Media Release

Net profit of US$319 million with cost guidance improved to US$13/wmt by end FY16

PERTH, 24 February 2016: Fortescue Metals Group Limited (ASX:FMG, Fortescue) has released its half year results reporting a net profit after tax of US$319 million and underlying EBITDA of US$1,301 million. Cost guidance has also improved to US$13 per wet metric tonne (wmt) exit rate by the end of FY16.

Fortescue achieved a record low C1 cost of approximately US$16/wmt while shipping 84 million tonnes for the half year, in line with the targeted annual production rate of 165mt for FY16.

CEO Nev Power said: "Fortescue's results demonstrate the success of our team's ongoing commitment to productivity and efficiency improvements, with cost guidance revised to US$13/wmt by the end of FY16, well ahead of target."

"Our operational performance in safely driving sustainable improvements across the business is generating strong operating cashflows which provide a solid foundation for continued debt repayment and a modest increase in our dividend to A$0.03 per share."

During the half Fortescue repaid US$1.1 billion of debt and reduced net debt to US$6.1 billion inclusive of US$2.3 billion cash on hand at the end of December. Fortescue remains committed to reducing debt towards the initial targeted gearing ratio of 40 per cent.

Highlights - first half FY16

- Net profit after tax of US$319 million, US$1,301 million underlying EBITDA
- 84 million tonnes (mt) shipped
- Costs guidance lowered to US$13/wmt
- US$1.1 billion of early debt repaid, generating a US$192 million pre-tax gain
- Net debt reduced by US$1.1 billion to US$6.1 billion
- A$0.03 per share fully franked interim dividend

Financial results

US$ millions	31 Dec 2015	31 Dec 2014
Revenue	**3,344**	4,858
Underlying EBITDA	**1,301**	1,440
Profit before income tax	**428**	440
Net profit after income tax	**319**	331
Net cash flow from operating activities	**1,388**	905
Basic earnings per share (US cents)	**10.26**	10.63
Operating cash flows per share (US cents)	**44.63**	29.07

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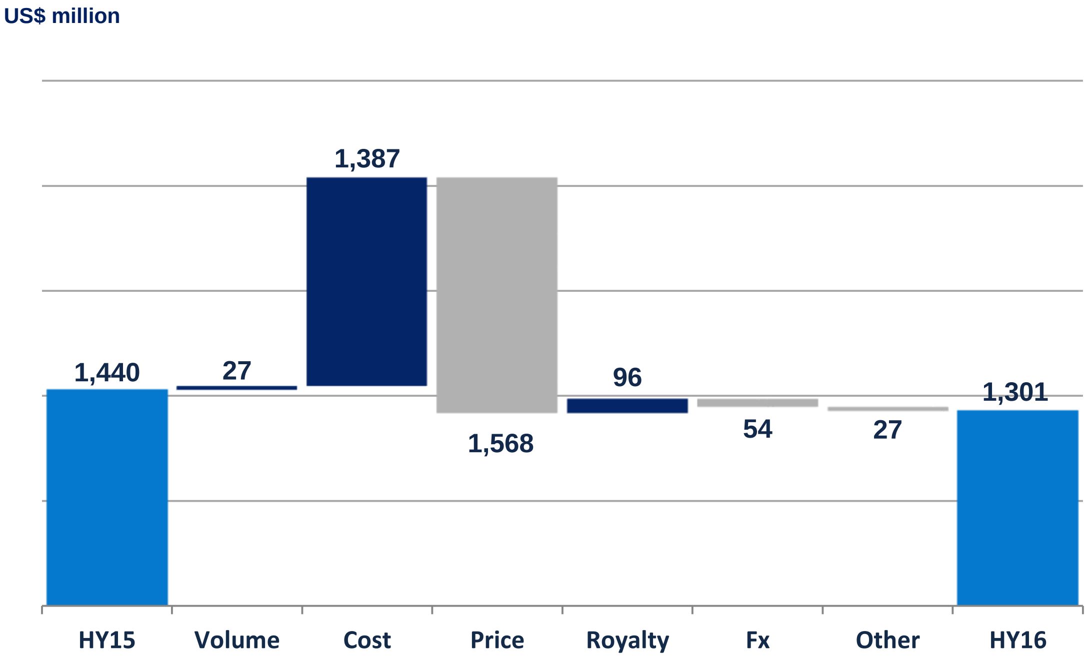
Financial performance

- **Underlying EBITDA of US$1,301 million** reflects Fortescue's continued focus on sustainable operating cost reductions which offset the impact of a significant drop in iron ore prices, as shown in the chart below:



- **Revenue** of US$3,344 million (1HFY15: US$4,858 million) reflects the 38 per cent reduction in the 62 Platts CFR price which averaged US$50.68/dmt during the half.

- **Price realisations** were 86 per cent or US$43.45/dmt, after taking into account all prior period and timing adjustments relating to finalisation of provisionally priced contracts.

- **C1 costs** decreased to US$16.34/wmt for the half, a 47 per cent reduction from the prior year. Operating performance and cost reductions exceeded expectations, offsetting the reduction in the iron ore price.

- Fortescue realised a pre-tax gain of US$192 million on the repayment of debt during the half year. Offsetting this was the write down of carrying values in the Nullagine Joint Venture together with other capital projects totalling US$80 million.

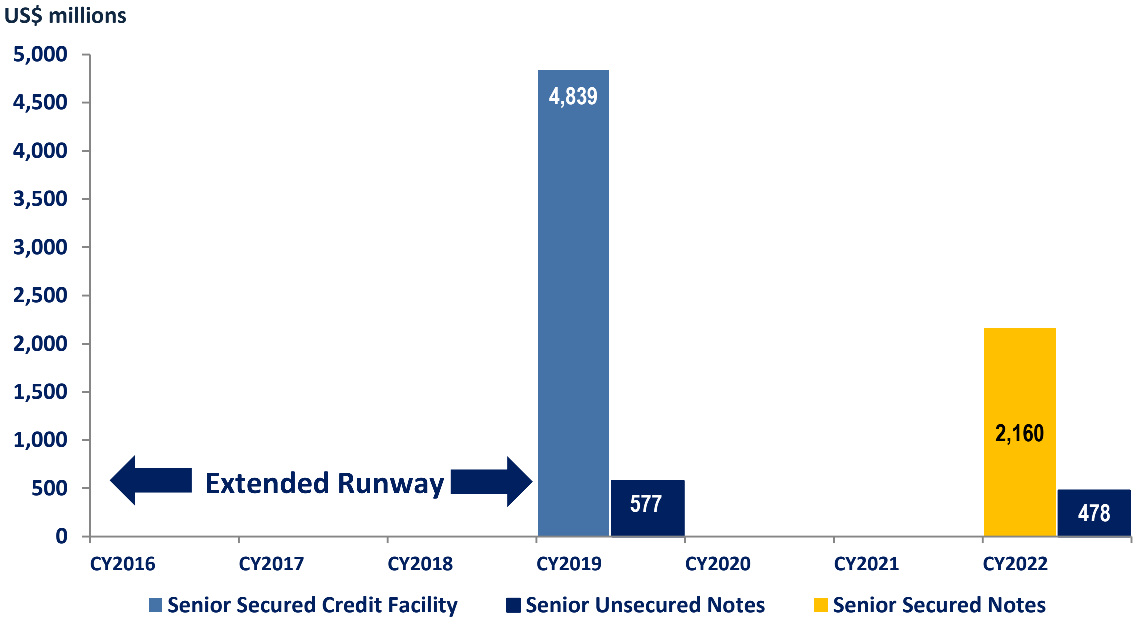
Balance sheet

- Cash on hand at 31 December 2015 was US$2,318 million.

- Net debt at 31 December was US$6,130 million, inclusive of cash on hand and finance lease liabilities of US$451 million.

- During the half US$1,134 million in principal value of debt was repaid early generating annual interest savings of US$88 million per year.

Fortescue's current debt profile is set out in the chart below:



- Capital expenditure was US$88 million reflecting productivity improvements, deflation and a lower average foreign exchange rate (1HFY15: US$436 million).

- The balance of iron ore prepayments at 31 December was US$773 million. An additional US$100 million of new prepayments together with a US$200 million roll-over have been completed since 31 December. Prepayments are now scheduled to amortise by US$300 million for the remainder of FY16, US$373 million in FY17 and US$200 million in FY18, subject to future rollovers.

Fortescue's CFO Stephen Pearce said: "Our balance sheet remains strong as operations continue to generate positive margins and cashflows. This has enabled us to take advantage of market conditions to reduce net debt by US$1.1 billion to US$6.1 billion and ensure we are well placed to continue with further debt reductions."

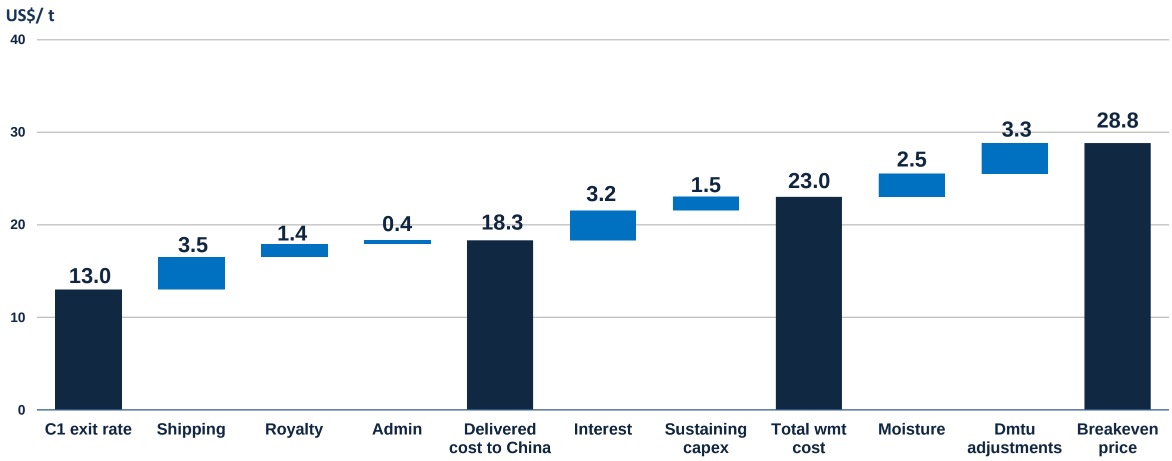
Dividend

- Fortescue remains confident in its ability to continue to generate operating margins and cashflows to meet or exceed the capital and debt repayment obligations. As a result, the Board has declared a A$0.03 per share fully franked interim dividend.

Guidance

- FY16 shipping guidance is maintained at 165mt.
- US$13/wmt cost of production exit rate in FY16.
- Full year C1 cost guidance for FY16 lowered to US$15/wmt based on an average exchange rate of 0.71 for the remainder of the year.
- Capital expenditure of US$200 million together with a further US$50 million of progress payments on eight Very Large Ore Carriers in FY16.
- Depreciation and amortisation charges of US$7.50/wmt shipped.

Fortescue's 62 Platts CFR breakeven price guidance is lowered to US$28.80/dmt after taking into account the targeted FY16 exit operating cost, a 0.71 exchange rate, 8.5 per cent moisture level and an 87 per cent price realisation, as illustrated below:

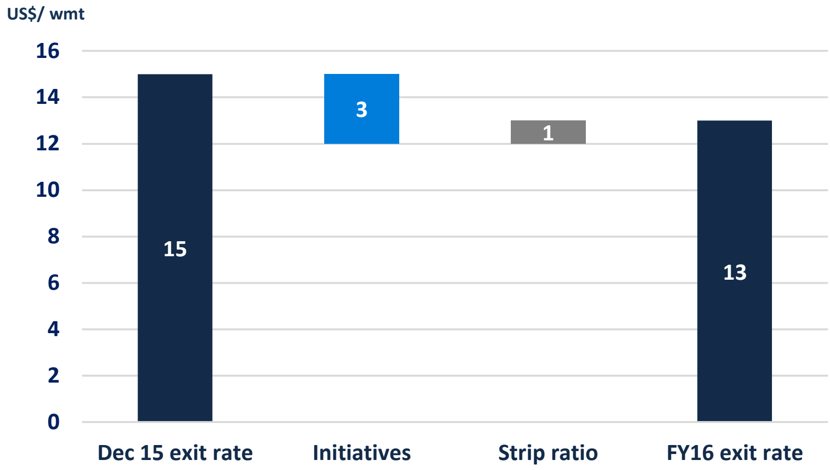


Cost reduction initiatives

Sustainable improvements in productivity and efficiency have continued to lower Fortescue's operating costs. This, together with a sustainable reduction in strip ratios at Solomon has resulted in the cost of production at the end of FY16 being lowered to US$13/wmt based on the following key initiatives:

Savings Initiatives		Savings (US$/wmt)
Processing	• Improved upgrades and yield • Shutdown optimisation • Enhanced plant reliability	0.70
Mining	• Maximising equipment productivity • Enhancements to mine plans – ore definition, haul route optimisation, pit design • Site-wide efficiencies, maintenance, fleet productivity • Product optimisation + blending	1.30
Procurement	• Deflation and contract re-negotiations	0.50
Inventory and Fx	• High-cost inventory flow through • Fx to US$0.71	0.50
TOTAL		**3.00**

Costs are expected to remain sustainably at or below US$13/wmt as the identified savings are delivered over the next 12 months and strip ratios increase as reflected in the chart below:



Strip ratios

Strip ratios will remain around 1.2 for the remainder of FY16 with longer term rates, based on current mine plans, set out in the table below:

	FY17 - FY20	LOM
Chichester	1.6	2.3
Solomon	1.2	1.8
Combined	1.4	2.1

These strip ratios reflect the continued improvement in ore processing, ore body definition and mining efficiency. Fortescue is committed to the ongoing optimisation of these key drivers while balancing product mix, mine life and operating cost.

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REPORTING CALENDAR

March Quarterly Report: 13 April 2016
June Quarterly Report: 28 July 2016
Full Year Results Report: 22 August 2016
September Quarterly Report: 20 October 2016

GLOSSARY

1HYFY First half year of the financial year

C1 Operating costs of mining, processing, rail and port.

The reconciliation of C1 to the amounts disclosed in the financial statements prepared under the Australian accounting standards is provided in the Financial Report for the half year ended 31 December 2015 accompanying this announcement.

CFR Cost and freight rate

dmt Dry metric tonnes

FY Full year

LOM Life of Mine

mtpa Million tonnes per annum

NPAT Net profit after tax

Underlying EBITDA Earnings before interest, tax, depreciation and amortisation, exploration, development and other expenses.

The reconciliation of underlying EBITDA to the financial metrics disclosed in the financial statements prepared under the Australian accounting standards is provided in the Financial Report for the half year ended 31 December 2015 accompanying this announcement.

wmt Wet metric tonnes