

## One Fortescue structure. Five Green Energy projects planned for final investment decision

<b>Company/ASX Code</b>	<b>Fortescue / FMG</b>
<b>AGM time and date</b>	<b>10.00am AWST Tuesday, 21 November 2023</b>
<b>Location</b>	Crown Perth, Astral Ballroom Great Eastern Highway, Perth WA
<b>Registry</b>	Link Market Services Ltd
<b>Type of meeting</b>	Physical
<b>Monitor</b>	Len Roy assisted by Ian Berry
<b>Pre-AGM Meeting</b>	With Company Secretary Cameron Wilson & 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

Res. No	Agenda	
1	Adoption of Remuneration Report	For
2	Re-election Dr Andrew Forrest AO	For
3	Re-election Mr Mark Barnaba AM CITWA	For
4	Re-election Ms Penny Bingham-Hall	For
5	Election of Dr Larry Marshall	For
6	Change of Company Name to Fortescue Ltd	For

### Summary of Key points.

The company has now changed to one company brand – Fortescue – and two business divisions being Fortescue Metals and Fortescue Energy. ASX ticker FMG remains unchanged. Dino Otranto is CEO of Metals and Mark Hutchinson is CEO of Energy. Both reporting to Executive Chairman Dr Andrew Forrest.

Previously, the main focus of FFI, Fortescue Future Industries, was to identify & accelerate the pathway to zero carbon 2030 and consider the potential technologies & viability of Green Hydrogen projects around the world. FFI had expensed in excess of A\$1. 0 billion over 2-3 years in investigating, researching and carrying out feasibility studies relative to FMG mining operations plus separate global energy transition opportunities. Specifically, green hydrogen & green ammonia.

The company is currently running electric battery pack, haul trucks & locomotive trials in the Pilbara. In addition, ammonia propulsion trials are being undertaken in one of its 8 iron ore carriers.

Globally, Fortescue Energy has 5 potential green energy projects in which it is targeting end of CY23 for FID consideration (relative to Fortescue Energy.) It is believed the five are located in Phoenix USA, UK, Holmaneset Norway, NZ & Australia.

At the FY22 AGM and during our pre-AGM FY23 discussions, we asked for more transparency on FFI expenditures particularly aggregate amounts being capitalised on the balance sheet and aggregate amounts being expensed in the profit and loss statements. Given that accounting & financial structures will have necessarily changed under the One Fortescue with two business units, the company has now provided Fortescue Energy (formerly FFI), FY24 guidance by way of operating expenditure US\$800m and capital expenditure approximately US\$400m (exclusive of projects subject to final investment decision/FID).

Dr Andrew Forrest continues in the Executive Chairman role. We questioned this with Penny Bingham-Hall who is Chair of Remuneration & People Committee. ASA's concern is the possibility of dominance over the board at the expense of constructive & professional inputs from other board members. We were advised the Exec Chair role continues to be temporary and was put in place after considering the global dynamics of pursuing green energy opportunities plus the settling in of new senior executives.

Iron Bridge magnetite project has commenced early processing & commissioning. The processing technology & infrastructure design, construction & commissioning has been somewhat more challenging than originally planned. The original go ahead was announced by FMG in April 2019 with indicative capital cost of US\$2.1 billion and target commissioning CY22 followed by 12 months ramp up to full production. Indicative ramp up to full production was CY22.

The project capital estimate is updated in the FY23 Results announcement to US\$ 4.0bn (previously US\$3.9bn), with Fortescue's share approximately US\$3.1bn. As part of Fortescue's review of the carrying value of its assets for FY23, a non-cash, post-tax impairment charge for Iron Bridge assets of US\$726m was recognised (pre-tax US\$1.0bn).

Iron Bridge is strategically important over the long term to Fortescue & its JV partner Formosa Steel IB Pty Ltd. Results from early-stage commissioning & pilot production achieved iron content of 68% compared to feasibility input of 67% and JORC compliant magnetite resources suggest a mine life of approximately 20 years. Iron Bridge high iron product will lend itself to pelletising as well as regular concentrate and will help with Scope 3 low carbon efforts on the part of Fortescue iron ore customers. Additionally, the high iron magnetite product blended with Fortescue's normal hematite product will put FMG at the top end of Platts pricing categories.

## Financial performance

(As at FYE)	2023	2022	2021	2020	2019
NPAT (US\$m)	4796	6197	10295	4735	3187
UPAT (US\$m)	5522	6197	10349	4746	3187
Share price (A\$)	22.18	17.53	23.34	13.85	9.02
Dividend (cents)	1.75	2.07	3.58	1.76	1.14
Simple TSR (%)	36.5%	(21.33%)	92.8%	73.1%	60.9%
CEO total remuneration, actual (\$A) *	5,572,676	7,921,158	5,686,523	9,944,613	5,003,888

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.

\*Elizabeth Gaines served as CEO until 31 August 2022 and retained eligibility to participate in the FY 21 LTIP and also received a special recognition award. Ms Gaines subsequently transitioned into the Executive Director role. Her successor Fiona Hick was appointed Fortescue Metals CEO February 2023 and departed in August 2023.

Currently, Fortescue Group has two Executive Directors Dr Andrew Forrest & Ms Elizabeth Gaines plus two divisional CEOs – Fortescue Metals and Fortescue Energy - who report to Dr Andrew Forrest.

## Governance and culture

Fortescue has had a number of senior executive changes. Most notably are;

Group CFO Ian Wells announced his resignation 9 January '23, effective 31 January '23 to pursue other opportunities.

Metals CEO Fiona Hick resigned after 6 months engagement and has been replaced by Dino Otranto. Christine Morris resigned as Metals CFO after a short engagement.

Jennifer Morris resigned June 30 '23 from her NED role following 7 years of service.

Former FMG CEO & MD Elizabeth Gaines has transitioned from her recent NED / Global Ambassador role to the current Executive Director role.

Scientist Dr Larry Marshall has joined the FMG board as an independent NED. He was formerly Chief Executive of the CSIRO.

Dr Andrew Forrest continues in his Executive Director role to support the updated executive structure and steer FMG along the accelerated green energy pathway in parallel with upholding its strong position in the global iron ore sector.

As at September '23, the FMG board is made up of 4 female & 4 male directors. The board is majority independent. Aside from the 2 executive directors, we note Mark Barnaba's tenure. He has been on the board since 2010.

Much has been said in the media about senior executive changes at FMG however there has been little said of the company's ability to manage succession & change in an expedient manner.

## **Key Audit Matters**

Auditors PWC list the following;

Impairment assessment of the Iron Bridge cash generating unit

Operating Sales Revenue-iron ore & shipping revenue

Restoration & rehabilitation obligations

## **Remuneration Report**

The report addresses financial, safety & operational performance including progress with Iron Bridge & Gabon West Africa projects. Also, the developing green energy projects associated with FMG's "Zero Scope 1 & 2 emissions across the Australian iron ore operations by 2030.

The FY23 People Experience Survey resulted in a Net Promoter Score dropping 10 points compared to FY22 result with FMG's management working through & acting upon feedback.

The structure of remuneration continues to evolve in line with the dynamics of FMG's business. Two areas where there is significant variance with ASA Guidelines are Executive Chairman (see comments under Governance) and use of Board Discretion. The company culture is one of high motivation and performance plus the overall culture which is somewhat unique to Fortescue.

In recognition of their exceptional performance and contributions throughout their tenures, the FMG board approved special recognition payments of A\$1.976m for former CEO Elizabeth Gaines & A\$1.0m for former CFO Ian Wells. The board took a holistic account of the exceptional performance of the two executives during their tenure resulting in high level company performance across all metrics.

The FY21LTIP approved by shareholders, has a three-year performance period with ROE & TSR being the financial metrics. The performance period & outcomes resulted in 100% vesting of ROE & TSR however partial progress with Strategic Measures component resulted in 10.6% weighted outcome.

The FY23 ESSIP included stretch targets to drive overall performance and the outcomes for the CEO & other KMP ranged from 85.0% to 88.6%.

The FY23 FFI LTIP structure has been upgraded to include TSR and Emissions Elimination & Strategic Measures reflecting the Energy division's green energy focus and the Metals LTIP now includes threshold, target & stretch levels of performance reflecting the coordination of mining, production, logistics associated with Metals overall performance.

The chair of Remuneration & People Committee Penny Bingham-Hall has indicated some simplification of ESSIP scorecards and LTIP measures across Metals & Energy businesses for FY24 is on the agenda.

## **Sustainability/ESG**

Fortescue's FY23 Sustainability Report is focused on 3P's – People, Planet & Process.

The company has been very pro active in developing & continuously upgrading its approach to Sustainability in line with evolving global reporting initiatives. The company lists global organisations / associations engaged in defining sustainability / ESG reporting structures & metrics.

The voluntary standards & principles for transparent reporting include;

Global Reporting Initiative  
ICMM  
TCFD - Taskforce for Climate Related Financial Disclosures  
United Nations SDG's  
UNGC including Communication on Progress  
Voluntary Principles Initiative

ESG performance measures & benchmarking include;

CDP - previously Carbon Disclosure Project.  
Dow Jones Sustainability Indices  
FTSE 4 Good Index  
ISS ESG ratings  
Moody's ESG ratings  
MSCI ESG ratings  
S & P Global Corporate Sustainability Assessment  
Workplace Gender Equality Agency

The Fortescue Sustainability Report clearly lays out measurement of performance under the 3P categories with "Objective" "Target" and "achieved" over three consecutive years FY21-FY23.

The report also covers Memberships & commitments indicating FMG participated in over 70 industry groups & associations, contributing an aggregate \$2m in fees. The five most significant are listed.

## **4. Rationale for Voting Intentions**

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

The framework follows the traditional Total Fixed Remuneration plus incentivised awards. Performance measures & outcomes are identified. The areas where there is significant divergence with ASA Guidelines is the role of Executive Chairman & use of Board discretion.

Taking into account the overall operational & financial company performance including the proactive approach to ESG we support Resolution 1.

### **Resolution 2 - Re-election of Dr Andrew Forrest**

Dr Forrest has led FMG for 20 years. Under his leadership the company has become a global leader in the iron ore sector and now, focused on upholding that position and, in addition, achieving 2030 low carbon emissions by way of technological break throughs & viable business options for green hydrogen & ammonia. Dr Forrest including Tattarang Pty Ltd, Mindaroo Foundation Ltd and family interests held 36.74% of the issued capital as at 30 June '23.

A major test of the company's leadership will be when FMG is required to consider FID (relevant to FMG), of respective green sustainable growth opportunities.

We support Resolution 2.

### **Resolution 3 - Re-election of Mr Mark Barnaba AM CITWA.**

Mr Barnaba has high level professional qualifications and similarly high level director appointments. His Order of Australia recognition referenced his significant service , to the investment banking & financial sector , business education & sporting & cultural organisations. Previous employment included senior executive roles in UK, USA, South Africa. He is Deputy Chair & Independent NED with long tenure.

We support Resolution 3.

### **Resolution 4 - Re-election of Ms Penny Bingham-Hall**

Ms Bingham-Hall was appointed Independent NED 2016. She has senior executive & director background with several ASX Listed companies, including construction, mining & infrastructure. Additionally, Ms Bingham-Hall chairs Vocus Group, Taronga Conservation Society Australia, plus Climate Governance Initiative Australia Advisory Committee.

We support Resolution 4.

### **Resolution 5 - Election of Dr Larry Marshall**

Dr Marshall has a PhD in Physics, is a Fellow of AICD and Australian Institute of Physics & Academy of Technological Sciences & Engineering. He is a technology innovator who has been longest serving CEO of CSIRO. He has co-founded & led six companies, authored 100 publications and holds 20 patents.

Author of 2023 book Invention to innovation: How Scientists Can Drive Our Economy.

We support Resolution 5.

### **Resolution 6 - Change of company name to Fortescue Ltd**

This resolution formally acknowledges the company's development from a single iron ore focused enterprise to a dual division now focused on Metals (iron ore at this time), and Energy (particularly low carbon zero, sustainable green opportunities).

We support the Resolution 6.

#### **ASA Disclaimer**

*This document has been prepared by the Australian Shareholders Association Limited ABN 40 000 625 669 ("ASA"). It is not a disclosure document, it does not constitute investment or legal advice and it does not take into account any person's particular investment objectives. The statements and information contained in this document are not intended to represent recommendations of a particular course of action to any particular person. Readers should obtain their own independent investment and legal advice in relation to the matters contemplated by this document. To the fullest extent permitted by law, neither ASA nor any of its officers, directors, employees, contractors, agents or related bodies corporate:*

- makes any representations, warranties or guarantees (express or implied) as to the accuracy, reliability, completeness or fitness for purpose of any statements or information contained in this document; or*
- shall have any liability (whether in contract, by reason of negligence or negligent misstatement or otherwise) for any statements or information contained in, or omissions from this document; nor for any person's acts or omissions undertaken or made in reliance of any such statements, information or omissions.*

*This document may contain forward looking statements. Such statements are predictions only and are subject to uncertainties. Given these uncertainties, readers are cautioned not to place reliance on any such statements. Any such statements speak only to the date of issue of this document and ASA disclaims any obligation to disseminate any updates or revisions to any such statements to reflect changed expectations or circumstances.*