YANCOAL
兖煤澳大利亚有限公司

YANCOAL AUSTRALIA LTD
ADDRESS: Level 18 201 Sussex Street, Sydney NSW 2000
PHONE: 61 2 8583 5300
FAX: 61 2 8583 5399
WEBSITE: www.yancoalaustralia.com.au

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ASX Release

Half-Year Financial Report 2019

FINANCIAL HIGHLIGHTS:

- Yancoal Australia Ltd ("Yancoal") (ASX: YAL) **Profit Before Tax of $492 million** for the half-year ended 30 June 2019 (1H19), a $47 million decrease from $539 million in the corresponding period (1H18).
- **Total Operating EBITDA of $940 million**, a $40 million decrease from $980 million in 1H18. The Operating EBITDA Margin for the period was 40%.
- **Revenue from continuing operations was $2,350 million**, consistent with $2,347 million in 1H18.

OPERATIONAL HIGHLIGHTS:

- Total Run of Mine coal ("ROM") of 34.4 million tonnes ("Mt") on a 100% basis, with 22.7Mt attributable to Yancoal; comparable volumes were 32.9Mt and 20.7Mt respectively in 1H18[1].
- Total Saleable coal production of 26.4Mt on a 100% basis with 17.8Mt attributable to Yancoal; comparable volumes were 25.4Mt and 16.4Mt respectively in 1H18.
- The sales volume of attributable mine production was 16.5Mt in 1H19 compared to 15.7Mt in 1H18. Sales volumes excludes purchased tonnes used to blend and improve the average sales price.
- The Group's Total Recordable Injury Frequency Rates ("TRIFR") at the end the Period was 7.29 (12 month rolling average), compared to 8.89 at the end of 1H18.

CORPORATE HIGHLIGHTS:

- The Board has declared an interim dividend of $136.7 million or $0.1035/share (unfranked); this is comparable to the maiden interim dividend of $130 million or $0.1035/share paid in 2018[2].
- The corporate gearing ratio improved from 34.6% in 1H 2018 to 32.5% in 1H 2019.
- The ongoing reduction of existing debt remains a priority and further prepayments are anticipated during the remainder of 2019.
- 2019 guidance remains unchanged for production, operating costs and capital expenditure.

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[1] 2018 attributable figures include 81% attributable production for Moolarben up to and including 30 November 2018, and 85% thereafter. This reflects Yancoal's increased ownership in the Moolarben Joint Venture. Attributable figures do not include production from Middlemount (incorporated joint venture and accounted for as an equity-accounted investment) and Watagan Mining Company Pty Ltd ("Watagan") (equity-accounted investment and deconsolidated from Yancoal in March 2016)

[2] 2018 Interim dividend is restated for 35:1 consolidation

CHAIRMAN COMMENTARY:
Yancoal Chairman Baocai Zhang said:

“The strong first-half results demonstrated that the robust performance Yancoal achieved in 2018 has continued into 2019. Our commitment to generating shareholder value remains firm.

“We will make in an interim dividend payment as we did last year, and will complete the balance of this year’s distribution to our shareholders following the full-year result.

“During the first half of 2019, Yancoal completed the US$500 million early debt repayment announced in February and intends to undertake additional pre-payments over the remainder of the year, consistent with our strategy.

“The integration of Mount Thorley Warkworth and Hunter Valley Operations continues to yield operational synergies and coal marketing opportunities, bolstering the Company’s ability to navigate international coal markets.

“Our consolidation as a leader in the international coal market continues and this will underpin the Yancoal Group’s financial strength into the future.”

CHIEF EXECUTIVE OFFICER COMMENTARY:
Yancoal Chief Executive Officer Reinhold Schmidt said:

“Yancoal is committed to safe work practices and has reiterated this focus in response to events throughout the industry. There is active and consistent engagement with all employees empowering them to identify and address foreseeable safety risks and injuries.

“The operational and financial performance in the first half of the year was made possible by the dedication of the Yancoal team and the quality of the assets.

“At the half-way point of the year, Yancoal remains on target to achieve our 2019 operational goals - annualised attributable saleable coal volume is 35.6Mt compared to guidance of around 35Mt.

“In response to market conditions impacting the realised price we achieved in the latter months of the first half, we are focused on optimising our sales mix and volumes for the current international market.

“Coal remains a critical part of global baseload energy supply, and Yancoal is an integral part of the solution to satisfy the ongoing international demand for high-quality coal.”

SAFETY

The Group's Total Recordable Injury Frequency Rates ("TRIFR") improved through the Period. Implementation of core hazards continues with critical control verification a key focus. As at 30 June 2019, the Yancoal 12-month moving average TRIFR was steady at 7.29[3]. Watagan Mining Company Pty Ltd ("Watagan") had a 12-month moving average TRIFR of 17.09 as at 30 June 2019, an improvement in performance since the end of 2018 when the 12-month moving average TRIFR was 23.85.

PRODUCTION and SALES:

ROM COAL PRODUCTION	Ownership	1H 2019 Million tonnes	1H 2018 Million tonnes
Moolarben[4]	85%	10.9	9.8
Mount Thorley Warkworth	82.9%	9.1	8.5
Hunter Valley Operations	51%	8.8	9.1
Yarrabee	100%	1.1	1.4
Stratford Duralie	100%	0.3	0.3
Middlemount	49.9997%	2.2	2.5
Watagan	100%	2.0	1.3
Total - 100% Basis		**34.4**	**31.9**
Total - Attributable		**22.7**	**20.7**

SALEABLE COAL PRODUCTION	Ownership	1H 2019 Million tonnes	1H 2018 Million tonnes
Moolarben	85%	9.5	8.8
Mount Thorley Warkworth	82.9%	6.1	6.0
Hunter Valley Operations	51%	6.6	6.4
Yarrabee	100%	1.2	1.2
Stratford Duralie	100%	0.2	0.2
Middlemount	49.9997%	1.7	2.1
Watagan	100%	1.1	0.7
Total - 100% Basis		**26.4**	**25.4**
Total - Attributable		**17.8**	**16.4**

Total ROM produced during the period was 34.4Mt 100% basis, an increase of 5% from 32.9Mt in 1H18. From the ROM coal, the total attributable to Yancoal was 22.7Mt; a 10% uplift over 1H18. Watagan and Middlemount provided a 2.0Mt and 1.1Mt equity-accounted contribution respectively.

The attributable saleable coal produced was 17.8Mt; a 9% uplift over 1H18. The sales volume of attributable coal production was 16.4Mt during the half-year ended 30 June 2019 ("Period"), with Yancoal's sales split (equity share) being 13.7Mt thermal coal (13.2Mt in 1H18) and 2.8Mt metallurgical coal (2.5Mt in 1H18). These sales exclude purchased coal volumes, which are used to optimise overall product quality and the realised price.

[3] Excludes data from the Middlemount and Watagan assets (Austar, Ashton and Donaldson). HVO included until JV established in May 2018

[4] Moolarben 81% owned up to and including 30-Nov-2018 and 85% thereafter – reflecting the increased ownership in the Moorlaben Joint Venture announced on 30-Nov-2018.

Consistently strong extraction and delivery rates at the tier-one Moolarben, Hunter Valley Operations and Mount Thorley Warkworth operations are the foundation of Yancoal's production profile, with other assets contributing high-margin coal products.

Cash Costs per tonne excluding royalties were A$62/tonne (A$62 in 1H18). The gains resulting from post-acquisition cost synergies and product blending offset coal mining sector inflationary costs. The increased ownership stake in the low-cost Moolarben mine also had a positive impact. The new accounting standard adopted related to lease arrangements, and how it changes the Group's operating cash costs is discussed in the 'Management Discussion and Analysis' section of the 2019 Interim Result.

SALES VOLUME Attributable mine production sold	1H 2019 Million tonnes	1H 2018 Million tonnes
Metallurgical	2.8	2.5
Thermal	13.7	13.2
Total - Attributable	**16.5**	**15.7**

Yancoal realised an average price of A$112/tonne for thermal coal products (A$117 in 1H18) and A$184/tonne for metallurgical coal products (A$191 in 1H18), representing an overall average-sales-price of A$124/tonne (A$128 in 1H18).[5] Yancoal's mix of contract types with differing durations and reference prices help to mitigate against declining spot prices in the international coal markets.

FINANCIAL PERFORMANCE:

Results for 2019 and 2018	30-Jun-19 $'M	30-Jun-18 $'M
Revenue from continuing operations	2,350	2,347
Operating EBITDA	**940**	**980**
Operating EBIT	**646**	**736**
Finance costs	(125)	(152)
Bank fees and other charges	(26)	(62)
Interest income	62	58
Gain on disposal	-	78
Fair value losses recycled from hedge reserve	(75)	(45)
Remeasurement of royalty	6	2
Remeasurement of financial asset	-	(29)
Remeasurement of contingent royalty	4	-
Impairment of financial assets	-	(21)
Transaction costs	-	(10)
Stamp duty expensed	-	(16)
Profit before tax	**492**	**539**
Tax expense	72	(178)
Profit after tax	**564**	**361**

[5] Realised prices for Attributable Ex-Mine Sales (excluding purchased coal sales)

Revenue of $2,350 million was consistent with the previous corresponding period ($2,347 million in 1H18). Increased sales volumes and a modest increase in the metallurgical to thermal coal ratio was offset by a lower realised average-sales-price; a consequence of shifting supply and demand conditions in Asia.

Operating EBITDA was $940 million - a slight decline from 1H18 ($980 million) largely due to an increase in stockpiled volumes through the period. The unit cost of production (Operating EBITDA over attributable coal production) improved by 5% compared to 1H18.

Profit Before Tax was $492 million compared to $539 million in 1H18. An increase in fair value loss from the recycled hedge reserve and the absence of a gain on disposal, were balanced by the absence of any financial asset impairment, and lower transaction costs and stamp duty.

The income tax expense was $178mn, an effective tax rate of 29.9% in 1H 2019 compared to 33% in 1H 2018. The reported Profit after tax was influenced by a one-off tax expense adjustment of $219 million related to the Coal & Allied[6] transaction.

CASH FLOW:

Cash flow summary		30-Jun-19 $'M	30-Jun-18 $'M
Operating cash flows		783	712
Investing cash flows		(165)	210
Net free cash flow		**618**	**922**
Financing cash flows		(1,054)	(680)
Cash at the beginning of the period		1,031	207
Effect of FX on cash		(5)	36
Cash at the end of the period		**590**	**485**
Capital management		**30-Jun-19 $'M**	**31-Dec-18 $'M**
Net debt		2,917	3,093
Gearing ratio (net debt/(net debt plus equity)	(%)	32.5%	34.6%
Leverage (net debt/EBITDA)[7]	(times)	1.4	1.4

Operating cash flow increased by 10% compared to 1H18, with increasing production, sales volumes and the additional ownership stake at Moolarben all contributing positively.

The dividend (A$377 million) and debt prepayment (US$500 million) announced in February constituted the bulk of the Financing cash outflows during the period.

Yancoal ended 1H19 with a further improved gearing ratio and a healthy cash position.

6 Yancoal completed an acquisition of Coal & Allied Undustries Limited on 1-Sept-2017.

7 Leverage is based on the end of period net debt and a rolling 12-month value for the EBITDA.

EQUITY ACCOUNTED ITEM:

The directors of Watagan Mining Company Pty Ltd have recognised an impairment provision of $100 million since the release of the financial results of the Company for the year ended 31 December 2018. Watagan is equity-accounted in the Company's financial statements . Please refer to notes E2 to the consolidated financial statements in the Interim Report for further detail on the event.

DIVIDEND:

The Board has announced an interim dividend of $136.7 million or $0.1035/share in recognition of the ongoing support of Yancoal's shareholders and future confidence in the business and its cashflows. The unfranked dividend will have a record date of 6th September 2019 and payment date of 20th September 2019.

OUTLOOK:

Yancoal has a long-term strategic commitment to organic growth, through brownfield expansion and extension projects. The current focus remains on exploration and expansion works across Mount Thorley Warkworth and Moolarben, with proposed modifications for the Moolarben open-cut pits to maximize extraction rates awaiting approval.

During 1H19, the demand profile for thermal coal in the Asia-Pacific region softened as a result of several factors. As a consequence of evolving market conditions, index coal prices moved lower and the premium for high-grade thermal coal relative to lower grade indices narrowed. In contrast, the metallurgical coal market displayed better price stability during the first half of 2019, but currently it is expected to further decline in the second half.

Yancoal actively considers the effect that its supply level can have on specific coal markets and responds appropriately to prevailing market conditions. To counter the anticipated short term volatility in thermal coal price indices, we continue to optimise the product quality and volume we place into the market.

Australia is expected to retain a market share of around 26% of the growing world seaborne thermal coal requirement and to play a critical role as a primary source of premium grade coals. Ongoing challenges associated with obtaining development approvals for greenfield projects has the potential to support premium coal prices and domestic exporters with brownfield expansion opportunities, such as Yancoal, should benefit from such conditions.

GUIDANCE:

Yancoal's stated performance targets for 2019 remain unchanged:

- Saleable coal production of around 35 million tonnes (attributable).
- Cash costs (excluding government royalties) to remain around A$62.50/tonne.
- Expected capital expenditure around A$285 million (attributable).
- A target dividend payout of 50% of net profit after tax (adjusted for the impact of foreign exchange hedge reserve movements and any other non-operating items).

END

Investor and Analyst briefing call:

Chief Executive Officer, Reinhold Schmidt, will host a briefing call to provide an overview of the Half-Year Financial Results.

Time: 07:30 Hong Kong time, 09:30 Sydney time

Date: Thursday, 22 August, 2019.

Participant Passcode: 68226613

Participant Dial-in numbers:

Australia: 1800 896 323

China : 4001 200916

Hong Kong: 800 906 887

Singapore: 800 852 3352

UK: 0 808 178 0273

United States : 1 855 731 0983

Australia direct - +61 2 8088 0900

Investor contact:
Brendan Fitzpatrick
General Manager Investor Relations
Phone: +61 2 8583 5923
Email: shareholders@yancoal.com.au

Media Contact:
Matthew Gerber
General Manager Corporate Affairs
Phone: +61 2 8583 5479
Email: media@yancoal.com.au