MARKET FORCES

Investor update

Whitehaven's growth strategy is extremely fragile

Modelling shows company value wiped out by highly probable downside risks

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Key findings

- Whitehaven Coal's (ASX: WHC) aggressive coal expansion strategy is extremely susceptible to downside risk and not in shareholders' best interests, according to our latest modelling.
- Even assuming rapid delivery of coal projects, >50% of Net Present Value (NPV) could only be recovered post-2035, when risks to coal demand (thermal and metallurgical) compound.
- Downside risks to the current strategy are both severe and highly probable:
  - **Coal prices**: a slight deviation (-1% p.a. real long term) from current industry price forecasts would **cut NPV in half**. This move is implied by a scenario where governments implement existing energy policies.
  - **A price decline in line with a global push to net zero by 2050 would lead to >$4bn of value destruction.**
  - **Production costs**: a five-year increase of 2% p.a. above inflation - well below the historical rate - cuts NPV by two-thirds.
- If the company simply operates existing assets without extensions, >50% of value could be recoverable by 2030 and sensitivities are much more controlled.
- These risks cannot be adequately managed until Whitehaven's remuneration policy stops encouraging its CEO to gamble on coal expansion. The most important immediate step shareholders can take is to **actively oppose the incentivisation of coal growth in WHC's remuneration policy.**

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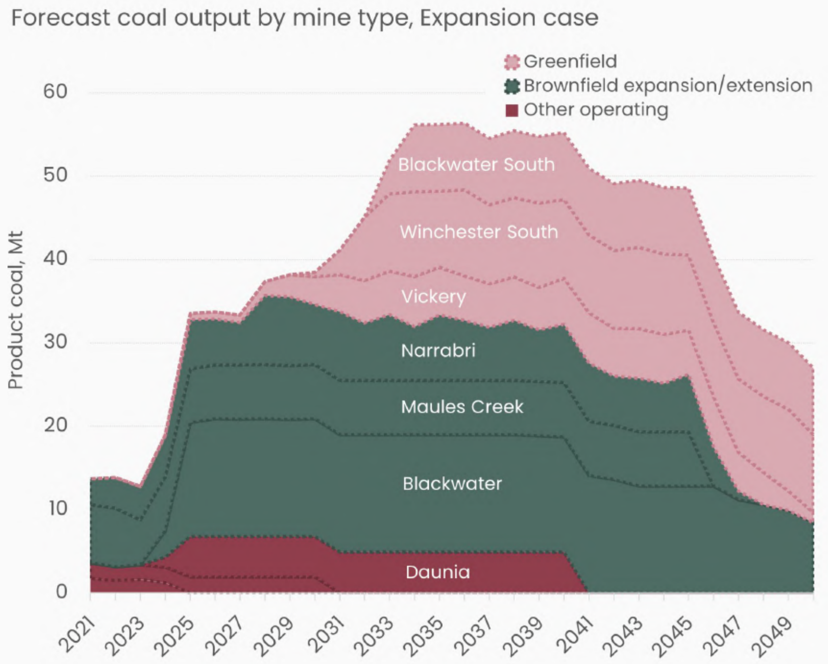
Whitehaven planning an unprecedented coal expansion



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 disclosure

- Under Whitehaven's current strategy, the company is pursuing a raft of new coal projects, including:
  - Narrabri stage 3 (brownfield)
  - Maules Creek continuation (brownfield)
  - Blackwater North (brownfield)
  - Vickery (greenfield)
  - Winchester South (greenfield)
  - Blackwater South (greenfield)
- If all are pursued, we estimate product coal production would peak at just shy of 60 million tonnes in the mid-2030s, or **4.5x the company's FY2023 equity output**.
- While these plans would increase the proportion of WHC's revenue from metallurgical coal, **thermal coal output would grow by ~60% in absolute terms**, primarily from the Vickery and Winchester South projects.

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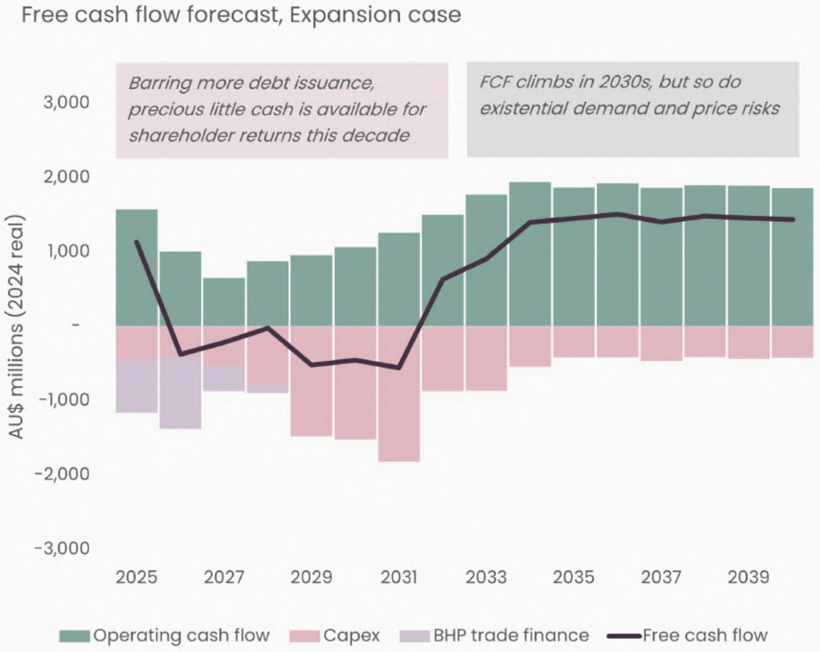
Expansion means bleak decade (at least) for shareholder returns



Source: Market Forces analysis

- Realising these expansion plans requires significant expenditure, including:
  - ~$3 billion for Winchester South
  - ~$1 billion for Vickery
  - An estimated $1.5 billion for Blackwater South
- Using industry coal price forecasts, which are higher than a scenario in which governments implement existing policies and warming reaches 2.4°C by 2100, Whitehaven shareholders would see marginal or negative returns this decade while expansion projects are built.
- This strategy pivots on the unwarranted bet that coal prices will remain strong and support cash flows from the mid-2030s onward.

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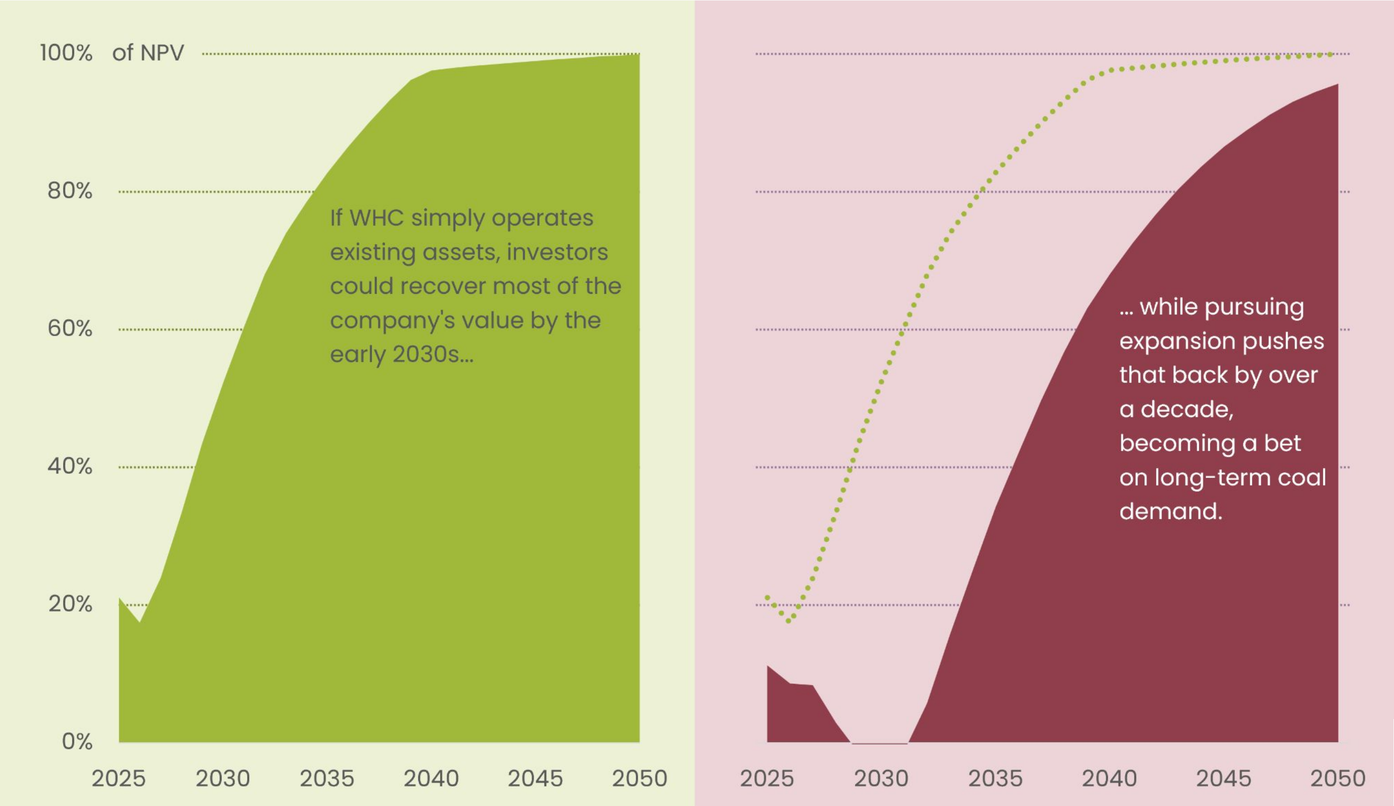
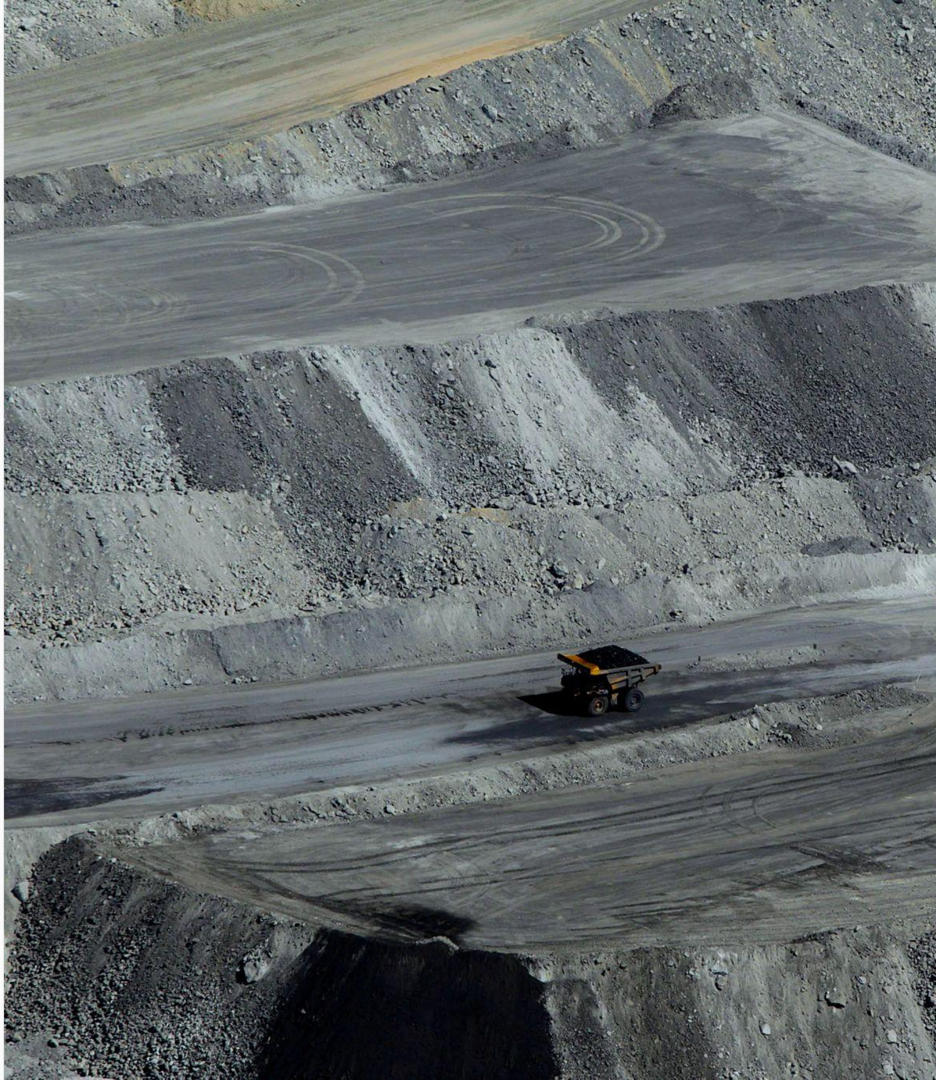
A wind-down strategy carries much lower risk

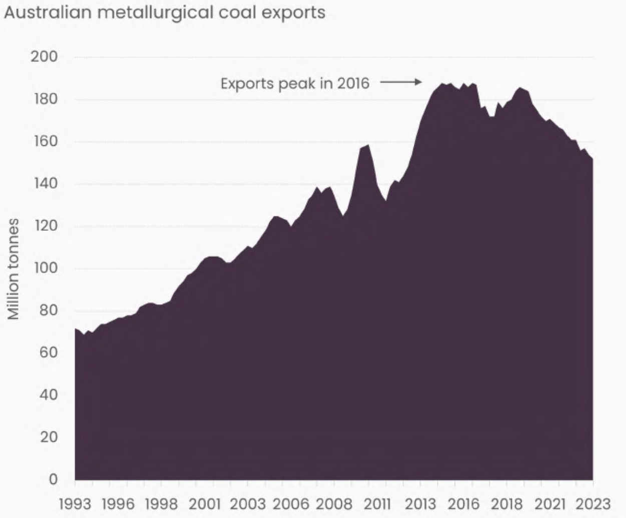


Note: Discounted free cash flow net of major growth capex and BHP trade finance.
Source: Market Forces analysis

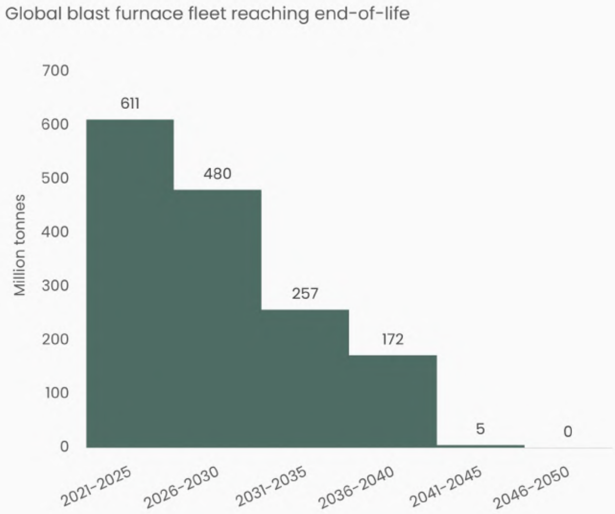
Growth strategy faces multiple downside risks



Prices Met coal no insurance policy against transition risk



Source: Department of Industry, Energy and Resources



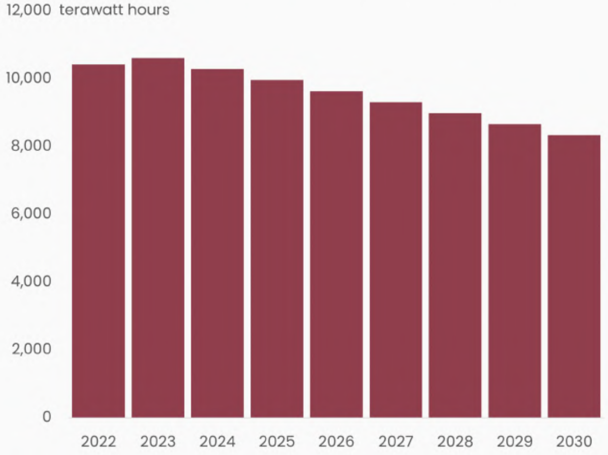
Source: Agora Industry

- WHC's 'diversification' strategy is to increase metallurgical coal production more than thermal coal.
- But met coal is not immune from structural change. Australian met coal export volumes have been declining since 2016.
- Even in the IEA Stated Policies Scenario (2.4°C), based on current government policies, global met coal production drops another 10% by 2030.

- 70% of the world's blast furnaces are due for re-investment by 2030, creating an opportunity for substitution with non-coal technologies.
- Most steel decarb projects to date involve replacing rather than retrofitting coal-based processes. CCS-equipped blast furnaces are simply not materialising; of the 400 CCS projects in the global pipeline, just four are in steel.

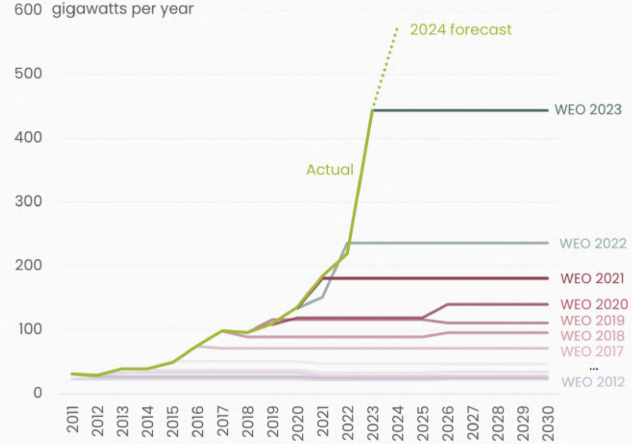
Prices Thermal coal demand is extremely fragile

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



Note: WEO 2023 projections start in 2023; we have inserted actual data for 2023 and drawn a straight line to the 2030 forecast.
Source: IEA [World Energy Outlook 2023], [Electricity 2024]

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

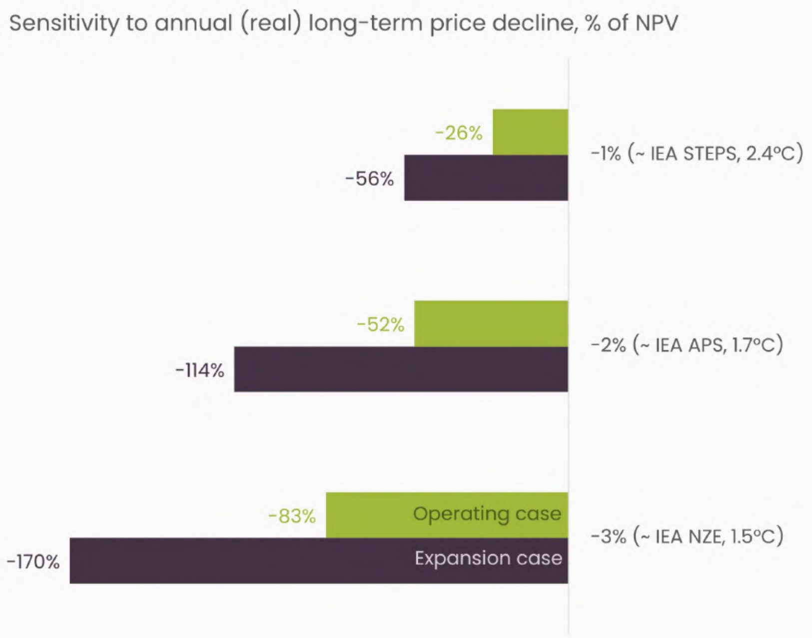


Note: WEO data is annual averages, not explicit forecasts.
Source: IEA, BNEF (2023 actual & 2024 forecast)

- According to the IEA, current government policies are on track to significantly drive down thermal coal demand this decade.
- This is especially true in WHC's core markets, Japan & South Korea (74% of FY23 revenue) where 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. Even its least ambitious, 2.4°C-aligned forecast is therefore too generous to coal.
- Coal demand won't disappear overnight. But expecting it to stay largely at today's levels, as WHC does, poses unacceptable risk to shareholders.

Prices Growth portfolio can't withstand downside risk



Source: Market Forces analysis, IEA

- If Whitehaven progresses growth projects, it becomes far more exposed to these structural demand changes.
- Our model uses explicit market forecasts out to 2028 and applies annual (real) sensitivities to the long term coal price.
- These sensitivities result in thermal coal price trajectories analogous to the IEA's three scenarios; we assume they apply similarly to met coal.
- **A minor decline (1% p.a.) would cut the growth portfolio's NPV in half. This is implied by today's government policies.**
- At 2%, in line with governments' climate targets, WHC becomes largely worthless. A pathway to net zero by 2050 would lead to significant value destruction.

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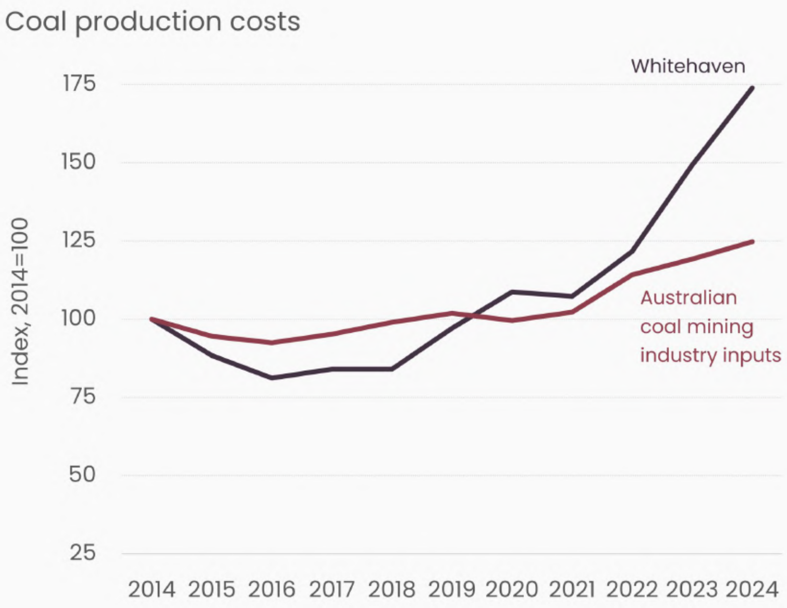
Costs Whitehaven failing to keep a lid on it



Data is as at June each year.
Source: Whitehaven Coal, Australian Bureau of Statistics

- Whitehaven has historically been bad at limiting cost increases relative to the price of inputs (e.g. diesel and explosives).
- The company has blamed heavy rainfall in recent years, but that doesn't explain why it's still tracking towards the upper end of 2024 cost guidance.
- This also underplays structural problems such as labour shortages and rising strip ratios.
- Our default model setting assumes 0% cost increases in real terms going forward, but that is likely a best-case scenario.

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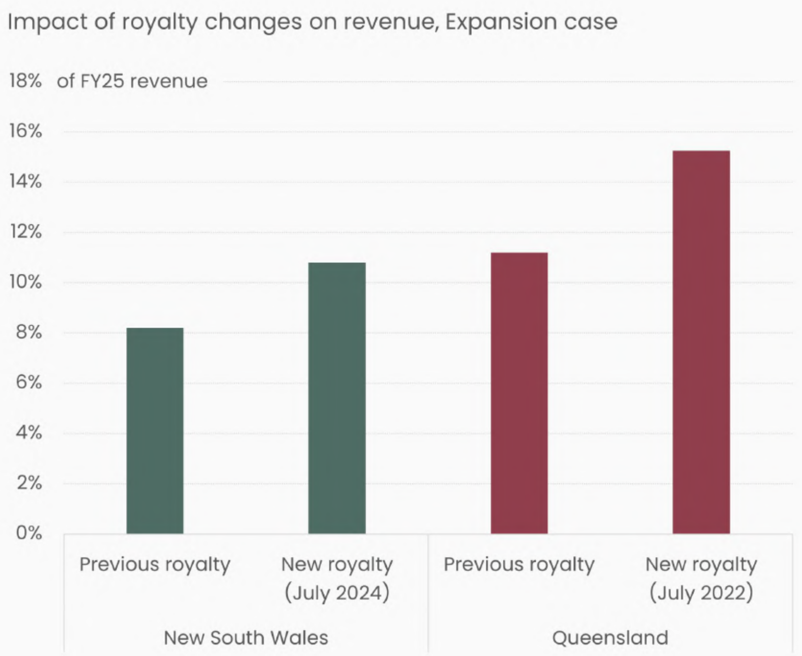
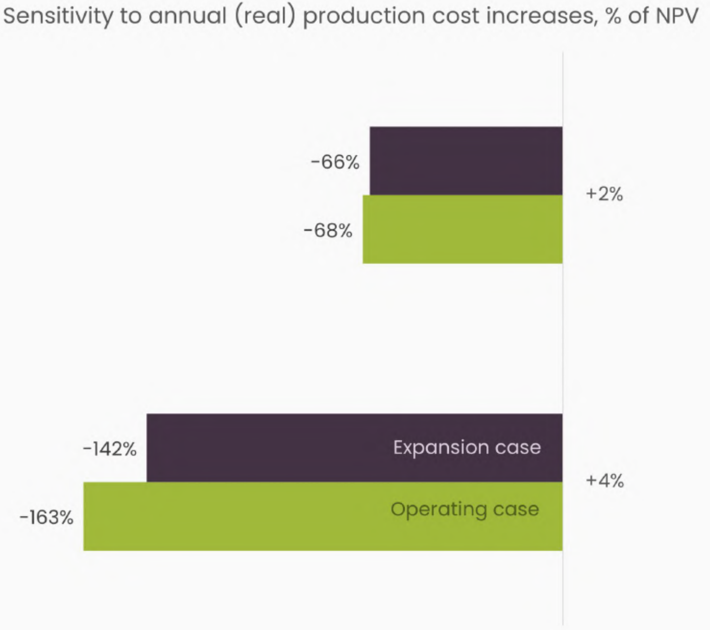
Costs Royalties on the rise



Source: Market Forces analysis, NSW and QLD governments

- Recent changes by both the New South Wales and Queensland state governments will cause significant hits to Whitehaven's projected revenue.
- Queensland's is particularly impactful due to its progressive nature which affects higher-priced metallurgical coal harder.
- Both of WHC's recently acquired mines (Blackwater and Daunia), and 2/3 greenfield projects (Blackwater South and Winchester South) are in Queensland.
- These changes make the economics of new mines even more marginal.

Costs   Future increases likely and highly value destructive



Defined as a five-year annual increase above inflation followed by a flat trend.
Source: Market Forces analysis

- Both scenarios are extremely sensitive to a brief increase in production costs. This refers purely to mining costs, so doesn't include royalties and carbon abatement costs.
- If production costs increase in line with the last five years (and remain sticky long-term), Whitehaven's value is wiped out in either scenario.
- However, the potential for cost savings is greater in the Operating case. For instance, Whitehaven could:
  - Reduce the need for further debt (its recent debt issue has an eye-watering interest rate of 11%)
  - Cut back on project staffing and axe exploration spend
- Either way, the company's expansion strategy looks extremely fragile.

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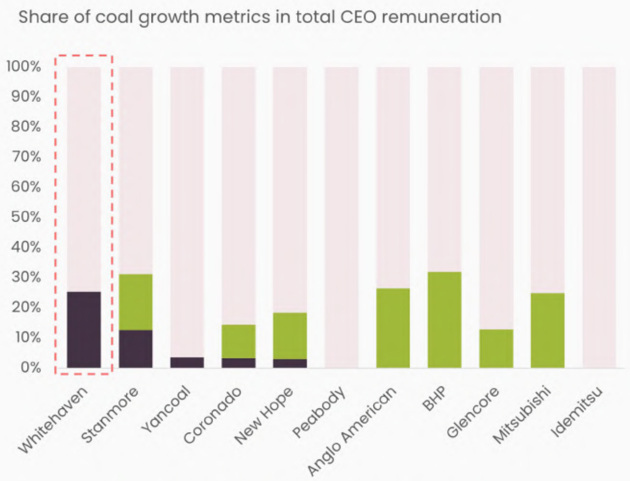
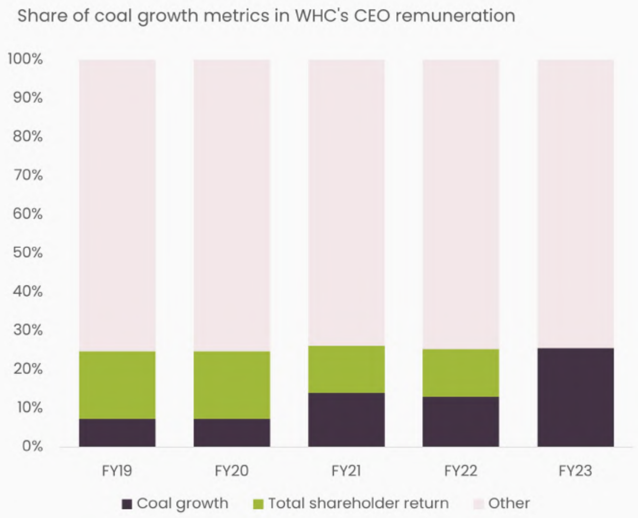
Remuneration as a lever to curb growth

Remuneration unacceptably focused on coal growth



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



Source: Market Forces analysis.
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- Whitehaven's remuneration policy stands out among peers and larger diversified coal miners due to its outsized emphasis on coal growth and complete omission of total shareholder return (TSR) metrics.

- This is a recent development. The FY23 overhaul to the rem structure removed TSR and added a multi-year hurdle related to the delivery of coal projects to all pay - even that awarded for ostensibly non-growth related targets, like cost control and safety.
- **This effectively means that for Whitehaven's CEO, coal growth trumps all other concerns.**

Opportunity to rein in risk

- Our modelling clearly shows that Whitehaven's growth strategy faces several unacceptable downside risks, which are highly likely to materialise.
- It's clear that the company needs a change in overall strategy to one that axes growth projects and returns cash to shareholders, or invests in new business lines.
- However, that cannot happen while the remuneration policy incentivises the CEO to lock the company into several expensive, long-term coal projects.
- As a first port of call, **shareholders must push WHC to drop coal growth incentives from its remuneration policy**.
- If these incentives remain, shareholders should vote against the Remuneration Report and the directors responsible for WHC's unacceptably risky coal growth strategy at the company's 2024 AGM.

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