FAIR SHAREHOLDER RETURNS

12 October 2023

Dear Shareholder,

Whitehaven Coal Limited (WHC) is putting your shareholder returns and your future income at risk.

At the AGM on October 26 VOTE AGAINST:

- Resolution 1 – Adoption of Whitehaven Coal's 2023 Remuneration Report.
- Resolution 2 – Approval to grant 274,449 Deferred Rights and 259,202 Performance Rights to Managing Director, Paul Flynn.

Under WHC's current plan, the Company could destroy the share price, cancel or reduce dividends, stop the share buy-back, and still pay a healthy bonus to management.

That's because WHC dropped Total Shareholder Returns (TSR) from their remuneration structure for the first time since 2011.[1]

This is not the approach taken by BHP, Rio Tinto, New Hope, Newcrest, Woolworths, Telstra, and many of the rest of the ASX 100. Nor is it the approach taken by fellow listed coal companies Coronado or Stanmore.

At the same time as explained below, WHC management have presided over a destruction of the share price in the past year, while paying CEO Paul Flynn three times[2] more than his peers.

That's not fair for WHC shareholders.

Send Whitehaven Coal a message and vote AGAINST resolutions 1 and 2 at the AGM on October 26.

You may be aware Bell Rock Capital has made public comments about our concerns with WHC's attempt to purchase BHP's Daunia and Blackwater mines. (Recent press reports suggest the price will be around $US3.5 billion).

Under this plan, WHC management could gain a significant financial benefit from the potential transaction and see no financial recourse if it destroys shareholder value.[3]

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[1] https://www.fairshareholderreturns.com.au/our-rationale

[2] https://www.fairshareholderreturns.com.au/

[3] Between 2011 and 2022, Whitehaven considered Total Shareholder Returns (at a 35% weighting), run-of-Mine production (12.5%), and EBITDA (10%) when calculating short- and long-term incentive packages. From 2023, TSR has been removed while the weighting given to run-of-mine production and EBITDA has increased to 20% and 25% respectively. WHC's remuneration scorecard now explicitly ties EBITDA and ROM production to executive remuneration. These measures incentivise management to focus on top line growth, which can be achieved through acquisitions that may be not beneficial to shareholders.

Whitehaven Annual Report 2022, p.34;

Whitehaven Coal 2023 Annual Report, p.39;

https://www.asx.com.au/markets/trade-our-cash-market/announcements.whc

Regardless of your view on the BHP transaction, as a shareholder, you need to ask one question – without total shareholder returns (TSR) in WHC's remuneration structure, how can you be sure management is acting in your best interests?

If it's good enough for BHP, Rio Tinto and even New Hope, why isn't it good enough for Whitehaven Coal?

1. Vote Against the 2023 Remuneration Report

CEO and Managing Director Paul Flynn receives three times the pay of his peers after receiving an 85% remuneration increase in 2022 and a further 26% this year.[4]

According to Bloomberg data, adjusted for dividends, over the past twelve months he has presided over a -28.35% crash in the WHC share price. Meanwhile, using the same methodology, peer New Hope has risen by 8.37%, and Yancoal has fallen by just -0.45%.[5]

On October 25, 2022, the WHC share price was $10.36 and Paul Flynn said "…share buybacks have been and are expected to remain an efficient and value-creating way to return capital to you, our shareholders, particularly if the share price is undervaluing the company which we believe remains the case…"[6]

28 days later on November 22, 2022 Paul Flynn sold a significant portion of his then position for $7.8 million.[7]

The share price is now $6.72[8] and WHC has decided to suspend the share buy-back program, even though Paul Flynn said it was an "efficient and value-creating way to return capital to you, our shareholders" in favour of trying to acquire the Blackwater and Daunia mines for a speculated US$3.5 billion, which may be value destructive for shareholders.[9]

We fear it is unlikely the buy-back program will return, with future dividends potentially put on the chopping block if WHC proceeds with this acquisition.

Since Paul started as Managing Director in 2013, Total Shareholder Returns have been part of his remuneration plan, until now. During that time, Paul has been paid nearly $35 million.[10]

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[4] https://www.fairshareholderreturns.com.au/

[5] Bloomberg data, adjusted for dividends, performance from 10/10/22 to 10/10/23

[6] Whitehaven Coal 2022 Annual General Meeting Transcript, p.4; https://whitehavencoal.com.au/wp-content/uploads/2022/10/WHC_AGM_Addresses_and_Presentation_2022.pdf

[7] Whitehaven Coal ASX Disclosure: *Sale of Shares by Managing Director and CEO;* https://cdn-api.markitdigital.com/apiman-gateway/ASX/asx-research/1.0/file/2924-02602742-2A1415849?access_token=83ff96335c2d45a094df02a206a39ff4

[8] As at market close on 10 October 2023.

[9] https://www.theaustralian.com.au/business/dataroom/whitehaven-has-pitched-its-bid-for-bhps-coking-coal-mines-at-the-high-end-of-the-range/news-story/50634a13d10945f11433ecd68c610718

[10] Whitehaven Coal Annual Reports, 2013 – 2022; https://whitehavencoal.com.au/investors/asx-announcements/

Shareholders should not reward Paul Flynn for WHC's poor performance and we ask you to vote against resolution 1 at the AGM.

2. Vote Against the SIP for the Managing Director

By dropping Total Shareholder Return (TSR) from its performance scorecard, WHC are introducing a misalignment between the interests of management and shareholders.

It was good enough for Whitehaven Coal to use TSR in their bonus structure from 2011 to 2022, which last year accounted for 35 per cent of long-term incentive assessment.

What has changed?

It's a measure widely acknowledged as industry standard.

Woodside: "Our view is that [Relative Total Shareholder Returns] is the best measure of long-term value creation across the commodity price cycle of our industry."[11]

Santos: "The calculation of TSR…is therefore a robust and objective measure of shareholder returns…TSR continues to effectively align the interests of individual Senior Executives with that of the Company's shareholders by motivating Senior Executives to achieve superior shareholder outcomes relative to Santos' competitors for investor capital and its energy sector peers."[12]

BHP: "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."[13]

Shareholder return should not be 100% of management's remuneration however neither should it be zero.

Shareholders should be aware that WHC's remuneration report seeks approval for "Strategic Priority Delivery Awards" but gives no thresholds on how those conditions are set.

This ambiguous and obscure approach uses "hurdles" and "quantified return on investment" to consider long-term projects, however, not a single condition is set, which means the goal posts can be changed mid game.

Our approach

Bell Rock's approach is as a long-term strategic investor and we manage just under 5% of WHC stock.

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[11] Woodside Energy 2022 Annual Report, p.82; https://www.woodside.com/docs/default-source/investor-documents/major-reports-(static-pdfs)/2022-annual-report/annual-report-2022.pdf?sfvrsn=52bf2032_7

[12] Santos 2022 Annual Report, p. 54; https://www.santos.com/wp-content/uploads/2023/02/2022-Annual-Report.pdf

[13] BHP 2023 Annual Report, p.199; https://www.bhp.com/-/media/documents/investors/annual-reports/2023/230822_bhpannualreport2023.pdf

Fair Shareholder Returns

Regrettably we are taking this action because the WHC Board and management have made no attempt to address our concerns and their approach impacts all shareholders, not just us.

The Board's view may have been based on a misconception that Bell Rock is a short-term investor and will be gone soon. This is wrong.

For more information on what you can do to support fair returns to all shareholders, visit fairshareholderreturns.com.au.

Kind regards,
Michael O'Mara
Chief Investment Officer
Bell Rock Capital