

This information should be read in conjunction with Fortescue's Financial Report for the half year ended 31 December 2017.

Name of entity

Fortescue Metals Group Limited

ABN

57 002 594 872

Results for announcement to the market

		US\$ million
Revenue from ordinary activities	decreased 18% to	3,679
Profit from ordinary activities after tax attributable to members	decreased 44% to	681
Net profit for the half year attributable to members	decreased 44% to	681

Dividends	Amount per security	Franked amount per security
Interim dividend declared for the half year ended 31 December 2017	A\$0.11	A\$0.11
Interim dividend declared for the previous corresponding period	A\$0.20	A\$0.20
Ex-dividend date of interim dividend		1 March 2018
Record date of interim dividend		2 March 2018
Payment date of interim dividend		5 April 2018

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 trading day after the record date of 2 March 2018, being 6 March 2018.

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 5 March 2018. 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 5 April 2018. A broker will be engaged to assist in this process.

A copy of the Plan Rules is available at
www.fmgil.com.au/investors

Net tangible asset backing

Net tangible asset backing per ordinary shares: US\$3.15
(previous corresponding period: US\$2.99).

Previous corresponding period

The previous corresponding period is the half year ended 31 December 2016.

Commentary on results for the period

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

Financial Report

For the half year ended 31 December 2017



Together we are Fortescue

ABN 57 002 594 872

Half year at a glance

TOTAL RECORDABLE INJURY FREQUENCY RATE

3.1

AT 31 DECEMBER 2017

PRODUCTION

84.5_{MT}

SHIPPED

C1 COSTS

US\$ 12.11_{/WMT}

HY17 – US\$13.06/WMT

CASH ON HAND

US\$ 0.9_{BILLION}

UNDERLYING EBITDA

US\$ 1.8_{BILLION}

REVENUE

US\$ 3.7_{BILLION}

NET PROFIT AFTER TAX

US\$ 0.7_{BILLION}

DELIVERED COST

US\$ 22_{/WMT}

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About Fortescue

Fortescue Metals Group is a global leader in the iron ore industry, recognised for its unique 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. The Company is focussed on its vision of being the safest, lowest cost, most profitable iron ore producer.

Now consistently producing 170 million tonnes of iron ore per annum, Fortescue has grown to be one of the largest global iron ore producers and has been recognised as the lowest cost seaborne supplier of iron ore into China based on Metalystics Resource Sector Economics analysis.

Fortescue owns and operates integrated operations spanning three mine sites in the Pilbara, the five berth Herb Elliott Port in Port Hedland and the fastest, heavy haul railway in the world.

A natural extension of Fortescue's supply chain in 2014, the Company announced the construction of eight Fortescue Ore Carriers, designed to complement the industry leading efficiency of Fortescue's port. Five of the ore carriers have now been delivered with the final three due by the end of FY18.

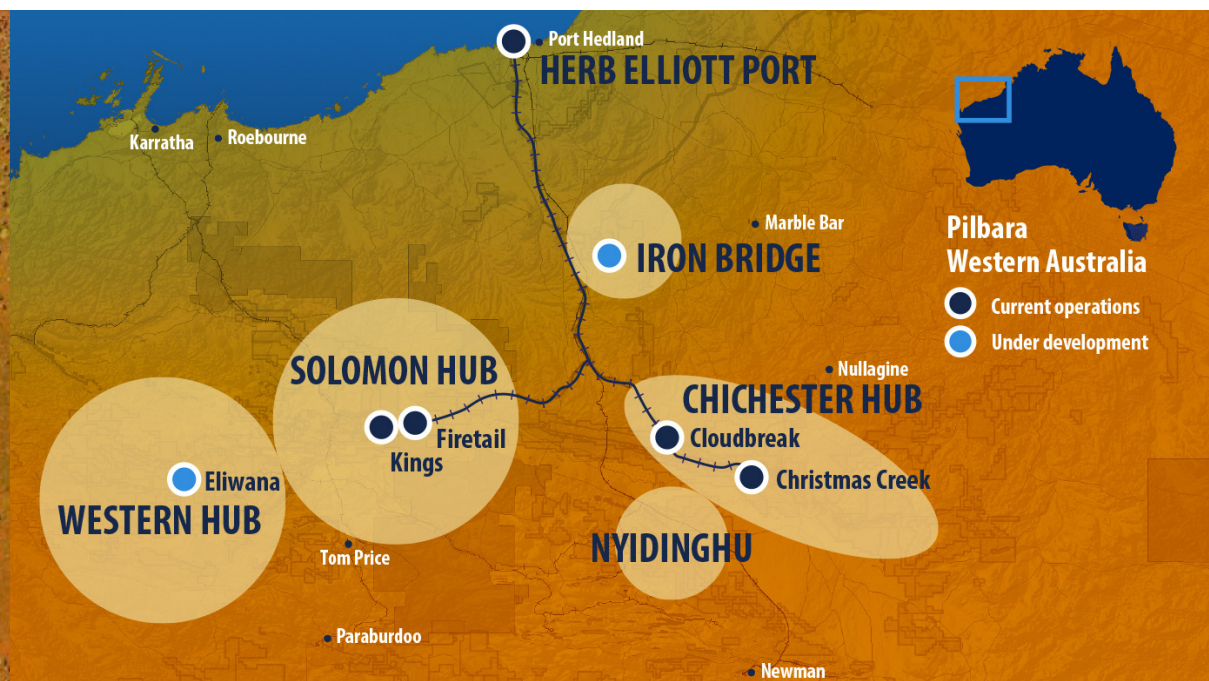
Fortescue values its relationship with key stakeholders by working together to positively manage and create opportunities for Aboriginal people, build up communities, protect the environment and strengthen the broader Australian economy.

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 2017.

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 2017, and any public announcements made by the Company during the half year ended 31 December 2017 in accordance with the continuous disclosure requirements of the *Corporations Act 2001* and the *ASX Listing Rules*.



FORTESCUE'S VISION

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

FORTESCUE'S VALUES

Safety | Family | Integrity | Courage and Determination | Generating ideas | Empowerment | Frugality | Stretch targets | Enthusiasm | Humility



Directors' Report

For the half year ended 31 December 2017



Directors' Report | The Board

For the half year ended 31 December 2017

Your Directors present their report on Fortescue Metals Group Limited for the half year ended 31 December 2017.

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 AO
Chairman



Mark Barnaba AM
Co-Deputy Chair and Lead Independent Director



Jean Baderschneider



Penny Bingham-Hall



Cao Huiquan
Retired 18 January 2018



Jennifer Morris OAM



Sharon Warburton
Co-Deputy Chair



Cao Zhiqiang
Appointed 18 January 2018

Executive



Elizabeth Gaines
Chief Executive Officer



Nev Power
Chief Executive Officer
Retired 19 February 2018

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

On 30 November 2017, the Board announced the intended appointment of the Core Leadership Team which includes Ms Elizabeth Gaines as CEO, Ms Julie Shuttleworth as Deputy CEO, Mr Ian Wells as Chief Financial Officer and Mr Greg Lilleyman as Chief Operating Officer.

Mr Nev Power resigned as CEO on 19 February 2018 and retired from the Board having announced his intention to resign as CEO in September 2017.

In January 2018, Fortescue announced the appointment of Mr Cao Zhiqiang, Chairman of Hunan Valin Iron and Steel Group Company Ltd (Valin) as a Non-Executive director. Mr Cao Zhiqiang will replace Mr Cao Huiquan, who had resigned from Fortescue's Board to take up a new role.

Mr Mark Barnaba joined Ms Sharon Warburton, Chair, Remuneration and Nomination Committee as co-Deputy Chair of the Board of Directors, in addition to his roles as Lead Independent Director and Chair, Audit and Risk Management Committee.



Vision and strategy

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

To achieve this vision, the Company has continued to improve its safety performance, while maintaining a clear focus on innovation and improved productivity and efficiency, resulting in sustained cost reductions across the business.

Safety

Safety is the number one priority at Fortescue and is at the heart of our values.

The health and wellbeing of Fortescue's employees and contractors should never be compromised, and the Company is committed to providing a safe workplace for all of its people as it works to become a global leader in safety. Everyone at Fortescue is encouraged and empowered to look out for their mates.

Fortescue is committed to continuing to improve its safety performance across the following areas:

- Strengthening safety leadership and culture through specific action plans to implement the results of the Company-wide safety excellence and culture survey

- Enhancement of the critical control monitoring (CCM) program to eliminate fatalities and serious injuries. The CCM program aligns with Fortescue's risk profile and any significant incident trends
- Engagement with contractors to ensure compliance with Fortescue's safety standards
- Identification of functional safety excellence improvement opportunities.

Fortescue's rolling twelve month Total Recordable Injury Frequency Rate (TRIFR) increased by seven per cent from 2.9 at 30 June 2017 to 3.1 at 31 December 2017.





Community engagement, people and diversity

Fortescue is committed to ensuring that its success benefits local communities through the application of social, environment, infrastructure, people-focused programs and investment.

Fortescue's Billion Opportunities program provides sustainable business opportunities for Aboriginal people. The Company recently announced that since the program's inception, A\$2 billion worth of contracts and sub-contracts have been awarded to Aboriginal-owned businesses.

The following milestones have been achieved over the half year:

- Fortescue's Aboriginal employment rate increased in the December quarter to 15.1 per cent of the workforce and, together with its contractors, Fortescue employed more than 1,000 Aboriginal people across its operations at the end of December 2017
- Fortescue's female employment rate in the workforce is 16.9 per cent, with a continued focus on achieving diversity across all operations
- Fortescue awarded 38 individual grants to Pilbara-focused community groups and not for profit organisations
- Fortescue celebrated the tenth anniversary of its pioneering Vocational Training and Employment Centre (VTEC) program, which has seen 775 Aboriginal people secure employment with the organisation
- Three quarterly business updates were held for parents seeking to return to work after career breaks to continue to create a workplace which supports diversity
- Fortescue was awarded the Australian Women in Resources Alliance award, which recognised the Company's innovative strategies to improving female participation in the mining industry
- The Company entered a new five-year partnership with Jawun to support programs of change in Indigenous communities in the East Kimberley by placing skilled people into Indigenous organisations
- The Fortescue Family Room, located within the Fortescue Centre now has dedicated, on-site carers for employees to use on a short-term basis.

Directors' Report | Key Performance Indicators

For the half year ended 31 December 2017

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 2017	31 December 2016	Movement %
Shipments	84.5	86.1	-2
Ore mined	93.1	99.6	-7
Overburden removed	133.0	107.5	+24
Ore processed	82.5	86.0	-4

Fortescue's sustained focus on productivity and efficiency improvements across all of its operations delivered a record low C1 cost for the half year of US\$12.11/wmt, and US\$12.08/wmt for the December quarter, despite higher strip ratios, fuel prices and the effects of a stronger Australian dollar. As a result, the Company has maintained its position as the lowest cost supplier of seaborne iron ore into China based on Metalytics Resource Sector Economic analysis.

Key factors contributing to a seven per cent reduction in C1 costs compared to US\$13.06/wmt in the prior comparable period include:

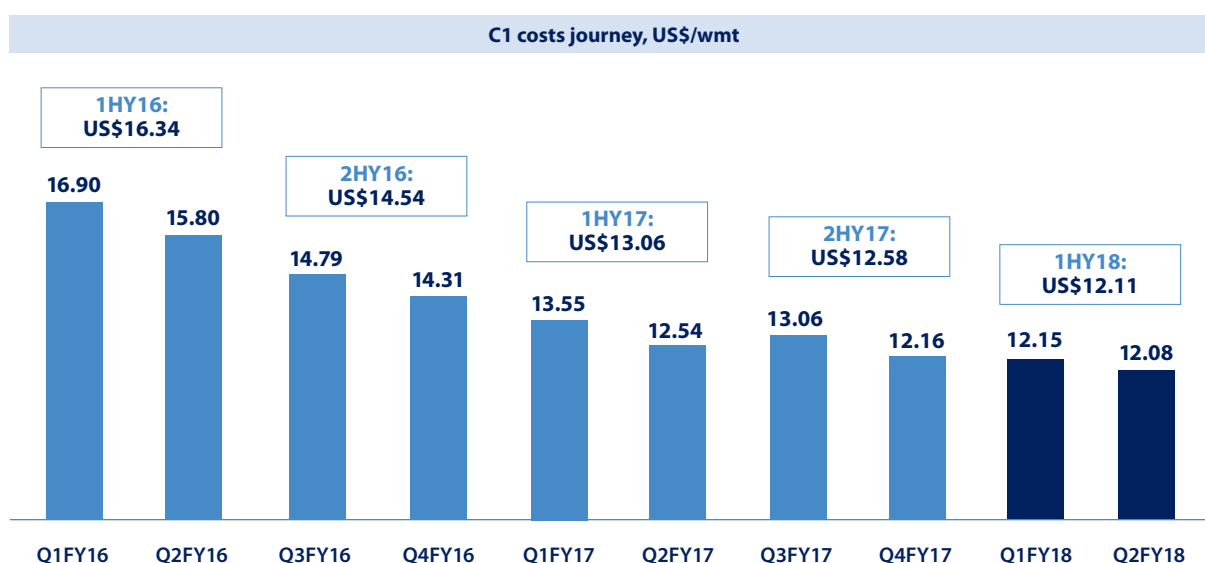
- Mine planning, design and mining methodology
- Cross-site operational collaboration
- Procurement initiatives to maximise the value of products and services purchased
- Efficiency of mining equipment and labour productivity
- Improved productivity of the autonomous haul fleet
- Removal of high cost contract crushing facilities and improved OPF performance.

The conversion to autonomous haulage technology and the relocatable conveyor at the Chichester Hub are progressing with cost benefits expected to be realised in the latter part of FY18. C1 cost guidance for FY18 is maintained at US\$11-12/wmt.

Shipments of 84.5mt for the half year, consistent with FY18 guidance of 170mt, were supported by mining and processing activities of 93.1mt mined and 82.5mt processed, respectively.

Fortescue's product strategy is focussed on delivering value to our customers and maintaining a resource base that supports a mine life in excess of 20 years.

Progressive cost reductions represent sustainable, long term improvements in operating costs.



Directors' Report | Financial results and position

For the half year ended 31 December 2017

Highlights

Fortescue's strong financial performance continued through the first half of FY18. These financial results reflect the sustained focus on safety, productivity and efficiency.

	31 December 2017	31 December 2016
Key metrics		
Revenue, US\$ millions	3,679	4,492
Underlying EBITDA ¹ , US\$ millions	1,828	2,645
Net profit after tax, US\$ millions	681	1,222
Earnings per share, US cents	21.9	39.3
Cash generated from operations, US\$ millions	1,391	2,332
Cash from operating activities, US\$ millions	411	1,857
Capital expenditure – Fortescue, US\$ millions	413	312
Free cash flows, US\$ millions	(2)	1,545
Cash and cash equivalents, US\$ millions	892	1,160
Debt, US\$ millions	4,181	5,156
Net debt, US\$ millions	3,289	3,996
C1 costs, US\$/wmt	12.11	13.06
Key ratios		
Gearing, %	30	36
Net gearing, %	25	30
Underlying EBITDA margin, %	50	59
Return on equity, %	7	14

¹ Refer to page 9 for the reconciliation of Underlying EBITDA to the financial metrics reported in the financial statements under Australian Accounting Standards.

Directors' Report | Financial results and position

For the half year ended 31 December 2017

Financial performance

During the half year ended 31 December 2017, Fortescue delivered a net profit of US\$681 million and earnings per share of 21.9 US cents. The results reflect strong operating margins maintained through the challenging market conditions experienced during the half year.

Underlying EBITDA

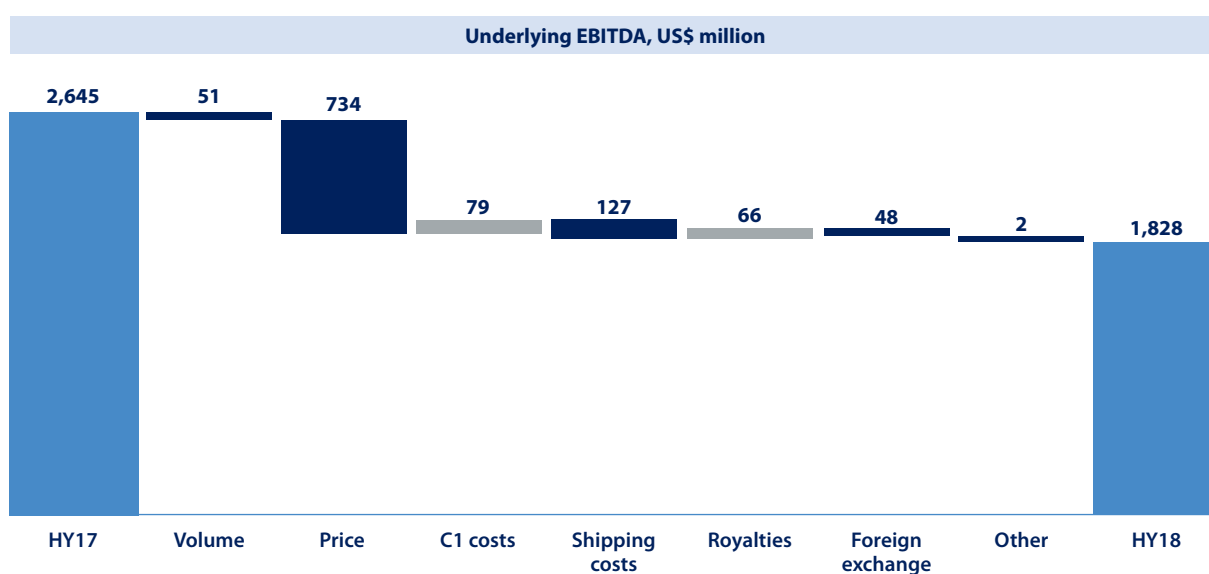
Underlying EBITDA, defined as earnings before interest, tax, depreciation and amortisation, exploration, development and other expenses, is used as a key measure of the Company's financial performance. During the half year, Fortescue's operations generated Underlying EBITDA of US\$1,828 million (HY17: US\$2,645 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 2017 US\$m	31 December 2016 US\$m
Operating sales revenue	3	3,679	4,492
Cost of sales excluding depreciation and amortisation	3	(1,821)	(1,868)
Net foreign exchange gain	3	1	49
Administration expenses	3	(31)	(28)
Underlying EBITDA		1,828	2,645
Finance income	3	12	8
Finance expenses	3	(214)	(256)
Depreciation and amortisation	3	(630)	(622)
Exploration, development and other	3	(22)	(43)
Profit before income tax		974	1,732
Income tax expense ²		(293)	(510)
Profit after income tax		681	1,222

¹ Notes to the accompanying financial statements.

² Refer to the consolidated income statement.

Key factors contributing to the 31 per cent reduction in Underlying EBITDA from the prior comparable period were a lower average realised price and increased shipping costs, as illustrated in the chart below.



Directors' Report | Financial results and position

For the half year ended 31 December 2017

Financial performance (continued)

Revenue

	Note ¹	31 December 2017	31 December 2016
Sale of iron ore, US\$ millions	3	3,623	4,436
Other revenue, US\$ millions	3	56	56
Operating sales revenue, US\$ millions		3,679	4,492
Shipments, mt		84.5	86.1
62% Fe CFR Platts index, US\$/dmt		68	65
Realised price, US\$/dmt		47	56

¹ Notes to the accompanying financial statements.

Seasonal production restrictions imposed by Chinese Regulatory authorities and high profit margins being realised by Chinese steel mills drove increased demand for higher grade ores during the half year. As a result, Fortescue's price realisations decreased from 86 per cent of the 62% CFR Platts index in the prior comparable period to 68 per cent and was the main contributor to an 18 per cent reduction in revenue compared to the prior comparable period. This was slightly offset by a five per cent increase in the 62% CFR Platts index price to US\$68/dmt from US\$65/dmt in the prior comparable 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 2017	31 December 2016
Mining and processing costs, US\$ millions	3	844	913
Rail costs, US\$ millions	3	94	96
Port costs, US\$ millions	3	86	91
Operating leases, US\$ millions	3	-	23
C1 costs, US\$ million		1,024	1,123
Shipments – Fortescue mined ore, mt		84.5	86.1
C1, US\$/wmt		12	13
Shipping costs, US\$ millions	3	567	448
Government royalty ² , US\$ millions	3	229	295
Administration expenses, US\$ millions	3	31	28
Shipping, royalty and administration, US\$ millions		827	771
Shipping, royalty and administration, US\$/wmt		10	9
Total delivered cost, US\$/wmt		22	22

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.

Key factors contributing to operating costs during the period are discussed on page 7.

Directors' Report | Financial results and position

For the half year ended 31 December 2017

Financial performance (continued)

Non-operating events

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

- Interest expense of US\$183 million compared to prior comparable period of US\$228 million, following debt repayments made during FY17 (US\$2.7 billion)
- Depreciation and amortisation expense of US\$630 million (HY17: US\$622 million)
- Income tax expense for the half year of US\$293 million at an effective income tax rate of 30 per cent (HY17: US\$510 million, at an effective rate of 29 per cent).

Financial position

Fortescue continued to generate strong underlying cash flows from operations during the half year with cash on hand at 31 December 2017 of US\$892 million. Significant cash outflows during the half year included FY17 tax payments of US\$667 million, FY17 final dividend payment of US\$610 million and US\$324 million to repurchase the Solomon Power Station.

Fortescue's gross debt position decreased by six per cent to US\$4,181 million (30 June 2017: US\$4,471 million), inclusive of finance leases of US\$520 million (30 June 2017: US\$818 million).

	Note ¹	31 December 2017	30 June 2017
Borrowings, US\$ millions	4	3,661	3,653
Finance lease liabilities, US\$ millions	4	520	818
Cash and cash equivalents, US\$ millions		(892)	(1,838)
Net debt, US\$ millions		3,289	2,633
Equity, US\$ millions		9,799	9,734
Gearing, %		30	31
Net gearing, %		25	21

¹ Notes to the accompanying financial statements.

Directors' Report | Financial results and position

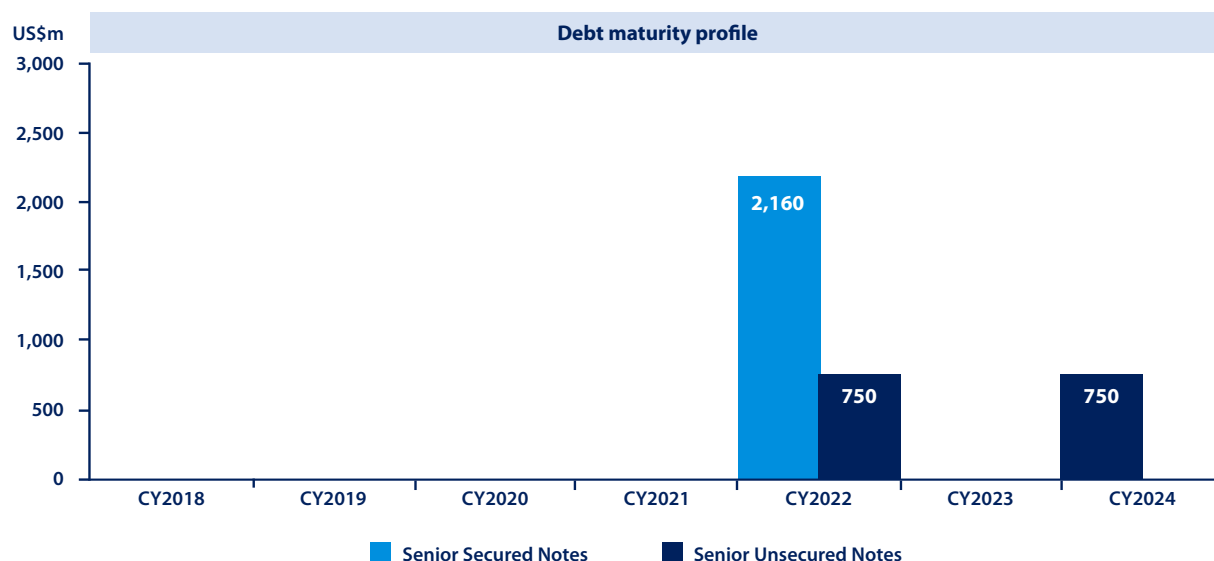
For the half year ended 31 December 2017

Financial position (continued)

Debt profile

The Company's debt maturity profile at 31 December 2017 is set out below. Fortescue maintains a flexible debt portfolio with the senior secured notes due to mature in 2022 available for voluntary repayment at Fortescue's sole option from March 2018.

At 31 December 2017, the US\$525 million revolving credit facility remains undrawn and the Company has no financial maintenance covenants across all instruments.



Dividends

On 3 October 2017, Fortescue paid a fully franked dividend of 25 Australian cents per share for the financial year ended 30 June 2017.

On 21 February 2018, Fortescue declared a fully franked interim dividend of 11 Australian cents per share, payable on 5 April 2018.

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 27, and forms part of this report.

Subsequent events

On 20 February 2018, the Company completed a US\$1.4 billion Syndicated Facility Agreement including participation by key Chinese, Australian and European financial institutions. Proceeds will be used to redeem a portion of the Senior Secured Notes due to mature in November 2022.

On 21 February 2018, the Directors declared an interim fully franked dividend of 11 Australian cents per share, payable on 5 April 2018.

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

Andrew Forrest AO
Chairman

Dated in Perth on this 21st day of February 2018.



Financial Statements

For the half year ended 31 December 2017



Consolidated income statement

For the half year ended 31 December 2017

	Note	31 December 2017 US\$m	31 December 2016 US\$m
Operating sales revenue	3	3,679	4,492
Cost of sales	3	(2,445)	(2,482)
Gross profit		1,234	2,010
Other income	3	1	49
Other expenses	3	(59)	(79)
Profit before income tax and net finance expenses		1,176	1,980
Finance income	3	12	8
Finance expenses	3	(214)	(256)
Profit before income tax		974	1,732
Income tax expense		(293)	(510)
Profit after income tax		681	1,222
Profit is attributable to:			
Equity holders of the Company		681	1,222
Profit after income tax		681	1,222

Consolidated statement of comprehensive income

For the half year ended 31 December 2017

	31 December 2017 US\$m	31 December 2016 US\$m
Profit after income tax	681	1,222
Other comprehensive income:		
Exchange differences on translation of foreign operations	-	(2)
Total comprehensive income for the period, net of tax	681	1,220
Total comprehensive income for the period attributable to:		
Equity holders of the Company	681	1,220
Total comprehensive income for the period, net of tax	681	1,220
	Cents	Cents
Earnings per share for profit attributable to the equity holders of the Company:		
Basic earnings per share	21.9	39.3
Diluted earnings per share	21.8	39.1

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 2017

	Note	31 December 2017 US\$m	30 June 2017 US\$m
ASSETS			
Current assets			
Cash and cash equivalents		892	1,838
Trade and other receivables		363	141
Inventories		551	588
Other current assets		52	38
Total current assets		1,858	2,605
Non-current assets			
Trade and other receivables		3	3
Property, plant and equipment		16,281	16,493
Intangible assets		5	7
Other non-current assets		6	7
Total non-current assets		16,295	16,510
Total assets		18,153	19,115
LIABILITIES			
Current liabilities			
Trade and other payables		593	708
Deferred income	5	55	461
Borrowings and finance lease liabilities	4	125	121
Provisions		207	227
Current tax payable		145	685
Total current liabilities		1,125	2,202
Non-current liabilities			
Trade and other payables		50	50
Deferred income	5	794	447
Borrowings and finance lease liabilities	4	4,056	4,350
Provisions		504	509
Deferred joint venture contributions		270	266
Deferred tax liabilities		1,555	1,557
Total non-current liabilities		7,229	7,179
Total liabilities		8,354	9,381
Net assets		9,799	9,734
EQUITY			
Contributed equity	6	1,287	1,289
Reserves		39	39
Retained earnings		8,459	8,392
Equity attributable to equity holders of the Company		9,785	9,720
Non-controlling interest		14	14
Total equity		9,799	9,734

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 2017

	31 December 2017 US\$m	31 December 2016 US\$m
Cash flows from operating activities		
Cash receipts from customers	3,289	4,247
Payments to suppliers and employees	(1,898)	(1,915)
Cash generated from operations	1,391	2,332
Interest received	12	8
Interest paid	(181)	(218)
Income tax paid	(811)	(265)
Net cash inflow from operating activities	411	1,857
Cash flows from investing activities		
Payments for property, plant and equipment - Fortescue	(413)	(312)
Payments for property, plant and equipment - joint operations	(7)	(8)
Contributions from joint venture partners	4	6
Proceeds from disposal of plant and equipment	12	1
Net cash outflow from investing activities	(404)	(313)
Cash flows from financing activities		
Proceeds from finance leases	57	59
Repayment of borrowings and finance leases	(352)	(1,706)
Finance costs paid	(9)	(7)
Dividends paid	(610)	(284)
Purchase of shares by employee share trust	(24)	(27)
Net cash outflow from financing activities	(938)	(1,965)
Net decrease in cash and cash equivalents	(931)	(421)
Cash and cash equivalents at the beginning of the period	1,838	1,583
Effects of exchange rate changes on cash and cash equivalents	(15)	(2)
Cash and cash equivalents at the end of the period	892	1,160

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 2017

	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	US\$m	US\$m
Balance at 1 July 2016	1,301	33	7,058	8,392	14	8,406
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						
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
Balance at 1 July 2017	1,289	39	8,392	9,720	14	9,734
Profit for the period	-	-	681	681	-	681
Total comprehensive income for the period, net of tax	-	-	681	681	-	681
Transactions with owners						
Purchase of shares under employee share plans	(24)	-	-	(24)	-	(24)
Employee share awards exercised net of employee contributions	22	(12)	-	10	-	10
Equity settled share-based payment transactions	-	12	-	12	-	12
Dividends paid	-	-	(614)	(614)	-	(614)
Balance at 31 December 2017	1,287	39	8,459	9,785	14	9,799

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 2017, and any public announcements made by the Company during the half year ended 31 December 2017 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 21 February 2018.

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 2017 consolidated financial statements.

Certain new accounting standards and interpretations have been published that are not mandatory for the 31 December 2017 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 2017 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.

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 to measure of its financial performance. The reconciliation of Underlying EBITDA to the net profit after tax is presented below.

	Note	31 December 2017 US\$m	31 December 2016 US\$m
Underlying EBITDA		1,828	2,645
Finance income	3	12	8
Finance expenses	3	(214)	(256)
Depreciation and amortisation	3	(630)	(622)
Exploration, development and other	3	(22)	(43)
Profit before income tax		974	1,732
Income tax expense ¹		(293)	(510)
Profit after income tax		681	1,222

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 2017 US\$m	31 December 2016 US\$m
Revenue from external customers		
China	3,406	4,311
Other	273	181
	3,679	4,492

(b) Major customer information

Revenue from two customers amounted to US\$1,566 million and US\$395 million for the half year ended 31 December 2017 respectively (31 December 2016: US\$1,821 million and US\$266 million) arising from the sale of iron ore and the related shipment of product.

Notes to the consolidated financial statements | Financial performance

For the half year ended 31 December 2017

3 Revenue and expenses

	31 December 2017 US\$m	31 December 2016 US\$m
Sale of iron ore	3,623	4,436
Other revenue	56	56
Operating sales revenue	3,679	4,492
Mining and processing costs	(844)	(913)
Rail costs	(94)	(96)
Port costs	(86)	(91)
Operating leases	-	(23)
Shipping costs	(567)	(448)
Government royalty	(229)	(295)
Depreciation and amortisation	(624)	(614)
Other operating expenses	(1)	(2)
Cost of sales	(2,445)	(2,482)
Net foreign exchange gain	1	49
Other income	1	49
Administration expenses	(31)	(28)
Exploration, development and other	(22)	(43)
Depreciation and amortisation	(6)	(8)
Other expenses	(59)	(79)
Interest income	12	8
Finance income	12	8
Interest expense on borrowings and finance lease liabilities	(183)	(228)
Loss on early debt redemption	(18)	(22)
Other	(13)	(6)
Finance expenses	(214)	(256)

4 Borrowings and finance lease liabilities

	31 December 2017 US\$m	30 June 2017 US\$m
Senior secured notes	70	70
Senior unsecured notes	9	9
Finance lease liabilities	46	42
Total current borrowing and finance lease liabilities	125	121
Senior secured notes	2,099	2,093
Senior unsecured notes	1,483	1,481
Finance lease liabilities	474	776
Total non-current borrowing and finance lease liabilities	4,056	4,350
Total borrowings and finance lease liabilities	4,181	4,471

During the half year ended 31 December 2017, Fortescue repurchased the Solomon Power Station for a total of US\$324 million.

5 Deferred income

	31 December 2017 US\$m	30 June 2017 US\$m
Port access prepayment	55	111
Iron ore prepayments	-	350
Total current deferred income	55	461
Iron ore prepayments	794	447
Total non-current deferred income	794	447

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 2016	3,113,798,151	(362,674)	3,113,435,477	1,296	5	1,301
Purchase of shares under employee share plans	-	(7,214,860)	(7,214,860)	-	(27)	(27)
Employee share awards exercised net of employee contributions	-	5,118,613	5,118,613	-	15	15
At 30 June 2017	3,113,798,151	(2,458,921)	3,111,339,230	1,296	(7)	1,289
Purchase of shares under employee share plans	-	(5,115,446)	(5,115,446)	-	(24)	(24)
Employee share awards exercised net of employee contributions	-	6,346,506	6,346,506	-	22	22
At 31 December 2017	3,113,798,151	(1,227,861)	3,112,570,290	1,296	(9)	1,287

(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

(a) Dividends paid during the half year

	31 December 2017 US\$m	31 December 2016 US\$m
Final fully franked dividend for the year ended 30 June 2017: A\$0.25 per share (30 June 2016: A\$0.12 per share)	614	285
	614	285

(b) Dividends declared and not recognised as a liability

	31 December 2017 US\$m	31 December 2016 US\$m
Interim fully franked dividend for the half-year ended 31 December 2017: A\$0.11 per share (31 December 2016: A\$0.20 per share)	271	477
	271	477

8 Commitments and contingencies

(a) Capital commitments

At 31 December 2017, Fortescue had contractual commitments to capital expenditure of US\$368 million (30 June 2017: US\$343 million), including commitments associated with the construction of ore carriers of US\$133 million (30 June 2017: US\$196 million).

(b) Operating lease commitments

At 31 December 2017, Fortescue's commitments under non-cancellable operating leases were US\$59 million (30 June 2017: US\$88 million).

(c) Contingent assets and liabilities

Fortescue had no material contingent liabilities or contingent assets at 31 December 2017 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 20 February 2018, the Company completed a US\$1.4 billion Syndicated Facility Agreement including participation by key Chinese, Australian and European financial institutions. Proceeds will be used to redeem a portion of the Senior Secured Notes due to mature in November 2022.

On 21 February 2018, the Directors declared an interim dividend of 11 Australian cents per ordinary share payable on 5 April 2018.

Directors' declaration

In the Directors' opinion:

- (a) the interim financial statements and notes set out on pages 14 to 23 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 2017 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 AO
Chairman

Dated in Perth on this 21st day of February 2018.

Independent auditor's review report



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 2017, the consolidated income statement, 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 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 2017 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

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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 2017 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*.

A handwritten signature in black ink that reads 'Justin Carroll'.

PricewaterhouseCoopers

A handwritten signature in black ink that reads 'Justin Carroll'.

Justin Carroll
Partner
PricewaterhouseCoopers

Perth
21 February 2018

Auditor's independence declaration



As lead auditor for the review of Fortescue Metals Group Limited for the half-year ended 31 December 2017, 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 black ink, appearing to read 'Justin Carroll'.

Justin Carroll
Partner
PricewaterhouseCoopers

Perth
21 February 2018

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

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Fortescue's sustained focus on productivity and efficiency improvements across all of its operations delivered a record low C1 cost for the half year of US\$12.11/wmt



Corporate Directory



Fortescue's Values



Fortescue's Vision

The safest, lowest cost,
most profitable iron ore producer



Realising this Vision is at the heart of everything the Company does. Supporting this Vision are unique Values which drive the Company's performance in a way that sets Fortescue apart.

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 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 10.

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.

Eliwana Feasibility study

The Eliwana Feasibility study has commenced as a replacement for Fortescue's Solomon Hub Firetail operation. Fortescue's final decision on the development of the Eliwana project is subject to final feasibility and relevant approvals.

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.

mt

Million tonnes.

mtpa

Million tonnes per annum.

Net gearing

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

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.

TRIFR

Total Recordable Injury Frequency Rate per million hours worked, comprising lost time injuries, restricted work and medical treatments.

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 9.

Underlying EBITDA margin

Underlying EBITDA / Operating sales revenue.

VTEC

Vocational Training and Employment Centre.

wmt

Wet metric tonnes.

Corporate Directory

Contact information

Fortescue registered office Australia

Level 2, 87 Adelaide Terrace
East Perth, WA 6004

T: +61 8 6218 8888
F: +61 8 6218 8880
E: fmgl@fmgl.com.au
www.fmgl.com.au

Fortescue Shipping office Shanghai, China

33/F East Building, Ellon Business Plaza
555 Pudong Ave, Pudong, Shanghai, P.R China

Singapore

FMG International, The Central
8 Eu Tong Sen St, 24-91 Singapore 059818
T: +61 8 6218 8888
F: +61 8 6218 8880
E: fmgl@fmgl.com.au
www.fmgl.com.au

Fortescue VTEC and Community office

1B/2 Byass St
South Hedland, WA 6722

T: +61 8 9158 5800
F: +61 8 6218 8880
E: hedlandcommunity@fmgl.com.au
www.fmgl.com.au

Stock Exchange listings

Australian Business Number

ABN 57 002 594 872

Auditor

PricewaterhouseCoopers
Level 15, 125 St Georges Terrace
Perth, WA 6000
www.pwc.com.au

Securities Exchange listings

Fortescue Metals Group Limited shares are listed
on the Australian Securities Exchange (ASX)
ASX Code: FMG

Fortescue Share Registry

Link Market Services Limited
Level 12 QV1 Building
250 St Georges Terrace
Perth, WA 6000

Locked Bag A14
Sydney South, NSW 1235
T: 1300 733 136 (within Australia)
T: +61 2 8280 7603 (International)
F: +61 2 9287 0309

www.linkmarketservices.com.au

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Twitter

 [@FortescueNews](https://twitter.com/FortescueNews)

LinkedIn

au.linkedin.com/company/fortescue-metals-group

YouTube

www.youtube.com/user/FortescueMetalsGroup

Event calendar 2018

Key dates for Fortescue shareholders in 2018. Please note dates are subject to review.

Half year results announcement

21 February 2018

June Quarterly Production Report

26 July 2018

March Quarterly Production Report

24 April 2018

Full year results announcement

20 August 2018

Together we are Fortescue

THE DREAM BEGINS

2003

2004

Cloudbreak identified



S&P/ASX 200 index

2005

2006

Port Hedland groundbreaking



FIRST ORE ON SHIP

2008

2009

27mtpa shipped

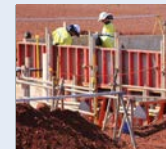


Christmas Creek expanded

2010

2011

Solomon construction begins



57.5mtpa shipped

2012

FIRETAIL OPENED AT SOLOMON



2013

80.9mtpa shipped

155MTPA SUSTAINABLE PRODUCTION

Kings Valley project
opened at Solomon

2014



- Anderson Point Berth 5 completion
- Fortescue River Gas Pipeline completion
- 500 millionth tonne of ore shipped
- 165mtpa shipped sustainable production

2015

- US\$2.9 billion debt repaid in FY16
 - 169.4mt shipped in FY16
- Fortescue celebrates arrival of first ore carrier, FMG Nicola into Port Hedland
- Fortescue recognised as lowest cost iron ore supplier into China

2016

2017

- Achieved lowest ever TRIFR of 2.9
- 170.4mt shipped in FY17
- New Core Leadership Team announced
- Eliwana Feasibility study announced



- Fortescue celebrates 15 year anniversary

2018

THE JOURNEY CONTINUES





Together we are Fortescue



Fortescue
The New Force in Iron Ore

www.fmgl.com.au

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