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First Half Financial Result 2021

FINANCIAL HIGHLIGHTS:

- Yancoal's Operating EBITDA and EBITDA margin improved from the lows of 2H 2020 as higher coal prices begin to flow through.
- **Revenue of $1.78 billion**[1] in the six months ended 30 June 2021 ("1H 2021"), down 10% from $1.97 billion in the six months ended 30 June 2020 ("1H 2020"). The decrease reflects a lower volume of coal sales between the periods.
- **Total Operating EBITDA of $406 million**, down 17% from $488 million in 1H 2020. The Operating EBITDA Margin for the period recovered to 23% after reaching a low of 16% in 2H 2020.
- **Net Loss after Tax** was $129 million; it includes the non-cash depreciation and amortisation amount of $397 million.
- Net cash inflow from operating activities of $179 million with $539 million held in cash at the end of June reconfirms Yancoal's prudent approach has maintained a sound fiscal position.
- No interim dividend will be declared. Although coal prices are rebounding, net debt reduction and a prudent approach to the financial position remains appropriate at this time.

OPERATIONAL HIGHLIGHTS:

- **Attributable Saleable Production second-half weighted** - Attributable Saleable Production was 17.5Mt; we are pushing to recover delayed output and deliver 39Mt for the year, but the spread of COVID-19 into regional centres increases the risk of further disruptions.
- **Unit costs should improve** – Operating cash costs were $66/tonne in 1H 2021; delivery of increased volumes in the second half should reduce costs on a per tonne basis. However, demurrage and other uncontrollable costs factors remain.
- **Realised coal prices recovery underway** – The average price achieved across all coal sales was A$94/tonne. Prices rallied through the period providing momentum into the second half of the year.
- **Total Recordable Injury Frequency Rate** (TRIFR) - At the end of 1H 2021, TRIFR was 8.4 (12-month rolling average), below the comparable industry weighted average TRIFR of 11.1 [2].

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[1] All financial numbers presented are stated in Australian dollars (A$ or $) unless otherwise stated

[2] Attributable TRIFR includes Moolarben, Mount Thorley Warkworth, Stratford Duralie, Yarrabee and Corporate; it excludes Joint venture operated Middlemount and Hunter Valley Operations as well as Watagan (up to 16 December 2020). The Industry Weighted Average combines proportional components from the relevant New South Wales and Queensland Industry references. From January 2021 onwards the Yancoal TRIFR and Industry weighted average were revised to include the Watagan assets. The Industry weighted average combines proportional components from the relevant New South Wales and Queensland industry averages

CEO COMMENTARY:

Yancoal Chief Executive Officer, David Moult said:

The health and wellbeing of all Yancoal employees remain a key focus. The 12-month rolling Total Recordable Injury Frequency Rate at the end of 2Q 2021 was 8.4. This figure compares favourably with the comparable weighted average TRIFR of 11.1 for the industry at the end of June. All our operations remain COVID-19 free[3], however with COVID-19 more prevalent in regional areas we have introduced additional protocols in response to the increased number of positive cases in the community. The spread of COVID-19 to areas near our mines has increased the instances of workers not being able to attend site as they follow Government protocols.

Rainfall disrupted mining, rail and port activity during the period, particularly at the Group's Hunter Valley operations. The 17.5 million tonnes of attributable saleable coal produced during the period was less than the first half of 2020 due to these conditions. Our three largest, open-cut mines have been working to overcome the first quarter flood impacts and ensure we effectively implement our production recovery plans. We are still working towards the 2021 target of around 39 million tonnes of attributable saleable coal. To reach this goal around four million tonnes of additional production is needed in the second half.

The recovery work associated with the wet weather, extra demurrage costs due to ship queues, higher diesel prices, and reduced output impacted our per tonne operating costs. The Group's average cash operating costs, excluding government royalties, increased to $66 per tonne in 1H 2021. Higher output over the next six months will improve the per tonne costs, however external and uncontrollable factors such as the demurrage could still have a negative impact on the operating cash costs.

We have implemented a 'wash harder' strategy to improve the coal quality of our product. The strategy incurs additional costs but aims to capture the arbitrage between high-ash and low-ash thermal coal prices to deliver a net positive outcome on our operating margin. The Production and Marketing teams continually assess market conditions and our ability to maximise the operating margin.

A positive aspect of the disruption to the coal industry is that export coal indices continued to improve through the period. Obligations to deliver delayed shipments at previously contracted prices reduced the index movement's immediate benefit on our received price. However, we still recorded a 32% improvement in the overall realised price, $94/t, compared to 2H 2020. Yancoal's contract profile means that as coal price indices remain elevated, we will report the benefit in the realised prices for subsequent periods.

As always, our focus is on the controllable elements of our business, particularly optimising production and reducing operating costs wherever possible. This is particularly the case after the disruption during 1H 2021 due to bad weather and the potential for production disruptions due to COVID-19 restrictions directly affecting the workforce over the rest of the year.

"The Yancoal team will continue to operate the assets efficiently and secure the maximum benefit from the current coal market conditions."

[3] As at 12th August 2021 when this report was prepared

SAFETY and ENVIRONMENT

Yancoal's Total Recordable Injury Frequency Rate ("TRIFR") at the end of the reporting period was 8.4; the TRIFR recorded at the end of 2020 was 7.4. The reported TRIFR at the end of the period is below the comparable industry weighted average TRIFR of 11.1.

During the period, Yancoal reintroduced the COVID-19 response measures that had proved effective during 2020. To date, the work practices and measures implemented have proven successful, with no known COVID-19 cases across our workforce and minimal disruptions to operations, however, with COVID-19 more prevalent in regional areas we are encountering more instances of our workforce having to isolate as a precautionary measure.

The following environmental initiatives were undertaken in H1 2021 to improve environmental performance or comply with environmental approvals and licences:

- Yancoal Corporate's Environment & Community Department implemented a new process to maintain corporate oversight of potential mining activities that could impact Aboriginal cultural heritage sites with moderate to high archaeological significance, and
- Yancoal continued to roll out its third party Independent Environmental Assurance Audit program, with audits undertaken at Cameby Downs, Stratford and Duralie during the period.

In addition to these actions, Yancoal is taking steps towards a lower emissions profile through long-term concepts. Investigation into opportunities such as replacing diesel-powered mining fleet or introducing renewable power generation to the mine sites are examples of potential future endeavours.

PRODUCTION and SALES:

ROM COAL PRODUCTION (100% basis)	Ownership	1H 2021 Million tonnes	1H 2020 Million tonnes
Moolarben	95%[4]	10.1	11.1
Mount Thorley Warkworth	82.9%	7.4	8.2
Hunter Valley Operations	51%	6.4	8.4
Yarrabee	100%	1.1	1.4
Stratford Duralie	100%	0.5	0.4
Middlemount	~50%	2.5	1.7
Ashton[5]	100%	1.3	1.7
Total - 100% Basis		**29.3**	**32.9**
Total - Attributable[6]		**21.9**	**23.4**

[4] Attributable figures for Moolarben 95% from 1-Jan-2020, but note economic attribution is 85% up to 31 March 2020 and 95% after that date.
5 Ashton volumes include the final tonnes produced at Austar before operations transferred to 'care and maintenance' in 1Q 2020 followed by closure in 1Q 2021.
6 Attributable figures exclude production from Middlemount (incorporated joint venture and equity-accounted) and Watagan (equity-accounted investment and deconsolidated between 31 March 2016 and 16 December 2020).

SALEABLE COAL PRODUCTION (100% basis)	Ownership	1H 2021 Million tonnes	1H 2020 Million tonnes
Moolarben	95%	9.2	10.2
Mount Thorley Warkworth	82.9%	5.0	5.3
Hunter Valley Operations	51%	5.1	6.3
Yarrabee	100%	1.2	1.5
Stratford Duralie	100%	0.3	0.2
Middlemount	~50%	1.8	1.2
Ashton	100%	0.6	0.9
Total - 100% Basis		**23.2**	**25.6**
Total - Attributable		**17.5**	**19.0**

During March, a one-in-100-year-rain event occurred in NSW, with parts of the state subject to severe flooding. Throughout the period, above-average rainfall and high winds further disrupted activity at mines and ports. These conditions resulted in decreased production from the Group's open-cut mines located in NSW and increased vessel queues off the port at Newcastle.

Compared to 1H 2020, ROM coal production was down 11% to 29.3 million tonnes (100%), and saleable coal production was down 10% to 23.2 million tonnes (100%).

The attributable saleable coal volume was down 8% to 17.5 million tonnes in 1H 2021. The teams at each mine site are working proactively to recover production and take advantage of the current market conditions. Yancoal has retained its production guidance of around 39 million tonnes for the year. During the second half of the year, we are targeting saleable coal production of around 21.5 million tonnes. The impact of COVID-19 restrictions through the remainder of the year has the potential to influence production.

The Group's overall average cash operating costs, excluding government royalties, increased from A$63 per tonne in 1H 2020 to A$66 per tonne in 1H 2021. Uncontrollable factors affecting the unit costs included: higher diesel prices, reduced output due to the wet weather and a hard rock intrusion in the Moolarben Underground mine. The cost increase also incorporated the 'wash harder' strategy, which incurred an additional cost but produced higher-quality coal to deliver a net increase to the operating margin.

In the 2Q Production Report, the operating cash cost guidance was revised from A$60-62/tonne to A$62-64/tonne. Increased output in the second half of the year should directly contribute to lower costs per tonne; however external factors such the impact of uncontrollable external factors such as COVID-19 restrictions influencing production or demurrage and diesel costs could impact operating cash costs.

SALES VOLUME Attributable mine production sold	1H 2021 Million tonnes	1H 2020 Million tonnes
Metallurgical	2.7	1.9
Thermal	14.5	16.5
Total - Attributable	**17.2**	**18.4**

The attributable sales volume declined 7% to 17.2 million tonnes compared to 1H 2020, but the ratio of metallurgical coal to thermal coal increased.

ACHIEVED PRICES	1H 2021 A$/tonne	2H 2020 A$/tonne	1H 2020 A$/tonne
Metallurgical	122	109	140
Thermal	89	66	88
Total - Attributable	**94**	**71**	**94**

The Group's overall average ex-mine selling price was A$94/tonne, the same as 1H 2020, a recovery from the low of 2H 2020. A higher ratio of metallurgical coal countered a lower realised metallurgical coal price. Compared to 1H 2020, a higher AUD:USD exchange rate partially offset the stronger USD denominated coal price indices. Price realisation during 2H 2021 will benefit from the higher coal price indices, as the 'lag effect' from prior sales contracts roll over and increased sales volumes are delivered.

During the second half of 2021, Yancoal will focus on increasing the proportion of higher quality thermal it produces to capture more of the price arbitrage between the *All Published Index 5* ("API5") 5,500kCal index and the *GlobalCOAL NEWC 6,000kCal NAR index* ("GCNewc"). This goal is the essence of the 'wash harder' strategy.

FINANCIAL PERFORMANCE:

Operating Results	1H 2021 $ Million	1H 2020 $ Million
Revenue	1,775	1,969
Operating EBITDA	**406**	**488**
Depreciation and amortisation	(397)	(386)
Operating EBIT	**9**	**102**
Net finance costs	(135)	(89)
Non-operating items	(51)	580
Profit Before Tax	**(177)**	**593**
Tax benefit	48	12
Profit After Tax	**(129)**	**605**

Revenue decreased 10% from $1,969 million in 1H 2020 to $1,775 million in 1H 2021, primarily due to the lower coal sales volume.

Operating EBITDA decreased by $82 million to $406 million in 1H 2021. The Operating EBITDA margin was 23% in 1H 2021 compared to 25% in 1H 2020, but the recovery from 16% in 2H 2020 reflects the passing of the cyclical low in the coal price indices.

The depreciation and amortisation expenses were stable at $397 million in 1H 2021. After including the depreciation and amortisation, the net finance costs of $135 million and, non-operating items of $51 million and an income tax benefit of $48 million, there was a loss after income tax of $129 million.

CASH FLOW:

Cash flow summary		1H 2021 $ Million	1H 2020 $ Million
Net operating cash flow		179	505
Net investing cash flow		(236)	(345)
Net financing cash flow		(50)	(728)
Net decrease in cash		**(107)**	**(568)**
Cash at the beginning of the period		637	962
Effect of foreign exchange on cash balance		9	29
Cash at the end of the period		**539**	**423**
Capital management		**1H 2021 $ Million**	**1H 2020 $ Million**
Net debt		3,436	2,697
Gearing ratio (net debt/(net debt plus equity)	(%)	40%	29%

Although a net loss was recorded, the net operating cash flow was positive, $179 million. Yancoal made the final $100 million payment for the additional 10% stake in Moolarben and spent $135 million on capital expenditure – mostly on items required to sustain the operations. Financing cash flows were just $50 million as Yancoal made mandatory debt repayments. Despite the decrease in the cash position, the gearing ratio improved from 41% at 31 December 2020 to 40% at 30 June 2021.

On 30 June 2021, the Group had $539 million in cash and cash equivalents. It also had over $800 million of undrawn debt across its various facilities.

DIVIDEND:

No interim dividend is declared for 1H 2021. Although coal prices are rebounding, debt reduction and a prudent approach to the financial position remains appropriate at this time.

COAL MARKET:

Yancoal typically sells most of its thermal coal on contracts linked to the API5 5,500kCal index, with the balance priced off the GCNewc 6,000kCal index. During 1H 2021, the API5 price averaged US$60/t but ended around US$76/t. The rally in the GCNewc price was even more pronounced; it averaged US$98/t and ended the Period at around US$132/t.

Supply constraints resulting from wet weather in Australia and Indonesia combined with logistic disruptions to coal exports from Russia and South Africa contributed directly to the coal indices rising. Demand also contributed to increasing prices as regional economic stimulus packages instigated in 2020 continued into 2021, underpinning the demand for thermal coal. Appreciating steel prices and conditions in the premium thermal coal market supported the semi-soft coking coal indices.

Yancoal optimises its product to maximise sales between the different markets and seek diversification of its customer base. Yancoal expects to have sufficient infrastructure capacity throughout 2021 to facilitate the year's planned production volume sale. During the remainder of 2021, we expect a recovery of global economic conditions and the associated demand for electricity generation to support thermal coal indices.

OPERATING GUIDANCE UPDATE:

Yancoal has retained its current guidance; with the spread of COVID-19 into regional areas, the risk of further disruptions has increased; should COVID-19 or other factors affect the 2021 targets, we will provide revised guidance at that time. Yancoal's stated performance targets for 2021 are:

- Saleable coal production of around 39 million tonnes (attributable).
- Operating cash costs (excluding government royalties) of $62-64/tonne.
- Attributable capital expenditure of $360-380 million.

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Authorised for lodgement by the Yancoal Board

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