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Yancoal Australia Ltd

ACN 111 859 119

兗煤澳大利亞有限公司*

(Incorporated in Victoria, Australia with limited liability)

(Hong Kong stock code: 3668)

(Australian stock code: YAL)

QUARTERLY REPORT FOR QUARTER ENDING 30 JUNE 2020

JUNE QUARTER 2020 (2Q 2020)

- 16.9Mt ROM coal production, down 1% from 2Q 2019.
- 9.3Mt Attributable saleable coal production, up 3% from 2Q 2019.
- 9.3Mt Mine production sales, up 13% from 2Q 2019.
- A\$87/t Average realised coal price, down 25% from 2Q 2019.
- 6.91 12mth rolling TRIFR, down from 7.19 at the end of 1Q 2020.

PERFORMANCE SUMMARY

The safety of our workforce is always our priority; Yancoal rapidly implemented its pandemic response plan and reduced the TRIFR in 2Q 2020.

We had no material production impacts due to COVID-19. The year-to-date attributable ROM coal and saleable coal output are 3% and 7% ahead of volumes achieved in 2019.

Lower input prices, cost deferral and improved productivity, has Yancoal tracking just ahead of its 2020 unit cost target at this point in the year.

Optimisation of capital expenditure is an ongoing effort; we are deferring non-essential expenditure to next year.

Coal prices have fallen and seem likely to remain subdued through the end of the year. Yancoal's average realised price for the first half was A\$94/t, compared to the A\$124/t we achieved in 1H 2019.

Yancoal recently replaced a debt facility that had a US\$1.275bn limit at 31-Dec-2019, and retained a sound financial position after paying the 2019 final dividend of 21.21 cents per share.

GUIDANCE

- Saleable coal production, about 38Mt (attributable)
- Operating cash costs, about A\$61/t (excluding royalties)
- Capital expenditure, less than \$380 million (attributable)

Production and Sales Data

ROM COAL PRODUCTION, Mt	Mine type	Economic Interest	2Q 2020	1Q 2020	PP Change	2Q 2019	PCP Change	6 months year-to-date		
								2020	2019	Change
Moolarben	OC/UG	95%	5.3	5.8	(9%)	5.4	(2%)	11.1	10.9	2%
Mount Thorley Warkworth	OC	82.9%	4.6	3.6	28%	4.5	2%	8.2	9.1	(10%)
Hunter Valley Operations	OC	51%	4.4	4.0	10%	4.4	–%	8.4	8.8	(5%)
Yarrabee	OC	100%	0.9	0.5	80%	0.5	80%	1.4	1.1	27%
Stratford Duralie	OC	100%	0.2	0.2	–%	0.2	–%	0.4	0.3	33%
Middlemount	OC	49.9997%	1.0	0.7	43%	1.1	(9%)	1.7	2.2	(23%)
Watagan	UG	100%	0.5	1.2	(58%)	1.0	(50%)	1.7	2.0	(15%)
Total – 100% Basis			16.9	16.0	6%	17.1	(1%)	32.9	34.4	(4%)
Total – Attributable			12.2	11.2	9%	11.2	9%	23.4	22.7	3%
SALEABLE COAL PRODUCTION, Mt	Coal type	Attributable Contribution	2Q 2020	1Q 2020	PP Change	2Q 2019	PCP Change	6 months year-to-date		
								2020	2019	Change
Moolarben	Thermal	95%	4.8	5.4	(11%)	4.8	–%	10.2	9.5	7%
Mount Thorley Warkworth	Met./Thermal	82.9%	2.8	2.5	12%	3.0	(7%)	5.3	6.1	(13%)
Hunter Valley Operations	Met./Thermal	51%	2.8	3.5	(20%)	3.6	(22%)	6.3	6.6	(5%)
Yarrabee	Met./Thermal	100%	0.9	0.6	50%	0.5	80%	1.5	1.2	25%
Stratford Duralie	Met./Thermal	100%	0.1	0.1	–%	0.1	–%	0.2	0.2	–%
Middlemount	Met./Thermal	49.9997%	0.6	0.6	–%	0.9	(33%)	1.2	1.7	(29%)
Watagan	Met.	0% (equity accounted)	0.3	0.6	(50%)	0.5	(40%)	0.9	1.1	(18%)
Total – 100% Basis			12.3	13.3	(8%)	13.4	(8%)	25.6	26.4	(3%)
Total – Attributable			9.3	9.7	(4%)	9.0	3%	19.0	17.8	7%

SALES VOLUME by coal type, Mt	2Q 2020	1Q 2020	PP Change	2Q 2019	PCP Change	6 months year-to-date		
						2020	2019	Change
Metallurgical	0.9	1.0	(10%)	1.5	(40%)	1.9	2.8	(32%)
Thermal	8.4	8.1	4%	6.7	25%	16.5	13.7	20%
Total – Attributable	9.3	9.1	2%	8.2	13%	18.4	16.5	12%

Notes:

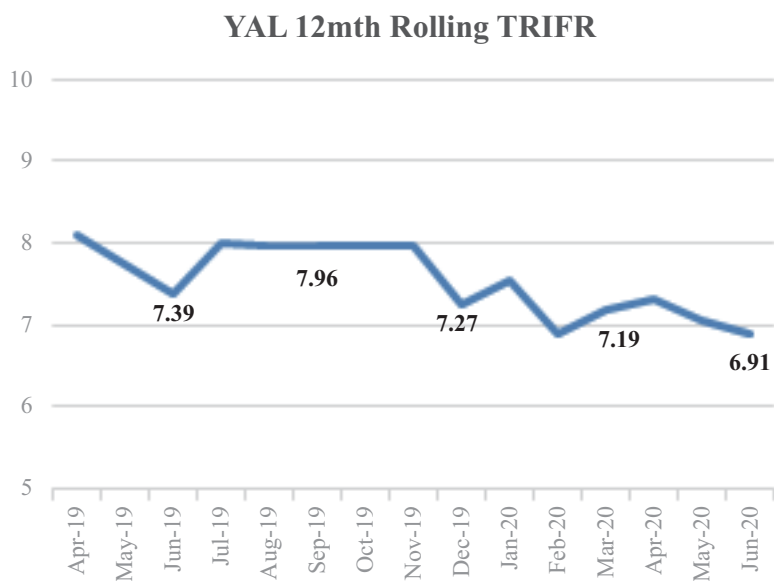
1. Attributable figures do not include production from Middlemount (incorporated joint venture and accounted for as an equity-accounted investment) and Watagan (equity-accounted investment and deconsolidated from Yancoal in March 2016)
2. Attributable figures for Moolarben are 85% up to and including 31 December 2019 and 95% after that.
3. 'Sales volumes (by coal type)' excludes purchased coal
4. ROM = Run of Mine; the volume extracted and available to be processed

1Q = March quarter Period
2Q = June quarter Period
Mt = million tonnes
Met. = Metallurgical coal

3Q = September quarter period
4Q = December quarter period
OC = Open-cut

PP = Prior period
PCP = Prior corresponding period
UG = Underground

SAFETY STATISTIC



CEO COMMENT

The health and wellbeing of all Yancoal employees remain a key focus in response to the ongoing COVID-19 pandemic. Pleasingly, the work practices and measures we implemented to mitigate COVID-19 related risks have so far proven successful, with no known COVID-19 cases across our workforce and minimal disruption to our operations to date. The 12-month rolling Total Recordable Injury Frequency Rate¹ at the end of 2Q 2020 was 6.91; down from 7.19 at the end of 1Q 2020².

We are closely monitoring the state of international coal markets and critical supply chains to assess how the pandemic is likely to impact on our business over the remainder of 2020 and beyond. The supply and demand dynamics resulting from COVID-19 will continue to influence both thermal and metallurgical coal prices significantly. Yancoal's realised average price for the quarter decreased by 25% compared to the same period last year.

Given the ongoing uncertain economic and market conditions, we are deferring non-essential capital expenditure until 2021. We replaced an existing debt facility after the end of the quarter; this is beneficial to our financial flexibility as it extends the debt repayment schedule by five years.

Our focus is on the controllable elements of our business; particularly optimising production and reducing operating costs wherever possible. The realised price and the AUD:USD exchange rate are both adverse challenges in 2020. Coal indices relevant to the products we sell are currently down 20-25% year to date, with the AUS:USD exchange rate at the end of June unchanged from the start of the year. The combination of the weak USD denominated coal price and the AUD:USD exchange rate has impacted the realised coal price we have achieved. In 2019 we averaged A\$111/t across all our coal sales; for the first half of 2020, we have averaged A\$94/t. Yancoal will keep the market informed of any material changes to our operational performance.

COAL SALES AND PRICING

During 2Q 2020, attributable sales (9.3Mt) was the same as the attributable saleable production (9.3Mt) resulting in unchanged stockpile levels for the period. Yancoal purchased additional coal for blending, as is usual, to optimise the overall product mix and realised prices. Yancoal's average realised sale prices was A\$87/t³ across the combined thermal and metallurgical coal volumes, compared to A\$101/t in 1Q 2020 and A\$116/t in 2Q 2019. The A\$87/t price achieved during the quarter carries the benefit of contracts with trailing price references. The combination of contract structures used by Yancoal results in lagged price realisation relative to the coal price indices.

¹ Attributable TRIFR includes Moolarben, Mount Thorley Warkworth, Stratford Duralie, Yarrabee and Corporate; it excludes Middlemount (operated by Peabody Energy), Hunter Valley Operations (operated by Glencore Coal) and Watagan. Most recently available industry benchmarks are 6.27 for surface mines in NSW, 11.00 for surface mines in Queensland, and 31.94 for underground mines in NSW.

² Prior periods may be revised for reclassification of past events.

³ Realised price for Ex-Mine Sales (excluding purchased coal sales)

COAL MARKET OUTLOOK

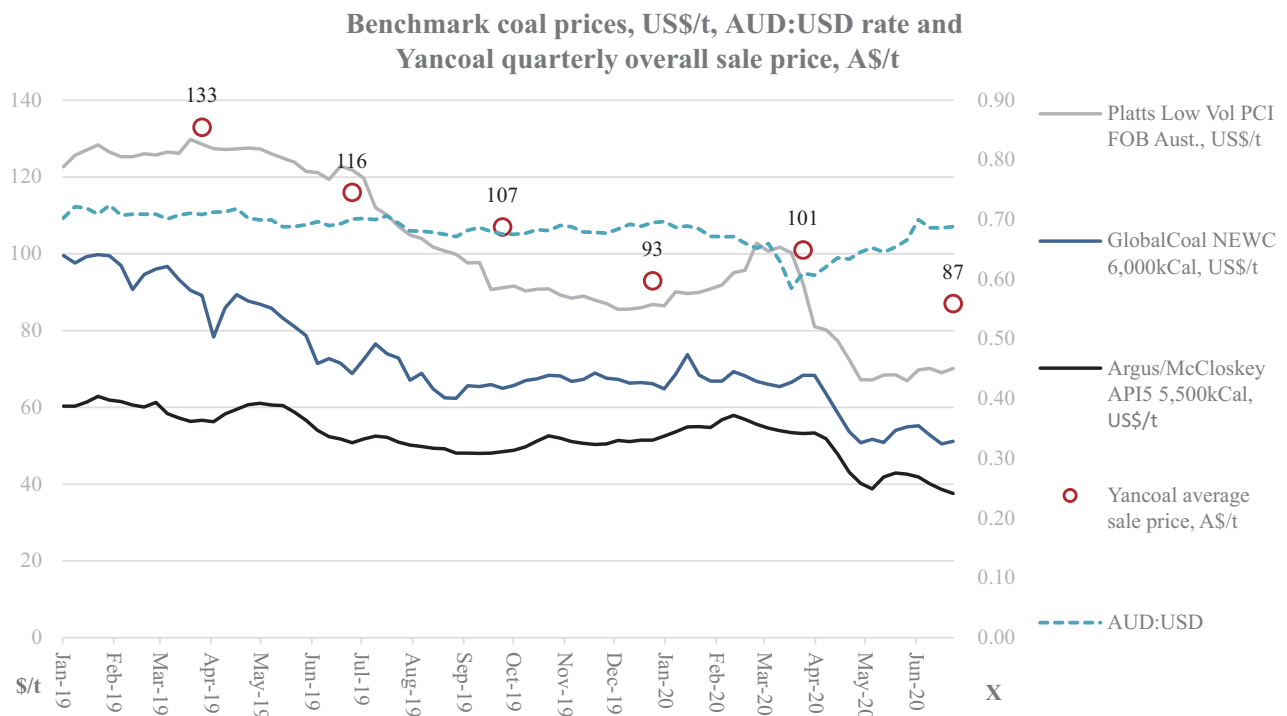
Yancoal generally sells high-grade thermal coal priced using the *GlobalCOAL NEWC 6,000kCal NAR index* (GCNewc) and lower grade coal priced off lower energy level benchmarks such as the *All Published Index 5* (API5). During 2Q 2020, the GCNewc price averaged US\$55/t and ended the quarter trading around US\$50/t; similarly, the API5 price averaged US\$44/t, but subsequently ended around US\$39/t.

During the quarter, lower demand resulting from lower economic activity continued to affect the thermal coal and low-grade metallurgical coal markets negatively. The COVID-19 pandemic has had a more pronounced and ongoing effect on demand than supply dynamics. Nevertheless, coal price indices did start to demonstrate some price stability towards the end of the quarter.

Regarding metallurgical coal prices, reduced steel-making activities during the period in Japan, Korea and India resulted in hard-coking coal displacing low-grade met coal in regional markets, and the PCI price fell sharply early in the quarter before stabilising.

The uncertainty of current market conditions was also reinforced in 2Q 2020 by AUD:USD exchange rate movements, which bucked previous trends and decoupled from commodity price movements. Between 1-April and 30-June, the AUD:USD exchange rate strengthened 13%, and during the same period, relevant coal indices fell about 15-30%.

Over the coming months, several key factors are likely to drive coal market dynamics and pricing. Gas could begin to displace coal in the global energy generation mix; and improved demand from the likes of China could cause markets to strengthen.



ASSET PERFORMANCE

Moolarben

ROM and saleable coal volumes from Moolarben underground and open-cut operations are in line with expectations year-to-date. During the quarter, high underground production volume supported better than planned by-pass product. CHPP feed rates from mined and stockpiled open-cut ROM coal performed above expectations and resulted in additional saleable product.

Mount Thorley Warkworth (MTW)

Overburden removal continues to recover from the disruptions caused by bushfires and heavy rain events earlier in the year, with resulting coal exposure and release for mining, causing ROM coal production constraints during the quarter. CHPP throughput was in line with our forecast for the quarter. Overburden and ROM coal volumes should continue to improve in the September quarter.

Hunter Valley Operations (HVO)

Increased production rates with the use of dozer push have recovered the overburden position after heavy rain earlier in the year. Mining sequence changes to recover from rain events delayed coal exposure and release for mining, constraining ROM coal mining during the quarter. ROM coal volumes should continue to improve in the September quarter. Maintenance work on the CHPP in May, affected saleable coal output, though recovery to projected levels should continue in the September quarter.

Yarrabee

Yarrabee continued to track ahead of planned overburden movements during the period due to improved excavator availability and productivity. Sequence changes in key pit areas influenced the ROM coal output, but production should recover over the remainder of 2020. By contrast, elevated throughput and improved product yield supported the saleable coal volumes.

Middlemount

Waste removal continues to recover with a reduced equipment fleet operating across site. ROM coal output was impacted by reduced waste material removal following the reduction of the equipment fleets along with coal seam faults encountered during the quarter. Low ROM stocks impacted the saleable coal at the start of the quarter, yield was lower as a result of the coal seam faulting. The ongoing productivity improvement is the result of technical and operational optimisation programs.

Stratford Duralie

Overburden removal was affected by further rain delays during the quarter. The rain and the timing of coal released by overburden removal, impacted the ROM coal volume. The ROM coal impact extended to saleable coal volumes, with lower feed rates and yield from the CHPP, associated with high ash coal feed. The mine is looking to recover the production by revising the mining schedule.

GROWTH PROJECTS

At Mount Thorley Warkworth, Yancoal has identified a coal resource that could support an underground operation. The initial concept study shows a potential annual production output of saleable coal of around 5Mt. Work is underway to inform a Pre-Feasibility Study for submission to the Board.

At Moolarben, Yancoal has the required approval to increase annual production from 21Mt to 24Mt (16Mt from the open cut mine and 8Mt from underground). Work is underway on a Pre-Feasibility Study for the expansion for submission to the Board. The work includes addressing various licensing requirements and assessing the optimal production profile. Yancoal's ability to increase open-cut production contribution from 13Mtpa to 16Mtpa will be limited in the near- to medium-term by processing throughput and rail capacity constraints, and we are working with external stakeholders to address these issues.

CORPORATE ACTIVITY

On 27 April 2020 Yancoal released its 2019 Annual Report.

On 29 April 2020 Yancoal paid the 2019 Final dividend of 21.21 cent per share (cps). The total dividend for 2019 was 31.56 cps.

At 30 June 2020, the number of ordinary shares was 1,320,439,437; unchanged during the period.

After the quarter end, on 9 June 2020, Yancoal replaced a debt facility that had a US\$1.275bn limit at 31-Dec-2019. Yancoal will repay the new facility over the next five years, with the majority of the repayment occurring in years four and five. In contrast, the facility replaced had repayments due during 2020 and 2021.

Authorised for lodgement by the Yancoal Disclosure Committee.

This report was compiled from verified material. The Yancoal Audit and Risk Management Committee (ARMC) evaluates and reviews the process and content to confirm the integrity of the report.

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By order of the Board
Yancoal Australia Ltd
Baocai ZHANG
Chairman

Hong Kong, 14 July 2020

As of the date of this announcement, the executive Director is Mr. Ning Zhang, the nonexecutive Directors are Mr. Baocai Zhang, Mr. Cunliang Lai, Mr. Xiangqian Wu, Mr. Qingchun Zhao and Mr. Xing Feng and the independent non-executive Directors are Mr. Gregory James Fletcher, Dr. Geoffrey William Raby and Ms. Helen Jane Gillies.