



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 NINE MONTHS ENDED
31 MARCH 2009

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

OPERATIONS

During the March quarter 2009, Fortescue's shipments of iron ore to its Chinese customers passed 20 million tonnes. While the mined ore figure for the quarter was impacted by heavy rains across the Pilbara, falling 22 per cent to 6.55 million tonnes, the Ore Processing Facility (OPF) at Cloudbreak performed strongly to deliver 6.1 million tonnes of processed ore, up three per cent on the December quarter figure. Commissioning of the Desand plant was completed, enabling Fortescue to more easily manage product quality.

During the quarter, development of Fortescue's second mine Christmas Creek began with drill, blast and waste mining. Ore mining is scheduled to commence in late April and haulage of the ore to the Cloudbreak OPF will begin in May 2009.

Rail operations were largely unaffected by heavy rains during the quarter, although the weather events were helpful in highlighting areas which require further reinforcement. Works on these areas are being undertaken and will be completed well before the next wet season. Rail improved on all the major metrics of railed tonnes, cycle times and train loading and unloading times during the March quarter 2009. Railed ore for the quarter rose seven per cent to 6.5 million tonnes.

Fortescue shipped 6.4 million tonnes from the Herb Elliott Port in the March quarter, including two third party shipments. The second berth at the port was commissioned during the quarter, enabling a significant reduction in the average changeover delay between ships from 6.4 hours to 0.5 hours. This resulted in improved shiploader performance which saw the ship loading system achieve the nameplate 45 million tonnes per annum rate over a seven day period. Construction of the second stacker at the Herb Elliott Port began during the quarter with completion and commissioning expected in late April/early May.

CORPORATE

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

The consolidated special purpose financial report for the nine months ended 31 March 2009, including comparative information, has been presented in US dollars.

FORTESCUE METALS GROUP LTD
CONSOLIDATED SPECIAL PURPOSE INCOME STATEMENT
FOR THE NINE MONTHS ENDED 31 MARCH 2009

	Note	31 March 2009 USD \$'000	31 March 2008 USD \$'000 Restated
Revenue	4	1,395,210	-
Cost of sales	5	(898,455)	-
Gross profit		496,755	-
Interest revenue		6,451	44,492
Other income		25,242	-
Fair value adjustment to Subordinated Loan Note		2,007,307	(982,095)
Net foreign exchange gain/ (loss) on borrowings	6	(514,233)	66,149
Net foreign exchange gain/(loss) - other		23,529	(10,444)
Other financial expenses	7	(348,341)	(199,748)
Administration expenses	8	(22,416)	(15,934)
Profit / (loss) before income tax		1,674,294	(1,097,580)
Income tax benefit / (expense)		(493,263)	329,985
Profit / (loss) attributable to members of the Company		1,181,031	(767,595)
Basic earnings / (loss) per share (cents)		42.04	(62.55)
Diluted earnings / (loss) per share (cents)		41.94	-

Diluted loss per share is not calculated for the nine months ended 31 March 2008 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 31 MARCH 2009

	Note	31 March 2009 USD \$'000	30 June 2008 USD \$'000
CURRENT ASSETS			
Cash and cash equivalents		190,906	133,182
Trade and other receivables	9	128,749	109,976
Inventories	10	94,384	35,844
Financial assets		26	26
Other current assets		2,733	1,147
Total Current Assets		416,798	280,175
NON-CURRENT ASSETS			
Receivables	9	16,263	1,694
Exploration and evaluation expenditure	11	11,362	2,790
Development expenditure	13	1,272,788	1,046,219
Property, plant and equipment	12	1,636,519	1,289,892
Intangible assets		24,831	22,674
Deferred tax assets		635,310	942,897
Other financial assets		1	1
Total Non-Current Assets		3,597,074	3,306,167
TOTAL ASSETS		4,013,872	3,586,342
CURRENT LIABILITIES			
Borrowings	14	326,784	248,226
Provisions		30,353	15,688
Trade and other payables		172,141	113,900
Derivatives held at fair value		19,552	10,504
Total Current Liabilities		548,830	388,318
NON-CURRENT LIABILITIES			
Borrowings	14	2,726,133	4,121,002
Trade and other payables		349,590	80,629
Deferred tax liabilities		318,053	132,366
Total Non-Current Liabilities		3,393,776	4,333,997
TOTAL LIABILITIES		3,942,606	4,722,315
NET ASSETS/ (DEFICIT)		71,266	(1,135,973)
EQUITY			
Contributed equity		773,059	746,791
Reserves		2,595	2,655
Accumulated losses		(704,388)	(1,885,419)
TOTAL EQUITY / (DEFICIENCY IN EQUITY)		71,266	(1,135,973)

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 NINE MONTHS ENDED 31 MARCH 2009

	31 March 2009 USD \$'000	31 March 2008 USD \$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	1,346,090	-
Interest received	7,283	42,613
Payments to suppliers and employees	(806,437)	(27,661)
Interest paid	(182,560)	(164,110)
Net cash inflow/ (outflow) from operating activities	364,376	(149,158)
CASH FLOWS FROM INVESTING ACTIVITIES		
Exploration and evaluation expenditure	(8,572)	(6,564)
Development expenditure, including plant	(767,526)	(967,813)
Payments for purchase of other plant and equipment	(22,210)	(305)
Proceeds from disposal of plant and equipment	223,180	86,923
Payments for purchase of intangible assets	(2,413)	(10,983)
Net cash outflow from investing activities	(577,541)	(898,742)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the issue of ordinary share capital	1,291	350,773
Proceeds from the issue of preference shares	96,992	-
Repayment of borrowings	(57,221)	-
Payment of transaction costs	-	(7,080)
Deposits received	207,406	36,827
Net cash inflow from financing activities	248,468	380,520
Net increase/(decrease) in cash and cash equivalents	35,303	(667,380)
Cash and cash equivalents at 1 July	133,182	1,165,429
Effect of exchange rate changes on cash and cash equivalents	22,421	(45,224)
Cash and cash equivalents at 31 March	190,906	452,825

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 NINE MONTHS ENDED 31 MARCH 2009

	Contributed Equity USD \$'000	Accumulated Losses USD \$'000	Reserves USD \$'000	Total Equity USD \$'000
Opening balance at 1 July 2008	746,791	(1,885,419)	2,655	(1,135,973)
Net profit for the period	-	1,181,031	-	1,181,031
Total recognised income and expense for the period	-	1,181,031	-	1,181,031
Transactions with equity holders in their capacity as equity holders:				
Issue of share capital	24,407	-	-	24,407
Exercise of options	1,861	-	(957)	904
Forfeited options	-	-	(54)	(54)
Equity settled share based payment transactions	-	-	951	951
	26,268	-	(60)	26,208
Closing balance at 31 March 2009	773,059	(704,388)	2,595	71,266

	Contributed Equity USD \$'000	Accumulated Losses USD \$'000	Reserves USD \$'000	Total Equity USD \$'000
Opening balance at 1 July 2007	397,669	(56,382)	2,699	343,986
Net profit for the period	-	(661,589)	-	(661,589)
Effect of change in accounting policy	-	(106,006)	-	(106,006)
Total recognised income and expense for the period	-	(767,595)	-	(767,595)
Transactions with equity holders in their capacity as equity holders:				
Issue of share capital	350,533	-	-	350,533
Capital raising costs	(4,540)	-	-	(4,540)
Exercise of options	2,561	-	(960)	1,601
Forfeited options	-	-	(101)	(101)
Equity settled share based payment transactions	-	-	1,004	1,004
	348,554	-	(57)	348,497
Closing balance at 31 March 2008	746,223	(823,977)	2,642	(75,112)

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 NINE MONTHS ENDED 31 MARCH 2009

NOTE 1. REPORTING ENTITY

Fortescue Metals Group Ltd (the “Company”) is a company domiciled in Australia. The condensed consolidated special purpose financial report of the Company as at and for the nine months ended 31 March 2009 comprises the Company and its subsidiaries (together referred to as “Fortescue”).

The consolidated annual financial report of Fortescue as at and for the year ended 30 June 2008 is available upon request from Fortescue’s registered office at Level 2, 87 Adelaide Terrace, East Perth, Western Australia 6004 or at www.fmg.com.au.

NOTE 2. BASIS OF PREPARATION

(a) Statement of compliance

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

The consolidated special purpose financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of Fortescue as at and for the year ended 30 June 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.

On 1 January 2009 Fortescue elected to adopt US dollars (“USD”) as the functional currency of the Company and all of its subsidiaries. This change is required to be accounted for prospectively with comparative information also translated at the exchange rate as at 1 January 2009. Previously Fortescue adopted Australian dollars as its functional and presentation currency. The condensed consolidated special purpose financial report for the nine months ended 31 March 2009 has been presented in USD.

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 incurred. The change in accounting policy was applied retrospectively and comparatives have been restated.

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

NOTE 3. SIGNIFICANT ACCOUNTING POLICIES

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

FORTESCUE METALS GROUP LTD
NOTES TO THE CONSOLIDATED SPECIAL PURPOSE FINANCIAL REPORT
FOR THE NINE MONTHS ENDED 31 MARCH 2009

NOTE 4. REVENUE

	31 March 2009 USD \$'000	31 March 2008 USD \$'000 Restated
Sale of iron ore	1,195,768	-
Shipping revenue	199,442	-
	<u>1,395,210</u>	<u>-</u>

NOTE 5. COST OF SALES

Operating expenses	866,880	-
Depreciation and amortisation expense	31,575	-
	<u>898,455</u>	<u>-</u>
(a) Operating expenses		
Mining costs	403,518	-
Rail costs	60,003	-
Port costs	43,060	-
Shipping costs	297,077	-
Government royalty	63,222	-
	<u>866,880</u>	<u>-</u>
(b) Depreciation and amortisation expense		
Depreciation of infrastructure assets	16,305	-
Amortisation of intangible assets	293	-
Amortisation of development expenditure	14,977	-
	<u>31,575</u>	<u>-</u>

NOTE 6. NET FOREIGN EXCHANGE GAIN/ (LOSS) ON BORROWINGS

Net foreign exchange gain/ (loss) – Jul08 – Dec08	(559,915)	164,486
Net foreign exchange gain/ (loss) – Jan09 – Mar09	45,682	(98,337)
	<u>(514,233)</u>	<u>66,149</u>

NOTE 7. OTHER FINANCIAL EXPENSES

Interest expense – Subordinated Loan Note	188,568	65,420
Interest expense - Other	147,343	130,508
Fair value loss on interest rate swaps	9,048	1,501
Debt establishment costs	3,382	2,319
	<u>348,341</u>	<u>199,748</u>

NOTE 8. ADMINISTRATION EXPENSES

Wages and salaries, including superannuation	14,412	8,682
Share based payments expense	897	902
Other administration expenses	7,107	6,350
	<u>22,416</u>	<u>15,934</u>

FORTESCUE METALS GROUP LTD
NOTES TO THE CONSOLIDATED SPECIAL PURPOSE FINANCIAL REPORT
FOR THE NINE MONTHS ENDED 31 MARCH 2009

	31 March 2009	30 June 2008
	USD \$'000	USD \$'000
NOTE 9. TRADE AND OTHER RECEIVABLES		
CURRENT		
Trade debtors	66,528	34,680
GST receivables	9,158	11,696
Security deposits	50,513	62,333
Other receivables	2,550	1,267
	128,749	109,976
NON-CURRENT		
Amounts held pending arbitration of shipping contracts	2,154	-
Receivables from sale and leaseback transactions	12,484	-
Loan receivable	1,625	1,694
	16,263	1,694

NOTE 10. INVENTORIES - CURRENT

Raw materials and stores – at cost	76,006	9,840
Iron ore stockpiles – at cost	18,378	26,004
	94,384	35,844

NOTE 11. EXPLORATION AND EVALUATION EXPENDITURE – NON CURRENT

Carrying amount at beginning of period	2,790	3,534
Expenditure	8,572	7,828
Transfers to development expenditure	-	(8,572)
Carrying amount at end of period	11,362	2,790

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 NINE MONTHS ENDED 31 MARCH 2009

NOTE 12. PROPERTY, PLANT AND EQUIPMENT – NON CURRENT

	31 March 2009	30 June 2008
	USD \$'000	USD \$'000
Land and buildings – at cost	22,378	236
Accumulated depreciation	(6)	(4)
	<u>22,372</u>	<u>232</u>
Plant and equipment – at cost	7,249	7,182
Accumulated depreciation	(3,429)	(2,840)
	<u>3,820</u>	<u>4,342</u>
Motor vehicles – at cost	147	147
Accumulated depreciation	(45)	(29)
	<u>102</u>	<u>118</u>
Computer equipment – at cost	1,611	1,611
Accumulated depreciation	(1,425)	(1,286)
	<u>186</u>	<u>325</u>
Infrastructure assets	1,392,429	1,286,080
Accumulated depreciation	(17,510)	(1,205)
	<u>1,374,919</u>	<u>1,284,875</u>
Assets under construction	235,120	-
Total property, plant and equipment	<u><u>1,636,519</u></u>	<u><u>1,289,892</u></u>

Reconciliation of movements in carrying amounts

Land and buildings

Carrying amount at beginning of period	232	218
Additions	22,142	17
Depreciation	(2)	(3)
Carrying amount at end of period	<u>22,372</u>	<u>232</u>

FORTESCUE METALS GROUP LTD
NOTES TO THE CONSOLIDATED SPECIAL PURPOSE FINANCIAL REPORT
FOR THE NINE MONTHS ENDED 31 MARCH 2009

NOTE 12. PROPERTY, PLANT AND EQUIPMENT – NON CURRENT (continued)

	31 March 2009	30 June 2008
	USD \$'000	USD \$'000
Reconciliation of movements in carrying amounts		
Plant and equipment		
Carrying amount at beginning of period	4,342	5,172
Additions	68	290
Disposals	-	-
Depreciation	(590)	(1,120)
Carrying amount at end of period	3,820	4,342
Motor vehicles		
Carrying amount at beginning of period	118	95
Additions	-	42
Disposals	-	-
Depreciation	(16)	(19)
Carrying amount at end of period	102	118
Computer Equipment		
Carrying amount at beginning of period	325	748
Additions	-	14
Depreciation	(139)	(437)
Carrying amount at end of period	186	325
Infrastructure assets		
Carrying amount at beginning of period	1,284,875	-
Additions	343,254	-
Disposals	(236,905)	-
Transfers	-	1,286,080
Depreciation	(16,305)	(1,205)
Carrying amount at end of year	1,374,919	1,284,875
Assets under construction		
Carrying amount at beginning of period	-	574,430
Additions	235,120	843,796
Disposals	-	(132,146)
Transfers	-	(1,286,080)
Carrying amount at end of period	235,120	-

Capital Commitments

As at 31 March 2009 Fortescue has commitments for the purchase of property, plant and equipment of \$US 183.0 million (30 June 2008: \$US 374.8 million).

FORTESCUE METALS GROUP LTD
NOTES TO THE CONSOLIDATED SPECIAL PURPOSE FINANCIAL REPORT
FOR THE NINE MONTHS ENDED 31 MARCH 2009

NOTE 13. DEVELOPMENT EXPENDITURE – NON CURRENT

	31 March 2009	30 June 2008
	USD \$'000	USD \$'000
Development expenditure at cost	1,288,730	1,047,185
Accumulation amortisation	(15,942)	(966)
	<u>1,272,788</u>	<u>1,046,219</u>
<i>Reconciliation of movement in carrying amounts</i>		
Balance at beginning of year	1,046,219	353,557
Expenditure	236,517	669,368
Net additions of rehabilitation assets	5,029	15,688
Transfer from exploration	-	8,572
Transferred to subsidiaries	-	-
Amortisation of development expenditure	(14,977)	(966)
Balance at end of year	<u>1,272,788</u>	<u>1,046,219</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 NINE MONTHS ENDED 31 MARCH 2009

NOTE 14. BORROWINGS

	Note	31 March 2009 USD \$'000	30 June 2008 USD \$'000
Current			
Subordinated Loan Note	(i)	114,172	90,160
Senior Secured Notes	(ii)	199,613	158,066
Preference shares	(iii)	12,999	-
		326,784	248,226
Non-Current			
Subordinated Loan Note	(i)	851,161	2,689,769
Senior Secured Notes	(ii)	1,788,153	1,431,233
Preference shares	(iii)	86,819	-
		2,726,133	4,121,002

The following borrowings (non-current and current) were issued or repaid during the nine months ended 31 March 2009. The Subordinated Loan Note was revalued at 31 March 2009 based on prevailing market conditions and economic forecasts.

	Current USD \$'000	Carrying Amount Non-Current USD \$'000	Total USD \$'000
Balance at 1 July 2008	248,226	4,121,002	4,369,228
Fair value adjustment of Subordinated Loan Note	(9,888)	(1,401,093)	(1,410,981)
Preference shares issued	8,729	88,882	97,611
Net foreign exchange loss on borrowings	56,315	503,600	559,915
Repayments – Senior Secured Notes	(8,212)	(71,867)	(80,079)
Interest expense – Subordinated Loan Note	-	137,661	137,661
Interest expense – Senior Secured Notes	-	96,403	96,403
Interest paid – Senior Secured Notes	-	(87,065)	(87,065)
Fair value adjustment of Subordinated Loan Note	-	(596,326)	(596,326)
Net foreign exchange gain as borrowings	(6,556)	(39,126)	(45,682)
Repayment – Senior Secured Notes	-	(92,847)	(92,847)
Interest expense – Subordinated Loan Note	-	50,907	50,907
Interest expense – Senior Secured Notes	-	50,940	50,940
Interest expense – Preference Shares	-	3,232	3,232
Deferral of interest repayments – Subordinated Loan Note	33,900	(33,900)	-
Deferral of interest repayments – Preference Shares	4,270	(4,270)	-
Balance at 31 March 2009	326,784	2,726,133	3,052,917

FORTESCUE METALS GROUP LTD
NOTES TO THE CONSOLIDATED SPECIAL PURPOSE FINANCIAL REPORT
FOR THE NINE MONTHS ENDED 31 MARCH 2009

NOTE 14. BORROWINGS (continued)

No borrowings (non-current or 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		Total USD \$'000
	Current USD \$'000	Non-Current USD \$'000	
Balance at 1 July 2007	184,157	1,832,990	2,017,147
Fair value adjustment of Subordinated Loan Note	64,069	2,337,269	2,401,338
Interest expense – Subordinated Loan Note	-	112,148	112,148
Interest expense – Senior Secured Notes	-	170,431	170,431
Interest paid – Senior Secured Notes	-	(167,351)	(167,351)
Net foreign exchange gain on borrowings	-	(164,485)	(164,485)
Balance at 30 June 2008	248,226	4,121,002	4,369,228

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 March 2009 to \$US 965,333,000 (31 December: \$US 1,510,751,000) in line with changes in the following management estimates, prevailing market conditions and economic forecasts:

- Production was revised to reflect Fortescue's revision of final forecast production levels from 160mtpa to 120 mtpa 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 Pty Ltd – previously FMG Finance Pty Ltd (August 2006))

The Company raised US\$1,650 million in US dollar denominated and €315 million in Euro denominated Senior Secured Notes in August 2006 to facilitate the construction and initial operation of the Pilbara Iron Ore and Infrastructure Project.

During the nine months ended 31 March 2009 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 \$US11.6 million.

FORTESCUE METALS GROUP LTD
NOTES TO THE CONSOLIDATED SPECIAL PURPOSE FINANCIAL REPORT
FOR THE NINE MONTHS ENDED 31 MARCH 2009

NOTE 14. 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.
- €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. 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 \$AUD100,000 per share on 30 September 2008. These preference shares have been recognised as debt in the financial statements as unlike ordinary shareholders there is not a right for preferential shareholders to share in the residual interests of the assets of Fortescue. A holder of Preference Shares is not entitled to share in the distribution of any surplus assets of the Company beyond its Redemption Amount. The Preference Shares rank in priority to FMG's ordinary shares for the payment of distributions in accordance with these terms.

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

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

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NOTE 14. 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 15. EQUITY SECURITIES ISSUED

	31 March 09	31 March 08
	Shares	Shares
Issues of ordinary shares during the period		
Shares issued	18,000,184	26,400,000
Exercise of options issued under the Fortescue Metals Group Incentive Option Scheme ("FMGIOS")	3,943,129	134,950
	21,943,313	26,534,950
Issues of preference shares during the period		
Shares issued	1,400	-
	1,400	-

NOTE 16. CONTINGENCIES

Shipping contracts

On 5 December 2008 Fortescue announced the suspension or termination of all its long term shipping contracts of Affreightment 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.

The Company has since reached agreements with Bocimar International NV ("Bocimar") and Classic Maritime Inc. ("Classic"). There are 5 suspended shipping contracts remaining with tenures ranging from 3 to 5 years.

Fortescue has previously provided market guidance of an estimate of the potential exposure at US\$171 million, whilst noting the inherent uncertainty of variables relating to any such estimation. As an update to this guidance, the settlement of the Classic dispute is consistent with the original estimate. This takes due regard of currently available information, the settlement terms of previously resolved contract disputes and the time value of money.

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

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NOTE 17. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

On 5 May 2009 the Company issued 260,000,000 ordinary shares in the Company following the investment by Hunan Valin Iron and Steel Company of AUD\$644,800,000.

On 27 May 2009 the Company reached agreement to settle its shipping dispute with Classic Maritime Inc. (“Classic”) over its three suspended Contracts of Affreightment. Under the agreement, Classic will discontinue its arbitration action which was to commence next month in London.

There has been no other material event requiring disclosure subsequent to the nine months ended 31 March 2009.

NOTE 18. RELATED PARTIES

At 31 March 2009 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 14 Borrowings). The note is valued at 31 March 2009 at \$US 965,333,000 (30 June 2008: US \$2,779,929,000). Leucadia is a company related to a director Mr Joseph Steinberg.

Dr Ian Burston was appointed a Non-Executive Director of Fortescue on 13 October 2008 and continues in office at the date of this report. Dr Burston is also the Chairman of NRW Holdings Ltd (“NRW”). NRW provide mining contracting services to the Cloudbreak and Christmas Creek mines. During the financial year ended 31 March 2009 NRW has been paid US \$69.5 million for these services under standard commercial terms.

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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.

During the nine months ended 31 March 2009 the Company issued 3,000,000 employee options . Under the terms of the FMGIOS the options will progressively vest over a 4 year period, with 25% vested on each anniversary. In addition, Directors have imposed a further requirement that the exercise of options is conditional upon Fortescue shares trading above AU\$6 for a set period. The price target is approximately double the current share price. The options have been issued at an exercise price of AU\$2.50, which is in accordance with the FMGIOS whereby the price must be at or greater than the volume weighted average price for the five days prior to the offer date, which was 11 February 2009.

The following factors and assumptions were used in determining the fair value of options on grant date (in Australian dollars):

Grant date	Expiry date	Fair value per option	Exercise price	Price of shares on grant date	Expected volatility	Risk free interest rate	Dividend yield
11 February 2009	11 February 2013	\$1.61	\$2.50	\$2.42	25.50%	6.5%	-