



ABOUT THIS REPORT

TAX TRANSPARENCY REPORT 2019

# ABOUT THIS REPORT

In this report provides tax and related information on Yancoal Australia Ltd group operations for the period 1 January 2019 to 31 December 2019. It has been developed in accordance with the requirements of the Australian Board of Taxation's Voluntary Tax

All dollar figures included in this Report are expressed in Australian Dollars.
References to 'Yancoal', 'we', 'the Group 'the Company' and 'our' refer to Yancoal Australia Ltd.

The tax transparency information included in this Report was sourced from notes B6 and E3 of Yancoal's 2019 Annual Report and internal documentation.

Inis report should be read in conjunction with Yancoal's 2019 Annual Report, Environment, Social and Governance (ESG) Report and the 2019 Economic Contribution Report, which are available on our website: www.yancoal.com.au.

Yancoal is a leading low-cost Australian coal producer in the global seaborne market, producing a mix of premium thermal, semi-soft coking and PCI coals for export.

Since 2004, Yancoal has built its business through strategic acquisitions; now owning, operating or participating in 11 coal mines across NSW, Queensland and Western Australia. In 2020, Yancoal anticipates producing around 38 million tonnes of attributable saleable coal. Over the past two years, Yancoal has paid dividends to shareholders totalling almost \$1 billion. There is a demand for high-quality

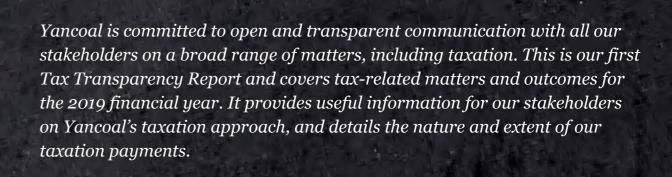
In 2019, Yancoal's thermal coal exports would have powered around 30 million households in the region (this equates to one year of electricity production in Australia), and metallurgical coal exports could have produced 3.5 million tonnes of steel (equivalent to the amount required to construct around 70 Sydney Harbour Bridges). In Australia, Yancoal generates thousands of regional jobs that inject over \$0.5 billion into local economies, and contributes over \$0.7 billion to Australian government revenues.

Yancoal is a public company, listed on both the Australian Securities Exchange (ASX: YAL) and the Hong Kong Stock Exchange (HKSE: 3668), and is majority owned by Yanzhou Coal Mining Company Limited



MESSAGE FROM THE CEO AND CFO **TAX TRANSPARENCY REPORT 2019** 

## **MESSAGE FROM** THE CEO AND CFO



Integrity is a core Yancoal value - we do things because they are right, not just because we should. Yancoal is a significant and willing contributor to communities and governments in the regions where we operate. We are committed to pursuing strategies and making decisions that have beneficial impacts for all stakeholders, not just for our own operational and financial outcomes.

In Australia we contribute to the economic development of the communities in which we operate through procurement, employment and community investment, and nationally through the payment of

taxes and royalties to state and federal governments. When all direct and indirect commercially sustainable business, tax effects on the Australian economy are considered, Yancoal's total impact is over \$8.6 billion.

Just as Yancoal's ongoing expansion is a story of different phases - moving from periods of investment in establishing and developing assets, into periods where these mines move into productive stages of their operational lives - so too is the evolving nature of our tax situation.

Periods of investing heavily in our assets might incur tax losses, which are followed by periods when our mines generate financial benefits, including contributing to taxation.

As a result of having successfully built a will increasingly become an important part of Yancoal's economic contribution across all levels of government. In 2019, Yancoal paid or contributed \$590 million across several categories of taxation and royalties.

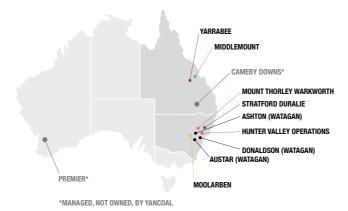
Along with our Environment, Social and Governance (ESG) Report and regular reporting on our economic and community contributions, we expect to publish our Tax Transparency Report annually and to make it publicly available.

**David Moult** CEO

Kevin Su CFO

**OUR ASSETS TAX TRANSPARENCY REPORT 2019** 

## **OUR ASSETS**



Yancoal operates a diversified portfolio of world class coal assets consisting of both large scale open cut and underground mines in NSW, Queensland and Western Australia

As a leading low cost coal producer in the global seaborne market, Yancoal's coal mining operations produce a mix of premium thermal, semi-soft coking, and pulverised coal injection (PCI) coals, together with mid-to-high ash thermal coals.

Yancoal's customers are located throughout the Asia-Pacific region with Japan, China and South Korea accounting for approximately 66% of our revenue from coal sales in the year ended 31 December 2019. Yancoal has a diverse customer mix and does not depend on any single country for the majority of its revenue.

## **MOOLARBEN**

Truck and shovel open-cut and longwall underground mining complex producing thermal coal; operated by Yancoal

#### **MOUNT THORLEY** WARKWORTH NSW

Dragline, Truck and shovel opencut mine producing semi-soft coking coal and thermal coal; operated by Yancoal

#### HUNTER VALLEY **OPERATIONS** NSW

A multi-pit mine using dragline, truck and shovel operations to produce semisoft coking coal and thermal coal; operated by Hunter Valley Joint Venture

#### **YARRABEE** QLD

Truck and shovel open-cut mine producing ultra low volatile pulverised coal injection (PCI) coal; operated by Yancoal

95% FROM 1 JAN 2020

82.9%

**51%** 

**TONNES** 

(ATTRIBUTABLE)

TONNES

(ATTRIBUTABLE)

~1,300

**EMPLOYEES &** 

**CONTRACTORS** 

100%

**TONNES** 

(ATTRIBUTABLE)

**TONNES** (ATTRIBUTABLE)

**EMPLOYEES & CONTRACTORS**  176<sup>Mn</sup>

**TONNES** (ATTRIBUTABLE)

**TONNES** (ATTRIBUTABLE)

~1,300

**EMPLOYEES & CONTRACTORS**  **42**<sup>Mn</sup>

TONNES (ATTRIBUTABLE)

6.9<sup>Mn</sup>

**TONNES** (ATTRIBUTABLE)

~400

**EMPLOYEES & CONTRACTORS** 

#### STRATFORD-DURALIE NSW

Truck and shovel open-cut mine producing thermal coal; operated by Yancoal

#### 2019 TOTALS

All coal produced by Yancoal enters the export market. End users are located across the Asia-Pacific basin

**753**<sup>Mn</sup>

**TONNES** 

**TONNES PRODUCTION** 

(ATTRIBUTABLE)

#### MIDDLE-MOUNT QLD

Truck and shovel open-cut mine producing low volatility PCI coal; operated by Middlemount Joint Venture

#### WATAGAN NSW

The Ashton longwall mine produces a semi-soft coking coal The Austar and Donaldson mines are on 'care and maintenance'

100%

1 1 Mn

**TONNES** (ATTRIBUTABLE)

**0.8**<sup>Mn</sup>

**TONNES** (ATTRIBUTABLE)

~100 **EMPLOYEES & CONTRACTORS**  ~50%

(EQUITY ACCOUNTED)

**MARKETABLE TONNES RESERVES** (EQUITY ACCOUNTED) (ATTRIBUTABLE)

**TONNES** (EQUITY ACCOUNTED)

> ~600 **EMPLOYEES &** CONTRACTORS

100%

(EQUITY ACCOUNTED)

89<sup>Mn</sup>

**TONNES** (EQUITY ACCOUNTED)

**2.2**<sup>Mn</sup> **TONNES** (EQUITY ACCOUNTED)

~450 **EMPLOYEES & CONTRACTORS** 

Note: Watagan assets, joint venture facilities (Hunter Valley Operations and Middlemount Coal), and assets managed but not owned by Yancoal (Cameby Downs and Premier) are not included in the statistics for this report.

**OUR VALUE CREATION TAX TRANSPARENCY REPORT 2019** 

## **OUR APPROACH** TO TAX



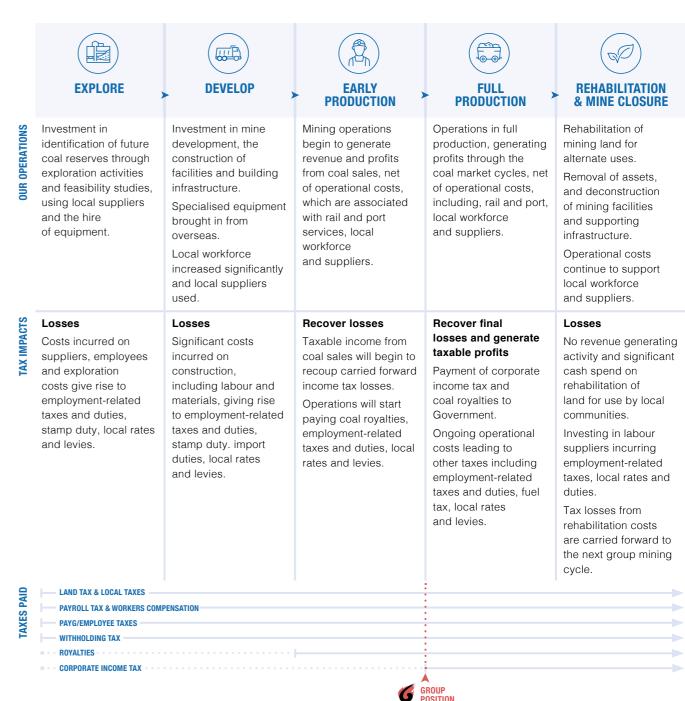
Underpinned by our Strategic Advantages and Core Values, tax management is an important part of how Yancoal creates value for our key stakeholders. Value is created across the life cycle of our assets. A spectrum of tax contributions are generated throughout the mine life cycle, as tax payments mirror the evolution from investment to return.

#### 01 THE MINING LIFE CYCLE

A range of tax contributions and losses are generated throughout the mine life cycle. We invest significant amounts of capital expenditure during the exploration and development phases to ready our assets for production. These investments result in net tax losses for our business.

The majority of our assets have reached or are moving towards the early and full production stages of the mining life cycle. As they move into consistent phases of production, we anticipate generating operating profits, recouping tax losses incurred during mine development

phases and, ultimately, moving into a tax payable position. We currently project that the majority of our assets will remain in the full production stage for many years to come.



Note: Yancoal's assets span various stages of the mining life cycle and additional mine asset acquisitions occurs at any of the first four stages of the cycle. The group position represents the current net group position

## OUR APPROACH TO TAX

**FRAMEWORK COMPLIANCE** TAX RISK MAN Shareholders Government/ TAX MANAGEMENT **SHAREHOLDERS** Regulators Board Communities 0UR **STAKEHOLDERS Business** Customers **Partners** SUPPORTING 7 Employees/ Financiers Contractors

GROWTH AND SHAREHOLDER **RISK STAKEHOLDER MANAGEMENT IDENTIFICATION TRANSPARENCY OPTIMISATION** 

Integrity is a core Yancoal value - we do things because they are right, not just because we should. We recognise that expectations are changing on how businesses identify and manage risk, including tax.

Yancoal is committed to effective governance and tax management, as our operations mature into full production, to enable open and transparent relationship with relevant authorities and local communities.

#### Our approach to tax is built on two key pillars:

#### **TAX GOVERNANCE**

#### **TAX RISK MANAGEMENT**

#### How we establish our strategy and defined accountabilities.

#### **FRAMEWORK**

Yancoal's Board mandates that tax is properly managed and that the inherent risks in Yancoal's tax position are well understood and carefully managed.

The tax function actively supports board decisions and broader business operations, projects and initiatives.

#### **SHAREHOLDERS**

Maintain shareholder confidence through optimisation of the tax strategy and profile, and internal governance and risk management.

Contribute to organisational value accretion through appropriate application of the tax law, strengthening stakeholder relationships and communication.

#### STAKEHOLDER MANAGEMENT

We strive to operate to the highest governance standards, applying transparent, compliant and efficient processes to meet the needs of all stakeholders.

Working closely with the wider business beyond the Finance function, we are able to synergise and identify opportunities and areas for value creation.

We do this by actively communicating with the business and driving tax awareness across functions and operations.

#### **TRANSPARENCY**

We endeavour to be consistent and proactive when engaging with stakeholders. Yancoal has adopted the Tax Transparency Code and a commitment to ongoing tax transparency reporting. We have an open and transparent approach to our relationship with tax authorities, government agencies and stakeholders.

How we operationalise our strategy including risk identification, management, and compliance. We look to continuously improve and optimise these processes, and ensure our delivery is consistent with the expectations of our stakeholders.

#### **COMPLIANCE**

Yancoal's tax policy requires the group to operate in compliance with tax legislation, rulings, guidance and statutory obligations in Australia and all other tax jurisdictions in which we have a presence. We adhere to arm's length principles when reviewing business transactions.

Our tax balances are determined in accordance with prescribed Australian Accounting Standards and internal accounting policies.

#### TAX MANAGEMENT

Tax strategy and management is governed by the Tax Policy, approved by the Yancoal Audit and Risk Management Committee, and implemented by the Chief Financial Officer and tax function. In accordance with the Audit and Risk Management Committee endorsed tax governance and risk management framework, Yancoal adopts a conservative tax risk appetite.

We have established operational policies and procedures supporting the tax policy guiding internal governance.

#### **RISK IDENTIFICATION**

Risks are identified and assessed through closely working with the business on transactions, process improvements, policies and procedures and continuously keeping abreast of tax developments in the market.

We track tax risk through a detailed tax risk register and reviews are carried out on the tax function as part of the Group's regular internal and external assurance activities.

#### **OPTIMISATION**

We aim to simplify our tax positions and reduce business transaction complexity.

We continuously strive to streamline and optimise technology to support data integrity and completeness, improving our systems and processes along the way.

OUR TAX PROFILE AND CONTRIBUTIONS

TAX TRANSPARENCY REPORT 2019

# OUR TAX PROFILE AND TAX CONTRIBUTIONS

Yancoal Australia Ltd and its wholly owned subsidiaries have formed a tax consolidated group headed by Yancoal Australia Ltd. The tax consolidated group (the Group) includes Watagan Mining Company Pty Ltd and its controlled subsidiaries, which for financial reporting purposes is a separate reporting group.

The Group recognises a deferred tax asset on its carried forward tax losses and tax credits to the extent that it is probable that future taxable profits will be available against which the carried forward tax losses can be utilised.

#### RECONCILIATION OF ACCOUNTING PROFIT TO INCOME TAX EXPENSE AND INCOME TAX PAID OR PAYABLE

A reconciliation of the Group's income tax expense to prima facie tax payable was detailed in note B6 of Yancoal's 2019 Annual Report. This disclosure was prepared in accordance with the relevant Australian Accounting Standards.

#### Temporary differences

Temporary differences arise when financial accounting and tax accounting rules result in amounts being assessable or deductible at different times, but ultimately equalling one another. The main types of temporary differences that we experienced during 2019 include those relating to mining tenements, exploration and evaluation assets, plant and equipment, and general provisions and accruals.

#### **INCOME TAX EXPENSE**

The Group's 2019 Annual Report discloses an effective tax rate of 34.8% for the 2019 year, after adjusting for a \$219m movement in the tax base

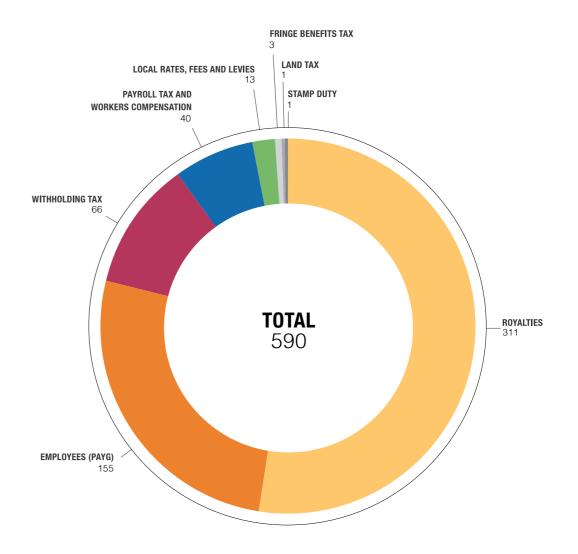
of assets arising from corporate transactions. The prima facie effective tax rate, calculated as tax expense divided by accounting profit, inclusive of the adjustment is 6.3%.

It is the Group's view that this item is excluded from the calculation due to it being the initial recognition in the accounts of tax base that will be realised as deductions over the life of the assets.

The effective tax rate varies from the Australian corporate tax rate of 30% due to losses of subsidiary companies that are not deductible for the Group and true ups relating to routine revisions of prior period tax provisions to reflect lodged tax returns.

Other temporary differences mainly include employee entitlement and rehabilitation provisions, cashflow hedges and foreign exchange movements.





These figures are based upon the 31 December 2019 audited financial reports for Yancoal Australia Ltd.

YANCOAL TAX CONTRIBUTIONS	A\$M
Royalties	311
Employee (PAYG)	155
Withholding Tax	66
Payroll tax and workers compensation	40
Local rates, fees and levies	13
Fringe benefits tax	3
Land tax	1
Stamp duty	1
Total	590

Goods and Service Tax (GST): The Group's net GST position has not been included as the Group remits GST charged to and borne by customers and claims an input tax credit for the GST charged by suppliers. As an exporter of coal, the Group is a net claimant of GST.

Federal Excises and Duties: Yancoal is a purchaser and user of fuel, and an importer of equipment, the cost of both of which includes embedded taxes, which are not included in the above table.

Tax Losses: Yancoal is currently recouping tax losses incurred during the early exploration and development stages of our mines and from operational losses incurred during the downturn of the coal market.

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OFFSHORE RELATED PARTY DEALINGS
TAX TRANSPARENCY REPORT 2019

# OFFSHORE RELATED PARTY DEALINGS

Yancoal has dealings with offshore related parties that operate in different tax jurisdictions. Our dealings with related parties adhere to arm's length principles, and all offshore related party transactions are required to be reviewed by the tax function.

At 31 December 2019, Yancoal's major shareholder is Yanzhou Coal Mining Company Limited (Incorporated in the People's Republic of China).

The ultimate shareholding entity is Yankuang Group Corporation Limited (incorporated in the People's Republic of China). Yancoal's operations are 100% located in Australia, and the Group does not have offshore operations. The typical dealings with offshore related parties and the key jurisdictions we interacted with in 2019 are detailed in the below table.

#### **MATERIAL OFFSHORE RELATED PARTY DEALINGS\***

Sales	Yancoal has coal sales transactions with related parties, which are struck on third party arm's length terms.	Hong Kong
Loans	Yancoal has loans from related parties in China and Hong Kong, on which it pays interest. Funds borrowed are used for investment in operations and generating income in Australia.	China and Hong Kong
Corporate Guarantee	I imited is hased in China, and provides Yancoal a corporate	China

#### \*Refer to Annual Report Note E3 for further detail.

## **GLOSSARY**

TERM	MEANING
AASB	Australian Accounting Standards
ARMC	Audit and Risk Management Committee
ATO	Australian Taxation Office
ESG	Environment, Sustainability and Government
ETR	Effective Tax Rate, calculated prima facie as the tax expense divided by accounting profit
FBT	Fringe Benefits Tax
GST	Goods and Services Tax
PAYG	Pay As You Go

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GENERAL INFORMATION

TAX TRANSPARENCY REPORT 2019

# **GENERAL INFORMATION**

### COUNTRY OF INCORPORATION

Australia

#### **WEB ADDRESS**

www.yancoal.com.au

# REGISTERED AND PRINCIPAL PLACE OF BUSINESS

Level 18 Darling Park 2 201 Sussex Street Sydney NSW 2000 Australia T: +61 2 8583 5300

### AUSTRALIAN COMPANY NUMBER

111 859 119

### AUSTRALIAN SECURITIES EXCHANGE LTD (ASX)

ASX Code: YAL

### STOCK EXCHANGE OF HONG KONG LIMITED

Stock code: 3668

#### **AUDITOR**

ShineWing Australia Level 8 167 Macquarie Street Sydney NSW 2000 Australia

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