



# Quarterly Report

FOR QUARTER ENDING 30th JUNE 2019

## ACHIEVEMENTS – June Quarter 2019 (Q2 2019)

- 17.1Mt ROM coal production in Q2 2019, similar to Q2 2018
- 13.4Mt Saleable coal production in Q2 2019, up 6% from Q2 2018.
- 9.0Mt Attributable saleable production in Q2 2019, up 6% from Q2 2018.

## HIGHLIGHTS

- Year-to-date attributable saleable coal production is running 9% ahead of 2018. The attributable sales are also ahead of 2018, up 5% as demand for Yancoal's high-quality coal products continues.
- The realised price for the quarter is a reflection of the regional market conditions. The average coal price realised in the June Quarter was A\$116/t, compared to A\$133/t in March Quarter 2019.
- The June quarter Total Recordable Injury Frequency Rate, 7.17, is a slight change from 7.12 in the March quarter. It is comprised of multiple assets measured against several state benchmarks.

## 2019 GUIDANCE – Unchanged

- 35Mt (approx.) of attributable saleable coal production.
- A\$62.50/t FOB operating costs (excl. royalties).
- A\$285 million of capital expenditure.

## Production and Sales Data

| ROM COAL PRODUCTION         | Ownership | Q2          | Q1          | PP          | Q2          | PCP       | June YTD    |             |            |
|-----------------------------|-----------|-------------|-------------|-------------|-------------|-----------|-------------|-------------|------------|
|                             |           | 2019        | 2019        | Change      | 2018        | Change    | 2019        | 2018        | Change     |
| Moolarben                   | 85%       | 5.4         | 5.5         | (2%)        | 4.6         | 17%       | 10.9        | 9.8         | 11%        |
| Mount Thorley Warkworth     | 82.9%     | 4.5         | 4.6         | (2%)        | 4.2         | 7%        | 9.1         | 8.5         | 7%         |
| Hunter Valley Operations    | 51.0%     | 4.4         | 4.4         | -%          | 5.3         | (17%)     | 8.8         | 9.1         | (3%)       |
| Yarrabee                    | 100%      | 0.5         | 0.6         | (17%)       | 1.1         | (55%)     | 1.1         | 1.4         | (21%)      |
| Stratford Duralie           | 100%      | 0.2         | 0.1         | 100%        | 0.2         | -%        | 0.3         | 0.3         | -%         |
| Middlemount                 | 49.9997%  | 1.1         | 1.1         | -%          | 1.4         | (21%)     | 2.2         | 2.5         | (12%)      |
| Watagan                     | 100%      | 1.0         | 1.0         | -%          | 0.3         | 233%      | 2.0         | 1.3         | 54%        |
| <b>Total - 100% Basis</b>   |           | <b>17.1</b> | <b>17.3</b> | <b>(1%)</b> | <b>17.1</b> | <b>-%</b> | <b>34.4</b> | <b>32.9</b> | <b>5%</b>  |
| <b>Total - Attributable</b> |           | <b>11.2</b> | <b>11.5</b> | <b>(3%)</b> | <b>11.2</b> | <b>-%</b> | <b>22.7</b> | <b>20.7</b> | <b>10%</b> |

| SALEABLE COAL PRODUCTION    | Ownership | Q2          | Q1          | PP        | Q2          | PCP       | June YTD    |             |           |
|-----------------------------|-----------|-------------|-------------|-----------|-------------|-----------|-------------|-------------|-----------|
|                             |           | 2019        | 2019        | Change    | 2018        | Change    | 2019        | 2018        | Change    |
| Moolarben                   | 85%       | 4.8         | 4.7         | 2%        | 4.1         | 17%       | 9.5         | 8.8         | 8%        |
| Mount Thorley Warkworth     | 82.9%     | 3.0         | 3.1         | (3%)      | 3.0         | -%        | 6.1         | 6.0         | 2%        |
| Hunter Valley Operations    | 51.0%     | 3.6         | 3.0         | 20%       | 3.5         | 3%        | 6.6         | 6.4         | 3%        |
| Yarrabee                    | 100%      | 0.5         | 0.7         | (29%)     | 0.8         | (38%)     | 1.2         | 1.2         | -%        |
| Stratford Duralie           | 100%      | 0.1         | 0.1         | -%        | 0.1         | -%        | 0.2         | 0.2         | -%        |
| Middlemount                 | 49.9997%  | 0.9         | 0.8         | 13%       | 1.1         | (18%)     | 1.7         | 2.1         | (19%)     |
| Watagan                     | 100%      | 0.5         | 0.6         | (17%)     | 0.1         | 400%      | 1.1         | 0.7         | 57%       |
| <b>Total - 100% Basis</b>   |           | <b>13.4</b> | <b>13.0</b> | <b>3%</b> | <b>12.7</b> | <b>6%</b> | <b>26.4</b> | <b>25.4</b> | <b>4%</b> |
| <b>Total - Attributable</b> |           | <b>9.0</b>  | <b>8.8</b>  | <b>2%</b> | <b>8.5</b>  | <b>6%</b> | <b>17.8</b> | <b>16.4</b> | <b>9%</b> |

| SALES VOLUMES (BY COAL TYPE), Mt               | Q2         | Q1         | PP          | Q2         | PCP         | June YTD    |             |           |
|--|------------|------------|-------------|------------|-------------|-------------|-------------|-----------|
|  | 2019       | 2019       | Change      | 2018       | Change      | 2019        | 2018        | Change    |
| Metallurgical                                  | 1.5        | 1.3        | 15%         | 1.4        | 7%          | 2.8         | 2.5         | 12%       |
| Thermal  | 6.7        | 7.0        | (4%)        | 7.1        | (6%)        | 13.7        | 13.2        | 4%        |
| <b>Total Attributable mine production sold</b> | <b>8.2</b> | <b>8.3</b> | <b>(1%)</b> | <b>8.5</b> | <b>(4%)</b> | <b>16.5</b> | <b>15.7</b> | <b>5%</b> |

### Notes:

1. Attributable figures do not include production from Middlemount (incorporated joint venture and accounted for as an equity-accounted investment) and Watagan (equity-accounted investment and deconsolidated from Yancoal in March 2016)
2. 2018 attributable figures include 81% attributable production for Moolarben up to and including 30 November 2018, and 85% thereafter. This reflects Yancoal's increased ownership in the Moolarben Joint Venture.
3. Purchased coal totals not included in the Sales volumes.

1Q = March Quarter period

PP = Previous Period

ROM = Run of Mine; the volume extracted and available to be processed

2Q = June Quarter period

PCP = Previous Corresponding Period

## CEO COMMENT

On 27 June 2019 there was a tragic fatality at the Middlemount JV. Our thoughts are with the family, friends and workers during this difficult time.

Yancoal's continued emphasis on safe work practices has been reinforced in response to events throughout the industry. There is active engagement with all employees empowering them to identify and address foreseeable injuries.

Operational performance remains strong, particularly across our large scale mines. The combined second-quarter ROM coal output was similar to prior periods, and the attributable saleable coal was marginally improved.

At the half-way point for the year, Yancoal remains on target for the 2019 operational goals. The annualised attributable saleable coal volume is 35.6Mt compared to the target of about 35Mt.

Market conditions affected the realised price we were able to achieve in the second quarter, but the team continues to secure offtake for the saleable product.

## SAFETY and ENVIRONMENT

Yancoal is committed to operating safely and transparently, employing approximately 3,000 people plus contractors and service providers from local and regional Australia.

The 12-month rolling Total Recordable Injury Frequency Rate<sup>1</sup> ("TRIFR") at the end of the reporting period was 7.17, a slight change from 7.12 at the end of the 2019 March quarter (Q1 2019). The Yancoal Q2 2019 TRIFR combines open-cut and underground mines from NSW and Queensland; the most recently available industry benchmarks are 6.27 for surface mines in NSW, 11.00 for surface mines in Queensland, and 31.94 for underground mines in NSW.

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<sup>1</sup> Attributable TRIFR includes Moolarben, Mount Thorley Warkworth, Stratford Duralie, Yarrabee and Corporate; it excludes Middlemount (operated by Peabody Energy), Hunter Valley Operations (operated by Glencore Coal) and Watagan.

**Moolarben lead the uplift in saleable production.**

## OPERATIONAL HIGHLIGHTS

The Moolarben Coal Complex had another outstanding quarter, producing 4.8Mt of saleable coal as the open cut and underground both performed above-budgeted rates. A planned longwall move carried during the quarter did not impede output with increased open-cut production offsetting this event.

- 13.4Mt Saleable coal production in Q2 2019, up 3% from Q1 2019, including:
  - 11.4Mt (85%) from our three Tier-1 assets; and
  - 9.0Mt attributable production, up 2% from Q1 2019.
  
- 8.2Mt attributable production sold in Q2 2019, down 1% from Q1 2019. The sales mix was:
  - 6.7Mt Thermal coal sales (attributable); and
  - 1.5Mt Metallurgical coal sales (attributable).

**Our focus is on the controllable factors.**

## 2019 GUIDANCE

Targets are unchanged from those provided in February 2019.

### Increased production from 2018:

- Approximately 35Mt of saleable coal production (attributable<sup>2</sup>).

### Flat costs despite industry cost pressure:

- Approximately A\$62.5/t FOB for attributable cash costs.

### Controlled capital expenditure:

- Approximately A\$285 million attributable capital expenditure.

## COAL SALES and PRICING

During the second quarter, Yancoal continued to optimise its split of Thermal coal and Metallurgical coal sales to meet the market demand and maximise price achieved. The average price realised across the total attributable coal

<sup>2</sup> Attributable figures do not include output from Middlemount (incorporated joint venture and accounted for as an equity-accounted investment) and Watagan (equity-accounted investment and deconsolidated from Yancoal in March 2016).

sales in the June Quarter was A\$116/t<sup>3</sup>, compared to A\$133/t in March Quarter 2019 and \$131/t in June Quarter 2018.

The sales volumes typically exceeds the saleable coal production as Yancoal purchases additional tonnages for blending purposes; the purchased tonnage enhances the overall sales mix and pricing achieved. During the June Quarter, the volume of attributable mine production sold was less than produced, allowing increased stockpile inventory.

- 6.7Mt Thermal coal sales volumes, 3% down vs pcp; and
- 1.5Mt Metallurgical Coal sales volumes, 15% down vs pcp

### COAL MARKET OUTLOOK

The Company sells high-grade thermal coal priced off the GlobalCOAL 6,000kCal NAR index price and lower grade volumes at lower energy level benchmarks. Yancoal sells to a variety of industrial customers, predominantly within Asia. The majority of Yancoal sales are to Japan, Korea and China with no single country representing more than 22% of total sales volume.

During the June quarter, the impediment to Australian thermal coal deliveries into China continued to influence the regional market; as a result, API5 index has depreciated during the period. Also, we have experienced a period where European gas prices have been at their lowest, which has encouraged Russian and Colombian producers to seek better prices in Asia, while Asian supply sources have been at optimal levels. As a result, we have also seen the Global Coal Newc index fall in the quarter. In contrast, the metallurgical coal market has remained relatively stable, with very little change in prices between the two periods.

The combination of the supply and demand factors influences the realised price Yancoal achieves across its product mix. Index price volatility seems likely to persist; given the regional supply and demand factors. However, it is our view that market fundamentals remain positive in the longer-term.

**Restrictions in the regional market are affecting thermal coal prices.**

<sup>3</sup> Realised price for Attributable Ex-Mine Sales (excluding purchased coal sales)

## ASSET PERFORMANCE

### Moolarben

5.4Mt of ROM Coal in Q2 2019, up 17% from the pcp; and  
4.8Mt of Saleable Coal in Q2 2019, up 17% from the pcp.

The operation, particularly the open cut, continues to perform ahead of budget for 2019. The longwall cutting rate has improved as depth of cover increased. The new longwall shearer software program, installed in late February continues to perform well, the longwall operating throughout April in fully automated passes.

There was a longwall move in the June Quarter, to 'step around' a volcanic intrusion in the coal seam, this is a localised intrusion and it does not occur in subsequent longwall panels. The end of the current panel will be reached in the September Quarter resulting in a second planned move for the year. During the longwall move, the open-cut mine delivered additional ROM coal. The underground coal is usually higher quality and bypasses the wash plant. During periods of increased open-cut output additional mined ash content, as well as lower yield, is expected.

| Ownership | Equity contribution <sup>4</sup> | Attributable contribution | Operated asset? | Mine type | Coal type |
|-----------|----------------------------------|---------------------------|-----------------|-----------|-----------|
| 85.0%     | 85.0%                            | 85.0%                     | Yes             | OC/UG     | Thermal   |

### Mount Thorley Warkworth

4.5Mt of ROM Coal in Q2 2019; up 7% from the pcp; and  
3.0Mt of Saleable Coal in Q2 2019; steady against from the pcp.

Overall and as planned MTW is running at similar levels to the prior quarter and the June Quarter last year.

The equipment fleet continues to achieve good availability and productivity. Maintenance carried out in May and June should further improve availability.

| Ownership | Equity contribution | Attributable contribution | Operated asset? | Mine type | Coal type    |
|-----------|---------------------|---------------------------|-----------------|-----------|--------------|
| 82.9%     | 82.9%               | 82.9%                     | Yes             | OC        | SSCC/Thermal |

<sup>4</sup> 2018 equity share includes 81% for Moolarben up to and including 30 November 2018, and 85% after that, reflecting Yancoal's increased ownership in the Moolarben Joint Venture, as announced on 30 November 2018.

### Hunter Valley Operations

4.4Mt of ROM Coal in Q2 2019; down 17% from the pcp; and  
3.6Mt of Saleable Coal in Q2 2019; up 3% from the pcp.

During the second quarter, productivity continued to improve following the operator shortfalls encountered at the start of the year. Production schedules are back-ended to the second half of the year, additional ROM coal presenting in the coming quarters will meet the full year target.

| Ownership | Equity contribution | Attributable contribution | Operated asset?  | Mine type | Coal type      |
|-----------|---------------------|---------------------------|------------------|-----------|----------------|
| 51.0%     | 51.0%               | 51.0%                     | JV with Glencore | OC        | SSCC / Thermal |

### Yarrabee

0.5Mt of ROM Coal in Q2 2019; down 55% from the pcp; and  
0.5Mt of Saleable Coal in Q2 2019; down 38% from the pcp.

Several factors contributed to the underperformance at Yarrabee relative to the comparable periods. Some factors are external such as rail haulage cancellations by the provider, others are a consequence of hard digging conditions encountered and excavator downtime, due to poor blasting outcomes. The full year is still forecast to meet expectations.

| Ownership | Equity contribution | Attributable contribution | Operated asset? | Mine type | Coal type   |
|-----------|---------------------|---------------------------|-----------------|-----------|-------------|
| 100.0%    | 100.0%              | 100.0%                    | Yes             | OC        | PCI/Thermal |

### Middlemount

1.1Mt of ROM Coal in Q2 2019 down 21% from the pcp; and  
0.9Mt of Saleable Coal in Q2 2019; down 18% from the pcp.

The geotechnical (coal seam thinning) and geological (model reconciliation) issues reported in the March Quarter report continue to impede coal production. These factors impact both mined volumes and washing yield.

| Ownership | Equity contribution | Attributable contribution | Operated asset? | Mine type | Coal type  |
|-----------|---------------------|---------------------------|-----------------|-----------|------------|
| 49.9997%  | 49.9997%            | 0% (equity accounted)     | JV              | OC        | PCI/Coking |

**Yancoal has growth prospects beyond the 2019 production uplift.**

## **GROWTH PROJECTS**

Mount Thorley Warkworth has identified coal that could support an underground operation. The initial concept has a potential production output of 6Mtpa of ROM coal. Studies are underway that underpin a Pre-Feasibility Study due to be submitted to the Board for review in the first quarter of 2020.

At Moolarben, through further optimisation of the operations, there is the potential to increase ROM production from the current level of 18Mtpa up to 24Mtpa. Yancoal is evaluating this concept and working through the external approval and permit processes as well as required rail capacity improvements. These efforts will continue through 2019.

## **CORPORATE EVENTS**

Yancoal conducted the Annual General Meeting during the quarter, and all the resolutions were passed, this included an amendment to the Company's Constitution regarding payment of dividends.

The number of ordinary shares was 1,320,439,437 (unchanged) on 30 June 2019.

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### **CEO -**

Reinhold Schmidt

### **CFO -**

Lei Zhang

### **Company Secretary**

Laura Ling Zhang

### **Registered Office**

Yancoal Australia Ltd  
Level 18, Tower 2, 201 Sussex Street,  
Sydney NSW 2000  
Phone: (02) 8583 5300  
[www.yancoal.com.au](http://www.yancoal.com.au)

### **Shareholder Enquiries**

Computershare Investor Services  
Level 3, 60 Carrington Street,  
Sydney, NSW, 2000  
Phone: 1300 850 505  
[www.computershare.com.au](http://www.computershare.com.au)

### **Investor Relations Contact:**

Brendan Fitzpatrick

E: [shareholders@yancoal.com.au](mailto:shareholders@yancoal.com.au)

### **Media Relations Contact:**

Matthew Gerber

E: [media@yancoal.com.au](mailto:media@yancoal.com.au)