

Substantial expectations for the financially draining Fortescue Energy

Company/ASX Code	Fortescue/FMG
AGM time and date	10am AWST Wednesday, 6 November 2024
Location	River View Room 1, Optus Stadium, Burswood, Perth WA
Registry	Link Market Services
Type of meeting	Physical
Monitor	Len Roy assisted by Ian Berry
Pre-AGM Meeting	With Company Secretary Navdeep (Mona) Gill, Chief General Counsel Phil McKeiver & Ind NED Ms Penny Bingham-Hall

Monitor Shareholding: The individuals (or their associates) involved in the preparation of this voting intention have a shareholding in this company.

1. How we intend to vote

Resolution	Agenda	
1	Adoption of Remuneration Report	For
2	Re-election of Lord Sebastian Coe CH, KBE.	For
3	Re-election of Dr Jean Baderschneider	For
4	Election of Usha Rao-Monari	For
5	Election of Noel Pearson	For
6	Approval of the Fortescue Ltd Performance Rights Plan	For
7	Participation in the Performance Rights Plan by Mr Dino Otranto	For
8	Participation in the Performance Rights Plan by Mr Mark Hutchinson	For
9	Conditional Spill Resolution	Against

Corporate structure

In FY23, the company changed to one company brand – Fortescue – and two business divisions being Fortescue Metals and Fortescue Energy. ASX ticker FMG remained unchanged. Dino Otranto is CEO of Metals and Mark Hutchinson is CEO of Energy, and both report to Executive Chairman Dr Andrew Forrest.

New entities within the One Fortescue are **Fortescue Zero** which will become the selling arm to others for technologies developed by Fortescue; and **Fortescue Capital** established in NYNY USA to facilitate third party capital for projects initiated by Fortescue.

Matters Considered

Financial performance

The FY24 overall financial performance was satisfactory with revenue up 8% to US\$ 18.2 billion dollars, NPAT was US\$5.683 billion with underlying profit at the same level. However, the result included a loss incurred by Fortescue Energy of US\$659 million.

Dividends at US\$1.97 per share improved from the level of US\$1.75 in FY23. Actual dividend payout ratio of 70% was within FMG's policy range of 50 to 80% of underlying NPAT. EPS was \$1.85. Capital management also incorporates a \$500 million share buy-back, which can carry forward over two years. Net assets increased from US\$5.75 to US\$6.22 per share. The margin at 57% is healthy. FY24 ROE is 30% and ROCE 31%.

Fortescue has gross debt of US\$5400 (22% gearing). This is reduced by cash held at financial year end of US\$4,903 resulting in net gearing as at 30 June 2024 of only 2%. The majority of Financial Facilities are in US\$ providing a natural hedge against iron ore sales also quoted in US\$.

Key metrics	2024	2023
Revenue, US\$ millions	18,220	16,871
Underlying EBITDA ¹ , US\$ millions	10,708	9,963
Earnings per share, US cents	185	156
Earnings per share, AUD cents²	282	231
Impairment expense after tax, US\$ millions	-	726
Net profit after tax, US\$ millions	5,664	4,796
Underlying net profit after tax, US\$ millions	5,664	5,522
Underlying attributable net profit after tax, US\$ millions	5,683	5,524
Underlying earnings per share, US cents	185	180
Underlying earnings per share, AUD cents²	282	267
Hematite average realised price, US\$/dmt	103	95
Hematite C1 costs, US\$/wmt	18.24	17.54
Underlying EBITDA margin, US\$/dmt (excl Fortescue Energy)	65	60
Key ratios		
Underlying EBITDA margin, %	59	59
Return on equity, %	30	27

¹ Refer to page 38 for the reconciliation of Underlying EBITDA to the financial metrics reported in the financial statements under Australian Accounting Standards.

² Australian dollar earnings per share is calculated by translating the US dollar earnings per share at the average exchange rate for the year of AUD:USD 0.6558 (FY23: AUD:USD 0.6737).

Fortescue Metals

Iron ore shipments totalled 191.6Mt in FY24 and C1 cost was US\$18.24 /wmt. Average Hematite revenue US\$ 103 / dmt under the Platts global pricing structure.

Currently, FMG has three electric excavators, Hydrogen powered and battery electric haul trucks, plus The Green Pioneer dual fuelled ammonia powered, ore carrier in operation as part of the strategic decarbonisation commitment.

Subject to further development, FMG is considering converting its 8 ore carriers to ammonia energy as part of its drive to minimise any reliance on fossil fuels in its Pilbara operations.

Fortescue Energy

Whilst the Iron Ore or Metals business is very profitable and well established, Fortescue Energy has incurred losses of US\$659 million and US\$ 617 million over the past two years on turnover of US\$ 91m and US\$ 107m, respectively. Given the level of Fortescue Energy capex, including FY25 Guidance of US\$500m asset investment & US\$700m operating expenses, shareholders seek more transparency & detail on Fortescue Energy capital expense in the Profit & Loss and, capital included in the Balance Sheet as an asset. Particularly for major investment opportunities & projects.

Fortescue Energy is adamant that investments within its operation are required to stack up commercially.

Numerous projects have been proposed over the last few years. Three have advanced to the Final Investment Development (FID) stage. These are as follows:

- Arizona Green Hydrogen which is supported by grants and tax breaks from the United States Government.
- The Gladstone PEM 50 Electrolyser plant, now in production.
- The Green Energy Hub at Christmas Creek, which incorporates a 6KV sub power station and production of 530kgs of Hydrogen per day. To date the approved capex US\$50m. The Hub is a strategic part of Fortescue's Green Metal project including a planned electric smelting furnace.

Prospective projects of significance under consideration are.

1. 300MW green ammonia plant in Norway – feasibility stage and progressing towards FID
2. 837t per day green Hydrogen project in Brazil – FEED commenced & progressing towards FID
3. JV with Morocco's OCP Group, to provide green Hydrogen / ammonia & fertilizer. Target market would include Australia & Europe.

It is appreciated the Energy divisions substantial commitment to decarbonisation of industry both locally & globally, will, in the future, obtain some support of government grants and taxation incentives to further expedite FMG's step change sustainability efforts & accomplishments.

Iron Bridge magnetite project had been plagued with cost & delivery over runs plus a sizeable post tax US\$726m impairment in FY23 accounts. However, FMG assured us the issues were now behind them & the plant including associated infrastructure is now operational as originally planned. Financial benefits will follow as a result of the high Fe content magnetite, blended with FMG's regular hematite, will achieve higher Platts iron ore pricing.

Financial summary

(As at FYE)	2024	2023	2022	2021	2020	2019
NPAT (US\$m)	5700	4796	6197	10295	4735	3187
UPAT (US\$m)	5700	5522	6197	10349	4746	3187
Share price (A\$)	21.41	22.18	17.53	23.34	13.85	9.02
Dividend (A\$-cents)	1.97	1.75	2.07	3.58	1.76	1.14
Simple TSR (%)	5.54%	36.5%	(21.33%)	92.8%	73.1%	60.9%
CEO total fixed rem, (A\$)		A\$5,572,676*	7,921,158*	5,686,523*	9,944,613*	5,003,888*
Dino Otranto	1,565,489					
Mark Hutchinson	2,080,000					

Note. The Executive Chairman does not receive a salary or participate in any incentive plans.

*The CEO amounts for 2019-2023 are largely for singular CEO structure & include incentivised awards.

Simple TSR is calculated by dividing (change in share price plus dividend paid during the year, excluding franking, by the share price at the start of the year.

The Executive & Senior staff Incentive Plan ESSIP resulted in the following STI awards which are additional to the fixed remuneration shown in the above table:

Dino Otranto A\$2,972,547, Mark Hutchinson A\$3,252,369.

The LTIP Plan resulted in the following LTi awards which are additional to the fixed remuneration shown in the above table:

Dino Otranto A\$982,263, Mark Hutchinson A\$1,429,549.

Safety

FMG continues to uphold its “best in class” Metals Division Total recordable injury frequency rate (TRIFR) performance. FY24 achieved 1.3. Subsequently, FMG introduced Significant Incident Frequency Rate (SIFR) and Injury Severity Frequency Rate (ISFR) in accordance with global safety reporting standards.

Governance

As at 30 June 2024 the 8 member board was made up of 50/50 gender mix including two Executive Directors, Dr Andrew Forrest & Elizabeth Gaines. Going forward, it was announced 1 August 2024, Noel Pearson, distinguished Indigenous leader, social advocate & lawyer would join the FMG board as a NED.

There are 3 board committees;

- People, remuneration & nomination, chaired by Ind NED Penny Bingham-Hall
- Safety and sustainability, chaired by Ind NED Dr Jean Baderschneider
- Audit, finance & risk management, chaired by Lead Ind NED Dr Larry Marshall

In FY24, Dr Andrew Forrest was Executive Chairman and Mark Barnaba Deputy Chairman. We had not agreed with FMG title “Lead Independent” NED given to Mr Barnaba and acknowledge the appointment of NED Dr Larry Marshall as the new Lead Independent NED.

We note Executive Chairman Dr Andrew Forrest’s high level qualifications and acknowledged business experience, and, note that interests associated with Dr Forrest are the largest shareholder with approximately 36.74%.

Nevertheless, ASA continues to have independence concerns and we concur with ASX Corporate Governance Council Principles & Recommendations as per the Listing Rules Disclosure Appendix 4G in that the chair should be Independent & not include the CEO role.

Notwithstanding ASA’s aforementioned Independence concerns, we have considerable respect for the high level qualifications & relevant business experience of all FMG directors.

Senior executive movements

On 17 July 2024, the following was announced;

Apple Paget who had been Acting CFO for 11 months, was confirmed as Group CFO.

Shelley Robertson who was Chief Corporate Officer now has Chief Operating Officer responsibility.

Navdeep (Mona) Gill previously Assistant Company Secretary is now Company Secretary.

Phil McKeiver continues as Chief Legal Counsel for the Group

Earlier, resignations in 2023 included;

Fiona Hicks engaged as Metals CEO November 2022 resigned effective 28 August 2023

Jenn Morris resigned as a NED 30 June 2023

Christine Morris appointed CFO Metals 2 June 2023 & resigned 31 August 2023.

Remuneration

Whilst we considered the earlier FMG remuneration structure was considered fit for purpose for the earlier business model, the company has since initiated major changes in structure & the executive team. FMG had responded to the FY23 AGM first strike of 52.37% against votes with a comprehensive overhaul taking into account:

- the restructure to “One Fortescue;”
- the two CEO business model;
- seeking CEO performance rights grants approval;
- improved definition for approval of LTI Strategic objectives;
- no duplication between individual KPIs in the STI;
- increased weighting to RTSR & reduced strategic measure weighting in the LTI;
- progress with consolidation of ESSIP STI scorecard across Metals & Energy; and

- implementation of mandatory STI deferral of 50% over two years (25% year one & 25% year two).

The LTI Performance Period of three years is retained as is the Board Discretion. CEOs' remuneration is basically TFR 28%, ESSIP/STI at risk 31% and LTIP/LTI at risk 41%.

Key Audit Matters

Auditors PWC show the following;

1. Operating Sales Revenue-iron ore & shipping revenue, involving provisional pricing at time of shipment & final payment based on pre determined quotation period.
2. Restoration & rehabilitation obligations involving provisions of US\$1,028 million as at 30 June 2024.

Sustainability/ESG

Fortescue's FY24 Sustainability Report is focused on "The Road to Real Zero" ie no fossil fuels & no offsets. FMG is signatory to UN Global Compact and the report is in accordance with Global Reporting Initiative standards

The company has been very pro active in developing & continuously upgrading its approach to Sustainability, in line with evolving global reporting initiatives. Performance metrics, including outcomes, are clearly identified.

Voting Rationale

Resolution 1. Adoption of Remuneration Report - For

The FY24 32 page report is comprehensive & relatively easy to follow, considering the complexity & dynamics of the business. The FY23 first strike (a vote of 25% or more against the on the remuneration report) was effective in accelerating the review of remuneration and, changes are clearly outlined by Independent Remuneration Chair, Penny Bingham-Hall. The updated remuneration structure & reporting is generally in line with our Guidelines except for independence & board discretion referenced in this VI.

In determining the FOR vote we also took into account ROE & EPS performance.

Resolution 2. Re-election of NED Lord Sebastian Coe CH KBE - For

Lord Coe, a non-executive director (NED) since February 2018, has had a distinguished career in British politics, is currently serving his second term as President of International Association of Athletics Federation (now World Athletics), and member of the International Olympics Committee in 2020, won 12 Olympic world records 1980-1984 and was member of the House of Lords in 2000-2022.

Resolution 3. Re-election of NED Dr Jean Badenschneider - For

Dr Badenschneider appointed NED January 2015, has had 35 years of senior executive business experience. She retired from ExxonMobil following 30 years service. Dr Badenschneider is currently a member of the International Advisory Committee to the 2024 Conference of the Parties -COP29-, to the UN Framework Convention on Climate-Change UNFCCC.

Resolution 4. Election of Ms Usha Rao-Monari NED since January 2024 - For

Ms Rao-Monari is a senior infrastructure investment professional with 25 years' experience. She has held leadership positions in UN, Blackstone Group, Global Water Development Partners, & International Finance Corporation. She has multiple professional university qualifications which include International Affairs and Finance and completed the Program for Management Development at Harvard Business School.

Resolution 5. Election of Mr Noel Pearson NED appointed August 2024 - For

Mr Pearson comes from Guugu Yimithirr community of Hope Vale, South Eastern Cape York Peninsula. He co-founded the Cape York Land Council and negotiated to establish the Native Title Act 1993 after the High Court's landmark Mabo decision rejected the fiction of terra nullius. He continues to advocate for structural reforms to empower Indigenous people. He holds a degree in History & Law from Sydney University.

Resolution 6. Approval of the Fortescue Ltd Performance Rights Plan - For

Shareholder approval of the Performance Rights Plan is required to ensure that securities granted or issued under the Plan are not counted in the Company's 15% annual limit on issuing securities without shareholder approval under ASX Listing Rule 7.1. Also, the Company is seeking shareholder approval in the interests of good governance, transparency & to preserve flexibility, in case it determines in the future, to issue shares rather than acquire them on-market.

Resolutions 7 & 8. Participation in the Performance Rights Plan by Dino Otranto and Mark Hutchinson - For

Resolutions 7 & 8 seek approval for the grant of up to 208,656 performance rights to Dino Otranto, Fortescue Metals CEO and 248,001 performance rights to Mark Hutchinson Fortescue Energy CEO. and for subsequent issue, transfer or allocation and acquisition by, Mr Otranto and Mr Hutchinson in respect of the Performance Rights Plan for FY25. The notice of meeting (NOM) Explanatory Statement provides details including Key Terms. Data supporting the above maximum STI & maximum LTI performance rights opportunities is on page 17 of the NOM.

Resolution 9. Conditional Spill - Against

If passed, this resolution only becomes effective if at least 25% of the votes for Resolution one – adoption of the remuneration report - are cast against Resolution one.

Resolution 9 will not be effective if less than 25% of the votes for Resolution one are against. ASA believe substantial disruption and operational consequences would arise following implementation of a Spill under this resolution. The consequences would be counter productive to addressing the structure & transparency in the Remuneration Report.

It should be noted ASA is supporting Resolution one.

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