TRANSCRIPTION

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Operator: Thank you for standing by, and welcome to the Stanmore Resources Limited 2023 Half Year Results Call. All participants are in a listen-only mode. There will be a presentation followed by a question and answer session. If you would like to ask a question, you will need to press the star key, followed by the number one on your telephone keypad. I would now like to hand the conference over to Mr. Marcelo Matos, director and chief executive officer. Please go ahead.

Marcelo Matos: Good morning, everyone, and thank you for joining us on the call today. I would like to begin by acknowledging the traditional owners of the land on which we meet, the Turrbal and the Jagera peoples here in Meeanjin, in Brisbane. I also acknowledge the traditional custodians of the lands on which our operations are based, the Barada Barna, the Jangga, and the Widi peoples of Central Queensland. I pay my respects to the elders, past, present, and emerging. I'm pleased to be with you all this morning. I will now share a bit of our 2023 half year results just released. I will begin with an overview of our achievements over this period on slide number three.

As you can see, Stanmore continues to achieve some fantastic results over the first half, with our operation performance strong following the acquisitive period in 2022. Our commitment to safety and the success of the integration of SMC is demonstrated by a steady injury rate, albeit we remain focused on continuing to share some of the learnings amongst our operations and to prioritise safety within our sites. The half was characterised by strong performance, driving 6.4 million tonnes of saleable production, however our sales have been impacted by ongoing logistics constraints, which has materialised in a temporary impact to our unit FOB costs per sales tonne. Shane is going to talk a bit later to explain a bit of the cost performance and this sales volume impact. Overall, these metrics have translated into a strong result of US$650 million underlying EBITDA and facilitated the continued strong cash generation, and into an inaugural net cash position since the acquisition of SMC.

Moving to slide five, we would like to begin the detail of today's presentation by also highlighting our efforts in the areas of health, safety, environment, and social impact. We are proud of the strong safety culture that we have at Stanmore. Our TRIFR has remained steady during the first half, a time of significant integration efforts of the SMC assets and the announcement and commencement of some capital projects such as the MRA2C creek diversion at South Walker, which has required the mobilisation of additional contractors and employees. Nonetheless, we do have knowledge that the TRIFR rate has increased since our 2022 full-year result, and we are committed to gaining a thorough understanding of the circumstances that led to the eight injuries over the first half in order to ensure and manage improvements of our processes and the lead indicators.

In the next slide, the board was pleased to release our 2022 sustainability report in early April this year, which highlighted some key successes across the group, as well as the key topics coming out of our materiality assessment back in 2022. Within the environment pillar, we are busy working on a water tactical plan across all operational sites, which will be cornerstoned by the MRA2C creek diversion and onsite infrastructure at South Walker Creek. Our end goal of this tactical water planning is to build a high resistant water network between all of our sites, reducing our dependence from outsourcing water.

Topsoil preparation for upcoming rehab has been a planning priority, with mulching materials from MRA2C, clearing and grabbing, providing key organic materials to support further rehab across all sites. Importantly, progress has been made on our understanding of the impact of the Safeguard Mechanism to our business and on initiatives to help manage our emissions footprint. Partnerships with Mental Health First Aid Australia is rolled out on all sites, and creating positive atmosphere for mental health discussions on site, recognising all the FIFO and drive-in/drive-out sites holding higher risks for developing mental health problems. We look forward to continuing to update the market on important developments to achieve our sustainability goals, as well.

To the next slide, number seven. With the regional location of our three assets, we continue to engage with all traditional owners in the local communities as one of the most impactful ways to provide a positive source of contribution. As one example, Action Drill & Blast, ADB, was our [inaudible] contract to the South Walker, and Stanmore collaborated with Barada Barna to have a traditional artwork by local Barada Barna artist, William Wailu, showcased on ADB's brand-new drill and hosted a traditional smoking ceremony during NAIDOC Week. It was a fantastic way to recognise and support local artists. A lot more happening on the procurement, on the employment, and in training space, as well.

We are also pleased to commission the first of three solar water panels in March at Isaac Plains, which is expected to contribute to the preservation of around 12 millilitres of water over the life of the Isaac Complex. Finally, with an average sales price of approximately US$250 per ton-and-a-half, Stanmore easily exceeded the top Queensland royalty bracket of 40%, resulting in royalties paid of close to 360 million US, representing significant contribution to the state and to local communities. Nonetheless, we are pleased to continue our voluntary community support initiatives, such as the Stanmore Community Grant Programme, in-kind support to the Central Queensland University Koala Habitat Research Programme, and the Fitzroy River Health Programme.

Moving now into slide number nine, I will talk a bit more about our operating performance. Operationally, our assets have performed strongly, with multiple records at all sites assisting with the recovery from the impacts of the wet weather early in the year. South Walker Creek achieved records in blasted volume, total stripping, CHPP feed, and is operating at a steady state as we commence the expansion project in the second half. Ultimately, the EBITDA result of 383 million US only at South Walker, which comprised around 60% of the total of our three sites' EBITDA demonstrates the strength of South Walker's low cost base and its consistency.

Poitrel achieved total material movement records during the second quarter, which supported the full half a year performance, and also helped offset the larger impact of the wet weather, compared to the other two sites early in the year. Strategic infrastructure position at Poitrel highlighted by the ongoing coal washing programme with Isaac Downs early in the quarter, which was extended into the second quarter, as well, and also some continued processing of third-party coals.

The Issac Complex is set to achieve a record year of production utilising the additional processing capacity from the recently upgraded CHPP, and assisted by the Red Mountain Coal Programme early in the quarter, while we were having some teething issues in the ramp-up of the CHPP post-upgrade. It came quite handy to make sure that we kept the sales volume consistent for Isaac Plains. On a consolidated basis, we are pleased with a stable saleable production figures half-and-half, which translates to a rolling 12-month production figure of around 12.8 million tonnes. Whilst the average sales price was relatively stable, we did experience an increase in unit costs on a sales tonnes basis, which was impacted by logistics of the performance. I will now pass it on to Shane, who will provide more detail on the cost performance by site.

Shane Young: Thanks, Marcelo. If we can turn to slide 10. We thought it might be helpful to illustrate and go into a little bit more detail on the cost performance for each mine by walking forward costs from the second half of last year to the first half of this year, the second half being the first full six-month period where we owned all three assets collectively. If we look at slide 10, South Walker Creek's performance actually, from a production point of view, has been fantastic. 3.1 million tonnes of saleable production for the half, but compared to sales of only 2.9 million tonnes, we've seen an impact on cost per sales tonne over the course of this half, relative to the second half of last year.

That is something that when we rebase or if we were to rebase our free onboard cash cost per sales tonne to a saleable production volume base, you can see the impact that that has of about $7.40 per tonne, and actually, on a half-on-half comparison, that would see our equivalent for this half, had we made all of those sales, on a lower basis than the equivalent period last year. The logistics impact does impact each of our mines, so that's something that we're working on and looking to pick up extra capacity on opportunistic basis to address going forward.

If we move the next slide, we'll look at Poitrel's cost walk-forward, Poitrel's actually had quite a different story. Poitrel had a record half last year in terms of production. The sales volumes and saleable production last year was approximately 700,000 tonnes higher, compared to the first half of this year, and that was planned. That was something that was a decision made in terms of prioritising coal flow in the second half of last year, when the all-in sales price was, for this mine, $271 per tonne, compared to a price this half of $237 per tonne.

What we're seeing, though, with this mine is that that volume impact has had a significant impact, again on a metric which is based on sales volumes, and when adjusting for that, you can see that that's leading to a higher price in this half. What we will see and what we'll talk about towards the end of the presentation is we're seeing that rebase in the second half as we catch up on coal production with a guidance range of between 2 and 2.2 million tonnes in the second half for Poitrel, which we'll see a significant change in the cost per tonne profile for that mine.

Finally, turning to Isaac Plains. Isaac Plains has actually had a fantastic half, from a production and a sales impact. Again, they haven't been immune to the logistics issues that all of our mines have faced, but they still have produced 1.6 million tonnes of actual sales in the first half of this year, and they're on track for a record year of between 2.7 and 3 million tonnes for the full year. That has come at a cost in distribution reflecting coal haulage to Red Mountain in order to produce the extra volumes.

We've taken advantage of the fact that Poitrel had planned for lower sales in the first half, and have been able to wash some more Isaac Plains coal at their wash plant, and then we've also picked up an additional cost in railing that to Abbot Point, but all in all, we're seeing that those costs have been more than outweighed by the volume impact getting those sales out. One thing I would point out with Isaac Plains is the strip ratio does increase, and that's the primary driver for higher costs over the next few years at Isaac Plains.

When bringing everything together on a consolidated basis and we look at our financial scorecard on slide 14, we've had a really remarkable year, from a revenue point of view. Again, this is looking at first half of last year versus first half of this year, which is consistent with our half year financial report, although we've now got six months of production out of Poitrel and South Walker Creek, as opposed to two months production at the equivalent time last year. Sales price has significantly decreased in that time. Notwithstanding that change in sales price from $377 last year equivalent period to $250 per tonne this year, we've still seen revenue increase over that period.

That's led to 650 million US EBITDA for the half, and I always have to remind people these are US dollar numbers, so that's a billion dollars Australian for the first half from Stanmore. That's translated into 400 million US of operating cash flows. From EBITDA to cash flow, we do obviously have to pick up tax and interest payments, which, in particular tax, we did have some catch up from tax that was paid this year in relation to profits made last year, as well as working capital impacts from, obviously, the sales impacts that we've had and the increase in inventory, generally. Cash has finished the half really strong at 420 million, and I'll talk a little bit more about cash and debt, but what that has done is that's led to a net cash position being achieved by the company in just over 12 months of ownership of the new assets.

On the next slide, you can see our summary of our financial performance. I've talked a little bit about EBITDA and our EBITDA performance already. One thing to note, last year at the equivalent period, we did have $291 million of non-operating adjustments with relation to the acquisition of SMC. As a reminder, that was primarily a non-cash inventory adjustment of $227 million, as well as some other transition costs incurred on and around acquisition date. But what that's led to is a significant increase half-on-half in net profit after tax, about 46% improvement, and that's led to an increase in EPS across the period, from 37 cents to almost 38 cents per share.

We're rounding out financial slides here on slide 16, and looking at cash flow and capital management, the significant cash flows from our operations have enabled us to continue to rightsize and strengthen our balance sheet. The cash flow sweep under acquisition financing facility was paid in February this year, and following that payment, net-net, we have reduced that facility by around 43%. Across the year, we've deleveraged the balance sheet, we're into a net cash position, and while retaining strong cash on our balance sheet at this time.

When looking ahead to the next six months, the board did consider whether or not to declare an interim dividend. Our dividend policy is an annual policy, and that's by design because of the cash flow sweep and uncertainty around the timing and the amount of that payment. When looking at our first half cash flows, we have taken the opportunity to deleverage, but when looking ahead to the next six months, we do have committed capital projects, as we'll talk about in a few slides' time, of between about $100 and $120 million of capital spend, and there is some uncertainty about the market, generally, which Marcelo will also talk about shortly. On that basis, we think it's prudent to not declare a dividend at this time, but it is something we'll definitely revisit at the end of the year, once we have got more certainty with the cash flow sweep. I'm going to hand it back to Marcelo to take us through projects and organic growth opportunities.

Marcelo Matos: Thanks, Shane. On slide 18, we have sought here to highlight in a simple format there the various projects and the organic growth opportunities that we are now busy progressing. The focus is to remain wholly on met coal business and focusing on the met coal developments, and on maximising the opportunity to bring that forward in the portfolio with capital-efficient investments.

Some examples here, as you see, Pit 5 in Isaac Plains is now progressing well. We are going to do a reasonable amount of overburden in advance this year in a way that, from 2024, we're going to have $1.4 million of run-of-mine to be mined. South Walker Creek, of course, we announced the expansion, as well. I think it falls into the same basket of a very capital-efficient investment. Additionally, we are looking to protect the operations so that they are ready to withstand any softer market conditions with improvement initiatives, such as the MRA2C creek diversion at South Walker and Ramp 10 in Poitrel, which actually will make us remain resilient, which preparations are actually under control in the longer term in Poitrel and South Walker, as well. The resources is more than four billion tonnes, providing plenty of development opportunities.

I will move into slide 19 and 20, just to briefly discuss the South Walker expansion, and also provide a bit of colour into the Lancewood project. In slide 19, here, you see the South Walker expansion snapshot. It's the largest opportunity for a very capital-light, incremental expansion within the portfolio. South Walker has over 20 kilometres of strike length, providing a lot of flexibility to introduce additional fleets, however we have two bottlenecks that need to be addressed to be able to achieve that. The first one was our previous environmental authority had a cap of on-run production of 8.4 million tonnes. We are pleased to report that during the second quarter of 2023, we've been granted a minor amendment to the EA allowing us to increase production to 9.4 million tonnes of run.

Secondly, the bottlenecking of the wash plant is also required, and we have approved with the board the construction of advanced-media Cyclone module adjacent to the CHPP, to the existing plant, which is going to be built during the course of the fourth quarter this year and the end of next year. It will be linked to the existing plant in a eight-day shutdown down towards the back end of the second half of next year. During this first half, we approved 69 million US in capital with the board, and the intention is to commence construction of this module now in the second half, as I explained. To achieve run-of-mine production in line with this increased ROM cap and the CHPP capacity, the target is to introduce three additional excavator fleets from the beginning of next year.

It's important to note that the additional volume that will be brought by these additional three fleets will be based on trucks and excavators relatively to our current production base, which includes three draglines. Why are we going to have benefits of, of course, incremental tonnes with no increase to a fixed cost with these additional tonnes, or from a variable standpoint, it's more expensive volume, compared to the current total volume of production at South Walker? Together with the MRA approved in 2022, the project-specific capital for South Walker announced since our acquisition is almost 200 million US, comprising of the expansion project, but also the MRA developing itself, demonstrating our commitment to extract value from our existing portfolio, and focusing on incremental capitalised investments.

Moving to slide 20, we briefly discussed in the past, Lancewood, in some previous announcements and meetings, but we thought that for those who need a refresher, Lancewood is the northern section of what the market knows as the Wards Well green fuel deposit, which is located just to the northwest of our existing operating assets, targeting the [inaudible] measures. The broader Wards Well area is spread over four approved mining leases, and in its entirety is a significant deposit of over 1.4 billion tonnes of premium hot coking coal. Major capital expenditure would be required to establish the underground and supporting infrastructure of Wards Well as a whole.

Lancewood is located to the northern part, so it's that blue area in the northern mining lease in this map, providing a short-term opportunity to initially access the resource with a smaller-scale open-cut on the northern mining lease whilst do we work on a potential investment decision to extend the life of that mine into an underground, out of the exposed, high walls, once we finish mining all the open credible coal. We are now busy and investing significant time and resources into Lancewood, including conducting further studies, including all the ecology works, drilling and seismic, which are required, of course, to secure our environmental approvals and to progress to a final investment decision.

We are now moving to market update, and it was slide 23. Prices were pretty strong through the first quarter initially, with supply tightness driven by the wet weather early in Q1 and also the Ravenport systems on the performance, as well as the news of the imminent reopening of China for importing all the met coals. Through the second quarter, you can see that hard coking coal and PCI prices weakened together. With the Chinese economy and still the amount concerns, the relativities, as well, started to widen in June, and have recently traded at around 65%, which is far below our long-term average of 75%, 80%. That's driven by various reasons. I think the PCI market trends to be a more volatile market than prime coking coal, especially in a changing market, and it's the first lever for steel mills to pull when they are boosting steel production in the blast furnace or when they are slowing things down in a weaker market.

Russian materials also remain available to markets importing Russian coals. That includes China, India, and some Southeast Asia markets, which are actually the key spot markets, and that's at a discount to the FOB Australia pricing, but of course, putting pressure to FOB Australia prices, especially for producers who are long and have spot volumes available. Given our position as a leading PCI exporter from Australia, obviously, there's current relativities upfront in our mines, and I think, as I said before, for the very reason that we were getting 100% relativities the second half of last year, and even early this year, there's a volume of Russian coals, together with a weaker demand, is putting pressure on PCI relativities in the shorter term.

If you move to slide 23, from a supply perspective, as I already said, discounted Russian material is finding its way into India, China, and Southeast Asia. While we expect this pressure to continue, there are indications, though, that we are nearing a PCI floor, especially as prices are converging to CFR prices for Russian coal in some of these markets, including China, which should provide support and hopefully a bounce moving forward. That's been evidenced as well, for thermal coal, for example. Although prime coal supply availability has been tight earlier into the third quarter, especially driven by some plant maintenance and some production challenges in some of the operations here in Queensland, in North America, supply has remained strong into their European markets with the normalisation of the trade floors and the return of the market switching volumes to the most natural supply option.

On the demand side, prices will remain sensitive to announcements and clarity around the extent of the antagony of the Chinese stimulus. While sentiment has improved through July and August, the outlook remains a bit cloudy with the real estate construction sector to stimulate the pressure and the uncertainties about what the Chinese government will do to stimulate the economy. I think the general view is that they are the same measures taken in the past that brought them into some of the troubles that they need to fix now, and hence the Chinese government may be reluctant to stimulate the economy excessively, like they did in previous similar periods. India has been seasonally low during the monsoon season, with demand expected to pick up now, thereafter, supported also by the Russian price convergence, which I explained before. The Japanese, Korean, and Taiwan markets remain our primary selling region, quite a stable market for us, but it is also expected to be sensitive to some of these global economic conditions, particularly still demand from Europe, which has also had [inaudible] going forward.

Going into slide 24, I think the purpose here is just to reiterate that we are a meteorological co-producer, and hence the long-term fundamentals of met coal, given growing global steel demand and [inaudible], but also the growing capacity of steelmaking through the blast furnace integrated route. As you see in the graph, we still see, out of the rest of the world, ex China, still production growing through the BOF route, which includes India, who is still building blast furnaces. I was here last week with the CEO of Tata Steel who was visiting Australia, and it's incredible the amount of growth which is expected in India through the blast furnace route going forward. Again, we have a unique position in this context of steel production increases and our strong met coal platform.

On the supply side, in slide 25, we see that Australia is currently the largest, and we remain the largest, met coal exporter, with forecasts calling for an additional 38 million tonnes in Australian exports by 2027. Quite challenging, as we all know, given some of the challenges facing supply, including capital exit by some of the major miners, infrastructure constraints, regulatory pressure, ESG costs, project approvals, labour availability, and productivity challenges. I think while there is quite clear net growth on the demand side, despite the move into green steel by many steel producers in some traditional markets, I think the ability for the supply side to catch up is quite questionable.

On slide 26, you will see that our customers are located in fairly stable steelmaking regions, a very healthy exposure to the traditional Japan, Korea, and Taiwan markets, and a very positive exposure, as well, to the growing markets like India. The quality of our products are highly valued by our traditional customers. The growth starting in India over the next four or five years is very real, as I said, and as illustrated here by this graph. The rollout of blast furnace capacity continues to grow, and is projected to materialise an additional at least 42 million tonnes of steel capacity in India by 2027. This is real growth, it's actual construction, and ongoing work happening on the ground. Our low-ash products are a good fit with Indian coke plants, positioning, as well, to expand our existing relationships with reputable names in the region. I will now hand it over to Shane, who will talk a bit about our guidance numbers for the second half and for the full year.

Shane Young: Thanks, Marcelo. We'll now close out the presentation with our market guidance on slide 28. We are pleased to resume the provision of guidance to the market this half year, incorporating our projections to the end of 2023 for saleable production, consolidated costs, and capital expenditure to the end of the year. Saleable production is expected to remain consistent with the second half, with normalised production from Poitrel following the pit setup activities in the first half, as I mentioned earlier. With the unwind of stockpiles and improved performance of logistics providers, we expect to be able to improve sales volumes for the second half, which will support stabilisation of cost per tonne metrics for the full year.

Isaac Plains is expected to be temporarily impacted by the development of Pit 5 North, which will be expensed within unit costs before first coal is realised in 2024, so that may impact costs at Isaac Plains, but we'll see that coal delivered next year. Capital expenditure will step up in the second half of 2023, with the rescheduling of Ramp 10 Box-Cut from Q1 to a little later in the year due to wet weather, and increased development activities following clearing and grubbing works completed for MRA2C in the first half. We also look forward to commencing works for the South Walker Creek expansion during the second half of 2023. That concludes the formal part of our presentation, and I'll now hand back to our moderator for the Q&A.

Operator: Thank you. If you would like to ask a question, please press star one on your telephone and wait for your name to be announced. If you would like to cancel your request, please press star two. If you are on a speakerphone, please pick up the handset to ask your question. Your first question today comes from Colin McLelland from Petra Capital. Please go ahead.

Colin McLelland: Thanks. Hi, guys. A couple of questions. Firstly, on Daunia, I appreciate you probably can't say that much, but can you give us an idea of where the process is? Is it another six months or is it two months?

Marcelo Matos: Well, you are right, we can't say much, so I think I would rather not to comment. I'll just leave you with the comment that, obviously, at Stanmore, we will always be looking at opportunities that have fit with our existing portfolio and that have a good value proposition that includes organic and inorganic growth. I think that's as much as I can comment.

Colin McLelland: Super. Thank you.

Marcelo Matos: Thanks.

Colin McLelland: Just a follow-up, if I can, on Isaac Plains. You guys talk about that pretty much as a sort of 20-year operation, but the Isaac Downs BFS has things winding down really from 2030. How do we see that, because obviously, the coal price has changed quite a lot, so that BFS is probably a bit dated, anyway, but how should we be viewing that? And with the wash plant upgraded as it is now, is that washing all its own coal, rather than hauling to Red Mountain still?

Marcelo Matos: Good question, Colin. Look, they were upgrading the wash plant. The Plains was always a no-brainer. It was an extremely low-capital opportunity, and we are going to benefit from this now, in this year or next year, we are going to have record volumes. The reality is, I think you are right, I think as we go forward, I think reproducing this very high run-of-mine volumes is not likely. We knew that this was for two or three years or two years maximum, especially where the dragline was advancing well in low strip ratio areas, where we were uncovering coal fast and the last thing we wanted was to slow down the dragline, hence that was the logic of the expansion. I think going forward, the haulage to Red Mountain from Isaac Downs, it would only make sense if we could produce more ROM or if we have real actual problems in the IP CHPP, because I think the cost of hauling to Red Mountain through the highway is a lot higher.

And then it brings you to the next point, which is the whole road, does it make sense to build a whole road? I think, again, assuming that now the CHPP at the Isaac Plains is upgraded, I think we have what we need in Isaac Plains to wash our volumes. A whole road, if it can be built cheaply, even for us to be able to have service equipment and all the interaction between the two sites, not requiring to go to the Pikedale's highway, it could be desirable and that could be an opportunity even for a like dry weather haul road, but that's something we are studying. I don't think it's a must.

And then, to your point on life of mine, Colin, I do see Isaac Downs having at least another five years of competitive open-cut coal, potentially six. Thereafter, we start to see the target seams splitting, which then starts to become very uneconomic to keep growing. That could be an opportunity for us even to consider a move of the dragline in Isaac Plains to South Walker. It's quite a long walk, but it would come very handy for South Walker, back at the end of this decade, quite a significant walk project, but something we have a lot of time to work.

I think, to your points on the life of mine, there are options in Isaac Complex, as you know, and the underground project alone, in its original conception, used to be a 13- to 14-year project, I think 13- to 14-year project. We are now looking at that project, and there's additional geotech information that's going to be important for us to make sure that we understand the potential of the project going forward. But life of mine not necessarily is life of mine at the same volume levels. I think what we need to do now is to look at what is the optimised volumes for as it plays in the longer term, but as I said, it does include the underground project, but also the Isaac South prospect, which is EPC 55, another 10 kilometres south of Isaac Downs, which is another potential extension we are progressing, as well, with drilling, with some further steps.

Colin McLelland: Great. Thank you.

Operator: Thank you. Your next question comes from Tom Sartor from Morgans. Please go ahead.

Tom Sartor: Good morning, gents. Thanks for the call. Just three quick ones. Shane mentioned those logistics constraints, or you're looking at opportunistic capacity in the second half to reduce those stocks. Have you been able to reduce those stocks at all so far in the second half? And then do you have a feel or could you give us a feel for how much sales might exceed production in the second half?

Marcelo Matos: Tom, yes, we already had a pretty strong July and August. There is a bit of catching up already taking place, and at NES, we did bring some additional solution, in the form of short-term capacity through third-party assignment or trades, which will help us to deal with the situations with... Because of the other performance in the first half, what happens is every time you have a train cancellation, for example, you are burning network paths. I think we took a decision to bring some additional surge capacity to this business, with the aim of shipping our full-year plan volumes. I think we are confident that the numbers we are presenting here for saleable production, we are hoping that we can ship close to that, so close to that, I mean within the range, and hopefully reducing our stocks by the end of the year. That's the target. That's what we are busy working on.

Tom Sartor: Terrific. Thanks. A related question, just for the South Walker expansion and maybe for Pit 5, have you secured or have you got good visibility on the rail and port capacity you'd need to get those tonnes to market?

Marcelo Matos: We do. We do, because as you can see, Tom, Poitrel, on an annualised basis, compared to second half last year, is a little low, and that's probably why we developed Ramp 10. That's the steady state capacity. I think we need to look at what is the best outcome for Poitrel from a life of mine and mine plan is that once you optimise preparations, that pit, it's very busy, and as you know, having strike lengths to work, so hence the importance of Ramp 10, but that leaves us with a bit more capacity to be able to ship some of these additional volumes in the IPC Complex this year or next year. The answer is yes, we have looked at this from a consolidated basis, and when taking some of these incremental, very important surge, we also consider some of these upcoming volumes for Pit 5, as well.

Tom Sartor: No worries. Thank you. Lastly, with the increasing size of the business and your net cash position, have you considered or looked at more conventional debt sources as a medium-term refinancing option, or have you looked at rolling forward or upsizing your existing facilities?

Shane Young: Tom, that's a good question. We are considering that as we get closer to the end of our non-call period on our acquisition financing. As you will remember, the first two years of the acquisition financing is locked away without the ability to voluntarily repay or refinance as part of that agreement, but that comes up in May next year, and as we get closer to that date, I think it's something that we're already starting to plan for and turn our mind to as that gets closer. We would like to maximise the value and look to normalise, I guess, our corporate facilities that are different to what would normally be acquisition facilities, so that's on the radar for early next year.

Tom Sartor: Terrific. Thanks, James.

Operator: Thank you. Your next question comes from Jim Xu from Barronjoey. Please go ahead.

Jim Xu: Hi, Marcelo. Maybe just a question on the market. You've mentioned that the Russian price has now converged. Are the Russians still selling PCI at a discount to the Australian index, and can you give us an idea about the cost base of that Russian coal? How much lower can they go?

Marcelo Matos: Jim, that's the key point of the PCI market now, which is when we are going to reach a level where that the Russians start to be incentivized to keep discounting sales? I think they are converging. If we look at the CFR China or the CFR India prices, they're close to be converging with the FOB Australia, so you can see that they were close to be getting to what could be an expected floor. How far they can keep going, I think that we wouldn't put all of them in the same basket. I think you would have some lower-cost exporters in Russia, but there are also some higher-cost. The PCI market's not so large, which means if some of these higher-cost producers in Russia are getting close to a floor, this could be an enough for us to hopefully see a floor rising soon.

I would like to point for something else, as well, with these sort of relativities, I think it would be also reason to expect that steelmakers globally will start to get more, of course, the appetite for increased PCI injection rates increase, where a year ago, they were paying 100% relative for PCI, but at that time, of course, steel production was a bit stronger. I think weaker steel production and with the focus on cost, if it's more attractive to buy more PCI, relatively to PLV, and the PLVs has been strong, with the certain support, I think we should expect that relativity to somehow normalise at a certain point. I think in the same way it happened when it was up, we expect that to happen when it's low. Now, the question is when. I think the Russian floor, together with the potential opportunity cost for global steelmakers, will play a role to establish where that floor is.

Jim Xu: Thank you. Maybe just a question on costs. You've mentioned that energy-related costs, so explosives, diesel, and electricity, stabilised in the back end of the first half. Given the recent rise in energy prices, do you expect energy costs to still be a tailwind in the second half? And then also, further to that, Poitrel and South Walker Creek are covered by the Safeguard Mechanism, does your cost guidance include any potential costs from that Safeguard Mechanism?

Marcelo Matos: I will comment, and I'll let Shane add his thoughts, as well. Look, I think we've seen the worst of the cost pressures. Look, we still have inflationary environment, as we all know. Just as an example, we are going through a EA negotiation in South Walker, which the EA is expected to renew in March next year. In its last two renewals, it was in a very different environment. Also, labour. Labour. Plus, still, we're under pressure, as you know, 3.5% unemployment in the country. If you look at inputs in diesel, you saw the waterfalls, diesel was giving us a relief. For most of the inputs, I tend to think that we've seen the worst, but it is still an inflationary environment. What was the second part of the question?

Shane Young: I think there was a question on the Safeguard Mechanism.

Marcelo Matos: Ah, on the Safeguard.

Shane Young: Yeah.

Marcelo Matos: We are digesting some of the latest versions of the news around the legislation, which is, for example, the industry references and the timing for migration into those industry references, I think we haven't been a significant impact, and so I think at the moment, we see that the short-term impact for us would be in material. Obviously, we are working hard on our initiatives on how to manage that in the longer term, and there are some interesting prospects, specialists, out at Walker. I'll let Shane comment, but I think yes, in the guidance numbers, we have reflected on what the expected impact is.

Shane Young: Yeah, that's right, Marcelo. I was just going to add exactly that, that our guidance estimates do include an adjustment for this, so it's fully covered. Obviously, we keep an eye on the price of carbon credits. They move around and fluctuate a little bit, so we'll keep a close eye on those, but that's why, as I said, we're not seeing a hugely material impact on our costs, generally, as a result of this.

Jim Xu: Thank you.

Operator: Thank you. Once again, if you would like to ask a question, please press star one on your telephone and wait for your name to be announced. Your next question comes from Jon Ogden from Eastern Valley Limited. Please go ahead.

Jon Ogden: Morning, guys. Great results. Thank you very much. I've got, I think, four questions. The first relates to slide 24 and some of your comments there, which is very interesting that you've got PCI makes up 59% of the coal input, but in tougher times, steelmakers reduce the PCI. Can you explain why that is? Can you just explain life from the point of view of the steel mills and why they would increase or decrease PCI, and what the ratios would change or percentages would changed from and to, as the market goes up and down, just so we can understand that more? And then related to that, can you just go through mine by mine, what's the mix that you had in the first half, in terms of PCI, semi-soft, and if there's any hard coking coming out of anywhere?

That's the first one. The second one is just I think there's quite high finance costs. Can you explain why that was? It looks high to the debt, even knowing that you've retired some debt in the first half. The third question just relates to logistics. Can you give us some more insight into what the problems are? Is it labour availability or rail capacity of Poitrel or some of all of those things, and why aren't the logistics guys investing in more capacity, and then how that relates to the shorter-term or longer-term picture with, as you mentioned, 38 million more tonnes of supply needed to come out of Australia in the coming years? I think those are the ones I have at the moment, so a few things to look at there. Oh, sorry, the fourth one, I beg your pardon, Lancewood, if you can just tell us about problems on permitting, or if it won't be a problem, any timeline, any CapEx, and what the coal quality is going to be. Thank you.

Marcelo Matos: No worries, Jon. I will try to cover as best as I can with the time available. I'll let Shane comment on the finance costs. PCI, so maybe just to clarify, on slide 24, what I mean with 59% is that's what our product mix in our overall portfolio is in PCI volumes. It's not what the steelmakers use normally out of what they use in a blast furnace, just for clarification. We have quite a, let's say, we have quite a significant volume of PCI in our portfolio, that includes 100% of the South Walker operation. PCI has two roles in a steelmaking route via blast furnaces. It is a fuel, but it's also a reducing agent. Over the years, especially in more, let's say, mature steelmaking regions, you will see a trade increase of PCI injection, which is a pulverised coal. It's ground coal injected through the vents in the bottom of the blast furnaces at high temperatures and pressures.

I think what it does is it helps to give the blast furnace through hot air, heat. It helps to create heat to promote the reducing reactions, but it also acts as a reducing agent, in the sense that it actually can replace one tonne of coke, or metallurgical coke that they still make loads on the top of the blast furnace. It could be quite attractive, because you are actually reducing your coke consumption by increasing your PCI injection rates. There is a limit to how much a steelmaker can use, because it still needs coke to act as a physical support for the blast furnace, but I think the reason that PCI is more volatile is the first thing that the steelmaker adjusts when they are either boosting steel production or reducing steel production is the blast furnace. It's the, let's say, the path of the conventional steelmaker that's more flexible to small production adjustments, compared to, for example, coke making.

Coke making, it's quite more challenging for the steelmakers to shut or to vary, because it's a very sensitive facility, let's put it like that. Hence, when things are good, the PCI boost is quicker, because it's the quickest way for it to steelmaker to boost the production of the blast furnace to source more PCI, but conversely, when it's weak, they start producing less. That's the dynamics of PCI. I think we have around 59% of our portfolio in PCI, very high-quality PCIs. South Walker Creek produces 100% of PCI, Poitrel produces between 35-40% of PCI, with the balance being a semi-hard coking coal, and Isaac Plains produces mostly 100% of a semi-soft coking coal. I think that probably helps addressing the two questions.

I think three of your questions are on rare import. I think what's driving how the performance, I mean, the system in Queensland has never really... If you look at Dalrymple Bay, it has contracted 85 million tonnes of capacity. It has never, ever shipped any close to that, so there's been an inefficiency in that value chain, not only through DBCT, but through the other ports, as well. I think we have network issues, we have rolling stock maintenance issues, but we also have labour constraints now at the moment, as well, in that path of the value chain. That's driving some of that other performance.

I think, to your question of increased supplies out of Australia, I think definitely, rare imports is going to be one of the constraints, hence I see the challenge of Australia being able to put another 38 million tonnes of volume of met coal out in the market. I think with the capture constraints that we face now, I do struggle to see significant expansions in some of these existing corridors, but capacity may become available with some of the mines being run down and it will be depleting, as well. For producers like us, well, on the growth mode, I think there's opportunity to secure capacity with other producers, like we are doing already, that are actually winding down production.

Maybe to the last point on Lancewood, I think on the coal quality, it's a premium hard coking coal deposit, which is great. It's something that we now don't have in our portfolio, like a PLV-style material. We do need to do all the ecology works, including groundwater, and we need to do all the environmental permitting process. We are talking about process that should be at least three years. At a smaller scale, we are hoping that this could help us move a bit faster, in a way that we start an open-cut deposit with a lower capital in a way that it can fund its own cash requirements as we move, in the longer term, into the underground.

Shane Young: Just covering off on, I think there was a question there on financing costs for the first half of this year. Look, nothing out of the ordinary going through there. I think if you were to compare the first half of this year to the first half of last year, the step-up is, obviously, with the acquisition financing being in place for a full six months versus just two months of the equivalent period last year. The other thing just to bear in mind is within the financing costs on the face of the P&L, there's also notional interest charges on lease liabilities as a result of AASB 10-16 that passed through that, as well as amortisation of initial setup costs, so the accounting standards, as well, which go through those numbers, too, and any fees or borrowing costs associated with bank guarantee facilities, et cetera. Nothing out of the ordinary that's going through, but that step-up on a half-versus-half basis is clearly just due to the financing being in place for a full six months.

Jon Ogden: Thank you very much, guys, and appreciate the very good answers. Good luck for your second half.

Shane Young: No worries. Thank you.

Marcelo Matos: Thank you.

Operator: Thank you. Unfortunately, that does conclude our time for questions today. I will now hand it back to Mr. Matos for any closing remarks.

Marcelo Matos: Thanks, everyone, for the questions. I'd like to take the opportunity to thank all of our shareholders for their continuing support. We are very proud of the culture that we have established and that we are building here, only just over a year since the acquisition of SMC. Thanks for our teams, all the employees, and our contractors who contribute so meaningfully to building our culture, which has translated into a very safe working environment and a robust operating performance.

As highlighted our business has made significant strides during the first half to position Stanmore for resilience and to deliver long-term value to our shareholders. We remain focused on continue to optimise our operations through exciting organic growth projects, such as the South Walker expansion, whilst maintaining our number one priority, to return our people home safely every day. Thanks, everyone. Thanks for your time. Have a good day.

Operator: That does conclude our conference for today. Thank you for participating. You may now disconnect.

[END OF TRANSCRIPT]