# Yancoal Australia Ltd

## First-Half Financial Result

**17 August 2022**

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# Record Revenue and EBITDA in 1H 2022

Effective COVID-19 response and sustained safety performance
8.7 TRIFR

$4.8 billion Revenue

15.5Mt Attributable Saleable Production

$3.2 billion Operating EBITDA & operating margin of 65%

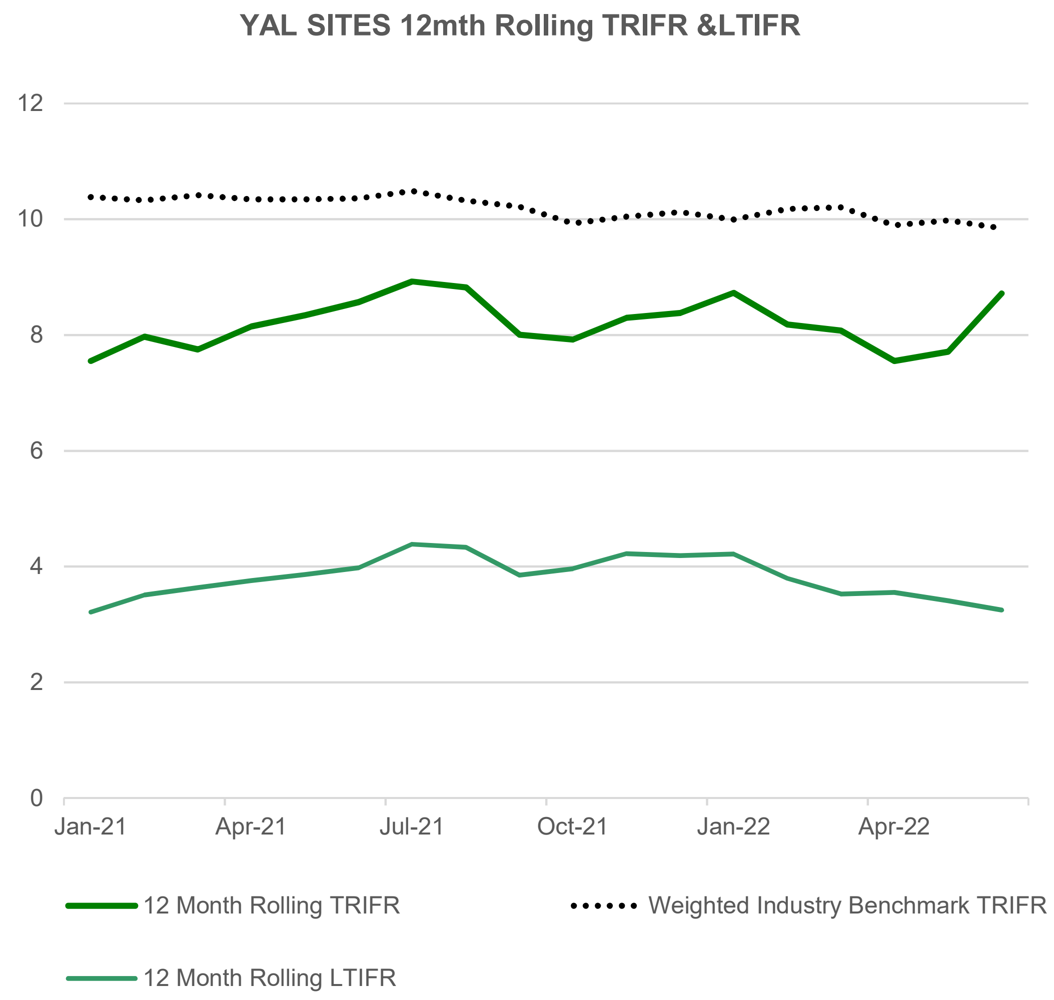
Average realised coal sales price of A$314/tonne

Cash position of $3.4 billion and 3% gearing as at 30 June 2022

A$205/tonne Implied Operating Cash Margin

Interim dividend of $696 million, A$0.5271/share

# Safety Performance




- Yancoal's pandemic response plan limited the impact of COVID-19, but precautionary isolation measures continue to affect crew availability at most sites.
- Risks posed by the pandemic have not abated so far in 2022.
- The Group's TRIFR improved in the first quarter, but then deteriorated in the second quarter. The majority of the incidents occurred at two mines. Management has identified the factors contributing to the increase and is taking steps to address them.

**Yancoal measures its performance against the industry, and has kept key safety statistics below the benchmark**

* TRIFR = Total Recordable Injury Frequency rate, and LTIFR = Lost Time Injury Frequency Rate. Attributable TRIFR includes Moolarben, Mount Thorley Warkworth, Stratford Duralie, Yarrabee and Corporate; it excludes Joint venture operated Middlemount and Hunter Valley Operations. Prior periods may be revised for reclassification of past events. The Industry weighted average combines proportional components from the relevant New South Wales and Queensland industry averages.

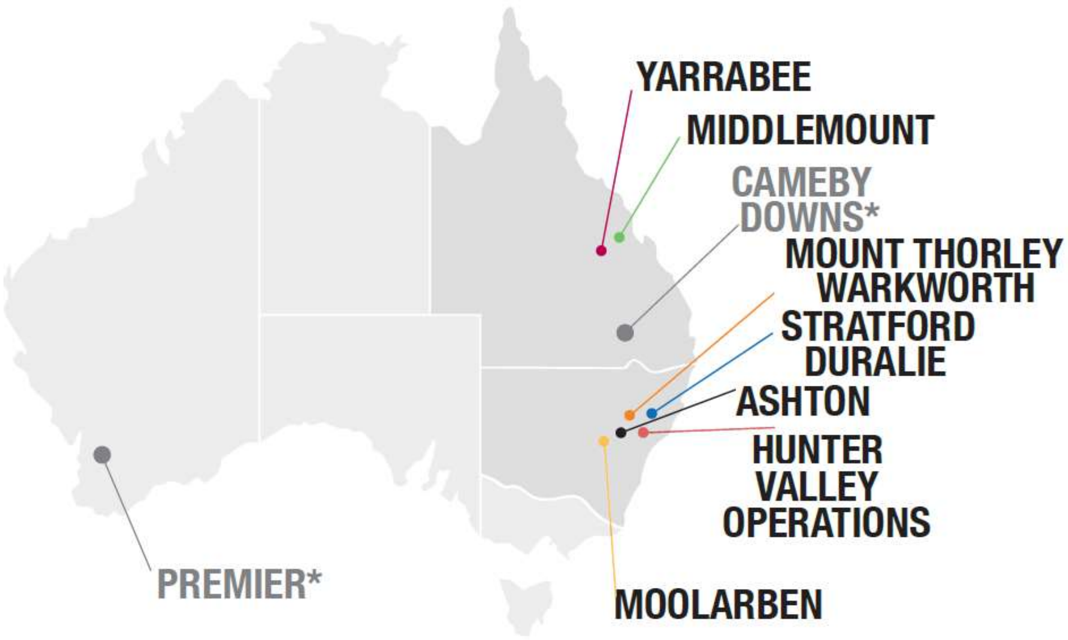
# Environment, Social and Governance (ESG)

- Initiating a process to assess the setting of targets across a range of ESG activities, particularly in relation to improving energy efficiency and workforce diversity rates.
- Investigating enhanced systems and processes for the management of ESG data, and measurement and tracking of our performance.
- Exploring opportunities in the renewable energy sector and diversification into other commodities beyond coal to sustain the business during the transition to a lower carbon economy.
- Link to Yancoal's ESG report 2021

**Founded on shared values, focused on Australian futures**

# Yancoal Overview

**Map of Yancoal operations**




**Milestones in Yancoal's growth**

## KEY EVENTS

**2021**

Delivered record revenue of over $5.4 billion and record Operating EBITDA of over $2.5 billion. Paid dividends to shareholders of $930 million (or A$0.70/share).

**2020**

Reconsolidated Watagan Assets (including Ashton underground mine) and agreed to execute US$775 million finance arrangement with Shandong Energy Group.

Acquired additional 10% of Moolarben, taking interest to 95%.

**2018**

Paid first dividends from profits and listed on the HKEx. Acquired additional 4% of Moolarben, taking interest to 85%.

**2017**

Acquired 100% of the shares of Coal & Allied (Mount Thorley, Warkworth & Hunter Valley Operations). Established HVO JV with Glencore Coal.

**2012**

Acquired the Gloucester Group (Stratford/Duralie, Donaldson & Middlemount), and listed on the ASX.

**2011**

Yankuang Energy acquired Syntech (Cameby Downs) in August and Premier in December: both mines are managed by Yancoal.

**2009**

Acquired Felix mines (Moolarben, Yarrabee, Ashton & Minerva).

**2004**

Yankuang Energy Group Company Limited acquired Austar mine, creating Yancoal.

**18 years of growth through prudent acquisitions**

* Managed, not owned, by Yancoal

# Yancoal operations summary

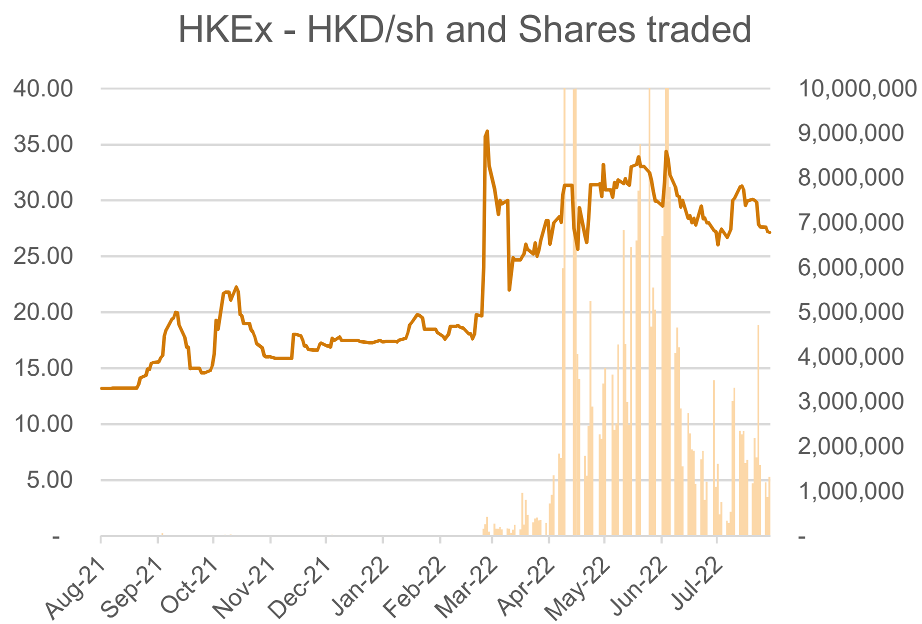
- Yancoal has an interest in 7 producing coal mines and operates 2 mines on management contracts.
- Total annual production across the 9 mines is about 70 million tonnes of ROM coal and 55 million tonnes of Saleable coal, and nearly all the saleable coal enters the export market.

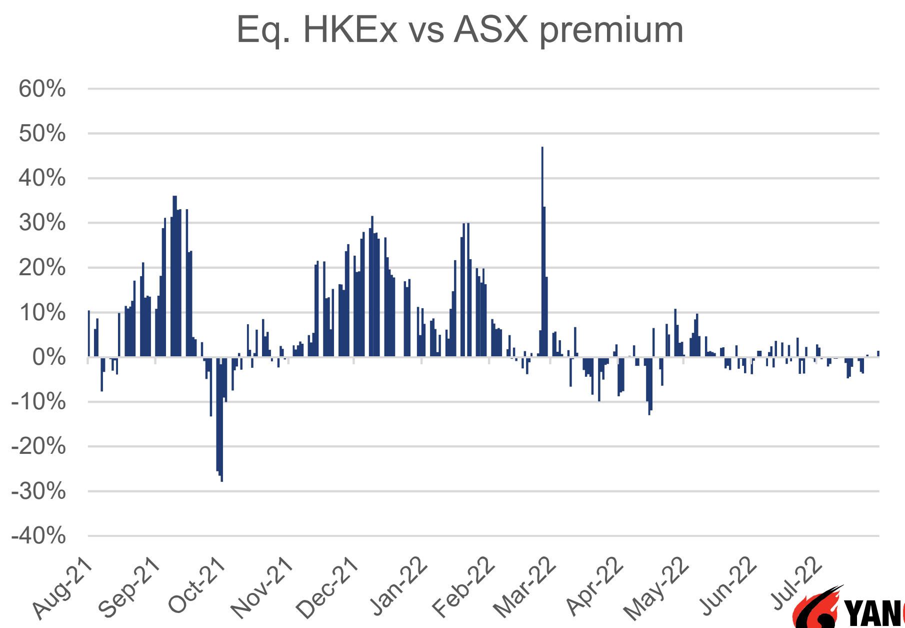
| | Moolarben | Mount Thorley Warkworth (MTW) | Hunter Valley Operations (HVO) | Yarrabee | Middlemount | Ashton | Stratford-Duralie |
|---|---|---|---|---|---|---|---|
| **Operator** | Yancoal | Yancoal | Joint Venture | Yancoal | Joint Venture | Yancoal | Yancoal |
| **Economic interest** | 95% | 83% | 51% | 100% | ~50% | 100% | 100% |
| **Employees & Contractors** | ~780 | ~1,300 | ~1,200 | ~400 | ~510 | ~325 | ~100 |
| **Operation** | OC & UG | OC | OC | OC | OC | UG | OC |
| **Coal type** | Thermal | Thermal & Semi-Soft | Thermal & Semi-Soft | Low Vol PCI & Thermal | Low Vol PCI & Hard coking coal | Semi-soft | Thermal & Semi-Hard |
| **Total Coal Resource, Mt** | 1,070 | 1,360 | 4,480 | 133 | 158 | 270 | 313 |
| **Recoverable Coal Reserves, Mt** | 211 | 260 | 860 | 81 | 93 | 39 | 2.4 |
| **Marketable Coal Reserves, Mt** | 182 | 178 | 620 | 61 | 69 | 22 | 1.4 |
| **2021 ROM, Mt (100% basis)** | 20.4 | 16.5 | 14.4 | 3.0 | 4.8 | 2.6 | 1.5 |
| **2021 Saleable Coal, Mt (100% basis)** | 18.4 | 11.2 | 10.6 | 2.6 | 3.7 | 1.2 | 0.8 |
| **Implied mine life, years** | 10 | 16 | 58 | 23 | 19 | 18 | 2 |

OC = Open-cut, UG = Underground, JORC Reserves and Resources as at 31 December 2021
Implied mine life is the Marketable reserves at 31-Dec-2021 divided by the 2021 Saleable coal production, rounded to the nearest whole number.

# Yancoal market capitalisation and daily turnover


- 1.32 billion shares for an approximate market capitalisation of $6.5 billion.
- 81.5% of shares held on ASX and 18.5% of shares held on HKEx. Shares are fungible.
- Average daily turnover since mid-March: ASX 700,000/day and HKEx 2,800,000/day.
- In May, Yankuang Energy announced it was considering the acquisition of more shares in Yancoal; however, no proposal has been made and there is no certainty a transaction will occur.






Data sourced from Refinitiv. ASX Trade volume excludes one-off block trades, Eq. HKEx value is calculated using spot AUD:HKD exchange rate from RBA

# Key Result Drivers

| Operating factors | 1H 2022 | 1H 2021 | Change | Observations |
|---|---|---|---|---|
| Average realised sales price (A$/t) | 314 | 94 | 234% | Strong coal price realisation despite lag effect |
| Attributable production (million tonnes) | 15.5 | 17.5 | -11% | Impacted by rain events and COVID-19 disruptions |
| Attributable sales (million tonnes) | 15.7 | 17.2 | -9% | Some stockpiles sold down to meet customer needs |
| Operating cash costs (A$/t) | 83 | 64 | 30% | Diesel, demurrage and lower production impacts |

**At each site, teams are maximising the effort to limit production loss**



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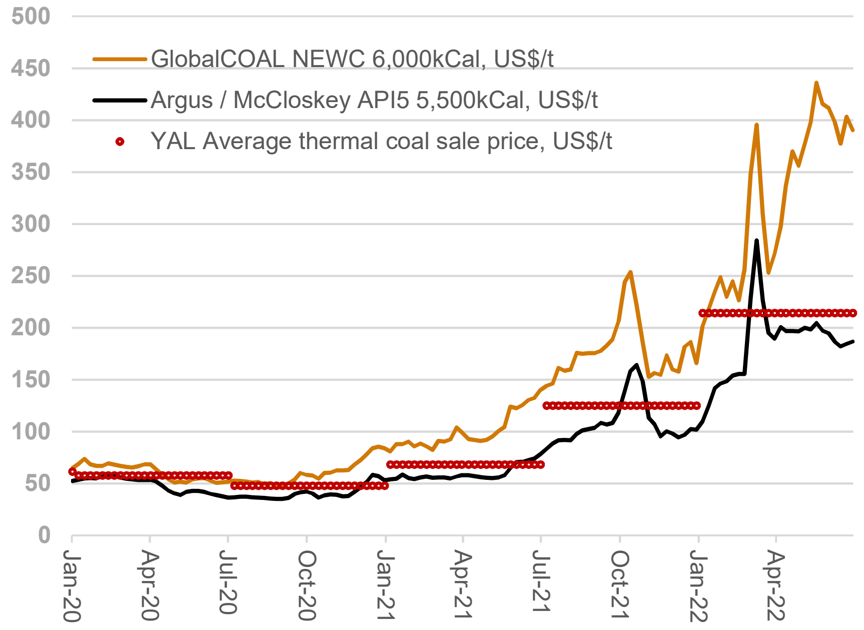
# Coal market conditions

- Average realised thermal price up 235% as supply constraints and global demand rallied international indices to record levels.
- Average realised metallurgical price up 230%, despite slowing steel sector activity in response to reduced demand for steel.

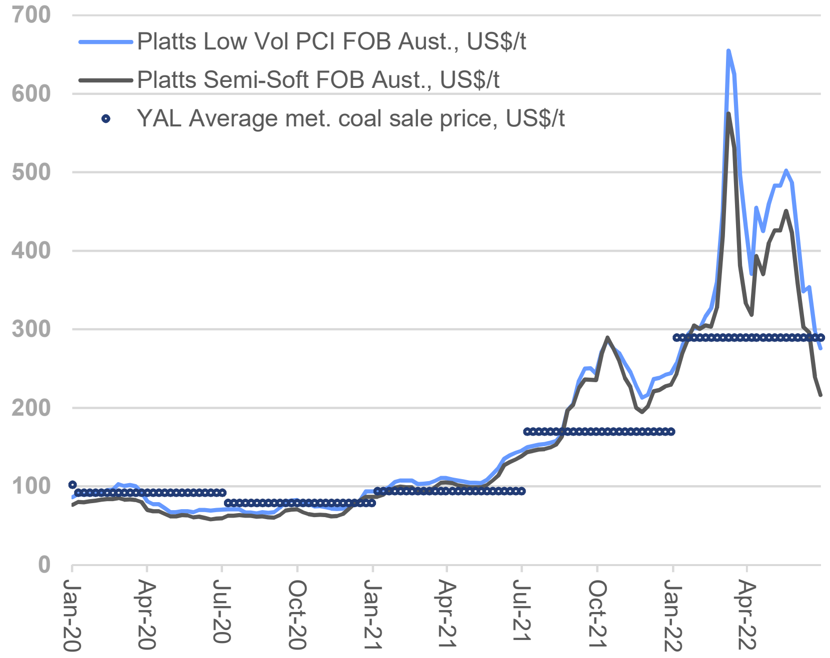
| | | 1H 2022 | 1H 2021 | % Change |
|---|---|---|---|---|
| Thermal coal price achieved | A$/t | 298 | 89 | 235% |
| Metallurgical coal price achieved | A$/t | 402 | 122 | 230% |
| **Combined coal price achieved** | **A$/t** | **314** | **94** | **234%** |

**Thermal benchmarks (US$/t), YAL Average thermal coal sale price (US$/t)***




Source: Argus/McCloskey, GlobalCOAL

**Met. coal benchmarks (US$/t) & YAL Average met. coal sale price (US$/t)***




Source: Platts

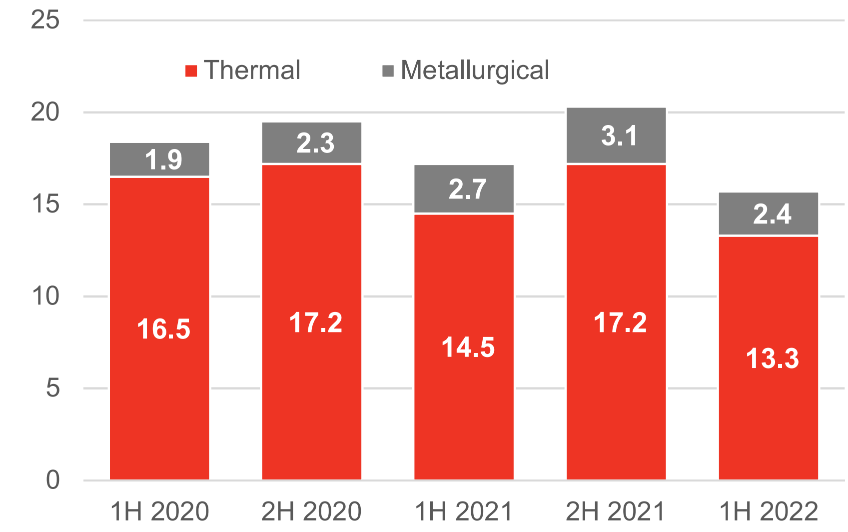
**Global energy market dislocation and supply-side constraint**

* Average sale price is the average price in AUD term for each half-year period converted to USD terms at the average AUD:USD exchange for the period

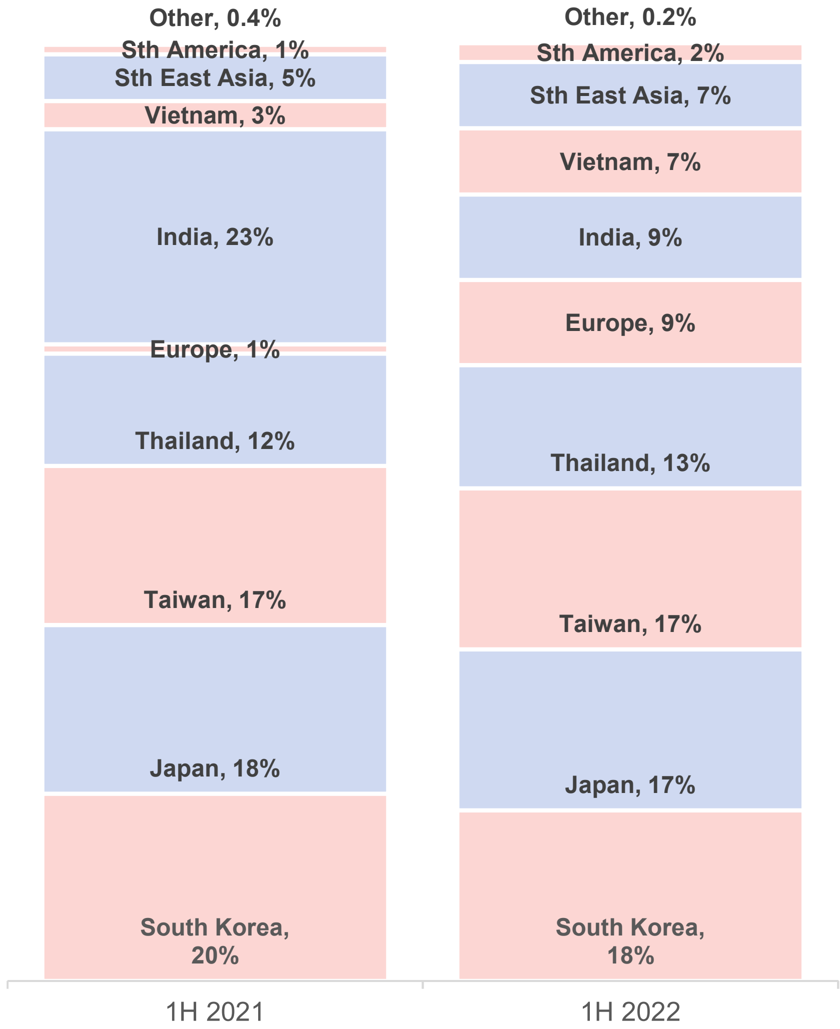
# Product mix and sales volume split

- Yancoal continually assesses the coal market conditions and its ability to best serve the customer requirements for thermal and metallurgical coal.
- Yancoal continued to diversify its customer base. Market conditions allowed high-ash product to reach destinations that typically only take low-ash product.
- Yancoal sold coal to 13 destinations in 1H 2022.

**Attributable sales volume****
(Million tonnes)




**1H 2022 Final destination for coal volumes managed by Yancoal Marketing***

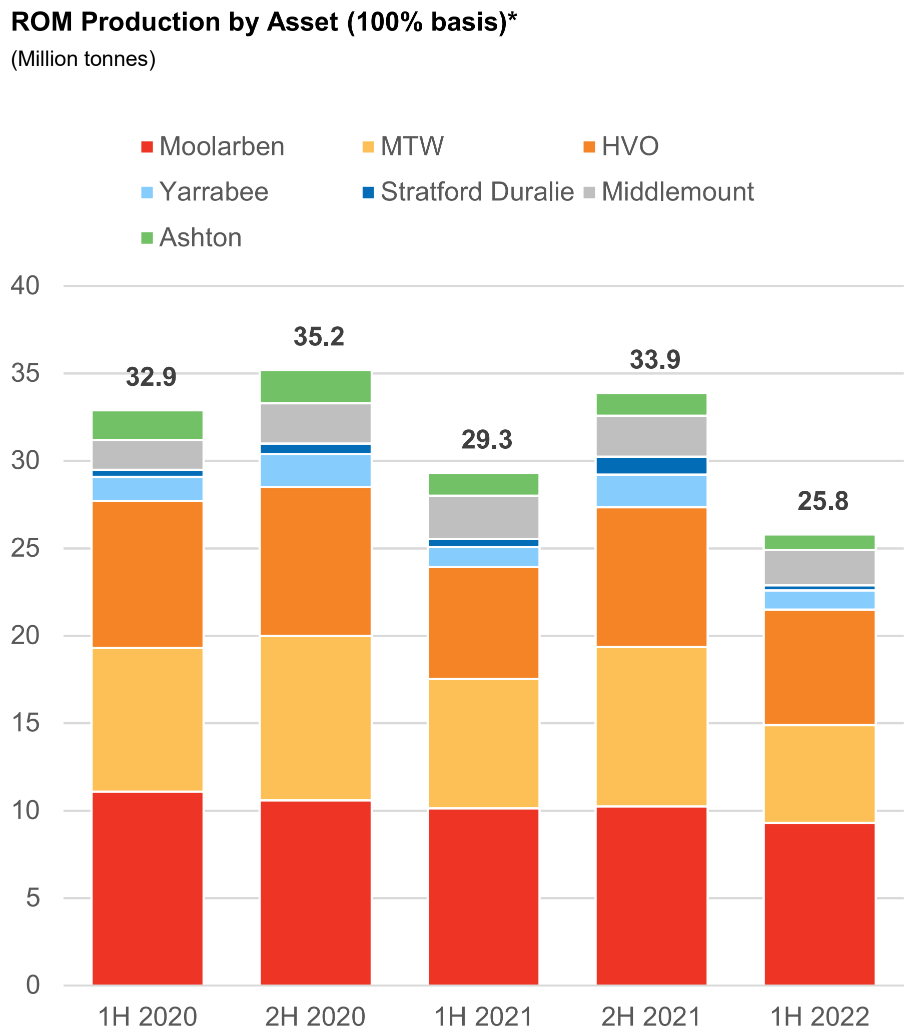



**Proportion of volume sold to any one destination was less than 20%**

* Final destination is an internal assessment determined by Yancoal (on a 100% basis, excludes HVO and the managed Cameby Downs mine). This differs from the segment reporting provided in First-Half 2022 Financial Report.

** Excludes purchased coal tonnage. Excludes Middlemount (equity-accounted) and Watagan (equity-accounted from 31 March 2016 up to and including 16 December 2020).

# ROM Coal Production impacted by uncontrollable events

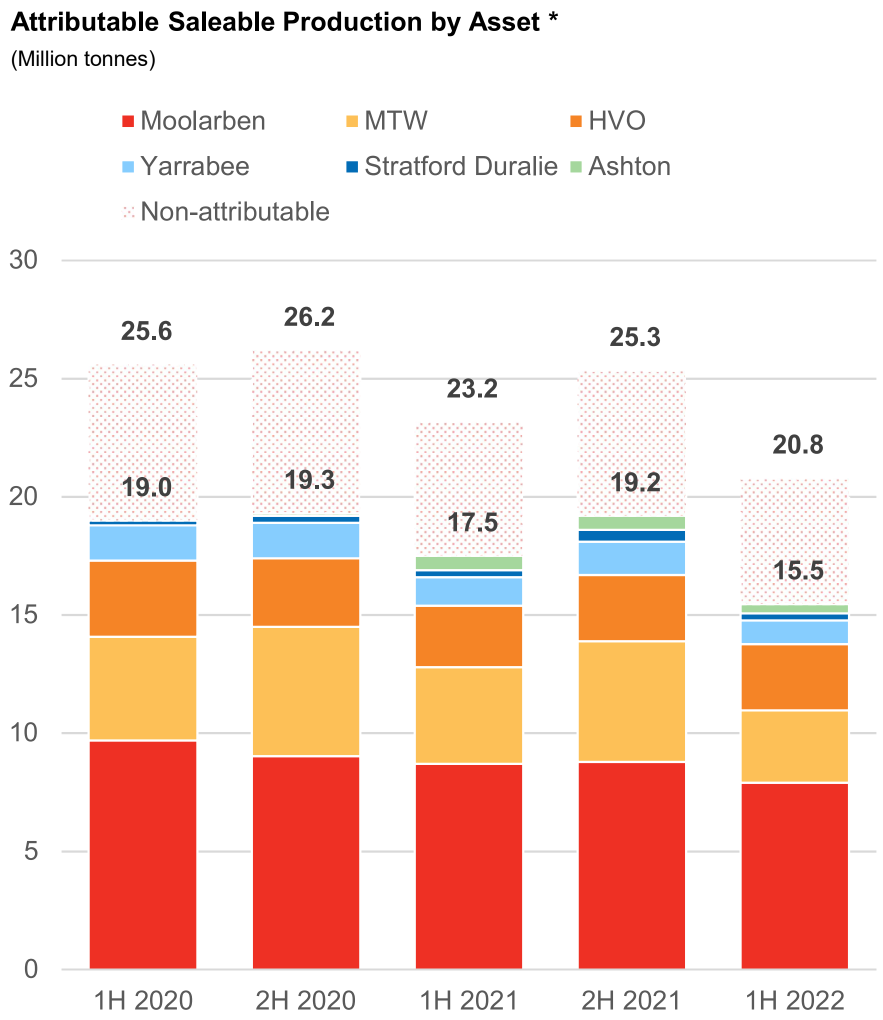



- Total ROM mined (100% basis) during the period was 25.8Mt, a decrease of 12% from 1H 2021 after the combined impacts of wet weather delays, COVID-19 disruptions, and labour shortages in the sector.
- There is limited scope to recoup the lost production as the repair and remedial works will continue into 2023, after 18 months of excessive rain.

**Teams are working tirelessly to address the uncontrollable factors impacting output**

* Ashton volumes include the other Watagan volumes for the periods prior to 17-December-2020

# Saleable Coal Production



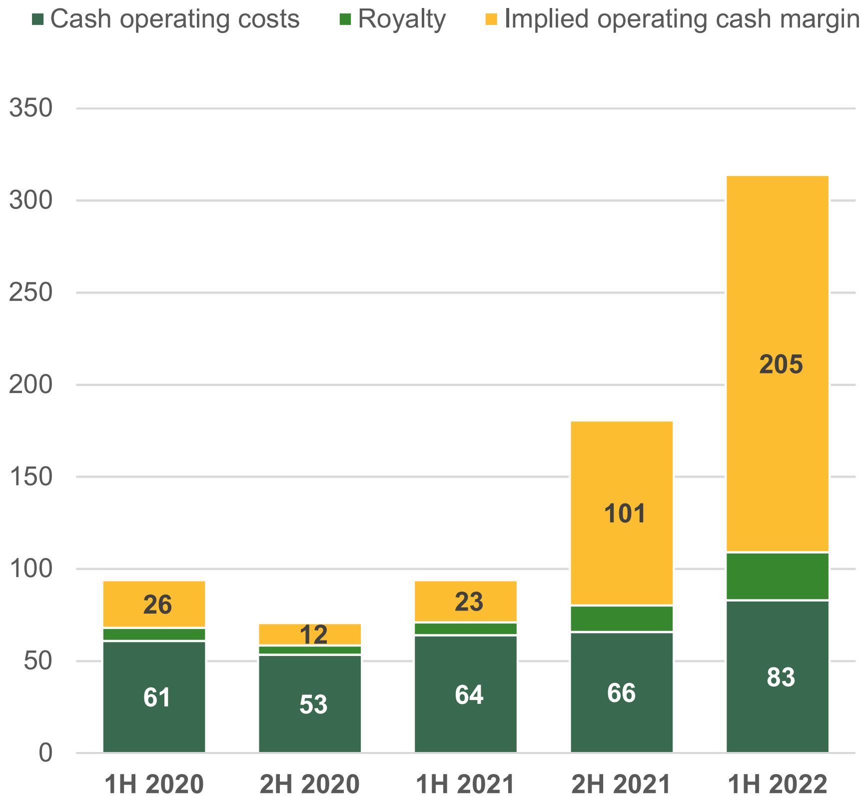

- The first-half, like 2021, was impacted by persistent and heavy rainfall, which significantly affected the open-cut mines in NSW and Queensland.
- Water storage levels at the mines in NSW were already at capacity, so the rain events in 1H: stopped production; caused slower production recovery as additional time was required to pump water out of pits; reduced productivity when mining resumed due to the boggy conditions; and often required water to be stored in operating locations.
- Heavy rains also impact rail, coal stockpiling and port activities.

**Large-scale, open-cut mines provide +85% of Yancoal's attributable production**

- Attributable figures include: Mount Thorley Warkworth (82.9%); Hunter Valley Operations (51%); Stratford Duralie (100%), Yarrabee (100%) and Moolarben (95%). Note the economic benefit from Moolarben increased from 85% to 95% from 1 April 2020 onwards, with the 3 month difference captured in the transaction terms. The Ashton contribution changes from equity accounted to attributable from 17 December 2020 onwards.

# Unit costs fluctuate on uncontrollable elements

**Cash operating costs (per production tonne)**
(A$/tonne)




- The implied operating margin increased sharply with the higher realised coal price.
- Cash operating costs, A$83/tonne, increased due to several factors including diesel price, demurrage costs, and reduced output.*
- Royalties up 270% from 1H 2021 due to the higher realised coal price.
- The 2021 and 1H 2022 figures include the Ashton underground mine.**
- Diesel price, demurrage costs and labour inflation are cost pressures likely to persist into 2023.

**Cost escalation is moderate in the context of the implied margin**

- Operating cash costs include mining, processing, and logistics charges to the port, it excludes royalties.
- ** The Ashton mine was equity accounted until 16-December 2020, when it was reconsolidated.



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# Financial Summary – Record Revenue and EBITDA results

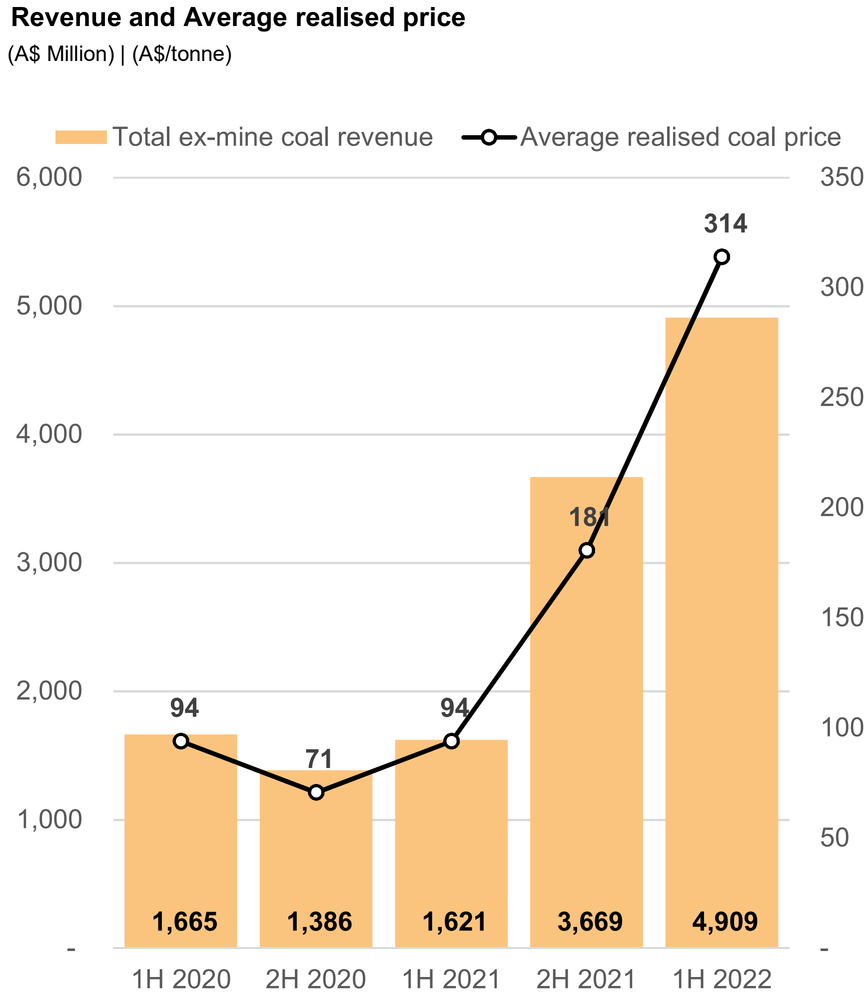
| Income Statement ($ millions) | 1H 2022 | 1H 2021 | Change | Observations |
|---|---|---|---|---|
| Revenue * | 4,776 | 1,775 | 3,001 | Realised price more impactful than lower sales volume |
| Operating EBITDA | 3,153 | 406 | 2,747 | Higher revenue more impactful than higher operating costs |
| Operating EBIT | 2,733 | 9 | 2,724 | Replicates the revenue impact at the EBITDA level |
| Profit Before Tax | 2,445 | -177 | 2,622 | Strong rebound in profitability |
| Net Profit / (Loss) after Tax | 1,738 | -129 | 1,867 | Robust profit after tax |

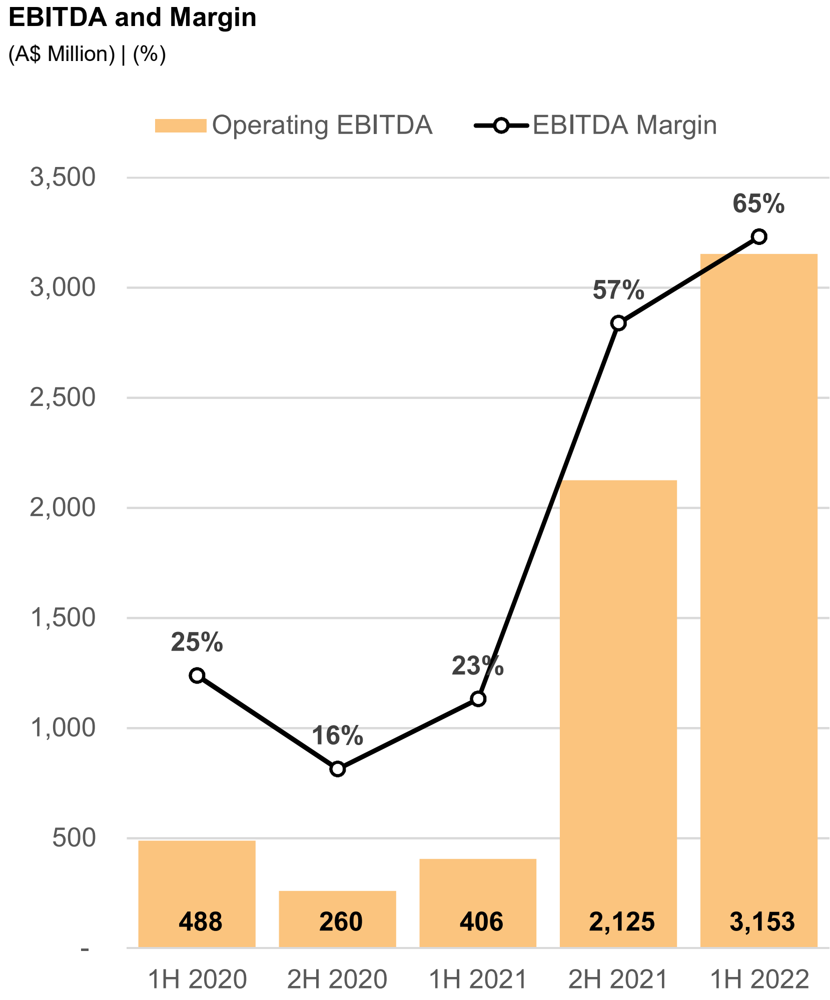
**Our low cost, large scale, tier-1 assets allow Yancoal to generate significant cashflows during periods of strong coal prices**



* Includes change in royalty accounting

# Record Prices, Revenue and EBITDA

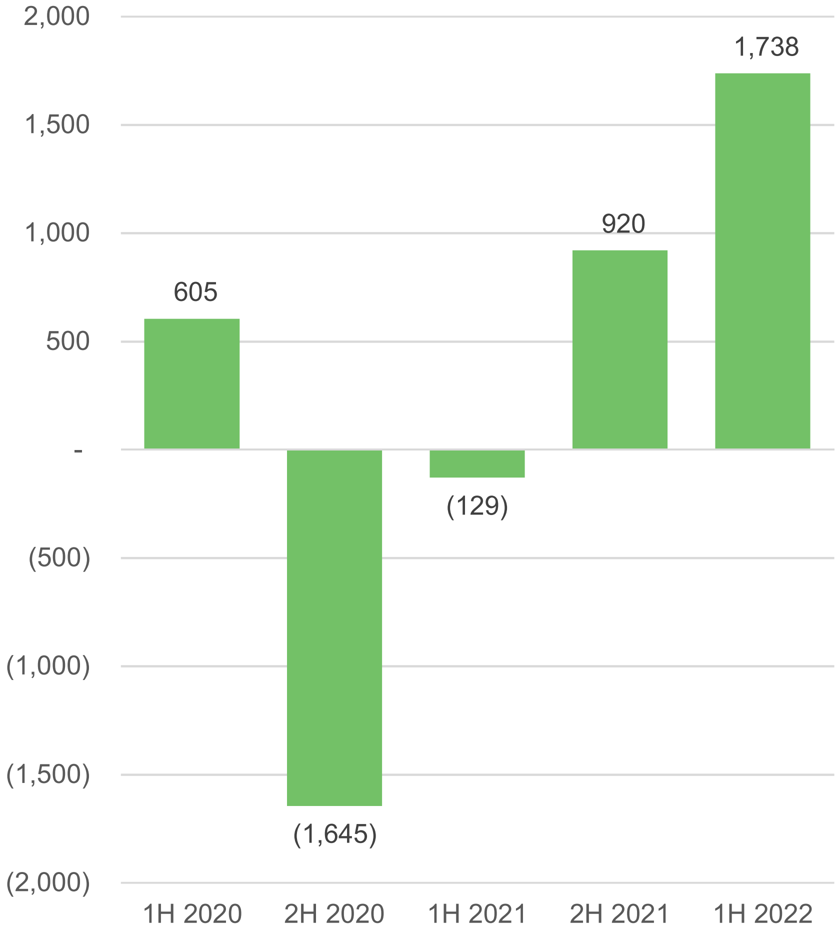


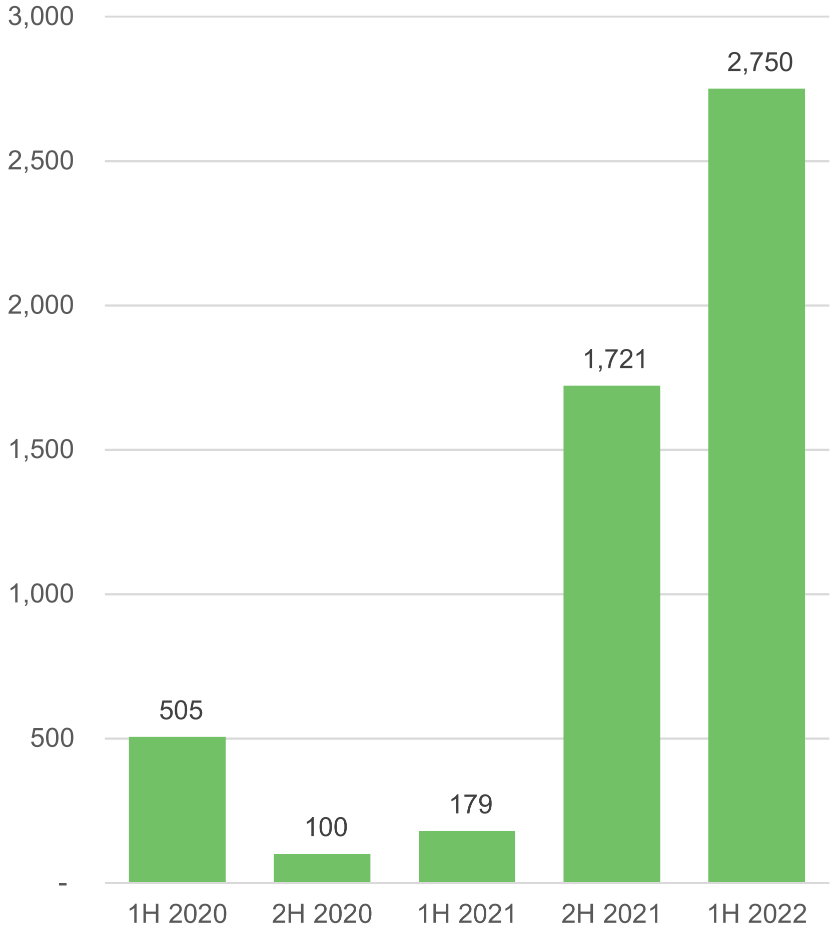

**Realised coal price drove record Revenue and EBITDA results**

# Profit and Operating cashflow up sharply from prior periods

**Profit / (Loss) after tax**
(A$ Million)




**Operating cash flow**
(A$ Million)




**Record operating cash flow is a direct result of higher coal price**

Note: 1H 2020 Profit after tax includes the benefit of a one-off, non operating gain resulting from the remeasurement of the interest in Moolarben.
Note: 2H 2020 Profit after tax includes a one-off, non operating accounting loss on reconsolidation of Watagan

# Improved Fiscal Position

| Cashflow and Balance Sheet | 1H 2022 | 1H 2021 | Change | Observations |
|---|---|---|---|---|
| Operating cash flow ($ million) | 2,750 | 179 | 1436% | Operating cash flow notably higher than 12 months ago |
| Cash at end of period ($ million) | 3,383 | 539 | 528% | US$801mn debt repayment made in July 2022 |
| Gearing ratio (%) * | 3% | 40% | - | Zero net debt level was reached in July 2022 |
| Leverage ratio (x) ** | 0.0 | 5.2 | - | Combined effect of change in net debt and EBITDA |

**Cash held increased by $2.84 billion compared to 12 months ago, after paying $930 million in dividends in April, and US$500mn in debt in October 2021**

* Gearing calculated as the ratio of Net Debt to Net Debt plus Equity. The gearing is at 30-Jun-2022 and is prior to the distribution of dividends subsequently declared.

** Leverage ratio calculated as the ratio of Net Debt to Operating EBITDA on a rolling 12 month basis

# Debt, Gearing and Dividend

**Annual Net Debt* and Gearing Ratio****
(A$ Million) | (%)


- Net Debt is $232 million, and Gross Debt is $3.6 billion.
- Yancoal made early debt repayments totalling US$801mn during July 2022, and reached a zero net debt position in July 2022.
- Debt and gearing levels have included Watagan components since 2H 2020 following the reconsolidation.
- The 2022 interim dividend allocation is $696 million, A$0.5271 per share (unfranked).
- Combined with the $930 million 2021 dividend paid in April 2022 the total amount returned to shareholders during 2022 will be $1.63 billion, or just over A$1.25 per share.

**$3.4 billion in cash and equivalents at the end of 1H 2022**

* Net debt does not include debt and earnings associated with Watagan arrangements between 2016 and 2019.
** Gearing calculated as the ratio of Net Debt to Net Debt plus Equity. The gearing is at 30-Jun-2022 and is prior to the distribution of dividends subsequently declared.

# Outlook for 2022

| Guidance component | 2021 Outcome | Original 2022 Guidance | Revised 2022 Guidance |
|---|---|---|---|
| Attributable saleable coal production | 36.7 million tonnes | 35 to 38 million tonnes | 31 to 33 million tonnes |
| Attributable cash operating cost (excl. government royalties) * | $67/tonne | $71 to 76/tonne | $84 to 89/tonne |
| Attributable capital expenditure | $269 million | $600 to 650 million | $550 to 600 million |

- The exceptional rainfall experienced in the first six months of the year, along with COVID-19-linked absenteeism, a tight labour market, supply chain disruptions, higher diesel prices and other inflationary cost pressures, all contribute to the change to the 2022 guidance. The revised guidance also factors in the unscheduled down time on key equipment and the need to revise the Moolarben longwall mining sequence, increasing the longwall development and delaying the commencement of the next longwall, to preserve an aboriginal heritage site.
- The revised production and operating cost guidance include an allowance for the Bureau of Meteorology's forecast for further rainfall in the coming months; however, there remains a risk to the revised guidance if wet weather disruptions exceed the allowances made. If the rain falls as predicted, Yancoal will face water storage capacity constraints well into 2023.
- The same factors that delayed production have delayed approximately $50 million of capital expenditure from the current year to 2023.

* Operating cash costs are exclusive of royalties and sea-freight. The comparable figure for FY2021 is $65/tonne

# The Investment case

✓ Three low-cost, large-scale assets underpin the business

✓ The capability to blend and wash coal products to maximise the market opportunity

✓ Diverse customer base that continues to demonstrate appetite for Yancoal product

✓ Capacity for rapid cash accumulation, changes in net gearing and distributions

✓ Capturing further value-add growth opportunities remains a key objective