



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**

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### **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**

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**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.



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**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<br>2007<br>\$'000 | 31 December<br>2006<br>\$'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<br>\$'000 | 30 June 2007<br>\$'000 |
|--|------|----------------------------|------------------------|
| <b>CURRENT ASSETS</b>                  |      |                            |                        |
| 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                  |
| <b>Total Current Assets</b>            |      | <b>1,116,730</b>           | <b>1,941,055</b>       |
| <b>NON-CURRENT ASSETS</b>              |      |                            |                        |
| 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                      |
| <b>Total Non-Current Assets</b>        |      | <b>3,560,524</b>           | <b>1,748,608</b>       |
| <b>TOTAL ASSETS</b>                    |      | <b>4,677,254</b>           | <b>3,689,663</b>       |
| <b>CURRENT LIABILITIES</b>             |      |                            |                        |
| Borrowings                             | 10   | 289,985                    | 265,816                |
| Trade and other payables               |      | 124,982                    | 66,246                 |
| <b>Total Current Liabilities</b>       |      | <b>414,967</b>             | <b>332,062</b>         |
| <b>NON-CURRENT LIABILITIES</b>         |      |                            |                        |
| Borrowings                             | 10   | 4,006,232                  | 2,645,770              |
| Trade and other payables               |      | 61,066                     | 43,248                 |
| Deferred tax liabilities               |      | 172,068                    | 172,068                |
| <b>Total Non-Current Liabilities</b>   |      | <b>4,239,366</b>           | <b>2,861,086</b>       |
| <b>TOTAL LIABILITIES</b>               |      | <b>4,654,333</b>           | <b>3,193,148</b>       |
| <b>NET ASSETS</b>                      |      | <b>22,921</b>              | <b>496,515</b>         |
| <b>EQUITY</b>                          |      |                            |                        |
| Contributed equity                     |      | 1,075,598                  | 574,003                |
| Reserves                               |      | 3,841                      | 3,896                  |
| Accumulated losses                     |      | (1,056,518)                | (81,384)               |
| <b>TOTAL EQUITY</b>                    |      | <b>22,921</b>              | <b>496,515</b>         |

*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<br>\$'000 | 31 December 2006<br>\$'000 |
|---|----------------------------|----------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                             |                            |                            |
| 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)                   |
| <b>Net cash outflow from operating activities</b>                       | <b>(1,244,033)</b>         | <b>(597,686)</b>           |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                             |                            |                            |
| Payments for purchase of other plant and equipment                      | (254)                      | (4,392)                    |
| Payments for purchase of intangible assets                              | (8,662)                    | -                          |
| <b>Net cash outflow from investing activities</b>                       | <b>(8,916)</b>             | <b>(4,392)</b>             |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                             |                            |                            |
| 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                     | -                          |
| <b>Net cash inflow from financing activities</b>                        | <b>516,443</b>             | <b>3,162,033</b>           |
| <b>Net increase/(decrease) in cash and cash equivalents</b>             | <b>(736,506)</b>           | <b>2,559,955</b>           |
| 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)                   |
| <b>Cash and cash equivalents at end of the half-year</b>                | <b>923,213</b>             | <b>2,534,341</b>           |

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



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

|   | <b>Issued<br/>Capital<br/>\$'000</b> | <b>Accumulated<br/>Losses<br/>\$'000</b> | <b>Reserves<br/>\$'000</b> | <b>Total Equity<br/>\$'000</b> |
|---|--------------------------------------|--|----------------------------|--------------------------------|
| 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                         |

|   | <b>Issued<br/>Capital<br/>\$'000</b> | <b>Accumulated<br/>Losses<br/>\$'000</b> | <b>Reserves<br/>\$'000</b> | <b>Total Equity<br/>\$'000</b> |
|---|--------------------------------------|--|----------------------------|--------------------------------|
| 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**

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**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**

|  | <b>31 December 2007</b> | <b>31 December 2006</b> |
|--|-------------------------|-------------------------|
|  | <b>\$'000</b>           | <b>\$'000</b>           |
| 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                   |
|  | <u>8,193</u>            | <u>6,099</u>            |

**NOTE 4. OTHER EXPENSES**

|              |              |              |
|--------------|--------------|--------------|
| Depreciation | 1,121        | 1,036        |
| Legal costs  | 1,854        | 1,411        |
| Other        | 386          | 1,495        |
|              | <u>3,361</u> | <u>3,942</u> |

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

**NOTE 5. OTHER INCOME**

|  | <b>31 December 2007</b> | <b>31 December 2006</b> |
|--|-------------------------|-------------------------|
|  | <b>\$'000</b>           | <b>\$'000</b>           |
| 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<br>\$'000 | 30 June 2007<br>\$'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 <sup>1</sup>     | 1,593,562                  | 829,142                |
| <b>Total property, plant and equipment</b> | <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)**

|  | <b>31 December 2007</b> | <b>30 June 2007</b> |
|--|-------------------------|---------------------|
|  | <b>\$'000</b>           | <b>\$'000</b>       |
| <b>Computer Equipment</b>              |                         |                     |
| 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               |
| <b>Assets under construction</b>       |                         |                     |
| Carrying amount at beginning of period | 829,142                 | -                   |
| Additions                              | 764,420                 | 829,142             |
| Carrying amount at end of period       | 1,593,562               | 829,142             |

<sup>1</sup> 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**

|                                | <b>31 December 2007</b> | <b>30 June 2007</b> |
|--------------------------------|-------------------------|---------------------|
|                                | <b>\$'000</b>           | <b>\$'000</b>       |
| <b>Cost</b>                    |                         |                     |
| 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<br>\$'000 | 30 June 2007<br>\$'000 |
|------------------------|-------|----------------------------|------------------------|
| <b>Current</b>         |       |                            |                        |
| Subordinated Loan Note | (ii)  | 43,838                     | 14,834                 |
| Senior Secured Notes   | (iii) | 246,147                    | 250,982                |
|                        |       | 289,985                    | 265,816                |
| <b>Non-Current</b>     |       |                            |                        |
| 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<br>\$'000 | Carrying Amount    |                        |                  |
|------------------------------|------|----------|----------------------|--------------------|------------------------|------------------|
|                              |      |          |                      | Current<br>A\$'000 | Non-Current<br>A\$'000 | Total<br>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    |
| <b>New issues:</b>              |       |      |           |         |           |           |
| 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   |
| <b>Repayments:</b>              |       |      |           |         |           |           |
| 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**

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**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**

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**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<br>Shares | 31 December 06<br>Shares |
|--|--------------------------|--------------------------|
| <b>Issues of ordinary shares during the half-year</b>  |                          |                          |
| 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            | -                        |
|  | 2,535,863,147            | 26,719,950               |

\* 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**

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**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**

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**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.



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**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