June 2020 Quarter Production Report – Market Call Transcript

Operator: Welcome to the Whitehaven Coal June 2020 Quarter Production Report. All participant lines are currently on mute. Following the presentation, we will open the call for questions. To queue for a question, please press *1 on your telephone keypad. Please restrict the number of questions you ask to a maximum two per person to allow for the opportunity for everyone to ask a question. I'll advise if there is time at the end of the Q&A session for follow up questions. Thank you again for joining us today. I'll now hand over to our first speaker, Managing Director & CEO Paul Flynn, please go ahead.

Mr Flynn: Thank you and welcome everybody to the June 2020 Whitehaven Quarterly Production Report. Trust everybody is safe and well, being our second quarter I suppose under this new environment with COVID-19. But we've had a solid quarter, to move onto the quarterly report itself, and we've rounded out the year quite well and delivered upon our revised guidance for the year which is very positive. I'll just quickly go through the highlights but I'd just mention I'm joined here also with Kevin Ball our CFO, we've got Ian Humphris dialling in on the phone, our EGM Operations, and Sarah McNally of course from Investor Relations.

So for our highlights for the period, we've done very well on safety which is particularly, you know, rewarding I think given that obviously with the COVID backdrop and a very large second half of the year, we've managed to improve the TRIFR to 4.13 which is a record for the company. With the COVID backdrop, we are COVID free and have been for the entire time and that's very positive. Our staff and people have done very well in observing the distancing and hygiene measures that we've implemented.

Of course, production for the June quarter has been a record, so 8.2 million tonnes, 17% up on the previous corresponding period. The quarter's managed saleable coal production is also a record at 6.2, 29% up period on period. The strong June quarter managed sales, as you would imagine, 5.3 million tonnes, 13% up period on period and our stocks, as you would imagine, with the strong run towards the end of the year, totalling in at 3.7 million tonnes. We can talk to that a little bit later on. Our ROM coal production for the full year is 20.6 million tonnes, which is within our guidance, as is the managed sales targeted for 17.5 million tonnes for the year. Of course, guidance, we'll give the full range of guidance as we normally do in about a month's time when the full financial results are delivered.

On safety, obviously with everyone front of mind with safety just for all sorts of different reasons of course, safety in our business has never been more important and continues to be a focus for us, but that TRIFR result of 4.13 is very encouraging and we're certainly bringing the right sort of trajectory for safety improvements into the new year. As everybody knows, that work is never done and we need to continue to push on that, on a daily basis.

I'm over the page now in our results and those numbers, as you can see there, I won't go through them all, but obviously the ROM coal at 8.2 and 20.6 for the year, certainly a positive change both on a quarterly basis. We're slightly down on the year, as you recall, given the revisions to our guidance back in December of last year. So the tabulation there, I'll go to the equity tonnes here. We've got equity ROM coal at 6.6 for the quarter, so we're 20% up period on period and you're about 4% down on the total for the previous corresponding year. Saleable coal production at 5 versus 3.8 is about 30% up and about flat with the year to date, from 20 to the 19 comparison. And as I say, the coal stocks on an equity basis, just over 3 million tonnes, versus 2.6 for the previous year, which is about 18% up.

I know there will be lots of focus with the pricing backdrop that we had, but the next table down, as you'll all see, with the quarter-on-quarter results that we've given you previously for pricing certainly throws up some interesting results. If you look at the pricing for the period with the split of products, we'll go to that firstly, at 68% for our high CV coal. Our other thermal products have been 22% and our met coal has been 10%. Certainly, for the 22, a little bit higher than what we saw in the previous corresponding quarter and certainly in the previous quarter of March as well, just as we dealt with some lower-quality coal that came from underground-affected works in our Werris Creek mine. And then we also had some fault-affected coal that we've sold during the quarter from Narrabri, as we traversed various faults.

Met coal and we'll talk about that a little bit more extensively, certainly down in this period, has been for some time, but we'll get more deeply into that in a minute. The average pricing across the quarter, at $55 compares to the $59 that we've achieved as a company including our premium, so that's the average of all our thermal coal sales at the $59, which is a good result. The semi, I'm sure which will be the topic of some conversation, an average, well the quarter four, $95, the average semi soft spot price is $63 and we've obviously come in between those with our $76 for our own sales, so in the tabulation of our premiums and discounts there at the bottom stage of that graph.

I'll move over to Maules Creek and Maules Creek certainly has had a solid run to complete the year. We revised our guidance, as you know, back in December and obviously the task at hand for the second half was pretty significant and we've managed that reasonably well to come in at 10.7 for the full year. The quarter itself being 4.17 was certainly a good result, about 10% up on the previous corresponding period. We certainly lost some coal during the course of the year, there's no doubt about that, with that revision down, with labour shortages and regional dust events and so on, but labour shortages, as we reported back in March, have been dealt with and certainly the weather impacts, as we talked about in March, went from drought-related to inundation-related in the first part of the March quarter and then this last quarter has been largely unaffected. Although, we are resuming now what looks like a more reflective pattern of rainfall in the area, which is positive, although I would say the drought has not broken entirely, but it's certainly better than what it was.

We have accessed pit bottom in a number of areas, limited areas in the pit already, so you will start to see in this new year in-pit dumping starting to improve and over the next three years, attain 100% in-pit dumping profile, which would see both the elevation changes of the movement of dirt and also the distances that we're hauling the dirt improve and therefore decrease costs over time. The sales, again, the sale of coal production at 2.7, 6% above the previous corresponding period and as we produced a lot of coal, obviously in the latter half or the latter part of this quarter, as obviously we were carrying a lot of stocks at Maules Creek; we've got 2 million tonnes of stocks there versus the previous corresponding at 1.1. There is no issue with selling the coal, that's just for everybody's knowledge, there's no problem at all about moving the product, it's really just about the large rush of coal that you do, when you do encounter that big Braymont seam, which does produce a lot of coal quickly and there's obviously limitations to how much you can put down the rail and get through the port with the short amount of time you have when it's coming at the back end of the quarter. But overall, very good result and those healthy stocks will certainly underpin a very good sales profile in the first quarter and associated cash generation that goes with that.

The metallurgical coal sales have been low, there's no doubt about that. The met market continues to be soft and we've been talking about this, I suppose, for the last 18 months. There's been more incentive for us to produce and sell the thermal at a premium than it has been to chase incremental spot-based sales of metallurgical coal and that certainly has continued during this period. And so the metallurgical sales have been low at 300,000 tonnes for the quarter, or 14% of total sales volume. The AHS deployment is now 24/7 for that first fleet and we will be looking over the next month, or the next quarter I should say, to advance and deploy a second fleet for operation of the site, but we did set it a reasonable target for the year in terms of dirt moved in the FY20 budget and it achieved that target, which was positive.

Over at Narrabri, a couple of interesting highlights there. Of course, the sales and ROM you can see, but Narrabri's done a good job in delivering a very strong final quarter to the year. After we were cutting well, we moved into Panel 9 and then we had the roof fall in the March quarter, as we've reported and obviously the mine has performed very well. In fact April itself delivered a million-tonne month, which is only the second time in the mine's life that it's been able to do that, but not just April, but you've had two solid months since then delivering 2.56 in terms of ROM coal production for the quarter, which on an annualised basis is pretty impressive. I think the most heartening thing about this is obviously the production rate in this deeper ground that we've been able to achieve, so that does tell us that the measures we put in terms of secondary support are delivering better ground conditions and the chock performance with our upgraded cylinders in the chocks have worked well, despite the fact that you do get weighting events, as we know, from time to time and it has been able to manage that well.

Now on the sales front, we haven't made any PCI sales from Narrabri during the quarter and as most of you will know, that PCI production goes into India exclusively and with their lockdowns, there has been a pretty solid closure of the port infrastructure there as well. So we've had our customers there requesting that we defer PCI sales into the first quarter, this quarter, of the new year, so we'll see how that goes. In the meantime, we've been moving the coal and that allows us in fact to improve the balance of coal quality of the thermal products we've been selling as a result. We have actually sold a semi soft sale into India during the course of the quarter, but it wasn't from Narrabri, of course. So whilst the lockdown does place restrictions on some coals, it also seems to be it's open for certain others. And we've noted there for you the next longwall move's in Q3 of FY21.

Our Gunnedah open cuts didn't quite get to where we wanted them to go in the course of this year, 3.8 million tonnes. That's lower than the bottom of our guidance at 4 to 4-and-a-half for the year and a couple of factors which were affecting us there. Tarrawonga obviously with its fleet is actually running better and we'll see the better impact of that in the new year. Werris Creek certainly has suffered during the course of the last 12, 18 months, just navigating its way through remnant underground workings, which unfortunately never really corresponded with the geological maps that departments and governments had given us to work with there, but I can at least confirm that we are past the area of the underground workings now at Werris Creek, so for the remainder of its life we should be in steadier ground, but it's annoying nonetheless that it's affected this in this quarter, but overall achieving total ROM production within our guidance has been a positive outcome.

As I said, for Tarrawonga, 813k tonnes versus 663k for the previous corresponding period, an increase of about 23%. That's positive, certainly with the extra equipment on site we'll see the benefit of that in this new financial year and so we look forward to stepping up to a higher level production than what we've experienced this year. Werris Creek, as I say, now navigating its way and by the way, that's not a typo, it did do 692,000 tonnes from this quarter to the previous corresponding period so it's not a typo, it is just a coincidence. But having moved past these underground workings now, we should see a steadier based production, albeit now with only four to five years left in its life, depending on the production rate that we run it to its conclusion. The guidance tabulation there, as you can see, we're within our guidance other than the Gunnedah open cuts outcomes.

COVID, look I won't really talk about that too much more, other than to say that we are largely unaffected operationally. We have moved most of our people back in the office. I'm sure there's people with various experiences in their own businesses as a result of that but we are largely back to normal, but obviously still implementing all the necessary distancing and hygiene measures.

I'll go through quickly the development projects. Narrabri, obviously with the Stage 3 development, we're certainly pushing ahead there and we see ourselves lodging our EIS, you know, sort of August/September of this year, which would be positive, but nothing else notable coming from Narrabri during the course of the quarter. Vickery, I'm sure whilst outside the quarter, everyone will have observed at least that the IPC did hold its hearings on the 2nd and 3rd of July. It did conduct a site visit preceding that, which was very positive and we as the proponent also had an opportunity to brief the IPC ahead of the actual public hearing itself. But the public hearing was conducted. We had very solid representation from the community, both for and against and I think the submissions generally that we saw pre the hearing was about two-thirds for, one-third not so, which is consistent with the previous hearings that we had all the way back in February of 2019.

Winchester South, nothing notable particularly coming from Winchester South during the course of the quarter. We will do a little bit more drilling there because we do feel there's some extra work we can do with the Fort Cooper coal measures at the bottom of our pit, just to drag a little bit more of that into – and chase more of the met fraction – well there's plenty of thermal coal there, but we'd like to see a little bit more of the met fraction come in to that, from that area, so a bit more drilling would be worthwhile.

The next section, thermal and metallurgical coal outlook, I mean this is obviously going to be a vexed area, given the world we're in, so it is a little briefer than what we've got in the past, but of course we've stated that the observable benchmark numbers there, you know, is one thing, but where the world goes, who knows, it remains to be seen. What I can say to you is, as we said before, met market is definitely a little softer, there's no doubt about that, but the thermal market has held up very well and in our instance, as it's been in the last 18 months, the thermal with its premiums has certainly been good business for us and will continue to do that. We do note the distortion obviously between Chinese domestic prices and the seaborne trade and we do think that that differential will come to the fore. The Chinese market has actually taken a lot of coal out of the seaborne trade in this last six months in particular, but obviously with the effect of COVID in various places, we are going to see some impacts there and at these prices, we have seen a number of players reduce their presence in the market, which will be a positive for the market overall.

Just in the corporate section, I won't dwell too much on the tax rating, although we've been given a good bill of health from the ATO, which is a very positive thing. We did complete some financing there, just for the equipment for Tarrawonga, so we paid for a lot of that out of our facility. We've reimbursed that now with the drawdown of this funding component that sits behind that fleet, which is very, very good. So nice to see another form of finance with a longer term for that equipment, which is very positive. We have locked in a few extra sales which are fixed in the next period, so that's a little bit more than what we'd normally do, because some of our contacts, such as the Korean market—they're fixed price in any event—but we have locked in a few more, which has been positive and will be margin accretive over a spot as we move into this next quarter. And then we have noted just sadly there that our head of marketing and logistics, Scott Knights, after six very good years with us, has decided he's having a career change and Scott's been a great, great leader of that area of our business, he's got a great team, we will be looking for a replacement for him and we'll be doing that over the next six months as he serves out his period with us. But he's been very good and I do want to mark my appreciation for Scott, not just as a leader of his team, but a team member in our executive team as well.

So with that, I'll draw my presentation to a close and move into the Q&A. So I'll hand back to you, operator, to get the ball rolling.

Operator: 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. As mentioned earlier, please restrict the number of questions you ask to a maximum of two per person. The first question comes from Rahul Anand from Morgan Stanley. Please go ahead, Rahul.

Mr Anand: *Hi Paul and team, thanks for the opportunity. First question is related to sustaining the operational performance. So if we look at Maules Creek and Narrabri both having really good quarters but we have also seen in the past, for instance, at Maules doing 3.8 million tonnes in last quarter of FY19 and then going back to the 2 million tonnes per annum for two quarters and at Narrabri, the same with elevated rates then moving on to a 1.8 million tonne type rate after that, how should we think about your production in the coming quarters? Is there any negative impact in pushing that hard at Maules Creek? I'll come back with a second one straight after.*

Mr Flynn: Yes, thanks Raul. An inevitable question with such a big production performance in this last quarter and the second half more generally. We did say that we were going to do 40/60 at the start of the year. Obviously, we didn't get all the tonnes out in the first half we wanted and revised our guidance, so it did make the second half more acute in that sense. But, we've held those numbers and delivered well in this last quarter in particular. Of course, when you do hit – and we've talked about this a number of different times, when you do hit that big Braymont seam, being 30% of the total reserve, I mean it does deliver a lot of coal quickly and then when you move past it, the next largest seam is about 10% of the total reserve. So when you move past that, you do fall into a period where there's more orderly representation of the seams and production profile, so you will see in the first quarter there's always a dip down, but for this new year, we'll give our guidance in about a month's time when we table the full year results and there's no reason to think that we're not going to be improving on the results for this year. We feel operationally we've got the mines running well and so if you can hold your question on guidance and so on for another four weeks' time, we'll certainly get that out for everybody and certainly we would like to see improvements on this year for sure.

But, no notable changes from Narrabri; Narrabri continues to run well. We are traversing that big fault that everybody has talked about for some time, that we've discussed with you many, many times before. We are navigating that as we speak, but we're almost at the back end of that, so that's positive and that has gone well. So I expect production rates to be good in this first quarter for Narrabri, so I don't see any reason why we can't continue on decent performance in the first quarter of this new year. I hope that helps you with providing some confidence about how this unfolds in the first quarter and following.

Mr Anand: *It does indeed, thank you for that. Then the second question is more related to your met coal sales proportion, so appreciate the fact that the market is probably weak at the moment and you've taken the sales mix to 10%. How should we think about the cost base from that perspective, how much extra do you spend on top of a tonne of thermal coal to upgrade it to met, so to speak?*

Mr Flynn: Yes, Rahul, that's a good question. Look there's not a big differential, I have to say. If you're not selling PCI out of Narrabri, there is a related benefit, there's no doubt about that, but it's relatively modest. I mean the benefit will be in revenue rather than actual saleable coal production, because our yield at Narrabri is very high in any event, but when we do strip out the

PCI, that does bring with it essentially a moisture component that we blend back into our thermal and so it does lower the overall calorific value of the thermal product. So not selling the PCI does actually have a benefit for the quality of the thermal coal, so that should be fine. But look, we're all waiting to see what happens with the steel-making market obviously as this COVID impact reverberates through the various markets.

We're not seeing any real incentive to sell additional tonnes into the semi-soft market at the moment. The cost production at Maules is largely the same. We have been washing a stronger proportion of coal at Maules Creek since we moved to our three-product strategy and the purpose of doing that was not just to produce the very good quality semi-soft, but also to lock in those premiums of the thermal being a 9% to 10% ash thermal product that we sell there. So we'll continue to do that, so I don't expect the washing profile and the cost profile to change markedly from that.

Mr Anand: *Okay, perfect, thank you, I'll pass it on.*

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

Mr Young: *Morning Paul and team. Paul, credit where credit's due, well done, good quarter from both Maules Creek and Narrabri, so congratulations. Question for you on the thermal coal market and it's actually around these fixed price contracts, I think you mentioned to Korean utilities, can I just confirm you said that that was actually done, those sales were done at a very small premium to the current spot price?*

Mr Flynn: Yes, thanks Paul. Yes, they are. Look we did take the step, where contracts permit that, we did step into the market and convert those into fixed price, so there is a small premium that sits over above the current market that will unfold in the first and second quarters of the year. You've got the tonnes there, but the Korean market generally has been a fixed price market anyway. You know when we've sold tonnes there in the past, that is an annual contract with a fixed price, so we've hedged that and that's always been a piece of the FX hedging that we've reported in that outlook, in that corporate section of our quarterly report. But some of our customers, though, have come out and looked for further tonnes. So for Taipower as an organisation in particular has certainly, opportunistically I think, stepped into the market to take some extra tonnes, given that the prices have been relatively low. But we also have some exposures there where we can change from the variable, if you like, to fixed and we've done that and it's been a positive thing for us to do and we see that being a solid contribution in the first and second halves for the new year.

Mr Young: *Thanks Paul. The second question is on Werris Creek. At current spot prices and currency, is it still free cash flow positive?*

Mr Flynn: Yes, it is. I mean obviously we have the benefit of the yield there being 100%. I won't say it's gloriously cash flow positive, but it is. You can imagine at spot there are a number of different mines around the industry which are pretty tight, but at these levels we are okay on that one and we'll continue to monitor over the quarter. Look, in this new year and we can talk about this when we put our guidance out in four weeks' time, we obviously want to get our cost base down and this is the time to do it. So we can talk about that in a month's time when we've got some views as to how we might do that in this new year. So I know that's not really giving you a lot right now, but in four weeks' time we'll have a fulsome discussion about our guidance and what our plans are from a cost perspective in the new year.

Mr Young: *Okay, thanks Paul. Well I've asked my two, so I might round back with a few more if there's space. Thanks.*

Mr Flynn: Thanks Paul.

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

Mr Lawcock: *Morning Paul. Just wanted to clarify your comments on Vickery. You said the IPC must make a final determination within 12 weeks to the 20th of May. When I spoke to Santos and they're in a similar boat with their project at Narrabri, they said that was a guide from the government and the IPC's not a firm date. Can you clarify how I should interpret that? Thanks.*

Mr Flynn: Yes, thank Glyn. Look I think we're probably saying the same thing, but there's one nuance to that. So the government has given, no doubt, they have absolutely given that IPC direction for the timeline for the turnaround of their determination. So in our instance, it's 12 weeks from the 20th of May. Now the only way that that 12-week deadline, as we understand it, could be delayed, is if the IPC, out of this hearing, asked for further information of the proponent, us in this instance. So if they come out of the IPC hearing and say, look Whitehaven, there's a bunch of questions here that we'd like you to go and do some more work on or areas that perhaps have come up which are new areas that haven't been raised previously that deserve some further expansion, then the clock does stop, Glyn. So there is technically that, but having listened to or participated in and listened to the IPC unfold for those two days, there's nothing new that came out of that and by and large, the two days was actually nothing new from the same two days that occurred back in February of 2019.

So I don't really see there being a lot of new areas that would require any lengthy further expansion coming out of that. That's not to say we can obviously anticipate all the questions that the IPC might raise, but there's certainly, in the case of Santos, they obviously haven't been through a two-stage process that we have, they won't have to do that anymore because the government has changed the process. So we're in the unique position, unique but unfortunate, of having seen these hearings unfold back in February of last year and now that we've gone through this stage two of it, we know that there are no new areas that have been tabled as a result of this public consultation process. So we feel like there's little opportunity to explore other areas that haven't been raised or appropriately dealt with, with the government's reports, on the project already.

Mr Lawcock: *Okay that's great. Then just the second question, just so I'm clear, so you got 7% premium for the coal and that sounds like because you sold some better quality Narrabri thermal as well, as well as your standard Maules Creek high energy, but just curious, of the low energy, I think you sell them at 5,700-5,800, what sort of discount is that now seeing in this market? Because it* *does feel like the low energy discounts have fallen away a bit, how should I think about that part of your business?*

Mr Flynn: As you know, Glyn, we get essentially Korean quality coal straight out of Werris Creek and so as you say, 5,700-5,800 material. Worse than that, in the instance where we have been traversing some of those underground workings, it's been unfortunately worse than that, for some limited volumes. But as a general statement, it's 57, 5800 and so those discounts, as you can see in the marketplace, you're talking down around the early US$40s/t, which is difficult terrain for coal when you're in that heat-affected coal that comes out of those underground workings, which we're now past. Then you're talking about mid-40s that we've been achieving with the 57, 58 type, so US$47/t type dollars is what we're getting.

Now the first part of your question does highlight that there are a number of different variables in there. Certainly, Maules Creek has been doing very good from a premium perspective in terms of maintaining its premium, so we're very pleased with that. Narrabri's quality has ticked up a little bit as we've moved those tonnes, which would otherwise be PCI sales, we've moved those back into the thermal market, so the quality has lifted there. Then you've obviously got a small benefit also from sales that we converted over to fixed during this last quarter that have also gone into that overall 7% that we reported. So there is a combination of factors there that have made up that number.

Mr Lawcock: That's great, thanks Paul.

Operator: Thanks Glyn. The next question comes from Paul McTaggart from Citigroup. Please go ahead, Paul.

Mr McTaggart: Morning Paul. You alluded to it before, lots of coal producers in the Hunter now are probably struggling at current prices. We got lucky or we had a major player in 2015 that stepped in and took in big production cuts to match production to the market, which was the kind of thing that got prices on the recovery path. Do you get a sense in terms of what you see on the ground with other's stocks that others are carrying around the valley, do you get a sense that we might be at that point or do you think that we're just going to have to put up with these weaker prices for a while longer before a couple of the majors might step in and do something?

Mr Flynn: Yes, thanks Paul. It's a difficult one to predict, this one. The point I would make though with this period versus previous troughs that we've seen, is that we obviously haven't seen massive licks of production capacity come on since the last strong patch in the market, if you like. So, there wasn't a big boost in volume that's still sitting there being produced now that needs to find a new home or needs to shut. So, we're not looking for China to go to 280t a day or something like that, far from it. You can see the China price is actually quite high. So, there's the obvious temptation to dip into the seaborne market and start pulling some coal out of there, which would be an obvious motivation for them, but for the geopolitical type machinations that I won't even try to sort of go into. But, we are seeing a little bit of pain around the place, there's no doubt, 5,500 market I think is obviously, from our perspective, the first area where we see that manifest itself. So, while some of those mines are very low cost, which is great, but they all are experiencing very low prices. So, we know that that market does have some difficulty in it and we, as a company, have been very keen to avoid exposure to that in any great form. As I said earlier, we do have some coal from time to time that comes out of those heat-affected areas at Werris.

So we know the Indonesians have wound back a bit, clearly the Americans have long gone from any size in the Asian market and the Hunter Valley generally has got decent quality but there are some 5,500-type exposures there in the Hunter Valley, as you know and then Queensland also seems to have a few, which also must be struggling to move all the coal they want at these prices. I'm not hearing of any confirmed closures. Paul, so it may be worthwhile you exploring those with each of those other companies that you mentioned or you referred to. But yes, it's a difficult time and it's the right place for us to be focused on the better end of the market that pays a premium for our product and again, we're not seeing any pushback on wanting to take our volume at all.

Mr McTaggart: *Okay, thanks Paul.*

Operator: Thank you Paul. The next question comes from Peter O'Connor from Shaw and Partners. Please go ahead, Peter.

Mr O'Connor: *Hi Paul, congratulations, that's a cracking quarter, well done and you did steer us at the March quarterly, so you delivered, thank you.*

Mr Flynn: Thanks Peter.

Mr O'Connor: *Two questions, just an operational thinking question, maybe this is more for Ian, but just presentation of the fault in panel 109 versus where you've had it before in 108 and the development headings and how that gives you some sense of what it would be like in 110, was it full seam through, does it decrease towards the tail gates, so will be better in 110, et cetera? The second question, your comments on Narrabri and PCI, it seems like it's a really lineball call about whether you'd go back to that. Will you go back back to producing PCI, or is it just better to keep high through the thermal coal sales?*

Mr Flynn: Let me try and answer the second one first, then I will throw to Ian to answer the first. Look the PCI sales out of Narrabri are very lucrative. So the minute that market is back in allowing some flow-back in there, we're going to be into that, for sure, because that market, there's obviously a couple of dollars in stripping out that PCI fraction and separating it from the thermal, but it is very good business for us and there's not a lot of yield loss in it and the impact, as I say, on the thermal, by taking out that sweet section, isn't great, but when you're not doing it, obviously there is a uplift. But it's certainly well within the realms of margin accretive for us to do that. So as soon as that opens up again, we'll be doing it.

So I might just throw to Ian, to help Peter with his question on how the current fault is presenting itself and what we know about that as it manifests in 110.

Mr Humphris: Okay, thank you Peter, I hope that's clear. I've got a bit of the flu at the moment. But look, in answer to your question, we're developing in and around those faults in 110 as we speak. We're doing a lot of surveys, rim surveys, et cetera and ensuring that I guess they're fully mapped so we'll have the best visibility over what the throws et cetera will be. I guess over the next month or two we'll be figuring out I guess our plans of how we'll work through that. We're working through the one in 109 as we speak, we're currently in the thick of it and we, I guess, experience different throws across the face from tailgate to main gate and the guys have done a good job holding the line as we're working through that, as Paul mentioned earlier.

Mr O'Connor: *Is it just generally increasing or decreasing as it's petering out, or it sounds like it's still quite prominent at both the tailgate as well into 110?*

Mr Humphris: It's prominent across there and I guess consistent. I mean it varies from one side of the block to the other and I guess we see multiple faults in and around that area. Sometimes they coalesce to give you slightly larger and sometimes they're separate.

Mr O'Connor: *Okay, thanks very much.*

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

Mr Fagan: *Thanks very much. Just switching back to Maules, Paul, I just wanted to get a refresh if possible on the opportunity to ramp up production, so obviously it's got potential to do 16 million tonnes in the long term, maybe even more than that. Are you able to talk through that optionality, what's involved, when? Obviously, it's not a great market today to be ramping up, but if perhaps we're not looking at Vickery or Winchester as quickly as we may have been in previous years, is there a lower capital intensity option here at Maules that might actually come to the forefront? Thanks.*

Mr Flynn: Thanks Lyndon. Look it's a good question because despite more options there in terms of new capital for projects, I mean Maules Creek 16, as we term it, was always going to be high up the order of priorities given that it would seem to be a relatively low CapEx spend in an asset we know and love and we understand the potential of, so that's good. It is tied up with obviously the AHS rollout, so this goes to your timing question. We would need an approval to go to 16Mtpa, so we are working on that, but it is early days on that and because it is Maules Creek, it's got to be done well, as all these things would, but it does attract a little bit more attention because of its colourful birth. But it is tied up with the rollout of AHS, as I say. We're probably a couple of months away from making a decision to commit another fleet into that autonomous rollout, which is going well, as I say, now, but to put another fleet in there does obviously elevate the stakes. As the pit transitions, as I've mentioned, into a more uniform representation of each of those themes, in the years where you hit that Braymont, when you're running at full tilt, you can actually bump over the currently approved 13Mtpa, so that's why we want to have that approval to go to 16Mtpa, just to cover those spikes for a start.

But with the existing gear, we think in autonomous form we can actually deliver the overburden necessary to sustain the level above 13Mtpa in terms of ROM production. But we have always said it's a multi-year rollout, so we've allowed three years for a full rollout of the autonomous haulage system. Now I think that's conservative because it's essentially six months, an introduction of fleet every six months and I think you will learn, as that progresses over time and we've already learnt a lot already with this first fleet, which has been great and what we've learnt, we've obviously been cascading back into the development of the refinements of the software itself, so we expect to see improvements that way as well. But it is subject to how quickly we can roll that AHS out. In the meantime, we'll get the approval process done itself. I think you've got to allow 18 months to two years for that though.

Mr Fagan: *I guess is there anything to suggest that you wouldn't do this? So should we be modelling 16Mtpa million tonnes or is there some decision making, et cetera, that raises some uncertainty and also, the capital, to get there, if there's a rough guide?*

Mr Flynn: Yes, we haven't put a rough guide out for the capital. I mean the capital associated with the AHS, we understand that well and that's not particularly material because of the arrangements we've got with Hitachi and assisting them obviously commercialise their product. There would be more infrastructure required for perhaps more bypass capacity, more stockpile capacity to accommodate that higher run rate. We haven't published numbers on that, but certainly we can talk about that as we refine that. But we haven't landed the position on that, but there certainly would be more bypass capacity and more stockpiles, to name two things to start off with. But that's relatively modest, we're not talking about hundreds of millions of dollars here, we're talking about it might be $50 million, say for instance, that you'd need to deploy there. But these are rough numbers, so don't hold me to it. But what I'm trying to give you is a sense of scale, it's not a big-ticket item in the context of new projects capital, that's for sure. But the timescale, we've allowed three years for the full AHS rollout, so you'd want to have the approval in your hand and mine planning scenarios mapped out and understood well before then, to allow you to move from that, out of that third year, into a higher production rate.

Mr Fagan: *Great, thanks for that.*

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

Mr Webb: *Thanks Paul, just two quickly please. Can you just remind us what the process is between getting the IPC sign off and getting to the point where you're in a position to make an investment decision? Secondly, you just quickly touched on at Maules water and the drought and I know there was a lot of work earlier in the year around remediation plans to make sure it's set up around water going forward, is that all completed now or is it still things still going in the background to ensure security of water going forward? Thanks.*

Mr Flynn: Thank Sam. Look the process post-IPC determination is sign off with secondary approvals, so management plans associated with construction and then also operations, so that follows. There's an EPBC approval that's required also. Then we've allowed some time for legal work as well, I'll call it work, that's being polite, challenges to approvals and things like that, we always think there's a bit of that in our industry, so you've got to wrap that up and say there's six months of work required to do that, so you can add that on to an IPC determination. Obviously in this environment we've highlighted a quarter ago that we think in this type of environment, with the uncertainty that relates to it, we'll use that time to keep polishing the Vickery asset and refining and polishing whilst we – we're not sitting still on it, we're looking at all the aspects of it to try and get the capital cost ever lower and look at the equipment and the efficiencies that we could bring to that, what we learn out of Maules. So the time's well spent in that sense, but it's at least six months from the time that the IPC determines it to when we might be able to table proposition before our board, at least.

Now Maules Creek and water, Maules Creek currently has a lot of water there and so I think it's about 1.4 gigs we've got on the ground there at the moment, so you shouldn't be concerned about immediate water requirements. That's not to say that work is finished. We do have a little bit more work that we budgeted for in this new year, just to make sure that we make that site completely waterproof, if I can use that term. We've done really well, we've got access to good groundwater sources and we've done some arrangements with other people where we don't have to put a lot of capital out the door, but we do have some water sharing arrangements, if you like, if I can call it that, that will give us access at times and pay for it when we need it. So that's positive, but that work, I think there's a little bit more capital required in this year, but it is quite modest, so I don't want to think it's something that people need to be putting in their models, because it's not like that in scale, but that work will continue on in this year, but by the end of the year, we'd like to think we're done.

We're taking those learnings, of course, over to Vickery and making sure that we've got the right water security settings for Vickery, for its eventual operation. But we've been mindful of that the whole way through, so things we've been doing for Maules, we have been considering Vickery's needs such that there is optionality to flip, say, groundwater sources from the north to the south, say for instance, if times were again where we needed to.

Mr Webb: *Got it, thanks very much, Paul.*

Operator: Thank you Sam. The next question comes from Peter O'Connor from Shaw and Partners. Please go ahead, Peter.

Mr O'Connor: *Are you having a good first quarter for FY21, could you just take me through, given your customers you said aren't pushing back, how much could you shoehorn down the rail line with customers wanting products and price favourable? What's the capacity for the first quarter of this coming year?*

Mr Flynn: That's a good question, Peter and I don't actually have that number right at the front of mind, but I'd say it's about the 5 million tonne mark at a managed level, so we do obviously at times, we're able to squeeze a little bit more through with surge capacity, but obviously in order to be able to do that, you've got to have the port and rail lined up to do it. But you can actually get a little bit more capacity and we have, as you know, from time to time, proven that we can do that with others who they have excess port capacity, say for instance, or the rail contracts do actually have arrangements for surge, purchasing surge capacity from time to time. But it won't be six, but it's certainly five, if you're looking at a managed level through that period. So we certainly see that the first quarter will be a strong sales quarter, as well the second, because we've got lots of good stocks that come out of the ground cheaply and obviously we're minded to convert that to cash as soon as we can.

Mr O'Connor: *So when I think about that five and I look at purchase coal potential sales, purchased coal purchased out of port, so that's not going to throttle the…*

Mr Flynn: Yes.

Mr O'Connor: *Okay.*

Mr Flynn: Yeah, we're purchasing coal, there's a little bit obviously purchasing coal that goes with blending, which we like to do from time to time, but the big purchases that we made during the course of this year, as you well understand, were a response to wanting to continue to meet customers' needs where our production was not quite there to be able to do that. So to the extent that we're filling that gap ourselves, you wind-up purchases back, but there will be some, as I say, just for blending purposes.

Mr O'Connor: *Okay, thanks Paul.*

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

Mr Fagan: *Just a quick follow up, on Vickery, if you were to get a positive approval decision in the next one to two months, I imagine you could theoretically do an FID on the project. There's that comment in the release saying you're not looking to do that in 2020, but what are the key things that you're looking at to make that decision in terms of timing? Are we waiting for more balance sheet capacity, are we waiting for spot thermal prices to go up? Can you maybe talk a bit around what it is that we need to look at to think that that project will actually go ahead?*

Mr Flynn: Yes, look I think we'd certainly I like to do all of the things you've mentioned and none of them are individually, or they don't get considered individually, they're considered a package of all the factors necessary. I think the demand's there for the coal, I don't think that's the issue and there's plenty of customers that we talked about before who recall the Vickery coal quality and are welcoming of it returning to the market, so that's great. We said before it'll be better quality slightly than Maules, which is even better. But with these price environments, I don't think anybody's too excited by the idea of committing to hundreds of millions of dollars in capital at a spot market today. Semi soft is important to that project as well, so we do want to make sure the market's supportive of bringing a decent amount of semi soft to the market as well. Of course you can sell it as thermal, with its premium, as we're doing with Maules, but I certainly think that you'd be right to be cautious in allocating capital in this market and we don't see that changing for the next six months and I think responsible capital management wouldn't see us wanting to push that ahead in the next six-month period, I just don't see that happening, Lyndon.

Mr Fagan: *But I guess we're talking about a multi-decade type project, so is the real reason there just near-term balance sheet type capacity rather than a belief in long-term pricing at the time?*

Mr Flynn: Yes, look these discussions are always nuanced and I'll go to the extreme just to make the point to you. Say if you had, to turn your question slightly to the extreme end of it, if you had no debt, would you do it today? I still don't think that would be the right answer necessarily right now. I think we'd want to make sure that the market had had this time to digest the implications of COVID, had digested the implications of geopolitical tensions, that economies around in our customers' jurisdictions in particular had started to show signs of re-enlivening and I think you'd be judicious in doing that, even if you had a clean balance sheet.

Mr Fagan: *That's good colour, thanks Paul.*

Operator: Thank you, Lyndon. Just a reminder, if you do wish to ask a question, please press star/one on your telephone keypad. The next question comes from Peter O'Connor from Shaw and Partners. Please go ahead. Peter.

Mr O'Connor: Paul, following on from Lyndon, does that make you pro-cyclical, as opposed to counter-cyclical and what should you be in this industry?

Mr Flynn: No, look I think we've got to form a view as to what the long-term prices are. We built Maules, as you know, Peter, during the difficult time and we knew that was adding value to the business over time and that business is, as you know, when we bought it, came with take or pay as well, so there were lots of different reasons as to why we did that when we did it. But overall, we were all convinced it was making the business better and I think that judgment was right. Vickery obviously arrives at a different point in the cycle and at a different point in our evolution as a company and I think there are less immediate financial imperatives to bring it on today and to Lyndon's point, what's six months in a 20 or 30-year asset? We'd be very minded to want to bring it on at time when, say for instance, we could capitalise on a lower construction cost associated with more subdued conditions, so we're not ignorant to that at all, as we did with Maules, Maules at $700 million, 710. You got that done a time when there wasn't a lot of work around for people who were building the necessary pieces of the puzzle for you, it'd be nice to be able to do that again. But if you want to make sure that you're happy with the longer-term coal price environment, that's how we'll make the decision, rather than trying to be pro or countercyclical.

Mr O'Connor: Can I just ask another question, maybe directed to Ian as well, given this background in both open cut and underground morning, which is a more holistic question about supply elasticity from underground, there was another incident announced overnight about an ignition in a coal mine in Queensland underground, given your experience, Ian, thoughts on is Queensland underground coal becoming the next Illawarra, i.e. deeply problematic and not a reliable supplier and is that a good thing for people like you that can supply more readily and efficiently?

Mr Humphris: I don't know if it's really right for me to comment on what's going on in those operations in Queensland. I mean I guess what we can do is focus on our operations at Narrabri and my view and my belief is that we've got the necessary controls in place to ensure that we can continue to mine that and manage that underground mine safely. So there's probably no reason why they can't do that in Queensland as well.

Mr O'Connor: Okay, thanks.

Operator: Thank you Peter. The next question comes from William Morgan from Intrinsic Investment Management. Please go ahead.

Mr Morgan: Paul, a little bit of a left-field question. Alan Jones's retirement from morning radio, is that significant for approval in the industry?

Mr Flynn: Wow, that is a left field, gee. Well I don't think he's disappeared.

Mr Morgan: No, but he hasn't got the audience.

Mr Flynn: Yes, but he's reappeared on TV I see and look I don't imagine he's going to go away anywhere quietly. Look, I don't want to under or overstate his contribution to the approvals process around the place. I mean each of the projects that we've seen have difficulty, have their own particular set of circumstances which lend themselves to approval or not, as it turns out. So I think you've got to look at that on a case-by-case basis. In our instance, it's very helpful that the New South Wales Government has put out a statement on the future of coal and that's actually really, really helpful because the government is acknowledging that they want it to be continuing for decades to come and even better, they've actually said there's areas where we're going to actually allow more growth in the sector. There's a replenishment obviously strategy there in terms of as mines fall off, others will be allowed to come on. We've been looking for some guidance from the state government in that regard for some time, so that's very positive to see that. So look, I think the case-by-case basis will determine the prospectivity or otherwise approvability of a project. In our instance. Vickery, we're right at the very end of that and we think that's imminently approvable and Winchester South will be the same in Queensland.

Mr Morgan: *Thank you.*

Operator: Thank you William. We have no further questions at this point, so I'm going to hand it back over to Paul for any additional or closing remarks.

Mr Flynn: Look thanks everyone for your time, I very much appreciate everyone dialling in today at this later time schedule than what we've used. If there are any answers or any questions that we haven't been able to answer for you today, you know where to find us and we look forward to catching up with you in about four weeks' time when we deliver the full year results and obviously the related guidance for FY21. So thanks very much.

Operator: That concludes the Whitehaven Coal June 2020 quarter production report. Thank you once again for joining us today, you may all disconnect.

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