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Operator: Thank you for standing by and welcome to the Yancoal Australia Financial Results First Half 2023 conference call. At this time all participants are in listen only mode. After the speakers' presentation, there will be a question and answer session. To ask a question during this session, you'll need to press star 1-1 on your telephone. To remove yourself from the queue, simply press star 1-1 again. As a reminder, today's program is being recorded.

Now I'd like to introduce your host for today's program, David Moult, CEO, please go ahead sir.

David Moult: Thank you, Jonathan and thank you to everyone on the call for joining this briefing on Yancoal's performance in the first half of 2023.

Slides 2 and 3 contain notice and disclaimers relevant to today's presentation, please make yourself familiar with the content of these two slides.

The first aspect of the first half performance we need to acknowledge is the remarkable improvement in our safety performance. Strong operational and financial results are built upon workplace culture and a positive safety mindset. Over the past six months, our key safety metrics improved considerably, reducing by 44%. An outcome that is only possible when people across all our mines embrace the safety initiative and work cohesively to deliver tangible performance improvements.

The production figures, while good when viewed in a half year basis, don't convey the momentum building across the mines. Our people have worked tirelessly through two years of adversity, last year they capitalised on record coal prices and delivered A $7 billion EBITDA. This year, we're continuing to implement our mine recovery plans to return output to levels we achieved in past years.

Pleasingly, our second quarter saleable production increased about 40% over the first quarter, demonstrating the effectiveness of these plans, also aided by the improved weather. We are looking for further production gains in the second half of the year. Our average realised coal price for the half year was $278 per tonne. Excluding last year, 2022, this is more than double the average received for the four years to 2021.

Cash operating costs of $109 per tonne reflect inflationary practice, the mine recovery and lower output. Despite this, the implied operating cash margin was still $144 a tonne. The realised price and operating margin are reflected in the $4 billion in revenue and $1.8 billion EBITDA we reported for the first half. After repaying the last of our loans in March, paying over $900 million in dividends in April, $1.7 billion in taxes, we still held $1.1 billion of cash at the end of June.

The Board has elected to return a further $489 million to shareholders as a fully franked interim dividend of $0.37 per share.

As I mentioned a moment ago, keeping our workforce safe is our first priority. The total reportable injury frequency rate was trending down during 2022, but has almost halved to 4.4 over the last six months. We're now aiming to maintain this level by embedding the gains made through the various programs and technologies implemented across the mines.

Like our effort with safety, our focus on sustainability is continuing and ongoing. We are chasing immediate gains through upgrades to our mining fleets and actively exploring future opportunities in the renewable energy sector. The company has established a dedicated team to develop the Yancoal Sustainability Strategy and signed three Aboriginal cultural heritage conservation agreements at MTW.

Slide 7 summarises the operational drivers behind Yancoal's first half 2023 performance. As usual, we have provided a comparison against the same period last year, however this is not a like-for-like comparison, because in 2022 the priority was minimising production losses caused by the wet weather to capitalise on the high coal price. The production in 2022 came at the expense of the advance mining activities that allow mines to sustain optimal output and cost profiles.

This year, and most notably in the first quarter, we shifted our priority to rebuilding the mining inventory, because the short-term trade off required to deliver improved productivity in the coming quarters and years.

Cash operating costs were inflated by the low production in the first quarter, but $109 per tonne for the half to us is not acceptable. Cost control has always been a core aspect of Yancoal's operating mindset and driving the per tonne cost down over the coming quarters is a top priority.

Looking at the coal markets, there was record demand in 2022 for thermal coal, over 8.3 billion tonnes globally. The IEA saw further demand growth over the past six months and expects total demand this year to match the 2022 level.

In Australia, production is recovering from the persistent rain disruptions over recent years, and output is rising from other key supply countries. Balancing this supply growth is the likely reduction in output that was incentivised by record prices in 2022, as that additional output is longer viable in the current price environment.

Price differentials between coal indices returning to more normal levels and the resumption of Australian coal imports by China are welcome as they provide a competitive advantage to large-scale, low-cost producers like Yancoal.

The metallurgical coal indices started the year with momentum that has since stalled as the steel market conditions weakened.

Across the thermal coal and metallurgical coal markets, supply and demand factors appear relatively balanced at this time, leaving seasonal or short-term drivers to influence coal prices in the near to medium term.

Yancoal continued to adapt to the evolving thermal coal market conditions of first half of 2023. We retained core customers in Asia and resumed sales into China as demand from European and Indian based customers fell away.

The preservation of relationships with our metallurgical coal customers throughout 2022 proved an effective strategy. The premiums for these products over our thermal products have returned and our coal sales mix remains consistent with prior periods.

Yancoal remains the third largest coal producer in Australia. Our attributable thermal coal production was 12% of the national total last year. Three large-scale, low-cost mines are the core of our business. These mines produce complementary coal products which our marketing and operations teams can blend to best meet international market requirements.

Returning production to levels achieved previously and bringing our cash operating costs down will maintain our competitive advantage in the industry.

Total ROM coal on 100% basis increased by 5% to 26 million tonnes in the first half. This included a 32% increase in the second quarter over the first quarter as mine recovery plans began to take effect and productivity improved.

The open cut mines in New South Wales are still working through water storage reduction initiatives. Fortunately, the outlook is for relatively dry conditions through the remainder of the year. This should aid our drive to increase production output in the second half of the year.

Our attributable saleable coal production also showed a modest uplift, increasing to 14.4 million tonnes, up from the low recorded in the second half of 2022. As is typically the case, our three largest open cut mines drove the production performance for the Group during the period.

As I have mentioned during the call, the rebuild of mining inventory is a priority for Yancoal through 2023 and was a high priority in the first half. If we don’t rebuild the mining inventory, our mines will not deliver the productivity they achieved in prior periods and total output will not recover to the levels we delivered in recent years.

Cash operating costs of $109 per tonne may have been consistent with the second half of last year, but these are not levels we are comfortable with and we fully intend to drive costs lower. Although it not apparently looking at the data for the half year, there was a positive trend from first quarter to second quarter in the cost profile, as production volumes recovered. The ongoing production recovery we anticipate through the second half of the year can drive lower per tonne cash operating costs. Unfortunately, there are still cost inflationary factors such as diesel prices, explosives, electricity, and parts that remain embedded in our cost base and may prove difficult to fully unwind. Nonetheless, we intend to return to our position at the low end of the operating cost curve where we see our natural competitive advantage.

Although cash operating costs remained elevated, the implied operating cash margin of $144 per tonne is still a favourable outcome. State royalties may have declined from the second half of 2022 in line with the lower coal prices, but $25 per tonne remains significantly higher than prior years. We expect the per tonne cash operating costs to reduce as the production profile recovers through the second half of 2023. However, the rate of decline remains subject to many factors, some of which we cannot control.

Reestablishing our large-scale, low-cost production profile enables us to operate throughout all points in the coal price cycle.

Our operational expectations for the year have not changed from the guidance we provided in February. We’re still aiming for 31 million to 36 million tonnes of attributable, saleable production, at cash operating costs of between $92 and $102 per tonne.

We have revised down our capital expenditure guidance to $600 million to $750 million, primarily reflecting the slippage of spend into 2024. Overall, capital expenditure includes the fleet replacement cycle we commenced in 2021, as well as additional equipment we secured to accelerate the mine recovery plans.

Throughout the year we will continually balance volume, product quality, efficiency metrics, operating costs, and capital expenditure, as we aim to deliver the best possible outcomes for our shareholders.

Slide 17 provides an overview of Yancoal's first half 2023 financial performance. The key line items from the income statement may have reduced from the first half of 2022, however the financial performance in the first half of 2023 remains elevated when compared to all other prior periods.

When looking at the cashflow statement initially, the operating cashflow of $89 million appears low. But please note this is after the $1.7 billion tax payments we have completed during the period, most of which related to the record earnings recorded in 2022.

As noted at the start of the call, we held over $1 billion in cash at the end of the period. This is after making the 2022 final dividend payment, a final loan repayment and the tax payment just mentioned, during the past six months.

The two charts on slide 18 show the correlation between realised price comparing with operating EBITDA and the operating EBITDA margin. This correlation results from relatively stable production and operating cost profile that Yancoal maintains, with the obvious exception being reduced output and higher costs in recent periods I have already identified.

The operating EBITDA of $1.8 billion and the EBITDA margin of 46% only appear modest in comparison to recent periods, these are still remarkably robust figures. The profit after tax and operating cashflow tend to replicate the revenue and EBITDA profiles. The step change in the operating cashflow incorporates the tax payment I mentioned earlier; in fact it was only in mid-2022 when we finally recouped all the prior year tax losses incurred and we commenced paying cash tax. The positive aspect of paying cash tax is the generation of franking credits.

The Board elected to repay the last of our interest bearing loans during the half year and has repaid more than US$2.7 billion of loans since late 2021. The loan repayments made over the past two years will save the Group almost $200 million in finance costs this year alone. This is cash that can be applied to better alternate uses. The small difference between the cash position of $1.1 billion and the net cash position of $900 million is primarily lease liabilities on mining equipment.

Once again, returning cash to shareholders via dividends is a primary use of Yancoal's excess cash. The Board has allocated $489 million to the 2023 interim dividend, this is $0.37 per share, a notional 8% yield when calculated on the 30 June share price of $4.58.

The other important point to note is that like the 2022 final dividend, the 2023 interim dividend is fully franked. Yancoal expects to continue amassing franking credits as it pays tax in future periods. Included in the interim dividend, Yancoal has declared over $3 billion in dividends in the past two years. The remainder of the slides contain appendices and additional information for reference, but I don't intend to speak to them today.

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

Operator: Certainly, and once again ladies and gentlemen, as a reminder, if you do have a question that you'd like to ask, a live audio question, please press star 1-1 on your telephone. At the moment I'm not showing any questions from the phone lines.

Brendan Fitzpatrick: Thanks, Jonathan, I can see several questions coming through on the webcast, I'll start with the webcast questions. I can see that some of the questions involve some duplication, so I'll amalgamate the questions and re-phrase them as I see best appropriately to cover all the queries.

Just before we start, David mentioned that there are appendices at the end of the presentation pack. This includes slides which show overviews of the mining assets, the reserves and the resources, for people who want to gain a background on the breadth and scope of Yancoal who may be less familiar with the Company.

One of the first questions coming through asks about the future of Yancoal Australia and ongoing contracts for the coming years. I'm going to interpret that as the production profile going forwards and the coal market contract exposures we will be taking into the forward years as much as we can speak to those topics. David, could you provide some comments?

David Moult: Thanks Brendan. I think looking forward we are very happy that our market diversity over the last few years has brought a breadth of customers over many countries, and you can see that in the presentation. It is good to have China back in the mix of countries that we are supplying, and as you'll see with the percentages again in the presentation that we have started to move back into China in the first half of 2023, recovering ground we lost over the last couple of years.

What I might do though is hand over to Mark Salem to add any other comments on the contract side as we're going forward. Mark?

Mark Salem [Executive General Manager Marketing]: Thanks, David. This is Mark Salem speaking. In relation to our contract position moving forward, I can say that Yancoal has got a very good reputation in the market place and we are very well contracted with the major buyers in Japan, Korea, Taiwan, and China.

We will continue to develop those markets as well as other markets in the developing nations and our contract portfolio, many of which is under term contracts and many of which is under evergreen annual renewable contracts. Because of our reputation and our coal quality, we don't envisage there to be any risk to that business.

Brendan Fitzpatrick: Thanks, Mark. Looking through the question list, there's one here from Sara Chan at Morgan Stanley. There's several components to the question, it seems to tie in with some of the commentary we've just provided. Regarding the washing yield, could we provide any commentary on the yield across the assets? Then a broader question leading on market conditions, is there any commentary related to the recent Australian LNG strikes and a potential impact or flow through effect that may be relevant to the coal markets which we serve? I'll hand it to you first, David.

David Moult: Thanks, Brendan. The yields we achieve vary quite considerably across the different mines and depending on what products we're producing at the mine. I don't have all those yields in front of me at the moment, but we get reasonable yields at all operations. Of course, we do occasionally wash harder, and you'll have heard us talking about this over the last couple of years to take advantage of better quality coal prices which requires reduced yields at times. But there is quite a diversity of yields across our mines.

Brendan's contact details are available there and if you needed a bit more commentary on yields.

On the second comment, Mark, I thought I might throw that to you and ask for your opinion on what's happening in the market with this LNG strike.

Mark Salem: Sure, thanks David. Look there was some movement, very small movement in the market over the LNG strikes in Australia. Australia only supplies a very small portion of the world international LNG, so the overall impact was very marginal. But please appreciate that gas versus coal is always a consideration in any market evaluation and analysis that we undertake, because gas is an alternative to energy production. So, that's something that we do monitor very closely.

Brendan Fitzpatrick: Thanks, Mark, I see several questions of a similar nature coming through related to dividend, clarifications or interest in the dividend policy, dividend payout ratios and the philosophy behind the dividend distribution in the first half. Perhaps Kevin, you might be best placed to provide some comments with regard to what we've delivered for the first half dividend, what we've done in the past and the policy guidelines we have in place.

Kevin Su [Chief Financial Officer]**:** Thanks, Brendan. To start with, a statement about a dividend policy of Yancoal, I think is probably the easier way. Yancoal has a simple 50% of either free cashflow or NPAT, whichever is higher, as our guidance to the market for our dividends. Then for investors, who has been following Yancoal clearly you will see today or last night when you saw the announcement of $0.37 per share is equal to roughly about a 50% plus of Yancoal's NPAT.

So, we're following our commitment to the investors and then as to what we will be following for the future, our Board has the ultimate, the right to decide our final dividend return, so all the decisions of this nature are subject to Board's final approval, thank you.

Brendan Fitzpatrick: Thanks, Kevin. I do see more questions on the webcast, but I'll take a moment, Jonathan, to come back to you to check if we have anything coming through on the phoneline?

Operator: Yes, we have a question. One moment for our first question, our first question comes from the line of Angus McGeoch from Barrenjoey, your question please?

Angus McGeoch: (Barrenjoey, Analyst) Hi guys and thanks for taking my call and congratulations on the result. Two questions from me. On your production outlook and the recovery considering where you were in 2021; do you see a pathway to recovering particularly those second half volumes near term, and how shall we think about just the longer-term damage from the water issues would be just trying to get a sense of the phase recovery profile?

Then secondly, just with reference to your balance sheet, obviously your balance sheet's in a very good position now with no debt and that's been a great effort to deliver your balance sheet. But how do you think about debt on balance sheet from a forward looking basis?

David Moult: Thanks, Angus, thanks for those questions and joining us this morning. Look I think what we had over the last couple of years was unprecedented when it came to rain, and as I said earlier, we've last year focused on making sure we got our production as high as we could to take the opportunities we had with the coal price.

As we progressed the recovery, we put additional assets in, we put additional people on, we are pushing very hard at the moment, but we're focused basically on rebuilding the mine inventory that we lost last year. We said that we would step it up quarter-on-quarter and that's exactly what we're doing. We've seen some very good signs across our sites at the moment, the performance is coming back up to levels that we used to get historically.

So, shorter term, I think we are well on track to achieve what we said and that is to get us within that guidance range but also that's recovering significantly a lot of what we'd lost. Realistically we've got about another three to six month's work after that to be happy with where all our mines sit when it comes to their overburden in advance and their pre-strip and continue to deliver output levels that we were delivering on prior to the 2021 and 2022 years.

On the debt side, I thought I might just throw that across to Kevin and let him answer that one.

Kevin Su: Thanks, David. First of all, I think from Yancoal management and the Board's perspective, we are being very openminded, we have paid all the debt, but we never say we never borrow. Everything is about how to maximise shareholder returns, so in such a high interest rate environment if it's better to actually save the finance cost and return the reasonable yield for our investors we'll do so.

Then similarly, if we have seen great opportunities, and Yancoal has the capacity, to act in the market, then we will seek such opportunity and we will make sure we make the balance sheet even more efficient, so that's all about that, thank you.

David Moult: I just have one comment, Angus, right at the end that Kevin touched on. We don't want sit here with a lazy balance sheet either and our Board is very conscious of that. So, they will look at capital management to ensure that we manage our balance sheet in an efficient way.

Brendan Fitzpatrick: Thanks Kevin, thanks David. This leads into another topic which is coming up on the webcast, that of potential corporate activity, appetite for acquisitions and funding methodologies that might be applied should an acquisition occur. Could you speak to the broad outlook Yancoal applies to potential acquisitions?

David Moult: Thanks, Brendan. I think our position has not altered; we look at external opportunities but we're also looking at internal organic growth opportunities as well, organic growth in the Company and we're progressing those at the moment, that is I think you heard us talk previously about the upgrade to our coal preparation facilities at Moolarben and increasing the capacity of that open cut mine from 14 to 16 million tonne.

We do have an underground mine concept which we're reviewing at MTW as an organic project. Yes, we do look at assets that come on the market and we are not frightened to expand our coal base. We've talked about it previously and met coal is still our favourite position if we were looking at acquisitions. So, it's not really changed, I think it's still very much aligned with the strategy that we've been talking about now for the last year or 18 months.

We are still looking at other commodities, we are building our knowledge base within the Company in other commodities, but at the moment we're not moving in that area, we're just gaining knowledge and understanding of it.

On the funding side I might again pass across to Kevin to talk about that.

Kevin Su: Yes, I think once again it's about this kind of open mandate and the flexibility we have as a Company; we appreciate the fact in the current market, probably a lot of funding availability discussion. Yancoal is no different, but in our financial accounts I think we have stated we still are open to re-establishing facilities if we believe that the best strategy. We're also open to the idea of equity raising opportunities subject to the compliance and regulator approvals.

So, all these things are definitely available to the Company and we endeavour to assess them as what David just mentioned, when at the right opportunity.

Brendan Fitzpatrick: Thanks, Kevin. Taking a question now from Bruce Wang at Huatai Securities, he has two questions. The first one coming through relates to the coal markets. His question is; the coking coal price in Australia looks firmer than the thermal coal price through the first half of 2023. What are the relative drivers between the coking coal and thermal coal markets and any comments on outlooks for the coming quarters?

Then the second question, with the decline of the coal price, do we think there's more chance to secure good quality coke and coal assets in the future?

David Moult: I'll let Mark answer the first part, I'll just comment very briefly on the second part. It's like everything I suppose that coal price gets factored into valuations, and valuations drive what – companies decide when they want to divest or otherwise assets. So, in some ways declining coal price would make some of the assets more attractive, but also, I think what it does is it takes some of the benefit out of it for the seller as well.

So, there's always a balance between where the coal price is and whether you get the better or the worse mines, and is it the time that - it's the time for a buyer to be buying, but is it the time for the seller to be selling? So, there's always a balance between the two. Mark, do you want to comment on the first part about the met coal versus thermal coal dynamics?

Mark Salem: Yes, thanks David. Thanks Bruce, for your question. I think we have to appreciate that 2022 was a very unusual year for many factors, beyond the wet weather that impacted supply and the Russian-Ukraine crisis or the energy crisis it created and plus a shortage of supply.

So, we did see the thermal coal market appreciate beyond the met coal market at the time. What we've seen in 2023 to date is basically a return to historical relativities between met and thermal coal, with an extraordinary year in 2022 for many reasons. I think we're seeing that return to historical relativities with the return of normal supply and market demand conditions coming into play.

The drivers for the met coal market in the future will be the ongoing demand of steel, which is purely dependent on infrastructure and economy movements, economic movements in the infrastructure area. This will, with the higher inflation rates there's a lot of aspects that will come into play in terms of impacting that outlook. Thank you.

Brendan Fitzpatrick: Thanks, Mark. Jonathan, coming back to you to check if there's questions on the phone before I continue with the webcast questions?

Operator: I'm not showing any questions from the phone lines. But just as a reminder, if you do have a question you'd like to ask, please press star 1-1.

Brendan Fitzpatrick: Okay, whilst we wait for anyone to participate on the phone, the next question's also coal market related, it comes from Michael Luca. We note that the Chinese customer sales volumes were back up to 24% in the first half of 2023, observing there's a shift in the customer base, although has we noted earlier in our comments from David that it's something of a resumption of the customer base we carried in the prior years.

Michael observes that most Chinese power plants are using the API 5 or the 5,500 kilocalorie thermal coal. Does that mean the product mix in the foreseeable future is going to rebalance and the realised prices will reflect a rebalance in the markets?

Mark Salem: Sure, look Yancoal's Australia's product mix is what it is. Geologically the coal is what it is and that won't change. The fact that we've sold 24% of our sales into China, does mean that we do produce a lot of that 5,500 category coal and China did present to us the best market in terms of alternatives of India, Europe, Southeast Asia. So, in that regard we're always targeting the optimal market return for us. Thank you.

Brendan Fitzpatrick: Thank you, Mark. I will make an extra observation. When we're looking at slide 10 in the presentation pack, we can see the volumes by customer market. Just clarifying that these are a volume differentiation of the exports. In the management discussion and analysis in the Half-year result, we also provide segment analysis and you can see the revenue differentiation by customer market, and it gives some appreciation for volume versus revenue.

As Mark's just been touching on, product type and price realisation are the factors that can create the relative difference between the volume split and the revenue split. We've got a question coming through, it's weather related, the observation that the Bureau of Meteorology recently upgraded its El Niño alert, and asking what can we do operationally to mitigate these impacts?

As I hand the question over to David, we're noting that several years of La Niña weather cycle's just been in effect where we were dealing with excess rain, so some dryer conditions, not necessarily the worst thing for us at this point. David.

David Moult: Thanks, Brendan. There's always a balance between too much water and not enough water, and the last few years we've had far too much. We have increased our storage capacity on all our large mines, which means we can hold more water onsite. That gives us the scope and capacity to handle the excess rain that we've had, but also by holding that water in out of pit storage facilities which don't interfere with our mining, it also gives us a more secure water supply for the El Niño dry periods as well.

So, I think we are pretty well set up now. We did invest significantly last year in those storage facilities and also pumping facilities to move water faster out of the mine working areas into those outer pit storage facilities. But also, that gives us some security as well in dry periods.

Brendan Fitzpatrick: Thank you. We've got a follow-up question on the dividend discussion from earlier, Kevin. One of the participants on the webcast noted that the divided is equivalent to the First-half 2022 dividend grossed up for franking credits, and is curious to know if this was a deliberate outcome and also how the short-term and the long-term split of dividends might be determined in any given period?

Kevin Su: Thanks, first of all I don't think this is deliberate. As mentioned, there is a clear guideline from the Company and we want to ensure we provide such consistency for the market. So, if they happen to be similar, that's not a bad thing to us. But the franking credit was mentioned here and I just want to take this opportunity once again to emphasise the importance for Yancoal to have started paying cash tax and accumulating sufficient franking credit made available to ASX investors and Hong Kong investors.

We all believe those dividends with or without franking dividends, eventually hopefully they all provide better return to our investors.

Brendan Fitzpatrick: Thanks, Kevin. Jonathan, I'll come back to you to check if we've had any further questions come through on the phone line?

Operator: I'm not showing any questions from the phone lines at this time.

Brendan Fitzpatrick: Okay, I've addressed, or amalgamated all the various webcast questions coming through from investors and analysts. I'll wait one more moment to see if any further questions come through from investors or analysts, and if nothing pops up in the next 10 or 20 seconds, maybe 30 seconds to allow for typing, I'll be then handing back to David to provide some closing comment before we hand them back to Jonathan to close out the call.

So, last call for any questions. As David mentioned earlier, I am available, Brendan Fitzpatrick, my details are on the market releases, mobile phone, email, you can reach out to me for anything that needs to be followed up after the webcast. Jonathan, quick check, any questions with you?

Operator: Not showing any at this time.

Brendan Fitzpatrick: Okay, I'm showing no further questions from investors or analysts on the conference call. David, I'll hand back to you to make some closing remarks.

David Moult: Thanks, Brendan. I'd just like to thank everybody again for joining us this morning for this six month investor presentation. I think the pleasing thing is we are achieving what we said we would achieve when we kicked away this year, we knew that we had some deficiencies in our inventory levels because of the rain last year. We did speed up that recovery by investment both in the plant and employees.

But the pleasing thing is now the mines are getting back to where we want them to be and at this moment in time, we're starting to see some very good productivity outcomes at all our big operations.

Thanks everybody for supporting us and being here this morning, we look forward to an even better second six months and delivering on those guidance figures that we said we would do. Thanks everybody for attending and look forward to speaking to you again in the future.

Operator: Thank you ladies and gentlemen for your participation in today's call. This does conclude the program. You may now disconnect, good day.

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