

**HD Fortescue Plans Debt Repayment as Profit Jumps -- Update****BY** By Rhiannon Hoyle**WC** 858 words**PD** 20 August 2014**ET** 15:59**SN** Dow Jones Institutional News**SC** DJDN**LA** English**CY** Copyright © 2014, Dow Jones & Company, Inc.**LP**

SYDNEY-- Fortescue Metals Group Ltd. said it hoped to repay as much as US\$1.5 **billion** of debt within the next year, after a sharp rise in **iron-ore** output from its Pilbara mines fueled a 56% jump in annual profit.

Fortescue also maintained its final dividend at 10 cents a share, soothing investor concerns that the world's No. 4 **iron-ore** exporter by volume might look to lower payouts to free up cash to repay loans.

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In its decadelong quest to break the dominance of Vale SA, Rio Tinto PLC and BHP Billiton Ltd. in **iron-ore** output, Fortescue built a vast network of land holdings and infrastructure in Australia's remote Pilbara region--using loans totaling **billions** of dollars. With that expansion now complete, Fortescue has seen a sharp improvement in cash flow that's strengthening its ability to bring its debt down.

However, the Perth-based miner is also more vulnerable than its more diversified rivals to sudden falls in the price of **iron ore**, a key ingredient in steel. Rising **iron-ore** supply, particularly from the Pilbara, has contributed to **iron-ore** prices falling by around a third this year.

"It is a matter of maintaining the balance--recognizing that our shareholders need to be rewarded along the way [while] maintaining a very, very sharp focus on debt repayment," Fortescue Chief Executive Nev Power told reporters.

Fortescue on Wednesday reported a net profit of US\$2.73 **billion** in the year through June as rising production offset the fall in **iron-ore** prices. Earlier this year, the **company** reached a long-held target of 155 **million** tons of annual **iron-ore** output in the Pilbara.

Cash flow more than doubled to US\$6.25 **billion**, while Fortescue's net debt totaled US\$7.2 **billion** as of June 30, compared with US\$8.6 **billion** six months earlier.

Fortescue plans to increase its dividend to 30%-40% of earnings once it gets its debt-to-**equity** level down to a 40% target set by management. Its payout the last fiscal year equated to around a fifth of earnings.

To meet the debt-to-**equity** target, Fortescue said it would need to pay down another US\$2 **billion** to US\$2.5 **billion**. This should happen within the next two years, Mr. Power said.

Fortescue repaid US\$3.1 **billion** of debt during the past fiscal year, and management said it would repay senior notes worth US\$500 **million** in October. In addition, the **company** plans to pay back another US\$500 **million** to US\$1 **billion** depending on **iron-ore** prices.

Major miners including Rio Tinto have also reported record **iron-ore** output from the Pilbara, where the companies think they can produce the commodity more cheaply than other countries such as **China**.

Fortescue--which over the past decade has grown from a tiny explorer to one of the world's biggest miners of **iron ore**--exported 124.2 **million** tons of **iron ore** during the year, an increase of 54%. Fortescue expects to ship as much as 29% more **iron ore** to buyers in countries including **China** over the coming year after completing the expansion of its Australian **operations**.

**China**'s demand for commodities such as **iron ore** won't be sated for years to come, Mr. Power has said previously. The **company** expects continued migration to the cities from **China**'s countryside to fuel demand for new infrastructure, factories and housing.

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