December 2019 Quarter Production Report – Market Call Transcript

OPERATOR:
Welcome everybody to the Whitehaven Coal December 2019 Quarter Production Call. All participants are currently on mute. Following the presentation, we will open the call for questions. You can queue for a question at any time by pressing star one on your telephone keypad. Thank you for joining us today. I'll now hand over to our presenter, Paul Flynn. Please go ahead, Paul.

PAUL FLYNN:
Good morning, everyone. And thank you for joining us for Whitehaven's December 2019 Quarterly Production Report. Hope everyone had a good break and managed to avoid the smoke and haze and if not, everyone was safe and sound. Look, I'll run through the quarterly update as we do and then let's get to Q&A, and in the context obviously of this quarter is that we have revised our guidance back on the 5th of December as everybody knows. So, this quarter is essentially a confirmation, if you like, of the views that we tabled back on the 5th of December. So, I'll move through this quickly and I'm sure there's lots of discussion and we'll speak to you about how we've progressed since that time that we provided that guidance and what the second half is looking like.

So, firstly to our highlights with our safety performance a TRIFR of 5.72 which certainly had been a decent result – I mean key for this past quarter as everybody knows, Narrabri has been out of action for most of the quarter. But the longwall changeout has gone well and we'll talk about that in more detail and then we're back into production. In-pit dumping has started in a modest way at Maules Creek again, that's something we should speak to a little bit later on. The December quarter's production of 3.1 million tonnes coal production is, obviously, considerably down with Narrabri out of action for most of the quarter at 58% down period on period, we'll talk about that. And then December's quarterly saleable coal production considerably down at 44%. The sales were not knocked down to the same degree obviously we've been selling down our stocks, and that'll be part of our discussion a little bit later. And then the long-running saga, obviously, of this outstanding piece of Narrabri, which is up for grabs, we have concluded that now in our favour. And so, you would have seen that we've announced that we've concluded the purchase of the 7.5% from EDF Trading and we'll talk also about that in a short moment.

So on to the quarterly report, in safety, of course 5.72 is a good result. But we, as you know, we always want to continue to push our safety message even harder. We'll talk a little bit about that just in terms of structural changes we're making to leadership because that does play into our desire to get out of the five zone, the five zone's good, but we've been in the five zone for a little while and we need to continue to re-emphasise our push to get lower on the TRIFR curve and as good as those results are, there's more work to be done.

I'm over the page, in the total 3.1Mt for managed ROM coal production for the quarter. Admittedly down obviously on the previous corresponding quarter. No doubt, the main contributor to that is not just the revision to guidance but obviously Narrabri going through an important changeout from longwall panel eight to panel nine. ROM coal production as I mentioned the same number period on period and then you've got the managed sales of coal produced 3.5 versus 5 so 30% down, we have obviously purchased coal which has been sold during the course of the period and that goes to obviously the revised guidance we've given and also our drive to ensure customers are not experiencing too much of a disruption from the lower production, and at the same time managing our exposure to demurrage and other aspects of our infrastructure arrangements.

Coal stocks are down as you would imagine having drawn significantly from them. Back in December of '18, you had 3.3, and just for those who recall, June was 3.3 also, actually, we carried these stocks into this year, so we had the benefit of being able to draw them down and at the end of September, we had 2 million tonnes on the ground also, so we have drawn those down significantly.

Consequently, the equity totals are there for you in the table below, and then as we have done in the past, we've tallied up both the indices for the period and our realisations against those indices for essentially the three products that we've been selling being the high-CV thermal, our other thermal, and our metallurgical coal sales. So you can see the various averages for the indices through the period - I'll just call a couple of features out of this for you. The first one I'll focus on just momentarily is just the mix. We have had during the quarter a temporary bump in our other thermal so our lower than high-CV thermal coal, where that really is attributable just to the tail end of longwall panel eight where we had some out-of-seam dilution at Narrabri, was causing the coal quality to elevate in ash through the back end of the production of longwall panel eight and because the overall total coal sales were lower, that does represent a temporary distortion in terms of proportion that the lower CV coals represent of the total. And that, the cascading impact that you can see down to the bottom of the page there where it says thermal coal for gC Newc by comparison, our overall realisations of price against the gC Newc index is minus 2%. And that, as you can see, is against the trend as it's been quarter on quarter, probably because of its out-of-seam dilution effect at Narrabri's production, again, distorted temporarily solely because of the lower sales and production in this particular quarter.

As you can see the semi-soft sales, our realised prices, you know, essentially split the difference between the JSM quarter and the average for semi-soft spot sales during the same period. So as I mentioned before, we've obviously drawn down the stocks quite heavily in order to get to a sales total of 4.5 million tonnes, 17% below the period on period sales. But again, Narrabri's obviously through its changeout, which has played a significant part in that. Coal trading has actually added to our margin during the course of the period so that has been a positive contributor and we'll speak more about that when we get to the half year results. GlobalCOAL Newcastle index averaged a period of $67 dollars. So that's obviously found what we think is a floor around that price, it's certainly vacillated between the $65 and $67 for some time, and in more recent times we've seen that move ahead to about $74 as we are today. But I think we are at a little hiatus here in terms of you've got people lining up already for settlements of the Japanese price in April. And we are seeing some recovery here in the high coke pricing as well, which we hope would grow further into the semi-soft market, although we're not seeing too much evidence of that. Again, we have reached an average of $87 dollars for our coking coals sales during the quarter.

So, over to Maules Creek, as I noted before, on the 5th of December, we reported revisions to our guidance there with a couple key drivers in that message, obviously with struggling with manning. To man, to draw into the community and into our workforce the number of people necessary to keep all of our equipment fully manned, we'll talk about that shortly. And then of course, with this extended period of drought, severe drought; we have experienced significant numbers of stoppages as a result of regional dust events as we spoke about at the time of that revised guidance. Now these are events which are bringing over our site - not produced by us - but bring over our site a level of elevated dust and particulate matter, which exceeds the threshold that we're able to operate within. And so that's caused numerous stoppages, in fact it's caused some 30 stoppages over two months leading up to the revision of our guidance that we had factored that in, a continuation of some of this into the second half. Now, that's an unusual thing to say, given that we sit here today talking about these sorts of events when there is actually rain outside our window, but we need rain at our sites, obviously not in the city, in order to be able to minimise the impact of these regional dust events. But overall, Maules Creek is 2.2Mt versus 4Mt for the previous corresponding period to 44% down, but we are making very good progress on the manning of our fleet. So, we have a program in place to drive a short-term recovery of manning levels. And as far as our forecast goes for that recovery plan, which is embedded in the revisions to our guidance that we gave on the 5th of December, we are exceeding the progress that we've planned in terms of the number of people we are at hauling trucks between now and 30 June, so that is very positive to see.

I mentioned briefly in-pit dumping has started to occur and you will see this about to transition, the cost profile but also with the haulage profile for overburden over the next couple of years. That's positive to see we are pushing very hard into that Southern domain. For those who recall there's that little triangular corner at the Southern end of our pit which is the most significant in-pit opportunity for us in the short term. We are driving hard into that area to ensure that we can open that up as soon as possible. Implementation of AHS continues to roll ahead as we planned, there's nothing unusual to report there but we are looking to the next quarter in order to start the first week rolling out in autonomous form.

So over to Narrabri now, Narrabri total tonnes as you can see 233 tonnes, there's not a lot of tonnes obviously for the quarter, impacted of course in that slightly bumpy end to longwall panel eight where we did find an unplanned intrusion without seeing dilution in that tail end of longwall panel eight which causes lower production. And of course there's the arduous process of bolting up and putting on mesh as you complete a panel, obviously which produces less tonnes, and then we swung heavily into the changeout for the period. So the changeout has gone very well so the chock cylinder upgrade has gone well and as many of you'll know, we chose to also replace the drift belt at the same time and we've been able to commission the wall backing at panel nine ahead of schedule so we can shift where we planned to be, and thus far things are looking pretty good. The goaf has formed as we've been advancing, and that is a little early which is also very positive to see. So, when risks such as that have now diminished, as you commence the new panel, we're looking forward to certainly hitting our straps and continue to ramp up into our forecast production. We have got a big second half as you can all acknowledge from the numbers that we tabled, and there's certainly nothing to recede to that as we won't be able to proceed on that basis. Coal quality has resumed, as you will typically see at the top of our panels at Narrabri.

Our Gunnedah ops - 657,000 tonnes versus 1.1Mt for previous corresponding periods, and this is in accordance with our plans with Tarrawonga, and Werris had a slower half in the first half, there's no doubt about that, so this quarter is indicative of that, whereas typically as you know, when we hit those seams at the bottom of the Werris pit, it always has a bigger half, and Tarrawonga we are in the process of addressing the old area of elevated strip ratio in the hill, as those of you who visited Tarrawonga will know. And so there's a lot more dirt being moved at the moment to this quarter, which will swing back and reverse and moderate in the second half. But they are both on course with their plan. Of course the roll out of our new fleet at Tarrawonga will see us producing around the 3 million tonne annualised run rate at the end of this financial year.

From a logistics perspective, there's nothing particularly to note there. Of course, you know, the drought is having a severe effect on other users of the rail, so, as you all know, we do have a big second half and we do want to take advantage of surge capacity in the line to be able to rail at the levels that we want to in order to meet our second half targets. And there's nothing that we can see that says we're not going to be able to do that.

The water update is important. It has been a particularly, you know, a focus for us for the last 15, 18 months. And during the course of these past 12 months, we've been doing a lot of work in essentially transitioning Maules Creek as the most important piece of that puzzle away from its dependency on the river which has been dry since December of '18, so we're over a year into that now since the river stopped running, transitioning away from dependency on the river to other water sources, which has been quite successful. It does involve, this work, a heavy interaction with the regulators as you can imagine, but we've been able to navigate our way through that successfully during the course of the year, and in this last quarter, further approvals have arrived also in time to allow us to continue to supply Maules Creek with the water it needs necessary for its current level of production. There is more work to be done here, and so this will be an ongoing exercise for the next six to 12 months. We're thankful for the moisture that looks like it's going to appear over the next four or five days out at the mine sites, but we do feel this is necessary work that we need to continue to ensure that we have, you know, essentially a water proofed position for Maules Creek in particular.

I will go to this new section in here and this is not a recurring section, but it is just what we talked about just how we are going back preparing ourselves for the future. Now, it's not just the existing mines, obviously, and the management of them, that we're responsible for, but we obviously have new mines coming. So, to that end, we have brought about some changes in our management structure. We've created two new roles that haven't had this importance and prominence in our management structure in the past. So, it's really a function of the company maturing and readying itself for that next stage of growth. Those two new levels that you've seen in the announcement, the creation of a role, we do now have an EGM for People and Culture, and Leigh Martin has joined us and is on the ground and this is her first week and we are very pleased to have her with us. And we have created a role where a search is currently underway for an Executive General Manager Health, Safety and the Environment. Again, two roles which were previously under our COO which we've now called out and elevated and will invest in further, to ensure our business can manage the growth going forward. That recruitment process is ongoing. With the retirement of Brian Cole, who remains with us in the business, Brian's transitioned to more to a consulting role and remains responsible for the approval of Vickery. We have hired, and in another two weeks' time, Mark Stevens will join our ranks out of our Brisbane office to take responsibility for our project delivery area. This is a change from our previous structure whereby – you've got Vickery, Winchester South and Stage three of Narrabri - three very large projects will all come under Mark's responsibility and we will drive consistency of approach across these three major projects and any other major projects we undertake from time to time which will find its way into his scope. Now that did cause some change, of course, for the previous COO configuration of that role. And Jamie Frankcombe as many of you know has left our business. We are very fortunate that we've been joined by Quentin Granger in an interim capacity for the EGM Operations who joins us here in the call today as does Kevin Ball the CFO, as you know and of course, with Sarah McNally. But Quentin has been doing a great job on the ground and we expect to have him here with us whilst the recruitment process for the EGM Operations role is fulfilled. If you want to, if you're curious about the details, the credentials of each of these new additions to our team, you can go to our website and there's a link there.

Onto the Vickery project, well frustratingly the government hasn't coughed up its whole of government report as yet. And that is annoying for us, although we're told it's very close to hand. There have been some early indications that there are no particular issues that they are grappling with, it's just administratively tidying up the report for its ventilation in the public. But we are expecting that soon and we're certainly expecting that and then the consequent IPC hearing to be called and then the determination we've estimated within or by 30 June, essentially. But there's nothing particular that the Department of Planning is raising with us that's new, different or concerning from that, from the whole of government report preparation, it's really just a matter of them handing it over.

Winchester South has been a flurry of activity during the course of the period it's all been about process optimisation of mine plan, but then also organising the various pieces of the infrastructure puzzle necessary in this new area. The most important piece of that being obviously water, and then electricity, both of which have important interrelationships with our neighbours around who have been very cooperative with us I have to say. So there has been good progress made on securing water supply and also looking at a pathway for electricity supply on the side. There has been a delay in the publication of the JORC Reserve for Winchester South, we really would like to have that a little earlier. But we are working closely on it – and the central question here is how much of the Fort Cooper coal measures do we put into the reserves? If you wanted to publish a reserve based on the existing Rangal coal measures you could have done that already by some time, so the Leichhardt and Vermont section of our overall coal resources, they're very well understood, but the Fort Cooper coal measures we're certainly looking to put as much of that as we can into the reserve and that is the final piece of this puzzle necessary to table the reserve.

The Narrabri underground stage three project continues and there's nothing particularly to bring to your attention from this, other than the fact that you all know, it's a life extension, the project, but an important one, which does require a significant investment from a capital perspective that we talked about on our Investor Day, but it is a life extension now to 2045, which will be great for the Narrabri investment.

Next to markets, I think we are into a relatively quiet period of the market, I think let's see what happens, we pay attention to now that there's what appears to be some trade deals having been tabled, I think, again Chinese New Year will be interesting also just to see that get out of the way and see what the Chinese market does when it comes back into full swing. I think we've seen as we've noted, spot energy prices change for the better for the sellers of LNG. I think it was unsustainably low in the past, I think that's logical that that has moderated and let's see what happens with the April settlement for Japanese thermal coal. But otherwise, we are seeing strong demand and for every coal tonne that we can get out the ground, we've got a buyer for it and noted back there at Maules Creek despite the overall 2%, minus 2%, realisations for our thermal coal product, we have at Maules Creek realised a 17% premium over and above benchmark for our sales at Maules Creek.

So that brings us to the end, other than to note again that we have concluded the sale of the EDF piece of Narrabri. We are, as we noted in this release today, still subject to pre-emptive against us from our remaining joint venturers. But our expectation isn't that they're particularly interested in acquiring their respective seats of the 7.5% and our view is that we're likely to end up with 77.5% total. But for the purposes of helping you assess what the implications that would be if they were to exercise their rights, we would have the 75.7% as noted in the release. So, with that, we have tabulated the guidance here once again for you, we are happy to continue with that guidance, it's been the basis of which we'll run through the second half of the year. And with that, I might hand over to Rachel - the operator - for an opening up for question and answers. Thank you.

OPERATOR:
Thank you, Paul. Thank you and welcome to the Q and A session. To ask a question, please press star one on your telephone keypad and wait for your name to be announced. We'll now pause and assemble a question queue. Your first question comes from Kaan Peker from Jefferies. Please go ahead Kaan.

KAAN PEKER:
Just quickly though, the first one on Winchester South. So just wondering if you can share a little bit more information, or if you have further information around coal quality, washability, yields, et cetera. And the second one is more around trying to get an understanding of surge capacity on rail. So, is there a certain quantum or percentage that you have an understanding of? Thanks.

PAUL FLYNN:
Thanks, Kaan. Yeah look, for resources, for Vermont and Leichardt seams, you should, I mean there's plenty of representative mines in that region, mining those seams. And the coal quality work we've done certainly highlights that our presentation of those seams, if you like, on our lease are consistent with what you're seeing our neighbours produce. So the coal quality is good, and the recoveries are consistent with what we're seeing other mines do. Now those will range from about 75% to 80% recovery from the washing of those two seams, but the question here, as I mentioned earlier, and I know lots of people have talked about this is, Winchester South is a very interesting project because the Fort Cooper coal measures are only a metre or two below the bottom of our Vermont seams. And that's really the closest to anybody's mineable section that anybody has a presentation of those seams. So it's incumbent upon us to have a good look at this because it is nothing to get at it. Now Fort Cooper seams everybody knows have some very nice coking qualities in them, but everybody knows also that it's very low yielding coal measure. And most people don't attack it, because there's usually a big gap between their bottom seam and where their representation of the Fort Coopers present themselves. We're unique in having it only a metre or two below our bottom seams. So, we must look at it because it's obviously very cheap to get at it. And even if it is low yielding, it will add to the reserves of the project. So, we're very keen to make sure we take the time to study this properly and we want to put as much of that into the project as we can. So, we'll take the time to do that but they are typically very low yielding, Kaan, as it's how much of that you want to take given how cheap it is to mine versus the low yielding outcome. And what's the blending benefit of putting some of those coking properties into those two seams above. That's the puzzle that we're solving currently.

Surge capacity on the rail, look we're not concerned about that, because unfortunately for the agricultural users of the line, they're not taking up their respective pathways on the line. So we're not seeing any blockages at all here. Our contracted position for the second half is a lot lower, like in terms of our fixed contractor position than what we were going to use, we have surge capacity in those contracts that allow us to take the available paths when they're there. So we're not concerned that we won't be able to get that capacity in the second half, unless there's some dramatic change around the agricultural prospects, which is not going to happen quickly. And so yeah, that part we don't see a blockage there in the system at all for us. We've just got to produce the tonnes in what you know, is going to be a weighty second half.

KAAN PEKER:
Great, thanks.

OPERATOR:
Thank you Kaan. Your next question comes from Paul Young from Goldman Sachs. Please go ahead, Paul.

PAUL YOUNG:
Hi Paul and team, happy New Year. First question with regard to Maules Creek, Paul, your guidance through the full year, although it's unchanged, it actually implies that the June half will be effectively a record half for that operation. I mean, even when you're looking at, I guess, the lower end of the implied run of mine guidance range. So I'm just curious about the fact that if the labour impact put you behind and overburden removal during the quarter, could you step us through how you actually man the operation back up and actually achieve that, effectively a record half, based on the fact you're actually behind in your stripping. Thanks.

PAUL FLYNN:
Yeah, thanks Paul. Yeah look, there's no doubt that that's a solid second half that we've got to deliver. I mean, you've certainly seen us in the past deliver some pretty big and lumpy outcomes, where you, you know, hit some of the bigger seams such as the Braymont seam we've discussed in the past. I know if you flip back over to, you know, the big total that we put at the back of our announcements, the quarter-on-quarter analysis in terms of what the individual mines have done, not necessarily a record, if you like, but it's going to be close there to, if you add up those quarters we have done it in the past, and we'll do it again. The key as you mentioned is really the labour initiatives and when we formulated the guidance, we obviously set out a recruitment pathway, in terms of how quickly we could put people on the ground in seats here with a decent level of proficiency to be able to operate the trucks and excavators at a rate to get us where we need to go. And generally, we're slightly ahead of that, which is good. So, we are seeing a positive impact of new leadership on site, a different approach to recruitment, a newly applied approach in terms of the people that we're using for the recruitment drive as well. And so that is delivering results at this early stage. So we need to continue on that pathway if we want to deliver the tonnes, no doubt about it. But we certainly have run at that rate when you go back to reflect on those previous quarters in the past, we can do it. So, Quentin, is there anything more you want to add on the people side of things at Maules Creek?

QUENTIN GRANGER:
No, Paul, other than the fact that, you know, certainly our revised labour strategy seems to be hitting its straps at the moment and the numbers I've had a look at just in this last week would tend to indicate that January is also going to be a positive month from a labour recruitment perspective. So, you know, the way we're going right now, we've got a high level of confidence that we can deliver on H2.

PAUL YOUNG:
Yeah great. Maybe just a bit further information for everyone. I mean, how many people you looking to hire? Where are you, sort of how many people have you hired? Where are they coming from? And, you know, what's the rates or salaries or bonus structures, are you having to, you know, throw out there to incentivise this new labour to join Maules?

PAUL FLYNN:
Yeah I think we've been, Paul, in previous conversations we've mentioned that there's 50 to 60 people that we were looking for, in order to achieve the totals that we wanted. Yeah look, part of this is, it's not all about money so, don't talk about rates and things. It's not all about that, it's about the whole proposition that we represent as a site here at Maules Creek and so part of that change, and I think the improvement that we're seeing also has been about the change in leadership and the different cultural settings that that's bringing, and so I think that it's not just about rates. I think if we rely solely on rates that would be a challenge. There's a couple of streams to this. You obviously got to get people on site in the short term, but I think the site drifted away from their investment in the cleanskins program to bring local people into the mining sector and because they're looking for - essentially the management team – we're talking for obviously the immediate results which we all are - don't get me wrong - we all want that but by the same token you have to be able to do two things at once. Get those people on the ground to deliver an outcome now but also continue to fill the complement workforce, the local complement of our workforce over time. Narrabri has done this very successfully and as far as our operations go is fully manned and they've done that by investing in local people over time. People who want to be in that area. As we know, Maules Creek was assembled by people from broadly outside of the area in the initial phase. And then in more recent times, the local recruitment processes drifted away, we have reinvigorated that because that has to be the longer term solution.

QUENTIN GRANGER:
Yeah. And you know, I think in the numbers again that I'm seeing, is quite encouraging to see the number of, you know, sort of new starters within our business and of course, we understand that requires an investment in the training requirements and we've been able to beef that up in the short term to get us over this hump in training that will, of course, come about through that strategy. You know, I think, you know, the other thing that we're doing is not ruling out, you know, other alternatives. And so we were looking at everything else under the sun in terms of what else can we do to attract

people into our operation there. So, you know, we're not just restraining ourselves to the cleanskin employment process. And you know, we've been quite successful in the last month and a half in terms of attracting some other people into Maules as a result of that.

PAUL YOUNG:
Yeah great and that's the last question on Maules. Just with the update that you've given on the water strategy, those measures, those bullet points you've outlined in the quarterly, is there any major cost impact involved, I presume that's in your cost guidance, but can you maybe just quantify that? And also let's hope it does rain, Paul, but if it doesn't rain, how long can you run Maules Creek with your allocation at the moment? When would you actually have to start curtailing production if it doesn't rain?

PAUL FLYNN:
Yeah thanks, Paul, and I think that's about three questions, which requires a meeting, generally. Might have to give the reins over to somebody else in a sec here, mate. But look, water costs, we haven't called those out separately, they are in our guidance. There's no doubt that they've been factored in already. I think for the half year I think we'll go back, and we will… we're not obviously spending our capex at the moment in line with what our guidance has been at the beginning of the year so that's not happening. Vickery has been obviously delayed, and so any capex associated – that's been delayed also. But we might just actually refresh our capex at the half year numbers and we'll call out the amount of money we spent on water because it is important. It's not particularly material, you know, from an opex perspective but we actually, we've bought some properties you mentioned, we've made some pipelines as we've mentioned, and so these are things that are not without some costs. So perhaps we'll table that up for everybody as part of the half year, as a review of capex. As far as water security goes, look, we got a reasonable basis at the moment to continue to operate. Our view is not just trying to buy time here waiting for rain, our view is that we do need to secure Maules Creek's water resources without rain. That's a big ask and we've done pretty well thus far, and we continue to work on this. It does mean we do need the right support and responsible administrative processes from the government to be able to achieve this. Thus far, I have to say they have been responsive to the needs of people that, beyond just us, but everybody else is making applications to put new a bore down or deepen their bore or whatever it is they're doing. And thus far the government has been responsive to this, but our outlook does entail more regulatory interactions here and more regulatory outcomes that we're dependent upon. So we're fine for water security, Paul, to answer your question. But to be any change there, we would make, you know, a statement about that.

PAUL YOUNG:
OK, great. Thanks very much.

OPERATOR:
Thank you, Paul. Your next question comes from Peter O'Connor from Shaw and Partners, please go ahead, Peter.

PETER O'CONNOR:
Hi Paul and team, happy New Year as well. Two questions Paul. Firstly, on Maules Creek, you talked last quarter about the ash premium, the dollar value as opposed to the percentage price that it runs at, and you talked about its quarterly and it can be just quarterly or yearly. Just wondering where you are in that repricing cycle? Does Maules step down now in a new calendar year or is it a fiscal year basis, those premiums? So how should we think about that change in the next quarter or two ahead?

PAUL FLYNN:
Yep, and your second question, Peter?

PETER O'CONNOR:
Is the comments you made about Narrabri, Paul you used two scary words, "unplanned intrusion". What exactly was that? Was it a floor roll or what was it, a major intrusion? It's not things you like to hear on a coal mining call.

PAUL FLYNN:
Yeah look, it was actually honestly and firstly, it was just a really localised fault impact, Peter, so it wasn't a big thing and it certainly wasn't something that we drilled out, it was quite localised but unfortunately it did impact the quality there of just at the back, the stub end, if you like, of panel eight and that's now past. Unfortunately, as you know, a lot of the ash here is elevated obviously when you go through these faulted areas as we're cutting a bit of stone, so it wasn't an intrusion as such, it was actually a fault. But it is a localised thing and it's now past. So in terms of the premiums that is important, we haven't actually changed any or will have to change any of our premiums at these priced premiums yet. 17% being realised is actually reflective of those premiums holding. They are not actually set on an annual basis per se, they are set on a contract by contract basis, depending on which or what the duration of that contract is. Now, this is obviously a quality product and we think the attributes associated with it, for which we demand that premium, don't vary, just because the underlying price on the tonne may vary. And so we're holding onto these premiums as long as we can. In fact, as demand

turns and we’ve seen a little bit more demand turning in more recent times, that gives you the opportunity to actually continue to move those premiums upwards. So we're not giving any guidance on reductions as we think we'll hold those and in fact can improve those over time, Peter.

PETER O’CONNOR:
So just to the benefits on the call for modelling, when you say the duration of contracts stay extendable, are we talking multiple years? And thus we should be using as premiums on ash for an extended period?

PAUL FLYNN:
Look, we have different variations – as many customers as we have, we have different terms for their contracts. So, I mean, you can essentially treat most of those as evergreen anyway. So, look, Maules Creek coal, thankfully, sells itself. There's no problems about selling Maules Creek coal, and the premiums are a very strong indication of why that's the case.

PETER O’CONNOR:
Thanks Paul.

OPERATOR:
Thank you, Peter. Just a reminder to ask a question, please press star one on your telephone keypad and wait for your name to be announced. Your next question comes from Rahul Anand from Morgan Stanley, please go ahead, Rahul.

RAHUL ANAND:
Thanks for the opportunity. Hi, Paul and team - happy New Year. I've just got one question but it's got a few subparts within it for Maules, so, I apologise in advance. Braymont, have we hit it now? And you did talk about some modest in-pit dumping, does that imply that we’re there now? I asked a question not particularly with regards to ROM coal production, but also in terms of yield and also met and thermal coal splits going forward? That's the first part of the question, and then the second part of the question is given current market dynamics, do you expect to continue your skew towards thermal as opposed to met? Or once you've hit the right targets you do expect to go to that 40, 50%? Thanks.

PAUL FLYNN:
Yep thanks, thanks for that Rahul. I’ll try and answer that before I hand over some of that to Quentin. The Braymont one, I don't believe we're into the Braymont now but it does actually pop up again in our mining sequence later on in the second half. Quentin’s nodding his head there.

QUENTIN GRANGER:
That’s correct.

PAUL FLYNN:
The dumping has been modest, the proportion of dumping that we've been able to access there is relatively modest as we always said it would be in the first half of this year. It’s the second half where we were going to access a little bit more of that. Overall, Quentin, I think we’re talking about 15 to 20% of volume in second half.

QUENTIN GRANGER:
Yeah, I mean, it's been tight leading up to the end of December. But you know, as we open up the bottom of pit and remove more of those coal seams down the bottom, we open up more box cut area, so you know, we certainly anticipate to see more of that eventuating in the second half.

PAUL FLYNN:
And, Rahul, your question on market dynamics, you can see the spot price was certainly soft, as much as we can - and obviously the Maules Creek product in adding on top of that our premiums - currently as we sit here today we’re not chasing incremental sales, it’s really soft. As you would imagine, the economics of that aren’t compelling. But in terms of long-term strategy, we still believe that Maules can get to 50%. There's no view that that changes, or no variables that we can, you know, take into account at the moment has caused us to believe we should change that. I think with the recent improvement in hard coke pricing, clearly that's recovered from its lower reaches in the last two quarters, I think you'll start to see that drag the semi soft number up and which will bring it back into contention but as it currently stands, we're not chasing that incremental spot sale. It's easier and better for us, more productive, to sell at $74 dollars today plus our premium on top for the thermal.

RAHUL ANAND:
OK, so just one follow up there re Braymont I mean, is there a delay then in hitting Braymont or is that per plan because I thought it was going to be hit in the third quarter. I may have not kept on top of it sorry.

QUENTIN GRANGER:
No Rahul, that's definitely as per plan. You know, the intention is to get down the bottom of pit as quick as we possibly can so that we can improve on our in-pit dumping. And to do that you're chasing coals down the bottom of pit and not advancing overburden and coal mining in advance so that's very much the plan for the second half of this year.

RAHUL ANAND:
OK, that's clear. Thank you very much for that.

OPERATOR:
Thank you, Rahul. Your next question comes from Kaan Peker from Jefferies, please go ahead Kaan.

KAAN PEKER:
Hi, guys, just a follow-up from me. Just on the water conditions, so we've heard that there's been some sporadic rain around sort of the Tamworth region. I know it's not exactly where Maules is, and there has been some water inflows to some of the key dams like Chaffey and Keepit. Has there been any impact on sort of that Namoi River area? And what does it mean for Maules Creek? Yeah, could you please maybe give a little bit of explanation on that? Cheers.

PAUL FLYNN:
Yeah thanks Kaan. Yeah look, you know, and Sarah has just popped up on our screen at the moment here in our boardroom the BOM's synoptic chart which shows rain falling in that region. Look, we are expecting over the next three, four days some pretty good rains there, which is nice to be able to see that. But it's still early, we're not relying on that as being, you know, our return to average rainfall, we've got to be able to shore up Maules Creek's, you know, water continuity to be able to run when good rain is happening and when it doesn't, so that's the only responsible thing to do here. Out of this rain, there's no doubt we'll capture some good flows into our dams. And then they obviously be recharge into the aquifers from which we're drawing currently with our bore water is great for all concerned, you know, and when rain fall is in the area, everybody feels a little bit better about the world, there's no doubt. And so look, I think this will be positive all round, but our view is, despite the immediate relief that is forecast this next week or so, we're going to continue with our plans so we will be fine under all scenarios.

KAAN PEKER:
OK, thank you.

OPERATOR:
Thank you Kaan. Your next question comes from Lyndon Fagan from JP Morgan. Please go ahead, Lyndon. Hi Lyndon, we can't hear you at the moment you may have muted your phone.

LYNDON FAGAN:
Can you hear me now?

OPERATOR:
Yes. Please go ahead.

LYNDON FAGAN:
Thanks for that. Look, the first question, Paul, is just on achieved pricing for thermal. When do you expect that to return to the premiums that we saw for the growth overall? Is it a gradual kind of return to that? Or is it more related to de-stocking some of the inventory affected? You know, I guess there's not too much of it at Narrabri by that intrusion. I've got another question after that.

PAUL FLYNN:
Yep okay, yep we can deal with that one quickly Lyndon, because we zeroed out - the stocks at Narrabri's all gone. All that higher ash material, that's gone. So you should expect that to revert to a traditional premium pathway that's in that chart from this new quarter onwards.

LYNDON FAGAN:
OK, great. And then the second question was really just about trying to understand the labour issue at Maules a bit better. So, there's obviously 50 to 60 people that left the business. You mentioned it's not all about money. And there's now a different cultural setting coming through, but I guess I'm just trying to understand what the root cause of all of that was and trying to get a view on, I guess, how easy it is to resolve.

PAUL FLYNN:
OK, it's one of those things where it's hard to actually pull or to allocate from an attribution perspective. You know, what gave rise to this and what gave rise to that? The reality of it with, is at Maules Creek, it was, as I mentioned before, a

workforce that was assembled initially from outside the region. You know, we got it up and running quickly. There were no jobs available at the time when we did that. So we got all these people who were looking for a job and couldn't find one close to their home. They came to, they came to Boggabri, Gunnedah, and Narrabri, and they stayed for a few years. The jobs turned up back again in places closer to home, those from outside the region who didn't put their roots down, have migrated back to where they came from. And essentially my view is that management on site didn't respond quickly enough to that trend, and they were caught a little bit napping, I think, just in terms of the investment in the local hires because they don't give you the immediate impact that you want from a skilled hire recruitment, and everyone would understand why that's the case. You take a taxi driver and you turn that into a truck driver, it takes a few months to get them up the curve, so they become a productive member of the team. And so it takes some time, so I understand, at a level, as to why they were pursuing, you know, the sugar hit of hiring only skilled workers, but that means you get them from outside the region, only, and at a time where jobs are available closer to home, you're going to be battling with that one. So you've just got to balance these particular issues with each other. And I think, look, culturally I think there was a requirement for some change there, I won't go into the nuances of that. In particular all I can say is that the new leadership there is doing a very good job in resetting the culture. You know I certainly can see it when I'm out there, Quentin, I'm sure you could make your own observations about what's going on there. But it certainly feels a lot better and people are a lot more enthusiastic about the prospects going forward, now that they see the change that's been brought about.

QUENTIN GRANGER:
Even the change that I've been seeing in the last six weeks of being with the organisation has been quite phenomenal. So, it's yes, it's a breath of fresh air as far as Maules Creek is concerned and the management team out there are certainly changing direction and steering the ship in a far more better direction.

LYNDON FAGAN:
Right. Thanks for that.

OPERATOR:
Thank you, Lyndon. Your next question comes from Sam Webb from Credit Suisse. Please go ahead Sam.

SAM WEBB:
G'day Paul and team, happy New Year. Look, just two quick ones please, if I can. Just firstly on dust, you just spoke to the 30 odd stoppages before your release earlier in December. Just trying to get a sense of the conditions now. I mean, is that still running at that kind of rates? Are you still seeing stoppage today? You know, just want to get a sense of what it's like on site at the moment and second question - worth a shot you know - just wondering you know, a lot of moving parts this half, would you be prepared to give us a net debt figure at the end of December? Thanks.

PAUL FLYNN:
Alright. Right well you'll get that shortly, Sam. We've got results coming up shortly mate, so just hold your horses and the half year results will be with you in all their glory. As far as dust stoppages go, look there's two things. I'm glad you asked that question, because I forgot to mention a little bit earlier. Obviously, these stoppages which were, you know, significant stoppages that we've experienced over those couple months leading up to October/November, our announcement on the 5th, fortunately we've been experiencing less stoppages. We budgeted for a bunch in the forecast. And fortunately to date since that time, we have been experiencing less regional dust events. Now on top of that, and the important pieces of that I suppose, are what have we done about that? Now, we have been in dialogue with the government about what to do in circumstances where this is not of our making, and what are we to do or what can we do in the event that there is a cloud of dust, and let's assume it's smoke in this instance, because Mt Kaputar has had some recurring fires on it, which has been blowing over Maules Creek, what can we do? Now we have been able to find a path through there that allows us to continue to operate some of our equipment during these times. So the stoppages that we contemplate as part of the forecast, even when they occur, are less onerous now because of this new arrangement that we put in place when we've got elevated dust in the region that's not of our making. So there is some relief there, Sam, through all that, which is good. And the events themselves are not occurring as frequently as what they were. Now, the key driver for that was the regional fires, not only was dust blowing from South Australia, but the immediate fire in our vicinity was adding to those particular levels which was sending, you know, that online monitoring through the roof. The government has acknowledged that that is not solely a factor which needs to cause us to stop in all circumstances. Of course, there are safety related considerations if visibility is low, you need to stop anyway, regardless of who's making the dust, but it's less bad than what we contemplated in the forecast.

SAM WEBB:
OK, thanks, that's good cover. Thanks Paul.

OPERATOR:
Thank you, Sam. We have no further questions at this time. I'll now hand back to Paul for any additional or closing remarks.

PAUL FLYNN:
Thank you everyone for taking the time. It probably took a little bit more time today than we probably planned, but it’s been a good quality discussion. If there are any areas which we didn't get to touch on today, then you know where to find us. And we're more than happy to talk about any of these issues further. So thanks very much, appreciate you all taking the time and of course, happy New Year to you all.

OPERATOR:
Thank you, Paul. That concludes the Whitehaven Coal December 2019 quarter production call. Thank you once again for joining us today, you may all disconnect.