



Fortescue Metals Group Ltd
Level 2, 87 Adelaide Terrace
East Perth
Western Australia 6004

FORTESCUE METALS GROUP LTD
ABN 57 002 594 872

INTERIM FINANCIAL REPORT

31 DECEMBER 2006

Registered Office and Principal Place of Business:

**Level 2
87 Adelaide Terrace
East Perth
Western Australia 6004**

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FORTESCUE METALS GROUP LTD DIRECTORS' REPORT

DIRECTORS' REPORT

The Directors present their report on the consolidated entity ("Fortescue") consisting of Fortescue Metals Group Ltd (the "Company") and the entities it controlled at the end of, or during, the half-year ended 31 December 2006.

DIRECTORS

The Directors of the Company during the half-year and until the date of this report are as below. Directors were in office for this entire period unless otherwise stated.

Non-Executive

Mr Gordon Toll
Mr Herb Elliott
Mr Ken Ambrecht
Mr Joseph Steinberg

Executive

Mr Andrew Forrest
Mr Graeme Rowley
Mr Russell Scrimshaw

Alternate

Mr Thomas Mara
Mr Herbert Scruggs
Mr Ian Cumming

Mr Steinberg was appointed a Director on 18 August 2006 and continues in office at the date of this report. Mr Mara was appointed as the alternate Director for Mr Steinberg on 18 August 2006. Mr Mara resigned on 16 November 2006 and Mr Scruggs was appointed the new alternate Director for Mr Steinberg. Mr Scruggs resigned on 12 January 2006 and Mr Cumming was appointed the new alternate Director for Mr Steinberg and continues in that role at the date of this report.

REVIEW OF OPERATIONS

Fortescue is developing the Pilbara Iron Ore and Infrastructure Project. \$3.2 billion of new capital and long-term debt was raised in August 2006 to develop the initial 45 million tonne per annum operation. First iron ore is anticipated to be shipped from Port Hedland in the first quarter of calendar 2008.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration under section 307C of the *Corporations Act 2001* is set out on page 3 and forms part of the Directors' Report for the half-year ended 31 December 2006.

FORTESCUE METALS GROUP LTD
DIRECTORS' REPORT

ROUNDING OFF

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

Dated at Perth this 9th day of February 2007.

Signed in accordance with a resolution of the Directors.



Mr Gordon Toll
Chairman



Chartered Accountants
& Advisers

Level 8, 256 St George's Terrace Perth WA 6000
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9 February 2007

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

Dear Sirs

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

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

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

Yours sincerely

BDO
Chartered Accountants

BG McVeigh
Partner

FORTESCUE METALS GROUP LTD
CONSOLIDATED INTERIM INCOME STATEMENT
FOR THE SIX MONTHS ENDED 31 DECEMBER 2006

	Note	31 December 2006 \$'000	31 December 2005 \$'000
Revenue from ordinary activities		-	834
Financial income	7	53,941	1,211
Financial expenses	7	(304,001)	(4,389)
Personnel expenses	5	(6,099)	(1,656)
Other expenses	6	(3,942)	(1,670)
Loss before income tax		(260,101)	(5,670)
Income tax benefit		82,459	-
Loss from continuing operations		(177,642)	(5,670)
Loss on sale of discontinued operations (net of tax)	8	-	(507)
Loss for the period		(177,642)	(6,177)
Loss attributable to members of the Company		(177,642)	(6,177)
Loss per share for loss attributable to the ordinary equity holders of the Company			
Basic loss per share (cents)		(69.18)	(2.82)
Diluted loss per share (cents)		-	-

Diluted earnings per share is not calculated as it is not considered dilutive and therefore has not been disclosed.

The income statement is to be read in conjunction with the condensed notes to the consolidated interim financial report.

FORTESCUE METALS GROUP LTD
CONSOLIDATED INTERIM BALANCE SHEET
AS AT 31 DECEMBER 2006

	Note	31 December 2006 \$'000	30 June 2006 \$'000
CURRENT ASSETS			
Cash and cash equivalents		2,534,341	18,054
Trade and other receivables		213,006	1,373
Financial assets		103	323
Other current assets		290	161
Total Current Assets		2,747,740	19,911
NON-CURRENT ASSETS			
Trade and other receivables		5,869	14,323
Exploration and evaluation expenditure	9	6,605	182,914
Development expenditure	11	675,877	-
Property, plant and equipment	10	7,256	3,874
Deferred tax assets		143,275	-
Other financial assets		26	26
Total Non-Current Assets		838,908	201,137
Total Assets		3,586,648	221,048
CURRENT LIABILITIES			
Interest-bearing loans and borrowings	12	286,785	-
Trade and other payables		27,823	16,674
Total Current Liabilities		314,608	16,674
NON-CURRENT LIABILITIES			
Deferred tax liabilities		60,730	-
Interest-bearing loans and borrowings	12	2,855,519	67,268
Total Non-Current Liabilities		2,916,249	67,268
Total Liabilities		3,230,857	83,942
NET ASSETS		355,791	137,106
EQUITY			
Issued capital		542,379	147,153
Reserves		4,008	2,907
Accumulated losses		(190,596)	(12,954)
TOTAL EQUITY		355,791	137,106

The balance sheet is to be read in conjunction with the condensed notes to the consolidated interim financial report

FORTESCUE METALS GROUP LTD
CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2006

	31 December 2006 \$'000	31 December 2005 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	-	834
Exploration and evaluation expenditure	(6,605)	(41,081)
Development expenditure	(625,493)	-
Interest received	52,752	1,213
Payments to suppliers and employees	(7,363)	(2,760)
Interest Paid	(10,977)	-
Net cash used in operating activities	(597,686)	(41,794)
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash lost on disposal of Allied Medical Ltd	-	(137)
Payments for purchase of plant and equipment	(4,392)	(724)
Net cash used in investing activities	(4,392)	(861)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the issue of share capital	395,124	-
Proceeds from borrowings	2,964,044	-
Repayment of borrowings	(197,135)	-
Net cash from financing activities	3,162,033	-
Net increase/(decrease) in cash and cash equivalents	2,559,955	(42,655)
Cash at beginning of period	18,054	81,158
Effect of exchange rate changes on cash held	(43,668)	1,910
Cash at end of period	2,534,341	40,413

The statement of cash flows is to be read in conjunction with the condensed notes to the consolidated interim financial report.

FORTESCUE METALS GROUP LTD
CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 31 DECEMBER 2006

	Issued Capital \$'000	Accumulated losses \$'000	Reserves \$'000	Total Equity \$'000
Opening balance at 1 July 2006	147,153	(12,954)	2,907	137,106
Net loss for the period	-	(177,642)	-	(177,642)
Total recognised income and expense for the year	-	(177,642)	-	(177,642)
Transactions with equity holders in their capacity as equity holders:				
Issue of share capital	394,286	-	-	394,270
Exercise of options	854	-	-	956
Recognise unbooked deferred tax asset on cost of raising capital	86	-	-	-
Equity settled share based payment transactions	-	-	1,101	1,101
	395,226	-	1,101	396,327
Closing balance at 31 December 2006	542,379	(190,596)	4,008	355,791

	Issued Capital \$'000	Accumulated losses \$'000	Reserves \$'000	Total Equity \$'000
Opening balance at 1 July 2005	69,476	(10,809)	774	59,441
Revaluation of property, plant and equipment	-	-	880	880
Net income recognised directly in equity	-	-	880	880
Net loss for the period	-	(6,177)	-	(6,177)
Total recognised income and expense for the year	-	(6,177)	880	(5,297)
Transactions with equity holders in their capacity as equity holders:				
Issue of share capital	16,334	-	-	16,334
Reversal of deferred tax liability on conversion of convertible notes	3,588	-	-	3,588
Distribution in specie due to Allied Medical Ltd de-merger	(880)	-	-	(880)
Equity settled share based payment transactions	-	-	773	773
	19,042	-	773	19,815
Closing balance at 31 December 2005	88,518	(16,986)	2,427	73,959

Amounts are stated net of tax.

The statement of changes in equity is to be read in conjunction with the condensed notes to the consolidated interim financial report.

FORTESCUE METALS GROUP LTD
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT
FOR THE SIX MONTHS ENDED 31 DECEMBER 2006

NOTE 1. BASIS OF PREPARATION

Fortescue Metals Group Ltd (the “Company”) is a company domiciled in Australia. The condensed consolidated interim financial report of the Company as at and for the six months ended 31 December 2006 comprises the Company and its subsidiaries (together referred to as “Fortescue”).

The consolidated annual financial report of Fortescue as at and for the year ended 30 June 2006 is available upon request from Fortescue’s registered office at Level 2, 87 Adelaide Terrace, East Perth, Western Australia 6004 or at www.fmgil.com.au.

NOTE 2. STATEMENT OF COMPLIANCE

The consolidated interim financial report is a general purpose financial report which has been prepared in accordance with AASB 134: *Interim Financial Reporting* and the Corporations Act 2001.

The consolidated interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of Fortescue as at and for the year ended 30 June 2006 and any public announcements made by Fortescue during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

This condensed consolidated interim financial report was approved by the Board of Directors on 7 February 2007.

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

NOTE 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by Fortescue in this consolidated interim financial report are the same as those applied by Fortescue in its consolidated financial report as at and for the year ended 30 June 2006.

FORTESCUE METALS GROUP LTD
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT
FOR THE SIX MONTHS ENDED 31 DECEMBER 2006

NOTE 4. SEGMENT REPORTING

Fortescue has the following business segments:

- Exploration, evaluation and development of mineral resources.
- The Medical subsidiary was demerged by way of an equal reduction in capital in November 2005.

For the six months ended 31 December

	Exploration and Development		Medical (Discontinued)		Consolidated	
	2006	2005	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Segment revenue	53,941	1,209	-	836	53,941	2,045
Segment result	(177,642)	(5,766)	-	(411)	(177,642)	(6,177)

NOTE 5. PERSONNEL EXPENSES

	31 December 2006 \$'000	31 December 2005 \$'000
Wages and salaries, including superannuation	2,898	461
Other associated personnel expenses	1,540	196
Increase in liability for annual leave	560	225
Equity-settled transactions	1,101	774
	6,099	1,656

NOTE 6. OTHER EXPENSES

Communications costs	177	94
Office rent	177	167
Depreciation	1,036	219
Travel costs	513	263
Insurance	126	149
ASX fees	169	20
Legal costs	1,411	102
Other	333	656
	3,942	1,670

FORTESCUE METALS GROUP LTD
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT
FOR THE SIX MONTHS ENDED 31 DECEMBER 2006

NOTE 7. NET FINANCING COSTS

	31 December 2006 \$'000	31 December 2005 \$'000
Interest income	-	1,211
Net gain on remeasurement of interest rate swaps	3,479	-
Net foreign exchange gain	50,462	-
Financial income	53,941	1,211
Fair value adjustment to Leucadia subordinated note	(304,001)	-
Interest expense	-	(3,686)
Net foreign exchange loss	-	(703)
Financial expenses	(304,001)	(4,389)
Net Financing Costs	(250,060)	(3,178)

NOTE 8. DISCONTINUED OPERATION

a) Description

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

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

b) Financial performance and cash flow information

The financial performance and cash flow information of allied Medical Limited presented are for the five months ended 30 November 2005.

	Half year	
	2006 \$'000	2005 \$'000
Revenue	-	834
Expenses	-	(738)
Profit before income tax	-	96
Income tax expense	-	-
Profit after income tax of discontinued operations	-	96
Loss on demerger of the subsidiary before income tax	-	(507)
Income tax expense	-	-
Loss on demerger of the subsidiary after income tax	-	(507)
Loss from discontinued operations	-	(411)
Net cash inflow from ordinary activities	-	20
Net increase in cash generated by the division	-	20

FORTESCUE METALS GROUP LTD
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT
FOR THE SIX MONTHS ENDED 31 DECEMBER 2006

NOTE 8 DISCOUNTED OPERATION (CONTINUED)

c) Carrying amounts of assets and liabilities

The carrying amounts of assets and liabilities as at 30 November 2005 were:

	Half year	
	2006	2005
	S'000	S'000
Cash assets	-	137
Trade receivables	-	376
Inventories	-	59
Property, plant and equipment	-	5
Total assets	-	577
Trade creditors	-	37
Provision for employee benefits	-	33
Total liabilities	-	70
Net assets	-	507

d) Details of the demerger of the division

	Half year	
	2006	2005
	S'000	S'000
Consideration received or receivable:		
Cash	-	-
Total disposal consideration	-	-
Carrying amount of net non-cash assets sold	-	(370)
Net cash lost on disposal	-	(137)
Loss on sale before income tax	-	(507)
Income tax expense	-	-
Loss on sale after income tax	-	(507)

NOTE 9. EXPLORATION AND EVALUATION EXPENDITURE

	31 December 2006	30 June 2006
	S'000	S'000
Carrying amount at beginning of period	182,914	63,337
Expenditure	6,605	119,577
Transfers to development expenditure	(182,914)	-
Carrying amount at end of period	6,605	182,914

The ultimate recoupment of costs carried forward for exploration assets is dependent on the successful development and commercial exploitation or sale of the respective areas.

FORTESCUE METALS GROUP LTD
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT
FOR THE SIX MONTHS ENDED 31 DECEMBER 2006

NOTE 10. PROPERTY, PLANT AND EQUIPMENT

	31 December 2006 \$'000	30 June 2006 \$'000
Land and buildings – at cost	316	316
Accumulated depreciation	(2)	(1)
	<u>314</u>	<u>315</u>
Plant and office equipment – at cost	9,005	4,612
Accumulated depreciation	(2,065)	(1,056)
	<u>6,940</u>	<u>3,556</u>
Motor vehicles – at cost	7	7
Accumulated depreciation	(5)	(4)
	<u>2</u>	<u>3</u>
Total property, plant and equipment	<u>7,256</u>	<u>3,874</u>

Reconciliation of movements in carrying amounts

Land and buildings

Carrying amount at beginning of period	315	115
Additions	-	201
Depreciation	(1)	(1)
Carrying amount at end of period	<u>314</u>	<u>315</u>

Plant and equipment

Carrying amount at beginning of period	3,556	1,052
Additions	4,425	3,214
Disposals	(7)	-
Demerger of Allied Medical Limited assets	-	(5)
Depreciation	(1,034)	(705)
Carrying amount at end of period	<u>6,940</u>	<u>3,556</u>

Motor vehicles

Carrying amount at beginning of period	3	7
Depreciation	(1)	(4)
Carrying amount at end of period	<u>2</u>	<u>3</u>

Capital Commitments

As at 31 December 2006 Fortescue has commitments to construction contracts of \$1,302,104,000 related to the development of its Pilbara Iron Ore and Infrastructure Project.

FORTESCUE METALS GROUP LTD
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT
FOR THE SIX MONTHS ENDED 31 DECEMBER 2006

NOTE 11. DEVELOPMENT EXPENDITURE

	31 December 2006 \$'000	30 June 2006 \$'000
Cost		
Balance at beginning of period	-	-
Expenditure	492,963	-
Transfer from exploration	182,914	-
Balance at end of period	<u>675,877</u>	-

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

NOTE 12. LOANS AND BORROWINGS

The following loans and borrowings (non-current and current) were issued and repaid during the six months ended 31 December 2006.

	Note	Currency	Face Value \$'000	Carrying Amount		Total AUD \$'000
				Current AUD \$'000	Non- Current AUD \$'000	
Balance at 1 July 2006	(i)	AUD			67,268	67,268
New issues :						
Syndicated loan - secured	(i)	USD	US\$100,000	-	129,867	129,867
Subordinated loan note facility	(ii)	USD	US\$100,000	-	451,141	451,141
Senior Secured Notes	(iii)	USD	US\$1,650,000	231,501	1,918,717	2,150,218
Senior Secured Notes	(iii)	EUR	€315,000	55,284	485,661	540,945
Repayments :						
Syndicated loan - secured	(j)	USD	US\$150,000	-	(197,135)	(197,135)
Balance at 31 December 2006				<u>286,785</u>	<u>2,855,519</u>	<u>3,142,304</u>
Balance at 1 July 2005						
Convertible notes	(iv)					67,720
New issues :						
Syndicated loan - secured	(i)	USD	US\$50,000	-	67,268	67,268
Repayments or conversions :						
Convertible notes						<u>(67,720)</u>
Balance at 30 June 2006						<u>67,268</u>

a) Syndicated loan

The Company put in place during the previous financial year a US\$200 million syndicated loan note facility with institutional investors. The facility was put in place to ensure the rapid development of its Pilbara Iron Ore and Infrastructure Project prior to completion of the capital raising process.

FORTESCUE METALS GROUP LTD
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT
FOR THE SIX MONTHS ENDED 31 DECEMBER 2006

NOTE 12. LOANS AND BORROWINGS (CONTINUED)

The key terms and conditions of the facility are:

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

The Company had drawn down US\$50 million as at 30 June 2006 and an additional US\$100 million during the half-year ended 31 December 2006. This facility was repaid in full during the half-year.

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

The Company put in place a US\$100 million subordinated loan note facility with Leucadia National Corporation ("Leucadia") during the half-year.

The key terms and conditions of the facility are:

- Interest under the note is calculated as 4% of the revenue, net of government royalties, from the sale of iron ore FOB Port Hedland from the tenements of the Cloud Break and Christmas Creek areas only. Accordingly the interest is only payable when Fortescue is in production and is only relevant to iron ore produced from these two tenement areas for a period of 13 years from 18 August 2006;
- The note is unsecured and deeply subordinated to any secured debt. In the event that an interest payment is earned but not payable due to secured lender restrictions, the amount unpaid will accrue interest at a market interest rate until payment is made.

c) Senior Secured Notes (through its wholly owned subsidiary FMG Finance Pty Ltd)

The Company raised US\$1,650 million in US dollar denominated and €315 million in Euro denominated Senior Secured Notes to facilitate the construction and initial operation of the Pilbara Iron Ore and Infrastructure Project.

The key terms and conditions of the notes are:

- US\$320 million of Senior Secured Notes due 2013 bearing interest at 10.000% per annum accruing from August 18, 2006. Interest is payable on March 1 and September 1 of each year, beginning on March 1, 2007.
- €315 million of Senior Secured Notes due 2013 bearing interest at 9.750% per annum accruing from August 18, 2006. Interest is payable on March 1 and September 1 of each year, beginning on March 1, 2007.
- US\$1,080 million of Senior Secured Notes due 2016 bearing interest at 10.625% per annum accruing from August 18, 2006. Interest is payable on March 1 and September 1 of each year, beginning on March 1, 2007.
- US\$250 million of Senior Secured Notes due 2011 bearing interest at three-month LIBOR plus 4.000% per annum, accruing from August 18, 2006. Interest is payable on March 1, June 1, September 1 and December 1 of each year, beginning on December 1, 2006.

FORTESCUE METALS GROUP LTD
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT
FOR THE SIX MONTHS ENDED 31 DECEMBER 2006

NOTE 12. LOANS AND BORROWINGS (CONTINUED)

Other key terms of the notes are:

- They rank pari passu in right of payment with all existing and future senior indebtedness.
- They are secured by, among other security documents, fixed and floating charges over the assets of FMG Finance Pty Ltd and the project-related assets of FMG Chichester Pty Ltd, Pilbara Mining Alliance Pty Ltd and The Pilbara Infrastructure Pty Ltd (the "Project Guarantors"), a charge, assignment or pledge over the bank accounts in which proceeds of the Senior Secured Notes will be deposited, share mortgages over all of the shares in the capital of the Project Guarantors and FMG Finance, a featherweight charge over all of the assets and undertakings of Fortescue and mortgages of the real property leasehold rights of the Project and the Project mining tenements.
- They are listed on the Singapore Exchange Securities Trading Limited (the "SGX-ST").

d) Convertible Notes

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

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

NOTE 13. EQUITY SECURITIES ISSUED

	2006 Shares	2005 Shares
Issues of ordinary shares during the half-year		
Issued to Leucadia National Corporation	26,400,000	-
Conversion of convertible notes	-	5,430,088
Exercise of options issued under the Fortescue Metals Group Incentive Option Scheme ("FMGIOS")	319,950	-
	26,719,950	5,430,088

NOTE 14. INCOME TAX EXPENSE

Previously unrecognised tax losses of \$82,458,585 were recognised in the current period as management now considers it probable that future taxable profits will be available against which they can be utilised.

FORTESCUE METALS GROUP LTD
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT
FOR THE SIX MONTHS ENDED 31 DECEMBER 2006

NOTE 15. ACQUISITIONS

The following entities were acquired during the six months ended 31 December 2006;

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

NOTE 16. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There have been no changes in content liabilities or contingent assets since the 30 June 2006 annual report.

NOTE 17. SUBSEQUENT EVENTS

There have been no material events subsequent to the half-year ended 31 December 2006.

NOTE 18. SHARED BASED PAYMENTS

In 2005 the Company established the Fortescue Metals Group Incentive Options Scheme ("FMGIOS"). The terms and conditions of the FMGIOS are disclosed in the consolidated financial report as at and for the year ended 30 June 2006. No further grant of options was made during the half-year ended 31 December 2006.

FORTESCUE METALS GROUP LTD
DIRECTORS' DECLARATION

DIRECTORS' DECLARATION

In the opinion of the Directors of Fortescue Metals Group Ltd (the "Company"):

1. the financial statements and notes set out on pages 4 to 16, are in accordance with the Corporations Act 2001 including:
 - (a) giving a true and fair view of the financial position of the consolidated entity as at 31 December 2006 and of its performance, as represented by the results of its operations, changes in equity and its cash flows for the half-year ended on that date; and
 - (b) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated at Perth this 9th day of February 2007.

Signed in accordance with a resolution of the Directors.



Mr Gordon Toll
Chairman

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Fortescue Metals Group Ltd, which comprises the balance sheet as at 31 December 2006, and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration of the consolidated entity comprising the disclosing entity and the entities it controlled at the half-year end or from time to time during the half-year in order for the disclosing entity to lodge the half-year financial report with the Australian Securities and Investments Commission.

Directors' Responsibility for the Half-Year Financial Report

The directors of the disclosing entity are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the disclosing entity's financial position as at 31 December 2006 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Fortescue Metals Group Ltd, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of Fortescue Metals Group Ltd on 7 February 2007 would be in the same terms if provided to the directors as at the date of this auditor's review report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Fortescue Metals Group Ltd is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and Corporations Regulations 2001.

BDO

Chartered Accountants

A handwritten signature in black ink, appearing to read 'B. McVeigh', written in a cursive style.

BG McVeigh

Partner

Perth, Western Australia

Dated this 9th day of February 2007