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30 November 2011

GLOUCESTER COAL

Chairman's address
Annual General Meeting

Address for today's Annual General Meeting is attached.

GLOUCESTER COAL LTD ACN 008 881 712

Date:	Wednesday, 30 November 2011
Time:	9:30am (AEDT)
Place:	Minter Ellison
	Level 19
	88 Phillip Street
	Sydney, New South Wales

For Further Information
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CHAIRMAN'S ADDRESS

GLOUCESTER COAL ANNUAL GENERAL MEETING

The 2011 Financial Year was a transformational one for Gloucester Coal. The near 50 per cent acquisition of Middlemount, and the decisions to purchase the Donaldson and Monash Assets, have significantly altered Gloucester Coal's growth prospects and enhanced its overall investment proposition. These strategic transactions have created a solid foundation for Gloucester Coal and are expected to deliver significant value to shareholders over the medium to long term.

During the year the Board of Gloucester Coal considered a range of strategic initiatives which we believed were necessary to transform the Company from a relatively small coal producer operating only in the Gloucester Basin to a multi-site operation with significant growth potential. I am pleased that we were able to close four significant acquisitions, being:

- The near 50% share of the Middlemount mine which is located in Queensland's Bowen Basin and produces hard coking coal and low volatile pulverised coal injection ("LV PCI"). I am pleased to be able to stand here today and say that the Middlemount Project is now in full ramp up mode following the completion of the rail spur earlier this month. The project, although having suffered some delays due to the Queensland floods earlier in 2011, has been delivered successfully and will continue to be an important asset in the Gloucester Coal portfolio.

- In addition to the near 50% share of the Middlemount asset, Gloucester Coal also acquired the marketing rights and a marketing commission of 4 per cent on all of the Free On Board Trimmed Sales from Middlemount.

- In May this year we announced the acquisition of Donaldson. Donaldson is a high energy thermal and coking coal producer based in New South Wales with mining operations in the Hunter Valley just south of Maitland, 25 kilometres from the Port of Newcastle. The 3 Donaldson mines produce a mix of thermal and soft coking coal, with some ability to vary this production mix in response to prevailing market conditions and pricing. Importantly the purchase of Donaldson included an 11.6 per cent founding shareholding in NCIG Holdings Pty Limited. The port allocation linked to this shareholding has provided a strategic advantage to Gloucester Coal being only one of three producers with additional port capacity in NSW in the medium term.

- At the same time as the Donaldson transaction, Gloucester Coal purchased Monash, a prospective export semi-soft coking and thermal coal early-stage exploration project strategically located near existing infrastructure in the Hunter Valley.

Gloucester Coal also undertook two significant share issues raising a total of $671 million. The four transactions and associated capital raisings were complex and comprehensive and required a significant commitment from both the Directors of the Board and the management team. Your Directors believe that the acquisitions will prove to be value accretive and critical to the medium to long term future of Gloucester Coal.

Since these transactions it has become increasingly evident that the “new Gloucester Coal”, with its four clearly defined domains of production and development, is much better placed to deal with external factors. This includes fluctuations in coal markets, adverse weather conditions, delays to approvals, port and rail infrastructure issues and so on.

Having mines in different regions with different operating methods diversifies our risks and means we can always be producing coal, be flexible in the mix of coal types we produce, and allocate capital and resources across our asset portfolio to where we will get the best returns.

With this transformation your Directors believe that Gloucester Coal has an enhanced growth profile. We now expect that total annual coal production will increase to over 12 million tonnes in fewer than 10 years, and double from current levels within the next four years. The plan to move to approximately 10 million tonnes of production by the 2015 Financial Year is contingent on the delivery of well-defined projects which are currently at various stages of development. Based on preliminary forecasts, Gloucester Coal expects to have a resource base capability to produce between 40 and 50 per cent coking coal.

In the midst of a busy period of corporate activity, Gloucester Coal managed to achieve pleasing results for the 2011 Financial Year. It is fair to say that this positive performance was delivered despite some very challenging circumstances. There were difficult operating conditions throughout the year driven by adverse weather conditions experienced in NSW, delays to the Duralie and Stratford extension projects, and a softening of demand from Japanese steel mills following the earthquake and tsunami disasters. Nevertheless, the Gloucester Coal team delivered a solid performance.

Overall coal sales increased by eight per cent despite lower production volumes. The increased sales volumes combined with a five per cent increase in coking coal sales contributed to a 34 per cent increase in total revenue for the Company. Earnings before interest, tax and depreciation increased by 57 per cent to $90 million, excluding transaction costs. This earnings growth was driven once again by increased sales and higher average coal sales prices. The benefits of higher sales and average pricing was offset in part by an increase in unit production costs as a result of higher strip ratios, increased contractor mining rates and impacts on production due to wet weather.

During the year, a number of executive management changes were made, including the appointment in February 2011 of Brendan McPherson as Chief Executive Officer and Tim Crossley as Deputy Chief Executive Officer. Both Mr McPherson and Mr Crossley are highly experienced Australian mining industry executives. There have been a number of other key senior appointments made over the past year.

The Board believes that the experience and calibre of the management team is a valuable asset to Gloucester Coal and is a reflection of the Company's ability to attract high quality talent and expertise. We are confident that the team we have today can successfully execute the Company’s growth plans.

I will take a moment to touch on the year ahead for Gloucester Coal. The foundations that were put in place in the 2011 Financial Year with the Company's transformation programme are expected to be developed further and to include the progression of major projects. As stated at the Company's full year results briefing in September this year, management has commenced, and is close to completing, a review of the Gloucester Basin and Donaldson operations. A range of business improvement initiatives resulting from this review will be rolled out over coming months. Management intends to share some of the key outcomes of the review with the market in due course.

I should also mention the exploration work that has commenced at Monash, and the update to Resources announced to the market a few weeks ago. This was a pleasing result for the Company and suggests that the Monash asset has the potential to become one of Gloucester Coal's most valuable assets in the medium to long term. Our objective over the next 12 to 18 months will be to progress exploration at Monash to the point that a JORC-compliant assessment of Reserves can be released.

On a more sombre note, the export coal market outlook remains somewhat uncertain. In recent months there has been a slowing in demand for export coal and in particular coking coals. This is also being reflected in lower coal prices being achieved in the market today than in previous quarters. External factors including global economic conditions and global steel markets will determine the extent and duration of the softening in demand.

Management is targeting production of 5.5 million tonnes for the financial year, however we will continue to monitor the coal market situation. Having said this, we continue to believe that the demand for both coking and thermal coal will remain steady over the medium to long term.

Returning to the achievements of the 2011 Financial Year, it is important to recognise that the company’s achievements are the result of very hard work and enormous dedication from the employees and Directors of Gloucester Coal. At this time I would like, on behalf of the Board of Directors, to thank all employees for their tireless efforts over the past 12 months.

I would also like to thank CEO Brendan McPherson and Deputy CEO Tim Crossley and their teams for their commitment in what has proven to be a challenging period. In addition, thank you to my fellow Directors on the Board of Gloucester Coal who have carried an enormous load during this transformational year in assisting me in creating and executing the vision of the Company.

I think this is an appropriate time for me to move on to the matters being voted upon at today’s meeting. I will comment on the items of business and address some of the questions that have been raised by some shareholders.

Turning first to the election of the new Directors, it is pleasing to note that the response from shareholders to the appointments of both Denis Gately and Julie Beeby has been positive. The skills and attributes that each of them bring to the Gloucester Board is invaluable and I am extremely pleased to have them as my fellow members of the Board.

Denis Gately has joined the Board as an Independent Non-Executive Director. He is a corporate and commercial lawyer with more than 30 years’ experience working in the resources and energy sectors. He has extensive experience in the coal sector in Queensland and New South Wales, both in the sale and purchase of assets and businesses. Denis was a partner at Minter Ellison and was head of the firm’s national energy and resources group for four years. His experience and expertise is a great asset to the Gloucester Coal Board.

Julie Beeby has also joined the Board as Independent Non-Executive Director. She is the CEO of WestSide Corporation a Queensland based coal seam gas explorer and producer. Previously, she was General Manager, Strategic Planning and Projects at Peabody Pacific, where she was closely involved in the development and expansion of Peabody's mining operations in Australia. Julie is also a Director of Queensland Electricity Transmission Corporation Ltd (Powerlink) and Chairperson of ZeroGen, a Queensland low emission coal project. Julie’s industry knowledge and experience will be invaluable to the Board of Gloucester Coal.

I take this opportunity to advise you all that Ricardo Leiman has chosen not to stand for re-election. As a result the resolution regarding his re-election will not be considered at this meeting. Today we will also be saying goodbye to David Brownell. Both Ricardo and David have played a key role in the strategic direction of the company over the past few years. I would like to take this opportunity to personally thank David and Ricardo for their hard work and commitment to Gloucester Coal and wish them all the best in the future.

As a leader in its sector, Gloucester Coal recognises the importance of offering competitive rewards to both attract and retain high calibre executives. The success of the Company's acquisition strategy and the achievement of significant strategic and operational milestones was due in no small part to the combined work of your Board of Directors and the senior management team.

Due to the related party nature of the Middlemount and Donaldson transactions, it was necessary that we form an Independent Board Committee (IBC) of independent directors of Gloucester to supervise and control consideration and negotiation of the transactions on behalf of the Company.

We have recognised the additional demands made upon members of the IBC. Their remuneration for the year was in line with the workload associated with the role, and the importance of these projects to our company

The payment of additional fees to IBC members has been raised. I would like to reiterate to everyone that these payments were for the work undertaken to manage the four acquisitions Gloucester closed during the year. In most circumstances the company's management team would deliver the services provided by our independent Board Committee but due to the need to ensure appropriate protocols for related party transactions and the depth of skills and resources required, this was not a realistic option. I can say with confidence that if our IBC had not provided these services we would not have achieved the results we have.

Turning to the remuneration of our key executives, your Board is acutely aware that the market for senior executive talent, especially in the mining sector, is extremely challenging, and we will continue to ensure that Gloucester has in place remuneration practices that allow us to retain our key executives. Our incentive schemes are intended to reward our executives over the short and long term and play a significant role in our retention strategy. Our short term incentive plan and long term incentive plans have been reviewed over the past 6 months. Benchmarking with other similar sized companies within our sector was completed and changes were made to the existing plans to reflect feedback received.

Concerns around the payment of short term incentives for the FY11 period were raised by some shareholders and have been taken into consideration for the FY12 period. Our shareholders have requested more detail on the key performance indicators associated with our short term incentive plan. I can assure you that the next Remuneration report will provide greater disclosure in relation to these measures. The measures include both financial and operational metrics that are aligned with the growth objectives of the Company. It is not appropriate, for obvious competitive reasons, to disclose them in advance.

In relation to the Long term incentive plan, some shareholders have expressed confusion around the conditions associated with the vesting of options. Gloucester Coal has amended the long term incentive plan to ensure it is consistent with the intentions of the Board and aligns with shareholder expectations. The amendments relate specifically to the measurement of total shareholder returns as the key performance hurdle for vesting of the options. The Notice of Meeting indicated that, providing that Gloucester Coal only exceeded the ASX 200 total shareholder return over any continuous 12 month period between 2011 and 2018, tranches of options would vest in 2013, 2014 and 2015. This was not the intention of the Remuneration Committee and was not presented clearly to shareholders.

I confirm that this issue has been clarified and the Long term incentive plan is now aligned with the Board’s expectations. Under the revised arrangements, if the Gloucester Coal total shareholder return exceeds the ASX 200 over 2 years from the date of issue the first tranche will vest. If the Gloucester Coal total shareholder return exceeds the ASX 200 over 3 years the second tranche will vest, and if it exceeds it over 4 years, the third tranche will vest. We will continue to review industry benchmarks and assess the viability of our long term incentive plan each year to ensure it is an appropriate plan for both employees and shareholders.

Before I move on to the formal business of the meeting, I would like to take this opportunity to thank all shareholders who have continued to support Gloucester Coal over the past 12 months in what has been a truly transformational year for the Company. I look forward to working with you all in the year ahead.