Mount Gibson Iron

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MGX Chairman's Address – Annual General Meeting

Good morning ladies and gentlemen. For those of you who don't know me, my name is Lee Seng Hui, and it gives me great pleasure to welcome you all to Mount Gibson Iron's 2014 annual meeting, my first opportunity as Chairman to discuss with you our company's performance and prospects for the future.

Before I discuss the year in detail, I would first like to acknowledge and thank my predecessor as Chairman, Mr Geoffrey Hill, who stepped down from the Board in April, for his tireless contribution to Mount Gibson's renewal and the Company's current financial and operational strength.

This strength was evident in our navigation of the volatile market conditions of the last year, demonstrating the benefits of the Company's disciplined focus on cost efficiency, operational optimisation and targeted allocation of capital.

This discipline, as I'm sure you will agree, has never been more important given the challenges our industry faces and current market conditions.

The 2013-14 year was certainly one of two halves, notable for stable and elevated iron ore prices in the first and a significant decline in prices during the second as significant new production entered the market. This decline was most severe for lower grade products with an iron grade of less than 58% Fe.

Against this backdrop, Mount Gibson reported record sales volumes of 9.7 million tonnes and net profit after tax of $96.4 million. More importantly, our underlying net profit after tax rose by a quarter to $117.7 million, after stripping out a non-cash accounting charge related to the now repealed Mineral Resource Rent Tax, and we retain a strong balance sheet with almost no debt and substantial cash reserves.

On the back of this performance, the Board was pleased to maintain our record of dividend payments with a fully franked distribution of 4.0 cents per share for the year. Since September 2011, we have distributed total dividends of approximately $174 million, far outstripping our peers for total dividends returned to shareholders over the last four years.

As the above figures suggest, significant underlying operational improvement was achieved across our business for the year.

This record of improvement was perhaps most notable at our oldest mine – Tallering Peak – which finally closed in September after more than ten years of continuous operation.

It is of great credit to our Tallering Peak team that the mine not only delivered better than expected ore sales in its final year, but did so whilst also reducing costs and setting a new site safety record. This site record was especially pleasing and encapsulates our objective of constantly improving our safety performance.

Such dedication to performance is a further reflection of the Company's transformation over the last two years which has created a robust platform to build long-term value for all shareholders.

Operationally, we have consistently demonstrated this capability to build value by optimising our existing assets.

In this regard, our focus in the coming year will be further cost reduction, completing our ramp-up at Koolan Island to 4 million tonnes per annum and continuing our staged investment in new fleet and pre-stripping that will fundamentally lower operating costs and maximise cash harvesting in the last half of the mine life.

As I'm sure many of you have noticed, at current iron ore prices, this investment will require us to utilise some of our cash reserves. I would like to reassure you however of the eventual substantial returns we expect this investment will bring.

Obviously, we have recently suffered a minor setback requiring us to repair an area of localised instability in the southern pit wall. However, we expect the impact to be modest, with repairs anticipated to take about 3 months to complete at a cost of $5-10 million. Accordingly, we have reduced our sales guidance to 6.0 to 6.4 million tonnes for the current financial year.

Once our cutback at Main Pit is complete in about two years, Koolan Island will be positioned to enter the bottom quartile of the global cost curve, with cash operating costs comparable to the Pilbara giants.

It will also be one of Australia's very highest grade producers of direct shipping grade iron ore, making it an even more valuable asset in a market far less forgiving for products of lower quality.

Grade and quality are key factors that set Mount Gibson apart. Across our operations, we are already delivering substantially higher grade products than our peers, and our anticipated average sales grade of 61% Fe in 2014-15 will be a major competitive advantage in an environment of wider discounts for low grade iron products.

We also continue to invest in carefully targeted exploration and near term development opportunities, particularly around Extension Hill, and remain quietly confident of increasing the life of our Mid West business as this work progresses.

At the same time, we remain on watch for more substantive, value-accretive resources investment opportunities with the potential to materially extend our business life and footprint. We believe our large cash balance opens doors and puts us in a space with higher quality assets and with much less competition.

While we have reviewed many opportunities in recent years, often we failed to see value or a compelling business case. We remain patient and naturally cautious and will only consider opportunities which we are confident will deliver significant extra value over and above that which will be generated by our existing business.

This fundamental discipline protects all our shareholders from unnecessary risk, and has helped Mount Gibson avoid the underlying value destruction experienced by others who have overpaid in more buoyant times.

Our discipline has also protected shareholder value by avoiding unnecessary share dilution, with Mount Gibson's total issued share capital increasing by only 1% since 2009. This also sets us apart from the majority of our competitors, who have multiplied their number of shares outstanding, and shareholders should take comfort in our proven ability to effectively manage capital effectively.

With such rigour underpinning all aspects of Mount Gibson's business, I look forward with confidence that we have the right management team, assets, and strategy to weather a more difficult period for our industry in general. This ongoing strategy, which includes cost management, capital management and shareholder returns, will need to remain flexible in light of lower iron ore prices, the ongoing capital spend at Koolan Island and the need to hold cash for growth opportunities.

I would also like to record my appreciation for the efforts of my fellow Directors over the last 12 months, including Mr Chen Zhouping, who stepped down from the Board earlier this year, and our employees, without whose dedication and effort we would not be in the strong position that we find ourselves today.

Finally, on behalf of the Board, I would also like to thank you, our shareholders, for your ongoing support as we set course for the next leg of Mount Gibson's journey.

Lee Seng Hui

Chairman
Mount Gibson Iron Limited

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