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Record financial performance, highest dividends and lowest annual TRIFR

Company/ASX Code	Fortescue Metals Group Limited/FMG
AGM date	Tuesday October 29 2019
Time and location	10.00AM Hyatt Regency 99 Adelaide Terrace, East Perth
Registry	Link Market Services Limited
Webcast	Yes
Poll or show of hands	Poll on all items
Monitor	Len Roy assisted by Ian Berry
Pre AGM Meeting?	Yes with Deputy Chair Sharon Warburton & Co Sec Cameron Wilson

*TRFIR total recordable injury frequency rate

Item 1	**Consideration of financial reports**
ASA Vote	No vote required – all amounts in US$ unless otherwise stated

FMG's share price doubled during FY19 (financial year 2019). This was a reflection of iron ore pricing, upholding competitive C1 costs and annual shipping levels, plus FMG's disciplined management of financials including capex. Flexibility in product mix is playing a strategic part in FMG's price realisation. During FY19 the company commenced inclusion of the 60.1% West Pilbara Fines blend which has higher iron and low alumina ore.

Headline Financials (in US$)	FY19	FY18
Revenue	$9,965m	$6,887m
NPAT	$3,187m	$878m
EPS cents	103.1 cps	28.2cps
Ave realised price (per dry metric tonne)	$65	$44
C1 costs (per wet metric tonne)	$13	$12
Return on Equity, %	31	11
Gross Gearing %	27	29
Net Debt	$2,078m	$3,112m

Cash flow from operating activities jumped from $1,601m FY18 to $4,373m FY19.

Five year summary

(As at FYE)	**2019**	**2018**	**2017**	**2016**	**2015**
NPAT (US$m)	3,187	878	2093	985	316
UPAT (US$m)	3,187	1080	2093	985	316
Share price (A$)	9.02	4.39	5.22	3.50	1.91
Dividend (A$)	1.14	0.23	0.45	0.15	0.05
TSR (%) – Divs Declared	131.4%	(11.5%)	62.0%	91.1%	(54.9%)
TSR (%) – Divs Paid	128.7%	(9.0%)	58.3%	85.9%	(53.1%)
EPS (US cents)	103.1	28.2	67.3	31.6	10.18
CEO total statutory remuneration, (A$m)	5.004	2.521	7.470	5.324	5.992
CEO total actual remuneration, (A$m)	4.468	1.955	5.699	8.465	4.243

For FY19, the CEO's total actual remuneration was **52 times** the Australian Full time Adult Average Weekly Total Earnings ($1633.80 based on May 2019 data from the Australian Bureau of Statistics).

Dividends

Total dividend applicable to FY19 was A$1.14 compared to FY18's 23 cps. Dividend payout ratio increased from 62% of full year net profit after tax (NPAT) FY18 to 78% FY19.

	Dividends Declared				
	FY19	FY18	FY17	FY16	FY15
Start	4.39	5.22	3.5	1.91	4.35
End	9.02	4.39	5.22	3.5	1.91
Divs Declared	1.14	0.23	0.45	0.15	0.05
	5.77	-0.6	2.17	1.74	-2.39
	131.4%	-11.5%	62.0%	91.1%	-54.9%

	Dividends Paid				
	FY19	FY18	FY17	FY16	FY15
Start	4.39	5.22	3.5	1.91	4.35
End	9.02	4.39	5.22	3.5	1.91
Divs Paid	1.02	0.36	0.32	0.05	0.13
	5.65	-0.47	2.04	1.64	-2.31
	128.7%	-9.0%	58.3%	85.9%	-53.1%

During FY19 FMG improved shareholder returns with the on-market buy-back of 34.8m shares at an average price of A$3.997 per share.

Capital expenditure

FY19's capital expenditure amounted to $1,040m made up of:

Sustaining capital	$612m
Ore carriers & towage	$80m
Development capital	$141m
Eliwana mine and rail	$102m
Exploration expenditure	$105m

Shareholders will be encouraged by the negligible level of intangible assets in the balance sheet FY19 (at $6m with prior corresponding period (pcp) $4m). Also, the $706m restoration & rehabilitation provision in the FY19 accounts. The provision takes into account the current Life of Mine estimates.

Debt & debt maturity

On October 1, 2018 FMG increased the size of its revolving credit facility by US$500m to $1,025m and extended the maturity by 12 months to July 2021.

Total borrowings outstanding FY19 $3,379m compares with FY18 level of $3,380m.

No financial maintenance covenants are contained within FMG's debt instruments and debt maturity (excluding finance leases), consists of $1,400m Syndicated term loan due 220 calendar year (CY2022), $750m senior unsecured notes due CY2022, $500m senior secured notes due CY2023 and $750m senior unsecured notes due CY2024.

In September 2019 FMG advised the market it had refinanced US$600m resulting in lower annual interest costs, flattening of the repayment profile and extension of maturities to 2027.

Safety Achievement

Safety is a core value within FMG and FY19 saw a 24% improvement in the Total Recordable Injury Frequency Rate. The 2.8 TRIFR achieved is the lowest in FMG history.

Customer base

Approximately 93% of FMG FY19 revenue was based on deliveries to a multiple number of mills in China and FMG invests in a very customer centric dialogue to ensure the requirements of individual steel mills are taken into account. In the interests of geographic diversity, FMG is developing sales in several other countries.

Governance and culture

The board has a majority of women directors and is made up of 8 non-executive directors (NEDs) plus the MD. Andrew Forrest AO is NED chair. Professional qualifications and relevant experience within the board and Core Leadership Team (CLT) include finance and accounting, corporate governance, law, large scale supply chain management, steel mill production and technology, metallurgy & chemistry and construction engineering. No changes were made at board level or the CLT in FY19.

The company has a formal policy on minimum shareholdings for NEDs, CLT and senior executives. The basics are;

NEDs 100% of base fixed remuneration

CEO 100% of total fixed remuneration

Other CLT 75% of total fixed remuneration

Other executives 50% of total fixed remuneration.

Item 2 Resolution1	**Adoption of Remuneration Report**
ASA Vote	**For**

Summary of ASA Position

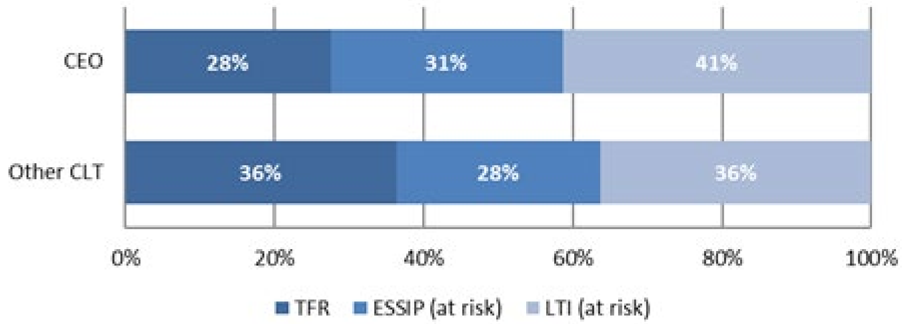
The FMG remuneration report is comprehensive with a good layout. The structure is explained in easy to follow detail. There are three relatively common components;

Fixed salary, short-term incentive and a long-term incentive with a 3-year performance period. ASA has on several occasions challenged FMG on “long-term” and FMG has consistently argued that a 3-year performance period is more appropriate considering the mining, commodity cycles and global influences on their business.

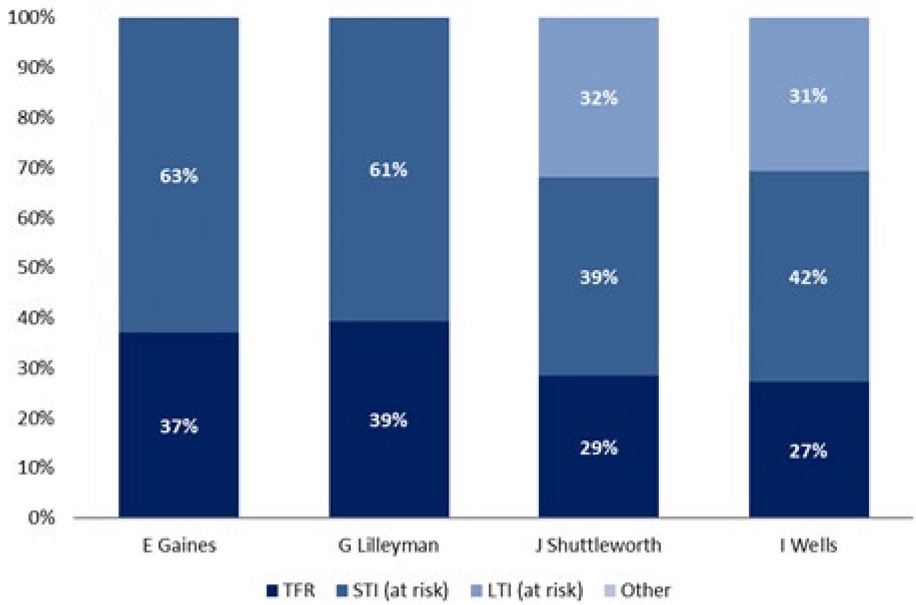
Executive and Senior Staff Incentive Plan (ESSIP) or STI (short-term incentive) award criteria are spread over safety, culture, sustaining capex and financial performance. Financial targets include revenue, production, operating cost, cash flow, business diversification and growth targets. A minimum of 50% of award is payable in share rights and balance in cash. Market price VWAP (volume weighted average price) is employed for allocation of share rights.

LTIP (long term incentive plan) award criteria are RTSR (relative total shareholder returns) – 1/3, AROE (adjusted return on equity) – 1/3 and Strategic measures – 1/3. The strategic measures include the following areas (some of which are financial in nature): Safety (Safety leadership and culture), Performance (Competitive position, cash flow and efficient use of capital), Resource Management (Long term sustainability), Iron ore and other Commodity Growth (Growth and diversity of income) and Balance Sheet Management (Capital efficiency, cash flow and long term sustainability).

The table below shows the superior performance if & when stretch targets have been met by CEO & other CLT



The chart below represents the actual remuneration mix for the CLT FY19.



Over three quarters of "at risk" component of executive remuneration is granted in share rights based on VWAP of shares.

The total fixed remuneration (TFR) consists of cash, superannuation and optional salary sacrifice benefits. The current CEO, Elizabeth Gaines took over from Nev Power who left the company in February 2018.

According to the FY18 Annual Report (p. 135), Ms Gaines had a TFR of A$1,500,000 that was increased from 1 January 2019 to A$ 1,850,000 (FY19 Annual Report, p. 118). The CEO's maximum opportunity for the STI and LTI remains the same in both financial years.

The following table shows the CEO's target and maximum opportunity for FY19 based on frameworks defined in the annual report.

All amounts A$	Target A$m	% of Total	Max. Opportunity A$m	% of Total
Fixed Remuneration	1.85	30%	1.85	28%
STI - Cash	0.925	15%	1.04	15.5%
STI - Equity	0.925	15%	1.04	15.5%
LTI	1.85	30%	2.77	41%
Total	5.55	100%	6.70	100%

The ASA has used the 2019 TFR to assess the company's CEO remuneration package in terms of their target and maximum opportunity pay. Since the company uses a scorecard mechanism to assess how the ESSIP awards are calculated, they have clearly defined the target achievement amounts against which performance is measured. The table has used the 100% of the TFR to define the target STI and LTI amounts as the maximum opportunity for STI indicated in the report is 112.5% but the CEO was awarded 95.2% of her total TFR on achieving and partially achieving several key measures used to decide the STI award. The LTI has clearer target amounts relating to 100% vesting if specific targets are achieved. The target value is equivalent to 100% of the TFR.

Depending on whether these targets were exceeded or not, the CEO's opportunity for the ESSIP shifts but cannot exceed a maximum of 112.5%. The ESSIP is also unique in that it provides for a minimum of 50% of the amount to be awarded as deferred equity shares and a maximum of 50% to be awarded in cash with employees having the option to accept all of the amount as deferred shares instead of cash.

For the LTI award, target, threshold and stretch amounts have been defined with more clarity. In the case of both awards, the company does provide a clear scorecard that can help assess the fairness with which the board has judged and presented these awards.

In all, ASA finds that the Claw Back Policy, minimum shareholding policy for key management personnel and senior executives and minimum shareholding guidelines for NEDs presented in the remuneration report align with our guidelines. ASA would prefer more clarity in terms of a clearer target remuneration framework as adopted by competitors including the BHP group and South32 as it provides more transparency and ease of understanding to retail shareholders.

FMG has been proactive in reviewing remuneration structure and there is reasonable alignment with ASA Policy Guidelines which is why we are supporting the remuneration framework.

Item 3 Resolution 2	**Re-election of Ms Sharon Warburton**
ASA Vote	**For**

Summary of ASA Position

Ms Warburton was appointed a NED November 2013 and has served as Deputy Chair of the board since July 2017. Sharon (in addition to her Joint Co-Deputy Chair of FMG), is currently NED of Wesfarmers, WorleyParsons, NEXTDC, and Gold Road Resources. Outside of the ASX listed company directorships, Sharon is a director of Perth Children's Hospital Foundation and Part time member of the Takeovers Panel.

Whilst we have high respect for her professional qualifications and relevant broad experience, ASA on behalf of shareholders, does become concerned when a director's workload is spread across a relatively high number of listed companies. Our guidelines nominate a maximum of 5 listed companies with a chair position being equal to two NED roles. We will seek input from Ms Warburton on size & management of her external workload at the AGM.

Item 4 Resolution 3	**Election of Dr Ya-Qin Zhang**
ASA Vote	**For**

Summary of ASA Position

Dr Ya-Qin Zhang was appointed subsequent to the last AGM and offers himself for election. Dr Ya-Qin Zhang is a scientist with Bachelor and Master's degree in electrical engineering (EE). He also holds a PhD in EE. He is based in Seattle USA and has extensive global business experience.

We believe Dr Ya-Qin Zhang is a strong contributor to the FMG board and support his election.

Item 5 Resolution 4	**Approval of increase in NED fees pool.**
ASA Vote	**For**

In accordance with FMG's Constitution and ASX Listing Rule 10.17 the maximum payable to NEDs in any financial year is determined from time to time by shareholders at an AGM. The current Fee Pool A$2,500,000, was approved at the FY17 AGM.

The resolution seeks approval to increase the Fee Pool by A$500,000 to A$3,000,000 to allow for any additional board appointments and provide some flexibility of NED fee levels in a competitive environment.

In FY19 the actual aggregate of NED fees was A$2,008,018

We support the resolution.

Item 6 Resolution 5	**Participation in the FMG Performance Rights Plan by CEO Ms Elizabeth Gaines.**
ASA Vote	**For**

The resolution seeks shareholder approval to issue securities to Ms Gaines in her capacity as MD and CEO under the Performance Rights Plan.

Ms Gaines is the only person referred to in ASX Listing Rule 10.14 eligible to participate in the Performance Rights Plan.

At the 2018 AGM shareholders approved the grant of up to 3,353,397 performance rights to Ms Gaines over a three-year period. However, in the interests of good governance FMG is seeking fresh approval from shareholders in respect of the grant of performance rights to Ms Gaines under the Performance Rights Plan for FY20 and will not rely upon the previous approval at the 2018 AGM in respect of potential grants for the financial years ending 30 June 2020 and 2021.

FMG proposes to seek shareholder approval at the 2020 AGM for any performance rights to be granted to Ms Gaines in respect of 21.

The number of performance rights which may be granted under the ESSIP and LTIP for FY20 is as follows;

ESSIP 226,489

LTIP 301,985

Total 528,474

Going forward, once the board has assessed overall performance of the company at the end of the vesting period, based on the vesting conditions determined prior to the commencement of that period, and determined the extent of vesting of the ESSIP Performance Rights, the results achieved will be communicated to Ms Gaines and to shareholders as part of the Company's annual remuneration reporting obligations

Further details are provided by FMG in the Notice of Meeting under Resolution 5.

ASA has considered the targets and vesting conditions. Whilst there is a degree of complexity with the change, on balance we support the resolution.

The individuals or their associates involved in the preparation of this voting intention have a shareholding in this company.