**Fortescue Metals Group Ltd**
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9 February 2007

The Companies Officer
Australian Stock Exchange Ltd
Exchange Plaza
Perth WA 6000

Dear Sir

**Revised Special Purpose Financial Report**

Please find enclosed the revised Special Purpose financial report for the period ending 30 September 2006 and originally lodged with the ASX on 15 December 2006.

In preparing the interim financial report for the period ending 31 December 2006, the assumptions relating to the accounting entries for the Leucadia subordinated note were revisited. The revised assumptions include future exchange rates, iron ore volumes and iron ore prices that are consistent with the August 2006 Offering Memorandum for the Senior Secured Notes. The effective discount rate used is 15%.

The effect of the modified assumptions is to decrease the carrying value of the liability by $1.2 million from $438.9 million to $437.7 million and the fair value adjustment on the Income Statement from $305.2 million to $304.0 million. The deferred tax asset and interest liability are reduced by $0.4 million and $1.6 million respectively. These amounts are not considered to be material.

Yours sincerely
**Fortescue Metals Group Ltd**

**Rod Campbell**
Company Secretary

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

# FORTESCUE METALS GROUP LTD
# ABN 57 002 594 872

# SPECIAL PURPOSE FINANCIAL REPORT

# 30 SEPTEMBER 2006

**Registered Office and Principal Place of Business:**

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

The New Force in Iron Ore

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## REVIEW OF OPERATIONS

Highlights for the three months to 30 September 2006 include;

- Financial Close achieved with A$3.2 billion raised in debt and equity capital, providing an appropriate capital base to bring the project into operations.
- Fortescue awarded "Deal of the Year" at the Excellence in Mining and Exploration conference in recognition of the capital raising – Fortescue's A$2.7 billion debt issue is the largest "high yield" debt issue ever completed in the Asia Pacific region.
- US Investment Group Leucadia National Corporation, Inc. takes a US$300 million placement to join the Company as a cornerstone equity partner and takes a board seat with Mr Joseph S Steinberg as director.
- Dredging and earthworks continue at the Port Hedland port site and the earth works program begins at the Cloud Break mine site.
- Forecast capital costs for the port and rail (A$1.92 billion) together with the mine processing plant (A$325m) remain within schedule with commissioning still forecast for Q1 2008.
- Pilbara Mining Alliance "PMA" with Roche Mining progressing well with the recent appointment of Mr John Blanning (ex BHPB General Manager) as Head of Mining together with a number of other key staff appointments.
- Fortescue's Tenement Portfolio now at c.35,500 km2 – the largest of any mining group within the Pilbara Region's rich Hamersley Mineral Province.
- Economic forecasts predict a continuing period of economic growth for China which will underwrite the long term demand for bulk commodities like iron ore.

## 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 special purpose financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

**FORTESCUE METALS GROUP LTD**
**CONSOLIDATED SPECIAL PURPOSE INCOME STATEMENT**
**FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2006**

| | Note | 30 September 2006 $'000 | 30 September 2005 $'000 |
|---|---|---|---|
| Revenue from ordinary activities | | - | 472 |
| Cost of sales | | - | (301) |
| Personnel expense | 6 | **(3,184)** | (990) |
| Financial income | 8 | **14,809** | 849 |
| Financial expenses | 8 | **(308,524)** | (1,071) |
| Other expenses | 7 | **(1,488)** | (339) |
| Loss before income tax | | **(298,387)** | (1,380) |
| Income tax benefit | | **91,200** | - |
| Loss for the period | | **(207,187)** | (1,380) |
| Loss attributable to members of the Company | | **(207,187)** | (1,380) |

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

**FORTESCUE METALS GROUP LTD**
**CONSOLIDATED SPECIAL PURPOSE BALANCE SHEET**
**FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2006**

| | Note | 30 September 2006 $'000 | 30 June 2006 $'000 |
|---|---|---|---|
| **CURRENT ASSETS** | | | |
| Cash and cash equivalents | | **2,934,972** | 18,054 |
| Trade and other receivables | | **6,492** | 1,373 |
| Inventories | | **-** | - |
| Financial assets | | **123** | 323 |
| Other current assets | | **99** | 161 |
| **Total Current Assets** | | **2,941,686** | 19,911 |
| **NON-CURRENT ASSETS** | | | |
| Trade and other receivables | | **145,610** | 14,323 |
| Exploration and evaluation expenditure | 9 | **2,611** | 182,914 |
| Development expenditure | 11 | **424,613** | - |
| Property, plant and equipment | 10 | **4,895** | 3,874 |
| Deferred tax assets | | **91,200** | - |
| Other financial assets | | **26** | 26 |
| **Total Non-Current Assets** | | **668,955** | 201,137 |
| **Total Assets** | | **3,610,641** | 221,048 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | | **107,241** | 16,674 |
| **Total current liabilities** | | **107,241** | 16,674 |
| **NON-CURRENT LIABILITIES** | | | |
| Interest-bearing loans and borrowings | 12 | **3,178,287** | 67,268 |
| **Total Non-Current Liabilities** | | **3,178,287** | 67,268 |
| **Total Liabilities** | | **3,285,528** | 83,942 |
| **NET ASSETS** | | **325,113** | 137,106 |
| **EQUITY** | | | |
| Issued capital | | **541,796** | 147,153 |
| Reserves | | **3,458** | 2,907 |
| Accumulated losses | | **(220,141)** | (12,954) |
| **TOTAL EQUITY** | | **325,113** | 137,106 |

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

# FORTESCUE METALS GROUP LTD
## CONSOLIDATED SPECIAL PURPOSE STATEMENT OF CASH FLOWS
## FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2006

| | 30 September 2006 $'000 | 30 September 2005 $'000 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Receipts from customers | **-** | 472 |
| Exploration and evaluation expenditure | **(2,611)** | (19,956) |
| Development expenditure | **(281,861)** | - |
| Interest received | **14,809** | 667 |
| Payments to suppliers and employees | **(8,671)** | (1,530) |
| **Net cash used in operating activities** | **(278,334)** | (20,347) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Cash lost on disposal of Allied Medical Ltd | **-** | - |
| Payments for purchase of plant and equipment | **(1,479)** | (443) |
| **Net cash used in investing activities** | **(1,479)** | (443) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from the issue of share capital | **394,643** | - |
| Proceeds from borrowings | **2,964,044** | - |
| Repayment of borrowings | **(197,135)** | - |
| **Net cash from financing activities** | **3,161,552** | - |
| **Net increase/(decrease) in cash and cash equivalents** | **2,881,739** | (20,790) |
| Cash at 1 July | **18,054** | 81,158 |
| Effect of exchange rate changes on cash held | **35,179** | 182 |
| **Cash at 30 September** | **2,934,972** | 60,550 |

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

**FORTESCUE METALS GROUP LTD**
**CONSOLIDATED SPECIAL PURPOSE STATEMENT OF CHANGES IN EQUITY**
**FOR THE THREE MONTHS ENDED 30 SEPTEMBER 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 profit for the period | - | (207,187) | - | (207,187) |
| Total recognised income and expense for the quarter | - | (207,187) | - | (207,187) |
| Transactions with equity holders in their capacity as equity holders: | | | | |
| Issue of share capital | 394,286 | - | - | 394,286 |
| Exercise of options | 357 | - | - | 357 |
| Distribution to option holders | - | - | - | - |
| Convertible notes conversion to equity | - | - | - | - |
| Adjustment to valuation of equity component of convertible notes | - | - | - | - |
| Deferred tax liability on equity portion of convertible notes | - | - | - | - |
| Equity settled share based payment transactions | - | - | 551 | 551 |
| | 394,643 | - | 551 | 395,194 |
| Closing balance at 30 September 2006 | 541,796 | (220,141) | 3,458 | 325,113 |

| | Issued Capital $'000 | Accumulated losses $'000 | Reserves $'000 | Total Equity $'000 |
|---|---|---|---|---|
| Opening balance at 1 July 2005 | 69,476 | (10,808) | 773 | 59,441 |
| Net profit for the period | - | (1,380) | - | (1,380) |
| Total recognised income and expense for the quarter | - | (1,380) | - | (1,380) |
| Transactions with equity holders in their capacity as equity holders: | | | | |
| Equity component of convertible notes | - | - | - | - |
| Reversal of deferred tax liability on conversion of convertible notes | - | - | - | - |
| Distribution in specie due to Allied Medical Ltd de-merger | - | - | - | - |
| Equity settled share based payment transactions | - | - | 387 | 387 |
| | - | - | 387 | 387 |
| Closing balance at 30 September 2005 | 69,476 | (12,188) | 1,160 | 58,448 |

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 special purpose financial report.*

## NOTES TO THE CONDENSED CONSOLIDATED SPECIAL PURPOSE FINANCIAL REPORT
## FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2006

### NOTE 1. REPORTING ENTITY

Fortescue Metals Group Ltd (the "Company") is a company domiciled in Australia. This condensed consolidated special purpose financial report of the Company as at and for the three months ended 30 September 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.fmgl.com.au.

### NOTE 2. STATEMENT OF COMPLIANCE

This is a consolidated special purpose financial report which has been prepared in accordance with the requirements of the Indenture dated 18 August 2006.

The consolidated special purpose 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.

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 special purpose financial report are the same, other than the new accounting policy disclosed below, as those applied by Fortescue in its consolidated financial report as at and for the year ended 30 June 2006.

*Development Expenditure*
Development costs are accumulated in respect of each area of interest. Development costs related to an area of interest are carried forward to the extent that they are expected to be recouped either through sale or successful exploitation of the area of interest.

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

Amortisation is not charged on costs carried forward in respect of areas of interest in the development phase until production commences. When production commences, carried forward exploration and development costs are amortised on a unit of production basis over the life of economically recoverable reserves.

## NOTE 4. ESTIMATES

The preparation of the special purpose financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this consolidated special purpose financial report, the significant judgements made by management in applying Fortescue's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report as at and for the year ended 30 June 2006.

## NOTE 5. SEGMENT REPORTING

**For the three months ended 30 September**

| | Mining and exploration | | Medical (Discontinued) | | Consolidated | |
|---|---|---|---|---|---|---|
| | 2006 $'000 | 2005 $'000 | 2006 $'000 | 2005 $'000 | 2006 $'000 | 2005 $'000 |
| Segment revenue | - | - | - | 472 | - | 472 |
| Segment result | (207,187) | (1,411) | - | 31 | (207,187) | (1,380) |

Fortescue has the following business segments:

- The Mining and Exploration division which is involved in the exploration, evaluation and development of mineral resources.
- The Medical division was demerged by way of an equal reduction in capital in November 2005.

## NOTE 6. PERSONNEL EXPENSES

| | 30 September 2006 $'000 | 30 September 2005 $'000 |
|---|---|---|
| Wages and salaries, including superannuation | 661 | 240 |
| Other associated personnel expenses | 1,811 | 235 |
| Increase in liability for annual leave | 161 | 128 |
| Equity-settled transactions | 551 | 387 |
| | 3,184 | 990 |

## NOTE 7. OTHER EXPENSES

| | | |
|---|---|---|
| Communications costs | 108 | 52 |
| Office rent | 136 | 86 |
| Depreciation | 458 | 96 |
| Travel costs | 346 | 23 |
| Insurance | 64 | 43 |
| ASX fees | 142 | - |
| Other | 234 | 39 |
| | 1,488 | 339 |

## NOTE 8. NET FINANCING COSTS

| | 30 September 2006 $'000 | 30 September 2005 $'000 |
|---|---|---|
| Interest income | 14,809 | 667 |
| Net foreign exchange gain | - | 182 |
| Financial income | 14,809 | 849 |
| Net foreign exchange loss | (4,523) | - |
| Fair value adjustment to Leucadia subordinated note | (304,001) | |
| Interest expense | - | (1071) |
| Financial expenses | (308,524) | (1,071) |
| **Net Financing Costs** | (293,715) | (222) |

## NOTE 9. EXPLORATION AND EVALUATION EXPENDITURE

| | 30 September 2006 $'000 | 30 June 2006 $'000 |
|---|---|---|
| Carrying amount at 1 July | 182,914 | 63,337 |
| Expenditure outlaid in cash | 2,611 | 119,577 |
| Transfers to development expenditure | (182,914) | - |
| Carrying amount at reporting date | 2,611 | 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.

## NOTE 10. PROPERTY, PLANT AND EQUIPMENT

**Acquisitions and Disposals**

During the three months ended 30 September 2006, Fortescue acquired assets with a cost of $1.479 million (three months ended 30 September 2005: $0.443 million).

No assets were disposed of during the three months ended 30 September 2006 (three months ended 30 September 2005: $Nil).

| | 30 September 2006 $'000 | 30 June 2006 $'000 |
|---|---|---|
| Land and buildings – at cost | 316 | 316 |
| Accumulated depreciation | (1) | (1) |
| | 315 | 315 |
| | | |
| Plant and office equipment – at cost | 6,091 | 4,612 |
| Accumulated depreciation | (1,513) | (1,056) |
| | 4,578 | 3,556 |
| | | |
| Motor vehicles – at cost | 7 | 7 |
| Accumulated depreciation | (5) | (4) |
| | 2 | 3 |
| | | |
| **Total property, plant and equipment** | 4,895 | 3,874 |

## NOTE 10. PROPERTY, PLANT AND EQUIPMENT (continued)

| Reconciliation of movements in carrying amounts | 30 September 2006 $'000 | 30 June 2006 $'000 |
|---|---|---|
| **Land and Buildings** | | |
| Carrying amount at beginning of period | 315 | 115 |
| Additions | - | 201 |
| Depreciation | - | (1) |
| Carrying amount at end of period | 315 | 315 |
| **Plant and equipment** | | |
| Carrying amount at beginning of period | 3,556 | 1,052 |
| Additions | 1,479 | 3,214 |
| Disposals | - | - |
| Demerger of Allied Medical Limited assets | - | (5) |
| Depreciation | (457) | (705) |
| Carrying amount at end of period | 4,578 | 3,556 |
| **Motor vehicles** | | |
| Carrying amount at beginning of period | 3 | 7 |
| Additions | - | - |
| Disposals | - | - |
| Depreciation | (1) | (4) |
| Carrying amount at end of period | 2 | 3 |

## NOTE 11. DEVELOPMENT EXPENDITURE

| | 30 September 2006 $'000 | 30 June 2006 $'000 |
|---|---|---|
| **Cost** | | |
| Balance at 1 July | - | - |
| Development expenditure incurred during the period | 241,699 | - |
| Transfer for exploration | 182,914 | - |
| Balance at reporting date | 424,613 | - |

Amortisation is not charged on costs carried forward in respect of areas of interest in the development phase 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 30 September 2006.

| | Note | Currency | Interest Rate Nominal | Interest Rate Effective | Face value AUD $'000 | Carrying amount AUD $'000 | Year of Maturity |
|---|---|---|---|---|---|---|---|
| Balance at 1 July 2006 | (i) | AUD | | | | 67,268 | |
| **New issues :** | | | | | | | |
| Syndicated loan - secured | (i) | AUD | LIBOR plus 4.875% | LIBOR plus 4.875% | 132,759 | 129,867 | 2008 |
| Subordinated loan note facility | (ii) | USD | 4% of Revenue | 15.000% | 131,423 | 437,691 | 2019 |
| Bonds | (iii) | USD | 10.625% | 10.625% | 1,419,372 | 1,443,850 | 2016 |
| Bonds | (iii) | USD | 10.000% | 10.000% | 420,555 | 427,807 | 2013 |
| Bonds | (iii) | USD | 3 Month LIBOR plus 4% | 3 Month LIBOR plus 4% | 328,558 | 334,225 | 2011 |
| Bonds | (iii) | EUR | 9.750% | 9.750% | 531,377 | 534,714 | 2013 |
| **Repayments :** | | | | | | | |
| Syndicated loan - secured | (i) | USD | | | | (197,135) | |
| Balance at 30 September 2006 | | | | | | 3,178,287 | |

| | Note | Currency | Interest Rate Nominal | Interest Rate Effective | Face value AUD $'000 | Carrying amount AUD $'000 | Year of Maturity |
|---|---|---|---|---|---|---|---|
| Balance at 1 July 2005 | | | | | | | |
| Convertible notes | (iv) | | | | | 67,720 | |
| **New issues :** | | | | | | | |
| Syndicated loan - secured | (i) | USD | LIBOR plus 4.875% | LIBOR plus 4.875% | 71,153 | 67,268 | 2008 |
| **Repayments or conversions :** | | | | | | | |
| Convertible notes | | | | | | (67,720) | |
| Balance at 30 June 2006 | | | | | | 67,268 | |

## NOTE 12. LOANS AND BORROWINGS (continued)

*(i) 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.

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 consolidated special purpose balance sheet.

The Company has drawn down US$50 million as at 30 June 2006 and an additional US$100 million during the three months to 30 September 2006. This facility was repaid in full during the three months to 30 September 2006.

*(ii) Subordinated loan note facility*

The Company put in place during the half-year a US$100 million subordinated loan note facility with Leucadia National Corporation ("Leucadia"). The facility was put in place to provide the requisite equity to enable completion of Fortescue's project financing.

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 the date of financial close;

- Other key terms of the note are that it 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.

**NOTE 12. LOANS AND BORROWINGS (continued)**

*(iii) Bonds*

The Company raised US$1,650 million in US denominated bonds and €315 million in Euro denominated bonds to facilitate the construction and initial operation of Fortescue's Pilbara Iron Ore and Infrastructure Project.

The key terms and conditions of the bonds are:

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

Other key terms of the Senior Secured notes are:

- The notes rank pari passu in right of payment with all existing and future senior indebtedness.
- The Senior Secured Notes 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.
- The Senior Secured Notes are listed on the Singapore Exchange Securities Trading Limited (the "SGX-ST").

*(iv) 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** <br> **$** |
|---|---|
| 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) |
| | 67,720 |

## NOTE 13. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

**Contingent liability**

*ASIC Proceedings*

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

The ASIC statement of claim alleges a breach by Fortescue and by the CEO of the continuous disclosure provisions of the Corporations Act under Section 674 and also a breach under Section 1041H relating to deceptive and misleading conduct. ASIC is seeking a maximum civil penalty of $8 million against the Company and $7.6 million against the CEO. ASIC is also seeking an order that the CEO compensate Fortescue for any pecuniary penalty it may be required to pay.

Both the Company and the CEO Mr Andrew Forrest will vigorously contest the charges.

**Contingent asset**

*Payroll tax assessment*

A payroll tax assessment for the amount of $1,495,989 was received from the State Revenue Department relating to options issued to The Metals Group Pty Ltd in 2003. The Company has lodged an objection to this assessment on the grounds that these options are not wages for payroll tax purposes under the definitions of the Payroll Tax Assessment Act 2002.

## NOTE 14. SUBSEQUENT EVENTS

A Special Railway Licence was granted by the State Government of Western Australia on 29 November 2006. The State Railway Licence is a miscellaneous licence that gives the necessary tenure for the railway construction, operations and maintenance for a period of 50 years.

Fortescue Metals Group signed a long term iron ore off-take agreement with Wuhan Iron & Steel Group on 1 December 2006. The 10 year agreement contracts 4.4% of Fortescue's initial planned production of 45 million tonnes per annum up to a maximum off-take of 2 million tonnes per annum. Pricing is based on the industry standard of annual benchmark price setting with adjustments made for product type and volumes.

Other than those items mentioned 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.

## NOTE 15. SHARE-BASED PAYMENTS

In 2005 the Company established the Fortescue Metals Group Incentive Options Scheme ("FMGIOS") that entitles key management personnel and senior employees to purchase shares in the Company. 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 three months ended 30 September 2006.