



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 2008

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
REVIEW OF OPERATIONS

Fortescue Metals Group Ltd continued ramping up production levels during the quarter. At the Cloudbreak mine five pits are now in operation and the mining and production rates are increasing. The Herb Elliott Port is now fully commissioned for 45 million tonnes per annum “Mta” run rate with the in-load and out-load systems operating well and work on optimisation out to 55 Mta near completion. As at 30 September 2008 Fortescue had loaded 8.536 million tonnes of product onto 52 ships dispatched from Fortescue’s Herb Elliott port facility.

FORTESCUE METALS GROUP LTD
CONSOLIDATED SPECIAL PURPOSE INCOME STATEMENT
FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2008

| | Note | 30 September 2008 \$'000 | 30 September 2007 \$'000 Restated |
|--|------|-----------------------------|---|
| Revenue | 5 | 767,958 | - |
| Cost of sales | 6 | (407,926) | - |
| Gross profit | | 360,032 | - |
| Interest revenue | | 4,718 | 25,585 |
| Other income | 7 | 20,419 | - |
| Fair value adjustment to Subordinated Loan Note | | 941,327 | - |
| Net foreign exchange gain/ (loss) on borrowings | | (416,082) | 77,045 |
| Other financial expenses | 8 | (200,170) | (98,367) |
| Administration expenses | 9 | (9,890) | (5,768) |
| Profit / (loss) before income tax | | 700,354 | (1,505) |
| Income tax benefit / (expense) | | (210,106) | (7,376) |
| Profit / (loss) attributable to members of the Company | | 490,248 | (8,881) |
| Basic earnings / (loss) per share (cents) | | 17.47 | (0.32) |
| Diluted earnings / (loss) per share (cents) | | - | - |

Diluted loss per share is not calculated as it is not considered dilutive, therefore this has not been disclosed.

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 2008

| | Note | 30 September 2008 \$'000 | 30 June 2008 \$'000 |
|--|------|-----------------------------|------------------------|
| CURRENT ASSETS | | | |
| Cash and cash equivalents | | 624,076 | 192,237 |
| Trade and other receivables | 10 | 283,503 | 158,742 |
| Inventories | 11 | 65,332 | 51,738 |
| Financial assets | | 38 | 38 |
| Other current assets | | 2,287 | 1,655 |
| Total Current Assets | | 975,236 | 404,410 |
| NON-CURRENT ASSETS | | | |
| Receivables | 10 | 2,445 | 2,445 |
| Exploration and evaluation expenditure | 12 | 10,521 | 4,027 |
| Development expenditure | 14 | 1,703,924 | 1,510,132 |
| Property, plant and equipment | 13 | 1,928,079 | 1,861,854 |
| Intangible assets | | 34,856 | 32,727 |
| Deferred tax assets | | 1,150,888 | 1,360,995 |
| Other financial assets | | 1 | 1 |
| Total Non-Current Assets | | 4,830,714 | 4,772,181 |
| TOTAL ASSETS | | 5,805,950 | 5,176,591 |
| CURRENT LIABILITIES | | | |
| Borrowings | 15 | 471,646 | 358,294 |
| Provisions | | 32,994 | 22,644 |
| Trade and other payables | | 270,057 | 164,405 |
| Derivatives held at fair value | | 21,973 | 15,162 |
| Total Current Liabilities | | 796,670 | 560,505 |
| NON-CURRENT LIABILITIES | | | |
| Borrowings | 15 | 5,374,866 | 5,948,329 |
| Trade and other payables | | 451,471 | 116,381 |
| Deferred tax liabilities | | 191,060 | 191,060 |
| Total Non-Current Liabilities | | 6,017,397 | 6,255,770 |
| TOTAL LIABILITIES | | 6,814,067 | 6,816,275 |
| NET DEFICIT | | (1,008,117) | (1,639,684) |
| EQUITY | | | |
| Contributed equity: | | | |
| Ordinary share capital | | 1,079,503 | 1,077,932 |
| Preference share capital | | 140,000 | - |
| Reserves | | 3,580 | 3,832 |
| Accumulated losses | | (2,231,200) | (2,721,448) |
| DEFICIENCY IN EQUITY | | (1,008,117) | (1,639,684) |

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 2008

| | 30 September 2008 \$'000 | 30 September 2007 \$'000 |
|--|-----------------------------|-----------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash receipts from customers | 645,913 | - |
| Exploration and evaluation expenditure | (5,285) | (7,628) |
| Development expenditure, including plant | (406,019) | (610,804) |
| Interest received | 4,718 | 24,503 |
| Payments to suppliers and employees | (331,498) | (4,378) |
| Interest paid | (118,150) | (130,452) |
| Net cash outflow from operating activities | (210,321) | (728,759) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Payments for purchase of other plant and equipment | (14,936) | (146) |
| Proceeds from disposal of plant and equipment | 201,580 | - |
| Payments for purchase of intangible assets | (2,280) | - |
| Net cash outflow from investing activities | 184,364 | (146) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from the issue of ordinary share capital | 940 | 498,752 |
| Proceeds from the issue of preference share capital | 140,000 | - |
| Payment of transaction costs | - | - |
| Deposits received | 302,838 | 13,027 |
| Net cash inflow from financing activities | 443,778 | 511,779 |
| Net increase/(decrease) in cash and cash equivalents | 417,821 | (217,126) |
| Cash and cash equivalents at 1 July | 192,237 | 1,682,201 |
| Effect of exchange rate changes on cash and cash equivalents | 14,018 | (24,816) |
| Cash and cash equivalents at 30 September | 624,076 | 1,440,259 |

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 2008

| | Ordinary Share Capital \$'000 | Preference Share Capital \$'000 | Accumulated Losses \$'000 | Reserves \$'000 | Total Equity \$'000 |
|---|--|--|--|----------------------------|--------------------------------|
| Opening balance at 1 July 2008 | 1,077,932 | - | (2,721,448) | 3,832 | (1,639,684) |
| Net loss for the period | - | - | 490,248 | - | 490,248 |
| Total recognised income and expense for the year | - | - | 490,248 | - | 490,248 |
| Transactions with equity holders in their capacity as equity holders: | | | | | |
| Issue of share capital | 940 | 140,000 | - | - | 140,940 |
| Exercise of options | 631 | - | - | (631) | - |
| Forfeited options | - | - | - | (26) | (26) |
| Equity settled share based payment transactions | - | - | - | 405 | 405 |
| | 1,571 | 140,000 | - | (252) | 141,319 |
| Closing balance at 30 September 2008 | 1,079,503 | 140,000 | (2,231,200) | 3,580 | (1,008,117) |

| | Ordinary Share Capital \$'000 | Preference Share Capital \$'000 | Accumulated Losses \$'000 | Reserves \$'000 | Total Equity \$'000 |
|---|--|--|--|----------------------------|--------------------------------|
| Opening balance at 1 July 2007 | 574,003 | - | (81,383) | 3,896 | 496,516 |
| Net profit for the period | - | - | 31,738 | - | 31,738 |
| Effect of change in accounting policy | - | - | (40,619) | - | (40,619) |
| Total recognised income and expense for the year | - | - | (8,881) | - | (8,881) |
| Transactions with equity holders in their capacity as equity holders: | | | | | |
| Issue of share capital | 499,217 | - | - | - | 499,217 |
| Exercise of options | 183 | - | - | (158) | 25 |
| Forfeited options | - | - | - | (32) | (32) |
| Equity settled share based payment transactions | - | - | - | 430 | 430 |
| | 499,400 | - | - | 240 | 499,640 |
| Closing balance at 30 September 2007 | 1,073,403 | - | (90,264) | 4,136 | 987,275 |

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 2008

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 2008 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 2008 is available upon request from Fortescue’s registered office at Level 2, 87 Adelaide Terrace, East Perth, Western Australia 6004 or at www.fmgl.com.au.

NOTE 2. BASIS OF PREPARATION

(a) Statement of compliance

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

The condensed consolidated special purpose financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of Fortescue as at and for the year ended 30 June 2008 and any public announcements made by Fortescue during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

Fortescue is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with the Class Order, amounts in the financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

NOTE 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by Fortescue in this condensed consolidated special purpose financial report are the same as those applied by Fortescue in its consolidated financial report as at and for the year ended 30 June 2008.

NOTE 4. 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 5. REVENUE

| | 30 September 2008 | 30 September 2007 |
|------------------|--------------------------|--------------------------|
| | \$’000 | \$’000 |
| Sale of iron ore | 610,248 | - |
| Shipping revenue | 157,710 | - |
| | 767,958 | - |

FORTESCUE METALS GROUP LTD
NOTES TO THE CONSOLIDATED SPECIAL PURPOSE FINANCIAL REPORT
FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2008

| | 30 September 2008 \$'000 | 30 September 2007 \$'000 Restated |
|--|-----------------------------|---|
| NOTE 6. COST OF SALES | | |
| Operating expenses | 392,559 | - |
| Depreciation and amortisation expense | 15,367 | - |
| | <u>407,926</u> | <u>-</u> |
| (a) Operating expenses | | |
| Mining costs | 169,375 | - |
| Rail costs | 24,546 | - |
| Port costs | 11,596 | - |
| Shipping costs | 157,579 | - |
| Government royalty | 29,463 | - |
| | <u>392,559</u> | <u>-</u> |
| (b) Depreciation and amortisation expense | | |
| Depreciation of infrastructure assets | 7,823 | - |
| Amortisation of intangible assets | 151 | - |
| Amortisation of development expenditure | 7,393 | - |
| | <u>15,367</u> | <u>-</u> |
| NOTE 7. OTHER INCOME | | |
| Net foreign exchange gain – Other | 20,419 | - |
| | <u>20,419</u> | <u>-</u> |
| NOTE 8. OTHER FINANCIAL EXPENSES | | |
| Interest expense – Subordinated Loan Note | 127,296 | 17,395 |
| Interest expense - Other | 63,538 | 66,218 |
| Net foreign exchange loss - Other | - | 14,586 |
| Fair value loss on interest rate swaps | 6,811 | 168 |
| Debt establishment costs | 2,525 | - |
| | <u>200,170</u> | <u>98,367</u> |
| NOTE 9. ADMINISTRATION EXPENSES | | |
| Wages and salaries, including superannuation | 3,704 | 3,289 |
| Share based payments expense | 379 | 398 |
| Other administration expenses | 5,807 | 2,081 |
| | <u>9,890</u> | <u>5,768</u> |

FORTESCUE METALS GROUP LTD
NOTES TO THE CONSOLIDATED SPECIAL PURPOSE FINANCIAL REPORT
FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2008

| | 30 September 2008 \$'000 | 30 June 2008 \$'000 |
|---|-----------------------------|------------------------|
| NOTE 10. TRADE AND OTHER RECEIVABLES | | |
| CURRENT | | |
| Trade debtors | 167,178 | 50,059 |
| GST receivables | 16,930 | 16,882 |
| Security deposits | 96,061 | 89,972 |
| Other receivables | 3,334 | 1,829 |
| | 283,503 | 158,742 |
| NON-CURRENT | | |
| Loan receivable | 2,445 | 2,445 |
| | 2,445 | 2,445 |

NOTE 11. INVENTORIES - CURRENT

| | | |
|------------------------------------|--------|--------|
| Raw materials and stores – at cost | 17,331 | 14,203 |
| Iron ore stockpiles – at cost | 48,001 | 37,535 |
| | 65,332 | 51,738 |

NOTE 12. EXPLORATION AND EVALUATION EXPENDITURE – NON CURRENT

| | | |
|--|--------|----------|
| Carrying amount at beginning of period | 4,027 | 5,101 |
| Expenditure | 6,494 | 11,299 |
| Transfers to development expenditure | - | (12,373) |
| Carrying amount at end of period | 10,521 | 4,027 |

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 2008

NOTE 13. PROPERTY, PLANT AND EQUIPMENT – NON CURRENT

| | 30 September 2008 \$'000 | 30 June 2008 \$'000 |
|--|-----------------------------|------------------------|
| Land and buildings – at cost | 15,201 | 341 |
| Accumulated depreciation | (7) | (6) |
| | <u>15,194</u> | <u>335</u> |
| Plant and equipment – at cost | 10,442 | 10,366 |
| Accumulated depreciation | (4,364) | (4,098) |
| | <u>6,078</u> | <u>6,268</u> |
| Motor vehicles – at cost | 212 | 212 |
| Accumulated depreciation | (50) | (42) |
| | <u>162</u> | <u>170</u> |
| Computer equipment – at cost | 2,325 | 2,325 |
| Accumulated depreciation | (1,933) | (1,856) |
| | <u>392</u> | <u>469</u> |
| Infrastructure assets | 1,820,611 | 1,856,351 |
| Accumulated depreciation | (9,562) | (1,739) |
| | <u>1,811,049</u> | <u>1,854,612</u> |
| Assets under construction | 95,204 | - |
| Total property, plant and equipment | <u>1,928,079</u> | <u>1,861,854</u> |

| | 30 September 2008 \$'000 | 30 June 2008 \$'000 |
|--|-----------------------------|------------------------|
| Reconciliation of movements in carrying amounts | | |
| Land and buildings | | |
| Carrying amount at beginning of period | 335 | 314 |
| Additions | 14,860 | 25 |
| Depreciation | (1) | (4) |
| Carrying amount at end of period | <u>15,194</u> | <u>335</u> |

FORTESCUE METALS GROUP LTD
NOTES TO THE CONSOLIDATED SPECIAL PURPOSE FINANCIAL REPORT
FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2008

NOTE 13. PROPERTY, PLANT AND EQUIPMENT – NON CURRENT (continued)

| | 30 September 2008 \$'000 | 30 June 2008 \$'000 |
|--|-----------------------------|------------------------|
| Reconciliation of movements in carrying amounts | | |
| Plant and equipment | | |
| Carrying amount at beginning of period | 6,268 | 7,465 |
| Additions | 76 | 419 |
| Disposals | - | - |
| Depreciation | (266) | (1,616) |
| Carrying amount at end of period | 6,078 | 6,268 |
| Motor vehicles | | |
| Carrying amount at beginning of period | 170 | 137 |
| Additions | - | 61 |
| Disposals | - | - |
| Depreciation | (8) | (28) |
| Carrying amount at end of period | 162 | 170 |
| Computer Equipment | | |
| Carrying amount at beginning of period | 469 | 1,080 |
| Additions | - | 20 |
| Depreciation | (77) | (631) |
| Carrying amount at end of period | 392 | 469 |
| Infrastructure assets | | |
| Carrying amount at beginning of period | 1,854,612 | - |
| Additions | 188,848 | - |
| Disposals | (224,588) | - |
| Transfers | - | 1,856,351 |
| Depreciation | (7,823) | (1,739) |
| Carrying amount at end of year | 1,811,049 | 1,854,612 |
| Assets under construction | | |
| Carrying amount at beginning of period | - | 829,142 |
| Additions | 95,204 | 1,217,951 |
| Disposals ² | - | (190,742) |
| Transfers | - | (1,856,351) |
| Carrying amount at end of period | 95,204 | - |

Capital Commitments

As at 30 September 2008 Fortescue has commitments for the purchase of property, plant and equipment of \$119.5 million (30 June 2008: \$541.0 million).

FORTESCUE METALS GROUP LTD
NOTES TO THE CONSOLIDATED SPECIAL PURPOSE FINANCIAL REPORT
FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2008

NOTE 14. DEVELOPMENT EXPENDITURE – NON CURRENT

| | 30 September 2008 | 30 June 2008 |
|---|--------------------------|---------------------|
| | \$'000 | \$'000 |
| Development expenditure at cost | 1,712,710 | 1,511,525 |
| Accumulation amortisation | (8,786) | (1,393) |
| | <u>1,703,924</u> | <u>1,510,132</u> |
| <i>Reconciliation of movement in carrying amounts</i> | | |
| Balance at beginning of year | 1,510,132 | 510,330 |
| Expenditure | 190,835 | 966,178 |
| Net additions of rehabilitation assets | 10,350 | 22,644 |
| Transfer from exploration | - | 12,373 |
| Transferred to subsidiaries | - | - |
| Amortisation of development expenditure | (7,393) | (1,393) |
| Balance at end of year | <u>1,703,924</u> | <u>1,510,132</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).

FORTESCUE METALS GROUP LTD
NOTES TO THE CONSOLIDATED SPECIAL PURPOSE FINANCIAL REPORT
FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2008

NOTE 15. BORROWINGS

| | Note | 30 September 2008 \$'000 | 30 June 2008 \$'000 |
|------------------------|------|-----------------------------|------------------------|
| Current | | | |
| Subordinated Loan Note | (i) | 202,444 | 130,139 |
| Senior Secured Notes | (ii) | 269,202 | 228,155 |
| | | 471,646 | 358,294 |
| Non-Current | | | |
| Subordinated Loan Note | (i) | 2,998,123 | 3,882,461 |
| Senior Secured Notes | (ii) | 2,376,743 | 2,065,868 |
| | | 5,374,866 | 5,948,329 |

No borrowings (non-current and current) were issued or repaid during the three months ended 30 September 2008. The Subordinated Loan Note was revalued at 30 September 2008 based on prevailing market conditions and economic forecasts.

| | Current \$'000 | Carrying Amount Non-Current \$'000 | Total \$'000 |
|---|-------------------|--|-----------------|
| Balance at 1 July 2008 | 358,294 | 5,948,329 | 6,306,623 |
| Fair value adjustment of Subordinated Loan Note | - | (941,327) | (941,327) |
| Revaluation/Reclassification | 113,352 | 367,864 | 481,216 |
| Balance at 30 September 2008 | 471,646 | 5,374,866 | 5,846,512 |

No borrowings (non-current and current) were issued or repaid during the financial year ended 30 June 2008. The Subordinated Loan Note was revalued at 30 June 2008 based on prevailing market conditions and economic forecasts.

| | Current \$'000 | Carrying Amount Non-Current \$'000 | Total \$'000 |
|---|-------------------|--|-----------------|
| Balance at 1 July 2007 | 265,816 | 2,645,770 | 2,911,586 |
| Fair value adjustment of Subordinated Loan Note | - | 3,466,134 | 3,466,134 |
| Revaluation / reclassification | 92,478 | (163,575) | (71,097) |
| Balance at 30 June 2008 | 358,294 | 5,948,329 | 6,306,623 |

FORTESCUE METALS GROUP LTD
NOTES TO THE CONSOLIDATED SPECIAL PURPOSE FINANCIAL REPORT
FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2008

NOTE 15. 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.

The note was revalued at 30 September 2008 to \$3,200,567,000 (30 June 2008: \$4,012,600,000) in line with changes in the following management estimates, prevailing market conditions and economic forecasts:

- Production was revised to reflect Fortescue's expectation of delays in ramping up production levels to 160mtpa from Christmas Creek and Cloudbreak;
- Future iron ore prices were updated to reflect lower forecasts by independent resource sector analysts; and
- Foreign exchange forecasts were updated based on views provided by international banks.

ii) 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.
- €15 million of Senior Secured Notes due 2013 bearing interest at 9.750% per annum accruing from August 18, 2006. Interest is payable on March 1 and September 1 of each year, beginning on March 1, 2007.
- US\$1,080 million of Senior Secured Notes due 2016 bearing interest at 10.625% per annum accruing from August 18, 2006. Interest is payable on March 1 and September 1 of each year, beginning on March 1, 2007.

FORTESCUE METALS GROUP LTD
NOTES TO THE CONSOLIDATED SPECIAL PURPOSE FINANCIAL REPORT
FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2008

NOTE 15. 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 16. EQUITY SECURITIES ISSUED

| | 30 September 08 Shares | 30 September 07 Shares |
|--|---------------------------|---------------------------|
| Issues of ordinary shares during the period | | |
| Shares issued | - | 26,400,000 |
| Exercise of options issued under the Fortescue Metals Group Incentive Option Scheme (“FMGIOS”) | 2,493,750 | 134,950 |
| | 2,493,750 | 26,534,950 |
| Issues of preference shares during the period | | |
| Shares issued | 1,400 | - |
| | 1,400 | - |

NOTE 17. CONTINGENCIES

There have been no changes in contingent liabilities or contingent assets since the 30 June 2008 annual report.

NOTE 18. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

On October 13 2008 Fortescue announced the appointment of respected mining industry leaders Owen Hegarty and Ian Burston to the Company’s board as Non-Executive Directors. The appointments of Mr Hegarty and Dr Burston, who both have a wealth of experience in the international mining sector, adds significant resource industry strength to the Fortescue Board.

On October 27 2008 the Federal Treasurer Wayne Swan accepted a recommendation from the National Competition Council to declare the Robe River, Hamersley and Goldsworthy rail lines open for third party access under Part IIIA of the Trade Practices Act.

There has been no other material events requiring disclosure subsequent to the three months ended 30 September 2008.

FORTESCUE METALS GROUP LTD
NOTES TO THE CONSOLIDATED SPECIAL PURPOSE FINANCIAL REPORT
FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2008

NOTE 19. 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 2008. No further grant of options was made during the three months ended 30 September 2008.

NOTE 20. RELATED PARTIES

At 30 June 2008 the company revised its estimate in relation to the liability to Leucadia National Corporation “Leucadia” under the terms of the Subordinated Loan Note (see Note 15 Borrowings). The note is valued at 30 September 2008 at \$3,200,567,000 (30 June 2008: \$4,012,600,000). Leucadia is a company related to a director Mr Joseph Steinberg.