March 2020 Quarter Production Report – Market Call Transcript

Operator: Welcome everybody to the Whitehaven Coal March 2020 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 key pad. Thank you for joining us today. I'll now hand over to our presenter, Paul Flynn. Please go ahead, Paul.

Mr Flynn: Thank you and good morning everybody, thanks very much everyone for taking the time to dial in to the March 2020 quarterly production report for Whitehaven. I'll just acknowledge that these are obviously strange times and that I do have members of the executive team with me here today, but we are dispersed, as I'm sure many of you are in your own working environments. We've got Quentin Granger is online and he's actually being shadowed by Ian Humphries, who you would have seen our announcement, has joined our team permanently, but is in that transition mode with Quentin. Kevin Ball is also online as well and available for questions.

But let me just go through the report quickly and we'll get to the Q&A session as expeditiously as possible. Starting with safety and our highlights, our TRIFR rate has done very well in this period, in fact now below five, which is a very solid outcome for us as a company and I'll comment on that a little bit further. Obviously consistent with the health theme, COVID-19 obviously has been providing challenges for the world at large and we're not immune from that, but thankfully we are free of any known cases of it. We have been implementing, as I'm sure many of you have also been doing, all the necessary measures consistent with the government's advice and in addition to that, obviously the minerals sector has taken a position and formulated a protocol for our sites which we have also been applying in addition to the government's requirements.

Importantly, Maules Creek has achieved its manning requirements during the quarter and I'll speak to that. We have had a weighting event at Narrabri, which cost us 20 days' worth of production in the month of March, which is unfortunate, deferring some production into the next year. Our autonomous haulage system at Maules Creek actually started in limited form, so I'll into that a little bit later on as well. The March quarter for itself, the ROM production was 4.9 million tonnes, up 8% on the previous corresponding quarter and the March quarter saleable coal production of 4.1 was down 15%. March quarter coal sales of 4.5 was down 22% and we'll talk a little bit about the variations period on period. As many of you know, we did complete our financing package for our $1 billion facility during the course of the quarter. Those are the highlights for March 2020.

On to safety, just to reiterate that outcome, that's a very good outcome from our TRIFR perspective. We have seen our smaller operations, our Gunnedah Open Cuts, as we refer to them, achieve a zero TRIFR rate, which has been very heartening. As we mentioned there, it obviously sets a good example for the bigger sites, albeit much more complex businesses, to follow as we look to continue to improve our safety performance over time.

Over the page, we've got tabulated obviously the managed results and our equity coal sales. As I mentioned, the managed coal production for the period 4.9 versus 4.56, period on period 8% different; saleable coal production 4.1 versus 4.8, 15% less than the previous corresponding period; and our sales at 3.9 versus 5.3, 26%. Many of you may recall that in December of 2018 we had a very large quarter and we came into that with big stocks. So can you see that we're drawing down on the period-on-period movements of stocks into that March 2019 period, with hence the variations from one period to the next.

The equity tonnes follow suit proportionately. In terms of our equity ROM coal production, just under 4 million tonnes, versus 3.6, consistent with the managed, as are the saleable coal production and the sales of produced coal. So I won't go into that too much, but as you'd say, there was a pattern, December 2018, we brought in a lot of stocks, obviously that was drawn down in the previous corresponding period, March of 2019, hence the differences in variations period on period.

The table below I know is important to many of you in terms of the equity coal sales and the realised pricing for our period. So if you go through that, the average - well you've got the mix first, which has returned to a more historical pattern of coal sales in terms of the high CV relative to our other thermal and met coal sales seems to be steady at the moment, around 20%. The Newcastle Index price for the quarter averaged $68, to which we achieved the same outcome. The JSM Quarterly price was semi-soft at $104, obviously was a lagging indicator. We've obviously achieved $85 across all the various metallurgical coals, PCI included, for that period, so whilst we were flat with the NEWC, we were 18% down on our JSM pricing semi-soft sales and for met spot sales, we were about 4% up on that.

Now going through our sales, the equity coal sales, as I say, including our purchased coal, was 3.7 million tonnes, 19% down period on period. Managed coal sales, including those purchased tonnes, at 4.5 during the period. Year to date sales were affected, as you know, with the Narrabri change out, our longest and most complex change out in that last quarter, taking approximately eight weeks and of course we have had the regional dust events and then some manning issues which have attributed to the lower-than-expected volumes during the course of this year.

I'll get down to Maules Creek and we'll talk about that. Maules Creek has had a good quarter. Certainly, with the regional dust events and manning-related issues that we saw during the December quarter, there hasn't been a replica of that impact in this March quarter. In fact, as I say, we are fully manned, having achieved that just recently, so production has been improving consistent with that plan, which has been very positive. We have had significant rain during this quarter, so we've flipped over from weather-related impacts in November and December of regional dust events and fires casting smoke plumes over the sites. In this quarter we've actually been impacted by substantial rain events. Now Maules Creek actually wasn't as impacted as the smaller sites and I'll get to that, but it certainly has alleviated a lot of the immediate water concerns, although there still remains a body of work that we think we need to continue to pursue to fully waterproof Maules Creek in all circumstances.

So AHS, as I mentioned, has started. We are running 24 hours on certain days, but not fully yet, but we are training more people up to be able to achieve that, which is an exciting development for Maules Creek. At 2.36 million tonnes versus 1.7 of the previous corresponding period, you can certainly note that the difference between the sales of produced coal and saleable coal production reflects that, as I say, those large stocks in December 2018 which were subsequently sold in the March 2019 period, hence the deviation period on period. I do note that we've had some questions just obviously about the second half, which is big and we certainly started off the year saying that we were going to be 40/60 in terms of first to second half splits. Back in the December 2018 quarter, Maules Creek did 4 million tonnes, which is broadly in line with what we're expecting for it, for this final quarter.

I'll move over to Narrabri, because I'm sure people want to talk about the Narrabri's performance for the period. Narrabri actually got back into production after a long change out in pretty good form and unfortunately, we experienced a mechanical failure in an area which we knew to have some fragility from the roof conditions perspective and as a result, experienced a fall. We did lose 20 days, which basically pushes out about 500,000 to 600,000 tonnes of coal production into next year and I know people have asked how are the upgraded chock legs going and they have performed very well. Really, the fall that we've experienced there wasn't a product at all in terms of performance of the upgraded hydraulic cylinders, they have performed very well and continue to do exactly that. So the ROM coal production for Narrabri at 1.5 million tonnes versus 1.7 the previous corresponding period, the saleable coal production at 1.46 versus 1.615, 9% down on previous corresponding period and sales of produced coal, 1.49 versus 1.65 for March of 2019.

Our Gunnedah ops and I'll deal with these individuals, Gunnedah ops definitely was impacted more so than Maules Creek in terms of these weather events, certainly at Tarrawonga in particular. We've had significant rain there which has completely alleviated any short-term water concerns that we have, but it has caused quite significant delays in terms of being able to resume productive operations there after those rain events. So Tarrawonga, despite that ROM coal production, was 639,000 tonnes, versus 692,000 for the previous corresponding period; saleable coal production at 451,000 versus 542,000 and sales of produced coal, 411,000 versus 522,000 for the previous corresponding period. So down 8% period on period for that ROM production; it was largely attributed to those rain events.

The last of the EH4000s, the new trucks, arrived during the course of this month and will be commissioned, so we will be with a full complement of equipment on site starting to ramp up the production to obviously the three million tonne rate that we were seeking to achieve. It will take some time to get there, but all the equipment will be onsite to be able to do that.

Werris Creek ROM coal production at 385,000 versus 484,000, 20% down; saleable coal production at 311,000 versus 387,000, similarly down; and sales of produced coal, 302,000 versus 467,000, 35% over the previous period. We have encountered some, I say unchartered, unmapped underground work. As you many of you know, we do battle with that a little bit from the historical workings where the maps of underground operations in the site don't accurately reflect the actuality and coupled with rain, we certainly have experienced a bumpy quarter for Werris Creek. Similarly, as you know, we encountered those thicker seams towards the end of the year in terms of the mining cycle at Werris Creek, so we will see a large quarter for the final quarter of the year, as is traditionally been the case.

The COVID-19 update, as I say, we haven't got any recorded cases. We've been tracking this very closely and making the necessary changes in terms of hygiene practices, social distancing, screening of people from a temperature perspective and making other adjustments in terms of PPE and health supplies around the business. Materially, we are operating as we have been in the past. Of course, people in office space and cities, in particular, have been experiencing higher concentrations of cases. We're working from home mostly as I'm sure many of you are also doing. But materially the business remains in its productive capacity, the way it was pre-COVID-19.

On to our development projects, so we've aggregated them under the headings here, with the three projects, the Stage 3 project, Vickery and Winchester South. From a Stage 3 perspective, we continue to do the various studies that support the lodgement with an EIS with the government. Obviously, we've received the government's SEARs and responded to those and the work continues, so nothing notable to call out during the course of this quarter from a Narrabri Stage 3 perspective. But we would like to see lodge our EIS in the first quarter of the new financial year.

Vickery, more interestingly and I'm sure many of you will be interested in this, obviously is caught within a system that is COVID-19 affected. Obviously, we were due to receive the whole of government report and haven't seen that as yet, although I'm told it's not far away. Obviously, the conduct of public hearings has been affected by COVID-19 restrictions and the government has instructed the IPC to go and work how they might do that in a virtual/electronic form. We understand that they are looking at how to do that and that perhaps there will be some movement in the short term. As many people, not just in our industry, but obviously the economy more broadly and government in particular, are actually moving to use electronic formats for public meetings, such as AGMs, say for instance, in the corporate world. The IPC is exploring how to do this and not expose obviously us as the proponent to any types of merit appeals suggestions from people feeling like they haven't had their proper say in a new format. So we eagerly await the release of the WOG report and the instruction from the IPC in terms of how they plan to hold this second and final hearing.

Winchester South continues its studies and we're looking to get our reserves out in this final quarter of the year.

From an outlook perspective, obviously the market is obviously in an interesting place. Obviously with coronavirus affecting many countries, we've got of course the backdrop of very low oil prices and we have had, for some time, low gas prices. Coal prices have been quite resilient during that time, despite those two other fuels experiencing lower prices, although I do feel that with the coronavirus impact more broadly, we will see some impacts playing out, although to date we haven't seen anything, so we haven't got any material change in customer behaviour or shipping behaviour that we can observe that's materially impacting the business as yet. But we'll obviously watch this eagerly, as everybody is doing in their own businesses, just to see if there is anything that will come down the pipe.

I'll move on to the corporate. There's nothing particularly other than to name obviously the financing of our facility for the Tarrawonga fleet was put in place, so that's been a positive thing. There's the noted position as far as our hedging goes as well.

From a guidance perspective, I will just call out a couple of aspects here. Our ROM target, we remain the same, although I would caution everybody to consider that is quite a range on the ROM coal production side of things and given that Narrabri has deferred tonnes in the new year, given that 20-day outage, that we will be towards the bottom end of that range, rather than the top. Relatedly, managed coal sales have been impacted there, so we will be purchasing more coal to fill the total sales requests here, so there is a mix change that goes on there. So we have revised that down from what was previously 19 million to 20 million tonnes in managed coal sales, excluding purchases, to 17.5 and 18.5. Now this is a timing related matter but I do draw your attention to that.

That sums up pretty much the quarter's report for March 2020 and I'll hand back over to the operator to get the Q&A session started. Thank you.

Operator: Thank you, Paul. Thank you and welcome to the Q&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 a moment to assemble a question queue. Your first question comes from Rahul Anand from Morgan Stanley. Please go ahead.

Mr Anand: Hi, thanks for the opportunity Paul and Kevin. I might start with a COVID related question, please. We've seen some of your peers build redundancy in the system in terms of the labour force in case there is a case and they have to isolate several people, that they're able to continue operations uninterrupted. Given we've already had some shortages at Maules Creek, just site by site could you help me picture if you've made any such arrangements to be on top of that? That's the first one.

The second one is related to the debt metrics, so you've refinanced your debt and you've also put forward to the markets an internal debt metrics prior. I wanted to understand firstly I would assume you're not in a position to discuss the exact covenants, but perhaps how much extra room do you have past those internal debt metrics to breach any of the covenants in the debt? That one's for Kevin.

Then the final one is obviously on Narrabri, I'd like to get some more understanding perhaps of the mechanical failure that you spoke of and given the mine is getting deeper and we still have some time left until we start mining in some leases, should an increasingly proportion of geotechnical events be factored into the guidance and/or analysts' forecasts? Thanks.

Mr Flynn: All right, Rahul, you're taking some liberty there with three questions at one go. But let me try and work our way through that.

Mr Anand: Apologies.

Mr Flynn: Appreciate the questions though. Labour force, no look we haven't put on surplus capacity for the purposes that you've described. What we're attempting to do is actually screen people prior to actually engaging on the site and to the extent that we identified someone who might be questionable, we're encouraging them not to come onto site and expose the balance of the workforce, so we're attempting to deal with it that way. We obviously don't have the fly-in fly-out arrangement, where that potentially could be an issue, because we're not hosting a large proportion of our employees in a camp-related facility where there would obviously be greater susceptibility to spreading to a larger number of people. So we haven't found the need to do that. We do have, because of these measures and there is an abundance of caution involved in all of this, at any one point in time we've had between 20 and 30 people self-isolating as a result of having a temperature or coughing or having returned from a holiday and having self-isolating imposed on themselves as a result of those procedures. But we haven't built extra capacity into the system as a result. Maules Creek, as we say, is fully manned and that's obviously been our focus, to make sure that we deploy all the equipment as well as possible and the necessary training where those people are cleanskins is ongoing, to make sure we lift the productivity of those new entrants into our team up to the level of experienced people over time.

The debt metrics, I'll leave that to Kevin in a sec.

Narrabri, the mechanic outage was really just an AFC issue that we experienced in an area which we knew to be vulnerable, so it was unfortunate in that sense, that timing, that we did experience that. We have traversed other areas where we've known there has been susceptibility quite successfully since that time and production rates have been very good. The 500,000 to 600,000 tonnes that we've noted during that 20-day outage was to give you a bit of an inkling as to what type of production rates were traversing at that time and have resumed again. So that will give you a steer as to where the production rates have been, even in deeper ground. We've been cutting very well, actually, so it was most annoying that we had this roof fall and that when these things occur, unfortunately there's a lot of shovelling required and it's very labour intensive and consumes time. Thankfully there were no safety issues during that period, but it is what it is, but I wouldn't suggest we be factoring in further outages in this area of the mine. So hopefully that answers that one.

On the debt covenant package, I'll flick to you, Kevin.

Mr Ball: Thanks Paul, let's hope the technology works. Can you confirm it is?

Mr Flynn: Yes, we can hear you.

Mr Ball: That's good. So the covenant package, Rahul, didn't change from 2015, which really didn't change from 2012. There are three covenants in that package: one's an interest cover ratio; one's a gearing ratio; and one's a total net worth and there is plenty of headroom in those three metrics that exist there.

Mr Anand: Okay, perfect. Thanks, I'll pass it on.

Mr Ball: Thanks.

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

Mr Young: Morning Paul, first question is around the reduction in the sales guidance by 1.5 million tonnes. It's a fair drop, can you talk through what led to that, is that just the fact you don't have the stockpiles at the mine site or have you actually seen any challenges on selling coal in the pacific market at the moment?

Mr Flynn: Thanks Paul. Look it's really just a function of timing Paul, it's really annoying, obviously. There's 500,000 to 600,000 tonnes that we were hoping obviously to convert into sales, obviously which has been deferred into the new year, there's no doubt about that. June was always going to be a really big quarter as well anyway, as we knew from the outset and as we guided, it was always going to be a pretty heavy period. So there is a limit as to how much fits through the funnel as we remain with two-and-a-half months to go. Your question about customer behaviour, we're not seeing any changes there, in fact we've seen quite a large amount of tendering recently, which we've been engaged in and successfully so, I have to say, in terms of securing more tonnes. But we're not seeing any customer behaviour indicate that there is any shift here in the thermal market. I mean obviously the met market is quite subdued, as you can see and I'm sure all have noted that. Our met sales around the 20% obviously have been flat for some time now. We're certainly not chasing any further met sales at this time and I think in relative terms, the thermal market looks like it's doing a little better than the met, I'd have to say. But it's not a function of customer pushback or any sort of things like that that we could discern at this time.

Mr Young: Okay, thanks Paul. Second question is on Maules Creek where you point out a big June quarter is required and I think 3.4 million tonnes in that order, so the bottom end of the guidance on a run of mine perspective. You've done that in the past, as you've highlighted, so you've done a quarter which is close to 4, June quarter last year was 3.8, but the subsequent quarter, the following quarter, run of mine production is almost half as a result of trying to hit numbers and there's been a lot of volatility on Maules Creek production over the last 10 quarters or so. Are we going to expect the same? So if you hit a big number, 3.5 million tonnes in the June quarter, shall we then just be expecting a September quarter fall back to that 2 million tonne mark?

Mr Flynn: Thanks Paul, it is a good question this one. Look from the beginning of the year, we acknowledged that the second half and the last quarter in particular is going to be a big one, so I don't want you to draw away from this, that this is some sort of function of short term targeting of coal to meet some target, that's not it. It's actually the bigger driver here, as I've spoken to a number of times and I know it's a little difficult to visualise in this conference call without a picture, but obviously when you encounter the Braymont seam, being slightly over 30% of the total reserve and you hit that and then a hell of a lot of coal comes at a very short period of time and those periods that you've just noted, one and the one I noted before, is when we've encountered it and it does, it throws up a hell of a lot of coal quickly. So that was always going to be part of the plan and so nothing unusual there.

Going forward is, I think, the important part of your question as well, what should we expect. We should see less volatility out of Maules Creek, there's no doubt about that, but you can't actually achieve that until you've got all the seams exposed and again, you can't - and you know that we're driving hard to get to the bottom of the pit in order to be able to commence in-pit dumping. Now that obviously means that we've then exposed sections of each of the seams below the Braymont in good volume so that we can have a more orderly representation of those seams in a year's production. So in these earlier periods when you've got less exposed of those thing below the Braymont, the 30% that Braymont represents is actually even greater than that of the coal seams that are available to you. Does that make sense to you?

Mr Young: *Well I mean maybe another way of asking or answering, Paul, is when should we actually see - am I reading this correct, that from the December half we should actually see some consistency back on a quarter-by-quarter basis, is that what you're saying?*

Mr Flynn: No, I'm saying that until you actually get to meaningful exposures of the other seams below the Braymont, you will still see some variability here, so the impact, what I'm trying to do, I'm saying, is the impact, will diminish the impact of the Braymont turning up when we have more seams exposed in a year's annual production flow.

Mr Young: *Yes, okay, so which quarter will that be, in that case?*

Mr Flynn: So it won't be a quarter. I'd say within the next 12 months we'll certainly still have some more of this, but in the following year, you'll see a more orderly expression of that. Now when it comes to year end, we'll talk more about that and our investor day, of course, we can outline in more clarity what the production profile for the mine looks over time. But certainly, as the mine plan matures and you have exposure and access to all of the seams as you finally get to the bottom of the pit, you will see the volatility of the Braymont popping up in the middle of the mining sequence diminished.

Mr Young: *All right, thanks Paul. Final question is on the growth projects, so the deferral of, well effectively saying you're not going to spend or approve Vickery and the Narrabri extension project this year. I can understand Vickery seeing that it's going to a second public hearing and I'd love to hear your views on that, why that's the case. But the Narrabri extension project, which is a $400 million project and presume very high returning and there obviously some big benefits on volumes and costs from that project, I mean Kevin has in the past said he's pretty comfortable with the balance sheet, what are you guys actually preparing for here? I mean is it the fact that oil and LNG have plummeted and thermal coal is next? Are you planning for a significant decline of thermal coal prices? Why is it that you're deferring Narrabri extension?*

Mr Flynn: Look, we're not deferring anything, that expression, you shouldn’t interpret that as a deferral. The deferral that you reference to Narrabri Stage 3, Narrabri Stage 3, because of the passage of time, actually couldn't be approved during that time. We don't actually have an approval yet. So we've got to lodge EIS first and that's got to go through the passage of its assessment process. You should not see that as a deferral. All we're doing is stating a fact, there is no approval for that during this period.

Vickery is a separate matter. Now Vickery is closer obviously in the pipeline than Narrabri Stage 3, that’s just a fact. But the problem is, we've got obviously a backdrop in the marketplace which is not ideal for approving new projects for a start and we don't have yet the timeline and also the form of the final steps in this process to speak in any detail of. Now we know it's going to be a virtual electronic hearing of some form, there was always going to be one, as we've talked about on multiple occasions, but when will we have an approval in our hands? I think we're cautious about when that will be. So there's no time left obviously in 2020, calendar 2020, in which I would say to take that work to the board to ask for permission to move ahead. Practically that's not going to be, the range of secondary approvals that are required, including EPBC approval at the federal level, you've got to allow some time for some legal wrangling, as we've always mentioned, so I just don't see that falling in this side of the balance of calendar 2020.

Mr Young: *Yeah, fair enough. It makes sense.*

Mr Flynn: We're not preparing for some sort of cratering of coal prices, that's not our thinking in this.

Mr Young: *Okay. Then just lastly from me, just on EIS, just on Narrabri, if you…*

Mr Flynn: Well you've got to let someone else have a go here.

Mr Young: *Otherwise it's open-ended. You're lodging EIS in 1Q FY20, what is your best judgment on when you might receive that approval for that.*

Mr Flynn: So say again.

Mr Young: *If you lodge the EIS for Narrabri in 1Q FY21, what's your judgment on when you will receive approval for EIS.*

Mr Flynn: Look I think the IPC reforms that have been tabled as part of the Productivity Commission review and that the state government has endorsed, in fact they've accepted all the recommendations of the productivity review, will see an improvement in the functioning of the IPC. I think you still have to be prudent to allow 12 months for that, though.

Mr Young: *Okay, thanks Paul. I'll pass it on.*

Mr Flynn: Thank you.

Operator: Thank you, Paul. Just a reminder, for anyone asking a question, please limit your questions to just two. Okay, your next question comes from James Redfern from Bank of America Securities. Please go ahead.

Mr Redfern: *Yeah, hi Paul, James here. Just two questions please. First one, just going back to the FY20 ROM coal production guide, I mean do you not think it's prudent to reduce your guidance, given it's going to require a very strong run rate across the board, the Gunnedah open cuts, Narrabri and Maules Creek? I know we spoke about Maules Creek and you expect Narrabri to recover, but it just feels like that ROM guidance is a real struggle based on required fourth quarter run rate, or sorry, production needs to be achieved. So maybe just if you can comment and I have one more please.*

Mr Flynn: Yeah, thanks James. Look I mean we've obviously made the judgment that we can still make the production totals within that range. Now I've cautioned everybody not to think of it at the top of the range and it's more like the bottom of that range. But you've got Narrabri, Narrabri is producing well, despite the losses in tonnes into next year, there's no doubt about that. Maules Creek is doing better than the bottom of the range. That's our expectation. The Gunnedah ops will do what they normally do. So on that basis, our view is that that is achievable and so we've left it that level.

Mr Redfern: *Okay, all right, thank you. Just circling back to Vickery, what are your thoughts on the reasons for the delay on the whole of government report and then why they've called for a second hearing. What are the drivers behind all this? Do you think it's going back to a strong focus on climate change by the government post the recent bushfires and so on?*

Mr Flynn: No, James. Look there was always a second hearing coming, so that's not new news and we've spoken about that at length at each of these calls over time. So just a reminder, that's not new. The issue is the conduct of the public hearing once COVID-19 broke out, was no longer acceptable, given the government's bans on public gatherings. And so IPC was directed by Minister Stokes to go and have a look at how they would go and conduct it in an electronic or virtual form. And our intel from that is that they were initially reticent to do that and their drive here is to eliminate – if you have a public hearing, obviously the benefit of having the public hearing is that you eliminate all forms of merit appeal subsequent to the approval. And their initial thoughts on this, that there may be legal exposures to that, but they are now, my understanding is they've got themselves comfortable in that. And if there are required regulation changes to more specifically include preferences to virtual or electronic hearings, then they will do that just to make sure that they button down this process. There's obviously no point in having a public hearing in any form if you still expose yourself to merit appeals. So that's where the time delay is.

Mr Redfern: *Okay. And do you know the reason for the delay in the whole of government report for Vickery?*

Mr Flynn: My understanding is the whole of government report is already finished. It's not about them. It's not about them causing further delays. It's the IPC being now tasked with how much you hold this hearing and ensure that there are not merit appeal risks associated with it. That's the delay.

Mr Ball: Paul, I think the question there is that once the whole of government report is released, I think they're fixing a timeframe that they're obligated to hold a meeting within. And what Paul's been trying to say to you is that the government, I think has been reluctant to kick off that process until it knows it can actually hold a second meeting, either electronically or in person.

Mr Flynn: Yeah, with undue risk of merit appeals.

Mr Redfern: *Okay, I understand. Thanks, Paul. Thank you.*

Operator: Thank you, James. Your next question comes from Kaan Peker from Jeffries. Please go ahead, Kaan.

Mr Peker: *Good morning, Paul and Kevin. Thanks for taking my question. I just wanted to focus on just the other aspects of guidance. Given the focus on cash flow preservation, I'm just wondering where you're not spending capex. I know you haven't changed your capex guidance since December. But I'm just wondering particularly on the growth projects, where you're not actually spending at the current rates indicated.*

Mr Flynn: Thanks, Kaan. I think of course, Vickery was an important piece of that puzzle. And clearly, any capex associated with Vickery Construction obviously doesn't form part of the picture. You'll recall that initially, at the beginning of the year when the guidance was outlined, there was actually a piece of capex included in the growth side of things that would speak to the commencement of construction at some level back end of '20. Now that's not occurring clearly. And so it's fallen into obviously calendar '21. In terms of the other areas of capex spending, sustaining capex, we are continuing to spend as we would normally do. I do note that historically we don't end up spending all of our capex. I think year on year, if you go back and analyse that, our sustaining capex has been less than what we've predicted for the year. The Narrabri Mains, as you can see in the guidance, that's important work, so that continues to be done. The Tarrawonga fleet expansion, the fleet itself is leased actually, so the capex goes out the door and it gets recovered from the formalisation of those leases, so that actually cash returns to us. The chock cylinders have been done and paid for. And the AHS project we cited in there, they're single digit million dollars involved in that. So it's really just the big projects. The studies are continuing to be done but there's no big licks of capital going out the door for any of those. It's just a function of the Vickery delays, as we've just spoken about.

Mr Peker: *Just a second question, it's sort of on Vickery, but excluding Board approvals and I suppose Whitehaven's view on the project, I was wondering if you can talk through options around delaying Vickery after Whitehaven received approval. I understand that once approval is received, it's to 2034 or 2035. Can you provide some detail around that? Thanks.*

Mr Flynn: Sorry, Kaan, what was the reference to 2034/2035?

Mr Peker: *Just the approvals for Vickery.*

Mr Flynn: An approval is valid for five years once received. You need to commence it within five years. And the lease term is 21 years. But the approval, once received, will be valid for five years. You must have commenced it by the expiration of the fifth anniversary, as we have done with the four and a half million tonne version. We did the necessary works to qualify to having commenced construction under that approvals regime given that its anniversary was in September of '19. I think we are cautious on this and I think it's right to be so. Obviously, the world is in a very interesting place and I'm not pretending that we've got a crystal ball any better than anybody else's crystal ball, if indeed they did, and so we're cautious on that. We know that there's some delays here anyway and so we'll use the benefit to that time as most productively as we can. And in our view, that is all about how to further optimise and refine the design of Vickery and the associated capital costs that goes with it. But I think the market is obviously in a time when pushing the button on new projects right now, you'd have to be cautious on doing that.

Mr Peker: *And if I could ask just a quick one, just talking through your fuel sensitivities, in terms of your pricing, in terms of the lag as well and how you see fuel costs playing out on your unit costs, thanks.*

Mr Flynn: It's an interesting and important question now because everyone's sort of forgot that we bore the price in inflation in our cost base on the way up and obviously with oil prices being much reduced year on year, where does that go? Kevin's done some work on this. I might get Kevin to give us a view on it.

Mr Ball: Yeah, thanks, Paul. And it is a good question, Kaan. When you break it up, we have fuel exposure in three different places, and the two major ones on those – in fact the leading one is actually the diesel fleet that operates in the mines, not so much in the underground. The second part is we have road haulage and haulage of product at the Gunnedah Open Cuts. And the third one is we have a diesel price embedded in our rail costs. And generally that works out – our diesel costs in the last year has probably been in that 70-80 cents a litre and that's probably been in the range of \$8-\$10 a tonne FOB and we would think it would be saving somewhere around that \$3 a tonne as a result of diesel prices or crude prices coming back into the early \$30s that they are now. Does that make sense? So we expect to see diesel prices come off, which will feed into FOB opencut costs and rail costs.

Mr Flynn: Did you get that, Kaan?

Mr Peker: *I just also wanted to touch on the lag around that.*

Mr Ball: The diesel price struck on the previous mean of Platts price out of Singapore, the previous month's mean of Platts price on average. And so we have a one month lag on open cut costs and on rail. Again, it's the same arrangement, it's a month in arears, so it pretty much rolls through into costs pretty quickly after those changes.

Operator: Thank you, Kaan. Your next question comes from Peter O'Connor for Shaw and Partners.

Mr O'Connor: *Morning, Paul. Morning, Kevin. Just a quick clarification first, Kevin. That $3 per tonne you mentioned just then on the oil, that's on group tonnes, or is that just on the tonnes where you get the benefit from the open cut?*

Mr Ball: Thanks Peter. No, when you roll it all up, and that's what we look at, it's a function of – it can – and I said $8-$10, it depends on how strongly Narrabri produces again, because the diesel intensity there is low. And again, it depends on where the open cuts are up to. But we see around that $8-$10 a tonne saleable and so we would expect to see around a $3 reduction as it comes through.

Mr O'Connor: *On the guidance it's saying $73-$75, so it's $3 relative to that overall group number?*

Mr Ball: Yeah. Let me step in there. You will see that come through – I'll see that come through in the – given that the oil price really fell out of bed in March, I'll expect to see that all really come through in the April, May and June numbers, which is really only a function of the thing. What you should see, that come through and stays where it is, is as a cost bridge item coming into the fiscal year '21 numbers.

Mr O'Connor: *Paul, can I just ask some procurement or inbound raw materials flow? You've mentioned about coal sales and how you're tracking there, but how are you seeing inbound raw materials flow? Are you hitting everything you need both short term and medium term or are there any pinch points?*

Mr Flynn: Peter, nothing particular to note from an input cost perspective. I mean obviously what did throw some curve balls, at least temporarily, was individual states starting to exercise their minds on border crossing restrictions, which we have some service providers coming from interstate. But they seem to have been able to – have been maintained despite at the time the poor communication from individual governments as to what's in and what's out. Largely we're fine, Peter. Paying $50 a litre for hand sanitiser is hard going but it's immaterial.

Mr O'Connor: *And lastly, Paul, just on coal pricing, just thermal coal pricing, did you get a premium in this quarter, the mix has gone up in favour of premium, you've picked up from -2% last quarter to flat this quarter, it seems a little bit light. And then on the semi-soft, a mix of contract versus spot seems to have moved significantly in favour of spot in the quarter just gone. I just wondered, any thoughts?*

Mr Flynn: Most of these are timing things, Peter. I mean comparing quarter to quarter is a little bit too short-term to do that, although that's how we report and therefore we must. It really is just about the mix. For any incremental semi-soft sales during the course of the quarter, there were a few. They were flat spaced. There were no new sales from a JSM perspective that we took up. And strangely, we actually got away a sale in semi-soft into China, which of all things was unexpected. But again, that's just a flat based sale that we did. It's really just explained by variations in timing mostly. As we know, the energy content component of our premium varies with the underlying GCU price. But we haven't experienced any changes in the fixed dollar premiums that we charge for the qualitative aspects of our coal outside of energy.

Operator: Thank you, Peter. We ask again that you please try to keep your questions to a limit of two, just so that everyone can get a chance to ask their question. Your next question comes from Paul McTaggart from Citi. Please go ahead, Paul.

Mr McTaggart: *Hi all. I just wanted to follow up on the weighting event at Narrabri. Because when we talked about this previously, you were hoping with the upgraded chocks you would be able to mine through these weighting events. So was this the weighting event before that you mentioned, was that behind the longwall or how did this come about and how come we weren't able to mine through it? I guess that's what I'm trying to understand. Thanks, Paul.*

Mr Flynn: Thanks, Paul. That wasn't an echo. The weighting event, we knew we were traversing an area which in the previous panel had had some susceptibility. The chocks themselves aren't designed to hold up the roof forever. That's an overwhelming force once something like that occurs. But when you're traversing these areas where you know there is a risk, you just don't want to stop. You want to keep going. And that's what those chocks are all about, being able to help you keep going during those times. And we have weighting events on a regular basis and the chocks are performing very well in managing that. And the enemy of this is obviously stopping. Now, we've stopped not because the chocks had anything to do with it. We actually stopped because the AFC, we had a mechanical issue on the AFC and that just happened to occur at a time, as I say, most inconveniently, an area where we knew to be some vulnerabilities. It's on the face, it's not behind. Obviously, that wouldn't be such an issue of course in the goaf but it was a face lump across a broad section and every time we tried to reinitiate a move, it brought some more coal down, and we did see some rock and conglomerate come down as well. As we've spoken about many times, when these things occur, there's a lot of manual work that goes on. But the chocks themselves, as I say, are doing very well. And in fact, as we have the periodic weighting events as we advance, the weight comes on, you get a weight break with that beam above and you continue on. This is not a product of any concern on our part at all about the capacity of those chocks to deal with these weighting events.

Mr McTaggart: So it's kind of unlucky in the sense that the AFC was out of action at that time?

Mr Flynn: That's right. It was just a coincidence at the wrong time. You just didn't want to stop in any of these zones where it's a weighting event. And over time, we use that information from previous panels to guide us to where – when you need to pull up, for instance, for maintenance. Don't pull up in an area for maintenance in an area, if you can avoid it, where there's been historical fragility in the roof. In this instance, it wasn't a planned stop. It was just the AFC had a problem, so we had to stop. And as a result, it was unfortunately in the wrong place to do that.

Operator: Thank you, Paul. Your next question comes from Lyndon Fagan from JP Morgan. Please go ahead, Lyndon.

Mr Fagan: Thanks for that. First question is, are you able to give us some colour on how the business looks under a multi-year downturn scenario? Going back to what we were talking about previously, thermal's holding really well against other energy commodities. And I'm just trying to gauge Whitehaven's appetite for all of these project investments under lower commodity prices.

Mr Flynn: That's a broad question with a bunch of ill-defined parameters, Lyndon, that I'll find it very difficult to try and respond to.

Mr Fagan: I guess it's like are you guys prepared to invest through the cycle or do you need a certain level of thermal coal price to justify some of these investments?

Mr Flynn: Again, we have invested through difficult parts of the cycle before with Maules Creek. Obviously qualitatively, Maules Creek was a different calibre project to Vickery, as we've all noted. My view is we would need a better coal price than what we're seeing today in order to want to push the button on that. And the further that – there's any potential for delays there, obviously you encroach upon what is Queensland Government dealing with Winchester South in an orderly fashion and a completely different market and different price scenario necessary to want to move ahead with that. I think what I'm saying is there's many permutations here that are not simple to answer in a question posed in this forum. But we're going to be cautious and judicious in the way in which we allocate capital. I don't think anybody at this point in time in the middle of the coronavirus is in any position to be predicting too much at this time. So we're making sure we focus on our cost base. We're applying capital judiciously and being cautious about how this whole scenario unfolds.

Mr Fagan: *And then my second one is just on Maules. I'm wondering if you could give us more colour on what percentage of workers are actually new and what productivity impact that's having on trying to gauge when we would expect to see Maules back to full productivity. One thing is having full workforce, but then they've got to be trained and so on, just trying to get a bit of colour there.*

Mr Flynn: Lyndon, as you know, there's always a ramp up process involved in bringing new people in and getting them to a level of productivity comparable to experienced people. In the more recent additions to our workforce, I have to say the proportion was higher of experienced people than newbies to the sector, so that is definitely good. But we do need to continue to bring new people to – and local people in particular into the workforce across the group, not just at Maules, because we think long-term that's the better retention strategy. Our focus is to make sure we obviously deliver the guidance for this year and set the mine plan up well for success in the future. We're assuming that not just the productivity of our labour force, but then also the productivity of the emerging project of AHS will deliver the tonnes that we plan for Maules Creek. That's all I can give you at the moment.

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

Mr Webb: *Thanks Paul. First question is on the market. Have you seen any increase in port inventories in any of the key markets or with any of your end customers? And just secondly, quickly with Tarrawonga, can you just remind us how long it will need with all the fleet on the ground there to actually take to get to that three million tonne per annum run rate please?*

Mr Flynn: Thanks, Sam. Marketing, we're not seeing too many changes there. We note that there is some temporary port closures in India, so that's noteworthy. And so we have received some requests to defer some tonnes into the new year, so that's okay. As I say, we've got a big final quarter anyway, so that's not a big issue from our perspective. And again, I think people on the demand side are obviously trying to work out what life is like and how long this goes on, but at this point in time, there's no material changes to our pipeline if you like. And as I said, I covered the thermal off earlier, that's definitely not looking like there's any changes there. In fact, we've been successful in securing some pretty good volumes through these recent tenders out of Taiwan in particular and the Korean market has also been tendering as well.

Tarrawonga, obviously once we get the equipment on the ground through the balance of this month and commissioned, the ramp up process can begin in earnest. It will take us – next year obviously we would like to see it close to that three million tonne rate, but it's going to take you the better part of the year to actually get there. We are into the hill section, as you well understand, so the strip ratio there is at the average of the mine's life, so just over 10:1, so there's a bit of work to be done. It wouldn't be until the back end of the new financial year that you start hitting that rate.

Operator: Thank you, Sam. Your next question comes from Glyn Lawcock from UBS. Please go ahead, Glyn.

Mr Lawcock: *I think it's still morning, Paul, I think I just got in there.*

Mr Flynn: Yep, three minutes, Glyn.

Mr Lawcock: *I just wanted to clarify a couple of things on guidance. You changed from a production guidance to a sales guidance, and I think that's perhaps what's confusing a lot of people. You downgraded sales guidance by one and a half million tonnes, but your production guidance, is that – if you were to still provide production, would it actually be that the production isn't impacted as much, you just can't get it on to the rail due to an insufficient rail pass? I'm just trying to make sure I understand. What is that timing issue? Is it an inability to produce it or it's just an inability to get it down the rail and out the port?*

Mr Flynn: That's a good question, Glyn. Thank you for highlighting that. We're obviously providing guidance on two levels, ROM production and sales. And you recall, we used to do that on saleable, and the saleable coal production calculation used to get confused with some people with obviously stock movements, ROM coal versus product coal formed part of that saleable coal calculation as well. In the context of dealing with the ROM coal, the producing of the coal will lead to significant volumes coming out of the ground obviously during these remaining three months or two and a half months that we have. And so, as you know, we'll end up having large stocks on the ground, and there's only a certain amount of capacity you can put through the rail and also the port and turn that into a sale within a relatively short period of time from production. It's a timing related matter that we felt we needed to adjust to manage coal sales because there is a physical constraint which was always going to be a big quarter anyway. But as you know, we draw down the stocks pretty quickly and so it's a timing matter from the fourth quarter to the first quarter because they convert very quickly into sales and obviously cash in this industry. But that's the reason for it. Q4 was always going to be big. There's going to be a big stock balance at the end of Q4.

Mr Lawcock: *So you would expect to convert the ROM to saleable production, so saleable production most likely would be closer to the previous managed coal sales guidance, is that correct?*

Mr Flynn: Again, it just comes back to that same point I was just making, if you've got ROM coal, that's not part of the saleable coal production. If you've washed it, it is. And so hence the reason why we've moved away from that, because people were just struggling with that notion more generally. At Werris Creek, say for instance, where there's no washing, ROM coal is saleable coal production. That's just to add further complexity to this discussion.

Mr Lawcock: *I guess I'm just trying to make sure I understand that you would expect to probably wash most of it, turn it into produced coal, but not sell it because of the infrastructure issue, and it's not a market issue yet.*

Mr Flynn: Outside of Werris, that's right.

Mr Lawcock: *And can I just-----*

Mr Flynn: Sorry, Glyn. The only confusion I'll add into that, there is another factor, is because the Braymont seam is obviously turning up in all its glory in the fourth quarter, a good portion of that is bypassed.

Mr Lawcock: *That's good to know.*

Mr Flynn: On such a quality you don't – where a lot of semi-soft capacity can come from, a good portion of the Braymont is not washed.

Mr Lawcock: *And just secondly, just talk to me about cost guidance then and costs, just two quick parts. One, if you look at your cost guidance, it would suggest your cash spend when you're running is around about A$1.1-A$1.2 billion. I know you want to keep running and the government wants you to keep running, but I'm just curious, given you've got take or pay commitments etcetera, how much of that A$1.1-A$1.2 would actually still go out the door if you were to have* *a period of nil operation? And then, just on that, and take that one step further, the cost guidance, is that production cost guidance or sales guidance? Because obviously if you dropped your sales guidance by almost 8%, I'm just wondering why you haven't seen a change in the unit cost guide. So was that a production guidance, not a unit cost guidance?*

Mr Flynn: I'll hand this over to Kevin, because he'll be able to balance this discussion better than I would. But the range was really indicative of related to the production range that we had before, so we had said previously that if we're at the top of that range, you'll end up closer to the lower end of the cost guidance. And if you're towards the lower end of that range, you'll end up being at the higher end of the cost guidance. That's just the relativities of things. Obviously with lower production, then you imagine that we'll tend to trend towards the higher end of that, although there will be some mitigating impacts such as oil, as we previously discussed. Kevin, do you want to add to that?

Mr Ball: Yeah, Paul. I think your summary there is right, that the top end of the guidance there, our expectation was costs were going to be at the lower end of the guidance. And at the bottom end of guidance in production, then our costs would be gravitating towards the upper end of that conversation. And to answer your question, Glyn, we have your answer on about, I think you said about $100 million a month was about the number you put out. When we break all that up, there's a range of costs in the business that are variable. So things like maintenance, drill and blast, fuel, equipment hire, some other opex and some capex. There'll be some spend in there that will be putting cash out the door regardless on, which can be leases and rail and port. And then it's really a function of if the government were to say to you, you were down for a month, you'd have one answer for labour. If the government said you were down for a year, you'd have another answer for labour. I can't really answer that question without actually seeing what the numbers turn up in front. But no doubt, we'd be looking to try and mitigate the impact on both the business while managing the social impact that that might cause in local communities, so you'd see a reasoned and rational outcome take place, I expect.

Mr Lawcock: Just quickly, Kevin, sorry to labour it, but the government's never going to shut you down for 12 months. They're always just going to go one month at a time. It seems to be a global phenomenon now, so you probably won't get that opportunity. If you err on a month to month basis, you wouldn't lay down your staff, so what would that $100 million be in a month? About $60-$70 million would go out the door, unless you made some changes to the business?

Mr Ball: I think you'd probably find it'll be less than that, but yeah. Our expectation is that we are well funded, well supported and we'll survive, or we'll operate through that program. And I guess the overarching comment I'll make is that that seems less of a possibility today than it did perhaps a month or six weeks ago when you fellas first started asking those questions.

Mr Flynn: I think that's the right point to make here, Kevin, is just that obviously things – we're not out of the woods by any means. And obviously people are very cautious about how things turn one way or the other, but the government's obviously being very cautious to do anything that jeopardises the continuity of essential services, and mining has been deemed to be one of those. And essentially, the quid pro quo here is that if we continue to operate in a way that's consistent with the national protocol that we put in place to which all the governments, the resource ministers and federal and state subscribe to, then we would be seen as an industry that's managing itself well, consistent with the way in which the government wants to continue to have essential services operate. I do think that's less likely a scenario than where we were earlier. And I think we've just got to be ever diligent obviously, and that's not to say, Glyn, that we're not scenario planning, we are. But we're not publishing those scenario plans either, as nobody is.

Operator: Thank you, Glyn. Just a reminder, we have run over time now, so please keep your questions quite short. Your next question comes from Peter O'Connor from Shaw and Partners. Please go ahead.

Mr O'Connor: Paul, two subtle nuances. Firstly, approvals for Vickery, a 21-year approval for a typical project. The timing kicks off for that 21 years at what point?

Mr Flynn: Once approved. Once you've got the mining lease.

Mr O'Connor: So if you take five years to get the mine up and running, you've lost five years?

Mr Flynn: That is correct, yes, it is. As long as you've got your mining lease, yes, that's correct. And the renewal of mining leases, just for everyone, 21 years has been an odd number anyway for a long time, but I don't think I've ever seen anyone's mining lease not being rolled. People shouldn't be overstating the risks associated with that.

Mr O'Connor: And the first stage of 4.5 to the 10, that starts the timer again at 10, for 21 years from receipt of that approval?

Mr Flynn: Yes, it will. That's exactly right.

Mr O'Connor: Last subtle nuance. Managed sales, the margin on those are different to purchase sales. Is that a point worth noting here, that that reduction in managed versus procured coal will see a substantial reduction in margin for that element?

Mr Flynn: There's no doubt the tonnes that we produce, we gain a margin. Tonnes that we procure, there's less in it of course. They are profitable and our coal trading activities have been profitable, but yes, it's not the same clearly as our margin for produced coal.

Operator: Thank you, Peter. We have no further questions at this stage. I'll now hand back to Paul Flynn for any additional or closing remarks.

Mr Flynn: Thank you everybody for your time, I really appreciate that. I know that probably took a little bit longer than expected, but there are some complex things in there and to the extent that we missed anybody or there are further questions, please don't hesitate to call us. Thank you very much.

Operator: That concludes the Whitehaven Coal March 2020 quarter production call. Thank you once again for joining us today and for your interest in Whitehaven Coal. You may all disconnect.