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Investor update

Coal growth at all costs: Whitehaven’s flawed remuneration policy

June 2024

Coal mining in Leard State Forest
Google Earth, © 2 July 2020 Maxar Technologies, CNES / Airbus

Executive summary

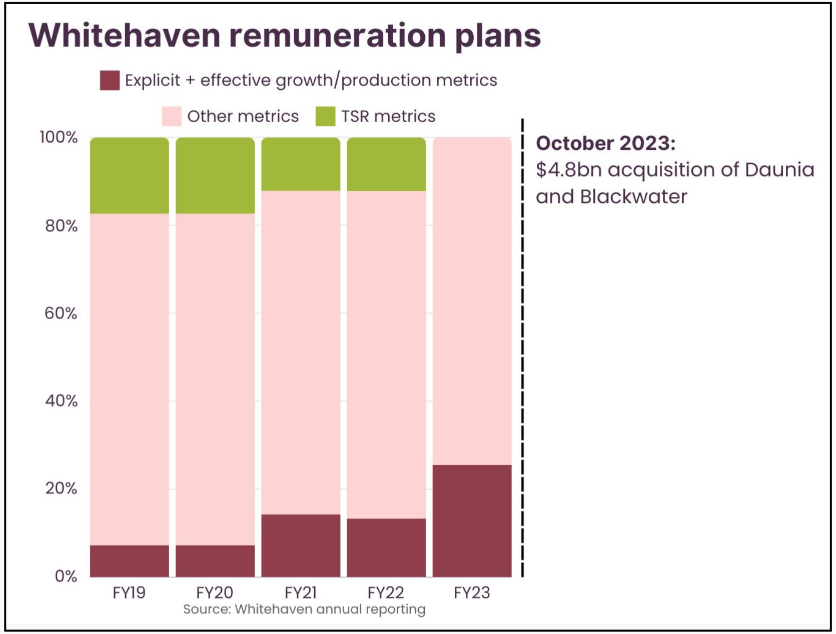
Whitehaven Coal's (WHC) CEO remuneration policy is out of step with peers, heavily incentivising an unacceptably risky coal growth strategy.

- **WHC significantly overweights coal production and coal growth metrics**, accounting for **25.5% of the CEO's total remuneration.** In FY23, Whitehaven removed all total shareholder return (TSR) metrics.
- Analysis of 10 industry peer remuneration plans shows none have the same risky combination of traits.
- Remuneration incentivised WHC's acquisition of the Daunia and Blackwater mines at a **staggering cost of $4.8bn**[1]. The acquisition forced WHC to **take on expensive private debt** and to **pause share buy-backs** for two years.
- WHC's growth strategy requires **huge increases in capex**, growing >400% to $1.2bn in FY24 according to consensus forecasts. FY24-FY25 alone would eclipse WHC's past 10 years of capex combined.
- Dividends are forecast to **drop 40%** in FY24, and another 60% in FY25.
- With WHC currently considering a further **six coal mining growth projects**, low dividends and paused buy-backs may become the new reality for WHC shareholders.

1. All dollar values in AUD unless otherwise stated.

Incentivising misguided growth

- Over the past five years WHC's remuneration structure has **significantly increased** its emphasis on **coal production and project growth metrics.**
- WHC has **more than tripled its weighting on these metrics** from 7.25% in FY20 to **25.5% of total remuneration in FY23.**
- Concurrently, WHC has **completely removed all total shareholder return (TSR) metrics,** which previously accounted for 17.4% of total remuneration.



Effective growth and production metrics include metrics which relate to delivering coal growth projects. These metrics include:

- 'Strategy Execution' - Whitehaven
- 'Value Creation' - New Hope
- 'Projects' - Stanmore
- 'Operational Focus' - Coronado

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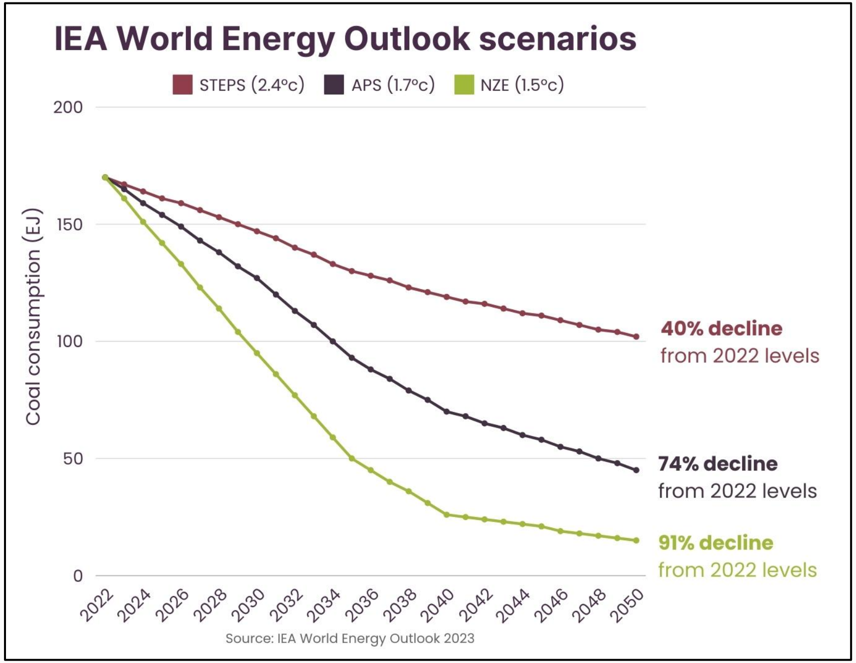
Increasing production exacerbates transition risk

- WHC's coal growth strategy significantly exacerbates shareholders' exposure to unacceptable transition risk.
- 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.
- The IEA's Net Zero Emissions (NZE) scenario requires **no "new coal mines, mine extensions or new unabated coal plants."**



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Inconsistent with peers

Pure-play miners	Diversified miners
New Hope Group	Idemitsu Kosan
Yancoal	Mitsubishi Corporation
Coronado Global Resources	Glencore
Peabody Energy	BHP
Stanmore Resources	Anglo American

Peers assessed based on coal operations in Australia

- WHC's heavy incentivisation of production growth and lack of TSR metrics is out of step with other pure-play and diversified miners.
- WHC cites the influence of "ESG concerns" "resulting in significant valuation discounts" as the justification for the removal of TSR metrics. Yet others in the coal industry have retained TSR metrics, suggesting WHC may be using this excuse as a fig leaf for its low-return, high-growth and high-risk strategy.

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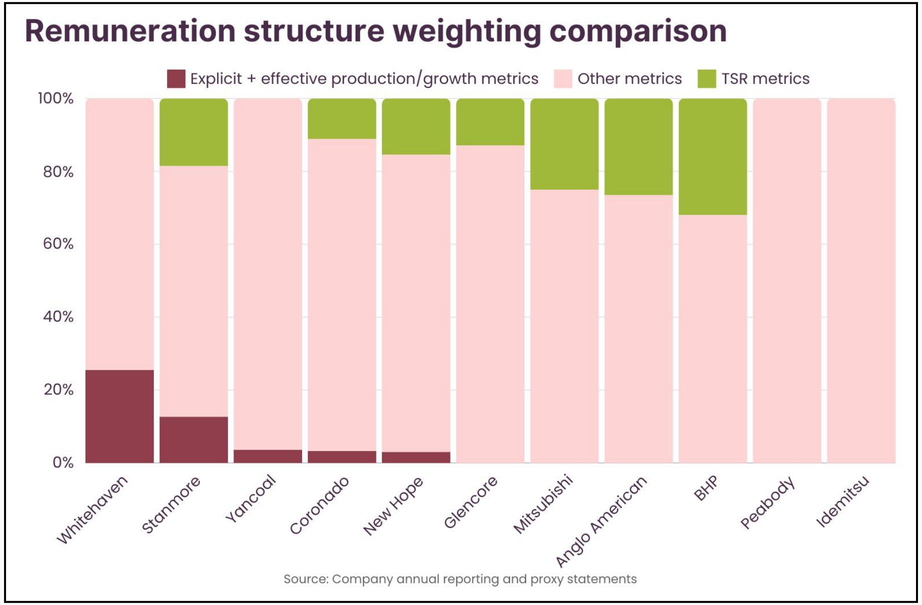
Production-focused outlier



- Pure-play coal miner **Stanmore Resources weighs TSR metrics at 19%** of total remuneration.
- Diversified miner **BHP weighs TSR metrics at 32%** of total remuneration.
- WHC's complete removal of these metrics coupled with by far the highest weighting of production and growth metrics make it a clear outlier compared to others in the industry.

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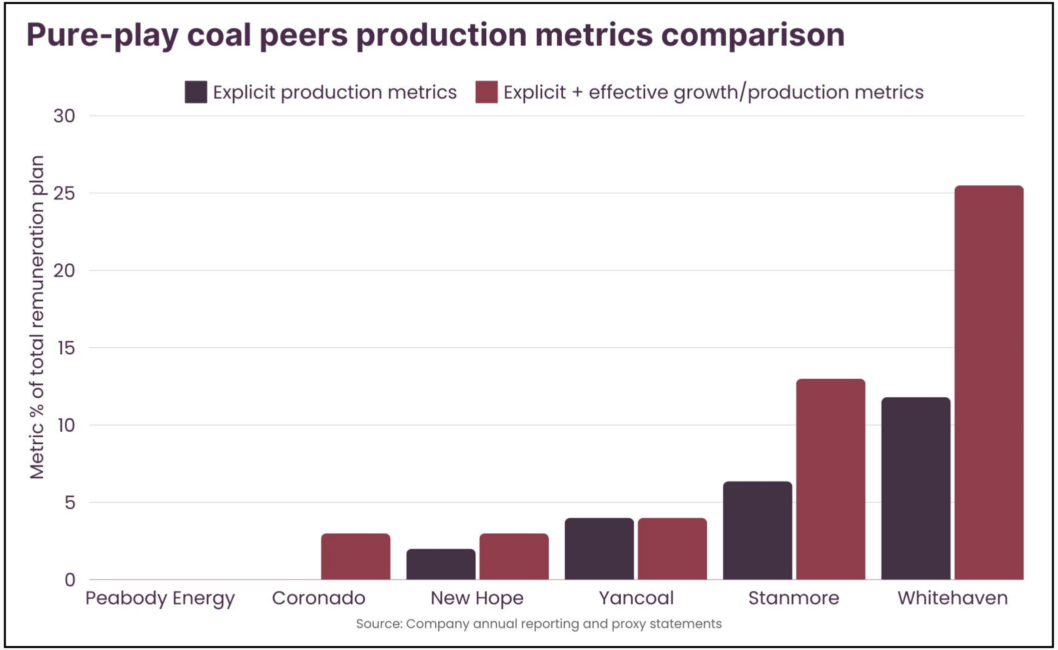
Production overweighting compared to pure-play peers

Explicit production metrics:

- **WHC: 11.8%**
- **Peer average: 2%**

Explicit production and effective growth/production metrics:

- **WHC: 25.5%**
- **Peer average: 5%**



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Remuneration plan consequences

The Narrabri Underground Mine
Image Credit: Lock the Gate Alliance

- WHC's shift from TSR to further growth rewards incentivised WHC's **$4.8bn** acquisition of Daunia and Blackwater from the BHP Mitsubishi Alliance (BMA).
- In the face of ever-growing restrictions on fossil fuel financing, WHC was forced to turn to the exceedingly costly private credit market to fund this acquisition. We estimate WHC faces **cumulative additional interest costs of AUD $226m** compared to rates non-coal peers received for comparable loans.
- To manage these financing costs WHC has paused share buy-backs for two years.

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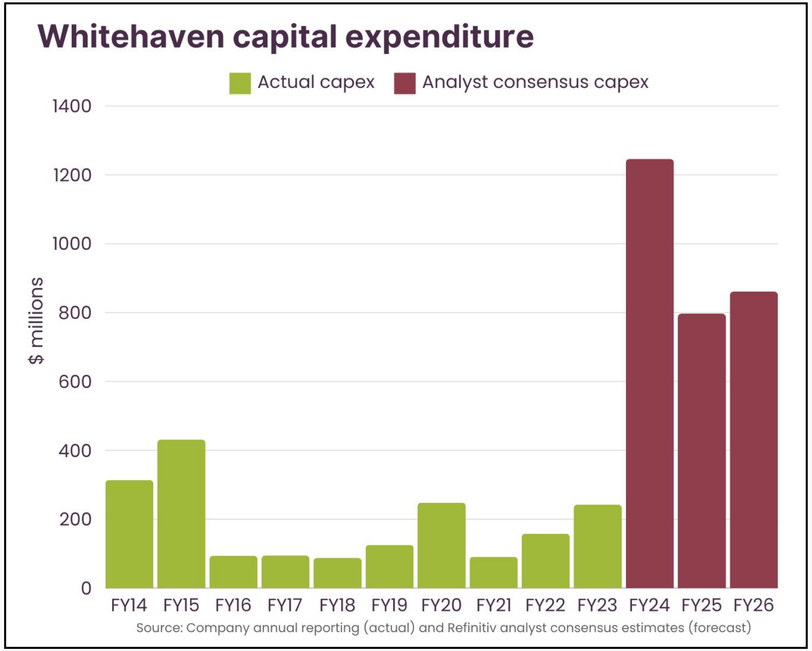
Ballooning capital expenditure

- WHC's growth strategy has led analyst consensus estimates to forecast significant increases in Whitehaven's capital expenditure over the coming years.
- Capital expenditure is expected to **increase** a massive **413%** to **$1.3bn in FY24**, remaining elevated at **$797m in FY25 and $861m in FY26.** This is expected to decimate cash available for shareholder distributions.
- Whitehaven's capex from **FY24 and FY25 alone ($2bn)** is forecast to **eclipse its past ten years of capex combined ($1.9bn).**



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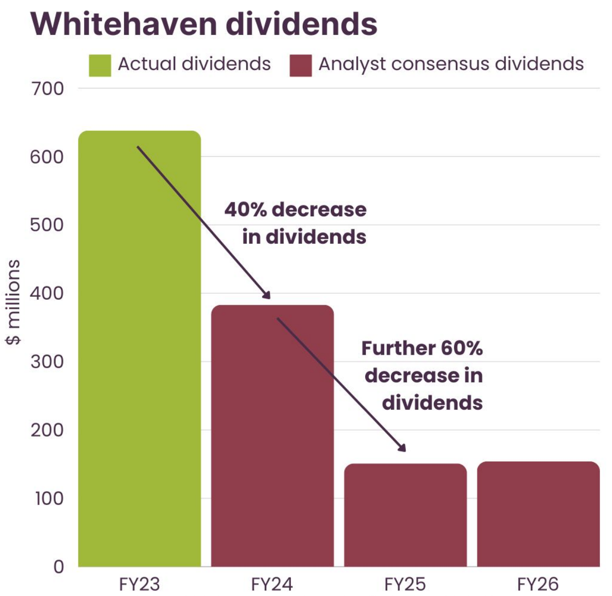
Dwindling dividends



Source: Whitehaven annual reporting (actual) and Refinitiv analyst consensus estimates (forecast)

- Analysts also forecast a sharp decline in WHC dividends:
  - **FY24 dividends** forecast to **drop 40%** from FY23 levels to $383 million.
  - **FY25 dividends** predicted to **fall a further 60%** to $151 million.
- Ultimately, WHC shareholders bear the costs of its risky growth strategy through increased capital expenditure, paused buy-backs and reduced dividends.

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Potential growth metric replacements

Existing growth-focused metric	Suggested new metric	New metric details
ROM Production (managed basis) • *Whitehaven scorecard weighting: 20%*	Free Cash Flow (FCF)	Free Cash Flow (post major project capital expenditures) metric incentivises continued disciplined capital management.
Strategy Execution • *CEO/MD individual scorecard weighting: 25%*[1].	Climate strategy implementation	Development of climate strategy: • Disclosing scope 3 emissions • Setting scope 3 emissions reduction target • Setting methane emissions reduction target
Strategic Priority Delivery Measure (Performance rights hurdle) • *SIP award weighting: 17%*	Relative TSR metric with a total payout ratio gateway	• Total payout ratio gateway: 50% of NPAT • Relative total shareholder return (RTSR) outperformance compared to basket of pure-play coal peers.

1. Assumed equal-weighting between 4 individual CEO/MD metrics

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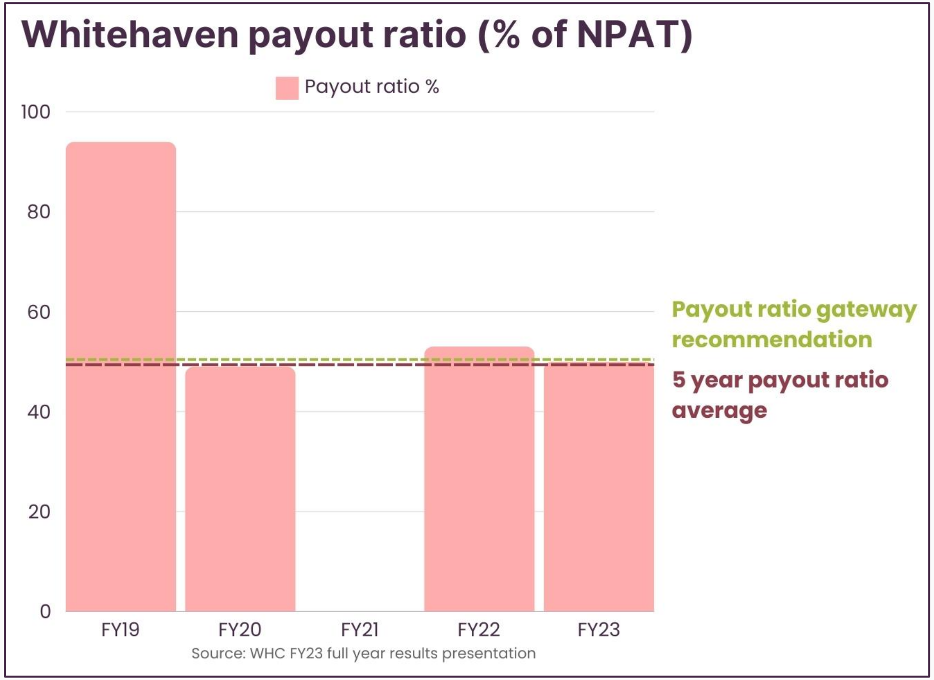
Total payout ratio gateway

- Recommendation: Payout ratio gateway for TSR award set at **50% of NPAT**.
- Whitehaven's capital allocation framework aims to return between 20% to 50% of NPAT to shareholders via dividends and buybacks combined.
- This recommendation codifies a payout ratio at the upper end of this range to make sure shareholder returns remain prioritised.
- Gateway ensures no TSR award will vest if this payout ratio threshold is not met.
- Threshold figure is set at slightly above Whitehaven's 5 year average payout ratio (49.2%) and in line with FY22 and FY23 ratios (53% and 50% respectively).



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Relative total shareholder return metric

Relative TSR has been chosen as an appropriate measure as it enables an objective external assessment over a sustained period on a basis that is familiar to shareholders.

Considerations	Recommendation	Reasoning
TSR style: relative TSR vs absolute TSR	Relative TSR	Relative TSR with a pure play coal peer group was selected rather than absolute TSR to mitigate exposure to the cyclical nature of the commodity market and incentivise TSR outperformance compared to direct peers.
Peer group: pure play coal vs ASX 100	Pure play coal peers	
Peer selection criteria: market capitalisation & coal revenue exposure	>95% of revenues derived from coal (metallurgical and thermal) Market capitalisation range (USD) $1bn to $7bn	Suggested peer group: Adaro Energy, Alpha Metallurgical Resources, Arch Resources, CONSOL Energy, Coronado Global Resources, New Hope Corp, Peabody Energy, PT Bumi Resources TBK, Stanmore Resources, Yancoal

RTSR metric details: outperformance vs percentile

- To address issues with the small size of the peer group an outperformance style was selected rather than percentile style.
- This style adequately incentivises prioritisation of shareholder return outperformance compared to industry peers.
- Furthermore, it allows for a more consistent scaling of the TSR award. This is a key issue of using a small peer group with a percentile style which can result in dramatic jumps in award vesting based on ranking within the peer group.

Difference between RTSR and benchmark RTSR	Payout percentage
>=50%	100% of the TSR award will vest
For each +1% above RTSR benchmark	50% + additional 1% (eg. 10% above RTSR benchmark = 50% + 10% = 60% vesting)
RTSR (median TSR of selected peer group)	50% of TSR awards will vest
For each -1% below RTSR benchmark	50% - additional 1%
<=-50%	0% of the TSR award will vest

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Potential other metrics based on peers

	Scorecard metrics	Individual metrics	Performance rights/LTI metrics
New Hope Corp	Risk, Audit and Controls	Culture and people, Diversity and inclusion, Risk management	Total Shareholder Return, ESG, Risk management
Stanmore Resources	People and culture		Total Shareholder Return, WACC
Peabody Energy			Free cash flow, Environmental reclamation
Coronado Global Resources	Group free cash flow	Solidified management structure	Total Shareholder Return, Safety, Cashflow (Adjusted EBITDA less capex)
Arch Resources	Free cash flow		Total Shareholder Return

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Investor action required

With WHC still considering a plethora of new and expansionary projects, lower dividends and paused buy-backs could easily become the new reality for shareholders.

Given the material financial risks that WHC's coal expansion projects carry, we urge investors to engage with the company to ensure it:

- Removes all coal production metrics from its remuneration plan.
- Adopts a strategy to manage down coal production in line with the company's stated support for the Paris Agreement, focusing on shareholder returns rather than risky growth capex.

If WHC fails to adequately respond to shareholder concerns, votes against its growth-focused remuneration plan and directors who have overseen WHC's unacceptably risky strategy will be warranted.

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