Managing director and chair to go after governance crisis

Company/ASX Code	Mineral Resources Ltd (MIN)
AGM time and date	9.30am (AWST) Thursday, 21 November 2024
Location	Mineral Resources Park42 Bishopsgate St, Lathlain Western Australia
Registry	Computershare
Type of meeting	Hybrid
Monitor	John Cambell (in Alan Dickson's absence)
Pre-AGM Meeting	Yes, 11 July 2024. James McClements (Independent Non-Executive Chairman) and Susie Corlett (Independent Non-Executive Director).

Monitor Shareholding: The individual involved in the preparation of this voting intention has no shareholding in this company.

1. How we intend to vote

No.	Resolution description	
1	Adoption of Remuneration Report	Against
2	Election of Director – Ms Denise McComish	For
3	Election of Director – Ms Jacqueline McGill AO	For
4	Approval for grant of securities to Managing Director	Withdrawn
5	Reinsertion of the proportional takeover provisions for a further three years	For

2. Summary of Issues and Voting Intentions for AGM

- Subsequent to year-end, allegations were made in the financial press that irregularities occurred in earlier years through the Managing Director Chris Ellison arranging for his privately-owned foreign company to sell items of machinery to MInRes at an undisclosed profit and then to evade Australian tax on the profit made. Aspects of the matter are subject to ongoing inquiry by ASIC at the time of writing, but the board has published a "mea culpa" announcement explaining the action it proposes to take in replacing the Chairman and Managing Director. Past governance has been shown to be severely deficient and we shall ask why the chairman failed to take action earlier with respect to a number of matters dealt with below under 'governance and culture'. The board statement on this dated 4 November is found at the following link: https://clients3.weblink.com.au/pdf/MIN/02876544.pdf
- No final dividend was declared for FY24. The focus of FY25 is on capital management. This includes deferring expansion projects, cost reduction and cash preservation. We believe

year-end gearing was approximately 58%, but since then MinRes has sold 49% of its 150km Onslow haul road to a private infrastructure investment platform within Morgan Stanley Investment Management for $1.1bn in immediate cash funds. This seems likely to be a loan in substance like the sale of a toll road, further increasing its already high gearing. The sale of the haul road replaced an undrawn $750m bank facility which has been cancelled. MinRes has also announced the sale of two oil & gas exploration permits in the Perth Basin to Hancock for $804m, expected to settle in the December quarter, and an agreement to joint venture MinRes' remaining acreage in the Perth and Carnarvon basins with Hancock for a further $327m. Since balance date, MinRes has deployed 3 additional transhipper barges at Onslow and payment arrangements for these vessels and the aircraft are not set out in the annual report. We await the subsequent quarterly reports to assess the extent to which cash flow from Onslow operations will ease what is otherwise a possible financial loss in FY25 according to analysts.

- Two new independent non-executive directors are nominated for election. Both candidates have appropriate skills and experience to lend strength to the board so we will support their election.

3. Matters Considered

Accounts and reports

Financial performance

(As at FYE)	**2024**	**2023**	**2022**	**2021**	**2020**
NPAT ($m)	114	244	351	1,268	1,002
UPAT ($m)	158	769	400	1,103	333.6
Share price ($)	53.92	71.43	48.27	53.73	21.17
Dividend (cents)	90	220	100	275	100
Simple TSR (%)	-23	52	-7	162	45
EPS (cents)	63.54	126.25	184.87	673.2	533
CEO total remuneration, actual ($m)	13.32	3.39	5.91	7.39	3.69

The quantum of capital expenditure during the year is the main feature of FY24, with the segment assets of CSI mining services, iron ore and lithium rising by $1,282m, $1,524m, and $1,199m respectively, or $4bn in aggregate. This has placed the balance sheet under some stress, coming at a time of reduced prices for spodumene produced in the lithium mines.

The development of the Onslow iron ore operation is referred to as transformational in several places in the annual report. There is comment on the intention to expand the fleet of two existing transhippers to five to move 10.5-11.7mt of iron ore from onshore Onslow to moored bulk carriers 40km offshore in FY25, ramping up to nameplate 35mtpa in FY26. We look forward to reviewing the information in quarterly reports to see the expansion of exports which only started from Onslow in June.

The lithium mines' EBITDA contribution fell almost $1bn in FY24 and was responsible for the fall in profitability in the year. In FY23 it contributed $1,325m in EBITDA at a margin of 70%, but this margin fell to just 27% in FY24 and EBITDA to $384m. In contrast, mining services revenue increased $218m and EBITDA contribution also increased $66m despite a small fall in EBITDA margin. With the low overall NPAT result, no final dividend is to be paid and future dividends will depend upon the Onslow operation achieving sufficient profitability.

In a year in which MinRes had a very significant level of capital investment in iron ore, energy and airlines, it also spent $597m buying listed company shares and was required to mark these to market at year-end incurring a loss of $238m for the year. We shall ask for what purpose the shares were acquired and whether or not they are related to MinRes' other business activities.

Cash flow from operating activities was $1,449m compared to $1,354m in FY23. However, of the FY24 cash flow, $1.258m was funded by an increase in creditors which include a prepayment of $600m for future sales of iron ore (in substance a loan). If the $600m was reclassified to borrowings, disclosed gearing of 55% becomes 58%.

Included in receivables and contract assets is a loan of $545m (current $163m, non-current $382m) described as the Onslow Carry Loan, being funding for the costs of other joint operators of the Onslow Project. No indication has been given in the annual report as to future obligations of MinRes to provide such funding. This is additional to the amounts disclosed from Notes 14 and 15 that $4,690m has been spent on the Onslow project in FY24 in terms of $2,670m plant and equipment and $2,020m in mine property and development. The project is not scheduled for completion until October 2024.

Consensus analyst estimates for FY25 indicate that revenues are expected to decline 12% and that no dividends are anticipated. However, the funding situation has been relieved by the sale of the 150km haul road from iron ore mines to Onslow for a consideration of $1.3bn and by the sale of the oil & gas interests. We are unsure if the group will need further borrowings as it has undrawn facilities at present. The extent of capex involved in completing its Onslow facilities, in providing airline services to its work camps, and in continued oil & gas exploration, is $1.945m per the guidance provided, of which $961m is disclosed as a capital commitment.

It is evident that there has been considerable shorting of MinRes shares at present which may well have been reduced after the board announcement on 4 November and subsequent 10% fall in the value of the shares.

Governance and culture

On face value, governance appears to conform with normal requirements as regards skills and experience of the board, and diversity and committee structure although we would prefer to see a non-executive director other than the chairman chairing the remuneration committee. We also note that the chairman is a UK resident which presumably detracts from day-to-day contact with MinRes activities. It would be good to see a matrix of skills within the board, which ASA has suggested in previous years at the pre-AGM meeting. It would appear none of the current board members have cyber skills. Whilst no adverse features are apparent in the structure of the board, the recent allegations about Mr Ellison's past dealing and the failure of the board to disclose these until their revelation in the press at the assumed instigation of a whistleblower casts significant doubt on past governance effectiveness. There are other disquieting revelations in the annual report and the board mea culpa statement on 4 November:

- Related party payments to entities of 'key management personnel/directors' (identity undisclosed) of $2.32m in rent, $0.06m in catering supplies, and $1.25m import/export services. Such related party transactions are normally prohibited in larger listed companies
- The employment of 5 relatives of 'key management personnel/directors' (identity again undisclosed) who drew remuneration totalling $874,251 during the year, an average of $175,000 per employee. Again, nepotism is prohibited in most listed companies.

The implication is that at least in the past the board has felt obliged to comply with the requests of the managing director at the expense of good governance. It says little in favour of the actual culture of the organisation.

Key events

- July 2023 – MinRes announced amended terms of the MARBL Joint Venture transactions signed with Albemarle Corporation in February 2023, including an increase to its share of the Wodgina lithium mine to 50%.
- August 2023 – MinRes purchased Buru Energy Limited's part ownership of relevant permits and application relating to conventional gas exploration in the onshore Carnarvon basin.
- November 2023 - MinRes finalised acquisition of the Bald Hill lithium project (Goldfields)
- December 2023 - Denise McComish appointed to the Board (Independent Non-Executive Director)
- January 2024 - Jacqueline McGill AO appointed to the Board (Independent Non-Executive Director)
- May 2024 – Onslow Iron first ore shipment. MinRes Air announced.
- June 2024 – MinRes entered binding agreement with Morgan Stanley Infrastructure Partners for the sale of a 49% interest in Onslow Iron's haul road (expected $1.3b)
- Subsequent events including revelations of secret profits retained by the MD, sales of the haul road and of oil & gas interests.

Key board or senior management changes

During FY24 the following changes were made to the Board:

- Resignation of Independent Non-Executive Director Kelvin Flynn (served 14 years and 9 years as Chair of the Audit and Risk Committee).
- Appointment of Independent Non-Executive Director Denise McComish.
- Appointment of Independent Non-Executive Director Jacqui McGill AO.
- Newly established Technical Committee chaired by Jacqui McGill AO.
- Establishment of a board Ethics and Governance Committee which is welcomed by the ASA.

Sustainability/ESG

The following key points are noted during FY24 relating to ESG matters:

- One cultural heritage clearing incident was reported to the Regulator. The internal investigation is underway.
- 24 significant environmental incidents (up from 5 in FY23) occurred during FY24. No high-impact environmental incidents were reported and no fines or prosecutions were received relating to environmental performance across MinRes Operations.

- Female representation at the leadership level remains low (0% of female representation in the C-Suite and 12% in Executive and Senior Management roles). The Board has a gender diversity mix of 56% female representation. In FY25 MinRes have committed to developing a three-year Diversity and Inclusion Strategy to attract and retain a diverse and inclusive workforce.
- The Company's greenhouse gas (GHG) intensity target (Carbon intensity of operations (tCO2 -e/TMM)) which has been reported in the Sustainability Report in the past few years, has been omitted in FY24. ASA had previously questioned (at pre-AGM meetings) the appropriateness the GHG intensity metric given the changing nature of the Company's operations. In the 2024 Sustainability Report, MinRes notes that from FY25 it will report on additional GHG metrics in line with the updated FY35 emission intensity ambition. The ASA looks forward to reviewing these when released.
- MinRes maintains its commitment to net zero by 2050, with an interim target of 45 per cent reduction in scope 1 and 2 emissions intensity by FY35 relative to an FY24 baseline.
- Emissions reductions initiatives commenced in FY24, with a spend of over $57m. This includes energy efficiency, renewable energy and fleet electrification works and studies.
- $8 million was contributed to the Company's social investment program (up $0.5m from 2023).
- MinRes expanded their mental health services across their offices and sites.

4. Rationale for Voting Intentions

Resolution 1 - Adoption of Remuneration Report - Against

The actual payments appeared reasonable for the size and complexity of the company. However, ASA has four concerns:

- MinRes uses only one hurdle in its Long-Term Incentive (LTI) calculations, in this case the 4-year average Return on Invested Capital (ROIC). We prefer to see at least two measures and one of these based on relative TSR. We note that many companies also use non-financial hurdles related to strategic aims such as the achievement of greenhouse gas emission targets.
- There is little transparency with MinRes' STI hurdles. The various performance criteria are listed with the achievements in those areas stated in general terms, but no information is provided as to how the scores were determined.
- The degree of board/committee discretion involved in STI determination mentioned in the remuneration report is not specified. "Drawing on analysis of performance against key indicators, the Board reviews Group performance objectives set and overall Pillar performance to determine a score out of 100 per cent." We would prefer to see the key indicators used to determine the percentage and the board's discretion limited to a review of that against overall outcomes.
- MinRes uses the offer of retention incentives to executives. The ASA believes that base salaries should be set at a level necessary to provide an incentive for retention and that bonuses above base or target salary should only be awarded based on performance exceeding norms. Two incentive retention offers made in FY20 to the CEO and CFO vested in FY24 resulting in the issue of 19,555 share rights to the CEO and 21,855 rights to the CFO.

We are pleased to see the LTI is based on a 4-year term and that the STI has a cash component and two deferred share rights components. We have previously advised our preference for additional hurdle parameters for the LTI. There has been no change, so we oppose this resolution.

Resolution 2 - Election of Director – Ms Denise McComish - For

Denise has expertise in financial, corporate, and ESG matters across the mining, energy, financial services, and infrastructure sectors. With 30 years at KPMG, she specialised in audit and advisory services and held leadership roles, including on the KPMG Australia Board.

Denise is a Fellow of Chartered Accountants Australia and New Zealand and a member of the Australian Institute of Company Directors and Chief Executive Women. In 2018, Denise was recognised as one of the Top 100 Global Inspirational Women in Mining and currently serves as a Non-Executive Director on four other boards including Gold Road Resources (ASX code: GOR), Webjet (ASX code: WEB) and Synergy, and Beyond Blue.

The ASA notes the number of existing Directorship commitments of Ms McComish, however believes Ms McComish's experience in audit, risk, ESG and financial accounting would be a welcome addition to the Mineral Resources board.

Resolution 3 - Election of Director – Ms Jacqueline McGill AO - For

Jacqueline is an experienced executive and non-executive director with over 30 years of experience in large-scale operations within the mining and resources sectors, covering commodities including iron ore, gold, coal, and uranium. She has held leadership roles in operations, business development, technology, and project management, including chief executive positions at Mitsui Coal and Olympic Dam Corporation.

Jacqueline currently serves on boards including as an Independent Non-Executive Director for New Hope Corporation Limited (ASX code: NHC), Gold Fields Limited (ASX code: GFI), and 29Metals Limited (ASX code: 29M). In recognition of her service to the mining sector and advocacy for gender equity and workplace diversity, she was appointed an Officer of the Order of Australia in 2020.

Jacqueline's appointment, combined with the FOR vote for resolution 4 above, brings the total female board representation from 43% to 56%.

Resolution 4 – Approval for grant of securities to Managing Director - withdrawn

Approval was to be sought for the award of 51,976 share rights to Mr Ellison with respect to his FY24 long term incentive (LTI) and up to $1.0m in FY25 short term incentive (STI) share rights to the extent that he may become entitled to receive them based on FY25 annual performance. The basis of calculation of share rights is set out in the appendix and whilst we object to the basis of calculation of the LTI award and have reservations about transparency for the STI award, we would not normally have voted against the awards as we recognise that the managing director should be awarded incentives for both short and long term performance. This is not a normal situation and the resolution not been withdrawn we would have voted against it.

However, Mr Ellison has apologised for his past conduct in making secret profits at the expense of other MinRes shareholders and the board has decided to claw-back equity remuneration and has withdrawn this resolution from the AGM agenda in consequence.

It is also disappointing to note that Mr Ellison is the non-executive chairman of another listed company, Delta Lithium Ltd, as well as being a director of Alita Resources, ultimate owner of the Bald Hill lithium mine, which is in administration. We would prefer to see the chief executive's attention solely focussed on MinRes particularly in its somewhat stressful current circumstances.

Resolution 5 – Reinsertion of the proportional takeover provisions for a further three years (special resolution) – For

The ASA supports the renewal of constitutional provisions preventing a proportionate takeover without shareholder approval. Our preference is for full takeovers; proportionate takeovers allow a predator to only bid for a proportion of a shareholders' interest so that they are left with a diluted holding and a controlling shareholder.

Appendix 1
Remuneration framework detail

CEO rem. Framework for FY24	Target* $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	1.60	26.8%	1.60	24.7%
STI - Cash	0.75	12.5%	0.75	11.6%
STI - Equity	0.75	12.5%	1.25	19.3%
LTI	2.88	48.2%	2.88	44.4%
Total	5.98	100.00%	6.48	100.00%

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

The fixed remuneration is determined after comparison to salaries of KMP in other listed companies. The hurdles for the STI are as follows with the scores achieved for FY24 shown in brackets:

- safety governance and sustainability (FY24 score 17 ex 20% weight),
- strategic growth (30 ex 30%),
- financial and operating performance (25 ex 30%) and
- organisational culture (17 ex 20%)

As stated above, there is no transparency beyond that information as to the targets set for the various hurdles which are said to be applied on a group and 'pillar' (operating segment) basis. The CEO earned a cash bonus of $1.0m and share rights to the value of $0.78m whilst the CFO achieved $0.6 cash and $0.47 equity, both being 89% of the maximum STI. Each of the three chief executives achieved the same score of 88% of maximum STI being a cash bonus of $450,000 and an equity grant of $292,500. The equity grants were settled based on the value weighted average price of MinRes shares in June 2024 ($55.41 used). Information is provided as to achievements in each of the areas listed above but this is not compared to targets.

The LTI is determined on a single hurdle being return on invested capital. For the LTI commencing on 1 July 2023 and that for which the award is sought under resolution 4, the 4-year average rate of at least 12%, with maximum being earned if the rate is 18% or better, this being assessed by reference to the amount of capital invested at the start of the year. In the past, this has been the level of capital at the end of the year but this was felt to be inappropriate so a change was made. We are unsure why the more simple expedient of using average capital invested was not preferred.

The four-year FY21 LTI award was tested at 30 June 2024 and resulted in the determination that the average return on capital was 16.2% resulting in 89.9% vesting. For the CEO, the value of the FY21 award as at vesting for the 89.9% vested was $1.88m but appreciation of MinRes shares in the interim provided a further bonus of $8.18m to Mr Ellison at vesting. As stated under resolution 1 above, we believe that the use of a single ROIC hurdle is inappropriate and that at least a TSR hurdle should be included. We shall seek clarity of the status of the FY21 LTI as regards its vesting in current circumstances.