



# Quarterly Report

FOR QUARTER ENDING 31 MARCH 2020

20 April 2020

## COVID-19

- **Safety** - The safety of our workforce remains our priority. Yancoal has activated its pandemic response plan and is following all government guidelines. Among our employees there are no known COVID-19 cases.
- **Production** - All mines continue to operate with no material production impact so far. We intend to keep operating and supplying our customers as they respond to changes in demand for electricity and steel.
- **Costs** – The Company continues to optimise production costs, although there will be incidental operating costs incurred responding to the pandemic; lower diesel costs are a positive factor.
- **Capex** – Contingency measures are under consideration. Yancoal will update the market if there is a material revision to existing guidance.
- **Financial position** – The Company considers it has a healthy financial position. At 31 December 2019 there was Cash and Cash Equivalents of \$962mn, and undrawn debt facilities. On 29 April 2020, Yancoal will pay its 21.21 cents per share 2019 final dividend.
- **Coal market** – In the thermal coal market, constrained global exports have countered reduced demand so far this year. However, the outlook for demand and pricing over the remainder of 2020 is increasingly uncertain.

## March Quarter 2020 (1Q 2020)

- 16.0Mt **ROM coal production**, down 8% from 1Q 2019.
- 13.3Mt **Saleable coal production**, up 2% from 1Q 2019.
- 9.7Mt **Attributable saleable coal production**, up 10% from 1Q 2019.
- A\$101/t **Average realised coal price**, down 18% from 1Q 2019.

## Production and Sales Data

ROM COAL PRODUCTION	Economic Interest	1Q	4Q	PP	1Q	PCP	March YTD		
		2020	2019	Change	2019	Change	2020	2019	Change
Moolarben	95%	5.8	4.8	21%	5.5	5%	5.8	5.5	5%
Mount Thorley Warkworth	82.9%	3.6	4.7	(23%)	4.6	(22%)	3.6	4.6	(22%)
Hunter Valley Operations	51%	4.0	5.5	(27%)	4.4	(9%)	4.0	4.4	(9%)
Yarrabee	100%	0.5	1.3	(62%)	0.6	(17%)	0.5	0.6	(17%)
Stratford Duralie	100%	0.2	0.4	(50%)	0.1	100%	0.2	0.1	100%
Middlemount	49.9997%	0.7	1.0	(30%)	1.1	(36%)	0.7	1.1	(36%)
Watagan	100%	1.2	1.3	(8%)	1.0	20%	1.2	1.0	20%
<b>Total - 100% Basis</b>		<b>16.0</b>	<b>19.0</b>	<b>(16%)</b>	<b>17.3</b>	<b>(8%)</b>	<b>16.0</b>	<b>17.3</b>	<b>(8%)</b>
<b>Total - Attributable</b>		<b>11.2</b>	<b>12.5</b>	<b>(10%)</b>	<b>11.5</b>	<b>(3%)</b>	<b>11.2</b>	<b>11.5</b>	<b>(3%)</b>

SALEABLE COAL PRODUCTION	Economic Interest	1Q	4Q	PP	1Q	PCP	March YTD		
		2020	2019	Change	2019	Change	2020	2019	Change
Moolarben	95%	5.4	4.2	29%	4.7	15%	5.4	4.7	15%
Mount Thorley Warkworth	82.9%	2.5	3.3	(24%)	3.1	(19%)	2.5	3.1	(19%)
Hunter Valley Operations	51%	3.5	3.8	(8%)	3.0	17%	3.5	3.0	17%
Yarrabee	100%	0.6	0.9	(33%)	0.7	(14%)	0.6	0.7	(14%)
Stratford Duralie	100%	0.1	0.3	(67%)	0.1	-%	0.1	0.1	-%
Middlemount	49.9997%	0.6	0.8	(25%)	0.8	(25%)	0.6	0.8	(25%)
Watagan	100%	0.6	0.8	(25%)	0.6	-%	0.6	0.6	-%
<b>Total - 100% Basis</b>		<b>13.3</b>	<b>14.1</b>	<b>(6%)</b>	<b>13.0</b>	<b>2%</b>	<b>13.3</b>	<b>13.0</b>	<b>2%</b>
<b>Total - Attributable</b>		<b>9.7</b>	<b>9.4</b>	<b>3%</b>	<b>8.8</b>	<b>10%</b>	<b>9.7</b>	<b>8.8</b>	<b>10%</b>

SALES VOLUMES (BY COAL TYPE), Mt	1Q	4Q	PP	1Q	PCP	March YTD		
	2020	2019	Change	2019	Change	2020	2019	Change
Metallurgical	1.0	1.4	(29%)	1.3	(23%)	1.0	1.3	(23%)
Thermal	8.1	9.3	(13%)	7.0	16%	8.1	7.0	16%
<b>Total Attributable mine production sold</b>	<b>9.1</b>	<b>10.7</b>	<b>(15%)</b>	<b>8.3</b>	<b>10%</b>	<b>9.1</b>	<b>8.3</b>	<b>10%</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. Attributable figures for Moolarben are 85% up to and including 31 December 2019 and 95% thereafter.
3. 'Sales volumes (by coal type)' excludes purchased coal
4. ROM = Run of Mine; the volume extracted and available to be processed

1Q = March Quarter period

3Q = September Quarter period

PP = Prior Period

2Q = June Quarter period

4Q = December Quarter period

PCP = Prior Corresponding Period

## CEO COMMENT

Yancoal is focused on the health and safety of all our employees across Yancoal operations, and this focus intensified during the Quarter as we responded to the COVID-19 pandemic. We implemented work practices to mitigate COVID-19 related risks and, to date, we have recorded no known cases of COVID-19 in our workforce, and our operations have experienced minimal disruption. Continuing the trend experienced during 2019, the 12-month rolling Total Recordable Injury Frequency Rate<sup>1</sup> at the end of 1Q20 was 6.87; down from 7.27 at the end of 4Q19<sup>2</sup>.

In the context of the COVID-19 situation, we are also monitoring the state of international coal markets and critical supply chains. We are evaluating contingency budgetary measures. The Company retains a sound fiscal position but considers conservation of capital prudent given the uncertain global economic conditions.

Despite the challenges presented by COVID-19, Yancoal is still pursuing strategic growth opportunities and during the Quarter purchased an additional 10% equity interest in the Moolarben Coal Joint Venture from Sojitz Corporation for A\$300 million. This acquisition increases Yancoal's participating interest in this low cost, tier-1 asset from 85% to 95% and has contributed to a positive adjustment to guidance for 2020 Attributable Saleable Coal Production from 36Mt to around 38Mt.

During the Quarter, our coal product split remained stable (82% thermal; 18% metallurgical); however our realised average price for the Quarter decreased by 18% compared to the same period last year.

Over the remainder of the year, we anticipate both thermal and metallurgical coal prices will be strongly influenced by supply and demand dynamics resulting from impacts of COVID-19 on international markets and national economies, as well as continued volatility in exchange rates. The

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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. 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.

<sup>2</sup> Prior periods may be revised for reclassification of past events.

global response to the pandemic and the resulting economic turmoil is ongoing and the outcome unknowable. Yancoal's immediate focus is the health and safety of its people and operating the assets to the best of its ability. Assessment of the international coal market conditions and the best operational response is an ongoing effort. Further announcements will be released should material changes to our operational guidance be determined.

### **COAL SALES and PRICING**

During 1Q 2020, **attributable sales** (9.1Mt) was less than the **attributable saleable production** (9.7Mt) with a resulting stockpile increase in the normal range for the three months. Yancoal purchased additional coal for blending, as is usual, to optimise the overall product mix and realised prices. The average A\$ price realised across the combined thermal and metallurgical coal sales was A\$101/t<sup>3</sup>, compared to A\$133/t in 1Q 2019 and A\$111/t for the 2019 year.

### **COAL MARKET OUTLOOK**

Yancoal generally sells high-grade thermal coal priced using the global COAL NEWC 6,000kCal NAR index (GCNewc) and lower grade coal priced off lower energy level benchmarks such as the All Published Index 5 (API5). During 1Q 2020 the GCNewc price averaged US\$68/t, but since the period traded below US\$60/t; similarly the API5 price averaged US\$55/t but subsequently traded at US\$52/t.

During the period, Yancoal renewed many annual contracts and maintained a stable sales position with major end-users in Asia.

During the Quarter, the majority of the coal markets remained relatively stable as demand disruption was countered by temporary supply reductions announced in South Africa and Colombia. By the end of the quarter, and subsequently, COVID-19 has created an increasingly uncertain outlook for both supply and demand drivers in the global coal market. Early in 2Q 2020

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

we have observed coal futures falling and indications of downward pressure on end use demand and coal prices.

Over the coming months, demand and supply are highly dependent on how COVID-19 affects both sides of the market balance. Yancoal's low-cost mines are well placed to remain in production during periods of volatility in the international coal market. Our focus remains on keeping our people safe and our mines operating in order to respond to our customers' requirements.

Early in Q1 2020 premium, hard coking coal prices appreciated as weather interrupted global supply. However, by the end of the quarter, steel production closures resulting from COVID-19 were exacerbating underlying weakness in the steel market; this resulted in prices falling about 5%. There is the potential for the trend toward lower steel output and metallurgical coal demand to continue during 2020. The impact from reduced steel output could be more pronounced in the PCI market Yancoal supplies than the broader hard-coking market.

## ASSET PERFORMANCE

Asset	Economic Interest <sup>4</sup>	Attributable contribution	Operated asset?	Mine type	Coal type
Moolarben (MCO)	95.0%	95.0%	Yes	OC/UG	Thermal
Mount Thorley Warkworth (MTW)	82.9%	82.9%	Yes	OC	SSCC/Thermal
Hunter Valley Operations (HVO)	51.0%	51.0%	JV	OC	SSCC / Thermal
Yarrabee	100.0%	100.0%	Yes	OC	PCI/Thermal
Middlemount	49.9997%	0% (equity accounted)	JV	OC	PCI/Coking

### Moolarben

- 5.8Mt of **ROM Coal**, up 5% from the pcp.
- 5.4Mt of **Saleable Coal**, up 15% from the pcp.

ROM coal production was up compared to the March Quarter in 2019 as both open cut and underground mines encountered favourable operating conditions. Saleable coal production had an even better performance relative to the prior corresponding period with additional underground coal being available to by-pass the coal handling and preparation plant (CHPP).

### Mount Thorley Warkworth (MTW)

- 3.6Mt of **ROM Coal**, down 22% from the pcp.
- 2.5Mt of **Saleable Coal**, down 19% from the pcp.

At MTW wet weather restricted mining activity during the March Quarter. The impact was compounded by increased truck tyre damage, due to operating in the wet conditions, resulting in reduced availability. Saleable coal production was temporarily affected by the reduction in mining activity.

### Hunter Valley Operations (HVO)

- 4.0Mt of **ROM Coal**, down 9% from the pcp.
- 3.5Mt of **Saleable Coal**, up 17% from the pcp.

During the March Quarter mining of waste material was affected by wet weather delays. The production of ROM coal and saleable coal was also

<sup>4</sup> 2019 equity share includes 85% for Moolarben up to and including 31 December 2019, and 95% after that, reflecting Yancoal's increased ownership in the Moolarben Joint Venture, as announced on 27 March 2020.

affected by the mining of in-pit inventory in the prior calendar year which had initially been planned for 1Q 2020. Saleable coal production was also hampered by unscheduled maintenance and wet weather disruptions; these are temporary effects.

#### **Yarrabee**

- 0.5Mt of **ROM Coal**, down 17% from the pcp.
- 0.6Mt of **Saleable Coal**, down 14% from the pcp.

At Yarrabee wet weather impacted the drill and blast activities causing minor disruptions to the primary excavator sequence which reduced ROM coal compared to Q1 2019, but allowed additional waste movement. Saleable coal production was affected through reduced CHPP yield due to processing stockpiles with higher ash content that remained 4Q 2019.

#### **Middlemount**

- 0.7Mt of **ROM Coal**, down 36% the pcp.
- 0.6Mt of **Saleable Coal**, down 25% the pcp.

Compared to 1Q 2019 the fatality at Middlemount in July last year has continued to impact the sites operating performance. Wet weather affected activities in areas with overlying soft-clay material. Coal recovery was also impacted by unforeseen geological issues which arose in January, including coal thickness and structure. The mining output caused lower yield from the CHPP due to the variable coal feed rate and quality.

#### **GROWTH PROJECTS**

At Mount Thorley Warkworth, Yancoal in its capacity as the operator, has identified a coal resource that could support an underground operation. The initial concept study shows a potential production output of 6Mtpa of ROM coal. Work is underway to inform a Pre-Feasibility Study currently due to be submitted to the Board for review by mid-2020.

Yancoal continues to achieve production optimisation at the Moolarben mine. The optimisation process continues after receiving Federal Government approval to increase open cut mine production in September

2019. The current focus is a modification application related to the underground operation, submitted in Q4 2019. Yancoal's ability to increase open-cut production contribution from 13Mtpa to 16Mtpa will be limited in the near to medium term by rail capacity constraints, and we are working with external stakeholders to address these issues.

#### **CORPORATE ACTIVITY**

On 28 February 2020, Yancoal released its 2019 Financial Report, and the Board announced a 21.21 cent per share (cps) 2019 final dividend. The total dividend for the year was 31.56 cps.

On 27 March 2020 Yancoal announced the acquisition of an additional 10% stake in the Moolarben Coal Complex. The A\$300 million cash consideration is payable in four instalments.

At 31 March 2020, the number of ordinary shares was 1,320,439,437; unchanged during the period.

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Authorised for lodgement by the Yancoal Disclosure Committee.

This report was compiled from verified material. The Yancoal Audit and Risk Management Committee (ARMC) evaluates and reviews the process and content to confirm the integrity of the report.

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