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Full Year Financial Result 2020

FINANCIAL HIGHLIGHTS:

- Yancoal's Revenue and Operating EBITDA demonstrates its assets can withstand cyclical coal price weakness.
- **Revenue from continuing operations of $3.47 billion**[1], down 22% from $4.46 billion in the year ended 31 December 2019 ("FY19"). The decrease reflects the 26% reduction in average realised coal price during 2020.
- **Operating EBITDA of $748 million** down from $1.65 billion in FY19 due mainly to the reduced revenue. The Operating EBITDA Margin for the period was 21%.
- **Net Loss after Tax** was $1.04 billion, this incorporates the following one-off, non-cash items a $653 million gain on the Moolarben transaction and a $1,383 million accounting loss on reconsolidation of Watagan.
- Net cash inflow from operating activities of $605 million and $637 million held in cash at the end of the year reconfirm Yancoal's capacity to operate through periods of low coal prices.

OPERATIONAL HIGHLIGHTS:

- **Total Recordable Injury Frequency Rate** ("TRIFR") - At the end of FY20 TRIFR was 7.4 (12-month rolling average), compared to 7.4 at the end of FY19 and a comparable industry weighted average of 8.4. [2]
- **Unit costs beat guidance** – Yancoal reduced its cash operating costs (excluding government royalties) per production tonne to $59/tonne compared to $64/tonne in FY19.[3]
- **Saleable Production guidance achieved** - Attributable saleable coal production of 38.3Mt was up 8% from FY19[4].
- **Capital expenditure guidance achieved** – Capital expenditure was $279 million (attributable) as Yancoal remained focused on controllable factors throughout the period.

STRATEGIC HIGHLIGHTS:

- The Company secured an additional 10% stake in Moolarben early in the year and completed a US$1.275 billion debt replacement in the middle of the year.

[1] All financial numbers presented are stated in Australian dollars (A$ or $) unless otherwise stated
[2] Excludes data from the Hunter Valley Operations, Middlemount and Watagan assets. Prior periods may be revised for reclassification of past events.
[3] Operating cost costs revised to include other operating expenses. Prior period figures have been similarly adjusted.
[4] Attributable figures include (i) 85% attributable production for Moolarben up to and including 31 December 2019, and 95% thereafter, and (ii) 0% attributable production for Watagan up to and including 16 December 2020, and 100% thereafter. Attributable figures do not include production from Middlemount (incorporated joint venture and accounted for as an equity-accounted investment).

CHAIRMAN COMMENTARY:
Yancoal Chairman Baocai Zhang said:

“Yancoal successfully met the many challenges faced by the coal sector in 2020.

“Management and operational staff worked closely together to rapidly implement an effective COVID-19 pandemic response plan. As a result, Yancoal operations experienced minimal production disruption throughout the year. Peer company interest in visiting Yancoal sites to learn how we had effectively responded to COVID-19 was validation of our strategies and actions.

“Lower power demand globally in 2020 resulted in weakness across benchmark coal price indices. The most effective strategy to navigate cyclical lows in the coal industry is to have a sustainable low-cost production base. Yancoal has built a portfolio of tier-one assets, and we continued to pursue this strategy in 2020 by increasing our ownership of Moolarben (our lowest cost operation) by 10% to 95%. This directly contributed to Yancoal’s sound operational performance during the year. Yancoal has also identified potential production growth opportunities at MTW and Moolarben – both tier-one assets.

“Yancoal is open to expanding beyond its existing coal-focused asset portfolio, including the potential to diversify into other minerals, energy, or renewable energy projects should appropriate opportunities arise.”

CEO COMMENTARY
Yancoal CEO David Moult said:

“The health and wellbeing of all our employees is of vital importance to Yancoal, and the work practices and measures we implemented to mitigate COVID-19 related risks, I am pleased to say, have proven successful with minimal disruption to the organisation this year. We remain vigilant to the continued risks posed by the pandemic, as well as broader health and safety issues. Yancoal’s 12-month Total Recordable Injury Frequency Rate remained below the comparable industry average throughout 2020.

“Yancoal achieved its guidance for both production and operating costs in 2020. The $5/tonne decline in unit operating costs to $59/tonne was an outstanding outcome, especially in the context of our lower overall average realised coal price ($82/tonne for the year). Critically, our low-cost production supported operating cash flow of $605 million, which covered capital expenditure commitments and the purchase of an additional 10% stake in Moolarben.

“Yancoal has developed a broad mix of customers in a range of countries. In 2020, this diversification strategy provided opportunities to redirect sales and develop exposure to new markets as regional trade patterns evolved.

“During 2021 Yancoal will continue to focus on the controllable elements of our business; particularly optimising production and keeping our operating cash costs low, while pursuing additional saleable tonnes and optimising our product mix and customer base.”

SAFETY

Beyond the ongoing safety initiatives, the mines sites successfully and rapidly implemented a pandemic response plan that allowed all mines to be largely unaffected throughout the year. The Group's TRIFR was stable throughout the period. The 12-month moving average of 7.4 was below the comparable weighted average industry average of 8.4 at the end of the year.

PRODUCTION and SALES:

ROM COAL PRODUCTION (100%)	Economic interest	FY20 Million tonnes	FY19 Million tonnes
Moolarben	95%	21.7	20.5
Mount Thorley Warkworth (MTW)	82.9%	17.6	17.6
Hunter Valley Operations (HVO)	51%	16.9	19.2
Yarrabee	100%	3.3	3.4
Stratford Duralie	100%	1.0	1.2
Middlemount	49.9997%	4.0	3.4
Watagan	100%	3.6	3.7
Total - 100% Basis		**68.1**	**69.0**
Total - Attributable[5]		**47.9**	**46.5**

SALEABLE COAL PRODUCTION (100%)	Attributable contribution	FY20 Million tonnes	FY19 Million tonnes
Moolarben	95%	19.7	17.8
Mount Thorley Warkworth	82.9%	11.9	12.1
Hunter Valley Operations	51%	12.0	13.7
Yarrabee	100%	3.0	2.8
Stratford Duralie	100%	0.5	0.8
Middlemount	0% (equity accounted)	2.9	2.7
Watagan	100% (from 17-Dec-2020)	1.8	2.2
Total - 100% Basis		**51.8**	**52.1**
Total – Attributable		**38.3**	**35.6**

Total ROM (100% basis) produced during the period was 68.1Mt, a similar level to FY19 despite HVO reducing output in response to global coal market conditions. **Total Attributable** production was 47.9Mt; a 3% uplift over FY19. The additional 10% stake at Moolarben was central in the attributable production uplift.

Attributable Saleable Production was 38.3Mt; an 8% uplift over FY19. Sales of attributable production was 37.9Mt[6]; comprising 33.7Mt thermal coal (89%) and 4.2Mt metallurgical coal (11%). Attributable sales lagged production due to the damaged ship loader at the NCIG coal terminal affecting the timing of sales late in the year.

[5] Attributable figures exclude production from Middlemount (an equity-accounted investment) and Watagan (equity-accounted investment between 31 March 2016 up to and including 16 December 2020). Attributable figures for Moolarben are 85% up to and including 31 December 2019 and 95% after that date, but note economic attribution is 85% up to 31 March 2020 and 95% after that date.

[6] Purchased coal volumes are used to optimise overall product quality and the realised price; the purchased volumes are not included in the reported sales volumes

Operating cash costs per tonne, excluding government royalties, were $59/tonne ($64/tonne in FY19). The Company continued to offset cost inflation pressure by pursuing operational efficiencies across the portfolio and maximising volumes from lower-cost operations. In 2020, unit costs had the temporary benefit of lower diesel costs and cost deferrals associated with our COVID-19 response.

SALES VOLUME **Attributable mine production sold**	**FY20** **Million tonnes**	**FY19** **Million tonnes**
Metallurgical	4.2	5.5
Thermal	33.7	30.1
Total - Attributable	**37.9**	**35.6**

Yancoal realised an average price of $76/tonne for thermal coal products ($100/tonne in FY19) and $124/tonne for metallurgical coal products ($167/tonne in FY19), giving an overall average-sales-price of $82/tonne ($111/tonne in FY19)[7]. During 2020 weaker global economic conditions, changes to import profiles in the region and the interplay between international energy markets all affected the supply-demand balance for coal and consequently the realised prices. Yancoal continually optimised its product profile and customer base during the year in response to the market conditions, at times establishing deliveries to new customers in new markets on competitive contractual terms. The product mix optimisation involved selling a higher proportion of thermal coal due to reduced demand for semi-soft and PCI metallurgical coal during the year.

FINANCIAL PERFORMANCE:

Results for 2020 and 2019	**31-Dec-20** **$ Million**	**31-Dec -19** **$ Million**
Revenue from continuing operations	3,473	4,459
Operating EBITDA [8]	**748**	**1,654**
Depreciation and amortisation	(804)	(607)
Operating EBIT	**(56)**	**1,047**
Interest income	84	105
Finance costs	(191)	(233)
Bank fees and other charges	(55)	(56)
Loss on reconsolidation of Watagan	(1,383)	-
Gain on acquisition of interest in Joint operation	653	-
Fair value losses recycled from hedge reserve	(194)	(190)
Remeasurement of contingent royalty	23	12
Stamp duty expensed	(15)	-
Remeasurement of royalty	(9)	33
Arbitration award	-	49
(Loss)/ profit before tax	**(1,143)**	**767**
Tax expense	103	(48)
(Loss)/ profit after tax	**(1,040)**	**719**

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

[8] In 2020 the accounting presentation of the Middlemount royalty was changed to better reflect the substance of the royalty income. This required the reclassification of certain prior year income statement items but with no change in profit before tax or the balance sheet. The reclassifications comprised the recognition of $19 million of royalty revenue, the de-recognition of $20 million of interest income and a $1 million increase in the remeasurement of royalty receivable within other income.

Revenue of $3.47 billion was down from the previous year ($4.46 billion in FY19). Lower USD sales prices offset increased sales tonnes; a consequence of the global COVID-19 economic impact.

Operating EBITDA was $748 million - down from FY19 ($1.65 billion) – a flow-on effect from lower coal prices, reducing the revenue line.

The loss before tax was $1.14 billion compared to a profit of $767 million in FY19. The loss in FY20 includes two notable one-off, non-cash items; a $653 million gain recorded on the acquisition of a further 10% stake in Moolarben (reported in 1H 2020) and a $1,383 million loss on the reconsolidation of Watagan. The loss reported for 2020 does not reflect any long-term structural change in the industry or coal market outlook; these were accounting adjustments.

CASH FLOW:

Cash flow summary		31-Dec -20 $ Million	31-Dec -19 $ Million
Operating cash flows [9]		605	1,548
Investing cash flows		(591)	(392)
Net free cash flow		**14**	**1,156**
Financing cash flows		(314)	(1,209)
Cash at the beginning of the period		962	1,031
Effect of FX on cash		(25)	(16)
Cash at the end of the period		**637**	**962**
Capital management		**31-Dec -20 $ Million**	**31-Dec-19 $ Million**
Net debt		3,568	2,536
Gearing ratio (net debt/(net debt plus equity)	(%)	41%	29%
Leverage (net debt/EBITDA) [10]	(times)	4.8	1.5

Dividend payments of $280 million announced in February 2020 constituted the bulk of the financing cash outflows during the period. After covering these distributions and lease liabilities, the Company still held over $600 million in cash at the end of the year.

Yancoal ended FY20 with a gearing ratio of 41% after debt associated with Watagan was reconsolidated onto the balance sheet. As it had been doing in prior years, the Group intends to bring the gearing ratio down over time. The leverage ratio increased to 4.8x at the end of 2020, but this should be viewed in the context of the cyclical low in the coal price and the EBITDA impact in 2020.

DEBT REPLACEMENT:

On 8 July 2020, Yancoal replaced a debt facility that had a US$1.275 billion limit on 31 December 2019. The new facility is payable over the next five years (with repayments primarily occurring in years four and five),

[9] Net interest expense cash outflow is included in Operating cash flows

[10] Leverage is based on the end of period net debt and a rolling 12-month value for the EBITDA

whereas the prior facility had repayments due during 2020 and 2021. This debt replacement reduced current liabilities on the balance sheet.

DIVIDEND:

Yancoal completed its 2019 final dividend payment of $280 million during the year. After deferring non-essential capital expenditure during the year and given the current uncertain global economic climate, the board of Directors of Yancoal ("Board") elected to maintain a prudent capital management approach and decided not to declare a final dividend for 2020.

MINE CLOSURE TRANSITION

In February 2020, mining operations at the Austar mine ceased, and the site was placed on care and maintenance. The Yancoal Board has subsequently approved a transition to closure of the site. Similar to the transition to care and maintenance, the Company will engage and consult with the site employees regarding plans for the next phase of the asset, the likely impact this will have on employees and measures to mitigate the impact of those changes on employees.

NON-CASH ITEMS:

Late in 2020, Yancoal announced the reconsolidation of Watagan due to a new commercial arrangement between Yankuang, a Yankuang wholly owned subsidiary, and the other two Watagan bondholders. The reconsolidation accounting treatment resulted in a one-off, non-cash loss of $1,383 million. The Watagan reconsolidation will simplify the operational and financial reporting of Yancoal by removing the equity-accounted structure previously in place. The operational and financial performance of Watagan, including saleable production, operating costs and capital expenditure, will contribute directly to Yancoal's overall operational and financial performance from 17 December 2020 onwards. (Note E1 and E2 to the Annual Financial Report has more information).

Conversely, and as reported in the First-Half Result, there was a one-off non-cash gain of $653 million resulting from a revaluation of the 95% interest in Moolarben. (Note E1 to the Annual Financial Report has more information).

OUTLOOK:

During, 2020 Yancoal and the coal sector faced challenging coal market conditions as the COVID-19 economic slow-down exacerbated the supply-demand imbalance that had affected coal price indices in 2019. However, by late in the year, supply-side curtailments' impact became apparent, and the indices were recovering as winter conditions in Asia boosted demand. There was also price improvement for the lower-grade metallurgical coals late in the period, underpinned by the high-grade thermal coal indices' appreciation.

In 2021, there is the potential for the ongoing recovery of global economic conditions, especially those caused by the economic slow-down due to COVID-19 disruptions and the associated demand for electricity generation. However, regional trade settings and supply and demand fluctuations could create coal index volatility during the first half of 2021.

Yancoal continually examines opportunities to grow the business. The Company is open to expanding or extending the operational profile of its existing assets with organic projects, like those identified at MTW and Moolarben; acquiring additional assets, such as it did with the Coal & Allied transaction; or diversifying into other minerals, energy or renewable energy projects. Any new initiative would be subject to careful evaluation and require consideration and approval of the Board before commencement.

OPERATING GUIDANCE:

Yancoal's performance targets for 2021 are:

- Saleable coal production of around 39 million tonnes (attributable).
- Cash operating costs (excluding government royalties) of $60 to 62/tonne.
- Capital expenditure is expected to be $360-380 million (attributable).

END

Authorised for lodgement by the Yancoal Disclosure Committee

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