



# Quarterly Report

FOR QUARTER ENDING June 2016

## HIGHLIGHTS

- Quarterly production (equity share) of 3.88 million tonnes saleable coal, down eight percent on the year prior.
- Quarterly sales volumes (equity share) of 4.74 million tonnes, down two percent on the year prior.
- Effective from 2 May 2016, the Donaldson coal operation moved to 'care and maintenance', following the cessation of mining activities at the Abel underground mine and the commencement of new feasibility studies.
- First development coal extracted from the new Moolarben underground in April.
- Commenced installation and manning required to facilitate the proposed recommencement of longwall production at Austar in July 2016.

## OUTLOOK

Recent thermal coal price improvements are anticipated to continue, buoyed by the reduction of China production and Indonesian exports. Gains are expected to be offset slightly by the challenges facing the coal industry, specifically driven by Europe and the US as those markets move towards a reliance upon gas and alternative energy sources. Coal demand in Asia is still expected to be strong and continued growth in coal demand is expected in the future.

Yancoal continues to implement operational efficiencies and cost saving strategies across all operated and managed mine sites.

## OPERATIONS

Effective 31 March, Yancoal ceased to control the New South Wales underground assets of Austar, Ashton and Donaldson.<sup>1</sup> Yancoal was appointed as the exclusive provider of mine management, marketing, infrastructure and other corporate support services under 10-year contracts.

The Ashton, Austar and Donaldson mines are managed by Yancoal Mining Services Pty Ltd, a 100 percent owned Yancoal subsidiary and employing entity for all eastern region underground operations staff.

As announced 2 May 2016, the Donaldson coal operation moved to 'care and maintenance', following the cessation of mining activities at the Abel underground mine and the commencement of new feasibility studies.

The move to care and maintenance is in response to ongoing global market challenges as the operation considers the future development of new underground working areas.

The majority of Donaldson employees were redeployed to the neighbouring Austar and Ashton underground operations.

## PRODUCTION

In accordance with expectations, operations produced a total 3.88 million tonnes saleable coal (equity share) for the reporting period, down eight percent on the year prior.

The reduction in production was mostly attributable to the cessation of production of the Abel underground mine; continued challenges experienced within the geology of the Stratford Duralie pit; poor weather conditions at Moolarben; and scheduled longwall moves at the Ashton and Austar mines.

Sales volumes (equity share) for the reporting period were 4.74 million tonnes, down two percent on the year prior.

In New South Wales, the Moolarben complex achieved strong production results, up 46 percent on the year prior, with production gains and fleet efficiencies established earlier in the year overcoming significant wet weather impacts during the reporting period.

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<sup>1</sup> On 17 February 2016, Yancoal announced a new financing arrangement to secure up to US\$950 million in debt-funding via the issuing of nine-year secured debt bonds by a newly established Yancoal subsidiary, Watagan Mining Company Pty Ltd ("Watagan"), to Industrial Bank Co. Ltd, BOCI Financial Products Limited and United NSW Energy Limited. Under the arrangement, Yancoal's interests in the assets of Ashton, Austar and Donaldson were transferred to and held by Watagan.

The Moolarben Stage Two project continues on schedule, with first development coal from the new Stage Two underground achieved in April and the new open cut box cut completed on schedule, with first coal to be extracted in July.

Ongoing geotechnical issues within the current operating area of the Stratford Duralie open cut continued to negatively affect extraction rates for the period, with production down 37 percent on the year prior. Geotechnical modelling and pit redesign work is currently underway, with overburden extraction and production rates scheduled to increase in the second half of the year, once through the current mining area.

Ashton underground production was down 47 percent on the year prior, resulting from the completion of a longwall move in April to finish the block and a second longwall move in June into a new mining area. Three development units moved into the ULLD seam during the reporting period to prepare the area for the recommencement of full production and longwall cutting in July.

Austar production was down 89 percent year-on-year, as the site completed the development of the Bellbird South mining area and subsequent longwall installation. Longwall production at Bellbird South is set to commence in the second half of the year.

Donaldson production was in accordance with expectations, down 81 percent on the year prior, following the operation's move to 'care and maintenance' on June 6 and cessation of production at the Abel underground mine. The majority of the Abel underground workforce were redeployed to the Ashton and Austar operations, with crews engaged to help prepare the Austar underground for the resumption of cutting in July.

In Queensland, the Yarrabee open cut operation returned to strong production for the majority of the reporting period, experiencing minor interruptions to extraction rates due to wet weather conditions. Production gains continue to be achieved following a change in shift arrangements, with Yarrabee production up three percent on the year prior.

Steady production for the Middlemount joint venture was affected by wet weather interruptions during the reporting period, with production down four percent on the year prior.

#### PRODUCTION (100% Basis)

|  | June Qtr     |              | Change     | June YTD     |              | Change     |
|--|--------------|--------------|------------|--------------|--------------|------------|
|  | 2016         | 2015         |            | 2016         | 2015         |            |
| ASHTON                                 | 208          | 395          | -47%       | 532          | 624          | -15%       |
| AUSTAR                                 | 34           | 328          | -89%       | 111          | 545          | -80%       |
| MOOLARBEN                              | 2,435        | 1,665        | 46%        | 4,280        | 3,367        | 27%        |
| YARRABEE                               | 761          | 741          | 3%         | 1,305        | 1,234        | 6%         |
| GLOUCESTER                             | 258          | 409          | -37%       | 462          | 718          | -36%       |
| DONALDSON                              | 78           | 412          | -81%       | 193          | 846          | -77%       |
| MIDDLEMOUNT                            | 1,133        | 1,181        | -4%        | 1,972        | 2,098        | -6%        |
| <b>TOTAL (100% Basis)</b>              | <b>4,908</b> | <b>5,130</b> | <b>-4%</b> | <b>8,856</b> | <b>9,432</b> | <b>-6%</b> |
| <b>Total Production - Equity Basis</b> | <b>3,879</b> | <b>4,223</b> | <b>-8%</b> | <b>7,056</b> | <b>7,726</b> | <b>-9%</b> |

## SALES VOLUMES (Equity Share)

|                           | June Qtr     |              | Change     | June YTD     |              | Change     |
|---------------------------|--------------|--------------|------------|--------------|--------------|------------|
|                           | 2016         | 2015         |            | 2016         | 2015         |            |
| <b>Metallurgical</b>      | 1,964        | 1,826        | 8%         | 3,432        | 3,299        | 4%         |
| <b>Thermal</b>            | 2,775        | 2,992        | -7%        | 4,534        | 5,165        | -12%       |
| <b>TOTAL EQUITY SHARE</b> | <b>4,738</b> | <b>4,818</b> | <b>-2%</b> | <b>7,966</b> | <b>8,464</b> | <b>-6%</b> |

**Metallurgical Coal** sales volumes (equity share) of 1.60 million tonnes, down 13 percent on the year prior.

**Thermal coal** sales volumes (equity share) were 2.45 million tonnes, down 18 percent year-on-year.

### June quarter operating review

- Safety – no significant events were recorded for the reporting period.
- Permitting – The New South Wales Planning and Assessment Commission (“NSWPAC”) granted approval for the Moolarben Mod 12 (Underground 1 optimisation) on 29 April 2016.
- Permitting - The NSWPAC granted approval for the Ashton Mod 5 (integration modification) on 20 June 2016.

#### CORPORATE INFORMATION

##### Shareholder Enquiries

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##### Directors

|                  |                  |
|------------------|------------------|
| Xiyong Li        | Chairman         |
| Baocai Zhang     | Co-Vice Chairman |
| Cunliang Lai     | Co-Vice Chairman |
| Yuxiang Wu       | Director         |
| Fuqi Wang        | Director         |
| Boyun Xu         | Director         |
| William Randall  | Director         |
| Vincent O'Rourke | Director         |
| Dr Geoff Raby    | Director         |
| Gregory Fletcher | Director         |
| Huaqiao Zhang    | Director         |

##### CEO

Reinhold Schmidt

##### CFO

Lei Zhang

##### Company Secretary

Laura Ling Zhang

##### Registered Office

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### Substantial Shareholders as at 30 June 2016

| Name                | Percentage of issued shares |
|---------------------|-----------------------------|
| <b>Yanzhou Coal</b> | 78.0%                       |
| <b>Noble</b>        | 13.2%                       |

Number of ordinary shares on issue: 994,216,659