Whitehaven Coal FY21 Results Market Call - Transcript

Operator: Thank you for standing by and welcome to the Whitehaven FY21 call. All participants are in a listen-only mode. There will be a presentation followed by a question-and-answer session. If you wish to ask a question, you will need to press the star key followed by the number one on your telephone keypad. For webcast viewers who wish to ask a question, please click on the Ask-a-Question tab on the top right corner of the webcast page. I would now like to hand the conference over to Mr Paul Flynn, CEO. Please go ahead.

Paul Flynn: Good morning, everybody, and thank you, everyone, for taking the time to dial in today to participate in the conference call and webcast for Whitehaven's full-year financial year results presentation for 2021.

Obviously due to the health orders here in New South Wales, we are based in separate locations, so we are quite IT dependent today. So, with me I have Kevin Ball, our CFO; Ian Humphris, our EGM of Operations; and Sarah McNally, our Head of Investor Relations, as well.

Now, firstly, I might just start off on that theme of IT of apologising, because we seem to have got our information to you late - or we didn't, but the ASX seemed to have some challenge in processing the information through their system this morning. So, I do acknowledge to everybody that you probably had less time to look at this information, despite our best endeavours of depositing it in time in order for you to do so. But I just acknowledge that upfront and certainly will be available for questions not just after this discussion today, but later on during the day, of course, as required.

So, Kevin's going to go through our finance section. Ian's going to go through our operations and we'll get to that Q&A session in the end of it.

Always a danger of me controlling the slides, but I've just highlighted for you our disclosure slide. So, we are going to discuss some forward-looking statements with our guidance today, so I'll bring your attention to the disclosure requirements here for forward-looking statements and, of course, competent person statement's also there, which is most relevant to the reserves and resources, which we have released today as well.

Over the page, I just want to set the scene with our results looking forward and then we'll outline what's happening to the global coal scene as the context, before we move into the details of financial outcomes and operations.

So, moving across to our markets, I know everyone's familiar with this slide. Just giving you customers numbers in metallurgical and thermal terms and I'll just make a couple of quick statements that, of course, our thermal coal is very high quality and only really fuels HELE powered - quality power stations and customers who are signatories to the Paris Accord. Of course, we do sell metallurgical coal for steel making and then we have some boutique smelting customers as well who favour our quality of coal. But a growing footprint in customers across the Asian market.

Again, you would have seen these slides before, so familiar to you. Our thermal products across Japan, Korea and Taiwan and then, of course, from our metallurgical coal we've got a similar sort of spread across the markets as well. India is our largest met coal market there as well. No thermal will get sold there at all and, but for Taiwan, no sales to China.

Now, looking at this slide, I think this is certainly an interesting slide and certainly be the topic, I'm sure, of much of the Q&A as we get to the end of the session today. Over the past year we've seen quite a remarkable recovery in coal prices, both in gC NEWC and API5. In Aussie dollar terms, we are seeing record-high prices in Aussie dollar terms.

I know there's a lot going on in this space, so I'm sure we'll get to the supply/demand dynamics in the Q&A section of today's presentation, but we're certainly seeing strong demand - or we're seeing strong demand across the broader energy complex, be that oil, be that LNG. Certainly, coal is competitive, even at these elevated price levels, for both those alternate fuels. So, we're seeing a very, very robust market. Given that we're now about a year, I suppose, since the Chinese import restrictions have been imposed on Australian coal, I mean, that - as we can see, that disruption has caused a lot of changes in the market flows, but that has largely settled.

Then in the more recent context, we've obviously got some supply side tightening with various matters that both - well, all the markets, in fact. You've got the Russian market experiencing challenges. You've got Colombians also. South Africans with some rail issues, logistical problems. Canada's obviously had their bushfires and so - and we've had our own logistical challenges here in Australia and particularly in New South Wales with our recent challenges with the NCIG shiploader out of the Newcastle market.

So, overall, a very, very tight market and we think supporting some pretty significant prices over an extended period.

Now, underpinning all that is the fact that we've got quite an obvious dip in terms of the COVID impact for industrial growth, but quite a return to form in 2021, but certainly with growth stretching out into the out years of this slide. So that's very positive to see this underpin what we see to be a concert of economies in our neck of the woods and across the world more generally stimulating their economies in order to re-enliven them after the impacts of - the terrible impacts of COVID.

Over to this next slide, on over to slide 8. Now, this chart is divided into two sections. So, if we look at the chart - look at our charts now in terms of market penetration, electricity generation requirements in our area are significant. If you look at the capacity required over the years, it certainly underpins a very robust outlook for us. Then if you look, most importantly, at the ages of plants in our region in particular, it's no surprise that with old plants in the Northern Hemisphere closing that coal demand has dwindled in that regard.

But, of course, in Asia, the average age of the coal plants here are very young and growing in installed capacity terms. So certainly, that underpins a growing outlook for us as a significant high-quality coal producer. Then when you move across to what the supply side is doing, what this graphic is trying to depict here is essentially a growing divergence between the underlying demand and the capacity of the market to supply that. So, I think we've spoken about this before, but certainly this graphic does highlight to you where that underlying gap is emerging. So, it underpinned a significant divergence there between supply and demand over this outlook period.

With the improvement in coal technology over time, what we're seeing is the proportion of HELE-based technology being deployed in the power generation sector increasing again, which drives demand for the type of coal that we produce. Of course, there are other markets which have good quality coal as well. We're not the only ones, but certainly Australia is - in terms of Asia, is obviously in our backyard. But, of course, Russia and, to the extent of these prices, Colombia also can supply into that market, if prices were to remain as high as they are.

I know you've seen this, but it's worth restating, of course. Our coal, being the high calorific value, you need less of it per energy output delivered and it enables our customers to facilitate their meeting certainly their air quality concern, be that sulphur or nitrogen emissions from their plant. Of course, ash disposal is an issue in many, many markets. Some markets it's less so, where it is used as a secondary product in cement making. But generally, that's a cost imposed on our customers, which they would prefer to have more energy per tonne rather than ash being products they can't burn. So, it certainly bodes well for our continuing supply into these markets.

Again, just a graphic which I know we've already seen before, but as you move through the technology curve in terms of the old state subcritical power stations fuelled by brown coal or lignite - and I've got Victoria on the left there. You can see as you go through the various elements of technology and add increasingly better coal into it, we're referencing too there Hitachinaka and Isogo, both plants that we supply without our quality coal, and giving rise to significant emissions reductions on a large scale, we are talking about thousands of megawatts here rather than individual small-scale renewable type contributions from an emissions reduction perspective.

So overall we're seeing a very, very strong market and you're seeing the thermal market obviously very strong. In more recent times, metallurgical coal also looking very positive. So, from our perspective, we see that - and you would have noted, everyone would have seen the price jumps more recently with met coal and certainly even the Platts numbers for semi-soft are now starting to jump as well. So, considering the underlying demand here for steel and cement, we see there's also levered to the markets - the growing markets of Asia. We're in the right place, selling the right products, and we'll benefit from this continuing demand for these very important materials, particularly as these economies come out of COVID and the stimulus packages I've mentioned, that each of our customers economies are now engaged in.

Over to our results. From a safety perspective, for the rolling 12-month TRIFR result, we ended up at 5.86 and this is off our best unfortunately, but certainly the trend is going in the right way. We've done well and we've got the right relationship in terms of our growing footprint as a business and our safety performance improving, but this job is never done, as everyone knows. But it's a decent result considering the challenges we had underground last year and our growing presence at Maules Creek.

A couple of our operations had significant milestones in terms of the Gunnedah prep plant and Rocglen site, which is in rehabilitation, both having significant milestones in terms of 3000 days of incident-free performance.

From the sustainability perspective, a couple of highlights here that I wanted to call out for people, because it's not all just about the financial side of things. The sustainability side is very important to us in this day and age. So, as you know, we are largely a local workforce. 75% of our people company-wide are hosted around businesses. 9% of our people identify as Indigenous people, which is very good. We try and direct a lot of our spend into the local community and $344 million is a significant contribution to local suppliers between the breadth of, say, Tamworth right up to Narrabri.

Two hundred and sixty-seven hectares of land rehabilitated, which is also a significant contribution. As you would have seen today, we have released our sustainability report and included in that document is the important considerations for TCFD, where we have tested our resilience against the published scenarios under that framework and our business is robust in that sense.

The numbers, I won't dwell on this too long, because we - you've seen these numbers come out in terms of our progressive quarterly reporting through the course of the year. We ended up at 20.6 million tonnes in ROM production at a managed level for the year. Pretty consistent with the previous year.

Sales volumes. Similarly, again, numbers that you've seen before, so I won't dwell too much on this. Managed coal sales at 19.8 million tonnes and we'll get to our guidance when we turn a little bit further through the pack. Maules Creek, in amongst all that, though, did have a very good year and at 12.7 million tonnes, that is a record for the site, having fulfilled now six full years in terms of its time that it's been operating. So, a very good result and our guidance for the new year, as you can see there, is pitched at the 12.1 million to 12.5 million tonne level.

But the site is doing very well. We did have a big first half from a calendar year perspective. Obviously, the second quarter in terms of the financial year perspective. So, the split between the production for that guidance in this new financial year, '22, will be 55%/45%.

Over now onto Narrabri. As everyone knows, Narrabri's had a bit of a tough year during the course of this last year, as we dealt with ongoing geological challenges associated with an unidentified fault in mid-panel, which was very difficult. I don't really want to go over that too much, given that we've been through that at length during the course of the quarters. But we are using these additional drilling - geo-sensing drilling tools to identify whether or not there's any unforeseen structures and certainly we've done that work in the balance of '09. Certainly nothing there that's material. We've done it in terms of 110A before the step-around and again satisfied with what we're seeing there. We're currently in 110B.

Guidance for the year at 4.3 to five million tonnes for this new year. I do acknowledge there's an element of conservatism in there, but I think justifiably so, given the year that the mine has just passed through.

Gunnedah ops at 3.8 million tonnes again. These numbers are familiar to you and will be consistent with what we're seeing in this new year. No reason for any particular change there, so we look forward to a reliable performance out of Werris and Tarrawonga, as we've seen in previous years.

So that gets through that part of it. Now, we'll move on to our financial section here, so I'll hand over to Kevin to go through the highlights for you.

Kevin Ball: Thank you for that, Paul. Firstly, the main P&L and balance sheet items. Our EBITDA for the year was $205 million compared with $306 million in FY20 and a net loss after tax, but before significant items, of $87 million. I think they line up with the view in the market. We did take an impairment of $650 million before tax, bringing the net loss after tax and significant items to $544 million and I'll talk to that in a few slides.

As Paul's already mentioned, the biggest influence on underlying earnings performance was the coal price, which reflected the impact of COVID-19 on industrial activity in our export markets. The pricing impact more than offset the improved operational performance for the mines, which delivered a decreasing unit cost of $74 a tonne down from $75. As always, there's a slide in the appendices where you'll find out how we calculate that, so we're fairly transparent on that.

What you do see with the challenge of fiscal year '21, we were pretty disciplined on Capex and we'll talk to CapEx in a little while and we maintained a strong balance sheet through the cycle maintaining strong liquidity levels. We finished the year with about $808 million in net debt, but since year-end we've repaid $178 million of the revolver.

I'm over the page now onto the profit and loss. There are a few line items I'd like to draw your attention to. Firstly, the revenue. Whilst sales volumes were broadly the same with FY20, the revenue line is lower, because of COVID's effect on the coal price. There was a $10 decrease in coal prices between FY21 and FY20. While operating expenses at an absolute level were relatively flat, they've increased about $5 million out of $700 million. Our unit costs have decreased by $1 a tonne. That's despite an almost 20% increase in CHPP washery feed tonnes.

The proportion of coal that's being washed has increased and you'd be aware of this. We've increased our washing volumes now to capture as much as possible the better prices being paid for better quality, 6000 kcal plus product.

Our coal purchases were down on the previous year. They were two million tonnes in FY21 compared to 2.4 million tonnes in FY20 and the price we paid for that was lower. But our coal trading business continues to make welcomed and reliable contributions to EBITDA.

If you come down the page to rail, port, marketing and royalties, the royalties were down as prices were down, but rail, port and marketing costs were relatively flat, given the flat volume sales.

I'll take you through D&A in a little while and some interest. I have a slide coming on the impairment, so I'll talk to that in a minute if you don't mind. If you come down to the tax benefit, clearly with the benefit of the tax loss or the benefit of the loss we've reported a tax benefit. But just so you know, there's about $600 million in tax loss shelter and so accounting taxes don't actually reflect the actual cash tax paid position.

I'm over the page now onto the significant items. Look, the Whitehaven share price performance has lagged, that strong price in coal price rises. The share price at 30 June '21 was well below the net assets per share of Whitehaven. So, in accounting standards, this is an indicator of impairment and which causes the need for an impairment assessment to be completed.

So, we did that and the outcome of the assessment was to impair the carrying value of mines that do not produce 6300 plus kcal NAR materials. That's Narrabri and Werris Creek. It's well understood Narrabri's mine life extends to the early to the mid-2040s. However, following the conclusion of the optimisation plans for the mine, there's been a reduction in the reserves at Narrabri.

Werris Creek has also been impaired, reflecting the revision to its mine plans, which has production ending in FY24 and the uncertainties that exist in the market that Werris Creek services. Those assets which are producing high quality coals of 6300 kcal NAR plus were not impaired. They were unimpaired. When we did the impairment assessment, we adopted some conservative price assumptions.

The last element there is the rail intangible. You'll recall in 2012 we secured some access rights for - to ship additional tonnage on the Maules Creek to Boggabri rail spur and we now expect the coal from those mines won't use that route, so the intangible rail asset was impaired.

Moving on to the EBITDA bridges between FY20 and FY21. While there's been a strong recovery in coal prices in 2021, as you see on the graph that Paul put up earlier, August's gC NEWC is now a touch over US$170 a tonne. With an Aussie dollar at $0.72, it's pushing well up towards $240 or $250 per tonne.

The realised prices in US dollars terms for coal in FY21 and FY20 were a long, way away from that and they were very similar. So, you can see that on that graph, $68 played $66 and $85 played $89 on the met coal side. But and so from a price, we had a bump on the EBITDA of about $30 million, but then FX for the year rose from $0.67 to $0.75 and this took $149 million off revenue and off EBITDA.

Our volumes of own coal sales were flat, but the improved cost performance helped to lift EBITDA by about $1 a tonne or $15 million and that's the bridge between $306 million and $205 million.

So, turning to the next slide is a bridge of unit costs. Unit costs decreased by $1 a tonne to $74 and that is despite the challenges of COVID and getting people safely to work, the operational challenges that we had at Narrabri, the impact on open-cut performance (a year that was 35% wetter than average and 60% wetter than FY20) and despite the logistics interruptions on the rail at the Port of Newcastle and due to the storm damage at NCIG.

The point I'd make to you is that Maules Creek had a good year. Our biggest mine, we're seeing the benefits of our STRIVE program there on productivity and utilisation. We found that there was a bit more coal in the lower seams than was modelled, helping us with our strip ratio. Narrabri's geological and resulting operational challenges have been well canvassed and they cost us in FY21. You'd also see the decreasing commodity prices in FY21 fed into lower diesel prices and that gave us a little bit of a benefit.

As I said before, we made the decision to wash more coal than the previous year and we washed harder to produce a higher quality coal at Maules Creek and Tarrawonga, so that we can blend other products up and avoid the prices associated with lower-grade coal.

Let me just take you to our STRIVE program. STRIVE is building an improved focus on consistent operational capability on optimising equipment use and on driving - and to drive a sustainable culture of continuous improvement. That's what we see with the Maules Creek performance over this last 12 months where STRIVE has started to kick in and starting to deliver some benefits here.

In FY22, we'll build on and realise the benefits from the cost savings initiatives we are implementing and that's the green column in there that's gone from $20 million to $30 million between 31 December 2020 and 30 June

'21. What we're expecting to do is build capability within Whitehaven through training, upskilling and developing our people so that we really do embed in that business a business improvement culture and then we roll that out from Maules across our other operations in preparation for being able to deploy at development sites in due course.

I want to turn over to depreciation and amortisation. I think the analysts in the room will probably be a little bit light on our depreciation charge in their models. The FY21 depreciation cost by mine per tonne is about $14 to $15 a tonne for all of the mines but Maules Creek. So Tarrawonga, Werris Creek and Narrabri are about $14 or $15 a sales tonne and Maules is about $20 a sales tonne, because it has that acquisition cost from the 2012 merger. That leads you to a group number of about $18 a tonne, just to help you bridge that.

The increase is really due to depreciation on the excavator and haul truck fleet, as well as some higher ROM production from Maules Creek as a component of total sales this year.

If we look at the net finance costs, net finance costs went from $39 million to $62 million, but the FY20 number included an $8 million gain on refinancing the debt, so really, it's $47 million plays $62 million. That increase in costs is about $8 million increased interest costs, so the revolver debt is priced at BBSW plus a leverage-based margin. Because we had an increased drawn balance over the year and leverage increased over the year, that led to an increase in interest cost.

The other thing that's in there is we refinanced the debt in 2021 - sorry - in 2020 and that led to us incurring upfront costs which are being amortised. So, there's about $6 million of amortised upfront costs. But if you look at that, the details of net interest expense are set out in note 4 of the financial statements and I'm happy to talk to anyone about it.

Moving on towards CapEx, over the year, we've historically managed CapEx tightly and I think that's pretty evident in this slide. In early 2020, we throttled down CapEx as observed COVID spread across the globe. In FY21, we spent about $28 million on fleet major overhauls. We spent about $26 million on sustaining CapEx across the platform; about $6 million on things for water security, environmental compliance and biodiversity; $3 million on mains development and that's the total of $63 million.

Over the - on the AHS side, we spent $2 million and across the three projects, we spent $22 million. So, there's a bit of colour there in those spends.

Moving on to net debt and liquidity. Rolling into FY21, we were very aware of the uncertainties that were going to come into that year and we went into there with a strong level of liquidity. We finished the year with a strong level of liquidity, so at 30 June '21 there was $407 million of liquidity comprised of undrawn senior debt of $312 million and cash on hand of $95 million.

Now, I'm pleased to say that we've increased that liquidity. We've repaid that senior bank facility by about $178 million since year-end and the strong cash flows that you're seeing from that slide that Paul put up on coal prices and a steady cost margin is delivering strong cash flow into the business and that's being used to retire debt.

If I turn the page, I'll take you to the composition of debt at 30 June. I'm expecting this to be substantially different at 31 December and substantially different again when we get to 30 June. You go run your models at those sort of prices with that sort of cost base, we'll punch a hole in that $600 million with - well, we've punched a hole in that $688 million in two months and I'll expect we'll punch a bigger hole in that over the next 10 months of this year.

So fiscal year '21 was the year of COVID. From a funding perspective, we're happy to have finished the year and we're taking advantage of improved margins to retire debt. We're also looking at ways to lengthen the tenor of our debt and diversify our capital structure. We're aware of where banks have their policies and where they expect to be in 2025, 2030 and 2035 and we want to be ahead of that game. But as you can see, Whitehaven manages the complexities of maintaining liquidity, sourcing diversified capital and we manage capital so that near-term maturities are avoided and we've got a plan that's probably half a decade ahead of where we are.

So, we're viewed in capital markets as prudent, conservative capital managers and COVID has probably caused us now to be a little bit more conservative when it comes to leverage.

So, I'm over the page into debt metrics. I think this - it was the year of COVID and the level of uncertainty that COVID brought has led us to move what, a few years ago, we would have thought were cautious debt metrics and we're going to move them a little bit more to the cautious side.

So perhaps the main point is that we now expect to manage our leverage, average tenor and minimum liquidity positions with a more conservative stance. That means lower levels of leverage, increased levels of liquidity and we have plans to lengthen the tenor of our debt and further diversify our sources of capital. You will note our dividend policy remains unchanged, with 20% to 50% of NPAT before significant items. With that, I'll turn back to Paul and we'll deal with guidance, I think.

Paul Flynn: Thanks, Kevin, for that detailed coverage of the finance section. Looking forward, our expectations for financial year 2022, we wanted to play for you now our '22 guidance video. This goes into a little bit more detail underpinning each of the operations for you, so we'll hope this will be a useful resource for you to refer back to, not just for today, but then later on and we'll lead off with Ian summarising our operational plans for the year for each of our mines and overall our Group run of mine production guidance for FY22. So, I'll hand over to you, Operator, to start that video.

Ian Humphris: Hello. My name is Ian Humphris, Executive General Manager of Operations at Whitehaven Coal. Before I outline our expectations for financial year 2022, run of mine coal production, I'll first give you a brief refresher of our operations. All our operating mines are located in the Gunnedah Basin in North West New South Wales. As you can see on the map, we have four mines in relatively close proximity to each other. All of the production from these mines makes its way down to the Port of Newcastle via the Hunter Valley Rail Network to then be exported to Asian-based customers.

Now, to our mines. Firstly, to our largest mine, the Maules Creek open-cut mine. Maules Creek is licensed to produce 13 million tonnes of coal per calendar year. The mine produces high-CV low-ash thermal coal and semi-soft coking coal. Mining utilises conventional truck and shovel techniques with overburden removal being undertaken by five 800-tonne class excavators and 45 ultra-class trucks. The mine operates 24 hours, seven days a week.

Looking at Maules' production profile, you can see that we've been ramping up towards the 13 million tonnes per annum limit. For the past financial year, FY21, we reported a production of 12.7 million tonnes, with 7.4 million tonnes mined in the January to June period. Considering our licence limits, this will result in an FY22 production spread of 45% in the first half and 55% in the second half of the year. With the scheduled mining of lower seams in the southwest of the mine, in conjunction with the lower volumes at Braymont as compared to FY21, we are guiding a total production for the financial year '22 of being between 12.1 and 12.5 million tonnes.

As you can see on the mine site aerial, during FY22, the operation will progress in two directions: to the southwest of the pit, with a view to completing this area in FY23, and to the east. These areas are highlighted in green. In-pit dumping will be undertaken where pit bottom has been reached and this is highlighted in blue.

Overall coal yield for FY22 will be slightly higher than FY21 at 78%, reflecting a higher percentage of bypassed coal being processed. By the end of this financial year, we anticipate approximately 50% of overburden will be dumped within the pit, which is consistent with the natural progression of the mine once pit bottom is reached. In-pit dumping benefits are twofold. Firstly, it decreases the cost and time associated with moving the waste out of the pit to emplacement areas. Secondly, it is an integral part of site rehabilitation, as we are filling the void created by the extraction of coal to achieve the required land forms.

By the end of financial year 2025, over 90% of waste will be dumped in-pit as we achieve steady-state mine progression. Another priority for the team at Maules Creek is the progression of the automated haulage system, AHS, of the overburden fleet. The benefit of having AHS is that it allows for the increased equipment utilisation with the resultant production increases. In FY22, we're scheduled to roll out a software upgrade across the existing AHS fleet to improve operational efficiency and streamlining the interface with the manned coaling fleet. We are planning for a second AHS fleet to commence operation in FY22.

During the year, the team is also looking at a number of opportunities to maximise operational performance, such as bringing mobile crushers onto site, so we can get more bypass coal onto the product stockpile, further optimising the onsite coal handling and processing plant to increase yield and throughput and increase the productivity of our excavator fleet for both coal and overburden movement by the implementation of the STRIVE initiatives, including the mine operating systems' principles.

Now, moving on to our two smaller open-cut mines, Tarrawonga and Werris Creek. Tarrawonga produces high quality, thermal coal which is an excellent product for optimising the coal blend across our portfolio. The mine runs at about 2.4 million tonnes per year on a 24-hour five-day roster pattern. During the year, further evaluation will take place to optimise mine design and potentially increase production levels.

Werris Creek has now completed the deepest section of the mine and is now progressing towards the end of its mine life with three years of production remaining before the mine moves into the rehabilitation phase. During FY22, the mine will be producing around 1.4 million tonnes per annum. So, all up for the year, we are guiding that the Gunnedah open-cut mines will be producing between 3.6 million to four million tonnes of coal.

Now to our underground mine, Narrabri. The past financial year has been operationally challenging at Narrabri. It has now returned to more normal production levels, having transitioned out of the fault and dike-affected areas. An extensive drilling program continues during FY22, utilising surface and underground inseam techniques combined with the geo-sensing tools to continue to enhance our knowledge of the resource.

As you can see on the mine diagram, during FY22, we will extract the remainder of longwall panel 109 and then relocate the longwall to panel 110A and commence production. We have scheduled the move of the longwall for Q2 FY22.

As outlined in previous communications, after a comprehensive evaluation process, we've elected to step around the faulted zone located within panel 110. This decision minimises the production risk, reduces the potential for equipment damage and improves coal quality by avoiding the need to ramp the longwall up out of the preferred mining horizon to traverse the fault. This step around is scheduled for Q4 FY22 and splits the panel into what we refer to as 110A and 110B.

In FY22, we're introducing cut and flit mining in panels 201 and 202, which you can see highlighted in dark blue on the diagram. So now we will be mining in two separate sections of the mine concurrently. Mine development in FY22 will include completion of the installation and take-off roadways for longwall 110B, continued development of the main gate and tail gate roadways for panel 203 and the commencement of developing 200 mains.

For geotechnical reasons, there is a requirement to excavate longwall panels 205 onwards in a north-south direction opposite to panels 203 and 204. This requirement drives the need for the establishment of the 200 mains, which in turn connect to the 201 mains that allow coal to be transferred from panel 205 onwards back to the main trunk conveyors.

The establishment of 200 mains will also have the benefit of providing access to stage 3. The commencement of 200 series development activities, including the refurbishment of development equipment, conveyor structures and belt, ventilation changes and the re-handing of the longwall accounts for a large component of Narrabri's FY22 capital expenditure.

The introduction of cut and flit mining allows us to accelerate the access to high-quality coal in the shorter of 201 and 202 panels by utilising a continuous miner and a mobile bolter. The production of this coal supplements both the quality and quantity of the longwall. The introduction of this mining method also allows us to evaluate its scalability and potential access to other parts of the mine that are not suitable for longwall extraction. The cut and flit operation will be contracted out and is scheduled to commence in Q3 FY22 and will be capable of producing up to 600,000 tonnes on an annual basis for approximately six years.

Taking into consideration the expected conditions extracted the longwall panel at 300 metres plus depth range and factoring in the longwall move and the step-around, which is only partially offset by cut and flit production and adding a measure of conservatism, we are guiding 4.3 million to five million tonnes of production for the year.

In addition to the explanation of FY22 activities, we are providing details on what is scheduled to occur in FY23 at Narrabri. You'll see that longwall 110B is fully excavated and then we return to the southern panels with lower depth of cover from early 2023. This will see run of mine production significantly increased. In addition, the panels in the 200 series are four kilometres long, reducing the impact associated with relocating the longwall. With the additional coal from cut and flit mining of the 201 and 202 panels, concurrently with the longwall mining, we anticipate this mine will be able to produce up to eight million tonnes per annum in the more favourable conditions.

At a total Group level, the combination of Maules Creek, Narrabri and the Gunnedah open cut mines, it is expected will have a managed run of mine production for FY22 of 20 million to 21.5 million tonnes. Now, I'll hand over to Jason Nunn, who's responsible for the coal sales, marketing and logistics.

Jason Nunn: Hi. My name is Jason Nunn, Executive General Manager of Marketing and Logistics at Whitehaven Coal. Over the past year, we have seen coal prices in all market segments stage a remarkable recovery. In fact, both gC NEWC and API5 thermal coal price indexes in Australian dollar terms have reached all-time record highs, while metallurgical coal prices have more than doubled over the first half of 2021.

Global economic recovery post the initial impact of COVID-19 and increasing worldwide energy demand is expected to underpin continued strength in coal prices across FY22. It is now almost a year since Chinese import restrictions on Australian coal were imposed and this disruption has driven a redistribution of trade flows in the global seaborne market and, in doing so, a greater demand for high-CV coal from Australia.

Another result of this disruption is a record differential between the gC NEWC and API5 indexes, driving producers to maximise high-CV sales.

Also, both coal producers and traders are incentivised to blend lower CV products into higher CV products increasing margins and at the same time increasing demand for high-CV coal. Furthermore, the Chinese restrictions have also significantly reduced the spread between gC NEWC and semi soft coking coal prices. In fact, gC NEWC has reached parity with the Platts semi-soft index in FY21 for the first time historically which continues to favour sales for high CV thermal coal over semi-soft in the current market.

Within the global seaborne coal market Whitehaven exports both thermal and metallurgical coal products and Maules Creek and Tarrawonga mines produced low ash, low sulphur and high CV thermal coal. These products achieved both ash and energy premiums to the gC NEWC index and are sold into the premium Asian markets, predominantly Japan and Taiwan.

Maules Creek and Tarrawonga also produced low ash semi-soft coking coal products that are sold to steel makers across Asia. Whitehaven also produces both thermal and metallurgical coal from our Narrabri and Werris Creek mines. Werris Creek thermal coal is sold mostly into the Korean market and Narrabri thermal coal is sold into a more diverse range of markets which includes Japan, Korea and Taiwan amongst others. The metallurgical products from both Werris Creek and Narrabri are highly regarded by Indian steelmakers where most of this product is sold.

As mentioned previously, the emergence of the widening price between low and high CV thermal coal has incentivised Whitehaven to minimise or eliminate exposure to low CV markets where possible by blending. Given that there will be some exposure to lower CV coal from Narrabri in the first half of FY22, blending to high CV products will be executed wherever possible to optimise margin. However, we do expect discrete sales of mid CV to account for approximately 20% of sales in the first half of FY22, albeit at excellent realisations in the current market compared to that across FY21. The percentage of mid CV sales will drop significantly in the second half of FY22 bringing mid CV sales for FY22 to approximately 10% to 15%.

As we have done in previous years, Whitehaven will continue to purchase coal to optimise product quality and blends and maximise trading margins. In the logistics space, Whitehaven will continue to run up to 12 trains operated by both Aurizon and Pacific National to deliver our products to the Port of Newcastle. We ship from both the NCIG and PWCS coal terminals where we have the necessary port and matching rail capacity secured under long term contracts.

Our logistics arrangements provide us flexibility to accommodate the needs of our customers and efficiently manage our port blending requirements. Like any supply chain, the Newcastle coal chain can be disrupted by weather events and unscheduled outages such as the heavy rains in March 2021 cutting the rail network or damage caused to shiploader two at NCIG in November 2020. I am happy to report that shiploader two is now back in full service and vessel queues at NCIG have returned to normal levels. At PWCS vessel queues have decreased substantially and are expected to return to normal levels in Q2 FY22.

Considering our forecast ROM production profile for FY22, which Ian has already outlined and the current favourable coal market environment, we anticipate our managed sales for FY22 will be in the range of 18 million to 18.6 million tonnes. This is above our FY21 managed sales of 17.8 million tonnes reflecting steady production and drawing down on ROM stock accumulated at the end of FY21.

The current differential between the gC NEWC index and semi-soft will continue to incentivise the sale of high CV thermal in the spot market over semi-soft for the foreseeable future, although we will maintain sales to our strategic long term semi-soft customers. Across FY22 sales are forecast to comprise of 15% to 20% metallurgical coal, 10% to 15% mid CV thermal coal, with the balance being high CV thermal coal which is where we are currently seeing the best value for our products.

Finally, with regards to our customer base, our thermal coal products will be sold primarily into the premium high CV markets of Japan and Taiwan and numerous other destinations in South-East Asia, our mid CV products will be sold primarily into Korea, while our metallurgical products will be sold into India, Korea, Japan, Vietnam and Indonesia.

Kevin Ball: Hello, my name is Kevin Ball. I am Chief Financial Officer of Whitehaven Coal and I will outline our guidance in relation to unit costs and capital expenditures for Whitehaven Coal for the financial year ending 30 June 2022. Unit costs in FY21 were AUD74 per tonne excluding royalty. FY21 was a challenging year for much of the coal industry with the impact of COVID-19 on coal prices and on operations.

At Whitehaven FY21 was more difficult because of the mining challenges experienced at our Narrabri underground mine. Ian has already provided you with a summary of FY22 ROM production guidance and Jason has provided guidance of the FY22 sales program. With that knowledge we expect our costs for FY22 to fall within the range of AUD72 per tonne to AUD76 per tonne excluding royalties.

Across the platform we are expecting diesel costs to be about 10% higher than in FY21 as a result of the rising crude oil costs over FY21. Rising diesel costs impact our open cut operations and our rail haulage costs. We are also expecting that rising gas and ammonia prices will impact our open cut explosives costs.

At Maules Creek our FY22 costs are expected to be flat with FY21. Our strip ratio is expected to increase and our input costs are expected to rise, however we expect our improved operational performance combined with improved CHPP yields to largely mitigate the impact of the increase in strip ratio and the rising input costs.

For the Gunnedah open cuts we plan to wash the majority of coal from Tarrawonga so that we continue to have high quality coals available for blending. We will be washing Tarrawonga a little harder in FY22 than in FY21 which will increase Tarrawonga's costs by about 10% to 12%, but will provide us with materials to blend other products up and we believe this to be a margin positive strategy for the Group. Costs for our Werris Creek operation are expected to feel the impact of diesel prices and our Narrabri operation is expected to perform better in FY22 than in FY21, but following our experience in FY21 we have adopted a conservative approach to costs at Narrabri.

Let's talk about what makes up unit costs at Whitehaven Coal. Well, Whitehaven Coal's unit cost can be calculated from the face of the profit and loss statement using the equity own coal sales volumes reported in the quarterly production report. Whitehaven's unit costs include all operating, selling and distribution, administration and share based payments costs.

What are our drivers of unit costs? Well, operating costs in coal mining operations are most affected by productivity of both equipment and labour. The costs of running our truck and shuttle fleets and our longwall and development units are relatively fixed in the short to medium run and it is productivity that drives cost outcomes. Productive truck and shovel fleets and productive development and longwall mining units consistently produce high volumes of coal very economically. When we have consistent productive mines, we are then able to use our installed capacity to process and transport the coal to markets smoothly which then delivers good processing and logistical cost outcomes.

A second key driver in our open cuts is from commodity costs, diesel, explosives and tyres. As industrial activity across the globe rises and falls, so do our input costs. Because of our distance from port, diesel is an important input cost in our logistics chain. The unit cost of our different open cut mines do vary, mainly because of strip ratio and washing strategy. At Maules Creek, the strip ratio is between six and seven to one. At Tarrawonga, the strip ratio is about 10 to one, while at Werris Creek the strip ratio is about eight to one.

Washing strategies are aligned to market dynamics. In times when high quality coal is achieving $60 a tonne more than lower quality coal, it's good economics to be able to wash harder and achieve higher margins, albeit that it comes at a higher cost. Both Tarrawonga and Maules Creek wash to produce products that are typically 6300 kcal plus NAR, while Werris Creek is a simple crush and screen process with 100% yield. Werris provides materials for blending with products from the other mines and Narrabri has a 98% or 99% yield.

Let's turn to our STRIVE Program and what we expect that to deliver. STRIVE is building an improved focus upon consistent operational capability and optimising equipment use and then driving a sustainable culture of continuous improvement across Whitehaven's platform. Our unit cost guidance includes expected benefits from STRIVE. In FY22 we will build on and realise the benefits of the cost saving initiatives that have been implemented. At the same time, we are building an improved operational capability within Whitehaven through training, upskilling and developing our people. Our aim is for consistent reliable production and improved productivity across the Group.

Turning now to capital expenditure guidance. Whitehaven has historically managed CapEx tightly and you can expect that approach to continue during FY22. Guidance for FY22 shows a commitment to maintaining the excavator and haul truck fleet to support productive operations. Our expenditure on major maintenance is expected to be in the range of $30 million to $35 million.

We are demonstrating a steady approach to sustaining capital expenditure and this year we have a small step up in CapEx for productivity improvement initiatives that are emerging from the STRIVE program. We expect to spend between $35 million and $40 million in this area. Environmental compliance biodiversity management and water management activities are an ongoing item and we expect to spend between $10 million and $15 million in this category in FY22.

As Ian described in his presentation, the 200 mining precinct in the shallower ground in the southern area of an existing mining lease will commence establishment in FY22 in readiness for longwall production in FY23. Our spend to establish the 200 precinct includes items such as 200 mains conveyor, the supply of those and the engineering works around them, we will have work on the downcast and upcast shaft, we will do work on mains high-tension cables and 66 kV aerials for power supply and we will be looking at ventilation, gas monitoring, the communications, compressed air and potable water. All of these are assets that are needed as we step into the 200 precincts.

As well, we will be driving the 200 mains to support longwall production via the 201 submains from longwall panels 205, 206, 207, 208 and 209. As Ian explained, we will be mining these panels in a north south direction and longwall coal will be conveyed from these longwall panels to conveyors in the 201 mains, then to the 200 mains before joining up with the main trunk conveyor that we have already installed in the mine. We expect to spend between $55 million and $65 million in driving the 200 mains and establishing the 200 mining precinct in FY22.

In relation to our expansion and growth projects, our AHS project is coming to an important phase and so there is a sum of money here. In FY22 we expect to rollout the second AHS fleet and with our growth projects moving through their respective approvals processes, we expect to refine designs and improve costings for them, which means consultant costs and the cost of the project team together with some necessary land purchases and property compensation payments. Lastly, there is the third of five payments to EDF in relation to our acquisition of EDF's interest in Narrabri.

Now I'll hand back over to Paul for his closing remarks.

Paul Flynn: As we look forward to the year ahead, Whitehaven is well positioned to take advantage of the strong coal price environment which Jason has outlined. With Group ROM production guidance at 20 to 21.5 million tonnes, managed own coal sales at 18 to 18.6 million tonnes and unit costs within the range of AUD72 to AUD76 per tonne, we are set to report strong earnings for FY22.

As Kevin outlined in the CapEx guidance, we will be maintaining our disciplined approach to capital expenditure so cash generated over the coming year will be used to paydown debt and maximise returns to shareholders. Thank you for taking the time to review our financial year 2022 guidance with the team.

[End of video]

Paul Flynn: All right, thank you everyone and I hope that video was informative for you in terms of giving you a deeper insight into the construct of the guidance for the year and what's going on operationally for this new year. Of course, it’s a resources as I mentioned earlier that you can refer back to, to the extent that any of the details of that have escaped as a later useful resource.

I won't go through these slides again because they have been part of the video. You will see that both these numbers are the same as we have just discussed there with Kevin, which really brings us now then to the closing part of our discussion today and thank you for your patience as we have gone through this. I know it's been a little bit long.

In FY22 considering the strong coal price environment and our sales guidance, so we are, as we have said to you, forecasting strong cash generation for this year. In the near term the cash surplus, as we said, will be used to repay debt and our dividend policy, as Kevin has mentioned, remains the same at 20% to 50% of NPAT and certainly based on what we are seeing here our net profit should be within our grasp in this year.

Operationally, STRIVE is going to deliver again in this new year and that is certainly an investment worth making and at Maules Creek particularly an increase in productivity moving through more coal and overburden. Narrabri, I think certainly this transition year will see us move from the last of these deep panels into the shallow ground in 2023. That is certainly a benefit for us and cut and flit will emerge in the second half of this year as a contribution to not just coal volume, but coal quality as well in that area where we know there's a lot of sweet coal.

The marketing team will be focused on blending as much coal as possible to maximise the returns given the big spread in the market and so from our perspective, we see this as a real opportunity, as I say, to wash more. Of course, a little bit of extra cost in that washing but the spread is so large it is well worth doing to maximise the proportion of coal that remains in the high end of the market.

With that, we will move onto the Q&A session. Look, I know that we have two forums through which questions will be levelled today, so through the teleconference section and then also through the webcast itself. I might suggest that we answer the ones on the call first only just to - and then we will move into the webcast questions which we will repeat for the benefit of the people on the phone and then attempt to answer. With that, I will hand back to the operator.

Operator: Thank you. If you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star two. If you are on a speaker phone, please pick up the handset to ask your question. For webcast viewers who wish to ask a question, please click on the ask a question tab on the top right corner of the webcast page.

Your first question comes from Rahul Anand from Morgan Stanley. Please go ahead.

Rahul Anand: (Morgan Stanley, Analyst) Hi Paul, Kevin, Ian and Sarah. Thanks for the opportunity. Look, if we can perhaps start with Narrabri. The 20% cut to the reserves there and obviously the increase in the proven category, I think that's a good thing in terms of production going forward improving the predictability and you still have that mine life as you mentioned to 2044. I guess what I wanted to talk about was perhaps the change in terms of the quality of product that is coming out. Do you see a change in pricing for the product going forward given you are focusing on the high-grade coal? Then also what price assumptions are you using for the reserve update there as well?

Paul Flynn: Thanks Rahul, it's Paul here. I will share a little bit of that around. Look, Narrabri, as you can see with the marketplace itself, we are focusing certainly on the upper end of the quality curve. We know that Narrabri over time in the exploration licence, the ash does increase over time. Having the cut and flit obviously as a sideline benefit brings improved coal quality from that small contribution as well which is good, but we have focused on, the coal hasn't gone away, but we have focused on minimising our exposure to lower ranked coals as the seam thins as you go towards the south west.

That's part of what we have described and if you take the time to have a look in the reserves in the resource statement, I know it's a little impenetrable at times that whole statement, but there are details in there for you Rahul to work your way through in terms of our approach and underlying assumptions in formulating the new reserve. Certainly, as you say, the confidence in our reserves has increased significantly and underpins the mine life which we think is very positive.

Now of course if things were to change and of course everyone looks at the prices today and said look, if you had lower ranked coal, they are selling for very good prices today, but I don't think that is realistic to say that that is going to be the case through the whole 20 years, so hence there's been a change there.

Now look, I'll just address a little bit of just the write-off itself. I mean obviously we have made some changes to the mine's operations as you know. We have left 11 till later in life, there's a step around in 10. Given the change in mining direction that Ian has gone through with everybody, the mains, the 100 mains, serve a less productive purpose than they would had you been mining in the other direction, hence the need for the 200 mains to go in there, but that is the best way to manage reliable production of higher quality coal out of the mine or the highest quality coal that it can produce.

It's really these reflections and also the cut and flit operation being implemented as well gives rise to a number of different strategic changes there at Narrabri which we have taken account of in that impairment consideration. Ian, is there anything else that you wanted to add to that?

Ian Humphris: No, I think you've covered that, Paul. I mean obviously decisions are going to have to be made as to what profile and what equipment we are going to use when we select the new longwall, but yeah, that analysis has been done on the longer-term pricing to come up with those selected profiles of mining height.

Rahul Anand: (Morgan Stanley, Analyst) Okay, perfect. Then perhaps one on Werris Creek as well, just looking at that mine plan now, how do you think about production going forward? If I look at this year's guidance, if I was to put Tarra at about three million tonnes per annum, that leaves a lower production run rate I guess for Werris. I just wanted to understand how are you viewing that asset going forward given the change in the mine plan as well. Thanks.

Paul Flynn: Ian, I will leave that one for you.

Ian Humphris: Thank you, Paul. Look, we are intending to run Werris Creek out at similar levels as to we have put in guidance for FY22, so some of the changes we have considered is running the mine harder for longer and trying to keep all the equipment there for as long as possible. There obviously needs to be a staged ramp down, you can't fit it all into the mine, but that's done to I guess consolidate the life to as short as possible which delivered the best economic outcomes for winding that operation up before we go into the rehabilitation stages.

Rahul Anand: (Morgan Stanley, Analyst) Okay, perfect. One last one perhaps for Kevin. Kevin, you talked about the deleveraging and obviously that's happening at a very rapid pace given where coal prices are. Perhaps to bring it back into perspective, how are you thinking about target net debt with and without growth projects? Would I be correct in assuming that you probably only pay out a dividend once you are in a net cash position now?

Kevin Ball: Rahul, I think they are three really good questions and so let's start with the where do we think net debt is. If you go run your model I would be expecting with prices where they are, out of your model you are going to see us net cash second half of fiscal year 2022. I think you are going to see us - in the second half it will be a question for the Directors as to whether we return to a dividend paying status in the first half or the second half, but off the back of those numbers there is quite a strong net profit and the dividend policy remains unchanged.

From our perspective I think the leverage story Rahul says we want at the top of the cycle to put cash on the balance sheet and at the bottom of the cycle we want to be probably half a turn which is 0.5 of EBTIDA on a through the cycle basis which is about $300 million in net debt at the bottom of the cycle. So, we will be moving to a more conservative stance and we will be looking to put cash on the balance sheet. There's another question when we talk about tenor. The current revolver is due for repayment in July 2023 and we will be looking to refinance that out over 2022 and we will be looking to put a bit more tenor in the market, so we will be looking at alternate capital markets in this next year.

On the development projects, I think you are going to - we are going to be very cautious about those projects. Again, because we look around at the market and we like the coal prices that are currently here and we think they are good prices and we think they are here to stay for a period of time, but I would like to get a year or a year and a half behind me before we start getting into the discussion around development projects and doing things like that.

Rahul Anand: (Morgan Stanley, Analyst) Okay, perfect. That's very helpful. Thank you, team, I will pass it on.

Operator: Your next question comes from James Redfern from Bank of America. Please go ahead.

James Redfern: (Bank of America Merrill Lynch, Analyst) Hi Paul and Kevin. I guess first I'm just following on from Rahul's question, just obviously the balance sheet is de-gearing, deleveraging very quickly which is great given the high coal price environment. So just wondering, how is the Board thinking about share buybacks as well? Obviously, we note the dividend policy, 20% to 50% of NPAT, given you will return to profit in FY22, so just wondering how investors can think about dividends and share buybacks.

I guess a second question please is just maybe a quick update on the timing of the Federal approval for Vickery and then how Whitehaven is thinking about the timing for essentially approving the Vickery Extension Project. Thank you.

Paul Flynn: Yes, thanks James. Look, the question of the blend in terms of how returns are paid back to shareholders, I think that's a question as Kevin said the Board will take into consideration. This is going to change. It has changed quite quickly and will change further I think quite quickly, so all options will be considered. As you know, our dividend policy is what it is and then but buybacks are also certainly a useful tool to be able to deliver the right outcomes for shareholders. I think it would be a little bit premature just to try and prejudge those discussions but that's very much front of mind for the Board and given the rapid rate of cash generation that is going to occur over the next little while.

In terms of the Vickery Federal EPBC approval, their notional deadline for approval is actually at the end of this month and so we have been in constant discussion with the Government around the progress of this. As you know, the Government has already telegraphed and registered their position to object to this decision, so they will be appealing, but we also understand that the Minister understands that in the meantime, because the appeal can take some time, in the meantime they need to get on there and conduct their processes in approving projects.

So obviously in the meantime they are going to also have to evidence their consideration of this new duty, which I understand they are well down the path of. James, it's one of these watch this space ones. I don't expect it to be very long and when I say that I mean I'm not talking about months, I'm talking about sooner rather than later.

I think it would be fair to say once that happens, and let’s assume the Minister does approve the project and the evidence there - the practical application of this duty, you wouldn't have to take a giant leap to suggest that someone might challenge that. So, timelines will be judged by, will be affected by, an outcome in that regard, so we are expecting some movement from the Minister certainly in the next few weeks, but then what the next move of the activists will be will remain to be seen.

James Redfern: (Bank of America Merrill Lynch, Analyst) Okay Paul, thank you.

Operator: Your next question comes from Paul Young from Goldman Sachs. Please go ahead.

Paul Young: (Goldman Sachs, Analyst) Morning Paul and Kevin. Kevin, well done on the new balance sheet metrics. I think that range is spot on so congrats on that. Maybe just talking through capital allocation on a go forward basis and with respect to sequencing projects, also I think it's the right thing to not spend on growth or too much on growth in the next year and a half, but how do you rank all these projects now that you've got and are you within the new balance sheet metrics? Does this mean you have to develop these projects in a sequence rather than parallel and actually re-sequence the order of these?

Kevin Ball: Paul, do you want me to jump in there?

Paul Flynn: Yes, I'll just make a couple of remarks there. Paul, thanks for the question. Look, we generally consider ourselves to be conservative people and we think we have taken that to another level, so appreciate the feedback just on the debt metric guidance for going forward. I will just state Paul that we have said consistently that we wouldn't attempt to try and develop both these projects in parallel, so there would be no notion of doing that from our perspective.

The important question about new projects and growth really is related to just the previous discussion on Vickery. Now, certainly in a lapsed, in the natural sequence of things, Vickery you would think would be the first one to get a guernsey in terms of development, but it has been slowed obviously because of these legal ructions, whereas Winchester South is proceeding according to plan. If that continues in that vein then there will be obviously an important discussion for the Board to take on as to what is the right answer, given that it will be sequential in nature, what is the right order in which these projects might be brought to market?

Again, that will be an important consideration the Board will need to turn its mind to. Management is certainly doing that. We think in the stand-up fight Winchester South is probably as a standalone asset a superior proposition, but you have to acknowledge that Vickery has broader operational synergistic benefits to the existing group as an operation which should be taken into account as well. I might just stop there and give it back to Kevin on the broader consideration for our balance sheet posture.

Kevin Ball: Yes, and I thank you for clarifying Paul because I think, look, we have always said we would never do two projects together concurrently. We are cautious and conservative people and I think anyone who thought that we were ever going to do two projects together clearly hasn't spoken to us or doesn't understand us that well. I think there is time between these projects too. I don't see them being done back-to-back. I see time between them and I think there will be considerations over the 2020s which is how do these projects come on in a measured way.

My advice is to you and to anybody else is that we will look at alternate ways of developing, we will look at selldown processes and we will look at the order and priority of these assets as we work through this, but all of these things there are things that we are discussing with the Board as they go along, but I just want to clarify there's not a hope that we're planning on running two projects concurrently and are well aware of what metrics are up to.

Paul Young: (Goldman Sachs, Analyst) No, thanks. It's interesting guys, yes, Kevin, it's interesting you have called out the two greenfields projects. I mean to be honest I was probably more talking about the creep at Maules Creek which I know is permit dependent and the extension at Narrabri. The higher returning projects, lower capital intensity projects, rather than the greenfields. Kevin Ball: The brownfields and extension on existing assets have attractive economics Paul.

Paul Young: (Goldman Sachs, Analyst) Yes, indeed, thanks. Yes, Kevin, just a further couple of questions on the brownfields projects and a few on Narrabri. First of all, with the recut of the reserves, is there any change to the timing and the CapEx on the extension project? I think the last guidance was around $400 million to $450 million.

Kevin Ball: I'm at risk of stepping into the conversation here that Ian runs, but no, I don't believe there is any real risk there at all. We are stepping into the 200 mains development shortly, we are developing the 203, 204 gate roads and we have got programs and plans for keeping stage 3 on track. The number that you're talking about is the number that we were talking about on stage 3.

Paul Flynn: Yes, that's right. That's right Paul and which includes the new longwall which Ian has referenced a number of times. You will see last year from FY21 it was prudent at the time to delay the commencement of the mains. We had time up our sleeve to do that in terms of when we transitioned, so it was prudent to do that given that last year 2021 had the worst impacts of COVID in it, but now you can see and this year we have brought that, we can't wait too long, so we have brought that expenditure into our guidance for this year to kick off those 200 mains.

Paul Young: (Goldman Sachs, Analyst) Yes, great. Okay and last question is on Narrabri's costs. I'm trying to work out at this point, Kevin, just how to get to the unit cost guidance for FY22. I'll get through that, but just on Narrabri specifically, in absolute cost terms, costs were about $150 million a half in December half and in the

June half. Were there any one-off costs in Narrabri in the half that might come out on a go forward basis or is the $150 million of absolute, because I'm talking royalties in port and rail and everything included in the June half, is that the starting base on a go forward basis?

Kevin Ball: I think you would need to - the way I would describe it to you is 2021 is not a year that I would call usual at Narrabri. Whilst the development units kept working the real issue was the damage that was caused to the longwall and I think there's a chunk of dollars in there that relate to repairing that longwall that went through the P&L in the second half.

Paul Young: (Goldman Sachs, Analyst) Yes, good. Okay, that's what I thought Kevin. So yes, if you don't know the number, I can talk to you later today.

Kevin Ball: The number out of there, there was about $15 million, is the number off the top of my head Paul.

Paul Young: (Goldman Sachs, Analyst) Right.

Kevin Ball: In that second half.

Paul Young: (Goldman Sachs, Analyst) Okay. Thanks Kevin, that's handy. That's it from me. Thank you.

Operator: Your final question comes from Peter O'Connor from Shaw and Partners. Please go ahead.

Peter O'Connor: (Shaw and Partners, Analyst) Paul, Kevin, Ian, well done. You have finally got through a tough year. A question for each of you. Firstly Kevin, on debt you made the comment about deleveraging so far this fiscal year. Just to be clear, $178 million, is that in the first eight weeks of the year or literally up until today, 11 weeks.

Kevin Ball: It is up to today.

Peter O'Connor: (Shaw and Partners, Analyst) Okay, got it. Just in terms of franking, could you remind us, given the tax losses, what your franking position is and then how that would shape the buyback versus dividend Board of Director discussion?

Kevin Ball: The franking position is barren Peter. We don't have a franking credit to our name and with $600 million worth of tax losses our expectation on franking…

Peter O'Connor: (Shaw and Partners, Analyst) You won't either.

Kevin Ball: Not in FY22.

Peter O'Connor: (Shaw and Partners, Analyst) That's obviously a shaper of the discussion with that buyback question.

Kevin Ball: Yes, it is.

Peter O'Connor: (Shaw and Partners, Analyst) Okay.

Kevin Ball: They are all the things that will feed into the discussion that takes place around returns to shareholders and the manner in which they go back to shareholders.

Peter O'Connor: (Shaw and Partners, Analyst) Great and Paul, could I ask you about pricing and pricing lag. In each of the companies we followed over the last month or so, Glencore and all the way down, they've talked about lag in pricing and you have talked about it as well. Just so we enter this year on the same page and given the rapid rise in spot prices of late, how should we think about the pricing dynamic this quarter and maybe this half relative to current spot prices?

Paul Flynn: Yes, it's a vexed question Peter, no doubt about that one and I thought for a while there we were actually seeing some stable pricing which the lag question would go away from but obviously it has taken off again. I think you are best looking for, on average we are going to say it is a quarter, so in terms of seeing the benefit of that. I mean you have got different dynamics. Obviously the met proportion of our business as you see is less than it was before, but the met, say for instance, the met is well lagging behind Platt’s spot average for instance, so that's a quarter.

Our thermal sales are generally, in terms of gC NEWC sales, they're generally quite prompt but you just need to temper that enthusiasm with the sales that we make on other - into other markets and the Korean tonnes as we have talked about a number of times are a year in duration, unless it's a particular spot cargo they are looking for. I think if you worked off the back of the quarter that's the right answer for us, particularly…

Peter O'Connor: (Shaw and Partners, Analyst) No, I…

Paul Flynn: …with the price moving so quickly.

Peter O'Connor: (Shaw and Partners, Analyst) Overall I should - as we go into this quarter, thinking a quarter, when we get to the end of the quarter we should be about right.

Paul Flynn: Yes. I mean we would like to have stable prices so we don't have to talk about this anymore, but no one is arguing with the increase of pricing at the moment.

Peter O'Connor: (Shaw and Partners, Analyst) Correct and a quick one for Ian. Ian, in the reserve resource statement and thank you for updating that, the maps you have outlaid in terms of the changes to Narrabri, they're not very clear and they don't indicate the quality that you talked about there about the seam thickness and the layouts. Also, just the - it's very small areas that you have excluded which account for a large amount of value that is being impaired. I'm just trying to join those points up.

Paul Flynn: I think - sorry. Sorry Ian. I think it's - Peter, just to add something to that. It's not solely the revisions there that drive - there are physical aspects in terms of the impairment, as I mentioned just earlier in a number of those different areas. I mean obviously panel 11 as you know, the last one to the west of the north, we have deferred that to later in the life of the mine.

From an NPV perspective that has obviously an impact on this. The step around in 10 has an impact on the write down as well. Those two small panels that are going to be used now for the cut and flit operation, obviously that has an impact on these impairments, so it's not just as you say the areas that you can see that have been cordoned off from a reserves adjustment perspective. Sorry, Ian, you can go.

Ian Humphris: Oh, no, I think you captured that, Paul. I mean maybe flick back to Peter I mean if you want to ask that question or clarify based on what Paul just said.

Peter O'Connor: (Shaw and Partners, Analyst) Yes, I just - I see what you said Paul, thank you for that. It seems that overall still, so $500 million or $650 million or whatever the number was, a large amount of resource at whatever price you choose to use which you say is conservative versus costs to impair that. I don't doubt your numbers aren't right, it's just hard to reconcile that from the data that you have provided in that pack.

Paul Flynn: Yes, $550 million is the number that relates to Narrabri.

Peter O'Connor: (Shaw and Partners, Analyst) $550 million, yes, got it.

Kevin Ball: Paul, there's a question that has come through on the queue, not on the call itself, so that question - there's a couple of them there from a chap who is just asking about cash and debt levels ending September 2021, estimates for - I don't think we will hand those out but you will see - we will have a - we will show you the quarterly production report and the quarterly sales and the cost guidance and with history and experience and you will be able to work that out in October, middle of October.

Alternate financing markets and types. I think we're looking to get into - we are looking to probably get into the deeper capital markets that are offshore and we will work on that through FY22, clearly ahead of the FY23 maturing of the debt. If we get into those markets, we will look to reduce the size of the debt facility from a billion dollars to something a little bit lower and provide a path for Australian banks to consider how much they want to provide to Whitehaven in the future in that area. So there's a bit of work there to be done on that.

I think that's it from my end. The other questions that were there were about the operational issue of Narrabri which I think has been well canvased and the ash out of Narrabri which has been - the outer seam dilution there has been causing coal quality at Narrabri to come down and ash levels to go up. That is why we are washing coal a little bit harder to blend up. I think that answers the questions that have been raised, so Paul, happy to move on.

Paul Flynn: Yes, and I think we have covered Vickery also and the status of Queensland regulatory progression with Winchester South as well. With that, I think we have answered all the questions therefore on the webcast and there have been no more questions from the phone. Look, thanks everybody for taking the time. I know this has been a lot of content that we have provided today. I trust that this format is useful for you given that we are all scattered around.

If there are any questions that you have in relation to the year's results or in fact the guidance video and the detail that we have provided there, you know where to find Sarah, myself and Kevin and Ian and so we will look forward to catching up with you all through various meetings as we engage with the market post these results. Thanks for the time and I will hand back to the operator.

Operator: Thank you. That does conclude our conference for today. Thank you for participating. You may now disconnect.

End of Transcript