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Gloucester Coal Ltd
Level 15
Citadel Towers (Tower B)
799 Pacific Highway
Chatswood, NSW 2067

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corporatefile.com.au
Gloucester Coal Limited (ASX code: GCL) has today released its FY 2007 preliminary final report. Revenues for the year were down 1 percent to A$151.9 million and net profit after tax of A$18.0 million was in line with previous market guidance. Given your total sales tonnage was up 13 percent, how significant were the negative effects of the port, currency and price?

CFO Barry Tudor
The greatest single factor in this year's result was the congestion at Newcastle Port. Demurrage costs rose sharply during the year as a result of the long vessel queue. In addition, the port congestion limited the amount of coal we were able to sell through the port.

The A$ strengthened against the US$ during the year, rising from approximately 74 cents at the beginning of the year to 88 cents at year end, however, the impact of this appreciation on our revenue was somewhat mitigated given the hedging policies we have in place.

Our prices for thermal coal were reasonably flat over the same comparison period. Coking coal prices declined from their record highs in 2006, where sales were negotiated at US$101 per tonne. For the majority of 2006/07 sales were at US$83 per tonne, which still realised a very healthy margin.

corporatefile.com.au
What are your expectations for currency and pricing trends through FY 2008? What production and sales product mix have you assumed in your budgeting?

CFO Barry Tudor
We have continued to implement our foreign exchange policy to soften the impacts of currency fluctuations. At present we have just over 50 percent of our sales for the current fiscal year hedged at under 80 cents which will give us some protection from any sustained strength in the A$.

On pricing, the market discussion points towards a continued strong demand for coking coal and thermal coal. We would anticipate an increase in coking coal prices from the commencement of the next Japanese financial year.

Our production mix will remain approximately the same as it has been, with roughly one third coking coal and two thirds thermal coal. That equates to roughly 700,000 tonnes of coking coal and about 1.25 million tonnes of thermal coal. This year, port capacity constraints will again play an important part in our ability to sell coal produced.

corporatefile.com.au
On revenues that were down 1%, your gross profit fell 37.8 percent. What were the major factors contributing to your higher costs? Do you expect these costs to continue into FY 2008?

CFO Barry Tudor
Total costs were up from the prior period because we mined a significantly higher amount of coal than in the previous year. On essentially flat revenues these higher costs were a major factor behind the fall in our gross margin.

On a cost per unit basis, mining costs were well contained in FY 2007, but they did increase due to the following two factors. Firstly, we made the decision to move to a higher strip ratio at Duralie. We estimated this would add A$2 to A$3 per tonne to the mining cost, but rather than leave economic coal in the ground, we made the decision to mine to the higher strip ratio. This was anticipated and communicated to the market at the beginning of the year. Secondly, we experienced a sharp increase in demurrage costs through the year and by year end they stood at over A$2 per tonne.

Looking ahead we are continually looking for efficiencies and cost savings. We are hopeful that the current port capacity balancing scheme will reduce shipping queues. Current indications are that it is beginning to do so, and we’re optimistic that the port will clear queues to manageable levels. As a result we’re hopeful that demurrage costs will reduce over this fiscal year.

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Your current bank loan facility is due to expire on 31 March 2008. How do you intend to fund your current gross level of A$24.8 million debt when this facility expires? Do you expect the current global liquidity crisis to have any impact on your ability to refinance?

CFO Barry Tudor
Although our gross debt stood at A$24.8 million at year end, our net debt was only A$8.2 million, and since year end has reduced further. We are currently in the final stages of negotiating a new facility and expect to have a new facility in place prior to the release of our audited annual report at the end of September.

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Your reported tax rate for FY 2007 rose to 30.3%, up from 18.7% in FY 2006. What drove this, and what rate do you expect in the future?

CFO Barry Tudor
In FY 2006 there was a one-off tax loss benefit of A$5.8 million relating to losses not previously been brought to account. The reported tax rate of around 30 percent in FY 2007 is expected to be the rate going forward.

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What are your expenditure commitments and the timing of such commitments, both in the short and long term? What benefits do you expect from them?

CFO Barry Tudor
Our capex commitments typically fall into three categories. Firstly, there's capex related to the day-to-day running of the mine which is typically around A$2 million per year. Secondly, we have been spending around A$5 million on strategic land acquisitions within the Gloucester Basin. Thirdly, we spend approximately A$2 million per year on exploration. That exploration has reaped fantastic rewards with a significant resource upgrade announced a few months ago.

A specific project we're currently implementing is the addition of a A$2 million secondary flotation circuit to the wash plant. This is planned to increase yield by approximately 2 percent, which will have a positive impact on our bottom line moving forward.

In addition, and as previously announced, we're progressing with plans to increase production by 40% with a A$30 million expansion which includes increasing the washery capacity and additional product handling facilities. These facilities will be on line in FY 2010 which will coincide with us bringing the new Clareval seam into production.

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Your shareholders recently turned down an offer from Xstrata to acquire all of the shares of Gloucester Coal. What does this mean for the independent future of the company?

CFO Barry Tudor
Prior to the Xstrata offer and scheme, we had in place a solid operating plan and financial strategy designed to create long-term shareholder value. We will continue to pursue these plans, and in this respect nothing has really changed. We recently announced the appointment of a new CEO, Rob Lord, who will be overseeing the execution of the business plan.

Our strategic goals are to continuously optimise our operations, both in production and marketing. This is illustrated by our current capex projects, whilst implementing a major capacity increase in the medium term. Rob has proven in his previous roles to be very adept at driving efficiencies whilst also improving marketing performance and growing businesses, and we look forward to utilising these skills. In the meantime we'll continue to explore the Basin and identify further resources and where possible convert them to JORC standard reserves.. Financially, we'll continue with our active capital management policies to maximise value for shareholders.

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Rob Lord has already stated that one of his primary focuses is on pursuing growth opportunities outside of the Gloucester Basin. What developments can we expect in the medium-term?

CFO Barry Tudor
It's long been our goal to not only optimise operations within the Basin and to increase life of mine, but also to look for opportunities outside the Basin. The Board has made this one of Rob's key responsibilities. We will continue to look at all opportunities that will create value for shareholders.

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Given your current net debt figure of A$8 million, you are obviously carrying a low gearing level. What implications might that have for your ongoing capital management?

CFO Barry Tudor
We are about to enter a major expansion phase with A$30 million earmarked for projects over the next two years. The low gearing allows us flexibility to pursue our growth strategy both within the Gloucester Basin and outside the basin.

We've announced a final dividend of 6 cents for FY 2007, fully franked, on top of an 8 cent interim dividend. In determining the amount of the final dividend, the Directors considered the level of franking credits available, and the need for funds to pay for the major expansion and strategic land acquisition.

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Thank you Barry.

For more information about Gloucester Coal Ltd, please visit www.gloucestercoal.com.au or contact Barry Tudor, Chief Financial Officer, Gloucester Coal, telephone + 61 2 9413 2028.

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