



16 October 2009

The Companies Officer
ASX Limited
2 The Esplanade,
Perth, WA, 6000

Dear Sir

September 2009 Special Purpose Report

Fortescue Metals Group Ltd (“Fortescue” “ASX:FMG”) hereby lodges its Special Purpose Financial Report for the 2009 September quarter. These consolidated group accounts are submitted pursuant to the undertakings of the Indenture covering Fortescue’s 2006 bond market capital raising.

The accounts show a gross profit of US\$152 million for the period. The net result for the period is a loss of (US\$18 million) due in part to a US\$68 million increase in the value of the Leucadia Note liability and a US\$25 million foreign exchange adjustment. Fortescue is obliged to review the Note valuation at each reporting date. The increase in the projected liability has arisen due to a forecast increase in future iron ore prices as provided by an independent expert.

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
FOR THE THREE MONTHS ENDED
30 SEPTEMBER 2009

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	2
CONSOLIDATED SPECIAL PURPOSE INCOME STATEMENT	3
CONSOLIDATED SPECIAL PURPOSE BALANCE SHEET	4
CONSOLIDATED SPECIAL PURPOSE CASH FLOW STATEMENT.....	5
CONSOLIDATED SPECIAL PURPOSE STATEMENT OF CHANGES IN EQUITY.....	6
NOTES TO THE CONSOLIDATED SPECIAL PURPOSE FINANCIAL REPORT	7
NOTE 1. REPORTING ENTITY	7
NOTE 2. BASIS OF PREPARATION	7
NOTE 3. SIGNIFICANT ACCOUNTING POLICIES	7
NOTE 4. REVENUE	8
NOTE 5. COST OF SALES.....	8
NOTE 6. OTHER FINANCIAL EXPENSES.....	8
NOTE 7. TRADE AND OTHER RECEIVABLES	9
NOTE 8. INVENTORIES	9
NOTE 9. EXPLORATION AND EVALUATION EXPENDITURE.....	9
NOTE 10. PROPERTY, PLANT AND EQUIPMENT.....	10
NOTE 11. DEVELOPMENT EXPENDITURE	12
NOTE 12. BORROWINGS.....	12
NOTE 13. EQUITY SECURITIES ISSUED.....	16
NOTE 14. CONTINGENCIES.....	16
NOTE 15. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE	16
NOTE 16. RELATED PARTIES.....	16
NOTE 17. SHARE BASED PAYMENTS.....	17

FORTESCUE METALS GROUP LTD REVIEW OF OPERATIONS

REVIEW OF OPERATIONS

The ramp up of operations continued during the September quarter with a record volume of iron ore mined, processed, railed and shipped. This culminated in a total of 9.526 million tonnes “Mt” of Fortescue’s ore being shipped out of the Herb Elliott port to a selection of Fortescue’s 45 + customers across China.

There were a number of operating milestones achieved during the quarter with over 10 million tonnes of ore mined during the period pushing the mining run rate to over 40 million tonnes per annum. The rail team made 348 train journeys from the Cloudbreak mine to the Herb Elliott port at Port Hedland for a total of 9.562 Mt transported. The port team produced a loading record of 182,000 tonnes loaded in one day. In total 57 ships were dispatched from Fortescue’s port during the quarter.

Fortescue’s exploration team continued its work out at the Solomon Group tenements with a focus on drilling at the Firetail Bedded Brockman deposit where a current Inferred Resource of 125 Mt’s has been estimated and announced thus far (refer ASX release 20 November 2008). It is expected that the extensive work done over the quarter will result in an upgrading of the resource estimate over the coming months.

Fortescue also continued to deliver on its infrastructure sharing commitment with some 316,000 tonnes of third party ore loaded and shipped out of the Herb Elliott port facility.

On the financial side, Fortescue ended the period with a cash balance of US\$704 million which represents an increase over the previous quarter of US\$50 million.

CORPORATE

On 1 January 2009 Fortescue elected to adopt US dollars (“USD”) as the functional currency of the Company and all of its subsidiaries. The functional currency of an entity is the currency of the primary economic environment in which the entity operates, which should reflect the economic substance of the underlying events and circumstances relevant to the Company. Fortescue’s transition from an exploration to a production company has resulted in generating significant cash inflows from iron ore sales. These inflows are denominated in US dollars, which combined with Fortescue’s significant USD Senior Secured Notes and Subordinated Loan Note, indicate that a significant proportion of cash inflows and cash outflows going forward will be denominated in USD.

The consolidated special purpose financial report for the three months ended 30 September 2009, including comparative information, has been presented in US dollars.

FORTESCUE METALS GROUP LTD
CONSOLIDATED SPECIAL PURPOSE INCOME STATEMENT
FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2009

	Note	30 September 2009 USD \$'000	30 September 2008 USD \$'000 Restated
Revenue	4	596,245	532,041
Cost of sales	5	(444,556)	(282,611)
Gross profit		151,689	249,430
Interest revenue		5,867	3,269
Other income		9,622	-
Fair value adjustment to Subordinated Loan Note		(68,169)	299,290
Net foreign exchange gain/ (loss) on borrowings		(24,508)	(288,262)
Net foreign exchange gain/(loss) - other		(4,568)	14,146
Other financial expenses	6	(82,826)	(128,360)
Administration expenses		(12,711)	(6,851)
Profit / (loss) before income tax		(25,604)	142,662
Income tax benefit / (expense)		7,552	(42,790)
Profit / (loss) attributable to members of the Company		(18,052)	99,872
Basic earnings per share (cents)		(0.58)	3.56
Diluted earnings per share (cents)		(0.58)	3.56

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

FORTESCUE METALS GROUP LTD
CONSOLIDATED SPECIAL PURPOSE BALANCE SHEET
AS AT 30 SEPTEMBER 2009

	Note	30 September 2009 USD \$'000	30 June 2009 USD \$'000
CURRENT ASSETS			
Cash and cash equivalents		704,454	654,942
Trade and other receivables	7	110,851	183,188
Inventories	8	113,698	121,122
Financial assets		31	31
Other current assets		17,904	1,498
Total Current Assets		946,938	960,781
NON-CURRENT ASSETS			
Receivables	7	13,091	13,512
Exploration and evaluation expenditure	9	16,705	11,889
Development expenditure	11	1,500,111	1,423,222
Property, plant and equipment	10	1,653,468	1,641,919
Intangible assets		24,994	25,144
Deferred tax assets		360,412	332,449
Other financial assets		18	1
Total Non-Current Assets		3,568,799	3,448,136
TOTAL ASSETS		4,515,737	4,408,917
CURRENT LIABILITIES			
Borrowings	12	360,145	319,823
Provisions		65,924	55,582
Trade and other payables		348,637	339,085
Derivatives held at fair value		29,003	31,397
Total Current Liabilities		803,709	745,887
NON-CURRENT LIABILITIES			
Borrowings	12	2,291,384	2,250,482
Trade and other payables		352,701	349,602
Deferred tax liabilities		232,665	212,254
Total Non-Current Liabilities		2,876,750	2,812,338
TOTAL LIABILITIES		3,680,459	3,558,225
NET ASSETS		835,278	850,692
EQUITY			
Contributed equity		1,231,884	1,229,876
Share based payments reserve		2,600	1,970
Asset revaluation reserve		610	610
Foreign currency translation reserve		(77,202)	(77,202)
Accumulated losses		(322,614)	(304,562)
TOTAL EQUITY		835,278	850,692

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

FORTESCUE METALS GROUP LTD
CONSOLIDATED SPECIAL PURPOSE CASH FLOW STATEMENT
FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2009

	30 September 2009	30 September 2008
	USD \$'000	USD \$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	606,272	447,489
Interest received	5,867	3,269
Payments to suppliers and employees	(364,386)	(229,662)
Interest paid	(97,047)	(81,854)
Net cash inflow from operating activities	150,706	139,242
CASH FLOWS FROM INVESTING ACTIVITIES		
Exploration and evaluation expenditure	(4,816)	(3,661)
Development expenditure	(73,075)	(84,476)
Payments for purchase of infrastructure assets	(23,179)	(207,109)
Payments for purchase of other plant and equipment	-	(53)
Proceeds from disposal of plant and equipment	-	139,655
Payments for purchase of intangible assets	-	(1,580)
Net cash outflow from investing activities	(101,070)	(157,224)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the issue of ordinary share capital	619	651
Proceeds from the issue of preference share capital	-	96,992
Deposits received	30,000	209,806
Net cash inflow from financing activities	30,619	307,449
Net increase in cash and cash equivalents	80,255	289,467
Cash and cash equivalents at 1 July	654,942	133,182
Effect of exchange rate changes on cash and cash equivalents	(30,743)	9,712
Cash and cash equivalents at 30 September	704,454	432,361

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

FORTESCUE METALS GROUP LTD
CONSOLIDATED SPECIAL PURPOSE STATEMENT OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2009

	Contributed Equity USD \$'000	Accumulated Losses USD \$'000	Share Based Payments Reserve USD \$'000	Asset Revaluation Reserve USD\$'000	Foreign Currency Translation Reserve USD \$'000	Total Equity USD \$'000
Opening balance at 1 July 2009	1,229,876	(304,562)	1,970	610	(77,202)	850,692
Net profit for the period	-	(18,052)	-	-	-	(18,052)
Total recognised income and expense for the period	-	(18,052)	-	-	-	(18,052)
Transactions with equity holders in their capacity as equity holders:						
Issue of share capital	1,598	-	-	-	-	1,598
Exercise of options	410	-	180	-	-	590
Forfeited options	-	-	(24)	-	-	(24)
Equity settled share based payment transactions	-	-	474	-	-	474
	2,008	-	630	-	-	2,638
Closing balance at 30 September 2009	1,231,884	(322,614)	2,600	610	(77,202)	835,278

	Contributed Equity USD \$'000	Accumulated Losses USD \$'000 Restated	Share Based Payments Reserve USD \$'000	Asset Revaluation Reserve USD\$'000	Foreign Currency Translation Reserve USD \$'000	Total Equity USD \$'000 Restated
Opening balance at 1 July 2008	746,791	(812,604)	2,045	610	-	(63,158)
Net loss for the period	-	339,644	-	-	-	339,644
Correction of Error	-	(239,772)	-	-	-	(239,772)
Total recognised income and expense for the period	-	99,872	-	-	-	99,872
Transactions with equity holders in their capacity as equity holders:						
Issue of share capital	651	-	-	-	-	651
Exercise of options	438	-	(438)	-	-	-
Forfeited options	-	-	(18)	-	-	(18)
Equity settled share based payment transactions	-	-	281	-	-	281
	1,089	-	(175)	-	-	914
Closing balance at 30 September 2008	747,880	(712,732)	1,870	610	-	37,628

Amounts are stated net of tax.

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

FORTESCUE METALS GROUP LTD
NOTES TO THE CONSOLIDATED SPECIAL PURPOSE FINANCIAL REPORT
FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2009

NOTE 1. REPORTING ENTITY

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 three months ended 30 September 2009 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 2009 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. BASIS OF PREPARATION

(a) Statement of compliance

This is a 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 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 2009 and any public announcements made by Fortescue during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

On 1 January 2009 Fortescue elected to adopt US dollars (“USD”) as the functional currency of the Company and all of its subsidiaries. This change is required to be accounted for prospectively with comparative information also translated at the exchange rate as at 1 January 2009. Previously Fortescue adopted Australian dollars as its functional and presentation currency. The condensed consolidated special purpose financial report for the three months ended 30 September 2009 has been presented in USD.

During the 2009 financial year Fortescue corrected an error relating to the accounting treatment for the US\$100 million Subordinated Loan Note (refer Note 8 in Fortescue’s 30 June 2009 annual report). The correction of error was applied retrospectively and comparatives have been restated.

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 2009.

FORTESCUE METALS GROUP LTD
NOTES TO THE CONSOLIDATED SPECIAL PURPOSE FINANCIAL REPORT
FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2009

NOTE 4. REVENUE

	30 September 2009 USD \$'000	30 September 2008 USD \$'000 Restated
Sale of iron ore	486,185	422,780
Shipping revenue	110,060	109,261
	596,245	532,041

NOTE 5. COST OF SALES

Operating expenses	414,228	271,965
Depreciation and amortisation expense	30,328	10,646
	444,556	282,611
(a) Operating expenses		
Mining costs	202,314	117,343
Rail costs	28,373	17,005
Port costs	22,751	8,034
Shipping costs	133,008	109,171
Government royalty	27,782	20,412
	414,228	271,965
(b) Depreciation and amortisation expense		
Depreciation of property, plant and equipment	11,630	5,420
Amortisation of intangible assets	150	105
Amortisation of development expenditure	18,548	5,121
	30,328	10,646

NOTE 6. OTHER FINANCIAL EXPENSES

Interest expense – Subordinated Loan Note	28,772	77,873
Interest expense - Senior Secured Notes	51,760	43,163
Interest expense - Preference Shares	2,294	856
Fair value loss on interest rate swaps	-	4,719
Debt establishment costs	-	1,749
	82,826	128,360

FORTESCUE METALS GROUP LTD
NOTES TO THE CONSOLIDATED SPECIAL PURPOSE FINANCIAL REPORT
FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2009

NOTE 7. TRADE AND OTHER RECEIVABLES

	30 September 2009	30 June 2009
	USD \$'000	USD \$'000
CURRENT		
Trade debtors	34,807	109,162
GST receivables	12,202	14,678
Security deposits	60,714	56,119
Other receivables	3,128	3,229
	<u>110,851</u>	<u>183,188</u>
NON-CURRENT		
Amounts held pending arbitration of shipping contracts	2,269	2,657
Receivables from sale and leaseback transactions	10,687	10,728
Loan receivable	135	127
	<u>13,091</u>	<u>13,512</u>

NOTE 8. INVENTORIES

Raw materials and stores – at cost	86,445	25,500
Iron ore stockpiles – at cost	27,253	95,622
	<u>113,698</u>	<u>121,222</u>

NOTE 9. EXPLORATION AND EVALUATION EXPENDITURE

Carrying amount at beginning of period	11,889	2,790
Expenditure	4,816	11,267
Transfers to development expenditure	-	(2,168)
Carrying amount at end of period	<u>16,705</u>	<u>11,889</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 SPECIAL PURPOSE FINANCIAL REPORT
FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2009

NOTE 10. PROPERTY, PLANT AND EQUIPMENT

	30 September 2009	30 June 2009
	USD \$'000	USD \$'000
Land and buildings – at cost	236	236
Accumulated depreciation	(8)	(7)
	<u>228</u>	<u>229</u>
Plant and equipment – at cost	7,249	7,249
Accumulated depreciation	(3,790)	(3,646)
	<u>3,459</u>	<u>3,603</u>
Motor vehicles – at cost	147	147
Accumulated depreciation	(56)	(51)
	<u>91</u>	<u>96</u>
Computer equipment – at cost	1,611	1,611
Accumulated depreciation	(1,497)	(1,473)
	<u>114</u>	<u>138</u>
Infrastructure assets	1,399,452	1,399,452
Accumulated depreciation	(47,588)	(36,132)
	<u>1,351,864</u>	<u>1,363,320</u>
Assets under construction	297,712	274,533
Total property, plant and equipment	<u>1,653,468</u>	<u>1,641,919</u>

Reconciliation of movements in carrying amounts

Land and buildings

Carrying amount at beginning of period	229	232
Additions	-	-
Depreciation	(1)	(3)
Carrying amount at end of period	<u>228</u>	<u>229</u>

FORTESCUE METALS GROUP LTD
NOTES TO THE CONSOLIDATED SPECIAL PURPOSE FINANCIAL REPORT
FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2009

NOTE 10. PROPERTY, PLANT AND EQUIPMENT (continued)

	30 September 2009	30 June 2009
	USD \$'000	USD \$'000
Reconciliation of movements in carrying amounts		
Plant and equipment		
Carrying amount at beginning of period	3,603	4,342
Additions	-	68
Depreciation	(144)	(807)
Carrying amount at end of period	3,459	3,603
Motor vehicles		
Carrying amount at beginning of period	96	118
Depreciation	(5)	(22)
Carrying amount at end of period	91	96
Computer Equipment		
Carrying amount at beginning of period	138	325
Depreciation	(24)	(187)
Carrying amount at end of period	114	138
Infrastructure assets¹		
Carrying amount at beginning of period	1,363,320	1,284,875
Disposals	-	353,323
Transfers	-	(239,951)
Depreciation	(11,456)	(34,927)
Carrying amount at end of year	1,351,864	1,363,320
Assets under construction		
Carrying amount at beginning of period	274,533	-
Additions	23,179	274,533
Carrying amount at end of period	297,712	274,533

¹ *Infrastructure assets consists of Mine, Rail and Port infrastructure assets as part of the Pilbara Iron Ore and Infrastructure Project.*

Capital Commitments

As at 30 September 2009 Fortescue has commitments for the purchase of property, plant and equipment of \$US 109.3 million (30 June 2009: \$US 22.2 million).

FORTESCUE METALS GROUP LTD
NOTES TO THE CONSOLIDATED SPECIAL PURPOSE FINANCIAL REPORT
FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2009

NOTE 11. DEVELOPMENT EXPENDITURE

	30 September 2009	30 June 2009
	USD \$'000	USD \$'000
Development expenditure at cost	1,572,321	1,476,734
Accumulation amortisation	(72,210)	(53,512)
	<u>1,500,111</u>	<u>1,423,222</u>
<i>Reconciliation of movement in carrying amounts</i>		
Balance at beginning of year	1,423,222	1,046,219
Expenditure	95,437	375,121
Net additions of rehabilitation assets	-	52,261
Transfer from exploration	-	2,168
Amortisation of development expenditure	(18,548)	(52,547)
Balance at end of year	<u>1,500,111</u>	<u>1,423,222</u>

All expenditure for Mine, Rail and Port Development is included in Development Expenditure and Property, Plant and Equipment. The recoverable amount of development expenditure is determined as the higher of its fair value less costs to sell and its value in use (discounted future cash flows).

NOTE 12. BORROWINGS

	Note	30 September 2009	30 June 2009
		USD \$'000	USD \$'000
Current			
Subordinated Loan Note	(i)	141,289	103,359
Senior Secured Notes	(ii)	207,767	206,240
Preference shares	(iii)	11,089	10,224
		<u>360,145</u>	<u>319,823</u>
Non-Current			
Subordinated Loan Note	(i)	337,283	278,272
Senior Secured Notes	(ii)	1,838,300	1,867,625
Preference shares	(iii)	115,801	104,585
		<u>2,291,384</u>	<u>2,250,482</u>

All borrowings are interest bearing.

FORTESCUE METALS GROUP LTD
NOTES TO THE CONSOLIDATED SPECIAL PURPOSE FINANCIAL REPORT
FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2009

NOTE 12. BORROWINGS (continued)

The following reconciliations (non-current and current) detail the movements in Fortescue's borrowing accounts throughout the period.

	Current US\$'000	Non-Current US\$'000	Total US\$'000
Subordinated Loan Note			
Balance at 1 July 2008	105,999	1,141,337	1,247,336
Fair value adjustment	(2,640)	(1,121,771)	(1,124,411)
Interest expense	-	258,706	258,706
Balance at 30 June 2009	103,359	278,272	381,631
Balance at 1 July 2009	103,359	278,272	381,631
Fair value adjustment	2,289	65,880	68,169
Interest expense	35,641	(6,869)	28,772
Balance at 30 September 2009	141,289	337,283	478,572
Senior Secured Notes			
Balance at 1 July 2008	158,066	1,431,233	1,589,299
Interest expense	-	197,998	197,998
Interest repayments	-	(186,998)	(186,998)
Debt buy back	(9,198)	(71,999)	(81,197)
Foreign exchange losses	57,372	497,391	554,763
Balance at 30 June 2009	206,240	1,867,625	2,073,865
Balance at 1 July 2009	206,240	1,867,625	2,073,865
Interest expense	-	51,760	51,760
Interest repayments	-	(94,279)	(94,279)
Foreign exchange losses	1,527	13,194	14,721
Balance at 30 September 2009	207,767	1,838,300	2,046,067
Preference Shares			
Balance at 1 July 2008	-	-	-
Recognition of issue of preference shares	10,224	86,768	96,992
Interest expense	-	9,309	9,309
Foreign exchange losses	-	13,579	13,579
Interest repayments	-	(5,071)	(5,071)
Balance at 30 June 2009	10,224	104,585	114,809
Balance at 1 July 2009	10,224	104,585	114,809
Interest expense	-	2,294	2,294
Foreign exchange losses	865	8,922	9,787
Balance at 30 September 2009	11,089	115,801	126,890

FORTESCUE METALS GROUP LTD
NOTES TO THE CONSOLIDATED SPECIAL PURPOSE FINANCIAL REPORT
FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2009

NOTE 12. BORROWINGS (continued)

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

The Company put in place a US\$100 million Subordinated Loan Note during the 2007 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.

At inception of the loan an error in the application of the AASB 139 requirement for determining the effective interest rate method occurred (refer note 8 of the 2009 Fortescue annual report). The error relates to the incorrect application of the effective interest rate method to the Subordinated Loan Note liability under AASB 139 by recognition of a “day 1 loss” instead of applying the 42% interest rate implicit in the Subordinated Loan Note based on the face value of US\$100 million. An error, where material, is corrected through applying the correct accounting treatment at the date of the error and adjusting the comparatives in the financial statements in the year that the correction was accounted for.

The Note was revalued at 30 June 2009 to US\$381,631,000 in line with changes in the following management estimates, prevailing market conditions and economic forecasts:

- Production was revised to reflect Fortescue’s forecast production profile as at 30 June 2009 of production levels from Christmas Creek and Cloudbreak reaching a maximum of 95mtpa in February 2012;
- Future iron ore prices were updated to reflect lower forecasts provided by Metalytics Pty Ltd, being an independent resource sector analyst of future iron ore prices;
- The discount rate has been applied since inception and reflects the implicit interest rate of 42% of the Subordinated Loan Note;

The Note was revalued at 30 September 2009 to \$US478,572,000. The material change since 30 June 2009 in management estimates, prevailing market conditions and economic forecasts was that future iron ore prices were updated to reflect higher forecasts since 30 June 2009 provided by Metalytics Pty Ltd, being an independent resource sector analyst of future iron ore prices.

ii) Senior Secured Notes (through its wholly owned subsidiary FMG Resources Pty Ltd – previously FMG Finance Pty Ltd (August 2006))

The Company raised US\$1,650 million in US dollar denominated and €315 million in Euro denominated Senior Secured Notes in August 2006 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.

FORTESCUE METALS GROUP LTD
NOTES TO THE CONSOLIDATED SPECIAL PURPOSE FINANCIAL REPORT
FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2009

NOTE 12. BORROWINGS (continued)

- 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. The Company has swapped these notes to a fixed rate of 9%.
- 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 has a floating-to-fixed interest rate swap over its US\$250 million Senior Secured Notes due 2011, swapping these notes to a fixed rate of 9% per annum.

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 Resources (August 2006) Pty Ltd, (previously FMG Finance Pty Ltd), and the project-related assets of Chichester Metals Pty Ltd (previously 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 Resources (August 2006) Pty Ltd, 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").

iii) Preference shares recognised as debt

The Company issued 1,400 fully paid non-converting, redeemable preference shares at a price of \$AUD100,000 per share on 30 September 2008. These preference shares have been recognised as debt in the financial statements as unlike ordinary shareholders there is not a right for preferential shareholders to share in the residual interests of the assets of Fortescue. A holder of Preference Shares is not entitled to share in the distribution of any surplus assets of the Company beyond its Redemption Amount. The Preference Shares rank in priority to FMG's ordinary shares for the payment of distributions in accordance with these terms.

The Preference Shares confers upon the holder the right in a winding up or return of capital to payment of an amount equal to the Redemption Amount, in priority to any other class of shares ranking behind it.

The Preference Shares shall rank *pari passu* with the most senior ranking preference shares of the Company and in priority to all other preference shares that are expressed to rank junior to the Preference Shares and the Company's ordinary shares, in a winding up of the Company.

The key terms for these preference shares are;

- Dividend coupon rate of 9% fixed p.a. payable six monthly either in cash, or where cash distributions are not able to be made by Fortescue, additional preference shares or ordinary shares (calculated on the basis of the volume weighted average share price) as elected by Fortescue;
- Term of 8.5 years;
- Redeemable by Fortescue at any time subject to minimum 30 days notice;
- Preference shares to rank in priority to Fortescue's ordinary shares on a winding up and in relation to the payment of distributions; and
- Limited voting rights.

FORTESCUE METALS GROUP LTD
NOTES TO THE CONSOLIDATED SPECIAL PURPOSE FINANCIAL REPORT
FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2009

NOTE 13. EQUITY SECURITIES ISSUED

	30 September 09 Shares	30 September 08 Shares
Issues of ordinary shares during the period		
Shares issued	435,925	-
Exercise of options issued under the Fortescue Metals Group Incentive Option Scheme ("FMGIOS")	2,595,130	2,493,750
	3,031,055	2,493,750
Issues of preference shares during the period		
Shares issued	1,400	1,400
	1,400	1,400

NOTE 14. CONTINGENCIES

As per Fortescue's ASX release on 11 September 2009, during the three months ended 30 September 2009 Fortescue reached agreement to settle its shipping dispute with Splendour Special Maritime Enterprise which is part of the Angelicoussis Shipping Group ("ASG") over its suspended time charter contract. Under the settlement agreement terms, ASG will discontinue its legal proceedings against Fortescue.

There have been no other material changes in contingent liabilities or contingent assets since the 30 June 2009 annual report.

NOTE 15. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

There has been no material events requiring disclosure subsequent to the three months ended 30 September 2009.

NOTE 16. RELATED PARTIES

The Company holds a liability to Leucadia National Corporation "Leucadia" under the terms of the Subordinated Loan Note (see Note 12 Borrowings). The Note is valued at 30 September 2009 at \$US 410,403,000 (30 June 2009: \$US 381,631,000). Leucadia is a company related to former director Mr Joseph Steinberg and current director Mr Ian Cumming. Mr Joseph Steinberg resigned from the board on 28 August 2009 and was replaced by Mr Ian Cumming who is Chairman of Leucadia National Corporation. Mr Cumming and Mr Steinberg jointly control in excess of 20% of the voting shares in Leucadia and as such are deemed to have a relevant interest in the 277,986,000 shares that Leucadia holds in Fortescue.

Dr Ian Burstson was appointed a Non-Executive Director of Fortescue on 13 October 2008 and continues in office at the date of this report. Dr Burstson is also the Chairman of NRW Holdings Ltd ("NRW"). NRW provide mining contracting services to the Cloudbreak and Christmas Creek mines. During the three months ended 30 September 2009 NRW has been paid \$US 26.6 million for these services under standard commercial terms. Since his appointment until 30 June 2009 Fortescue incurred \$US 69.6 million for services rendered by NRW on the Pilbara Iron Ore and Infrastructure Project.

FORTESCUE METALS GROUP LTD
NOTES TO THE CONSOLIDATED SPECIAL PURPOSE FINANCIAL REPORT
FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2009

NOTE 17. 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 2009. No further grant of options was made during the three months ended 30 September 2009.