



## FMG achieves second highest NPAT, commodity price headwinds

<b>Company/ASX Code</b>	Fortescue Mining Group / FMG
<b>AGM date</b>	Tuesday 22 November 2022
<b>Time and location</b>	10 am Hyatt Regency 99, Adelaide Terrace, Perth
<b>Registry</b>	Link Market Services
<b>Type of meeting</b>	Physical only
<b>Poll or show of hands</b>	Poll on all items
<b>Monitor</b>	Len Roy assisted by Ian Berry
<b>Pre AGM Meeting?</b>	Ind NED Jennifer Morris & Company Secretary Cameron Wilson

The monitors (or their associates) involved in the preparation of these voting intentions have shareholdings in this company.

### Proposed Voting Summary

<b>Resolution 1</b>	<b>Adoption of Remuneration Report</b>	<b>For</b>
<b>Resolution 2</b>	<b>Re-election of Ms Elizabeth Gaines</b>	<b>For</b>
<b>Resolution 3</b>	<b>Election of Ms Li Yifei</b>	<b>For</b>
<b>Resolution 4</b>	<b>Approval of increase to NED fee pool</b>	<b>For</b>
<b>Resolution 5</b>	<b>Special resolution to adopt a new constitution</b>	<b>For</b>

## Governance and culture

The FMG board is made up of four males & 5 females and includes Dr Andrew Forrest as Executive Chairman. The majority of the board are Independent. The board is highly regarded in terms of professional qualifications, skill sets and relevant experience. ASA prefers Independent NED chairman, and failing that, the appointment of a lead independent director. Mark Barnaba, a director appointed in 2010 has held that position since 2014, although his tenure exceeding ten years mean ASA guidelines do not consider him independent any longer. We understand the current Executive Chairman role is not long term and the company continues to look for a replacement CEO.

Fortescue supports the intent of the 4th Edition of the Australian Securities Exchange (ASX) Corporate Governance Council's Corporate Governance Principles and Recommendations (Principles and Recommendations).

### **ASA focus issues**

FMG complies with ASA Voting & Engagement Guidelines with respect to focus issues.

### **Financial results for the FY22.**

- Revenue was down 22% on previous year to USD 17.39 billion.
- Record 189 million tonnes of iron ore were sold despite labour shortages and supply chain impacts.
- Profit after tax was 40% less than 2021 at USD6.197 billion. Second highest NPAT on record.
- FFI full year FY22 operating expenditure USD386m.
- Return on Equity fell to 35% from last year's 66%.
- Dividends per share fell to A\$2.07 from A\$3.58 in 2021.
- Costs at USD 15.91 per tonne were well controlled resulting in the current 61% margin.
- Positive cash flow enabled net debt to be reduced USD900 million even though there was capex on the Ironbridge project which will start producing iron ore in March / April 2023 and ramp up to nameplate production in the 2024 financial year. To date the Fortescue capex contribution will amount to \$2.7 to \$2.9 billion. Capex of significance was also being spent on projects in Fortescue Future Industries.
- Year end June 30 '22 Net Debt was USD0.9billion.

### **Prospects for 2023 Year**

The price for iron ore over the year is currently the main determinant of Fortescue's annual profit, although, as the price is in US\$ currency, exchange rates can moderate or exaggerate revenue realised. The price is currently depressed compared to last year due to the economic outlook in China, although recovery is expected as COVID restrictions are lifted. European demand is subdued due to the current shortage of energy due to a focus on renewals and reliance on Russian gas. This uncertainty explains the reluctance of Fortescue to provide overall profit guidance.

Factors largely under Fortescue's control include the per tonne cost base of the Fortescue product. This has been forecast at US\$18 to US\$18.75 per tonne of haematite ore for the 2023 year. Production to be shipped is forecast at 187 to 192 million tonnes broadly in line with the 189 million tonnes last year. Other influences are the grade of ore produced, and, with the opening of the Ironbridge mine next year this will improve because of the higher Fe content. Fortescue has employed various marketing initiatives including grading ore to suit customers and holding stockpiles at Chinese ports to optimise revenue.

The elephant in the room is Fortescue Future Industries. This division has numerous billion-dollar projects of a green nature under consideration. Fortescue will allocate 10% of NPAT

p.a. to FFI and each project is required to pass similar business case criteria as other Fortescue projects. The financial funding of these projects will mainly be sourced from green institutions and governments eager to receive green approval and tax advantages. There will be no recourse to FMG. Providing Fortescue remains true to its own investment policy, its risk profile should not be compromised. Early focus on projects in the Pilbara to replace expensive diesel with solar power, batteries and even gas will contribute to reducing costs in the short term and if transformational production of green hydrogen is achieved as constantly envisaged, further savings in terms of long-term strategic advantage will emerge and benefit Fortescue significantly.

FFI has completed & submitted to the board its detailed Decarbonisation Pathway Business Plan which includes Net Zero Scope 1 & 2 emissions to be achieved by 2030. See announcement 20 September 2022.

[Execution Plan For Industry Leading Decarbonisation \(iguana2.com\)](https://www.iguana2.com)

## **Resolution 1 – Adoption of Remuneration Report**

**For**

This is advisory only and does not require the company to alter the arrangements set out although it is expected to engage with shareholders to avoid a second successive 25% against vote. The company states it will take the outcome of the vote into consideration when applying the company's remuneration policy in the future.

KMP were awarded 4% increase in fixed remuneration in FY22.

FMG / FFI shareholding requirement is CEO 200% of TFR, CEO direct reports 100% of TFR and NEDs' 100% of annual base fee, within 5 years.

The basic structure of the Fortescue & FFI remuneration involves Fixed remuneration, the ESSIP -Executive Senior Staff Incentive Plan and the Long-Term Incentive Plan. Separate measures apply to Fortescue & FFI recognising the differing businesses.

ESSIP (annual measurement period) focuses on operational performance, people, culture & individual. Stretch targets were met for all categories in both Fortescue & FFI. The safety component was forfeited following the fatality at Solomon Hub. ESSIP FY22 outcomes involving CEO & KMP ranged from 83-87% of target

Payment is minimum 50% by share rights which vest over 3 years. ESSIP weightings are operational 60% (incl safety, cost of production, cash flow & revenue).

People & culture 20%

Individual KPIs 20%

LTIP as approved at the 9 November 2021 AGM has 3 year performance period and based on share rights granted at the beginning of the year.

LTIP weightings are TSR 33%, ROE 33% and key strategic measures 33%. FFI LTIP weightings are similar with exception that FFI Team Measures are safety, projects, financial, commercial & offtake, manufacturing & technology plus Green Fleet.

In earlier period Fortescue had windfall TSR & ROE awards resulting from high commodity pricing. Fortescue has acknowledged concerns in this regard & introduced a 50% cap on TSR & ROE award outcomes resulting in overall FY22 LTIP vesting of 81% vesting.

ESSIP KMP cash & share outcomes are shown on p151 of the annual report and Key terms of Fortescue & FFI LTIPs are detailed on pages 157, 158 & 159. Outcomes are on p152/153 of the annual report

Actual remuneration for KMP is shown on p154 in both AUD & USD. Note employees are paid in AUD.

FMG reporting (including FFI) is comprehensive and generally in accordance with ASA Voting & Engagement Guidelines for ASX200 companies.

The aforementioned windfall comment demonstrates the FMG board does listen to shareholder input.

## **Resolution 2- Re-election of Elizabeth Gaines**

**For**

Ms. Gaines was a Non- Executive Director from 2013 to 2017. Initially appointed as CFO Ms Gaines became CEO in 2018 until August this year. During this period as CEO/MD she remained a director and was exempted from having to stand for re-election until her resignation from the role of CEO.

At this point the Board appointed her a director and this resolution is to re-elect her as a director as she retires by rotation.

Elizabeth has provided sterling service to Fortescue both in executive and Board roles. Prior to working with FMG she held CEO roles with Helloworld and the Holmes a Court family company Heytesbury. She has held NED roles with Nine Entertainment, NEXTDC, Mantra Group and Impedimed Group. She is a director of the Victor Chang Cardiac Research Institute and of the West Coast Eagles.

Academically she is extremely well qualified being a Chartered Accountant, and amongst her degrees being a B.Comm from Curtin, a Master of Applied Finance from Macquarie and a member of AICD and Chief Executive Women.

Ms Gaines has sound experience as a business leader with major exposure to both the resources industry and in growth in Asian economies especially China and their impact on the Australian economy. She is now the Global Green Ambassador for FMG. She is not considered an independent director given her executive role up until August 2022.

## **Resolution 3 – Election of Ms. Li Yifei**

**For**

Where a Board appoints a new director during the year it is necessary for the appointment to be put forward to the next AGM for shareholder approval. Ms. Li Yifei is President of the

QBin foundation and serves on the board of BlackRock China and is a Global Trustee of the Rockefeller Foundation. She has been the Country Chair China for the Man Group, one of the world's largest hedge fund managers.

Academically, Ms Yifei has degrees from the Foreign Affairs College and Baylor University in the USA in the areas of law and international relations.

#### **Resolution 4 –Approval of increase in NED fees pool. For**

In terms of ASX rules and the FMG constitution the company is required to at its AGM put a resolution where the pool of fees for NEDs is increased. In this case the pool is being increased from the current \$3 million by 50% to \$4.5 million.

Reasons for the pool increase include:

- A pool large enough to adequately remunerate any other non-executive directors that may be appointed to ensure balance particularly as regards skills, experience, and expertise and to facilitate the best succession planning.
- To be competitive to attract the best calibre of NED.
- To ensure a high standard of governance is maintained.

NED remuneration is reviewed annually. The pool was utilised to the extent of \$2.578 million in 2022. Providing the resolution is approved, approximately \$4 million is forecast to be drawn from the 2023 pool. While the increase is substantial, it is in keeping with the largest ASX-listed companies (over \$50bn market capitalisation).

#### **Resolution 5- Special Resolution to adopt a new Constitution For**

The Constitution of FMG was last adopted in 2011. Although the changes are not major, there have been some changes in ASX regulations and listing rules as well as developments in law that the Board feels should be recognised and the Constitution changed to be reflective of these.

For this resolution to pass at least 75% of those entitled to vote on the resolution must vote in favour. The main changes advocated from the existing Constitution are:

- The existing Constitution provided for holding hybrid AGMs. The proposed Constitution contains more detail about the conduct of meetings. The proposed Constitution does not allow for virtual-only meetings and requires shareholders have a reasonable opportunity to participate in the meeting.
- The ability of the company to communicate electronically with its shareholders is facilitated by changes to the Constitution.
- Changes assist in enabling some improvements to the orderly conduct of meetings. For example, it is easier for the Chair to receive notice of amendments to resolutions.

- Clarification of a modified escrow regime applying to restricted securities are incorporated in the new Constitution.
- Provisions related to direct voting, smallholdings, and an increase in the number of joint shareholders to four have been incorporated.
- Fees for registration of off-market transfers are now permitted and are incorporated in the Constitution.
- Notice of board meetings must be provided to directors other than directors on leave of absence.
- Terminology has been updated to conform with the current Corporation Act, listing rules and ASX rules.

### Total CEO remuneration AUD

TFR	\$2,080,000
ESSIP cash	\$976,038
Nominal value ESSIP FY22 vested Rights	\$702,628
Nominal value LTIP FY20 vested Rights	<u>\$4,162,492</u>
Total CEO remuneration	\$7,921,158

As at FYE	FY22	FY21	FY20	FY19	FY18
Revenue USDm	17,390	22,284	12,820	9,965	6,887
U/L EBITDA	10,561	16,375	8,375	6,047	3,182
Net Profit USDm	6,197	10,295	4,735	3,187	878
U/L ROE %	38	67	40	31	11
Dividend declared AUD per share	2.07	3.58	1.76	1.14	0.23
Share price 30 June A\$	17.53	23.34	13.85	9.02	4.39
CEO total actual AUD remuneration	7,921,158	5,687,523	9,944,613	5,003,888	NA

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