



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 2009

Registered Office and Principal Place of Business:

Level 2
87 Adelaide Terrace
East Perth
Western Australia 6004

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FORTESCUE METALS GROUP LTD
DIRECTORS' REPORT

The Directors present their report on the consolidated entity ("Fortescue") consisting of Fortescue Metals Group Ltd (the "Company") and the entities it controlled at the end of, or during, the six months ended 31 December 2009 ("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 - Chairman
Mr Ken Ambrecht
Mr Joseph Steinberg – resigned 28 August 2009
Mr Geoff Brayshaw
Mr Owen Hegarty
Dr Ian Burston
Mr Li Xiaowei
Mr Ian Cumming – appointed 28 August 2009

Executive

Mr Andrew Forrest
Mr Graeme Rowley
Mr Russell Scrimshaw

REVIEW OF OPERATIONS

Total revenue from iron ore sales was up 15% from the corresponding period last year with 18.6 million tonnes shipped compared to 13.2 million tonnes. The average price received per dry metric tonne decreased from US\$71.65 for the six months ended 31 December 2008 to US\$57.22 for the six months ending 31 December 2009. This resulted in a reduction in gross profit to 20% compared with 41% last year.

Fortescue retained a healthy cash position of US\$706 million as at the end of the half.

Construction commenced on the Christmas Creek expansion project.

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

Fortescue shipped its 50 millionth tonne of ore from the Herb Elliott Port on January 18th, 2010.

On February 4th, 2010 ASIC lodged a Notice of Appeal in the Federal Court of Western Australia against the judgement handed down by the Honourable Justice Gilmour in civil penalty proceedings brought by ASIC against Fortescue and Fortescue's co-defendant and CEO Mr Andrew Forrest.

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

FORTESCUE METALS GROUP LTD
DIRECTORS' REPORT

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.



Mr Herb Elliott
Chairman

Perth
19 February 2010



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38 Station Street
Subiaco, WA 6008
PO Box 700 West Perth WA 6872
Australia

19 February 2010

The Directors
Fortescue Metals Group Limited
Level 2, 87 Adelaide Terrace
EAST PERTH WA 6004

Dear Sirs,

DECLARATION OF INDEPENDENCE BY BRAD MCVEIGH TO THE DIRECTORS OF FORTESCUE METALS GROUP LIMITED

As lead auditor of Fortescue Metals Group Limited for the half-year ended 31 December 2009, I declare that to the best of my knowledge and belief, there have been:

- No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- No contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Fortescue Metals Group Limited and the entities it controlled during the period.

Brad McVeigh
Director

BDO Audit (WA) Pty Ltd
Perth, Western Australia

FORTESCUE METALS GROUP LTD
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 31 DECEMBER 2009

| | Note | 31 December 2009 US\$'000 | 31 December 2008 US\$'000 Restated |
|--|------|------------------------------|--|
| Revenue | 5 | 1,188,687 | 1,014,514 |
| Cost of sales | 6 | (954,032) | (598,371) |
| Gross profit | | 234,655 | 416,143 |
| Interest revenue | | 10,191 | 6,983 |
| Other income | | 45,637 | 23,818 |
| Fair value adjustment to Subordinated Loan Note | 14 | (55,448) | 1,410,981 |
| Net foreign exchange gain/ (loss) on borrowings | | (19,720) | (559,915) |
| Net foreign exchange gain/ (loss) – other | | 46,028 | 35,818 |
| Other financial expenses | 7 | (188,391) | (247,223) |
| Administration expenses | 8 | (10,929) | (14,114) |
| Profit / (loss) before income tax | | 62,023 | 1,072,491 |
| Income tax benefit / (expense) | | (18,868) | (312,410) |
| Profit / (loss) attributable to members of the Company | | 43,155 | 760,081 |
| Other comprehensive income | | - | - |
| Total comprehensive income for the year, net of tax attributable to members of the Company | | 43,155 | 760,081 |
| Basic earnings / (loss) per share (cents) | | 0.95 | 27.08 |
| Diluted earnings / (loss) per share (cents) | | 0.94 | 26.94 |

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

FORTESCUE METALS GROUP LTD
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2009

| | Note | 31 December 2009 US\$'000 | 30 June 2009 US\$'000 |
|--|------|------------------------------|--------------------------|
| CURRENT ASSETS | | | |
| Cash and cash equivalents | | 706,487 | 654,942 |
| Trade and other receivables | 9 | 171,947 | 183,188 |
| Inventories | 10 | 120,449 | 121,122 |
| Financial assets | | 34 | 31 |
| Other current assets | | 13,716 | 1,498 |
| Total Current Assets | | 1,012,633 | 960,781 |
| NON-CURRENT ASSETS | | | |
| Trade and other receivables | 9 | 2,367 | 13,512 |
| Exploration and evaluation expenditure | 11 | 17,199 | 11,889 |
| Property, plant and equipment | 12 | 1,649,119 | 1,641,919 |
| Development expenditure | 13 | 1,601,714 | 1,423,222 |
| Intangible assets | | 20,954 | 25,144 |
| Deferred tax assets | | 337,042 | 332,449 |
| Other financial assets | | 22 | 1 |
| Total Non-Current Assets | | 3,628,417 | 3,448,136 |
| TOTAL ASSETS | | 4,641,050 | 4,408,917 |
| CURRENT LIABILITIES | | | |
| Borrowings | 14 | 371,920 | 319,823 |
| Provisions | | 80,187 | 55,582 |
| Trade and other payables | | 256,013 | 339,085 |
| Derivatives held at fair value | | 28,997 | 31,397 |
| Total Current Liabilities | | 737,117 | 745,887 |
| NON-CURRENT LIABILITIES | | | |
| Borrowings | 14 | 2,362,667 | 2,250,482 |
| Trade and other payables | | 379,601 | 349,602 |
| Deferred tax liabilities | | 235,713 | 212,254 |
| Total Non-Current Liabilities | | 2,977,981 | 2,812,338 |
| TOTAL LIABILITIES | | 3,715,098 | 3,558,225 |
| NET ASSETS | | 925,952 | 850,692 |
| EQUITY | | | |
| Contributed equity | | 1,262,121 | 1,229,876 |
| Reserves | | (74,762) | (74,622) |
| Accumulated losses | | (261,407) | (304,562) |
| TOTAL EQUITY | | 925,952 | 850,692 |

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

FORTESCUE METALS GROUP LTD
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2009

| | 31 December 2009 US\$'000 | 31 December 2008 US\$'000 Restated |
|--|------------------------------|--|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash receipts from customers | 1,148,816 | 989,344 |
| Interest received | 10,191 | 6,983 |
| Payments to suppliers and employees | (727,446) | (553,459) |
| Interest paid | (102,735) | (89,713) |
| Net cash inflow/ (outflow) from operating activities | 328,826 | 353,155 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Exploration and evaluation expenditure | (12,066) | (5,023) |
| Development expenditure | (196,218) | (215,323) |
| Payments for purchase of infrastructure assets, including assets under construction | (49,145) | (440,849) |
| Payments for purchase of other plant and equipment | - | (21,131) |
| Proceeds from disposal of plant and equipment | 45 | 223,180 |
| Payments for purchase of intangible assets | - | (421) |
| Net cash outflow from investing activities | (257,384) | (459,567) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from the issue of ordinary share capital | 1,443 | 747 |
| Proceeds from the issue of preference shares | - | 96,992 |
| Repayment of borrowings | - | (57,221) |
| Payment of transaction costs | - | - |
| Deposits received | 30,000 | 209,806 |
| Net cash inflow from financing activities | 31,443 | 250,324 |
| Net increase/(decrease) in cash and cash equivalents | 102,885 | 143,912 |
| Cash and cash equivalents at 1 July | 654,942 | 133,182 |
| Effect of exchange rate changes on cash and cash equivalents | (51,340) | 27,421 |
| Cash and cash equivalents at 31 December | 706,487 | 304,515 |

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

FORTECUE METALS GROUP LTD
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 31 DECEMBER 2009

| | Contributed Equity US\$'000 | Accumulated Losses US\$'000 | Share Based Payments Reserve US\$'000 | Asset Revaluation Reserve US\$'000 | Foreign Currency Translation Reserve US\$'000 | Total Equity US\$'000 |
|---|--|--|--|---|--|----------------------------------|
| Opening balance at 1 July 2009 | 1,229,876 | (304,562) | 1,970 | 610 | (77,202) | 850,692 |
| Net profit for the period | - | 43,155 | - | - | - | 43,155 |
| Other comprehensive income for the period | - | - | - | - | - | - |
| Total comprehensive income for the period | - | 43,155 | - | - | - | 43,155 |
| Transactions with equity holders in their capacity as equity holders: | | | | | | |
| Issue of share capital | - | - | - | - | - | - |
| Exercise of options | 2,332 | - | (140) | - | - | 2,192 |
| Issue of employee bonus shares | 1,913 | - | - | - | - | 1,913 |
| Equity settled share based payment transactions | 28,000 | - | - | - | - | 28,000 |
| | 32,245 | - | (140) | - | - | 32,105 |
| Closing balance at 31 December 2009 | 1,262,121 | (261,407) | 1,830 | 610 | (77,202) | 925,952 |

Amounts are stated net of tax.

| | Contributed Equity US\$'000 Restated | Accumulated Losses US\$'000 Restated | Share Based Payments Reserve US\$'000 Restated | Asset Revaluation Reserve US\$'000 Restated | Foreign Currency Translation Reserve US\$'000 Restated | Total Equity US\$'000 Restated |
|---|---|---|---|--|---|---|
| Opening balance at 1 July 2008 | 746,791 | (812,604) | 2,045 | 610 | - | (63,158) |
| Net profit for the period | - | 760,081 | - | - | - | 760,081 |
| Other comprehensive income for the period | - | - | - | - | - | - |
| Total comprehensive income for the period | - | 760,081 | - | - | - | 760,081 |
| Transactions with equity holders in their capacity as equity holders: | | | | | | |
| Issue of share capital | 2,528 | - | - | - | - | 2,528 |
| Exercise of options | 1,380 | - | (669) | - | - | 747 |
| Equity settled share based payment transactions | - | - | 561 | - | - | 561 |
| | 3,908 | - | (108) | - | - | 3,800 |
| Closing balance at 31 December 2008 | 750,699 | (52,523) | 1,937 | 610 | - | 700,723 |

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

FORTESCUE METALS GROUP LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2009

NOTE 1. REPORTING ENTITY

Fortescue Metals Group Ltd (“the Company”) is a company domiciled in Australia. The address of the Company’s registered office is Level 2, 87 Adelaide Terrace East Perth WA 6004. The consolidated interim financial statements of the Company as at and for the six months ended 31 December 2009 comprise the Company and its subsidiaries (together referred to as “Fortescue”).

Fortescue’s principal activity is the development and operation of the Chichester iron ore project in the Pilbara in Western Australia.

NOTE 2. BASIS OF PREPARATION OF HALF-YEAR FINANCIAL STATEMENTS

(a) Statement of compliance

These consolidated general purpose interim financial statements for the six month period ending 31 December 2009 have been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

They do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual financial statements for the year ended 30 June 2009 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*.

NOTE 3. SIGNIFICANT ACCOUNTING POLICIES

Except as described below, the accounting policies applied by Fortescue in these consolidated interim financial statements are the same as those applied by Fortescue in its consolidated financial statement as at and for the year ended 30 June 2009.

(a) Change in accounting policies

(i) Determination and presentation of operating segments

As of 1 July 2009 Fortescue determined and presented operating segments based on the information that internally is provided to the Chief Executive Officer (“CEO”), who is Fortescue’s chief operating decision maker. This change in accounting policy is due to the adoption of AASB 8 *Operating Segments*. Previously operating segments were determined and presented in accordance with AASB 114 *Segment Reporting*. The new accounting policy in respect of segment operating disclosures is presented as follows.

Fortescue concluded that the operating segments determined in accordance with AASB 8 are the same as the business segments previously identified under AASB 114. Internally information is attributed wholly to the iron ore operations within Western Australia as this is the only segment in which Fortescue is engaged.

Comparative segment information has been re-presented in conformity with the transitional requirements of AASB 8. Since the changes in accounting policy only impacts presentation and disclosure aspects, there is no impact on earnings per share.

FORTESCUE METALS GROUP LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2009

NOTE 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

An operating segment is a component of Fortescue that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of Fortescue's other components. An operating segment's operating results are reviewed regularly by the CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

(ii) Presentation of financial statements

Fortescue applied revised AASB 101 *Presentation of Financial Statements*, which became effective for annual reporting periods beginning on or after 1 January 2009. As a result, Fortescue presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. This presentation has been applied in these consolidated interim financial statements as of and for the six months ended 31 December 2009.

Comparative information has been re-presented so that it also is in conformity with the revised standard.

(iii) Accounting for borrowing costs

In respect of borrowing costs relating to qualifying assets for which the effective date is for annual reporting periods beginning on or after 1 January 2009, Fortescue capitalises borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Previously Fortescue immediately recognised all borrowing costs as an expense. This change in accounting policy was due to the prospective adoption of AASB 123 *Borrowing Costs* in accordance with the transitional provisions of such standard; comparative figures have not been restated. The change in accounting policy had no material impact on assets, profit or earnings per share in the interim period ended 31 December 2009.

(b) Accounting policies for new transactions and events

(i) Joint ventures

Joint ventures are those entities over whose activities Fortescue has joint control, established by contractual agreement.

(ii) Jointly controlled entities

In the consolidated interim financial statements, investments in jointly controlled entities, including partnerships, are accounted for using equity accounting principles. Investments in joint venture entities are carried at the lower of the equity accounted amount and recoverable amount.

Fortescue's share of the jointly controlled entity's net profit or loss is recognised in the consolidated income statements from the date joint control commenced until the date joint control ceases. Other movements in reserves are recognised directly in consolidated reserves.

(iii) Jointly controlled operations and assets

The interest of Fortescue in unincorporated joint ventures and jointly controlled assets are brought to account by recognising in its financial statements the assets it controls, the liabilities that it incurs, the expenses it incurs and its share of income that it earns from the sale of goods or services by the joint venture.

FORTESCUE METALS GROUP LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2009

NOTE 4. SEGMENT INFORMATION

Fortescue has one reportable segment, the exploration, evaluation and development of mineral resources and mining operations. Operations are managed as a single integrated logistics chain, and management monitors the operating results on a consolidated group basis for the purpose of making decisions about resource allocation and performance assessment. Fortescue derives its revenues primarily from operations in the iron ore production industry in Australia.

No operating segments have been aggregated to form the above reportable operating segment.

Geographical information

Fortescue operates predominantly in the geographical location of Australia, and this is the location of all segment assets. In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers.

| | 31 December 2009 US\$'000 | 31 December 2008 US\$'000 Restated |
|--|--|---|
| Revenues from external customers | | |
| China | 1,149,361 | 1,001,263 |
| Other | 39,326 | 13,251 |
| Total revenue from external customers per consolidated statement of comprehensive income | 1,188,687 | 1,014,514 |

Major customer information

Revenue from 1 customer amounted to US\$121 million (2008: US\$53 million), arising from the sale of iron ore and related shipment of product.

NOTE 5. REVENUE

| | 31 December 2009 US\$'000 | 31 December 2008 US\$'000 Restated |
|------------------|--|---|
| Sale of iron ore | 966,355 | 841,769 |
| Shipping revenue | 222,332 | 172,745 |
| | 1,188,687 | 1,014,514 |

FORTESCUE METALS GROUP LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2009

NOTE 6. COST OF SALES

| | 31 December 2009 US\$'000 | 31 December 2008 US\$'000 Restated |
|---|--|---|
| Operating expenses | 843,385 | 577,160 |
| Depreciation and amortisation expense | 110,647 | 21,211 |
| | <u>954,032</u> | <u>598,371</u> |
| (a) Operating expenses | | |
| Mining costs | 402,454 | 250,107 |
| Rail costs | 58,706 | 35,180 |
| Port costs | 41,352 | 23,809 |
| Shipping costs ¹ | 286,343 | 223,535 |
| Government royalty | 54,530 | 44,529 |
| | <u>843,385</u> | <u>577,160</u> |
| (b) Depreciation and amortisation expense | | |
| Depreciation of property, plant & equipment | 72,100 | 10,888 |
| Amortisation of intangible assets | 15,338 | 203 |
| Amortisation of development expenditure | 23,209 | 10,120 |
| | <u>110,647</u> | <u>21,211</u> |

¹ Shipping costs include US\$25.5 million for contract dispute settlements.

NOTE 7. OTHER FINANCIAL EXPENSES

| | 31 December 2009 US\$'000 | 31 December 2008 US\$'000 Restated |
|--|--|---|
| Interest expense – Subordinated Loan Note ¹ | 66,411 | 137,661 |
| Interest expense - Senior Secured Notes | 113,433 | 96,403 |
| Interest expense – preference shares | 5,176 | 5,047 |
| Fair value (profit)/loss on interest rate swaps | 3,190 | 4,873 |
| Debt establishment costs | 181 | 3,239 |
| | <u>188,391</u> | <u>247,223</u> |

¹ Interest expense of US\$66.4 million represents the difference in present value of the Subordinated Loan Note between 1 July and 31 December 2009.

Interest is yet to be paid on the Subordinated Loan Note. The amount recognised as payable at 31 December 2009 is US\$102.0 million (2008: US\$40.5 million). This amount can only be paid when the payment conditions under the Senior Secured Notes agreement have been met.

NOTE 8. ADMINISTRATION EXPENSES

| | 31 December 2009 US\$'000 | 31 December 2008 US\$'000 Restated |
|--|--|---|
| Wages and salaries, including superannuation | 6,500 | 8,446 |
| Share based payments expense | 821 | 525 |
| Legal Costs | 1,187 | 3,529 |
| Other administration expenses | 2,421 | 1,614 |
| | <u>10,929</u> | <u>14,114</u> |

FORTESCUE METALS GROUP LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2009

NOTE 9. TRADE AND OTHER RECEIVABLES

| | 31 December 2009 US\$'000 | 30 June 2009 US\$'000 |
|--|--|--|
| CURRENT | | |
| Trade debtors | 87,764 | 109,162 |
| GST receivables | 12,828 | 14,678 |
| Security deposits | 63,229 | 56,119 |
| Other receivables | 8,126 | 3,229 |
| | <u>171,947</u> | <u>183,188</u> |
| NON-CURRENT | | |
| Amounts held pending arbitration of shipping contracts | 2,319 | 2,657 |
| Receivables from sale and leaseback transactions | - | 10,728 |
| Loan receivable | 48 | 127 |
| | <u>2,367</u> | <u>13,512</u> |

NOTE 10. INVENTORIES - CURRENT

| | 31 December 2009 US\$'000 | 30 June 2009 US\$'000 |
|------------------------------------|--|--|
| Raw materials and stores – at cost | 34,596 | 25,500 |
| Iron ore stockpiles – at cost | 85,853 | 95,622 |
| | <u>120,449</u> | <u>121,122</u> |

NOTE 11. EXPLORATION AND EVALUATION EXPENDITURE – NON CURRENT

| | 31 December 2009 US\$'000 | 30 June 2009 US\$'000 |
|--|--|--|
| Carrying amount at beginning of period | 11,889 | 2,790 |
| Expenditure | 5,310 | 11,267 |
| Transfers to development expenditure | - | (2,168) |
| Carrying amount at end of period | <u>17,199</u> | <u>11,889</u> |

The ultimate recoupment of costs carried forward for exploration assets is dependent on the successful development and commercial exploitation or sale of the respective areas.

FORTESCUE METALS GROUP LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2009

NOTE 12. PROPERTY, PLANT AND EQUIPMENT – NON CURRENT

| | 31 December 2009 US\$'000 | 30 June 2009 US\$'000 |
|--|--|--|
| Land and buildings – at cost | 236 | 236 |
| Accumulated depreciation | (7) | (7) |
| | <u>229</u> | <u>229</u> |
| Plant and equipment – at cost | 7,249 | 7,249 |
| Accumulated depreciation | (3,910) | (3,646) |
| | <u>3,339</u> | <u>3,603</u> |
| Motor vehicles – at cost | 147 | 147 |
| Accumulated depreciation | (60) | (51) |
| | <u>87</u> | <u>96</u> |
| Computer equipment – at cost | 1,611 | 1,611 |
| Accumulated depreciation | (1,508) | (1,473) |
| | <u>103</u> | <u>138</u> |
| Infrastructure assets | 1,394,374 | 1,399,452 |
| Accumulated depreciation | (75,662) | (36,132) |
| | <u>1,318,712</u> | <u>1,363,320</u> |
| Assets under construction | 326,649 | 274,533 |
| Total property, plant and equipment | <u>1,649,119</u> | <u>1,641,919</u> |
| | 31 December 2009 US\$'000 | 30 June 2009 US\$'000 |
| Reconciliation of movements in carrying amounts | | |
| Land and buildings | | |
| Carrying amount at beginning of period | 229 | 232 |
| Additions | - | - |
| Depreciation | - | (3) |
| Carrying amount at end of period | <u>229</u> | <u>229</u> |
| Plant and equipment | | |
| Carrying amount at beginning of period | 3,603 | 4,342 |
| Additions | - | 68 |
| Disposals | - | - |
| Depreciation | (264) | (807) |
| Carrying amount at end of period | <u>3,339</u> | <u>3,603</u> |
| Motor vehicles | | |
| Carrying amount at beginning of period | 96 | 118 |
| Additions | - | 0 |
| Depreciation | (9) | (22) |
| Carrying amount at end of period | <u>87</u> | <u>96</u> |

FORTESCUE METALS GROUP LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2009

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

| | 31 December 2009 | 30 June 2009 |
|--|-------------------------|---------------------|
| | US\$'000 | US\$'000 |
| Reconciliation of movements in carrying amounts | | |
| Computer Equipment | | |
| Carrying amount at beginning of period | 138 | 325 |
| Additions | - | - |
| Depreciation | (35) | (187) |
| Carrying amount at end of period | 103 | 138 |
| Infrastructure assets | | |
| Carrying amount at beginning of period | 1,363,320 | 1,284,875 |
| Additions | 363,532 | 353,323 |
| Disposals | (327,304) | (239,951) |
| Transfers | - | - |
| Depreciation | (80,836) | (34,927) |
| Carrying amount at end of year | 1,318,712 | 1,363,320 |
| Assets under construction | | |
| Carrying amount at beginning of period | 274,533 | - |
| Additions | 369,266 | 274,533 |
| Disposals | - | - |
| Transfers | (317,150) | - |
| Carrying amount at end of period | 326,649 | 274,533 |

Capital Commitments

As at 31 December 2009 Fortescue has commitments for the purchase of property, plant and equipment of US\$115.9 million (30 June 2009: US\$22.2 million).

NOTE 13. DEVELOPMENT EXPENDITURE – NON CURRENT

| | 31 December 2009 | 30 June 2009 |
|---|-------------------------|---------------------|
| | US\$'000 | US\$'000 |
| Development expenditure at cost | 1,690,257 | 1,476,734 |
| Accumulation amortisation | (88,543) | (53,512) |
| | 1,601,714 | 1,423,222 |
| <i>Reconciliation of movement in carrying amounts</i> | | |
| Balance at beginning of year | 1,423,222 | 1,046,219 |
| Expenditure | 238,128 | 375,121 |
| Net additions/(reduction) of rehabilitation assets | (24,605) | 52,261 |
| Transfer from exploration | - | 2,168 |
| Amortisation of development expenditure | (35,031) | (52,547) |
| Balance at end of year | 1,601,714 | 1,423,222 |

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 FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2009

NOTE 14. BORROWINGS

| | Note | 31 December 2009 US\$'000 | 30 June 2009 US\$'000 |
|------------------------|-------|------------------------------|--------------------------|
| Current | | | |
| Subordinated Loan Note | (i) | 118,327 | 103,359 |
| Senior Secured Notes | (ii) | 241,648 | 206,240 |
| Preference Shares | (iii) | 11,945 | 10,224 |
| | | 371,920 | 319,823 |
| Non-Current | | | |
| Subordinated Loan Note | (i) | 385,164 | 278,272 |
| Senior Secured Notes | (ii) | 1,857,296 | 1,867,625 |
| Preference Shares | (iii) | 120,207 | 104,585 |
| | | 2,362,667 | 2,250,482 |

The following reconciliations (non-current and current) detail the movements in Fortescues' borrowing accounts for the six months ended 31 December 2009:

| | Current US\$'000 | Non-Current US\$'000 | Total US\$'000 |
|-------------------------------|---------------------|-------------------------|-------------------|
| Subordinated Loan Note | | | |
| Balance at 1 July 2008 | 105,999 | 1,141,337 | 1,247,336 |
| Fair value adjustment | (2,640) | (1,121,771) | (1,124,411) |
| Interest expense | - | 258,706 | 258,706 |
| Balance at 30 June 2009 | 103,359 | 278,272 | 381,631 |
| Balance at 1 July 2009 | 103,359 | 278,272 | 381,631 |
| Fair value adjustment | 6,899 | 48,549 | 55,448 |
| Interest expense | 8,069 | 58,343 | 66,412 |
| Balance at 31 December 2009 | 118,327 | 385,164 | 503,491 |

The Subordinated Loan Note was revalued at 30 June 2009 based on prevailing market conditions and economic forecasts.

| | | | |
|--------------------------------------|----------|-----------|-----------|
| Senior Secured Notes | | | |
| Balance at 1 July 2008 | 158,066 | 1,431,233 | 1,589,299 |
| Interest expense | - | 197,998 | 197,998 |
| Interest repayments | - | (186,998) | (186,998) |
| Debt buy back | (9,198) | (71,999) | (81,197) |
| Foreign exchange losses to June 2009 | 57,372 | 497,391 | 554,763 |
| Balance at 30 June 2009 | 206,240 | 1,867,625 | 2,073,865 |
| Balance at 1 July 2009 | 206,240 | 1,867,625 | 2,073,865 |
| Interest expense | 47,991 | 65,442 | 113,433 |
| Interest repayments | (12,783) | (83,124) | (95,907) |
| Debt buy back | - | - | - |
| Foreign exchange gain | 200 | 7,354 | 7,554 |
| Balance at 31 December 2009 | 241,648 | 1,857,297 | 2,098,945 |

FORTESCUE METALS GROUP LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2009

NOTE 14. BORROWINGS (continued)

| | Current US\$'000 | Non-Current US\$'000 | Total US\$'000 |
|---|---------------------|-------------------------|-------------------|
| Preference Shares | | | |
| Balance at 1 July 2008 | - | - | - |
| Recognition of issue of preference shares | 10,224 | 86,768 | 96,992 |
| Interest expense | - | 9,309 | 9,309 |
| Foreign exchange losses to June 2009 | - | 13,579 | 13,579 |
| Interest repayments | - | (5,071) | (5,071) |
| Balance at 30 June 2009 | 10,224 | 104,585 | 114,809 |
| Balance at 1 July 2009 | 10,224 | 104,585 | 114,809 |
| Recognition of issue of preference shares | - | - | - |
| Interest expense | 1347 | 3,830 | 5,177 |
| Foreign exchange losses to June 2009 | 374 | 11,792 | 12,166 |
| Interest repayments | - | - | - |
| Balance at 31 December 2009 | 11,945 | 120,207 | 132,152 |

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 2009 to US\$503,491,000 (30 June 2009: US\$381,631,000) in line with changes in the following management estimates, prevailing market conditions and economic forecasts:

- Production was revised to reflect Fortescue's forecast production profile as at 31 December 2009 of production levels from Christmas Creek and Cloudbreak reaching 92mtpa in April 2013 (30 June 2009: forecast reaching 95mtpa in February 2012);
- Future iron ore prices were updated to reflect higher forecasts provided by Metalytics Pty Ltd being an independent resource sector analyst of future iron ore prices;
- The discount rate has been applied since inception and reflects the implicit interest rate of 42% of the Subordinated Loan Note;
- Expected royalty rates have not changed since 30 June 2008 and reflect current royalty rates payable to the Western Australian state government; and
- The total reserve estimate of Cloudbreak and Christmas Creek has not changed since 30 June 2008;
- Foreign exchange forecasts were updated based on information received from Consensus Economics Inc.

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.

FORTESCUE METALS GROUP LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2009

NOTE 14. BORROWINGS (continued)

The key terms and conditions of the notes are:

- US\$317.5 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;
- €298.8 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\$1,026 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.

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;

FORTESCUE METALS GROUP LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2009

NOTE 14. BORROWINGS (continued)

- 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

Issues of ordinary shares during the period

| Ordinary shares fully paid: | Number of shares | Issue price \$ | US\$'000 |
|--|-------------------------|-----------------------|------------------|
| Balance at the beginning of financial year 1 July 2009 | 3,089,596,699 | | 1,229,876 |
| Shares issued | 7,321,289 | 3.82 | 28,000 |
| Exercise of options issued under the Fortescue Metals Group Incentive Option Scheme ("FMGIOS") | 5,396,380 | 0.29 | 1,444 |
| Transfer option expense from reserve for converted options | | | 888 |
| Share issue costs | | | |
| Bonus share issue | 522,984 | 3.66 | 1913 |
| Balance at 31 December 2009 | <u>3,102,837,352</u> | | <u>1,262,121</u> |

| Ordinary shares fully paid: | Number of shares | Issue price | US\$'000 |
|--|-------------------------|--------------------|-----------------|
| Balance at the beginning of financial year 1 July 2008 | 2,804,363,760 | | 746,791 |
| Shares issued | 1,546,715 | 1.64 | 2,529 |
| Exercise of options issued under the Fortescue Metals Group Incentive Option Scheme ("FMGIOS") | 3,180,629 | 0.23 | 746 |
| Transfer option expense from reserve for converted options | | | 633 |
| Balance at 31 December 2008 | <u>2,809,091,104</u> | | <u>750,699</u> |

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 16. CONTINGENCIES

ASIC Proceedings

On December 23rd 2009 judgement was handed down by the Federal Court in the civil penalty proceedings brought by ASIC. Fortescue and Fortescue's co-defendant and CEO, Mr Andrew Forrest, were successful in defending all of the contraventions alleged by ASIC. Costs were awarded in favour of Fortescue and Mr Forrest.

On February 4th, 2010 ASIC lodged a Notice of Appeal in the Federal Court of Western Australia against the judgement handed down by the Honourable Justice Gilmour.

FORTESCUE METALS GROUP LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2009

NOTE 16. CONTINGENCIES (Continued)

Shipping contracts

During the six months ended 31 December 2009 the Company has reached agreements with a further two of the ship owners being Splendour Special Maritime, a part of the Angelicoussis Shipping Group, and SK Shipping Europe Plc. Under the settlement agreement terms the ship owners will discontinue legal proceedings against Fortescue. There are 2 suspended shipping contracts remaining.

Fortescue has accrued for the estimated liabilities associated with the remaining suspended contracts in the 31 December 2009 financial report.

All other contingent liabilities reported in the 2009 annual report have not materially changed.

NOTE 17. EVENTS SUBSEQUENT TO BALANCE DATE

Fortescue shipped its 50 millionth tonne of ore from the Herb Elliott Port on January 18th, 2010.

On February 4th, 2010 ASIC lodged a Notice of Appeal in the Federal Court of Western Australia against the judgement handed down by the Honourable Justice Gilmour in civil penalty proceedings brought by ASIC against Fortescue and Fortescue's co-defendant and CEO Mr Andrew Forrest.

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

NOTE 18. SHARE BASED PAYMENTS

In 2005 the Company established the Fortescue Metals Group Incentive Options Scheme ("FMGIOS"). The terms and conditions of the FMGIOS are disclosed in the consolidated financial report as at and for the year ended 30 June 2009. No further grant of options was made during the six months ended 31 December 2009.

NOTE 19. RELATED PARTIES

At 31 December 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 December 2009 at US\$503,491,000 (30 June 2009: US\$381,631,000). Leucadia is a company related to a director Mr Ian Cumming.

FORTESCUE METALS GROUP LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2009

NOTE 19. RELATED PARTIES (Continued)

Payments to NRW Holdings Ltd (NRW) group of companies for the six months ended 31 December 2009 totalled US\$34.9 million (31 December 2008 : \$US55.7M). NRW provide mining contracting services to Fortescue's Cloudbreak and Christmas Creek mines. NRW is a company related to a director Dr Ian Burston.

Sales of Iron Ore to Hunan Valin Iron and Steel Group Company (Valin) for the six months ended 31 December 2009 totalled US\$41.5 million (31 December 2008 : US\$33.95million). Valin is a company related to a director Mr Li Xiaowei.

FORTESCUE METALS GROUP LTD
DIRECTORS' DECLARATION

DIRECTORS' DECLARATION

In the Directors' opinion:

1. The financial statements and notes set out on pages 5 to 21, are in accordance with the Corporations Act 2001, including:
 - (a) complying with Accounting Standard AASB 134 Interim Financial Reporting and 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 2009 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
19th February 2010

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

Matters Relating to the Electronic Presentation of the Half-Year Financial Report

This auditor's report relates to the half-year financial report of Fortescue Metals Group Limited for the period ended 31 December 2009 included on Fortescue Metals Group Limited's web site. The disclosing entity's directors are responsible for the integrity of Fortescue Metals Group Limited's web site. We have not been engaged to report on the integrity of Fortescue Metals Group Limited's web site. The auditor's review report refers only to the statements named below. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this half-year report are concerned with the inherent risks arising from electronic data communications, they are advised to refer to the hard copy of the reviewed half-year financial report to confirm the information included in the reviewed half-year financial report presented on this web site.

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Fortescue Metals Group Limited, which comprises the statement of financial position as at 31 December 2009, and the statement of comprehensive income, statement of changes in equity and statement of cash flows 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 controls relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim 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 2009 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Fortescue Metals Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

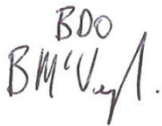
In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001* would be in the same terms if it had been given to the directors at the time that this auditor's review report was made.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Fortescue Metals Group Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2009 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 Audit (WA) Pty Ltd



Brad McVeigh
Director

Signed in Perth, Western Australia
Dated this 19th day of February 2010