28 October 2019

universal coal plc

SEPTEMBER 2019 QUARTER PRODUCTION REPORT

Strong start to FY2020

HIGHLIGHTS

- ✓ Quarterly ROM coal production of 2.8Mt - up 51% on the previous corresponding period (pcp);
- ✓ Group coal sales for the quarter of 1.9Mt, up 58% on pcp, 1.0Mt attributable coal sales;
- ✓ Declaration of final dividend of A$0.01 per share;
- ✓ Group cash on hand of A$27 million, attributable of A$18 million,
- ✓ EBITDA for the quarter of A$12million, attributable of A$7.2 million;
- ➢ FY2020 Guidance:
    - forecast Group sales up 25% to 8.4Mt, attributable sales up 21% to 4.6mt;
    - EBITDA of A$73 million, attributable $42 million at US$68/tonne.

Commenting on the quarter and FY2020 guidance, CEO Tony Weber said: *"We are pleased with the first quarter result with product sales up 58% from the previous year and consistent with the prior quarter. We are anticipating a year of continued production growth from increased opencut production from the New Clydesdale Colliery and our first full year of reported production from the North Block Complex. Construction of our fourth operation, the Ubuntu Colliery, is progressing according to plan with steady-state production anticipated during the last quarter of FY2020.*

We maintain a positive longer-term outlook on the thermal coal pricing environment and see opportunities to continue capacity expansion in preparation for the return of favourable export prices. Notwithstanding lower export coal prices versus last year, Universal remains highly profitable and well positioned to deliver strong EBITDA and returns for shareholders in the coming year.

We are well-positioned to support future growth developments from our domestic supply contracts which continue to be a critical part of our business. Our focus remains to grow this business through increased production volumes as our new assets come on stream."

Universal Coal Group Totals

PRODUCTION AND SALES						
Thousands of tonnes	Quarter ended			Year-to-Date (YTD)		
	Sep 19	Sep 18	Change	Sep 19	Sep 18	Change
ROM coal production	**2,820**	**1,863**	**51%**	**2,820**	**1,863***	**51%**
Export sales	**136**	**239**	**-43%**	**136**	**239**	**-43%**
Domestic sales	**1,729**	**944**	**83%**	**1,729**	**944**	**83%**
Total coal sales	**1,865**	**1,183**	**58%**	**1,865**	**1,183**	**58%**

*ROM reported in the September 2018 Quarter was 2,196,445 (incl. ROM from discard); this has been revised to ROM mined from source.

Universal Coal Attributable Totals (Attr.)

PRODUCTION AND SALES						
Thousands of tonnes	Quarter ended			Year-to-Date (YTD)		
	Sep-19	Sep-18	Change	Sep-19	Sep-18	Change
ROM coal production	**1,583**	**1,123**	**41%**	**1,583**	**1,123**	**41%**
Export sales	**67**	**119**	**-44%**	**67**	**119**	**-44%**
Domestic sales	**966**	**580**	**66%**	**966**	**580**	**66%**
Total coal sales	**1,032**	**699**	**48%**	**1,032**	**699**	**48%**

SAFETY

Universal is committed to a zero tolerance approach to safety in the workplace and our focus on the safety and wellbeing of all workers is paramount in our pursuit of growth.

Our target for total recordable injury frequency rate (TRIFR) is zero and we came very close to achieving this target. We are pleased to note that zero lost time injuries (LTIFR) were reported during the quarter across all our operations.

OPERATIONAL PERFORMANCE

The overall Group ROM production increased by 51% from the pcp. Contributing to the increase was the inclusion of the North Block Complex which had not been acquired in the pcp. Universal also increased production by 15% from the previous quarter primarily due to a return to steady-state production volumes at the New Clydesdale Colliery. Coal sales were consistent with the prior quarter.

Quarterly operational performance is summarised below:

Operational performance (tonnes)	Sep 2019 Quarter		Jun 2019 Quarter		Group	Equity
	Group	Equity	Group	Equity	Change	Change
Run-of-mine (ROM) production						
Kangala	937,364	660,842	929,177	655,070	1%	1%
New Clydesdale	852,086	417,522	560,042[1]	274,421[1]	52%	52%
North Block Complex	1,030,446	504,919	964,851	472,777	7%	7%
Total ROM Production	**2,819 896**	**1,583,282**	**2,454,070[1]**	**1,402,267[1]**	**15%**	**13%**
Sales						
Export	136,043	66,661	93,582	45 855	45%	45%
Domestic	1,728,727	965,515	1,798,410	1,000,475	-4%	-3%
Total Coal Sales	**1,864,770**	**1,032,176**	**1,891,992**	**1,046,330**	**-1%**	**-1%**

Kangala Colliery (Universal 70.5%)

The Kangala Colliery ROM production volumes for the quarter were on par with that of the previous quarter and remain within the expected short-term mine plan. The Colliery has realigned production volumes to meet the anticipated demand from Eskom (the South African state-owned power utility), reverting to contracted sales volumes of 2Mtpa. As a result, forecast ROM production and sales will reduce on a comparative year-on-year basis.

1 Updated during the annual audit process and has been revised since the previous quarterly report.

New Clydesdale Colliery (NCC) (Universal 49%)

NCC returned to expected production volumes after the June 2019 quarter production was negatively affected by labour disruptions in the changeover of mining contractors. Thermal domestic coal sales are on target for the first quarter of the year, however export sales are softer due to lower production volumes of export quality coal in July and August 2019. The last month of the quarter has seen a significant improvement in these export volumes and Universal is confident that these recent levels can be sustained for the balance of FY2020.

The reshaping and revegetation of the Vaalkranz North opencut pit is currently being finalised, confirming Universal's commitment to rehabilitating previously mined areas and mitigating as far as possible the effect of mining on the environment. The Roodekop opencast concurrent rehabilitation has commenced in line with approved rehabilitation plans and is ongoing.

North Block Complex (NBC) (Universal 49%)

NBC experienced a slight increase in production volumes over the previous quarter, attributable to the inclusion of additional tonnages from the Eerstellingsfontein pit area. The total NBC production was down 20% from expectations due to the continued delays experienced in obtaining the S11 regulatory approval on the Paardeplaats project. This delay has necessitated higher coal extraction from the remaining opencut areas within the Glisa operation, increasing unit costs at higher strip ratios and at lower product yields. Limited site establishment activities are currently underway. Management expects the S11 approval to be granted in the current quarter.

Ubuntu Colliery (Úbuntu) (Universal 49%)

Universal commenced development of this colliery during the previous quarter. In August 2019 Ubuntu, Universal's fourth operation, announced a Coal Supply Agreement (CSA) with Eskom for 1.2Mtpa and expects the delivery of first coal during November 2019, building up to full production by the end of the last quarter of this financial year. Ubuntu has the ability to produce 1.2Mtpa of saleable product[2].

PROJECTS

Eloff Project (Eloff) (Universal 49%)

The Eloff Project, situated directly adjacent to the Kangala Colliery, provides an opportunity for Universal to consolidate the contiguous resource base with Kangala. Universal is currently undertaking technical and economic studies to assess the potential for Eloff to extend Kangala's life of mine and/or to upscale the entire operation, in addition to a further standalone operation.

The Eloff Mining Right (MR) and Environmental Authorisation (EA) have been granted respectively by the Department of Mineral Resources (DMR) and the Department of Environmental Affairs. Universal is aware of an EA and MR appeal that was lodged with the DMR, but has subsequently received confirmation that the appeal has been rejected.

Universal is awaiting the grant of an Integrated Water Use Licence together with an additional EA still under application.

CORPORATE

Universal saw a reduction in Group EBITDA to A$12 million (attr.A$7 million) in comparison to the pcp of A$20 million and to the June 2019 quarter of A$25 million. The most significant reason for the decrease in EBITDA remains the subdued API#4 pricing which reduced, on average, from US$92/t in the September 2018 quarter to US$62/t in the current quarter. The quarterly EBITDA has been further

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2 Universal Coal's Next Project Now Fully Permitted – Ubuntu Announcement 19 September 2016
http://www.universalcoal.com/media-centre/asx-announcements/announcements-2016

impacted by increased unit costs at NBC arising from higher strip ratios and lower plant yields as a result of the S11 approval delay. With the receipt of the S11 at Paardeplaats and the uplift in coal price since September 2019 the company expects to achieve a normalised EBITDA during the upcoming quarter.

Dividends

Universal declared a final dividend to shareholders on the 28th of August 2019 of A$0.01 per share which is payable in December 2019 following approval from shareholders at the AGM to be held on 29 November 2019. Universal remains committed to delivering and returning value to shareholders through value accretive production growth both organic and through acquisitions. As we enter into a period of growth enhancement through capital investments at our operations, we remain committed to our dividend policy and the return of excess cash to our shareholders in accordance with that policy.

FY2020 GUIDANCE

Production and sales

million tonnes	FY2020 Guidance		FY2019 Actual		Group	Attr.
	Group	Attr.	Group	Attr.	Change	Change
Run-of-mine (ROM) production						
Kangala	3.2	2.3	3.9	2.7	-18%	-16%
New Clydesdale Colliery	4.0	2.0	3.0	1.5	33%	31%
North Block Complex	4.2	2.0	2.0	1.0	115%	96%
Ubuntu colliery	0.6	0.3	n/a	n/a	100%	100%
Total ROM Production	**12.0**	**6.6**	**8.9**	**5.2**	**37%**	**29%**
Coal Sales						
Export	0.8	0.4	0.8	0.4	-%	-%
Domestic	7.6	4.2	5.9	3.4	29%	24%
Total Coal Sales	**8.4**	**4.6**	**6.7**	**3.8**	**25%**	**21%**

The Kangala mine, of which the Wolvenfontein pit is currently in the twilight phase of production with a remaining life of 12 months, is forecast to revert to contracted tonnages of 2.0Mtpa, having well exceeded this level over the past four years due to strong customer demand. The FY2020 guidance does not include any production from the Eloff Project as Universal is still awaiting the finalisation of the necessary regulatory approvals.

NCC has been operating consistently since recommissioning in 2016 and Universal is considering a further increase to throughput following capital investments made in the previous financial year. ROM production is forecast to increase by 33% from 2019 volumes with saleable product guidance increased to 2.8Mt for the financial year.

The acquisition of NBC[3] has underpinned our volume predictions and has added another pillar of support to the business. A delay in obtaining the Section 11 transfer (Ministerial approval) at Paardeplaats has resulted in a lower overall production forecast by approximately 20%. As such we are anticipating higher operating costs due to increased stripping ratios and lower product yields. It is our view that this S11 approval will be granted in the current quarter. Once this approval is received, we anticipate a resumption of steady-state mining and a return to anticipated cost and yield levels in line with expectations.

3 Universal Coal acquires interest in third operation – The North Block Complex announcement, 8 March 2018 - https://www.asx.com.au/asxpdf/20180308/pdf/43s8l8cd3tpb3q.pdf

The Ubuntu Colliery, currently under construction, is forecast to deliver a total of 0.6Mtpa[4] of product coal to Eskom during second half of the FY2020, although steady-state production is only expected to be achieved during the latter part of the last quarter in this financial year.

Earnings Before Interest Taxation, Depreciation and Amortisation (EBITDA) and CAPEX

FY2020 GUIDANCE	Unit	Group	Attr.
EBITDA	**A$m**	**73.0**	**42.0**
Kangala	A$m	**-**	**-**
New Clydesdale	A$m	**11.5**	**5.6**
North Block Complex	A$m	**18.0**	**8.8**
Ubuntu	A$m	**16.5**	**8.0**
Total CAPEX	**A$m**	**46.0**	**22.4**

Outlook

Our CSA's with Eskom provide Universal with a degree of long-term supply certainty, coupled with pricing stability in depressed export pricing environments.

Current global market conditions are forecasting a stronger South African Rand (ZAR) against the US$ coupled with a subdued API#4 Index outlook for the current financial year. Universal experienced an average of US$30/t drop in export sales during the last 12 months (Sept 2018:US$92/t vs Sept 2019:US$62/t). As a result, Universal will maximise domestic coal supply where possible.

Universal has assumed the current pricing of US$68 per export tonne over the next 9 months of FY2020. The commodity price forecast is in line with peer group review and banking consensus forecasts. Domestic revenues are based on contracted pricing contained within the CSA's including economic inflationary adjustments as permitted.

Universal's FY2020 guidance is reflecting a forecast EBITDA of A$73 million (attr. A$42 million) based on the volume guidance provided, forecast selling prices and foreign exchange rates, anticipated regulatory approvals and domestic pricing assumptions outlined in this communication.

Capital Expenditure

The Company has estimated A$46 million of capital expenditure requirements for the year, split primarily between NBC, the construction of the Ubuntu Colliery and completing improvements at NCC. Universal plans to fund these capital requirements from internally generated cash resources and is in the process of evaluating debt refinancing alternatives together with additional finance facilities to fund growth opportunities as they arise.

It is expected that the capex at NBC, where we are continuing to make provision for the integration of the larger adjacent Paardeplaats project, will be approximately A$18 million. These works include significant upgrades and expansions being made to the greater CHPP area to cater for:

- improved product handling capacity with the introduction of a new slew conveyor;
- new and improved overland and stacker conveyors; and
- updated and refined processing facilities to cater for the substantial increase in ROM coal both from blending and processing requirements.

4 Ubuntu signs coal supply agreement. http://www.universalcoal.com/media-centre/asx-announcements/announcements-2019

These improvements will allow for further optionality in processing increased export coal volumes and maintaining domestic coal processing capabilities once completed. The capex expenditure for NBC includes the acquisition price of additional surface rights at Paardeplaats which are not currently owned.

The development of the Ubuntu Colliery is estimated to account for a further A$16.5 million of capex. This includes costs for the initial boxcut, site infrastructure, power, water and site vehicles.

The remaining A$11.5 million is expected to be spent at NCC to accommodate:

- the remaining boxcut cost at the Diepspruit West opencut expansion;
- improvements to the inbound infrastructure and site entrance;
- additions to lighting, stormwater and pollution control dam infrastructure; and
- the installation of proximity detection systems for the underground equipment.

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Forward-looking statements

This announcement contains forward-looking statements, including statements regarding production, EBITDA projections, plans, strategies and objectives of management, anticipated productive life of mines and regulatory processes. Forward-looking statements can be identified by the use of terminology such as ‘intend’, ‘aim’, ‘project’, ‘anticipate’, ‘estimate’, ‘plan’, ‘believe’, ‘expect’, ‘may’, ‘should’, ‘will’, ‘continue’, ‘annualised’ or similar words. These statements discuss future expectations concerning the results of operations or financial conditions or provide other forward-looking statements. These forward-looking statements, which are predictive in character, are not guarantees of future performance. They involve known and unknown risks, uncertainties and other factors, many of which are beyond our control. They may cause actual results to differ materially from those expressed in the statements contained in this announcement. Readers are cautioned not to put undue reliance on forward-looking statements. They may be affected by incorrect assumptions and by known and unknown risks and uncertainties.

For example, future revenues from Universal’s mines, operations and projects described in this announcement will be based, in part, upon the market price of thermal coal, which may vary significantly from current levels. These variations, if materially adverse, may affect the timing or the feasibility of the development of a particular project, the expansion of certain facilities or mines, or the continuation of existing operations. Other factors that may affect the costs or production output and anticipated lives of operations, mines or facilities include our ability to profitably produce and transport the coal extracted to applicable markets; the impact of foreign currency exchange rates on the market prices of the coal we produce; activities of government authorities in South Africa, including increases in taxes, changes in environmental and other regulations and political uncertainty; labour unrest; and other factors identified in the risk factors discussed in Universal Coal’s Annual Reports which are available at www.universalcoal.com. Except as required by applicable regulations or by law, Universal Coal does not undertake any obligation to publicly update or review any forward-looking statements, whether as a result of new information or future events. Past performance cannot be relied on as a guide to future performance.

Sources of Information and Notes

Unless otherwise stated, throughout this announcement, an exchange rate of AUD:ZAR 1:10.11 and USD:ZAR 1:14.69 has been utilised.

The information required by ASX Listing Rule 5.16 or 5.17 in respect of the statements corresponding to the footnotes above that appear in the announcement were disclosed in the announcements identified above and in each case, it is it is confirmed that all material assumptions underpinning the production target or the forecast financial information derived from the production target in the original announcement continues to apply and has not materially changed.

PRODUCTION AND SALES BY MINE						
Thousands of tonnes	***Quarter ended***			***Year-to-Date (YTD)***		
	Sept 19	***Sept 18***	***Change***	***Sept 19***	***Sept 18***	***Change***
KANGALA COLLIERY						
ROM coal production	937	974	-4%	937	974	-4%
Export sales	-	8	-100%	-	8	-100%
Domestic sales	551	546	1%	551	546	1%
Total coal sales	551	554	-1%	551	554	-1%
NEW CLYDESDALE COLLIERY (NCC)						
ROM coal production	852	889	-4%	852	889	-4%
Export sales	136	231	-41%	136	231	-41%
Domestic sales	542	398	36%	542	398	36%
Total coal sales	678	629	8%	678	629	8%
NORTH BLOCK COMPLEX (NBC)						
ROM coal production	1,030	-*	100%	1,030	-*	100%
Export sales	-	-*	-	-	-*	-
Domestic sales	636	-*	100%	636	-*	100%
Total coal sales	636	-*	100%	636	-*	100%
TOTAL GROUP MANAGED PRODUCTION						
ROM coal production	**2,820**	**1,863**	**51%**	**2,820**	**1,863**	**51%**
Export sales	**136**	**239**	**-43%**	**136**	**239**	**-43%**
Domestic sales	**1,729**	**944**	**83%**	**1,729**	**944**	**83%**
Total coal sales	**1,865**	**1,183**	**58%**	**1,865**	**1,183**	**58%**

* NBC only acquired on 1 November 2018, therefore no comparative data is reflected.