MARKET FORCES

Investor update

Whitehaven Coal: Gambling big on coal expansion

SEPTEMBER 2024

Key findings

- Whitehaven Coal (ASX: WHC) has **repeatedly ignored shareholder discontent over its corporate strategy**, particularly in relation to **climate change** and **executive remuneration.**
- WHC's CEO **remuneration policy is out of step with peers**, heavily incentivising an unacceptably risky coal production growth strategy.
- This emphasis on coal production growth metrics in executive remuneration is a problem, as WHC has **the largest coal expansion plans of any coal miner in Australia.**
- This aggressive coal build out is **extremely susceptible to downside risk** and not in shareholders' best interests, according to our latest modelling.
- In our view, WHC's current board **does not appear to exhibit the skill set required for the shift** to a decarbonised economy and has demonstrated little appetite in addressing transition risks to the company.

At the upcoming WHC AGM, **shareholders are urged to vote:**

AGAINST the remuneration report

AGAINST the reelection of Mark Vaile

AGAINST the reelection of Fiona Robertson

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Increasing investor concerns over remuneration and strategy

Investor concerns

OCTOBER 2021

- 54% voted against remuneration report
- 9% voted for capital protection resolution

OCTOBER 2022

- 8% vote against director Mark Vaile
- 21% voted for capital protection resolution

OCTOBER 2023

- 41% vote against remuneration report
- 39% vote against single incentive plan (SIP) awards to managing director
- 25% vote against Raymond Zage
- 10% voted against Nicole Brook
- 10% voted against Wallis Graham
- 18% voted for capital protection resolution

"BIS voted on behalf of clients against the re-election of the longest-standing director to signal concerns about the adequacy of disclosures regarding its plans to transition its business model to be viable in a low-carbon economy." BlackRock Investment Stewardship Vote Bulletin: Whitehaven Coal, November 2021

"Shareholders would benefit from more comprehensive information on the company's capital expenditure and operations relating to coal assets, allowing them to better assess the company's management of climate change risks and the impacts that climate change-related regulations and a reduced demand for its products might have on the company and its operations." UBS Asset Management 2022 Voting Rationale (Diligent Market Intelligence)

"We have no confidence that the Board's strategy will deliver shareholder returns." Vision Super's 2023 voting rationale, against the reelection of Raymond Zage

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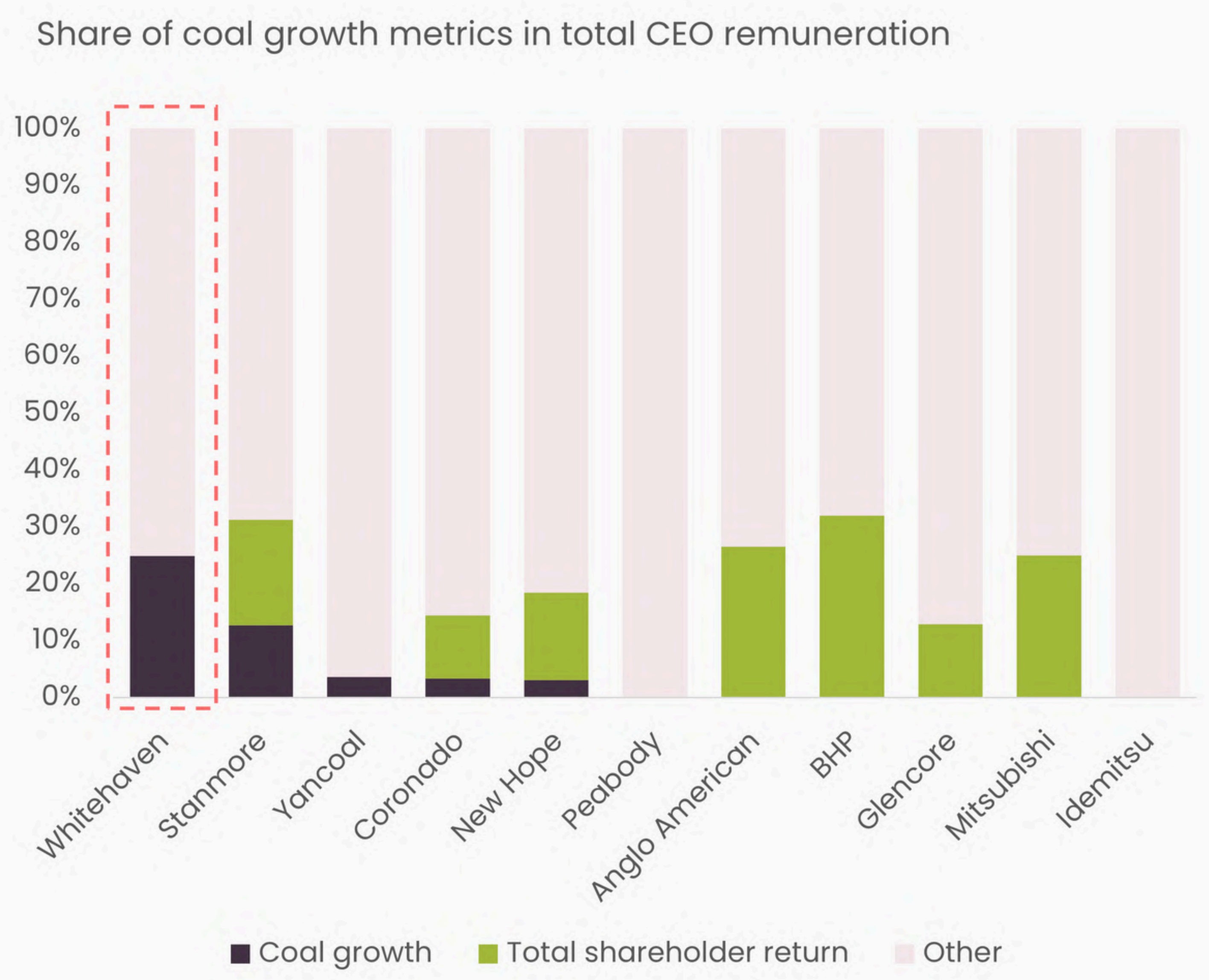
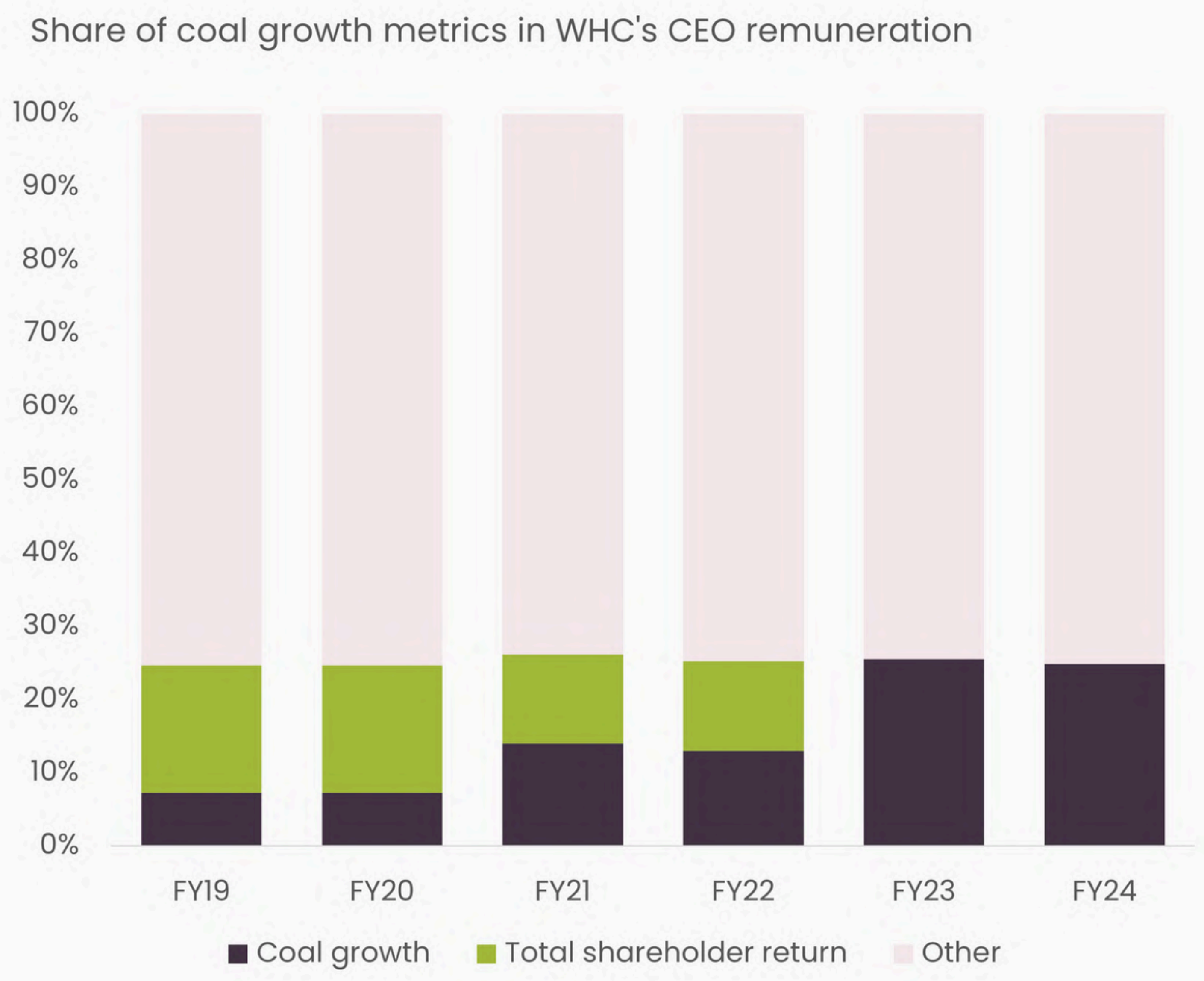
Remuneration out of step with peers

Remuneration still focused on coal expansion over returns



Whitehaven's remuneration plan stands out amongst its coal mining peers due to its outsized emphasis on coal production growth and complete omission of total shareholder return (TSR) metrics.

Source: Market Forces analysis of company annual reporting and proxy statements
For more on how we define coal growth metrics, see our recent briefing.



Whitehaven's latest remuneration plan is largely unchanged from last year **despite 41% of shareholders voting against the plan**. In recent years, TSR has been progressively stripped out in favour of coal growth metrics.

Source: Market Forces analysis of Whitehaven annual reporting
For more on how we define coal growth metrics, see our recent briefing.

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Whitehaven an outlier compared to coal mining peers

Whitehaven's emphasis on production growth metrics makes it a clear outlier even among other pure-play coal peers.

Explicit coal production metrics:	**Whitehaven Coal: 11.8%**
	Peer average: 2%

The 2024 policy retains the "Long-Term Growth Projects Measure" related to the delivery of coal projects in the Single Incentive Plan (SIP).

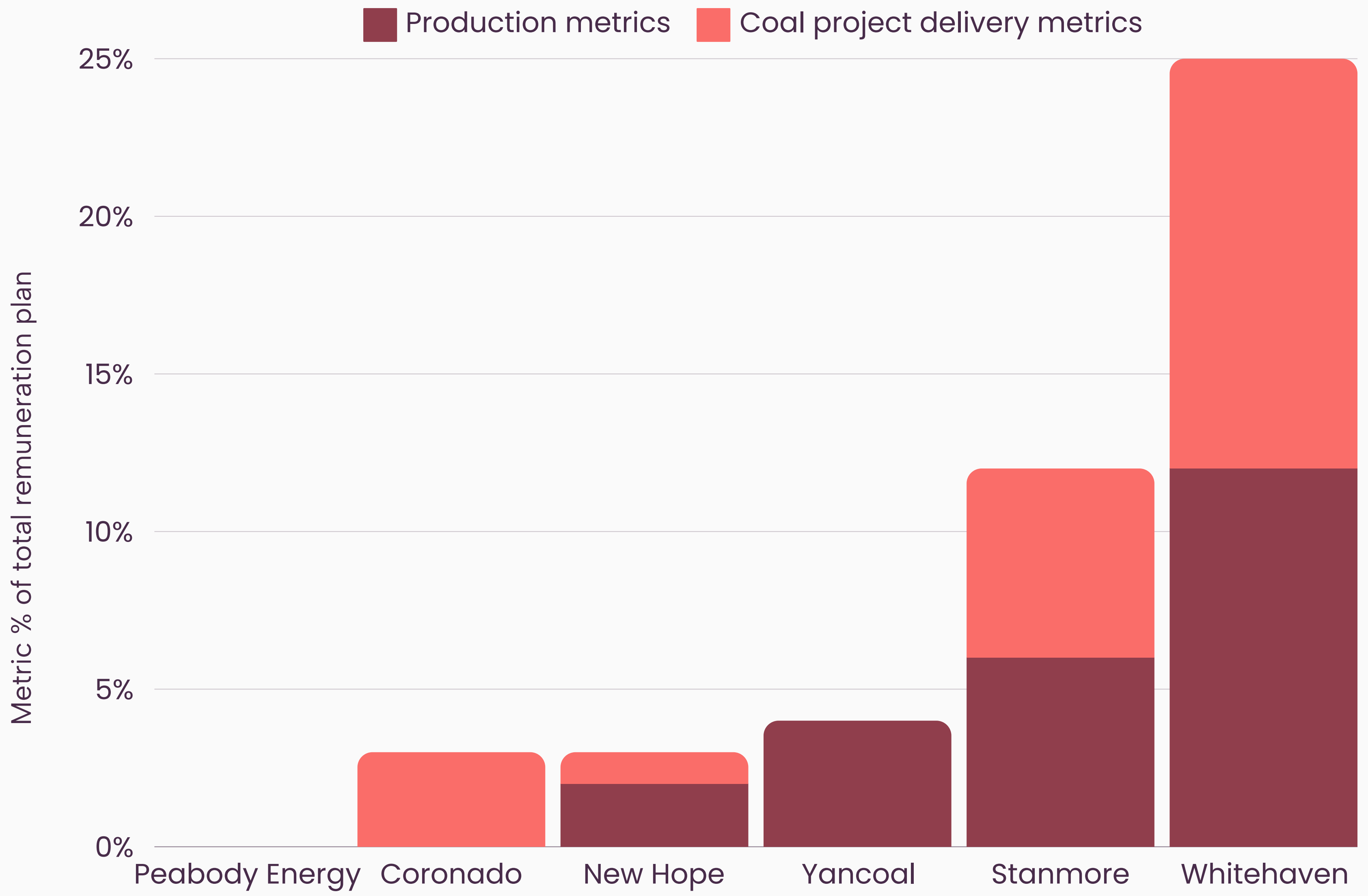
This is an additional moderator, meaning that even metrics such as cost control and safety are subject to further testing based on increasing coal production.

The result is that coal expansion in effect trumps all other concerns.

When metrics related to the delivery of coal growth projects are combined with explicit production metrics, Whitehaven becomes an even greater outlier:

Whitehaven Coal: 24.9%	**Peer average: 5%**

Pure-play coal peers production metrics comparison



Source: Company annual reporting and proxy statements

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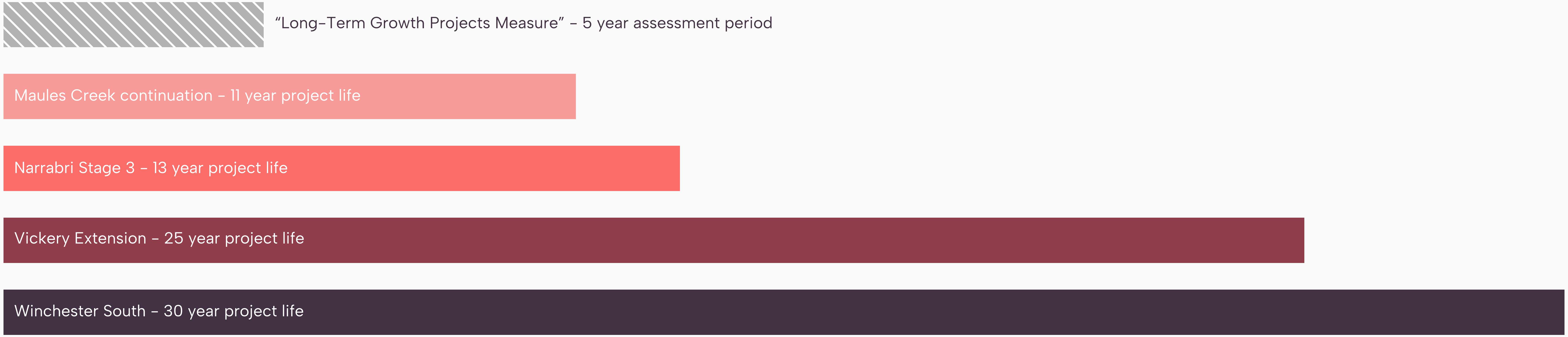
Senior executive's shareholding is a weak proxy for TSR metrics

Whitehaven offers the rationale that "[r]elative TSR was deemed to be inappropriate given the influence of ESG concerns on the Whitehaven share price…". Yet many of Whitehaven's pure-play coal mining peers target TSR in some form while being subject to the same supposed ESG discounts.

Meanwhile, the company claims that "TSR alignment is strongly embedded in Whitehaven's remuneration framework, with Whitehaven's senior executives owning a signficant number of Whitehaven shares".

- However, once the shares have vested there is no requirement for executives to hold onto them if they resign from their roles. In the meantime, senior executives stand to gain significantly in the short-term by pursuing these projects.
- **Ultimately, a five year assessment period for the "long-term growth projects measure" is short in the context of the long life of these projects.**



Source: Whitehaven 2024 Annual report

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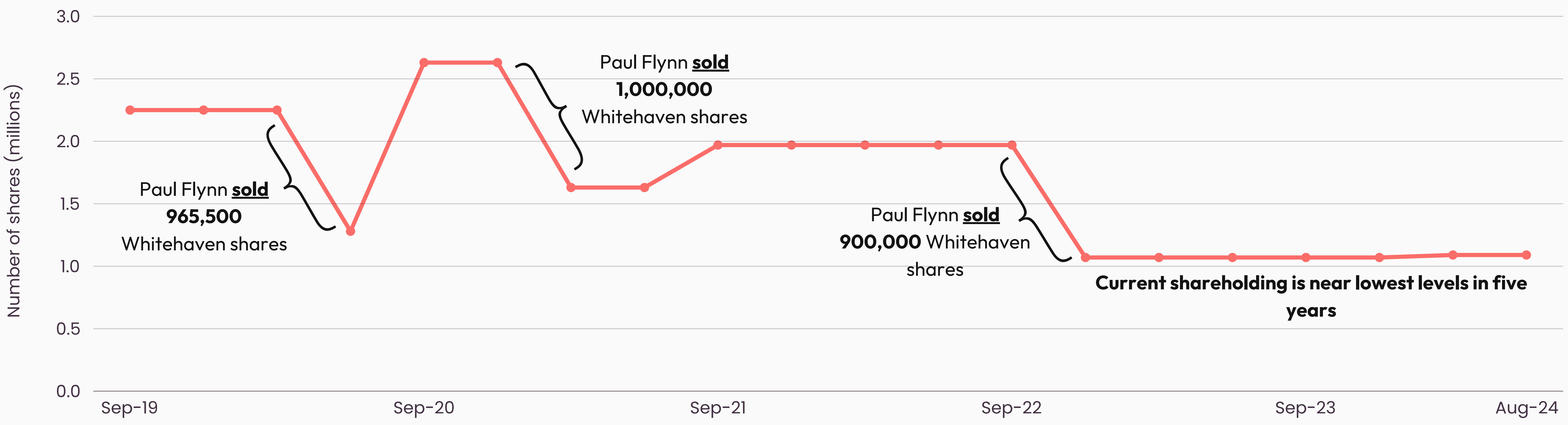
Risk of executive share sell down is warranted

Whitehaven has claimed it faces "significant valuation discounts" due to ESG concerns and buying restrictions, and yet the CEO has not actively increased his position to take advantage of the supposed discount. **In fact, Mr Flynn has regularly sold large parcels of shares and is now a smaller shareholder than five years ago**.



Formalising shareholder returns as a strategic priority provides investors with confidence that the company is considering transition risk when deciding whether to proceed with its coal development plans, which are the largest of any coal miner in Australia.

Source: Refinitiv, WHC ASX disclosures

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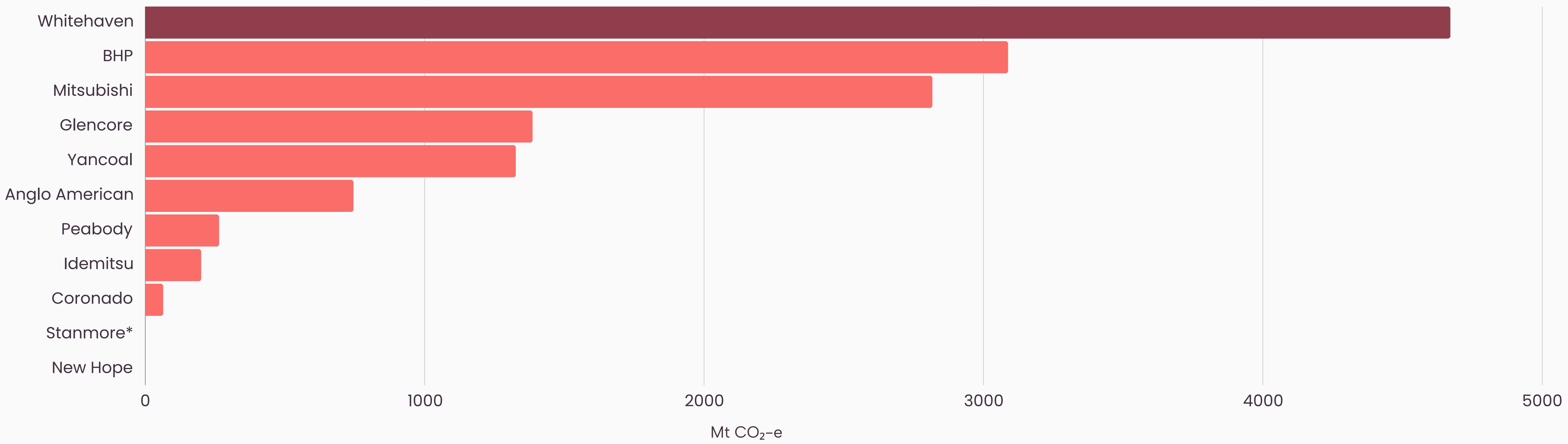
Remuneration incentivises an immense coal build out

WHC's aggressive coal build out plans compared to peers



Whitehaven's coal expansion plans are by far the most aggressive compared to both pure-play and diversified peers. Emissions from Whitehaven's coal build out are 23 times the cumulative emissions reductions expected to be made under the Australian government's Safeguard Mechanism by 2030.

This huge emissions growth shows Whitehaven must remain a key target for engagement, whether the holding is active or passive.

Note: Market Forces analysis of growth projects currently seeking approvals in NSW or QLD
*Stanmore has multiple potential projects but is not actively seeking approvals.
Source: Company disclosures, EPBC portal, NSW Major projects portal, QLD Coordinator-General State Development portal

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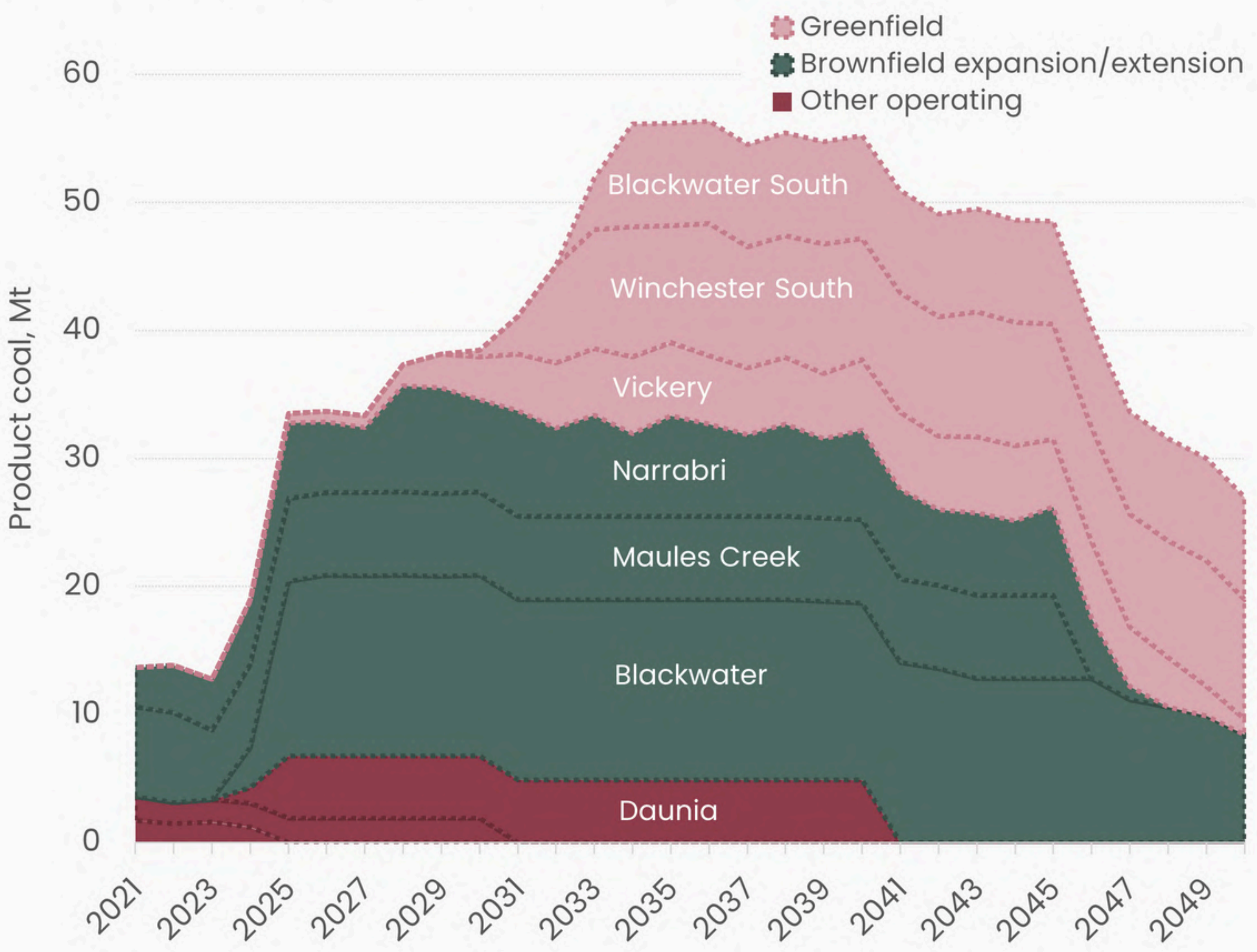
Aggressive coal expansion plans exposing investors to substantial transition risk

Forecast coal output by mine type



Note: Data is in WHC financial years on an equity share basis; Blackwater & Daunia contribute fully from FY25.
Source: Market Forces analysis of regulatory documentation and WHC discloure

Whitehaven continues to pursue a raft of ultra long-life projects including:

- Blackwater South (metallurgical, some thermal), **90 year life**
- Blackwater North (metallurgical), **60 year life**
- Winchester South (metallurgical and thermal), **30 year life**
- Vickery (thermal), **25 year life**
- Narrabri Stage 3 (thermal), 13 year life
- Maules Creek extension (thermal), 11 year life

Whitehaven's risky coal growth strategy, fuelled by its remuneration plan, would result in **coal production from its mines increasing by over 80% by the mid-2030s**.

In equity terms, if all mines are pursued we estimate the company's product coal output would peak at just shy of 60 million tonnes in the mid-2030s, or **4.5x the company's FY23 equity output.**

Thermal coal output would grow by ~40%, primarily from the Vickery and Winchester South projects.

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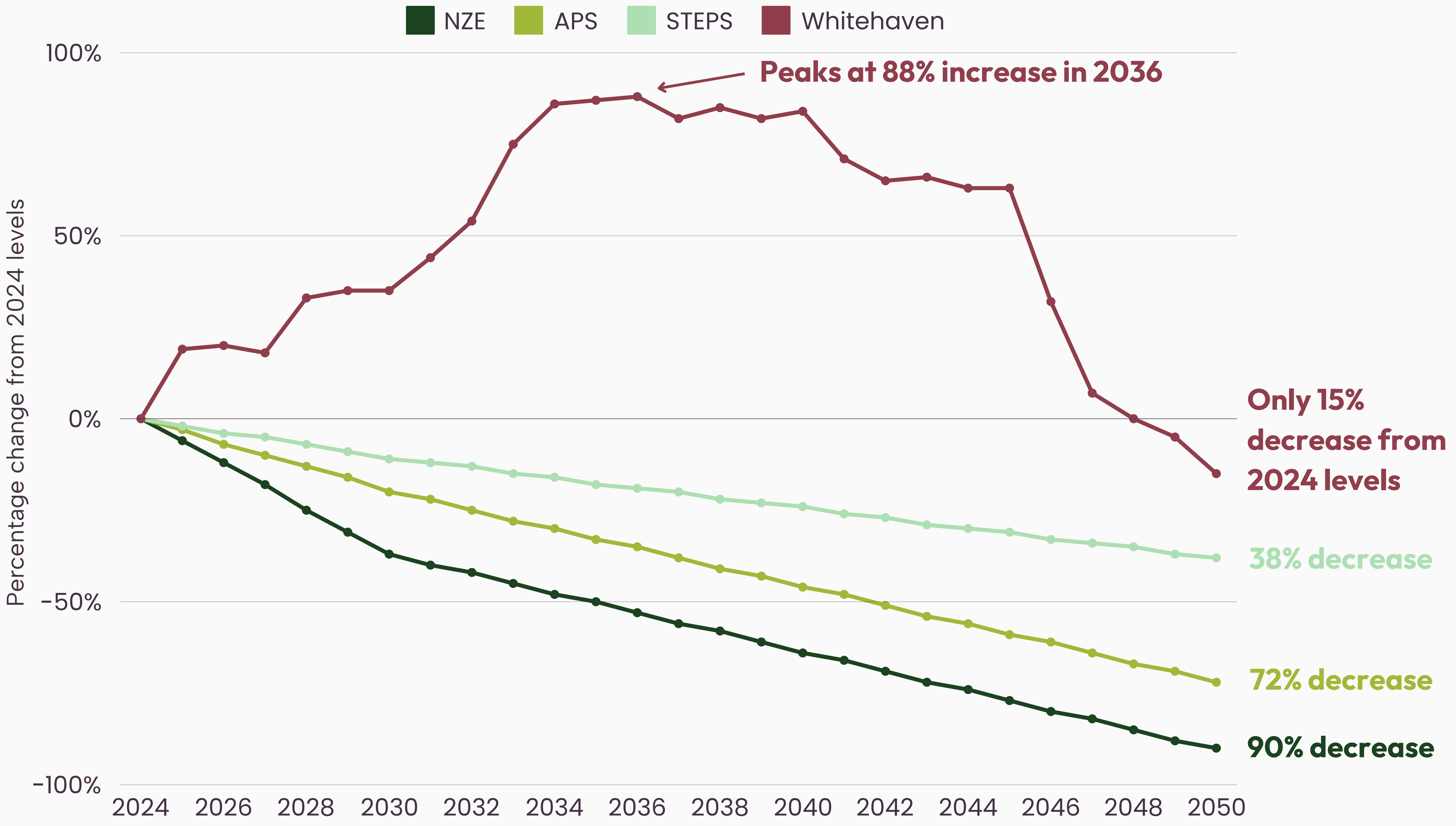
Coal growth is out of line with global climate pathways

IEA World Energy Outlook scenarios coal demand compared Whitehaven expansionary forecasts



Note: WHC expansionary forecasts figures calculated on "managed" basis, with full contribution from Blackwater & Daunia in 2024. IEA figures use an interpolated 2024 starting point, based on an original 2022 starting point.
Source: IEA World Energy Outlook 2023, Market Forces analysis

Increasing coal production and developing new coal mines is incompatible with the achievement of global climate goals.

- The International Energy Agency (IEA) forecasts marked declines in coal consumption under all three of its scenarios.
- Its Net Zero Emissions by 2050 (NZE) scenario is clear that there is no need for "new coal mines, mine extensions or new unabated coal plants", including metallurgical coal mines.

Whitehaven's new coal projects are out of line with both the Stated Policies Scenario (STEPS, 2.4°C) and Announced Pledges Scenario (APS, 1.7°C), let alone the NZE (1.5°C).

Whitehaven's coal growth strategy significantly exacerbates shareholders' exposure to unacceptable transition risk.

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Expansion strategy faces substantial downside risk

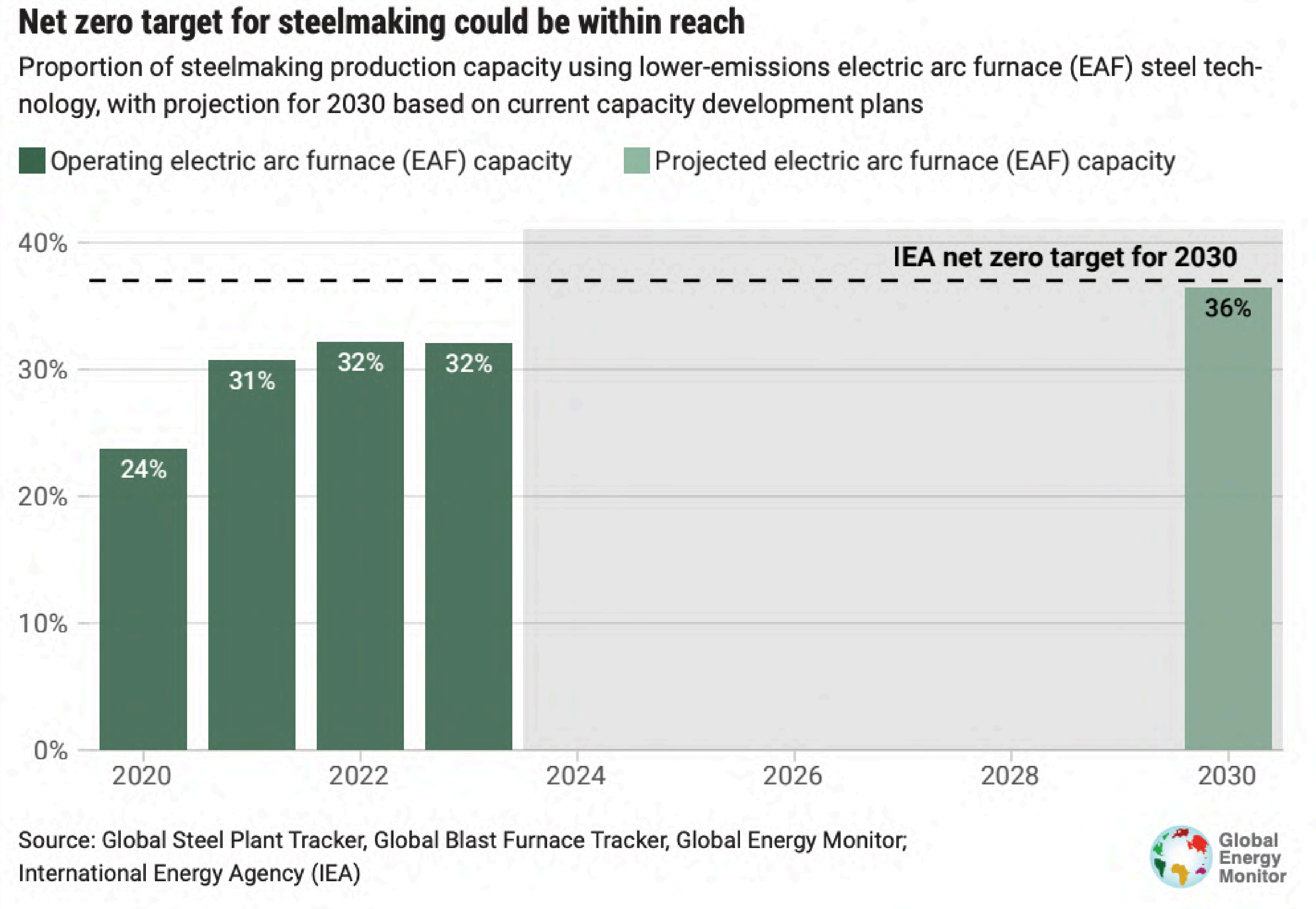
Whitehaven risks value wipeout with reckless growth

Whitehaven's portfolio of both metallurgical and thermal coal assets is significantly exposed to price risk.

Market Forces modelling, which uses explicit market forecasts out to 2028 and applies annual (real) sensitivities to the long term coal price, shows company value would be wiped out by highly probable downside risks. **Just a slight deviation in coal prices (~1% p.a. real long term) from current industry price forecasts would cut net present value in half.**

Whitehaven's "diversification" into met coal provides little protection from this price risk in light of the rapid pace of the green steel transition and uptake in Electric Arc Furnace (EAF) technology likely to hamper met coal demand substantially.

- Considering all planned capacity and retirements, the global steel fleet is set to reach over **36% EAF in 2030**. This is **just below the IEA's net zero-aligned target of 37% EAF** steelmaking in 2030.
- Under the **IEA's Net Zero scenario, coking coal production declines by 25% to 2030 and 90% by 2050.**



Source: Global Energy Monitor

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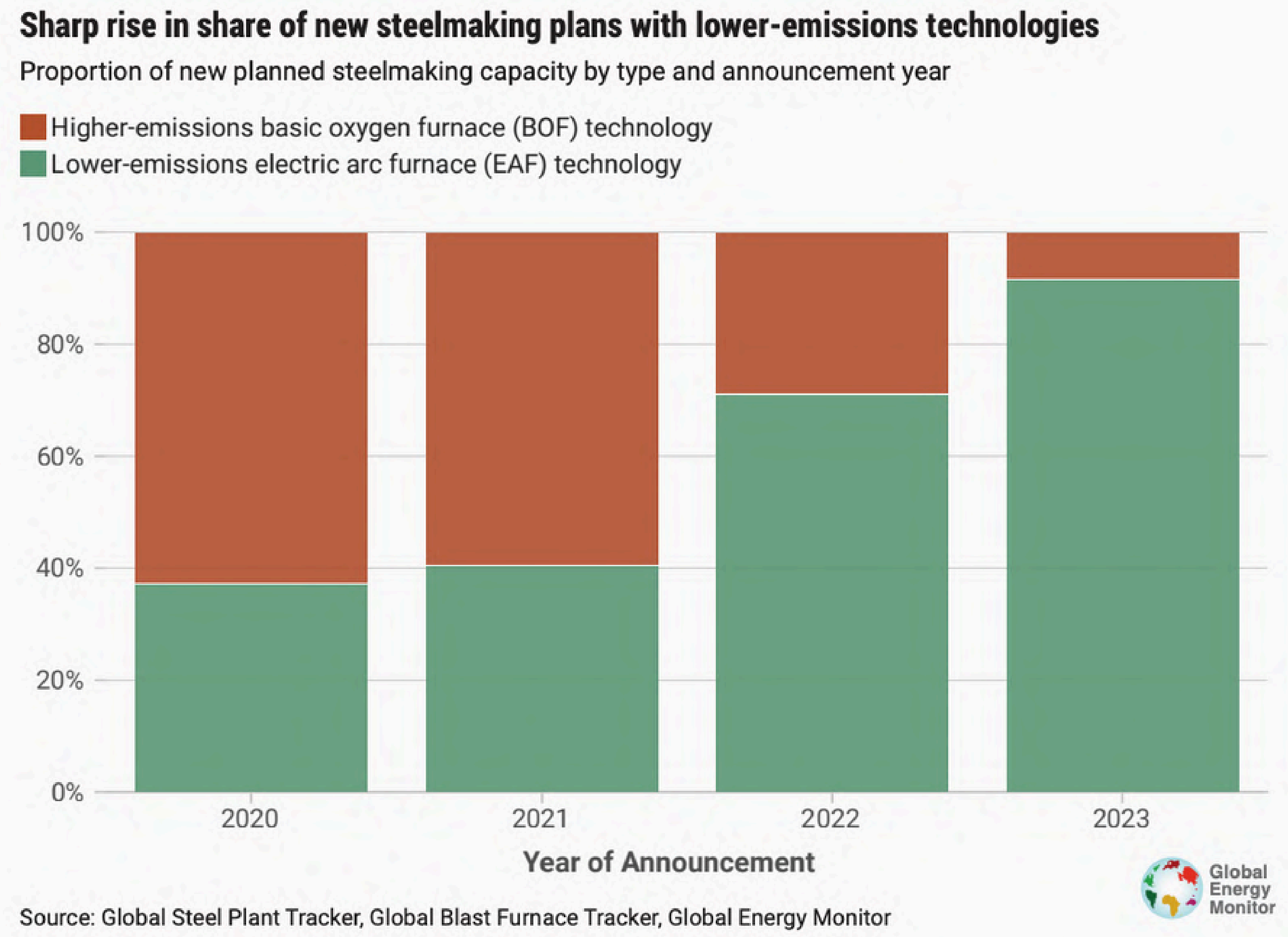
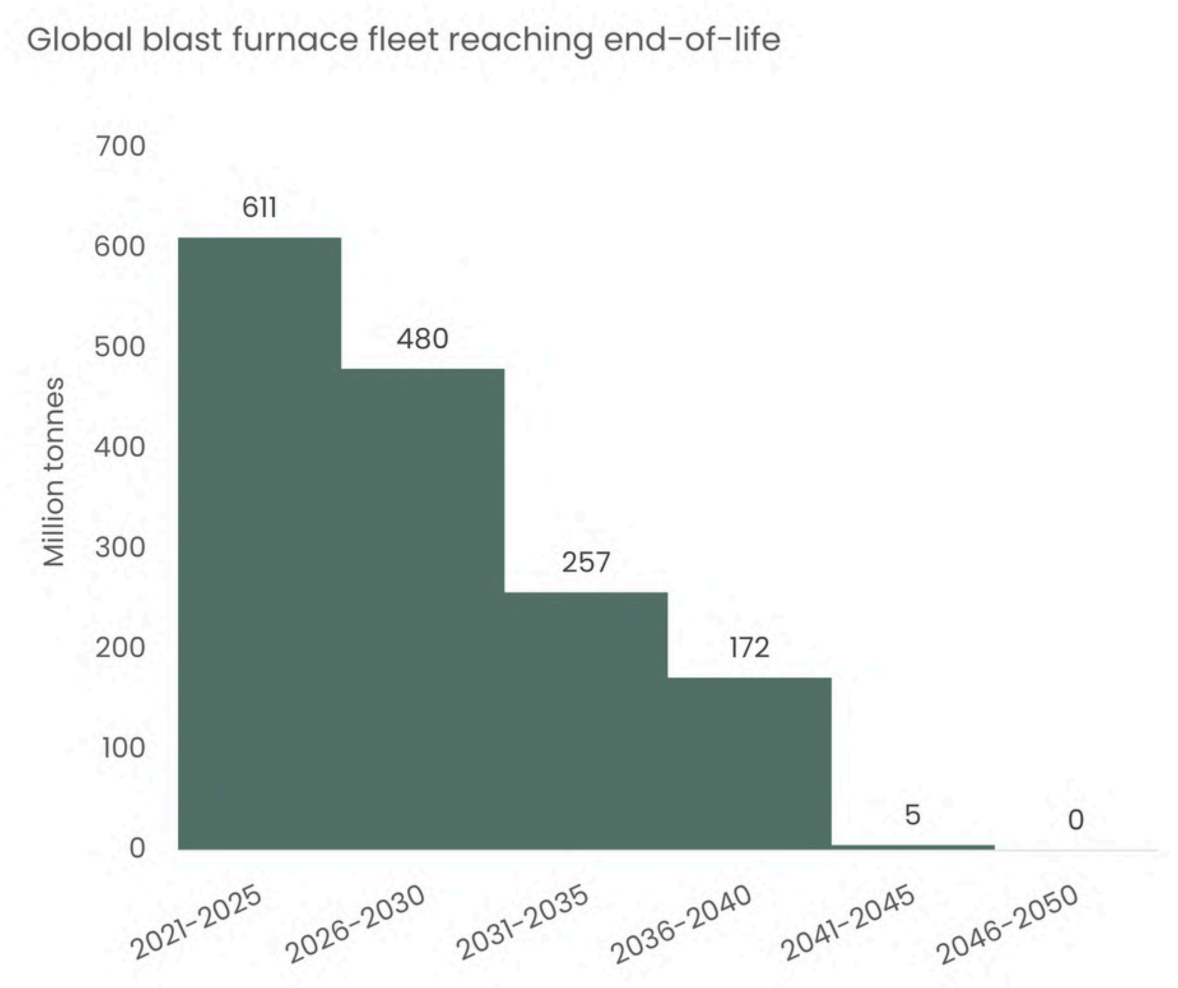
Green steel transition rapidly gaining pace, increasing met coal price risk





- 93% of the steelmaking capacity announced in 2023 is EAF.
- This technology for green steel production is already mature. 68% of US steel production uses EAF (the USA is the fourth largest steel producer globally).

Source: Global Energy Monitor

- 70% of the world's blast furnaces are due for re-investment by 2030, creating an opportunity for substitution with non-coal technologies.

Source: Agora Industry

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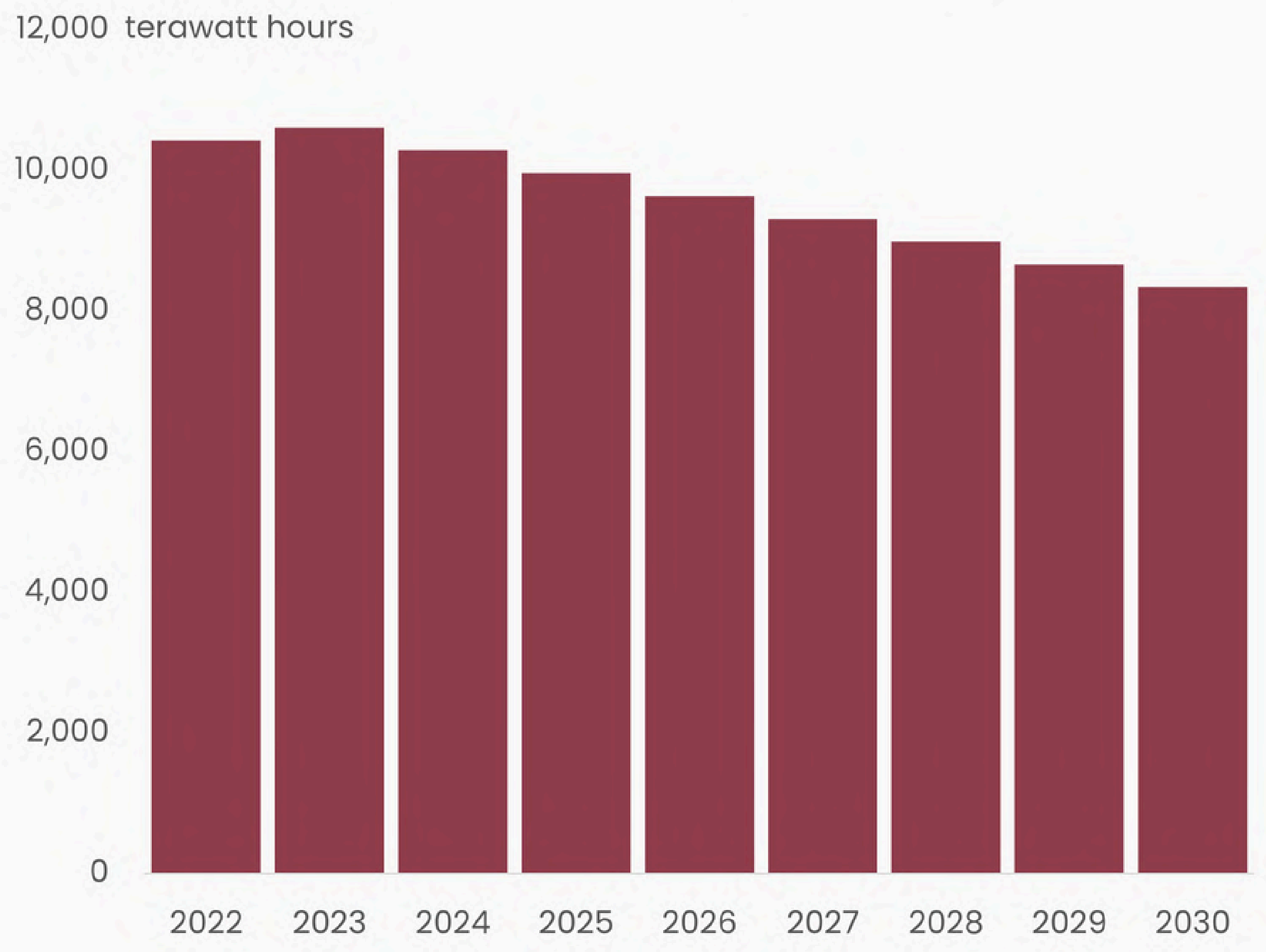
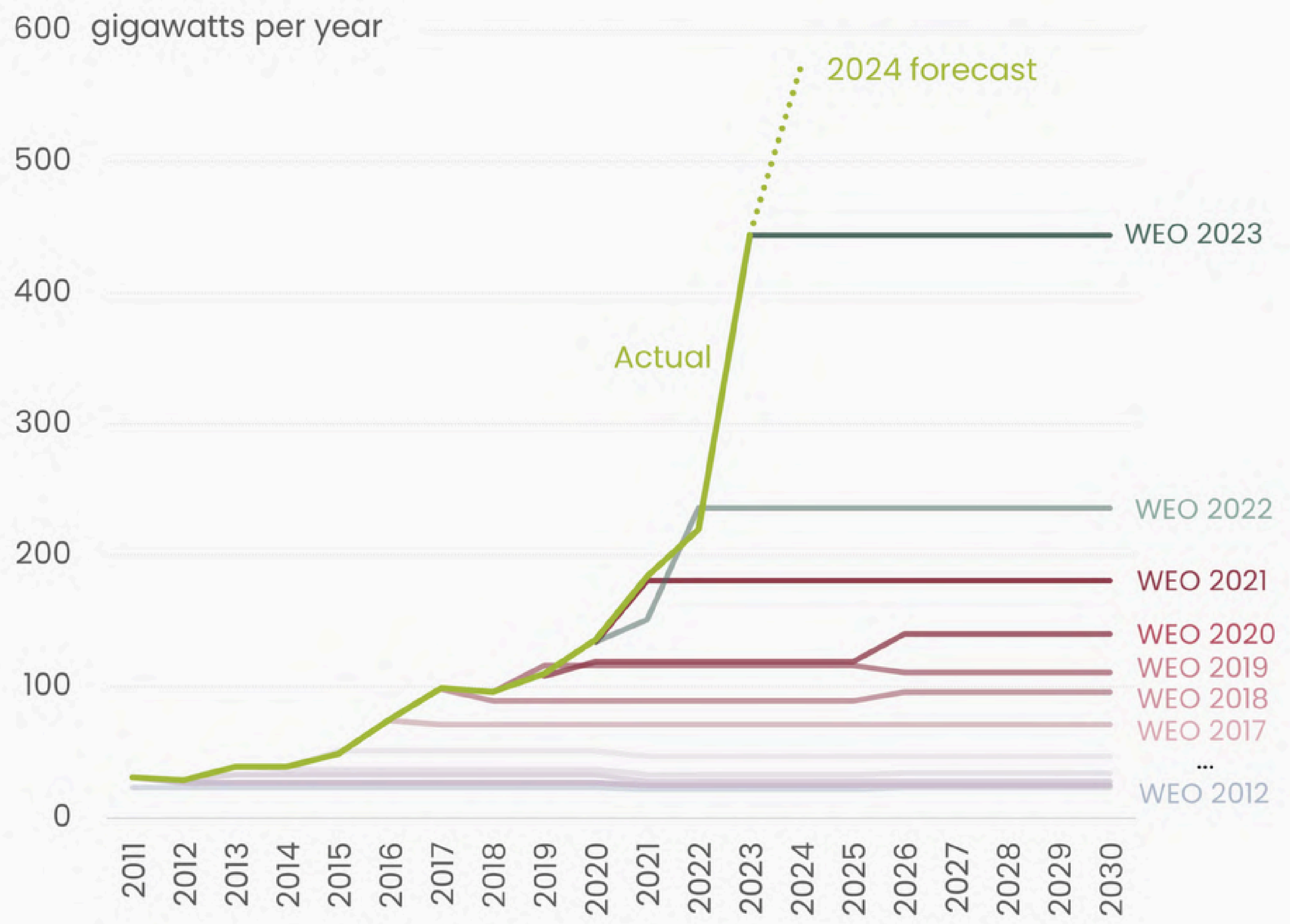
Thermal coal even more vulnerable to price risk

The IEA's least ambitious forecast sees coal power slumping...
Global coal-fired power generation, Stated Policies scenario (2.4°C)



... while failing to appreciate renewables boom
Solar PV capacity additions by WEO forecast



According to the IEA, current government policies are on track to significantly drive down thermal coal demand this decade. In WHC's core markets, Japan Taiwan and South Korea (87% of FY23 total sales), renewables and nuclear are already eating into coal generation.

At the same time, the IEA has a poor track record of forecasting renewables growth; it has upgraded its forecast every single year since at least 2012. Coal demand may not disappear overnight, **but expecting it to stay largely at today's levels, as WHC does, poses unacceptable risk to shareholders.**

Note: WEO 2023 projections start in 2023; we have inserted actual data for 2023 and drawn a straight line to the 2030 forecast. FY23 total sales data used, as FY23 sales were predominately thermal coal.
Source: IEA World Energy Outlook 2023, IEA Electricity 2024

Note: WEO data is annual averages, not explicit forecasts.
Source: IEA, BNEF (2023 actual & 2024 forecast)

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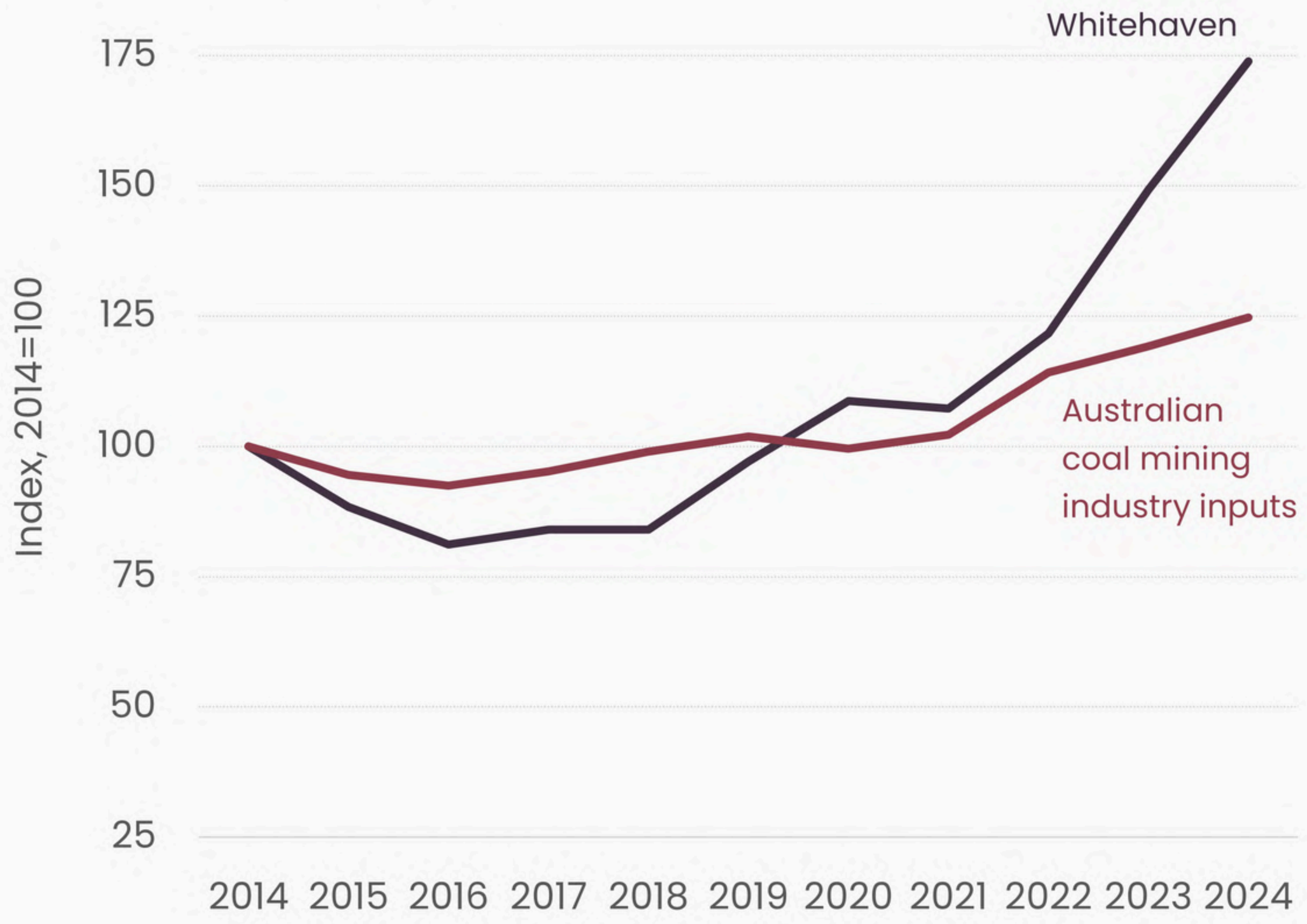
Growth portfolio seriously exposed to production cost risk

Coal production costs



Note: An incorrect version of this graph appeared in our briefing published in July. We apologise for this error.
Data is as at June each year.
Source: Whitehaven Coal, Australian Bureau of Statistics

Whitehaven's growth portfolio is not only exposed to price risk but also production cost risk.

- Just a five-year increase in production costs of 2% p.a. above inflation – well below the historical rate – would cut the value of its growth portfolio by two-thirds.
- Whitehaven has a poor recent track record of limiting cost increases relative to the price of inputs (e.g. diesel and explosives).
- Whitehaven's inability to rein in costs was again clear in its latest financial results:
    - From FY23 to FY24 average cost of sales **jumped 17%.**
    - **FY25 guidance** expects costs to **jump a further 17–29%**.
    - If costs reach the top of Whitehaven's guidance then across just a few years (FY23 to FY25) **costs could be up a stunning 50%.**

With a rising cost of capital, new industrial relations laws, updates to the Safeguard Mechanism, and ongoing inflationary issues, these higher costs could be the new status quo.

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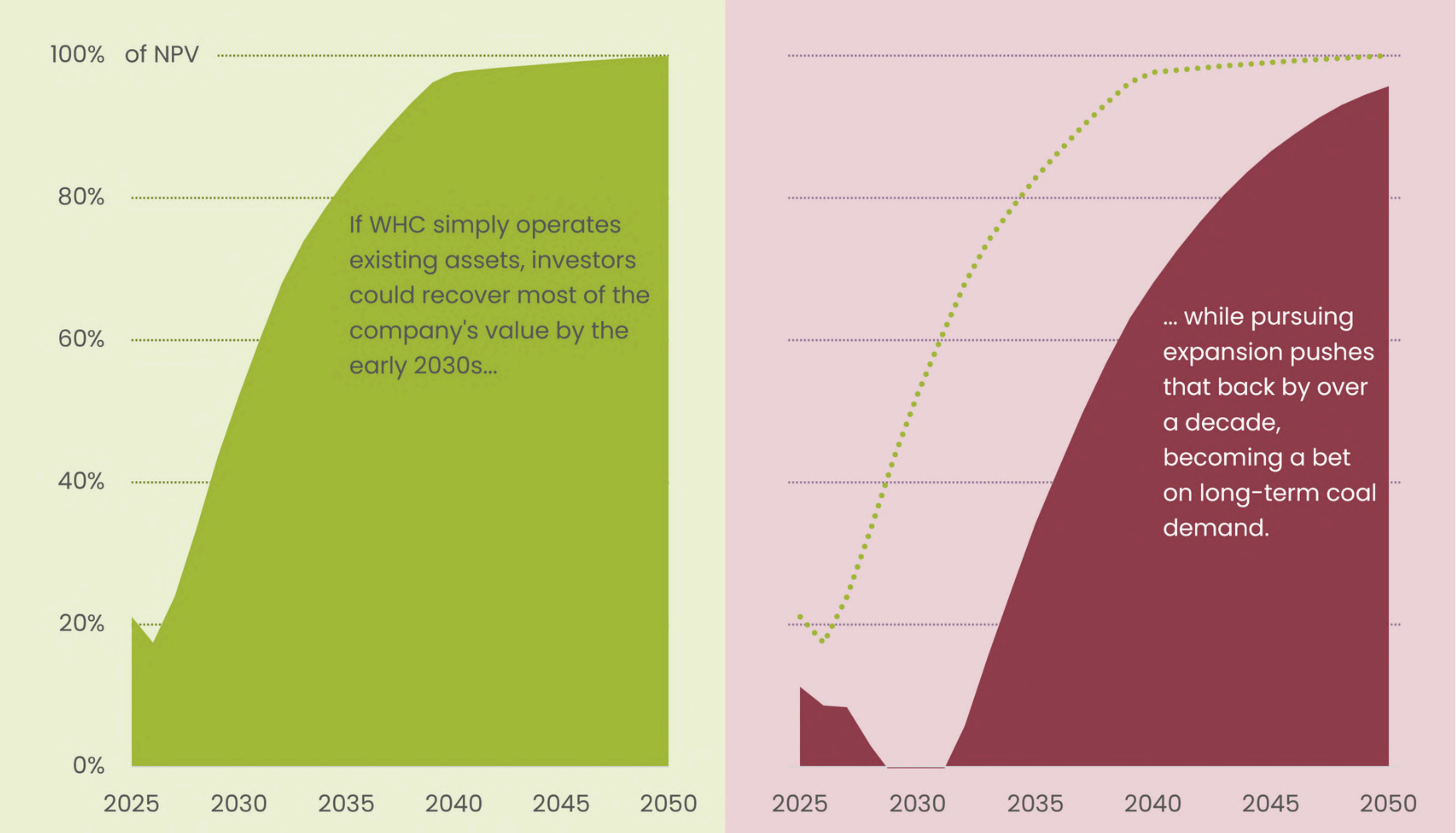
A wind-down strategy carries much lower risk for investors



Considering the **substantial price and stranded asset risk** Whitehaven faces as well as its inability to rein in costs, Whitehaven would be much better placed to pursue a wind-down strategy.

Note: Discounted free cash flow net of major growth capex and BHP trade finance.
Source: Market Forces analysis

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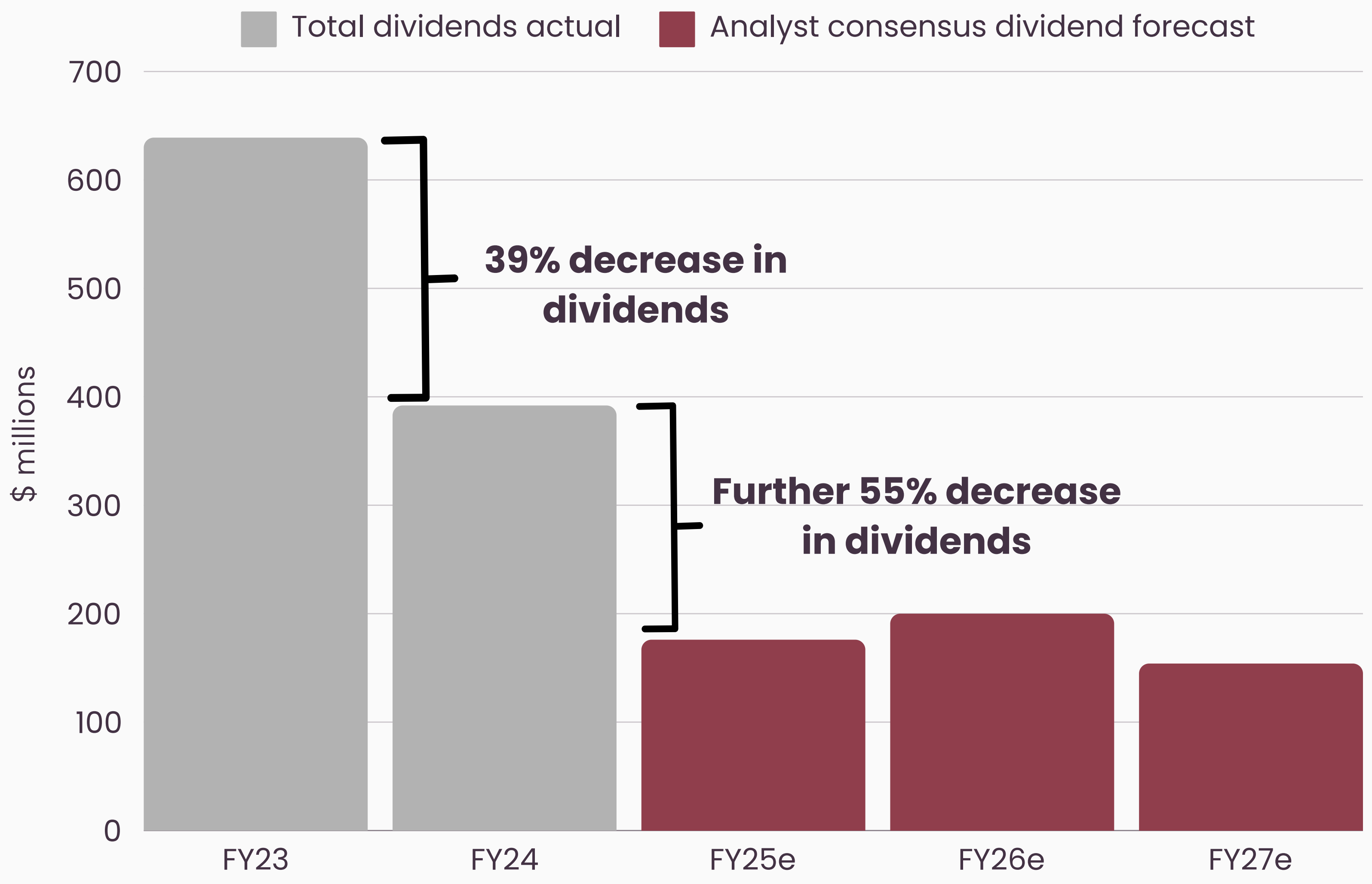
Shareholders, workers and local communities bear the consequences



Source: Refinitiv

Whitehaven's acquisition of Blackwater and Daunia highlights the reality of pursuing reckless growth and removing total shareholder return metrics.

- Since the acquisition, Whitehaven's TSR has been negative 8.7%, despite the acquisition "doubling the production base of the company" according to Mark Vaile at the 2023 AGM.

The pursuit of growth is already costing shareholders dearly.

Dividends are likely to remain substantially lower over the coming years as a result of Whitehaven's single-minded focus on growth.

Ultimately it is shareholders, workers and local communities who bear the ultimate risk and will suffer the consequences of this long-term gamble on coal demand.

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Whitehaven out of touch with the reality of the transition

Met coal myths versus reality

Metallurgical coal is not critical to steelmaking, and therefore not a suitable diversification strategy

What Whitehaven says

Metallurgical coal is critical to steel making:

"As everybody knows, metallurgical coal is critical to steelmaking." – Paul Flynn

Metallurgical coal transformation will make the company more resilient:

"…a far more resilient business as a result of exposure to [metallurgical coal]." – Paul Flynn

The reality

Metallurgical coal is not critical to steel-making

- Electric arc furnaces (EAF) are commercially mature and do not require met coal.
- 93% of new steelmaking capacity announced in 2023 is EAF.
- The global steel fleet is set to reach over 36% EAF in 2030. This is just below the IEA's net zero-aligned target of 37% EAF steelmaking in 2030.

Metallurgical coal production must fall to reach global climate goals too

- Even under IEA STEPS (current government policy, 2.4ºC) coking coal consumption declines 30% by 2050 from 2022 levels.
- Under the IEA's NZE scenario, coking coal demand falls 90%.

Source: Whitehaven quotes from 2023 Annual General Meeting and Daunia/Blackwater acquisition presentation

Met coal myths versus reality

Metallurgical coal's risk is already manifesting in the market

What Whitehaven says

Increased access to investors and financiers:

"...that's going to enlarge the pool of investors who are able to invest that was somewhat constrained by our focus on the thermal coal." – Paul Flynn

"[Primarily selling met coal] will open up new opportunities or better opportunities for us in the financing space." – Mark Vaile

Implied increase in valuation:

"Metallurgical companies definitely do trade at premium to thermals as I mentioned there. I think we all understand that." – Paul Flynn

The reality

Acquisition has failed to attract new investors and institutions

- An equal number (7) of new investors joined the top 50 shareholder list in the 10 months prior to the Blackwater/Daunia acquisition as in the 10 months post. This suggests Whitehaven failed to enlarge its pool of institutional investors following the acquistion.
- Major Australian banks have introduced restrictions around lending to new metallurgical coal projects (Westpac) and metallurgical coal companies (CommBank and NAB).

Market valuation to date and investor sentiment suggests otherwise

- Whitehaven's market cap has decreased nearly 10% since the acquisition. This is despite doubling production and met coal companies supposedly trading at a premium to thermal.
- A recent investor survey showed 68% of investors anticipate a transition from the use of metallurgical coal in steelmaking, and 80% believe that the commodity's risk profile will increase over the next decade.

Source: Whitehaven quotes from 2023 Annual General Meeting, Daunia/Blackwater acquisition presentation, and 2023 Sustainability Report

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Thermal coal myths versus reality

Thermal coal's outlook is even worse for both developed and emerging markets in Asia

What Whitehaven says

Ongoing demand for thermal coal:

"Coal products remain highly sought after, particularly in premium markets in Asia." – Mark Vaile

Coal type means it will remain highly sought after:

"As the world decarbonises, Whitehaven's high-quality, high-CV thermal coal will be the last to leave the market."

The reality

Thermal coal's use for power generation in key premium markets continues to decline:

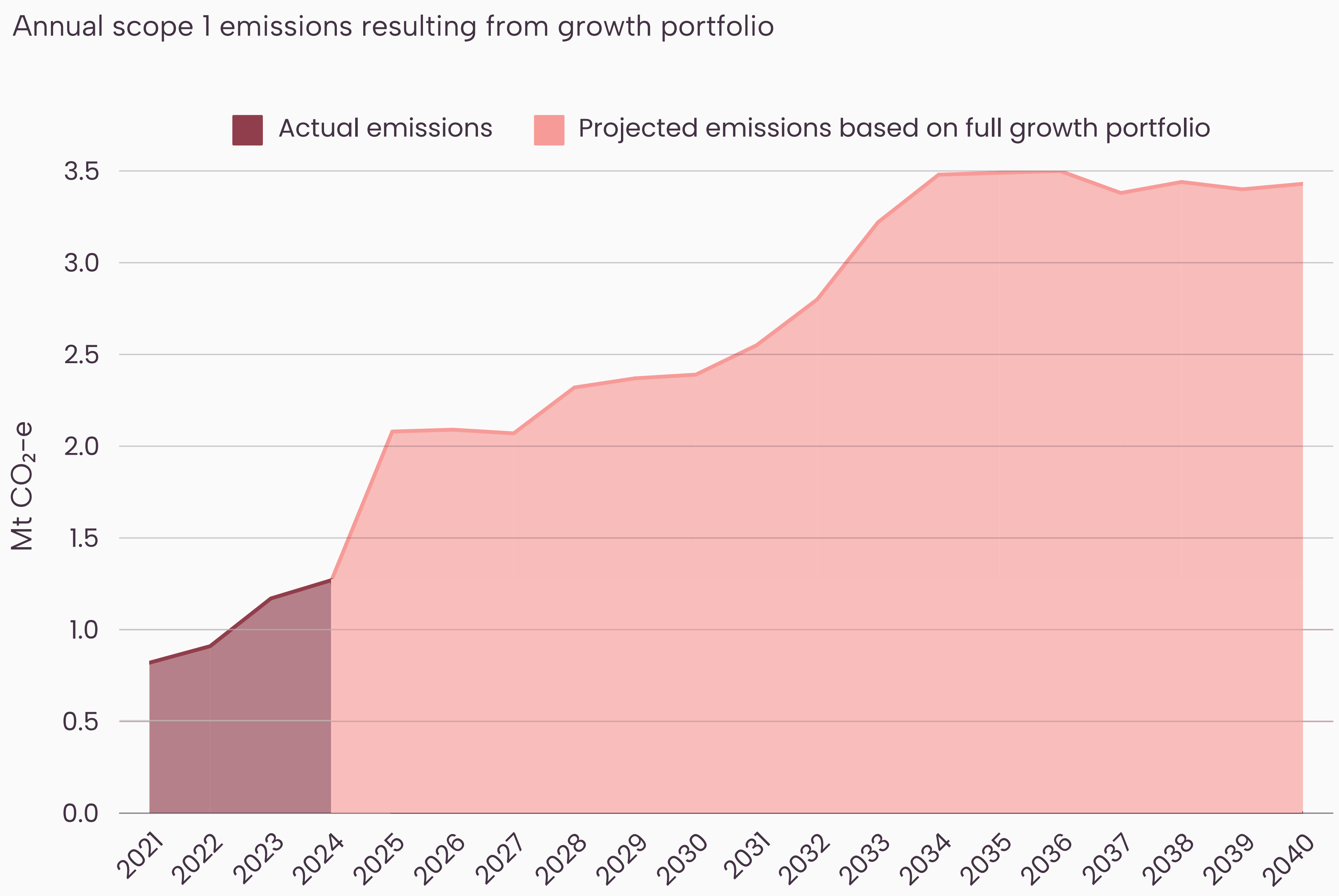
- Japan: Peaked in 2017. Decreased 9.5% since.
- South Korea: Peaked in 2017. Decreased 21% since.
- Taiwan: Peaked in 2018. Decreased 9.4% since.

Whitehaven's coal type may actually limit its sale in emerging markets:

- Emerging markets in Asia, such as India and Vietnam don't import the high-CV coal Whitehaven produces, and likely never will.
- The emissions reduction from using high grade thermal coal are insignificant when compared with renewable energy. No country is relying on a switch to high-CV coal to reduce emissions.

Source: Whitehaven quotes from 2023 Annual General Meeting, Daunia/Blackwater acquisition presentation, and 2023 Sustainability Report

Whitehaven missing the mark on the energy transition



- Whitehaven says it supports the Paris Agreement, and yet the company's ambition to reduce emissions only matches its legal obligations under Australia's Safeguard Mechanism.
- Whitehaven has never publicly disclosed an analysis of its projects, current or planned, against a credible Paris-aligned scenario.
- Scope 1 emissions are already rising, largely due to the Narrabri underground mine. Whitehaven does not have a disclosed plan to address its scope 3 emissions.
- The company's current emissions reduction plan relies on offsets.

Note: Projection uses WHC 3 year average scope 1 emissions intensity.
Source: Whitehaven 2023 Sustainability report, Whitehaven annual reporting

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Disclosures inadequate to assess board transition risk skillset

Based on current disclosures, WHC's board does not appear to exhibit the skill set required for the shift to a decarbonised economy.

- Whitehaven's latest governance report fails to disclose how its board is assessed against the requirements of its skills matrix.
- Whitehaven's board continues to heavily weigh towards directors with fossil fuel experience. Five out of eight members of Whitehaven's current board have fossil fuel backgrounds.
- Investors have increasingly expressed their dissatisfaction with the strategic direction of the company by voting against directors for failing to address transition risk that could affect shareholder value.

Key guidance highlights the need for board competencies to manage key business issues, including those emerging under different scenarios:

ASX	Board skills should cover "emerging business and governance issues"
Australian Institute of Company Directors	Address "the key issues facing the organisation" and ensure "the board's composition takes account of different scenarios"
Climate Action 100+	"The company has assessed its board competencies with respect to managing climate risks and discloses the results of the assessment."

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Investor action required

- To meet investors' growing expectations to closely align corporate strategy with a decarbonising economy, **Whitehaven must stop incentivising its executives to pursue new or expanded coal projects**.

- With almost no changes made to the scorecard despite a strike against the remuneration report last year, **investors are urged to vote for a second strike**.

- We also urge investors to **vote against the reelection of Mark Vaile and Fiona Robertson** in their capacity as members of the remuneration committee.

Investors are encouraged to predeclare their votes at the UNPRI Resolution Database.

At the upcoming WHC AGM, **shareholders are urged to vote:**

AGAINST	the remuneration report
AGAINST	the reelection of Mark Vaile
AGAINST	the reelection of Fiona Robertson

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If you would like to meet and discuss our analysis, please let us know.

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