



IGO moves to stable two mine operation

Company/ASX Code	Independence Group/IGO
AGM date	Wednesday 20 November 2019
Time and location	4.00 pm Fremantle Ballroom, Four Points by Sheraton Perth WA
Registry	Computershare
Webcast	No
Poll or show of hands	Poll on all items
Monitor	Derek Miller/John Campbell
Pre AGM Meeting?	Yes with Chair Peter Bilbe

Item 1	Consideration of accounts and reports
ASA Vote	No vote required

Summary of ASA Position

IGO is a diversified mining company based in Perth. It has expanded over the last eleven years from a relatively small exploration company to a company with a market cap of \$3,800m (\$2,600m last year). IGO has grown mainly by the acquisition of Sirius Resources for \$1,800m in 2015 when it gained control of the Nova nickel deposit. IGO has done an excellent job successfully commissioning and now running this operation for two years. In addition to the mining projects listed below, IGO continues an active exploration program for base metals and gold, which resulted in the Tropicana gold mine development that IGO owns 30%.

Governance and culture

IGO has four substantial shareholders, one of whom, Mark Creasy, held 15.4% of the shares as at August 2019. Neil Warburton, a non-executive director, is an associate of Mr Creasy. The board has a majority of independent directors, and we see no conflict issues here. IGO is very focussed on safety, community and the environment, but sadly a fatality occurred at its Nova mine-site after publication of the annual report, which will be felt deeply by staff. Whilst under investigation, it does not sound as if the accident can be attributed to IGO's processes or practices.

Financial performance

IGO had total revenue of \$793m which is slightly above last year of \$781m, and Net Profit After Tax (NPAT) was \$76m compared to \$53m last year.

IGO had two operations in FY19:

1. Nova nickel project is in its second year of operation and produced 30,708 tonnes of nickel this year, which is at design capacity. All-in Sustaining Costs (AISC) was \$2.79 per tonne. This is the lowest cost per tonne for any Ni/Co/Cu mine in Australia.

2. Tropicana Gold project. IGO owns 30% of this project, which is managed by Anglo Gold Ashanti. IGO share of production was 154,402 ounces (ozs) at an AISC cost \$951 per oz. Earnings Before Interest Taxes Depreciation and Amortisation margin was 62%. In March 2019 it was announced that the Boston Shaker orebody would be developed as an underground mine with first production in 2021.

Both these mines now have a track record of consistent production.

Exploration is a key focus of the company. Expenditure on the Nova asset was \$26m and in the rest of the Fraser Range area \$24m. IGO conducted other greenfields exploration in WA, NT and Greenland.

Key events

Recently, on 4 November 2019, IGO made an unsolicited take-over bid for Panoramic Resources Ltd valuing it at \$312m. Its main asset is the Savannah nickel-copper-cobalt project located between Halls Creek and Kununurra. The mine and associated infrastructure was constructed in 2003 and, over an initial twelve-year period, milled 8.5 million tonnes containing 94,600t Ni, 53,000t Cu and 5,000t Co. Savannah was placed onto care and maintenance in May 2016 but was subsequently restarted and produced its first shipment of concentrate in February 2019. We hope to hear about progress of the offer and associated due diligence at the annual meeting.

The Long nickel mine was placed on a “care and maintenance” basis at the start of the year and was sold to Mincor (MCR) for \$3.5m in Mincor shares at \$0.45 per share (7.78m shares) and an additional \$6m in contingent payments in June. The sale yielded a profit of \$3m.

The first deferred consideration payment of \$16.1m was received during the year following the divestment of the Jaguar Copper/Zinc operation announced in May 2018.

These two divestments significantly simplify IGO’s mining operations.

Key Board or senior management changes

Two senior employees were added to the list of key management personnel – general counsel Kate Barker and company secretary Joanne McDonald - there were no other board or key management personnel changes during the year. Subsequently, it has been announced that long-serving director Geoffrey Clifford (chair of the nomination and governance committee and member of the audit committee) will step down after the AGM and the board has appointed Ms Kathleen Bozanic, an accountant, as an independent non-executive director, bringing female board membership to 29%.

ASA focus issues

IGO complies with ASA guidelines with respect to focus issues.

Summary

(As at FYE)	2019	2018	2017	2016	2015
NPAT (\$m)	76	53	17	-59	77
UPAT (\$m)	341	339	151	138	213
Share price (\$)	6.47	4.50	3.15	3.28	4.17
Dividend (cents)	10	3	2	2	8.5
TSR (%)	9.2	34.4	5.8	-20.7	-1.8
EPS (cents)	12.8	9	2.9	-13.1	32.8
CEO total remuneration, actual (\$m)	1.76	0.98	1.08	1.02	NA

For 2019, the CEO's total actual remuneration was **20 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2019 data from the Australian Bureau of Statistics).

Resolution 1	Re-election of Peter Buck as a Director
ASA Vote	For

Summary of ASA Position

Mr Buck, a geologist, was appointed a director in October 2014. He chairs the Sustainability & Risk committee and is a member of the People and Performance (remuneration) committee. He is a director of one other listed company. He holds close to one year's fees in IGO shares. While ASA supports his re-election, we would like to see him increase his shareholdings to at least one years' fees based on our minimum shareholding guidelines.

Resolution 2	Election of Kathleen Bozanic as a Director
ASA Vote	For

Summary of ASA Position

Ms Bozanic is an accountant who was appointed to the board in October 2019 and replaces Geoff Clifford, also an accountant, who is not seeking re-election. She is currently the CFO of BGC Contracting and is a non-executive director of one other listed company. The BGC group is being split up and sold following the death of its founder recently, and she anticipates retiring from her current executive role when his family completes the sale of BGC Contracting. Prior to taking CFO roles with two mining companies, Ms Bozanic was a partner in a large accounting firm.

Resolution 3	Adoption of Remuneration Report
ASA Vote	For

Summary of ASA Position

The MD's remuneration package for 2019 was structured as follows:

	Max. Opportunity \$m	% of Total
Fixed Remuneration	0.86	36.0%
STI - Cash	0.30	12.5%
STI - Equity	0.30	12.5%
LTI	0.95	39.0%
Total	2.4	100.0%

Whilst the IGO remuneration does not define target opportunity specifically, it does define a maximum cap beyond which KMP cannot be paid. The Company has in place gateways that need to be passed if any STI is to be awarded for that part of the scorecard – for example, no safety, health, environment or community component if there has been a fatality, permanent disabling injury or material environmental breach. Mr Bradford achieved 70% of his scorecard of KPI's in 2019 and was awarded an STI of \$241,000 cash and \$241,000 service rights (subject to shareholder approval – see item 5). If shareholders approve, he will also be awarded \$870,000 in performance rights subject to the LTI arrangements involving four financial hurdles each applying to 25% of the award – relative total shareholder reward (TSR), absolute TSR, growth in reserves, and EBITDA margin.

Our major concern with the remuneration structure is the three-year appraisal period for the LTI – the FY19 LTI is to be appraised with respect to TSR as at 30 June 2021. We believe that to align with retail shareholder expectations, long-term incentives should have a 4-year appraisal period as a minimum.

Our other concerns with the remuneration structure are relatively minor, being that there is no mandatory cancelling of LTI vesting if TSR is negative (this being at board discretion) and that relative TSR allows vesting if IGO's TSR is at the median of the comparator group – ASA prefers vesting to commence only if TSR is above the median of comparator companies.

These concerns should be viewed in the context of a remuneration structure designed to retain staff at IGO in face of competition from other mining sector entities. The three-year appraisal period for LTI awards is the yard-stick in many other such entities. The remuneration structure applies to a larger group of management staff in addition to the key management personnel listed in the report. The report itself clearly sets out the remuneration structure and management's achievement of the KPI set for the year's incentives. Overall, we support the resolution to approve the report.

Resolution 4	Approval of IGO Employee Incentive Plan
ASA Vote	For

Summary of ASA Position

The resolution seeks shareholder approval for the IGO Employee Incentive Plan which has been in place since 2016. Periodic renewal of approval for the plan is required to allow exemption from the number of shares IGO may issue under ASX Rules. This exemption might otherwise lower the limit of 15% of equity permitted under those rules. Approval also facilitates the issue to leaving employees of their entitlements to share-based incentives which might otherwise require shareholder approval under the Companies Act. Under the plan, these would be contractual entitlements to which we have no objection.

Resolution 5	Approval of the grant of service rights to CEO/Managing Director Peter Bradford
ASA Vote	For

Summary of ASA Position

Approval is sought to grant Mr Bradford 40,986 service rights in respect of his short-term incentive for 2019. The number of share rights was determined by dividing his non-cash STI entitlement totalling \$281,000 by the average value of IGO shares in the week after publication of its 2019 annual report, being \$5.88 per share. Half of the share rights will vest if Mr Bradford remains employed on 1 September 2020 and the other half on 1 September 2021, subject to the rules explained in the notice of meeting. As indicated under resolution 3, we believe the remuneration plan is generally fair and reasonable and hence support the issue of the service share rights.

Resolution 6	Approval of the grant of performance rights to CEO/Managing Director Peter Bradford
ASA Vote	For

Summary of ASA Position

Approval is sought to grant Mr Bradford 162,617 performance rights in respect of his long-term incentive for 2020. The number of share rights was determined by dividing his entitlement to performance shares being the amount of his annual fixed remuneration, \$870,000, by the by the average value of IGO shares in the period after publication of its 2019 results, being \$5.35 per share. Entitlement to these performance rights will be tested as at 30 June 2022 against 4 financial hurdles as noted in our comments under resolution 3 and subject to the rules as explained in the notice of meeting. As indicated under resolution 3, we believe the remuneration plan is generally reasonable but would prefer to see the appraisal period for the performance rights extended from 3 to 4 years. However, we recognise the reasons given by IGO and accept the proposed share rights allocation.

Resolution 7	Change of company type from 'NL' to 'Ltd' (special resolution)
ASA Vote	For

Summary of ASA Position

This resolution requires approval by 75% of those present and voting, or voting by proxy etc, to pass – we support the change as the NL registration has become outdated. NL companies can issue partly paid shares which did not oblige the holder to pay calls if made, but it is decades since this was common practice.

Resolution 8	Change of name from 'Independence Group NL' to 'IGO Limited' (also a special resolution)
ASA Vote	For

Summary of ASA Position

We have no reason to object to this change and will vote undirected proxies in favour of the resolution.

Resolution 9	Adoption of new constitution (also a special resolution)
ASA Vote	For

Summary of ASA Position

It is necessary for IGO to adopt a new constitution since the previous constitution applied to a NL company and contained provisions which would be inappropriate for a limited company. We have reviewed the changes and will vote in favour of the adoption.

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

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