Fortescue
The New Force in Iron Ore

APPENDIX 4D

For the half year ended 31 December 2013

This information should be read in conjunction with Fortescue's Financial Report for the half year ended 31 December 2013.

Name of entity
Fortescue Metals Group Limited

ABN
57 002 594 872

Results for announcement to the market

Half year ended 31 December	2012 US$m	2013 US$m	Variance %
Revenue from ordinary activities	up from 3,324	to 5,873	+77%
Profit from ordinary activities after tax attributable to members	up from 478	to 1,723	+260%
Net profit for the half year attributable to members	up from 478	to 1,714	+259%

Dividends	Amount per security	Franked amount per security
Interim dividend declared for the half year ended 31 December 2013	A$0.10	A$0.10
Previous corresponding period: no interim dividend declared	-	-
Ex-dividend date of interim dividend	27 February 2014	
Record date of interim dividend	5 March 2014	
Payment date of interim dividend	2 April 2014	

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 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 5 March 2014, being 7 March 2014.

The last date for receipt of applications to participate in or to cease or vary participation in the Plan is by 5:00pm (WST) on 6 March 2014. 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 2 April 2014. A broker will be engaged to assist in this process.

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

Net tangible asset backing

Net tangible asset backing per ordinary shares: US$2.18 (previous corresponding period: US$1.31).

Previous corresponding period

The previous corresponding period is the half year ended 31 December 2012.

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.

ASX ANNOUNCEMENT

19 February 2014

Record US$1.7 billion NPAT and A$0.10 interim dividend

"This record result underlines the continued success of Fortescue's strategy to rapidly construct new capacity, ramp up production and drive down costs. The ongoing strong demand for our products has allowed us to accelerate debt repayment, de-risk the balance sheet and increase returns to our shareholders." **Nev Power, Chief Executive Officer**

HIGHLIGHTS

Key financial results	31 December 2013 US$m	31 December 2012 US$m	+ / - %
Revenue	5,873	3,324	+ 77
EBITDA	3,220	1,134	+ 184
Profit before income tax	2,417	678	+ 256
Net profit after income tax	1,723	478	+ 260
Net cash flow from operating activities	3,646	479	+ 661
Basic earnings per share (US cents)	55.05	15.35	+ 259

- Record financial results generate EBITDA of US$3.2 billion and NPAT of US$1.7 billion.
- Increased total shipments to 53.9wmt, 51 per cent higher than the prior period.
- Realised CFR prices averaged US$124/dmt for the period, an 18 per cent increase, reflecting strong demand for Fortescue products.
- C1 costs decreased 34 per cent to US$33/wmt, driven by cost improvement initiatives and a lower Australian dollar.
- First ore from Kings was delivered in November 2013 with operations scheduled to ramp up to the targeted 155 mtpa rate by the end of March 2014.
- Debt reduction commenced with the early voluntary redemption of A$140 million in preference shares and US$1.0 billion of senior unsecured notes.
- Cash balance of US$2.9 billion reflects the continued strength of operational cash flows, reduced capital outflows and iron ore prepayments of US$712 million in the half.
- In January 2014, a further US$1.6 billion repayment of senior unsecured notes was announced and the Christmas Creek OPFs were acquired.
- A$0.10 per share fully franked interim dividend was declared, consistent with the FY13 full year dividend, reflecting the strong financial results, liquidity and positive outlook.

ASX ANNOUNCEMENT

EBITDA US$3.2 BILLION

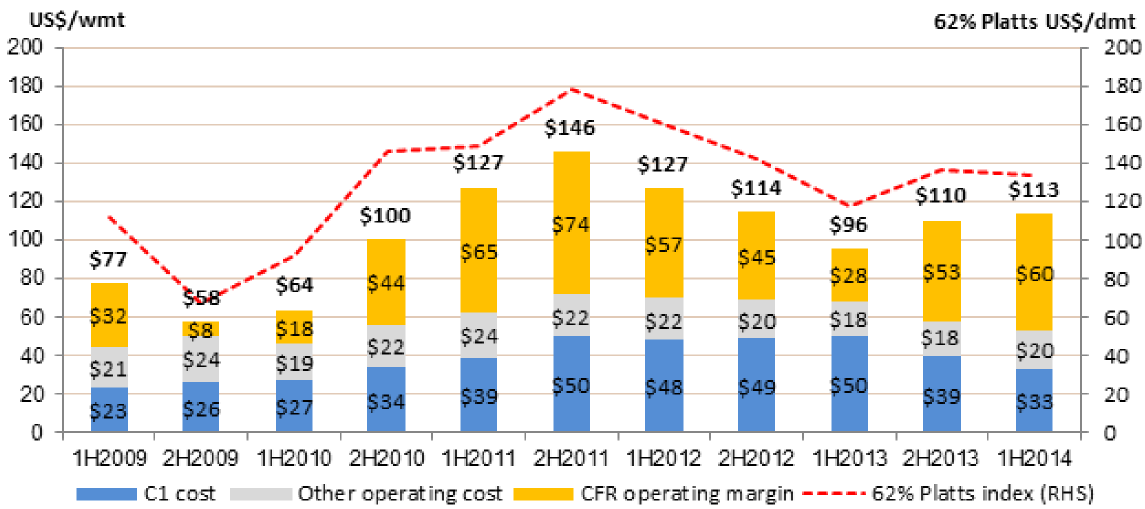
Fortescue's financial performance in the six months to 31 December 2013 reflects the expanded operational capacity of its mining, rail and port operations, improved product strategy and continued focus on reducing costs. As a result, EBITDA increased 184 per cent to US$3.2 billion (HY13: US$1.1 billion).

The growth in total tonnes shipped for the half to 53.9wmt (HY13: 35.7wmt) together with realised iron ore prices averaging US$124/dmt (92 per cent of the Platts 62% index) generated operating revenues of US$5.9 billion.

Costs continue to trend lower with C1 costs averaging US$33/wmt for the half. The significant reduction in C1 reflects the:

- introduction of low cost Solomon tonnes;
- product strategy, introducing Fortescue Blend driving down mining costs at the Chichester Hub;
- enhanced ore processing capability further reducing mining costs;
- focus on improving performance and operational efficiencies; and
- lower Australian dollar.

Fortescue's operating EBITDA margin is set out below:



Underlying EBITDA broadly equates to EBITDA after adjusting for the gain on the sale of a share in the Iron Bridge joint venture of US$108 million and foreign exchange losses of US$48 million in HY14.

ASX ANNOUNCEMENT

CASH FLOW

Cashflows from operations for the half were US$3.6 billion (HY13: US$0.5 billion). This amount included receipts from iron ore prepayments of US$712 million and Formosa port access prepayments of US$500 million.

Capital expenditure decreased by US$3.1 billion to US$1.4 billion in the half. As the expansion projects near completion capital expenditure will continue to decline and is expected to total US$2.1 billion in FY14.

Other significant impacts on cash flow for the period include the release of US$162 million of deposits and guarantees, receipts from asset disposals of US$213 million, interest and finance costs of US$454 million, dividend payments of US$293 million together with tax and royalty payments of US$404 million.

BALANCE SHEET

Fortescue's net debt position at 31 December 2013 was US$8.6 billion, including finance leases of US$0.6 billion and after taking into account cash on hand of US$2.9 billion. The net debt and cash position included the repayment of A$140 million of redeemable preferences shares and the redemption of US$1.0 billion of the US$2.04 billion senior unsecured notes due in 2015, both completed prior to 31 December 2013.

In November 2013 Fortescue successfully repriced the senior secured credit facility, reducing the previous margin of 4.25% by 1.00% to 3.25%, and extended the maturity date by 21 months to 30 June 2019. The revised margin decreases further as leverage, measured by the ratio of Debt to EBITDA, reduces to 2.5x or below. The early debt repayments completed and improved EBITDA performance results in a Debt to EBITDA ratio for the 12 months ending 31 December 2013 of 2.0x. In accordance with the term loan credit agreement, the revised margin of 2.75% will be effective from May 2014. The total coupon payable on this facility is calculated as margin plus LIBOR, with a LIBOR floor of 1%.

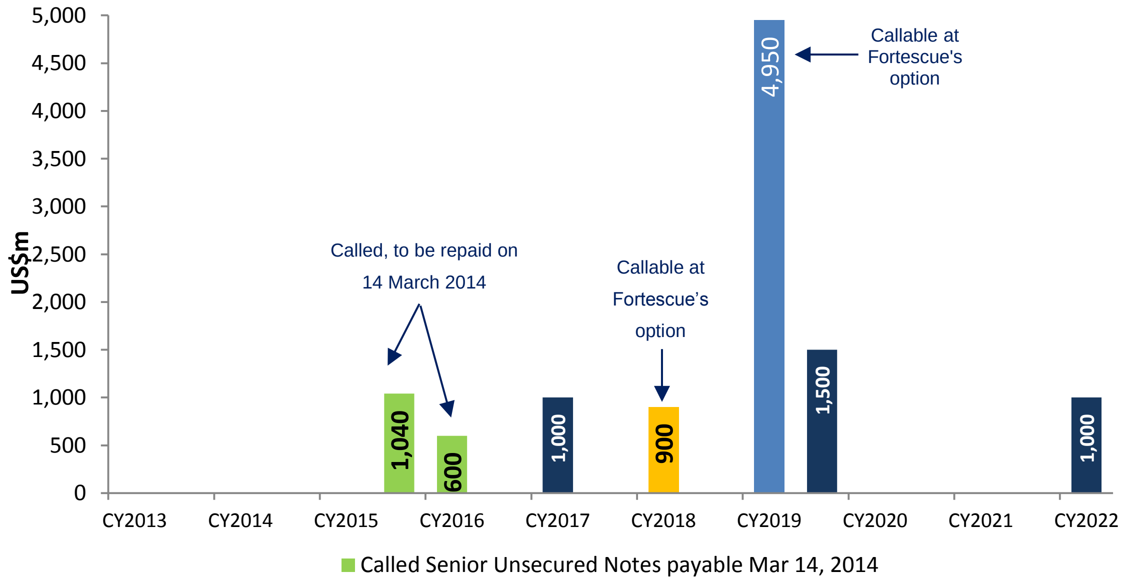
ASX ANNOUNCEMENT

In January 2014, additional debt repayments were announced including the:

- pay-out of the OPF finance leases at Christmas Creek - completed in January 2014; and
- voluntary redemption of the remaining US$1.0 billion of the US$2.04 billion senior unsecured notes due in 2015 and the US$0.6 billion senior unsecured notes due in 2016. Both notes will be redeemed on 14 March 2014.

The total debt repayments committed since November 2013 of US$3.1 billion and the repricing of the term loan deliver Fortescue interest savings of approximately US$300 million per annum.

Fortescue continues to have significant flexibility to make voluntary repayments of debt, or refinance prior to maturity. The below chart identifies a total US$5.9 billion of debt available for repayment or refinancing at the company's option.



Note: 2017 Senior Unsecured Notes are callable from April 2015

ASX ANNOUNCEMENT

DIVIDEND

The Board has declared a A$0.10 per share fully franked dividend which reflects the strong first half operational and financial performance together with its confidence in the outlook.

Fortescue expects to move towards a 30 to 40 per cent dividend pay out ratio once gearing of 40 per cent is achieved.

GUIDANCE

Total FY14 shipments are estimated to be 127mt and remain sensitive to weather and the ramp up of OPFs to full production capacity. Delivery of the 155mtpa run rate remains on target for the end of March 2014 despite significant rain fall during January and February 2014 which has impacted all operations.

C1 costs for FY14 are estimated at US$34/wmt, based on the US to Australian dollar exchange rate of US$0.90:A$1.00.

Capital expenditure in FY14 is expected to be US$2.1 billion, US$4.1 billion lower than FY13 expenditure of US$6.2 billion. As previously announced, additional engineering and material handling modifications, finalisation of contractor payments and commissioning costs for Kings are forecast to increase the total capital expenditure associated with the 155mtpa expansion to US$9.2 billion.

"Strong operational cashflows and the completion of capital projects have provided the free cash flow which has enabled the acceleration of our debt reduction programme. It is a great feeling to be able to return cash to our debt holders and reward our shareholders. The combination of voluntary debt repayments and term loan re-pricing provide significant benefits to the overall cost structure, strengthening our balance sheet, increasing confidence in the outlook and our ability to generate shareholder returns".

Stephen Pearce, Chief Financial Officer

GLOSSARY

cfr	cost and freight rate
dmt	dry metric tonnes
EBITDA	earnings before interest, taxes, depreciation and amortization, calculated as profit before income tax adjusted for depreciation and amortisation, impairment expense, other write-offs, net finance costs and gain on refinancing
FY	Full year
HY	Half year
mpta	million tonnes per annum
NPAT	net profit after tax
wmt	wet metric tonnes

Fortescue
The New Force in Iron Ore

FINANCIAL REPORT

For the half year ended 31 December 2013

ABN: 57 002 594 872

FINANCIAL REPORT

For the half year ended 31 December 2013

Contents

DIRECTORS' REPORT

For the half year ended 31 December 2013

Directors' report

Your Directors submit their report on the Fortescue consolidated group, consisting of Fortescue Metals Group Limited (the Company or Fortescue) and the entities that it controlled during the half year ended 31 December 2013 (the Group or the Fortescue Group).

Directors

The Directors of the Company in office during the half year and until the date of this report are as follows (Directors were in office for the entire period unless otherwise stated):

Non-Executive

Mr Andrew Forrest (Chairman)
Mr Herb Elliott
Mr Mark Barnaba
Mr Owen Hegarty
Mr Cao Huiquan
Mr Geoff Raby
Mr Graeme Rowley
Mr Herbert (Bud) Scruggs
Ms Elizabeth Gaines
Ms Sharon Warburton (appointed 13 November 2013)
Mr Geoff Brayshaw (retired 13 November 2013)

Executive

Mr Neville Power
Mr Peter Meurs

Review of operations

Safety

Fortescue experienced three serious safety incidents involving contractors' employees at Christmas Creek during the half year ended 31 December 2013, including a fatality at a processing facility in August 2013, a fatality in a heavy vehicle workshop in December 2013 and a serious injury in a dump truck incident in October 2013.

Fortescue continues to facilitate official investigations and is conducting its own inquiries in order to ensure continual improvement in safety management. In addition, an independent external whole of business review has been initiated to examine safety performance and management across every area of its operations.

Every effort will be made to ensure Fortescue's systems are as effective as possible in keeping people safe and that all employees and contractors working for and with Fortescue understand that the health and safety of its people is the highest priority.

The Total Recordable Injury Frequency Rate per million hours worked improved for the half year by 7 per cent from 7.6 in June to 7.1 in December 2013.

Aboriginal engagement

Fortescue launched a "Billion Opportunities" program in 2011 with a commitment to award A$1.0 billion of work to Aboriginal-owned businesses and joint venture partnerships. The initiative was highly successful with the A$1.0 billion target achieved in August 2013, six months ahead of schedule.

Fortescue continues to build on the success of the "Billion Opportunities" program with the award of additional contracts and sub-contracts to Aboriginal businesses, taking the total value of the contracts at the end of December 2013 to just over US$1.5 billion.

The "Billion Opportunities" program provides sustainable business opportunities to Aboriginal businesses, providing an alternative to passive royalty income streams, access to training, employment and business development opportunities. Fortescue continues to see sustained growth in the employment of Aboriginal people throughout the business. At the end of December 2013 approximately 12.5% of Fortescue's workforce (508 employees) were Aboriginal. Fortescue's contractors currently employ a further 450 Aboriginal people across Fortescue operational sites.

Operational and financial performance

Production and shipments on a wet metric tonne basis for the half year to 31 December 2013 were as follows:

Million tonnes	2013	2012	Movement
Ore mined	66.9	35.0	91%
Overburden removed	205.7	171.0	20%
Ore processed	53.7	33.7	59%
Ore shipped including third party	53.9	35.7	51%

In the six months to 31 December 2013, Fortescue shipped 53.9 million tonnes (mt) of iron ore, a 51 per cent increase from the prior period, including 51.4mt of Fortescue equity ore and 2.5mt third party shipments. Rail and Port operations are fully ramped up with the Port operating at a 155mtpa outload run rate for an extended period during December 2013.

During the half year period Fortescue mined 66.9mt of ore, an increase of 91 per cent from prior period. This has been achieved with only a 20 per cent increase in the overburden removed, reflecting the introduction of Solomon ore and a decrease in strip ratios at the Chichester hub. The OPFs output was impacted by the significant time taken to thoroughly investigate the safety incidents and a subsequent step-in at both OPFs at Christmas Creek, ramp-up delays and engineering modifications. Despite this, combined OPF output for the half year increased by 59 per cent to 53.7mt compared to the prior period.

Profit after income tax for the half year ended 31 December 2013 increased to US$1,723 million from US$478 million in the prior period. Operating sales revenue increased by 77 per cent to US$5,873 million in the half year ended 31 December 2013, as a result of a 51 per cent increase in volumes shipped and an 18 per cent increase in the average realised CFR price to US$124/dmt (2012: US$105/dmt).

Total cost of sales increased by 24 per cent to US$3,039 million, as higher production volumes were offset by lower cost per tonne. The reduction in operating unit costs reflected the introduction of low cost Solomon ore, the revised product strategy, a decrease in strip ratios, a continuous focus on operational efficiencies and the favourable impact of the devaluation of the Australian dollar. In October 2013 Fortescue completed the formation of a joint venture with Formosa Plastics Group (Formosa) to develop the FMG Iron Bridge magnetite project. As part of the transaction, Formosa acquired a 31 per cent unincorporated joint venture interest for US$123 million, committed to fund the first US$527 million of capital expenditure in the FMG Iron Bridge magnetite project and elected to prepay US$500 million to access Fortescue's port facilities at Herb Elliott Port. The second stage of the FMG Iron Bridge magnetite project, if approved by the joint venture partners, will be funded by a contribution of the next US$1,050 million from Fortescue's subsidiary, FMG Iron Bridge Limited.

During the financial period Fortescue commenced an accelerated debt reduction program, including a repayment of A$140 million preference shares ahead of maturity in February 2017 and an early redemption of US$1.0 billion of the US$2.04 billion senior unsecured notes due in 2015, both completed prior to 31 December 2013.

In November 2013 Fortescue successfully repriced the Senior Secured Credit Facility, reducing the previous margin of 4.25% by 1.00% to 3.25%, and extended the maturity date by 21 months to 30 June 2019. The revised margin will decrease further as Fortescue reduces leverage. The total coupon payable on this facility is calculated as LIBOR, with a LIBOR floor of one per cent, plus the margin.

Cash and cash equivalents increased from US$2,158 million at the beginning of the financial period to US$2,924 million at 31 December 2013. Net operating cash flows were US$3,646 million, including US$712 million receipts from iron ore prepayments, US$500 million port capacity charge prepayment and a US$60 million income tax payment (2012: US$263 million).

Net cash outflow from investing activities, principally capital expenditure, decreased from US$4,384 million to US$900 million for the half year, as the capital expenditure peaked in the previous financial year and the 155mtpa expansion program is now nearing completion.

Operational and financial performance (continued)

The key factors contributing to the net financing cash outflows of US$1,964 million were the debt reduction program together with scheduled finance lease repayments of US$1,169 million, payment of a final dividend of ten Australian cents per share for the 2013 financial year in October of US$293 million and interest and finance costs paid of US$454 million.

Fortescue's net debt position, including finance leases and after taking into account cash on hand, improved from US$10.5 billion at 30 June 2013 to US$8.6 billion at 31 December 2013.

Dividends

On 4 October 2013, the Company paid a final fully franked dividend of ten Australian cents per share for the year ended 30 June 2013.

On 19 February 2014, the Directors declared an interim fully franked dividend of ten Australian cents per share, payable on 2 April 2014.

Development

Fortescue is in the final stages of completion of the 155mtpa expansion program announced in October 2010.

Port and Rail have demonstrated the capacity and efficiency of the new infrastructure with the fourth berth, a surge bin and the third ship-loader now fully integrated into Port operations resulting in the capability to ship 155mtpa.

Rail construction is complete and a rail optimisation control system was successfully commissioned on the mainline in December 2013. The Hamersley line rail optimisation control system will be commissioned during the March 2014 quarter.

The construction of the fifth berth has progressed with the award of the dredging contract and tendering of the wharf installation. This project is expected to be commissioned during the June 2015 quarter.

The Chichester projects including Christmas Creek 2, the Christmas Creek jigs plant and the Cloudbreak wet processing plant are ramping up to full production.

At Solomon, construction of the Kings OPF was completed in October 2013. First ore was processed through the plant in November 2013 and the ramp up continues. Sustainable production at 155mtpa remains on track for March 2014 with the ramp up of the Kings OPF and full production from the Chichester hub.

As a significant strategic first step to reduce the energy costs and carbon emissions of our operations, Fortescue entered into a long term gas transportation agreement for the delivery of gas to its Pilbara operations.

Construction activities have commenced for the FMG Iron Bridge magnetite project with initial roads, accommodation, communications and water services now in place. First production of 1.5mtpa of Fe mHematite product is expected in calendar year 2015.

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 6.

Subsequent events

On 19 February 2014 the Directors declared an interim dividend of ten Australian cents per ordinary share payable on 2 April 2014.

In January 2014 Fortescue assumed full ownership and operational responsibility for the two Christmas Creek Ore Processing Facilities by purchasing the plants, previously accounted for as finance leases, from Mineral Resources Limited's subsidiary Crushing Services International Pty Ltd (CSI) in accordance with the options granted by CSI under the original Build Own Operate contracts.

Subsequent to the period end, Fortescue announced its intention to redeem the US$1,040 million of the 2015 and US$600 million of the 2016 senior unsecured notes in March 2014.

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

Mr Andrew Forrest
Chairman

Dated at Perth this 19th day of February 2014.

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Auditor's Independence Declaration

As lead auditor for the review of Fortescue Metals Group Limited for the half-year ended 31 December 2013, 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.

N Henry

Nick Henry
Partner
PricewaterhouseCoopers

Perth
19 February 2014

INTERIM FINANCIAL STATEMENTS

For the half year ended 31 December 2013

Contents

CONSOLIDATED INCOME STATEMENT AND CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the half year ended 31 December 2013

Consolidated income statement	Notes	31 December 2013 US$m	31 December 2012 US$m
Operating sales revenue	3	5,873	3,324
Cost of sales	5	(3,039)	(2,442)
Gross profit		**2,834**	**882**
Other income	4	124	178
Other expenses	6	(144)	(92)
Profit before income tax and net finance expenses		**2,814**	**968**
Finance income	7	12	20
Finance expenses	7	(409)	(310)
Profit before income tax		**2,417**	**678**
Income tax expense		(694)	(200)
Profit after income tax		**1,723**	**478**
Profit is attributable to:			
Equity holders of the parent		1,714	478
Non-controlling interest		9	-
Profit after income tax		**1,723**	**478**

Consolidated statement of comprehensive income	31 December 2013 US$m	31 December 2012 US$m
Profit after income tax	**1,723**	**478**
Other comprehensive income: items that may be reclassified to profit or loss		
Gains on cash flow hedges taken to equity	23	47
Losses / (gains) transferred to the initial carrying amount of hedged items	67	(72)
Total comprehensive income, net of tax	**1,813**	**453**
Total comprehensive income attributable to:		
Equity holders of the parent	1,804	453
Non-controlling interest	9	-
Total comprehensive income, net of tax	**1,813**	**453**

	Cents	Cents
Earnings per share for profit attributable to the ordinary equity holders of the Company:		
Basic earnings per share	55.05	15.35
Diluted earnings per share	55.01	15.35

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

For the half year ended 31 December 2013

	Notes	31 December 2013 US$m	30 June 2013 US$m
Assets			
Current assets			
Cash and cash equivalents		2,924	2,158
Trade and other receivables		402	409
Inventories		1,401	961
Other current assets		137	126
Current tax receivable		-	8
Total current assets		**4,864**	**3,662**
Non-current assets			
Trade and other receivables		5	6
Property, plant and equipment	8	18,002	17,159
Intangible assets		34	40
Total non-current assets		**18,041**	**17,205**
Total assets		**22,905**	**20,867**
Liabilities			
Current liabilities			
Trade and other payables		978	1,043
Deferred income	9	408	38
Borrowings and finance lease liabilities	10	219	205
Provisions		124	128
Current tax payable		370	-
Total current liabilities		**2,099**	**1,414**
Non-current liabilities			
Trade and other payables		57	155
Deferred income	9	1,137	331
Borrowings and finance lease liabilities	10	11,334	12,486
Provisions		315	387
Deferred tax liabilities		1,060	805
Other liabilities		70	-
Total non-current liabilities		**13,973**	**14,164**
Total liabilities		**16,072**	**15,578**
Net assets		**6,833**	**5,289**
Equity			
Contributed equity	11(b)	1,291	1,291
Reserves		54	(49)
Retained earnings		5,475	4,043
Equity attributable to equity holders of the Company		**6,820**	**5,285**
Non-controlling interest		13	4
Total equity		**6,833**	**5,289**

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 2013

	31 December 2013 US$m	31 December 2012 US$m
Cash flows from operating activities		
Cash receipts from customers	6,865	3,182
Payments to suppliers and employees	(3,159)	(2,440)
Income tax paid	(60)	(263)
Net cash inflow from operating activities	**3,646**	**479**
Cash flows from investing activities		
Payments for property, plant and equipment	(1,356)	(4,540)
Receipts / (payments) of deposits and guarantees	162	(11)
Proceeds from partial sale of jointly controlled assets	123	135
Proceeds from disposal of plant and equipment	90	14
Contributions received from joint venture partners	70	-
Interest received	11	18
Net cash outflow from investing activities	**(900)**	**(4,384)**
Cash flows from financing activities		
Proceeds from borrowings and finance leases	-	7,330
Repayments of borrowings and finance leases	(1,169)	(3,191)
Interest and finance costs paid	(454)	(470)
Dividends paid	(293)	(131)
Repayment of customer deposits	(35)	(5)
Purchase of shares by employee share trust	(13)	-
Transactions with non-controlling interest	-	15
Net cash (outflow) / inflow from financing activities	**(1,964)**	**3,548**
Net increase / (decrease) in cash and cash equivalents	**782**	**(357)**
Cash and cash equivalents at the beginning of the financial year	2,158	2,343
Effects of exchange rate changes on cash and cash equivalents	(16)	55
Cash and cash equivalents at the end of the financial period	**2,924**	**2,041**

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 2013

	Attributable to equity holders of the Company					
	Contributed equity US$m	Other reserves US$m	Retained earnings US$m	Total US$m	Non-controlling interest US$m	Total equity US$m
Balance at 1 July 2012	**1,293**	**41**	**2,428**	**3,762**	**-**	**3,762**
Profit for the period	-	-	478	478	-	478
Other comprehensive income	-	(25)	-	(25)	-	(25)
Total comprehensive income for the period, net of tax	**-**	**(25)**	**478**	**453**	**-**	**453**
Transactions with owners in their capacity as owners, net of tax:						
Equity settled share-based payment transactions	-	3	-	3	-	3
Dividends paid	-	-	(131)	(131)	-	(131)
Transactions with non-controlling interest	-	11	-	11	4	15
Balance at 31 December 2012	**1,293**	**30**	**2,775**	**4,098**	**4**	**4,102**
Balance at 1 July 2013	**1,291**	**(49)**	**4,043**	**5,285**	**4**	**5,289**
Profit for the period	-	-	1,714	1,714	9	1,723
Other comprehensive income	-	90	-	90	-	90
Total comprehensive income for the period, net of tax	**-**	**90**	**1,714**	**1,804**	**9**	**1,813**
Transactions with owners in their capacity as owners, net of tax:						
Purchase of shares under employee share plans	(13)	-	-	(13)	-	(13)
Employee share awards exercised net of employee contributions	13	(4)	-	9	-	9
Equity settled share-based payment transactions	-	17	-	17	-	17
Dividends paid	-	-	(282)	(282)	-	(282)
Balance at 31 December 2013	**1,291**	**54**	**5,475**	**6,820**	**13**	**6,833**

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 2013

1 Basis of preparation

These consolidated interim financial statements of Fortescue Metals Group Limited (the Company) at and for the half year ended 31 December 2013 comprise the Company and its subsidiaries (together referred to as Fortescue or the Group) and the Group's interests in joint ventures.

(a) Statement of compliance

These general purpose consolidated interim financial statements (the 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 2013, and any public announcements made by the Company during the half year ended 31 December 2013 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 19 February 2014.

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 2013 consolidated financial statements.

New, amended and revised standards that are mandatory for 31 December 2013 interim period have been applied in these financial statements and did not have a significant impact on the reported results. Certain new accounting standards and interpretations have been published that are not mandatory for the 31 December 2013 interim reporting period and have not been applied in these financial statements.

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

2 Segment information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer.

The internal reporting is provided to the chief operating decision maker on a consolidated basis.

No operating segments have been aggregated to form the above consolidated information.

(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.

2 Segment information (continued)

	31 December 2013 US$m	31 December 2012 US$m
China	5,739	3,255
Other	134	69
	5,873	**3,324**

(b) Major customer information

Revenue from one customer amounted to US$756 million (2012: US$363 million), arising from the sale of iron ore and the related shipment of product.

3 Operating sales revenue

	31 December 2013 US$m	31 December 2012 US$m
Sale of iron ore	5,762	3,203
Sale of joint venture iron ore	63	98
Other revenue	48	23
	5,873	**3,324**

4 Other income

	31 December 2013 US$m	31 December 2012 US$m
Gain on disposal of assets and interest in joint venture	108	124
Other	16	2
Re-estimation of unsecured loan notes	-	34
Net gain on refinancing	-	18
	124	**178**

5 Cost of sales

	31 December 2013 US$m	31 December 2012 US$m
Mining costs	1,433	1,441
Rail costs	109	80
Port costs	103	86
Operating leases	35	64
Shipping costs	556	361
Government royalty	386	192
Depreciation and amortisation	380	166
Other operating expenses	37	52
	3,039	**2,442**

6 Other expenses

	31 December 2013 US$m	31 December 2012 US$m
Administration expenses	42	47
Net foreign exchange loss	48	27
Corporate transaction fees	28	-
Depreciation and amortisation	19	12
Exploration, development and other write-offs	7	6
	144	**92**

7 Finance income and finance expenses

	31 December 2013 US$m	31 December 2012 US$m
Finance income		
Interest income	12	20
	12	**20**
Finance expenses		
Interest expense on borrowings and finance lease liabilities	439	460
Loss on early redemption of senior unsecured notes	45	-
Interest capitalised	(75)	(150)
	409	**310**
Net finance expenses	**397**	**290**

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 2013						
Opening net book value	2,771	127	280	5,930	2,249	11,357
Transfers of assets	6,179	528	(51)	(7,035)	338	(41)
Additions	224	-	67	6,101	2	6,394
Capitalised interest	-	-	-	342	-	342
Foreign exchange gains reclassified from reserves	-	-	-	(35)	-	(35)
Disposals	(43)	(3)	(2)	-	(19)	(67)
Depreciation	(512)	(20)	-	-	(11)	(543)
Changes in restoration and rehabilitation estimate	-	-	-	-	(132)	(132)
Impairment	(71)	-	-	-	-	(71)
Other	(1)	-	(30)	(13)	(1)	(45)
Closing net book value	**8,547**	**632**	**264**	**5,290**	**2,426**	**17,159**
At 30 June 2013						
Cost	9,397	668	264	5,290	2,702	18,321
Accumulated depreciation	(850)	(36)	-	-	(276)	(1,162)
Net book value	**8,547**	**632**	**264**	**5,290**	**2,426**	**17,159**
Half year ended 31 December 2013						
Opening net book value	8,547	632	264	5,290	2,426	17,159
Transfers of assets	4,562	135	(12)	(6,385)	1,692	(8)
Additions	12	-	102	1,233	-	1,347
Capitalised interest	-	-	-	75	-	75
Foreign exchange losses reclassified from reserves	-	-	-	67	-	67
Disposals	(90)	-	(1)	-	(14)	(105)
Depreciation	(359)	(13)	-	-	(85)	(457)
Changes in restoration and rehabilitation estimate	-	-	-	-	(70)	(70)
Other	(1)	-	(4)	(1)	-	(6)
Closing net book value	**12,671**	**754**	**349**	**279**	**3,949**	**18,002**
At 31 December 2013						
Cost	13,867	803	349	279	4,310	19,608
Accumulated depreciation	(1,196)	(49)	-	-	(361)	(1,606)
Net book value	**12,671**	**754**	**349**	**279**	**3,949**	**18,002**

9 Deferred income

	31 December 2013 US$m	30 June 2013 US$m
Iron ore prepayments	297	38
Port capacity prepayment	111	-
Total current deferred income	**408**	**38**
Iron ore prepayments	748	331
Port capacity prepayment	389	-
Total non-current deferred income	**1,137**	**331**

10 Borrowings and finance lease liabilities

	31 December 2013 US$m	30 June 2013 US$m
Current		
Senior unsecured notes	107	121
Senior secured credit facility	76	52
Finance lease liabilities	36	29
Preference shares	-	3
Total current borrowings and finance lease liabilities	**219**	**205**
Non-current		
Senior unsecured notes	5,990	6,970
Senior secured credit facility	4,742	4,776
Finance lease liabilities	602	613
Preference shares	-	127
Total non-current borrowings and finance lease liabilities	**11,334**	**12,486**
Total borrowings and finance lease liabilities	**11,553**	**12,691**

10 Borrowings and finance lease liabilities (continued)

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

	Senior unsecured notes US$m	Senior secured credit facility US$m	Finance leases/ facilities US$m	Preference shares US$m	Unsecured loan notes US$m	Unsecured bank facility US$m	Total US$m
Balance at 1 July	7,082	-	281	141	897	100	8,501
Initial recognition	-	4,844	1,502	-	-	1,230	7,576
Interest expense	510	206	74	13	74	15	892
Interest and finance lease repayments	(501)	(184)	(66)	(13)	(117)	(12)	(893)
Re-estimation of unsecured loan notes	-	-	-	-	(34)	-	(34)
Foreign exchange gain	-	-	(39)	(11)	-	-	(50)
Repayment	-	(38)	(1,110)	-	(820)	(1,333)	(3,301)
Balance at 30 June 2013	**7,091**	**4,828**	**642**	**130**	**-**	**-**	**12,691**
Half year ended 31 December 2013							
Balance at 1 July	7,091	4,828	642	130	-	-	12,691
Initial recognition	-	-	13	-	-	-	13
Transaction costs written-off / (capitalised)	10	(20)	-	-	-	-	(10)
Interest expense	252	136	38	5	-	-	431
Interest and finance lease repayments	(256)	(101)	(45)	(7)	-	-	(409)
Foreign exchange (gain) / loss	-	-	(10)	3	-	-	(7)
Repayment	(1,000)	(25)	-	(131)	-	-	(1,156)
Balance at 31 December 2013	**6,097**	**4,818**	**638**	**-**	**-**	**-**	**11,553**

(b) Debt reduction program

In November 2013 Fortescue redeemed the A$140.0 million preference shares ahead of maturity in February 2017.

In December 2013 Fortescue repaid US$1.0 billion of the US$2.04 billion senior unsecured notes ahead of maturity in 2015.

(c) Refinancing

In November 2013 Fortescue successfully completed the refinancing of the US$5.0 billion term loan, reducing the margin by 1.00% to 3.25%, and extending the maturity date by 21 months to 30 June 2019. The total coupon payable on this facility is calculated as LIBOR, with a LIBOR floor of one per cent, plus the margin. In May 2014 the margin will reduce a further 0.50%.

11 Contributed equity

(a) Share capital

	31 December 2013 Shares	30 June 2013 Shares
Ordinary shares fully paid	3,113,798,151	3,113,798,151

(b) Movements in ordinary share capital

Date	Details	Number of shares	Issue price	US$m
1 July 2012	Opening balance	3,113,798,151		1,293
	Purchase of shares under employee share plans	(4,001,750)	$4.95	(20)
	Employee share awards exercised net of employee contributions	4,001,750	$4.45	18
30 June 2013	**Balance**	**3,113,798,151**		**1,291**
1 July 2013	Opening balance	3,113,798,151		1,291
	Purchase of shares under employee share plans	(2,936,939)	$4.41	(13)
	Employee share awards exercised net of employee contributions	2,936,939	$4.41	13
31 December 2013	**Balance**	**3,113,798,151**		**1,291**

(c) Ordinary shares

Fully paid ordinary shares entitle the holder to participate in dividends and to one vote per share at meetings of the Company. Ordinary shares participate in the proceeds on winding up of the Company in proportion to the number of shares held.

12 Dividends

(a) Declared during the period

	31 December 2013 US$m	31 December 2012 US$m
Final fully franked dividend for the year ended 30 June 2013: A$0.10 per share (30 June 2012: A$0.04 per share)	282	131

(b) Dividends proposed and not recognised as a liability

	31 December 2013 US$m	31 December 2012 US$m
Interim fully franked dividend for the half year ended 31 December 2013: A$0.10 per share (31 December 2012: nil)	280	-

13 Contingent liabilities

Fortescue had no material contingent liabilities or contingent assets at 31 December 2013 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 Commitments

	Capital US$m	Operating leases US$m	Total US$m
30 June 2013			
Within one year	574	72	646
Between one and five years	9	104	113
	583	**176**	**759**
31 December 2013			
Within one year	287	71	358
Between one and five years	8	86	94
	295	**157**	**452**

15 Subsequent events

On 19 February 2014 the Directors declared an interim dividend of ten Australian cents per ordinary share payable on 2 April 2014.

In January 2014 Fortescue assumed full ownership and operational responsibility for the two Christmas Creek Ore Processing Facilities by purchasing the plants, previously accounted for as finance leases, from Mineral Resources Limited's subsidiary Crushing Services International Pty Ltd (CSI) in accordance with the options granted by CSI under the original Build Own Operate contracts.

Subsequent to the period end, Fortescue announced its intention to redeem the US$1,040 million of the 2015 and US$600 million of the 2016 senior unsecured notes in March 2014.

DIRECTORS' DECLARATION

In the Directors' opinion:

(a) the interim financial statements and notes set out on pages 7 to 20 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 2013 and of its performance for the half year 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.

Mr Andrew Forrest
Chairman

Dated at Perth this 19th day of February 2014.

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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 statement of financial position as at 31 December 2013, the income statement, statement of comprehensive income, statement of changes in equity and 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 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 2013 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Fortescue Metals Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

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Independent auditor's review report to the members of Fortescue Metals Group Limited (cont'd)

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 2013 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

N Henry

Nick Henry
Partner

Perth
19 February 2014

THE PATHWAY FROM CONSTRUCTION TO PRODUCTION

2003
The dream begins

2004
Cloudbreak identified

2005
ASX 200 listing

2006
Port Hedland groundbreaking

2008
First ore on ship

2009
27mt shipped

2010
Christmas Creek expanded

2011
Solomon Hub developed

2012
57.5mt shipped

2013
Firetail opened at Solomon

2013
80.9mt shipped

2014
Kings mine opened at Solomon

2014
155mtpa sustainable production

FMG Fortescue
The New Force in Iron Ore

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