# FULL YEAR RESULTS FY2016

18 August 2016

WHITEHAVEN COAL

## Return to profit, record production, debt reduced and positive outlook

### FINANCIAL HIGHLIGHTS

Whitehaven reported a net profit after tax of $20.5 million for the financial year ended 30 June 2016, a strong turnaround from the prior year loss of $342.7 million after significant items

All key performance metrics improved markedly on the prior year:

- Sales revenue rose 53% to $1,164.4 million;
- Operating EBITDA rose 72% to $224.1 million from an increase in operating margins;
- Cash generated from operations increased 76% to $269.3 million;
- Unit costs fell again to average $56/t for the year;
- Net debt was reduced by $76.7 million to $859.1 million with gearing down to 23%; and
- Subsequent to year end the Senior debt was further reduced by $35 million.

#### Commenting on the results, Whitehaven Coal Managing Director and CEO Mr Paul Flynn said:

We are delighted with this strong result, particularly in the face of a challenging year for the industry.

"Our successful introduction of further cost reductions means our business model can operate profitably at lower price levels and that the business is resilient to cyclical pressure on price and demand.

"Whitehaven is establishing a strong track record of making good on its commitments; our growth strategy is being successfully implemented and our growth prospects are encouraging.

"The high quality coal we are producing delivers higher yield and lower emissions and is in growing demand from Asia's new generation of power plants, which are far more efficient and produce lower emission than those in Australia.

"Whitehaven is positive about the medium and long term outlook for coal, particularly the outlook for the high quality coal we produce.

### ECONOMIC AND SOCIAL CONTRIBUTION

During the year Whitehaven made significant contributions to the New South Wales and regional economies.

- A total of $88.2 million paid to the NSW Government in royalties;
- Spent more than $200 million with local businesses in NW NSW;
- Provided grants to 81 local community groups;
- Increased the number of indigenous employees to 11% of the workforce, well above industry and public sector averages; and
- Signed a Native Title Agreement with the Gomeroi nation.

### OPERATING HIGHLIGHTS

Record ROM production and coal sales of 15.8Mt and 15.5Mt, 29% and 43% higher respectively than the prior year.

Whitehaven's newest mine, Maules Creek, was declared commercial on 1 July 2015 and was officially opened in September 2015. Maules Creek mine produced 7.8Mt ROM coal for the year, becoming Whitehaven's largest producer.

Significant increase in Reserves at Maules Creek underpins an extended mine life.

Continued focus on costs has seen cost reductions at all mines and the Group average unit cost fall to $56/t for the year.

Narrabri set two new monthly production records during the year and is set to exceed these volumes when the 400m wide face longwall is installed in the second half of FY2017.

Both Rocglen and the Gunnedah CHPP have each recorded two years without a recordable injury setting the benchmark for all of the operations.


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## FINANCIAL PERFORMANCE

| | FY2016 $m's | FY2015 $m's |
|---|---|---|
| **Revenue** | **1,164.4** | **763.3** |
| | | |
| **Net profit/(loss) before significant items** | **20.5** | **(10.7)** |
| Significant items after tax | - | (332.0) |
| **Net profit/(loss) for the period** | **20.5** | **(342.7)** |
| | | |
| **Operating EBITDA before significant items** | **224.1** | **130.3** |
| Significant items before tax and financing | - | (447.3) |
| Net interest expense | (56.9) | (31.0) |
| Other financial expenses | (9.1) | (37.4) |
| Depreciation and amortisation | (130.4) | (97.6) |
| Loss on disposal of assets | - | (0.3) |
| **Profit/(Loss) before tax** | **27.7** | **(483.3)** |

FY2016 net profit after tax ("NPAT") of $20.5m represents an increase of $31.2m compared to the net loss before significant items of $10.7m in FY2015. The FY2016 NPAT result was driven by a strong operating performance with FY2016 EBITDA before significant items of $224.1m reflecting an increase of $93.8m (72%) compared to $130.3m in FY2015.

The return to profit in FY2016 was driven by the benefits of a significant increase in production and sales volumes along with a 8% increase in EBITDA margins to 19% from 17% in FY2015. The improved margin performance reflects a substantial reduction in unit costs of production which more than offset a lower average selling price for coal sold.

The key factors that contributed to the FY2016 NPAT result for the year include:

- The commencement of commercial production at Maules Creek underpinned the strong overall production outcome with group ROM production of 15.8Mt, up 55% compared to 10.2Mt in FY2015 (excluding Maules Creek pre-commercial production of 2.0mt in FY2015). Run rate production at Maules Creek at the end of FY2016 was above 9.5Mtpa.
- FOB costs per tonne of $56 in FY2016 have decreased by 8% from $61 in FY2015. The company's FOB cost per tonne has declined since the commencement of the first half of FY2013. These savings have contributed to the Group being able to consistently defend and grow average EBITDA margins. The key drivers of the significant reduction in unit costs during the year include:
    - The commencement of commercial production at Maules Creek at a lower unit cost than the portfolio average. Maules Creek unit costs benefit from a consistent low strip ratio over the life of the mine.
    - Continued productivity improvements at Narrabri and the Gunnedah open cut mines:
        - Narrabri production rates continue to improve due to an ongoing focus on operational and technical improvements. Increased automation in our operations has led to consistent production on the longwall, development costs continue to fall and longwall changeouts are increasingly efficient. Further improvements are expected when mining transitions to 400 metre wide panels late in FY2017;
        - Narrabri unit cost performance was achieved despite the reduction in ROM production in FY2016 caused by the impact of two changeouts during the year; and
        - Production in FY2016 from the Gunnedah open cuts was above FY2015 and overall unit costs decreased significantly due to an ongoing focus on containing costs, efficiencies associated with blasting and overburden movement initiatives and ongoing roster management.
    - Procurement initiatives continue to result in lower costs.

- Production from Maules Creek has increased the resilience of the overall portfolio by reducing the impact of longwall changeouts while also supporting improvements in the utilisation of contracted rail and port take or pay capacity. The improved utilisation of contracted capacity has also contributed to a reduction in demurrage costs in FY2016, despite the increase in sales volume.
- The decline in rail and port unit costs was due to the relentless focus on logistics management across the business.
- Administration costs – production has grown by 55% in FY2016 and administration costs increased by a modest 6 %.
- Lower oil prices in FY2016 have contributed to decreased unit costs of coal production.

- Gross revenue increased by $401.1m to $1,164.4m in FY2016 driven by increased sales volumes. Total sales of 15.5Mt were up by 63% on FY2015 sales volumes of 9.5Mt (excludes Maules Creek pre-commercial sales). The increase in sales volumes was partly offset by a fall in the received A$ prices to A$75 per tonne in FY2016 from A$80 per tonne in FY2015. Average US$ denominated coal prices fell 19% while the A$:US$ exchange rate improved by 14%.
- The mix of sales between thermal (84%) and metallurgical coal products (16%) in the year ended 30 June 2016. The proportion of metallurgical coal sales is expected to increase progressively over the next four years as the high quality Maules Creek semi-soft coking coal gains increased market acceptance and term based contracts are concluded.
- Realised thermal coal prices have also been supported by the increased quality of thermal coal from Maules Creek. Sales of Maules Creek thermal coal have typically achieved substantial quality and CV uplifts over the GlobalCoal Newcastle Index price during the year

## CAPITAL MANAGEMENT

| | **30 June 2016 $m's** | **30 June 2015 $m's** |
|---|---|---|
| **Cash generated from operations** | **269.3** | **152.7** |
| Investing cash flows | (93.1) | (376.7) |
| Cash on Hand | 101.5 | 102.4 |
| Senior bank debt | 835.0 | 900.0 |
| Finance lease liabilities | 83.5 | 97.0 |
| Export credit agreement (ECA) debt | 42.1 | 41.2 |
| Interest bearing liabilities | 960.6 | 1,038.2 |
| **Net debt** | **859.1** | **935.8** |
| Net Assets | 2,888.7 | 2,865.0 |
| Gearing Ratio | 23% | 25% |
| Leverage (Net Debt/EBITDA) | 3.8 | 7.2 |
| Undrawn syndicated facility | 365.0 | 300.0 |

### Operating cash flows

Cash generated from operations of $269.3m increased by 76% from the prior year. The improvement is due to the following factors:

- An increase in EBITDA before significant items of $93.8m ($224.1m in FY2016 from $130.3m in FY2015), largely driven by increased sales volumes and increased margins in FY2016.
- A net reduction in inventory during the year due to sales of produced coal of 15.4Mt exceeding saleable production of 15.1Mt.

- Partially offset by increased investment in gate road development in FY2016 in preparation for the increased length of upcoming longwall panels.

### Investing cash flows

Investing cash outflows of $93.1m in the year ended 30 June 2016 is a decrease of $283.6m compared to FY2015. The following factors have affected investing cash outflows:

- Decrease in Maules Creek construction expenditure due to the project having been substantially completed in FY2015.
- Decreased main road development expenditure at Narrabri due to the increased focus on gate road development associated with increased length of upcoming panels.
- Increased expenditures in relation to the second shearer and beam stage loader at Narrabri.
- Remaining capital spend across the group was tightly controlled and related to sustaining capital required at each of the mines.
- Exploration expenditures were lower in FY2016 than in FY2015.

### Capital management and balance sheet commentary

Cash on hand at 30 June 2016 of $101.5m is consistent with the cash balance at 30 June 2015.

Net Debt at 30 June 2016 was $859.1m, a decrease of $76.7m from 30 June 2015. The decrease has primarily been due to repayments of $65m on the senior syndicated facility and amortisation of finance lease liabilities.

The gearing ratio has fallen to 23% at 30 June 2016. Undrawn capacity of $365m remained in the facility at 30 June 2016.

Whitehaven further reduced its drawn Senior debt by repaying a further $35m in the period since 30 June 2016.

## SAFETY PERFORMANCE

With the introduction of the seven “Safehaven Rules” in late FY2014, Whitehaven has embedded safety as a cornerstone of the Group’s culture. Ongoing education and training ensures that safety remains front of mind for all employees and continues to deliver improved safety outcomes at most operations.

- Both Rocglen and the Gunnedah Coal Handling and Preparation Plant achieved two years without a recordable injury.
- Whitehaven Coal Group Total Recordable Injury Frequency Rate (TRIFR) of 10.6 at the end of the year.
- The TRIFR is significantly below the NSW average coal mining rate of 15.5.

## OPERATING PERFORMANCE

Consolidated Equity Production and Sales

| Whitehaven Total (000’s t) | FY2016 | FY2015 | Movement |
|---|---|---|---|
| ROM Coal Production | 15,760 | 12,205 | 29% |
| Saleable Coal Production | 15,072 | 11,255 | 34% |
| Sales of Produced Coal | 15,432 | 10,859 | 42% |
| Sales of Purchased Coal | 79 | - | - |
| Total Coal Sales | 15,511 | 10,859 | 43% |
| Coal Stocks at Year End | 1,307 | 2,035 | (36%) |

*Note: The FY2015 totals in the table include pre-commercial production and sales from Maules Creek*

Record full year production and sales demonstrate the strong performance of all Whitehaven’s mines. Key highlights during the year to 30 June 2016 include:

- Two operations – Rocglen and Gunnedah CHPP achieved two years with zero recordable injuries

- Record ROM and Saleable coal production for the year, significantly higher than the previous year
- Ramp up at Maules Creek running on schedule with costs lower than expected
- Metallurgical coal quality from Maules Creek has exceeded expectations and is securing strong interest from Asian steelmakers
- The final capital cost of $701 million for Maules Creek came in $66 million below the original budget of $767 million
- Two new monthly production records set at Narrabri during the year
- Strong production from Narrabri in a year with two complete longwall moves
- Narrabri face widening project on schedule and budget to coincide with the next longwall changeout in H2 FY2017
- Strong production and lower costs from the three smaller open cut mines
- Further sustainable cost reductions achieved at all operating mines during the year
- Significant increase in Reserves at Maules Creek

At the end of FY2016 Whitehaven employed a total of 843 (FTE). Many of these employees live locally, supporting Whitehaven's aim to ensure that the local community is a key economic beneficiary of the operations in the Gunnedah Basin. Employee and contractor numbers will continue to grow as Maules Creek continues to ramp up to full production. In a recently completed employee survey, 11% of the workforce identified as Aboriginal and/or Torres Strait Islander.

## Narrabri Mine

*Whitehaven 70% and Operator*

| Narrabri Mine 100% (000's t) | FY2016 | FY2015 | Movement |
|---|---|---|---|
| ROM Coal Production | 6,888 | 7,703 | (11%) |
| Saleable Coal Production | 7,269 | 7,193 | 1% |
| Sales of Produced Coal | 7,532 | 7,071 | 7% |
| Coal Stocks at Year End | 135 | 1,038 | (87%) |

The Narrabri underground mine continued to deliver excellent results and has broken a series of production records during the year. In CY2015 the mine produced 8.3Mt ROM coal making it one of Australia's most productive and lowest cost coal mines. The CY2015 result was followed in CY2016 by two monthly production records of 981kt in January and then 1,057kt in April. Roadway development, which is important to maintain longwall mining continuity, increased to 22,098 metres from 19,800 metres in the previous year.

ROM coal production for FY2016 was 6.9Mt. The reduction in production relative to FY2015 was due to the requirement for two full longwall changeouts during the year. This equates to approximately 12 weeks of lost production.

At the end of FY2016 mining had commenced in LW06, the final 300 metre wide panel. Mining in LW07, the first 400 metre wide panel, is scheduled to commence in the second half of FY2017. Work on the longwall expansion has progressed well with much of the surface infrastructure completed and electrical upgrades being completed on schedule. When operating in the 400 metre wide panels, production is expected to increase and costs are expected to reduce from current levels.

In December 2015 the NSW Department of Planning and Environment granted approval to increase Narrabri's annual production limit from 8.0Mtpa to 11.0Mtpa ROM coal. This provides the necessary headroom in advance of an expected increase in production from the 400 metre wide panel.

## Maules Creek Mine

*Whitehaven 75% and Operator*

| Maules Creek Mine 100% (000's t) | FY2016 | FY2015 | Movement |
|---|---|---|---|
| ROM Coal Production | 7,826 | 2,614 | 199% |
| Saleable Coal Production | 7,384 | 2,231 | 231% |
| Sales of Produced Coal | 7,421 | 1,769 | 319% |
| Coal Stocks at Year End | 609 | 779 | (22%) |

*Note: Statistics for FY2015 represent pre-commercial production*

Commercial production at Maules Creek commenced on 1 July 2015 with the mine producing 7.4Mt saleable coal in FY2016. Following its production ramp up during the year, Maules Creek mine was operating at an annualised ROM production rate of over 9.5Mt at the end of FY2016. Maules Creek was awarded Mining Operation of the Year by NSW Minerals Council, a significant achievement in its first year of operation.

Construction activities at the mine were effectively completed early in FY2016 with total project capital expenditure for the project at $701 million. The project came in $66 million under the project capital expenditure budget of $767 million and more than six months ahead of the original schedule. Maules Creek mine is one of the lowest cost coal mining projects developed over the past decade.

A key feature of Maules Creek's performance during FY2016 has been the high quality of its thermal and metallurgical coal products. Maules Creek thermal coal is one of the highest quality coals sold into the Asian seaborne market. Many of our customers are utilising the high energy low ash coal in new HELE technology power stations to reduce their emissions. The quality of the metallurgical coal product has exceeded expectations with many steel makers providing feedback in relation to its positive contribution to their coking blends. Sales of semi-soft coking coal during FY2016 were better than expected and are expected to increase as production ramps up to its approved level of 13Mtpa.

### Gunnedah Open Cut Mines

*Rocglen and Werris Creek 100% owned by Whitehaven and Tarrawonga 70%*

| Open Cuts 100% (000's t) | FY2016 | FY2015 | Movement |
|---|---|---|---|
| ROM Coal Production | 5,791 | 5,498 | 5% |
| Saleable Coal Production | 5,038 | 5,140 | (2%) |
| Sales of Produced Coal | 5,095 | 5,147 | (1%) |
| Coal Stocks at Year End | 901 | 824 | 9% |

Whitehaven's three smaller open cuts – Tarrawonga, Rocglen and Werris Creek performed strongly with ROM production of 5.8Mt and saleable production of 5.0Mt for the year. Sustainable cost reductions have been recorded at each of the mines, largely due to the successful implementation of more efficient mining practices and procurement driven cost savings.

Tarrawonga has successfully utilised improved mining techniques to reduce overburden removal and coal mining costs. This has led to an improvement in its financial contribution to the Group and to its record ROM production for the year.

It is also pleasing to report that safety outcomes have not been compromised - both Rocglen and the Gunnedah CHPP achieved a milestone in FY2016 of being two years injury free. These two operations are leading the way in safety for all of Whitehaven's operations.

### Vickery Project

*Whitehaven 100%*

The Vickery open cut project was approved by the New South Wales Department of Planning and Infrastructure in September 2014. The approval is for an open cut project to produce 4.5Mtpa ROM coal, with the coal to be transported along an approved haulage route to the Gunnedah CHPP.

Vickery is a high quality metallurgical and thermal coal project with products that are expected to be sought after in the premium markets of Asia. In the past four years, Whitehaven has increased the total Resources in the Vickery project area to 505Mt open cut and 212Mt underground. Reserves are 200Mt. These larger Reserves are capable of supporting an annual production rate higher than the currently approved 4.5Mtpa while maintaining a mine life of more than 20 years.

Whitehaven is currently focussed on lodging an application to receive a replacement approval for a larger scale 10Mtpa project. The company has made significant progress on the work required to lodge the necessary documentation to apply for an increase in the approved rate of extraction to 10Mtpa from 4.5Mtpa. Once all the documentation is lodged with the authorities, Whitehaven will seek to progress the formation of a joint venture with potential strategic investors. Preference is for end user joint venture partners who are prepared to sign off-take contracts for the products from the project. Up to 30% of the project may be sold to incoming parties.

Vickery has the potential to become Whitehaven's third major mine in the Gunnedah Basin. Timing of the development is likely to follow the full ramp up of Maules Creek to its 13Mtpa ROM capacity (which is currently scheduled to occur in FY2019).

## INFRASTRUCTURE

Whitehaven contracts below rail capacity from the Australian Rail Track Corporation (ARTC) and is continuing negotiations with ARTC on the rail access undertaking to commence in January 2017. It is expected this agreement will provide the contractual framework for operations as well as a decrease in charges to Whitehaven.

Whitehaven has two rail haulage contracts, one with Pacific National and one with Aurizon. These contracts have a common expiry date in 2026. The company is able to align planned increases in production with contracted rail haulage capacity by giving notice to the rail providers of the need for additional capacity.

Whitehaven holds contracts for sufficient port capacity at the port of Newcastle – either at NCIG or at PWCS – to support planned shipments in CY2017. However, Whitehaven will require additional port capacity for the forecast production ramp up over the next five years and expects to secure additional capacity from producers who hold surplus port capacity.

## OUTLOOK AND LIKELY DEVELOPMENTS

### Operations

In FY2016 Whitehaven's Narrabri mine produced a record 7.3Mt of saleable coal to remain one of the most productive and lowest cost mines in Australia. Production in FY2017 is expected to increase because only one longwall changeout is required. Mining is scheduled to transition to the first 400 metre wide panel around the start of the fourth quarter of FY2017. Maules Creek will continue to ramp up its production level to an annualised rate of 10.5Mt ROM coal in the second half of FY2017 and is expected to produce 9.0Mt of saleable coal for the financial year. The smaller open cut mines will produce a similar amount of saleable coal in FY2017 as in FY2016 taking the total Whitehaven saleable coal production (100% basis) to a range of between 21Mt and 22Mt in FY2017.

Following four years of cost improvement, management remains focused on further improving productivity and continuing to control costs so that Whitehaven cements its position in the lowest cost quartile.

### Demand

Whitehaven's high quality clean coals are attracting growing demand from new and existing customers. With the restricted availability of these coals in the seaborne market Whitehaven is well placed to increase the premium it receives for its coals and to grow overall sales from both Maules Creek and Narrabri. It is positive to note that Whitehaven's customers in Asia are adding more coal fired power station capacity and are seeking increased tonnages of coal from Whitehaven.

### Pricing

Coal markets, after five years of declining prices, appear to have found a bottom in the first quarter of CY2016. The Newcastle GlobalCoal Index coal price has increased from a low of about US$48/t in early January to a high of $67/t in early August . Metallurgical coal prices have also risen over the last year. Several reasons for the increase in prices include mine closures in Indonesia, United States and Australia and policy change by Chinese authorities to limit coal production to 276 days per year. This policy change has the effect of cutting production in China by about 16%. The Chinese Central Government also provided a funding package to assist exiting coal miners leave the industry and to close mines. These policies are having an impact. Chinese production is down and domestic Chinese coal prices have increased.

Consequently, since April 2016 coal prices in the seaborne market have increased. Chinese coastal power station operators are able to use either seaborne or domestic coal, but have increased their consumption of imported coal in substitution for the higher priced domestic coal.

In the short term, Whitehaven is pleased to receive a lift in prices and remains cautiously optimistic about future prices. In the medium to longer term, as demand for low priced reliable electricity continues to grow in the Asian region, Whitehaven is confident that coal prices will rise and that Whitehaven's high quality coals will continue to attract a premium price in the market.