



Fortescue Metals Group Ltd

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5th March 2008

The Companies Officer
Australian Stock Exchange Ltd.
Exchange Plaza
2 The Esplanade
Perth WA 6000

Dear Sir,

Lodgement of 2008 Half Year Accounts

Fortescue Metals Group Ltd ("Fortescue") advises that attached is the Interim Report for the 6 months ended 31 December 2007.

Fortescue brings to your attention the revaluation of the Leucadia Loan Note (refer Note 10 on page 13) which has resulted in a material change to the company's balance sheet. The requirement to review the Loan Note, and revalue if deemed appropriate, is an accounting standard obligation.

Fortescue believes there are certain changed operating conditions that should be brought to account within the Loan Note valuation and these are:

- The recent large price rise for 2008/09 deliveries and the general expectation that prices will remain strong over the foreseeable future;
- The expectation that Fortescue, during the term of the Note out to 2019, will increase the annual production volumes from its Cloudbreak and Christmas Creek deposits beyond the 45 million tonnes assumed under the original valuation up to 110 million tonnes per annum.
- A change in the long term AUD / USD exchange rate from that used in the original valuation.

The only certain repayment under the Note is the US\$100 million face value amount due in August 2019. The interest due, charged at a rate of 4% of net revenue (ie. gross iron ore sales from Cloudbreak & Christmas Creek less government royalties), is only payable if revenue is earned.

Accordingly an increase in the likely interest to be earned by Leucadia under the Note reflects the Board's expectation of much greater total revenues being earned by Fortescue resulting from the changed assumptions above.

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

INTERIM REPORT
FOR THE SIX MONTHS ENDED
31 DECEMBER 2007

Registered Office and Principal Place of Business:

Level 2
87 Adelaide Terrace
East Perth
Western Australia 6004

The New Force in Iron Ore

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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 six months ended 31 December 2007 ("half-year").

DIRECTORS

The following persons were Directors of the Company during the whole of the half-year and up to the date of this report:

Non-Executive

Mr Herb Elliott
Mr Ken Ambrecht
Mr Joseph Steinberg
Mr Geoff Brayshaw

Executive

Mr Andrew Forrest
Mr Graeme Rowley
Mr Russell Scrimshaw

Mr Geoff Brayshaw was appointed a Non-Executive Director on 1 July 2007 and continues in office at the date of this report.

REVIEW OF OPERATIONS

Fortescue's primary focus over the last 6 months has been on progressing the project through the construction phase and into operations. As at 31 December 2007 the overall project was assessed at 82% complete by value of work "VOW" measurement. First ore on ship is scheduled for mid May 2008.

Mining Operations

Commercial mining commenced in October 2007 and Fortescue's fleet of mining equipment has been progressively commissioned as it has been delivered.

Exploration

Highlights included;

- Announcement of an inferred resource estimate of 1.7 billion tonnes for the new Solomon area; and
- The commencement of drilling at Glacier Valley in joint venture with Baosteel.

Corporate

Main activities have included;

- A\$504 million equity raising issuing 14 million shares at A\$36 per share;
- A 10 for 1 share split to enhance the liquidity of Fortescue shares; and
- Fortescue opened its first international office with a marketing team now based in Shanghai, China.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 3.

FORTESCUE METALS GROUP LTD
DIRECTORS' REPORT

EVENTS SUBSEQUENT TO REPORTING DATE

On 26 February 2008 Fortescue accepted a fully underwritten, credit approved mandate from two international banks to purchase and lease US\$246 million of rail and port assets. It is contemplated that the facility will be documented and the funds fully drawn by the end of April 2008. The term of the lease is 5.5 years and the implied lease rate is 6.6%.

There have been no other material events subsequent to the half-year ended 31 December 2007.

ROUNDING OF AMOUNTS

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

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



Mr Herb Elliott
Chairman

Perth
5th March 2008



5 March 2008

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

Dear Sirs

DECLARATION OF INDEPENDENCE BY GLYN O'BRIEN TO THE DIRECTORS OF FORTESCUE METALS GROUP LIMITED

As lead auditor for the review of Fortescue Metals Group Limited for the half-year ended 31 December 2007, I declare that to the best of my knowledge and belief, there have been:

- no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- no contraventions of any applicable code of professional conduct in relation to the review.

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

Glyn O'Brien
Director

BDO Kendalls Audit & Assurance (WA) Pty Ltd
Perth, Western Australia

FORTESCUE METALS GROUP LTD
CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 31 DECEMBER 2007

	Note	31 December 2007 \$'000	31 December 2006 \$'000
Revenue from continuing operations		-	-
Other income	5	37,066	53,941
Financial expenses	6	(1,418,063)	(304,001)
Personnel expenses	3	(8,193)	(6,099)
Other expenses	4	(3,361)	(3,942)
Profit / (loss) before income tax		(1,392,551)	(260,101)
Income tax benefit / (expense)		417,417	82,459
Profit / (loss) from continuing operations		(975,134)	(177,642)
Profit / (loss) for the period		(975,134)	(177,642)
Profit / (loss) attributable to members of the Company		(975,134)	(177,642)
Basic earnings / (loss) per share (cents)		(219.65)	(42.17)
Diluted earnings / (loss) per share (cents)		-	-

Diluted loss per share for the half-year ended 31 December 2007 is not calculated as it is not considered dilutive. Therefore this has not been disclosed.

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

FORTESCUE METALS GROUP LTD
CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2007

	Note	31 December 2007 \$'000	30 June 2007 \$'000
CURRENT ASSETS			
Cash and cash equivalents		923,213	1,682,201
Trade and other receivables		192,452	257,533
Financial assets		38	38
Other current assets		1,027	1,283
Total Current Assets		1,116,730	1,941,055
NON-CURRENT ASSETS			
Receivables		5,124	5,606
Exploration and evaluation expenditure	7	12,388	5,101
Development expenditure	9	1,300,642	687,224
Property, plant and equipment	8	1,601,691	838,138
Intangible assets		13,982	5,320
Deferred tax assets		626,696	207,218
Other financial assets		1	1
Total Non-Current Assets		3,560,524	1,748,608
TOTAL ASSETS		4,677,254	3,689,663
CURRENT LIABILITIES			
Borrowings	10	289,985	265,816
Trade and other payables		124,982	66,246
Total Current Liabilities		414,967	332,062
NON-CURRENT LIABILITIES			
Borrowings	10	4,006,232	2,645,770
Trade and other payables		61,066	43,248
Deferred tax liabilities		172,068	172,068
Total Non-Current Liabilities		4,239,366	2,861,086
TOTAL LIABILITIES		4,654,333	3,193,148
NET ASSETS		22,921	496,515
EQUITY			
Contributed equity		1,075,598	574,003
Reserves		3,841	3,896
Accumulated losses		(1,056,518)	(81,384)
TOTAL EQUITY		22,921	496,515

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

FORTESCUE METALS GROUP LTD
CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 31 DECEMBER 2007

	31 December 2007 \$'000	31 December 2006 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Exploration and evaluation expenditure	(8,752)	(6,605)
Development expenditure	(435,156)	(625,493)
Interest received	52,821	52,752
Payments to suppliers and employees	(7,086)	(7,363)
Payments for purchase of plant and equipment, assets under construction	(717,383)	-
Interest paid	(128,477)	(10,977)
Net cash outflow from operating activities	(1,244,033)	(597,686)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for purchase of other plant and equipment	(254)	(4,392)
Payments for purchase of intangible assets	(8,662)	-
Net cash outflow from investing activities	(8,916)	(4,392)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the issue of share capital	505,497	395,124
Proceeds from borrowings	-	2,964,044
Repayment of borrowings	-	(197,135)
Payment of transaction costs	(6,873)	-
Deposits received	17,819	-
Net cash inflow from financing activities	516,443	3,162,033
Net increase/(decrease) in cash and cash equivalents	(736,506)	2,559,955
Cash and cash equivalents at beginning of the half-year	1,682,201	18,054
Effect of exchange rate changes on cash and cash equivalents	(22,482)	(43,668)
Cash and cash equivalents at end of the half-year	923,213	2,534,341

The above consolidated cash flow statement should be read in conjunction with the accompanying notes.

FORTECUE METALS GROUP LTD
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 31 DECEMBER 2007

	Issued Capital \$'000	Accumulated Losses \$'000	Reserves \$'000	Total Equity \$'000
Opening balance at 1 July 2007	574,003	(81,384)	3,896	496,515
Net loss for the period	-	(975,134)	-	(975,134)
Total recognised income and expense for the year	-	(975,134)	-	(975,134)
Transactions with equity holders in their capacity as equity holders:				
Issue of share capital	505,742	-	-	505,742
Capital raising costs	(6,553)	-	-	(6,553)
Exercise of options	2,406	-	(910)	1,496
Forfeited options	-	-	(111)	(111)
Equity settled share based payment transactions	-	-	966	966
	501,595	-	(55)	501,540
Closing balance at 31 December 2007	1,075,598	(1,056,518)	3,841	22,921

	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	-	-	394,286
Exercise of options	854	-	-	854
Recognise unbooked deferred tax asset on cost of raising capital	86	-	-	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

Amounts are stated net of tax.

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

FORTESCUE METALS GROUP LTD
NOTES TO THE CONSOLIDATED FINANCIAL REPORT
FOR THE SIX MONTHS ENDED 31 DECEMBER 2007

NOTE 1. BASIS OF PREPARATION OF HALF-YEAR REPORT

This general purpose financial report for the interim half-year reporting period ended 31 December 2007 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2007 and any public announcements made by Fortescue Metals Group Ltd during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

NOTE 2. SEGMENT INFORMATION

Fortescue has one business segment, the exploration, evaluation and development of mineral resources. Fortescue operates predominately in the geographical location of Australia.

NOTE 3. PERSONNEL EXPENSES

	31 December 2007 \$'000	31 December 2006 \$'000
Wages and salaries, including superannuation	3,144	2,898
Other associated personnel expenses	3,132	1,540
Increase in liability for annual leave	1,062	560
Equity-settled transactions	855	1,101
	8,193	6,099

NOTE 4. OTHER EXPENSES

Depreciation	1,121	1,036
Legal costs	1,854	1,411
Other	386	1,495
	3,361	3,942

FORTECUE METALS GROUP LTD
NOTES TO THE CONSOLIDATED FINANCIAL REPORT
FOR THE SIX MONTHS ENDED 31 DECEMBER 2007

NOTE 5. OTHER INCOME

	31 December 2007	31 December 2006
	\$'000	\$'000
Interest income	55,274	52,752
Net gain on remeasurement of interest rate swaps	-	3,479
Net foreign exchange gain – Leucadia Note	22,416	5,049
Net foreign exchange gain – Other	14,650	45,413
	<u>92,340</u>	<u>106,693</u>
Amount capitalised	(55,274)	(52,752)
	<u>37,066</u>	<u>53,941</u>

NOTE 6. FINANCIAL EXPENSES

Interest expense – Leucadia Note	35,409	20,765
Interest expense - Other	138,577	91,272
Net loss on remeasurement of interest rate swaps	489	-
Fair value adjustment to Leucadia subordinated note	1,417,574	304,001
	<u>1,592,049</u>	<u>416,038</u>
Amount capitalised	(173,986)	(112,037)
	<u>1,418,063</u>	<u>304,001</u>

NOTE 7. EXPLORATION AND EVALUATION EXPENDITURE

Carrying amount at beginning of period	5,101	182,914
Expenditure	7,287	6,605
Transfers to development expenditure	-	(184,418)
Carrying amount at end of period	<u>12,388</u>	<u>5,101</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 CONSOLIDATED FINANCIAL REPORT
FOR THE SIX MONTHS ENDED 31 DECEMBER 2007

NOTE 8. PROPERTY, PLANT AND EQUIPMENT

	31 December 2007 \$'000	30 June 2007 \$'000
Land and buildings – at cost	341	316
Accumulated depreciation	(2)	(2)
	<u>339</u>	<u>314</u>
Plant and equipment – at cost	10,160	9,947
Accumulated depreciation	(3,279)	(2,482)
	<u>6,881</u>	<u>7,465</u>
Motor vehicles – at cost	151	151
Accumulated depreciation	(26)	(14)
	<u>125</u>	<u>137</u>
Computer equipment – at cost	2,321	2,305
Accumulated depreciation	(1,537)	(1,225)
	<u>784</u>	<u>1,080</u>
Assets under construction ¹	1,593,562	829,142
Total property, plant and equipment	<u>1,601,691</u>	<u>838,138</u>

Reconciliation of movements in carrying amounts

Land and buildings

Carrying amount at beginning of period	314	315
Additions	25	-
Depreciation	-	(1)
Carrying amount at end of period	<u>339</u>	<u>314</u>

Plant and equipment

Carrying amount at beginning of period	7,465	3,556
Additions	213	5,371
Disposals	-	(7)
Depreciation	(797)	(1,455)
Carrying amount at end of period	<u>6,881</u>	<u>7,465</u>

Motor vehicles

Carrying amount at beginning of period	137	3
Additions	-	144
Disposals	-	(4)
Depreciation	(12)	(6)
Carrying amount at end of period	<u>125</u>	<u>137</u>

FORTESCUE METALS GROUP LTD
NOTES TO THE CONSOLIDATED FINANCIAL REPORT
FOR THE SIX MONTHS ENDED 31 DECEMBER 2007

NOTE 8. PROPERTY, PLANT AND EQUIPMENT (continued)

	31 December 2007	30 June 2007
	\$'000	\$'000
Computer Equipment		
Carrying amount at beginning of period	1,080	-
Additions	16	2,305
Depreciation	(312)	(1,225)
Carrying amount at end of period	784	1,080
Assets under construction		
Carrying amount at beginning of period	829,142	-
Additions	764,420	829,142
Carrying amount at end of period	1,593,562	829,142

¹ Assets under construction consist of Mine, Port and Rail Assets under construction as part of the Pilbara Iron Ore and Infrastructure Project

Capital Commitments

As at 31 December 2007 Fortescue has commitments to capital expenditure construction contracts of \$301.6 million (30 June 2007: \$275.2 million) related to the development of its Pilbara Iron Ore and Infrastructure Project.

NOTE 9. DEVELOPMENT EXPENDITURE

	31 December 2007	30 June 2007
	\$'000	\$'000
Cost		
Balance at beginning of period	687,224	-
Expenditure	613,418	502,806
Transfer from exploration	-	184,418
Balance at end of period	1,300,642	687,224

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

FORTESCUE METALS GROUP LTD
NOTES TO THE CONSOLIDATED FINANCIAL REPORT
FOR THE SIX MONTHS ENDED 31 DECEMBER 2007

NOTE 10. BORROWINGS

	Note	31 December 2007 \$'000	30 June 2007 \$'000
Current			
Subordinated Loan Note	(ii)	43,838	14,834
Senior Secured Notes	(iii)	246,147	250,982
		289,985	265,816
Non-Current			
Subordinated Loan Note	(ii)	1,787,630	386,067
Senior Secured Notes	(iii)	2,218,602	2,259,703
		4,006,232	2,645,770

No borrowings (non-current and current) were issued or repaid during the six months ended 31 December 2007. Borrowings were revalued at 31 December 2007 based on prevailing market conditions and economic forecasts.

	Note	Currency	Face Value \$'000	Carrying Amount		
				Current A\$'000	Non-Current A\$'000	Total A\$'000
Balance at 1 July 2007	(i)	AU\$		265,816	2,645,770	2,911,586
Revaluation/Reclassification		AU\$		24,169	1,360,462	1,384,631
Balance at 31 December 2007				289,985	4,006,232	4,296,217

The following borrowings (non-current and current) were issued and repaid during the financial year ended 30 June 2007.

Balance at 1 July 2006	(i)	AU\$		-	67,268	67,268
New issues:						
Syndicated loan - secured	(i)	US\$	117,827	-	129,867	129,867
Subordinated loan note facility	(ii)	US\$	117,827	14,834	386,067	400,901
Senior Secured Notes	(iii)	US\$	1,272,534	135,577	1,177,019	1,312,596
Senior Secured Notes	(iii)	US\$	377,047	37,808	350,460	388,268
Senior Secured Notes	(iii)	US\$	294,568	28,799	267,407	296,206
Senior Secured Notes	(iii)	EUR	499,129	48,798	464,817	513,615
Repayments:						
Syndicated loan – secured	(i)	US\$	176,741	-	(197,135)	(197,135)
Balance at 30 June 2007				265,816	2,645,770	2,911,586

i) Syndicated loan

The Company put in place during the financial year ended 30 June 2006 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 FINANCIAL REPORT
FOR THE SIX MONTHS ENDED 31 DECEMBER 2007

NOTE 10. 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 consolidated balance sheet.

The Company had a nil drawn down balance as at 30 June 2007 with no additional amount drawn down during the half-year ended 31 December 2007.

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 prior financial 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 Cloudbreak 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.

The note was revalued at 31 December 2007 to \$1,831,468,000 (30 June 2007: \$400,901,000) in line with changes in the following management estimates, prevailing market conditions and economic forecasts:

- Production has been revised to reflect Fortescue's expectations that production from Christmas Creek and Cloudbreak will reach 110mtpa during the term of the facility;
- Future iron ore prices have been updated to reflect forecasts by an independent resource sector analyst; and
- Foreign exchange forecasts have been updated based on views provided by international banks.

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 €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.

FORTESCUE METALS GROUP LTD
NOTES TO THE CONSOLIDATED FINANCIAL REPORT
FOR THE SIX MONTHS ENDED 31 DECEMBER 2007

NOTE 10. BORROWINGS (continued)

- 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.

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").

NOTE 11. EQUITY SECURITIES ISSUED

	31 December 07	31 December 06
	Shares	Shares
Issues of ordinary shares during the half-year		
Shares issued	14,033,000	26,400,000
Exercise of options issued under the Fortescue Metals Group Incentive Option Scheme ("FMGIOS")	434,346	319,950
Reorganisation of capital *	2,521,395,801	-
	<u>2,535,863,147</u>	<u>26,719,950</u>

* The reorganisation of capital of Fortescue Metals Group Ltd was effected on 19 December 2007. The reorganisation was by way of a share split whereby each fully paid ordinary share was split into ten fully paid ordinary shares.

NOTE 12. CONTINGENCIES

There have been no changes in contingent liabilities or contingent assets since the 30 June 2007 annual report.

NOTE 13. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

On 26 February 2008 Fortescue accepted a fully underwritten, credit approved mandate from two international banks to purchase and lease US\$246 million of rail and port assets. It is contemplated that the facility will be documented and the funds fully drawn by the end of April 2008. The term of the lease is 5.5 years and the implied lease rate is 6.6%.

There have been no other material events subsequent to the half-year ended 31 December 2007.

FORTESCUE METALS GROUP LTD
NOTES TO THE CONSOLIDATED FINANCIAL REPORT
FOR THE SIX MONTHS ENDED 31 DECEMBER 2007

NOTE 14. 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 2007. No further grant of options was made during the half-year ended 31 December 2007.

NOTE 15. RELATED PARTIES

The company has revised its estimate in relation to the liability to Leucadia under the terms of the Subordinated Loan Note (see Note 10 Borrowings). The note was revalued at 31 December 2007 to \$1,831,468,000 (30 June 2007: \$400,901,000). Leucadia is a company related to a director Mr Joseph Steinberg.

FORTESCUE METALS GROUP LTD
DIRECTORS' DECLARATION

DIRECTORS' DECLARATION

In the Directors' opinion:

1. the financial statements and notes set out on pages 4 to 15, are in accordance with the Corporations Act 2001, including:
 - (a) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (b) giving a true and fair view of the consolidated entity's financial position as at 31 December 2007 and of its performance for the half-year ended on that date; 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.

This declaration is made in accordance with a resolution of the Directors.



Mr Herb Elliott
Chairman

Perth
5th March 2008

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

We have reviewed the accompanying half-year financial report of Fortescue Metals Group Limited, which comprises the condensed balance sheet as at 31 December 2007, and the condensed income statement, condensed statement of changes in equity and condensed 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 2007 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 Limited, 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* would be in the same terms if it had been given to the directors at the time that this auditor's review report was made.

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 Limited 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 2007 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 Kendalls Audit & Assurance (WA) Pty Ltd

BDO Kendalls
Glyn O'Brien

Glyn O'Brien
Director

Perth, Western Australia
Dated this 5th day of March 2008