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Operator: Thank you all for standing by and welcome to Whitehaven Coal's June quarter 2022 production report conference call. At this time all participants are in a listen-only mode. After the speaker's presentation, there'll be a question and answer session. To ask a question at that time you'll need to press star-one on your telephone. Please be advised that today's conference is being recorded. I'd now like to hand the conference over to Mr Paul Flynn. Thank you, please go ahead.

Paul Flynn: Good morning, everybody, and thanks very much for taking the time to dial into our June quarter production report for 2022, which rounds out production results for the financial year 2022. As usual, I'll just go through the highlights and then we'll get onto the individual discussion around mines and open up to Q&A.

As everyone knows, the market is very solid so our average price that we've achieved during the course of this period on an Australian dollar basis was $514, which is a significant uplift on what we've previously seen. And for the FY22 period as a whole, Australian dollars, it's $325 per tonne achieved - prices which are fantastic.

Subject to audit, of course, we do expect our EBITDA for the year to end up in around $3 billion, which is a significant result. Run-of-mine production for this quarter was actually very good at 6.4 million tonnes and for those watching the report, they'll have noticed that we've actually changed the structure of the report to a quarter-on-quarter comparative basis so you'll be able to see the trends.

June quarter total equity sales of produced coal at 4.4 million tonnes was up 23% on the March quarter, which is a solid result. Managed sales of produced coal at 17.6 million tonnes is in the middle of our range, which is a good result considering all that has gone on during the year and we'll get to that a little bit further.

As a result, again we've got our accounts to be finalised and so on, but as a result we've got a net cash position of about $1 billion and significant cash generation during the final quarter of this year, $1.4 billion during the period. And that is after actually executing three-quarters of the buyback that we had planned, approximately 100 million shares.

We've purchased 76 million shares already, dedicated $362 million to that and you would have seen the announcement previously that we've upped the capital to achieve that 10% buyback to $550 million.

Onto safety, safety's been quite good. We've been very pleased about the second half performance here and we've managed to bring our TRIFR down to 5.4, which is a very good result, a significant improvement of 8% on the year before and 22% improvement over the last five years.

Just the overview, the context is obviously an interesting year, of course, but an interesting quarter as well. The year has been characterised by lots of disruption, not the least of which is COVID which everybody's been experiencing. We obviously had floods which locked us out of our sites for a couple of weeks back in December.

And then the rain has been quite significant during the course of this last six months and absenteeism and labour shortages have been significant during this period. So we're pleased with the results, having been able to land within our guidance on every front.

So just there you'll see the tables there about managed production, sales and stock volumes. Again just noting for you that we're looking at the quarter-on-quarter change as opposed to the previous corresponding quarter, but those numbers are also there for you to work through.

Importantly, just in terms of our equity numbers from our own financial results, you can see that we're at 5.245 million in terms of ROM equity for the period versus 4.1 million, versus the previous quarter of March 2022. Our equity saleable coal production at just over 4 million, nearly 4.1 million versus 3.6 million.

These numbers all closely align to the managed numbers above, but we've obviously had a slightly better performance on the mines that we own a higher percentage of relative to the managed totals. But good results all over, equity coal stocks at the end here at 2 million tonnes. That's a little bit up on the last quarter, although we have been drawing down stocks to achieve decent sales during the quarter, as I'll get to.

Over at Maules, as I say, Maules had a decent result for the quarter at 3.1 million and for the year as a whole landing at 11.22 million, slightly less than what we would have hoped for, Maules at 11.3 million. But a very solid result, given that we've had significant intermittency as a result of rain and COVID-based absenteeism and then labour shortages more generally.

I know everybody's been reporting that across the resources sector and other sectors, of course, with COVID. But given all of that, I think we've managed ourselves reasonably well to get through the period, ending up with decent results.

The saleable coal production at 2.6 million tonnes is in line with the previous quarter. Our sales volume at 2.8 million tonnes, 15% above the previous quarter. Met coal split has been 23% of Maules Creek, which is a good outcome for the quarter and our stocks, as I say, up a little bit, but a million tonnes here, we'll draw that down pretty quickly as we continue to rail during this next quarter. But overall, a very solid result and just pleased, given all the disruptions that occurred during the course of the year, that we've been able to achieve that.

Narrabri has been on a solid pathway, as many will have observed, at 1.5 million tonnes, slightly up on 1.4 million in the previous, but that's really just a good result to get to the end of 110A and we're in the step around now. We do expect to be in the commissioning phase in 110B within the next weeks, so that's very positive, so let's look forward to a seamless ramp up into 110B.

But overall, a pretty decent result at a total of 4.8 million for the year and at the upper end, I suppose, of the range that we've given for guidance, which is nice to see. Tonnes are modest in terms of stock at 0.3, or 300,000 tonnes, which you would imagine in a step around. So we'll probably clean that out during the course of the next few weeks.

Our Gunnedah operations have had a big quarter, as you knew they were going to, so that's been pretty solid. But they had some ground to make up, as you knew, based on the wet weather that we'd received. So overall, we've got good results there at 1.75 million for the quarter and just under 4 million tonnes at 3.98 million for the full year, which is a positive result.

Into the individual mines themselves, Tarrawonga produced a million tonnes for the quarter, versus 363 in the previous quarter. That's a big result and 2.4 million overall for the year, which was again a very good result. Saleable coal production there for the quarter at half a million tonnes was 30% up on the previous quarter, so it's quite a big step up there.

We have been suffering some road haulage shortages of labour, just COVID-related, which has been challenging. But I think that's all working its way through now and we're starting to see a little bit better performance on the ground. Coal stocks at Tarrawonga at 700,000 tonnes is a step up, reflecting that production, over 230,000 tonnes in the previous quarter.

Werris Creek at 688,000 tonnes was essentially double what we did in the last quarter. So again a big run home, which is very, very positive. Coal stocks at 354,000 versus 256. It doesn't reflect the same ramp up because we have been selling that very much into the market in this last quarter, so we have been drawing as much of that down as we could. The market's been very strong and we've been able to get that coal away at very good prices.

Overall on our equity coal sales and realised pricing table, I'll just call out a few numbers here for you just so you can see the obviously very strong market that we're operating within. Just to quote the quarterly indexes for you just to start off with, at $377 for gC NEWC for the June quarter obviously was a significant step up on $264 for the previous quarter. The JSM quarterly at $368 also up versus $275 for the June quarter.

In terms of what we've been able to achieve, I mentioned the Aussie dollar numbers but we'll just go back down to the US dollar numbers, US$370 versus US$377, a 2% discount, done a good job there, I think. That's certainly normalised with better product quality and premiums offsetting any small discounts for the small proportion of non-gC NEWC sales that we made during course of the quarter.

The metallurgical coal sales have also been pretty decent at US$334 versus US$368, so 9% down as a discount for the period. Again given the step up in prices period-on-period, so quarter-on-quarter, we're always going to have a little bit of a lag, but you can see that the premiums we're generating are largely offsetting the discounts for any mid-CV sales that we're making during the course of this quarter, as evidenced by that 2% discount overall, which is a good result.

So in a stable price environment, I know we'll talk about that later but having seen prices again jump during this period has been a positive thing. So I suspect that we'll still be talking about lags as we move through the course of this new year.

For the June quarter, thermal coal sales were 84% and 92% of that, as I say, were gC NEWC sales, which is a positive result and that's why we've been able to achieve that 2% discount overall.

In terms of the market outlook, the market is still obviously very strong and we're seeing very strong demand across the board. There are supply constraints which everyone's observed in different areas, our customers in North Asia are certainly desiring more coal.

The Russian and Ukrainian problems have been obviously weighing very heavily on the market and we're seeing plenty of customers excluding Russian coal from tenders for new supply. We will see the European import embargo on Russian coal commence in mid-August, so we're yet to see what the physical impacts of that are but we can certainly see that lots of customers already are self-limiting their own exposure to the Russian coal well ahead of that.

We are receiving inbound enquiries also from Europe, which I think will be interesting to see and we have made a couple of trial shipments already, or committed to a couple already, for customers in the European market who are clearly looking to try and find a replacement for the Russian coal that they were otherwise taking.

The logistics update for us is really a post-quarter impact. You will have seen there were some floods down the line in the Hunter Valley, railing is back up and running there. But otherwise during the course of the quarter we had a solid railing period and that has very much enabled us to get to that sales target that we looked at, at 17.6, which is a positive result overall.

Just on the development projects now, the only thing to really call out here across our three projects really is the Narrabri Stage 3, of course, was approved by the IPC which was very welcome. But we have been notified of the EDO, this pro bono law firm has commenced judicial proceedings against the IPC and us joint in that, seeking to overturn the IPC's judgement to approve the project on climate change grounds. So of course this is not unexpected or unusual in this industry, so I think we'll be defending that with all our energies to make sure that we can move ahead with that project on a timely basis.

Nothing particularly that I'll call out for of note on the Vickery Extension Project during this period. But also during the period, just on Winchester South, you will have seen the separate announcement which improved the quality of the Winchester South reserves that we published back on 20 April 2022.

Now that brings us to the end of our presentation, other than to say that guidance, we've hit our guidance along the way. Our costs, we expect our costs to be at the upper end of guidance, so unadjusted costs and unaudited, of course, at $84, so it was the upper end of our range.

We are experiencing, as everybody is, significant inflation on many aspects of our business and so it's not just labour and the efforts required to make sure you're retaining people in this type of market. But all our suppliers are also experiencing disruptions from a supply chain perspective.

So as everyone has been talking about across industries across the country, inflation is a real thing and in our industry has been going for some time and we'll see more of that. But overall, we've been able to wrap up a very good year financially. Obviously, those numbers will be confirmed with audit and published with our accounts on 25 August.

But it's a very, very tight market, we're seeing lots of demand for our coal, the premiums are strong and obviously this is a time when you wish you had a little bit more production than what you've got. But otherwise we're in pretty good shape and it's nice to round out the year, despite the challenges that came with it, in decent form. So with that, I'll hand back to the operator and get onto Q&A. Thank you.

Operator: Thank you, Paul. We will now begin the question and answer session. If you'd like to ask a question, please slowly press star then the number one on your telephone keypad and wait for your name to be announced. Please stand by while we compile the Q&A roster. Our first question comes from Jiang Chen from Bank of America. Please ask your question.

Chen Jiang: (Bank of America, Analyst) Good morning, Paul, thank you. Congrats on a strong quarter. Just a few questions from me please. With thermal coal prices trading more than double semi-soft coal, I'm just wondering how should we think of your met - I mean your semi and the thermal coal split in FY23? Thank you.

Paul Flynn: Thanks, Chen. That's certainly an interesting arrangement and distortion in the market we're all observing. You can see the splits, that's not particularly new, that has been a feature of the market for a little while now. So you can see the splits that we've highlighted here for the full year for FY22.

We're not expecting a material change from that in FY23, but obviously we're having detailed discussions with our customers about this anomaly and where possible, many of these customers who are semi-soft customers are also thermal customers for us as well. So we're just trying to optimise the right balance with our customers between the thermal coal that we're sending to them and also the semi-soft.

So not a material change, but I wouldn't expect the distortion between the market to be the actual prices that we achieve for FY23. But we can talk about that more when we give guidance with our full year wrap-up of the numbers in a month's time.

Chen Jiang: (Bank of America, Analyst) Yes, sure. Thanks, Paul, just a follow-up please. Do you think most thermal coal producers, your peers, can switch producing semi-coal to thermal coal easily?

Paul Flynn: Chen, I would have thought that anybody who could do that is doing that already. So I wouldn't worry about too much more switching, the motivation has been there for some time, for probably a couple of years now, where gC NEWC generally had been a better answer. So if you were able to do that without causing too much disruption to your longstanding customer relationships, then you should be doing that already.

Chen Jiang: (Bank of America, Analyst) Yes, sure. Thanks, Paul, just a second question on your FY23 production. How should we think of Werris Creek and Narrabri? Could you please remind us the longwall movement planned for Narrabri for FY23? Thank you.

Paul Flynn: Yes, we'll certainly give our guidance for FY23 when we publish our results on 25 August. But just to remind you, that's right, that we do have a changeout from 110B into panel 203 on the southern side and that will occur in Q4 for financial year 2023.

Chen Jiang: (Bank of America, Analyst) All right, thanks, Paul. Last question from me please. Could you please give us an update on the flooding situation with the Hunter Valley rail at the Newcastle Port? I'm wondering what's the impact for Whitehaven please.

Paul Flynn: Yes, Chen, you might want to give someone else a bit of a go here, three questions generally is a meeting, four's definitely a meeting. But the flood or railing has resumed on the line. Our mines weren't flooded, so that was very positive. The impact was really on the eastern side of the Great Dividing Range, so the Hunter Valley producers have had a difficult time.

As I say, the line is up and running, everybody's railing at the port. The port is operating under freshwater conditions at the moment, so only Panamax, not Capes, are in and out of there at the moment. But we were able to move everything we could, we should and because it's happened early in the quarter, we don't see this causing us any issues for FY23, subject to more weather later on.

Chen Jiang: (Bank of America, Analyst) Sure, understand. Thank you, Paul. Again congrats on the strong quarter. I'll pass it on, thank you.

Operator: Our next question comes from Hugo Nicolaci from Goldman Sachs. Please go ahead.

Paul Young: (Goldman Sachs, Analyst) Yes, morning, Paul and Kevin. It's actually Paul Young here. Thanks for taking the question and really difficult to comprehend just the numbers you guys have, it's pretty extraordinary. Paul, I've got a few questions on the thermal coal market because I think it's quite a dramatic backdrop here that we're seeing at the moment. But the big looming date and event for the commodity and the market is really 10 August, where EU needs to rebalance its imports from Russia.

The question I have is based on your discussions with customers, have you seen any rebalancing yet in the thermal market? Or do you think the majority of the balancing, rebalancing, needs to take place post-10 August? If you could crystal ball, this is obviously what everyone wants to know, is what does that do to the market from a perspective of price and just the freight market?

Paul Flynn: Thanks, Paul. I was in Japan a couple of weeks ago speaking to customers for the first time since COVID, which was great and the market's very tight, as you observe, and everyone was very keen to understand continuity of supply and security of supply. I think that was first and foremost on their minds.

In fact, there were very few, if any, raised price as an issue in any of those discussions other than perhaps the back end of it. So their concerns clearly are the continuity and whilst they're already taking still sanctioning steps, if you can call it that, like excluding Russian coal for new supply, they are continuing to take coal.

And in the case of the Japanese market, they've got contracts which they are seeking to fulfil, which some of them actually go up until December and there's a few of them they mentioned to us, they have contracts which terminate at the end of their financial year. So they'll go through from 31 March.

So whilst Europe's going to obviously have their challenges in a few weeks' time, the Japanese are tapering at a more measured rate, if I could say that. But it is coming and so we haven't seen that physical impact in the market from our perspective yet. As mentioned just briefly, we have received inbound enquiries from Europe.

Interestingly, that has been on a met coal basis to start off with actually, so those inbound enquiries have been for semi-soft and so that is interesting in and of itself. I suspect we will see inbound enquiries for thermal as well. We are seeing that out of other jurisdictions, say for instance South America, say for instance.

So the market's really tight, I suspect we've got more tightness to come. As I say, customers are really just worried about continuity of supply. They were quite measured in their conversations, they all understood that cycles come and go and obviously prices were high at the moment. But they've obviously enjoyed periods when prices were quite low.

So they were quite measured about it in that regard, but they're just starting to raise their attention more towards even two- to three-year type contracts and it was really just about locking in that physical supply rather than the price right now.

Paul Young: (Goldman Sachs, Analyst) Thanks, Paul. That's all pretty positive for the next six months. On that basis, do you see your order book from a customer perspective changing at all in the next 12 months on the thermal?

Paul Flynn: Yes, it's possible, it's possible. I think our existing customers, as I say, they're starting to look at longer term arrangements. So where we've had, say for instance, an evergreen type annual contract, they're wanting to do something a little bit more firm and so put a second or third year on the back of that, so we understand that.

We have new customers in Southeast Asia as well, so in Malaysia, Philippines and Vietnam and so there's certainly a draw on our thermal output, which is increasing absent of these other changes. So there is a tricky balance which we're going to have to manage here, just in terms of interest out of other jurisdictions, for us non-traditional jurisdictions, and balancing the needs of existing customers who've been with us for a long time. So I do think that all promotes more tightness and presumably a longer horizon of good pricing here.

Paul Young: (Goldman Sachs, Analyst) Great, thanks, Paul. That's it from me.

Paul Flynn: Thanks, Paul.

Operator: Once again, if you wish to ask a question please press star-one on your telephone. Our next question comes from Glyn Lawcock at Barrenjoey. Please go ahead.

Glyn Lawcock: (Barrenjoey, Analyst) Good morning, Paul. Just a question on Narrabri Stage 3 Extension and you made the comment that you'll be moving into the south at the end of the fiscal year, that's 2023. Does the extension issue, if you don't get it, does that have implications? Because is the first panel you're going to do planned to go into the extension, or is it going to be a shortened panel just in the southern area? Just trying to understand how detrimental or how impactful this Stage 3 Extension claim is, thanks.

Paul Flynn: Thanks, Glyn, that's a good question. In the case of continued operations there, there's no immediate concern because 203 and the 200 series panels generally are actually in what we call Stage 2. Stage 3, as you know, was the potential to drive those panels longer and the first issue for us timing-wise will just be about laying down some of the infrastructure necessary, which will serve later panels in the 200 series, but also be complementary and necessary early workings for stage 3, the 300 series panels, when it turns to that.

So we don't have any immediate pressures, but by the same token this is pretty annoying. But it is expected because these things seem to happen with some regularity when a project gets through the IPC. So we're going to make sure that we devote all energies to that and try and resolve that as quickly as possible.

Glyn Lawcock: (Barrenjoey, Analyst) Could you give me a feel for is there a period when it starts to get problematic, in terms of if this delays the approval for Stage 3 Extension by 12 months? Or is it two years? When do I start to get nervous?

Paul Flynn: Well as to when you get nervous, I'm not sure, but I'd be nervous in a couple of years.

Glyn Lawcock: (Barrenjoey, Analyst) Okay, good and then maybe I think you said Kevin might have been there, just your comment on the front page of the release about paying franked dividends. Could you just remind me, obviously you haven't been paying tax but you're obviously going to be due a big tax bill based on the earnings just gone. So how does it work? If we wanted to frank the August dividend, does that mean we're going to be paying tax early in the half? Just to put my mind at ease on that, thanks.

Paul Flynn: I’ll let Kevin deal with the mechanics of that.

Kevin Ball: That's a very exciting question, Glyn, when you start talking about the mechanics of a franking account. So you pay the tax in December, so your franking account needs to be trued up every six months. And because we pay the dividend in September and pay the tax in December, they get trued up in the same period, so you fully frank the dividend for fiscal year 2022.

Glyn Lawcock: (Barrenjoey, Analyst) Okay, cool. So you don't bring it forward to enable the payment of the dividend? It's fine that it's paid after?

Kevin Ball: But we will end up being a substantial taxpayer over 2022/23 on current numbers.

Glyn Lawcock: (Barrenjoey, Analyst) I would think so.

Kevin Ball: We’re going to help with the deficit.

Glyn Lawcock: (Barrenjoey, Analyst) The New South Wales budget deficit for royalties as well, but thanks a lot, that's clear.

Kevin Ball: Thank you.

Operator: Once again, if you wish to ask a question, please slowly press star then the number one on your telephone keypad. Our next question comes from Alex Ren at Credit Suisse. Please go ahead.

Alex Ren: (Credit Suisse, Analyst) Hi Paul, Kevin and Kylie, congrats on the results, $800 million net debt to $1 billion net cash in 12 months which is stunning. Just one quick question from me on cap management please. So is the 20% to 50%, I guess, EPS pay-out policy still relevant these days? Just the first half of the capital management program was $480 million versus $300 million-something NPAT. That's already above and now you've got probably $200 million left for the existing extended buy back, potentially another 10% to come.

Could you just share a bit of colour on how you and the Board are thinking about dividend returns? Any potential for a special beyond the current policy, given you're pretty much printing $400 million or $500 million free cash flow a month these days? And I suppose a follow-up question is just do you have a cash war chest target in mind for future growth projects? That's it.

Paul Flynn: Thanks, Alex. I'll hand over to Kevin, he can answer that one well for you.

Kevin Ball: Thanks, Alex. We put that update to that capital management framework out in February with the results and then we started the first buyback for the business and we've gone reasonably quick on that buyback and we're really happy with those results. So our expectations are that the Board will make a decision on final dividend, as Glyn referenced it'll be fully franked.

Where the policy came out basically saying that between 20% and 50% of NPAT would be the preferred range for capital management and that includes both dividends and buybacks. If you take the $550 million there's still room in there for a reasonable dividend at the backend of fiscal year 2022 and I think that'll become clearer when we push out the results for the year and explain where we're going.

You asked about a target, I think your words were war chest. Look, our view on that is that we'll take each as they come along. We'll have a look at what forecast CapEx looks like, we'll have a look at where we're going. Historically we've never - we've returned cash to shareholders in different forms, our expectation is that continues.

But I'd probably say to you that the balance sheet and the funding structures we'll reconsider as we move forward, just simply because of the cash that's in the business. And you can see a number of banks across the market with decarbonisation strategies, so we're taking all of that into account, Alex.

Alex Ren: (Credit Suisse, Analyst) Understood, great. Congrats again, thanks.

Kevin Ball: Thank you.

Operator: Our next question comes from Peter O'Connor at Shaw and Partners. Please go ahead.

Peter O'Connor: (Shaw and Partners, Analyst) Wow, big numbers. Paul, firstly on Narrabri, you talked about Stage 3. Can I just give you a hypothetical? If Stage 3 isn't approved, if blocks are back to what they were, the shorter blocks, what does that mean for mine life longevity at Narrabri?

Paul Flynn: Thanks, Peter. Look, I might just go back a little bit with this question, we're already focused on the shorter blocks, as you know, although the Stage 3 approval does give us the option to go longer blocks if we wish. But the shorter blocks is our preferred plan, which we've been discussing with you all now for perhaps 12 months now. So that's our preferred plan.

The Stage 3 approval covers all of that work, so the existing approved Stage 2 which we continue on with and the new, essentially what was otherwise a 10-kilometre panel but being now four and six, a second panel of six kilometres long. There is some shared infrastructure that we do need to put in place for deeper panels in the 200 series, that would be beneficial also for the 300 series.

And most notably, there's some shaft work that we need to get done, as I mentioned the timeframe to Glyn earlier, that needs to be done in a couple of years' time. So look, I'm not concerned overall that this is one of those things which is designed to waste people's time and money and I'm pretty confident that all climate change deliberations conducted by the IPC and the Government before that obviously in recommending the project for approval to the IPC have been pretty thorough.

And this notion that the EDO and - I forget their name, Bushfire Survivors or someone like that, Association, I'm pretty sure that they've got nothing new to consider from a climate change perspective that the Government and the IPC hasn't already done. So we'll work our way through this and get to the end of it. As I say, it would be annoying if we couldn't get this shaft work done within the next 24 months, that would be annoying. But otherwise we'll just put our heads down and get this sorted out as soon as we can.

Peter O'Connor: (Shaw and Partners, Analyst) So just to be clear, when you're talking about infrastructure, it is just the shaft work and development to the base of that shaft? It's not related to main gate formation of drive heads and concrete works, that long-term establishment? So all that's supposed to be Stage 2?

Paul Flynn: That's correct, yes.

Peter O'Connor: (Shaw and Partners, Analyst) For that segue to the inflationary pressures, you talked about those in your comments. Could you or Kevin give us a sense of the pie chart of what Whitehaven's cost structure looks like and specifically talk to wage growth and wage push, what that's running at and what it was, what it is? And also the impact on diesel across the site, are there any other standout consumables that we need to be aware of?

Paul Flynn: I think there's a range of different things you've mentioned there. Our EA negotiations thus far have been pretty reasonable, I have to say. We've been able to settle those at very reasonable levels, that's nice. That's not to say that all of the ones that we've settled recently came before the Government's 5% basic wage inflationary adjustment. So who knows what happens with any subsequent EA discussions then after.

But we have been paying voluntarily, Peter, retention bonuses for people, to make sure that they're - in our instance we're paying on a quarterly basis just to make sure people stay put. Because the market's very, very tight, all the miners are running hard, as you know and then the Government obviously is competing for the same labour with all the infrastructure building they've got going around the country, stimulating the country. So the Government's contributing to a lot of the inflationary pressure by their own actions here and so that's challenging for us.

Diesel, Kevin can get to that and there's a few other notable examples there, just where we see these supply chain constraints from COVID manifesting itself. I know that one of our tyre suppliers wanted a 26% increase in the cost of tyres. Now obviously, tyres are - we spend a bunch of money on tyres every year, but that's not the end of the world to see that in a relative term. But that's indicative of the suppliers' constraints that we see in some of the materials that we use. Diesel, Kevin?

Kevin Ball: Diesel, I think, Peter, to your point, if you roll down the expense, a third of the business cost is port and rail. Demurrage has probably been a bigger number, I think we're going to pay at an equity level, we've probably got a number with 40-something in front of it as opposed to four in the previous year.

In June, diesel was about $1.50 a litre, up from $0.50-something a litre in fiscal year 2021 and that's a function of a crude price that was over $110, increased margins in refineries and it then comes down to a lower Aussie dollar. So that's quite substantial, but that's affecting everybody across the business and that's pushing cost curves up.

Labour, as Paul talked about, generally the workforce wants - when you sign an EA, that's fine, but then what you need to do is actually be competitive in the market and that's really the retention structure that's there. Some suppliers are looking for increases in basic equipment where they've been held tight for the last couple of years as a result of COVID.

Skills and trades, you could imagine with 3.5% unemployment in this country, trying to find electricians and boilermakers and fitters and turners becomes particularly difficult, diesel mechanics. So the inflation you see across the whole industry we see. I think the rise in cost to $84, we signalled that back in February, or back in December, I think, actually and it was really around flooding and COVID's impact on that and you're seeing that play out across the industry.

So I don't expect there'll be much more inflation coming through, but I do expect that it'll remain whilst ever global economies remain tight and supply chains remain difficult. I do know that shipping these days is starting to improve, time on the water is coming down and ports are starting to free up and I look at some of the base metal side of the world and see that they're all softening, so maybe the world is starting to soften a little bit there. So that's a good news/bad news story, costs are coming down but does that mean that the world is getting a bit softer?

Paul Flynn: The demurrage piece will only be a function of weather, rather than a function of the business and the business is operating at its normalised level. The demurrage conversation is a background conversation.

Kevin Ball: The demurrage conversation is less than 50%.

Peter O'Connor: (Shaw and Partners, Analyst) I didn't understand your four versus 40, what does that mean?

Paul Flynn: Those were millions, Kevin was citing millions. Total demurrage in a year versus what we'd otherwise see when we're operating normally. It's just those floods and the backlog and then the consistent rain during the course of the year, not just flooding other mines but then causing the rail interruptions during the course of the period.

Those freshwater effects on the port as well, all those things contribute to unfortunately a lack of coal flow in the last six to nine months. So Peter, say for instance when our coal's tied up say someone's putting one of our competitors' coal in a boat and there are supply constraints there, then demurrage goes up.

Peter O'Connor: (Shaw and Partners, Analyst) Got it, perfect, thank you.

Kevin Ball: The other thing driving that, Peter, is that charter fees on boats have pretty much doubled since 2020, they bottomed in 2020. You pay on the charter fee.

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

Operator: Our next question comes from Rahul Anand at Morgan Stanley. Please go ahead.

Rahul Anand: (Morgan Stanley, Analyst) Hi team, thanks for the opportunity. I've just got some further follow-ups, Paul, perhaps on Stage 3, if you can help me understand that. Look, your medium-term guidance there was 7 to 8.5 [Mtpa ROM at Narrabri] and I just wanted to understand at what point do you transition out of Stage 2 into Stage 3 in terms of years? So FY26, if we talk about that first up, is that being fed through Stage 2 and Stage 3 is not producing at that stage? Am I understanding that correctly?

Paul Flynn: Yes, that's right. We won't be into Stage 3 before that period, 2026. So as I say, the issue is really just if there's any restrictions on us putting in those ventilation shafts that I mentioned in particular, which will be shared between the 200 panels and the 300. So that's a key thing that we're focused on, but otherwise we'll be in the 200 series panels for the next few years and that's not impacted by this action from EDO.

Rahul Anand: (Morgan Stanley, Analyst) Understood, okay and the Stage 3 main development, what year do you start doing that? Is that FY27 then or FY26?

Paul Flynn: I don't have that in front of me, Rahul, but I can come back to you on that.

Rahul Anand: (Morgan Stanley, Analyst) Okay, perfect, no worries. And then look, just to touch upon the cost question that Peter had. You also have some positive impacts next year in terms of in-pit dumping obviously with Braymont and then Narrabri perhaps would be much more predictable than this year, I would hope.

So some of those could offset that cost inflation, I just wanted to understand how are these positive impacts looking going into next year for that cost side? Is everything to plan and all the cost savings looking good? Or is there any sort of change in mine plan or anything that we should be aware of that could not provide that positive offset to the cost inflation?

Paul Flynn: Yes, Rahul, I think in terms of our expectations for Narrabri and its reduction of costs and increase in volume, that still remains. So we're not concerned in that regard. The thing for FY23 is that we'll only have a very small impact of operating that shallower ground in FY23, because the changeover to 203 doesn't happen until that last quarter. So there'll be a period of ramping up, but we certainly will be guiding more tonnes than this year.

This year's been a pretty solid year as far as Narrabri's performance has gone, so we're happy with that, but there will certainly be a step up in expectations, of course, in operating in 203 and beyond. So whilst the full effect of that won't be obvious in FY23 when we give you that guidance on 25 August, there's no reason why we shouldn't expect savings and lower costs associated with increased volume in the southern panels at Narrabri.

Rahul Anand: (Morgan Stanley, Analyst) In-pit dumping at Maules is to plan?

Paul Flynn: Yes, that's going well.

Rahul Anand: (Morgan Stanley, Analyst) Any sort of update in terms of types of numbers you're expecting there in terms of saving costs?

Paul Flynn: Well, we've given numbers previously on that, so you can go back and refer to the investor presentation I think about two years ago, or it might be three years ago now we gave a presentation on that. But creation of in-pit dumping space in the pit is going well and I'd go as far as to say within 24 months, it might be only 18 months now, Rahul, that we'll be completely in-pit dumping in fact at Maules Creek.

And so there will be savings associated with that there no doubt and we're yet to see what happens with the commercialisation of autonomous haulage as well. That also is going to be an interesting phase over the next six to nine months there.

Rahul Anand: (Morgan Stanley, Analyst) Okay, perfect and you're expecting the trials of that, as you said, six to nine months, is it?

Paul Flynn: Six to nine months, yes. We're about to embark on setting another fleet loose in autonomous form, which we're looking forward to see how that goes. Obviously, the critical item for us to satisfy ourselves over the next six to nine months, really nine months now, is just to assure ourselves that the manned and unmanned interaction is obviously robust enough to want us to roll it out on a broader scale across the pit.

Rahul Anand: (Morgan Stanley, Analyst) That makes sense. Okay, perfect, that's all from me. Thank you very much.

Operator: Just a final call, if you would like to ask a question, please slowly press star then the number one on your telephone keypad. Our next question comes from Peter O'Connor at Shaw and Partners. Please go ahead.

Peter O'Connor: (Shaw and Partners, Analyst) Kevin, circling back to your question or the comment about the cash that you're generating, and you talked previously about looking at bonds and particularly Asian bonds. Do you still have an appetite for having that financing in your arsenal going forward?

Kevin Ball: To answer your question, Peter and it's a really good question, is we're still doing the work on it. We've got basically an offering memorandum in draft form in front of us on a regular basis, so we maintain that and keep it up to date. Clearly, when you're carrying $1 billion in cash, the carry cost in today's disrupted markets for debt makes that a little difficult.

So my answer to you is we're maintaining a watching brief on that market. We think our credit position or our credit rating improves quite considerably and so we'll just wait and see where this plays out. Clearly, we've got no need to raise funding, so we'll need a supportive market and a strong balance sheet and I'm enjoying watching the cash roll through the front door, Peter.

Peter O'Connor: (Shaw and Partners, Analyst) Nice change. Paul, to your comment about wanting - you've got a lot of demand and you'd love to have more coal. Just thinking about the Hunter Valley supply chain in its totality, you're one of the big players, you purchase a lot of coal. In a market where you need more or you'd love more coal, is there opportunities from other players to pick up more coal? Can we see your sales books pick up and bloat out with - not bloat out, but expand with more sales to customers on a third-party basis? Is that a likely outcome, or is it too tight to change the sort of numbers we're seeing?

Paul Flynn: Yes, Peter, I think the market's really tight and I think everybody's doing well selling their own coal. And even the lower quality producers are obviously selling their coal for numbers which are obviously making them very profitable too. So look, I don't - our current view of the market is there's not a lot of coal laying around and absent this recent flood in the Hunter Valley which sort of knocked out the rail for a week or so, absent that the shipping queue was coming down.

But we do note that most of the shipping queue that was there was actually there for reasons of coal supply, so people obviously were short on coal. Not us, we produced well during that period and obviously we didn't have the same level of operational disruptions in the weather because we're on the other side of the Range. But most other people are short on coal anyway, so getting your hands on other people's coal has been very, very difficult. So I wouldn't be predicting that you'll see our purchased coal numbers ballooning out in this area, I wouldn't forecast that.

Peter O'Connor: (Shaw and Partners, Analyst) Could you just talk to your comment about distortion between semi-soft, met and thermal coal? The distortion is extraordinary, what is driving that in your view and your views from your customers? And what would change that to be at a level which it should be trading at? And when, given that backdrop, would it realistically be likely to occur?

Paul Flynn: I think we need a separate meeting for that one, Peter, but I'll try and give you a quick update on what I think about that. Look, the met coal market has softened and demand-wise or otherwise, relatedly the index comes down, the semi-soft index comes down with it and so look, that's interesting. The semi-soft market isn't very deep anyway, as you know and we haven't been chasing that and most people have been, to the extent they can.

The previous question was asking about moving that semi into the thermal market, so it's a real strange phenomenon at the moment and so we're just working our way through that delicately with important customers. We're certainly not indulging too much new customer enquiry whilst there is this spread, so it's better off focusing on the thermal.

But we do have important customers who obviously acknowledge that there is obviously a spread that is quite inexplicable at the moment. So we are looking at alternate pricing scenarios in terms of how we can still meet them, allow them to meet their requirements and then obviously achieve a sensible outcome financially for us.

Kevin Ball: Peter, you've got to go back to the 1970s when this last happened and largely that's just about inelasticity in demand for energy and people will pay what they need to in order to get energy. And what you see is a softening in the steel market, which is driving the met coal price and all the met coal relationships, but the thermal side has been driven by a shortage of energy across the globe. As I say, based on that, it's like twice in 50 years is the way I think about it.

Peter O'Connor: (Shaw and Partners, Analyst) Based on the way we see the landscape in Europe and to the question before about 10 August and just how things play out, this is not a month-on-month event, this is potentially a multiyear.

Kevin Ball: Someone asked me this back in February and I think the best analogy I've got for you is if you go back to the first world oil shock, it took about five years for alternate forms of energy. Now it's a bit more complex on the globe today between gas, thermal, nuclear and oil and each of them have their own transition periods or each of them have their own ability to resupply. That's why I say this is a long meeting conversation, not an update on a quarterly. But it's complex and it's difficult to see alternate forms of energy coming to the market without certainty of offtake and certainty of price.

Peter O'Connor: (Shaw and Partners, Analyst) Can I just throw in China, you call it restrictions, is that just a political play? Or is that something that's going to change its dynamic?

Paul Flynn: We'll wait and see how that plays out, Peter. I haven't seen anything official yet. Generally it didn't bother us too much at all, that restriction. It's really the 5500 people that bore the brunt of that. So look, to the extent that there's - I think everyone looks at what's going on with Russia and says well China's going to help them out. Well Russia has reasonable quality coal, so that doesn't really answer all of China's needs.

China does need to have more of that 5500, so I suspect there may be a benefit for them out of that and probably the loser, if you like, out of that would probably be Indonesia, I would say, more generally. But the world's short of energy, as Kevin's just highlighted to you and as you all knew and so I'm not expecting too many challenges to come from that. Certainly from ours, we didn't benefit from it greatly and I don't think we'll see anything too much negative from a gC NEWC perspective, they don't buy any of that anyway, as you know.

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

Operator: Our next question comes from Shishir Prajapati at Audant. Please go ahead.

Shishir Prajapati: (Audant, Analyst) Hi, guys. My question is just around royalties, so we've seen the royalties update from the Queensland Government about a month or so ago. Can you just talk about your views on New South Wales and potentially the risk of an out of cycle rate hike? Thanks.

Paul Flynn: Topical question that one, for sure. Look, New South Wales obviously put their budget out without any change predicted there. It's hard to speak too nicely about that, what's gone on in Queensland, I think that's very negative one way or the other from the Queensland Government's perspective. But the lack of consultation and just the dramatic nature of it, it's clearly not a royalty, it's a tax. So look, we hope certainly there's no change to the position in New South Wales and we'll be making sure that the New South Wales Government leading up to the election in March next year understands the critical role that the resources sector plays in New South Wales and the need for further investment requires certainty in that regard. So the unpredictable nature, of things such as occurred in Queensland, don't really foster the confidence necessary to commit billions of dollars in the capital to the likes of projects that this industry typically spends.

Shishir Prajapati: (Audant, Analyst) Okay, thank you.

Operator: Our next question comes from Paul McTaggart at Citi. Please go ahead.

Paul McTaggart: (Citi Research, Analyst) Morning all, it was really a follow-up on this royalty issue. Excuse me, I'm a bit croaky with a cold. A lot of the value, as you know, is being at the right time and the right place when you get the commodity price burn in your coal price and you kind of mint money for a period. And many coal companies will do Monte Carlo simulation around price assumptions. So in the case of Queensland now, you've now taken a lot of the value out of the upside with the introduction of these royalties, in inverted commas. How has that changed your thinking about Winchester South?

Paul Flynn: Thanks, Paul, and I look forward to you pricing in a few of these bucks in your model for Winchester South going forward, if we're going to get a lot of value through those periods. Look, it's obviously concerning generally, just the unpredictable nature of what's gone on in Queensland and it's quite dramatic, as I say, not with consultation and not just a small adjustment but a material adjustment.

Now when you come back and have a look at it, we haven't been using a price deck which contemplated the upper ends of the scale that they're taxing now and so in that sense, it's not a material effect on our proposition as far as Winchester South goes. But as you say and you rightly point out, that in this industry you need those spikes to capture a lot of value in a cyclical business.

And if the Queensland Government is taking part of that topside away from you, then obviously people are going to look differently in terms of how they rate that region as being prospective for further investment. So it's a general negative, I have to say and so it's going to become quite a topical, I suspect even political, thing over the next year or two.

Paul McTaggart: (Citi Research, Analyst) And so to follow-up this, do you think they care about future investment in coal? That's kind of my take on it, maybe they don't.

Paul Flynn: Paul, I think they do, I think they do. It's a significant piece of the Queensland economy and I think, well my personal view is this is a reaction to the budgetary problems they've got, not actually their view on coal mining generally. They just think this is an opportunity to fill a hole in the budget and I suspect the voting populace in Queensland will have a view on that at some point.

Paul McTaggart: (Citi Research, Analyst) Okay, thanks, Paul.

Operator: We'll take the final question from Peter O'Connor at Shaw and Partners. Please go ahead.

Peter O'Connor: (Shaw and Partners, Analyst) Kevin or Paul, I only just asked my question but I've got a follow-up. So in Queensland, given the changeover price is about US$200 where the new royalties really in a bit, Kevin, you've obviously run the numbers on Winchester South and looked at IRRs and NPVs. I guess this is more a function about your price deck than it is about the royalties, or it's a bit of both. Can you quantify impact?

Kevin Ball: About 3% of the NPV of Winchester South.

Peter O'Connor: (Shaw and Partners, Analyst) Excellent, thank you.

Kevin Ball: And that’s on a lower price deck that you're talking about.

Peter O'Connor: (Shaw and Partners, Analyst) Right, okay and Paul, milestones at Vickery, the pathway to FID, what is next on that pathway?

Paul Flynn: Yes, I think as we said before, Peter, on previous conversations around this, that we wouldn't be coming to the market within 12 months with that project. I think that still holds firm. The work that we're doing, in fact as we speak, there's a bit of ground truthing going on in the rail corridor, just as we mentioned before, firming up the estimates of costs for the building of the rail corridor work and then also the geotechnical ground conditions for the mine infrastructure area itself.

In the meantime, there's management plans which are about three-quarters done, I have to say, so we're doing well with that. But there's still about a quarter of the management plans yet to be signed off. And then all the while we're obviously looking at going back to the conversation about inflation previously, what that means for our estimate of the cost to build the Vickery project. But I think you've still got 12 months here of work to do.

Peter O'Connor: (Shaw and Partners, Analyst) So Paul, given it's kind of a rolling total, I think we first talked about that probably six months ago, is that a rolling total or is it 12 months less six months?

Paul Flynn: Rolling says that you're going to have perpetual rolling and that's not what I'm saying at all. I'm just saying from where I sit here today, I think still a further 12 months is necessary here.

Peter O'Connor: (Shaw and Partners, Analyst) Okay, so FY24 would be the earliest we'd expect?

Paul Flynn: Yes, the interesting thing about this, Peter, just to add some other commentary which I know wasn't part of your question but related back to the trip I recently had to Japan and speaking to customers, there was lots of interest in Vickery from customers, wanting to know what our plans were, how quickly that might come on.

And fortunately because Vickery's been mined before under Rio's ownership, lots of customers understand the quality of Vickery already, know that that's very good coal and would like to see it when they know that there's going to be structural tightness in the market for some time to come.

And speaking to customers, across a few customers there was an aggregate of some 3000 new megawatts coming on of ultra-supercritical plants, all of which would be ideally suited to Vickery and they're brand new units coming on with 30-, 40-year type horizons on them. And so they're wondering where that coal of the future is going to come if people stop investing.

Peter O'Connor: (Shaw and Partners, Analyst) So you no doubt would have slapped down then, stopped talking the talk and walked the walk. What do they propose? When do JVs come on the table again?

Paul Flynn: That's where the discussion starts, isn't it? Yes.

Peter O'Connor: (Shaw and Partners, Analyst) Thanks Paul, thanks Kevin.

Operator: Thank you. Paul, we've had two more questions come through if we have time.

Paul Flynn: Yes, why not, two more then.

Operator: Thank you, we'll take the next question from Lachlan Shaw. Please go ahead, Lachlan.

Lachlan Shaw: (UBS, Analyst) Morning, Paul. Great update, thank you. A couple of questions just quickly, so following up on the semi-soft thermal spread, are you hearing power customers looking to start buying met and blending up power station feeds?

Paul Flynn: No, generally it's not - you don't get a very good outcome there because of the different characteristics of the coal. So no, we're not hearing that.

Lachlan Shaw: (UBS, Analyst) Right, thank you and then secondly, just on how the conversation with customers has moved to security of supply, if you will and just expanding that out a little bit. So do you detect any structural change or signs that the debate around ESG from a customer, shareholder, financier point of view - is that debated and has that changed or started to change, given what's happened this year with Europe's energy system and this push towards supply security?

Paul Flynn: Good question, Lachlan, because I think that's definitely a feature. The sentiment has certainly moved, I have to say. Now no one's forgetting the commitments that each country has made, but I think everyone's looking at this and saying well, a lot of our energy concerns are - well to put it another way - look how fragile our energy system is when you have changes in the marketplace.

And obviously no one expected Russia to start a war with Ukraine, that's a terrible thing to do, but it's obviously sent ripples right around the world in terms of the finely balanced nature of our energy systems more generally, be that gas, oil, coal, you name it, the whole lot. And at the same time, obviously the world has been incentivising intermittent sources of energy into the system with the hope that that would do the same thing as baseload infrastructure does, which it doesn't.

And so everyone's looking at that going well, what do we do about that? So I suspect energy security will be rerated as a priority and it’s certainly necessary in jurisdictions such as Europe and it'll just be something which people knew before was important but will have to reassess in terms of the priorities that it's given in areas where they're not directly exposed. But everybody is indirectly exposed around the globe to what's gone on in Europe, everybody and so everyone's going to have to take a new view on this.

Lachlan Shaw: (UBS, Analyst) Yes, thanks.

Operator: Our final question will come from Michael Harrowell at Harwind. Please go ahead.

Michael Harrowell: (Harwind Partners, Analyst) Thanks, Paul. Just a very quick one, I guess. If Russian coal from the Urals becomes the marginal price supply of coal in Asia, given that there's some Asian countries that are still not really signing on to sanctions, what would that do structurally to the long-term thermal coal price, given current consensus is at $80 a tonne?

Paul Flynn: Yes, well Michael, I don't think $80 is going to hold, that's my view of it, but you probably expect me to say that anyway. But I think it's unrealistic to think that $80 is going to be the answer. Anyway, I just don't see how that settles at that level. Well some countries will continue to take Russian coal, I think, as you rightly observe, China is doing it, India is doing it.

But I don't think that satisfies all their needs in any event, so one way or the other this is going to be a tight market. So I think where it settles, that's a good question. Again one of those questions which is a longer-term meeting rather than just the last question of a quarterly call. But I think $80, not a chance that it's going to settle at that level, I think, long term. Kevin?

Michael Harrowell: (Harwind Partners, Analyst) Just that the structure of the question is to give some numbers about the possibility of recasting the $80, right? So if the marginal coal tonne, if you're going to be short of coal here structurally until the war in Ukraine is over and then even that, there might be some reluctance to take Russian coal.

Which leaves Russia 200 million tonnes of exports and 40 million tonnes of exports granted to Europe finding another home, which will be today's marginal, not sanctioning type customers. And if you had to ship coal from the Urals to Asia, it's probably $100 a tonne at least, which by its nature will then lift the cost curve from $80 or whatever the forecasts think it is, it'll lift it by $100.

Kevin Ball: Michael, I think your observations are interesting. I think the better observation is that each of the analysts who have a long-term view of coal have a reinvestment rate with a return of something like 15% as their implied marginal tonne coming to the market.

And if you think 15% is the reinvestment rate upon which coal is currently being priced, some people who are producing those charts need to redo their analysis. And that's the point that I would raise here, that there is a huge disconnect in long-term pricing in most models based on a piece of economics which implies a reinvestment rate that's unrealistic.

Michael Harrowell: (Harwind Partners, Analyst) Thank you.

Operator: Thank you, everyone. Paul, I'll hand back to you for any closing comments.

Paul Flynn: Thanks, Tara. Thank you, everybody, for your time today, really appreciate the questions and the focus on Whitehaven's final quarter for the year. Look forward to catching up with you all through the course of the rollout of the full year results on 25 August and beyond. But if there's any questions in the meantime, you know where to find us. Thanks very much for your interest.

End of Transcript