



Mount Gibson Iron Limited

ABN 87 008 670 817



Level 1, 2 Kings Park Road
West Perth 6005, Western Australia
PO Box 55, West Perth WA 6872
Telephone: 61-8-9426-7500
Facsimile: 61-8-9485 2305
E-mail: admin@mtgibsoniron.com.au

VIA: WWW.ASXONLINE.COM

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Chairman's address – Annual General Meeting 2012

Welcome everyone to the 2012 annual general meeting for Mount Gibson Iron.

Last year has been one of substantial transformation for Mount Gibson in challenging business and market conditions for our sector.

When I spoke to you at last year's annual meeting, it's fair to say the company was in a state of flux, notably with regard to the make-up of the board, senior management and strategic direction, not to mention colourful press commentary and issues with the Foreign Investment Review Board.

I am pleased to be able to report to you today that we have reshaped and strengthened your company on many fronts. We have a robust platform for the future that will stand us in good stead to weather and capitalise on the volatile market conditions currently prevailing.

Critically, over the past year we have:

- restructured and refreshed both the Board and management with individuals of exceptional talent.
- created a united leadership team with diverse skills and experience that has positioned the Company for renewed growth.
- we are back in good standing and have an ongoing dialogue with the FIRB
- we have re-established a harmonious relationship with our major shareholders who are also our major customers

One of the central issues I tackled as Chairman during the year was corporate governance. Last November, the FIRB raised concerns regarding our corporate governance and board independence. We moved diligently and successfully to resolve those concerns.

As you can see from the new faces alongside me today, three exceptional and experienced individuals have joined the board as independent directors since November last year, giving us a majority of independent directors. Paul Douglas and Russell Barwick you may recall joined us on the day of last year's meeting, while Simon Bird joined the team in February.

All three come with outstanding credentials and have become important contributors to the Board.

Their presence has also enabled us to strengthen our corporate governance practices, most notably with the creation of an independent contracts oversight committee. This committee, which is chaired by Paul Douglas and comprises only our independent directors, oversees matters pertaining to contractual dealings with our major shareholders.

Following these changes, and after extensive positive dialogue with the regulators, in July we received notification from the FIRB that we had addressed their concerns and that we comply with Australian corporate governance guidelines, notably with respect to Board independence.

This was a very significant milestone for Mount Gibson, given our desire to grow the business and the likelihood that any transaction or investment we may consider within Australia will require approval from the FIRB.

The other new director who joined the board during the year was Li Shaofeng, who was appointed last February as a non-executive director and is chairman of our major shareholder, Shougang Fushan Resources Group. He replaced Cao Zhong who has been a very strong supporter of Mount Gibson. We welcome Mr Li to the team and thank Mr Cao, who has agreed to continue to consult to us.

We have also rebuilt and revitalised our management team, under the stewardship of Jim Beyer, who was appointed Chief Executive Officer in May. Refreshing and expanding the executive team with talented new people – including Peter Kerr as Chief Financial Officer in July and Andrew Thomson as Chief Operating Officer in August - has brought fresh perspective, skills and enthusiasm to the Company which is evident in the substantial operational progress made over the course of the year.

Getting the most out of our existing operations was another of the key priorities outlined at last year's meeting.

Jim will give you a more detailed run down on progress later this morning, but I am pleased to say that under his guidance, the day to day performance of all our sites has improved substantially, whilst we have also significantly expanded the export capacity of our strategic port and rail facilities in the Mid West.

At the same time, we were able to maintain solid earnings, cash flow and a healthy balance sheet despite a significant deterioration in iron ore prices and global equity markets during the second half of the financial year.

Our net profit after tax of \$172.5 million for the year to June 30 2012, though 28% lower than the prior year and below budget, was a solid result in the prevailing market conditions. It was still the second highest profit ever achieved by the Company.

The result allowed the Board to maintain dividend payments with a full year distribution of 4c per share fully franked. For the future, the Board will continue to assess future capital management initiatives in the context of market conditions and the capital requirements of the business.

Market conditions have become very challenging as we have entered the new financial year. In August and September, the price of iron ore plunged by over 30% to levels not seen since the Global Financial Crisis, putting our business under pressure and forcing us to re-examine our operational approach.

It is encouraging that prices have recovered somewhat since then, but we remain cautious about the immediate outlook and believe prices are likely to remain volatile for some time.

We have therefore adopted a disciplined approach to the way we operate, with a focus on reducing our costs and preserving value for shareholders.

That approach was the key driver in the major restructuring initiatives we announced in October. These initiatives will eliminate or defer between \$120 million and \$150 million from planned capital and operating expenditure in the current financial year.

At least a third of that reduction is expected to be permanent in the form of ongoing savings and efficiencies with the remainder largely relating to mining and waste stripping at Koolan Island that will be deferred until later in the mine life. About 80% of the permanent savings will come from lower operating costs, such as better equipment productivity, with the remainder in ongoing reductions in capital expenditure.

Importantly, these reductions are expected to be achieved without affecting our plans to achieve record sales volumes of 8 to 8.5 million tonnes of ore for the current financial year.

It was obviously a difficult decision to make substantial reductions to our workforce as part of this restructure, but the changes were necessary to put our business on the best possible footing for conditions both today and into the future.

So what of the future?

We have headed into the new financial year in solid financial shape, with no bank debt and strong cash reserves and cash flows and continuing operational improvement, and with the support of our major shareholders and customers.

We also remain confident in the long term prospects for the iron ore market as China and the world's emerging economies continue to grow, though that will most likely be at a reduced pace compared with recent years. Our association with APAC and Shougang has stood us in good stead during this challenging period. I would like to record our appreciation of the assistance afforded by Mr Lee Seng Hui.

Our basic strategy remains unchanged: we will look to extend our iron ore resources, leverage off our strong balance sheet and cash flow in order to grow the Company, primarily targeting opportunities in steel-related materials such as iron ore and coking coal. This approach is necessary for, as you know, we have a declining resource base which we must try and replace.

Importantly, the rebuilding of the Company's executive team has given us the extra executive capacity needed to advance this growth strategy. However we will continue to be bottom line focused and disciplined in our assessment of opportunities.

Finally but not least, I would like to thank all our employees for their hard work on your behalf; and you our shareholders, for your patience.

Geoffrey Hill

Chairman

Mount Gibson Iron Limited

For further information:

Jim Beyer

Chief Executive Officer

Mount Gibson Iron Limited

+61-8-9426-7500

John Phaceas

Manager External Relations

Mount Gibson Iron Limited

+61-8-9426-7500

Alan Deans

Last Word Corporate

Communications

+61 (0)427 490 992

www.mtgibsoniron.com.au