YANCOAL
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Market Release:

Full Year Financial Result 2022

Highlights from 2022:

Revenue of $10.55 billion was a record, up $5.14 billion from 2021. The 168% increase in the average realised coal price to A$378 per tonne was the driver of the increase.[1]

Operating EBITDA of $6.96 billion and **EBITDA margin of 65%** were also records. High coal prices more than offset the impacts of lower **ROM coal production of 50.5 million tonnes (100% basis)** and higher **operating cash costs of $94 per tonne** (due to wet weather, labour availability and inflationary cost pressures).

Operating cash inflow of $6.53 billion was $4.63 billion higher than 2021. Financing activities included:

- $930 million 2021 total dividend payment;
- $696 million 2022 interim dividend payment; and
- US$2.26 billion early debt prepayments.

After dividend and debt payments, cash on hand increased to $2.70 billion at the year end. The Board has declared a **$924 million, A$0.70/share, fully franked final dividend** and announces the Company's intention to **repay its remaining US$333 million of external loans**. For the first time, Yancoal will not carry any interest bearing loans and can redirect the saved financing costs to other initiatives. Yancoal has **allocated $1.5 billion to payment of tax** incurred in 2022 – this allows it to apply franking credits to the final dividend.

After three consecutive years of La Nina weather events rebuilding mining inventory is essential to improve productivity and operating efficiency. Accordingly; Yancoal expects a second half weighting to its 2023 operating performance. 2023 guidance includes:

- 31-36 million tonnes of attributable saleable production, and
- $92-102/tonne cash operating costs.

CEO Comment:

Yancoal's people worked tirelessly to overcome numerous challenges to deliver a record financial performance in 2022.

The Company utilised record cashflows to effectively eliminate debt, while also rewarding shareholders. The Company starts 2023 with a transformed financial position and a production recovery plan already underway.

Another notable achievement is that the Company is paying a fully franked dividend. This is the first opportunity to provide the benefit of franking credits to shareholders.

Coal prices and operating margins drive the financial performance. In 2023, supply side constraints and energy market conditions should influence coal prices. Yancoal aims to maximise its margins by balancing volume, costs, coal quality and capital expenditure. We also have to manage external factors, including rain and the multiple obligations of the NSW coal reservation scheme. The aim is to gradually maximise our output rates so that production can recover to the levels of prior years.

[1] All financial numbers presented are stated in Australian dollars (A$ or $) unless otherwise stated

SAFETY

During 2022, Yancoal continued to implement COVID-19 response measures that proved effective in minimising risk to the workforce and disruption to operations. The work practices and measures implemented proved successful on-site; however, community transmission ultimately resulted in instances of workers being unable to attend site as they followed Government protocols. Yancoal's Total Recordable Injury Frequency Rate ("TRIFR") at the end of the period was 8.1; the TRIFR recorded at the end of 2021 was 8.4[2]. The decrease in the Group's TRIFR was a favourable outcome that resulted from continued efforts across all sites. Even so, the uptick in the rate TRIFR in mid-2022 served as a reminder that constant attention is required to sustain an acceptable rate. The recovery in the profile by the year's end demonstrates the effectiveness of the programs Yancoal has in place. The reported TRIFR at the end of the period is below the comparable industry-weighted average TRIFR of 8.4[3].

REALISED COAL PRICES (on attributable mine production sold)		2022 A$/tonne	2021 A$/tonne	Change A$/tonne
Thermal coal average selling price	A$/t	372	134	238
Metallurgical coal average selling price	A$/t	405	180	225
Average selling price	A$/t	378	141	237

Realised coal prices reached unprecedented levels during 2022. Yancoal realised an average price of A$372/tonne for thermal coal products and A$405/tonne for metallurgical coal products, giving an overall average realised sales price of A$378/tonne[4].

At the start of the year, supply constraints were already evident in the international coal markets. Increasingly stringent permitting and financing conditions, which constrained new coal developments, were compounded by another year of unusually wet weather or logistic disruptions across the major coal supply regions – Australia, Indonesia, South Africa and Russia. The invasion of Ukraine in early 2022 then exacerbated the supply shortfall across the global energy markets, driving energy and coal prices to record levels – particularly for high-energy thermal coal.

Demand for thermal coal proved robust in 2022. According to the International Energy Agency, the global coal demand increased by 1.2% in 2022 and exceeded 8 billion tonnes in a calendar year for the first time. Seasonal demand factors such as 'wind droughts', surplus hydropower, or cold winters influence the coal markets periodically.

Yancoal actively responds to prevailing market conditions and customer requirements to the best of its ability. Over the past several years, Yancoal has expanded and diversified its customer base, including shipping additional coal into Europe in 2022.

[2] TRIFR includes Moolarben, Mount Thorley Warkworth, Stratford Duralie, Yarrabee, Ashton and the Corporate offices; it excludes Joint venture operated Middlemount and Hunter Valley Operations (not operated by Yancoal. Prior periods may be revised for reclassification of past events.

[3] The Industry weighted average combines proportional components from the relevant New South Wales and Queensland industry averages. The sources for the industry statistics are published periodically, as revised data is released the industry weighted average calculation is updated.

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

PRODUCTION and SALES

ROM COAL PRODUCTION (100%)	Economic Interest	2022 Mt	2021 Mt	Change %
Moolarben	95%	16.9	20.4	(17%)
Mount Thorley Warkworth	82.9%	12.4	16.5	(25%)
Hunter Valley Operations	51.0%	11.9	14.4	(17%)
Yarrabee	100%	2.6	3.0	(13%)
Ashton	100%	2.1	2.6	(19%)
Stratford Duralie	100%	1.0	1.5	(33%)
Middlemount	49.9997%	3.6	4.8	(25%)
Total - 100% Basis		**50.5**	**63.2**	**(20%)**
Total – Attributable		**38.1**	**47.5**	**(20%)**

SALEABLE COAL PRODUCTION (100%)	Attributable Contribution	2022 Mt	2021 Mt	Change %
Moolarben	95%	14.9	18.4	(19%)
Mount Thorley Warkworth	82.9%	8.1	11.2	(28%)
Hunter Valley Operations	51.0%	9.6	10.6	(9%)
Yarrabee	100%	2.1	2.6	(19%)
Ashton	100%	0.9	1.2	(25%)
Stratford Duralie	100%	0.7	0.8	(13%)
Middlemount	0% (equity accounted)	2.6	3.7	(30%)
Total - 100% Basis		**38.9**	**48.5**	**(20%)**
Total - Attributable		**29.4**	**36.7**	**(20%)**

Total ROM (100% basis) coal produced during the year was 50.5Mt, a decrease of 20% from 2021 due to: numerous heavy rain events disrupting operations and coal transport logistics, ongoing supply chain disruptions, workforce availability, and unscheduled downtime on essential equipment.

The mines in NSW started the year with water storage capacity in excess of their environmental limits, following repeated heavy rainfall events in 2021 due to the La Nina weather pattern. Heavy rains repeatedly fell again throughout 2022 as the La Nina weather pattern persisted for a third consecutive year. The mines invested in additional dewatering equipment and constructed additional water storage dams; however, the volume of rainfall overwhelmed the increased pumping and storage capacity and repeatedly caused production outages.

Attributable saleable production was 29.4Mt, a 20% decline from 2021; the ROM coal production impacts were mirrored in the saleable coal output.

SALES VOLUME Attributable mine production sold	2022 Mt	2021 Mt	Change %
Thermal	24.6	31.7	(22%)
Metallurgical	4.7	5.8	(19%)
Total – Attributable	**29.3**	**37.5**	**(22%)**

Attributable sales volume was 29.3Mt, comprising 24.6Mt thermal coal (84%) and 4.7Mt metallurgical coal (16%).

CASH OPERATING COSTS Per saleable product tonne	2022 A$/tonne	2021 A$/tonne	Change %
Raw materials	33	21	57%
Employee benefits	22	16	38%
Transportation	20	17	18%
Contracting	16	11	45%
Other	3	2	50%
Cash operating costs	**94**	**67**	**40%**
Royalty	33	11	200%

Operating cash costs per tonne, excluding government royalties, were $83 per product tonne in the first half and $94 per product tonne for the full year. The disciplined approach to cash costs did not waiver, but lower production volume directly influenced the per-tonne operating cost compounded by uncontrollable external factors including higher diesel, explosives, electricity and equipment component prices together with wage inflation. Additional equipment and contractors used in the recovery plans also added costs.

FINANCIAL PERFORMANCE

KEY FINANCIAL ITEMS	2022 $ million	2021 $ million	Change $ million
Revenue	**10,548**	5,404	5,144
Operating EBITDA	**6,959**	2,531	4,428
EBITDA Margin	65%	46%	
Profit before tax	**5,091**	1,103	3,988
Profit after tax	**3,586**	791	2,795

Revenue of $10.55 billion was almost double that of 2021—the positive effect of the higher realised coal price more than outweighed the reduced production and sales volumes.

Operating EBITDA was $6.96 billion, an increase of $4.43 billion over 2021, a flow-on effect from higher coal prices driving the revenue line. The increase in operating cash costs was a modest impact in the context of the higher coal prices; the **EBITDA Margin** surged to 65% for the year.

Profitability leapt, delivering a **profit before tax** of $5.09 billion compared to $1.10 million a year earlier. The tax expense also increased to $1.51 billion, resulting in a **profit after tax** of $3.59 billion.

CASH FLOW

CASH FLOW SUMMARY	2022 $ million	2021 $ million	Change $ million
Operating cash flow	**6,528**	1,900	4,628
Investing cash flow	(298)	(306)	8
Net free cash flow before financing	**6,230**	1,594	4,636
Financing cash flows	(5,133)	(761)	(4,372)
Cash at the beginning of the period	1,495	637	858
Effect of FX on cash	107	25	82
Cash at the end of the period	**2,699**	1,495	**1,204**

Similar to Operating EBITDA, the $4.63 billion increase in operating cash inflow is directly linked to the coal price. Net investing cash outflow was steady at $298 million, with $548 million of capital expenditure partially offset by the $212 million repayment of the shareholder loan provided to Middlemount. Net financing cash outflows increased by $4.37 billion to $5.13 billion as the Group took the opportunity to prepay almost all its debt and return cash to shareholders.

At 31 December 2022, Yancoal held $2.70 billion in cash and cash equivalents and $2.03 billion of net cash. In 2023, the Company will:

- pay its 2022 final dividend in April
- repay its remaining external loans of US$333 million in March, and
- pay the balance of its tax on the 2022 profit mid-year.

After the planned loan repayment is complete Yancoal will not have any interest-bearing loans for the first time since being established. Excluding the planned repayment, the repayments already made in 2021 and 2022 provide debt finance cost savings of $294 million this year. Yancoal can redirect the finance cost savings towards to other initiatives.

NET DEBT METRICS		31-Dec-22 $ Million	31-Dec-21 $ Million	Change $ Million
Net debt		(2,026)	1,940	(3,966)
Gearing ratio (net debt/(net debt plus equity)) [5]	(%)	N/A	24%	
Leverage (net debt/EBITDA)[6]	(times)	(0.3)	0.8	

DIVIDEND

The cash flow and balance sheet facilitate the payment of a final dividend. The Board of Directors of Yancoal elected to declare a 2022 final dividend allocation of $924 million, A$0.70 per share (fully franked). The 2022 Final dividend is the first time the Company has been in a position to frank its dividends and pass on the benefit of franking credits to its shareholders.

In combination with the $696 million interim dividend paid in 1H 2022, the total dividend returned to shareholders for the financial year ended 2022 will be $1.62 billion, or ~A$1.23/share.

ONE-OFF ITEMS

The 2022 Financial Result includes a $315 million impairment charge related to a $171 million impairment of the Donaldson thermal coal mining assets and a $144 million impairment of the Monash thermal coal exploration asset. Management has continued its strategic review of underperforming assets and considers the prospect of re-commencing operations at Donaldson or the development of the Monash exploration asset unlikely.

[5] The year-end gearing is prior to the distribution of dividends subsequently declared and taxes payable.

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

CORPORATE ACTIVITY

On 25 May 2022, Yancoal’s majority shareholder, Yankuang Energy Group Company Limited (Yankuang Energy), announced it was considering a transaction to acquire further shares in Yancoal by means of an acquisition structure to be determined by Yankuang Energy. On 8 September 2022, Yankuang Energy terminated the potential transaction.

GROWTH INITIATIVES

At Moolarben, Yancoal has the required approvals to increase annual open-cut mine ROM production from 14Mtpa to 16Mtpa. Yancoal's ability to increase open-cut production depends on increasing the capacity at the Coal Handling and Preparation Plant (CHPP). This CHPP upgrade project is underway, with the final stage of modifications to increase capacity to 16Mtpa scheduled for completion during 1Q 2023. The MTW underground mine concept remains subject to study and assessment, but we do not expect to reach a conclusion until after 2023.

Yancoal is progressing with plans for a renewable energy hub at our Stratford coal mine site. Preliminary studies identified viable renewable energy options, and a feasibility study for the project has commenced. The central element is a Pumped-Hydro Energy Storage project that would provide dispatchable power into the grid at peak times or when the energy generated by other renewable sources (wind and solar) is unavailable. Given coal production at the Stratford mine is anticipated to end in 2024, this renewable energy hub provides an excellent opportunity for the beneficial re-use of land after the cessation of mining and does not impact water resources within the valley. The project could also allow Yancoal to maintain a commercially viable operation at the site and provide ongoing economic and social benefits to the Gloucester region. Project implementation remains subject to the feasibility study outcome, permitting requirements and relevant approval processes.

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 Moolarben. It would also consider acquiring additional coal assets or diversifying into other minerals, energy or renewable energy projects should suitable opportunities arise. Any new initiative would be subject to careful evaluation and require Yancoal Board consideration and approval before commencement.

COAL MARKETS

The majority of Yancoal’s thermal coal sales are at prices associated with the GlobalCOAL NEWC 6,000kCal NAR index (GCNewc) and the All Published Index 5 (API5) 5,500kCal index. Each contract has price adjustments for energy content and other coal characteristics. Typically, thermal coal produced in the Hunter Valley tends to have GCNewc index characteristics. In contrast, coal produced west of the Hunter Valley usually tends to have API5 Index characteristics or sits between the indices.

Australia's exports should gradually improve if the heavy rain associated with the La Niña weather pattern has passed – as the Bureau of Meteorology has suggested. Coal markets appear to have started factoring in a slow easing of supply-side constraints for GCNewc-type high-energy low-ash coal from Australia. In comparison, China's resumption of Australian coal imports has the potential to support the API5-type higher ash coal market. So far this year, Yancoal has sold two cargoes of coal to customers in China.

International thermal coal indices have dropped from record levels but remain robust. The record level of coal demand seen in 2022 seems unlikely to wane rapidly. In 2023 we foresee persistent supply-side constraints, global energy market dislocation and seasonal factors influencing the international coal markets.

NSW COAL RESERVATION SCHEME

In December 2022, the NSW Government announced the domestic coal price cap directions on NSW coal producers supplying the domestic energy market. These directions were to apply from 1 April 2023 to 30 June 2024. Yancoal was not initially subject to these directions.

On 18 January 2023, Yancoal met with NSW Government officials and received an initial briefing on the Government's intentions to introduce a thermal coal reservation policy that would include the majority of coal miners operating in NSW, including Yancoal.

On 16 February 2023, revised directions came into effect, compelling the Company to make available up to 310,000 tonnes of coal per quarter to domestic power generators from its attributable saleable production. The directions are effective for 15 months, from 1 April 2023 until 30 June 2024. Coal sold under the directions is subject to a price cap of A$125/tonne delivered for 5,500 kcal/kg products, energy-adjusted.

In addition to the direct impacts of the directions on the Company's sales profile and revenue, the requirement to re-direct coal into the domestic supply chain presents significant logistical challenges. The Company will be in a better position to evaluate the logistical impacts after operating under the directions for a sufficient period.

The Company has been told by NSW Government that it will not be compensated for the difference between market rates and the price it receives in selling volumes under the directions. The Company will continue engaging with the NSW Government to address any unintended impacts of the directions and compensation that the Company should receive for losses incurred due to the directions.

HANG SENG COMPOSITE INDEX INCLUSION

Yancoal, through its dual primary listing on the Stock Exchange of Hong Kong, will join the Hang Seng Composite Index from 13 March 2023. Yancoal will be included in the "Energy" industry as a "Mid Cap" size company. The inclusion in the index should lift the Company's profile, ideally leading to an expanded investor base and bolstering the trading liquidity of Yancoal shares.

PRODUCTION OUTLOOK and GUIDANCE

The decrease in production in 2022 was largely the culmination of several years of operational challenges primarily driven by external factors, including wet weather, COVID-19 and labour shortages, impacting the Australian coal industry. To capture the benefit of the record coal prices experienced in 2022, sites maximised coal production, where possible, an approach that resulted in the depletion of mining inventory across most mines.

Open-cut mines in NSW still have excess water on-site, with all mines at or above their water storage capacity. The Group has invested in additional mining equipment and dewatering capacity to bolster the recovery process and rebuild mining inventory.

As mining inventory rebuilds and productivity rates improve over the coming quarters, production rates should increase towards the levels experienced in prior years. The full recovery of production rates will depend on several factors, particularly rainfall levels. Yancoal's 2023 attributable saleable production is expected to be between 31 million tonnes and 36 million tonnes.

Unit cost reduction is likely to take longer to deliver than the production uplift, as the recovery plans incur additional costs, energy input costs are still elevated, and cost inflation from recent years is now embedded. Over time, increasing production rates are expected to contribute to lower unit costs. Yancoal's 2023 cash operating costs are expected to be between $92/tonne and $102/tonne, with cash operating costs in the first half of the year expected to be higher than in the second half.

Capital expenditure in 2023 is expected to be between $750-$900 million as the fleet replacement cycle, that commenced in 2021, continues and additional equipment is secured to deliver the Group's near-term production.

Through 2023 and potentially into 2024, the Company will need to continually balance output volumes, product quality, efficiency metrics, operating costs and capital expenditure as it executes its mine recovery plans. In 2023, Yancoal aims to deliver the best possible financial performance for its shareholders, by continually monitoring all the components of its operating profile.

INVESTOR WEBCAST:

2022 Results investor webcast details:

- Host - CEO, David Moult
- Date - Wednesday, 1 March 2023
- Start time - 11:30am Sydney, 8:30 Hong Kong
- Webcast link - https://edge.media-server.com/mmc/p/49ff38x5

Participants are advised to register for the teleconference and webcast ahead of the scheduled start time.

A replay of the teleconference will be available on the Yancoal website under the 'Investors' page once it is available.

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Authorised for lodgement by the Yancoal Disclosure Committee

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