

# MOUNT GIBSON IRON LIMITED

*Strength and flexibility for volatile times*

Investor Presentation

27 August 2012



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## Established multi-operation exporter of quality Australian hematite ores to China

- ✓ Financial strength ..... Strong balance sheet/earnings provide flexibility and security in challenging conditions
- ✓ Leadership renewal ..... Strengthened Board and Management
- ✓ Quality assets ..... Established DSO operations with existing infrastructure
- ✓ Disciplined strategy .... Leverage off existing assets and balance sheet to grow the business

**Four key areas driving future corporate value**

# Company overview



## Western Australia's fifth largest iron ore exporter by volume

- Issued capital 1085.7 million shares, 2 million options (\$1.10/share, maturing Oct'12)
- Index S&P/ASX 200
- Market cap<sup>1</sup> A\$1,030 million
- Cash @ 30 June 2012 A\$293 million
- Bank borrowings<sup>2</sup> nil
- Finance facilities A\$50m undrawn facility, A\$65m environmental bonds facility, A\$47m equipment leases<sup>3</sup>

## Financials (year ended 30 June)

		2007	2008	2009	2010	2011	2012
• Sales volume	MWMT	2.5	5.5	5.4	6.5	5.2	5.2
• Sales	A\$ m	163	433	425	536	672	648
• NPAT	A\$ m	48 <sup>4</sup>	113	43	132	239	172.5
• EPS	cps	7.4	14.1	4.6	12.3	22.1	15.9
• DPS	cps	0.0	0.0	0.0	0.0	4.0	4.0

## Shareholders

- APAC Resources ~26%
- Shougang Fushan ~15%
- Institutional investors ~34%

### Notes:

- 1 Share price of \$0.95 as at 22 August 2012
- 2 At 30 June 2012
- 3 At 30 June 2012, environmental bond facility was drawn to \$57.7m
- 4 Includes \$19 million NPAT on sale of magnetite project



# Financial Results Discussion



# 2012 Full year results overview



- Sales revenue \$648.5 million (down 3.5% on FY2011) on similar tonnes sold, but 3% lower realised price
- Net profit after tax \$172.5 million
- Diluted EPS of 15.9 cents
- Operating cash flows \$56.2 million
- Cash balance of \$293 million
- Final dividend of 2.0 cents per share fully franked
- Full year dividend distribution maintained at 4.0 cents, fully franked
- Deferred Tax Asset of \$2.9 million for MRRT
- No material MRRT impact expected over life of current assets

**Strong underlying business provides a sound platform for future growth.**

# Summary 2012 financial results

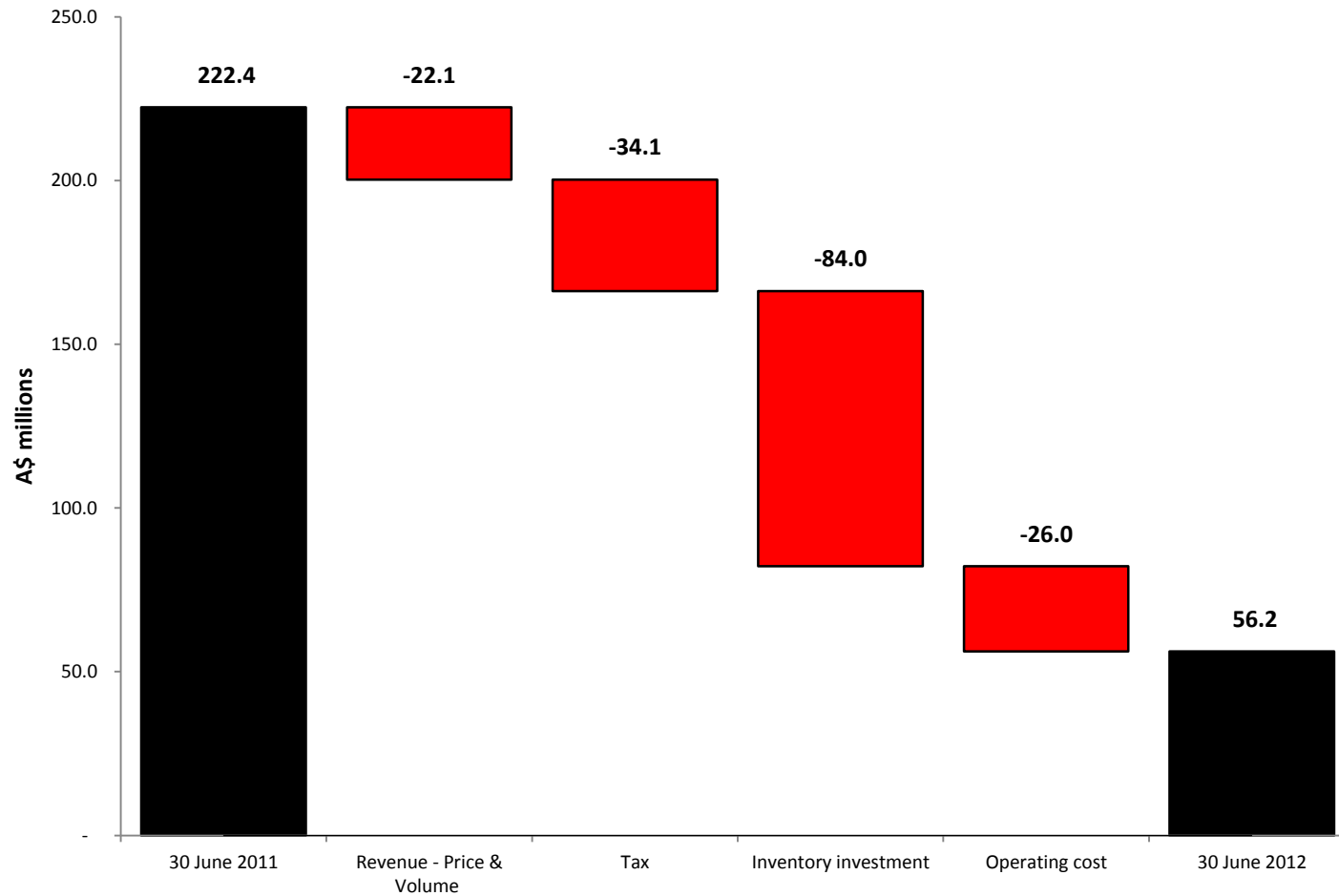


		12 months ended 30-Jun-11	12 months ended 30-Jun-12	% change pcp
Tonnes mined and crushed	<i>wmt (mill)</i>	5.38	6.94	29.0%
Tonnes sold	<i>wmt (mill)</i>	5.24	5.21	-0.5%
Sales revenue	<i>\$ mill</i>	672.1	648.5	-3.5%
Interest income	<i>\$ mill</i>	21.1	20.3	-4.8%
Cost of goods sold	<i>\$ mill</i>	-325.1	-373.4	14.9%
Impairment - low grade ore	<i>\$ mill</i>	-	-25.1	n/a
<b>Gross profit</b>	<i>\$ mill</i>	<b>368.1</b>	<b>270.3</b>	<b>-26.6%</b>
Admin and other expenses	<i>\$ mill</i>	-20.4	-23.5	15.1%
Other income / expense	<i>\$ mill</i>	0.1	0.1	0.0%
FX derivatives mark-to-market gain	<i>\$ mill</i>	8.1	-	n/a
<b>Operating profit before interest &amp; tax</b>	<i>\$ mill</i>	<b>355.9</b>	<b>246.9</b>	<b>-30.7%</b>
Finance costs	<i>\$ mill</i>	-13.0	-7.3	43.8%
<b>Net profit before tax</b>	<i>\$ mill</i>	<b>342.9</b>	<b>239.6</b>	<b>-30.1%</b>
Tax (expense)	<i>\$ mill</i>	-103.4	-67.1	30.1%
<b>Net profit after tax</b>	<i>\$ mill</i>	<b>239.5</b>	<b>172.5</b>	<b>-28.0%</b>

# Operating Cashflow



## Operating cashflow variance FY2011 vs FY2012

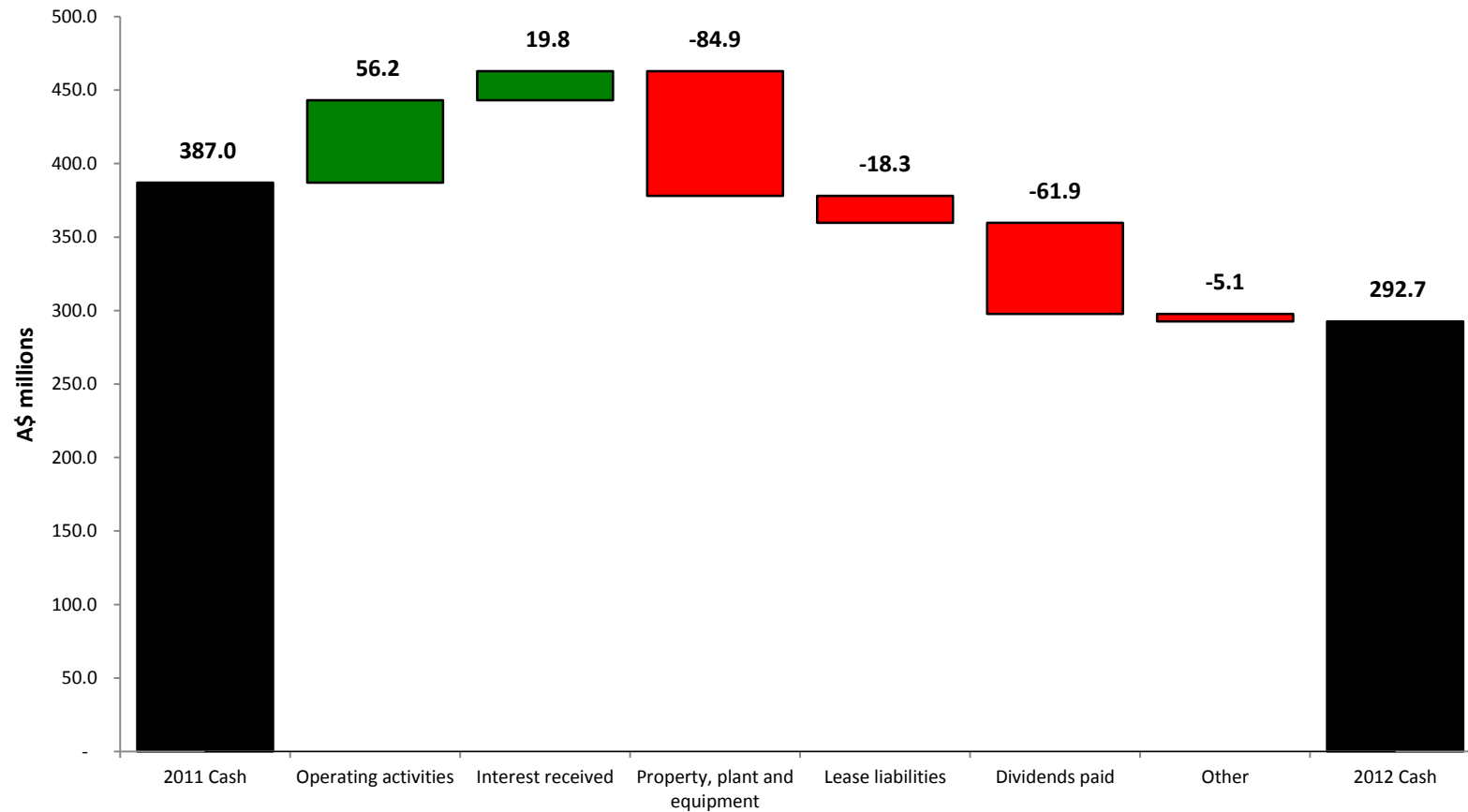




# Cash balance changes



## Cash balance movement Year ended 30 June 2012



# Key financial indicators



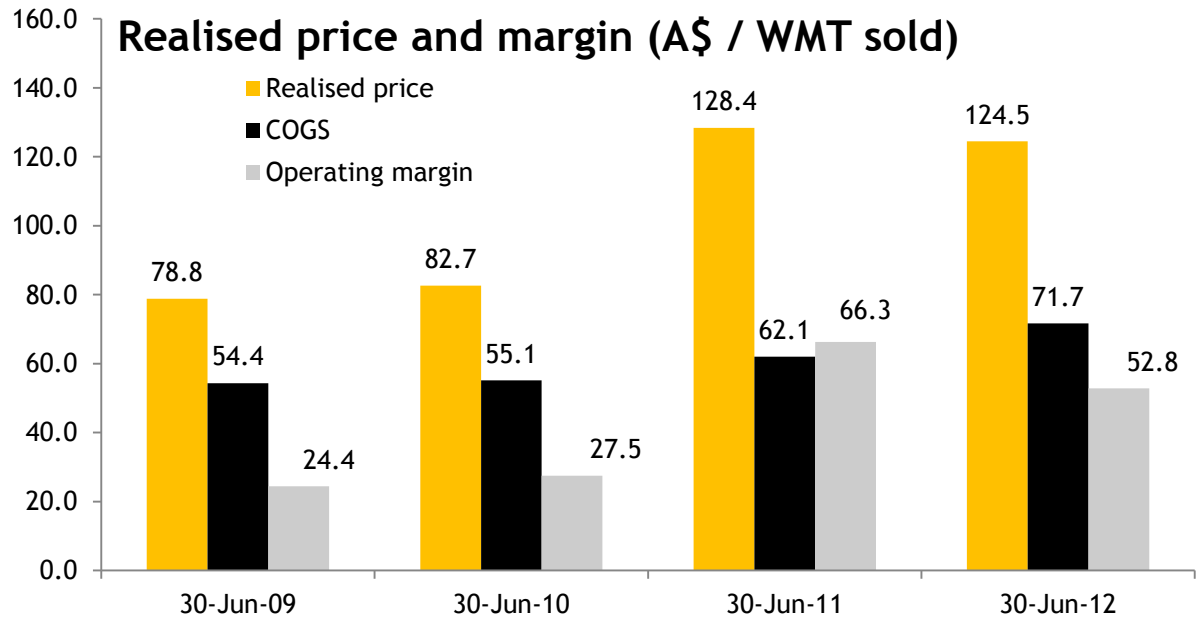
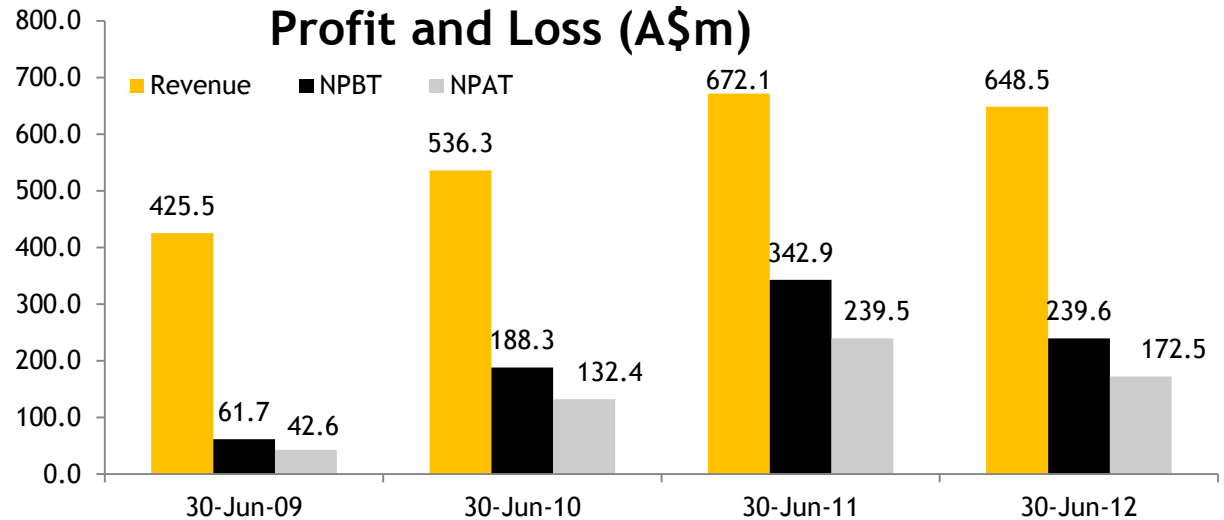
		12 months Ended 30-Jun-11	12 months Ended 30-Jun-12	% change pcp
Realised selling price	A\$ / wmt	128.4	124.5	-3.0%
Cost of goods sold (excluding impairment)	A\$ / wmt	-62.1	-71.7	15.5%
Margin	A\$ / wmt	66.3	52.8	-20.4%
EPS	cps	22.1	15.9	-28.1%
Operating cash flow per share	cps	20.5	5.2	-74.6
Dividend per share (annual)	cps	4.0	4.0	0.0%

# Robust financial position - profitability



- Solid profit result- 2nd highest NPAT on record
- Strong margins maintained in a year of operational challenges and legacy issues
- Completion of growth investments
- Maintaining capacity to generate profits at current iron ore prices

**Strength and flexibility for volatile times**



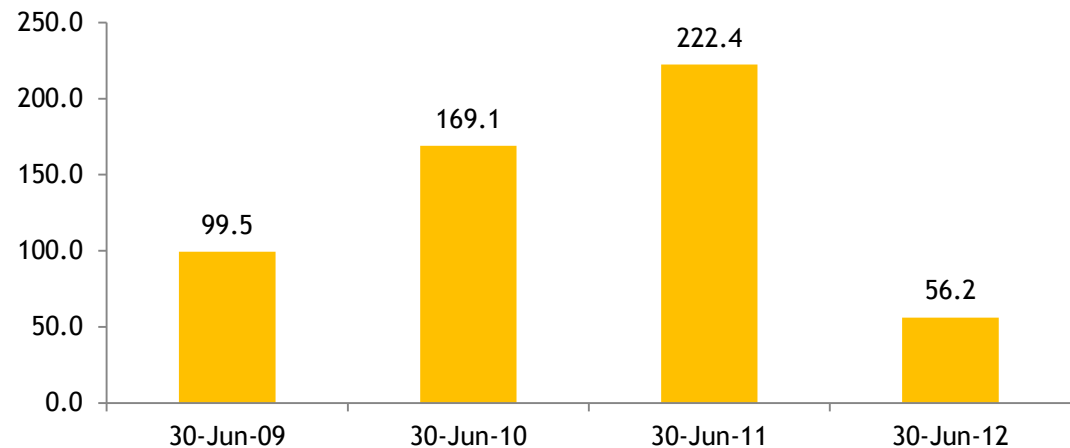
# Cash & cashflow



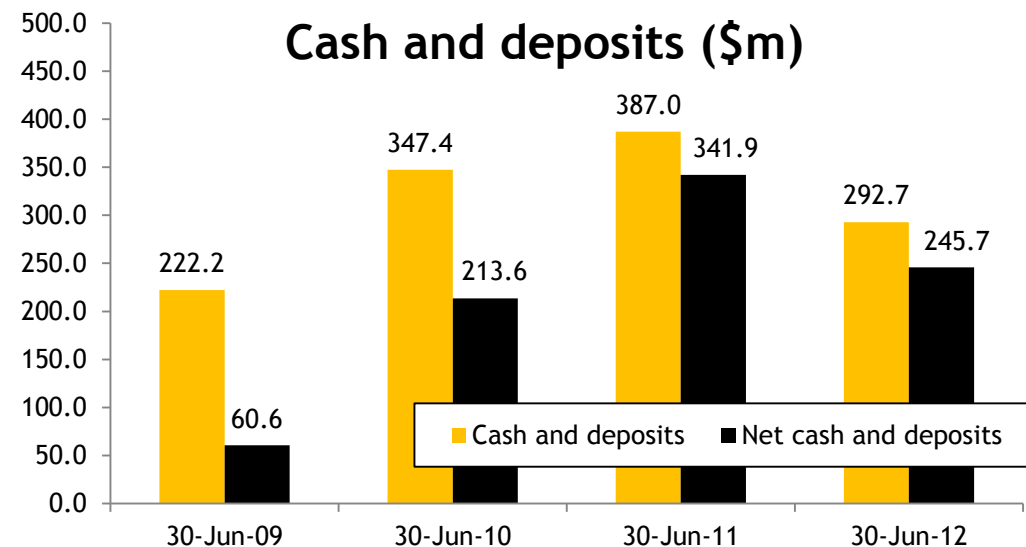
- FY2012 cashflow reflects:
  - cash tax payments commenced
  - build up of inventory
    - export constraints in the Mid West due to infrastructure upgrades
    - rescheduled shipments (June to July)
- Platform for growth established
  - strong cash reserves \$293 million
  - ungeared - no bank borrowings
  - low near-term capex
  - capacity to generate cash at current iron ore prices
  - capacity to fund growth options

**Strength and flexibility to capitalise on market opportunities**

## Operating Cash Flow (\$m)



## Cash and deposits (\$m)





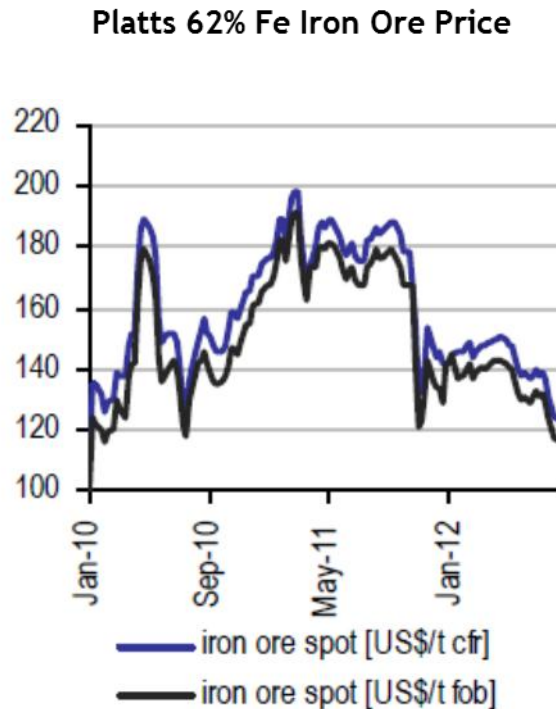
# Strength meets opportunity



MGI has strength to weather storms and agility to pounce

- ✓ Capacity to generate profits and cash in current market conditions
- ✓ Ungearing - no bank borrowings
- ✓ \$293m cash reserves
- ✓ Low capex
- ✓ Growing FY2013 production/sales
- ✓ Expanded export capacity
- ✓ Supportive major shareholders

Iron ore prices at +2 year lows and volatility ongoing



Mining and exploration asset values have retracted sharply

S&P Chimaera Australian Mining Index\* vs S&P ASX-200 Index



\* Index comprises 62 largest ASX listed miners & explorers up to \$10b market cap, & excluding global diversified miners

**Strength and flexibility to capitalise on market opportunities**

# Business Overview



# Leadership renewal



**Board - 3 new independent directors with mining, construction and M&A experience appointed since November 2011.**

- Geoffrey Hill - Chairman\*
- Russell Barwick\*
- Paul Douglas\*
- Simon Bird\*
- Alan Jones\*
- Li Shaofeng
- Chen Zhouping
- Lee Seng Hui

\* denotes Independent Non-Executive Director

- ✓ *Majority of independent directors*
- ✓ *Enhanced corporate governance mechanisms implemented*
- ✓ *FIRB confirmation that Mount Gibson Board structure is consistent with ASX corporate governance guidelines on independence.*

**Management - Renewal of senior executive team now complete**

- Jim Beyer CEO
- David Stokes Company Secretary/General Counsel
- Peter Kerr CFO, commencing September 2012
- Andrew Thomson COO, commencing September 2012
- *Dedicated managers appointed to key areas of Human Resources, External Relations, Health & Safety.*

**Management capability has been significantly strengthened**

# Quality assets - optimising existing business



## Koolan Island

- High quality DSO lump and fines (high grade, low contaminants)
- Commenced mining premium Main Pit ore in November 2011
- Transition to owner mining complete
- Planning underway to define pathway beyond 3Mtpa

## Mid West Region

### Talling Peak, Extension Hill & Geraldton Port facilities

#### Talling Peak

- Mining scheduled for completion in mid 2013.
- Targeting ~2.5 Mt production in FY2013
- Strong cash generating asset in FY2013
- Sales from low grade stockpiles to continue into FY2014
- T1 drilling underway - potential for limited additional production

#### Extension Hill

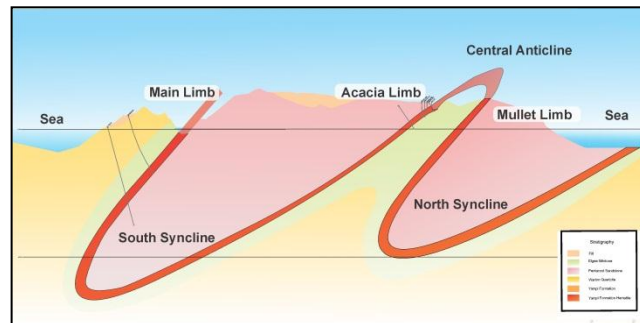
- New DSO operation
- First ore sales Dec 2011
- Production ramped up to nameplate 3Mtpa
- Scope to achieve +3Mtpa
- Low strip ratio ~ 1:1
- Operationally robust and conventional
- Strong cash generator
- Diversified customer base
- Mt Gibson Range DSO upside



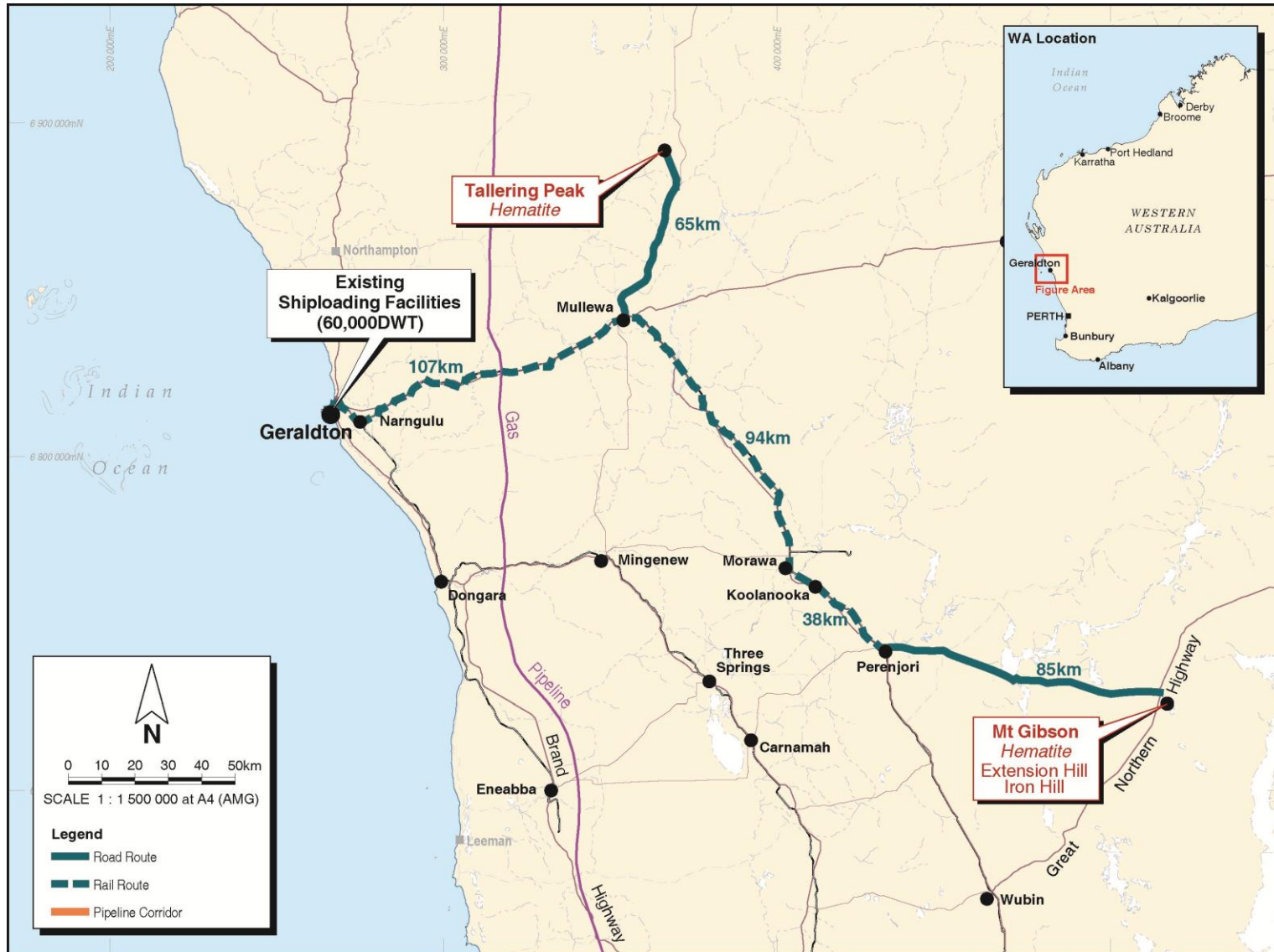
# Quality assets - Koolan Island



- Mount Gibson's flagship asset
- Premium products
- Simple logistics - no rail, standalone shiploading facilities
- Current production rate ~3Mtpa
- Detailed planning underway to define pathway beyond 3Mtpa
- Transition to owner mining complete
- Main Pit now primary ore source
- Strip ratio of 4.3:1 (average to end of life)



# Quality assets - Mid West





# Quality assets - Geraldton Port



- Infrastructure access a strategic asset - key barrier to entry for new producers
- MGI nominal Mid West export capacity doubled to 6Mtpa
- MGI port facility upgrades completed May 2012
- 240,000t MGI Berth 5 shed commissioned April 2012
- Total MGI port storage capacity trebled to 360,000t in Sheds 4 and 5 (6 Panamax shipments)
- 50 year leases (Berth 4 from 2002, Berth 5 from 2008) - valuable long term assets
- Rail unloader commissioning and ramp-up commenced mid-May 2012
- Nominal rail unloader capacity 3,000tph

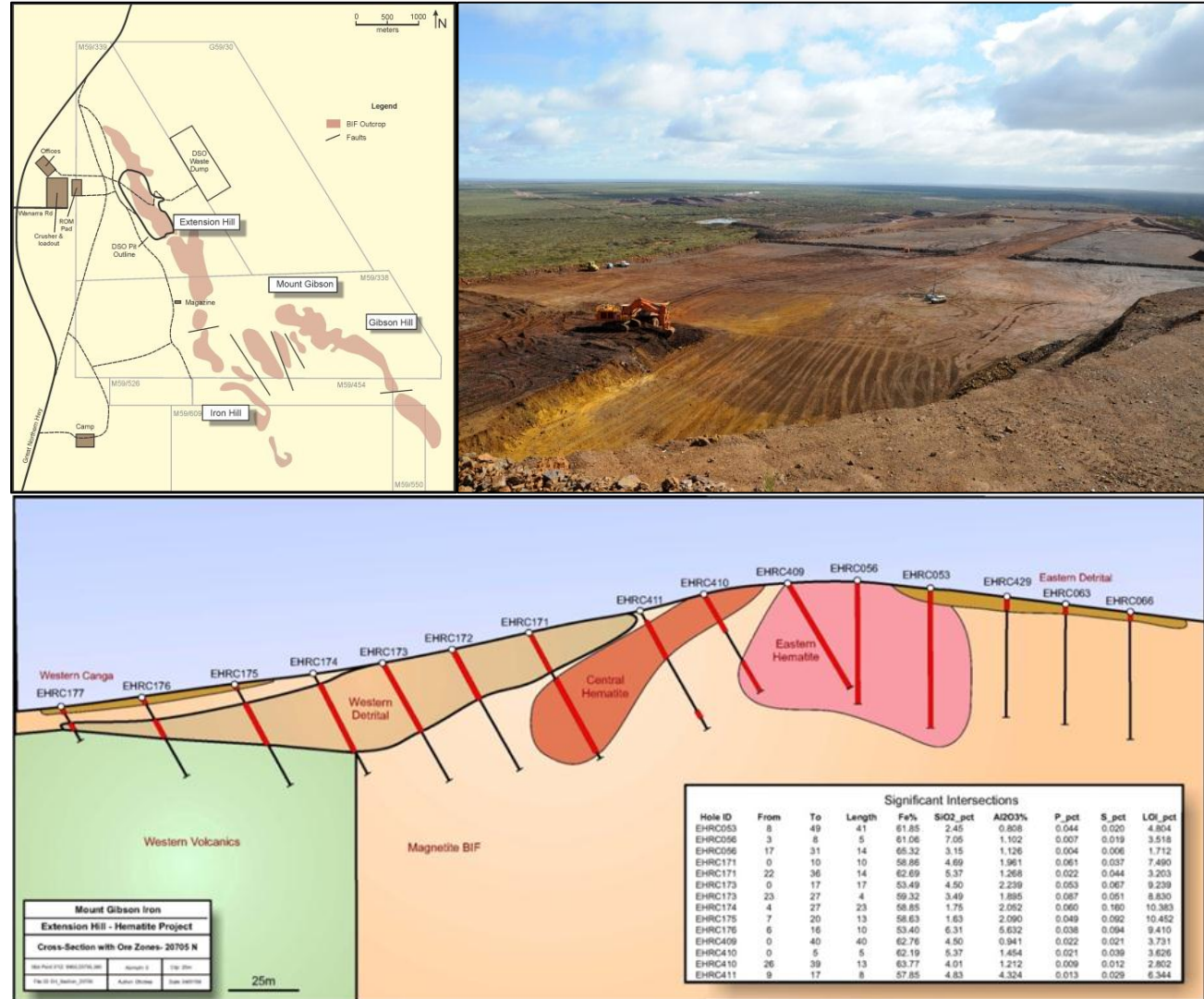


**A strategic asset, essential to get product to market**

# Quality assets - Extension Hill

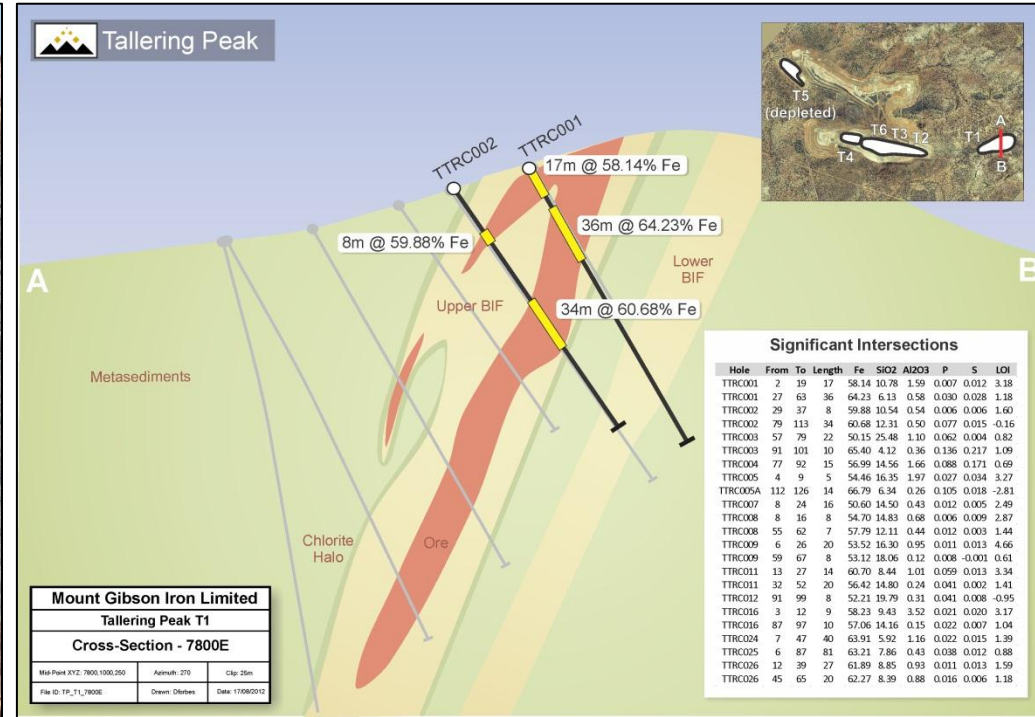


- First ore sales December 2011
- Diversified customer base (Glencore, Rizhao Steel)
- Simple, low cost operation, life of mine strip ratio ~1:1
- Strong cash generator
- Significant stockpiles built up during port/rail works
- Nameplate capacity of 3Mtpa
- Potential to exceed 3Mtpa
- DSO potential in Mt Gibson Range





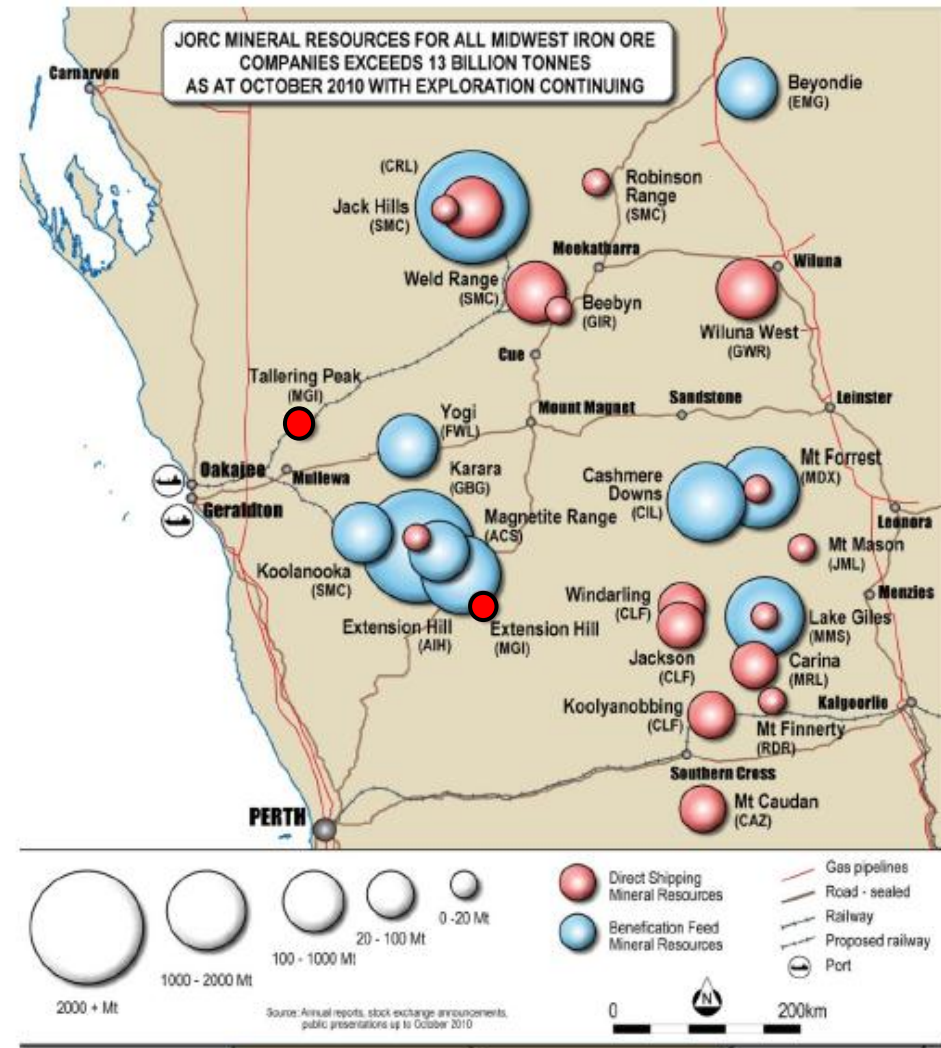
# Quality assets - Talling Peak



- Mining scheduled for completion in mid 2013
- Targeting ~2.5Mt production in FY2013
- Strip ratio of 2.6:1 (average over remaining life)
- Shipping from low-grade stockpiles to continue into FY2014
- Encouraging early drilling results from T1 area

# Mid West potential

- Regional prospectivity - substantial identified iron ore resources, exploration upside
- +200 leaseholders within Mount Gibson operational sphere of influence
- Resources stranded without access to port/rail
- Oakajee port schedule uncertain
- Geraldton only port currently able to export iron ore
- Limited surplus capacity for non-existing producers
- Mount Gibson 6 Mtpa export capacity at Geraldton
- Difficult funding environment for explorers/aspiring producers



Source: Oakajee Port & Rail presentation March 2011

# Strategy - positioning for growth



Optimising existing business, getting set for M&A and exploration-driven growth

## PRIORITIES

- Bed down new executive team
- Cost control and elimination of waste/inefficiencies
- Complete optimisation of existing assets to maximise cash generation
- Reinvigorate exploration strategy and expand footprint, particularly to capitalise on strategic export capacity in Mid West
- Evaluate opportunities in carbon steel materials in Australia and overseas
  - Target assets that:
    - complement existing business
    - extend production profile (>15 years) and lower cost
    - produce quality sought-after products
    - are at pre-feasibility or feasibility stage
    - can be funded and developed from internal strong cash flows



# Summary



## Disciplined business strategy

### Mount Gibson has...

- ✓ First mover status & access to existing infrastructure
- ✓ Strengthening operational performance
- ✓ Focused growth plan
- ✓ Protected the business in adverse market environment

## Strong and profitable operating business

- ✓ Established DSO products
- ✓ Growing FY2013 production profile
- ✓ Clean & strong balance sheet
- ✓ Provides flexibility and buffer against market volatility

## Reinvestment of capital for growth

- organic (exploration, development)
- M&A

**Or dividend distributions**



# Thank You



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# Addendum: Resources/reserves



## RESOURCES & RESERVES

at 30 June 2011

	Tonnes millions	Fe %	SiO <sub>2</sub> %	Al <sub>2</sub> O <sub>3</sub> %	P %
<b>TALLERING PEAK</b>					
<b>MINERAL RESOURCES, ABOVE 50% Fe</b>					
Measured	4.95	62.10	4.38	2.49	0.03
Indicated	3.38	57.60	7.98	3.71	0.07
Inferred	0.63	55.80	12.60	2.98	0.06
<b>Total</b>	<b>8.96</b>	<b>60.00</b>	<b>6.32</b>	<b>2.98</b>	<b>0.05</b>
<b>ORE RESERVES</b>					
Proved	3.67	62.70	4.19	2.19	0.03
Probable	1.69	57.90	7.71	3.79	0.05
<b>Total</b>	<b>5.35</b>	<b>61.20</b>	<b>5.30</b>	<b>2.69</b>	<b>0.04</b>
<b>EXTENSION HILL</b>					
<b>MINERAL RESOURCES, ABOVE 50% Fe</b>					
Measured	13.80	58.00	6.97	2.10	0.06
Indicated	6.46	58.00	8.93	1.71	0.06
Inferred	2.28	62.50	5.19	1.28	0.05
<b>Total</b>	<b>22.50</b>	<b>58.50</b>	<b>7.35</b>	<b>1.91</b>	<b>0.06</b>
<b>ORE RESERVES</b>					
Proved	10.30	59.30	5.50	1.80	0.06
Probable	4.21	59.80	7.17	1.31	0.06
<b>Total</b>	<b>14.50</b>	<b>59.50</b>	<b>5.98</b>	<b>1.65</b>	<b>0.06</b>
<b>KOOLAN ISLAND</b>					
<b>MINERAL RESOURCES, ABOVE 50% Fe</b>					
Measured	12.40	60.00	12.40	1.06	0.02
Indicated	45.60	64.20	6.58	0.77	0.01
Inferred	13.80	60.80	11.90	0.65	0.01
<b>Total</b>	<b>71.90</b>	<b>62.80</b>	<b>6.61</b>	<b>0.80</b>	<b>0.01</b>
<b>ORE RESERVES</b>					
Proved	6.93	60.40	12.30	0.69	0.01
Probable	25.20	65.00	5.23	0.88	0.01
<b>Total</b>	<b>32.10</b>	<b>64.00</b>	<b>6.76</b>	<b>0.84</b>	<b>0.01</b>
<b>2010</b>					
<b>TOTAL MINERAL RESOURCES</b>	<b>103.30</b>	<b>61.60</b>	<b>8.13</b>	<b>1.23</b>	<b>0.03</b>
<b>TOTAL ORE RESERVES</b>	<b>52.00</b>	<b>62.50</b>	<b>6.39</b>	<b>1.26</b>	<b>0.03</b>

An updated resources and reserves statement will be released in September 2012.

# Attributions



*The information in this report relating to Mineral Resources is based on information compiled by Rolf Forster, who is a member of the Australasian Institute of Mining and Metallurgy. Rolf Forster is a consultant to Mount Gibson Mining Limited, and has sufficient experience relevant to the styles of mineralisation and type of deposit under consideration and to the activity he is undertaking, to qualify as a Competent Person as defined in the December 2004 Edition of the “Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves”. Rolf Forster has consented to the inclusion of the matters in this report based on his information in the form and context in which it appears.*

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