OPERATOR:
Welcome ladies and gentlemen to Whitehaven Coal Limited's First Half FY23 Financial Results investor call. All participants are currently on mute, but following the presentation, we'll open up the call for questions. To ask a question, please join via teleconference and press *1 on your telephone, touchpad to raise your hand. Thank you for joining us today. I'll now hand over to our managing director and CEO, Paul Flynn.

PAUL FLYNN:
Good morning everybody, and thanks very much for dialling in this morning for the half year results for the FY23 year. I know this is going to cover a lot of old ground for those who've been following and been through our quarterly results, but I'll try and move through this presentation relatively quickly and get to the Q&A session. As usual, I'm joined by Kevin, who will go through the finance section for us. Ian Humphris is here for those who'd like to ask an operational question, of course, Kylie FitzGerald from Investor Relations is here as well. So Kevin and I will go through the presentation without further ado. Of course, our disclosure is on page two to cover off any forward-looking statements. Now, to the half year, as you know, given that we've been through the quarter announcement, the half year's been very good for us, and I'll just go through the highlights quickly. In Aussie Dollar terms, $552 per ton is a pretty good realised price for the period. Narrabri has consistently performed well during the course of the half year, which is great.

The financials in terms of the highlights, the record revenue at $3.8 million and then $2.7 on our EBITDA, $1.8 billion on our NPAT, being a number you have obviously not seen before. From a taxes and royalties perspective, 1.1 billion in aggregates is pretty good for the quarter. Again, a record for us. Our safety has continued to improve year-on-year of 15% improvement which is very, very positive. The financial results has left the balance sheet in a very good position with net cash of 2.5 billion at the end of December. The board has declared a 32 cent fully franked dividend as our interim for this half year. And of course, everybody's been aware of the buyback program. We've spent nearly $600 million, $592 million during the course of the six-month period. And our returns as an organisation for the six-month period have been pretty decent at 101% for total shareholder returns for that period. So very, very good result. I'm over to our markets. Yeah, our markets have been very good. We are seeing some softening with, obviously, the less severe winter for the Northern Hemisphere, which I suppose is very good for them, but we are seeing coal prices softening in the last month, and so I'm sure we'll talk about lot of that during the outlook section and then also with the Q&A. Our premium products continue to see very strong demand.

So this graph you've seen many times and it just depicts where the centre of the universe is for us, and that is Japan, Korea, Taiwan, the emerging markets for us being Vietnam, Philippines, Malaysia, and somewhat Indonesia as well for metallurgical purposes. As far as Japan goes, that is the cornerstone of our business, Korea and Taiwan as you know, toggle between two and three depending on the split between the two in any given year. But they are two very meaningful markets for us and pay us good prices for the quality products that we deliver to them. As far as quality goes, I think everybody understands that Whitehaven's suite of coals is generally the high water mark across the thermal market. And you can see that the comparison of us and our portfolio relative to Australia as a whole, and then of course other coal producing jurisdictions. So from our perspective, we're definitely up there in terms of the pointy end of quality and that's why we get paid at premium. And as far as the split of those quality outcomes from a sales perspective go, for the first half, 77% of our sales were in the high-CV end of the market. We did have a little bit more, as we talked about in the quarter, of our mid-CV products, and that was really just because our open cut mines had been affected by the floods during the course of this half year, and we had less blend capability across our business than we normally have.

The mid-CV was about 15% of our business and met at 8% of the total. Now, over to those three important anchor customers that I mentioned before, this graphic's really just to reemphasise the point that we are in a very important piece of the puzzle for energy security across these three key markets. They're important to us and we're important to them. In aggregate, if you look at these three jurisdictions, these three countries, about 200 million people there that, on a weighted average basis, we're responsible for about half an hour of their industry, feeding, cooling and cooking every day. So it is a very important piece of the puzzle that we represent and the continuity of our business, and potentially even the growth of it, is very important to the security of energy supplies in that region. As far as that reliable energy is concerned, strong demand continues to be a feature of the market we're seeing. Now, supply gaps are there, and I'm sure everyone's familiar with these charts because this isn't one of our own, it is Wood Mac's.

But you'll be very familiar with it. There is definitely an emerging issue here in terms of the delta of expected demand versus what potential supply would be. And so we are going to continue to see a difference there and that is going to underpin a solid pricing for our outlook as an organisation and, particularly, as it relates to the quality end of the spectrum. And Wood Mac is not the only one, obviously, depicting a solid future. Here, AME has, obviously, got numbers which are not dissimilar. CRU does appear to be an anomaly in that regard. In fact, their view seems to think that seaborne thermal market is going to be 660 million tons by 2025, which is only two years away. So, that's obviously going to be quite a capitulation if you believe in those numbers. But we thought we'd just make sure that we're not just looking at numbers that suit us, but we're looking at all the numbers from the various commentators across this. But our overarching conclusion here is that there's going to be solid demand for our high-end quality product over any outlook that you care to imagine on the time scales. And met, met is obviously looking pretty good as well with China taking Australian coal again.

We're going to see... Well, we have seen uplift in metallurgical coal prices already and I think that will continue in our outlook period. As far as the supply/demand dynamic goes there as well, we also think that that is structurally short and the met market we think is going to be a very good place for us to play over time. On pricing, pricing clearly has seen some very interesting prices, where we were at and around the $200 before the terrible invasion of Ukraine. And so, we have reverted to those levels now that we've seen a less severe winter in the Northern Hemisphere. So prices have come off, as we've mentioned already. But I think, structurally, the underpinnings of the strong pricing environment that we see despite the temporary falls in prices more recently, I think, remain the same. And that is demand is good, supplies additions are pretty much non-existent, and with structural restrictions in terms of consumption of Russian coal in the thermal market, we're going to have a very good outlook, I think, here for some time to come. Metallurgical coal, as I said before, structurally, I think that we're very convinced that that's a very strong market over time.

And despite the inversion, that inversion has reversed. And so, that makes more sense to everybody on this call, I'm sure, in terms of what they historically understood about the relationship of these two markets, which will bring some interesting dynamics to it, I think, just in terms of... Well, semi soft pricing is now starting to look interesting. Despite the spread between the various qualities in the thermal market, you will actually see people start to move semi back into that space. And so, that will certainly add some momentum also to the thermal market as well. So if I just summarised our market and look at the market drivers at the moment, we've got limited supply response, we've got strong demand, we've got sanctions on Russian coal, we've had weather events, which are temporary we must say, even though that was pretty onerous for us in the first quarter that we've spoken about over the last couple of quarters reports. But we do think that the effects of that are starting to unwind in our backyard and down the line from us in the Hunter Valley.

So we are seeing volumes improving in there. So we've seen record prices, which is fantastic and speaks to the underlying tightness that we've been saying, but there are limitations here. And inflationary impacts in our business are something that we'll speak about a little bit more in detail. But, yeah, labour supply constraints are definitely something which the whole economy is talking about and it's no different in our space, and perhaps maybe even a little bit more challenging given the remoteness at some of our business. COVID looks like it's, hopefully, behind us. I hope we don't have to keep talking about that for too much longer, but it certainly has and continues to see a little bit of an impact in our business but, obviously, not as bad as what it was in previous periods. But inflationary pressures manifesting themselves across pretty much the entirety of our business is something we're actively managing as we go forward. Now, safety has been a really strong improvement for us year-on-year.

That's nice to be able to say that, but there's obviously plenty of work to be done there. 15% improvement on a 12-month rolling basis is really nice. But if we look at where we got, we closed the year last year to now, it's actually only 4% in that same half-year period. So, we all know it gets more difficult to eke out the improvements the lower in this curve you get, but we must get lower. And so, further effort is required in order to improve past the 5.2 for our TRIFR. The highlights is, as I said before, 552 for the average realised prices is certainly very good in the record. Revenue record, 3.8. EBITDA, 2.7, a record. And our NPAT, now that you know, 1.8 billion is a very good result. Cash generated from operations at $2.5 billion and our cost is at $96 at the lower end of the range that we've given you. And on the return side of this equation, as I mentioned before, the 32 cents the board has declared fully franked. Total returns to shareholders is at $959 being the dividend and buyback in aggregate.

And from a TSR perspective, 101% over that six-month period. Very good. Now, these numbers you've seen, so I won't belabour this other than to point out that we do have a tale of two halves here. And the first half, as everybody knows, heavily weather affected. We haven't seen anything like that in more recent times once we've rolled past, in fact, the reporting of the December quarter report. And mining conditions have been positive for us. So we're looking forward to that continuing in the year, but I think the labour and the weather remain the two riders that we would caution on in terms of achieving our guidance for the full year, which remains at the 19 to 20.4 level. Maules as you know, heavily weather impacted and recovering nicely now, but we're still suffering from labour shortages, which is probably the defining feature at the moment that we're balancing. So we are changing and evolving the employment proposition that we're offering to people from further afield in order to bring more labour into our region.

That does come with a cost and that's not surprising to anybody who's listening to any reports across any industry at the moment. But we have got a steep hill to climb in the second half, which we've done before. But it no doubt is going to be a period of feverish activity as we seek to deliver within our range of 10.3 to 11.4 for Maules. Narrabri as you know is going well and progressing closely to it's impending change out. So that's very positive. And so overall, we're in a pretty good space and it's nice to see. Obviously, that wasn't a weather affected as we talked about over the last couple of quarters. It was nowhere to the degree that the open cuts bore during that period. So for the first half, we're on 3.6, a very good, big increment over year on year and certainly on track to achieve our guidance of 5.66 million tons. So the change out there going from 110B to 203, we're expecting that in April, which is positive. And then cut and flip has been actually manning up better, so we are seeing some momentum there building.

And so we are thinking that in the new year that's going to be very positive to be into the shallow ground. You'll only see a little bit of that of course in the balance of this final stages of the financial year, which you will see 203 start to indicate what better volumes and productivities are going to look like in that shallower ground. So keen to see that and report on that in the final quarter of this financial year. Gunnedah ops, as everybody knows, weather affected, which is obviously difficult but that leaves us with a reasonable task to get to at the end of this year. And so I won't dwell on that too much because I think everybody's been through that. But I will just call out some numbers here so you can understand the scale of the interruptions that we've had here in Gunnedah in particular. Maules Creek did suffer, I think it was 24 days of downtime. But that's days of downtime as opposed to all the other disruptions that go from wet days and ramping up and cleaning up and so on. The Gunnedah ops had quite a difficult time as well.

Tarrawonga had 17 lost days during there, but Gunnedah CHPP because its connection with the low lying road to Tarrawonga actually suffered 36 days during the half, which is quite a significant impasse on trying to deliver during that period. So with that, I'll hand over to Kevin to give us the summary of the financials.

KEVIN BALL:
Thanks very much, Paul. It's not very often when you get to turn up and talk about a first half that's better than probably four of your last five years. So 3.89 billion or 3.8 billion dollars in revenue. A really strong first half of fiscal year '23. Average realisations $552, whereas in FY22, our average coal price was only $325 a ton. And I say only because that was a cracking year as well. So as a result of that revenue, a little bit of pressure on cost, but we're not immune from that and we're not alone on that in the world. I think the focus in the business was to make sure the tons came out of the ground and went to the customers and the premium markets, premium prices. So as a result, revenue 3.8, as I've said, EBITDA 2.7, just a shade behind, about 10% behind the full year for FY22. NPAT was a 1.8, which was a great result. And the cash generated from operations was a touch over 2.5 billion. You can see that we built cash on the balance sheet. Now that cash has got some claims to it and we'll go through those on a slide a little bit further on.

And the board has declared a 32 cent frank dividend to shareholders. So EBITDA margin on the next slide. These coal prices, as I said, the focus really was on production and selling the coal in the premium markets. You can see from the earlier slide Paul put up, more tons went into the Japanese market than in previous years. That really was a function of having the tons blended up and having the tons to sell. In the first half of FY23, our EBITDA margin per ton of coal was $414. You can see the costs were up about 13 and we'll go through that in a moment, just on the breakup of what's driving that. But if you look at the first half of fiscal year '22, we were pretty pleased with the margin of $102 a ton, so 414 is a happy day for a CFO. Over the page onto how we got from the first half of fiscal year '22 to the first half of fiscal year '23, there are no surprises in this. FX was a little friendly to us, gave us about 300 million dollars, but the real driver on this was the increase in coal price.

You can see that the thermal coal price in the first half of fiscal year '23 averaged 381 versus 146. And you can see the met coal, which was a smaller proportion of the business, was at 285 versus 155. And as I said before, costs were up about 86 and we'll go through that on the next slide. So all in all, it is a record half and it's an outstanding half. If we go to the unit cost, we've talked about this and there shouldn't really be any surprises to people. We've seen the impacts of flooding, which was really in that first half, around that September, October, November period. It was surprising to most people. A strong, narrow, bright performance actually lowers our cost because the yield is very high. They're about a 98 or 99% yield. And that actually contributes to the outcome here. As you can see there, we've accelerated the debt amortisation. There was an article I think in the AFR the other week, talked about this. The producers have decided that they want to reduce the risk in that business as banks have decarbonisation targets around 2030.

And in the back end of this you can see other costs that were not immune from higher diesel prices, labour payments we've made, OEMs that are asking for a little bit more on their equipment. And all in all that's how we get from $83 to $96 almost. So again, those costs, some of those we would expect to see come out of the business in times to come, which are the impacts of flooding. And we would expect those diesel costs and labour to soften over time as well. Come to cash flow generation, and it has been a very strong half. So we had about a billion dollars in net cash at 30 June '22, we generated two and a half billion. And in accordance with this capital allocation framework we put out to the market about this time last year, we've invested capital in sustaining the business. We've paid 945 million to shareholders in the form of buybacks and dividends. And we've got another AUD 280 million to come in the dividend coming in about two weeks time. And that left us with about $2.4 billion.

And some people will say, "Well what are you going to do with that 2.4?" Well, there are claims to it. So let's go to the next slide. So we expect to pay this fiscal year '22 income tax of about 552 million in the next ten days. There's income tax in relation to the first half of fiscal year '23. We'll pay that on the full year '23 result in around December 2023. And we've got an interim dividend there of 274. So after that, if I can call it the unconsumed cash or the untagged cash, there's about 879 or 890 million of cash there. So we'll retain some of this on a balance sheet for future needs and we'll use some of that cash and the cash that's generated in the second half when we return to buying back shares in the second half. The net cash and liquidity, I really don't propose to stay on this for long. You can see in here the cash that we've got on hand. Our ECA facilities or export credit arrangements, they tail off over about a seven-year period. Finance leases are shrinking and so our net cash is 2.471.

Whilst the liquidity there includes an un-drawn facility, we don't expect to play in that space. We expect to leave that alone and we expect to reposition our funding over time. So we are still looking at debt capital markets, although there's no real need in the business for it at the moment, but we stay prepared for that discussion and we look to align the sources of our capital with the places where our coal goes. Come over the page on the capital allocation. And I expect to have a few questions on this through the question and answer period. But let's try and take you through this. It's really a disciplined approach to capital. We spend some money on maintaining and optimising operations. So we spent 85 million in sustaining capital, including some Narrabri mains development, and we re-payed some finance lease payments for about $36 million. So the cash on the balance sheet went up, but that's because we've got tax payments to make on both fronts. And we've returned 32 cents to shareholders.

In half one fiscal year '23, we bought 67 million shares for a total of 592. And since March when we started this discussion, we've bought back 14% of the stock for 955 million. So we haven't dilly-dallied in that and we still see value in that approach today. The payout ratio for the first half is about 36%, which is midway between the bottom end of the guidance of 20% and 50%. And the overarching comment I'd say to people is that we look at an annual result rather than splitting the halves straight out with arithmetics. So we'll work our way through and see what the end of the year result looks like. And from that you'll see us continue within this capital allocation framework. Here we go. So just try and put a bit more clarity into cash that comes to shareholders versus how do we allocate capital from returns. On the left-hand side there you can see the actual capital that has been returned, which is a record number. It's literally doubled what we've delivered in previous years, but we've delivered that in the half, and that's been cash in the buyback that we talked about and the final dividend that came out of the fiscal year '22 results. If I come to the results, the capital that's allocated to shareholders, you can see 274 million is going to be in the 32 cent dividend coming to you in about two weeks time.

And the 367 million of capital that we've spent on the buyback in the first half. So all in all, that's a payout ratio of about 36% of NPAT. Whereas the payout ratio for FY '22 was about 53%. What I'd say to you is that you can see that we are not paying special dividends, and that's consistent with the approach we've had and we talked about back in from early February, March in 2022. So, let me just hand it back to Paul and I'm looking forward to questions and answers.

PAUL FLYNN:
Thanks Kevin. Just over to our guidance now quickly for you, so no change in there as we've mentioned before. ROM remains at 19 to 20.4 as I mentioned earlier, sales on a managed level at 16.5 to 18. The cost, as we've mentioned now at 96, we're reporting. Obviously we're just above the bottom of the range there, which I think has actually been a decent effort given the bumpy ride we've had with weather and hopefully the temporary impulse on cost that Kevin's gone through that have related from the flooding-related matters. So we think that with the second half that's more heavily volume weighted, there's a good chance we can improve on that current position, which is very positive. We're underspending on the CapEx, which is not surprising given supply chain and other related issues there. I mean, generally we underspend in the first half, for those who've watched us in the past, and so we're unlikely I think to get to the total of that capital with the balance of the year remaining. But there are lots of inflationary pressures in the business as you know.

So we're doing our damnedest to try and keep that all under control. In terms of the market outlook, we'll just finish on this here. I mean, the Russian sanctions I think are the key impacts for us in the near term. Let's see how that unfolds. But weather, does feel like we've got a better weather pattern in front of us, so we're not taking that off the table. Clearly labour issues are causing us, and everybody, a lot of concern and the inflationary impacts that go with that as well. We have, as I'm sure there'll be questions in a minute about this, the coal reservation policy. The New South Wales government has announced the details of that, we don't have for you unfortunately at this point in time, but we do expect that there's imminent directions from the government in that regard. We can perhaps talk about what we know, but we don't have the details, so we will need to stay tuned for that. As I said earlier, I think the Northern Hemisphere winter, mild as it was, that's good. That does mean that in the short term you've got a little bit more oil, gas, coal laying around than what you had planned for.

That's probably good for them, less good for the rest of the market in the short term, but I really think that the structural issues associated with sanctions remain. And so I think this is just a temporary softness that we're seeing in the market. Met coal prices are improving. China, taking Australian coal again is, we've always said, is a good thing. We're improving relations there. I think that's very positive. The longer term, obviously energy security is going to continue to be a real issue. Higher quality coal is going to be needed for longer. Our transition aided by the continued supply of the coal that we produce to our important markets, and we'll continue to play that important role and particularly for those 200 million people that I mentioned earlier. And without any supplier side response coming on here, I think that that bodes very well for the longer term outlook. As far as our individual focus as a company level for the balance of this year, we want to continue to focus on our safety.

We're doing well. We need to do better. The environmental compliance and sustainability outcomes for us have been very positive also, but that needs more effort. We're obviously focused on delivering our guidance, and given the rough start we've had with weather and so on in the first half, we're very much focused on bringing home the bacon in the second half. Managing our costs and keeping the margins in the right place is very much part of our focus. The capitals, I said, we'll likely probably will underspend there, but we are looking very closely at Vickery and I did say to people at the quarter report that we'll say something during the course of March on the prospects for a staged introduction for Vickery. So that's very much front of mind for us. We're working hard on that and we'll work with a time when we can actually coordinate opportunity for everyone to have a discussion on that during the month of March. And then once we know more about this coal reservation policy, we'll have to say something on that as well, no doubt.

But with that, a very, very good half year. We're really positive about the results. We've been able to reposition the company financially, set it up well for the future. We acknowledge the softness that we see in the current pricing just for the second half. But again, I think the structural underpinnings of the market going forward are very, very constructive for our business. And with that, I'll just thank everybody, all our employees, and all the shareholders for their support during the first half of the year and look forward to the second half. I'll hand it back to you, operator, now for the Q&A session to open up.

OPERATOR:
Thank you to Paul and the team. Now is your chance to queue for a question. If you have joined in over the teleconference, you can press star one on your telephone touchpad to raise your hand and we'll pause a moment to assemble a question queue. Just a reminder that it's *1 to queue for a question. Our first question comes through from Chen Jiang from Bank of America. Please go ahead, Chen.

CHEN JIANG:
Good morning, Paul and Kevin. Thanks for the presentation. I just have a few questions, well, two or three, please. On slide five, there's a big jump for your sales volume for Japan in the last six months. I guess this will continue with Japan sanction on Russia coal. I'm wondering, have you seen any increased competition with diverted, but heavily discounted Russia coal into your sales destinations such as Korea, Malaysia, India, and the other Asian countries who don't have Russia sanctions? I have two more after this. Thank you.

PAUL FLYNN:
Yeah. Thanks Chen. Look, Japan definitely, definitely is a big piece of the puzzle and I think in the short term there is, some might say risk, others might say opportunity, for more volume to go in there, particularly as Russian sanctions come into force there from 1 April. So we may actually see, directionally, more of our volume going into Japan. As I mentioned earlier, Korea and Taiwan toggle between second and third in terms of our sales mix. I probably suspect that in the second half and even further into the new financial year, you might see Taiwan even grow a little bit more. Korea does appear to be taking Russian coal, and so that's not a consistent position across the Korean market in its entirety. We have got different organisations that we're dealing with taking different positions there, but by and large that industry is taking some of it, whereas Taiwan has excluded it altogether, Russian coal that is. So I do, if I'm forecasting going forward, Japan a little bit more, Taiwan a little bit more, Korea maybe moderating slightly in terms of percentages, but that's where we're seeing it.

In India, we think is taking quite a bit of Russian coal and it's been offered it at steeply discounted prices, and so it's understandable at a level that they're taking that. Obviously, that's not a market we're playing in, so we don't see... But we're not seeing any real displacement of coal that's causing us greater concerns. We know that Japan has been searching around the globe looking for available 6,000 material and so they've been tapping on the door of pretty much most coal producing jurisdictions, but we don't think the volume response there has been much at all, and so hence our prediction that we'll probably be putting a little bit more into Japan in the foreseeable future.

CHEN JIANG:
Thank you very much, Paul. May I ask another question off slide 30 of your presentation, our shareholder return? So in interim dividend 32 cents, so that's 16% dividend payout ratio, I guess, that's lower than the market expected. You still have 80% of buyback to complete in the next eight months, so by using that 80% of buyback, your second half FY23 payout would be potentially more than 50% just on the buyback. I'm just wondering, how should we think of your dividend pay out ratio in the second half of FY23? We had a look at your split of the dividends and the buyback in the last 12 months, it seems like 40/60, but just by considering your magnitude of buyback, how should we think of your dividend payoff? Thank you.

PAUL FLYNN:
Yeah, thanks Chen. I might start this off. I'm sure Kevin's will add something to this one. Look, I think there's... The numbers that you've recounted there, of course, are correct. There is an element in our thinking of a little bit of caution here. Typically, we pay a little bit less in the first half and we've been more heavily weighted in the second. I think our view on that is probably a little bit more focused, given the softness in the market. So we know that the second half, on average, revenue-wise, it's going to be less than the average of the first half. And so, Kevin's highlighted the claims already over the cash balance that are there that would need to be fulfilled. And there will be other capital needs, if I can call it that, which we should also bear in mind. So as I've just mentioned to you, we will talk to you in about month's time about our thoughts on the state of Vickery and our thoughts on the stage introduction of that. So we are bearing these sorts of factors in mind as well.

The buyback, Kevin, you can speak to the balance of the buyback. I think, of course Chen, you'll acknowledge the minute before our AGM was held, clearly the government took off the table the off-market buyback route, and so the prospects of us being able to do a full 25% within a 12-month period, I think everybody understood that that was not possible. And so, we've been consistent performers in the buyback period since then with our buyback, in the periods where we're able to trade, and we'll continue to do that. We see that as a very important and, broadly, very well-supported by shareholders in doing so. Kevin.

KEVIN BALL:
Yeah, I'm happy to step in, Paul. I'd probably say... I'd say this, first half we're generally a little more cautious on dividends, so don't do straight arithmetic. The full year, we've given you guidance between 20% and 50%. Clearly with the approval from the shareholders in October of the second stage of the buyback, we've really only had a couple of months to have a swing at that. We would expect to be back in the market and we expect to be back in the market in the second half, and we see the shares as being compelling. So I would say wait for the full year. I'd also probably say this, that we want to keep the balance between buyback and dividend, and that ratio that you talk about there is about where we'd like to see that. And we don't want to step too far ahead of that on the dividend because in the past that's just encouraged transient shareholders, would be way I'd describe it. So stay tuned for the second half, Chen. And we should be compliant with the policies we've put out to people and the guidance we've given you.

CHEN JIANG:
Great, thank you very much, Paul and Kevin. May I have the last question regarding your cost? First half for '23 cost $96 per time at your lower end of guidance of 95 to 102, and your production in the second half is going to be more than first half, second half weighted as per guidance and you were expecting less with the disruptions. So is that fair to assume your second half FY23 unit cost is likely to be at the lower end as well, or lower than the first half FY23? Thanks.

KEVIN BALL:
Thanks for that. I think that's a really good question. I'd probably look at the mix of operations that are going to contribute in the second half. In the first half, Narrabri has performed very strongly and that's helped to lower the average cost. In the second half, we're going to see better performance from an over cut and less representation, proportional representation from Narrabri. So that $4 of benefit that you saw in the first half is unlikely to be repeated in the second half. We should get better volumetric outcomes and we're seeing slightly lower diesel costs in the business. So our expectations are second half, we should still be around that bottom end of the guidance would be my view. And I think this as much as I want to say.

PAUL FLYNN:
We're hoping for less weather impacts in the second half.

KEVIN BALL:
And it's looking that way.

CHEN JIANG:
Alright, thank you very much Paul and Kevin. I'll pass now. Thank you.

PAUL FLYNN:
Thank you.

OPERATOR:
Thank you, Chen. Our next question comes through from Paul McTaggart from Citi. Please go ahead Paul.

PAUL MACTAGGART:
Hi, guys. I might ask five questions. I'm only kidding. I did want to follow up a couple things. You made some comments, Paul, about labour in Maules Creek and going further afield. So I just wanted to get a sense of what you were doing around trying to get labour. And second was, you produced a coal that traditionally is not used, consumed in New South Wales, coal-fired power station. So how did that discussion go with the government and did you get any recognition from the government that that's the case?

PAUL FLYNN:
Yep. OK. My temperature's going up already on with that second question. But give me some time to breathe there a little bit. And Ian can give you some answers, Paul, on the addition initiatives that we're engaged in now at Maules Creek and across the business.

IAN HUMPHRIS:
OK. Morning, Paul. Look, we are looking at the various areas that we can source labour from rather than the traditional target areas we've had. And that's proving beneficial. We have looked at various roster options to, I guess facilitate those different areas we've looked at and they've been implemented recently and we're seeing some favourable results there and we're hoping that that's going to grow. And we continue to ensure that the remuneration and incentives and things that we have to our employees is market-competitive and that continues to move and we keep following that. And we continue to look at what we can do to grow train trainees, indigenous engagement programs and things for our local community. So there's a suite of activities there and we need to keep moving with the market and staying dynamic in that space.

PAUL MACTAGGART:
And, sorry, Ian, to remain market-competitive, how much pressure is that putting on from your labour costs?

IAN HUMPHRIS:
Well, we've introduced what we call a market allowance to both our employees and contractors. And we've linked that to a coal price. And I guess the initiative there is to ensure that should the situation change, that we are not embedding that cost profile but effectively that's upwards of a 10% increase to them on an annual basis while ever that's in play.

PAUL FLYNN:
Yep. Those are the quarterly retention payments that we've mentioned to you in the past, Paul. But as you say, there's other momentum there. Unfortunately, for inflationary wise, as enterprise agreements are up for grabs, so that will be no news to anybody that the requests that are being made there are escalating. And so we're working hard to make sure we can manage the cost of that, but still achieve the outcomes we need from a total FTE perspective. That is a real battle and the market isn't obviously one market of course. And so when one company goes out and does a certain thing that ripples around the market pretty quickly and other people are looking for a similar sort of initiatives. So, yeah, look, it is a challenging environment, but seeking people from further afield when we've tapped out the local market, is a theme that we're having to engage more and

more in, over time. If we wanted to bring on more volume through a staged introduction of Vickery, that's only going to compound that issue.

IAN HUMPHRIS:
And I think the other one, Paul, you mentioned in a previous call, is the housing policy and developing additional housing in the regional areas for those that want to move out there. Now, that's a slightly longer term strategy, but we kicked it off. And that, I guess, comes back to that sort of plethora of options that we have for different people to meet their various requirements.

PAUL FLYNN:
So, Paul, then just on the other part of your question, look, that has been a very difficult range of discussion, not just with us, of course, right across the industry. And there are people, obviously, already embedded in the supply relationship for the domestic power generators. And as you rightly pointed out, the type of coal that they've historically sought, and supplied, and consumed, there's no resemblance to the coal that we produce. And so the notion that we would sacrifice high-value export revenues for the company, for the state, for the country, to be diverted internally and, of course, dirty dust in order to be able to be consumed, isn't a particularly sensible option. We have raised this as had the other affected producers and, of course, it makes no sense for us to be giving anybody 6,300 material to burn in a power station that's not designed for that. And a 9% or 10% ash product is not useful when they've been historically consuming anywhere between 24% and 28% ash. So, yeah, that's difficult.

So we're helping the government understand, not just the quality dimensions of this and the ramifications of that in the marketplace, but then also the logistical considerations associated with supplying certain power stations. I mean, it's very difficult for everybody to get trains into the Central Coast. We all use much longer trains than the loops they can accommodate. So there's going to be some inefficiencies imposed on that if we're having to use smaller trains. So, yeah, there's a lot of dimensions which I think the government bureaucracy who's been charged with evaluating this is coming to terms with, and we'll just have to keep helping them understand the limitations of both the product and the physical nature of this. Look, Paul, in my view, at the end of the day here, this is largely a political issue. That is my concern. There's not a shortage of coal going round. It's a price issue. People's electricity bills are looking pretty unfavourable from a government's perspective, especially a government that wants to get reelected.

And so, I think it's been caught up in all of this, quite frankly. So there is coal available, and if you want to pay an export parity price, then it is available. But that is the market construct that the successive governments, over the many terms, have orchestrated here. Long-term assets with shorter-term supply agreements attached to them, when they were privatised, was always going to deliver this exposure to the export parity pricing, and it's now upon them.

PAUL MACTAGGART:
Thanks, Paul. Let's hope sanity prevails.

PAUL FLYNN:
Fingers crossed.

OPERATOR:
Thank you, Paul. Our next question comes through from Tony Mitchell, Shaw and Partners. Please go ahead, Tony.

TONY MITCHELL:
Thanks very much. Paul, what's the Labor Party's policy on the domestic coal situation here?

PAUL FLYNN:
Tony, look, I don't think they have a stated position here in this regard. I think the only thing that I've heard from them thus far is to echo the government's position, it's that whilst this thing is afoot, there's no change in royalties. And, obviously, everyone's concerned about that having seen what's gone on in Queensland. And so, we can't be having two of these initiatives compounding the effect negatively for our sector. so I don't believe there would be any change from an opposition perspective. I think they're letting the government, obviously, take the pain on announcing it, but we have been able to extract, the industry has been able to extract from the government a commitment. There'll be no royalty changes and the opposition has echoed that.

TONY MITCHELL:
OK, thanks for that. Would you have any interest in buying the BHP mines at either Blackwater or Daunia in Queensland?

PAUL FLYNN:
Well, we've got plenty on our plate, I think, is probably the easiest way to answer that. And we didn't talk about Winchester South, in fact, we haven't mentioned it at all during the course of this call, but I have mentioned Vickery a couple of times and we are looking at that very closely. And so, we have a lot on our plate. And whilst we've heard the rumours, of course, everyone's heard the rumours about some assets coming to market, and we look at everything as it comes along the way, so I don't want to be caught up in too much of a discussion on that other than to say we've got plenty on our plate. So I'd rather deal with the prospects of a stage introduction of Vickery. And, look, in six months' time, we're hopeful that we'll actually have a state-based approval for Winchester South. That's sort of maybe on the more bolshy side of things, maybe. It might be nine months, but there's no reason why it can't come out in that period. And then, of course, we've got to engage at the federal level.

Met coal mines being developed up in Queensland, that's still a viable prospect and I think no one's debating the structural nature of the shortage in met coal going forward, and Queensland's obviously well-positioned to be able to service those needs in Asia.

TONY MITCHELL:
Does the company have a planned percentage of your coal that would come from metallurgical coal over the next few years?

PAUL FLYNN:
Yeah, we want it to be 50/50, was our aspiration.

TONY MITCHELL:
50/50, right. OK.

PAUL FLYNN:
50/50. Yeah. I mean, we're obviously not shy about our thermal. We've got the best thermal in the market and customers love it, but we do think over time, our proposition as a company is better balanced by having more met in the business. And as I mentioned earlier, semi-soft with prices now reverting, met coal prices now reverting, semi-soft inbound interest has been also better than what we've had in the past couple of years in particular. Then of course, so we think we can swing

more Maules and potentially Vickery into that semi-soft market, then of course Winchester South would be the game changer from our perspective, from a met composition perspective.

TONY MITCHELL:
So can you get to that 50/50 by just doing Winchester South and Vickery? Can you achieve that objective over the next few years just doing those things without acquiring any cut in coal assets?

PAUL FLYNN:
You'll have to hand the baton on to someone, Tony, after your three questions. No, you can't get to that with just further met coal sales out of Maules Creek and Vickery and then Winchester South. You'll make a huge difference in bringing Winchester South on, of course, but we're not obviously up there for one asset alone. We think there are other opportunities over time, but we're not racing out to try and create some transformation here.

TONY MITCHELL:
Can I ask one final question?

PAUL FLYNN:
Well, not really. Your time's up. Come on. Hand it on.

TONY MITCHELL:
OK. Sorry. OK. Thank you.

PAUL FLYNN:
Come back, Tony, after the other questions have been exhausted, if there's still time remaining.

TONY MITCHELL:
Alright.

OPERATOR:
Thank you, Tony. Our next question comes through from Paul Young from Goldman Sachs. Please go ahead, Paul.

PAUL YOUNG:
Morning Paul. Morning Kevin. A lot of the high level questions have been asked, so I just want to dig into some of the projects, in particular, starting with Narrabri. I mean, we're pretty soon flipping over to the southern part of the mine, which will be great for that operation from a production and cost perspective. Just want to focus on the CapEx spend in Narrabri in the half. It's the one area where you fell short versus the run rate for the full year. Open cuts and growth project spend was in line with the full year, but I noticed just on Narrabri that obviously a lot of money's going into the 200 series in the mine's development for the future. Just wondering, has there any impact on potential future production or development because of access to labour, et cetera?

PAUL FLYNN:
Paul, no. I don't think. There's been no impacts of delaying us. No. We have experienced some delays though, there's no doubt about that, in mobilising some of the equipment and we'll bring equipment to site for that work. As far as development float and so on goes for us, we've got no issues there. We're well-covered. Yeah, you will see more going out in the second half. As I said earlier, we won't get to the full numbers based on where we are today, there's just... Its slid to the right, but we're well within the bounds of our float requirements.

PAUL YOUNG:
OK, that's great. And the second question on Vickery, Paul, we don't have to really go through the history here, but seven years of sort of waiting on permits, and talking around sell downs, and all sorts of things over time. Now we're in a situation where you're looking at a capital light model on a starter project and not much mention on the larger project. Obviously, goes through the feasibility study or recut of the CapEx estimates, et cetera. I guess the question is, what's the end game here in Vickery? Is it still to finish the studies and the capital update on the larger project, the $700 million, $800 million larger project? Are you still goal seeking or targeting a potential sell-down of this asset? I'm just curious about the overarching strategy on Vickery now.

PAUL FLYNN:
Yeah, that's a good question. Stage introduction is what I mentioned a couple of times there with the early mining case at Vickery. When I say stage, I'm thinking it's a two-step introduction, a smaller version. If we could get that on quickly, and I'm thinking about accelerating revenue in this period to be able to take advantage of existing surplus capacity at the Gunnedah prep plant, and also surface take-or-pay, I think that would be useful. The broader proposition for the full size Vickery, we will put to the board in within this year, this calendar year. And so, we are interested still in bringing the whole thing on. There's no lack of interest in that regard. But you can imagine there's lots of work going on at the moment because capital estimates are hard to nail down. And so, you can imagine the team, our project delivery team is working pretty hard there to try and get the best estimates they can on that, because when we do eventually come to the board with not just a small version, but then any bigger version, there's going to be an allowance that has to be made for capital inflation.

PAUL YOUNG:
Yeah, OK. Makes sense, Paul. Now, when it goes to board approval, or when I should say, then you can go out and obviously present those results, et cetera, pop the data in and then get potentially look at bringing in a partner.

PAUL FLYNN:
Yeah, yeah, that's right, Paul. Look, energy security concerns being what they are, people are very interested to see the volume come on. There's no doubt about that, but obviously, that means unless we bring in other people, that means us taking all the risk on that. We'd like to see if there's other opportunities for us to share that risk. Having said that, as I mentioned on these calls in previous periods, we are attracted the idea of having full unencumbered use of our own coal to spread across our business and blend it as we see fit. And that is a very big part of the value proposition that Vickery represents. Given you've got big differences in the market between the various segments, between the lower rank coals, the 5500, the gC NEWC. You can see that the blending opportunity is very meaningful. It may not be in our interest to have anything structurally in place that impedes our ability to get our hands on our coal, such as we have greater restrictions at Maules Creek, say for instance.

But we've inherited that. We're looking at other means by which people can give us financial support, but perhaps not direct equity into the project.

PAUL YOUNG:
Yep. OK. That's interesting. Thanks, Paul. That's it for me.

PAUL FLYNN:
Thanks, Paul. You there, operator?

OPERATOR:
Thank you. Our next question comes through from Glyn Lawcock from Barrenjoey. Please go ahead, Glyn.

GLYN LAWCOCK:
Morning, Paul. Look, just a very quick one. The buyback, can it start from tomorrow or from today? Just from a technical perspective, any issues?

PAUL FLYNN:
There's just one buyback issue at the moment, Glyn. That's a good question. Thank you for raising it. Ordinarily, we will start the day after the results go out. Ordinarily we would. We are holding off that until such time that we think there's an imminent pronouncement from the government on whatever this reservation policy is going to mean. You won't see us in the market for a day or two until such time that that's... I understand it's imminent, so it's going to be flushed out. I wish it was today so we could talk about it. But there'll be a couple of days before we can move forward, I think. But that's the only thing that's impeding us from moving back into the buyback program.

GLYN LAWCOCK:
OK. And then the federal government, any issues there on the windfall tax or has that gone quiet?

PAUL FLYNN:
Haven't heard any more discussion. That seems to be more in the media than it is in dialogue with the government. That part of it seems to have gone away and has had any suggestion of problems with diesel fuel rebates and other considerations.

GLYN LAWCOCK:
Alright. And then just finally, you've probably zigged and zagged at the wrong time now that coal prices have fallen. And you went to 8% met, 82% thermal. How quickly can you go back to your 80/20 if prices stay at this disparity now the other way around?

PAUL FLYNN:
Yeah. Yeah. Look, I think we've done pretty well out of the zigging and zagging actually. But yeah, the market's reinflating on the met side. That's great. Yeah, that's really good. We can move back into that market pretty seamlessly. And so, we haven't tied ourselves up commitment-wise for long-dated thermal contracts that will prevent us from moving back into the semi-soft. We'll be pretty responsive to that on the basis, Glyn, that that still makes sense. And I just want to qualify that because, even though the semi-soft numbers will start to look very good, they do look good, in terms of the blending opportunity. Given the difference between 5,500 material and 6,000, there's still a very strong argument for blending on the thermal side versus a discreet sale on the semi-side. I just want to raise that just in case people start having more expectations on the semi-side. We will definitely sell more semi. I can see that coming, but the vending opportunities on the thermal are still very strong.

GLYN LAWCOCK:
So just to clarify then, we should be expecting at least in the back half of fiscal '23 to be like 92/8 like it was? At the moment, you can't switch quickly this back half and it will be back into '24 when you maybe can readjust again?

PAUL FLYNN:
It'll be early in the new financial year that you see a big change there. We certainly have unsold tons in the balance of this financial year, so that's possible to move more in there. But yes, in the early '24 is when you'll see it.

GLYN LAWCOCK:
Alright. Thanks, Paul.

OPERATOR:
Thank you, Glyn. There are no further questions at this stage. I'll hand it back over to Paul and the team.

PAUL FLYNN:
Thanks for much, everybody, for all your time this morning and the questions. I appreciate that. If there's any further questions, I'm sure we'll see many of you during the course of the next couple of weeks. But thanks for the time and we'll call that to a close now. Thanks, operator.

OPERATOR:
That concludes the call today. Thank you all for joining. All participants may disconnect.

End of Transcript.