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Operator: Good day and thank you for standing by. Welcome to the Yancoal Australia first quarter report conference call. At this time all participants are in a listen-only mode. After the speaker's presentation there will be a question-and-answer session. To ask a question during the session, you need to press star one one on your telephone. Please be advised that today's conference is being recorded. I would now like to hand the conference over to your first speaker today, Mr David Moult, Chief Executive Officer. Thank you. Please go ahead.

David Moult: Thank you, Desmond, and thank you, to everyone on the call for joining this briefing on Yancoal's first quarterly production report for 2023. I'm joined on this conference by several members of the Yancoal management team. I will provide a summary of the activities outlined in the first quarter production report, which was released on the ASX and Hong Kong stock exchange yesterday. We will then open the call to a question-and-answer session with the call scheduled to conclude at midday, Sydney time.

Although there is no presentation pack for this conference, the 2022 financial result presentation pack is available on the Yancoal website, for those interested.

Yancoal's operation and financial performance is made possible by the people at all our mining operations. The favourable downward trend in our total recordable injury frequency rate, which was 6.6 at the end of March, was an excellent achievement. This outcome was made possible by the diligence of everyone working at our operations.

Yancoal started 2023 with another robust financial performance. We increased our cash by $600 million and finished the quarter with cash of $2.8 billion. On the final day of the quarter, we completed the US$333 million debt repayment that we flagged in the 2022 results. Yancoal has now repaid US$3.1 billion of debt over the past 18 months, and no longer has any external interest-bearing loans.

It's a testament to scale and quality of Yancoal's production profile that we were able to repay so much debt so quickly. Elimination of the Group's debt will result in finance cost savings of more than $300 million in 2023.

As discussed in the 2022 results, we are prioritising pre-strip and overburden removal activities at most of the mines during this first half of 2023. This is recovering from the adverse weather over the last couple of years, and this strategy will facilitate better productivity and output later in the year.

Although the La Niña weather pattern may have passed, water storage levels carried over from 2022 remain near capacity across our open cut mines. As a result, our sites will continue to be impacted by any ongoing rainfall until we can meaningfully reduce the water storage levels.

Also, labour shortages across the mining sector have resulted in our total workforce being below the optimum level. This labour shortage has constrained production activity during the periods of good weather. We continue to invest in dewatering infrastructure, as well as worker retention and hiring initiatives to further address these two factors.

We produced 11.2 million tonnes of ROM coal and 7.7 million tonnes of saleable coal in the first quarter. These figures were 3% and 9% down from the prior quarter, and reflect the cumulative weather impacts and labour shortages, as well as the impact of our focus on rebuilding our mine inventory.

The attributable saleable coal volume was 5.9 million tonnes, and as indicated previously, we expect production to trend upwards over the year, and we retain our 2023 production guidance of 31 million to 36 million tonnes for the year.

The financial performance I described earlier is a direct result of the realised coal prices we achieved in the period. Our realised thermal coal price was A$338 per tonne and our realised metallurgical coal price was A$383 per tonne. The overall realised coal price at A$347 per tonne was 35% higher than achieved in the first quarter last year.

The index for high energy low ash thermal coal may have retreated from elevated levels in 2022, but price indices for the thermal and metallurgical coals produced by Yancoal remain well supported. The positive price profiles for semi-soft and low volatile PCI coals over the past nine months are particularly encouraging.

The relative improvement in metallurgical coal indices over thermal coal reflects the inherent value of these different coal products. It validates Yancoal's approach of meeting market needs to the best of its abilities and maintaining our market share of metallurgical coal volumes.

Winter temperatures in Europe and East Asia were milder than anticipated, and the mild weather, combined with additional LNG supply, resulted in a lower thermal coal demand in the first quarter than expected. While such seasonal factors can influence coal markets, the elevated prices in 2022 serve as a reminder that the supply side remains structurally constrained. This follows years of restrictions on new mine approvals and limited access to project financing. We look forward to gradually increasing our sales volume, as production activity has moved towards the level Yancoal achieved in prior years.

The New South Wales Coal Reservation Directions obligate Yancoal to make some coal available to the domestic market from 1 April this year through until the middle of 2024. Yancoal, as a practice, does not disclose details of its commercial contracts. Although the directions took effect from 1 April, we proactively supported one generator by mutually agreeing to bring forward a delivery to March.

There are several aspects of the directions, which the Company considers to be inequitable, and engagement is still ongoing with counterparties and the government, regarding these matters. That said, Yancoal is ensuring it meets all its obligations.

I will now hand back to Desmond, so that we can commence the question-and-answer session.

Operator: Thank you. As a reminder, to ask question on the phone, please press star one one, and wait for your name to be announced. If you'd like to cancel the request, please press star, one, one again.

Once again, to ask question on the phone, please press star, one, one.

We have currently no questions from the line, please continue.

Brendan Fitzpatrick: Thank you, Desmond. This is Brendan Fitzpatrick from the investor relations team. We do have the ability to also take questions from the webcast. I'll now move to voicing some of those questions on behalf of the people submitting questions via the webcast. You're welcome to submit those questions at any point during the webcast.

David, the first question comes from George Anfilogoff. It's a two-part question. The first part, how does production in the first quarter compare to your expectations? Are your full year production targets impacted?

David Moult: I think the first quarter production was always going to be a little bit behind what we expected for the rest of the year. We flagged that in our 2022 result presentation. So, the first quarter was in line with our expectations. I think what we're going to see over the year, as we start to rebuild inventories after some of the adverse conditions we've had in the last two years, is that our production will start to build back up to the levels that we've seen previously, from Yancoal.

As far as the whole year’s concerned, at this moment we're still confident that we are in line with the guidance that we've issued, and we would be expecting to be achieving our production and cost levels in line with that guidance.

Brendan Fitzpatrick: Thanks. The second part of George’s question, any comments on the recent news flow about Yancoal considering the BHP assets? Does the Company think it would have issues with FIRB?

David Moult: Thank you. I don’t think it would be appropriate to comment or speculate on specific situations that may or may not be underway. However, as one of the largest mining companies in Australia, with a strong balance sheet, and a clear growth strategy, you can assume that we are continuously exploring growth prospects in high quality jurisdictions, where our expertise can drive and create value for our shareholders.

As far as FIRB is concerned, Australia is a region of focus for Yancoal’s growth objectives, and if we look at this from a non-specific point of view, and not any specific assets, Yancoal has been in Australia for many years and is a significant Australian mining Company with a long track record of reputable operational performance and corporate good standing. We've acquired assets in the past that have been subject to FIRB approval, and we engage with FIRB on a fairly regular basis, in our normal course of business activities.

Clearly, given our ownership structure, the rules dictate FIRB approval is a requirement for certain transactions we may consider in the future. Those regulatory processes are not our business and are not in our control. All we can do is to continue to operate in a responsible manner and focus on our business. If we choose to pursue external growth, we may be subject to certain regulatory approvals, just like any other material corporate transaction process.

Brendan Fitzpatrick: Thank you. Moving to the next question from Adrian Vos, with the share price so weak, will you be giving some thought to a buyback as the use of the cash stockpile?

David Moult: I think we've discussed buyback several times previously, and I might let Kevin comment, but we don’t think, at the moment, with our share register, or the structure of our share register, that buyback is right for Yancoal. Kevin.

Kevin Su: Thanks, David. Yes, the capital management strategy has been thoroughly discussed in Yancoal by management and at the Board level. Share buyback was definitely considered; however, at the time, in the current market environment, we don't think share buyback will be reality, especially Yancoal will focus on further improve our liquidity in those markets. Thanks.

Brendan Fitzpatrick: Thank you, Kevin. That was our CFO, Kevin Su.

The third question is from John Anderson. The report says, anticipate structural imbalances in the international market will support thermal coal prices during 2023. I would be grateful if you can provide some additional colour on the imbalances.

David Moult: I might ask Mark Salem, our EGM Marketing, to comment.

Mark Salem: Sure. I think, in terms of structural imbalances, there's still a lot of uncertainty in terms of recovery of production following the La Niña impacts. We are still encountering issues with Russian supply in our main markets, Japan, Korea, Taiwan, and that will be ongoing, whilst the Russian Ukraine crisis continues. If we look at our other competitors in the marketplace, Indonesia, South Africa and Colombia, there continues to be sovereign and weather issues that will remain within those countries, as well. So, there still remains a lot of uncertainty and structural imbalances, going forward.

Brendan Fitzpatrick: Thank you, Mark. The next question, from Mark Callagher, the report implies total cash costs of $1.5 billion for the quarter, equivalent to $245 per tonne. How much of this is capital spend? I suspect the calculation may be looking at the cash generation on volumes and netting off that against the tonnes, compared to the prices achieved.

David Moult: Okay. Mike, do you want to comment on that?

Mike Wells: [Inaudible].

David Moult: Yes, we might have to take that one on notice, Brendan, and maybe we can feed that back through you?

Brendan Fitzpatrick: Sure. Mark, if you'd like to email me directly, and I can follow up it with you, after the webcast on the specifics of that question?

Moving on to the next question, from Zhou Ting, how quickly could you resume the production? I suspect we're talking about the production recovery through the year.

David Moult: Yes. I think what we're going to see is, as we rebuild these inventories, and the sooner we can rebuild the inventories by focusing on overburden removal, in this early part of the year, we'll see a move back towards our normal operating position. So, I'm expecting this to be a gradual increase, quarter-on-quarter, as we go through the year, looking towards the end of this year being somewhere around where we were pre the last two years of adverse weather and other issues.

Brendan Fitzpatrick: The next question from Jeremy Machet. Just wondering if there was a update on the BHP assets being acquired, which we've covered in that earlier question.

David Moult: Yes.

Brendan Fitzpatrick: I'll move on to the next question from David Zhou. As we saw the year-on-year price decline in the benchmark coal price, why can we achieve year-on-year higher price? How can we better forecast the sales price?

David Moult: I'll let you answer that, Mark.

Mark Salem: Sure. I think we've made reference to, in terms of the quarterly comparisons, we made reference to lag pricing structures in terms of our pricing structures, so that lag impact has meant that we've been able to achieve better than the market values, the indices that we currently see. That'll answer the first part of that question. The second part, in terms of where the market will move to, that really is going to depend on those structural balances and how we view the market, but I think our estimates at the moment are reasonable.

Brendan Fitzpatrick: Thank you, Mark. The next question from Xiongwei Wu. Can you give more picture on your production plan in the next nine months? If possible, what's your expectation in the next few years, once the La Niña pattern has passed?

David Moult: Okay, I think I've already given an answer to the first part of that, and I think what the production pattern will do is to work through the year such that we will be achieving a production between the 31 million and 36 million tonne that we've got in our guidance. I think we said a few times that our expectation is that, as we go out of 2023 into 2024, we would expect to see a normalisation of our production level in line with where we were prior to the last couple of years.

Brendan Fitzpatrick: Thank you. The next question from Bruce Wang at Huatai Securities. Can you give us some comments on the outlook of thermal coal and coking coal price for the rest of the year, given both prices have declined in a meaningful magnitude from the peak levels seen last year?

David Moult: Mark?

Mark Salem: Yes. Again, price outlooks is always a tricky question, I'll be honest. What significant changes have happened in the marketplace at the moment is that we are seeing better weather, we are seeing a realisation and an adjustment to the Russian Ukraine crisis, and the world is coming into a rebalance. We've actually seen met coal prices appreciate from 2022 levels for the first quarter of 2023, and that relativity between met and thermal coal prices coming back to historic norms.

We've also seen, from our cost structure point of view, an increase, and that still has to adjust. So, I think you can comfortably think the prices should reflect those aspects of the marketplace and cost positions at the moment.

Brendan Fitzpatrick: Thank you, Mark. The next question from Cheng Lou, a change of pace. Is there a dividend rate guidance for 2023?

David Moult: Kevin.

Kevin Su: Yes. As Yancoal has been publicly declared we always have a dividend policy as 50% of NPAT, 50% of free cash flow after tax, whichever is the higher, and we, as a Company, we are not changing this position unless the Board will have the final decision power to decide how much dividend will be announced. Thanks.

Brendan Fitzpatrick: Thanks, Kevin. Moving back on to the topic of coal markets, from Joss Chiat, similar questions around the outlook, but specifically asks, in addition to the comments already provided on the coal markets, are we seeing met and thermal coal sales shifting back from Europe to southeast Asia and China in the current market setting?

Mark Salem: Sure. Yes, understand. In terms of our sales profile, I think, yes, we did sell a significant portion of our sales into Europe last year on the back of the Russian Ukraine crisis, and shortfalls. David explained in his introduction that the Europeans experienced a mild winter, and they were reasonably well stocked, but they have expressed interest, if their stocks do come down, going into Q3, Q4, so that's something we're keeping a very close, watchful eye on.

Yes, of course, that we're selling now more coal into Asia, we are fully sold, and we will maintain that position in terms of the market demand.

Brendan Fitzpatrick: Thanks, Mark. A follow-up question from Jeremy, on the coal market. Is there any appetite for longer term contracts being struck for thermal coal? It's not clear if it’s speaking about the market more broadly, or it's Yancoal specific.

Mark Salem: Yes, from a Yancoal specific point of view, we're always in the market for longer term contracts and have the foundation of security of offtake. A lot of the longer-term prices are still typically based on index movements, but they guarantee of contract volume performances. That's always one of our objectives, to a certain level, and we always like to keep a certain foot in the door in the spot market, to act to in current markets, as well.

Brendan Fitzpatrick: Thanks, perhaps on behalf of the people listening, when we're talking about longer term contracts, are we talking volume, with price resets, or price and volumes both being set on a longer-term basis?

Mark Salem: Typically, in the market today, there's only very few buyers who look at term contracts – I classify a term contract at 12 months or greater – at a fixed price. Most of them also do not want to take the risk on fixed price movements. It exposes them just as much as it exposes us, and they do try to base it on index, or index-type formulas.

Brendan Fitzpatrick: Okay, thank you. Moving back to an operational style question, a follow-up from Mark Callagher, on the questions earlier. We state that the cash operating costs expectations for the year are $92 to $102 per tonne. What do we include in this figure? For example, does it include cost for mine resequencing, overburden removal, et cetera? What additional costs need to be added, such as royalties, capital costs and logistics, et cetera?

David Moult: Mike, do you want to?

Mike Wells: Yes. The cash costs that we look at is an all-inclusive operating cash cost, which would capture any additional costs of pre-stripping and overburden removal as part of the mine recovery plans. It would also include logistics costs in terms of port and rail costs. It's effectively quoted on an FOB basis, but it would not include royalties, and it would also not include capital items.

Brendan Fitzpatrick: Thanks, Mike. Another question on the topic of costs, from Jeremy. Will there be a lower production cost expected with the increase in tonnage? I assume we're talking about a quarter-on-quarter change through the year, with that question.

David Moult: Go ahead.

Mike Wells: Yes, absolutely. As we've seen historically, coal mining companies are very much volume driven, and so as the volume’s recovered throughout the year, that should ordinarily lead to a reduction in costs, as we better recover our fixed overheads.

Brendan Fitzpatrick: Thanks, Mike. A question from Yong Por, also on the topic of costs. Diesel prices have fallen significantly. How much cost savings would this generate if prices remain at spot levels, and whether we can speak to those levels of specifics?

Mike Wells: It's a bit of a question of relativity of the starting position. We look at the forecast pricing over the remainder of the year. So, in terms of what we would say, relative to the last year, I wouldn't really want to get into the specifics of that.

Brendan Fitzpatrick: Yes. Perhaps worth noting, we can look at the 2022 financial results we give the cost breakdowns by component, and we can see transport is one of those elements there. We can see the increase in the transport component from 2021 to 2022. If someone wants to look at diesel prices year-on-year historically, that would give some sense of the impact of the diesel price in the cost components.

Moving on to a question from Victor Velkov. In regard to the dividend payout ratio, given the net cash position and the tax position, will the payout ratio likely increase, given the balance sheet strengths?

Kevin Su: Okay, this is Kevin. First of all, from management perspective, the default position, we will follow the guidance. We just mentioned 50% free cash flow and the 50% NPAT, whichever is the higher. Then also, I think there's very good point, I just noted, the tax component must be considered, as there will be significant tax bill to be paid. Then, yes, there might be changes overall to where it ends up, but this is fundamentally a Board decision. We'll leave to the Board to decide. Thanks.

Brendan Fitzpatrick: Thanks, Kevin. Then, looking at the questions coming through on the webcast, it's a similar question to the one we had a moment ago. David Zhou is confirming that the $92 to $102 per tonne cash cost is calculated based on the production volume we projected. If less than projected volume, the unit cash cost would be realised at a higher level. So, yes, just to confirm what we said earlier, there's a direct relationship between volumes and the unit cost per tonne, and the per tonne component will influence the unit cost per tonne achieved across the full year.

Moving on to a different topic, a question from John Anderson, what are your concerns with the New South Wales government coal price policy?

David Moult: I have many concerns with the New South Wales government coal price policy. I think the starting point is we didn't agree with it in the first place. We pushed back on it, and then, of course, it's not a voluntary process, it's done by direction. However, they can do it and they are doing it, but we're still working with government, as

I said earlier, and the regulator, on some of the final parts of how it works and how the compensation works, and we're ensuring that we get the best possible deal for the coal that we do provide under that policy, from the generators.

Brendan Fitzpatrick: Thank you, David. The last question I have on the webcast, before I go back to Desmond to see if we have any questions coming through on the conference call, has there been more appetite to purchase coal from Chinese companies since the last announcements in March? Does Yancoal see Chinese purchases taking up a greater percentage of geographic sales, in line with pre-2020?

Mark Salem: We have resumed exporting tonnes to China, and we will continue to pursue those market opportunities in terms of optimising the best outcome that we can achieve, depending on the coal we have available to sell at any particular time. If China demonstrates to be the best market for that, we will entertain sales into the Chinese market.

David Moult: I think it's worth commenting, Mark, that we've always said, over the last few years, that China, for the quality of the coal they want, is an important market to us.

Mark Salem: Correct.

David Moult: So, we will continue to look for opportunities in China, and if those opportunities add value, then we will be taking up those opportunities.

Mark Salem: Definitely, yes.

Brendan Fitzpatrick: Okay. I do have more questions on the webcast I'll come to in a moment. Desmond, I'll just hand back to you for a moment, to see if there are any questions coming through, or to give the invitation for people to ask questions through the teleconference.

Operator: As a reminder, if you'd like to ask question on the phone, please press star, one, one.

There are no questions from the line this time. Please continue.

Brendan Fitzpatrick: Thank you. Continuing on with the questions through the webcast, it's a dividend question from Peter Chen. In 2022 the final dividend is fully franked for the investors in Hong Kong. Will 2023 and 2024 also be franked dividends?

Kevin Su: Thanks, Peter, the short answer is, yes.

Brendan Fitzpatrick: Always subject to the Board determination and the Board decisions on dividends going forward.

Kevin Su: That's correct. Thanks, Brandon.

Brendan Fitzpatrick: You're welcome. Another question on the coal markets. Do you expect that there may be a surplus of coal for the reservation, given it's possible that less coal will be required for domestic purposes? I said, coal markets – it's effectively the New South Wales coal reservation directions we're talking about here.

David Moult: I think the coal companies have always argued with the state government that they were overestimating the coal burn in New South Wales, especially with the closure of Liddell power plant this year. So, I think we still believe there will be more coal available for export, out of what is being reserved for domestic use at the moment. However, as the year develops, we'll get a better feel for that, but we're still firmly of the opinion that the state government has overestimated their coal burn, because they've based it on historic figures.

Brendan Fitzpatrick: Thank you, David. A follow-up question from George, who was asking about the transaction scenarios earlier. George would like to know how should we think about valuation multiples the Yancoal might be willing to pay for M&A assets? Would they be willing to pay a higher multiple than Yancoal's own current earnings multiple, in order to secure a strategic assets? Then goes on to a third component, what should we think of as a floor or ceiling, in terms of purchase multiple?

David Moult: Well, George, I think the answer to your question is going to be a very short one, and the short one is, we take every opportunity individually, and we would assess all those points you just raised, depending on the strength of the asset and what we were looking at.

Brendan Fitzpatrick: Thanks, David. The last question currently coming through on the webcast, from John Anderson, are we able to share any information on the timing of the sales of the BHP assets?

David Moult: I haven't got anything else to add to the BHP assets other than what we said earlier on, and we have no indication, at all.

Brendan Fitzpatrick: Thank you, David. That's all the questions I see coming through on the webcast at this point in time. Desmond, I'll give you one last opportunity to invite questions on the conference call.

Operator: As a reminder, to ask question, please press star one one.

There are no questions at this time. I would like to hand the call back to the management for closing.

David Moult: Okay, thank you, Desmond, and thank you, everyone for joining us this morning. If there are any other questions, as always, Brendan is available, and his contact details are on the quarterly report, and we will address those questions as they come forward. So, thank you again, and I hope you all have a good day.

Brendan Fitzpatrick: Thanks, David. Thanks, Desmond.

Operator: That does conclude today's conference call. Thank you for your participations. You may now disconnect.

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