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 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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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 2008 ("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, unless otherwise stated:

Non-Executive
Mr Herb Elliott
Mr Ken Ambrecht
Mr Joseph Steinberg
Mr Geoff Brayshaw
Mr Owen Hegarty
Dr Ian Burston

Executive
Mr Andrew Forrest
Mr Graeme Rowley
Mr Russell Scrimshaw

Mr Owen Hegarty and Dr Ian Burston were appointed as Non-Executive Directors on 13 October 2008 and continue in office at the date of this report.

REVIEW OF OPERATIONS

The operations are ramping up and in the six months ended 31 December 2008 15.6mt of ore was mined, 12.8mt was processed and 13.2mt was shipped. Revenue for the period was $1.464 billion and gross profit was $601 million. The Company sold its iron ore products at an average (FOB) price of $92.31 during the half year with operating cash costs of $33.90 ($38.78 including government royalties).

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 4.

EVENTS SUBSEQUENT TO REPORTING DATE

On 1 January 2009 Fortescue has chosen to adopt US dollars as the functional currency of the Company and all of its subsidiaries. Previously Fortescue adopted Australian dollars as its functional and presentation currency. 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 recent 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 US dollar 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. With the deferral of Fortescue's expansion capital program the cash flow impacts of Australian dollar labour, materials and other costs has diminished to such an extent that the US dollar has become the dominant currency of Fortescue's future cash flows.

There has been no other material event requiring disclosure subsequent to the six months ended 31 December 2008.

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
30th January 2009

BDO Kendalls

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ABN 79 112 284 787

30th January 2009

The Directors
Fortescue Metals Group Limited
Level 2, 87 Adelaide Tce
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 2008, 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
- 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

Glyn O'Brien
Director

BDO Kendalls

BDO Kendalls Audit & Assurance (WA) Pty Ltd
Dated this 30th day of January 2009
Perth, Western Australia

FORTESCUE METALS GROUP LTD
CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 31 DECEMBER 2008

	Note	31 December 2008 $'000	31 December 2007 $'000 Restated
Revenue	3	1,464,367	-
Cost of sales	4	(863,699)	-
Gross profit		600,668	-
Interest revenue		10,080	55,274
Other income		34,377	-
Fair value adjustment to Subordinated Loan Note		2,036,636	(1,417,574)
Net foreign exchange gain/ (loss) on borrowings		(808,191)	237,421
Net foreign exchange gain/ (loss) – other		51,701	(200,355)
Other financial expenses	5	(356,846)	(174,475)
Administration expenses	6	(20,372)	(11,554)
Profit / (loss) before income tax		1,548,053	(1,511,263)
Income tax benefit / (expense)		(450,938)	453,029
Profit / (loss) attributable to members of the Company		1,097,115	(1,058,234)
Basic earnings / (loss) per share (cents)		39.09	(23.84)
Diluted earnings / (loss) per share (cents)		38.89	-

Diluted loss per share is not calculated for the six months ended 31 December 2007 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 2008

	Note	31 December 2008 $'000	30 June 2008 $'000
CURRENT ASSETS			
Cash and cash equivalents		439,542	192,237
Trade and other receivables	7	259,040	158,742
Inventories	8	106,676	51,738
Financial assets		38	38
Other current assets		2,546	1,655
Total Current Assets		807,842	404,410
NON-CURRENT ASSETS			
Receivables	7	22,275	2,445
Exploration and evaluation expenditure	9	11,278	4,027
Development expenditure	11	1,810,436	1,510,132
Property, plant and equipment	10	2,278,191	1,861,854
Intangible assets		33,095	32,727
Deferred tax assets		1,130,013	1,360,995
Other financial assets		1	1
Total Non-Current Assets		5,285,289	4,772,181
TOTAL ASSETS		6,093,131	5,176,591
CURRENT LIABILITIES			
Borrowings	12	426,054	358,294
Provisions		43,812	22,644
Trade and other payables		327,998	164,405
Derivatives held at fair value		22,195	15,162
Total Current Liabilities		820,059	560,505
NON-CURRENT LIABILITIES			
Borrowings	12	4,889,612	5,948,329
Trade and other payables		509,527	116,381
Deferred tax liabilities		411,017	191,060
Total Non-Current Liabilities		5,810,156	6,255,770
TOTAL LIABILITIES		6,630,215	6,816,275
NET DEFICIT		(537,084)	(1,639,684)
EQUITY			
Contributed equity		1,083,573	1,077,932
Reserves		3,676	3,832
Accumulated losses		(1,624,333)	(2,721,448)
DEFICIENCY IN EQUITY		(537,084)	(1,639,684)

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 2008

	31 December 2008 $'000	31 December 2007 $'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	1,428,038	-
Interest received	10,080	52,821
Payments to suppliers and employees	(798,873)	(7,086)
Interest paid	(129,494)	(128,477)
Net cash inflow/ (outflow) from operating activities	509,751	(82,742)
CASH FLOWS FROM INVESTING ACTIVITIES		
Exploration and evaluation expenditure	(7,251)	(8,752)
Development expenditure	(310,801)	(435,156)
Payments for purchase of infrastructure assets, including assets under construction	(636,330)	(717,383)
Payments for purchase of other plant and equipment	(30,501)	(254)
Proceeds from disposal of plant and equipment	322,142	-
Payments for purchase of intangible assets	(607)	(8,662)
Net cash outflow from investing activities	(663,348)	(1,170,207)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the issue of ordinary share capital	1,078	505,497
Proceeds from the issue of preference shares	140,000	-
Repayment of borrowings	(82,594)	-
Payment of transaction costs	-	(6,873)
Deposits received	302,838	17,819
Net cash inflow from financing activities	361,322	516,443
Net increase/(decrease) in cash and cash equivalents	207,725	(736,506)
Cash and cash equivalents at 1 July	192,237	1,682,201
Effect of exchange rate changes on cash and cash equivalents	39,580	(22,482)
Cash and cash equivalents at 31 December	439,542	923,213

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 2008

	Ordinary 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 profit for the period	-	1,097,115	-	1,097,115
Total recognised income and expense for the year	-	1,097,115	-	1,097,115
Transactions with equity holders in their capacity as equity holders:				
Issue of share capital	3,649	-	-	3,649
Exercise of options	1,992	-	(914)	1,078
Forfeited options	-	-	(52)	(52)
Equity settled share based payment transactions	-	-	810	810
	5,641	-	(156)	5,485
Closing balance at 31 December 2008	1,083,573	(1,624,333)	3,676	(537,084)

	Ordinary Share Capital $'000	Accumulated Losses $'000	Reserves $'000	Total Equity $'000
Opening balance at 1 July 2007	574,003	372,689	3,896	950,588
Net profit for the period	-	(975,134)	-	(975,134)
Effect of change in accounting policy	-	(83,100)	-	(83,100)
Total recognised income and expense for the year	-	(1,058,234)	-	(1,058,234)
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	(685,545)	3,841	393,894

Amounts are stated net of tax.

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

NOTE 1. BASIS OF PREPARATION OF HALF-YEAR REPORT

This general purpose financial report for the interim half-year reporting period ended 31 December 2008 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 2008 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.

During the 2008 financial year Fortescue decided to change its accounting policy on accounting for borrowing costs (refer Note 3(ah) in Fortescue's 30 June 2008 annual report) and expense all borrowing costs as incurred. The change in accounting policy was applied retrospectively and comparatives have been restated. The change in accounting policy had the following impact on the consolidated financial statements.

	31 December 2008 $'000	31 December 2007 $'000
Profit/ (loss) attributable to members of the Company for the half year ended 31 December	1,326,556	(975,134)
Increase in interest revenue	10,080	55,274
Increase in financial expenses	(337,853)	(173,986)
Increase in income tax benefit / (expense)	98,332	35,612
Final profit/ (loss)	1,097,115	(1,058,234)
Net assets/(deficit) as at 31 December	(307,643)	22,921
Decrease in development expenditure	(327,773)	(118,712)
Increase in deferred tax liability	98,332	35,612
Final net deficit as at 31 December	(537,084)	(60,179)
Increase/(decrease) in accumulated losses	229,441	83,100

The change in accounting policy had an impact of decreasing Fortescue's earnings per share by 8.17 cents per share (2007: decrease in loss per share by 1.88 cents per share) on basic earnings per share. Fortescue's 31 December 2008 diluted earnings per share also decreased by 8.14 cents per share.

NOTE 2. SEGMENT INFORMATION

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

NOTE 3. REVENUE

	31 December 2008 $'000	31 December 2007 $'000
Sale of iron ore	1,215,024	-
Shipping revenue	249,343	-
	1,464,367	-

NOTE 4. COST OF SALES

	31 December 2008 $'000	31 December 2007 $'000 Restated
Operating expenses	833,083	-
Depreciation and amortisation expense	30,616	-
	863,699	-
(a) Operating expenses		
Mining costs	361,009	-
Rail costs	50,780	-
Port costs	34,367	-
Shipping costs	322,653	-
Government royalty	64,274	-
	833,083	-
(b) Depreciation and amortisation expense		
Depreciation of infrastructure assets	15,715	-
Amortisation of intangible assets	293	-
Amortisation of development expenditure	14,608	-
	30,616	-

NOTE 5. OTHER FINANCIAL EXPENSES

	31 December 2008 $'000	31 December 2007 $'000 Restated
Interest expense – Subordinated Loan Note [1]	198,703	35,409
Interest expense - Senior Secured Notes	139,150	138,577
Interest expense – preference shares	7,285	-
Fair value loss on interest rate swaps	7,033	489
Debt establishment costs	4,675	-
	356,846	174,475

[1] Interest expense of $198.7 million represents the difference in present value of the Subordinated Loan Note between 1 July and 31 December 2008, prior to Subordinated Loan Note revaluation at 31 December 2008 (refer note 12).

Interest is yet to be paid on the Subordinated Loan Note. The amount owing in relation to the period to 30 June 2008 is $4.89 million and for the half year ended 31 December 2008 is $35.57 million. These amounts are likely to be paid in July 2009 together with accrued interest at 9.5% per annum and the payment due for 1 January 2009 to 30 June 2009.

NOTE 6. ADMINISTRATION EXPENSES

	31 December 2008 $'000	31 December 2007 $'000 Restated
Wages and salaries, including superannuation	12,191	7,338
Share based payments expense	758	855
Other administration expenses	7,423	3,361
	20,372	11,554

	31 December 2008 $'000	30 June 2008 $'000

NOTE 7. TRADE AND OTHER RECEIVABLES

	31 December 2008 $'000	30 June 2008 $'000
CURRENT		
Trade debtors	154,121	50,059
GST receivables	21,439	16,882
Security deposits	75,591	89,972
Other receivables	7,889	1,829
	259,040	158,742
NON-CURRENT		
Amounts held pending arbitration of shipping contracts	2,038	-
Receivables from sale and leaseback transactions	17,892	
Loan receivable	2,345	2,445
	22,275	2,445

NOTE 8. INVENTORIES - CURRENT

	31 December 2008 $'000	30 June 2008 $'000
Raw materials and stores – at cost	18,816	14,203
Iron ore stockpiles – at cost	87,860	37,535
	106,676	51,738

NOTE 9. EXPLORATION AND EVALUATION EXPENDITURE – NON CURRENT

	31 December 2008 $'000	30 June 2008 $'000
Carrying amount at beginning of period	4,027	5,101
Expenditure	7,251	11,299
Transfers to development expenditure	-	(12,373)
Carrying amount at end of period	11,278	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.

NOTE 10. PROPERTY, PLANT AND EQUIPMENT – NON CURRENT

	31 December 2008 $'000	30 June 2008 $'000
Land and buildings – at cost	30,745	341
Accumulated depreciation	(8)	(6)
	30,737	335
Plant and equipment – at cost	10,463	10,366
Accumulated depreciation	(4,676)	(4,098)
	5,787	6,268
Motor vehicles – at cost	212	212
Accumulated depreciation	(58)	(42)
	154	170
Computer equipment – at cost	2,325	2,325
Accumulated depreciation	(1,998)	(1,856)
	327	469
Infrastructure assets	1,948,521	1,856,351
Accumulated depreciation	(17,454)	(1,739)
	1,931,067	1,854,612
Assets under construction	310,119	-
Total property, plant and equipment	2,278,191	1,861,854

	31 December 2008 $'000	30 June 2008 $'000
Reconciliation of movements in carrying amounts		
Land and buildings		
Carrying amount at beginning of period	335	314
Additions	30,404	25
Depreciation	(2)	(4)
Carrying amount at end of period	30,737	335

NOTE 10. PROPERTY, PLANT AND EQUIPMENT – NON CURRENT (continued)

	31 December 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	97	419
Disposals	-	-
Depreciation	(578)	(1,616)
Carrying amount at end of period	5,787	6,268
Motor vehicles		
Carrying amount at beginning of period	170	137
Additions	-	61
Depreciation	(16)	(28)
Carrying amount at end of period	154	170
Computer Equipment		
Carrying amount at beginning of period	469	1,080
Additions	-	20
Depreciation	(142)	(631)
Carrying amount at end of period	327	469
Infrastructure assets		
Carrying amount at beginning of period	1,854,612	-
Additions	434,123	-
Disposals [1]	(341,953)	-
Transfers	-	1,856,351
Depreciation	(15,715)	(1,739)
Carrying amount at end of year	1,931,067	1,854,612
Assets under construction		
Carrying amount at beginning of period	-	829,142
Additions	310,119	1,217,951
Disposals	-	(190,742)
Transfers	-	(1,856,351)
Carrying amount at end of period	310,119	-

[1] Various assets were sold and leased back during the six months ended 31 December 2008

Capital Commitments

As at 31 December 2008 Fortescue has commitments for the purchase of property, plant and equipment of $76.8 million (30 June 2008: $541.0 million).

NOTE 11. DEVELOPMENT EXPENDITURE – NON CURRENT

	31 December 2008 $'000	30 June 2008 $'000
Development expenditure at cost	1,826,437	1,511,525
Accumulation amortisation	(16,001)	(1,393)
	1,810,436	1,510,132
Reconciliation of movement in carrying amounts		
Balance at beginning of year	1,510,132	510,330
Expenditure	307,653	966,178
Net additions of rehabilitation assets	7,259	22,644
Transfer from exploration	-	12,373
Amortisation of development expenditure	(14,608)	(1,393)
Balance at end of year	1,810,436	1,510,132

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	31 December 2008 $'000	30 June 2008 $'000
Current			
Subordinated Loan Note	(i)	115,866	130,139
Senior Secured Notes	(ii)	297,588	228,155
Preference Shares	(iii)	12,600	-
		426,054	358,294
Non-Current			
Subordinated Loan Note	(i)	2,064,779	3,882,461
Senior Secured Notes	(ii)	2,696,540	2,065,868
Preference Shares	(iii)	128,293	-
		4,889,612	5,948,329

The following borrowings (non-current and current) were issued or repaid during the six months ended 31 December 2008. The Subordinated Loan Note was revalued at 31 December 2008 based on prevailing market conditions and economic forecasts.

	Carrying Amount		
	Current $'000	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	(14,273)	(2,022,363)	(2,036,636)
Preference shares issued	12,600	128,293	140,893
Net foreign exchange loss on borrowings	81,286	726,905	808,191
Repayments – Senior Secured Notes	(11,853)	(103,734)	(115,587)
Interest expense –Subordinated Loan Note	-	198,703	198,703
Interest expense –Senior Secured Notes	-	139,150	139,150
Interest paid – Senior Secured Notes		(125,671)	(125,671)
Balance at 31 December 2008	426,054	4,889,612	5,315,666

NOTE 12. BORROWINGS (continued)

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.

	Carrying Amount		
	Current $'000	**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	92,478	3,373,656	3,466,134
Interest expense – Subordinated Loan Note	-	161,878	161,878
Interest expense – Senior Secured Notes	-	246,004	246,004
Interest paid – Senior Secured Notes	-	(241,558)	(241,558)
Net foreign exchange gain on borrowings	-	(237,421)	(237,421)
Balance at 30 June 2008	358,294	5,948,329	6,306,623

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 31 December 2008 to $2,180,645,000 (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 Resources (August 2006) Pty Ltd)

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.

During the six months ended 31 December 2008 Fortescue bought back parcels of its own listed debt through the Singapore Stock Exchange. This debt has subsequently been extinguished. A summary of the transactions are included below:

Note Description	Face value	Principal Debt Purchased	Purchase Price	Amount Paid
10.625% notes due 2016	US$1.00	$US54,000,000	$US0.710	US$38,340,000
10.000% notes due 2013	US$1.00	$US2,500,000	$US0.709	US$1,772,500
9.750% notes due 2013	€1.00	€16,200,000	€0.624	€10,106,500

The profit realised on the purchase of these notes was $16.7 million.

NOTE 12. BORROWINGS (continued)

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. 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), 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 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 $100,000 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.

NOTE 12. BORROWINGS (continued)

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

NOTE 13. EQUITY SECURITIES ISSUED

	31 December 08 Shares	31 December 07 Shares
Issues of ordinary shares during the period		
Shares issued	1,546,715	26,400,000
Exercise of options issued under the Fortescue Metals Group Incentive Option Scheme ("FMGIOS")	3,180,629	134,950
	4,727,344	26,534,950

Fully paid ordinary shares entitle the holder to participate in dividends and to one vote per share at meetings of the Company. Ordinary shares participate in the proceeds on winding up of the Company in proportion to the number of shares held.

NOTE 14. TOTAL EQUITY

As at 31 December 2008 Fortescue has a net deficit position on its balance sheet of $537,084,000. This net deficit is primarily the result of the fair value adjustments to the Subordinated Loan Note in prior years of $3,770,135,000, partially offset by a decrease in the fair value adjustment for the half year ended 31 December 2008 of $2,036,636,000. Interest under the note is calculated at 4% of the revenue, net of government royalties, from the sale of iron ore FOB Port Hedland from the tenements of Cloudbreak and Christmas Creek areas only. These fair value adjustments are non-cash and on a net basis reflect expected significant increases in revenues to be generated from the Pilbara Iron Ore and Infrastructure Project since the initial valuation of the Subordinated Loan Note.

NOTE 15. CONTINGENCIES

Shipping contracts

On 5 December 2008 Fortescue announced the suspension or termination of all its long term shipping contracts of Afreightment and Consecutive Voyage Contracts on the basis of unforeseen market circumstances. Some ship owners are disputing Fortescue's right to take such action, which has led to a number of claims being lodged in the UK arbitration system (being the legal domicile for maritime disputes pursuant to the relevant contracts). The arbitration process for these claims is currently underway in London and Fortescue has engaged specialist UK maritime legal advisers.

NOTE 15. CONTINGENCIES (continued)

Any ultimate contract liability for the suspension or delay of shipping contracts would need to have regard to a number of factors including the ship owner's obligation to mitigate losses. One important element in the determination of mitigation is the difference between the spot shipping rate and the contracted rates and this will change over time.

Accordingly, an estimate of potential liability, if any, at this stage is not considered to be appropriate.

Parallel claims have been lodged in the US whereby orders ("Rule B Orders") totalling US$144.5 million have been granted that enable the court to impose a freeze on US denominated amounts that flow through US accounts in New York. Any such funds can be frozen as potential security for any payments that may be determined following the arbitration of claims currently ongoing in the UK and is part of the process for claims of this nature.

As at 31 December 2008 $2.04 million has been frozen under the Rule B Orders, however Fortescue does not anticipate that the total value of funds frozen in this manner will be material.

BGC Writ of Summons

Fortescue reported in its 2008 annual report that legal action and arbitration had been initiated by BGC Contracting pursuant to an outstanding amount owing following the termination in May 2007 of the original Alliance Agreement and subsequent re-engagement under a cost plus arrangement. This dispute was settled during the half year.

All other contingent liabilities reported in the 2008 annual report have not materially changed.

NOTE 16. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

On 1 January 2009 Fortescue has chosen to adopt US dollars as the functional currency of the Company and all of its subsidiaries. Previously Fortescue adopted Australian dollars as its functional and presentation currency. 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 recent 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 US dollar 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. With the deferral of Fortescue's expansion capital program the cash flow impacts of Australian dollar labour, materials and other costs has diminished to such an extent that the US dollar has become the dominant currency of Fortescue's future cash flows.

There has been no other material event requiring disclosure subsequent to the six months ended 31 December 2008.

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 2008. No further grant of options was made during the six months ended 31 December 2008.

NOTE 18. RELATED PARTIES

At 31 December 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 12 Borrowings). The note is valued at 31 December 2008 at $2,180,645,000 (30 June 2008: $4,012,600,000). Leucadia is a company related to a director Mr Joseph Steinberg.

DIRECTORS' DECLARATION

In the Directors' opinion:

1. The financial statements and notes set out on pages 5 to 19, 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 2008 and of its performance for the half-year ended on that date; and

2. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

Mr Herb Elliott
Chairman

Perth
30th January 2009

BDO Kendalls

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Fortescue Metals Group Limited, which comprises the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and 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.

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 establishing 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 Interim and Other Financial Reports 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 2008 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*.

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 2008 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
Director

Dated this 30th day of January 2009
Perth, Western Australia