

APPENDIX 4D

For the half year ended 31 December 2016



This information should be read in conjunction with Fortescue's financial report for the half year ended 31 December 2016.

Name of entity

Fortescue Metals Group Limited

ABN

57 002 594 872

Results for announcement to the market

		US\$ million
Revenue from ordinary activities	increased 34% to	4,492
Profit from ordinary activities after tax attributable to members	increased 283% to	1,222
Net profit for the half year attributable to members	increased 283% to	1,222

Dividends	Amount per security	Franked amount per security
Interim dividend declared for the half year ended 31 December 2016	A\$0.20	A\$0.20
Interim dividend declared for the previous corresponding period	A\$0.03	A\$0.03
Ex-dividend date of interim dividend		2 March 2017
Record date of interim dividend		3 March 2017
Payment date of interim dividend		6 April 2017

Dividend Reinvestment Plan

The Company operates a Dividend Reinvestment Plan (the Plan) which allows eligible shareholders to elect to invest dividends in ordinary shares which rank equally with the ordinary shares of the Company. The allocation of price for shares under the Plan will be calculated as the average of the daily volume weighted average market price of all Fortescue shares traded on the Australian Securities Exchange during the period of ten trading days commencing on the second day after the record date of 3 March 2017, being 7 March 2017.

The last date for receipt of applications to participate in or to cease or vary participation in the Plan is by 5:00pm (WST) on 6 March 2017. The Directors have determined that no discount shall apply to the allocation price and the Plan will not be underwritten. Shares to be allocated under the Plan will be acquired on market and transferred to participants on 6 April 2017. A broker will be engaged to assist in this process.

A copy of the Plan Rules is available at www.fmg.com.au/Investors_and_Media

Net tangible asset backing

Net tangible asset backing per ordinary shares: US\$2.99 (previous corresponding period: US\$2.50).

Previous corresponding period

The previous corresponding period is the half year ended 31 December 2015.

Commentary on results for the period

A commentary on the results for the period is contained within the half year presentation and the financial report for the half year that accompany this announcement.



Fortescue
The New Force in Iron Ore

Financial Report

For the half year ended 31 December 2016

ABN 57 002 594 872

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Highlights



SAFETY

Total Recordable
Injury Frequency Rate (TRIFR)

3.2



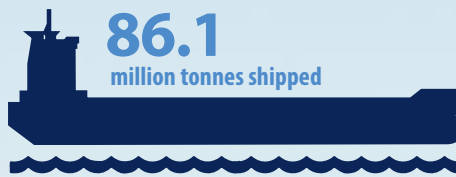
Operating cost

20%

Productivity and efficiency continue to
deliver sustainable cost reductions

US\$1.7

billion debt repaid
during the half year



86.1

million tonnes shipped



Revenue

US\$4.5

billion
for the half year



Net profit after tax

US\$1.2

billion
for the half year

Cash



US\$1.2

billion

at 31 December 2016

Operating cost

US\$13.06/wmt

Underlying EBITDA

US\$2.6

billion

for the half year



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About Fortescue

Fortescue Metals Group Limited is a global leader in the iron ore industry, recognised for its culture, innovation and industry-leading development of world class infrastructure and mining assets in the Pilbara, Western Australia.

Since it was founded in 2003, Fortescue has discovered and developed major iron ore deposits and constructed some of the most significant mines in the world.

Now producing 165 – 170 million tonnes annually, the Company has grown to be one of the largest global iron ore producers and is focused on its vision of being the safest, lowest cost, most profitable iron ore producer.

The Company's operations span four mine sites in the Pilbara. The Chichester Hub, which includes the Cloudbreak and Christmas Creek mines, is located in the Chichester Ranges and the Solomon Hub, in the Hamersley Ranges, includes the Firetail and Kings Valley mines.

Fortescue owns and operates an integrated supply chain including its five berth Herb Elliott Port in Port Hedland and the fastest heavy haul railway in the world with up to 42 tonne axle load capacity over 620km of track. With only a ten-day seaborne journey from Port Hedland to China, Fortescue has longstanding relationships with customers and stakeholders in China and has contributed to China's remarkable economic development and ongoing urban growth.

As a proud West Australian company, Fortescue values its relationship with key stakeholders by working together to positively manage and create opportunities for Aboriginal people, build up communities, protect the environment and strengthen the broader Australian economy.

About this report

This report has been prepared for Fortescue's stakeholders in line with statutory and regulatory obligations. It provides a summary of the Company's operations, performance and financial position as at and for the half year ended 31 December 2016.

All references to Fortescue, the Group, the Company, we, us, and our refer to Fortescue Metals Group Limited (ABN 57 002 594 872) and its subsidiaries. All dollar figures are in the US currency unless otherwise stated.

This report should be read in conjunction with the Annual Report for the year ended 30 June 2016, and any public announcements made by the Company during the half year ended 31 December 2016 in accordance with the continuous disclosure requirements of the *Corporations Act 2001* and the *ASX Listing Rules*.

OUR VISION

To be the safest, lowest cost, most profitable iron ore producer

OUR VALUES



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Directors' report

Fortescue Metals Group Limited



Your Directors present their report on Fortescue Metals Group Limited for the half year ended 31 December 2016.

Directors

The Directors of the Company in office during the half year and until the date of this report are as follows:

Non-Executive



Andrew Forrest
Chairman



Owen Hegarty
Deputy Chairman

Retired 5 December 2016



Mark Barnaba
Lead Independent Director



Jean Baderschneider



Penny Bingham-Hall

Appointed 16 November 2016



Cao Huiquan



Jennifer Morris

Appointed 16 November 2016



Geoff Raby

Retired 5 December 2016



Sharon Warburton

Executive



Nev Power
Chief Executive Officer



Elizabeth Gaines
Chief Financial Officer

Appointed as Chief Financial Officer
and Executive Director on
6 February 2017
Formerly Non-Executive Director



Stephen Pearce
Chief Financial Officer

Retired 23 September 2016

Directors were in office for the entire period unless otherwise stated.

Vision and strategy

Fortescue's vision is to be the safest, lowest cost, most profitable iron ore producer.

To achieve its vision, the Company has continued to improve its safety performance, while maintaining a clear focus on productivity and efficiency across the business. This has resulted in further sustainable reductions in production costs, maximising cash flows, enabling further debt repayments and distributions to shareholders.

Safety

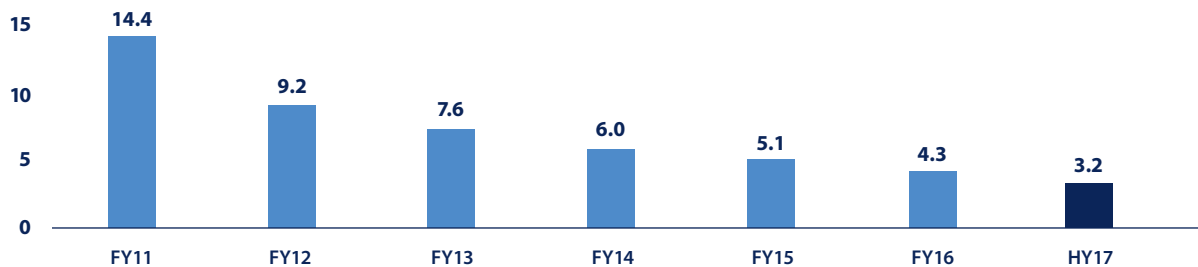
Health and safety of Fortescue's people is the highest priority.

Continuous improvement in safety performance has been achieved with considerable progress in the following areas over the past six months:

- Strengthening **safety culture**, with specific action plans developed and implemented for each area of business to build on the results of a company-wide safety and culture survey.
- Enhancement of the **critical control monitoring (CCM)** program with an emphasis on safety leadership and engineering controls. The CCM program is regularly re-calibrated to align with the latest significant incident trends and risks.
- **Engagement with contractors** to ensure compliance with Fortescue safety standards.
- Identification of **functional safety excellence** improvement opportunities. As a result, safety performance improved by 28 per cent in mobile maintenance and by 44 per cent in major shutdowns over the half year.

Fortescue's rolling twelve month Total Recordable Injury Frequency Rate (TRIFR) improved by 26 per cent from 4.3 at 30 June 2016 to 3.2 at 31 December 2016.

12-month rolling TRIFR, per million hours worked



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Community engagement, people and diversity

Fortescue is committed to ensuring that its success benefits local communities through training and education for guaranteed employment, and business growth.

Aboriginal participation rose to 15 per cent of the workforce and, together with its contractors, Fortescue employed more than 1,100 Aboriginal people across its operations at the end of December 2016.

Fortescue's Billion Opportunities program provides sustainable business opportunities for Aboriginal people. Since its inception, the program has awarded 238 contracts and sub-contracts worth A\$1.8 billion to 102 Aboriginal-owned businesses and joint ventures.

During the period, Fortescue awarded 38 individual grants to Pilbara-focused community groups and not for profit organisations. In addition, Fortescue has recently announced a five-year partnership with the Hedland Women's Refuge, which provides crisis accommodation and holistic support programs for women and children escaping domestic violence.

Fortescue is committed to advancing diversity within the business and promoting a balanced and fair working environment where core values drive behaviour and strong culture. Emphasis is placed on building a workplace attractive to women through addressing availability of childcare, flexible working arrangements, expanding talent pools and creating career opportunities through education and training. The following milestones have been achieved over the half year:

- Fortescue's **female participation rate** in the workforce is 16 per cent, with focus continuing on achieving diversity across all operations.
- In October 2016, Fortescue launched a **revised parental scheme** with both paid and unpaid leave accessible by primary carers, regardless of gender. All eligible employees are encouraged to access paid parental leave and to return to work.
- **Building talent pools**, supporting and promoting opportunities for aspiring **female leaders** through leadership development programs, career resiliency programs, the CEO for the Day initiative and mentoring programs.

During the period, Fortescue announced the appointment of Ms Penny Bingham-Hall and Ms Jennifer Morris as non-executive directors. Mr Owen Hegarty and Dr Geoff Raby retired on 5 December 2016. Fortescue is proud to have become the first ASX 20 Company with five female board members and a majority of female directors.

Production and costs

Production and shipments on a wet metric tonne basis (wmt) for the half year period are outlined below.

6 months to 31 December (million tonnes)	31 December 2016	31 December 2015	Movement, %
Shipments			
Fortescue mined ore	86.1	81.7	+5
Fortescue equity ore	86.1	82.2	+5
Total ore including third party product	86.1	84.0	+3
Mining and processing			
Ore mined	99.6	89.9	+11
Overburden removed	107.5	102.6	+5
Ore processed	86.0	82.6	+4

Production and costs (continued)

During the half year, the Company's focus continued on maximising the value of its ore bodies and infrastructure assets through beneficiation, operational efficiencies and productivity improvements.

Shipments of 86.1mt for the period are running slightly ahead of the FY17 guidance of 165 - 170mt, prior to the January – March cyclone season in the Pilbara region.

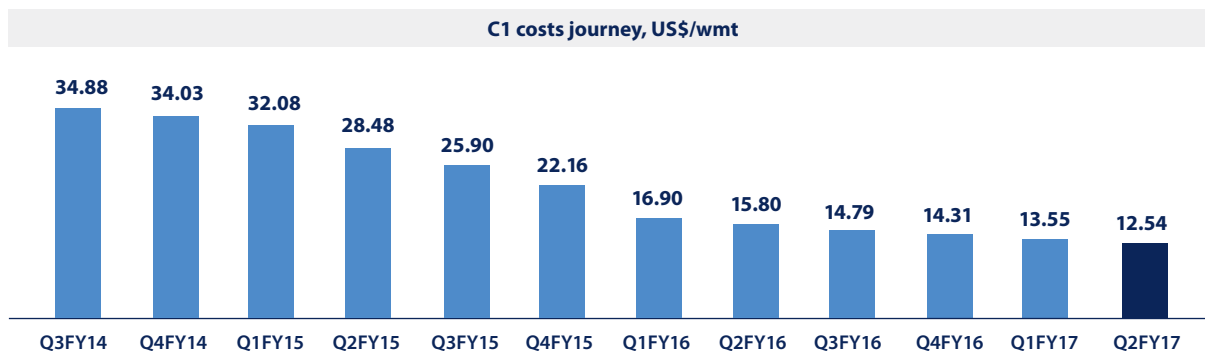
Mining and processing activities matched the shipping rate for the period, with 99.6mt mined and 86.0mt processed, respectively.

Strip ratios across the business were maintained at 1.1 through the half year, with further reductions pursued by optimisation of product blends, maximising upgrade improvements and continuous refinement of mine plans.

Fortescue continues to leverage its wet processing capability achieving sustained improvements in metallurgical upgrades through the OPFs, as well as plant reliability, process improvements and operational efficiencies.

Delivery of ongoing productivity and efficiency gains with a particular emphasis on innovation and technology resulted in further sustainable improvements in production costs, with C1 averaging US\$13.06/wmt for the half year. This result incorporates a C1 cost of US\$12.54/wmt for the December quarter, and Fortescue remains on track to achieve the annual target of US\$12-13/wmt for FY17.

Fortescue's C1 costs journey, with 12 consecutive quarters of sustainable, long term improvements in operating costs, is illustrated below.



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Directors' report | Financial results and position

Fortescue Metals Group Limited

Highlights

Fortescue's financial performance further improved through the first half of FY17, with increased operating margins delivering higher earnings and generating stronger free cash flows. These financial outcomes demonstrate consistency of operations, productivity and efficiency focus with the emphasis on maximising the benefits of technology and innovation.

Free cash flows generated by operations have been consistently applied to debt reductions, strengthening Fortescue's balance sheet.

	31 December 2016 US\$m	31 December 2015 US\$m	
Key metrics			
Revenue	4,492	3,344	
Underlying EBITDA ¹	2,645	1,301	
Net profit after tax	1,222	319	
Earnings per share	US cents	39.3	10.3
Cash from operating activities	1,857	1,097	
Capital expenditure – Fortescue	312	88	
Free cash flows	1,545	1,009	
Cash and cash equivalents	1,160	2,318	
Debt	5,156	8,448	
Net debt	3,996	6,130	
C1 costs	US\$/wmt	13.06	16.34
Key ratios			
	%	%	
Gearing	36	52	
Net gearing	30	44	
Underlying EBITDA margin	59	39	
Return on equity	14	4	

¹ Refer to page 11 for the reconciliation of Underlying EBITDA to the financial metrics reported in the financial statements under Australian Accounting Standards.

Financial performance

During the half year ended 31 December 2016, Fortescue delivered a net profit of US\$1,222 million and earnings per share of 39.3 US cents, demonstrating clear and sustained productivity and efficiency improvements, and strong demand for Fortescue's products.

Underlying EBITDA

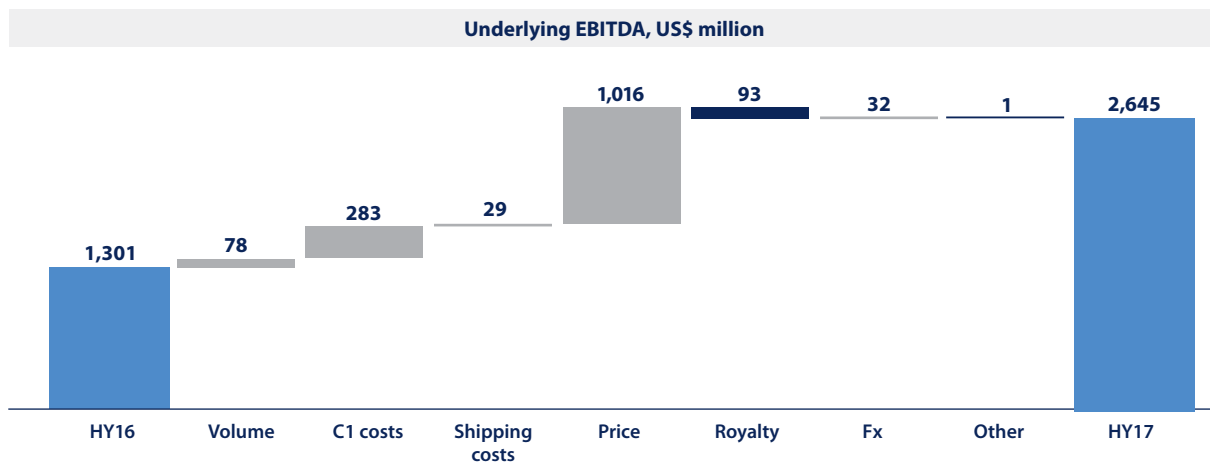
Underlying EBITDA, defined as earnings before interest, tax, depreciation and amortisation, exploration, development and other expenses, is used as a key measure of the Company's financial performance. During the half year, Fortescue's operations generated Underlying EBITDA of US\$2,645 million (HY16: US\$1,301 million). The reconciliation of Underlying EBITDA to the financial metrics reported in the financial statements under Australian Accounting Standards is presented below.

	Note ¹	31 December 2016 US\$m	31 December 2015 US\$m
Operating sales revenue	3	4,492	3,344
Cost of sales excluding depreciation and amortisation	3	(1,868)	(2,027)
Net foreign exchange gain	3	49	17
Administration expenses	3	(28)	(37)
Other income	3	-	4
Underlying EBITDA		2,645	1,301
Finance income	3	8	200
Finance expenses	3	(256)	(340)
Depreciation and amortisation	3	(622)	(627)
Exploration, development and other	3	(43)	(106)
Profit before income tax		1,732	428
Income tax expense ²		(510)	(109)
Net profit after income tax		1,222	319

¹ Notes to the accompanying financial statements.

² Refer to the consolidated income statement.

Key factors contributing to the 103 per cent improvement in Underlying EBITDA were lower C1 costs and higher iron ore price, as illustrated below.



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Directors' report | Financial results and position

Fortescue Metals Group Limited

Financial performance (continued)

Revenue

	Note ¹	31 December 2016 US\$m	31 December 2015 US\$m
Sale of iron ore	3	4,436	3,247
Sale of joint venture ore	3	-	19
Other revenue	3	56	78
Operating sales revenue		4,492	3,344
Shipments – Fortescue mined ore, mt		86.1	81.7
Shipments – Fortescue's share of joint venture ore, mt		-	0.5
62% Fe CFR Platts index, US\$/dmt		65	51
Realised price, US\$/dmt		56	43

¹ Notes to the accompanying financial statements.

Revenue increased by 34 per cent as a result of the higher realised price reflecting strengthening iron ore market, and a three per cent increase in shipments compared to prior period.

Production costs

The reconciliation of C1 costs and total delivered costs to customers to the financial metrics reported in the financial statements under Australian Accounting Standards is set out below.

	Note ¹	31 December 2016 US\$m	31 December 2015 US\$m
Mining and processing costs	3	913	1,087
Rail costs	3	96	103
Port costs	3	91	106
Operating leases	3	23	39
C1 costs, US\$ million		1,123	1,335
Shipments – Fortescue mined ore, mt		86.1	81.7
C1, US\$/wmt		13	16
Shipping costs	3	448	453
Government royalty ²	3	295	202
Administration expenses	3	28	37
Shipping, royalty and administration, US\$/wmt		9	9
Total delivered cost, US\$/wmt		22	25

¹ Notes to the accompanying financial statements.

² Fortescue pays 7.5 per cent state government royalty for the majority of its iron ore products, with a concession rate of five per cent applicable to beneficiated fines.

Financial performance (continued)

Key factors contributing to a 20 per cent reduction in C1 costs compared to the prior period include:

- Continuous focus on mine plan optimisation, pit design and mining methodology
- Improved metallurgical upgrades through the OPFs, further reducing cut-off grades
- Plant efficiencies, including maintenance and shutdowns
- Mining equipment and asset utilisation
- Review of supply strategies.

Non-operating events

Key non-operating matters forming part of the financial result include:

- Interest expense of US\$228 million compared to prior period of US\$334 million, following debt repayments through FY16 (US\$2.9 billion) and the first half of FY17 (US\$1.7 billion)
- Depreciation and amortisation expense of US\$622 million (HY16: US\$627 million)
- Income tax expense for the half year of US\$510 million at an effective income tax rate of 29 per cent (HY16: US\$109 million, at an effective rate of 25 per cent).

Financial position

Fortescue has continued to execute on its debt repayment strategy, with US\$1.7 billion of the senior secured credit facility repaid during the half year, adding to the US\$2.9 billion of debt retired in FY16 and generating further annual interest savings of US\$64 million.

Following these debt repayments, Fortescue's gearing ratio reduced to 36 per cent with net gearing down to 30 per cent.

Key metrics

At 31 December 2016, Fortescue's net debt position decreased to US\$3,996 million (30 June 2016: US\$5,188 million), inclusive of finance leases and cash on hand.

	Note ¹	31 December 2016 US\$m	30 June 2016 US\$m
Borrowings and finance lease liabilities	4	5,156	6,771
Cash and cash equivalents		(1,160)	(1,583)
Net debt		3,996	5,188
Equity		9,333	8,406
Gearing		36%	45%
Net gearing		30%	38%

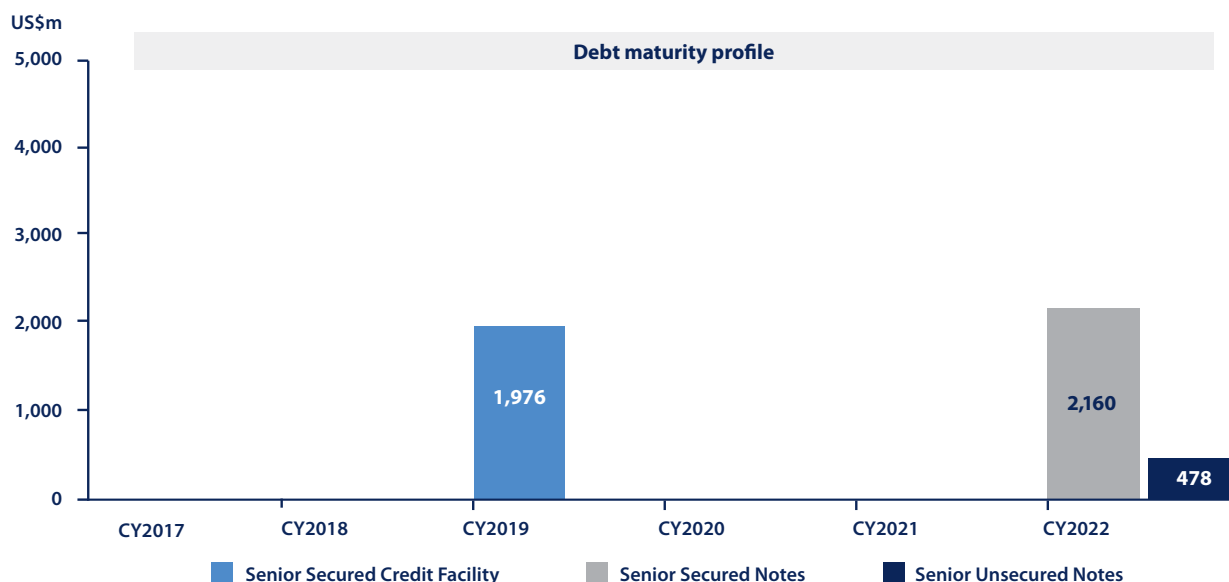
¹ Notes to the accompanying financial statements.

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Financial position (continued)

Debt profile

The Company's debt maturity profile at 31 December 2016 is set out below. Fortescue maintains a flexible debt portfolio with the senior secured credit facility available for voluntary repayment or refinancing, and no financial maintenance covenants across all instruments.



Ships

During the half year, Fortescue completed an agreement with the China Development Bank Financing Leasing Co., Ltd to finance the construction of eight Very Large Iron Ore Carriers (VLOCs). The finance lease facility of US\$473 million will fund 85 per cent of the construction costs for a minimum of 12 years on highly flexible terms, including early repayment and extension options. At 31 December 2016, US\$59 million was drawn down under the facility following delivery of the first vessel during the half year. The remaining funds under the facility will be drawn down on delivery of each vessel.

This transaction is an important milestone in Fortescue's funding strategy, building and broadening the Company's relationships with China, representing the largest direct funding arrangement provided by a major Chinese financier for a non-Chinese company in Australia.

Dividends

On 4 October 2016, Fortescue paid a fully franked dividend of 12 Australian cents per share for the financial year ended 30 June 2016.

On 22 February 2017, Fortescue declared a fully franked interim dividend of 20 Australian cents per share, payable on 6 April 2017.

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 29, and forms part of this report.

Subsequent events

On 22 February 2017, the Directors declared an interim fully franked dividend of 20 Australian cents per share, payable on 6 April 2017.

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

Andrew Forrest
Chairman

Dated in Perth on this 22nd day of February 2017.

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Financial statements

Fortescue Metals Group Limited



Consolidated income statement

For the half year ended 31 December 2016

	Note	31 December 2016 US\$m	31 December 2015 US\$m
Operating sales revenue	3	4,492	3,344
Cost of sales	3	(2,482)	(2,642)
Gross profit		2,010	702
Other income	3	49	21
Other expenses	3	(79)	(155)
Profit before income tax and net finance expenses		1,980	568
Finance income	3	8	200
Finance expenses	3	(256)	(340)
Profit before income tax		1,732	428
Income tax expense		(510)	(109)
Net profit after income tax		1,222	319
Net profit is attributable to:			
Equity holders of the Company		1,222	319
Net profit after income tax		1,222	319

Consolidated statement of comprehensive income

For the half year ended 31 December 2016

	31 December 2016 US\$m	31 December 2015 US\$m
Net profit after income tax	1,222	319
Other comprehensive income		
Exchange differences on translation of foreign operations	(2)	-
Total comprehensive income for the period, net of tax	1,220	319
Total comprehensive income for the period attributable to:		
Equity holders of the Company	1,220	319
Total comprehensive income for the period, net of tax	1,220	319
	Cents	Cents
Earnings per share for net profit attributable to equity holders of the Company:		
Basic earnings per share	39.3	10.3
Diluted earnings per share	39.1	10.2

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

Consolidated statement of financial position

At 31 December 2016

	Note	31 December 2016 US\$m	30 June 2016 US\$m
ASSETS			
Current assets			
Cash and cash equivalents		1,160	1,583
Trade and other receivables		659	241
Inventories		530	554
Other current assets		52	45
Total current assets		2,401	2,423
Non-current assets			
Trade and other receivables		3	4
Property, plant and equipment		16,549	16,867
Intangible assets		9	15
Other non-current assets		18	28
Total non-current assets		16,579	16,914
Total assets		18,980	19,337
LIABILITIES			
Current liabilities			
Trade and other payables		634	622
Deferred income	5	394	485
Borrowings and finance lease liabilities	4	95	93
Provisions		125	167
Current tax payable		453	267
Total current liabilities		1,701	1,634
Non-current liabilities			
Trade and other payables		50	69
Deferred income	5	570	308
Borrowings and finance lease liabilities	4	5,061	6,678
Provisions		491	489
Deferred joint venture contributions		259	253
Deferred tax liabilities		1,515	1,500
Total non-current liabilities		7,946	9,297
Total liabilities		9,647	10,931
Net assets		9,333	8,406
EQUITY			
Contributed equity	6	1,283	1,301
Reserves		37	33
Retained earnings		7,999	7,058
Equity attributable to equity holders of the Company		9,319	8,392
Non-controlling interest		14	14
Total equity		9,333	8,406

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

Consolidated statement of cash flows

For the half year ended 31 December 2016

	31 December 2016 US\$m	31 December 2015 US\$m
Cash flows from operating activities		
Cash receipts from customers	4,247	3,428
Payments to suppliers and employees	(1,915)	(2,064)
Cash generated from operations	2,332	1,364
Interest received	8	8
Interest paid	(218)	(299)
Income tax (paid) received	(265)	24
Net cash inflow from operating activities	1,857	1,097
Cash flows from investing activities		
Payments for property, plant and equipment - Fortescue	(312)	(88)
Payments for property, plant and equipment - joint operations	(8)	(35)
Contributions from joint venture partners	6	-
Proceeds from disposal of plant and equipment	1	-
Net cash outflow from investing activities	(313)	(123)
Cash flows from financing activities		
Proceeds from finance leases	59	-
Repayment of borrowings and finance leases	(1,706)	(954)
Dividends paid	(284)	(44)
Purchase of shares by employee share trust	(27)	(21)
Finance costs paid	(7)	(5)
Net cash outflow from financing activities	(1,965)	(1,024)
Net decrease in cash and cash equivalents	(421)	(50)
Cash and cash equivalents at the beginning of the period	1,583	2,381
Effects of exchange rate changes on cash and cash equivalents	(2)	(13)
Cash and cash equivalents at the end of the period	1,160	2,318

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

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Consolidated statement of changes in equity

For the half year ended 31 December 2016

	Attributable to equity holders of the Company				Non-controlling interest	Total equity
	Contributed equity	Reserves	Retained earnings	Total		
	US\$m	US\$m	US\$m	US\$m		
Balance at 1 July 2015	1,294	46	6,184	7,524	13	7,537
Net profit for the period	-	-	319	319	-	319
Total comprehensive income for the period, net of tax	-	-	319	319	-	319
Transactions with owners in their capacity as owners, net of tax:						
Purchase of shares under employee share plans	(21)	-	-	(21)	-	(21)
Employee share awards exercised net of employee contributions	28	(12)	-	16	-	16
Expired options and rights	-	(3)	3	-	-	-
Equity settled share-based payment transactions	-	13	-	13	-	13
Dividends paid	-	-	(46)	(46)	-	(46)
Balance at 31 December 2015	1,301	44	6,460	7,805	13	7,818
Balance at 1 July 2016	1,301	33	7,058	8,392	14	8,406
Net profit for the period	-	-	1,222	1,222	-	1,222
Other comprehensive income for the period	-	(2)	-	(2)	-	(2)
Total comprehensive income for the period, net of tax	-	(2)	1,222	1,220	-	1,220
Transactions with owners in their capacity as owners, net of tax:						
Purchase of shares under employee share plans	(27)	-	-	(27)	-	(27)
Employee share awards exercised net of employee contributions	9	(9)	-	-	-	-
Equity settled share-based payment transactions	-	18	-	18	-	18
Dividends paid	-	-	(285)	(285)	-	(285)
Other	-	(3)	4	1	-	1
Balance at 31 December 2016	1,283	37	7,999	9,319	14	9,333

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

For the half year ended 31 December 2016

1 Basis of preparation

These financial statements cover the consolidated group consisting of Fortescue Metals Group Limited (the Company) and its subsidiaries, together referred to as Fortescue or the Group.

(a) Statement of compliance

These general purpose consolidated interim financial statements have been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the annual financial report for the year ended 30 June 2016, and any public announcements made by the Company during the half year ended 31 December 2016 in accordance with the continuous disclosure requirements of the *Corporations Act 2001* and the *ASX Listing Rules*.

The financial statements were approved by the Board of Directors on 22 February 2017.

All amounts in the financial statements have been rounded to the nearest million dollars, except as indicated, in accordance with the ASIC Corporations Instrument 2016/191.

(b) Significant accounting policies

The accounting policies applied by the Group in the financial statements are consistent with those applied by the Group in its 30 June 2016 consolidated financial statements, except as described in note 1(c).

Certain new accounting standards and interpretations have been published that are not mandatory for the 31 December 2016 interim reporting period and have not been applied in these financial statements. New, amended and revised standards that are mandatory for the interim period ended 31 December 2016 have been applied in these financial statements and did not have a significant impact on the reported results.

Where applicable, certain comparatives have been adjusted to conform with current period presentation.

(c) Change in accounting policy - consolidated statement of cash flows

Under AASB 107 *Statement of Cash Flows*, interest can be classified as an operating, investing or financing activity and the Group had previously disclosed interest paid as a financing activity. In the current period, Fortescue changed its accounting policy to disclose interest as an operating activity in the consolidated statement of cash flows to better align with the policy adopted by its industry peers.

The impact of this change in policy is to reclassify US\$218 million (HY16: US\$299 million) of interest paid out of financing activities, US\$8 million (HY16: US\$8 million) of interest received out of investing activities and US\$210 million (HY16: US\$291 million) into operating activities.

For the half year ended 31 December 2016

2 Segment information

Fortescue's chief operating decision maker, identified as the Chief Executive Officer, reviews the Group's financial performance and makes significant operating decisions having regard to all aspects of the integrated operation, with the key financial information presented internally for management purposes on a consolidated basis. Accordingly, no reportable operating segments have been identified in presenting the Group's consolidated financial performance.

Fortescue uses Underlying EBITDA defined as earnings before interest, tax, depreciation and amortisation, exploration, development and other expenses, as a key measure of its financial performance. The reconciliation of Underlying EBITDA to the net profit after tax is presented below.

	Note	31 December 2016 US\$m	31 December 2015 US\$m
Underlying EBITDA		2,645	1,301
Finance income	3	8	200
Finance expenses	3	(256)	(340)
Depreciation and amortisation	3	(622)	(627)
Exploration, development and other	3	(43)	(106)
Profit before income tax		1,732	428
Income tax expense ¹		(510)	(109)
Net profit after income tax		1,222	319

¹Refer to the consolidated income statement.

(a) Geographical information

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

	31 December 2016 US\$m	31 December 2015 US\$m
Revenue from external customers		
China	4,311	3,189
Other	181	155
	4,492	3,344

(b) Major customer information

Revenue from one customer amounted to US\$1,821 million (HY16: US\$671 million), arising from the sale of iron ore and the related shipment of product.

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For the half year ended 31 December 2016

3 Revenue and expenses

	31 December 2016 US\$m	31 December 2015 US\$m
Sale of iron ore	4,436	3,247
Sale of joint venture iron ore	-	19
Other revenue	56	78
Operating sales revenue	4,492	3,344
Mining and processing costs	(913)	(1,087)
Rail costs	(96)	(103)
Port costs	(91)	(106)
Operating leases	(23)	(39)
Shipping costs	(448)	(453)
Government royalty	(295)	(202)
Depreciation and amortisation	(614)	(615)
Other operating expenses	(2)	(37)
Cost of sales	(2,482)	(2,642)
Net foreign exchange gain	49	17
Other	-	4
Other income	49	21
Administration expenses	(28)	(37)
Exploration, development and other	(43)	(106)
Depreciation and amortisation	(8)	(12)
Other expenses	(79)	(155)
Interest income	8	8
Gain on early debt redemption	-	192
Finance income	8	200
Interest expense on borrowings and finance lease liabilities	(228)	(334)
Loss on early debt redemption	(22)	-
Other	(6)	(6)
Finance expenses	(256)	(340)

For the half year ended 31 December 2016

4 Borrowings and finance lease liabilities

	31 December 2016 US\$m	30 June 2016 US\$m
Senior secured notes	70	70
Senior secured credit facility	1	4
Senior unsecured notes	8	8
Finance lease liabilities	16	11
Total current borrowings and finance lease liabilities	95	93
Senior secured notes	2,088	2,082
Senior secured credit facility	1,952	3,627
Senior unsecured notes	475	475
Finance lease liabilities	546	494
Total non-current borrowings and finance lease liabilities	5,061	6,678
Total borrowings and finance lease liabilities	5,156	6,771

During the half year ended 31 December 2016, Fortescue repaid US\$1,700 million of the senior secured credit facility ahead of maturity in 2019.

In November 2016, Fortescue entered into a finance lease arrangement for the construction of eight Very Large Iron Ore Carriers (VLOCs). The US\$473 million finance lease facility funds 85 per cent of the vessels' construction costs. As at the end of the period, US\$59 million was drawn down under the facility following delivery of the first vessel in December 2016. The residual funds will be drawn down on delivery of each vessel.

5 Deferred income

	31 December 2016 US\$m	30 June 2016 US\$m
Iron ore prepayments	283	374
Port access prepayment	111	111
Total current deferred income	394	485
Iron ore prepayments	514	197
Port access prepayment	56	111
Total non-current deferred income	570	308

A net increase in iron ore prepayments of US\$226 million from 30 June 2016 incorporates a US\$500 million new prepayment received during the half year, offset by US\$274 million amortisation through delivery of iron ore during the period.

For the half year ended 31 December 2016

6 Contributed equity**(a) Share capital**

	Issued shares Number	Treasury shares Number	Contributed equity Number	Issued shares US\$m	Treasury shares US\$m	Contributed equity US\$m
At 1 July 2015	3,113,798,151	(114,590)	3,113,683,561	1,296	(2)	1,294
Purchase of shares under employee share plans	-	(15,188,032)	(15,188,032)	-	(21)	(21)
Employee share awards exercised net of employee contributions	-	14,939,948	14,939,948	-	28	28
At 30 June 2016	3,113,798,151	(362,674)	3,113,435,477	1,296	5	1,301
Purchase of shares under employee share plans	-	(7,176,060)	(7,176,060)	-	(27)	(27)
Employee share awards exercised net of employee contributions	-	3,610,739	3,610,739	-	9	9
Shares forfeited	-	(60,872)	(60,872)	-	-	-
At 31 December 2016	3,113,798,151	(3,988,867)	3,109,809,284	1,296	(13)	1,283

(b) Issued shares

Issued shares are fully paid and entitle the holders to one vote per share and the rights to participate in dividends. Ordinary shares participate in the proceeds on winding up of the Company in proportion to the number of shares held.

(c) Treasury shares

Movements in treasury shares represent acquisition of the Company's shares on market and allocation of shares to the Company's employees from the vesting of awards and exercise of rights under the employee share-based payment plans.

7 Dividends

	31 December 2016 US\$m	31 December 2015 US\$m
(a) Dividends paid during the half year		
Final fully franked dividend for the year ended 30 June 2016: A\$0.12 per share (30 June 2015: A\$0.02 per share)	285	46
(b) Dividends declared and not recognised as a liability		
Interim fully franked dividend for the half year ended 31 December 2016: A\$0.20 per share (31 December 2015: A\$0.03 per share)	477	67

8 Commitments and contingencies

(i) Capital commitments

At 31 December 2016, Fortescue had contractual commitments for capital expenditure of US\$405 million (30 June 2016: US\$473 million), including commitments associated with the construction of VLOCs of US\$341 million (30 June 2016: US\$454 million).

(ii) Operating lease commitments

At 31 December 2016, Fortescue's commitments under non-cancellable operating leases were US\$64 million (30 June 2016: US\$159 million).

(iii) Contingent assets and liabilities

Fortescue had no material contingent liabilities or contingent assets at 31 December 2016 or at the date of this report. Fortescue occasionally receives claims arising from its activities in the normal course of business. It is expected that any liabilities arising from such claims would not have a material effect on the Group's operating results or financial position.

9 Subsequent events

On 22 February 2017, the Directors declared a fully franked interim dividend of 20 Australian cents per ordinary share payable on 6 April 2017.

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Directors' declaration

Fortescue Metals Group Limited

In the Directors' opinion:

- (a) the interim financial statements and notes set out on pages 16 to 25 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half year ended on that date, and
- (b) 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 Directors.



Andrew Forrest
Chairman

Dated in Perth on this 22nd day of February 2017.



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 (the company), which comprises the consolidated statement of financial position as at 31 December 2016, the consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for the Fortescue Metals Group Limited Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled from time to time during the half-year.

Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

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 Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 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*.

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Independent auditor's review report



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:

1. giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date;
2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Nick Henry

Nick Henry
Partner

Perth
22 February 2017

Auditor's independence declaration



Auditor's Independence Declaration

As lead auditor for the review of Fortescue Metals Group Limited for the half-year ended 31 December 2016, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (b) 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.

A handwritten signature in blue ink that reads 'Nick Henry'.

Nick Henry
Partner
PricewaterhouseCoopers

Perth
22 February 2017

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Australian Accounting Standards

Australian accounting standards are developed, issued and maintained by the Australian Accounting Standards Board, an Australian Government agency under the *Australian Securities and Investments Commission Act 2001*.

ASIC

The Australian Securities and Investments Commission.

ASX

The Australian Securities Exchange.

C1 Cost

Operating costs of mining, processing, rail and port on a per tonne basis, including allocation of direct administration charges and production overheads. The reconciliation of C1 to the amounts disclosed in the financial statements prepared under the Australian Accounting Standards is presented on page 12.

CFR

A delivery term that indicates that the shipment price includes the cost of goods, freight costs and marine costs associated with a particular delivery.

Chichester Hub

Fortescue's mining hub with two operating iron ore mines, Cloudbreak and Christmas Creek, located in the Pilbara, approximately 250 kilometres south east of Fortescue's Herb Elliott Port in Port Hedland.

Corporations Act

Corporations Act 2001 of the Commonwealth of Australia.

dmt

Dry metric tonnes.

Fortescue

Fortescue Metals Group Limited (ACN 002 594 872) and its subsidiaries.

FY

Refers to a Financial Year.

Gearing

Debt / (debt + equity).

HY

Refers to the first half of a Financial Year.

Iron Bridge Joint Venture

Unincorporated joint venture between Fortescue's subsidiary FMG Iron Bridge Limited (69%) and a subsidiary of Formosa Plastics Group (31%) to develop the Iron Bridge Magnetite project. FMG Iron Bridge Limited is jointly owned by Fortescue (88%) and a subsidiary of Baosteel (12%).

mt

Million tonnes.

mtpa

Million tonnes per annum.

Net gearing

(Debt - cash) / (debt - cash + equity).

Nullagine Iron Ore Joint Venture

Incorporated joint venture between FMG Pilbara Pty Limited (25%) and BC Iron Limited (75%) for the production of iron ore in the Pilbara region.

OPF

Ore Processing Facility.

Pilbara

The Pilbara region in the north west of Western Australia.

Solomon Hub

A mining hub with two operating iron ore mines, Firetail and Kings. The Hub is located approximately 60 kilometres north of the township of Tom Price and 120 kilometres west of the railway that links the Chichester Hub to Port Hedland.

Underlying EBITDA

Underlying EBITDA is defined as earnings before interest, tax, depreciation and amortisation, exploration, development and other expenses. The reconciliation of Underlying EBITDA to the financial metrics reported in the financial statements under Australian Accounting Standards is presented on page 11.

Underlying EBITDA margin

Underlying EBITDA / Operating sales revenue.

wmt

Wet metric tonnes.



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