Australian Shareholders' Association
Australian Shareholders' Association Limited
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Who takes responsibility for $1.3 billion Western Areas losses?

Company/ASX Code	IGO Ltd/IGO
AGM time and date	12 noon WST, Wednesday, 6 November 2024
Location	DoubleTree by Hilton, Perth Waterfront, 1 Barrack Square, Perth, WA
Registry	Computershare
Type of meeting	Hybrid by Computershare - https://meetnow.global/MUJRS6Z
Monitor	Derek Miller/ John Campbell
Pre-AGM Meeting	Yes with Michael Nossal, chair, and company secretary

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

No.	Resolution description	
1	Re-election of Michael Nossal	Against
2	Re-election of Keith Spence	Against
3	Re-election of Xiaoping Xang	Against
4	Election of Marcelo Bastos	Against
5	Remuneration Report	For
6	Issue of service rights to Mr Ivan Vella	For
7	Issue of performance rights to Mr Ivan Vella	For
8	Increase in director fee pool to $2m	Against

2. Summary of Issues and Voting Intentions for AGM/EGM

- The directors who were on the board at the time of the $1.3 billion takeover of Western Areas including the Chair Michael Nossal need to take responsibility for the significant impairment.
- Two years after commissioning, the Kwinana lithium processing plant still has significant problems. It has produced only 17% of its theoretical capacity of 20,000 tonnes of lithium hydroxide. We shall ask where the problems have arisen, what is expected to be achieved in the current quarter's shutdown, and if the board is confident that the past problems have been overcome.

- The board comprises 9 directors with only one indicating an intention to step down in calendar 2025. This is a large board for a company with a single mine due to close within 2 years and an interest in a joint venture. We expect the board to reduce in size and strongly oppose the requested increase in the amount of the directors' fees pool.

3. Matters Considered

Accounts and reports

Financial performance:

(As at FYE)	**2024**	**2023**	**2022**	**2021**	**2020**
NPAT ($m)	3	549	331	549	155
UPAT ($m)	319	1528	717	475	460
Share price ($)	5.64	15.20	9.94	7.63	4.87
Dividend (cents)	37	74	10	10	11
Simple TSR (%)	-60.5	58.8	31.6	57.7	3.5
EPS (cents)	0.37	201.8	43.7	80.9	26.5
CEO total remuneration, actual ($m) (FY23 - acting CEO)	1.00	2.74	3.76	2.80	1.47

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 CEO's remuneration for FY24 is in respect of the period from 11 Dec 2023 to year-end and excludes his sign-on bonus of $3.54m to compensate him for benefits foregone after leaving Rio Tinto.

Impairments of $457.8m were charged in arriving at the break-even result for FY24, following the impairments charged in FY23 of $968.5m. The losses in most instances arise from nickel assets acquired from Western Areas in the takeover completed in June 2022 at a total cost of $1,260m. At last year's AGM, the chair deferred all questions about responsibility for errors made in assessing the value of Western Areas assets, advising shareholders that an independent report into the acquisition was in preparation. The full report has not been released and the summary provided in the half-yearly profit release does not allocate responsibility to any individuals – we attach the extract of that report as an appendix to these voting intentions. In these circumstances, the board must accept collective responsibility for a calamitous decision which risked the company. It was saved by the temporary spike in spodumene prices in FY23 – the takeover was funded by $900m of borrowings repaid out of lithium profits in FY23. We will be voting against the re-election of all directors who were on the board in the period leading up to June 2022 including the chairman. The cost to shareholders is over $1.70 per share, and that they have been described as "non-cash" in the annual report is misleading as it implies that they are of a lesser importance than cash losses. They were, in fact, cash losses sustained in a prior year.

Other comments on the financial results need perspective because of the magnitude of the foregoing issue:

- In acquiring its interest in the Tianqi Lithium Energy Australia P/L (TLEA) in 2021, IGO obtained a 49% interest in the Kwinana lithium hydroxide refinery which has two processing trains, one of which has been under construction without much progress since IGO's acquisition. Train 1, which was commissioned in 2022, produced just 3508t of lithium hydroxide in FY24 (FY23 – 1884t) ex 20,000tpa design capacity (100% terms). A major shut-down is planned for the current quarter to eliminate production problems. Its success is an important factor given the TLEA significant investment in the Kwinana refinery. (It has total assets of $6,806m but the financial statements do not disclose how much of this is the refinery as opposed to its share of the Talison Lithium joint venture at Greenbushes).
- The financial statements do not disclose the separate components of the income from TLEA, which includes net revenue from Talison and the share of profit or loss from the Kwinana refinery. These results are lumped together as 'lithium business' in the segment disclosure in Note 1 which discloses a net operating profit before income tax of $553m (FY23 $1604m). It is likely that Kwinana incurred a loss which reduced the net revenue from Talison's spodumene concentrate sales. This nevertheless points to the value of the Greenbushes operation at a time of very low prices for concentrate which has seen a number of other spodumene producers cease operations.
- Corporate overheads for FY24 seem to have totalled over $100m without significant reduction from FY23 although this information is not easily determined from the annual report. The level of overheads seems to be a high impost for shareholders in a company with only one self-managed significant operating segment and a large number of exploration projects. IGO has built a reputation as a training ground for geologists but has not found a mineable deposit since the discovery of the Tropicana gold deposits in the early 2000's. We understand that significant staff reductions have been taking place in recent months and think it is time that an axe fell in the South Perth headquarters to reduce overheads to a more appropriate level for what is now a smaller entity.
- IGO may well have a hidden asset in its investments in small exploration companies with prospects in areas of interest to IGO. One of these was acquired through the Western Areas takeover and has had to be written off in FY24 – Panoramic Resources which cost $38m. However, IGO has shareholdings and at least 5 exploration joint ventures with such entities, the shares in which have a carrying value of $62.4m. Market value falls in these shares cost the group approximately $40m in FY24.

Governance and culture

IGO culture is strongly focussed on safety and the environment, and this is emphasised in the Annual Report and the Sustainability Report. At the time of writing, the board comprises 9 directors, two more than at this time last year – we shall ask why the company needs such a large board. Apart from the managing director/CEO Ivan Vella, all are independent and non-executive, with four female (44%), and seven directors have had resource industry backgrounds. Three are geologists by profession and one mechanical and one chemical engineer. Ivan Vella commenced his duties on 11 December 2023 and Marcelo Bastos was appointed on 1 July 2024. Samantha Hogg who was appointed in January 2023 does not yet have a shareholding in IGO and three other directors are below the minimum shareholding level, in the case of two of them probably because of the fall in value of their shares since acquisition. The longest serving director was appointed in

2014 and they all meet ASA guidelines as regards workload. Our concerns about the board are as to its judgement in approving the takeover of Western Areas and the fact that its chairman, Michael Nossal, is non-resident in WA. In fact, there are only 4 WA resident directors, three interstate and two resident in the Americas.

Key events

Apart from the appointment of a new MD/CEO in Ivan Vella, the decision to mothball the Cosmos mine was announced in January 2024. More recently it has been announced that the two small nickel mines in the Goldfields which were acquired from Western Areas will also be closed down soon. With the closure of all IGO-managed operations other than the Nova nickel mine and the failure of decades of exploration to produce the "belt-scale" mineral deposit for the next mine, IGO must look to making an acquisition to stay in the race. The ability of the current board to make a good buy given the recent history is in significant doubt.

Key board or senior management changes

The appointment of Mr Ivan Vella, a Rio Tinto executive, as the new CEO and managing director, was announced in June 2023. He took up his duties on 11 December 2023 but on the eve of IGO 2023 AGM on 16 November 2023, it was announced by Rio Tinto that he had been dismissed from employment because of breaching Rio's policies on safeguarding confidential information. Nevertheless, after the chair made enquiries about the circumstances of Mr Vella's dismissal, his appointment to the position of managing director and chief executive officer was confirmed. The reasons for his dismissal from Rio have not been explained.

Three other significant changes occurred during FY24 in key executives. Matt Dusci, who had been chief operating officer before the death of the previous MD/CEO Peter Bradford in October 2022, stepped into his shoes in an acting capacity until Ivan Vella's appointment. After Mr Vella's appointment, his role was changed to acting chief development officer, and his retirement was announced in May 2024. Mr Peter Carr was appointed acting chief operating officer in January 2024. Two new executive key management appointments were also announced in May – Ms Marie Bourgoin as chief development officer lithium, and Mr Brett Salt as chief growth and commercial officer.

Sustainability/ESG

IGO has always had a strong focus on sustainability and safety as well as endeavouring to be a good citizen in terms of agreeing its land access with local indigenous groups, sponsoring indigenous employment and community support. Its Sustainability Report discloses a continuing focus on ESG and a commitment of significant funds to combat climate change, seeking to be carbon neutral by 2035, if not earlier, with respect to its managed operations.

4. Rationale for Voting Intentions

Resolutions 1 to 3 Re-election of board members Nossal, Spence & Yang (against)

All three of these directors were on the board at the time that the first steps were taken to take-over Western Areas. They approved and supervised the due diligence work prior to making the final offer unconditional. Their collective responsibility for what has turned out to be a disaster for shareholders is the reason they should have resigned their office. We believe that shareholders should dismiss them. The board has a major task to select a project after Nova closes in 2 years' time or else the company will revert to a shell with an investment in the TLEA joint venture and a few exploration projects. We do not trust in the collective ability of the directors in office at the time of the Western Areas takeover to make a good decision on such a project.

Resolution 4 Election of Mr Marcelo Bastos (against)

Mr Bastos qualifications and experience are set out in the notice of meeting. However, as noted above, we think the company has too many directors and too few who are resident in WA – Mr Bastos is resident in Victoria. We are not expressing any judgement on Mr Bastos' qualifications and experience in deciding to oppose his re-election.

Resolution 4 Remuneration report (for)

It has been a very poor year for IGO and there is a temptation for us to recommend a vote against the remuneration report when results are poor. However, we think it fair that resource companies such as IGO exclude commodity-price related changes in income and expense when looking to reward executives for performance. Looking at the details of the remuneration structure, our only significant issue is with the three-year appraisal period for the LTI which is a common feature of middle-sized resource companies such as IGO and we note the need to be competitive in employment terms in that industry. We think that the determination of both STI and LTI awards is reasonably clearly explained, fair and objective and accordingly support the remuneration report in the face of bad results mainly due to the impact of nickel prices and board decisions.

Resolutions 6 & 7 Issue of share rights to Mr Ivan Vella (for)

As referred to earlier, Mr Ivan Vella, a former Rio Tinto executive, was appointed as the new CEO and managing director, taking up his duties from 11 December 2023. His commencing total fixed remuneration is $1.4m pa and he is entitled to an STI of 100% of TFR at target and 150% at maximum, and an LTI of 200% of TFR, all under the same principles of the existing remuneration plan.

Approval is sought for the grant of up to 55,381 service rights to the MD/CEO in respect of the deferred component of his short-term incentive for FY24, and 454,545 performance rights in respect of the LTI for the 3 years ending 30/6/27.

The STI grant of 55,381 (FY23 – nil) service rights to the MD/CEO represents the deferred 60% of Mr Vella's short term incentive payment earned in FY24. The number of STI Rights has been determined by dividing the face value of Mr Vella's deferred STI payment by market-based share price of $5.30 being the volume-weighted average price of IGO shares in the 5-day period following the release of the annual report in late August 2024. The basis of the STI award is set out in the appendix - Mr Vella's fixed salary pro-rata for FY24 was $776,503 and that was the target for his STI in total. He and other executive KMP achieved 63% award of that total, being $489,197, of which he was paid $195,679 in cash and the above award is $293,518 in deferred equity. The rights are expected to vest in December 2024 and be converted to restricted shares with a 12-month holding lock. We support the grant of these service rights.

The LTI grant is based on Mr Vella's fixed remuneration of $1,400,000 for FY25 (which was pro-rated for his period of employment in FY24) at the maximum opportunity of 200% and the relevant market-based share price of $6.16 being the value-weighted average price of IGO shares in the 5-day period leading up to 30 June 2024. The share rights vest if performance conditions relating to relative and absolute total shareholder return and mineral resource growth are met over the above three-year period. ASA supports this resolution.

Resolution 8 – Approval of increase in Directors' fee pool (against)

We believe that the board comprises probably 3 or 4 directors too many and that is the reason that the fee pool of $1,750,000 approved by shareholders in 2022 is now seen as inadequate. If the directors who approved the 2022 acquisition of Western Areas resign or are dismissed, the existing pool will be more than adequate.

Appendix 1
Remuneration framework detail

CEO rem. Framework for FY24 (period 11/12/23 to 30/6/24)	Target* $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	0.80	25.0%	0.80	22.2%
STI - Cash	0.32	10.0%	0.48	13.3%
STI - Equity	0.48	15.0%	0.72	20.0%
LTI	1.61	50.0%	1.61	44.4%
Total	3.21	100.00%	3.61	100.00%

The amounts in the table above are the amounts that are envisaged in the design of the remuneration plan.

Fixed salaries are set out in the annual report, and we have no reason to take exception to the amounts shown. The FY24 STI target opportunity was 100% of fixed salary for the MD/CEO and 80% for all other executive KMP. Maximum STI is awarded for stretch performance up to 50% more than target. Of the total STI awarded, 40% is paid as a cash bonus post-yearend, and 60% in service rights of which half vest after 12 months' service and half after 24 months' service following year-end. The service rights are allocated based on the average market value of IGO's shares in the post-annual report period.

STI performance targets are set in 5 areas (with FY24 results in brackets) – safety & wellbeing (21.25% ex 20%), Cosmos wind-up (20.5% ex 20%), joint venture performance (11.25% ex 15%), operational delivery (0% ex 30%), and leadership development (10% ex 15%) making a total award of 63% (FY23 47.1%) of target. Adequate details are given to enable an understanding of how the scorecard was evaluated and STI awards determined.

The FY24 LTI award is set at 200% of fixed pay for the MD/CEO, and 80% for other executive KMP, and will be assessed over the period 1 July 2023 to 30 June 2026 against 3 hurdles, relative TSR, absolute TSR, and strategic delivery. The award is designated in performance rights with their number determined by dividing the award with the average market value of IGO's shares in the week prior to year-end. Hurdles for the LTI have varied from year to year, with 6 such hurdles in FY23 – the ASA likes to see two hurdles at least being a relative TSR and an absolute performance measure so the foregoing meets this criterium. As noted above, we would prefer to see the company adopt a 4-year appraisal period for the LTI as we believe that 3 years is too short a perspective from a shareholder viewpoint. However, we accept that the competitive environment for experienced leaders in the mining area is such that this is difficult for IGO.

The FY22 LTI was tested as at 30 June 2023 with IGO having achieved a low TSR of 3% over the three years ended on that date. Accordingly, none of the 20% available was awarded for relative TSR, or of the 20% available for the absolute TSR which was negative but required a 10% pa achievement. There was no reserve growth during the period, so none of the 20% allocated for that was achieved, but 100% of the 20% allowed for average EBITDA margin was awarded because this measure exceeded 40%. The climate change hurdles worth 20% were passed with Nova achieving carbon neutrality during the period, but none was awarded for people and culture performance as IGO slipped into the lower half of companies surveyed as to employee engagement. As a result, 30% of the rights allocated for FY22 will vest in FY25. This will mean that approximately 31,500 shares ex 105,143 awarded will vest for then chief operating officer Matt Dusci, chief legal officer Kate Barker, and chief people officer Sam Retallack. The value of performance rights vesting during the year as shown in the diagram of realised pay on page 61 is the result of the determination of the FY21 LTI plan which resulted in 95.8% of awarded rights vesting.

Western Areas Post Investment and Integration Review

In July 2023, the IGO Board commissioned a review into IGO's acquisition of Western Areas Limited in 2022. While the acquisition was aligned with IGO's clean energy strategy, the Company has faced a series of challenges related to the Cosmos Project.

The Post Investment and Integration Review (PIIR) was conducted by an independent consultant and focused on key areas including acquisition strategy, due diligence process, key assumptions, risk assessment and management, capital project estimation, integration and governance.

The PIIR has now concluded with important findings in three key areas:

Valuation Assumptions: The valuation assumptions underpinning IGO's assessment of the Cosmos asset at the time of the acquisition were not borne out following completion of the acquisition. This was coupled with the rapid deterioration of the nickel market and nickel price assumptions. The PIIR has recommended that key valuation assumptions for future transactions will be benchmarked and externally peer reviewed as part of the process.

Transaction Process: There were opportunities identified to improve the transaction process. The PIIR has recommended improvements to processes including due diligence, project gating, risk assessment and risk management and the assessment of downside risks and scenarios in future transactions.

Post Acquisition Integration and Project Delivery: The risks and complexity of the acquisition were significant given that the Cosmos project was mid-construction and was further impacted by development during a period of high cost-inflation. The post transaction integration was challenged by limited information flows and pre-project planning. The PIIR has recommended a greater degree of focus on integration strategy and implementation, project delivery capability as part of the assessment of future acquisitions and the involvement of additional integration focused resources to assist as appropriate.

In light of the acquisition and integration challenges, IGO has been actively working to improve its systems, M&A process, governance and risk management, and to bridge capability gaps that have been identified since the acquisition was completed.

The Board and management acknowledge the quantum of the impairment IGO has recorded against the Western Areas transaction is significant. Having considered the PIIR in detail, the Board and management are committed to ensuring that the key findings are absorbed into the business and future M&A processes and that the recommendations made by the independent reviewer, particularly with respect to project evaluation and integration, are implemented. The Company is also continuing to assess its operating model and organisational structure, and conducting a strategy refresh, which will be communicated to the market in due course.