**Start of Transcript**

Operator: Good day and thank you for standing by. Welcome to Yancoal Australia's Second Quarter 2023 Production Report conference call. At this time, all participants are in the 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 1-1 on your telephone.

If you wish to ask a question via the webcast, please use the Q&A box on the webcast at any time during the conference. Please be advised that today's call is being recorded. I would now like to hand the conference over to the first speaker today, Mr David Moult, Chief Executive Officer of Yancoal Australia. 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 second quarter production report for 2023. I'm joined on this conference call by several members of the Yancoal management team. I will provide a summary of the activities from the second quarter based on the production report published on the Australian Stock Exchange and Stock Exchange of Hong Kong yesterday 19 July.

We will then open the call to a question-and-answer session with the call scheduled to conclude at midday Sydney time. I will speak to the content of the production report. There is no presentation pack for this conference call. The Yancoal website holds past presentations for any participants that require additional information on the Company.

Yancoal's operational and finance performance is made possible by our people. The sharp improvement in total recordable injury frequency rate, which was 4.4 at the end of June, was an excellent achievement, an outcome that is only possible when there is wholesale support for the safety initiatives across all the Yancoal mine sites. I commend everyone involved in delivering this performance.

Yancoal reported a strong financial performance during the quarter. We added $700 million to our cash position through the three months. After distributing over $900 million in dividends, and paying $1.5 billion in tax during the period, we held $1.1 billion of cash at the end of June. The Company is debt free, and we continue to accumulate cash each month.

The June quarter was much drier than the March quarter. Minimal weather disruptions contributed to the increased production. The total ROM coal volume was almost 15 million tonnes and Yancoal's attributable sales volume increased 44% to 8.5 million tonnes. We have previously discussed our need to prioritise pre-strip and overburden removal activities at most of our mines during the first half of 2023, following the adverse weather in the previous year. This is necessary to facilitate better productivity and output in the subsequent quarters.

Most of the mines are operating to plan, but we noted mining at Ashton was suspended at the start of July due to water ingress at the longwall. All our people were promptly removed without injury and response measures were immediately put in place. While we cannot yet determine how long mine production will be suspended, the potential production volume loss is likely to be modest in the context of Yancoal's attributable productions.

Although labour shortages remain a challenge for Yancoal and the broader coal sector, we expect Yancoal's production to trend upwards through the year and have retained the 2023 guidance of 31 million to 36 million tonnes and cash operating costs of $92 to $102 per tonne.

Reforms to the Safeguard Mechanism scheme came into effect on 1 July this year. All our mines, except for Stratford-Duralie, are covered by the Safeguard Mechanism. Our assessment of the reforms' financial impact is ongoing, the outcome will depend on several factors including the cost of carbon offsets and the existence of viable abatement opportunities. We will provide further commentary on the potential financial impact once we have established a reliable basis for the projection.

The financial performance I described earlier is directly linked to increased production, combined with our realised coal price. Our realised thermal coal price dropped 42% to $197 per tonne; however, our metallurgical coal price increased 5% to $403 per tonne. The overall realised coal price of $226 per tonne was down 35% from the March quarter.

The thermal coal indices Yancoal references declined by 26% to 29% over the quarter. Mild spring temperatures in north Asia and the remaining energy stockpile overhang in Europe both contributed to the price trend.

Excess gas supplies in the global energy market continue to displace some goal demand and higher cost coal supplies have yet to contract in response to these lower prices. Having said that, the thermal coal market appear relatively balanced and seasonal factors might influence prices in coming months.

The good steel market conditions that were evident at the start of the year have subsided, along with global industrial activity. The low volatile PCR and Semi-Soft coking coal indices Yancoal references, declined 24% to 30% during the quarter.

We look forward to further increasing our sales volume as production activities move towards the levels achieved in prior years as we progress through 2023. I will now hand back to Desmond so that we can commence the question-and-answer session.

Operator: Thank you. We will now begin the question-and-answer session. If you would like to ask a question via the phone, please press star 1-1 and wait for your name to be announced. To withdraw your question, please press star 1-1 again.

**Brendan Fitzpatrick:** Desmond, Brendan Fitzpatrick here from the IR team. Whilst we're waiting for questions to form on the queue, perhaps I'll take a few from the webcast that we've received. The first question from Wei Xu asks, given the first half production in the six months to the end of June totalled 26 million tonnes, could you clarify why the guidance for the full year is 31 million to 36 million tonnes?

**David Moult:** Thank you for that question. I mean, the 26 million tonnes that you quote is 100% of our output, whereas the guidance is based upon our attributable or equity tonnes. What we're talking about is the 26 million tonnes refers to the ROM coal production, but it's on the 100% basis, our 31 to 36 is based on product tonnes based upon our attributable production.

**Brendan Fitzpatrick:** Thank you David. Yes, good clarification that it's a difference in the product type for the stage of production and the attributable component for us. We have a second question from Albert Onzen who is curious to understand Yancoal's role in supplying thermal coal into coal-fired power generation and the evolution of coal-fired power generation in the domestic and global markets.

**David Moult:** Thank you for – Albert, for that question. In the domestic market, historically Yancoal hasn't supplied coal into the domestic market, but of course, currently we are supplying some coal under the policy that was introduced by the New South Wales state government, called the Reservation Policy, which requires us to reserve about 300,000 tonnes each quarter potentially for sale into that market. So, we are now providing coal into the market when requested, under that policy.

Generally though, of course, we're a big supplier into the whole of Asia's energy and power market. We are very pleased to be able to support all of the Asian countries and, as you are aware, most of them still have a very strong reliance upon coal-fired generation.

Yes, we are - talk about transition, but transition is not a short-term measure, transition is a longer-term measure and I think the market for coal into Asia will continue to remain strong for quite some time.

I think it's fair to comment as well that a lot of the Asian market have invested money in later generation power generation in coal therefore have cleaner and lower emission power stations than potentially we have here in Australia.

**Brendan Fitzpatrick:** The next question on the webcast from Sara Chan at Morgan Stanley, makes the observation that the second quarter achieved sale price declined 35% and that that appeared to fall by more than the relevant index, the API5 with a one quarter lag was down 15%. Sara's comparing the first quarter API5 price against the fourth quarter from 2022. Is there a comment on the achieved sale price relative to the API5 indices on a lagged basis?

**Mark Salem:** Yes. This is Mark Salem, Head of Marketing here at Yancoal Australia. Thank you, Sara, for your question. In terms of portion of production, the API5 price is linked to a 5,500-kcal product and naturally the product mix also is influenced by our realised pricing, even on a lagged basis, and so it also depends on the product quality that we're producing at the time.

**Brendan Fitzpatrick:** Thank you, Mark. Desmond, I'll come back to you to see if there's any questions on the phone line, then I'll come back to the webcast where we do have a few more questions submitted on standby.

**Operator:** Yes, we do have questions from the phone line. Just one moment please. A question comes from the line of Lawrence Low from BOCI, your line is now open.

**Lawrence Lau:** (BOCI, Analyst) Thank you all for taking my question. I have two questions, if I may. First of all, in your announcement you mention about the longwall moving at Moolarben. Can you explain more or give us more details as to say how long we will that move complete and how many walls or working phase you have actually in Moolarben.

Second, regarding the New South Wales coal reservation direction, I see that they - you are required to sell coal of a certain amount at a price kept at A$135 per tonne, but now I think the market price is below that level, so can you explain how that price - the actual selling price will vary with the market price? Thank you.

**David Moult:** Thank you for that question. On the first one, we operate one longwall at Moolarben. It's a very efficient longwall and we, this year, have got three longwall moves - this is the second of our three - and normally they are between about 25 to 30 days per move. So, when the longwall completes its longwall block, we have half a set of new equipment, which we've already got installed on the next longwall, we then move the range of equipment, and we start the wall. So, very efficient and it's within our plan and we are currently in our second move out of three this year. Normally - or next year we'll have two moves, and it varies between two or three moves a year depending on the volume of coal that the longwall has produced.

On the reservation policy, I might just pass that one to Mark Salem to comment, but the $125 was what was imposed by the state government as a cap on any coal that would be supplied into the domestic generators and as such has really no linkage with export pricing. But Mark, you might want to add a few more words.

**Mark Salem:** Yes, correct. My only other comment in terms of the $125 - in terms of the market comparison, the $125 cap, besides having no linkage, it was set by the New South Wales government, is also in A$ and our API5 pricing is in US dollars and we are still - the international market is still providing us a more attractive alternative in that regard.

**Brendan Fitzpatrick:** Thank you, Mark. Can we have the next question, please, Desmond.

**Brendan Fitzpatrick:** One moment please. Next question come from the line of Sara Chan from Morgan Stanley. Please ask your question.

**Brendan Fitzpatrick:** (Morgan Stanley, Analyst) Hi, David, Brendan and Mark. Thanks for addressing the questions. I have two follow-up questions. The first one is also about the reservation policy. Can I check how long would that last for on that domestic sales commitment. Also, can you share some colour about over the past quarter in terms of the self-market of the product, how has it been changed or any notable change now for the past quarter, so in particular, into Europe or some of the key markets like Japan. How – is there any change in the mix?

The second question is, as the Company is now in debt free, so any talk about use of cash? I know about your - so, the dividend commitments which shareholders are certainly very glad to see, are there any further thoughts on that or any CapEx plan or even on M&A? Thank you.

**David Moult:** Thank you, Sara. I'll start and then on the first question, I'll again pass to Mark to finish. But the reservation policy currently will end at the end of the second quarter 2024, which is at the end of July 2024. Sorry, end of June 2024, the end of the second quarter.

On the market changes, I'll let Mark comment on the last quarter.

**Mark Salem:** Sure. Look, all I can comment on there is that the half yearly report, when that's issued, will have a lot more detail, but I can say that it's common knowledge, is that with China reopening its order to Australian coal in February this year, we have delivered more tonnes to China in our sales mix.

**David Moult:** On capital management, I might pass over to Kevin, our CFO, to give you a few comments, Sara, on that one.

**Kevin Su:** Hi, Sara. This is Kevin. Yes, you are right, and thank you for noting Yancoal's debt position now comes down to zero. Traditionally, Yancoal focussed on, as David mentioned, dividends management and also our growth strategy management to balance our capital requirement. Now with that clearly down to zero so, in simple terms, Yancoal will be focussing on the dividend management and the balance with our growth strategy which combined with the internal growth opportunities also with the potential external opportunities. Thanks.

**Brendan Fitzpatrick:** Thanks. Desmond, do we have any more questions on the phone line?

**Operator:** At this time, we have no further questions from the line, please continue.

**Brendan Fitzpatrick:** Okay. Looking to the webcast questions once more, a question from Roger Yuan. To meet the midpoint of the guidance, approximately 33.5 million tonnes, it would appear the Q3, Q4 periods need to average production around 9.5 million tonnes of attributable sales. Is that correct? How will that be achieved based on the current production and recovery process?

**David Moult:** Thank you, Roger. Yes, your calculation is correct. If you remember what we said at the start of the year was that we were going to be recovering as we progressed month by month and quarter by quarter through the period, you will see that from quarter 1 to quarter 2. Forecast is showing us that we will continue that trend as we move through quarter 3 and quarter 4. We're confident that as we move through this year, we will recover the position we were in prior to the last two years of adverse weather and be strongly producing coal so as that we can cover those attributable sales that you've - as you've flagged.

**Brendan Fitzpatrick:** A question from Mark Callagher regarding the thermal coal markets. He identified that the average price received for thermal coal would suggest that most of the thermal coal was sold against the API5 or the 5,500-kcal index as opposed to the Global Coal Newcastle 6,000-kcal index and the price perhaps implied a shift towards lower quality coal versus the previous 12 months. Could you comment on this observation or provide some further context around the price realisation?

**Mark Salem:** Sure. Thank you, Mark. I think the best way to reply to that is that the movement from the last 12 months between the Global Coal Newcastle index and the API5 which reflects the 5,500 calorie, the arbitrage has substantially reduced, decreased, and therefore the coalescing of those two lines could give that impression. But naturally, following on David's comments, we are back-ended from a production point of view and therefore our product mixes also will change. Our overall product mixes for the year has not changed.

**David Moult:** Thank you, Mark. We had a follow-up question from Wei Xu, was asking, is there any prospect that Yancoal could be privatised, noting that there was the Yankuang Energy initiatives last year which has now been terminated.

**David Moult:** We know of no other interest at this moment in time. Following that termination by Yanquan Energy last year, there's been no more discussion from any quarter on that area, so I would suggest no.

**Brendan Fitzpatrick:** Thank you, David. We had another question on the webcast, it seems to overlap with the discussion earlier regarding capital allocations. Just to check with you, Kevin, is there any further comment that we should be providing in terms of cash allocations, dividend policies and what was delivered last year with regards to distributions relative to the policy?

**Kevin Su:** It's very much largely the same response from the one we just made to Sara, and then the dividend policy hasn't been changed.

**Brendan Fitzpatrick:** Thanks. Just worth observing that the dividend policy is always subject to Board discretion and Board determination, it's not a hard and fast payout ratio. Desmond, I've concluded the questions currently available on the webcast, do you have any more over the phone line?

**Operator:** Again, to ask questions via the phone you can press star 1-1 and wait for a name to be announced. At this time there are no further questions from the phone line, please continue.

**Brendan Fitzpatrick:** David, I'm showing no further questions on the webcast. If you'd like to provide a closing comment and then we'll hand back to Desmond.

**David Moult:** Thanks, Brendan. Look, thank you for everyone attending this morning. It was a strong quarter, we are confident of our performance, as we said at the start of the year, recovering as the dry weather started to establish itself across all our large mines. But it's also worth noticing that I think after the last couple of years we're in a very strong position to deal with any changes in the weather in the future, but I think we are still confident at this moment in time that that recovery that we've flagged.

The market is still strong even though it has come off quite a bit since last year, but I think we should just remember that we are still at levels far higher than we've seen in previous years.

Again, I will thank everybody for your interest and look forward to a very strong year from Yancoal and speaking to you at the next Investor Conference.

**Brendan Fitzpatrick:** Thank you, David. Desmond, could you please conclude the call for us.

**Operator:** Certainly. That concludes today's conference call, ladies and gentlemen. Thank you for the participation. You may now disconnect your line.

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