Fortescue Metals Group Ltd

Annual Report **2003**

FMG The New Force in Iron Ore

www.fmgl.com.au

ABN 57 002 594 872

Corporate Directory

Directors

Andrew Forrest
- Chairman and Chief Executive Officer

Graeme Rowley AM
- Director Operations

Kenneth Ambrecht
Mark Caruso
Sebastian Coe OBE
Herbert Elliott AC MBE
Christopher Linegar
Russell Scrimshaw

Secretary

Christopher Catlow

Registered Office & Principal Place of Business

45 Stirling Highway
NEDLANDS
WESTERN AUSTRALIA WA 6009

Website

www.fmgl.com.au

Contents

Auditors

BDO
Level 8
256 St George's Terrace
PERTH
WESTERN AUSTRALIA 6000

Bankers

ANZ Bank
77 St George's Terrace
PERTH
WESTERN AUSTRALIA 6000

National Australia Bank
50 St George's Terrace
PERTH
WESTERN AUSTRALIA 6000

Solicitors

Clayton Utz
Level 45
108 St George's Terrace
PERTH
WESTERN AUSTRALIA 6000

Troika Legal
Level 2, Troika House
129 Melville Parade
COMO
WESTERN AUSTRALIA 6152

Stock Exchange

The Company's securities are quoted on the Official List of the Australian Stock Exchange Limited (ASX), the home exchange being
Australian Stock Exchange (Perth) Limited
2 The Esplanade
PERTH WA 6000

ASX Code

FMG

Share Registry

Computershare Investor Services Pty Limited
Level 2, Reserve Bank Building
45 St George's Terrace
PERTH WA 6000

GPO Box D182
PERTH WA 6001

Tel: +61 8 9323 2000
Fax: +61 8 9323 2033
For any change in personal details, please contact Computershare

Notice of Annual General Meeting

The Annual General Meeting of Members of Fortescue Metals Group Ltd will be held on Level 8, Exchange Plaza, 2 The Esplanade, Perth, Western Australia on Friday 28 November 2003 at 2pm.

A separate Notice of Meeting and Proxy Form are enclosed.

Highlights

- Appointment of new Board and Executive team
- Drilling at Mt Nicholas confirms significant Marra Mamba iron mineralisation
- Drilling at Mindy Mindy confirmed significant Channel Iron Deposit mineralisation
- Scoping and Interim Prefeasibility Parameters Study completed and Prefeasibility Study commenced
- Project approval process underway and land access under negotiation
- High confidence in mine, port and rail capital and operating costs established
- Business plans demonstrate commercial viability and capacity to attract project finance
- Iron ore markets strongly support FMG in its role as a “supply side” catalyst to change.

Photo Courtesy of Louthean Press

Front Row (left to right)
Harry Adams (Head of Sustainable Development)
Andrew Forrest (Chief Executive Officer)
Graeme Rowley (Executive Director Operations)
Back Row (left to right)
Alan Watling (Head of Port and Rail)
Richard Monti (Head of Resources)
Barry Knight (Head of Exploration)
Chris Catlow (Chief Financial Officer)

Chairman and Chief Executive Officer's Message

Dear Fellow Shareholder

Welcome to your rapidly evolved company – Fortescue Metals Group Ltd – creating the new force in iron ore. I am delighted to say we have embarked on an exciting journey to capitalise on a unique opportunity – to develop and market previously stranded massive iron ore deposits in the Pilbara region of Western Australia, to the global steel industry.

The major customers, firmly aware of the potentially precarious business model of very few suppliers, having the ability to act in concert, enjoying both a broad and deep customer base – have demanded the creation of a fourth force in the world of sea-borne iron ore. That force, in conjunction with our many partners who will use the new infrastructure catalysed by it – is FMG.

That opportunity has come about as a direct result of the increasing demand for iron ore. China is quickly fulfiling its promise of becoming a major long term iron ore importer. Its rapid development has finally arrived, leading to unprecedented levels of demand for sea-borne supply. While this demand has been widely reported in recent times it is yet to be well understood by the market – in particular its significant structural change, its depth and long term growth.

At the same time, the supply side of the industry has been dominated by the major producers. New participants have been effectively kept at bay by restricting access to the existing infrastructure in Western Australia – the private railways and ports. Even with incremental expansions of those private facilities, we are firmly of the view that there is going to be a significant excess of demand over supply in coming years. Indeed many industry commentators have remarked that some suppliers have been caught flat-footed, and therefore Australian market share has been lost.

We are committed to facilitating the development via new open access infrastructure in the Pilbara to liberate stranded iron ore deposits (including our own) and provide alternative supply options for hungry steel mills around the world by rapidly lowering the previous barriers to entry.

We believe the open availability of such infrastructure to be in Australia's national interest. It will facilitate Australia meeting the additional market demand by liberating stranded iron ore, thereby realising significant royalties to the government – and avoiding the dilution of our local industry to the gain of sovereign competition. Importantly, it will also serve to contribute towards the general development of the State of Western Australia – become a treasured national asset, and provide the catalyst for further economic development of the Pilbara region.

We at FMG are not wedded to owning that infrastructure – our position is however, that it be operated in accordance with world's best practice and be available to all under an open policy at commercially attractive rates.

We have brought together a world class Board of Directors, an executive management team and accumulated more than 2,800 square kilometres of highly prospective iron ore tenements in the Pilbara region of Western Australia.

FMG also has an unprecedented refreshingly open approach to our prospective customers' needs. Our philosophy is one of open partnerships – involving our customers from the early stages in key design and operating parameters. We wish to focus on meeting customers' iron ore requirements in an open, transparent way – so as to maximise efficiencies from the mine to the steel plant.

The Pilbara is the best address in the world for iron ore. It is the closest significant iron ore region to the booming Asian markets and has produced some 3.6 billion tonnes over the past 30 years. Vast areas of the Pilbara are yet to be explored with any vigour. Annual production is now at approximately 180 million tonnes.

FMG has in the limited time since the EGM in July 2003 confirmed significant iron ore mineralisation at both Mt Nicholas and Mindy Mindy. These programmes, on a small fraction of FMG's tenements, have given us renewed confidence that additional drilling will realise previous management's estimates of there being more than 1 billion tonnes of iron ore within these tenements.

FMG clearly needs additional capital to be able to further develop the project and we are considering many financing alternatives to maximise shareholder interests. Management will continue to contribute strongly to finding our groups capital requirements, but at the same time we will commence the first stage of raising that capital in a manner that maximises our share of our projects. As co-owners your staff and directors are acutely aware of the need to ensure capital is raised in a manner that maximises the interests of existing shareholders.

The year to 30 June 2003 was one of major transition for the Company and the brief period between the EGM and the end of year one of great activity. I would like to take this opportunity to thank the previous directors for their efforts, and wish them well with their endeavours with Allied Gold Ltd.

Whilst FMG's primary focus is the iron ore development in the Pilbara, we believe that our wholly-owned sole remaining non-iron ore subsidiary, Allied Medical Limited, has potential to deliver shareholders as yet unrealised value. It is our current intention to explore expansion opportunities to crystallise that potential.

I am very much looking forward to the year ahead – we have the team and the commitment to deliver on our Vision.
FMG – the new force in iron ore.
Yours

Andrew Forrest
Chairman and Chief Executive Officer

Introducing the Directors

Chairman and Chief Executive Officer

Andrew Forrest


Photo Courtesy of Louthean Press

Mr Forrest was appointed a director on 18th July 2003 and is aged 41.

Mr Forrest has extensive experience in the mining sector with specialist expertise in major project finance. Mr Forrest's investment firm underwrote the initial listing of Anaconda Nickel Ltd (Anaconda), and he was the founding chairman of the Murrin Murrin joint venture. He supervised its growth to become one of Australia's major nickel companies through the application of innovative technology to develop previously neglected laterite nickel resources in Western Australia. The Murrin Murrin Nickel Cobalt Operation required development capital of $1.5 billion. Anaconda had 5,000 shareholders and reached a market capitalisation of $1.2 billion during his stewardship. Murrin Murrin has an equity value of approximately $2 billion today. Anaconda, has a number of nickel growth areas available to us as a result of his stewardship.

Mr Forrest is also Chairman of Siberia Mining Corporation, Australia's most successful new listing in 2003, and Chairman of Athletics Australia. He has served as a director of Australia's Export Finance and Insurance Corporation, Executive Councillor of the Western Chamber of Minerals and Energy and as Chairman of a Sydney investment bank.

Executive Director Operations

Graeme Rowley AM

Mr Rowley was appointed a director on 16th October 2003 and is aged 63.

Mr Rowley is a former senior executive of global resources group Rio Tinto, holding senior roles in Hamersley Iron, Argyle Diamonds and the former CRA corporate headquarters.

As General Manger of Argyle's Polished Diamond business, Graeme demonstrated his considerable business acumen by positioning Argyle's polished sales as a significant and profitable contributor to the business returns. He was subsequently appointed to the role of General Manager of Rail and Port Operations for Hamersley Iron. During a very successful six year term in that appointment, Graeme was responsible for significant improvements in unit costs and productivity, expanding the capacity of the port and rail system from 54 to 76Mtpa. Graeme will bring a wealth of operational talent to the FMG board with particular emphasis on FMG's infrastructure strategy.

Graeme's directorships have included Dampier Port Authority, the Pilbara Development Commission (Chairman), the Council for the West Pilbara College of TAFE (Chairman) and the WA State Government's Technical Industry Advisory Council.

Prior to his 25 year career with Rio Tinto, Mr Rowley had a 20 year Royal Australian Air Force career, which included a period as Commanding Officer of the RAAF's VIP Squadron at Canberra.

Non Executive Directors;

Ken Ambrecht

Mr Ambrecht was appointed a director on 16th October 2003 and is aged 57.

Mr Ambrecht is a Managing Director at the Royal Bank of Canada. He is the senior member of the Bank's High Yield Group Bond Business in New York. Prior to joining the Bank he was with Gleacher and Co. where he specialised in raising funds in the US capital markets for offshore companies.

Mr Ambrecht was previously associated with Lehman Brothers for twenty five years where he was a Managing Director in Capital Markets.

Sebastian Coe OBE

Lord Coe was appointed a director on 16th October 2003 and is aged 47.

Sebastian Coe is a successful business, marketing and political leader in Britain since his retirement from competitive Athletics in 1990.

During his career in athletics, Seb, now Lord Coe, won two Gold and two Silver medals in the 1980 Moscow Olympics and 1984 Los Angeles Olympics, as well as breaking four world records.

In his business career he launched the successful chain of Sebastian Coe Health Clubs with the Jarvis Hotel Group and is also Chairman of Fast Track Limited. He is Global Advisor to the Nike Corporation and has written five books as well being a regular contributor to The Daily Telegraph. More recently, Lord Coe has been appointed Vice-Chairman of the 2012 London Olympic Bid.

Seb became a Member of Parliament in 1992 and during his political career he has been the Private Secretary to the British Deputy Prime Minister and the Minister for the Armed Forces. More recently he was Private Secretary to William Hague, Leader of the Opposition and Leader of the Conservative Party. He was elevated to The House of Lords in 2000.

Seb was voted "BBC Sports Personality of the Year" and was awarded "Most Outstanding Contribution to British Sport in the last 50 Years" by the British Sports Writers' Association.

Board of Directors (continued)

Herb Elliott AC MBE

Mr Elliott was appointed a director on 16th October 2003 and is aged 65.
Mr Elliott's career includes Chief Executive Officer of PUMA Australia, the international sports marketing company, before his promotion in 1995 to President of PUMA North America.

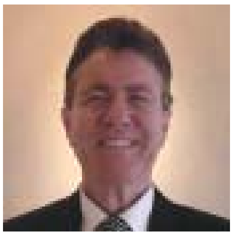
Main directorships include:

- Director of Ansell Ltd.
- Chairman of the Telstra Foundation.
- Director of Sydney Olympic Park Authority.
- Director of World Olympic Association.

Herb is an Australian Olympian who enjoys the very rare achievement of having never been beaten in his sporting career.

Herb Elliott was formerly the inaugural Chairman of National Australia Day Committee, Commissioner of the Australian Broadcasting Commission, Director of Australian Olympic Committee, Director of the Australian Institute of Sport and is currently a Director of Athletics Australia.

Christopher Linegar



Mr Linegar was appointed a director on 18th July 2003 and is aged 55.
Mr Linegar is currently a director of SG Australia Holdings Limited, Goldtouch Technologies Inc. and formerly executive director responsible for Borrowings, Money Markets and Foreign Exchange at Societé Generale Australia Ltd.

Mr Linegar has spent his career in the international financial markets, being General Manager of the International Services Division of Citicorp International Group, as well as a five-year term as head of Societé Generale's Treasury and Capital Markets in New York.

Mr Linegar was previously a non-executive director of Anaconda Nickel Limited, and assisted that company in its raising of $US420 million from the high yield bond market in New York.

Russell Scrimshaw

Mr Scrimshaw was appointed a director on 16th October 2003 and is aged 54.
Mr Scrimshaw's business experience has included senior executive and general manager positions for some of the world's largest companies in the Banking and Finance, Technology and Telecommunications industries.

His responsibilities have included General Management, Sales, Marketing, Technology, Finance, Shared Services, Operations and IT. Key roles have included Executive Committee positions at the Commonwealth Bank of Australia and Optus as well as General Management roles for Alcatel and Amdahl USA.

In addition, he has worked successfully across many different geographies including assignments in Japan, Europe, USA and Australia.

Russell has had board experience with companies including Commonwealth Bank of Australia subsidiary companies Commonwealth Property Limited and Commonwealth Managed Investments Limited, as well as EDS Australia and Telecom New Zealand (Australia). He is also a board member of the Garvan Institute Foundation in Sydney and an Associate Member of the Australian Society of Certified Practicing Accountants (CPA).

The New Direction

FMG – The New Force in Iron Ore

Synopsis

For the first time in forty years in the Australian iron ore industry, a unique demand-focussed opportunity has emerged. Driven by spectacular growth in the Chinese steel industry, world iron ore demand exceeds supply by as much as 80 Mtpa.

FMG has positioned itself to take advantage of this opportunity, both as an owner of significant iron ore resources and as a competent provider of necessary infrastructure.

In addition, the provision of full open access infrastructure will bring into production many of the stranded ore resources which presently exist in the Pilbara.

FMG is currently finalising a major drilling programme to delineate reserves at Mount Nicholas. The Company is involved in a 50/50 JV with Consolidated Minerals, which is nearing completion of resource identification at Mindy Mindy. FMG also has a number of other projects in the highly prospective Pilbara region in which to strongly grow its resource base. They all contain significant iron ore mineralisation and are under continuing evaluation.

With an internationally recognised board and a top level executive team, FMG is well placed to complete its production pre-feasibility study by the end of 2003 and move to the full feasibility study in the first quarter of 2004.

The Main Players

The Executive Management Team brought together by FMG are experts in the areas of operations, marketing and finance.

Head of Port and Rail
Alan Watling

Head of Mining
Eduardo Valenzuela

Head of Exploration
Barry Knight

Head of Resources
Richard Monti

Head of Marketing
Phil Kirchlechner

Executive Director Operations
Graeme Rowley

Chief Financial Officer
Chris Catlow

Head of Sustainable Development
Harry Adams

Chief Executive Officer
Andrew Forrest

The operations team have previously achieved outstanding results in the fields of heavy haul rail, bulk loading port facilities and finance for other organisations. Their vast knowledge of this industry, coupled with this exceptional opportunity to build and operate a greenfields project guarantees infrastructure that will produce outstanding operating results for all users.

FMG has also recruited experienced iron ore marketing prowess, with a particularly strong understanding of customers' requirements and unparalleled knowledge of the international market – particularly in China.

Financing FMG's projects will be facilitated by our experienced team who have coordinated the funding of a wide variety of major international resource projects over many years.

FMG's Operating Philosophy – a first in the iron ore industry

FMG is committed to creating a totally new kind of customer relationship based on partnership. We envisage an unprecedented involvement by potential customers in the key design and operating parameters, even at this early stage in our development.

FMG understands the complexity of the iron and steel industry and pledges to continue to work closely in a cooperative partnership with its steel mill customers to help them add the maximum value to their product.

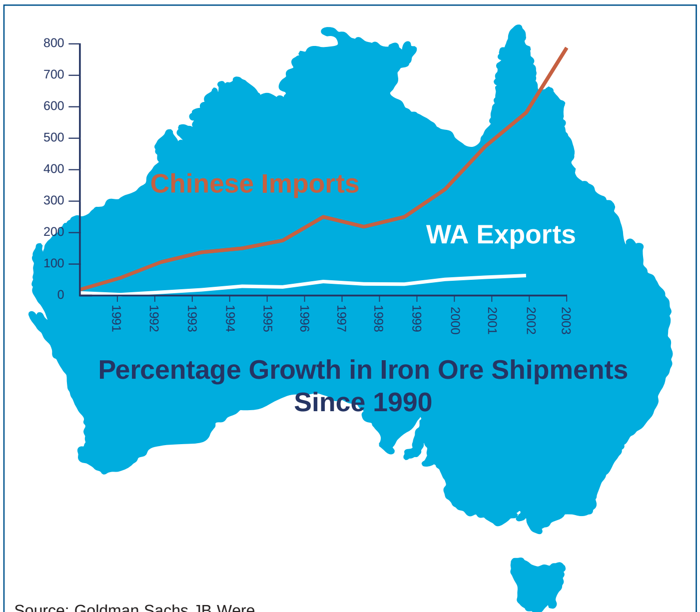
FMG's philosophy will be to continually demonstrate to its customers our understanding of their needs and our ability to respond quickly to their requirements.

The New Direction (continued)

Marketing

There is some concern amongst iron ore customers about recent rationalisation in the iron ore industry. The introduction of FMG brings another iron ore player into production, representing an attractive alternative in a competitive market. FMG's potential customers have spoken spiritedly of requiring a structural shift in the supply equation of the iron ore industry. FMG as a future iron ore and infrastructure supplier, has the potential to facilitate that change. This will be achieved by making essential port and rail infrastructure available to FMG's and others' mines in the Pilbara. As a group, a fourth force in the sea-borne iron ore trade will be born.

The enormous expansion in world steel production is predominately driven by production growth in China. The current demand for iron ore exceeds supply; a situation which is forecast to continue through 2007 and beyond. Australia, and in particular the Pilbara, is well positioned to meet this supply shortfall.



Source: Goldman Sachs JB Were

FMG, through the provision of additional infrastructure and production from its own resources, has developed a marketing strategy that targets the shortfall in supply, and in particular the Chinese market. FMG anticipates attracting customers and developing long term mutually rewarding relationships, with a product predicted to be similar in specification to ores currently in the market.

There are three significant elements to FMG's strategy:

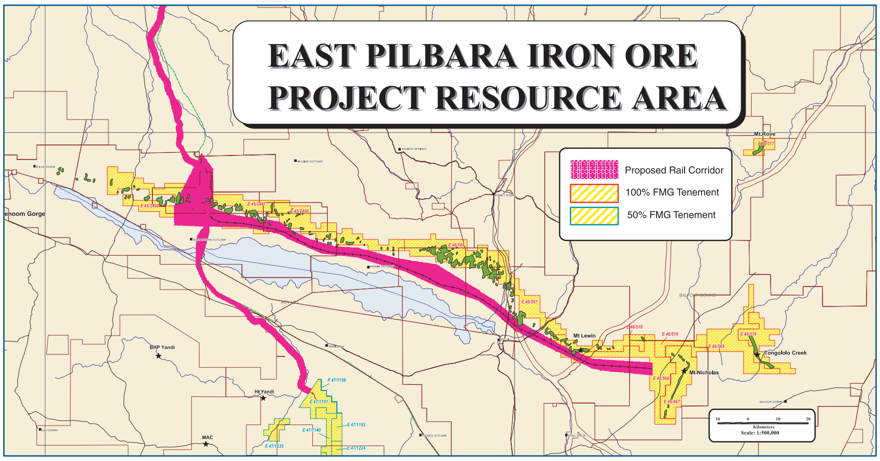
- As a "Greenfield" operation, FMG intends forging effective and productive partnerships with new customers. FMG's product can be clearly tailored to meet customers' expectations.
- FMG's operation will be fully integrated, ensuring all staff have a clear focus on customers' needs.
- FMG's world class scheduling and blending process will ensure that the quality specifications of each product are strictly maintained.

The Resource Project

The Resource Project involves the mining, processing and marketing of iron ore. FMG's wholly-owned tenements are held by subsidiary companies. FMG also holds 50% of the issued capital of Pilbara Iron Ore Pty Ltd a joint venture company that holds the Mindy Mindy tenements.

The Resource Project is located in the East Pilbara region of Western Australia, approximately 110 kilometres northeast of Newman and approximately 325 kilometres southeast of Port Hedland. The Project site is located in very favourable terrain with access from the Great Northern Highway.

The total volume of iron ore mineralisation is significant and consists of three major areas; an area around Mt Nicholas that is primarily Marra Mamba ore, low lying outcrops of Marra Mamba Formation that cover a strike length of over 100 km along the edge of the Chichester Ranges, and pisolite ore at Mindy Mindy, south of the Fortescue river. Preliminary drilling indicates the potential for delineation of mineralisation, which is believed to be sufficient to support a 20 year project life. A simple benefication process will yield a product exceeding 60% Fe, depending on the chosen mining cut-off.



The Infrastructure Project

Current infrastructure in the Pilbara poses limitations that restrict development of the Western Australian iron ore industry from its full potential. To support the Resource Project, FMG will build, own and operate rail and port infrastructure from its mining tenements to Port Hedland. FMG will develop true multiuser rail and port infrastructure that will stimulate resource development across the Pilbara.

In addition to ore from FMG's own mines, the infrastructure will carry ore from other stranded resources in the region.

The railway will terminate at FMG's proposed port and loadout facilities at Port Hedland. One of the primary objectives in the design of the Fortescue Metals Group railway will be to maximise the use of the existing railway corridors by parallelling these routes to provide the most effective access to the mine.

Open Access Infrastructure

FMG is committed to building rail and port facilities that will allow other users totally open access. No user will need to fear being disadvantaged by any other user, including FMG.

This philosophy demonstrates our long-term view of the industry, as well as our commitment to the long-term interests of the steel mill customers.

The benefits to our customers are clear: many stranded ore bodies will be accessed and moved into the market, thereby guaranteeing supply and healthy competition.

FMG'S Fairness Principle

FMG will negotiate world benchmark rates with its third party users. FMG will allow any other provider to build and own the infrastructure provided they offer FMG the same access and rates.

Benefits to Western Australia

FMG's 'Open Access' infrastructure policy will see the liberation of many stranded resources within the Pilbara. This will expand the State's primary industry base and increase growth and revenue.

FMG's commitment to using regional areas for its long-term workforce will create wealth and stimulate economic growth in the region.

Employment opportunities will be created for West Australians.

'Open Access multi-user infrastructure' creates a level playing field for all users.

ALLIED MEDICAL LIMITED

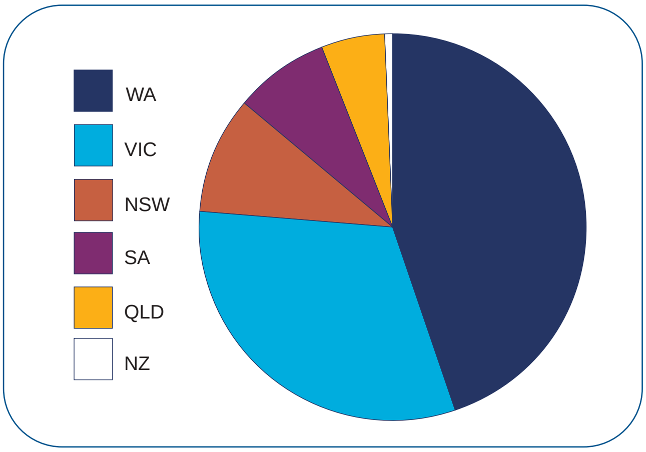
Allied Medical is a wholly owned subsidiary of FMG and was formed in 1999, based on an agreement to exclusively distribute all existing GO Medical products in Australia and New Zealand.

The unique range of patented products include patient controlled pain management and analgesia pumps, antibiotic infusion devices, specialised urology, obstetric and gynaecological products.

Financial Results

	2001	2002	2003
Revenue	$1,335,100	$1,308,218	$1,461,853
Earning Before Interest & Tax	($6,080)	$149,938	$197,728

2003 Revenue by Geographic Segment



There is significant potential to increase sales of the product lines both within Western Australia and especially within other Australian states. Management are exploring opportunities to further penetrate those markets and realise additional value for shareholders.

Financial Statements
Corporate Governance Statement

The Board of Directors accepts the responsibility for the overall corporate governance of Fortescue Metals Group Ltd (FMG).

The Board enhances the interests of FMG's shareholders and takes into account the interests of its employees, customers, suppliers, lenders and the wider community.

The Board is responsible for setting the strategic directions for FMG, establishing goals for management and monitoring the achievement of these goals. The Chief Executive Officer is responsible to the Board for the day-to-day management of the Company.

The Board's responsibilities and duties include the following:

- Appointing the Chief Executive Officer;
- Determining the strategic direction of FMG and measuring performance against approved strategies;
- Adopting operating budgets at the commencement of each financial year and monitoring progress on a regular basis against budget by both financial and non-financial key performance indicators;
- Monitoring and overseeing FMG's financial position and risk management priorities;
- Evaluating the performance of the Chief Executive Officer and determining remuneration;
- Determining that satisfactory arrangements are in place for auditing FMG's financial affairs; and
- Ensuring that policies and compliance systems consistent with FMG's objectives and best practice are in place and that FMG and its officers act legally, ethically and responsibly on all matters.

Under the Constitution, the maximum number of directors is twelve and the minimum number is three. FMG currently has 8 directors, including 6 non-executive directors and 2 executive directors. The Constitution also requires that at each annual general meeting, one third of the directors must resign with those directors who have served the longest being subject to rotation first. Additionally, pursuant to the Constitution, any director appointed by directors in the preceding year must retire, they will then be eligible for re-election.

Meetings

The Directors will hold regular Board meetings and at least one Board meeting will be held each alternate month.

Committees

To assist the Board in achieving the highest standards of corporate governance, the Directors have established a Corporate Governance and Audit Committee, and a Remuneration Committee, both constituted with a majority of non-executive directors.

Audit Committee

This committee comprises three non executive directors. Where thought appropriate FMG's Chief Financial Officer and external auditors are invited to attend meetings. The committee meets and reports to the Board at least twice a year. The role of the committee is to advise the Board on all financial matters and to be the focal point of communication between the Board, management and external auditor on those matters. The duties of this committee include;

- nominating, recommending remuneration, and monitoring the scope and performance of the external auditor;
- reviewing the effectiveness of management information and other systems of internal control;
- reviewing all areas of financial risk and arrangements in place to contain those to acceptable levels;
- reviewing significant transactions that are not a normal part of FMG's business;
- reviewing year end and interim financial information and ASX reporting statements; and
- monitoring the accounting procedures, internal controls and compliance with the Corporations Act, ASX Listing Rules, reviewing external audit reports and ensuring prompt remedial action if necessary.

Remuneration Committee

This committee comprises three non executive directors. The duties of this committee include;

- supervising the employment and human resources management policies across the group;
- assisting the Executive Chairman and Chief Executive Officer to develop effective and innovative remuneration arrangements;
- recommending remuneration for executive directors and some senior employees and approving the remuneration of non-executive directors within the aggregate limit set by shareholders; and
- reviewing succession plans for key executive positions, together with the career development plans in place for key executives.

Corporate Governance Statement (continued)

Board Composition

In view of the potential of FMG, the Company has recognised the importance of having a balanced Board comprised of directors with an appropriate range of backgrounds, skills and experience.

The non-executive directors will meet on their own at least once annually to assess the performance of the Board.

Appointment and Retirement of Non-executive Directors

All directors receive a formal letter of appointment which sets out their terms of appointment, the Board's policy on the age of retirement, their remuneration and arrangement for its review, any special duties or arrangements that may be relevant and the arrangements by which the directors can take advice, at FMG's expense, in the furtherance of their duties.

Independent Professional Advice

After prior approval of the Chairman, directors may obtain independent professional advice at the expense of the Company on matters arising in the course of their Board duties.

Ethics

It is the policy of FMG that all Directors, managers and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of FMG.

Other Directorships

Directors are required continually to evaluate the number of Boards on which they serve to ensure that each can be given the time and attention required properly to fulfil duties and responsibilities. Directors are required to notify the Chairman in writing prior to accepting an invitation to become a Director of any corporation. Executive directors may not accept appointment to the Board of any corporation outside FMG without prior approval of the board.

Risk Management

The Company has in place a framework to safeguard Company assets and ensure that business risks are identified and properly managed.

The Company has in place a number of risk management controls which include the following:

- Policies and procedures for the management of financial risk and treasury operations including exposures to foreign currencies, financial instruments and movements in interest rates;
- Guidelines and limits for the approval of capital expenditure and investments; and
- A comprehensive insurance programme including external risk management surveys.

Management is required to provide regular reports on all these matters.

Group Strategic Planning

FMG has adopted a formal and dynamic process of strategic planning. The Board reviews and endorses strategies designed to ensure the continued profitable growth of FMG.

Role of Shareholders

The shareholders of FMG play an important role in corporate governance by virtue of their responsibilities for voting on the appointment of directors.

The Board ensures that shareholders are kept fully informed on developments affecting the Company through:

- The annual and half-year reports that are distributed to all shareholders;
- Compliance with Australian Stock Exchange's continuous disclosure requirements (and subsequent shareholder announcements); and
- The annual general meeting and other meetings called to obtain approval for Board action.

F M G The New Force in Iron Ore

Fortescue Metals Group Ltd

Financial Statements

for the year ended 30 June 2003

This page has intentionally been left blank

The Directors present their report, together with the financial report of Fortescue Metals Group Ltd ("the Company") and its controlled entities for the year ended 30 June 2003.

Directors

The Directors of the Company in office during the financial year were:

Mr Andrew Forrest – Executive Chairman	(appointed 18 July 2003)
Mr Christopher Linegar	(appointed 18 July 2003)
Mr Mark Caruso	
Mr Gregory Steemson	(resigned 18 July 2003)
Mr David Lymburn	(resigned 18 July 2003)

Directors' Particulars

Mr Andrew Forrest

Mr Forrest is currently a director of Siberia Mining Corporation Limited. Previously he was Chief Executive and Deputy Chairman of Anaconda Nickel Limited and Chairman of the Murrin Murrin Joint Venture. Mr Forrest has extensive experience in the mining sector with specialist expertise in major project finance.

Mr Christopher Linegar

Mr Linegar is currently a director of Siberia Mining Corporation Limited and SG Australia Holdings Limited; formerly executive director responsible for Borrowings, Money Markets and Foreign Exchange at Societe Generale Australia Limited. Mr Linegar was formerly a director of Anaconda Nickel Limited and Goldtouch Technologies Inc.

Mr Mark Caruso

Mr Caruso is a director of Simto Australia Pty Ltd which is involved in mining, earthmoving and civil engineering construction earthworks. He is also a director of Mineral Commodities Limited, Allied Gold Limited and Syntech Limited.

Directors' Meetings

The number of directors' meetings and number of meetings attended by each of the directors of the Company during the year under review are:

Director	No of Meetings Attended	No of Meetings Eligible
Mr Mark Caruso	2	2
Mr Gregory Steemson	2	2
Mr David Lymburn	2	2
Mr Andrew Forrest (appointed 18 July 2003)	n/a	Nil
Mr Christopher Linegar (appointed 18 July 2003)	n/a	Nil

In addition to the scheduled board meetings there have been a number of matters of board business resolved by circulating board resolution; which are the record of decisions reached as the conclusion of a series of briefings and meetings that were not individually convened as scheduled board meetings.

Director	No of Circulating Resolutions Eligible	No of Circulating Resolutions Executed
Mr Mark Caruso	13	13
Mr Gregory Steemson	13	13
Mr David Lymburn	13	13
Mr Andrew Forrest (appointed 18 July 2003)	n/a	Nil
Mr Christopher Neil Linegar (appointed 18 July 2003)	n/a	Nil

Principal Activities

The principal activities of the Company during the course of the financial year were as follows.

- Exploration and evaluation of mineral resources
  - East Pilbara Iron Ore Project.
  - Red Dam Gold Project.
  - Project evaluation.
- Ownership of the Mobile Mineral Process Evaluation Unit.
- Marketing and distribution of medical products through wholly owned subsidiary Allied Medical Limited.

Subsequent to the end of the financial year the Company sold the Red Dam project and the Mobile Mineral Process Evaluation Unit, in order to focus on the core activity of developing the East Pilbara Iron Ore Project.

Results from Operations

The results from operations are as follows.

	2003 $	2002 $
Operating profit (loss) after income tax	(834,241)	(298,276)

Dividends

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

Review of Operations

East Pilbara Iron Ore Project

The Company acquired the Mt Nicholas tenements (E46/467 and E46/519) in 2001. Iron Ore Australia Pty Ltd had an exclusive mandate to secure funding for a bankable feasibility study and earn 60% interest in these properties. By November 2002 this was not achieved, and the agreement lapsed.

On 10 April 2003 the Company entered into an agreement with Metal Holdings Pty Ltd, a company in which Mr Andrew Forrest has a relevant interest, so as to focus on development of the East Pilbara Iron Project. The key elements of this agreement include;

- the acquisition of Iron Ore Australia Pty Ltd
- the acquisition of a suite of additional iron ore resource assets to broaden the range of potential products through blending;
- the establishment of an initial owner's engineering and geological team highly experienced in iron ore resource evaluation and engineering delivery;
- the appointment of industry leaders to the Board of Directors;
- the appointment of an experienced executive management team reporting to Mr. Forrest;
- a commitment to provide reasonable endeavours to adequately capitalise the Company to meet its objectives ;
- a commitment to provide reasonable endeavours to finance the required rail and port infrastructure ("the infrastructure") facilities; and
- a commitment to attract, where possible, other industry participants to act as additional third party users of the infrastructure;
- the sale of the Red Dam gold project and the Mobile Mineral Process Evaluation Unit.

Red Dam Gold Project

The Red Dam gold project near Coolgardie, Western Australia was acquired in February 2003 from Plutonic Operations for a consideration valued at $200,000. Exploration drilling was undertaken during March and April 2003, at a cost of $203,000.

The Red Dam project was sold to Allied Gold Limited pursuant to an agreement dated 16 June 2003, which became unconditional on 18 July 2003 for $600,000.

Project Evaluations

During the year the Company evaluated a number of projects. Two that were taken to an advanced stage although did not ultimately proceed were the Jinya gold project in China and the Colibri Mining projects in Peru.

Mobile Mineral Process Evaluation Unit

The unit was not used during the year and was sold to Allied Gold Limited pursuant to an agreement dated 16 June 2003, which became unconditional on 18 July 2003 for $1,900,000.

Environmental Regulations

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

Allied Medical

Allied Medical has been marketing and distributing GO Medical Industries Pty Ltd's proprietary product range throughout the year. Sales for the year at $1,462,803 were 12% above those of the previous year. The exclusive distribution agreement with GO Medical is renewable for a further 4 years from November 2003.

Changes in State of Affairs

The following significant changes in the state of affairs of the Consolidated Entity occurred during, and since the end of, the financial year:

(a) Pursuant to a prospectus dated 25 June 2002 the Company undertook a rights issue on a one for five basis at a subscription price of 8 cents per share. Funds raised were $769,527 and shares were allotted on 8 August 2002 and 6 September 2002.

(b) Pursuant to an agreement dated 13 February 2003 the Company acquired the Red Dam gold project near Coolgardie, Western Australia from Plutonic Operations Limited for consideration comprising $100,000 paid in cash and the issue of 1,000,000 fully paid ordinary shares and 1,000,000 unlisted options exercisable at $0.20 each on or before 30 June 2005.

(c) Pursuant to an agreement dated 10 April 2003 with Metal Holdings Pty Ltd and an Executive Employment Agreement with Mr Andrew Forrest dated 17 April 2003, the Company issued 5,000,000 fully paid ordinary shares and 1,500,000 unlisted options exercisable at $0.08 each on or before 17 April 2008. These 5,000,000 shares and 1,500,000 options were issued on 17 April 2003.

(d) By an agreement dated 16 June 2003, which became unconditional on 18 July 2003, the Company sold the Red Dam gold project and the Mobile Mineral Process Evaluation Unit to Allied Gold Limited for consideration of $2,500,000 satisfied by the issue of 12,500,000 shares at $0.20 each on 5 August 2003. On 11 August the Company undertook an equal capital reduction and in specie distribution to shareholders of 12,486,386 of the shares it held in Allied Gold.

(e) By an agreement dated 18 June 2003, which became unconditional on 18 July 2003, the Company acquired 100% of the issued share capital of Iron Ore Australia Pty Ltd for consideration of 1,800,000 fully paid ordinary shares in the Company issued on 1 August 2003. Iron Ore Australia Pty Ltd is the holder of mining tenements in the vicinity of the East Pilbara Iron Ore Project.

(f) Pursuant to the agreement dated 10 April 2003 with Metal Holdings Pty Ltd, and following shareholder approval on 18 July 2003, the Company issued 53,500,000 unlisted options to Metal Holdings Pty Ltd. The main terms and conditions of these options are detailed under the Share Options section of this Directors' Report.

(g) Upon completion of the transactions described in (c), (d), (e) and (f) and after achieving shareholder approval at a meeting held on 18 July 2003, the Company also issued 1,000,000 fully paid ordinary shares to an unrelated party that was involved in facilitation of the transactions.

Subsequent Events

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

Likely Developments

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

Share Options

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

	No. of Options		Exercise Price $	Expiry Date
(a)	1,000,000		$0.20	30 June 2005
(b)	1,500,000		$0.08	17 April 2008
(c)	3,500,000		$0.08	29 July 2008
(d)	25,000,000	"Tranche 1"	$0.08	29 July 2008
(e)	25,000,000	"Tranche 2"	$0.08	29 July 2008
	56,000,000			

(a) These options were issued as part consideration for the acquisition of the Red Dam project

(b) & (c) These options were issued to Metal Holdings Pty Ltd, a company in which Mr Andrew Forrest has a relevant interest. They may be exercised once the ordinary shares have traded at 20 cents or above for 10 consecutive business days. This condition has been satisfied.

(d) This issue of options called "Tranche 1" was issued to Metal Holdings Pty Ltd, a company in which Mr Andrew Forrest has a relevant interest. They may be exercised once the ordinary shares have traded at 10 cents or above for 10 consecutive business days. This condition has been satisfied.

Once the Tranche 1 options have been exercised, Tranche 3 will be issued which is a further 25,000,000 options exercisable at 8 cents each once the ordinary shares have traded at or above 20 cents for 10 consecutive business days. The Tranche 3 options expire 5 years from the date of issue.

(e) This issue of options called "Tranche 2" was issued to Metal Holdings Pty Ltd, a company in which Mr Andrew Forrest has a relevant interest. They may be exercised once the ordinary shares have traded at 15 cents or above for 10 consecutive business days. This condition has been satisfied.

Once the Tranche 2 options have been exercised, Tranche 4 will be issued which is a further 25,000,000 options exercisable at 8 cents each once the ordinary shares have traded at or above 25 cents for 10 consecutive business days. The Tranche 4 options expire 5 years from the date of issue.

Prior to 30 June 2003, 111,600 listed options were exercised by the payment of $0.20 each. These shares were allotted subsequent to the end of the financial year. The remaining 14,009,156 listed options expired on 30 June 2003 without being exercised.

During the year the Company also issued 2,500,000 options to directors, following approval at the 2002 annual general meeting. These options were exercisable at $0.20 each on or before 30 June 2005. Subsequent to the end of the financial year all of these options were exercised.

Directors' Indemnities

The Company has not, during or since the financial year, in respect of any person who is or has been an officer or auditor of the Company or of any related body corporate:

- indemnified or made any relevant agreement for indemnifying against a liability, including costs and expenses in successfully defending legal proceedings; or
- paid or agreed to pay a premium in respect of a contract insuring against a liability for the costs or expenses to defend legal proceedings.

Directors' Interests

The relevant interest of each director in the share capital of the Company shown in the Register of Directors' Shareholdings as at the date of this report is:

Director	Ordinary Shares fully paid		Options	
	Direct	Indirect	Direct	Indirect
Mr Andrew Forrest	-	5,000,000	-	105,000,000
Mr Mark Caruso	1,000,000	-	-	-
Mr Christopher Linegar	-	4,432,420	-	-

Directors' and Executives' Remuneration

In order to retain and attract executives of sufficient calibre to facilitate the efficient and effective management of the Company's operations, the board reviews the remuneration packages of all directors and executive officers on an annual basis and makes recommendations. Remuneration packages are reviewed with due regard to performance and other relevant factors.

Remuneration packages may contain the following key elements:

(a) Directors Fees;

(b) Salary & Consultancy;

(c) Benefits – including provision of motor vehicle, superannuation; and

(d) Incentive schemes – including performance related bonuses and share options.

The following table discloses the remuneration of the directors of the Company and the consolidated entity paid or attributed during the financial year:

	Directors Fees $	Salary & Consultancy $	Benefits incl. Super $	Value of Options Granted $	Total $
Mr Mark Caruso	-	-	-	(b) 17,900	17,900
Mr Gregory Steemson	-	55,385	14,016	(b) 17,900	87,301
Mr David Lymburn	-	(a) 42,833	-	(b) 8,850	49,350
Mr Andrew Forrest (appointed 18 July 2003)	-	-	-	8,340	8,340
Mr Christopher Linegar (appointed 18 July 2003)	-	-	-	-	-

(a) Arran Pty Ltd, a company in which Mr Lymburn has a relevant interest, provided Company Secretarial services throughout the year.

(b) 1,000,000 options were granted to each of Messrs Caruso and Steemson and 500,000 were granted to Mr Lymburn. The options were granted following approval at the 2002 Annual General Meeting. The value of the options was ascertained to be approximately $44,750, or 1.79 cents per option using the Black-Scholes option pricing model and was based upon the following inputs and assumptions:

- a current share price of 7 cents being the latest recorded sale price of the ordinary shares on 17 October 2002;
- an option exercise price of 20 cents;
- a risk free rate of 4.95%;
- a volatility factor of 78.8% which has been determined with reference to the historical trading of the Company's shares on ASX; and
- a term to expiry of 31 months (30 June 2005).

(c) 1,500,000 options were granted to Metal Holdings Pty Ltd, a company in which Mr Andrew Forrest has a relevant interest, on 17 April 2003. The value ascribed to these options is $8,340 which has been determined on the same basis as Tranche 5 below.

A further 53,500,000 options were granted to Metal Holdings Pty Ltd subsequent to the year end, along with the entitlement for the issue of a further two tranches of 25,000,000 options each, upon the exercise of the Tranche 1 and Tranche 2 options. The value ascribed to all of these options by Stanton Partners in their Independent Expert's Report of 5 June 2003 is as follows;

	Value per option (cents)	Value of Tranche $
Tranche 1 – 25,000,000	1.946	$486,500
Tranche 2 – 25,000,000	1.390	$347,500
Tranche 3 – 25,000,000	0.556	$139,000
Tranche 4 – 25,000,000	0.278	$69,500
Tranche 5 – 3,500,000	0.556	$19,460

These values were ascribed using the Black & Scholes option pricing model and were based on the following inputs and assumptions:

- share price of 6.3 cents (in March 2003) prior to the Company entering into the agreement with Metal Holdings Pty Ltd;
- option exercise price of 8 cents;
- risk free interest rate of 6%;
- volatility factor of 50%;
- term to expiry of 5 years; and
- probability factor of achieving the minimum exercise price hurdle,
  - 70% for Tranche 1
  - 50% for Tranche 2
  - 20% for Tranche 3
  - 10% for Tranche 4
  - 20% for Tranche 5

There were no other executives remunerated during the year in addition to those included in the table above.

Schedule of Mining Tenements

Mining Tenements currently held by the consolidated entity are:

	East Pilbara Iron Ore Project		
Tenement	**Interest**	**Tenement**	**Interest**
E46/467	100%	E46/567 (application)	100%
E46/516	100%	E46/568 (application)	100%
E46/517	100%	E46/569 (application)	100%
E46/518	100%	E47/1290 (application)	100%
E46/519 (application)	100%	E47/1299 (application)	100%
E45/2497 (application)	100%	E47/1300 (application)	100%
E45/2498 (application)	100%	E47/1301 (application)	100%
E45/2499 (application)	100%	E47/1302 (application)	100%
E46/566 (application)	100%	E47/1303 (application)	100%

Signed in accordance with a resolution of the directors.

Andrew Forrest

Chairman

Dated at Perth this 25th day of September 2003.

	Note	Consolidated 2003 $	Consolidated 2002 $	Company 2003 $	Company 2002 $
Revenue from ordinary activities	2	1,753,422	1,910,539	419,759	742,089
Cost of sales	3	1,118,274	915,926	50,750	-
Exploration expenditure written off	3	336,969	38,741	336,969	38,741
General & administration expenses		1,060,129	1,156,171	861,957	1,060,974
Other expenses from ordinary activities		72,291	97,977	72,291	97,977
Profit (loss) from ordinary activities before related income tax expense		(834,241)	(298,276)	(902,208)	(455,603)
Income tax expense relating to ordinary activities	4	-	-	-	-
Profit (loss) from ordinary activities after related income tax expense	17	(834,241)	(298,276)	(902,208)	(455,603)
Basic earnings per share (cents)	18	(1.4)		(0.67)	

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

	Note	Consolidated 2003 $	Consolidated 2002 $	Company 2003 $	Company 2002 $
CURRENT ASSETS					
Cash assets	5	1,146,594	1,348,305	1,077,342	1,309,262
Receivables	6	447,294	432,071	251,736	242,262
Inventories	7	112,023	159,925	-	-
Other current assets	8	5,676	-	2,427	-
Other Financial assets	9	71,613	-	71,613	-
Total Current Assets		1,783,200	1,940,301	1,403,118	1,551,524
NON-CURRENT ASSETS					
Receivables	10	-	208,000	146,985	360,444
Exploration & development expenditure	11	1,001,442	-	1,001,442	-
Property, plant and equipment	12	563,828	708,752	537,766	682,803
Investments in controlled entities	13	-	-	1,789	1,788
Total Non-Current Assets		1,565,270	916,752	1,687,982	1,045,035
Total Assets		3,348,470	2,857,053	3,091,100	2,596,559
CURRENT LIABILITIES					
Payables	14	179,800	227,167	140,989	113,767
Provisions	15	8,240	4,742	-	-
Total Current Liabilities		188,040	231,909	140,989	113,767
Total Liabilities		188,040	231,909	140,989	113,767
NET ASSETS		3,160,430	2,625,144	2,950,111	2,482,792
EQUITY					
Contributed equity	16	10,051,859	8,682,332	10,051,859	8,682,332
Accumulated losses	17	(6,891,429)	(6,057,188)	(7,101,748)	(6,199,540)
TOTAL EQUITY		3,160,430	2,625,144	2,950,111	2,482,792

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

	Note	Consolidated 2003 $	Consolidated 2002 $	Company 2003 $	Company 2002 $
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		1,614,141	2,577,426	290,338	1,030,800
Exploration expenditure		(638,411)	(38,741)	(638,415)	(38,741)
Interest received		51,382	33,649	50,521	33,015
Payments to suppliers & employees		(1,936,924)	(2,405,960)	(658,785)	(1,518,863)
Net cash generated from (used in) operating activities	22(a)	(909,812)	166,374	(956,341)	(493,789)
CASH FLOWS FROM INVESTING ACTIVITIES					
Payments for purchase of plant and equipment		(11,478)	(10,391)	(617)	-
Payments for purchase of mining projects		(100,000)	-	(100,000)	-
Payments for purchase of equity investments		(224,200)	-	(224,200)	-
Proceeds from sale of equity investments		74,250	-	74,250	-
Loans to other entities		(362,253)	-	(362,253)	-
Loans repaid by other entities		562,253		562,253	
Loans (advanced to) repaid by controlled entities		-	-	5,459	-
Net cash used in investing activities		(61,428)	(10,391)	(45,108)	-
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from the issue of shares		769,529	506,160	769,529	506,160
Repayment of borrowings		-	-	-	640,000
Net cash (applied to) provided by financing activities		769,529	506,160	769,529	1,146,160
Net increase (decrease) in cash held		(201,711)	662,143	(231,920)	652,371
Cash at beginning of financial year		1,348,305	686,162	1,309,262	656,891
Cash at end of financial year	5	1,146,594	1,348,305	1,077,342	1,309,262

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

1 Summary of Significant Accounting Policies

(a) Basis of Preparation

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

The financial report covers the consolidated entity of Fortescue Metals Group Ltd and controlled entities, and Fortescue Metals Group Ltd as an individual parent entity. Fortescue Metals Group Ltd is a listed public company, incorporated and domiciled in Australia.

The financial report has been prepared on an accruals basis and is based on historical costs and does not take into account changing money values or, except where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(b) Principles of Consolidation

The consolidated financial statements of the consolidated entity include the financial statements of the Company, being the parent entity, and its controlled entities. Where an entity either began or ceased to be controlled during the year, the results are included only from the date control commenced or up to the date control ceased. The balances and effects of transactions, between controlled entities included in the consolidated financial statements have been eliminated.

(c) Mineral Exploration, Evaluation and Development Expenditure

Mineral exploration expenditures and acquisition costs in relation to these areas of interest have been written off in the year in which they are incurred on projects where exploration and evaluation activities in the area have not yet reached a stage that permits reasonable assessment of the existence or otherwise of economically recoverable reserves.

When rights to tenure are held and expenditures have been expected to be recouped through development and economic exploitation of the area of interest, the exploration costs are capitalised and amortised against the estimated economical mine life once mining commences.

(d) Foreign Currency Transactions

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

(e) Acquisitions of Assets

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

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

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

(f) Non-Current Assets

Non-current assets are included at cost less any accumulated depreciation or amortisation. The carrying amount of non-current assets is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets employment and subsequent disposal.

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

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

(f) Non-Current Assets (continued)

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

Furniture and fittings	5 – 10 years	R&D Prototype Plant & Equipment	5 years
Office equipment	3 – 5 years	Motor Vehicles	5 – 10 years

(g) Receivables

Trade receivables and other receivables are recorded at amounts due less any provision for doubtful debts. Collectibility of trade receivables is reviewed on an ongoing basis.

(h) Accounts Payable

Trade and other accounts payable are recognised when the consolidated entity becomes obliged to make future payments resulting from the purchase of goods and services. The amounts are unsecured and are usually payable within standard trade terms.

(i) Cash

For the purposes of the statements of cash flows, cash includes deposits at call which are readily convertible to cash on hand and which are used in the cash management function on a day-to-day basis.

(j) Income Tax

Tax effect accounting principles have been adopted whereby the income tax expense has been calculated on pre-tax accounting profits after adjustment for permanent differences. The tax effect of timing differences, which occur when items are included or allowed for income tax purposes in a period different to that for accounting, is shown at current taxation rates in the provision for deferred income tax and future income tax benefit, as applicable.

(k) Revenue Recognition

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

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

(l) Inventories

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

(m) Earnings Per Share

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

Basic earnings per share

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

Diluted earnings per share

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

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

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

(n) Segment Reporting

The consolidated entity applies the revised AASB 1005 Segment Reporting.

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

(o) Leases

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

(p) Employee Entitlements

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

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

(q) Comparative Figures

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

2. Revenue

	Consolidated		Company	
	2003	2002	2003	2002
	$	$	$	$
Revenue from Operating Activities				
Sales Revenue	1,462,803	1,303,536	-	-
Rental of Plant	154,571	558,789	154,571	558,789
Other Revenue				
Sales of listed securities	75,000	-	75,000	-
Interest received or due and receivable	51,382	33,649	50,521	33,015
Dividends	8,667	-	8,667	-
Management Fees	-	-	130,000	139,768
Foreign exchange gain	-	2,396	-	2,396
Other income	1,000	12,169	1,000	8,121
Total Revenue from Ordinary Activities	1,753,422	1,910,539	419,759	742,089

3. Loss from Ordinary Activities

	Consolidated 2003 $	Consolidated 2002 $	Company 2003 $	Company 2002 $
Loss from ordinary activities before income tax has been arrived at after charging the following:				
Foreign exchange loss - realised	38,685	-	38,685	-
Exploration expenditure written off	336,969	38,741	336,969	38,741
Provision for non-recovery loan to controlled entity	-	-	(1,647,335)	1,645,755
Loans to controlled entity written off	-	-	1,647,335	
Provision for bad debts	(1,334)	-	-	-
Provision for diminution in value of listed shares	102,587	-	102,587	-
Operating lease rentals	38,903	44,190	-	34,978
Depreciation – plant and equipment	144,625	180,354	134,287	171,265
Cost of goods sold	1,067,524	915,926	-	-
Cost of investments in listed securities sold	50,750	-	50,750	-
Loss on plant & equipment	1,188	8,072	779	5,193

4. Income Tax

	Consolidated 2003 $	Consolidated 2002 $	Company 2003 $	Company 2002 $
The prima facie income tax (benefit) on the operating profit (loss) from ordinary activities is reconciled to the income tax provided in the statements of financial performance as follows:				
Operating (loss)	(834,241)	(298,276)	(902,208)	(455,603)
Income tax (benefit) calculated at 30% (2002: 30%)	(250,272)	(89,482)	(270,662)	(136,681)
Tax effect of permanent differences:				
Foreign exploration expenditure	100,984	-	100,984	-
Other non-deductible	31,630	3,371	31,701	3,363
Other	-	(56,550)	-	(59,096)
Future income tax benefit not brought to account	117,658	142,661	137,977	192,414
Income tax expense (benefit) relating to ordinary activities	-	-	-	-
Future income tax benefits not brought to account as assets at 30%				
Tax losses – revenue	773,347	652,658	282,385	192,414
Tax losses – capital	6,932,700	6,710,831	6,786,300	6,710,831
	7,706,047	7,363,489	7,068,685	6,903,245

The taxation benefits will only be obtained if:

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

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

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

The Company has no franking credits.

5. Cash Assets - Current

	Consolidated 2003 $	Consolidated 2002 $	Company 2003 $	Company 2002 $
Cash on hand	-	200	-	200
Cash at bank	144,244	208,105	74,992	169,062
Deposits at call	1,002,350	1,140,000	1,002,350	1,140,000
	1,146,594	1,348,305	1,077,342	1,309,262

6. Receivables – Current

	Consolidated 2003 $	Consolidated 2002 $	Company 2003 $	Company 2002 $
Trade receivables	254,864	192,761	-	-
Less: provision for doubtful debts	(16,118)	(17,452)	-	-
	238,746	175,309	-	-
Loan receivable	200,000	200,000	200,000	200,000
Other debtors	8,548	56,762	51,736	42,262
	447,294	432,071	251,736	242,262

	Consolidated 2003 $	Consolidated 2002 $	Company 2003 $	Company 2002 $
7. Inventories – Current				
At cost	112,023	159,925	-	-
8. Other Current Assets				
Prepayments	5,676	-	2,427	-
9. Other Financial Assets				
Investments in companies listed on a recognised stock exchange – shares at cost	174,200	-	174,200	-
Provision for diminution in value	(102,587)		(102,587)	-
Total investment in companies listed on a recognised stock exchange	71,613	-	71,613	-
Quoted market value of investments listed at balance date on a prescribed exchange	78,000	-	78,000	-
10. Receivables – Non-current				
Loan receivable	-	200,000	-	200,000
Security deposits – mining tenements	-	8,000	-	8,000
Loans and advances – controlled entities	-	-	663,769	2,316,563
Less: provision for non-recovery	-	-	(516,784)	(2,164,119)
	-	208,000	146,985	360,444
11. Exploration and Development Expenditure				
Exploration expenditure – costs carried forward in respect of areas of interest in:				
Exploration and evaluation phases	1,001,442	-	1,001,442	-
Total exploration and development expenditure	1,001,442	-	1,001,442	-
Reconciliation of the carrying amount of mining tenements at the beginning and end of the year				
Carrying amount at beginning of year	-	-	-	-
Expenditure outlaid in cash	301,442	-	301,442	-
Acquisition of interests in cash	100,000	-	100,000	-
Shares issued for acquisition of interests	600,000	-	600,000	-
Carrying amount at end of year	1,001,442	-	1,001,442	-

12. Property, Plant and Equipment

	Consolidated 2003 $	Consolidated 2002 $	Company 2003 $	Company 2002 $
Plant and office equipment – at cost	21,434	51,683	617	41,292
Accumulated depreciation	(5,819)	(30,881)	-	(29,925)
	15,615	20,802	617	11,367
R & D prototype plant and equipment – at cost	1,026,853	1,026,853	1,026,853	1,026,853
Accumulated depreciation	(489,704)	(355,416)	(489,704)	(355,417)
	537,149	671,437	537,149	671,436
Motor vehicles – at cost	27,557	27,557	-	-
Accumulated depreciation	(16,493)	(11,044)	-	-
	11,064	16,513	-	-
Total property, plant and equipment	563,828	708,752	537,766	682,803
Reconciliation				
Plant and office equipment				
Carrying amount at beginning of year	20,803	22,845	11,367	19,966
Additions	11,478	10,391	617	-
Disposal	(11,776)	(8,072)	(11,367)	(5,193)
Depreciation	(4,890)	(4,361)	-	(3,406)
Carrying amount at end of year	15,615	20,803	617	11,367
R & D prototype				
Carrying amount at beginning of year	671,436	839,295	671,436	839,295
Depreciation	(134,287)	(167,859)	(134,287)	(167,859)
Carrying amount at end of year	537,149	671,436	537,149	671,436
Motor vehicles				
Carrying amount at beginning of year	16,513	24,646	-	-
Additions	-	-	-	-
Depreciation	(5,449)	(8,133)	-	-
Carrying amount at end of year	11,064	16,513	-	-

13. Other Financial Assets – Non-Current

	Consolidated 2003 $	Consolidated 2002 $	Company 2003 $	Company 2002 $
Unquoted Investments – At Cost				
Shares in controlled entities	-	-	1,789	1,788

Company	Class of share	Place of Incorporation	Equity Holding 2003 %	Equity Holding 2002 %	Cost to Company 2003 $	Cost to Company 2002 $
Parent Entity						
Fortescue Metals Group Limited, formerly Allied Mining & Processing Ltd	Australia	-	-	-	-	
Controlled Entities						
Advance R & D Pty Ltd	Ordinary	Australia	100	100	20	20
Advance Mining NL	Ordinary	Australia	100	100	4	4
Allied Medical Ltd	Ordinary	Australia	100	100	1	1
Allied Internet Technology Ltd	Ordinary	Australia	100	100	1	1
Aretrend Pty Ltd	Ordinary	Australia	100	100	1,762	1,762
Allied China Gold Ltd	Ordinary	Australia	100	-	1	-
Allied Gold Limited	Ordinary	Australia	100	-	-	-
					1,789	1,788

During the financial year, the Company provided accounting and administration services to other entities in the wholly-owned group, at no cost.

14. Payables – Current

	Consolidated 2003 $	Consolidated 2002 $	Company 2003 $	Company 2002 $
Trade payables	104,053	130,323	28,928	31,342
Other payables and accruals	75,747	96,844	112,061	82,425
	179,800	227,167	140,989	113,767

15. Provisions – Current

	Consolidated 2003 $	Consolidated 2002 $	Company 2003 $	Company 2002 $
Employee entitlements	8,240	4,742	-	-
Average number of employees during the financial year	3	3	2	2

16. Contributed Equity

		2003 Number of Shares	2002 Number of Shares	2003 $	2002 $
(a)	Ordinary shares fully paid:				
	Balance at beginning of financial year	51,065,880	44,405,880	8,682,332	8,176,172
	Share placement at 8 cents each, June 2002	-	6,660,000	-	532,800
	Issue Costs	-	-	-	(26,640)
	Rights issue at 8 cents each	9,619,092	-	769,527	-
	Issued in consideration for Red Dam project at 10 cents each	1,000,000	-	100,000	-
	Issued pursuant to an agreement with Metal Holdings Pty Ltd and Mr A Forrest at 10 cents each	5,000,000	-	500,000	-
	Balance at end of financial year	66,684,972	51,065,880	10,051,859	8,682,332

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

(b) Options over fully paid ordinary shares:

Prior to 30 June 2003, 111,600 listed options were exercised by the payment of $0.20 each. These shares were allotted subsequent to the end of the financial year. The remaining 14,009,156 listed options expired on 30 June 2003 without being exercised.

During the year the Company also issued 2,500,000 options to Directors, following approval at the 2002 annual general meeting. These options were exercisable at $0.20 each on or before 30 June 2005.

The number of options on issue at balance date was:

Type	No of Options	Exercise Price $	Expiry Date
Unlisted	3,500,000	20 cents	30 June 2005
Unlisted	1,500,000	8 cents	17 April 2008

Subsequent to the end of the financial year the 2,500,000 options granted to Directors were exercised.

A further 53,500,000 options were granted to Metal Holdings Pty Ltd subsequent to the year end, along with the entitlement for the issue of a further two tranches of 25,000,000 options each, upon the exercise of the Tranche 1 and Tranche 2 options. The value ascribed to all of these options is as follows;

	Value Per Option (cents)	Value of Tranche $
Tranche 1 – 25,000,000	1.946	$486,500
Tranche 2 – 25,000,000	1.390	$347,500
Tranche 3 – 25,000,000	0.556	$139,000
Tranche 4 – 25,000,000	0.278	$69,500
Tranche 5 – 3,500,000	0.556	$19,460

These values were ascribed using the Black & Scholes option pricing model and were based on the following inputs and assumptions:

- a current share price prior to the Company entering into the agreement with Metal Holdings Pty Ltd of 6.3 cents (in March 2003);
- an option exercise price of 8 cents;
- a risk free interest rate of 6%;

16. Contributed Equity (continued)

- a volatility factor of 50%;
- a term to expiry of 5 years; and
- a probability factor of achieving the minimum exercise price hurdle of,
  - 70% for Tranche 1
  - 50% for Tranche 2
  - 20% for Tranche 3
  - 10% for Tranche 4
  - 20% for Tranche 5

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

	No. of Options		Exercise Price $	Expiry Date
	1,000,000		$0.20	30 June 2005
(a)	1,500,000		$0.08	17 April 2008
(b)	3,500,000		$0.08	29 July 2008
(c)	25,000,000	"Tranche 1"	$0.08	29 July 2008
(d)	25,000,000	"Tranche 2"	$0.08	29 July 2008
	56,000,000			

(a) These options were issued as part consideration for the acquisition of the Red Dam project

(b)(c) These options were issued to Metal Holdings Pty Ltd (a company in which Mr Andrew Forrest has a relevant interest). They may be exercised once the ordinary shares have traded at 20 cents or above for 10 consecutive business days. This condition has been satisfied.

(d) This issue of options called "Tranche 1" was issued to Metal Holdings Pty Ltd (a company in which Mr Andrew Forrest has a relevant interest). They may be exercised once the ordinary shares have traded at 10 cents or above for 10 consecutive business days. This condition has been satisfied.

(e) Once the Tranche 1 options have been exercised, Tranche 3 will be issued which is a further 25,000,000 options exercisable at 8 cents each once the ordinary shares have traded at or above 20 cents for 10 consecutive business days. The Tranche 3 options expire 5 years from the date of issue.

This issue of options called "Tranche 2" was issued to Metal Holdings Pty Ltd (a company in which Mr Andrew Forrest has a relevant interest). They may be exercised once the ordinary shares have traded at 15 cents or above for 10 consecutive business days. This condition has been satisfied.

Once the Tranche 2 options have been exercised, Tranche 4 will be issued which is a further 25,000,000 options exercisable at 8 cents each once the ordinary shares have traded at or above 25 cents for 10 consecutive business days. The Tranche 4 options expire 5 years from the date of issue.

17. Accumulated Losses

	Consolidated		Company	
	2003 $	2002 $	2003 $	2002 $
Accumulated losses at beginning of the year	(6,057,188)	(5,758,912)	(6,199,540)	(5,743,937)
Net profit (loss) attributable to members	(834,241)	(298,276)	(902,208)	(455,603)
Accumulated losses at end of the year	(6,891,429)	(6,057,188)	(7,101,748)	(6,199,540)

18. Earnings (Loss) Per Share

	Consolidated 2003 $	Consolidated 2002 $
Weighted average number of ordinary shares on issue used in calculation of basic earnings (loss) per share	59,674,274	44,825,551
Net (loss)/profit used in the calculation of basic earnings per share	(834,241)	(298,276)

There were 3,500,000 options with an exercise price of 20 cents and an expiry date 30 June 2005 and 1,500,000 options with an exercise price of 8 cents and an expiry date of 17 April 2008 on issue at 30 June 2003. Since inclusion of these potential ordinary shares would decrease earnings per share, they are deemed not to be dilutive and so diluted earnings per share is not calculated.

19. Segment Information

Primary Reporting Business Segments	Mining & Exploration 2003 $	Mining & Exploration 2002 $	Medical 2003 $	Medical 2002 $	Consolidated 2003 $	Consolidated 2002 $
Revenue						
External segment revenue	289,759	602,321	1,463,663	1,308,218	1,753,422	1,910,539
Total segment revenue	289,759	602,321	1,463,663	1,308,218	1,753,422	1,910,539
Total Revenue from ordinary activities					1,753,422	1,910,539
Result						
Segment result	(1,031,969)	(447,674)	197,728	149,398	(834,241)	(298,276)
Profit from ordinary activities after tax					(834,241)	(298,276)
Net Profit					(834,241)	(298,276)
Assets						
Segment assets	3,047,912	2,596,318	449,333	414,726	3,497,245	3,011,044
Eliminations					(148,775)	(153,991)
Total assets					3,348,470	2,857,053
Liabilities						
Segment liabilities	97,802	113,767	237,222	270,345	335,024	384,112
Eliminations					(146,985)	(152,203)
Total liabilities					188,039	231,909
Other						
Depreciation & Amortisation	134,287	171,265	10,338	9,089	144,625	180,354
Exploration expenditure written off in respect of areas if interest abandoned	336,969	38,741	-	-	336,969	38,741

Business Segments

The consolidated entity has the following two business segments

- The mining and exploration division which is involved in the exploration, evaluation and development of mineral resources.
- The medical division which markets and distributes medical products throughout Australia and New Zealand.

Secondary Reporting

Geographical Segments

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

20. Auditors' Remuneration

	Consolidated 2003 $	Consolidated 2002 $	Company 2003 $	Company 2002 $
Amounts received or due and receivable by auditors for:				
Auditing – the financial report	23,310	21,600	15,300	21,600
Other services	970	-	970	-
	24,280	21,600	16,270	21,600

21. Directors' Remuneration

	Consolidated 2003 $	Consolidated 2002 $	Company 2003 $	Company 2002 $
The directors of Fortescue Metals Group Ltd during the year were:				
Mr Mark Caruso				
Mr Greg Steemson (resigned 18 July 2003)				
Mr David Lymburn (resigned 18 July 2003)				
The aggregate of income paid or payable or otherwise made available, in respect of the financial year, to all directors of the Company, directly or indirectly, by the Company or by any related party			112,234	501,70
The aggregate of income paid or payable, or otherwise made available, in respect of the financial year, to all directors of each entity in the Consolidated Entity, directly or indirectly, by the entities in which they are directors or by any related party	112,234	501,707		

	Consolidated 2003 No	Consolidated 2002 No	Company 2003 No	Company 2002 NO
The number of directors whose income from the Company was within the specified band are as follows:				
$0 - $9,999	1	1	1	1
$20,000 - $29,999	-	1	-	1
$40,000 - $49,999	1	1	1	1
$60,000 - $69,999	1	-	1	-
$110,000 - $119,999	-	1	-	1
$310,000 - $319,999	-	1	-	1

The amount of directors' remuneration shown above does not include the value ascribed to the options granted to directors during the period. These values are explained in note 16.

22.(a) Reconciliation of Operating Profit/Loss from Ordinary Activities to Net Cash Outflow from Operating Activities

	Consolidated		Company	
	2003 $	2002 $	2003 $	2002 $
Operating loss before income tax	(834,241)	(298,276)	(902,208)	(455,603)
Depreciation	144,626	180,354	134,287	171,265
Loss on sale of assets	11,776	8,072	11,367	5,193
Provision – doubtful debts	-	5,413	-	(10,891)
Profit on sale of investment in listed securities	(24,250)	-	(24,250)	-
Provision for diminution in value of listed shares	102,587	-	102,587	-
Provision – employee entitlements	3,498	(231,423)	-	(234,682)
Provision – loan to controlled entity	-	-	-	(189,344)
Exploration expenditure capitalised	(301,442)	-	(301,442)	-
Other	(2)	-	(5)	-
Changes in assets and liabilities during the year:				
Increase (decrease) in payables	(47,367)	(225,129)	27,223	(251,737)
(Increase) decrease in receivables and prepayments	(12,899)	715,101	(3,900)	472,010
(Increase) decrease in inventory	47,902	12,262	-	-
Net cash generated by (outflow) from operating activities	(909,812)	166,374	(956,341)	(493,789)

22.(b)Non-cash Financing and Investing Activities

Other than the 1,000,000 ordinary shares issued as part consideration to acquire the Red Dam gold project and the 5,000,000 ordinary shares issued pursuant to the agreement with Metal Holdings Pty Ltd in relation to the East Pilbara Iron Ore Project, there were no non-cash financing and investing activities during the financial year.

23. Financial Instruments

(a) **Credit Risk Exposures**

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

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

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

(b) **Interest Rate Risk**

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

23. Financial Instruments (continued)

2003 Financial Assets	Note	Weighted Average Interest Rate %	Floating Interest Rate $	Fixed Interest Maturing in 1 Year or Less $	Non-interest Bearing $	Total $
Cash	5	1.93	144,244	-	-	144,244
Short Term deposit	5	4.33	-	1,002,350	-	1,002,350
Receivables	6,8	-	-	-	452,971	452,971
Listed shares						
	9	-	-	-	71,613	71,613
			144,244	1,002,350	524,584	1,671,178
Financial Liabilities						
Payables	14	-	-	-	179,798	179,978
			-	-	179,798	179,798
Net Financial Assets		-	144,244	1,002,350	344,786	1,491,380

2002 Financial Assets	Note	Weighted Average Interest Rate %	Floating Interest Rate $	Fixed Interest Maturing in 1 Year or Less $	Non-interest Bearing $	Total $
Cash	5	2.66	208,105	-	200	208,305
Short Term deposit	5	4.41	-	1,140,000	-	1,140,000
Receivables	6,8	-	-	-	640,071	640,071
			208,105	1,140,000	640,271	1,988,376
Financial Liabilities						
Payables	11	-	-	-	227,167	227,167
			-	-	227,167	227,167
Net financial assets			208,105	1,140,000	413,104	1,761,209

(c) **Net Fair Value**

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

24. Commitments

(a) Leasing Commitments

Operating leases

	Consolidated		Company	
	2003 $	2002 $	2003 $	2002 $
Office premises due within 1 year	40,848	37,800	-	-
Office premises due greater than 1 year and less than 5	61,123	91,350	-	-
	101,970	129,150	-	-

(b) Exploration Tenement Leases – Commitments for Expenditure.

In order to maintain current rights of tenure to exploration tenements, the Company and consolidated entity is required to outlay lease rentals and to meet the minimum expenditure requirements of $870,900 over the next financial year (2002 $25,800).

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

25. Related Party Transactions

The Directors during the year
The directors who held office during the financial year are listed in note 21, Directors' Remuneration.

Directors' share and option holdings
The total numbers of shares and options held by the directors and their director related entities at the end of the financial year is as follows.

	2003 Number	2002 Number
Ordinary shares	596,500	-
Options (unlisted) exercisable at $0.20 on or before 30 June 2005	2,500,000	-

Transactions with Director related entities
Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

On 10 April 2003 the Company entered into an agreement with Metal Holdings Pty Ltd, a company in which Mr Andrew Forrest has a relevant interest. The main purpose of this agreement was to form a relationship with Metal Holdings Pty Ltd through which the Company's main focus would become development of the East Pilbara Iron Ore Project. This agreement gave rise to a series of other transaction, each of which was governed by a separate agreement. These were;

- The engagement of Mr Andrew Forrest as Chief Executive Officer
- The sale of the Red Dam Project and MMPEU to Allied Gold Limited
- The acquisition of Iron Ore Australia Pty Ltd

Further details of these transactions are described in note 27 Subsequent Events.

Mr Andrew Forrest was not a related party of the Company prior to 10 April 2003, however he became one when appointed Chief Executive Officer by virtue of the Executive Employment Contract dated 17 April 2003 and which became effective on 18 July 2003 when this series of transactions, and Mr Forrest's appointment as a director, were approved by shareholders.

At the same shareholders meeting the issue of 5,000,000 fully paid ordinary shares and the grant of 105,000,000 options over ordinary shares to Metal Holdings Pty Ltd was approved by shareholders.

25. Related Party Transactions (continued)

Mr Mark Caruso and Mr Greg Steemson are directors of Mineral Commodities Limited. This entity has provided managerial, consulting, accounting and administration services to the Company. Fees paid and payable to Mineral Commodities Limited during the year were $ 189,000 (2002 $ 20,500). This amount has not been included in the aggregate of directors' remuneration in note 21. Subsequent to the end of the financial year the management agreement was terminated, 23 months prior to the contracted period. In compensation for the early termination the Company agreed to pay Mineral Commodities Limited $200,000 as well as agreeing to a 6 month period whereby the services would continue to be performed at no further cost to the Company.

Arran Pty Ltd, a company in which Mr David Lymburn has a relevant interest, provided company secretarial services to the Company and its controlled entities throughout the year. The fees paid under this arrangement amount to $42,833 have been included in directors' remuneration in note 21.

The Company provides management and administration services to Allied Medical Limited for which it charged management fees of $130,000 during the year.

26. Contingent Liabilities

There are no contingent liabilities. (2002: nil).

27. Subsequent Events

(a) Pursuant to an agreement dated 10 April 2003 with Metal Holdings Pty Ltd and an Executive Employment Agreement with Mr Andrew Forrest dated 17 April 2003, the Company issued 5,000,000 fully paid ordinary shares and 1,500,000 unlisted options exercisable at $0.08 each on or before 17 April 2008. These 5,000,000 shares and 1,500,000 options were issued on 17 April 2003.

(b) By an agreement dated 16 June 2003, which became unconditional on 18 July 2003, the Company sold the Red Dam gold project and the Mobile Mineral Process Evaluation Unit to Allied Gold Limited for consideration of $2,500,000 satisfied by the issue of 12,500,000 shares at $0.20 each on 5 August 2003. On 11 August the Company undertook an equal capital reduction and in specie distribution to shareholders of 12,486,386 of the shares it held in Allied Gold.

(c) By an agreement dated 18 June 2003, which became unconditional on 18 July 2003, the Company acquired 100% of the issued share capital of Iron Ore Australia Pty Ltd for consideration of 1,800,000 fully paid ordinary shares in the Company issued on 1 August 2003. Iron Ore Australia Pty Ltd is the holder of mining tenements in the vicinity of the East Pilbara Iron Ore Project.

(d) Pursuant to the agreement dated 10 April 2003 with Metal Holdings Pty Ltd, and following shareholder approval on 18 July 2003, the Company issued 53,500,000 unlisted options to Metal Holdings Pty Ltd. The main terms and conditions of these options are detailed under the Share Options section of this Directors' Report.

(e) Upon completion of the transactions described in (a), (b), (c) and (d) and after achieving shareholder approval at a meeting held on 18 July 2003, the Company also issued 1,000,000 fully paid ordinary shares to an unrelated party that was involved in facilitation of the transactions.

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

The Directors of Fortescue Metals Group Ltd declare that:

1. The financial statements and notes of the Company and of the consolidated entity are in accordance with the Corporations Act 2001, including:

   (a) giving a true and fair view of the financial position of the Company and consolidated entity as at 30 June 2003 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and

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

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

Signed in accordance with a resolution of the Directors.

Andrew Forrest
Chairman

Dated at Perth this 25th day of September 2003.

BDO

Chartered Accountants ants
& Advisers

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

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF FORTESCUE METALS GROUP LTD

Scope

The Financial Report and Directors' Responsibility
The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for both Fortescue Metals Group Limited and the consolidated entity, for the year ended 30 June 2003. The consolidated entity comprises both the company and the entities it controlled during that year.

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

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

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

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

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

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

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

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

(a) the Corporations Act 2001, including:

  (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2003 and of its performance for the year ended on that date; and

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

(b) other mandatory financial reporting requirements in Australia.

BG McVeigh
BDO
Chartered Accountants
Dated: 25 September 2003

Additional information required by the Australian Stock Exchange Limited Listing Rules and not disclosed elsewhere in this report is as follows. The information is made up to 22 September 2003.

Statement of Shareholdings

(a) Ordinary Shares – Fully Paid

Names of the 20 Largest Shareholders	Number of shares	% held
Emichrome Pty Ltd	7,100,671	9.8
Mineral Commodities Limited	6,193,000	8.6
Kie Chie Wong	5,800,000	8.0
The Metal Group Pty Ltd	5,000,000	6.9
Redowood Pty Ltd	4,332,420	6.0
El Aura Pty Ltd	2,098,799	2.9
John Cunningham & Associates Pty Ltd	1,825,295	2.5
Skeet Nominees Pty Ltd	1,532,420	2.1
WWB Investments Pty Ltd	1,147,840	1.6
Wall Street Properties Limited	1,000,000	1.4
Westpac Custodian Nominees Limited	1,000,000	1.4
Kathryn Louise Rowley	950,000	1.3
Promet Engineers Pty Ltd	900,000	1.3
Monti Minerals Pty Ltd	700,000	1.0
Peto Pty Ltd	698,850	1.0
Lentona Pty Ltd	664,286	0.9
Warren & Marilyn Brown	600,000	0.8
Robert Cameron Galbraith	559,536	0.8
Caspian Oil Limited	550,000	0.8
Symmall Pty Ltd	550,000	0.8

Holding Range	Number of holders
1 – 1,000	62
1,001 – 5,000	206
5,001 – 10,000	200
10,001 – 100,000	443
100,001 or more	80
	991

Voting Rights

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

The 5,000,000 shares held by The Metal Group Pty Ltd are subject to voluntary restriction until 17 April 2004.

Total Fully Paid Shares Issued	72,096,567
Proportion held by 20 Largest Shareholders	57%
Number of Shareholders holding less than a marketable parcel	79

There is no current on market buy back

(b) Options

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

(c) Substantial Shareholders

The names of those shareholders with a substantial shareholding in the Company at 22 September 2003 are;

	Relevant interest in shares	% held
Emichrome Pty Ltd	13,333,112	18.5%
Mineral Commodities Limited	6,193,000	8.6%
The Metal Group Pty Ltd	5,000,000	6.9%
Redowood Pty Ltd	4,332,420	6.0%

This page has been intentionally left blank