduce year on year	2.4	1.4	0.7
		Total Recordable Injury Frequency Rate to reduce year on year	NA	14.5	8.9
People **We will nurture our high performance culture that empowers, values and looks after the well-being of everyone in the Fortescue family.**	• Identify and implement opportunities to improve lifestyle and wellbeing of our fly-in-fly out and drive-in-drive-out employees and contractors. • Improve employee engagement scores through a second companywide values survey. • Implement our 5 star Aboriginal career pathways program. • Develop and implement initiatives linked to our Diversity program. • Develop and introduce Leadership programs.	Voluntary employee turnover less than 15%	15.65%	14.96%	14.23%
		Have year on year improvements in Aboriginal participation rates for employees and contractors	NA	NA	✓
		600 Indigenous employees by the end FY13	NA	NA	403 On track
		Employee engagement scores to be ≥80%	NA	NA	✓
		Improving the capability of our leaders	NA	NA	✓
Community and Aboriginal Engagement **Our operations deliver community and social benefits. We will respect the culture and traditions of Aboriginal people affected by our activities and strive to positively impact their lives.**	• Build the economic capacity of Native Title Groups by delivering on our $1 billion opportunities program, business development, mentoring and training. • Progress construction and operations of a hospitality training Cafe at South Hedland. • Deliver support for the South Hedland Recreation Centre, the South Hedland Football Club, Hockey Australia's National Indigenous Program, Variety WA charity home and local doctor's housing at Port Hedland. • Provide grants to community organisations within Port Hedland, Tom Price and Newman. • Provide local Pilbara community businesses with opportunities to provide goods and services to our Chichester Hub, Solomon Hub, Port and Rail network operations. • Continue planning for residential housing development projects at Port Hedland, Roebourne, Tom Price and Karratha. • Further analyse our procurement profile and strategically spend with local and Australian suppliers. • Continued focus on Aboriginal local employment through the Vocational Training and Employment Centre (VTEC) program.	Contribute to community services and facilities each year	✓	✓	✓
		Maintain local procurement of goods and services for operations over 75%.	NA	NA	✓
		Award $1 billion in contracts with Aboriginal contractors and joint ventures' (cumulative totals).	NA	$155m	$501m
		180 people to graduate from VTEC training programs in FY 2013	60	102	162
Environment **We will manage our environmental impacts, meet our licence requirements and strive to improve our resource efficiency.**	• Continue implementing the environmental management system aligned to ISO 14001 • Develop appropriate land rehabilitation indices and associated KPIs. • Progress a 3 mega watt solar power project at Christmas Creek, pursue installation of waste heat recovery system at Cloudbreak power station and complete wind resource mapping at Solomon.	Zero level 3 environmental incidents	✓	✓	✓
		Zero discharge to land of excess dewatering	x	✓	Data available late 2012
		Trial at least one renewable or carbon free energy source at each Fortescue project.	NA	NA	✓

NA: no targets were in place and/or data for this metric was not collated in a reliable form during that reporting period.

Our CSR performance

Our Governance

We will identify and manage our business risks, implement effective governance systems and report on our performance annually.

Fortescue's rapid expansion has been matched by equivalent developments in our governance systems. Detailed information on our approach to business governance systems can be found in the Corporate Governance section of this Annual report.

We have a number of CSR related policies already in place which help us to manage our CSR performance. These include a Directors' Code of Conduct, an Employees' Code of Conduct, a Safety Policy, a Community Policy, an Environmental Policy and a Climate Change and Energy Management Policy. These policies are supported by a multitude of systems and processes to manage our performance in each of the policy areas. More detailed guidance is also provided to our stakeholders on a range of other governance matters in our Governance section on our website: www.fmgl.com.au.

Our "Fair call" whistle blower service is one of the mechanisms under our Code of Conduct that we use to deal with governance related breaches such as unethical or fraudulent behaviour. This service is made available to all employees and contractors. People are invited to report issues such as suspected corruption or unethical behaviour through a service that enables our people to retain anonymity in situations where they do not feel comfortable reporting such matters directly to their supervisors.

The important measures that we undertook in 2012 to broaden our governance of CSR issues and risks include the:

- Focus on CSR in our Risk Management Programme (RMP) incorporating environmental management and corporate governance. This will be further expanded in 2013.
- The corporate governance risk review has resulted in enhancements to the Corporate Governance Framework.
- Development of a Diversity Plan.
- In the December Quarter of 2012, we will be completing:
    - Revision of both the Employee and Directors' Codes of Conduct.
    - Development of Human Rights Policy and inclusion in the revised Codes of Conduct.

We have developed a structured approach to the management of risk across the whole business. This approach covers both financial and non-financial risks. It has resulted in all material business risks being assigned to the relevant business unit for management, reporting and accountability. This means that our central risk management team is focused on working with each part of the business to assist them to better manage their risks. They also facilitate the alignment of efforts across the business to provide a whole of business view of risk and to enhance awareness of risk management requirements through an extensive training programme.

The Audit & Risk Management Committee (ARMC) is responsible to the Board for setting and monitoring the Risk Management Programme (RMP). The ARMC is a Committee of the Board (with a majority of independent members) with its own Charter approved by the Board. The ARMC is responsible for establishing the risk management framework and policy, monitoring risk management activity, changes in the risk profile of the business at a whole of business level and the control environment. The Risk Management Steering Group (RMSG) is the key management forum for considering risk activity across the business, including compliance with the requirements of the ARMC. RMSG has its own Charter and is comprised of the most senior executives in the business.

Our RMP comprises of six standards which are the key drivers for identification, evaluation and rating of risk. In addition, the standards provide the context within which we identify and evaluate risk control activity. The RMP sets a framework which aligns risk management activity at all levels of the business.

Our Health and Safety

We will foster a safety culture that aligns with our core values and achieves a safe workplace for our employees and contractors.

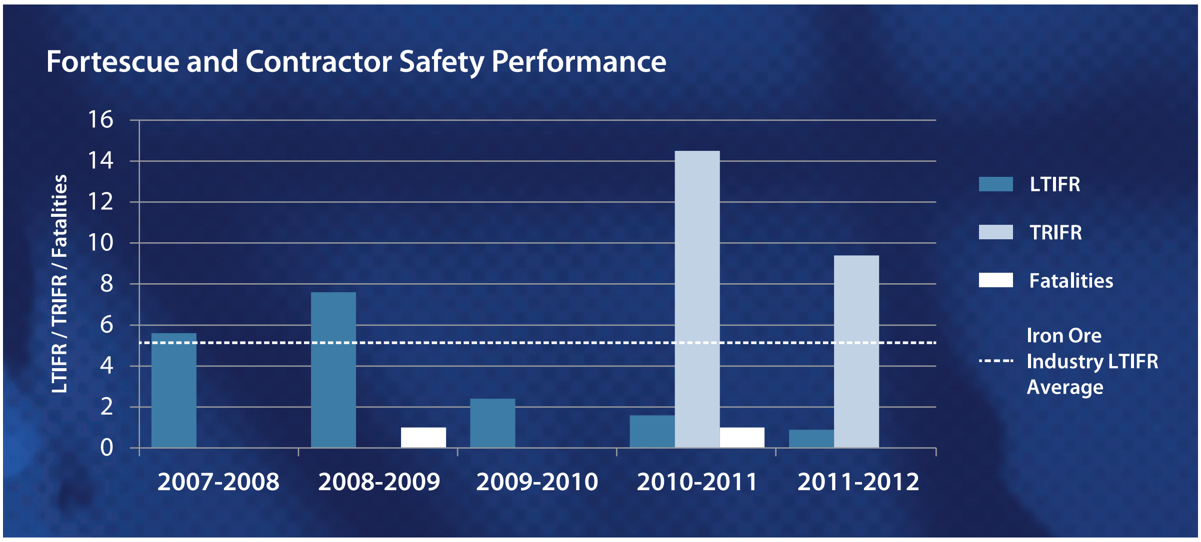
Fortescue continued to engage with our employees and contractors on health and safety issues and performance. We believe that proactive engagement, the development of a safe working culture and the implementation of sound systems will help us to manage and mitigate risks associated with injuries and fatalities.

In keeping with Fortescue's commitment to developing a safe culture, the CEO and senior leaders formulated the Future State safety culture and action plan which outline a culture centred on consistent pragmatic safety leadership, doing things safely, a risk based approach, consistent verified standards and clear expectations.

During the year we continued to implement the Major Hazard Management Program in operations and expand the program into Exploration and Projects. The Major Hazard Management Program is our key program for eliminating fatality risk. Compliance to our Major Hazard Control Standards, as measured by independent audits, improved at all sites. Fortescue did not have any work related fatalities during the year.

In FY12, we commenced independent audits of our HSES management system on operational sites and will continue on an annual basis at all sites.

CORPORATE SOCIAL RESPONSIBILITY



The audits ensure that we continually improve our standards and that we are providing a safe system of work for our people. The audits of our HSES system provide due diligence for our management teams.

We also saw significant improvements in our contractor's health and safety performance. This resulted from improvements in the overall HSES contractor management system and from audits of any of our contractors that were considered to be high risk. The contractor management program will be expanded to include the next tier of contractors in FY13.

Through this focus, our Lost Time Injury Frequency (LTIFR) rate improved from 1.4 to 0.7, a massive 50% improvement from an already low number. During the same time, our Total Recordable Injury Frequency Rate (TRIFR) - which allows us to analyse and monitor all of the injuries that we experience, improved from 14.5 to 8.9 – a 39% improvement. These trends are shown in the chart above.

Fortescue works over a number of health and safety jurisdictions and was not issued with any health and safety fines or prosecutions during the year. During 2012 the prosecution by WorkSafe against Fortescue in relation to fatalities and injuries arising from cyclone George (2007) was finalised.

All charges were dismissed by the Supreme Court of Western Australia.

Our People

We will nurture our high performance culture that empowers, values and looks after the well-being of everyone in the Fortescue family.

One of the keys to Fortescue's success is finding the right people - achievers who share the same vision and will-do attitude. Fortescue people like to challenge the norm, and to set and achieve stretch targets. We are committed to building a workplace culture that is innovative, highly engaged and highly effective.

During the year we kicked off our Future Forums in Perth and Port Hedland. These Forums, which were attended by close to 500 of our staff and executive, reiterated that the core of our business successes has been our strong, vibrant can-do culture, a culture of going the extra mile and challenging the norms. Our challenge is to nurture the established team culture and spirit, while providing our ever expanding team with the tools, training and guidance that facilitates them to work efficiently and effectively and to become the new ambassadors for our vibrant culture.

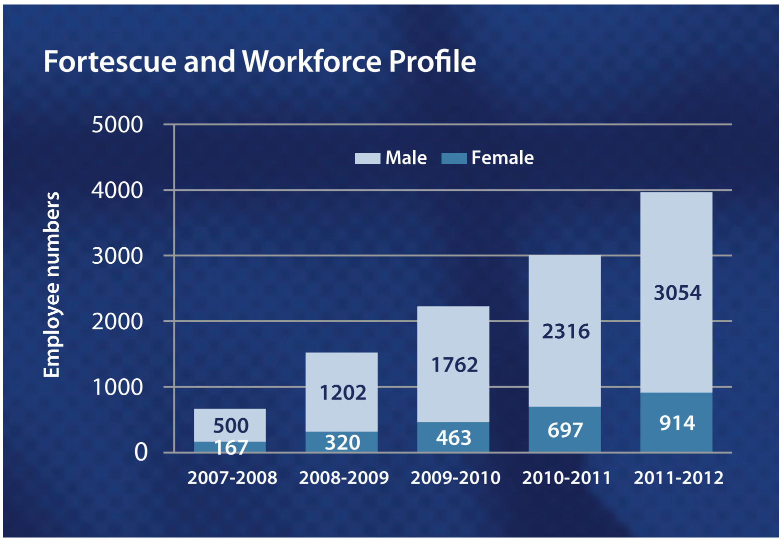
We know that we operate in an economy where we need to compete for highly qualified and skilled people. This will continue to be a challenge as we grow and expand. It is therefore important for us to offer something different. We are looking to tackle this challenge through a number of innovative initiatives, such as those detailed below.

Workforce Profile

Our business continued to grow during the year and our people have helped us to consistently set new records for tonnes of ore processed, shipped and railed. This growth in production and operations resulted in further growth of our employee and contractor numbers. During the year our employee numbers increased from 3013 to 3968 people. We continue to be supported by a strong contractor base which grew from 2075 in June 2011 to 11,603 in June 2012. This near ten-fold increase in our contractor base reflects the extensive development work being undertaken across our Port, Rail, Chichester and Solomon sites.

We consider workplace diversity an important factor in providing a balanced and inclusive working environment. This year we developed a Diversity Policy and Plan that is in alignment with our

CORPORATE SOCIAL RESPONSIBILITY



values and also aligns with the ASX requirements. We will continue to implement this plan over the next year. We maintained the proportion of women in our workforce at 23%. Women currently comprise 13% of the managers in our business, with one woman joining our executive team of six during the year. There are no women at Board level.

We are committed to growing Aboriginal employment opportunities within our business. Not only does this approach diversify our workforce, but it also ensures that we continue to contribute to the development and strengthen the communities where we operate. Wherever possible, we strive to ensure that our activities positively impact on the lives of people and communities we operate in.

We are pleased to report that the percentage of Aboriginal employees in our business increased this year to 10.1%. We will continue to actively develop this labour market and have set a target of 15% of our labour force to be made up of Aboriginal people by 2015. Our approach to achieving this is detailed in the "Aboriginal Training for Guaranteed Jobs" section below.

Given the economic conditions that we are currently operating within and the FIFO nature of our business, retaining employees and their skills and knowledge is an ongoing challenge for our business. Our turnover rates continue to be less than the industry average of 22%. Our turnover rate decreased slightly to 14.2% this year, demonstrating that our approach to retain talent is having success. We will continue to work on initiatives that drive this retention into the future. Some of the opportunities, challenges and dilemmas we face in this area are outlined in the Community section of this report.

Training and Development

It is important that our employees are well equipped to successfully and effectively deliver on their work expectations. To ensure that our employees and contractors are equipped we provide everyone who works for Fortescue with inductions and role specific training. Key areas of ongoing focus include safety training, environmental training and cultural awareness training. These are delivered both during the induction process and on the job.

During the year we added more than 31,000 new users to our online induction system which is used to induct new employees and contractors, with more than 86,000 online inductions being completed. Safety training undertaken during the year covered topics including Job Hazard Analysis, Fatigue, Manual Handling and Hearing Conservation. Toolbox talks are also conducted on a quarterly basis to provide further training and education and to raise awareness of any new key environmental issues. During the period we ran almost 100 toolbox talks on various environmental topics across the business. We also ran 142 cultural awareness training sessions which provided 3781 people with information on our approach to cultural heritage and operating in the local community. During the year, as an organisation, Fortescue invested 4.9% of its payroll in training and development for its employees.

We have been progressively developing our trainees and apprentice programs to build the skills and capabilities for our future growth. In 2012, we had 33 apprentices and around 50 Active Traineeships. In reflection of our continuing maturation as a business, we brought the apprentice training program in-house during 2012. We also aim to increase our apprentice program to 60 by the end of the 2015 financial year. Our traineeships cover areas such as Business Administration, Competitive Manufacturing, Instrumentation, telecommunication and Warehousing.

At Fortescue we also offer all employees' the opportunity for further education and training so that they can grow and develop their careers. These include graduate programs, leadership development programs and assistance for future education. Our education assistance program offers courses of study including Certificate IV, Diplomas, Advanced Diplomas, Undergraduate Degrees and Postgraduate Qualifications including Masters' degrees.

Case Study

Leading Edge Supervisor Development Program

The Leading Edge Program is a brand new Fortescue development program that is targeted at first-time Supervisors as well as those experienced supervisors who have not had formal supervisor training.

The aim of the Leading Edge program is to enhance Supervisors skills and knowledge so they can:

- Create a motivated and engaged workforce.
- Lead their teams to meeting and exceed safety and business goals.
- Help Fortescue sustain and strengthen our culture and retain our people.

This 12 month program has been designed in house and includes a 360 degree feedback, coaching from accredited coaches and four development modules that are completed sequentially and are focused on "understanding myself as a leader"; "leading my team"; "leading my business' and "advanced leadership".

At the end of the Program, Supervisors can be eligible to receive a Diploma in Business.

Case Study

Building our workforce now and into the future

Fortescue officially launched its Graduate Program in mid-2012. In our unique approach, those directly involved in the program developed, designed and lead the program to ensure its success. We believe this approach has driven engagement and resulted in a tailored program that is meaningful for our graduates and our company. The fully developed program is in place for the March 2013 graduate intake.

The two year program will allow graduates to experience different areas of the business through rotations across sites and departments based on their interests and business capacity. The program offers real work and a chance to make a tangible difference with guidance from our experienced technical team. We also run a mentoring program for our graduates.

Aboriginal Training for Guaranteed Jobs

We are committed to ending Indigenous disparity and have in place a dedicated program that provides the required skills and addresses barriers to employment for Aboriginal people. We have developed and are implementing our Five Star program, have participated in targeted Aboriginal recruitment expos and celebrated NAIDOC week across the business.

Our Five Star Program, consists of the following five schemes aimed at building future capability by encouraging Aboriginal students and employees to undertake further education, training and obtain sustainable employment with us:

- Fortescue Aboriginal Scholarship Scheme for high school students.
- Fortescue Aboriginal Vocation Scheme, which is an Aboriginal School Based Traineeship, during which recipients will be encouraged to complete years 11 and 12 while completing a Certificate II.
- Fortescue Aboriginal Cadetship Scheme linking Aboriginal students enrolled at university with Fortescue and we will provide work placements and ongoing employment once they finish their studies.
- Fortescue Aboriginal Leadership Scheme including a Frontline Manager Program and a Leadership Recognition Award.
- Fortescue Fresh Start Scheme, which aims to provide meaningful pre-employment training to Aboriginal prisoners that are within three months of release from prison.

Fortescue is especially proud of its record in Aboriginal employment. Our Vocational Training and Employment Centre (VTEC) were established in 2006 in Port Hedland and now also operates in Roebourne. Supported by the Department of Education, Employment and Workplace Relations (DEEWR), VTEC identifies job opportunities within Fortescue and its contractors and then develops courses in partnership with the Pilbara Institute and other local training organisations to provide people with the skills they need to get and do the job.

CORPORATE SOCIAL RESPONSIBILITY

VTEC's employment focused strategies are complemented by individualised support to address barriers to employment, provided by VTEC's committed support team. Our program includes providing broader skill development and training for driver's licences, literacy and numeracy, financial management and health issues.

All course participants who successfully complete their relevant VTEC training or program will be guaranteed employment with Fortescue, its contractors or our service providers.

Case Study

The Value of VTEC - Professor Marcia Langton's perspective

"In late 2011, I was privileged to see at first hand several Fortescue sites, including the VTEC operation in South Hedland and the port where 30 per cent of the workforce is Aboriginal. The Aboriginal employees at VTEC are a formidable team who have changed the lives of nearly 1,000 Aboriginal people and their families in the Pilbara who had few chances before they walked through the VTEC doors. Fortescue's policies of engagement are changing Aboriginal lives in the Pilbara for the better through a series of initiatives.

Anyone who has graduated from the VTEC program will be offered a job in the Fortescue workforce and with that job, Pilbara based employees will receive, in addition to the usual benefits of employment, a house to occupy and, after meeting certain criteria, a 20% deposit to purchase a house. The deposits are structured in a way to encourage long term employment of individuals. This markedly sets Fortescue apart from other mining companies.

Fortescue is the only mining company with an agreement with a Government department of transport to allow trainees to obtain driver's licences even with a criminal record. Fortescue policies of engagement are changing Aboriginal lives in the Pilbara for the better, and very quickly and dramatically. In a few years, FMG has become an innovative leader in corporate social responsibility and engagement with a substantial Aboriginal population in the Pilbara."

Professor Marcia Langton holds the Foundation Chair of Australian Indigenous Studies at the University of Melbourne.
Since 2002, she has researched agreements between Indigenous people and resource companies. She also gives advice to several Aboriginal groups, mining companies and a law firm on good practice in Indigenous engagement in the private sector and on how to create a capable and educated Aboriginal workforce.


Chris Turland

Christopher Turland has set the wheels in motion for a promising career by becoming Fortescue Metals Group's first qualified Indigenous train driver.

The 34 -year-old Hedland resident completed his train driver traineeship in March 2012 after just 15 months and is now driving trains between Port Hedland and Fortescue's Cloudbreak and Christmas Creek mines.

Fortescue's railway is currently the heaviest haul line in the world with a 40 tonne axle load capacity, operating 24 hours a day, seven days a week.

Prior to this, Chris worked at Fortescue's Cloudbreak mine as a dump truck operator and when he heard the company was looking for train drivers, he jumped at the chance.

"I did everything I could to get my resume up to scratch so I could have a shot at a train driver traineeship," Chris said.

"I have always been working around big heavy machinery and they don't get much bigger than trains."

Chris said although he thought the field of applicants would be competitive, he knew he had to try.

"I wanted to prove that given the chance, anyone can make it.

"I would also really like to see more Indigenous people get into rail operations as it is great to see so many filling up the ranks in other parts of the company and doing a damn good job at it."

Chris said he thoroughly enjoys his job and is looking forward to seeing his brothers and sisters joining the crew.

CORPORATE SOCIAL RESPONSIBILITY

Measuring values and engagement

We recognise the commitment and diversity of our people has contributed to our success to date. We believe our culture differentiates us in a competitive market. Throughout March 2012, Fortescue asked all employees and contractors to provide feedback on the alignment between the company values and actions demonstrated throughout the business. This is the first time that we have undertaken a values survey with our people. We are using the information gained to develop action plans to strengthen and further develop the unique Fortescue culture. This will help us to focus on the areas of greatest importance to our people.

Over 2500 people responded to the survey, representing 68% of our workforce across five locations. The responses included over 4000 comments to the two open questions – What do you like about working for Fortescue? And what would you change? These responses will provide us with a deeper insight into our workforce perceptions. It is also an effective mechanism for generating valuable ideas for improvement initiatives.

Our Values survey highlighted that our strongest attributes are determination, enthusiasm and setting stretch targets. Our survey also unearthed our employees commitment to the success of our business with 98% of respondents stating that they would go the "extra mile" to achieve our business goals.

The results of our survey and action plans developed have been consolidated and distributed to each area of our business. We are working with our employees and leaders to deliver these actions plans. We believe involving the various areas of the business will ensure that what we have created will helps us to achieve our overall business objectives for a stronger future.

We partner to build community capacity

Social
Advancing Indigenous Australians, VTEC, business incubation, land compensation, culture/ arts, "I'll Give a Day Mate", Fortescue Foundation, Australian Employment Covenant and enabling Indigenous Lore tradition, Variety WA, Doctor housing.

People
Apprenticeships, traineeships, local hiring policies, leading safe behaviours, cultural awareness training, FIFO support from Port Hedland, Roebourne, Fitzroy Crossing and Carnarvon.

Economic
Employment, local content, local business capacity building, fees, licences and royalties.

Host Communities and Fortescue

Natural Environment
Re-investing water opportunities, weed control, obligations agreed with government, Heritage opportunities, dust control.

Built Infrastructure
Renewable energy, residential housing in three communities, increased accommodation capacity and the Marquee Park Cafe, Variety WA.

Community and Aboriginal Engagement

Our operations deliver community and social benefits. We will respect the culture and traditions of Aboriginal people affected by our activities and strive to positively impact their lives.

At Fortescue we aim to develop and strengthen communities, behave with respect and care for people and the environment, take broad responsibility for the effects of our presence and do what we say we will do. Our focus is on creating self empowerment within communities. We do this by encouraging innovative partnerships and initiatives that build the capacity of the local communities and remove the need for ongoing support and dependency.

Fortescue works with our stakeholders, including our people, Federal, State and local governments, communities, traditional owners of land, suppliers, customers, non-government organisations, pastoral leaseholders, investors and media. Together with our stakeholders, we align to positively manage change and secure opportunities for people, economies, the natural environment, the built environment and communities.

Njamal elders Doris Eaton, Betty Norman and Alice Mitchell.

Case Study

Unique land access agreement for North Star

At the end of 2011 Fortescue signed a unique land access agreement with Njamal People for the North Star project. North Star is one of the largest magnetite deposits in Australia and is located 100 kilometres south of the Herb Elliot Port at Port Hedland. The mine is expected to have a production of 15-20mtpa of high grade Iron Ore and a 45 year mine life

The production sharing agreement will involve a joint venture created between the Njamal Native Title holders and Fortescue to run a mining operation on an ore body adjacent to the main North Star mine. In exchange for certainty of tenure for the land covered by Fortescue's North Star and Glacier Valley (subject to a Joint Venture with a third party) magnetite projects, the Njamal People will become co-owners and joint operators of a separate magnetite mine.

Fortescue is particularly proud and excited about this agreement as it signifies a new phase of collaboration between Aboriginal groups and mining companies in the Pilbara region of Western Australia. The agreement, originally proposed by the Njamal People has been under negotiation for almost four years.

"Culture comes first for us. The old Njamal People who have left us who worked hard to get us here would be proud of this agreement. This agreement is our future for the next generation," Njamal elder Doris Eaton said.

Providing Procurement Opportunities to Local Communities

We are committed to supporting Australian businesses and the local regional economies within which we operate. One way that we can achieve this is by supporting local suppliers through our procurement activities.

While we have always been committed to supporting local suppliers, this is the first year that we have analysed our procurement spend and profile in detail. This review of our top 50 suppliers by spend highlighted that over $520 million was spent with local Pilbara businesses in the financial year. Approximately 80% of all of our expenditure in 2012 was within Australia. Further, we expect that this Australian expenditure will return to levels above 90% once our rapid expansion projects convert to operating sites. This analysis demonstrates that a large percentage of our spend stays within the Pilbara and Australia to support local jobs and economies.

Fortescue has a policy to provide local Pilbara community businesses the opportunity to provide goods and services to our Chichester Hub, Solomon Hub, Port and Rail network operations. Elements of this policy include;

- Fortescue assisting Pilbara businesses in tendering for contracts.
- Fortescue actively engaging Fortescue's major contractors to provide local community business development opportunities through tender opportunities.
- Partnering with Federal, State and Local government agencies and other relevant organisations focussed on developing communities around the mining operations of Fortescue.
- Partnering with the relevant local governments and relevant organisations to jointly develop plans and projects to address Pilbara regional issues and collaboratively implement them.
- Developing agreed local content targets for each operation.
- Forming partnerships with relevant government and non-government agencies to encourage and strengthen the capacity of local Pilbara businesses and enterprises to partner with Fortescue and to improve prospects for local economic and community growth.
- In collaboration with relevant stakeholders, implement economic development initiatives, with long term impacts in the Shire of East Pilbara, Shire of Ashburton and the Town of Port Hedland.

We are committed to supporting and engaging with Aboriginal businesses and Native Title Groups. We do this by engaging them directly as contractors, joint ventures or as subcontractors with our major contractors.

Through the business commitments under our Land Access Agreements with key Native Title Groups, contracting preference is given to those Aboriginal businesses that are price competitive with a demonstrated track record of delivery.

We also engage with contractors that demonstrate a commitment to train and employ Aboriginal people, subcontract Aboriginal businesses or have programs in place that contribute to the development of Aboriginal communities. We believe this approach leads to beneficial shared outcomes. It is in alignment with our values to engage contractors that share our vision for Aboriginal development.

During the year we spent approximately $217 million with Aboriginal businesses. Our contractors also employed over 630 Aboriginal people on our projects. This brings our cumulative direct and contractor expenditure commitments with Aboriginal businesses to in excess of $500 million for the period between 1 July 2010 and 30 June 2012.

CORPORATE SOCIAL RESPONSIBILITY

Case Study

A Billion Opportunities

Fortescue has made a commitment to award $1 billion worth of contracts to Aboriginal contractors and joint ventures by December 2013. Typically, commitments like this make us a stand-out innovator in our industry. We seek to end intergenerational disparity for Aboriginal people by helping to forge sustainable futures for Aboriginal people. We do this by offering training, participation and inclusion in the mining process. Most importantly, we offer jobs and support for Aboriginal businesses that provide real job opportunities for Aboriginal people.

The 'billion opportunities' program has tangible economic outcomes for Aboriginal groups. These contracts allow them to participate in Fortescue's operations to build their capacity and capabilities and to provide jobs to Aboriginal people.

As we expand towards 155 million tonnes per annum there will be numerous opportunities for Aboriginal businesses to actively participate in Fortescue's growth through direct contracts, joint ventures or sub-contracts with Fortescue's major contractors.

The Aboriginal Engagement Strategy (AES) is the mechanism that brings all of the above together. The AES forms a formal component of Fortescue tender and contract documentation. We ask all tenderers to acknowledge Fortescue's commitment to the employment of Aboriginal people in connection with Fortescue's projects, and to adopt a proactive policy with respect to the employment of Aboriginal people and the engagement of Aboriginal enterprises. All tenderers must submit an AES as part of their tender which commits to local Aboriginal employment, training and local Aboriginal business capacity building. Tenderers must also set quantifiable targets. We believe that this approach helps to drive our vision and goals through our supply chain.

Since 2010, Fortescue has awarded contracts to Aboriginal businesses worth in excess of $500 million. We think that we are well on our way to delivering on our goal of $1 billion.

Driving local and Aboriginal employment

Fortescue believes that we should build a regionally based workforce particularly in the established towns where we operate. We have employees based in Port Hedland, Roebourne, Tom Price and Newman. Nearly 500 Fortescue employees live in the Pilbara. Fortescue's Pilbara based employees have access to our generous housing assistance policy and other allowances. In round numbers it costs Fortescue $100,000 per annum more to employ a person resident in the Pilbara than on a FIFO roster.

In the past, 100% of our Port Hedland operations workforce was residential, but in 2011 we were forced by a shortage of land for housing to recruit some people to work FIFO in Port Hedland. This is temporary only and we are working to secure housing for employees.

Fortescue was a contributor to the goals outlined in the Australian Employment Covenant (www.fiftythousandjobs.org.au). We have a target of increasing the number of Aboriginal employees to 15% in 2015. Fortescue currently employs 403 Aboriginal people who make up 10.1% of our total workforce. Our Port Operations team at the Herb Elliott Port Facility includes 62 Aboriginal employees, representing 30% of the port workforce. Aboriginal employees also have the option to FIFO from Port Hedland, Roebourne, Fitzroy Crossing or Perth. Our contractors employ another 630 Aboriginal people bringing the total to 1033 across our workforce.

To support our Aboriginal employees and our contractors' Aboriginal employees we also have mentors and Indigenous Development Coordinators who are located at our sites. All of our employees and contractors are also required to undertake cross-cultural awareness training. This helps build appreciation, respect and collaboration across our entire workforce.

CORPORATE SOCIAL RESPONSIBILITY

Investing in our communities

Fortescue actively supports the Western Australian Government's Pilbara Cities vision with its commitment to a residential workforces, local employment, training and employment of Aboriginal people. We also provide opportunities for local businesses and contractors to increase capability at various locations across the Pilbara. We have made local investments in Port Hedland and Newman which will contribute to this vision such as funding initiatives that include:

- Investing over $100 million on the construction of new houses in Port Hedland and has budgeted for a five year housing construction program.
- Contributing funds to enable the upgrade of 36 kilometres of road in the Shire of East Pilbara.
- Helping a children's charity to build a house in Port Hedland, with the profit from the sale to be used by Variety WA towards its programs for local children.
- Establishing a world class iron ore metallurgical testing plant at Newman that will help increase local employment opportunities and local community business opportunities.
- Facilitating and sponsoring the establishment and operation of Scotty's Training Cafe at Port Hedland, which will act as a community meeting point and provide a vocational training environment for workers in hospitality.
- Establishing and maintaining Vocational Training and Employment Centres at South Hedland and Roebourne, which provide work readiness, skills training, employment programs and support to assist Aboriginal people to go into guaranteed jobs with Fortescue.
- Supporting a government housing initiative to attract and retain more doctors to Port Hedland.
- Sponsorship of the Hockey Australia National Indigenous Program, initially piloted at Roebourne, which is assisting the local school to deliver positive school student performance and behavioural change through sport.
- Sponsorship of the South Hedland Swans Football Club to, through sport, help provide positive behavioural change to potential candidates of the VTEC program.

Case Study

Empowering the Roebourne Community

Fortescue is providing significant support to the Roebourne community in the form of housing, training for guaranteed employment and Aboriginal business development opportunities, as well as a sporting partnership with Hockey Australia.

Fortescue's commitment to the Roebourne community is about achieving positive outcomes for individuals and their families which in turn benefit the local and wider community. These benefits include economic independence and stability, improved employment and development opportunities for Aboriginal people and other flow-on economic and social benefits that result from increased employment and labour force participation These opportunities are supported by Fortescue's vision to contribute to the overall social and economic wellbeing of the communities in which we operate.

In Roebourne, where levels of labour force participation and of school attendance are significantly below average[1], targeted initiatives provide greater incentive for Aboriginal people to enter and remain in employment. The VTEC Support Team see firsthand the positive effect employment has on VTEC participants and their families, commenting:

"Employment leads to a snowball effect. Kids are healthier and more likely to go to school. People start to think about things like home ownership."

Fortescue's growth and development is providing opportunities for Aboriginal people to achieve positive economic and social outcomes that in turn strengthen the community as a whole.

[1]Australian Bureau of Statistics 2006 Census Data for Roebourne LGA and Roebourne Urban Centre Locality

As a business we are also involved in GenerationOne and the Australian Children's Trust (ACT). Both of these organisations are bringing Australians together to end the disparity between Indigenous and non-Indigenous Australians in one generation - our generation. Fortescue is a foundation partner of GenerationOne and a key contributor to the success of the ACT. Refer to www.generationone.org.au and www.australianchildrenstrust.org.au for more details on these programs and their missions.

CORPORATE SOCIAL RESPONSIBILITY

Case Study

Improving School Attendance Rates

'Up 4 It', a collaborative school program supported by Fortescue, is designed to improve the attendance rates of Aboriginal school children in Western Australia.

The focus of the program is self esteem, goal setting and achievement delivered by Indigenous and non-Indigenous role models who visit the communities and schools.

The program has added incentives with the reward of a Perth Leadership Camp in November for children with attendance levels over 80%. This strategy ensures the best possible outcomes as each program is developed in partnership with the schools, staff and communities to ensure the programs continue in the community.

Over the past five years, the Up 4 It program has reached out to over 50 primary and secondary schools and over 5,700 Aboriginal children in the Pilbara with its messages of empowerment, healthy lifestyles, school achievement and confidence.

Infrastructure and development

Over the short term, Fortescue will continue to expand its operations. This will continue to increase demand for local infrastructure and housing. At present this housing is not available at many of our locations due to limited land releases. In the interim, Fortescue will employ people who can work on a FIFO basis until further development can take place.

Fortescue works closely with Pilbara Cities to identify residential land available for purchase in 2012 and 2013 to support the increased workforce needed to operate our expanded export capacity through Port Hedland.

Fortescue has existing lots in South Hedland, Tom Price and Roebourne. When combined with lots that are either contracted to purchase or in advanced negotiations we are looking to commence the development of 80 dwelling units in the Pilbara over the coming 12 months. We continue to seek additional lots to support our Pilbara residential workforce requirements.

Environment

We will manage our environmental impacts, meet our licence requirements and strive to improve our resource efficiency.

We recognise the importance of minimising environmental impacts as it is important in ensuring the company's longevity, success, growth and positioning in both domestic and global markets.

We approach environmental management as another aspect of good practice which must be addressed in order to truly improve our overall performance. We believe that our focus on technology, a responsible workforce culture and the development of robust systems will help us to reduce business costs and the impact that we have on the environment.

During the year we published our fourth Public Environment Report. This report provided a detailed synopsis of our performance in the areas of approvals and compliance, energy and greenhouse, waste management, water management, air quality, habitats protected and restored, environmental training and awareness and our research. We have provided a summary of the highlights in this report, the full report is available on our website at www.fmgl.com.au.

Case Study

Innovation and technology driving efficiency

In 2012 Fortescue took big steps towards trialling carbon free energy sources at each of our operating sites. Highlights and key initiatives in the year included:

- Finalised contractual arrangements for the engineering and design of a 3MW solar photo voltaic (PV) power station for our 1600 person village at Christmas Creek. The construction of this renewable energy source will offset over 1.5 million litres of diesel each year and be one of the largest off-grid solar PV projects in Australia. The PV power plant will integrate with our existing mine power grid, with excess power helping to run our mining operations.
- A detailed wind and solar resource mapping study around our Solomon project. Results of the study will show if solar or wind generation is suitable to supply electricity to the Solomon mine.
- Commitments to the installation of heat recovery units for our diesel power station at Cloudbreak. These units are designed to capture heat in exhaust gasses from the existing diesel generators and pass them through a heat exchanger to produce electricity.

It is possible that these units will increase the power output from our power station by approximately 10% for no additional consumption of diesel fuel.

These initiatives form part of Fortescue's risk mitigation strategies to address potential future fuel price rises and increasing global action to curb greenhouse gas emissions.

Environmental management systems

Fortescue understands that effective environmental management requires the assessment, control and monitoring of environmental impacts at all stages of a project. As such we have embedded a number of processes into the full life cycle of each of our activities to ensure that environmental risks are not overlooked. Fortescue's Environment Policy was refreshed in 2012 and governs our overall approach to the environment. It is supported by a number of site-specific management plans, mine plans and monitoring and audit procedures. During the year, substantial works were undertaken to align our existing environmental management system to ISO14001. Work on this will continue into 2013.

Environmental approvals and compliance

Fortescue's operations are governed by the conditions set out in the Ministerial Statements, permits and licences issued by various government bodies. These conditions require us to meet standards of effective environmental management, planning and performance. Management Plans that assist us to meet these Conditions are available on our website www.fmgl.com.au.

During the 2012 calendar year we had a small number of minor non –conformances with our operating licence conditions. These related to environmental monitoring regimes and wastewater discharges which were caused by the challenges we face with commissioning new infrastructure. We also reported seven environmental incidents to regulators. All incidents were resolved with no further action being taken on behalf of the regulating agencies.

Greenhouse and Energy

We are committed to working with government to fulfil all legislative requirements and to provide input into the ongoing development of national emissions reduction and carbon pricing models.

Fortescue's greenhouse emissions are almost entirely related to combustion of diesel oil, and as such we are not considered a liable entity in the first year of the Clean Energy Act's carbon scheme. However, Fortescue may elect to opt-in to the scheme in 2014 rather than pay the carbon price through reduced diesel rebates. To prepare for such a possibility, Fortescue has been developing a Carbon Acquittal Management Plan and Implementation Roadmap. This proactive approach to the management of our carbon liabilities will help us to implement effective carbon acquittal and investment strategies. It is expected that the carbon price will add less than 1% to Fortescue's operating costs.

We actively complied with both the Australian Federal Government's National Greenhouse and Energy Reporting (NGER) Act 2007 and the Energy Efficiency Opportunities (EEO) Act 2006 programs. We are also committed to proactively reducing our energy consumption and greenhouse gas emissions wherever practical and we have a formal policy in place to guide our approach.

Case Study

Planning for extreme weather events

The Pilbara is particularly susceptible to extreme weather events and flooding. The consequences of climate change and extreme weather are acknowledged as a potential risks to the business. We seek to build resilient operations and have adequate emergency planning in place to respond to severe weather events safely.

This year Fortescue completed a climate change and extreme weather events analysis on our existing and planned infrastructure. This analysis assessed the potential of extreme weather and how it may significantly affect our operations. The two key objectives of this analysis were to review the exposure of existing and planned projects to extreme weather events and climate change towards the year 2030 and to develop an adaptation strategy.

The outcomes of the analysis revealed that Fortescue's infrastructure has minimal exposure to identified impacts from climate change out to 2030, however continued focus on response strategies to extreme weather events is warranted.

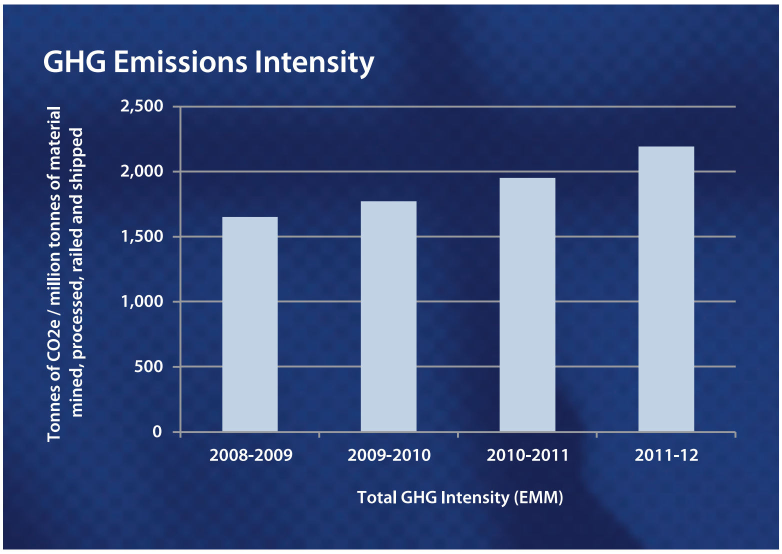
CORPORATE SOCIAL RESPONSIBILITY

Fortescue's total Scope 1 and 2 greenhouse gas emissions for the 2011-2012 reporting period were 1.119 million tonnes of CO2e which was a net increase of 74% over the previous 12 months. The greenhouse gas intensity associated with the extraction and movement of our ore and overburden and the processing of ore increased by over 12% during the year. This increase is a reflection of the significant energy consumed during our project development activities during the year, and the increased stripping ratios as compared to previous years. We expect to see an improvement in the energy efficiency of our activities in the 18 months ahead with the commissioning of new mine operating systems, greater utilisation of our rail and port infrastructure as well as various other operational innovations.

Water

Fortescue's water requirements in the Pilbara are met from underlying groundwater sources. Fortescue's groundwater management plan helps us to strategically manage these resources. This plan represents the highest level of groundwater strategy and applies to all of Fortescue's sites. It is used as a guiding strategy for the development of more site-specific groundwater management programs, operating strategies and procedures.

Reinjection of groundwater is one of the ways we minimise our impact on groundwater resources. In 2011, Fortescue reinjected 57% of all groundwater that was extracted at the Cloudbreak site. In order to ensure that groundwater abstraction and reinjection does not have an adverse effect on the environment, we undertake comprehensive monitoring of groundwater and surface water. The results of this quality and quantity monitoring are provided to regulators.



Case Study

Being recognised for our innovative approach

During the year our water management was recognised as leading practice by the Australian Water Association. Fortescue's Cloudbreak Managed Aquifer Recharge (MAR) Scheme was awarded the National Infrastructure Project Innovation Award in recognition of significant and innovative infrastructure projects and initiatives within the water industry. We developed the MAR Scheme to balance dewatering, process water supply and environmental impacts while successfully operating within a complex and sensitive groundwater environment in the Central Pilbara. The overall objective of the MAR Scheme is to reduce impacts on the sensitive and valuable Fortescue Marsh.

Environmental research

Fortescue actively pursues research to increase our knowledge of environmental conditions at our sites. We use this information to continuously improve our performance and reduce our impact over time. We work with leading academics and researchers on a multitude of innovative and leading edge projects. Fortescue has maintained ongoing partnerships with the University of Western Australia (UWA) and the Australian National University (ANU). Our research to date has focused on understanding surface water and groundwater environments in the Fortescue Marsh, water availability and vegetation studies on the local Mulga and Samphire plant communities and dust and air quality modelling. Further information on our approach to research is contained in our Public Environment Report at www.fmgl.com.au.

Case Study

Hydrological Processes in Sheetflow Dependent Mulga Groves

Fortescue is currently working with the University of Western Australia's School of Environmental Systems Engineering on a project which looks at how broad flows of water called "sheetflows" impact on vegetation in the Pilbara. This research is currently analysing the systems of water flow and topography in the Pilbara and how this influences nutrient delivery to plants. It is hoped that the outcomes of this research will be used to inform our infrastructure planning process. The overall aim of this approach is to reduce the environmental impact of our infrastructure.

Case Study

Assessment of vegetation water use in the Fortescue Marsh

In collaboration with the University of Western Australia's Faculty of Natural and Agricultural Sciences, Fortescue is currently undertaking research into the distribution of water and soil moisture in the Fortescue Marsh and its influence on the diversity of plant community types and species.

This project continues on from previous work and aims to investigate how water, soil and topography interact. Different water sources along with variable topography and soil type are thought to influence the distribution of particular plant species. Linking water sources and status of the different upland and lowland plant communities in the landscape will hopefully help us to understand how the Marsh responds to changes in hydrological conditions over time.

CORPORATE GOVERNANCE

1. Overview of Governance at Fortescue

The essential elements of Corporate Governance at Fortescue are:

Transparency

Being clear and unambiguous about the company's structure, operations and performance, both externally and internally, and maintaining a genuine dialogue with, and providing insight to, legitimate stakeholders and the market generally

Corporate accountability

Ensuring that there is clarity of decision making within the company, with processes in place to ensure that the right people have the right authority for the company to make effective and efficient decisions, with appropriate consequences delivered for failures to follow those processes

Stewardship

Developing and maintaining a company-wide recognition that the company is managed for the benefit of its members, taking reasonable account of the interests of other legitimate stakeholders

Integrity

Developing and maintaining a corporate culture committed to ethical behaviour and compliance with the law.

The governance structure at Fortescue is represented by the diagram below.

Shareholders

Board of Directors
Ensures appropriate Corporate Governance Practices are in place

Board Remuneration & Nominations Committee
Responsible for remuneration policy and practice and Board Member Nominations

Board Audit & Risk Management Committee
Responsible for all matters related to financial reporting, audit and risk management

Chief Executive Officer
The Board delegates authority to the CEO for all matters that are not reserved for the Board or one of its committees

Executive Committee

Fortescue Corporate Governance practices are driven by the extensive experience and diverse capabilities of our Board and Executive Team. They are informed by our commitment to long term sustainability, our obligations to stakeholders including regulatory authorities, and clear delegations of authority. This is all underpinned by our culture and supported by policies relevant to occupational health and safety, the environment and social and governance responsibilities.

Alignment with our Corporate Governance Practices is assured by independent internal and external audit functions, dedicated health and safety and environmental compliance functions and well defined accountability and reporting lines.

2. Board of Directors

The essential elements of Corporate Governance at Fortescue are:

2.1 Role and Responsibilities

Being clear and unambiguous about the company's structure, operations and performance, both externally and internally, and maintaining a genuine dialogue with, and providing insight to, legitimate stakeholders and the market generally

The Board is responsible to the shareholders for the performance of the Group. The Board's focus is to enhance and protect the interests of shareholders and other key stakeholders and to ensure that the Group is properly managed. The Board understands the critical importance of a strong and healthy working relationship between it and the executive management team and works hard to foster and grow that relationship. The Board ensures that the management team is appropriately qualified and experienced to discharge their responsibilities.

The Board has established a Statement of Matters Reserved for the Board which states that the key responsibilities of the Board are as follows:

- Appointing, evaluating the performance of, rewarding and if necessary removing the Chief Executive Officer (CEO);
- Developing corporate objectives and strategies with management and approving plans, new investments, major capital and operating expenditures and major funding activities proposed by management;
- Monitoring performance against defined performance expectations and reviewing operational information to understand at all times the state of health of the Group;
- Overseeing management of business risks, including safety and occupational health risks, environmental management issues and community development issues arising from our interaction with the several communities living or located in our geographic areas of operation;
- Satisfying itself that the annual financial statements of the Group fairly and accurately disclose the financial position and financial performance of the Group;
- Satisfying itself that there are appropriate reporting systems and controls in place and gain acceptable levels of assurance that proper operational, financial, compliance, risk management and internal control processes are in place and functioning appropriately. Further, approving and monitoring financial and other reporting;
- Gaining assurance that appropriate audit arrangements are in place;
- Ensuring that the Group acts legally and responsibly on all matters and gaining assurance that the Group has adopted an appropriate Code of Conduct and that Group practice is consistent with that Code; and
- Reporting to and advising shareholders.

The Board has also established Delegations of Authority for matters delegated to the authority of the CEO and hence the CEO remains accountable to the Board through those delegations for the performance of the Group. Whilst the CEO remains accountable to the Board, he is free to make whatever decisions he believes are appropriate for the business within the boundaries established by the Board.

A key focus of Board meetings is monitoring the decisions of the CEO. Appropriate time is allocated during Board meetings for consideration of the CEO's report to the Board on key operational issues and progress towards achievement of corporate objectives. The Board has established the key performance indicators against which the performance of the CEO is evaluated. These KPI's are discussed in the Remuneration Report in this Annual Report.

Both the Statement of Matters Reserved for the Board and the Delegations of Authority are reviewed annually to assess continued relevance and to identify any areas requiring improvement or change. Where changes are required to these documents, such changes are approved by the Board.

The Board and each of its two primary committees have established a process to evaluate their performance annually. The process is based on a formal questionnaire with the Chair in each case leading the evaluation process supported by the Company Secretary. The results and recommendations from the evaluation of the committees are reported to the Board for further consideration and action where required. At Board level the entire Board agrees improvement actions where appropriate and these are acted upon utilising support from the Company Secretary.

The individual performance of directors is considered during the Board and Committee performance evaluation process in addition to ongoing consultation between the Chairman, Deputy Chairman and the relevant directors as required.

2.2 Board Composition

Under the company's Constitution, the Board must have a minimum of three and a maximum of twelve directors. No director, other than a managing director, may retain office without re-election for more than three years or past the third annual general meeting following the director's appointment, whichever is the longer. Additionally, any new director, with the exception of the Managing Director, appointed by the Board must retire and may seek re-election in the year of appointment.

The Board believes that its composition represents an appropriate balance of executive and non-executive directors to achieve the promotion of shareholder interests and governance of the business effectively.

The Board also has access to senior executives who attend Board meetings and Board Committee meetings by invitation and who are available at other times as required by Board members.

The directors of the Group during the year were:

Name	Period of Office	Retiring and seeking re-election in 2012
Andrew Forrest (Chairman)	Full Year	No
Herb Elliott (Deputy Chairman, Lead Independent Director)	Full Year	Yes
Ken Ambrecht	Full Year	Retiring and will not be seeking re-election at the 2012 AGM
Geoff Brayshaw	Full Year	No
Owen Hegarty	Full Year	No
Graeme Rowley	Full Year	No
Mark Barnaba	Full Year	No
Geoff Raby	From 18 August 2011	No
Herbert Scruggs	From 26 August 2011	No
Neville Power	From 1 September 2011	N/A
Cao Huiquan	From 27 February 2012	Yes
Russell Scrimshaw	To 26 August 2011	Retired
Ian Cumming	To 1 September 2011	Retired
Li Xiaowei	To 27 February 2012	Retired

Changes to the composition of the Board during the year are summarised below:

- Neville Power succeeded Andrew Forrest as the Chief Executive Officer on 18 July 2011;
- Herb Elliott, stepped down from his role as Non-Executive Chairman on 18 August 2011, and was succeeded by Andrew Forrest, the founder of Fortescue;
- Ian Burston retired as a director of the company on 18 August 2011;
- Geoff Raby was appointed as a non-executive director on 18 August 2011;
- Following his retirement as Executive Director Sales & Marketing in June 2011, Russell Scrimshaw became a non-executive director. Mr Scrimshaw retired as a director of the company on 26 August 2011;
- Herbert Scruggs was appointed as a non-executive director on 26 August 2011;
- Ian Cumming retired as a director of the company on 1 September 2011;
- Neville Power was appointed as an executive director on 1 September 2011;
- Li Xiaowei retired as a director of the company on 27 February 2012; and
- Cao Huiquan was appointed as a non-executive director on 27 February 2012.

The primary driver for the Board in seeking new directors has been, and continues to be, the skills, experience, knowledge and other important attributes which are relevant to the needs of the Board in discharging its responsibilities to shareholders. As with all roles in the company, our policy is to recruit the best person for each role regardless of race, gender, age, physical ability, sexuality, nationality, religious beliefs, or any other factor not relevant to their competence and performance. The Board is committed to ensuring that an environment of equal opportunity is in place and that all decisions are based on merit.

The Board has implemented a diversity policy and measurable objectives which reflect Fortescue's commitment to ensuring that there are no impediments to diversity at any level of the company. The policy can be accessed through the corporate governance section of the company's web site.

Fortescue's workforce gender profile is summarised below:

Group	Female	Female %	Male	Male%
Whole of Fortescue	914	23.0	3,054	77.0
Senior Executive	1	16.7	5	83.3
Board Members	0	0.0	11	100.0

The measurable diversity objectives established for the 2012 and 2013 financial years and their current status is summarised below:

Objective Area	Objective	Measure	Current Status
Governance	Implement an Equity and Diversity Policy that complies with Legislative requirements. Implement a Complaints Procedure that is compliant with Fortescue's Values and meets Legislative requirements. Prepare and submit annual EOWA Report for Fortescue.	Policy developed and communicated to the business. Complaints procedure in place. Quality report submitted on time annually.	Policy loaded on Intranet and communicated in Induction program. Fair Call reporting procedure in place. Investigation process for EEO, Harassment and Bullying in place Inaugural EOWA Report submitted.
Leadership	Establish Executive Mentoring Programs for groups with minorities in leadership roles.	Mentoring program in place.	Women @ Fortescue lunch series with the CEO established. Aboriginal Leadership Program implemented, first program conducted. Mentoring is a key part of the program. Aboriginal Employees lunch with the CEO series scheduled.
Training	Integrate Equity and Diversity Training into Induction Programs for employees and contractors. Create an online Equity and Diversity Training package for leaders and employees. Communicate and reinforce the Equity and Diversity Policy to the whole workforce.	Training incorporated into induction programs. Online training package for leaders and employees operational. Workforce and contractors have attended a training session.	Respect session integrated into Induction program, to reinforce expected standards. EEO Contact Officer Training Complete for Operational Site. Online training package scoped, a broader online Code of Conduct refresher training program will be considered. Training sessions being completed by site training teams. Agenda item and discussion at Contractor Forum, with request to reinforce expected standards of behaviour with their own workforces.
Policy and Procedure	Develop and implement flexible working arrangement guidelines. Develop and implement a paid parental leave policy.	Policy developed and approved. Policy developed and approved.	Flexible Work Arrangement Guidelines developed. Parental Leave Policy Scoped.

31

CORPORATE GOVERNANCE

2.3 Skills, Knowledge and Experience of Directors

The Board believes that a diverse and relevant range of skills, backgrounds, knowledge and experience is necessary at Board level to ensure effective governance of the business. This means that the Board maintains a focus on its composition, thereby working to ensure that the executive and non-executive directors continue to have an appropriate balance of skills, experience and independence.

Retention of corporate knowledge is also important to the Board, so there is also a focus on achieving an appropriate level of retention of corporate knowledge whilst gaining access to new ideas and experience that are relevant to the business.

2.4 Terms of Appointment

Directors, with the exception of the Managing Director, are required to retire by rotation at least once every three years and are able to offer themselves for re-election. The Board has adopted a letter of appointment that contains the terms on which directors are appointed, including the basis of remuneration. The letter can be accessed through the corporate governance section of the company's web site. Directors are expected to contribute to the Company primarily relating to the matters set out in Statement of Matters Reserved for the Board, which can also be accessed through the corporate governance section of the company's web site. In addition, directors are expected to contribute to the business of the Board committees where they are members of a Board committee. It is recognised that directors have a diverse range of skills, experience and knowledge and they are expected to contribute their considerable expertise at the boardroom table and at other times as required.

Directors are expected to act independently by challenging the status quo constructively, to act ethically in all dealings and assist in setting standards for the Group, as well as being involved and contributing to all important decisions before the Board.

Directors are expected to comply with all requirements imposed upon them by the Corporations Act 2001, ASX Listing Rules and the company's Constitution, a copy of which can be obtained from the corporate governance section of the company's web site.

The letter of appointment also provides clear direction about the amount of time that directors are required to commit in order to adequately discharge their responsibilities as directors.

It is Fortescue practice to allow its non-executive directors to accept appointments outside the group with prior approval of the Board. The commitments of non-executive directors are considered by the Board prior to a director's appointment to the Board and are reviewed annually.

Prior to appointment, or offering themselves for re-election, non-executive directors are required to specifically acknowledge that they have the time available to fully discharge their responsibilities to the Group.

2.5 Chairman

The Chairman of the Group has a primary responsibility to lead the Board and promote the interests of the Group, both internally and in the broader business context. A key part of the Chairman's role is to develop a cohesive Board which operates effectively in protecting shareholders interests and maintaining strong relationships with the CEO and his executive team.

Andrew Forrest, the founder of Fortescue, was appointed to the role of Non-Executive Chairman by the Board in August 2011. Mr Forrest succeeds Mr Herb Elliott as Chairman and was previously the CEO. Mr Forrest, whilst being a non-executive director, is not an independent director due to his previous role as CEO and his significant shareholding in the company. Mr Herb Elliott is the lead independent director in the role of Deputy Non-Executive Chairman.

2.6 Independence

All Fortescue Directors have an obligation to be independent in judgment and actions. The Board ensures that the interests of shareholders are always at the forefront when important decisions are made by the Board. Directors are considered to be independent if they satisfy established criteria, including the following:

- They are a non-executive director of the company. Any fees paid to them by the Group for services provided are not of such amounts that could make the director reliant on such remuneration. Directors must have no other material contractual relationships with the Group other than as directors of the Group;
- They are not a substantial shareholder of the company, this being defined in the Corporations Act as holding more than 5% of the voting shares of the company;
- They have not been employed in an executive capacity by the Group or there has been a period of three years between ceasing such employment and serving on the board
- They have not, within the last three years, been a principal of a material adviser or consultant to the Group;
- They are not a material supplier of the group, or an officer of or otherwise associated directly or indirectly with a material supplier or customer; and
- They are free from any interest which could reasonably be perceived to materially interfere with their ability to act in the best interests of the Group.

CORPORATE GOVERNANCE

In essence the above guidance is designed to ensure that all directors are able to act in the best interests of the Group at all times.

Directors are required to disclose circumstances that may affect, or be perceived to affect, their ability to exercise independent judgement so that the Board can make regular assessments of independence. If a circumstance arises whereby a director may be required to consider a matter in which the director has a material personal interest, that director ceases to be involved in the decision making regarding that matter.

The Board has ten non-executive directors. Of the ten non-executive directors, based on the above criteria, six are considered to be independent and four are considered to be non-independent. The Board believes that it has independent directors involved in all areas of Board activity where director independence is critical, including chairmanship via the deputy chair and involvement in the various Board committees. The table below shows directors who are considered to be independent and non-independent:

Director	Independent (Yes/No)
Andrew Forrest	No
Herb Elliott	Yes
Ken Ambrecht	Yes
Geoff Brayshaw	Yes
Owen Hegarty	Yes
Graeme Rowley	No
Mark Barnaba	Yes
Geoff Raby	Yes
Herbert Scruggs	No
Neville Power	No
Cao Huiquan	No

As Deputy Chairman, Mr Elliott has been appointed as the Lead Independent Director to represent the interests of shareholders where the Chairman is unable to do so due to his non-independent status.

The Deputy Chairman's role includes the following responsibilities:

- Chairing the Board and shareholder meetings when the Chairman is unable to do so;
- Representing the Board as the Senior Independent Director when the Chairman is unable to do so due to his non independent status;
- Acting as principle liaison between the Independent Directors and the Chairman; and
- Approval of meeting agendas and quality of information provided to the board.

Transactions during the year which are classified as related party transactions with directors or director related entities pursuant to International Financial Reporting Standards are disclosed in the notes to the financial statements.

2.7 Use of Information

The Board has implemented a Code of Conduct designed to ensure that all directors and employees of the Group act ethically and do not use confidential information for personal gain.

2.8 Independent Advice

Directors and Board committees, in connection with the discharge of their responsibilities, have the right to seek independent professional advice at the expense of the company. Prior written approval of the Chairman is required in these circumstances, but such approval cannot be unreasonable withheld.

2.9 Remuneration

Details of the remuneration policies and the remuneration paid to directors (executive and non-executive) are set out in the Remuneration Report in this Annual Report.

2.10 Meetings

The Board meets as often as necessary to fulfil its role. Directors are required to allocate sufficient time to the Group to discharge their responsibilities effectively, including adequate time to prepare for Board and Board committee meetings and in joining visits to the Group's operational sites.

During the current year the Board met seven times. Generally Board meetings are of one day's duration and Board committee meetings precede Board meetings on the previous day.

In addition, Board members hold meetings with management as required.

2.11 Company Secretary

The Company Secretary is appointed and removed by the Board and is responsible for establishing and maintaining appropriate support mechanisms to enable the Board to function effectively. The Company Secretary is also responsible for ensuring that Board procedures are complied with and advising the Board on governance matters. All directors have access to the Company Secretary for advice and support services as required. In addition to these responsibilities, the Company Secretary is also responsible for oversight of the share registry services provided by Link Market Services.

3. Board Committees

The Board has established committees to assist in the execution of its duties and to ensure that important and complex issues are given the detailed consideration they require. The primary committees of the Board are the Remuneration & Nominations Committee and the Audit & Risk Management Committee. The Board has also formed a Finance Committee that meets as required to provide guidance and oversight for management on behalf of the Board, when major financing initiatives are underway or being finalised.

The primary committees have their own Charters approved by the Board, and under which authority is delegated by the Board. Each Committee is required to report the outcomes of its deliberations to the Board so that the Board is fully informed on all important matters before matters are resolved.

The Company Secretary provides support services to each committee. Committee meeting agendas, papers and minutes are made available to all Board members.

3.1 Remuneration & Nomination Committee

The Remuneration & Nominations Committee met four times during the year. Details of committee members are shown in the table right:

The role of the committee is to assist the Board in its oversight of remuneration policy and practice and Board member nominations. The committee considers a diverse range of matters related to its role, including:

- Senior executive remuneration policy;
- Chief Executive Officer, non-executive and executive director remuneration policy;
- Short term and long term incentive plans;
- Recruitment, retention and termination policies;
- Succession planning;
- Nominations for Board positions and review of applicants for Board positions; and
- Board Committee appointments.

Full details of the committee's activities on behalf of the Board related to remuneration matters are set out in the Remuneration Report.

Director	Term	Status	Meetings	
			Held	Attended
Mark Barnaba (Chairman from 18 August 2011)	Member from 18 August 2011	Independent non-executive director	3	3
Herb Elliott (Chairman to 18 August 2011)	Member for full year	Independent non-executive director	4	3
Andrew Forrest	Member for full year	Non-independent executive director until 18 July 2011 and non-independent non-executive after that date	4	3
Ken Ambrecht	Member for full year	Independent non-executive director	4	4
Owen Hegarty	Member for full year	Independent non-executive director	4	4
Herbert Scruggs	Member from 8 November 2011	Non-independent non-executive director	2	2
Ian Cumming	Member to 1 September 2011	Non-independent non-executive director	1	-

TABLE: Remuneration & Nomination Committee

3.2 Audit & Risk Management Committee

The Audit & Risk Management Committee met six times during the year. Details of committee members are shown in the table on the next page.

The role of the committee is to assist the Board in its oversight responsibilities for all matters related to financial management and reporting, external audit, internal audit and risk management of the Group. The committee monitors management processes in relation to preparation of financial reports, including the annual financial statements, and the processes in relation to external and internal audit. The committee also assists the Board in regard to compliance with the ASX Listing Rules, the ASX Corporate Governance Principles & Recommendations and the Corporations Act requirements.

This means that the committee reviews the annual financial statements, the adequacy of the financial control environment, applicable financial management and reporting policies (including policies relating to potential fraud and misappropriation) and developments in international financial reporting standards. The committee also monitors enterprise risk management activity and its impact on mitigating material risks to the business. The committee also monitors the work of the external and internal auditors.

In accordance with the Corporations Act, the Group has appointed external auditors whose primary role is to form an opinion as to the truth and fairness of the annual financial statements. The Group appoints an external auditor who demonstrates quality of service and independence. BDO, Chartered Accountants, are the current external auditors of the Fortescue Group. It is BDO's policy to rotate audit engagement partners every five years in accordance with the Corporations Act.

CORPORATE GOVERNANCE

BDO attends committee meetings by invitation and annually reports to the committee on its independence and the outcomes of its audit. The committee reviews the scope of the annual audit plan and related audit fees.

The committee believes that a robust and risk based internal audit function is a critical part of ensuring that a strong financial risk and control environment is maintained across the Group. The committee has decided that an outsourced internal audit function best suits the needs of the Group and has appointed KPMG, Chartered Accountants, to provide the service. KPMG has been providing this service for four years. The committee approves the annual internal audit plan and monitors findings from internal audit reviews, including actions proposed by management to address issues reported by the internal auditors.

Director	Term	Status	Meetings	
			Held	Attended
Geoff Brayshaw (Chairman)	Member for full year	Independent non-executive director	6	6
Ken Ambrecht	Member for full year	Independent non-executive director	6	6
Mark Barnaba	Member for full year	Independent non-executive director	6	6
Graeme Rowley	Member from 8 November 2011	Non-Independent non-executive director	3	3
Herbert Scruggs	Member from 8 November 2011	Non-independent non-executive director	3	3
Ian Burston	Member to 18 August 2011	Non-independent non-executive director	2	1

TABLE: Audit & Risk Management Committee

3.3 Finance Committee

The Finance Committee met four times during the year. Details of committee members are shown in the table to the right:

The role of the committee is to meet as required to provide guidance and oversight for management, on behalf of the Board, when major financing initiatives are underway or being finalised.

Director	Term	Status	Meetings	
			Held	Attended
Geoff Brayshaw (Chairman)	Member for full year	Independent non-executive director	4	4
Mark Barnaba	Member for full year	Independent non-executive director	4	4
Ken Ambrecht	Member for full year	Independent non-executive director	4	4

TABLE: Finance Committee

4. Engagement with Stakeholders

4.1 Shareholders

The Board represents the group's shareholders and is accountable to them for delivering value through achievement of strategic objectives and performance excellence.

Shareholders are encouraged to attend the Annual General Meeting, which is the forum for shareholders to vote on key business issues, including election of directors, changes to the company's Constitution, adoption of the Group's annual financial statements and incentive arrangements.

The Company has implemented a Continuous Disclosure and Market Communications Policy which is available on the corporate governance section of the company website. The board uses various formal and informal measures to ensure that it communicates effectively with shareholders throughout the year including;

- A team of dedicated investor and media relations resources;
- Regular briefings to the investment community and investor representatives;
- Presentations and question and answer sessions at industry forums and conferences;
- Periodic newsletters, production reports and media announcements that are available either through the ASX platform or through the Company's website; and
- An email alert system that allows interested parties to register for automated alerts of ASX lodgements.

4.2 Stakeholders

At Fortescue we aspire to be the corporate citizen of choice that is welcomed by communities that host our activities. To achieve this effective communication and proactive engagement with our stakeholders is critical. We communicate using a number of mechanisms that include engaging community relations professionals that are resident in communities, preferring one-on-one conversations, providing presentations to target community groups, holding displays, issuing newsletters and publishing media advertorials.

Our stakeholders include our people, Federal, Western Australian and local governments, communities, traditional owners of land, suppliers, customers, non-government organisations, investors and the media. Together with our stakeholders, we align to positively manage change and secure opportunities for people, economies, the natural environment, the built environment and society.

Fortescue has a strong engagement with Aboriginal people in the Pilbara, through the Native Title process as well as our Aboriginal Heritage and Vocational Training and Employment Centre teams. The company has a long-standing policy in relation to the active employment of Aboriginal people. This policy arose because of demands by Aboriginal people to gain a greater share of the opportunities presented by the mining industry. These demands have been expressed consistently by Aboriginal people and are enshrined in the seven Native Title agreements that we have established across the Pilbara. In exchange for their consent to our mining operations, Fortescue provides significant assistance to Aboriginal people in securing a job in the company. In addition Fortescue has made a commitment to award $1 billion worth of contracts to Aboriginal contractors and joint ventures by the end of 2013. Since 2010, Fortescue has awarded contracts to Aboriginal businesses worth in excess of $500 million.

5. Risk Management

5.1 Risk Management Methodology

The Board believes that effective management of risk and opportunity is essential to Fortescue's success and future growth. The challenges of rapid growth, including the future expectations of stakeholders, are evident in all parts of the business. As an emerging major player in the global iron ore market, the company has developed a structured approach to the management of risk across the whole business.

In essence, this approach means that all material business risks are assigned to the relevant business unit for management and accountability. This means that the enterprise risk management team is focused on working with each part of the business to assist them to identify, assess and better manage their risks and to align efforts across the entire organisation to facilitate a whole of business risk profile. Assessment of risk and development of mitigating controls are driven by what is required to achieve identified key objectives in each part of the business. These actions are driven by a desire to maintain business risks within tolerable levels.

The Risk Management Programme (RMP) approved by the Audit & Risk Management Committee provides the structure within which the Group undertakes these activities. The RMP is a group wide framework comprised of six standards which are the key drivers for a consistent approach to the identification, evaluation and rating of risk. In addition, the standards provide the context and structure within which control activity is identified and evaluated. The RMP sets a framework which aligns risk management activity at all levels of the business with a three tiered focus as described below:

- Achievement of the Group's strategic, operational, developmental and corporate objectives;
- Maintaining a sustainable business that meets the group's obligations for health & safety, the environment, heritage and community; and
- Building and maintaining a resilient business that is capable of achieving critical objectives in the face of extreme events which may impact business as usual conditions.

5.2 Risk Management Governance

The primary focus of the Group's risk management governance structure and internal control systems is to identify, assess and mitigate material business risks with the aim of enhancing value to shareholders and protecting assets.

The two key forums for risk management at Fortescue are:

1. The Audit & Risk Management Committee (ARMC); and
2. The Risk Management Steering Group (RMSG).

The role of the Audit & Risk Management Committee has been explained earlier in this Corporate Governance Statement, including its responsibilities for enterprise risk management.

The RMSG is the key executive management forum for considering risk activity across the business, including compliance with the requirements of the ARMC. RMSG has its own Charter and is comprised of the most senior executives in the business. A key focus for the RMSG is the work plan of the Enterprise Risk Function which is approved annually by the ARMC. The Group Manager Risk is responsible for delivery of the plan and has a reporting responsibility to the RMSG. The RMSG also oversees management of risk within each business unit to ensure that all material business risks are owned and that risk management activity drives down residual risk to acceptable levels.

5.3 Annual Executive Declarations

In accordance with the requirements of ASX Principle 7 "Recognise and manage risk" and section 295(A) of the Corporations Act 2001, an extensive annual certification process is undertaken at executive level. The process requires declarations from the most senior executives in the business to support the certifications to the Board by the Chief Executive Officer and the Chief Financial Officer pursuant to ASX Principle 7 and Section 295(A) of the Corporations Act 2001.

The executive declarations are broad and consider the key elements of the control environment. In addition to providing the support for the CEO and CFO certifications as noted above, the Board, through the Audit & Risk Management Committee, uses this process as a means of identifying areas of the control environment where there are opportunities for improvement. Improvement actions identified through this process are monitored by the Committee until actions are completed.

The ASX Principle 7 and Section 295(A) Corporations Act 2001 certifications by the CEO and CFO were received by the Board prior to consideration and approval of the annual financial statements for the year ended 30 June 2012.

6. Conduct of Business

6.1 Employee Code of Conduct

The Group actively promotes ethical and responsible decision making through our values and the code of conduct that embodies these values. The code can be accessed on the corporate governance section of the company's web site. Everyone who works for or with Fortescue, including directors, employees, contractors, suppliers and business partners is expected to comply with the Code. In addition they are required to ensure that employees, contractors, suppliers and any other parties under their supervision or direction with whom we do business are aware of and comply with the Code. New employees are required to read and acknowledge the requirements of the code in writing before they commence with the company.

In addition to Codes of Conduct, the Group operates a Whistleblower hotline and all matters reported are treated seriously and automatically referred to an appointed independent party for follow up. People who report incidents of misconduct in good faith will be granted the full protection of the Board of Fortescue. Unauthorised disclosure of the identity, or information from which the identity of a person who has made a report can be determined, is a breach of the Code of Conduct.

6.2 Securities Trading

The Board has established a Securities Trading Policy which outlines the policy for directors and employees when trading in shares of the company. Under the policy certain people are identified as designated persons and they are required to comply with the policy with regard to explicit non-trading periods which are set around reporting periods. All other employees are subject to the normal insider trading restrictions with the policy containing a recommendation of the preferred trading periods.

The policy sets out a brief summary of the law on insider trading and other relevant laws and also sets out the restrictions on dealing in securities by people who work for, or are associated with Fortescue.

7. Market Disclosures

The Board understands the importance of keeping shareholders and other stakeholders fully informed of material information in relation to the Group's activities on a timely basis. For this purpose the Group has established a Continuous Disclosure and Market Communications Policy, a copy of which is available on the corporate governance section of the company's web site. This Continuous Disclosure and Market Communications Policy summarises the processes that have been adopted to ensure Fortescue complies with its disclosure obligations. A Disclosure Committee is responsible for the implementation of the policy.

This policy applies to all directors, employees, contractors, suppliers and business partners and is reviewed annually to ensure that it remains effective in guiding disclosure in accordance with Fortescue's disclosure obligations.

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

Copies of announcements to the ASX, investor briefings, half yearly financial statements, quarterly production results, the Annual report and other relevant information are posted to the company's web site at www.fmgl.com.au.

8. Compliance with Corporate Governance Standards

Unless otherwise disclosed in this Corporate Governance Statement, Fortescue complies with the ASX Corporate Governance Principles and Recommendations.

FINANCIAL REPORT

Contents

DIRECTORS' REPORT

Your Directors submit their report on the Fortescue consolidated group, consisting of Fortescue Metals Group Limited (the Company or Fortescue) and the entities that it controlled during the financial year (the Group or the Fortescue Group).

Directors

The Directors of the Company in office during the financial year and until the date of this report are as follows (Directors were in office for the entire period unless otherwise stated).

Non-Executive

Mr Andrew Forrest (Chairman)

Mr Herb Elliott

Mr Ken Ambrecht

Mr Mark Barnaba

Mr Geoff Brayshaw

Mr Owen Hegarty

Mr Cao Huiquan (appointed 27 February 2012)

Dr Geoff Raby (appointed 18 August 2011)

Mr Graeme Rowley

Mr Herbert (Bud) Scruggs (appointed 26 August 2011)

Mr Russell Scrimshaw (retired 26 August 2011)

Mr Ian Cumming (resigned 1 September 2011)

Dr Ian Burston (retired 18 August 2011)

Mr Li Xiaowei (resigned 27 February 2012)

Executive

Mr Neville Power (Chief Executive Officer, appointed as a Director in September 2011)

Information on Directors

Mr Andrew Forrest (Chairman, Non-Executive Director)

Term of Office

Mr Forrest was appointed Chairman of the Company in July 2003. He became Chief Executive Officer in 2005 before resigning to take up non-executive responsibilities again as Chairman (elect) in July 2011.

Experience

Mr Forrest is the founder, Chairman and member of the Company's Remuneration and Nomination Committee. He is also Non-Executive Chairman of Poseidon Nickel Limited and the Australian Children's Trust that operates, among other initiatives, GenerationOne, The Australian Employment Covenant and Walk Free, a new global campaign to end modern slavery (see WalkFree.org).

Since the inception of Fortescue in 2003, Mr Forrest led the Company to its current US$15 billion market capitalisation and status as the fourth largest global iron ore exporter. As a start-up company, Fortescue's investment in the Australian resources sector is without parallel, having spent or committed up to the present day, some US$15 billion.

He is an Adjunct Professor of the China Southern University and a long standing Fellow of the Australian Institute of Mining and Metallurgy. His previous executive roles include founding Chairman, Chief Executive Officer and Deputy Chairman of Minara Resources Limited and Chairman of the Murrin Murrin Joint Venture. Non-Executive roles previously included Director of the Australian Export Finance and Insurance Corporation, Director of the West Australian Chamber of Minerals and Energy and President of Athletics Australia. He has also founded and chaired a number of charities being the Australian Employment Covenant, Generation One, the Australian Children's Trust and Walk Free. Mr Forrest has been a Trustee of the SAS Resources Trust since July 2011. Mr Forrest has extensive experience in the mining sector and has won multiple global finance awards as well as The Australian Sports Medal, The Australian Centenary Medal, the Australian Medical Society's (WA) 2012 President's Award and the Western Australian Governor's Award for Citizen of the Year for Regional Development.

Other current directorships (ASX listed entities): Poseidon Nickel Limited (Chairman and Non-Executive Director since July 2007).

Former directorships in last 3 years (ASX listed entities): None.

DIRECTORS' REPORT

Mr Herb Elliott AC, MBE (Deputy Chairman, Non-Executive Director)

Term of Office

Mr Elliott was appointed as a Non-Executive Director of the Company in October 2003, Deputy Chairman in May 2005 and Chairman in March 2007. He retired as Chairman in July 2011 and remains on the Board as Deputy Chairman and Lead Independent Director.

Experience

Mr Elliott is a member of the Remuneration and Nomination Committee. He was a member of the Audit and Risk Management Committee until he resigned from this committee in May 2011. Mr Elliott has been Chairman of Telstra Foundation Limited and is a former Director of Ansell and Pacific Dunlop Limited. He was the Inaugural Chairman of the National Australia Day Committee, a Commissioner of the Australian Broadcasting Commission and Deputy Chairman of the Australian Sport Commission. Mr Elliott was also a member of the World Olympians Association. Previous executive roles include President of PUMA North America. Mr Elliott is a Doctor of the Queensland University of Technology.

Other current directorships (ASX listed entities): None.
Former directorships in last 3 years (ASX listed entities): None.

Mr Neville Power (Chief Executive Officer)

Term of Office

Mr Power was appointed Chief Executive Officer of Fortescue in July 2011 after joining the Company in February 2011. In September 2011, following the resignation of Mr Ian Cumming, Mr Power accepted an invitation of the Board to serve as an Executive Director.

Experience

Mr Power has an extensive background in the mining, construction and steel industries. Mr Power was previously Chief Executive, Australia Operations with Thiess, where he was responsible for some of Australia's most significant projects, with a turnover of A$4 billion per annum and 3,500 staff. He also spent over ten years in senior executive positions at Smorgon Steel Group, leading steel making, downstream processing, and distribution businesses in Australia and overseas. Mr Power has a bachelor's degree in Engineering from the University of Southern Queensland and an MBA from the University of Queensland.

Other current directorships (ASX listed entities): None.
Former directorships in last 3 years (ASX listed entities): None.

Mr Ken Ambrecht (Non-Executive Director)

Term of Office

Mr Ambrecht was appointed as a Non-Executive Director in October 2003.

Experience

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

Other current directorships (ASX listed entities): None.
Former directorships in last 3 years (ASX listed entities): None.

Mr Mark Barnaba (Non-Executive Director)

Term of Office

Mr Barnaba was appointed as a Non-Executive Director in February 2010.

Experience

Mr Barnaba is a member of the Audit and Risk Management Committee and Chairman of the Remuneration and Nomination Committee. Mr Barnaba is Chairman of Macquarie Group Western Australia. He currently holds the position of Chairman with Edge Employment Solutions (a disability employment organisation) and the University of Western Australia Business School. He also serves as an Adjunct Professor in Investment Banking and Finance and as a member of the In the Zone Editorial Committee with the University of Western Australia. Until recently, Mr Barnaba held the position of co-founder and Executive Chairman of Azure Capital and was a Non-Executive Chairman of the West Coast Eagles Football Club and a member of the Rhodes Scholarship Selection Committee. Mr Barnaba received his Bachelor of Commerce with first class honours from the University of Western Australia in 1985 and was awarded the JA Wood University Medal for top graduate, university wide. He then went onto Harvard Business School and received an MBA in 1988, graduating with a high distinction as a Baker Scholar. In 2009 Mr Barnaba was the recipient of the Western Australian Citizen of the Year Award in Industry and Commerce, and in 2012 was awarded an Honorary Doctor of Commerce from the University of Western Australia.

Other current directorships (ASX listed entities): None.
Former directorships in last 3 years (ASX listed entities): Adept Solutions Limited.

Mr Geoff Brayshaw AM (Non-Executive Director)

Term of Office

Mr Brayshaw was appointed as a Non-Executive Director in July 2007.

Experience

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

Other current directorships (ASX listed entities): Poseidon Nickel Limited (Non-Executive Director since February 2008).
Former directorships in last 3 years (ASX listed entities): None.

Mr Owen Hegarty (Non-Executive Director)

Term of Office

Mr Hegarty was appointed as a Non-Executive Director in October 2008.

Experience

Mr Hegarty has over 40 years experience in the global mining industry, including 25 years with Rio Tinto plc where he was Managing Director of Rio Tinto Asia and also Managing Director of the Australian copper and gold business. He was the founder and CEO of Oxiana Limited (now Oz Minerals Limited) which grew from a small exploration company to a multi-billion dollar base and precious metals explorer, developer and producer. Mr Hegarty was awarded the AusIMM Institute Medal in 2006 and the G.J. Stokes Memorial Award in 2008 for his achievements in the mining industry. Mr Hegarty is Executive Vice Chairman of Hong Kong listed G Resources Group Limited, a gold mining company and Executive Vice Chairman of CST Mining Group Limited, also a Hong Kong listed mining company. He is a Director of the AusIMM, a member of the South Australian Minerals and Petroleum Expert Group, and a Director of the WA based Mining Hall of Fame Foundation. Mr Hegarty is also Chairman of Tigers Realm Minerals Pty Limited, a private Melbourne based mining company.

Other current directorships (ASX listed entities): Tigers Realm Coal Limited (appointed as Non-Executive Director in October 2010).
Former directorships in last 3 years (ASX listed entities): None.

Mr Cao Huiquan (Non-Executive Director)

Term of Office

Mr Cao Huiquan has joined the Board as a Non-Executive Director in February 2012 as the nominated director on Fortescue's Board from Hunan Valin Iron and Steel Group Company Limited.

Experience

Mr Cao graduated from Department of Physics, Beijing University in 1988 and obtained his Master Degree of Metal Physics from University of Science and Technology Beijing in 1991. He was an on-the job Ph.D. of Engineering of Central Iron and Steel Research Institute, and was enrolled in the EMBA programme, China Europe International Business School in 2009. In 1991, he joined Hunan Xiangtan Iron and Steel Company Limited and was appointed as General Manager in 2003. In 2005 he was appointed as General Manager of Hunan Valin Iron Ore and Steel Company Limited (formerly Hunan Valin Steel Tube and Wire Company Limited), and then concurrently held the position of General Manager of Lianyuan Iron and Steel Group Company Limited since 2010. He is now the Chairman of Hunan Valin Iron and Steel Group Company Limited and also the Chairman and General Manager of Valin Iron and Steel Company Limited.

Other current directorships (ASX listed entities): Valin Iron and Steel Company Limited (Chairman).
Former directorships in last 3 years (ASX listed entities): None.

DIRECTORS' REPORT

Dr Geoff Raby (Non-Executive Director)

Term of Office

Dr Raby was appointed as a Non-Executive Director in August 2011.

Experience

Dr Geoff Raby was Australia's Ambassador to the People's Republic of China (2007-2011). Prior to that, he was a Deputy Secretary in the Department of Foreign Affairs and Trade (DFAT). He has extensive experience in international affairs and trade, having been Australia's Ambassador to the World Trade Organisation (1998-2001), Australia's APEC Ambassador (2003-2005), Head of DFAT's Office of Trade Negotiations and Head of the Trade Policy Issues Division at the OECD, Paris. Between 1986 and 1991 he was Head of the Economic Section at the Australian Embassy, Beijing. He has been the Chair of DFAT's Audit Committee and served as an ex officio member of the Boards of Austrade and EFIC (Export Finance and Insurance Corporation).

Other current directorships (ASX listed entities): OceanaGold Corporation and SmartTrans Holdings Limited since July 2011, Yancoal Australia Limited.
Former directorships in last 3 years (ASX listed entities): None.

Mr Graeme Rowley AM (Non-Executive Director)

Term of Office

Mr Rowley was appointed as an Executive Director in May 2003. Following his retirement from executive duties with Fortescue, Mr Rowley became a Non-Executive Director of the Company in March 2010.

Experience

Mr Rowley was an executive with Rio Tinto plc and previously held senior positions with Hamersley Iron and Argyle Diamonds. Mr Rowley's previous directorships have included the Dampier Port Authority, the Pilbara Development Commission, the Council for the West Pilbara College of TAFE and the Western Australian State Government's Technical Advisory Council. Mr Rowley is currently Chairman of the National Centre for Excellence in Desalination. Mr Rowley has extensive experience in operational management of both iron ore ship loading facilities and heavy haul railway within the unique Pilbara environment.

Other current directorships (ASX listed entities): Allied Healthcare Group (Non-Executive Director).
Former directorships in last 3 years (ASX listed entities): None.

Mr Herbert (Bud) Scruggs (Non-Executive Director)

Term of Office

Mr Scruggs joined the Fortescue Board in August 2011 as a Non-Executive Director.

Experience

Mr Scruggs is an expert in corporate recoveries and step change business improvement. A lawyer by training (BYU 1984), he has held a number of corporate, government, political and civic positions including Chief of Staff to the Governor of Utah and Chairman of the University of Utah Board of Trustees. Mr Scruggs served on a number of boards of public as well as privately held companies including American Investment Bank, Barbados Light and Power, Deseret Morning News, Empire Insurance, MK Gold and Sangart - including service on multiple audit and executive committees. Mr Scruggs recently served as CEO of Huntsman Financial Corporation as well as the Huntsman Cancer Foundation and previously worked as President of the Leucadia Asset Management Group. He was instrumental in Leucadia's original decision to invest alongside Mr Forrest in Fortescue. He now provides, among other activities, management services to The Metal Group Pty Limited, an entity controlled by Mr Forrest, and the Australian Children's Trust.

Other current directorships (ASX listed entities): None.
Former directorships in last 3 years (ASX listed entities): None.

Company Secretaries

The following people held the position of Company Secretary during the financial year and until the date of this report.

Mr Mark Thomas

Term of Office
Mr Thomas was appointed Company Secretary in June 2010.

Experience
Mr Thomas joined Fortescue in April 2004 in the role of Group Financial Controller and went on to become Head of Finance and IT and then Group Manager Finance. With more than 15 years experience in the mining and professional services industries, Mr Thomas has also held senior finance positions with the Goldfields Australia Group and with a number of professional service providers. He has extensive experience in accounting and finance, IT and business administration in the mining and professional services industries. Mr Thomas has a Bachelor of Commerce from the University of Western Australia, Graduate Diploma in Applied Corporate Governance, a Masters of Business Administration and is a Certified Practising Accountant and a Fellow of Chartered Secretaries Australia.

Mr Rod Campbell (resigned 5 September 2012)

Term of Office
Mr Campbell was appointed Company Secretary in November 2004.

Experience
Prior to his appointment as Company Secretary, Mr Campbell was State Manager Western Australia for Rabobank Australia Limited and before that was a Senior Manager with State Bank NSW Limited. Mr Campbell holds a Bachelor of Agricultural Economics from the University of New England and a Diploma from the Securities Institute of Australia.

Directors' meetings

The number of meetings of the Company's Board of Directors and of each Board committee held during the year ended 30 June 2012, and the numbers of meetings attended by each Director were:

			Committee Meetings					
	Board meetings		Audit		Remuneration		Finance	
Director	**Attended**	**Held**	**Attended**	**Held**	**Attended**	**Held**	**Attended**	**Held**
Mr Andrew Forrest	7	7	*	*	3	4	*	*
Mr Herb Elliott	5	7	*	*	3	4	*	*
Mr Ken Ambrecht	5	7	6	6	4	4	4	4
Mr Mark Barnaba	7	7	6	6	3	3	4	4
Mr Geoff Brayshaw	7	7	6	6	*	*	4	4
Mr Owen Hegarty	7	7	*	*	4	4	*	*
Mr Cao Huiquan	1	1	*	*	*	*	*	*
Dr Geoff Raby	4	6	*	*	*	*	*	*
Mr Graeme Rowley	6	7	3	3	*	*	*	*
Mr Herbert Scruggs	6	6	3	3	2	2	*	*
Mr Russell Scrimshaw	1	1	*	*	*	*	*	*
Mr Ian Cumming	-	1	*	*	-	1	*	*
Dr Ian Burston	1	1	1	2	*	*	*	*
Mr Li Xiaowei	-	6	*	*	*	*	*	*
Mr Neville Power	6	6	*	*	*	*	*	*

** = Not a member of the relevant committee.*

DIRECTORS' REPORT

Principal activities

The principal activity of Fortescue is the mining of iron ore from its Cloudbreak and Christmas Creek mine sites, the operation of an integrated mine, rail and port supply chain and the expansion of iron ore operations. Fortescue also continues an exploration and metallurgical program which is progressively developing tenement areas outside of the current mine sites.

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

Review of operations

Fortescue's growth has allowed a shift in measurement of safety performance to the total recordable injury frequency rate (TRIFR) that aligns its performance against major iron ore producers. In the 12 months to 30 June 2012, Fortescue achieved a 36 per cent reduction in TRIFR from 14.4 to 9.2 through strong emphasis on field leadership and the successful implementation of a Major Hazards and Contractor Management Program. Fortescue believes that by targeting improvements in its safety culture and focusing on the basics, Fortescue will continue to improve its safety performance.

A strong performance across the integrated mine, rail and port supply chain during the 12 months to 30 June 2012 has resulted in record tonnes shipped of 57.5mt (2011: 40.9mt). Importantly, fourth quarter production, together with the integrated supply chain, delivered record quarterly shipments of 17.8mt at an annualised rate of 71.2mt.

Production and shipments for the financial year on a wet metric tonne basis were as follows:

12 Months to 30 June (millions of tonnes)	2012	2011	Movement
Ore mined	**64.6**	44.2	**+46%**
Overburden removed	**276.8**	162.3	**+71%**
Ore processed	**53.9**	40.6	**+40%**
Ore shipped including third party	**57.5**	40.9	**+41%**

Profit after tax for the year to 30 June 2012 increased to US$1,559 million from US$1,019 million in the prior year.

Operating sales revenue increased from US$5,442 million for the year ended 30 June 2011 to US$6,681 million in the year to 30 June 2012 primarily due to the 41 per cent increase in iron ore shipments.

Cost of sales increased by 46 per cent to US$4,015 million for the full year. Higher costs per tonne were driven by an increase in the total material moved (strip ratio), the ramp up to full rates of production at the Christmas Creek mine and the appreciation of the of the Australian dollar against the United States dollar impacting the largely Australian dollar denominated cost of production.

The unsecured loan note was re-estimated during the year primarily to reflect lower forecast iron ore prices resulting in a reduction in the liability of US$156 million at 30 June 2012.

Cash and cash equivalents at 30 June 2012 were US$2,343 million compared to US$2,663 million at 30 June 2011. Net cash inflows from operations increased by US$30 million to US$2,808 million in the year to 30 June 2012 after income tax payments of US$123 million.

Net cash outflow from investing activities in the year to 30 June 2012 was US$5,990 million, an increase of US$4,509 million from the prior year, consistent with Fortescue's 155mtpa expansion program.

Dividends

On 23 August 2012, a fully franked dividend of A$0.04 per share was declared for payment on 2 October 2012.

Expansion program 55mtpa to 155mtpa

Christmas Creek - Phase 2 Expansion

Construction activity progressed well during the period with all major earthworks, foundations and the majority of structural steel completed for the second ore processing facility (OPF), overland conveyer and remote crushing hub. The crushing and screening buildings within the OPF are substantially complete and some early pre-commissioning of equipment is underway.

First ore through the new OPF is scheduled for September 2012, with the ramp up to a combined Christmas Creek total run rate of 50mtpa planned over the quarter to December 2012.

Solomon Hub

First ore through the Firetail OPF is targeted for December 2012 and will align with the completion of the Solomon rail spur that is on schedule for completion by the end of November 2012. First ore through the Kings OPF is targeted for the end of the March 2013 quarter and will align with the commissioning of Fortescue's fourth berth and third inload and outload circuits at Port Hedland.

The bulk earthworks program at Solomon is nearing completion with the final sections of the Firetail conveyor and the stockyard reclaimer pad about to be handed over as construction packages. The Kings to Firetail conveying system is advancing as is the remote crushing hub that will service the Kings plant. In total some 8.5 kilometres of a total of 15 kilometres of conveyor line have been fixed into place. Work on the Kings tailings facility is also advancing strongly with the ore excavated under this construction package being the first material to be processed through the OPF. The stacker and train loading system have been installed in the stockyard and construction of the power station is progressing in line with expectations.

Port

After the successful commissioning and ramp up of the second outload circuit during the year, construction activity is now focussed on the second in-load circuit that is expected to be completed in September 2012. The final phase of the port development, the third inload and outload circuits, is underway and progressing according to schedule.

Rail

The Rail project remains on schedule to deliver the two key components of the works, the duplication works along the existing mainline track and the rail spur to the new Solomon mine. The project is designed to achieve a progressive tonnage throughput toward the target of 155mtpa with infrastructure and rolling stock capacity for a rate of 95mtpa by the end of December 2012 and then 155mtpa by the end of June 2013.

Future Studies (beyond 155mtpa)

While Fortescue has announced plans to consolidate production at 155mtpa before proceeding with new expansion plans, the Company continues to develop expansion options based on its expanding Pilbara wide resource base.

In June 2012, Fortescue announced the merging of two of its magnetite tenement areas North Star and Glacier Valley into a Hong Kong domiciled entity known as FMG Iron Bridge. Both deposits contain over 1.2 billion tonnes of JORC inferred resources respectively and, as adjoining tenements, are located in close proximity to Fortescue's main rail line to Port Hedland. Glacier Valley was previously under a joint venture structure with one of China's largest steel mills Shanghai Baosteel Group. Under the new structure Shanghai Baosteel Group owns a 12 per cent interest in FMG Iron Bridge with Fortescue holding the balance. The merging of these interests facilitates an easier development of these deposits at some later stage should the opportunity arise.

At Nyidinghu, the study team is completing its first stage drilling program and is now evaluating development options. These drilling works should allow for an upgrading of the resource base for inclusion in future reserve studies. The approvals process for Nyidinghu is well progressed and is an important part of having the project "push button" ready. Planning around mining programs and logistics are also under review and this includes both inner and outer harbour opportunities at Port Hedland. Studies continue on Anketell Point consistent with the WA Government's blue print development plan. While Anketell offers interesting opportunities for the development of the Company's western tenements, Fortescue will continue to exhaust the potential within the Port Hedland hub before stepping out to a greenfield development.

MRRT

Since the introduction of the Minerals Resource Rent Tax (MRRT) legislation the Company has undertaken a significant review and valuation of its upstream asset base to determine the extent of its liability. Based on these reviews Fortescue does not expect that it will have any MRRT obligations as a result of the transitional measures which give rise to deductions in future years.

Environmental regulation and performance

The Group is committed to minimising the impact of its operations on the environment. The Board takes seriously the need for continuous monitoring of environmental matters and compliance with environmental regulations.

The Group's exploration, mining, rail and port activities are subject to various environmental regulations under both State and Commonwealth legislation.

The Group has established an Environmental Management System to manage ongoing compliance with its environmental responsibilities. In accordance with that Environmental Management System, the Group identifies its legal obligations and sets environmental objectives and targets. The Group identifies risks of environmental impact from its projects and operations and sets improvement plans for the highest environmental risks. The Group measures its environmental performance against its regulatory requirements and corporate targets. The Group's environmental performance is reported to a hierarchy of management.

As a part of the Environmental Management System, the Group also conducts internal environmental audits to identify and quantify potential risks to the Group and to review compliance with its environmental obligations. The fundamental aim of each audit is to minimise or prevent adverse environmental consequences and to promote a culture of compliance. The Group strives to continually improve its environmental performance by a systematic management of its environmental risks.

During the financial year, certain aspects of the Group's operations were routinely inspected by the Department of Environment and Conservation (DEC) and the Department of Mines and Petroleum (DMP). A number of potential non-compliances have been identified by, and reported to, the DEC relating to works approvals and licences under the *Environmental Protection Act 1986* (WA). The Group is currently working with the DEC to address these matters.

During the financial year, the Group has submitted numerous environmental reports and statements to regulators detailing the Group's environmental performance and level of compliance with relevant instruments. This includes the Group's Annual Environmental Report dated March 2012, which was provided to the DMP, the Office of the Environmental Protection Authority, the DEC and the Department of State Development. The 2011 Annual Environmental Report is available on the Group's website.

Greenhouse gas and energy reporting

The Company complies with the Australian government *National Greenhouse and Energy Reporting Act 2007* (Cth) and the *Energy Efficiency Opportunities Act 2006* (Cth). The Company is committed to proactively managing energy consumption and greenhouse gas emissions wherever practical and is guided by a formal internal policy. The total Scope 1 and Scope 2 greenhouse gas emissions for the most recent reporting period were 1.1 million tonnes of carbon dioxide equivalents.

The Company's greenhouse emissions are almost entirely related to combustion of diesel fuel and, therefore, the Company is not considered a liable entity in the first year of the Clean Energy Legislation carbon scheme. The Company may elect to opt-in to the carbon scheme in 2014 rather than pay the carbon price through reduced diesel rebates. To prepare for such a possibility, the Company is developing a Carbon Acquittal Management Plan and an Implementation Roadmap. A proactive approach to the management of carbon liabilities assists the Company in implementing effective carbon acquittal and investment strategies.

Directors' interests

The relevant interest of each Director in the shares and options issued by the Company as notified by the Directors to the Australian Securities Exchange in accordance with 5205G(1) of the *Corporations Act 2001*, at the date of this report are as follows:

Director	Ordinary shares	Options	Performance rights
A Forrest	1,010,690,915	-	-
H Elliott	2,167,938	-	-
N Power	757,389	-	419,255
K Ambrecht	5,183,030	-	-
M Barnaba	-	-	-
G Brayshaw	52,149	-	-
O Hegarty	40,000	-	-
C Huiquan	-	-	-
G Raby	-	-	-
G Rowley	18,144,951	-	-
H Scruggs	-	-	-

Unissued shares under options

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

Date options granted	Expiry date	Issue price of shares A$	Number under option
11 February 2009	11 February 2014	$2.50	600,000
13 May 2010	13 May 2015	$5.00	7,500,000
3 December 2010	20 September 2015	$5.69	400,000

All options expire on the earlier of their expiry date or termination of the employee's employment. These options were issued pursuant to the Fortescue Metals Group's Incentive Option Scheme (IOS) and have been allotted to individuals on condition that they serve specified time periods as an employee of Fortescue before becoming entitled to exercise the options. In addition, the Directors have imposed further requirement that the exercise price of certain options is conditional upon the performance of Fortescue shares. These options do not entitle the holder to participate in any share issue of the Company or any other body corporate.

Directors and officers indemnities and insurance

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

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 the Fortescue Group, 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 Fortescue Group. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities. Conditions of the policy also preclude disclosure to third parties of the amount paid for the policy.

Non-audit services

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor has relevant expertise and experience and where the auditor's independence is not compromised.

Details of the amounts paid or payable to the auditor BDO Audit (WA) Pty Limited and related entities 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 advice received from the Audit and Risk Management 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 and Risk Management Committee to ensure they do not impact the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

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

	2012 US$'000	2011 US$'000
Audit services		
BDO Audit (WA) Pty Limited		
Audit and other assurance services		
Audit and review	523	470
Other assurance services	-	155
Other services		
Agreed upon procedures	180	217
Total remuneration of BDO Audit (WA) Pty Limited	**703**	**842**
Other audit firms		
Audit and other assurance services		
Audit of financial statements	299	73
Total auditors' remuneration	**1,002**	**915**

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

Mr Andrew Forrest
Chairman

Dated at Perth this 23rd day of August 2012.

REMUNERATION REPORT

The Directors of Fortescue Metals Group Limited (the Company or Fortescue) are pleased to present the Remuneration Report for year ended 30 June 2012. We have made some slight changes to our report from last year, to better outline our reward strategy. This report forms part of the Directors' Report and has been audited in accordance with section 308 (3c) of the *Corporations Act 2001*.

The report is outlined in the following sections:

(a) Who this report covers
(b) Key changes to remuneration in 2012 and proposed changes for 2013
(c) Governance of our remuneration
(d) Executive remuneration strategy
(e) Executive remuneration structure
(f) How Fortescue performed over the past five years
(g) Securities trading policy
(h) Executive contract terms
(i) Detailed remuneration for Executives
(j) Non-Executive Director remuneration

Whilst the functional and reporting currency of Fortescue is in United States dollars, it is the Directors' view that presentation of the information in Australian dollars provides a more accurate and fair reflection of the remuneration practices of Fortescue, as all Directors, Executives and employees are remunerated in Australian dollars.

REMUNERATION REPORT

(a) Who this report covers

This report outlines the remuneration arrangements for Fortescue's Key Management Personnel (KMP).

KMP have authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any Director (Executive or otherwise) of that entity.

Non-Executive Directors	
Mr Andrew Forrest	Chairman (appointed 18 July 2011)
Mr Herb Elliott	Deputy Chairman*
Mr Graeme Rowley	Non-Executive Director
Mr Russell Scrimshaw	Non-Executive Director (retired 26 August 2011)
Mr Ken Ambrecht	Non-Executive Director
Mr Geoff Brayshaw	Non-Executive Director
Mr Owen Hegarty	Non-Executive Director
Mr Mark Barnaba	Non-Executive Director
Dr Geoff Raby	Non-Executive Director (appointed 18 August 2011)
Mr Herbert (Bud) Scruggs	Non-Executive Director (appointed 26 August 2011)
Mr Cao Huiquan	Non-Executive Director (appointed 27 February 2012)
Mr Li Xiaowei	Non-Executive Director (resigned 27 February 2012)
Dr Ian Burston	Non-Executive Director (retired 18 August 2011)

Executive Directors	
Mr Neville Power	Chief Executive Officer (appointed as a Director on 1 September 2011)

Executives	
Mr Stephen Pearce	Chief Financial Officer
Mr Jamie Frankcombe	Director Operations (appointed 16 January 2012)
Mr Peter Meurs	Director Developments
Mr Paul Hallam	Director Operations (retired 4 September 2011)

** Mr Elliott retired as Chairman of the Board on 18 July 2011 and as Chairman of the Remuneration and Nomination Committee on 18 August 2011. Mr Elliott remains on the Board as Deputy Chairman and Lead Independent Director.*

There were no changes to KMP after the reporting date.

49

(b) Key changes to remuneration in 2012 and proposed changes for 2013

Fortescue's remuneration strategy seeks to build a performance orientated culture by attracting and retaining the best possible people to align with driving increased shareholder value.

Fortescue's Board and Remuneration and Nomination Committee (R&NC) are committed to continuing to review and refine the remuneration strategy to ensure it meets the changing needs of the organisation, maintain market competitiveness, and align to shareholder interests.

This year, to further enhance the remuneration strategy, the following changes were made:

Change made	Rationale
Replaced adjusted NPAT budget performance measure in the Executive & Senior Staff Incentive Plan (ESSIP) with relative TSR performance	• To improve alignment with shareholder outcomes
Established clawback policy for ESSIP awards	• To improve alignment with shareholder outcomes. Provides the Board with the ability to review incentives if circumstances arose such as the fraud, dishonesty or breach of obligations (including, without limitation, a material misstatement of financial information) of any person
Proposed changes for 2013	**Rationale**
Introduction of a long term incentive plan (LTI) delivering rights to Fortescue shares that vest subject to three-year absolute return on equity performance (ROE). Participants' ESSIP opportunity will be reduced by 25 per cent to be granted as LTI and subject to the AROE performance measure over a three year period. Clawback policy will be extended to cover the LTI.	• To enhance the longer-term strategic alignment of remuneration with shareholder return and interests, including by increasing share ownership by Executives. • ROE is a critical measure of Fortescue's performance and supplements the TSR focus of our ESSIP to ensure that Executives have a more holistic focus on and are incentivised by shareholder returns on both a short-term and long-term basis. • As a result of the introduction of the LTI plan, the overall remuneration mix will be rebalanced with a 25 per cent reduction in ESSIP opportunity and potential LTI upside, based on performance, of up to 4 times the value of the ESSIP reduction. • For details of the plan, see section (d) of this report.

These changes were made by the R&NC mindful that effectiveness of the remuneration structure should be reviewed on a regular basis, and that it is important to consider on an ongoing basis, opportunities to improve alignment to the strategy and shareholder interests.

In addition, the Chairman approved loans to be taken by a limited number of KMP to purchase shares in the Company. These loans were guaranteed by the Chairman, subject to certain service conditions imposed on the relevant KMP. The purpose was to provide an immediate opportunity for individuals critical to Fortescue's long-term performance to be incentivised by and remunerated through increased direct share ownership (reinforcing alignment with shareholder interests), and further enhance Fortescue's ability to retain these individuals over the long term. Mr Peter Meurs opted into this program. More information about the program is provided in the section (i) of this report.

(c) Governance of our remuneration

At Fortescue, we believe that robust governance is critical to underpinning the effectiveness of our remuneration strategy.

The Remuneration and Nomination Committee (R&NC) operates under a Board-approved charter. This includes responsibility for Executive remuneration policy and practices such as remuneration levels and incentive plans. It also includes recruitment, retention, performance management, succession planning and termination policies and managing Board nomination, including determining candidate criteria and addressing skills and experience requirements for Board position vacancies.

A copy of the charter is available under the Corporate Governance section of the Fortescue website.

The R&NC in 2012 consisted solely of Non-Executive Directors. The Chief Executive Officer and others may be invited to attend meetings by the Committee Chairman as required, but have no vote on matters before the Committee.

The process and accountabilities in determining remuneration are shown below:

Remuneration consultants
May be engaged directly by the Board or Remuneration and Nomination Committee to provide advice or information relating to KMP that is free from influence of management.

Board of Directors
Responsible for:

- Approving the remuneration of non-executive directors and the CEO; and
- Ensuring remuneration practices are competitive and align with the attraction and retention policies of the Company.

Remuneration and Nomination Committee
Advises the Board on:

- Remuneration policies and practices;
- Non-executive director remuneration; and
- Executive remuneration.

Human Resources Management
Responsible for:

- Implementation of remuneration policies and practices;
- Advising the Remuneration and Nomination Committee of changing statutory market conditions;
- Provides relevant information to the Remuneration and Nomination Committee to assist with decisions.

Remuneration consultants
Will be engaged directly by management other than in respect of KMPs to provide advice and market data to ensure Fortescue's remuneration position remains competitive.

(c) Governance of our remuneration (continued)

During the year, Egan Associates, as remuneration consultants to the R&NC, provided a remuneration recommendation as defined in the *Corporations Act 2001*. During financial year 2012, Egan Associates only provided advice and services as listed below:

- Input and review on the 2011 Remuneration Report;
- Review of Non-Executive Director emoluments; and
- Review of the ESSIP structure in relation to the introduction of a Long-Term Incentive Plan.

The total amount spent on the items above was A$53,970 (ex GST).

Egan Associates did not provide any other services to Fortescue during the year.

The following arrangements were made to ensure that the advice was free of undue influence by members of the KMP:

- Egan Associates were engaged by the Chairman of the R&NC of the Board;
- Fortescue Management were not involved in the formulation of any remuneration recommendations, but provided factual information to assist Egan Associates; and
- Egan Associates provided the remuneration recommendation only to the Chairman of the R&NC.

As a consequence, the Board and R&NC are satisfied that the advice provided was free from undue influence and Egan Associates have provided a statement to this effect.

(d) Executive remuneration strategy

Fortescue's reward strategy seeks to build a performance orientated culture that supports achievement of our strategic vision and to attract, retain and motivate its employees by providing market competitive fixed remuneration and incentives.

The reward strategy seeks to support Fortescue's extraordinary growth and progression as one of the world's leading producers of iron ore. The reward strategy supports the Company's continued focus on growth strategies through:

- being well positioned to deliver fair and market competitive rewards;
- supporting a clear performance focus; and
- alignment to the long-term goals of the organisation.

Fortescue is committed to providing competitive remuneration packages to our Employees. Fortescue benchmark our remuneration mix against major indices such as ASX 100 Resources and also seek input from independent remuneration consultants regarding Executive remuneration. The overall intent is to attract and retain our people, key Executives and Senior employees who can deliver on current and secure the long term strategic direction of the Company.

How remuneration practices align with our reward strategy

Remuneration strategy principle	Purpose	Practice
High levels of share ownership	Drive alignment of employee and shareholder interests	A minimum of 50 per cent of the ESSIP is paid in shares and Executives have the option to elect receive up to 100 per cent in shares
Market competitive remuneration	Attract and retain key talent and be competitive against relevant companies	Remuneration is benchmarked against the ASX 100 Resources Index
Performance focus	Provide fair reward in line with individual and company achievements	ESSIP awards are linked to company performance (50 per cent) and personal performance (50 per cent)
Fit for purpose	Include flexibility to reflect clear linkage to business strategy	Business strategy is prioritised; market practice is only one input in determining the relevant framework.
Strategic alignment	Support delivery of long-term business strategy and growth aspirations	ESSIP is measured on financial and non-financial performance to support sustainable growth
Shareholder and Executive alignment	Introduction of an LTI in 2013 will focus on sustained performance over a three year period	A significant portion of Executive remuneration delivered in performance rights subject to long-term performance hurdles

(e) Executive remuneration structure

Executive remuneration has a fixed component and a variable 'at risk' component, the payment of which is dependent on the achievement of Company performance and growth targets and individual objectives.

The key components of the Executive remuneration structure for the 2012 financial year comprised:

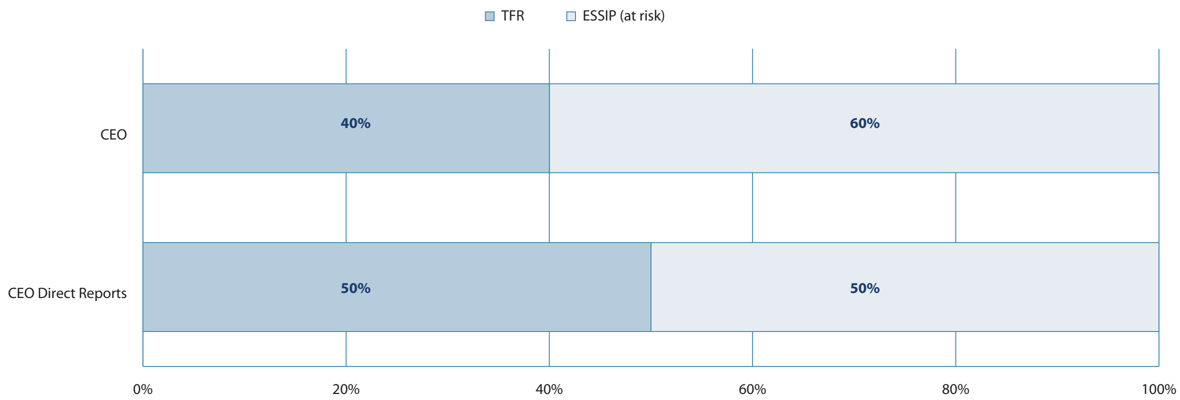
- Total Fixed Remuneration (TFR); and
- Executive and Senior Staff Incentive Plan

Remuneration may also include participation in the Salary Sacrifice Share Plan (SSSP).

Total remuneration comprising each of these components is benchmarked against the market taking into account the Company's position as the world's fourth largest iron ore producer and explorer and its ranking in the top twenty listed Australian companies. Remuneration is benchmarked against the ASX 100 Resources Index, with total remuneration targeted at the third quartile. Total reward opportunities are intended to provide Executives the opportunity to earn 75th percentile rewards for outstanding performance against the stretch targets set. Information provided by Egan Associates reveals that current total remuneration levels are generally consistent with this policy.

Remuneration mix

The table below demonstrates the remuneration mix, assuming maximum ESSIP opportunity has been achieved, for Fortescue's Executives for the year ending 30 June 2012:



** note: the diagram above represents the remuneration mix for CEO and CEO direct reports in 2012 and does not take into consideration options granted to Mr Peter Meurs at the start of his employment or his voluntary participation in the Executive Loan Plan.*

(e) Executive remuneration structure (continued)

Key components of Executive remuneration

Total Fixed Remuneration

TFR is made up of base salary, cash allowances (such as site-based or location allowances), employee benefits and superannuation. The level of TFR is based on the Executive's responsibilities, experience and qualifications.

Executive & Senior Staff Incentive Plan

The purpose of the ESSIP is to incentivise and reward key Fortescue Executives for achieving Company and individual performance objectives that drive shareholder value.

An Executive's ESSIP potential award is linked 50 per cent to Company objectives, and 50 per cent to individual performance. This ensures that remuneration varies and is scaled in line with the Company's performance during the Plan Year.

A maximum incentive opportunity is established at the beginning of the year for each Executive. The incentive is delivered as a minimum of 50 per cent in ordinary shares, and a maximum of 50 per cent in cash. The plan allows participants to elect to receive up to 100 per cent of the incentive in shares. The maximum incentive opportunity for KMP in 2012 is shown below:

Chief Executive Officer	150 per cent of TFR*	1 participant
CEO Direct Reports	100 per cent of TFR*	3 participants

** Note that the maximum possible value of awards under the ESSIP will be determined by the number of objectives achieved and the value of the Fortescue shares at time of granting.*

Individuals who leave during the year (i.e. before 30 June) are not eligible to receive an ESSIP award, unless by specific R&NC approval. On such approval, the ESSIP is pro-rated based on service during the period, and made at the usual payment date, which is around September of each year, post release of audited and approved full year results. Individuals who commence during the year similarly will have awards under the ESSIP pro-rated based on service during the performance period.

ESSIP performance objectives

ESSIP awards are made based on an assessment of Company and individual performance. Company performance comprises company annual and company growth performance, and is designed to provide both a short and long-term perspective on performance, and protect the long-term interests of the shareholder by ensuring efficient processing of reserves mined and that financials objectives are met.

The performance objectives in 2012 are shown below:

Company Annual Performance		**Weighting (per cent)**
Production	Target tonnes shipped	10
Safety	Target percentage reduction (15 per cent) in Total Recordable Injury Frequency Rate (TRIFR)[1]	10
Cost	Target cost per tonne shipped	10
Company Growth Performance		
Physical	Target percentage of reserves mined is converted (after processing losses) to product, inclusive of quality measurement (e.g. grade expectations and real mined tonnage)	10
Financial	Achieve Relative TSR > 50th percentile benchmarked against ASX100 Resources index. 50% payment @ 50th percentile progressing to 100% at 75th percentile.	10
Individual Performance		
	4 objectives based on the business plan at 12.5 per cent each	50

[1] The safety measure changed from Classified Injury Frequency Rate (CIFR) to Total Recordable Injury Frequency Rate (TRIFR) in 2012, this in line with increasing maturity within the organisation and a desire to move to an industry standard measure.

(e) Executive remuneration structure (continued)

Of the performance objectives listed above, Cost per tonne shipped and Relative TSR would be considered "financial" and tonnes shipped, Safety and target percentage of reserves mined would be considered "non-financial" objectives.

The CEO's Personal Objectives for the reporting period related to :

- Specific deliverables for the T155 Expansion Project;
- Funding options for future growth opportunities;
- Specific projects related to operating costs; and
- Strengthening and maintaining Fortescue's differentiating culture.

At the time of writing the Board was yet to approve the results of objectives set under the 2012 ESSIP. The results will therefore be disclosed in the 2013 remuneration report.

Payment of ESSIP awards are made in September after the release of the Company's audited results and with final approval from the Board. Amounts reflected in this report are therefore estimated based on the performance of Fortescue and the individual KMP performance for ESSIP awards which relate to 2012.

How the ESSIP works: an example

The ESSIP is designed so that participants are generally rewarded the same result as a Fortescue investor over the financial year.

Example:

Executive A has an incentive opportunity of A$100,000. The value of the share component of this incentive opportunity is A$50,000.

At the beginning of the year, the share component is divided by the volume weighted average price (VWAP) of Fortescue shares over the first five trading days of the year (eg in July 2011). In July 2011, the relevant VWAP was A$6.44. This results in an award of 7,764 shares at the end of the year to Executive A provided the performance conditions are met.

Executive A may elect to receive up to 100% of the incentive opportunity in shares.

Historical ESSIP performance

The Company has experienced share price growth above the ASX 100 Resources Index peers. However, with a highly rigorous annual incentive program and the challenging hurdles set by the Board, the conditions for incentive awards have not been fully met in a number of years.

Accordingly, senior management, including KMPs, have not fully received their incentive in the majority of the last five years.

The table below outlines the actual results of the 2011 ESSIP against the targets that were set:

Company Annual Performance		**Weighting (per cent)**	**Outcome (per cent)**
Production	Target tonnes shipped	10	0
Safety	30 per cent reduction in Classified Injury Frequency Rate (CIFR)^	10	10
Cost	Target cost per tonne shipped	10	0
Company Growth Performance			
Physical	80 per cent of reserves mined are converted (after processing losses) to product.	10	10
Financial	Achieve 110 per cent of adjusted NPAT budget*	10	0
Individual Performance			
	4 objectives based on the business plan at 12.5 per cent each	50	avg 43.5

^ CIFR includes fatalities, lost time injuries and restricted work injuries

* Where budget has been adjusted for the actual USD/AUD exchange rate (average over the year) and the actual CFR equivalent dmtu price achieved by Fortescue on sales of each product. Actuals adjusted to include removal of the revaluation of the Leucadia note and other abnormals.

55

REMUNERATION REPORT

(e) Executive remuneration structure (continued)

ESSIP performance in 2012

Performance rights granted under the ESSIP at the beginning of 2012 are shown below. All the performance rights issued convert to ordinary shares if all the ESSIP objectives are met. The third column illustrates the number of rights which will likely convert to ordinary shares for performance in 2012 (based on a current estimate of performance):

Executive	Performance Rights Issued	Performance Rights to Convert to shares for 2012 ESSIP performance (Estimated)
Mr Neville Power	419,255	245,390
Mr Stephen Pearce	81,522	53,316
Mr Peter Meurs	114,131	53,242
Mr Jamie Frankcombe	37,076	23,321

The table below details the maximum ESSIP cash and share awards against the estimated outcome for the 2012 year. The share components are based on the share weighting election of each Executive:

2012 A$	TFR	Maximum ESSIP opportunity (per cent of TFR)	Weighting in shares (per cent)	Service pro-rata (if applicable)	Maximum ESSIP Cash opportunity	Maximum ESSIP Shares opportunity	Estimated likely ESSIP outcome (per cent)	Estimated ESSIP Cash award	Estimated ESSIP Shares award[1]
Executive Directors									
Mr N Power	1,800,000	150	100	-	-	2,700,000	58.53	-	1,214,679
Key Management Personnel									
Mr S Pearce	1,050,000	100	50	-	525,000	525,000	65.40	343,350	263,910
Mr J Frankcombe	1,050,000	100	50	0.45	238,767	238,767	62.90	150,185	115,437
Mr P Meurs	1,050,000	100	70	-	315,000	735,000	46.65	146,948	263,547

[1] ESSIP estimated share value for 2012 Plan Year is the value of the participant's elected weighting in shares (minimum 50 per cent of the total estimated award) divided by the VWAP of Fortescue shares for the first five trading days of the Plan year (A$6.44) multiplied by the five day VWAP of Fortescue shares for the first 5 days of FY2013 (A$4.95)

Clawback Policy

During the year the Company implemented a Clawback Policy. Clawback will be initiated where in the opinion of the Board:

1) an Award, which would not have otherwise vested, vests or may vest as a result directly or indirectly of:
   a) the fraud, dishonesty or breach of obligations (including, without limitation, a material misstatement of financial information) of any person; or
   b) any other action or omission (whether intentional or inadvertent) of any person, the Board may make a determination to ensure that no unfair benefit is obtained by any Participant; or
2) an Award, which may otherwise have vested, has not vested as a result directly or indirectly of any circumstance referred to in paragraphs (1)(a) or (b) above, the Board may reconsider the level of satisfaction of the applicable Conditions and reinstate and vest any Award that may have lapsed to the extent that the Board determines appropriate in the circumstances.

Proposed changes for 2013

As stated above, the Board determined that a new LTI plan will be introduced in 2013. The purpose of the LTI is to reinforce the criticality of ROE as Fortescue progresses from a multi-project focus to one of the largest producers of iron ore in the world. The Board believes that the introduction of the LTI at this time will continue to support the retention and motivation of our KMP, increase the long-term focus of the incentive schemes and reinforce alignment with shareholder interests.

Due to the introduction of the LTI plan, there will be an associated reduction in maximum ESSIP opportunity. The maximum ESSIP opportunities will be reduced by 25 per cent (see the ESSIP section above for details on maximum opportunities).

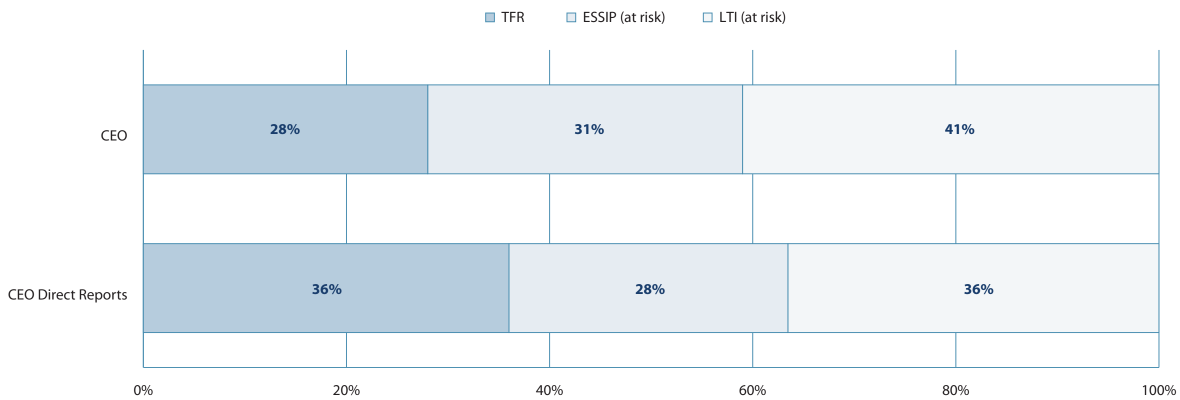
The LTI plan allows for significant upside reflecting the stretch performance targets incorporated in the ROE measurement. A participant will be awarded performance rights based on an amount equal to the 25 per cent reduction in ESSIP (base award). These rights will convert to shares at the end of the three year vesting period if 15 per

(e) Executive remuneration structure (continued)

cent per annum average ROE is achieved, increasing (on a linear scale) to a maximum of 4 times the base award when an average ROE of 30 per cent per annum or more is achieved. The average ROE over three years will be measured as the sum of ROE for years 1, 2 and 3 divided by 3. Average ROE of less than 15 per cent per annum will see no award.

The Clawback Policy will also apply to this plan.

The table below demonstrates the revised new target remuneration mix, which is reflective of the introduction of LTI and reduction in ESSIP opportunity, for KMP for the year ending 30 June 2013:



** note: the table above represents the target remuneration mix for CEO and CEO direct reports in 2013 and does not take into consideration options granted to Mr Peter Meurs at the start of his employment or his voluntary participation in the Executive Loan Plan.*

The above table clearly illustrates the significantly increased 'at-risk' components of the new remuneration structure compared to the corresponding 2012 structure. The new structure serves to reinforce the pay-for-performance alignment desired by shareholders and their representatives / advisers.

Salary Sacrifice Share Plan

Executives may nominate an amount (up to A$5,000 per annum) of pre-tax salary to acquire ordinary shares under the SSSP. Provided ordinary shares are kept in the SSSP, income tax on the acquisition of these ordinary shares can be deferred by the Executive for up to seven years. Disposal restrictions apply while the shares remain in the SSSP.

(f) How Fortescue performed over the past five years

Fortescue continues to build on its performance over the past five years, showing strong growth in revenue and net profit to deliver shareholder wealth.

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

In 2012, Fortescue's share price was impacted by volatility in global capital and commodity markets, decreasing from the 2011 closing price of A$6.35 to A$4.90 at the end of 2012. The share price reduction of 22.8 per cent compares with the ASX100 Resources (Share Price) index which fell 29.8 per cent over the same period.

	2012	2011	2010	2009	2008
Revenue from iron ore operations - US$millon	6,681	5,442	3,220	1,831	139
Net profit/(loss) - US$million	1,559	1,022	581	508	(772)
A$ dividends paid	0.08	0.03	-	-	-
A$ change in share price	(1.45)	2.23	0.43	(8.11)*	8.52*
per cent change in share price	(23)	54	12	(68)	252

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

(g) Securities trading policy

Fortescue's Securities Trading Policy provides clear guidance on how Company Securities may be dealt with.

The Securities Trading Policy details acceptable and unacceptable periods for trading in Company Securities including detailing potential civil and criminal penalties for misuse of confidential information.

Fortescue's Security Trading Policy provides guidance on acceptable transactions in dealing in the Company's various securities, including shares, debt notes and options.

The policy also sets out a specific governance approach for how the Chairman and Directors can deal in Company Securities.

The Company's Security Trading Policy can be accessed from the Corporate Governance section of the Fortescue website.

(h) Executive contract terms

Remuneration and other terms of employment for Executives are formalised in a service agreement.

The major terms of the agreements relating to remuneration are set out in the table below:

Position	Executive	TFR* (A$)	Maximum ESSIP opportunity (per cent of TFR)	Termination clause
Chief Executive Officer	Mr Neville Power[1]	1,800,000	150	Three months written notice (or three months TFR in lieu)
Chief Financial Officer	Mr Stephen Pearce	1,050,000	100	Three months written notice (or three months TFR in lieu)
Director Development	Mr Peter Meurs	1,050,000	100	Three months written notice (or three months TFR in lieu)
Director Operations	Mr Jamie Frankcombe	1,050,000	100	Three months written notice (or three months TFR in lieu)

** Total Fixed Remuneration as of 30 June 2012. Reviewed annually by the R&NC.*

[1]Mr Power assumed the role of Chief Executive Officer effective 18 July 2011. Prior to this Mr Power held the position of Chief Operating Officer.

All Executives are required to provide written notice of three months. Should Executives not provide sufficient notice they will forfeit the monetary equivalent (calculated based on TFR) of any shortfall in the notice period.

If an Executive resigns and leaves the Company prior to 30 June in any year, the Executive will forfeit all entitlement to any payment under the ESSIP. If an Executive retires, is made redundant or leaves the Company's employ as a result of a negotiated termination, the R&NC Committee at its sole discretion may elect to make a pro-rata ESSIP payment based on service up to the termination date.

If the Executive resigns and leaves the Company prior to 30 June in the year of vesting under the LTI, the Executive will forfeit all entitlement to any award under the LTI. If an Executive retires, is made redundant or leaves the Company's employ as a result of a negotiated termination prior to 30 June in the year of vesting under the LTI, the R&NC committee at its sole discretion may elect to make a pro-rata LTIP award based on service up to the termination date.

Termination benefits for KMP comply with the limits set by the *Corporations Act 2001* that do not require shareholder approval.

(i) Detailed remuneration for Executives

Executive Remuneration for year ending 30 June 2012

2012	Short-term employee benefits			Post Employment Benefits	End of service	Share-based payments			Total
	Cash Salary & fees	[1]ESSIP cash value for 2012 plan year	Non-monetary benefits	Super-annuation	Accrued leave entitlements	[2]ESSIP share value for 2012 plan year ahead	Options[3]	Other share-based payments[4]	Total
	$AUD	$AUD	$AUD	$AUD	$AUD	$AUD	$AUD	$AUD	$AUD
Executive Directors									
Mr A Forrest[5]	130,216	-	17,677	17,784	-	-	-	-	165,677
Mr N Power[6]	1,755,442	-	7,000	37,558	-	1,214,679	-	-	3,014,679
Key Management Personnel									
Mr S Pearce	1,020,083	343,350	7,000	25,000	-	263,910	-	-	1,659,343
Mr P Hallam[7]	170,903	-	1,224	2,749	15,049		(91,930)[8]	-	97,995
Mr J Frankcombe[9]	461,977	150,185	-	22,917	-	115,437	-	-	750,515
Mr P Meurs	999,250	146,948	7,000	47,917	-	263,547	5,833,968	853,272	8,151,902

[1] *ESSIP cash value is a minimum of 50 per cent of the estimated award.*

[2] *ESSIP estimated share value for 2012 Plan Year is the value of the participant's elected weighting in shares (minimum 50 per cent of the total estimated award) divided by the VWAP of Fortescue shares for the first five trading days of the Plan year (A$6.44) multiplied by the five day VWAP of Fortescue shares for the first 5 days of FY2013 (A$4.95).*

[3] *The fair value of options is determined at grant date using either a binomial or trinomial lattice option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the effect of additional market conditions, the expected dividend yield and the risk free interest rate for the term of the option.*

[4] *Other share based payments relate to a loan provided to Mr Meurs to purchase Fortescue shares under an approved arrangement. The fair value at grant date was determined using a Monte Carlo simulation model, which takes into account the following inputs: the life of the instruments, the price of the underlying share, the expected volatility of the underlying share price, the dividends expected on the underlying share, the risk-free interest rate for the life of the instruments, the loan value per share, the interest, fees and charges on the loan and the terms of the margin call.*

[5] *Mr Forrest commenced as Chairman on 18 July 2011, ceasing to be an Executive Director at this time. The amounts above include the full year earnings as CEO and Chairman. Non-monetary benefits include occasional private use of the Company aircraft taking into account the individual's contribution towards usage.*

[6] *Mr Power commenced as Chief Executive Officer on 18 July 2011, prior to this he held the position of Chief Operating Officer. The amounts above include the full year earnings as CEO and COO.*

[7] *Mr Hallam retired on 4 September 2011.*

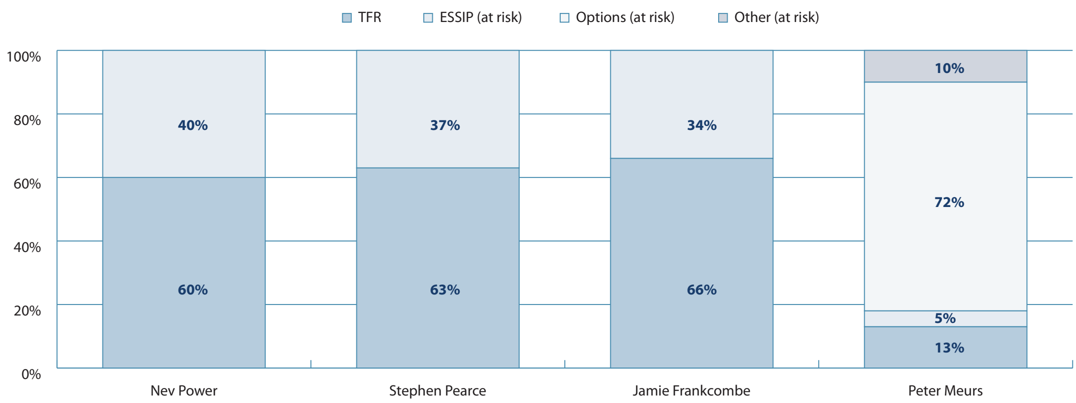
[8] *Mr Hallam forfeited 300,000 options on retirement.*

[9] *Mr Frankcombe commenced on 16 January 2012.*

REMUNERATION REPORT

(i) Detailed remuneration for Executives (continued)

The graph below represents the actual remuneration mix for KMP in 2012:



Note: the ESSIP component represents the estimated cash and share value for 2012 Plan Year with the latter based on the participant's elected weighting in shares (minimum 50 per cent of the total estimated award) divided by the VWAP of Fortescue shares for the first five trading days of the Plan year (A$6.44) multiplied by the five day VWAP of Fortescue shares for the first 5 days of FY2013 (A$4.95).

The movement in the Fortescue share price over 2012 is the reason the above actual remuneration mix is different to the target remuneration mix for the year.

Peter Meurs' options award above represents the vesting of 2,187,500 options in 2012.

The "other" component represents the valuation of a guaranteed loan provided to Mr Meurs during 2012.

Executive Remuneration for year ending 30 June 2011

2011	Short-term employee benefits			Post employment benefits	End of service	Share-based payments		Total
	Cash salary and fees	[1]ESSIP cash value for 2011 plan year	Non-monetary benefits	Super-annuation	Accrued leave entitlements	[2]ESSIP share value for 2011 plan year ahead	Options[3]	Total
	$AUD	$AUD	$AUD	$AUD	$AUD	$AUD	$AUD	$AUD
Executive Directors								
Mr A Forrest[4]	100,000	52,388	167,638	10,000	-	78,068	-	408,094
Mr R Scrimshaw	948,833	271,875	-	50,000	236,236	405,147	241,399	2,153,490
Key Management Personnel								
Mr N Power[5]	647,855	101,343	2,602	64,785	-	151,021	-	967,606
Mr S Pearce	968,000	350,000	7,000	25,000	-	521,569	-	1,871,569
Mr P Hallam	947,167	318,750	7,000	50,000	-	475,000	241,399	2,039,316
Mr J Frankcombe	-	-	-	-	-	-	-	-
Mr P Meurs	950,000	350,000	3,649	50,000		521,569	5,818,028	7,693,246
Mr W Ramsey[6]	408,739	-	5,269	41,825	17,743	1,570,703	-	2,044,279

[1] ESSIP cash value is 50 per cent of the actual award.

[2] ESSIP share value for 2011 Plan Year is 50 per cent of the actual total award divided by the VWAP of Fortescue shares for the first five trading days of the Plan year (A$4.08) multiplied by the five day VWAP of Fortescue shares inclusive of the day the shares were granted on 18 August 2011 (A$6.08).

[3] The fair value of options is determined at grant date using either a binomial or trinomial lattice option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the effect of additional market conditions, the expected dividend yield and the risk free interest rate for the term of the option.

[4] Non-monetary benefits include occasional private use of the Company aircraft taking into account the individual's contribution towards usage.

[5] Mr Power was appointed on 14 February 2011.

[6] Mr Ramsey was not entitled to participate in the 2011 ESSIP due to his resignation on 1 April 2011. The amount reported in ESSIP share value relates to a project completion incentive made to Mr Ramsey in May 2011.

(i) Detailed remuneration for Executives (continued)

Note: ESSIP awards disclosed in our 2011 remuneration report were based on our estimate of the performance of the Company and individual performance at the end of 2011. The Board and R&NC made an assessment of the ESSIP following the disclosure, and determined in some cases that the achievement of individual performance was lower than the estimate. As such some individuals received remuneration lower than the disclosed amounts in the 2011 remuneration report.

Share-based remuneration

Options over equity instruments granted as remuneration

During the year, the Board of Fortescue Metals Group Limited consented to The Metal Group Pty Ltd, an entity controlled by the Chairman, to enter into an arrangement to provide financial assistance to allow certain Senior Executives of Fortescue to purchase the Company's shares on market. The arrangement was effected through a number of separate transactions and appropriate disclosures made via lodgement of an Appendix 3Y as required by the ASX Listing Rules.

The arrangement constitutes a share-based payment transaction and has been measured with reference to the fair value of the benefit received by the Executives and is recognised as an expense on a straight-line basis over a four-year vesting period, in line with the service conditions. The fair value was determined at grant date using Monte-Carlo simulation model. Total share-based payment expense in relation to the arrangement for the financial year ended 30 June 2012 was A$925,453 (2011: nil).

The purpose was to provide an opportunity for a limited number of senior individuals critical to Fortescue's performance to be incentivised and remunerated through increased direct share ownership (reinforcing alignment with shareholder interests), and further enhance Fortescue's ability to retain these individuals over the long term.

Legacy Incentive Option Scheme (IOS)

Details of options over ordinary shares in the Company that were granted under the legacy Incentive Option Scheme (IOS) as remuneration to KMP are set out below. The plan has now been discontinued; however some grants still remain on foot and continue to vest.

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

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

The terms and conditions of each grant of options affecting KMP remuneration in the current or future reporting periods are set out below.

The IOS provided eligible employees with options subject to share price performance and time conditions determined by the Board. These awards were typically targeted at KMP at the time of appointment, or to retain selected individuals critical to the Company's development. The options typically vested in 3 tranches over a 36 month period.

When exercisable, each option is convertible into one ordinary share of Fortescue Metals Group Limited.

	Number of options granted		Number of options vested	
Name	**2012**	**2011**	**2012**	**2011**
Directors of Fortescue Metals Group Limited				
Mr R Scrimshaw[1]	-	-	-	150,000
Other key management personnel of the Company				
Mr P Hallam[2]	-	-	-	150,000
Mr P Meurs	-	-	2,187,500	2,187,500

[1] Mr Scrimshaw resigned as Non-Executive Director on 27 August 2011.

[2] Mr Hallam retired on 4 September 2011.

The options were provided at no cost to the recipients. All options expire on the earlier of their expiry date or termination of the individual's employment. Once performance hurdles (share price performance and time conditions) are met, the options are exercisable evenly on an annual basis over the four years from grant date.

The assessed fair value of options at grant date will be granted to individuals equally over the grant to vesting date period. The amount is included in the remuneration tables above. The fair values at grant date are determined using the trinomial lattice or binomial option pricing models that take into account the exercise price, the term of the option, the impact of dilution, the share price at grant date, expected price volatility of the underlying share, the effect of additional market conditions, the expected dividend yield and the risk free interest rate for the term of the option.

REMUNERATION REPORT

(i) Detailed remuneration for Executives (continued)

There were no amendments to the terms and conditions of options awarded as remuneration since their award date.

Exercise of options granted as remuneration

Details of ordinary shares in the Company provided as a result of the exercise of options to KMP is shown below:

Name	Date of exercise of options	Number of ordinary shares issued on exercise of options during the year	Amount paid per share A$
Directors of Fortescue Metals Group Limited			
Mr R Scrimshaw[1]	1 September 2011	300,000	2.50
Other key management personnel of the Company			
Mr P Hallam[2]	16 September 2011	150,000	2.50

[1] Mr Scrimshaw resigned as Non-Executive Director on 27 August 2011, options exercised during the year had vested prior to his resignation.

[2] Mr Hallam retired on 4 September 201, options exercised during the year had vested prior to his retirement.

Additional information - details of remuneration - 2012 cash incentives and options

For each cash incentive and grant of options included in the table on page 59, the percentage of the available incentive or grant that was paid, or that vested, in the financial year, and the percentage that was forfeited (for failure to meet service or performance criteria) is set out below.

The incentives relating to the 2012 ESSIP will be paid in the 2013 financial year.

Name	A Remuneration consisting of options per cent	B Granted in year A$	C Value of options exercised in year A$	D Lapsed in year A$
Directors of Fortescue Metals Group Limited				
Mr R Scrimshaw[1]	-	-	1,095,000	91,930
Other key management personnel of the Company				
Mr P Hallam[2]	-	-	538,500	91,930
Mr P Meurs	72	-	-	-

[1] Mr Scrimshaw resigned as Non-Executive Director on 27 August 2011.

[2] Mr Hallam retired on 4 September 2011.

A = The percentage of the value of remuneration consisting of options, based on the value of options expensed during the current year.

B = The value at the grant date calculated in accordance with AASB 2 Share-based Payments.

C = The value at exercise date of options that were granted as part of remuneration and were exercised during the year, being the intrinsic value of the options at that date.

D = The value at lapse date of options that were granted as part of remuneration and that lapsed during the year because a vesting condition was not satisfied. The value is determined at the time of lapsing, but assuming the condition was satisfied.

(j) Non-Executive Director remuneration

Non-Executive Directors fees are not 'at-risk', to reflect the nature of their responsibilities.

Non-Executive Directors receive fees for both Board and Committee membership. The maximum aggregate remuneration payable to non-Executive directors is A$2.0 million, which was approved by shareholders at the Annual General Meeting (AGM) on 19 November 2010. There have been no changes to the aggregate fee pool over the last 12 months. The Board will not seek any increase to this fee pool at the 2012 AGM. The current fees (inclusive of superannuation) are outlined in the table below:

(j) Non-Executive Director remuneration (continued)

Position	Fee (A$)
Board Chairman *	120,000
Board Deputy Chairman	210,000
Non-Executive Director	140,000
Audit and Risk Management Committee Chairman	40,000
Audit and Risk Management Committee Member	15,000
Remuneration and Nomination Committee	15,000
Remuneration and Nomination Committee Member	7,500
China Advisory Board Member	60,000
Finance Sub-Committee Member	6,000

**The Board Chairman has elected to receive an annual fee significantly below market and other Fortescue Director norms.*

As confirmed by Egan Associates, in aggregate, each individual Non-Executive Directors' total fees are below the market median for Non-Executive Directors of similarly sized companies (e.g. companies ranked on the ASX50 or ASX100 Resources).

2012 A$	Base fees	Committee Chairman fees	Committee fees	Other benefits	Superannuation	Total
Mr H Elliott	170,919	1,344	4,545	-	17,681	194,489
Mr G Rowley	115,152	-	5,972	-	12,112	133,236
Mr G Brayshaw	115,152	21,212	1,818	-	13,818	152,000
Mr K Ambrecht	126,667	-	16,167	-	-	142,834
Dr I Burston[1]	15,918	-	663	-	-	16,581
Mr O Hegarty	115,152	-	5,303	-	12,045	132,500
Mr Li Xiaowei[2]	80,000	-	-	-	-	80,000
Mr Cao Huiquan[3]	46,667	-	-	-	-	46,667
Dr G Raby[4]	111,269	-	52,301	-	-	163,570
Mr H Scruggs[5]	108,639	-	10,639	-	-	119,278
Mr M Barnaba	115,152	9,090	9,737	-	13,398	147,377
Mr R Scrimshaw[6]	19,349	-	-	(91,930)[7]	2,017	(70,564)

[1] Dr Burston retired on 18 August 2011.
[2] Mr Li resigned on 27 February 2012.
[3] Mr Cao commenced on 27 February 2012. Fees represent those owed to Mr Cao, as payment is yet to be processed.
[4] Dr Raby commenced on 18 August 2011.
[5] Mr Scruggs commenced on 26 August 2011.
[6] Mr Scrimshaw retired on 26 August 2011.
[7] Mr Scrimshaw forfeited 300,000 options on retirement. These options were issued whilst he was an Executive Director.

2011 A$	Base fees	Committee Chairman fees	Committee fees	Other benefits	Superannuation	Total
Mr H Elliott	226,894	9,091	4,545	-	24,053	264,583
Mr G Rowley	109,091	-	-	-	10,909	120,000
Mr G Brayshaw	109,091	13,636	3,636	-	12,637	139,000
Mr K Ambrecht	120,000	-	14,000	-	-	134,000
Dr I Burston	120,000	-	5,000	-	-	125,000
Mr O Hegarty	109,091	-	4,545	-	11,364	125,000
Mr Li Xiaowei	120,000	-	-	-	-	120,000
Mr M Barnaba	109,091	-	4,015	-	11,309	124,415
Mr I Cumming[1]	60,000	-	2,500	-	-	62,500

[1] Mr Cumming resigned from the Board on 1 September 2011. He repaid all Director fees for the 9 months from September 2010 to June 2011 (A$104,167) during which he was unable to serve. He also repaid fees for the period 1 July 2011 to 30 August 2011.

DIRECTORS' REPORT

Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on the next page.

Rounding of amounts

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

Auditor

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

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

Mr Andrew Forrest
Chairman

Dated at Perth this 23rd day of August 2012.

AUDITOR'S INDEPENDENCE DECLARATION

Tel: +8 6382 4600
Fax: +8 6382 4601
www.bdo.com.au

38 Station Street
Subiaco, WA 6008
PO Box 700 West Perth WA 6872
Australia

23 August 2012

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

Dear Sirs,

DECLARATION OF INDEPENDENCE BY BRAD MCVEIGH TO THE DIRECTORS OF FORTESCUE METALS GROUP LIMITED

As lead auditor of Fortescue Metals Group Limited for the year ended 30 June 2012, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

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

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

Brad McVeigh
Director

BDO Audit (WA) Pty Ltd
Perth, Western Australia

FINANCIAL STATEMENTS

Contents

STATEMENT OF COMPREHENSIVE INCOME

	Notes	2012 US$m	2011 US$m
Operating sales revenue	4	6,681	5,442
Cost of sales	6	(4,015)	(2,758)
Gross profit		**2,666**	**2,684**
Other income	5	50	47
Administration expenses	6	(104)	(97)
Operating profit		**2,612**	**2,634**
Re-estimation of unsecured loan notes	16	156	(93)
Net finance expenses	6	(505)	(429)
Net foreign exchange loss	6	-	(61)
Refinancing costs	6	-	(719)
Profit before income tax		**2,263**	**1,332**
Income tax expense	7(a)	(704)	(313)
Profit for the year after income tax		**1,559**	**1,019**

	Notes	2012 US$m	2011 US$m
Profit for the year after income tax		**1,559**	**1,019**
Other comprehensive income			
Gains on cash flow hedges taken to equity	21	109	15
Gains transferred to the initial carrying amount of hedged items	21	(87)	(12)
Other comprehensive income for the year, net of tax		**22**	**3**
Total comprehensive income for the year after income tax		**1,581**	**1,022**
Earnings per share for profit attributable to the ordinary equity holders of the Company:		**Cents**	Cents
Basic earnings per share	32	**50.07**	32.86
Diluted earnings per share	32	**50.06**	32.83

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

BALANCE SHEET

	Notes	2012 US$m	2011 US$m
Assets			
Current assets			
Cash and cash equivalents	8	2,343	2,663
Trade and other receivables	9	588	401
Inventories	10	617	417
Other current assets	11	102	15
Total current assets		**3,650**	**3,496**
Non-current assets			
Trade and other receivables	9	37	17
Property, plant and equipment	12	2,898	1,671
Exploration, evaluation and development expenditure	13	8,459	3,422
Intangible assets	14	19	21
Total non-current assets		**11,413**	**5,131**
Total assets		**15,063**	**8,627**
Liabilities			
Current liabilities			
Trade and other payables	15	1,303	813
Borrowings and other financial liabilities	16	283	214
Current tax payable	18	551	91
Total current liabilities		**2,137**	**1,118**
Non-current liabilities			
Trade and other payables	15	211	185
Borrowings and other financial liabilities	16	8,218	4,658
Provisions	17	514	132
Deferred tax liabilities	19	221	100
Total non-current liabilities		**9,164**	**5,075**
Total liabilities		**11,301**	**6,193**
Net assets		**3,762**	**2,434**
Equity			
Contributed equity	20(b)	1,293	1,295
Reserves	21	41	13
Retained earnings		2,428	1,126
Total equity		**3,762**	**2,434**

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

STATEMENT OF CASH FLOWS

	Notes	2012 US$m	2011 US$m
Cash flows from operating activities			
Cash receipts from customers		6,625	5,405
Payments to suppliers and employees		(3,694)	(2,627)
Income tax paid		(123)	-
Net cash inflow from operating activities	**34**	**2,808**	**2,778**
Cash flows from investing activities			
Exploration, evaluation and development expenditure		(6,044)	(1,477)
Payments of deposits and guarantees		(70)	(36)
Proceeds from disposal of plant and equipment		71	10
Interest received		53	22
Net cash outflow from investing activities		**(5,990)**	**(1,481)**
Cash flows from financing activities			
Proceeds from the issue of share capital		-	2
Proceeds from borrowings and finance lease liabilities		3,661	3,450
Repayment of borrowings and finance lease liabilities		(15)	(2,677)
Funding facilities establishment fees		(23)	(12)
Interest and finance costs paid		(584)	(464)
Settlement of derivative held at fair value		-	(12)
Net movement in customer deposits		5	(118)
Dividends paid		(251)	(96)
Net cash inflow from financing activities		**2,793**	**73**
Net (decrease)/increase in cash and cash equivalents		**(389)**	**1,370**
Cash and cash equivalents at the beginning of the financial year		2,663	1,236
Effects of exchange rate changes on cash and cash equivalents		69	57
Cash and cash equivalents at the end of the financial year	**8**	**2,343**	**2,663**

The above statement of cash flows should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY

	Contributed equity US$m	Reserves US$m	Retained earnings US$m	Total equity US$m
Balance at 1 July 2010	**1,275**	**(74)**	**280**	**1,481**
Total comprehensive income for the year	-	3	1,019	1,022
Transactions with owners in their capacity as owners:				
Issue of share capital	18	-	-	18
Transfer resulting from change in tax functional currency	-	77	(77)	-
Exercise of options	2	(1)	-	1
Equity settled share-based payments transactions	-	8	-	8
Dividends paid	-	-	(96)	(96)
Balance at 30 June 2011	**1,295**	**13**	**1,126**	**2,434**
Balance at 1 July 2011	**1,295**	**13**	**1,126**	**2,434**
Total comprehensive income for the year	-	22	1,559	1,581
Transactions with owners in their capacity as owners:				
Issue of share capital	1	-	-	1
Purchase of shares under employee share plans	(14)	-	-	(14)
Employee share awards exercised net of employee contributions	11	-	-	11
Forfeited options	-	(1)	-	(1)
Equity settled share-based payment transactions	-	7	-	7
Dividends paid	-	-	(257)	(257)
Balance at 30 June 2012	**1,293**	**41**	**2,428**	**3,762**

Amounts are stated net of taxation. Refer to note 20 for the description of movements in contributed equity and note 21 for the description of the reserves.

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

NOTES TO THE FINANCIAL STATEMENTS

Contents of the notes to the financial statements

NOTES TO THE FINANCIAL STATEMENTS

1. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. These financial statements cover the consolidated group consisting of Fortescue Metals Group Limited (the Company) and its subsidiaries, together referred to as Fortescue or the Group.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board (AASB), including Australian Interpretations, and the *Corporations Act 2001*.

(i) Compliance with IFRS

The consolidated financial statements of the Group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

(ii) Historical cost convention

These financial statements have been prepared under the historical cost convention, except for financial instruments and available-for-sale investments, which have been measured at fair value.

(iii) Functional and presentation currency

The financial statements are presented in United States dollars, unless otherwise stated, which is the Group 's functional and presentation currency.

(iv) Critical accounting estimates

The preparation of financial statements requires management to use certain critical accounting estimates and to exercise their judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

(v) Rounding of amounts

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

(b) Principles of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company. Control is achieved when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

The financial statements of subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. All intercompany balances and transactions, including unrealised profits and losses arising from intra-group transactions, have been eliminated in full.

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

(c) Joint ventures

The Group undertakes a number of business activities through joint ventures. Joint ventures are established through contractual arrangements that require the unanimous consent of each of the venturers regarding the strategic financial and operating policies of the venture (joint control).

When a Group entity undertakes its activities under joint venture arrangements directly, the Group's share of jointly controlled assets and liabilities incurred jointly with other venturers are recognised in the financial statements of the relevant entity and classified according to their nature. Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on an accruals basis. Income from the sale or use of the Group's share of the output of jointly controlled assets, and its share of joint venture expenses, are recognised when it is probable that the economic benefits associated with the transactions will flow to or from the Group and the amount can be measured reliably. All such amounts are measured in accordance with the terms of each agreement, which is usually in proportion to the Group's interest in the jointly controlled assets.

The transactions, balances and unrealised gains on transactions between the Group and joint ventures are eliminated to the extent of the Group's ownership interest.

(d) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer.

(e) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of Fortescue's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). For the purpose of the consolidated financial statements, the results and the financial position of each Group entity are expressed in United States dollars.

(ii) Transactions and balances

Transactions in foreign currencies have been converted at rates of exchange ruling at the date of those transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the year end translation of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when they are deferred in other comprehensive income as qualifying cash flow hedges. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

(iii) Foreign operations

The results and financial position of foreign operations that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing foreign exchange rate at the date of the balance sheet;
- income and expense items are translated at the average exchange rates for the periods presented (unless exchange rates fluctuated significantly during the period, in which case the exchange rates at the dates of the transactions are used); and
- all resulting exchange differences are recognised in other comprehensive income and accumulated in equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings designated as hedges of the investment, are recognised in other comprehensive income. Should a foreign operation be sold or any borrowings forming part of the net investment be repaid, a proportionate share of the exchange difference is reclassified to profit or loss, as part of the gain or loss on sale where applicable.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

(f) Revenue recognition

Revenue is measured at the fair value of the gross consideration received or receivable. Fortescue recognises revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the entity.

(i) Sale of goods

Revenue from the sale of goods is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, indicating that there has been a transfer of risks and rewards of ownership to the customer, no further work or processing is required by the Group, the quantity and quality of the goods has been determined with reasonable accuracy, the price can be reasonably estimated and collectability is reasonably assured.

Fortescue recognises revenue from the sale of iron ore when the risks and rewards of ownership transfers to the buyer which is typically the bill of lading date. The majority of Fortescue's executed sales agreements allow for an adjustment to sales revenue based on an inspection of the product by the customer. Additionally, the sales price is determined on a provisional basis and adjustments to the sales price may subsequently occur depending on movements in quoted market or contractual iron ore prices to the date of final pricing. The date of final pricing is typically when a notice of readiness is received when the vessel has arrived at its final destination.

Revenue is recognised based on the estimated fair value of the total consideration receivable. The fair value of the final consideration is re-estimated on an ongoing basis and any changes in the fair value are recognised as an adjustment to revenue.

1. Summary of significant accounting policies (continued)

(ii) Services revenue

Revenue from the provision of services is recognised in the accounting period in which the services are rendered.

(iii) Interest income

Interest income is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income is accrued using the effective interest rate method.

(g) Income tax

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

The current income tax charge is calculated on the basis of the taxation laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which the applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the taxation authorities.

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

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

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

Deferred tax assets and liabilities are not recognised for temporary differences between the carrying amounts and tax bases of investments in foreign operations where the Group is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not be reversed in the foreseeable future.

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

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

Fortescue has implemented the tax consolidation legislation as of 1 July 2002 and is therefore taxed as a single entity from that date.

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

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

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

All the entities in the tax consolidated group have entered into a valid and current tax sharing agreement which, in the opinion of the Directors, limits the joint and several liability of the wholly-owned entities in the case of an income tax obligation default by the head entity.

(h) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions and other short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(i) Trade receivables

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

Collectability of trade receivables is reviewed on a monthly basis. When there is objective evidence that Fortescue will not be able to collect all amounts due according to the original terms of the receivables, an allowance for impairment of trade receivables is raised. Total receivables which are known to be uncollectible are written off by reducing the carrying amount directly. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial re-organisation and default or delinquency in payments are considered indicators that the trade receivable may not be collected. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment allowance is recognised in profit and loss within other administration expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other administration expenses.

(j) Inventories

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost for raw materials and stores is determined as the purchase price. For partly processed and saleable iron ore, cost is based on the weighted average cost method and includes:

- labour costs, materials and contractor expenses which are directly attributable to the extraction and processing of ore;
- production overheads, including attributable mining and manufacturing overheads; and
- transportation expenditure in bringing such inventories to their existing location and condition, together with an appropriate portion of fixed and variable overhead expenditure.

Iron ore stockpiles represent ore that has been extracted and is available for further processing or sale. If there is significant uncertainty as to when the stockpiled ore will be processed it is expensed as incurred. Quantities are assessed primarily through internal and third party surveys.

(k) Financial assets

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

(i) Loans and receivables

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

(ii) Financial assets through profit or loss

This category comprises only derivative financial instruments. They are carried in the balance sheet at fair value with changes in fair value recognised in profit or loss.

(l) Financial liabilities

(i) Trade payables

Trade and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group has an obligation to make future payments in respect of the purchase of these goods and services.

75

1. Summary of significant accounting policies (continued)

(ii) Borrowings

Borrowings are initially recognised at fair value of the consideration received, less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised.

(iii) Finance lease liabilities

The Group has finance lease liabilities in relation to certain items of property, plant and equipment. Finance lease liabilities are initially recognised at the fair value of the underlying assets or, if lower, the estimated present value of the minimum lease payments. Each lease payment is allocated between the liability and finance cost and the finance cost is charged to profit and loss over the lease period to reflect a constant periodic rate of interest on the remaining balance of the liability for each period.

(m) Derivatives and hedge accounting

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as hedges of foreign exchange risk associated with the cash flows of highly probable forecast transactions.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is immediately recognised in profit or loss within other income or other expense.

When the forecast transaction that is being hedged results in the recognition of a non-financial asset, the gains and losses previously deferred in other comprehensive income are transferred from equity and adjust the cost of the asset.

When a hedging instrument expires, is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to profit or loss.

(n) Property, plant and equipment

(i) Recognition and measurement

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

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

Cost may also include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Borrowing costs related to the acquisition or construction of qualifying assets are capitalised.

Assets under construction are recognised in exploration, evaluation and development expenditure. Upon commissioning, which is the date when the asset is in the location and condition necessary for it to be capable of operating in the manner intended by management, the assets are transferred into property, plant and equipment or development assets, as appropriate.

(ii) Subsequent costs

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with these subsequent costs will flow to Fortescue and the cost of the item can be measured reliably. Ongoing repairs and maintenance are recognised as an expense in profit and loss during the financial period in which they are incurred.

(iii) Depreciation

Depreciation on assets, other than land which is not depreciated, is calculated using the straight-line method or units of production method, net of residual values, over estimated useful lives. Depreciation commences on the date of commissioning. Assets acquired under finance leases are depreciated over the shorter of the individual asset's useful life and the lease term.

1. Summary of significant accounting policies (continued)

Gains and losses arising on disposal of property, plant and equipment are recognised in profit or loss and determined by comparing proceeds from the sale of the assets to their carrying amount.

Straight-line method

Where the useful life is not linked to the quantities of iron ore produced, assets are generally depreciated on a straight-line basis over the estimated useful lives of the assets as follows:

• Buildings	20 - 40 years
• Machinery	3 - 25 years
• Motor vehicles	3 - 5 years
• Furniture, fittings and equipment	3 - 8 years
• Leased plant and equipment	5 - 15 years

The estimated useful lives, residual values and depreciation method are reviewed on a regular basis with the effect of any changes in estimate accounted for on a prospective basis.

Units of production method

Where the useful life of an asset is directly linked to the extraction of iron ore from a mine, the asset is depreciated using the units of production method. The units of production method is an amortised charge proportional to the depletion of the estimated proven and probable reserves at the mine.

(o) Leases

Leases of assets where Fortescue, as lessee, has substantially all the risks and rewards of ownership, are classified as finance leases. Assets acquired under finance leases are capitalised at the lower of the fair value of the underlying assets or the present value of the future minimum lease payments. The corresponding finance lease liability is classified as borrowings.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to Fortescue as lessee are classified as operating leases. Payments made under operating leases are recognised as an expense in profit and loss on a straight-line basis over the period of the lease.

(p) Exploration, evaluation and development expenditure

Exploration and evaluation activities involve the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource. Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest.

Exploration and evaluation expenditure is capitalised and carried forward to the extent that:

- rights to tenure of the identifiable area of interest are current; and
- at least one of the following conditions is also met:
  - (i) the expenditure is expected to be recouped through the successful development of the identifiable area of interest, or alternatively, by its sale; or
  - (ii) where activities in the identifiable area of interest have not at the reporting date reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and activities in, or in relation to, the area of interest.

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

Exploration and evaluation assets are reviewed at each reporting date for indicators of impairment and tested for impairment where such indicators exist. If the test indicates that the carrying value might not be recoverable the asset is written down to its recoverable amount. Any such impairment arising is recognised in profit and loss for the year.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in previous years.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified from exploration and evaluation expenditure to development expenditure.

1. Summary of significant accounting policies (continued)

Development expenditure includes capitalised exploration and evaluation costs, pre-production development costs, development studies and other expenditure pertaining to that area of interest. Costs related to surface plant and equipment and any associated land and buildings are accounted for as property, plant and equipment.

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

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

Amortisation of development costs capitalised is charged on a unit of production basis over the life of economically recoverable reserves at the mine.

(q) Development stripping

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

Development stripping costs are considered in combination with other assets of an operation for the purpose of undertaking impairment assessments.

(r) Impairment of non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The Group conducts an internal review of asset values bi-annually, which is used as a source of information to assess for any indications of impairment. External factors, such as changes in expected future prices, costs and other market factors are also monitored to assess for indications of impairment. If any such indication exists, an estimate of the asset's recoverable amount is calculated, being the higher of fair value less direct costs to sell and the asset's value in use. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. Fair value for mineral assets is generally determined using independent market assumptions to calculate the present value of the estimated future cash flows expected to arise from the continued use of the asset, including any expansion prospects, and its eventual disposal. These cash flows are discounted using an appropriate discount rate to arrive at a net present value of the asset.

Value in use is determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset in its present form and its eventual disposal, discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. Value in use is determined by applying assumptions specific to the Group's continued use and does not take into account future development.

In testing for indications of impairment and performing impairment calculations, assets are considered as collective groups and referred to as cash generating units. Cash generating units are the smallest identifiable groups of assets and liabilities that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Impaired assets are reviewed for possible reversal of the impairment at each reporting date.

(s) Intangible assets

Costs incurred in developing products or systems and costs incurred in acquiring software and licenses that will contribute to future period financial benefits through revenue generation or cost reduction are capitalised as software.

Costs capitalised include external direct costs of materials and consultants services, direct payroll and payroll related costs of employees' time spent on the project.

1. Summary of significant accounting policies (continued)

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

Intangible assets are amortised on a straight-line basis over periods generally ranging from 3 to 5 years.

(t) Finance costs

Finance costs comprise interest expense, except where they are incurred for the construction of a qualifying asset, unwinding of the discount on provisions and impairment losses recognised on financial assets.

Interest expense and other borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

(u) Rehabilitation provision

Provisions are recognised when Fortescue has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

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

Rehabilitation provisions are initially measured at the expected value of future cash flows required to rehabilitate the relevant site, discounted to their present value. The judgements and estimates applied for the estimation of the rehabilitation provisions are discussed in note 2.

When provisions for closure and rehabilitation are initially recognised, the corresponding cost is capitalised into the cost of the related asset, representing part of the cost of acquiring the future economic benefits of the operation. The capitalised cost of closure and rehabilitation activities is recognised within development expenditure and amortised based on the units of production method over the life of the mine. The value of the provision is progressively increased over time as the effect of discounting unwinds, creating an expense recognised in the financial statements.

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

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

(v) Employee benefits

(i) Wages and salaries and annual leave

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

(ii) Long service leave

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

NOTES TO THE FINANCIAL STATEMENTS

1. Summary of significant accounting policies (continued)

The liability for long service leave for which settlement within 12 months of the reporting date cannot be deferred is recognised in the current provision for employee benefits. The liability for long service leave for which settlement can be deferred beyond 12 months from the reporting date is recognised in the non-current provision for employee benefits.

(w) Share-based payments

Share-based remuneration benefits are primarily provided to employees via the Fortescue Metals Group Incentive Option Scheme (FMGIOS) and Performance Rights Plan (PRP). Information relating to these schemes is set out in note 33.

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

The fair value at grant date is independently determined using either a binomial or trinomial lattice option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the effect of additional market conditions, the expected dividend yield and the risk free interest rate for the term of the option.

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

(x) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing profit for the year after income tax attributable to the ordinary shareholders by the weighted average number of ordinary shares on issue during the financial year.

(ii) Diluted earnings per share

Diluted earnings per share is calculated by dividing profit for the year after income tax attributable to the ordinary shareholders by the weighted average number of ordinary shares on issue during the financial year, after adjusting for the effects of all potential dilutive ordinary shares that were outstanding during the financial year.

(y) Goods and Services Tax (GST)

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

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

(z) New accounting standards and interpretations

(i) New and amended standards adopted by the Group

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 July 2011:

- From 1 July 2011 the Group has applied amendments to AASB 101 *Presentation of Financial Statements* outlined in AASB 2010-4 *Further amendments to Australian Accounting Standards arising from Annual Improvements Project*, revised AASB 124 *Related Party Disclosures* and AASB 2011-1 *Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence project*.

The changes to accounting policies arising from the adoption of the above standards and amendments only relates to disclosures and had no impact on consolidated earnings per share or profit after income tax. The changes have been applied retrospectively and allow the Group to disclose transactions recognised in other comprehensive income in note 21 to the consolidated statements, disclosure of additional related party transactions and removal of certain disclosures in relation to commitments and the franking of dividends.

The adoption of these standards did not have any impact on the current period or any prior period and is not likely to affect future periods.

1. Summary of significant accounting policies (continued)

(ii) New accounting standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2012 reporting periods. These standards and interpretations have not been early adopted and Fortescue is continuing to assess their impact.

- AASB 9 *Financial Instruments* and AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9* and AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9* (effective for annual reporting periods beginning on or after 1 January 2015). AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities.
- AASB 10 *Consolidated Financial Statements* (effective for the annual reporting periods commencing on or after 1 January 2013). AASB 10 introduces certain changes to the consolidation principles, including the concept of de facto control and changes in relation to the special purpose entities.
- AASB 11 *Joint Arrangements* (effective for the annual reporting periods commencing on or after 1 January 2013). AASB 11 changes the classification and accounting for joint arrangements based on the specified rights and obligations of the agreement.
- AASB 12 *Disclosure of Interests in Other Entities* and AASB 128 *Investments in Associates and Joint Ventures* and AASB 2011-7 *Amendments to Austrailan Accounting Standards arising from the Consolidation and Joint Venture Arrangements Standards* (effective 1 January 2013). AASB 12 sets out the required disclosures for entities reporting under AASB 10 and AASB 11.
- AASB 13 *Fair Value Measurement* (effective for annual reporting periods commencing on or after 1 January 2013). AASB 13 establishes a single framework for measuring fair value of financial and non-financial items recognised at fair value.
- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* (effective for the annual reporting periods commencing on or after 1 January 2013). Upon adoption of IFRIC 20 costs of waste removal activities during the production phase of mining operations may be capitalised if they result in improved access to the ore body. These costs are currently being expensed by Fortescue.

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

(aa) Comparatives

Where applicable, certain comparatives have been adjusted to conform with current year presentation.

2. Critical accounting estimates and judgements

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

Fortescue has identified the following critical accounting policies where significant judgements and estimates are made by management in the preparation of these financial statements.

(i) Income taxes

The Group is subject to income taxes in Australia and jurisdictions where it has foreign operations. Significant judgement is required in determining the provisions for income taxes. There are certain transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination may be subject to change. Fortescue estimates its tax liabilities based on the Group's understanding of the tax law. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Fortescue recognises deferred tax assets relating to carried forward tax losses to the extent they can be utilised. The utilisation of the tax losses depends on the ability of the entities to generate sufficient future taxable profits.

2. Critical accounting estimates and judgements (continued)

The introduction of the Minerals Resource Rent Tax (MRRT) requires the Company to determine a market value, at 1 May 2010, of its upstream assets, including mining rights, to the point of delivery of ore to the processing facilities. This market value was determined using a discounted cash flow methodology that requires significant judgements and estimates including:

- forecast production profiles of the Cloudbreak, Christmas Creek and Solomon areas;
- forecast future iron ore prices determined with reference to independent resource sector analysts;
- the calculation of appropriate discount rates for each mining project;
- expected royalty rates payable to the West Australian state government; and
- the reserves estimates for the Cloudbreak, Christmas Creek and Solomon areas.

(ii) Iron ore reserve estimates

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

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

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

(iii) Exploration and evaluation expenditure

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

(iv) Development expenditure

Development activities commence after commercial viability and technical feasibility of the project is established. Judgement is applied by management in determining when a project is commercially viable and technically feasible. In exercising this judgement, management is required to make certain estimates and assumptions as to the future events. If, after having commenced the development activity, a judgement is made that a development asset is impaired, the relevant capitalised amount will be written off to profit and loss.

(v) Property, plant and equipment – recoverable amount

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

(vi) Rehabilitation

Fortescue's accounting policy for the recognition of rehabilitation provisions requires significant estimates including the magnitude of possible works required for the removal of infrastructure and of rehabilitation works. These uncertainties may result in future actual expenditure differing from the amounts currently provided.

2. Critical accounting estimates and judgements (continued)

(vii) Unsecured loan note

The carrying amount of the unsecured loan note is subject to re-estimation at each reporting date in line with changes in management estimates and assumptions, prevailing market conditions and economic forecasts, including:

- forecast production profile from Cloudbreak and Christmas Creek area of interest;
- forecast future iron ore prices determined by independent resource sector analysts of future iron ore prices;
- the discount rate, determined using an implicit interest rate of 42 per cent and applied since inception of the loan note;
- expected royalty rates payable to the Western Australian state government; and
- the reserve estimate of Cloudbreak and Christmas Creek area.

3. Segment information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer.

The internal reporting is provided to the chief operating decision maker on a consolidated basis.

No operating segments have been aggregated to form the above consolidated information.

(a) Geographical information

Fortescue operates predominantly in the geographical location of Australia, and this is the location of the vast majority of the Group's assets. In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers.

	2012 US$m	2011 US$m
Revenues from external customers		
China	6,479	5,270
Other	202	172
	6,681	**5,442**

(b) Major customer information

Revenue from one customer amounted to US$1,022 million (2011: US$387 million), arising from the sale of iron ore and related shipment of the product.

4. Operating sales revenue

	2012 US$m	2011 US$m
Sale of iron ore	6,489	5,377
Sale of third party product	192	65
	6,681	**5,442**

5. Other income

	2012 US$m	2011 US$m
Third party port access	32	17
Provision of services	3	16
Other income	15	14
	50	**47**

6. Expenses

	2012 US$m	2011 US$m
Cost of sales		
Mining costs	2,202	1,384
Rail costs	139	128
Port costs	125	97
Operating leases	145	134
Shipping costs	672	509
Government royalty	366	290
Depreciation and amortisation	267	177
Other operating expenses	99	39
	4,015	**2,758**
Depreciation and amortisation expense		
Depreciation of property, plant and equipment	172	115
Amortisation of development expenditure	90	51
Amortisation of intangible assets	4	4
Impairment	1	7
	267	**177**
Administration expenses		
Wages and salaries, including superannuation	32	36
Share-based payment expense	7	6
Legal and consultants fees	22	22
Corporate office costs	23	19
Other administration expenses	20	14
	104	**97**
Net finance expenses		
Finance costs		
Interest expense on borrowings	716	483
Finance lease interest	15	4
Unwinding of discount on site rehabilitation provision	5	4
Interest capitalised	(196)	(43)
Other	25	6
	565	**454**
Finance income		
Interest income	60	25
Net finance expenses	**505**	**429**
Net foreign exchange loss		
Foreign exchange (gains) / losses on debt denominated in foreign currencies	(24)	79
Net foreign exchange losses / (gains) on other monetary items	133	(3)
Foreign exchange gains on cash flow hedges taken to equity	(109)	(15)
	-	**61**
Refinancing costs		
Premium on buyback of senior secured notes	-	668
Bridging facility fees and interest	-	31
Redemption of borrowings above amortised cost	-	20
	-	**719**

(i) Interest has been capitalised at the rate of interest applicable to specific borrowings that finance assets under construction, net of interest income from temporary investments on these borrowings. For the year ended 30 June 2012, the capitalisation rate was 6.45 per cent (2011: 5.68 per cent).

(ii) Total employee benefits expense, included in cost of sales and administration expenses is US$492 million (2011: US$438 million).

7. Income tax expense

(a) Income tax expense

	2012 US$m	2011 US$m
Current tax	583	91
Deferred tax	121	222
	704	**313**

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

Profit before income tax	2,263	1,332
Tax at the Australian tax rate of 30.0 per cent (2011: 30.0 per cent)	679	400
Tax effect of amounts which are deductible / taxable		
Net tax outcome of internal restructure	16	-
Share-based payments	4	-
Research and development	(9)	(5)
Adjustments in respect of income tax expense of prior periods	13	(4)
Foreign exchange variations and other translation adjustments	1	(80)
Utilisation of previously unrecognised tax losses	-	2
Income tax expense	**704**	**313**

(c) Tax consolidation legislation

Fortescue Metals Group Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. The accounting policy in relation to this legislation is set out in note 1(g).

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

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

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

(d) MRRT

On 19 March 2012, the Australian Government passed through the Senate, the Minerals Resource Rent Tax Act 2012, with application to certain profits arising from the extraction of iron ore and coal in Australia. MRRT is considered to be income tax for Australian accounting purposes, is imposed on a project-by-project basis to upstream operations only and is applied from 1 July 2012. The effective tax rate is 22.5 per cent.

Certain transitional measures are contained in the MRRT legislation which can give rise to deductions in future years.

Based on comprehensive modeling and valuations work performed by the Group, an increase in the balance of deferred taxes of US$3,505 million has been calculated but not recognised for the purposes of the year ended 30 June 2012.

85

8. Cash and cash equivalents

	2012 US$m	2011 US$m
Cash at bank	129	428
Short-term deposits	2,214	2,235
	2,343	**2,663**

Cash and cash equivalents do not have any restrictions by contractual or legal arrangements (2011: nil).

9. Trade and other receivables

	2012 US$m	2011 US$m
Trade debtors	262	195
GST receivables	104	35
Security deposits	186	137
Other receivables	36	34
Total current receivables	**588**	**401**
Amounts held pending arbitration of shipping contracts	-	2
Employee housing loans	7	3
Other receivables	30	12
Total non-current receivables	**37**	**17**

Information about Fortescue and its exposure to foreign currency risk, interest rate risk and price risk are disclosed in note 22. The carrying value of the receivables approximates their fair value.

Disclosures relating to receivables from related parties are set out in note 28.

As at 30 June 2012, trade receivables of US$6 million (2011: US$45 million) were past due but not impaired. These relate to a number of customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2012 US$m	2011 US$m
Less than 30 days	2	37
Between 30 and 60 days	-	4
Greater than 60 days	4	4
	6	**45**

Receivables that are classified as past due are those that have not been settled within the normal terms and conditions that have been agreed with the customer. None of the receivables past due in the above table are impaired.

The other classes within trade and other receivables do not contain impaired assets and are not past due. Based on the credit history of these other classes, it is expected that these amounts will be received when due.

10. Inventories

	2012 US$m	2011 US$m
Raw materials and stores - at cost	147	87
Iron ore stockpiles - at cost	470	330
	617	**417**

Inventories expensed through cost of sales during the year ended 30 June 2012 amounted to US$2,611 million (2011: US$1,743 million).

11. Other current assets

	2012 US$m	2011 US$m
Prepayments	90	6
Joint venture cash and cash equivalents	10	8
Other	2	1
	102	**15**

12. Property, plant and equipment

	Property, plant and equipment US$m	Land and buildings US$m	Total US$m
30 June 2011			
Opening net book value	1,276	88	1,364
Transfers of assets at cost	168	24	192
Additions	242	-	242
Disposals	-	(12)	(12)
Depreciation	(111)	(4)	(115)
Closing net book value	**1,575**	**96**	**1,671**
At 30 June 2011			
Cost	1,791	107	1,898
Accumulated depreciation	(216)	(11)	(227)
Net book value	**1,575**	**96**	**1,671**
30 June 2012			
Opening net book value	1,575	96	1,671
Transfers of assets at cost	1,377	55	1,432
Additions	16	-	16
Disposals	(31)	(18)	(49)
Depreciation	(166)	(6)	(172)
Closing net book value	**2,771**	**127**	**2,898**
At 30 June 2012			
Cost	3,146	143	3,289
Accumulated depreciation	(375)	(16)	(391)
Net book value	**2,771**	**127**	**2,898**

Transfers of assets at cost comprise transfers between the categories of property, plant and equipment, intangible assets and exploration, evaluation and development expenditure.

Property, plant and equipment includes assets held under finance leases of US$278 million (2011: US$201 million). The details of the finance leases under which these assets are held are disclosed in note 16.

13. Exploration, evaluation and development expenditure

(a) Exploration, evaluation and development expenditure

	Exploration and evaluation US$m	Assets under development US$m	Development US$m	Total US$m
30 June 2011				
Opening net book value	29	747	1,313	2,089
Transfers of assets at cost	-	(220)	18	(202)
Additions	113	1,351	96	1,560
Capitalised interest	-	43	-	43
Foreign exchange movements taken to reserves	-	(17)	-	(17)
Depreciation and amortisation	-	-	(51)	(51)
Closing net book value	**142**	**1,904**	**1,376**	**3,422**
30 June 2012				
Opening net book value	142	1,904	1,376	3,422
Transfers of assets at cost	(19)	(1,987)	572	(1,434)
Additions	158	5,904	391	6,453
Capitalised interest	-	196	-	196
Foreign exchange movements taken to reserves	-	(87)	-	(87)
Depreciation and amortisation	-	-	(90)	(90)
Write-off of relinquished exploration tenements	(1)	-	-	(1)
Closing net book value	**280**	**5,930**	**2,249**	**8,459**

Interest capitalised is calculated as effective interest expense on specific borrowings for qualifying assets.

14. Intangible assets

	2012 US$m	2011 US$m
Opening net book value	21	22
Transfers of assets at cost	2	10
Amortisation	(4)	(4)
Impairment	-	(7)
Closing net book value	**19**	**21**
Computer software - at cost	27	25
Accumulated amortisation	(8)	(4)
Closing net book value	**19**	**21**

15. Trade and other payables

	2012 US$m	2011 US$m
Trade payables	616	238
Customer deposits	81	93
Other payables and accruals	606	482
Total current payables	**1,303**	**813**
Customer deposits	201	184
Other payables and accruals	10	1
Total non-current payables	**211**	**185**

16. Borrowings and other financial liabilities

	2012 US$m	2011 US$m
Current		
Senior unsecured notes	126	80
Unsecured loan notes	127	114
Preference shares	3	3
Syndicated lease facility	15	-
Finance lease liabilities	12	17
	283	**214**
Non-current		
Senior unsecured notes	6,956	3,485
Unsecured loan notes	770	830
Preference shares	138	151
Syndicated lease facility	84	-
Finance lease liabilities	170	192
Unsecured bank facility	100	-
	8,218	**4,658**
Total borrowings and other financial liabilities	**8,501**	**4,872**

Information about Fortescue's exposure to interest rate risk and foreign exchange rate risk can be found in note 22.

16. Borrowings and other financial liabilities (continued)

The key terms of borrowings and other financial liabilities are summarised below.

(i) Senior unsecured notes

The Group's senior unsecured notes are held in its wholly-owned subsidiary FMG Resources (August 2006) Pty Limited and comprise the following tranches on which interest is payable bi-annually:

US$m	Currency	Interest rate	Date of issue	Date of maturity	Face Value	Carrying Value
Senior unsecured notes	USD	7.000%	8 November 2010	1 November 2015	2,040	2,030
Senior unsecured notes	USD	6.375%	15 December 2010	1 February 2016	600	613
Senior unsecured notes	USD	6.875%	15 December 2010	1 February 2018	900	921
Senior unsecured notes	USD	8.250%	25 October 2011	1 November 2019	1,500	1,504
Senior unsecured notes	USD	6.000%	19 March 2012	1 April 2017	1,000	1,006
Senior unsecured notes	USD	6.875%	19 March 2012	1 April 2022	1,000	1,008
					7,040	**7,082**

(ii) Unsecured loan notes

Interest payable under the unsecured loan notes is calculated as four per cent of the revenue, net of government royalties, from the sale of iron ore FOB Port Hedland from tenements in the Cloudbreak and Christmas Creek area.

The carrying value of the note was re-estimated at 30 June 2012 to US$897 million (30 June 2011: US$944 million) in line with changes in management estimates of the forecast production profile from Cloudbreak and Christmas Creek and independent third party forecasts of future iron ore prices.

(iii) Preference shares

A dividend coupon rate of nine per cent is payable bi-annually either in cash or by issue of additional preference or ordinary shares, as elected by Fortescue. A holder of preference shares is not entitled to share in the distribution of any surplus assets of the Company beyond its redemption amount. The preference shares rank in priority to Fortescue's ordinary shares for the payment of distributions and have limited voting rights.

(iv) Finance leases and facilities

Commitments under finance leases are disclosed in note 27. The Group's lease liabilities are secured by the assets leased. In the event of default, the assets revert to the lessor.

(v) Unsecured bank facility

On 29 June 2011, Fortescue entered into a US$600 million unsecured bank facility of which US$100 million was drawn down during the financial year ended 30 June 2012.

16. Borrowings and other financial liabilities (continued)

(vi) Summary of movements in borrowings and other financial liabilities

Movements in borrowings and other financial liabilities during the financial year are set out below:

	Senior unsecured notes US$m	Senior secured notes US$m	Unsecured loan notes US$m	Preference shares US$m	Finance leases/ facilities US$m	Unsecured bank facility US$m	Total US$m
30 June 2011							
Balance at 1 July	-	2,029	826	120	-	-	2,975
Initial recognition	3,482	-	-	-	204	-	3,686
Interest expense	155	47	266	15	4	-	487
Interest and finance lease repayments	(72)	(128)	(241)	(6)	(5)	-	(452)
Re-estimation of unsecured loan notes	-	-	93	-	-	-	93
Foreign exchange loss	-	42	-	31	6	-	79
Redemption of senior secured notes	-	(1,990)	-	-	-	-	(1,990)
Interest repayments in the form of ordinary shares	-	-	-	(6)	-	-	(6)
Balance at 30 June 2011	**3,565**	**-**	**944**	**154**	**209**	**-**	**4,872**
30 June 2012							
Balance at 1 July	3,565	-	944	154	209	-	4,872
Initial recognition	3,462	-	-	-	99	100	3,661
Interest expense	374	-	331	11	15	-	731
Interest and finance lease repayments	(319)	-	(222)	(13)	(29)	-	(583)
Re-estimation of unsecured loan notes	-	-	(156)	-	-	-	(156)
Foreign exchange loss	-	-	-	(11)	(13)	-	(24)
Balance at 30 June 2012	**7,082**	**-**	**897**	**141**	**281**	**100**	**8,501**

(vii) Financing arrangements

Further financing arrangements are available at 30 June 2012. These financing arrangements have been put in place to support the 155mtpa expansion project. The key terms of these financing arrangements are summarised below:

US$m	Currency	Availability period	Facility maturity date	Interest rate, % per annum	Limit	Drawn	Undrawn
Unsecured bank facility	USD	June 2014	June 2014	LIBOR + 3.00%	600	100	500
Syndicated lease facility	USD	May 2014	May 2018	LIBOR + 3.25%	965	99	866
Covered syndicated facility	USD	September 2014	June 2022	LIBOR + 1.85%	168	-	168
Covered syndicated facility	USD	June 2014	June 2022	LIBOR + 1.10%	175	-	175
Covered syndicated facility	USD	June 2014	December 2022	LIBOR + 1.95%	147	-	147
					2,055	**199**	**1,856**

91

NOTES TO THE FINANCIAL STATEMENTS

17. Provisions

Provision for site rehabilitation and closure has been recognised in relation to Fortescue's iron ore operations. The provision has been made in full for all disturbed areas at the reporting date based on current estimates of costs to rehabilitate and for the costs of infrastructure removal, discounted to their present value based on expected future cash flows.

Movements in rehabilitation provision during the financial year are set out below:

	2012 US$m	2011 US$m
Carrying amount at 1 July	132	57
Additional provision recognised	377	56
Unwinding of discount on the rehabilitation provision	5	4
Impact of foreign exchange revaluation	-	15
Carrying amount at 30 June	**514**	**132**

18. Current tax payable

	2012 US$m	2011 US$m
Current tax payable	551	91
	551	**91**

19. Deferred tax liabilities

The composition and movement of deferred tax assets / (liabilities) is as follows:

	Balance 1 July 2010 US$m	Charged/ (credited) to profit or loss US$m	Charged/ (credited) to equity US$m	Balance 30 June 2011 US$m	Charged/ (credited) to profit or loss US$m	Charged/ (credited) to equity US$m	Balance 30 June 2012 US$m
Exploration expenditure	-	(41)	-	(41)	(39)	-	(80)
Development	43	(110)	-	(67)	(286)	-	(353)
Property, plant and equipment	(238)	10	-	(228)	174	-	(54)
Consumables	(11)	(15)	-	(26)	(18)	-	(44)
Unrealised foreign exchange (gains) / losses	(34)	54	-	20	(13)	-	7
Borrowing costs	5	(5)	-	-	-	-	-
Senior notes	(54)	54	-	-	(6)	-	(6)
Unsecured loan notes	162	55	-	217	(13)	-	204
Accruals	2	(1)	-	1	-	-	1
Provisions	31	(6)	-	25	159	-	184
Share-based payments	-	2	2	4	(3)	(1)	-
Other financial liabilities	-	-	-	-	(80)	-	(80)
Other items	7	(10)	(2)	(5)	4	1	-
Revenue tax losses	209	(209)	-	-	-	-	-
	122	**(222)**	**-**	**(100)**	**(121)**	**-**	**(221)**

19. Deferred tax liabilities (continued)

	Assets		Liabilities		Net assets / (liabilities)	
	2012 US$m	2011 US$m	2012 US$m	2011 US$m	2012 US$m	2011 US$m
Exploration expenditure	-	-	(80)	(41)	(80)	(41)
Development	15	-	(368)	(67)	(353)	(67)
Property, plant and equipment	92	71	(146)	(299)	(54)	(228)
Consumables	-	-	(44)	(26)	(44)	(26)
Unrealised foreign exchange gains	7	20	-	-	7	20
Senior unsecured notes	1	-	(7)	-	(6)	-
Unsecured loan notes	204	217	-	-	204	217
Accruals	10	1	(9)	-	1	1
Provisions	184	25	-	-	184	25
Share-based payments	-	4	-	-	-	4
Other financial liabilities	-	-	(80)	-	(80)	-
Other items	2	9	(2)	(14)	-	(5)
	515	**347**	**(736)**	**(447)**	**(221)**	**(100)**

20. Contributed equity

(a) Share capital

	2012 Number	2011 Number
Ordinary shares fully paid	3,113,798,151	3,113,498,151

(b) Movements in ordinary share capital

Date	Details	Number of shares	Issue price	US$m
1 July 2010	Opening balance	3,107,196,989		1,274
	Shares issued	3,917,412	$4.47	18
	Exercise of options	2,383,750	$0.76	2
	Transfer of option expense from reserve for converted options	-		1
30 June 2011	**Closing balance**	**3,113,498,151**		**1,295**
1 July 2011	Opening balance	3,113,498,151		1,295
	Exercise of options	300,000	$2.64	1
	Purchase of shares under employee share plans	(2,678,467)	$5.55	(14)
	Employee share awards exercised net of employee contributions	2,678,467	$4.27	11
30 June 2012	**Closing balance**	**3,113,798,151**		**1,293**

(c) Ordinary shares

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

21. Reserves

	2012 US$m	2011 US$m
Hedging reserve	25	3
Share-based payments reserve	15	9
Asset revaluation reserve	1	1
	41	**13**

	2012 US$m	2011 US$m
Hedging reserve		
Balance at 1 July	3	-
Gains on cash flow hedges taken to equity	109	15
Gains transferred to the initial carrying amount of hedged items	(87)	(12)
Balance at 30 June	**25**	**3**

The hedging reserve represents hedging gains and losses recognised on the effective portion of cash flow hedges, net of deferred tax. The cumulative deferred gain or loss on the hedge is recognised as an adjustment to the initial cost of non-financial hedged items.

	2012 US$m	2011 US$m
Share-based payments reserve		
Balance at 1 July	9	2
Exercise of options	-	(1)
Forfeited options	(1)	-
Share-based payment expense	7	6
Deferred tax	-	2
Balance at 30 June	**15**	**9**

The share-based payments reserve primarily records items recognised as expenses on valuation of employee share options. The movement in the share-based payments reserve is disclosed in the statement of changes in equity.

	2012 US$m	2011 US$m
Asset revaluation reserve		
Balance at 1 July	1	1
Balance at 30 June	**1**	**1**

The asset revaluation reserve records revaluations of non-current assets held at fair value and revaluations of available-for-sale financial investments.

22. Financial risk management

Fortescue has a risk management programme that addresses the whole risk spectrum. The programme incorporates active management of financial risks arising from Fortescue's activities to ensure that such risks are maintained within tolerable levels as required by the Board of Directors. Financial risks include market risk, credit risk and liquidity risk.

The Board of Directors, through the Audit and Risk Management Committee (ARMC), has ultimate responsibility for oversight of the Fortescue Risk Management Programme (RMP) and for setting appropriate risk tolerance levels. Day-to-day management responsibility for execution of the RMP has been delegated to the CEO and the CFO. Periodically the CFO reports to the ARMC on risk management performance, including management of financial risks.

Further explanation is provided below for the elements of financial risk.

(a) Market risk

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

(i) Foreign exchange risk

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

Fortescue's policy is, where possible, to allow Group entities to settle liabilities denominated in their functional currency with the cash generated from their own operations in that currency.

Fortescue's exposure to foreign exchange risks is measured using sensitivity analysis and cash flow forecasting. Fortescue's risk management policy is to target specific levels at which to convert United States dollars to Australian dollars by entering into either spot or short-term forward exchange contracts and to hedge a portion of anticipated cash flow in relation to the 155mtpa expansion program in Australian dollars. All of the projected cash flows related to the expansion program qualify as highly probable forecast transactions for hedge accounting purposes.

22. Financial risk management (continued)

The carrying amounts of the Group's financial assets and liabilities are primarily denominated in three currencies as set out below:

	USD	AUD	EURO	Total
	US$m	US$m	US$m	US$m
30 June 2011				
Financial assets				
Cash and cash equivalents	1,930	731	2	2,663
Trade and other receivables	200	160	9	369
Other financial assets	-	9	-	9
Total financial assets	**2,130**	**900**	**11**	**3,041**
Financial liabilities				
Borrowings and other financial liabilities	4,508	364	-	4,872
Trade and other payables	340	658	-	998
Total financial liabilities	**4,848**	**1,022**	**-**	**5,870**
30 June 2012				
Financial assets				
Cash and cash equivalents	1,146	1,194	3	2,343
Trade and other receivables	282	208	1	491
Other financial assets	10	-	-	10
Derivatives held at fair value	2	-	-	2
Total financial assets	**1,440**	**1,402**	**4**	**2,846**
Financial liabilities				
Borrowings and other financial liabilities	8,178	323	-	8,501
Trade and other payables	393	1,114	-	1,507
Total financial liabilities	**8,571**	**1,437**	**-**	**10,008**

22. Financial risk management (continued)

(ii) Commodity price risk

The Group is exposed to commodity price risk through iron ore price movements. Fortescue has not entered into any forward commodity price contracts at 30 June 2012 (2011: nil) and is currently fully exposed to commodity price movements as follows:

	2012 US$m	2011 US$m
Trade receivables	262	195
Unsecured loan notes	(897)	(944)
	(635)	**(749)**

(iii) Interest rate risk

It is Fortescue's policy to reduce interest rate risk over the cash flows on its long-term debt finance within tolerable levels set by ARMC through the use of fixed rate instruments whenever appropriate.

Fortescue's main interest rate risk arises from variable rate finance lease liabilities and short-term borrowings. The Group's fixed rate borrowings are carried at amortised cost and are not subject to interest rate risk as defined in AASB 7 *Financial Instruments: Disclosures*. Other financial instruments of the Group are non-interest bearing and are also not subject to interest rate risk as defined in AASB 7 *Financial Instruments: Disclosures*.

At 30 June 2012, Fortescue had the following variable rate finance lease liabilities and short-term borrowings:

	2012 US$m	2011 US$m
Syndicated finance lease facility	99	-
Unsecured bank facility	100	-
	199	**-**

Management analyses the Group's interest rate exposure on a regular basis by simulation of various scenarios taking into consideration refinancing, renewal of existing positions, alternative financing options and hedging.

22. Financial risk management (continued)

(iv) Summarised sensitivity analysis

The Group has used ranges of rate and price fluctuations that approximate the rates observed over the reporting period to estimate its sensitivity to market rates. The Group's main interest rate exposures are to LIBOR and Australian short-term interest rates; its foreign exchange risk is to the Australian Dollar and Euro rates and commodity price risk is due to spot iron ore prices.

		Interest rate risk				Foreign exchange risk				Other price risk			
		-25 bps		+25 bps		-10%		+10%		-25%		+25%	
	Carrying amount	Pre-tax profit	Other equity	Pre-tax profit	Other equity	Pre-tax profit	Other equity	Pre-tax profit	Other equity	Pre-tax profit	Other equity	Pre-tax profit	Other equity
30 June 2011	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**
Financial assets													
Cash and cash equivalents	2,663	(7)	-	7	-	(73)	-	73	-	-	-	-	-
Trade and other receivables	369	-	-	-	-	(17)	-	17	-	(57)	-	57	-
Other financial assets	9	-	-	-	-	(1)	-	1	-	-	-	-	-
Financial liabilities													
Borrowings and other financial liabilities	4,872	-	-	-	-	(36)	-	36	-	236	-	(236)	-
Trade and other payables	998	-	-	-	-	(66)	-	66	-	-	-	-	-
Total increase/ (decrease)		**(7)**	**-**	**7**	**-**	**(193)**	**-**	**193**	**-**	**179**	**-**	**(179)**	**-**

		Interest rate risk				Foreign exchange risk				Other price risk			
		-10 bps		+10 bps		-5%		+5%		-15%		+15%	
	Carrying amount	Pre-tax profit	Other equity	Pre-tax profit	Other equity	Pre-tax profit	Other equity	Pre-tax profit	Other equity	Pre-tax profit	Other equity	Pre-tax profit	Other equity
30 June 2012	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**
Financial assets													
Cash and cash equivalents	2,343	(2)	-	2	-	(60)	-	60	-	-	-	-	-
Trade and other receivables	491	-	-	-	-	(10)	-	10	-	(40)	-	40	-
Other financial assets	10	-	-	-	-	-	-	-	-	-	-	-	-
Derivatives held at fair value	2	-	-	-	-	-	-	-	-	-	-	-	-
Financial liabilities													
Borrowings and other financial liabilities	8,501	-	-	-	-	(16)	-	16	-	135	-	(135)	-
Trade and other payables	1,514	-	-	-	-	(56)	-	56	-	-	-	-	-
Total increase/ (decrease)		**(2)**	**-**	**2**	**-**	**(142)**	**-**	**142**	**-**	**95**	**-**	**(95)**	**-**

22. Financial risk management (continued)

(b) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to Fortescue and is managed on a consolidated basis. Credit risk arises from cash and cash equivalents at bank, derivative financial instruments, deposits with banks and financial institutions and receivables from customers.

Fortescue is exposed to a concentration of risk with the majority of its iron ore customers being located in China. This risk is mitigated by a policy of only trading with creditworthy counterparties and Fortescue further mitigates its credit risk in most cases by obtaining security in the form of letters of credit on receipt of a bill of lading covering approximately 95 per cent of the value of iron ore shipped. Fortescue has not recognised any bad debt expense from trading counterparties in the financial years ended 30 June 2011 and 30 June 2012.

The exposure to the credit risk from cash and short-term deposits held in banks is managed by the treasury department and monitored by the Board of Directors. Fortescue minimises the credit risks by holding funds with a range of financial institutions with the credit ratings approved by the Board.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets. For commodity trade receivables Fortescue mitigates its credit risk in most cases by obtaining security in the form of letters of credit on receipt of a bill of lading covering approximately 95 per cent of the value of iron ore shipped.

The analysis of receivables past due is presented in note 9. Fortescue does not consider there to be any potential impairment loss on these receivables.

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as and when they fall due. The Group manages liquidity risk by maintaining adequate cash reserves and banking facilities, by continuously monitoring actual and forecast cashflows and by matching the maturity profiles of financial assets and liabilities.

Note 16 includes a summary of undrawn facilities that the Group has at its disposal to manage liquidity risk.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the period to the contracted maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 6 months	6 - 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flows	Carrying amount
30 June 2011	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**
Non-interest bearing	726	40	33	48	-	847	847
Fixed rate	273	324	674	4,681	2,545	8,497	5,023
Total	**999**	**364**	**707**	**4,729**	**2,545**	**9,344**	**5,870**
30 June 2012							
Non-interest bearing	1,261	-	29	116	-	1,406	1,406
Fixed rate	448	399	929	6,233	5,041	13,050	8,403
Variable rate	7	11	21	164	5	208	199
Total	**1,716**	**410**	**979**	**6,513**	**5,046**	**14,664**	**10,008**

Management monitors rolling forecasts of the Group's liquidity reserve (comprising the undrawn borrowing facilities) and cash and cash equivalents on the basis of expected cash flows.

22. Financial risk management (continued)

(d) Fair values

All financial assets and financial liabilities, with the exception of derivatives, are initially recognised at the fair value of the consideration paid or received, net of directly attributable transaction costs. Subsequently, the financial assets and financial liabilities, other than derivatives, are measured at amortised cost. The carrying values of the financial assets and liabilities approximate their fair values.

(e) Capital management

Fortescue's capital management policy provides a framework to maintain a strong capital structure to sustain the future development and expansion of the business and to provide consistent returns to its equity shareholders.

The capital structure of the Group consists of net debt (borrowings as detailed in note 16 offset by cash and bank balances) and the equity of the Group (comprising issued capital, reserves and retained earnings as detailed in the statement of changes in equity).

The Group targets a conservative capital structure consistent with investment grade credit metrics throughout the development, expansion, production and commodity cycles.

The Group monitors capital using financial and non-financial indicators. Financial indicators include, but are not limited to gearing, interest coverage and leverage ratios.

Target ranges for ratios are provided dependent upon the investment and commodity cycle. During periods of intensive investment, for example expansion programmes, or a commodity cycle downturn, the capital policy contemplates interim ratio levels moving to a targeted longer term level. Interim levels acknowledge and consider the requirements, in certain circumstances, for remedial action to be taken.

23. Dividends

(a) Declared during the period	2012 US$m	2011 US$m
Final fully franked dividend for the year ended 30 June 2011: A$0.04 per share (30 June 2010: nil)	123	-
Interim fully franked dividend: A$0.04 per share (2011: unfranked A$0.03 per share)	134	96
	257	**96**

(b) Dividends proposed and not recognised as a liability	2012 US$m	2011 US$m
Fully franked dividend for the year ended 30 June 2012: A$0.04 per share (2011: A$0.04 per share)	131	129

24. Key management personnel disclosures

(a) Key management personnel remuneration	2012 US$m	2011 US$m
Short-term employee benefits	5	8
Post-employment benefits	-	1
Share-based payments	7	6
Equity compensation benefits	2	4
	14	**19**

Detailed remuneration disclosures are provided in the remuneration report.

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

24. Key management personnel disclosures (continued)

(b) Equity instrument disclosures relating to key management personnel

(i) Option holdings

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

2011

Name	Balance at start of the year	Granted	Exercised	Forfeited	Balance at end of the year	Vested	Unvested	Not exercisable
Directors of Fortescue								
A Forrest	-	-	-	-	-	-	-	-
R Scrimshaw	600,000	-	-	-	600,000	300,000	300,000	300,000
G Rowley	-	-	-	-	-	-	-	-
H Elliott	-	-	-	-	-	-	-	-
K Ambrecht	-	-	-	-	-	-	-	-
G Brayshaw	-	-	-	-	-	-	-	-
O Hegarty	-	-	-	-	-	-	-	-
I Burston	-	-	-	-	-	-	-	-
L Xiaowei	-	-	-	-	-	-	-	-
M Barnaba	-	-	-	-	-	-	-	-
I Cumming	-	-	-	-	-	-	-	-
Other key management personnel of Fortescue								
P Hallam	600,000	-	(150,000)	-	450,000	150,000	300,000	300,000
S Pearce	-	-	-	-	-	-	-	-
P Meurs	7,500,000	-	-	-	7,500,000	2,187,500	5,312,500	7,500,000
W Ramsey	-	-	-	-	-	-	-	-
N Power	-	-	-	-	-	-	-	-

2012

Name	Balance at start of the year	Granted	Exercised	Forfeited	Balance at end of the year	Vested	Unvested	Not exercisable
Directors of Fortescue								
A Forrest	-	-	-	-	-	-	-	-
N Power	-	-	-	-	-	-	-	-
R Scrimshaw	600,000	-	(300,000)	(300,000)	-	-	-	-
G Rowley	-	-	-	-	-	-	-	-
H Elliott	-	-	-	-	-	-	-	-
K Ambrecht	-	-	-	-	-	-	-	-
G Brayshaw	-	-	-	-	-	-	-	-
O Hegarty	-	-	-	-	-	-	-	-
M Barnaba	-	-	-	-	-	-	-	-
G Raby	-	-	-	-	-	-	-	-
H Scruggs	-	-	-	-	-	-	-	-
C Huiquan	-	-	-	-	-	-	-	-
Other key management personnel of Fortescue								
P Hallam	450,000	-	(150,000)	(300,000)	-	-	-	-
S Pearce	-	-	-	-	-	-	-	-
P Meurs	7,500,000	-	-	-	7,500,000	4,375,000	3,125,000	7,500,000

R Scrimshaw and P Hallam retired during the current financial year.

NOTES TO THE FINANCIAL STATEMENTS

24. Key management personnel disclosures (continued)

(ii) Share holdings

The numbers of shares in the Company held during the financial year by each Director of Fortescue and other key management personnel of the Group, including their related parties, are set out below:

2011

Name	Held at 1 July 2010	Received on exercise of options	Issued	Purchases	Sales	Transfers	Other	Held at 30 June 2011
Directors of Fortescue								
Ordinary shares								
A Forrest	972,830,215	-	18,608	-	-	(8,000,000)	-	964,848,823
R Scrimshaw	8,000,000	-	89,526	529	(500,000)	-	-	7,590,055
G Rowley	19,235,690	-	-	31,832	(122,571)	-	-	19,144,951
H Elliott	2,167,938	-	-	-	-	-	-	2,167,938
K Ambrecht	6,313,130	-	-	-	-	(10,100)	-	6,303,030
G Brayshaw	44,149	-	-	8,000	-	-	-	52,149
O Hegarty	-	-	-	-	-	-	-	-
I Burston	-	-	-	20,000	-	-	-	20,000
L Xiaowei	-	-	-	-	-	-	-	-
M Barnaba	-	-	-	-	-	-	-	-
I Cumming	-	-	-	-	-	-	-	-
Other key management personnel of Fortescue								
Ordinary shares								
S Pearce	8,300	-	36,447	-	-	-	866	45,613
P Hallam	10,157	150,000	86,510	-	-	-	-	246,667
P Meurs	7,500,000	-	-	652,882	-	-	-	8,152,882
N Power	-	-	-	50,000	-	-	-	50,000

2012

Name	Held at 1 July 2011	Received on exercise of options	Issued	Purchases	Sales	Transfers	Other**	Held at 30 June 2012
Directors of Fortescue								
Ordinary shares								
A Forrest	964,848,823	-	12,840	45,829,252*	-	-	-	1,010,690,915
R Scrimshaw	7,590,055	-	-	-	-	-	(7,590,055)	-
N Power	50,000	-	24,839	682,550	-	-	-	757,389
G Rowley	19,144,951	-	-	-	(1,000,000)	-	-	18,144,951
H Elliott	2,167,938	-	-	-	-	-	-	2,167,938
K Ambrecht	6,303,030	-	-	-	(1,120,000)	-	-	5,183,030
G Brayshaw	52,149	-	-	-	-	-	-	52,149
O Hegarty	-	-	-	40,000	-	-	-	40,000
I Burston	20,000	-	-	-	-	-	(20,000)	-
L Xiaowei	-	-	-	-	-	-	-	-
M Barnaba	-	-	-	-	-	-	-	-
I Cumming	-	-	-	-	-	-	-	-
G Raby	-	-	-	-	-	-	-	-
H Scruggs	-	-	-	-	-	-	-	-
C Huiquan	-	-	-	-	-	-	-	-
Other key management personnel of Fortescue								
Ordinary shares								
S Pearce	45,613	-	85,785	197,590	-	-	-	328,988
P Hallam	246,667	-	-	-	-	-	(246,667)	-
P Meurs	8,152,882	-	85,785	17,719,214*	-	-	-	25,957,881
J Frankcombe	-	-	-	19,571	-	-	-	19,571

** Includes 16,632,614 shares in which A Forrest and P Meurs both have a beneficial interest.*
*** Reflects resignation or retirement.*

24. Key management personnel disclosures (continued)

(c) Other transactions with key management personnel

During the financial year Mr Meurs has elected to participate in the financial arrangement provided by The Metal Group Pty Limited, as disclosed in note 28(d). Under this arrangement Mr Meurs received financial assistance by way of guarantees for the acquisition of 16,632,614 ordinary shares during the year. The benefit received by Mr Meurs for the financial year ended 30 June 2012 was US$908,634 (2011: nil).

Dr Burston was appointed as a Non-Executive Director of Fortescue on 13 October 2008 and retired on 19 August 2011. He is also Chairman and Director of NRW Holdings Limited which provides mining contracting services to the Cloudbreak and Christmas Creek mines. Fortescue has incurred US$35.1 million for services rendered by NRW during the period that Dr Burston was a Director of Fortescue (2011: US$179.5 million).

In 2009 an agreement was established providing that Fortescue would pay Mr Andrew Forrest's legal fees, up to a maximum of A$2.0 million, associated with the ASIC proceedings. In the event that ASIC is successful, Mr Forrest will reimburse Fortescue for all legal fees associated with his defence of the case and accumulated loan interest at a market interest rate.

25. Remuneration of auditors

(a) BDO Audit (WA) Pty Limited	2012 US$'000	2011 US$'000
Audit services		
BDO Audit (WA) Pty Limited		
Audit and other assurance services		
Audit and review	523	470
Other assurance services	-	155
Other services		
Agreed upon procedures	180	217
Total remuneration of BDO Audit (WA) Pty Limited	**703**	**842**

(b) Other audit firms

Audit and other assurance services	299	73
Total auditors' remuneration	**1,002**	**915**

26. Contingencies

The Company had contingent liabilities at 30 June 2012 in respect of:

ASIC Proceedings

On 23 December 2009 judgement was handed down by the Federal Court in the civil penalty proceedings brought by ASIC. Fortescue and Fortescue's co-defendant, Mr Andrew Forrest, were successful and all of the contraventions alleged by ASIC were dismissed by the Federal Court. ASIC appealed the decision (the Appeal) and the Appeal was heard by the Full Federal Court in November 2010.

On 18 February 2011, the Full Federal Court upheld the Appeal. In response, on 18 March 2011, Fortescue and Mr Forrest lodged an application for special leave to appeal to the High Court. On 29 September 2011 the High Court granted Fortescue and Mr Forrest special leave to appeal. The High Court Appeal was heard over three days on 29 February, 1 March and 30 March 2012. The decision from the High Court is anticipated by no later than 9 October 2012. If the High Court finds in favour of ASIC, then the matter will proceed to a penalty hearing before a judge of the Federal Court based on the contraventions found by the Full Federal Court.

These proceedings and the decision by the Full Federal Court in respect of the Appeal by ASIC are civil and not criminal, with maximum penalties sought by ASIC of approximately A$6.0 million from Fortescue and A$4.4 million from Mr Forrest personally. ASIC have applied for orders to make Mr Forrest personally liable for any civil penalties or costs imposed upon Fortescue and to also disqualify Mr Forrest from managing corporations.

103

26. Contingencies (continued)

Leucadia - Note Issuance Dispute

Leucadia National Corporation and Baldwin Enterprises Incorporated (Baldwin) have initiated proceedings seeking injunctive orders restraining Chichester Metals Pty Limited (Chichester) and Fortescue from issuing or causing to be issued additional notes under the Note Deed Poll and seeking orders against Chichester, Fortescue and Mr Forrest.

On 18 August 2006, Chichester issued loan notes, guaranteed by Fortescue, in the principal amount of US$100 million to Baldwin under the Note Deed Poll. Arguably any additional loan notes issued under the terms of the Note Deed Poll would share in the interest calculated on the Leucadia Notes, and thereby reduce the amount of the interest payable to Baldwin on the Leucadia Notes it holds.

On 1 September 2010, Leucadia and Baldwin filed a writ of summons in the Supreme Court of Western Australia, and on 22 October 2010, they filed a statement of claim. Chichester, Fortescue and Mr Forrest filed their defence on 22 December 2010.

On 14 and 16 June 2011, Leucadia and Baldwin were granted Commonwealth ministerial consent to rely on the overseas conduct of Fortescue, Chichester and Mr Forrest as the basis for the application to the Supreme Court. On 31 October 2011, the Supreme Court granted Leucadia and Baldwin permission to continue with the application despite the absence of such consent at the commencement of proceedings.

Leucadia also seeks damages for alleged breaches of representations and warranties given by Chichester and Fortescue contained or implied in the Leucadia Subscription Agreement. In relation to Mr Forrest, Leucadia seeks damages from Mr Forrest as a person knowingly concerned in the alleged conduct of Chichester and Fortescue.

The trial is expected to take place in the last quarter of 2012.

27. Commitments

	Capital US$m	Operating leases US$m	Finance leases US$m	Total US$m
30 June 2011				
Within one year	2,191	121	17	2,329
Between one and five years	3	139	93	235
Later than five years	-	-	99	99
	2,194	**260**	**209**	**2,663**
30 June 2012				
Within one year	4,312	127	32	4,471
Between one and five years	27	159	173	359
Later than five years	-	-	76	76
	4,339	**286**	**281**	**4,906**

(i) At 30 June 2012 Fortescue had contractual commitments to capital expenditure not recognised as liabilities.

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

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

27. Commitments (continued)

(iii) Finance lease commitments include the effect of discounting as summarised below:

	Within one year US$m	Between one year and five years US$m	After five years US$m	Total US$m
30 June 2011				
Future minimum lease payments	33	152	115	300
Effect of discounting	(16)	(59)	(16)	(91)
Present value of minimum lease payments	**17**	**93**	**99**	**209**
30 June 2012				
Future minimum lease payments	49	228	84	361
Effect of discounting	(17)	(55)	(8)	(80)
Present value of minimum lease payments	**32**	**173**	**76**	**281**

28. Related party transactions

(a) Subsidiaries

Interests in subsidiaries are set out in note 29.

(b) Key management personnel

Disclosures relating to key management personnel are set out in note 24.

(c) Transactions with other related parties

The following amounts originated from the provision of third party port access to the joint venture. 50 per cent of these amounts are eliminated on consolidation.

	2012 US$m	2011 US$m
Revenue	64	5
Current receivables	21	5

No other transactions have occurred with related parties other than subsidiaries, entities with joint control, Directors or key management personnel as disclosed above.

(d) Guarantees issued

The Metal Group Pty Ltd, an entity controlled by Andrew Forrest, has entered into arrangements to provide financial assistance by way of guarantee to certain of Fortescue's Executives to purchase the Company's shares. The arrangement, which constitutes a share-based payment transaction, has been measured with the reference to the fair value of the benefit received by the Executives and is recognised as an expense on a straight-line basis over a four-year vesting period, in line with the service conditions. The fair value was determined at grant date using a Monte-Carlo simulation model. The total share-based payment expense in relation to the arrangement for the financial year ended 30 June 2012 was US$985,499 (2011: nil).

29. Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following principal subsidiaries in accordance with the accounting policy described in note 1(b):

	Country of incorporation	Class of shares	Equity holding		Investment	
			2012 %	2011 %	2012 US$	2011 US$
Fortescue Metals Group Limited	Australia	Ordinary	-	-	-	-
Controlled entities						
International Bulk Ports Pty Limited	Australia	Ordinary	100	100	1	1
The Pilbara Infrastructure Pty Limited (1)	Australia	Ordinary	100	100	1	1
FMG Resources Pty Limited	Australia	Ordinary	100	100	339	339
FMG Pilbara Pty Limited	Australia	Ordinary	100	100	1	1
Chichester Metals Pty Limited (2)	Australia	Ordinary	100	100	1	1
FMG Resources (August 2006) Pty Limited	Australia	Ordinary	100	100	1	1
Pilbara Mining Alliance Pty Limited	Australia	Ordinary	100	100	1	1
Karribi Developments Pty Limited	Australia	Ordinary	100	100	1	1
FMG Magnetite Pty Limited (5)	Australia	Ordinary	100	100	1	1
FMG North Pilbara Pty Limited (5)	Australia	Ordinary	100	100	1	1
FMG Pacific Limited	New Zealand	Ordinary	100	100	1	1
FMG International Pte Limited	Singapore	Ordinary	100	100	209,053	209,053
Pilbara Housing Services Pty Limited	Australia	Ordinary	100	100	1	1
FMG Solomon Pty Limited (2)	Australia	Ordinary	100	100	1	1
Masters Way Homes Pty Limited (3)	Australia	Ordinary	100	100	1	1
FMG Iron Bridge Limited	Hong Kong	Ordinary	100	100	27,861,023	1
FMG Iron Bridge (Aust) Pty Limited (4)	Australia	Ordinary	100	100	108	108
FMG Air Pty Limited	Australia	Ordinary	100	100	1	1
FMG Capital Pty Limited	Australia	Ordinary	100	100	1	1
Glacier Valley Management Company Pty Limited	Australia	Ordinary	100	100	1	-
Pilbara Iron Ore Pty Limited	Australia	Ordinary	50	50	1	-
Pilbara Water and Power Pty Limited (5)	Australia	Ordinary	100	-	1	-
FMG Exploration Pty Limited	Australia	Ordinary	100	-	1	-
FMG Minerals Pty Limited (6)	Australia	Ordinary	100	-	1	-
Fortescue Services Pty Limited	Australia	Ordinary	100	-	1	-
FMG Personnel Pty Limited (7)	Australia	Ordinary	100	-	1	-
VTEC Services Pty Limited (7)	Australia	Ordinary	100	-	1	-
FMG IOC Pty Limited (8)	Australia	Ordinary	100	-	1	-
Solomon Personnel Pty Limited (8)	Australia	Ordinary	100	-	1	-
FMG Training Pty Limited (8)	Australia	Ordinary	100	-	1	-

29. Subsidiaries (continued)

(1) Subsidiary of International Bulk Ports Pty Limited.
(2) Subisidary of FMG Pilbara Pty Limited.
(3) Subsidiary of Pilbara Housing Services Pty Limited.
(4) Subsidiary of FMG Iron Bridge Limited.
(5) Subsidiary of FMG Iron Bridge (Aust) Pty Limited.
(6) Subsidiary of FMG Exploration Pty Limited.
(7) Subsidiary of Fortescue Services Pty Limited.
(8) Subsidiary of FMG Personnel Pty Limited.

30. Deed of cross guarantee

Fortescue Metals Group Limited and certain of its subsidiaries are parties to a deed of cross guarantee under which each company guarantees the debts of the others:

Holding Entity

- Fortescue Metals Group Limited

Group Entities

- FMG Pilbara Pty Limited
- Chichester Metals Pty Limited
- FMG Resources (August 2006) Pty Limited
- FMG Resources Pty Limited
- International Bulk Ports Pty Limited
- The Pilbara Infrastructure Pty Limited
- FMG Solomon Pty Limited

(a) Consolidated income statement, statement of comprehensive income and summary of movements in consolidated retained earnings

The statement of comprehensive income and summary movements in consolidated retained earnings for the year ended 30 June 2012 along with the consolidated balance sheet as at 30 June 2012 for the closed group represented by the above companies are materially the same as that of the consolidated group.

31. Interests in joint ventures

(a) Jointly controlled assets

Fortescue, through its wholly owned subsidiary FMG Pilbara Pty Limited, holds a 50 per cent participating interest in the Nullagine Iron Ore Joint Venture. The joint venture's activity is the production of iron ore in the Pilbara, with Fortescue entitled to receive 50 per cent of the joint venture output. The Group's interests in the assets employed in the joint venture are included in the balance sheet, in accordance with the accounting policy described in note 1(c), under the following classifications:

	2012 US$m	2011 US$m
Current assets		
Cash and cash equivalents - included in other current assets	10	8
Inventories	4	13
Other current assets	2	2
	16	**23**
Non-current assets		
Property, plant and equipment	49	36
Exploration, evaluation and development expenditure	25	19
	74	**55**
Share of assets employed in joint venture	**90**	**78**
Current liabilities		
Trade payables and accruals	29	16
	29	**16**
Non-current liabilities		
Loans and borrowings	21	27
Provisions	1	1
	22	**28**
Share of liabilities employed in joint venture	**51**	**44**
Net assets	**39**	**34**

(b) Fortescue's share of joint venture commitments

	2012 US$m	2011 US$m
Contracted but not provided for in the financial statements and payable:		
Within one year	9	4
Between one and five years	2	-
	11	**4**

32. Earnings per share

(a) Earnings per share

	2012 Cents	2011 Cents
Basic	50.07	32.86
Diluted	50.06	32.83

(b) Reconciliation of earnings used in calculating earnings per share

	2012 US$m	2011 US$m
Profit attributable to the ordinary equity holders of the Company used in calculating basic and diluted earnings per share	1,559	1,019

(c) Weighted average number of shares used as denominator

	2012 Number	2011 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	3,113,680,118	3,111,466,228
Adjustments for calculation of diluted earnings per share:		
Potential ordinary shares	783,453	3,008,326
Weighted average number of ordinary and potential ordinary shares used as the denominator in calculating diluted earnings per share	3,114,463,571	3,114,474,554

(d) Information on the classification of securities

(i) Options

Options granted to employees under the Fortescue incentive plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The options have not been included in the determination of basic earnings per share. Details relating to the options are set out in note 33.

33. Share-based payments

(a) Employee option plan

No options were issued during financial year ended 30 June 2012. During the financial year ended 30 June 2011 the Company issued 400,000 employee options (2010: 7,500,000) under two equal tranches (200,000 options per tranche) to an employee. Tranche 1 will vest over a three year period, with 33.3 per cent vesting on each anniversary date. Tranche 2 will vest over a four year period, with 25 per cent vesting on each anniversary date. In addition, the Directors have imposed a further requirement that the exercise price of options is conditional upon Fortescue shares trading above A$7.83 for tranche 1 and A$9.10 for tranche 2 for a period of five consecutive trading days. The options have been issued at the exercise price of A$5.69, which is in accordance with the Fortescue incentive scheme whereby the exercise price must be at or greater than the volume weighted average price for the five consecutive trading days prior to the grant date, which was 3 December 2010.

NOTES TO THE FINANCIAL STATEMENTS

33. Share-based payments (continued)

	Weighted average exercise price 2012	Number of options 2012	Weighted average exercise price 2011	Number of options 2011
	US$	Number	US$	Number
Outstanding at 1 July	4.59	9,550,000	3.32	11,577,500
Exercised during the year	2.64	(450,000)	0.76	(2,383,750)
Forfeited during the year	2.64	(600,000)	0.57	(43,750)
Granted during the year	-	-	5.69	400,000
Outstanding at 30 June	**4.85**	**8,500,000**	**4.59**	**9,550,000**

Grant Date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at end of the year	Vested and exercisable at end of the year
			Number	Number	Number	Number	Number	Number
2011								
25 Jan 2006	25 Jan 2011	$0.57	568,750	-	(543,750)	(25,000)	-	-
1 Jun 2006	1 Jun 2011	$0.70	1,708,750	-	(1,690,000)	(18,750)	-	-
11 Feb 2009	11 Feb 2014	$2.50	1,800,000	-	(150,000)	-	1,650,000	-
13 May 2010	13 May 2015	$5.00	7,500,000	-	-	-	7,500,000	-
3 Dec 2010	20 Sep 2015	$5.69	-	400,000	-	-	400,000	-
			11,577,500	**400,000**	**(2,383,750)**	**(43,750)**	**9,550,000**	**-**
2012								
11 Feb 2009	11 Feb 2014	$2.50	1,650,000	-	(450,000)	(600,000)	600,000	-
13 May 2010	13 May 2015	$5.00	7,500,000	-	-	-	7,500,000	-
3 Dec 2010	20 Sep 2015	$5.69	400,000	-	-	-	400,000	-
			9,550,000	**-**	**(450,000)**	**(600,000)**	**8,500,000**	**-**

The assessed fair value at grant date of options granted during the year ended 30 June 2011 was A$3.88 per option for tranche 1 and A$3.87 per option for tranche 2. The fair value at grant date was determined using a trinomial lattice option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date, expected price volatility of the underlying share, the effect of additional market conditions, the expected dividend yield and the risk-free interest rate for the term of the option.

(b) Other share-based payments

The arrangement between certain of Fortescue's Executives and The Metal Group Pty Ltd, as described in note 28(d), constitutes a share-based payment. The assessed fair value of this share-based payment at grant date was US$3,941,996, including US$985,499 expensed during the financial year. The fair value at each grant date was determined using a Monte-Carlo simulation model that takes into account the four-year life of the instruments, the share prices at each grant date, the expected price volatility of the underlying share, the expected dividend yield, risk-free interest rate for the life of the instruments, the loan value per share, the loan interest rate and the terms of the margin call.

33. Share-based payments (continued)

(c) Employee expenses

Total expenses arising from share-based payments transactions recognised during the period as part of employee benefit expense were as follows:

	2012 US$m	2011 US$m
Share-based payment expense	7	6

34. Reconciliation of profit after income tax to net cash inflow from operating activities

	2012 US$m	2011 US$m
Profit for the year after income tax	1,559	1,019
Income tax expense	704	313
Depreciation and amortisation	267	177
Share-based payment expense	7	6
Re-estimation of unsecured loan notes	(156)	93
Net foreign exchange loss	21	37
Add interest expense disclosed within financing activities	565	454
Add refinancing costs disclosed within financing activities	-	719
Deduct interest income disclosed within investing activities	(60)	(25)
Other non-cash items	(7)	-
Working capital adjustments:		
Increase in payables and provisions	176	309
Increase in receivables	(67)	(109)
Increase in inventory	(201)	(215)
Net cash inflow from operating activities	**2,808**	**2,778**
Non-cash financing and investing activities		
Interest paid by the issue of shares	-	(6)
Acquisition of plant and equipment through finance leases	(99)	(204)
Total non-cash financing and investing activities	**(99)**	**(210)**

35. Parent entity financial information

(a) Summary of financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	2012 US$m	2011 US$m
Balance sheet		
Current assets	258	293
Non-current assets	4,744	3,451
Total assets	**5,002**	**3,744**
Current liabilities	950	-
Non-current liabilities	202	437
Total liabilities	**1,152**	**437**
Net assets	**3,850**	**3,307**
Equity		
Contributed equity	1,293	1,295
Reserves	15	10
Retained earnings	2,542	2,002
Total equity	**3,850**	**3,307**
Loss for the year	3	412
Total comprehensive loss for the year	**3**	**421**

(b) Guarantees entered into by the parent entity

The parent entity has not provided any financial guarantees other than the cross guarantees given by Fortescue Metals Group Limited, as described in note 30.

No liability was recognised by the parent entity or the consolidated entity in relation to the cross guarantees.

(c) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 30 June 2012 or 30 June 2011, other than disclosed in note 26. For information about guarantees given by the parent entity, please see above.

36. Events occurring after the reporting period

On 3 August 2012, Fortescue secured a US$750 million term loan and a US$750 million revolving credit facility. These unsecured facilities bear interest at LIBOR + 4.25 per cent per annum and mature on 31 December 2013.

On 23 August 2012, the Directors declared a final fully franked dividend of four Australian cents per ordinary share payable on 2 October 2012.

DIRECTORS' DECLARATION

In the Directors' opinion:

(a) the financial statements and notes set out on pages 67 to 112 are in accordance with the *Corporations Act 2001*, including:

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

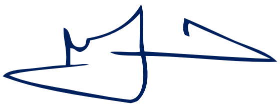
(ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date, and

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

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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

This declaration is made in accordance with a resolution of Directors.



Mr Andrew Forrest
Chairman

Dated at Perth this 23rd day of August 2012.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS

Tel: +8 6382 4600
Fax: +8 6382 4601
www.bdo.com.au

38 Station Street
Subiaco, WA 6008
PO Box 700 West Perth WA 6872
Australia

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

Report on the Financial Report

We have audited the accompanying financial report of Fortescue Metals Group Limited, which comprises the consolidated balance sheet as at 30 June 2012, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

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

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

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Fortescue Metals Group Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

BDO

Opinion

In our opinion:

(a) the financial report of Fortescue Metals Group Limited is in accordance with the Corporations Act 2001, including:
   (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
   (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Fortescue Metals Group Limited for the year ended 30 June 2012 complies with section 300A of the *Corporations Act 2001*.

BDO Audit (WA) Pty Ltd

BDO

Brad McVeigh
Director

Dated this 23rd day of August 2012
Perth, Western Australia

SHAREHOLDER INFORMATION

Information as at 13 September 2012

Top 20 Holders of Ordinary Shares

Rank	Name	Units	% of issued capital
1	The Metal Group Pty Ltd	652,013,910	20.94%
2	The Metal Group Pty Ltd	314,604,017	10.10%
3	HSBC Custody Nominees (Australia) Limited	234,751,550	7.54%
4	Valin Investments (Singapore) Pte Ltd	228,007,497	7.32%
5	National Nominees Limited	189,379,762	6.08%
6	HSBC Custody Nominees (Australia) Limited	155,542,204	5.00%
7	Valin Resources Investments (Singapore) Pte Ltd	154,267,590	4.95%
8	JP Morgan Nominees Australia Limited	153,522,446	4.93%
9	Citicorp Nominees Pty Limited	95,156,911	3.06%
10	Emichrome Pty Ltd	94,685,358	3.04%
11	Quinambo Nominees Pty Limited	91,452,228	2.94%
12	Valin Mining Investments (Singapore) Pte Ltd	76,130,405	2.44%
13	JP Morgan Nominees Australia Limited	48,061,938	1.54%
14	The Metal Group Pty Ltd	36,000,000	1.16%
15	BNP Paribas Noms Pty Ltd	18,999,736	0.61%
16	HSBC Custody Nominees (Australia) Limited A/C 3	13,391,528	0.43%
17	AMP Life Limited	12,997,879	0.42%
18	Mr William Graeme Rowley	11,644,951	0.37%
19	Leaping Joey Pty Ltd	9,674,500	0.31%
20	Neweconomy com au Nominees Pty Limited	9,585,315	0.31%
Total		**2,599,869,725**	**83.50%**

Substantial Shareholders

Substantial Shareholder	Total Shares	% of Total Shares
The Metal Group Pty Ltd and John Andrew Henry Forrest	1,020,690,915	32.78%
Hunan Valin Iron and Steel Group	458,405,492	14.72%

Range of Shares

Range	Total Holders	Units	% Issued Capital
1-1,000	28,494	15,412,719	0.49%
1,001 – 5,000	28,514	74,948,768	2.41%
5,001 – 10,000	7,059	54,862,978	1.76%
10,001 – 100,000	4,671	117,592,122	3.78%
100,000 - max	368	2,850,981,564	91.56%
Total	**69,106**	**3,113,798,151**	**100.00%**

Unmarketable Parcels

There were 4,629 members holding less than a marketable parcel of shares in the company.

TENEMENT REPORT

Information as at 5 September 2012

Western Australian Tenure

Holder: Chichester Metals Pty Ltd Status: Granted FMG mineral rights status: 100% all mineral rights									
E 45/2497	E 45/2498	E 45/2499	E 45/2593	E 45/2651	E 45/2652	E 45/2708	E 46/467	E 46/516	E 46/518
E 46/519	E 46/566	E 46/567	E 46/568	E 46/569	E 56/590	E 46/595	E 46/600	E 46/601	E 46/610
E 46/611	E 46/612	E 46/623	E 46/664	E 46/675	E 47/1320	E 47/1387	E 47/1388	E 47/1434	E 47/2177
G 46/7	M 45/1082	M 45/1083	M 45/1084	M 45/1085	M 45/1086	M 45/1087	M 45/1088	M 45/1089	M 45/1090
M 45/1091	M 45/1092	M 45/1093	M 45/1094	M 45/1102	M 45/1103	M 45/1104	M 45/1105	M 45/1106	M 45/1107
M 45/1124	M 45/1125	M 45/1126	M 45/1127	M 45/1128	M 45/1138	M 45/1139	M 45/1140	M 45/1141	M 45/1142
M 46/292	M 46/293	M 46/314	M 46/315	M 46/316	M 46/317	M 46/318	M 46/319	M 46/320	M 46/321
M 46/322	M 46/323	M 46/324	M 46/325	M 46/326	M 46/327	M 46/328	M 46/329	M 46/330	M 46/331
M 46/332	M 46/333	M 46/334	M 46/335	M 46/336	M 46/337	M 46/338	M 46/339	M 46/340	M 46/341
M 46/342	M 46/343	M 46/344	M 46/345	M 46/346	M 46/347	M 46/348	M 46/349	M 46/350	M 46/351
M 46/352	M 46/353	M 46/354	M 46/355	M 46/356	M 46/357	M 46/401	M 46/402	M 46/403	M 46/404
M 46/405	M 46/406	M 46/407	M 46/408	M 46/409	M 46/410	M 46/411	M 46/412	M 46/413	M 46/414
M 46/415	M 46/416	M 46/417	M 46/418	M 46/419	M 46/420	M 46/421	M 46/422	M 46/423	M 46/424
M 46/449	M 46/450	M 46/451	M 46/452	M 46/453	M 46/454	M 47/1461			
Holder: Chichester Metals Pty Ltd Status: Granted FMG mineral rights status: 100% all iron ore rights									
E 46/413									
Holder: Chichester Metals Pty Ltd Status: Granted FMG mineral rights status: n/a									
L 45/152	L 46/100	L 46/35	L 46/36	L 46/37	L 46/40	L 46/46	L 46/47	L 46/48	L 46/49
L 46/51	L 46/52	L 46/53	L 46/54	L 46/55	L 46/56	L 46/57	L 46/58	L 46/62	L 46/64
L 46/66	L 46/99	L 47/193	L 47/197	L 47/198					
Holder: Chichester Metals Pty Ltd Status: Application FMG mineral rights status: 100% all mineral rights									
E 46/666	M 45/1147	M 45/1148	M 45/1149	M 45/1150					
Holder: Chichester Metals Pty Ltd Status: Application FMG mineral rights status: n/a									
L 46/106	L 46/60	L 47/204	L 47/653	L 47/654	L 47/655	L 47/656	L 47/657	L 47/658	L 47/659
L 47/660									
Holder: FMG Pilbara Pty Ltd Status: Granted FMG mineral rights status: 100% all mineral rights									
E 08/1439	E 08/1440	E 08/1547	E 08/1550	E 08/1585	E 08/1623	E 08/1624	E 08/1626	E 08/1626	E 08/1629
E 08/1630	E 08/1631	E 08/1632	E 08/1633	E 08/1741	E 08/1762	E 08/1814	E 08/1816	E 08/1831	E 08/1933
E 08/1942	E 08/1943	E 08/1949	E 08/1950	E 08/1959	E 08/1961	E 08/1962	E 08/1985	E 08/1986	E 08/1992
E 08/2000	E 08/2003	E 08/2034	E 08/2065	E 08/2067	E 08/2114	E 08/2117	E08/2118	E 08/2157	E 08/2175
E 08/2193	E 08/2194	E 08/2195	E 08/2196	E 08/2200	E 08/2218	E 08/2250	E 08/2258	E 08/2284	E 08/2293
E 08/2294	E 08/2295	E 08/2296	E 45/2841	E 45/2843	E 45/2844	E 45/2850	E 45/2851	E 45/2852	E 45/2853
E 45/2854	E 45/2855	E 45/2856	E 45/2858	E 45/2860	E 45/2861	E 45/2862	E 45/2863	E 45/2864	E 45/2865
E 45/2866	E 45/2867	E 45/2870	E 45/2945	E 45/2946	E 45/2971	E 45/2972	E 45/2973	E 45/3191	E 45/3270
E 45/3310	E 45/3318	E 45/3328	E 45/3360	E 45/3366	E 45/3369	E 45/3386	E 45/3399	E 45/3402	E 45/3412
E 45/3413	E 45/3414	E 45/3417	E 45/3421	E 45/3422	E 45/3426	E 45/3428	E 45/3429	E 45/3430	E 45/3431
E 45/3433	E 45/3438	E 45/3441	E 45/3442	E 45/3443	E 45/3448	E 45/3469	E 45/3473	E 45/3561	E 45/3570
E 45/3606	E 45/3608	E 45/3611	E 45/3641	E 45/3650	E 45/3659	E 45/3664	E 45/3697	E 45/3698	E 45/3699
E 45/3711	E 45/3739	E 45/3764	E 45/3866	E 46/517	E 46/621	E 46/694	E 46/695	E 46/696	E 46/697
E 46/698	E 46/699	E 46/700	E 46/701	E 46/702	E 46/703	E 46/704	E 46/706	E 46/708	E 46/711
E 46/715	E 46/716	E 46/724	E 46/725	E 46/726	E 46/727	E 46/728	E 46/729	E 46/735	E 46/741
E 46/743	E 46/776	E 46/799	E 46/805	E 46/832	E 46/859	E 46/861	E 46/862	E 46/870	E 46/871
E 46/872	E 46/878	E 46/882	E 47/1155	E 47/1299	E 47/1300	E 47/1301	E 47/1302	E 47/1319	E 47/1349
E 47/1351	E 47/1355	E 47/1357	E 47/1370	E 47/1373	E 47/1375	E 47/1390	E 47/1391	E 47/1392	E 47/1393
E 47/1395	E 47/1396	E 47/1419	E 47/1420	E 47/1423	E 47/1446	E 47/1447	E 47/1448	E 47/1449	E 47/1453
E 47/1455	E 47/1479	E 47/1480	E 47/1500	E 47/1532	E 47/1533	E 47/1535	E 47/1543	E 47/1549	E 47/1579
E 47/1611	E 47/1612	E 47/1623	E 47/1651	E 47/1652	E 47/1653	E 47/1654	E 47/1655	E 47/1656	E 47/1665
E 47/1668	E 47/1673	E 47/1674	E 47/1675	E 47/1677	E 47/1679	E 47/1681	E 47/1682	E 47/1684	E 47/1685
E 47/1686	E 47/1687	E 47/1688	E 47/1690	E 47/1702	E 47/1703	E 47/1728	E 47/1735	E 47/1741	E 47/1761
E 47/1762	E 47/1763	E 47/1764	E 47/1772	E 47/1773	E 47/1808	E 47/1809	E 47/1821	E 47/1832	E 47/1833
E 47/1843	E 47/1846	E 47/1855	E 47/1879	E 47/1920	E 47/1921	E 47/1923	E 47/1944	E 47/1988	E 47/2026
E 47/2035	E 47/2036	E 47/2037	E 47/2046	E 47/2055	E 47/2056	E 47/2062	E 47/2080	E 47/2085	E 47/2119
E 47/2137	E 47/2138	E 47/2143	E 47/2146	E 47/2157	E 47/2159	E 47/2160	E 47/2171	E 47/2172	E 47/2173

TENEMENT REPORT

Information as at 5 September 2012

Western Australian Tenure (continued)

E 47/2174	**E 47/2226**	**E 47/2229**	**E 47/2234**	**E 47/2235**	**E 47/2236**	**E 47/2237**	**E 47/2238**	**E 47/2239**	**E 47/2240**
E 47/2241	**E 47/2242**	**E 47/2243**	**E 47/2244**	**E 47/2285**	**E 47/2292**	**E 47/2331**	**E 47/2333**	**E 47/2334**	**E 47/2378**
E 47/2379	**E 47/2431**	**E 47/2442**	**E 47/2459**	**E 47/2465**	**E 47/2466**	**E 47/2470**	**E 47/2475**	**E 47/2476**	**E 47/2506**
E 47/2507	**E 47/2575**	**E 47/2638**	**E 52/1759**	**E 52/1760**	**E 52/1779**	**E 52/1788**	**E 52/1789**	**E 52/1790**	**E 52/1937**
E 52/1977	**E 52/2034**	**E 52/2035**	**E 52/2113**	**E 52/2114**	**E 52/2264**	**E 52/2277**	**E 52/2290**	**E 52/2311**	**E 52/2333**
E 52/2340	**E 52/2341**	**E 52/2342**	**E 52/2347**	**E 52/2353**	**E 52/2380**	**E 52/2382**	**E 52/2393**	**E 52/2414**	**E 52/2415**
E 52/2416	**E 52/2470**	**E 52/2484**	**E 52/2486**	**E 52/2521**	**E 52/2522**	**E 52/2527**	**E 52/2555**	**E 52/2576**	**E 52/2594**
E 52/2620	**E 52/2626**	**E 52/2637**	**E 52/2699**	**E 52/2725**	**E 52/2731**	**E 52/2738**	**E 52/2739**	**E 69/3038**	**M 45/1177**
M 47/1413	**M 47/1431**	**M 47/1433**	**M 47/1434**	**M 47/1466**	**P 08/618**	**P 08/624**	**P 45/2721**	**P 45/2748**	**P 45/2749**
P 47/1210	**P 47/1211**	**P 47/1237**	**P 47/1257**	**P 47/1270**	**P 47/1278**	**P 47/1279**	**P 47/1280**	**P 47/1281**	**P 47/1282**
P 47/1283	**P 47/1284**	**P 47/1285**	**P 47/1286**	**P 47/1306**	**P 47/1307**	**P 47/1308**	**P 47/1309**	**P 47/1316**	**P 47/1317**
P 47/1318	**P 47/1390**	**P 47/1391**	**P 47/1392**	**P 47/1393**	**P 47/1394**	**P 47/1395**	**P 47/1396**	**P 47/1397**	**P 47/1398**
P 47/1399	**P 47/1400**	**P 47/1401**	**P 47/1402**	**P 47/1403**	**P 47/1404**	**P 47/1405**	**P 47/1406**	**P 47/1407**	**P 47/1408**
P 47/1409	**P 47/1410**	**P 47/1411**	**P 47/1412**	**P 47/1423**	**P 47/1427**	**P 47/1468**	**P 47/1469**	**P 47/1470**	**P 47/1513**
P 47/1514	**P 47/1536**	**P 47/1537**	**P 47/1545**	**P 47/1552**	**P 47/1555**	**P 47/1582**	**P 47/1583**	**P 47/1603**	**P 47/1604**
P 47/1605	**P 47/1606**	**P 47/1607**	**P 47/1608**	**P 47/1609**	**P 47/1610**	**P 47/1612**	**P 47/1613**	**P 47/1614**	**P 47/1615**
P 47/1616	**P 47/1617**	**P 47/1618**	**P 47/1623**	**P 47/1626**	**P 52/1415**	**WA/14EOS**			
Holder: FMG Pilbara Pty Ltd Status: Application FMG mineral rights status: 100% all mineral rights									
E 08/1432	E 08/1548	E 08/1627	E 08/1878	E 08/1893	E 08/1894	E 08/1895	E 08/1896	E 08/1897	E 08/1898
E 08/1902	E 08/1903	E 08/1904	E 08/1905	E 08/1906	E 08/1907	E 08/1908	E 08/1915	E 08/1916	E 08/1982
E 08/2004	E 08/2038	E 08/2039	E 08/2059	E 08/2060	E 08/2061	E 08/2062	E 08/2063	E 08/2072	E 08/2088
E 08/2137	E 08/2263	E 08/2286	E 08/2287	E 08/2298	E 08/2353	E 08/2354	E 08/2364	E 08/2367	E 08/2391
E 08/2398	E 08/2402	E 08/2403	E 08/2404	E 08/2405	E 45/2842	E 45/2857	E 45/2859	E 45/2919	E 45/2920
E 45/2970	E 45/3305	E 45/3306	E 45/3307	E 45/3400	E 45/3423	E 45/3445	E 45/3463	E 45/3489	E 45/3535
E 45/3536	E 45/3545	E 45/3591	E 45/3600	E 45/3605	E 45/3654	E 45/3663	E 45/3705	E 45/3746	E 45/3760
E 45/3762	E 45/3767	E 45/3816	E 45/3817	E 45/3845	E 45/3938	E 45/4001	E 45/4040	E 45/4050	E 45/4056
E 45/4075	E 45/4077	E 45/4083	E 45/4093	E 46/889	E 46/958	E 46/964	E 46/965	E 46/966	E 46/967
E 46/974-I	E 46/975-I	E 47/1342	E 47/1343	E 47/1361	E 47/1363	E 47/1383	E 47/1384	E 47/1397	E 47/1404
E 47/1433	E 47/1435	E 47/1578	E 47/1660	E 47/1666	E 47/1667	E 47/1669	E 47/1670	E 47/1818	E 47/1989
E 47/1990	E 47/1991	E 47/1992	E 47/1993	E 47/1994	E 47/1995	E 47/1996	E 47/1997	E 47/1998	E 47/1999
E 47/2000	E 47/2020	E 47/2061	E 47/2197	E 47/2198	E 47/2223	E 47/2336	E 47/2357	E 47/2358	E 47/2369
E 47/2490	E 47/2491	E 47/2496	E 47/2513	E 47/2538	E 47/2546	E 47/2559	E 47/2560	E 47/2572	E 47/2573
E 47/2574	E 47/2576	E 47/2577	E 47/2578	E 47/2579	E 47/2584	E 47/2585	E 47/2587	E 47/2615	E 47/2617
E 47/2618	E 47/2619	E 47/2632	E 47/2636	E 47/2637	E 47/2647	E 47/2664	E 47/2665	E 47/2666	E 47/2675
E 47/2678	E 47/2679	E 47/2685	E 47/2689	E 47/2712	E 52/1984	E 52/2696	E 52/2730	E 52/2732	E 52/2737
E 52/2745	E 52/2748	E 52/2749	E 52/2776	E 52/2786	E 52/2793	E 69/2722	E 69/2724	E 69/2726	E 69/2727
E 69/2728	E 69/2729	E 69/2965	E 69/3039	E 77/2054	E 77/2074	M 45/1196	M 47/1404	M 47/1417	M 47/1441
M 47/1453	M 47/1456	M 47/1457	M 47/1458	M 47/1459	M 47/1473	M 47/1474	M 47/1475	M 47/1476	M 47/1477
M 47/1478	M 47/1481	P 08/531	P 08/532	P 08/617	P 08/619	P 08/620	P 08/621	P 08/622	P 08/647
P 45/2786	P 45/2787	P 45/2838	P 45/2862	P 45/2863	P 45/2864	P 45/2865	P 47/1269	P 47/1287	P 47/1304
P 47/1305	P 47/1315	P 47/1553	P 47/1554	P 47/1581	P 47/1633	P 47/1634	P 47/1636	P 47/1638	P 47/1639
P 47/1640	P 47/1641	P 47/1642	P 47/1643	P 47/1644	P 47/1645	P 47/1646	P 47/1647	P 47/1648	P 47/1649
P 47/1650	P 47/1667	P 47/1668	P 47/1669	P 47/1670	P 47/1671	P 47/1672	P 47/1673	P 47/1674	P 47/1675
P 52/1421	P 52/1422								
Holder: FMG Pilbara Pty Ltd Status: Application FMG mineral rights status: 100% mineral rights except diamonds									
M 47/1417									
Holder: FMG Pilbara Pty Ltd Status: Application FMG mineral rights status: n/a									
L 45/241	**L 45/244**	**L 45/246**	**L 45/368**	**L 45/472**					
Holder: FMG Magnetite Pty Ltd Status: Granted FMG mineral rights status: 100% mineral rights*									
E 45/2510	**E 45/2535**	**M 45/1180**	**M 45/1181**	**M 45/1182**	**M 45/1183**				
Holder: FMG Magnetite Pty Ltd Status: Granted FMG mineral rights status: n/a									
L 45/272									
Holder: FMG Magnetite Pty Ltd Status: Application FMG mineral rights status: 100% mineral rights*									
E 09/1871	**M45/1196**	**M45/1226**							

TENEMENT REPORT

Information as at 5 September 2012

Western Australian Tenure (continued)

Holder: FMG North Pilbara Pty Ltd Status: Granted FMG mineral rights status: 100% all mineral rights*									
E 45/3084	M 45/1184	M 45/1211	M 45/1212	M 45/1213					
Holder: FMG Resources Pty Ltd Status: Granted FMG mineral rights status: 100% all mineral rights									
E 04/1534	E 08/2259	E 08/2280	E 08/2281	E 08/2282	E 16/420	E 29/824	E 30/432	E 51/1158	E 51/1159
E 51/1165	E 51/1166	E 52/1945	E 52/1946	E 52/1947	E 52/2423	E 52/2621	E 59/1267	E 59/1275	E 59/1360
E 63/1500	E 63/1501	E 63/1502	E 63/1503	E 63/1504	E 69/2953	E 69/2954	E 69/2955	E 69/2956	E 69/2969
E 69/2970	E 69/2971	E 69/2993	E 70/3546	E 70/4013	E 70/4014	E 74/500	E 74/501	E 74/504	E 74/506
E 77/1385	E 77/1906	E 77/1907							
Holder: FMG Resources Pty Ltd Status: Application FMG mineral rights status: 100% all mineral rights									
E 04/1536	E 04/1537	E 04/1538	E 04/1539	E 04/2129	E 08/2260	E 08/2261	E 09/1872	E 09/1873	E 09/1874
E 45/3221	E 45/3222	E 45/3223	E 45/3224	E 45/3225	E 45/3226	E 45/3563	E 45/3564	E 45/3565	E 45/3566
E 45/3567	E 45/3568	E 45/3569	E 45/4030	E 57/738	E 57/756	E 59/1279	E 69/2516	E 69/2517	E 69/2518
E 69/2519	E 69/2520	E 69/2521	E 69/2522	E 69/2523	E 69/2524	E 69/2525	E 69/2526	E 69/2527	E 69/2528
E 69/2529	E 69/2530	E 69/2531	E 69/2929	E 69/2930	E 69/2945	E 69/2946	E 69/2947	E 69/2948	E 69/2949
E 69/2950	E 69/2951	E 69/2960	E 69/2961	E 69/2962	E 69/2963	E 77/1932	E 77/2073	P 77/4056	P 77/4057
P 77/4058	P 77/4059	P 77/4060							
Holder: Fortescue Metals Group Ltd Status: Application FMG mineral rights status: 100% all mineral rights									
P 47/1663	P 47/1664	P 47/1665	P 47/1666						
Holder: The Pilbara Infrastructure Pty Ltd Status: Granted FMG mineral rights status: n/a									
AL 70/1	L 45/222	L 45/223	L 45/224	L 46/86	L 46/87	L 46/96			
Holder: The Pilbara Infrastructure Pty Ltd Status: Application FMG mineral rights status: n/a									
L 47/329	L 47/330	L 47/331	L 47/424	L 47/425	L 47/426	L 47/427	L 47/428	L 47/429	L 47/430
L 47/431	L 47/433	L 47/438	L 47/439	L 47/440	L 47/441	L 47/442	L 47/443	L 47/444	L 47/445
L 47/448	L 47/453	L 47/458	L 47/459	L 47/460	L 47/461	L 47/462	L 47/463	L 47/466	L 47/468
L 47/474	L 47/475	L 47/476	L 47/477	L 47/478	L 47/480	L 47/481	L 47/483	L 47/489	L 47/490
L 47/491	L 47/493	L 47/501	L 47/504	L 47/505	L 47/506	L 47/508	L 47/510	L 47/511	L 47/516
L 47/519	L 47/521	L 47/522	L 47/527	L 47/528	L 47/529	L 47/530	L 47/531	L 47/532	L 47/536
L 47/538	L 47/539	L 47/540	L 47/541	L 47/542	L 47/570	L 47/571	L 47/572	L 47/573	L 47/574
L 47/575	L 47/576	L 47/577	L 47/578	L 47/580	L 47/581	L 47/582	L 47/583	L 47/584	L 47/585
L 47/586	L 47/587	L 47/588	L 47/589	L 47/590	L 47/591	L 47/592	L 47/593	L 47/594	L 47/595
L 47/596	L 47/597	L 47/598	L 47/599	L 47/600	L 47/601	L 47/602	L 47/603	L 47/604	L 47/605
L 47/606	L 47/606	L 47/607	L 47/608	L 47/609	L 47/610	L 47/611	L 47/612	L 47/613	L 47/614
L 47/615	L 47/616	L 47/617	L 47/618	L 47/619	L 47/620	L 47/621	L 47/622	L 47/623	L 47/624
L 47/625	L 47/661								
Holder: Global Advanced Metals Pty Ltd Status: Application FMG mineral rights status: Earning 60% iron ore rights									
E45/4024	E45/4025								
Holder: Maincoast Pty Ltd Status: Application FMG mineral rights status: 100% all mineral rights									
E 47/1461	E 70/2596								
Holder: Pilbara Iron Ore Pty Ltd Status: Granted FMG mineral rights status: 50% all mineral rights									
E 47/1191	E 47/1192	E 47/1224	E 47/1225	E 47/1235	E 47/1380	P 47/1156	P 47/1414		
Holder: Pilbara Iron Ore Pty Ltd Status: Application FMG mineral rights status: 50% all mineral rights									
M 47/580	M 47/581	M 47/582							
Holder: Pilbara Iron Ore Pty Ltd Status: Application FMG mineral rights status: 50% all mineral rights									
M 47/580	M 47/581	M 47/582							
Holder: Pilbara Iron Ore Pty Ltd Status: Application FMG mineral rights status: n/a									
L 47/205									
Holder: Talisman Mining Ltd Status: Granted FMG mineral rights status: 100% iron ore rights									
E 47/1136	E 47/1194	E 47/1195	E 47/1196						
Holder: Contract Power Australia Status: Application FMG mineral rights status: n/a									
L46/63									
Holder: Derek Ammon Status: Granted FMG mineral rights status: 40% all mineral rights (NB.1)									
E 47/1140									
Holder: Derek Ammon Status: Application FMG mineral rights status: 40% all mineral rights (NB.1)									
M 47/583									

TENEMENT REPORT

Information as at 5 September 2012

Western Australian Tenure (continued)

Holder: Cullen Exploration Pty Ltd Status: Granted FMG mineral rights status: Earning 51% iron ore rights									
E 52/1667									
Holder: Cullen Exploration Pty Ltd Status: Granted FMG mineral rights status: 51% iron ore rights									
E 08/1393	E 47/1154	E 47/1649	E 47/1650	P 08/556					
Holder: David Ryan Status: Granted FMG mineral rights status: Option for 100% all mineral rights									
P 47/1275									
Holder: Blue Mist Enterprises Pty Ltd Status: Granted FMG mineral rights status: 100% all mineral rights									
E 47/1861	E 47/1863								
Holder: Flinders Mines Ltd Status: Granted FMG mineral rights status: 100% iron ore rights									
E 47/1011	E 47/1016	E 47/1306							
Holder: Flinders Mines Ltd Status: Application FMG mineral rights status: 100% iron ore rights									
E 47/2616	M 47/1407	M 47/663	M 47/664	M 47/665	M 47/666	M 47/667	M 47/668	M 47/669	M 47/670
M 47/671	M 47/672								
Holder: BC Iron Ltd Status: Granted FMG mineral rights status: 50% iron ore rights									
E 45/2552	E 45/2717	E 46/522	E 46/523	E 46/651	E 46/652	E 46/653	E 46/654	E 46/655	E 46/656
E 46/657	E 46/658	E 46/663	M 46/515						
Holder: BC Iron Ltd Status: Granted FMG mineral rights status: n/a									
L 46/68	L 46/73	L 46/74	L 46/75	L 46/76	L 46/79	L 46/80	L 46/81	L 46/82	G 46/8
G 46/9									

South Australian Tenure

Holder: FMG Resources Pty Ltd Status: Application FMG mineral rights status: 100% all mineral rights									
EL 2011/00130	EL 2011/00131	EL 2011/00134	EL 2011/00135	EL 2011/00137	EL 2011/00154	EL 2011/00155	EL 2011/00156	EL 2011/00157	EL 2011/00157

Queensland Tenure

Holder: FMG Resources Pty Ltd Status: Application FMG mineral rights status: 100% all coal rights			
EPC 1972	EPC 1975	EPC 2013	EPC 2090

New Zealand Tenure

Holder: FMG Pacific Pty Ltd Status: Granted FMG mineral rights status: 100% all mineral rights									
EP 50990	EP 50994	EP 51212	EP 51258	EP 51330	EP 52147	EP 52604	EP 52887	PP 50873	PP 50960
PP 50961	PP 50993	PP 51267	PP 52606						
Holder: FMG Pacific Pty Ltd Status: Application FMG mineral rights status: 100% all mineral rights									
CSL 52728	PP 53694								

* FMG North Pilbara Pty Ltd/FMG Magnetite Pty Ltd are subsidiaries of FMG Iron Bridge Limited which is owned 88% by Fortescue Metals Group Ltd and 12% by Baosteel Resources International Co. Ltd.

NB.1 - this has been contested and is currently being litigated


MATILDA
H

CORPORATE DIRECTORY

Australian Business Number
ABN 57 002 594 872

Directors
Andrew Forrest – Non-Executive Chairman
Herb Elliott – Non-Executive Deputy Chairman
Nev Power – Executive Director
Graeme Rowley – Non-Executive Director
Ken Ambrecht – Non-Executive Director
Geoff Brayshaw – Non-Executive Director
Owen Hegarty – Non-Executive Director
Cao Huiquan – Non-Executive Director
Mark Barnaba – Non-Executive Director
Geoff Raby – Non-Executive Director
Herbert Scruggs - Non-Executive Director

Company Secretary
Mark Thomas

Principal Registered Office in Australia
Level 2, 87 Adelaide Terrace
East Perth WESTERN AUSTRALIA 6004
Tel: +61 8 6218 8888   Fax: +61 8 6218 8880
Website: www.fmgl.com.au
Email: fmgl@fmgl.com.au

Auditor
BDO Audit (WA) Pty Ltd
38 Station Street
Subiaco WESTERN AUSTRALIA, 6008

Internal Auditor
KPMG
235 St Georges Terrace
Perth WESTERN AUSTRALIA, 6000

Stock Exchange Listings
Fortescue Metals Group Limited shares are listed on the Australian Securities Exchange (ASX)
ASX Code: FMG

Fortescue Share Registry
C/ - Link Market Services Limited
1A Homebush Bay Drive
Rhodes NEW SOUTH WALES, 2138

Locked Bag A14
Sydney South NEW SOUTH WALES, 1235
Tel: 1300 554 474 or + 61 2 8280 7111
Fax: +61 2 9287 0303
For any change in personal details, please contact Link Market Services.

Annual General Meeting
14th November 2012

Prefer email?
There is a better way to access your information and help the environment

Every year we are required to communicate information to securityholders, including annual reports, notices of meetings and other advices.

We believe everyone benefits from electronic securityholder communication – securityholders receive prompt information and have the convenience and security of electronic delivery, there are significant cost savings, and our communications are environmentally friendly.

Please use the enclosed form to alter your communication preferences or by logging in via the Registry website: www.linkmarketservices.com.au.

www.fmgl.com.au

THE NEW FORCE IN IRON ORE

Fortescue
The New Force in Iron Ore