

This information should be read in conjunction with Fortescue's Financial Report for the half year ended 31 December 2015.

Name of entity

Fortescue Metals Group Limited

ABN

57 002 594 872

Results for announcement to the market

	US\$ million	
Revenue from ordinary activities	down 31% to	3,344
Profit from ordinary activities after tax attributable to members	down 4% to	319
Net profit for the half year attributable to members	down 4% to	319

Dividends	Amount per security	Franked amount per security
Interim dividend declared for the half year ended 31 December 2015	A\$0.03	A\$0.03
Interim dividend declared for the previous corresponding period	A\$0.03	A\$0.03
Ex-dividend date of interim dividend		2 March 2016
Record date of interim dividend		4 March 2016
Payment date of interim dividend		7 April 2016

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 4 March 2016, being 8 March 2016.

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 7 March 2016. 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 7 April 2016. A broker will be engaged to assist in this process.

A copy of the Plan Rules is available at

<http://fmgl.com.au/investors-media/dividend-reinvestment-plan>

Net tangible asset backing

Net tangible asset backing per ordinary shares: US\$2.50
(previous corresponding period: US\$2.43).

Previous corresponding period

The previous corresponding period is the half year ended 31 December 2014.

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 that accompany this announcement.



Financial Report

For the half year ended 31 December 2015 | ABN 57 002 594 872



HIGHLIGHTS



Safety 4.8

Total Recordable Injury Frequency Rate (TRIFR)

Sustainable cost reductions



47%

from prior period

Cash



US\$ 2.3 billion

at 31 December 2015

Net profit after tax

US\$ 319 million

for the half year



Revenue

US\$ 3.3 billion

for the half year

Underlying EBITDA

US\$ 1.3 billion

for the half year



Operating cost

US\$ 16/wmt



84.0

million tonnes shipped for the half year

ABOUT FORTESCUE

Fortescue Metals Group 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 significant iron ore deposits and constructed some of the largest mines in the world.

The Chichester Hub, which includes the Cloudbreak and Christmas Creek mines, is located in the Chichester Ranges, and produces more than 95 million tonnes per annum (mtpa) of iron ore. The Solomon Hub is located in the Hamersley Ranges, and includes the Firetail and Kings Valley mines which produce in excess of 70 mtpa. Fortescue has constructed world class facilities at its five berth Herb Elliott Port in Port Hedland, and operates the fastest heavy haul railway in the world with up to a 42 tonne axle load capacity over 620km of track, including 12 bridges.

The company is now producing 165 million tonnes of iron ore per annum and is focused on being the safest, lowest cost, most profitable iron ore producer.

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, communities, the environment and the broader Australian economy.

ABOUT THIS REPORT

This report has been prepared for Fortescue's stakeholders in line with our statutory and regulatory obligations. It provides a summary of Fortescue's operations, performance and financial position as at and for the half year ended 31 December 2015.

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 US currency unless otherwise stated.

This report should be read in conjunction with the Annual Report for the year ended 30 June 2015, and any public announcements made by the Company during the half year ended 31 December 2015 in accordance with the continuous disclosure requirements of the *Corporations Act 2001* and the *ASX Listing Rules*.

Directors' Report 3

Financial Statements 11

Directors' Declaration 23

Independent Auditor's Review Report 25

Auditor's Independence Declaration 29



OUR VISION

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

OUR VALUES



Safety



Family



Integrity



Determination



Enthusiasm



Empowerment



Generating ideas



Set yourself stretch targets



Frugality

DIRECTORS' REPORT

Directors' Report | Financial Statements | Directors' Declaration | Independent Auditor's Review Report | Auditor's Independence Declaration





DIRECTORS' REPORT

For the half year ended 31 December 2015

Your Directors present their report on Fortescue Metals Group Limited for the half year ended 31 December 2015.

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



Mark Barnaba
Lead Independent Director



Jean Baderschneider



Elizabeth Gaines



Cao Huiquan



Geoff Raby



Sharon Warburton

Executive



Nev Power
Chief Executive Officer



Peter Meurs

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

Review of operations

Fortescue's operations are focused on the key areas within the Company's control that support its strategy to become the safest, lowest cost, most profitable iron ore producer:

- Continuous improvement in safety
- Sustainable production delivering maximum value from the Company's assets
- Productivity and efficiency leading to ongoing sustainable cost reductions.

The Company has clearly cemented its position as a low cost, reliable supplier of premium iron ore products, and ended the half year with a strong cash position, after applying positive cash flows generated by operations to further debt reductions.

Safety

The health and safety of our people is a core part of Fortescue's values. Our number one objective is to ensure that everyone goes home healthy and safe every day. Each part of our business is focused on achieving this objective through the development of personal and effective leadership, the management of exposure to hazards and the mitigation of associated risks.

Fortescue's rolling twelve month Total Recordable Injury Frequency Rate per million hours worked, used as a measure of safety performance, improved by six per cent from 5.1 at 30 June 2015 to 4.8 at 31 December 2015. This achievement reflects the ongoing focus towards building and promoting a strong, safe work culture through frequent and impactful engagement with our people and our contracted employees. The Company remains focused on delivering year-on-year improvement in its safety performance until we realise our target of zero injury and harm across the entire business.

Production

Fortescue has continued its track record of sustainable operating performance, with 84.0mt shipped for the half year ended 31 December 2015, two per cent higher than the prior period and consistent with the FY16 full year target of 165mt. Production and shipments on a wet metric tonne basis for the six month period were as follows:

6 months to 31 December 2015 (millions of tonnes)	31 December 2015	31 December 2014	Movement, %
Ore mined	89.9	86.5	+4
Overburden removed	102.6	191.8	-47
Ore processed	82.6	75.6	+9
Ore shipped – Fortescue mined ore	81.7	80.3	+2
Ore shipped – Fortescue equity ore	82.2	80.8	+2
Total ore shipped including third party product	84.0	82.7	+2

During the half year, Fortescue mined 89.9mt of ore, broadly consistent with the prior period. Overburden removed reduced by 47 per cent reflecting sustainable improvements in OPF performance, mine plan optimisation, improved ore body modelling, mining efficiency and productivity. Mine strip ratios averaged 1.4 at the Chichester Hub and 0.8 at the Solomon Hub, or 1.1 across all operations, and are expected to be maintained at these levels through FY16.

Total OPF throughput of 82.6mt represents a nine per cent improvement compared to prior period, with higher processing volumes as a result of enhanced plant reliability and shut down optimisations complemented by higher yields.

Following the strong performance across all OPFs, improved upgrades, and operational efficiencies delivered by the mines, Fortescue has initiated a review of mine plans that is expected to support further reduction in the life of mine strip ratios.

Rail and port infrastructure have continued to support the Company's mining and processing operations through the half year period. With a significant reduction in rail cycle times and additional port capacity following commissioning of the fifth berth completed last year, focus remains on continuous optimisation of rail and port infrastructure, incremental operational and cost improvements and consistency of performance.

Review of operations (continued)

Costs

Strong operational performance and delivery on productivity and efficiency improvement programmes have continued to drive the unit cost of operations down, lowering the average C1 cost to US\$16/wmt, a 47 per cent reduction from US\$30/wmt in the prior period. This result represents sustainable, long term improvements in operating costs that are fundamental to our ongoing performance and maintaining a mine life in excess of 20 years.

The reconciliation of C1 costs, representing Fortescue's operating costs of mining, processing, rail and port on a per tonne basis, to the amounts disclosed in the half year financial statements, is shown below.

	Note ¹	31 December 2015 US\$m	31 December 2014 US\$m
Mining and processing costs	5	1,087	2,117
Rail costs	5	103	123
Port costs	5	106	154
Operating leases	5	39	40
C1 costs, US\$ million		1,335	2,434
Ore shipped – Fortescue mined ore		81.7	80.3
C1, US\$/wmt		16	30

¹ Notes to the accompanying financial statements.

Key factors contributing to the improved operating cost performance during the half year ended 31 December 2015 were:

- Strong OPF performance, with improved upgrades and yields, enhanced plant reliability and shut down optimisations
- Mining equipment and people productivity
- Mine planning, design and mining methodology
- Procurement initiatives to maximise the value of products and services procured into the business
- Benefits of the lower Australian dollar and declining oil prices.

Total delivered costs to customers, inclusive of C1 costs, shipping, state government royalties and administration expenses were US\$25/wmt (2014: US\$43/wmt):

	Note ¹	31 December 2015 US\$m	31 December 2014 US\$m
C1 costs	5	1,335	2,434
Shipping costs	5	453	687
Government royalty	5	202	298
Administration expenses	6	37	31
Total delivered costs, US\$ million		2,027	3,450
Ore shipped – Fortescue mined ore		81.7	80.3
Total delivered costs, US\$/wmt		25	43

¹ Notes to the accompanying financial statements.

Financial results

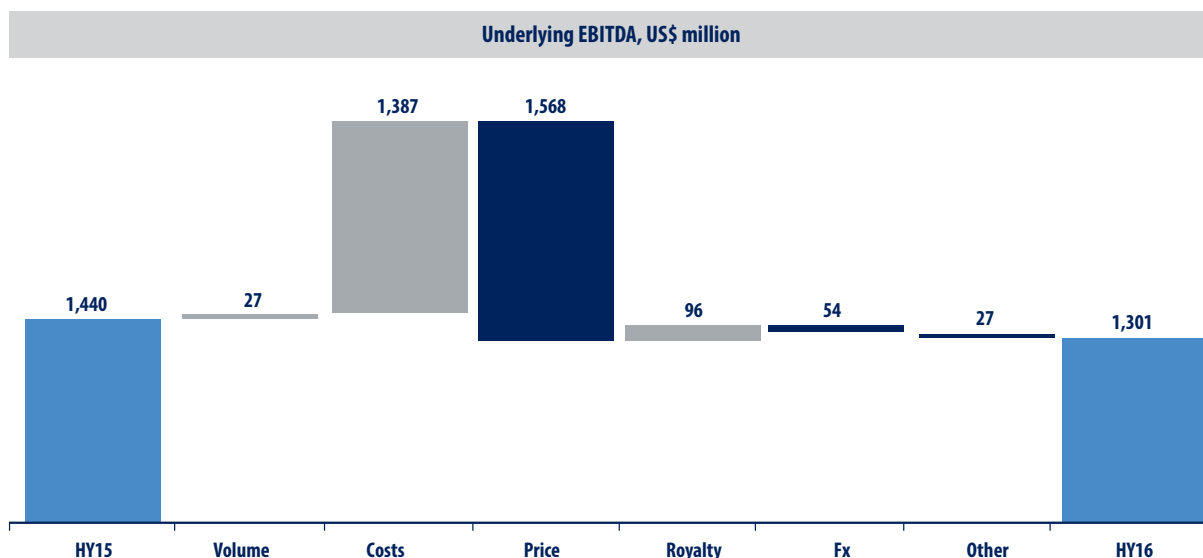
During the half year ended 31 December 2015, Fortescue delivered net profit after tax of US\$319 million, a four per cent reduction from the prior period. This result predominantly reflects lower realised iron ore prices following a decline in global commodity markets, offset by the improved costs performance.

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. During the half year, Fortescue's operations generated Underlying EBITDA of US\$1,301 million (2014: US\$1,440 million). The reconciliation of Underlying EBITDA to the amounts disclosed in the half year financial statements is shown below.

	Note ¹	31 December 2015 US\$m	31 December 2014 US\$m
Operating sales revenue	3	3,344	4,858
Cost of sales excluding depreciation and amortisation	5	(2,027)	(3,464)
Net foreign exchange gain	4	17	71
Administration expenses	6	(37)	(31)
Other income	4	4	6
Underlying EBITDA		1,301	1,440
Finance income	7	200	9
Finance expenses	7	(340)	(315)
Depreciation and amortisation	5,6	(627)	(658)
Exploration, development and other	6	(106)	(36)
Profit before income tax		428	440
Income tax expense		(109)	(109)
Profit after income tax		319	331

¹ Notes to the accompanying financial statements.

The Underlying EBITDA was maintained at US\$1,301 million despite a US\$1,568 million reduction in revenue as a result of lower realised prices. During the half year, Fortescue realised US\$43/dmt (2014: US\$66/dmt), based on the 62 per cent CFR Platts index of US\$51/dmt (2014: US\$82/dmt). The impact of lower iron ore prices was offset by a 47 per cent reduction in C1 costs and lower shipping rates following a decline in global price indices, contributing US\$1,387 million to the half year result.



Other non-operating events forming part of the financial result include:

- Devaluation of the Australian dollar, with a net foreign exchange gain of US\$17 million for the half year (2014: US\$71 million)
- Gain on early debt redemption of US\$192 million, following the re-purchase of US\$1,134 million of debt below par value
- Depreciation and amortisation expenses of US\$627 million, broadly consistent with prior year (2014: US\$658 million)
- Exploration, development and other expenses of US\$106 million, following a temporary suspension of the Nullagine Iron Ore Joint Venture operations and a review of capital projects
- Income tax expense for the half year of US\$109 million at an effective income tax rate of 25 per cent, consistent with the prior period.



Financial position

Strong operational performance and sustainable cost reductions delivered across the supply chain generated positive operating cash flows allowing further debt reductions while maintaining a strong cash position at the end of the period.

At 31 December 2015, Fortescue's net debt position decreased to US\$6,130 million (30 June 2015: US\$7,188 million), as outlined below.

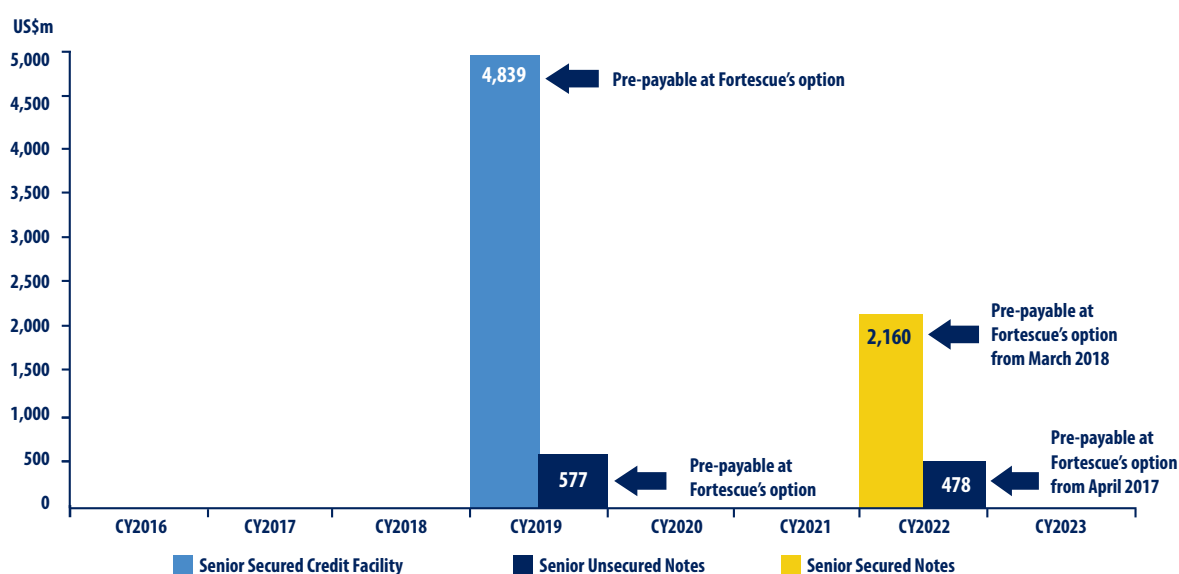
	Note ¹	31 December 2015 US\$m	30 June 2015 US\$m
Borrowings and finance lease liabilities	10	8,448	9,569
Cash and cash equivalents		(2,318)	(2,381)
Net debt		6,130	7,188
Equity		7,818	7,537
Gearing		52%	56%
Net gearing		44%	49%

¹ Notes to the accompanying financial statements.

During the half year, Fortescue repaid US\$1,134 million of debt through a combination of on-market re-purchases and via a tender process. These repayments, at an average price of 82 cents in the dollar, generated a pre-tax gain of US\$192 million and delivered annual interest savings of US\$88 million.

Financial position (continued)

Fortescue continues to maintain a flexible debt profile with no maintenance covenants, 67 per cent of its debt available for repayment and the earliest maturity in 2019:



Debt redemptions completed during the half year reduced the Company's gearing to 52 per cent at 31 December 2015 and are in line with the long term debt reduction strategy as Fortescue remains committed to its initial targeted gearing level of 40 per cent.

Lower capital expenditure of US\$88 million (2014: US\$436 million) reflects sustainable reductions in on-going capital spend following the recently completed expansion, as the Company continues to realise the benefits of its world class assets.

Dividends

On 5 October 2015, Fortescue paid a final fully franked dividend of two Australian cents per share for the financial year ended 30 June 2015.

On 24 February 2016, the Directors declared an interim fully franked dividend of three Australian cents per share, payable on 7 April 2016.

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 30, and forms part of this report.

Subsequent events

On 24 February 2016, the Directors declared an interim fully franked dividend of three Australian cents per share, payable on 7 April 2016.

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

A handwritten signature in blue ink, appearing to be 'A. Forrest', with a stylized flourish extending to the right.

Andrew Forrest
Chairman

Dated in Perth on this 24th day of February 2016.

FINANCIAL STATEMENTS

Directors' Report | **Financial Statements** | Directors' Declaration | Independent Auditor's Review Report | Auditor's Independence Declaration



CONSOLIDATED INCOME STATEMENT

For the half year ended 31 December 2015

	Note	31 December 2015 US\$m	31 December 2014 US\$m
Operating sales revenue	3	3,344	4,858
Cost of sales	5	(2,642)	(4,108)
Gross profit		702	750
Other income	4	21	77
Other expenses	6	(155)	(81)
Profit before income tax and net finance expenses		568	746
Finance income	7	200	9
Finance expenses	7	(340)	(315)
Profit before income tax		428	440
Income tax expense		(109)	(109)
Profit after income tax		319	331
Profit is attributable to:			
Equity holders of the Company		319	331
Profit after income tax		319	331

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the half year ended 31 December 2015

	31 December 2015 US\$m	31 December 2014 US\$m
Profit after income tax	319	331
Other comprehensive income		
Other comprehensive income items	-	-
Total comprehensive income for the period, net of tax	319	331
Total comprehensive income for the period is attributable to:		
Equity holders of the Company	319	331
Total comprehensive income for the period, net of tax	319	331
	Cents	Cents
Earnings per share for profit attributable to the ordinary equity holders of the Company:		
Basic earnings per share	10.26	10.63
Diluted earnings per share	10.24	10.62

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 2015

	Note	31 December 2015 US\$m	30 June 2015 US\$m
ASSETS			
Current assets			
Cash and cash equivalents		2,318	2,381
Trade and other receivables		108	291
Inventories		639	773
Other current assets		37	49
Current tax receivable		-	35
Total current assets		3,102	3,529
Non-current assets			
Trade and other receivables		4	6
Property, plant and equipment	8	17,196	17,729
Intangible assets		28	44
Other non-current assets		42	52
Total non-current assets		17,270	17,831
Total assets		20,372	21,360
LIABILITIES			
Current liabilities			
Trade and other payables		672	739
Deferred income	9	884	620
Borrowings and finance lease liabilities	10	159	155
Provisions		132	174
Current tax payable		54	-
Total current liabilities		1,901	1,688
Non-current liabilities			
Trade and other payables		69	69
Deferred income	9	167	591
Borrowings and finance lease liabilities	10	8,289	9,414
Provisions		455	428
Deferred joint venture contributions		254	261
Deferred tax liabilities		1,419	1,372
Total non-current liabilities		10,653	12,135
Total liabilities		12,554	13,823
Net assets		7,818	7,537
EQUITY			
Contributed equity	11	1,301	1,294
Reserves		44	46
Retained earnings		6,460	6,184
Equity attributable to equity holders of the Company		7,805	7,524
Non-controlling interest		13	13
Total equity		7,818	7,537

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 2015

	31 December 2015 US\$m	31 December 2014 US\$m
Cash flows from operating activities		
Cash receipts from customers	3,428	5,111
Payments to suppliers and employees	(2,064)	(3,542)
Income tax received (paid)	24	(664)
Net cash inflow from operating activities	1,388	905
Cash flows from investing activities		
Payments for property, plant and equipment - Fortescue	(88)	(436)
Payments for property, plant and equipment - joint operations	(35)	(142)
Contributions from joint venture partners	-	58
Interest received	8	10
Proceeds from disposal of plant and equipment	-	3
Net cash outflow from investing activities	(115)	(507)
Cash flows from financing activities		
Repayment of borrowings and finance leases	(954)	(526)
Interest and finance costs paid	(304)	(290)
Dividends paid	(44)	(274)
Purchase of shares by employee share trust	(21)	(29)
Repayment of customer deposits	-	(50)
Net cash outflow from financing activities	(1,323)	(1,169)
Net decrease in cash and cash equivalents	(50)	(771)
Cash and cash equivalents at the beginning of the period	2,381	2,398
Effects of exchange rate changes on cash and cash equivalents	(13)	(53)
Cash and cash equivalents at the end of the period	2,318	1,574

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the half year ended 31 December 2015

	Attributable to equity holders of the Company				Non-controlling interest	Total equity
	Contributed equity US\$m	Reserves US\$m	Retained earnings US\$m	Total US\$m		
Balance at 1 July 2014	1,289	69	6,211	7,569	14	7,583
Profit for the period	-	-	331	331	-	331
Total comprehensive income for the period, net of tax	-	-	331	331	-	331
Transactions with owners in their capacity as owners, net of tax:						
Purchase of shares under employee share plans	(29)	-	-	(29)	-	(29)
Employee share awards exercised net of employee contributions	34	(13)	-	21	-	21
Equity settled share-based payment transactions	-	4	-	4	-	4
Dividends paid	-	-	(290)	(290)	-	(290)
Balance at 31 December 2014	1,294	60	6,252	7,606	14	7,620
Balance at 1 July 2015	1,294	46	6,184	7,524	13	7,537
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
Equity settled share-based payment transactions	-	13	-	13	-	13
Expired options	-	(3)	3	-	-	-
Dividends paid	-	-	(46)	(46)	-	(46)
Balance at 31 December 2015	1,301	44	6,460	7,805	13	7,818

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the half year ended 31 December 2015

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 consolidated 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 2015, and any public announcements made by the Company during the half year ended 31 December 2015 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 24 February 2016.

The Company is of a kind referred to in ASIC Class Order 98/100, issued by the Australian Securities and Investments Commission (ASIC), relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest million dollars, unless otherwise stated.

(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 2015 consolidated financial statements.

Certain new accounting standards and interpretations have been published that are not mandatory for the 31 December 2015 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 2015 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the half year ended 31 December 2015

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 2015 US\$m	31 December 2014 US\$m
Underlying EBITDA		1,301	1,440
Finance income	7	200	9
Finance expenses	7	(340)	(315)
Depreciation and amortisation	5,6	(627)	(658)
Exploration, development and other	6	(106)	(36)
Net profit before tax		428	440
Income tax expense ¹		(109)	(109)
Net profit after tax		319	331

¹ Refer 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 2015 US\$m	31 December 2014 US\$m
Revenue from external customers		
China	3,189	4,645
Other	155	213
	3,344	4,858

(b) Major customer information

Revenue from one customer amounted to US\$671 million (2014: US\$2,352 million), arising from the sale of iron ore and the related shipment of product.

3 Operating sales revenue

	31 December 2015 US\$m	31 December 2014 US\$m
Sale of iron ore	3,247	4,734
Sale of joint venture iron ore	19	30
Other revenue	78	94
	3,344	4,858

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the half year ended 31 December 2015

4 Other income

	31 December 2015 US\$m	31 December 2014 US\$m
Net foreign exchange gain	17	71
Other	4	6
	21	77

5 Cost of sales

	31 December 2015 US\$m	31 December 2014 US\$m
Mining and processing costs	1,087	2,117
Rail costs	103	123
Port costs	106	154
Operating leases	39	40
Shipping costs	453	687
Government royalty	202	298
Depreciation and amortisation	615	644
Other operating expenses	37	45
	2,642	4,108

6 Other expenses

	31 December 2015 US\$m	31 December 2014 US\$m
Administration expenses	37	31
Exploration, development and other ¹	106	36
Depreciation and amortisation	12	14
	155	81

¹ Exploration, development and other expenses include an impairment provision following suspension of the Nullagine Iron Ore Joint Venture operations of US\$32 million, and a provision in relation to specific capital projects deferred pending market conditions of US\$48 million.

7 Finance income and finance expenses

	31 December 2015 US\$m	31 December 2014 US\$m
Finance income		
Gain on early debt redemption	192	-
Interest income	8	9
	200	9
Finance expenses		
Interest expense on borrowings and finance lease liabilities	334	282
Interest capitalised	-	(6)
Loss on early debt redemption	-	28
Other	6	11
	340	315

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the half year ended 31 December 2015

8 Property, plant and equipment

	Plant and equipment US\$m	Land and buildings US\$m	Exploration and evaluation US\$m	Assets under development US\$m	Development US\$m	Total US\$m
Year ended 30 June 2015						
Opening net book value	12,430	933	408	313	3,984	18,068
Transfers of assets	536	1	71	(603)	24	29
Additions	139	-	291	539	(5)	964
Capitalised interest	-	-	-	7	-	7
Disposals	(1)	(4)	-	-	-	(5)
Depreciation	(995)	(58)	-	-	(207)	(1,260)
Changes in restoration and rehabilitation estimate	-	-	14	-	(59)	(45)
Other	(2)	-	(16)	(11)	-	(29)
Closing net book value	12,107	872	768	245	3,737	17,729
At 30 June 2015						
Cost	14,762	1,010	768	245	4,357	21,142
Accumulated depreciation	(2,655)	(138)	-	-	(620)	(3,413)
Net book value	12,107	872	768	245	3,737	17,729
Half year ended 31 December 2015						
Opening net book value	12,107	872	768	245	3,737	17,729
Transfers of assets	71	19	(28)	(46)	3	19
Additions	2	-	35	79	10	126
Depreciation	(468)	(30)	-	-	(113)	(611)
Changes in restoration and rehabilitation estimate	-	-	(9)	-	37	28
Other ¹	(3)	-	(18)	(49)	(25)	(95)
Closing net book value	11,709	861	748	229	3,649	17,196
At 31 December 2015						
Cost	14,818	1,024	748	229	4,359	21,178
Accumulated depreciation	(3,109)	(163)	-	-	(710)	(3,982)
Net book value	11,709	861	748	229	3,649	17,196

¹ Other movements include an impairment provision following suspension of the Nullagine Iron Ore Joint Venture operations of US\$32 million, and a provision in relation to specific capital projects deferred pending market conditions of US\$48 million.

9 Deferred income

	31 December 2015 US\$m	30 June 2015 US\$m
Iron ore prepayments	773	509
Port access prepayment	111	111
Total current deferred income	884	620
Iron ore prepayments	-	369
Port access prepayment	167	222
Total non-current deferred income	167	591

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the half year ended 31 December 2015

10 Borrowings and finance lease liabilities

	31 December 2015 US\$m	30 June 2015 US\$m
Senior notes	86	70
Senior secured credit facility	68	80
Finance lease liabilities	5	5
Total current borrowings and finance lease liabilities	159	155
Senior notes	3,125	4,241
Senior secured credit facility	4,718	4,717
Finance lease liabilities	446	456
Total non-current borrowings and finance lease liabilities	8,289	9,414
Total borrowings and finance lease liabilities	8,448	9,569

(a) Summary of movements in borrowings and finance lease liabilities

	Senior secured / unsecured notes US\$m	Senior secured credit facility US\$m	Finance leases US\$m	Total US\$m
Balance 1 July 2014	4,445	4,795	317	9,557
Initial recognition	2,300	-	141	2,441
Interest expense	321	223	46	590
Interest and finance lease repayments	(321)	(171)	(43)	(535)
Transaction costs	(84)	-	-	(84)
Repayment	(2,350)	(50)	-	(2,400)
Balance at 30 June 2015	4,311	4,797	461	9,569
Interest expense	180	124	30	334
Interest and finance lease repayments	(158)	(110)	(32)	(300)
Transaction costs	12	-	-	12
Foreign exchange gain	-	-	(8)	(8)
Repayment	(1,134)	(25)	-	(1,159)
Balance at 31 December 2015	3,211	4,786	451	8,448

During the half year ended 31 December 2015, Fortescue re-purchased US\$472 million of the 2019 senior unsecured notes, US\$522 million of the 2022 senior unsecured notes and US\$140 million of the 2022 senior secured notes. These repayments were made through a combination of on-market debt re-purchases (US\$384 million) and via a tender process (US\$750 million), averaging at 82 cents in the dollar, and generated a pre-tax gain of US\$192 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the half year ended 31 December 2015

11 Contributed equity

(a) Share capital

	31 December 2015 Shares	30 June 2015 Shares
Ordinary shares fully paid	3,113,798,151	3,113,798,151

(b) Movements in ordinary share capital

	Number of shares	US\$m
Opening balance 1 July 2014	3,113,798,151	1,289
Purchase of shares under employee share plans	(8,082,221)	(30)
Employee share awards exercised net of employee contributions	8,082,221	35
Balance 30 June 2015	3,113,798,151	1,294
Purchase of shares under employee share plans	(15,309,884)	(21)
Employee share awards exercised net of employee contributions	15,309,884	28
Balance 31 December 2015	3,113,798,151	1,301

(c) Ordinary shares

Fully paid ordinary shares entitle the holders 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.

12 Dividends

(a) Dividends paid during the half year

	31 December 2015 US\$m	31 December 2014 US\$m
Final fully franked dividend for the year ended 30 June 2015: A\$0.02 per share (30 June 2014: A\$0.10 per share)	46	290

(b) Dividends proposed and not recognised as a liability

	31 December 2015 US\$m	31 December 2014 US\$m
Interim fully franked dividend for the half year ended 31 December 2015: A\$0.03 per share (31 December 2014: A\$0.03 per share)	67	73

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the half year ended 31 December 2015

13 Commitments and contingencies

	Capital US\$m	Operating leases US\$m	Total US\$m
30 June 2015			
Within one year	138	107	245
Between one and five years	438	174	612
	576	281	857
31 December 2015			
Within one year	246	105	351
Between one and five years	301	171	472
	547	276	823

Fortescue had no material contingent liabilities or contingent assets at 31 December 2015 or at the date of this report. Fortescue occasionally receives claims arising from its activities in the normal course of business. In the opinion of the Directors, all such matters are covered by insurance or, if not covered, are without merit or are such a kind or involve such amounts that would not have a material adverse impact on the operating results or financial position if settled unfavourably.

14 Subsequent events

On 24 February 2016, the Directors declared an interim dividend of three Australian cents per ordinary share payable on 7 April 2016.



DIRECTORS' DECLARATION

Directors' Report | Financial Statements | **Directors' Declaration** | Independent Auditor's Review Report | Auditor's Independence Declaration



DIRECTORS' DECLARATION

In the Directors' opinion:

- (a) the interim financial statements and notes set out on pages 11 to 22 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 2015 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.

A handwritten signature in blue ink, appearing to be 'A. Forrest', with a stylized flourish at the end.

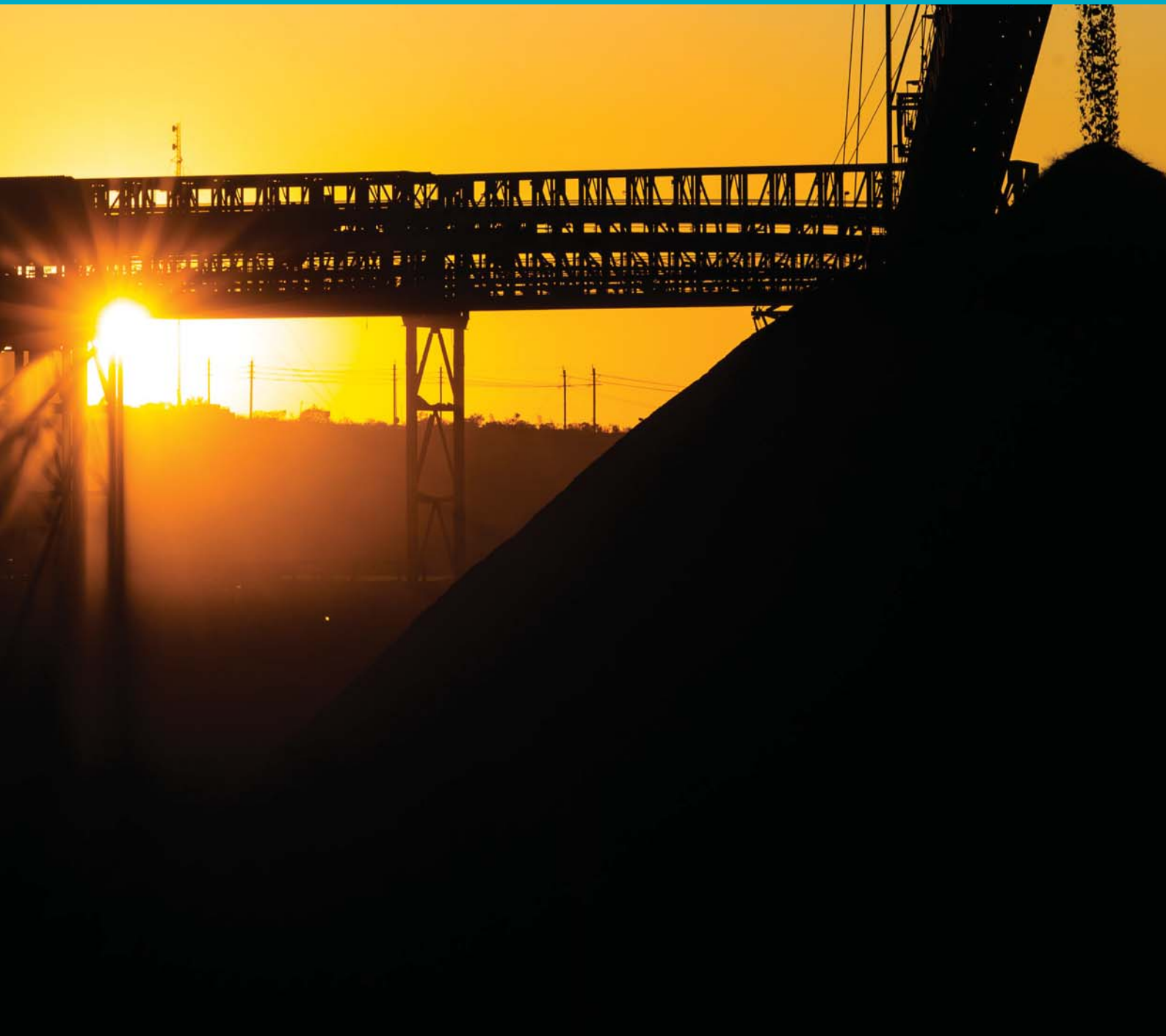
Andrew Forrest
Chairman

Dated in Perth on this 24th day of February 2016.



INDEPENDENT AUDITOR'S REVIEW REPORT

Directors' Report | Financial Statements | Directors' Declaration | **Independent Auditor's Review Report** | Auditor's Independence Declaration





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 2015, 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 Fortescue Metals Group Limited Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled during that 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 (including the Australian Accounting Interpretations) 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 2015 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*.

PricewaterhouseCoopers, ABN 52 780 433 757
Brookfield Place, 125 St Georges Terrace, PERTH WA 6000, GPO Box D198, PERTH WA 6840
T: +61 8 9238 3000, F: +61 8 9238 3999, www.pwc.com.au

Liability limited by a scheme approved under Professional Standards Legislation.



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 2015 and of its performance for the half-year ended on that date;
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Nick Henry
Partner

Perth
24 February 2016

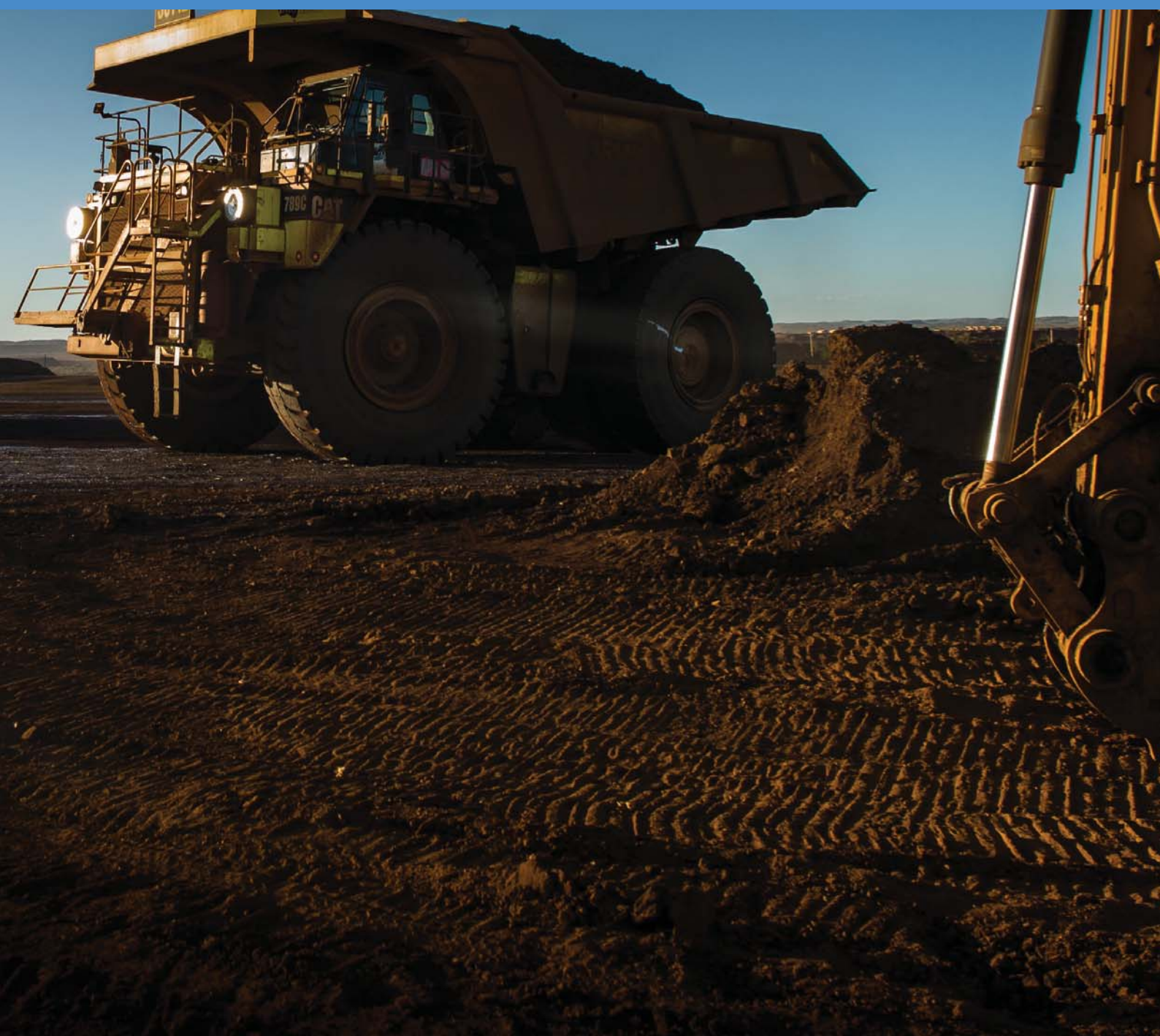
THE BEST ADDRESS FOR IRON ORE

Fortescue holds the largest tenement position in the Pilbara.



AUDITOR'S INDEPENDENCE DECLARATION

Directors' Report | Financial Statements | Directors' Declaration | Independent Auditor's Review Report | **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 2015, 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 'Henry' with a stylized flourish at the end.

Nick Henry
Partner

Perth
24 February 2016

PricewaterhouseCoopers, ABN 52 780 433 757
Brookfield Place, 125 St Georges Terrace, PERTH WA 6000, GPO Box D198, PERTH WA 6840
T: +61 8 9238 3000, F: +61 8 9238 3999, www.pwc.com.au

Liability limited by a scheme approved under Professional Standards Legislation.

GLOSSARY

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.

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 (ABN 57 002 594 872) and its subsidiaries.

FY

Refers to a financial year.

HY

Refers to the first half of a financial year.

International Financial Reporting Standards

International Financial Reporting Standards (IFRS) is a single set of accounting standards, developed and maintained by the IASB with the intention of those standards being capable of being applied on a globally consistent basis.

mt

Million tonnes.

mtpa

Million tonnes per annum.

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 kilometers 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 17.

wmt

Wet metric tonnes.

Working together. Delivering results.



www.fmgl.com.au
 @FortescueNews