



Fortescue Metals Group Ltd

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1 June 2007

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

Dear Sir

Special Purpose Financial Report

Fortescue Metals Group Ltd ("Fortescue") advises that attached is the Special Purpose Financial Report for the Fortescue consolidated group for the period ending 31 March 2007.

The lodging of this report is an undertaking pursuant to documentation for the Senior Secured Notes issued by FMG Finance Pty Ltd in August 2006.

Yours sincerely
Fortescue Metals Group Ltd

Rod Campbell
Company Secretary

The New Force in Iron Ore



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
FOR THE NINE MONTHS ENDED

31 MARCH 2007

Registered Office and Principal Place of Business:

Level 2
87 Adelaide Terrace
East Perth
Western Australia 6004

The New Force in Iron Ore

TABLE OF CONTENTS

REVIEW OF OPERATIONS	1
CONSOLIDATED SPECIAL PURPOSE INCOME STATEMENT.....	2
CONSOLIDATED SPECIAL PURPOSE BALANCE SHEET	3
CONSOLIDATED SPECIAL PURPOSE STATEMENT OF CASH FLOWS.....	4
CONSOLIDATED SPECIAL PURPOSE STATEMENT OF CHANGES IN EQUITY	5
NOTES TO THE CONDENSED CONSOLIDATED SPECIAL PURPOSE FINANCIAL REPORT	6
NOTE 1. BASIS OF PREPARATION	6
NOTE 2. STATEMENT OF COMPLIANCE	6
NOTE 3. SIGNIFICANT ACCOUNTING POLICIES	6
NOTE 4. SEGMENT REPORTING.....	6
NOTE 5. PERSONNEL EXPENSE	7
NOTE 6. OTHER EXPENSES.....	7
NOTE 7. NET FINANCING COSTS	7
NOTE 8. EXPLORATION AND EVALUATION EXPENDITURE	7
NOTE 9. PROPERTY, PLANT AND EQUIPMENT	8
NOTE 10. DEVELOPMENT EXPENDITURE.....	9
NOTE 11. INTEREST-BEARING LOANS AND BORROWINGS.....	9
NOTE 12. EQUITY SECURITIES ISSUED	11
NOTE 13. ACQUISITIONS	11
NOTE 14. CONTINGENT LIABILITIES AND CONTINGENT ASSETS	12
NOTE 15. SUBSEQUENT EVENTS	12
NOTE 16. SHARE BASED PAYMENTS	12

FORTESCUE METALS GROUP LTD REVIEW OF OPERATIONS

REVIEW OF OPERATIONS

- Major off-take agreement signed with China's largest steel mill, Baosteel, for up to 20 million tonnes per annum "Mta", comprised of 5Mta of initial production and up to 15Mta of expansion tonnes.
- Fortescue has now fully committed its initial base production target of 45Mta and planning is advancing regarding the potential for expansion.
- Baosteel also signed an MOU for joint exploration and development of a potential Magnetite deposit and Fortescue's general exploration work continues at a number of sites with encouraging intercepts recorded.
- Fortescue's tenement portfolio increased to over 38,000 km² with a number of key acquisitions during the period.
- During March, the project suffered the effects of three cyclones resulting in an adjustment to schedule (6 week delay) and capex (A\$106m increase). Notwithstanding, Fortescue is confident of completing the project within the available funding package.
- Port works were only minimally impacted by the cyclone and progress to date is on schedule with dredging now complete and wharf piling advanced.
- Mine site work at Cloud Break is also progressing well: the concrete footings for the ore preparation facility are being poured, 600 rooms are now available for on site accommodation and the airstrip has been surfaced.
- The rail works program was adversely affected by the cyclone and as a result the first ore on ship ("FOOS") date has been amended to mid May 2008.
- Several major commodity forecasters are now looking at iron ore price rises for both 2008 and 2009 as the iron ore supply situation tightens and China's demand remains strong.

FORTESCUE METALS GROUP LTD
CONSOLIDATED SPECIAL PURPOSE INCOME STATEMENT
FOR THE NINE MONTHS ENDED 31 MARCH 2007

	Note	31 March 2007 \$'000	31 March 2006 \$'000
Revenue from ordinary activities		-	834
Financial income	7	79,007	1,546
Financial expenses	7	(304,001)	(5,788)
Personnel expenses	5	(6,717)	(1,812)
Depreciation expense		(1,821)	(355)
Other expenses	6	(4,365)	(2,052)
Loss before tax		(237,897)	(7,627)
Income tax benefit		81,639	-
Loss from continuing operations		(156,258)	(7,627)
Loss on sale of discontinued operation net of tax		-	(507)
Loss for the period		(156,258)	(8,134)
Loss attributable to members of the Parent Entity		(156,258)	(8,134)
Basic loss per share (cents)		(60.26)	(3.50)
Diluted loss per share (cents)		-	-

Diluted loss 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 notes to the condensed consolidated special purpose financial report.

FORTESCUE METALS GROUP LTD
CONSOLIDATED SPECIAL PURPOSE BALANCE SHEET
AS AT 31 MARCH 2007

	Note	31 March 2007 \$'000	30 June 2006 \$'000
CURRENT ASSETS			
Cash and cash equivalents		2,049,594	18,054
Trade and other receivables		262,082	1,373
Financial assets		303	323
Other		973	161
Total Current Assets		2,312,952	19,911
NON-CURRENT ASSETS			
Trade and other receivables		9,392	14,323
Exploration and evaluation expenditure	8	9,262	182,914
Development expenditure	10	1,045,178	-
Property, plant and equipment	9	8,439	3,874
Deferred tax assets		142,456	-
Other		25	26
Total Non-Current Assets		1,214,752	201,137
Total Assets		3,527,704	221,048
CURRENT LIABILITIES			
Interest-bearing loans and borrowings	11	279,143	-
Trade and other payables		38,273	16,674
Total Current Liabilities		317,416	16,674
NON-CURRENT LIABILITIES			
Interest-bearing loans and borrowings	11	2,768,276	67,268
Deferred tax liabilities		60,730	-
Other		3,197	-
Total Non-Current Liabilities		2,832,203	67,268
Total Liabilities		3,149,619	83,942
NET ASSETS		378,085	137,106
EQUITY			
Issued capital		542,739	147,153
Reserves		4,558	2,907
Accumulated losses		(169,212)	(12,954)
TOTAL EQUITY		378,085	137,106

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

FORTECUE METALS GROUP LTD
CONSOLIDATED SPECIAL PURPOSE STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS ENDED 31 MARCH 2007

	31 March 2007 \$'000	31 March 2006 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	-	834
Exploration and evaluation expenditure	(9,262)	(61,195)
Development expenditure	(982,629)	-
Interest received	88,310	1,546
Payments to suppliers and employees	(8,719)	(4,083)
Interest paid	(145,735)	(14,529)
Net cash used in operating activities	(1,058,035)	(77,427)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for purchase of plant and equipment	(6,391)	(1,078)
Cash lost on disposal of Allied Medical Ltd	-	(137)
Net cash used in investing activities	(6,391)	(1,215)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the issue of share capital	395,484	-
Proceeds from borrowings	2,964,044	71,153
Repayment of borrowings	(197,135)	-
Net cash from financing activities	3,162,393	71,153
Net increase/(decrease) in cash and cash equivalents	2,097,967	(7,489)
Cash at beginning of period	18,054	81,158
Effect of exchange rate changes on cash held	(66,427)	511
Cash at end of period	2,049,594	74,180

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

FORTECUE METALS GROUP LTD
CONSOLIDATED SPECIAL PURPOSE STATEMENT OF CHANGES IN EQUITY
FOR THE NINE MONTHS ENDED 31 MARCH 2007

	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	-	(156,258)	-	(156,258)
Total recognised income and expense for the year	-	(156,258)	-	(156,258)
Transactions with equity holders in their capacity as equity holders:				
Issue of share capital	394,286	-	-	394,286
Exercise of options	1,214	-	-	1,214
Recognise unbooked deferred tax asset on cost of raising capital	86	-	-	86
Equity settled share based payment transactions	-	-	1,651	1,651
	395,586	-	1,651	397,237
Closing balance at 31 March 2007	542,739	(169,212)	4,558	378,085

	Issued Capital \$'000	Accumulated losses \$'000	Reserves \$'000	Total Equity \$'000
Opening balance at 1 July 2005	69,476	(10,808)	774	59,442
Revaluation of property, plant and equipment	-	-	880	880
Net income recognised directly in equity	-	-	880	880
Net loss for the period	-	(8,134)	-	(8,134)
Total recognised income and expense for the year	-	(8,134)	880	(7,254)
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 March 2006	88,518	(18,942)	2,427	72,003

Amounts are stated net of tax.

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

FORTESCUE METALS GROUP LTD
NOTES TO THE CONDENSED CONSOLIDATED SPECIAL PURPOSE FINANCIAL REPORT
FOR THE NINE MONTHS ENDED 31 MARCH 2007

NOTE 1. BASIS OF PREPARATION

Fortescue Metals Group Ltd (the “Company”) is a company domiciled in Australia. The condensed consolidated special purpose financial report of the Company as at and for the nine months ended 31 March 2007 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

This is a condensed consolidated special purpose financial report which has been prepared in accordance with the requirements of Fortescue’s Senior Secured Notes indenture dated 18 August 2006.

The condensed 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 and any public announcements made by Fortescue during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

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 condensed consolidated special purpose 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.

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 nine months ended 31 March

	Exploration and Development		Medical (Discontinued)		Consolidated	
	2007	2006	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Segment revenue	79,007	1,546	-	834	79,007	2,380
Segment result	(156,258)	(7,723)	-	(411)	(156,258)	(8,134)

FORTECUE METALS GROUP LTD
NOTES TO THE CONDENSED CONSOLIDATED SPECIAL PURPOSE FINANCIAL REPORT
FOR THE NINE MONTHS ENDED 31 MARCH 2007

NOTE 5. PERSONNEL EXPENSE

	31 March 2007 \$'000	31 March 2006 \$'000
Wages and salaries, including superannuation	1,915	740
Other associated personnel expenses	2,447	298
Increase in liability for annual leave	704	-
Equity-settled transactions	1,651	774
	<u>6,717</u>	<u>1,812</u>

NOTE 6. OTHER EXPENSES

	31 March 2007 \$'000	31 March 2006 \$'000
Communications costs	260	211
Office rent	296	220
Travel costs	691	343
Insurance	634	203
ASX fees	176	41
Legal costs	1,706	294
Other	602	740
	<u>4,365</u>	<u>2,052</u>

NOTE 7. NET FINANCING COSTS

	31 March 2007 \$'000	31 March 2006 \$'000
Interest income	-	1,546
Net gain on remeasurement of interest rate swaps	7,000	-
Net foreign exchange gain	72,007	-
Financial income	79,007	1,546
Fair value adjustment to Leucadia subordinated note	(304,001)	-
Interest expense	-	(3,686)
Net foreign exchange loss	-	(2,102)
Financial expenses	(304,001)	(5,788)
Net Financing Costs	<u>224,994</u>	<u>(4,242)</u>

NOTE 8. EXPLORATION AND EVALUATION EXPENDITURE

	31 March 2007 \$'000	30 June 2006 \$'000
Carrying amount at beginning of period	182,914	63,337
Expenditure	9,262	119,577
Transfers to development expenditure	(182,914)	-
Carrying amount at end of period	<u>9,262</u>	<u>182,914</u>

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 CONDENSED CONSOLIDATED SPECIAL PURPOSE FINANCIAL REPORT
FOR THE NINE MONTHS ENDED 31 MARCH 2007

NOTE 9. PROPERTY, PLANT AND EQUIPMENT

	31 March 2007 \$'000	30 June 2006 \$'000
Land and buildings – at cost	316	316
Accumulated depreciation	(2)	(1)
	<u>314</u>	<u>315</u>
Plant and equipment – at cost	10,905	4,612
Accumulated depreciation	(2,877)	(1,056)
	<u>8,028</u>	<u>3,556</u>
Motor vehicles – at cost	105	7
Accumulated depreciation	(8)	(4)
	<u>97</u>	<u>3</u>
Total property, plant and equipment	<u>8,439</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	6,293	3,214
Disposals	-	-
Demerger of Allied Medical Limited assets	(5)	(5)
Depreciation	(1,816)	(705)
Carrying amount at end of period	<u>8,028</u>	<u>3,556</u>

Motor vehicles

Carrying amount at beginning of period	3	7
Additions	98	-
Depreciation	(4)	(4)
Carrying amount at end of period	<u>97</u>	<u>3</u>

Capital Commitments

As at 31 March 2007 Fortescue has commitments to construction contracts of \$1,410,100,000 related to the development of its Pilbara Iron Ore and Infrastructure Project.

FORTESCUE METALS GROUP LTD
NOTES TO THE CONDENSED CONSOLIDATED SPECIAL PURPOSE FINANCIAL REPORT
FOR THE NINE MONTHS ENDED 31 MARCH 2007

NOTE 10. DEVELOPMENT EXPENDITURE

Cost	31 March 2007 \$'000	30 June 2006 \$'000
Balance at beginning of period	-	-
Expenditure	862,264	-
Transfer from exploration	182,914	-
Balance at end of period	1,045,178	-

All expenditure for Port, Rail and Mine Development is included in Development Expenditure.

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

NOTE 11. INTEREST-BEARING LOANS AND BORROWINGS

The following loans and borrowings (non-current and current) were issued and repaid during the nine months ended 31 March 2007.

	Note	Currency	Face Value \$'000	Carrying Amount		Total A\$'000
				Current A\$'000	Non-Current A\$'000	
Balance at 1 July 2006	(i)	AUS			67,268	67,268
New issues :						
Syndicated loan - secured	(i)	US\$		-	129,867	129,867
Subordinated loan note facility	(ii)	US\$		-	464,903	464,903
Senior Secured Notes	(iii)	US\$		228,231	1,831,081	2,059,312
Senior Secured Notes	(iii)	EUR		50,912	472,292	523,204
Repayments :						
Syndicated loan - secured	(i)	US\$		-	(197,135)	(197,135)
Balance at 31 March 2007				279,143	2,768,276	3,047,419
Balance at 1 July 2005						
Convertible notes	(iv)					67,720
New issues :						
Syndicated loan - secured	(i)	US\$	US\$50,000	-	67,268	67,268
Repayments or conversions :						
Convertible notes						(67,720)
Balance at 30 June 2006						67,268

FORTESCUE METALS GROUP LTD
NOTES TO THE CONDENSED CONSOLIDATED SPECIAL PURPOSE FINANCIAL REPORT
FOR THE NINE MONTHS ENDED 31 MARCH 2007

NOTE 11. INTEREST-BEARING 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 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 nine months ended 31 March 2007. This facility was repaid in full during the nine months.

ii) 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 nine months.

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 accrued and 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.

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

The Company raised US\$1,650 million in US dollar denominated and €15 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.
- €15 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 CONDENSED CONSOLIDATED SPECIAL PURPOSE FINANCIAL REPORT
FOR THE NINE MONTHS ENDED 31 MARCH 2007

NOTE 11. INTEREST-BEARING 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").

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
\$'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 12. EQUITY SECURITIES ISSUED

	31 March 07 Shares	31 March 06 Shares
Issues of ordinary shares during the nine months		
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")	424,325	-
	26,824,325	5,430,088

NOTE 13. ACQUISITIONS

The following shelf companies were acquired during the nine months ended 31 March 2007;

- 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

FORTESCUE METALS GROUP LTD
NOTES TO THE CONDENSED CONSOLIDATED SPECIAL PURPOSE FINANCIAL REPORT
FOR THE NINE MONTHS ENDED 31 MARCH 2007

NOTE 14. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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

NOTE 15. SUBSEQUENT EVENTS

On 26 April 2007, Fortescue advised that it had concluded a detailed pilot plant test program that had successfully upgraded its Cloud Break Super Value (SV) fines product to a higher Fe grade product, which will be known as Rocket.

On 8 May 2007, Fortescue advised that it had renegotiated an off take and prepayment agreement with the Fengli Group Co Ltd. The revised agreement provides for Fengli to take up to a maximum of 4 million tonnes per annum "Mta" of initial production. Fortescue and Fengli have also agreed to establish a 50/50 marketing JV to sell iron ore tonnage into China. Up to a maximum of 4Mta of Rocket fines as and when Fortescue is able to provide expansion tonnes will be sold by the JV utilising Fengli's new Yangtze River port facilities. The agreement became effective upon receipt by Fortescue of US\$25million being proceeds for a share placement to Fengli of 1,086,957 FMG shares which were subsequently issued on 23 May 2007.

On 17 May 2007, a major off-take agreement was signed with China's third largest steel mill, Tangshan Iron and Steel Group, for up to 20Mta, comprised of 5Mta of initial production and up to 15Mta of expansion tonnes.

On 18 May 2007, Fortescue advised of the retirement of Mr Gordon Toll from the Board of Directors and the appointment of Mr Geoff Brayshaw as non-executive independent director with effect from 1 July 2007.

NOTE 16. SHARE 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 nine months ended 31 March 2007.