

Yancoal Australia Ltd  
ANNUAL REPORT 2018



# STRENGTH, PERFORMANCE, PROFIT.





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# As Australia's largest pure-play coal producer, Yancoal operates a diversified portfolio of world class assets consisting of both large-scale open cut and underground mines.

Dual primary listed on the Australian Securities Exchange and The Stock Exchange of Hong Kong Ltd (HKEx), Yancoal Australia Ltd (Yancoal) operates five coal mine complexes and manages five others across 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 PCI coals, together with mid- to high-ash thermal coals.

Yancoal's mining interests in New South Wales include the open cut and underground mines of the Moolarben coal complex (85% ownership)<sup>1</sup>; the integrated joint venture operations of the Mount Thorley and Warkworth open cut mines (82.9% ownership); the open cut Hunter Valley Operations joint venture with Glencore Coal (51% ownership) and the integrated operations of the Stratford and Duralie open cut mines (100% ownership).

Yancoal's mining interests in Queensland include the Yarrabee open cut mine (100% ownership); and a near 50% equity interest in Middlemount Coal Pty Ltd ("Middlemount") open cut mine, an incorporated joint venture with Peabody Energy.

Yancoal manages the underground Ashton (100% ownership), Austar (100% ownership) and Donaldson (100% ownership) mines in New South Wales on behalf of Yancoal's unconsolidated, wholly owned subsidiary, the Watagan Mining Company Pty Ltd ("Watagan")<sup>2</sup>.

Yancoal also manages the open cut Cameby Downs mine in Queensland and open cut Premier coal mine in Western Australia on behalf of its majority shareholder Yanzhou Coal Mining Company Limited ("Yanzhou")<sup>3</sup>.

Yancoal also has shareholding interests in three major Australian coal export terminals, with sufficient allocation to meet existing and potential expansion needs.

1 Attributable includes: 81% Moolarben up to and including 30 November 2018 and 85% thereafter; Hunter Valley Operations 51% from 1 September 2017; Mount Thorley Warkworth 64.1% from 1 September 2017 up to and including 28 February 2018 and 82.9% thereafter; Stratford Duralie (100%); and Yarrabee (100%).

2 Watagan is wholly owned by Yancoal Australia Ltd, controlled by a consortium of financiers consisting of Industrial Bank Co. Ltd, BOCI Financial Products Limited (BOCIF) and United NSW Energy Limited. Effective 31 March 2016, Yancoal ceased to control Watagan. As announced 4 January 2019, BOCIF gave notice to Yankuang Group Company Limited ("Yankuang") and Watagan that it has exercised its right to put its Watagan Bonds (the "Put Bonds") to Yankuang.

As a consequence, Yankuang will become the Bondholder of the Put Bonds following completion of the purchase of those bonds by Yankuang consequent to the exercise of the put option (which should occur on or around 1 April 2019).

3 Yanzhou Coal Mining Company is a China-based integrated mining company with interests in coal, coal chemicals, power generation and potash resources. Its shares are listed on the Hong Kong, New York and Shanghai stock exchanges. The State owned Yankuang Group Company Limited has a 53% direct shareholding in Yanzhou.



# OUR HIGHLIGHTS

In 2018 Yancoal listed on The Stock Exchange of Hong Kong Ltd and achieved a record profit after tax of A\$852 million (FY2017: A\$229 million) from revenue of A\$4,850 million.

## A\$507<sub>M</sub>

### TOTAL DIVIDEND PAYMENTS

Total FY2018 dividend payments of A\$507 million represent a payout ratio of ~60%, consisting of 40% of net profit after tax (A\$341 million) and a 19.5% special dividend (A\$166 million).

## US\$1,400<sub>M</sub>

### TOTAL DEBT REPAYMENTS

As of 26 February 2019, Yancoal reduced total debt liabilities by US\$1.4 billion since completion of the acquisition of Coal & Allied Industries Ltd from Rio Tinto on 1 September 2017.

## A\$2,180<sub>M</sub>

### TOTAL OPERATING EBITDA

Yancoal achieved a Total Operating EBITDA of A\$2,180 million, up A\$1,192 million on the year prior.

## 66.5<sub>Mt</sub>

### RUN OF MINE COAL

ROM coal production of 66.5Mt (42.9Mt attributable basis), up 62% from 41.1Mt (24.2Mt attributable) in 2017.

## A\$1,657<sub>M</sub>

### TOTAL OPERATING EBIT

Yancoal achieved a Total Operating EBIT of A\$1,657 million, up A\$925 million on the year prior.

## 50.0<sub>Mt</sub>

### SALEABLE COAL

Yancoal's tier-one assets drove continued transformational growth, achieving record annual total saleable coal production of 50.0 million tonnes (32.9Mt attributable<sup>1</sup>), up 59% from 31.5Mt (18.5Mt attributable) in 2017.

## A\$268<sub>M</sub>

### GLOBAL OFFERING

Yancoal raised A\$268 million as part of the Global Offering associated with the Company's listing on the Main Board of the Stock Exchange of Hong Kong.

## 37.1<sub>Mt</sub>

### TOTAL COAL SALES

Total coal sales of 37.1Mt (attributable share) for the year, up 68% on the year prior (22.1Mt attributable share).



Attributable includes: 81% Moolarben up to and including 30 November 2018 and 85% thereafter; Hunter Valley Operations 51% from 1 September 2017; Mount Thorley Warkworth 64.1% from 1 September 2017 up to and including 28 February 2018 and 82.9% thereafter; Stratford Duralie (100%); and Yarrabee (100%).

1 Attributable sales and sale of external coal purchases.



## FINANCIAL PERFORMANCE

Record production at a time of sustained pricing strength across global coal markets drove Yancoal's financial turnaround, achieving a record profit after tax of A\$852 million (2017: A\$229 million) from revenue of A\$4,850 million (2017: A\$2,601 million) for the year ended 31 December 2018.

Yancoal achieved a total operating EBITDA of A\$2,180 million, driven by a full year's equity contribution from Mount Thorley Warkworth (A\$718 million) and Hunter Valley Operations (A\$513 million), acquired on 1 September 2017.

EBITDA contributions included the additional benefit of a full year's underground production achieved at the Moolarben Coal Complex (total Moolarben complex equity contribution of A\$871 million), with the underground mine having commenced longwall mining in October 2017 on budget and ahead of schedule.

The Group realised an average price<sup>1</sup> of A\$123 for its thermal coal products (2017: A\$102) and A\$182 for its metallurgical coal products (2017: A\$165), representing an overall average price of A\$132 (2017: A\$114).

Thermal coal sales represented 81% (2017: 72%) of total coal sales, based on sales tonnes including external purchase coal sales.

FOB Cash Costs per tonne excluding royalties were A\$63 (2017: A\$62) per tonne, a slight increase on the year prior due to rises in coal mining sector inflationary costs and the addition of a full year's attributable ownership of the Mount Thorley Warkworth and Hunter Valley Operations acquired in September 2017.

## OPERATING PERFORMANCE

Yancoal's operations produced a record 50.0 million tonnes saleable coal for 2018, up 59% on the year prior, with the Moolarben complex achieving a new annual total saleable coal production record of 16.5 million tonnes, up 33% on the year prior.

The Mount Thorley Warkworth and Hunter Valley Operations mines produced annual totals of 12.1 million tonnes and 13.3 million tonnes respectively.

The three tier-one assets led an increase in total attributable coal sales of 68% on the year prior, with Yancoal achieving total sales of 37.1 million tonnes in 2018, up from 22.1 million tonnes in 2017.

Thermal coal sales were up 88% on the prior year, supported by increased market demand and tier-one production rates, achieving a FY2018 total of 29.9 million tonnes (15.9 million tonnes FY2017).

Total metallurgical coal sales were up 16% on the year prior, achieving 7.2 million tonnes (6.2 million tonnes FY2017).

Yancoal continued to implement cost reduction strategies at each of its mines, restructuring the Mount Thorley Warkworth operation to introduce significant fleet efficiencies to improve maintenance times and overall haul rates.

<sup>1</sup> Excluding resale of purchased coal.



## FINANCIAL PERFORMANCE

RESULTS FOR 2018 AND 2017	YEAR ENDED 31 DECEMBER 2018 A\$M	YEAR ENDED 31 DECEMBER 2017 A\$M
Review from continuing operations	4,850	2,601
<b>Operating EBITDA</b>	<b>2,180</b>	<b>988</b>
<b>Operating EBIT</b>	<b>1,657</b>	<b>732</b>
Finance costs	(293)	(287)
Bank fees and other charges	(96)	(109)
Interest income	119	114
Gain on disposal	78	–
Gain on acquisition	–	177
Impairment reversal of mining tenements	–	100
Fair value losses recycled from hedge reserve	(160)	(229)
Remeasurement of royalty	4	8
Remeasurement of financial assets	(29)	–
Remeasurement of contingent royalty	(33)	–
Impairment of financial assets	(21)	–
Transaction costs	(29)	(33)
Stamp duty expensed	(25)	(167)
Other	–	5
<b>Profit before tax</b>	<b>1,172</b>	<b>311</b>
Tax expenses	(320)	(82)
<b>Profit after tax</b>	<b>852</b>	<b>229</b>

CASH FLOW SUMMARY	YEAR ENDED 31 DECEMBER 2018 A\$M	YEAR ENDED 31 DECEMBER 2017 A\$M
<b>Operating cash flows</b>	<b>1,747</b>	<b>408</b>
Investing cash flows	(55)	(3,386)
Financing cash flows	(904)	2,999
<b>Net increase in cash</b>	<b>788</b>	<b>21</b>
Cash at the beginning of the period	207	190
Effect of FX on cash	36	(4)
<b>Cash at the end of the period</b>	<b>1,031</b>	<b>207</b>
<b>Capital management</b>		
Net debt	3,093	4,516
Gearing ratio (net debt/(net debt plus equity))	35%	47%
Leverage (net debt/operating EBITDA)	1.4	4.6

## OPERATING PERFORMANCE

ATTRIBUTABLE PRODUCTION AND SALES			2018	2017	YOY CHANGE
Run of Mine (ROM) Coal Production	Attributable	Mt	43	24	77%
Saleable Coal Production	Attributable	Mt	33	18	78%
Coal Sales <sup>(1)</sup>		Mt	37	22	68%
Cash Cost FOB (excluding Government royalties)		A\$/t	63	62	2%
Price Achievement		A\$/t	132	114	16%
Product Mix (Met %/Thermal %) <sup>(2)</sup>			15/85	20/80	–
Capital Expenditure	Attributable	A\$m	210	345	–39%

Attributable includes: 81% Moolarben up to and including 30 November 2018 and 85% thereafter; Hunter Valley Operations 51% from 1 September 2017; Mount Thorley Warkworth 64.1% from 1 September 2017 up to and including 28 February 2018 and 82.9% thereafter; Stratford Duralie (100%); and Yarrabee (100%).

(1) Attributable sales and sale of external coal purchases.

(2) Ex-mine sales mix.



# OUR OUTLOOK

Yancoal will continue its drive towards increased production and cost efficiency. Expansion and extension projects across its tier-one assets combined with ongoing cost minimising efforts underpin future cash flow. Outside the existing assets, Yancoal remains open to strategic acquisitions.

## ASSETS AND GROWTH

Through 2018 Yancoal consolidated the high quality assets secured in late 2017 through the Coal & Allied transaction.

Yancoal anticipates demand for its high quality low-sulphur coal to remain healthy through 2019. In combination with a constrained market supply response for these products, this should result in premiums the Company can achieve through the year.

In the year ahead, Yancoal will continue the exploration, expansion and optimisation efforts across the three tier-one assets of Mount Thorley Warkworth, Moolarben and Hunter Valley Operations.

Key projects include an underground mine concept at Mount Thorley Warkworth. The underground mine could add six million tonnes per annum of raw coal production. Exploration drilling for the pre-feasibility on the target seams concluded in late 2018.

At Moolarben, mine plan modifications could add a further six million tonnes per annum of raw coal production to the production profile. It is through optimisation of the approved operations that this would be achieved.

At the third tier-one asset, Hunter Valley Operations, Yancoal continues to work with joint venture partner Glencore Coal to implement a strategic review of existing operational, maintenance and fleet efficiencies. The focus is on delivering operational synergies identified during the joint venture transaction. This project contributes to the ongoing operating cost control efforts.

Blending of our coal products to meet evolving market conditions is an ongoing opportunity to maximise the revenue potential of our asset base. The aim is to combine coals of various qualities and characteristics to achieve a higher average realised price.

## GUIDANCE

Our focus is on the controllable operational factors that drive the financial outcomes. In 2019 the company intends to increase its production while maintaining steady operating costs.

The guidance for saleable coal production in 2019 is approximately 35 million tonnes (attributable), up from 32.9 million tonnes in 2018. The majority of the output will come from the three tier-one assets, Mount Thorley Warkworth, Moolarben and Hunter Valley Operations (in 2018 it was 90% of 32.9 million tonnes).

Yancoal will maintain strong cost discipline, with 2019 cash costs (excluding Government royalties) expected to remain flat at around A\$62.5/t (2018: A\$63/t)<sup>1</sup>. Yancoal continues to secure efficiency gains from the assets acquired in 2017; this enables the flat operating cost forecast despite the broader industry cost pressure.

Forecast capital expenditure for 2019 is around A\$285 million (attributable); this is consistent with prior three years, despite the increased operational production profile.

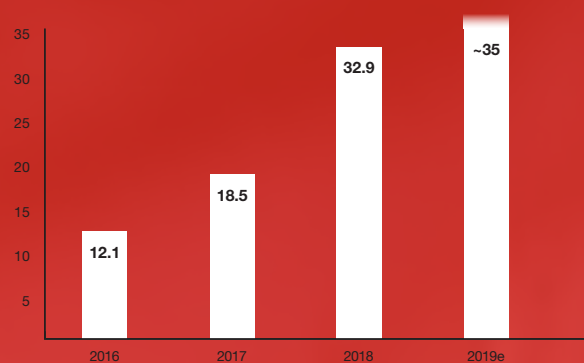
<sup>1</sup> Operating cash costs exclude Government royalties.  
2019e is an estimate for the forward period.



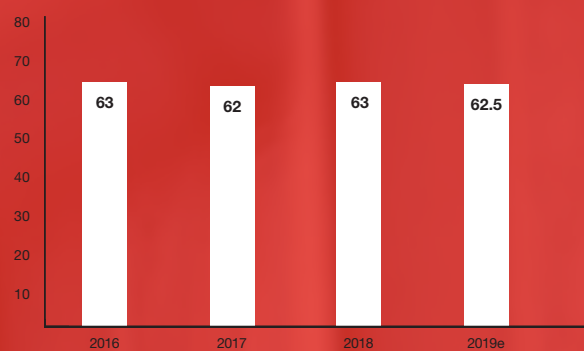


**PRODUCTION BASE EXPANSION**

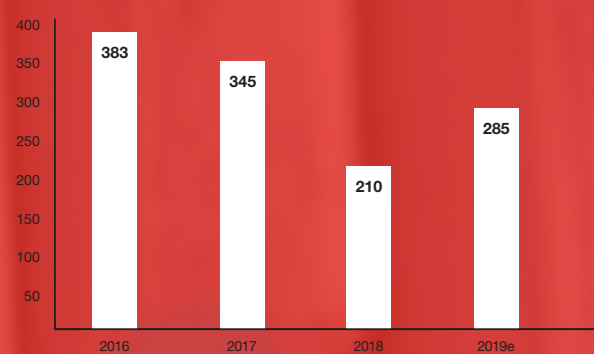
Saleable Coal production (attributable share), Million tonnes

**STABLE PRODUCTION COSTS**

Operating Cash costs, A\$/t FOB

**CONTROLLED CAPITAL EXPENDITURE**

Capital Expenditure (attributable), A\$ million





**ACHIEVEMENTS**

2018 has been a year of extraordinary growth and success. We have achieved a record financial result, paid half year and full year dividends, significantly reduced our debt and successfully listed Yancoal Australia Ltd on the Main Board of the Stock Exchange of Hong Kong.

Our transformational financial turnaround demonstrates the robustness of our operational, investment and cash flow management strategies.

**EXCEPTIONAL RESULT**

Our renewed financial strength has been achieved via our consistently disciplined approach to cost management and the implementation of production efficiencies.

Benefitting from a full year's attributable production and coal sales from our tier-one assets, Yancoal achieved a record profit after tax of A\$852 million from revenue of A\$4,850 million.

Our total operating EBITDA was A\$2,180 million, more than double that of the prior year with a full year's contribution from Mount Thorley Warkworth and the Hunter Valley Operations complementing the Moolarben complex. The margin achieved was also stronger than the prior year.

In accordance with our assurance to return shareholder value following the strategic acquisition of Coal & Allied in September 2017, we have signalled a new era of financial stability for Yancoal via the payment of a maiden interim dividend totalling A\$130 million on 21 September 2018, and a final dividend totalling A\$211 million and special dividend of A\$166 million on 30 April 2019.

Our total FY2018 dividend payments of A\$507 million represent a payout ratio of ~60%, consisting of 40% of net profit after tax (A\$341 million) and a 19.5% special dividend (A\$166 million). Yancoal has subsequently announced a targeted dividend payout of 50% of net profit after tax in the year ahead.

**BAOCAI ZHANG**

CHAIRMAN OF THE BOARD

In 2018 we have fortified our position in the competitive international coal market and returned the Yancoal Group to a position of strength and financial health.

# CHAIRMAN'S LETTER



## CASH FLOW MANAGEMENT

The strength of the Company's 2018 balance sheet and cash flow management strategy has enabled Yancoal to pay down debt throughout 2018 and end the financial year with A\$1,031 million in cash. This cash has subsequently been used to facilitate the Company's final dividend payment and a further debt repayment of US\$500 million<sup>1</sup>.

We have now reduced the Company's total debt liabilities by US\$1.4 billion since completion of the acquisition of Coal & Allied on 1 September 2017.

Such an achievement demonstrates the quality of our assets, the aptitude of our operational leadership teams, the commitment of our Board to our shareholders, and the sustained strength of the thermal and metallurgical coal markets.

Repayment of debt remains a critical objective of our long-term plan for strategic growth and we remain committed to further prepayments as revenue allows and in the best interests of all shareholders.

## OPERATIONAL STRENGTH

Within the past two years, Yancoal has successfully restructured its business to significantly improve operational efficiencies and establish new blending and marketing opportunities.

We have implemented strict cost control measures at all sites and forged strong bonds with our many customers and joint venture partners to maximise the changing scale of our operations, post acquisition.

With market demand for high quality thermal coal remaining strong throughout 2018, Yancoal produced a record 50.0 million tonnes of saleable coal for 2018, up 59% on the year prior.

Our three tier-one assets led an increase in total attributable coal sales of 68% on the year prior, with Yancoal achieving total sales of 37.1 million tonnes in 2018, up from 22.1 million tonnes in 2017.

Importantly, we also delivered a consistently positive improvement in safety, awareness and training across all operations, decreasing our Total Recordable Injury Frequency Rate from 10.43 in 2017 to 7.74 in 2018.

We cannot achieve our production and growth targets without considering and adopting safe operating practices in everything we do. We maintain our position that we never compromise on safety.

## HK LISTING

In 2018 we strengthened our shareholder base via Yancoal's successful listing on the Main Board of The Stock Exchange of Hong Kong Ltd.

As an established leader within the global resources sector, our Hong Kong listing is an important step forward in the Company's history. Yancoal is now the only dual-listed Australian/Hong Kong coal operator and our listing will provide further opportunities to drive share price improvement and improve Yancoal's liquidity.

Yancoal also raised A\$268 million as part of the Global Offering associated with the Company's HK listing, with the net proceeds raised to be used to repay debt and unsecured loans; finance potential acquisitions; and for working capital and general corporate purposes. Proceeds raised were also used to finance the acquisition of an additional 4% interest in Moolarben in December 2018.

## OUTLOOK

In the year ahead, Yancoal Australia remains focused on delivering high quality thermal and metallurgical coal to meet increasing global demand; and developing its pipeline of major projects.

We have high expectations for our future growth, and remain committed to leading by example and operating in accordance with the values of the Yancoal Way, guided by our core beliefs of compliance, transparency and efficiency.

As we continue to support the development of a low-emissions future, coal remains a critical part of global baseload energy supply needs. It is therefore our responsibility to operate efficiently and transparently to ensure only the highest grades of quality coal are being produced and exported to meet future low-emission, high-energy needs in the international market.

Demand for both thermal and metallurgical coal is expected to continue to grow in 2019, and I believe this year's financial and operational results clearly demonstrate we have the resilience, skills and strength to maximise future opportunities.

Together, with the support of our majority shareholders, the Board and Executive, and operational leadership teams, I believe we will generate further success for Yancoal Australia and value for investors.

2019 will be a year of new opportunities and I look forward to the road ahead as an integral participant in our key markets.

<sup>1</sup> As announced 25 February 2019.



# OUR STRATEGY

The expanded production base and strengthened financial position are milestones on an ongoing journey. Through its core values and strategic advantages, Yancoal strives for improved shareholder returns. The Board and management team continually seek improved operational performance, the certainty of product quality and healthy relationships inside and outside the business.

## STRATEGIC ADVANTAGES

1. People – Attracting, retaining and developing people with the right skills is essential. Our assets only deliver if our teams are working together. Yancoal has assembled a highly capable team.
2. Projects – Yancoal assembled a strong asset portfolio through opportune acquisitions of tier-one assets with robust operating margins that underpin the business.
3. Relationships – As the largest pure-play coal company in Australia, Yancoal supplies numerous customers. There is a continued emphasis on strong relationships with Japan, South Korea, China and Taiwan.
4. Products – Yancoal produces high quality coal for the international market. Maximising the achieved price through product blending to meet the evolving customer demand is a continual focus.
5. Optimisation – The recently expanded asset portfolio continues to deliver cost efficiencies. Optimising operations, maintenance, procurement, product blending and taxes are all contributing to competitive financial performance.

## CORE BELIEFS

Business Transparency, Compliance and Efficiency



Yancoal asks its sites and corporate functions to operate to the highest governance standards – applying transparent, compliant and efficient processes to meet the needs of all stakeholders.

## CORE VALUES

People, Safety, Integrity, Excellence, Innovation



The Yancoal Core Values underpin the “Core Beliefs”. The values start with engaged people; working safely; acting with integrity; striving for excellence; and seeking improvement through innovation.





## CAPITAL ALLOCATION

The cash from operations surged to \$1.75 billion in 2018, a four-fold increase over 2017. The increased production base, strong commodity pricing and stable operating costs all contributed to this compelling outcome. The robust cash flow enables Yancoal to pursue several initiatives concurrently.

The first stage in the capital allocation cycle is to concurrently meet the primary obligations.

### REINVESTMENT – PRIMARY OBLIGATION #1

Future operating cash flow depends upon the assets delivering the availability and utilisation targets. Reinvesting in the operations and equipment is essential to this. The forecast capital and sustaining expenditure in 2019 is \$285 million; this is less than the prior three-year average as the equipment upgrade cycle and expansion project required higher levels of capital in previous years but has reduced the near-term burden.

### DIVIDEND RETURNS – PRIMARY OBLIGATION #2

The Board provides shareholders with direct exposure to the Company's performance via an Net Profit After Tax (NPAT) based distribution. In 2018 the total Dividend allocation was \$507 million; including the special dividend this was a payout ratio of ~60% from Net Profit After Tax. The 2019 target is a 50% NPAT payout ratio<sup>1</sup>.

The next stage of the capital cycle is consideration of the discretionary opportunities. The Board seeks to balance the relative merits of each against the other.

### DEBT REDUCTION – DISCRETIONARY PURSUIT #1

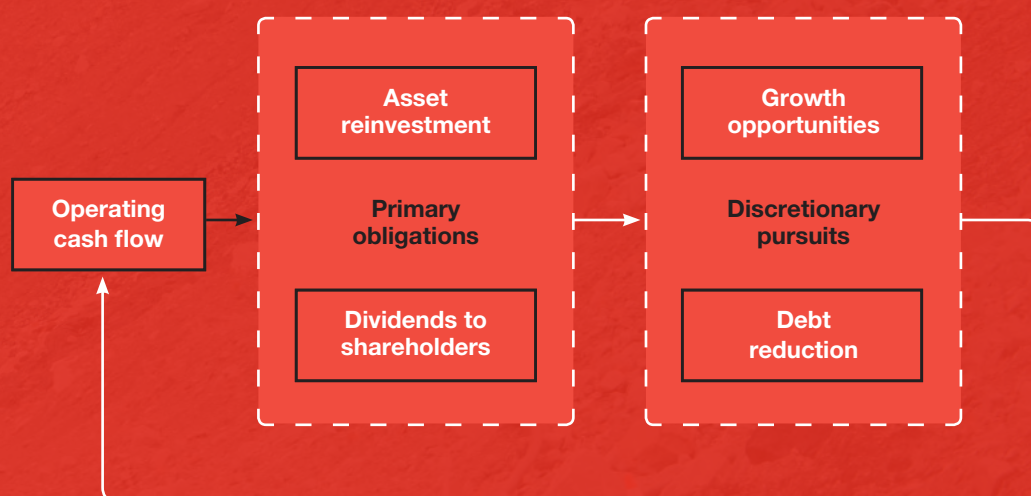
The rapid reduction of debt is something the Company continues to deliver. US\$1.4 billion in debt has been repaid ahead of schedule since the Coal & Allied transaction in late 2017. The debt repayment brought the gearing ratio down to 35% at the end of December<sup>2</sup>, and the Leverage Ratio down to 1.4x<sup>3</sup>. Yancoal intends to continue making early repayments to reduce its debt position and optimise existing loan facilities; particularly in the coming year given the coal price outlook.

### GROWTH OPPORTUNITIES – DISCRETIONARY PURSUIT #2

Yancoal has identified 12 million tonnes of additional annual production to pursue within its existing asset base. The internal expansion provides a pathway for boosting operating cash flow. The Coal & Allied transaction demonstrated that external growth could also be tremendously successful – it transformed the Company in 2018. Examining opportunities for corporate acquisitions is an ongoing effort, but growth must be accretive.

In the Capital Allocation Cycle, Asset Reinvestment and Growth Opportunities support the future cycles, Dividends reward the investors, and Debt Reduction improves the capacity for all other steps.

## YANCOAL CAPITAL ALLOCATION CYCLE – PRIORITISES CAPITAL RETURNS AND ASSET REINVESTMENT



<sup>1</sup> The NPAT used will be adjusted for foreign exchange, hedge reserve movements and non-operating items as determined by the Directors.

<sup>2</sup> Gearing calculated as Net Debt divided by the sum of Net Debt and Equity.

<sup>3</sup> Leverage Ratio calculated as Net Debt divided by Operating EBITDA.

Net Debt does not include the debt associated with Watagan.





**REINHOLD SCHMIDT**  
CEO YANCOAL AUSTRALIA LTD

A handwritten signature in black ink, consisting of a stylized 'R' followed by a series of loops and a final downward stroke.

The Yancoal team has implemented our operational and corporate strategies to deliver the robust financial rebound we promised shareholders during our acquisition of Coal & Allied.

Supported by our leadership team, the Board and our majority shareholders, we have set a new standard of success for our business and defined Yancoal as consistently exceeding market expectations.

#### **SAFETY**

In a year of continued growth and financial achievement, I am encouraged by the significant improvement in our safety performance.

Yancoal's operations reported a Total Recordable Injury Frequency Rate ("TRIFR") of 7.74 for 2018, down from 10.43 in the year prior. Such a result highlights the success of the roll-out of our Critical Controls safety training and education program, as well as the importance of instituting safety as a core value of the Yancoal Way.

TRIFR for the combined Watagan assets of Austar and Ashton, managed by Yancoal, was also significantly improved on the year prior – with a 2018 total of 23.04, down from 33.54 in 2017.

By understanding our individual responsibility for the safety of ourselves and those working alongside us, we can continue to work towards our ambitious goal of achieving zero harm at our operations.

There are no shortcuts when it comes to safety and we continue to look for new ways of working to always protect our people.

This year's exceptional financial and production results are attributable to our people and their commitment to drive our business forward.

# CEO'S STATEMENT

## OPERATIONS

2018 was our first full year of attributable production from Mount Thorley Warkworth and Hunter Valley Operations following their acquisition in September 2017.

Yancoal's operations produced a record 50.0 million tonnes saleable coal for 2018 (100% basis), up 59% on the year prior; with the Moolarben complex achieving a new annual total saleable coal production record of 16.5 million tonnes, up 33% on the year prior.

The Mount Thorley Warkworth and Hunter Valley Operations mines produced annual totals of 12.1 million tonnes and 13.3 million tonnes respectively.

These three tier-one assets led an increase in total attributable coal sales of 68% on the year prior; with Yancoal achieving total sales of 37.1 million tonnes in 2018, up from 22.1 million tonnes in 2017.

Supported by increased market demand and our tier-one production performance, Yancoal's thermal coal sales were up 88% on the prior year, achieving a 2018 total of 29.9 million tonnes, including purchased coal, compared with 15.9 million tonnes in 2017.

We experienced similar positive sales growth across metallurgical coal, as global demand and prices remained strong for the majority of the year. Yancoal achieved total metallurgical coal sales of 7.2 million tonnes, including purchased coal, up 16% on the 2017 total of 6.2 million tonnes.

Our ability to optimise our portfolio and implement new operating efficiencies across each of the tier-one assets enabled us to achieve a new Yancoal total production record of 50 million tonnes of saleable coal.

Yancoal's capacity to blend its coals across the New South Wales operations provided the flexibility required to meet market needs, while maximising price and sales opportunities on the spot market.

In Queensland, Yancoal also maintained the flexibility required to adjust its washing of product coal at the Yarrabee open cut mine; this allowed it to strategically target increasing market demand for PCI coals throughout 2018.

Yancoal continued to implement cost reduction strategies across each of its mines, restructuring the Mount Thorley Warkworth operation to introduce significant fleet efficiencies to improve maintenance times and overall haul rates.

Similar efficiencies continue to be developed for implementation at the Hunter Valley Operations joint venture with JV partner Glencore, with both companies aligned in continuing to pursue synergies wherever possible.

As coal remains a critical source for global baseload energy, Yancoal is well positioned to meet increasing demand for high quality product in both established and developing markets.

## FUTURE GROWTH

While this has been a year of exceptional production gains, we are not resting on our success.

Yancoal continues to pursue its long-term strategy for organic growth, with a commitment to progressing projects across each of its operations; most notably our tier-one assets.

Moolarben, Mount Thorley Warkworth and Hunter Valley Operations provide the pathway for our future and we are carefully considering all options for potential growth via both extension and expansion.

In an evolving regulatory and approvals environment, we are taking the time required to appropriately navigate the changing political landscape.

Key projects include further extensions of the Moolarben open cut pits, and the conceptual underground mine at Mount Thorley Warkworth which completed exploration drilling for the prefeasibility on the target seams at the end of 2018.

## STAKEHOLDER FOCUS

Consistency of behaviour establishes confidence among shareholders and partners. We are using the success of 2018 as a benchmark for all operational teams. The emphasis is on the controllable production, cost and expenditure targets, as these underpin our ability to continue delivering shareholder returns.

Our people have the ability, ambition and focus to push Yancoal further and to do so safely, efficiently and without peer.



# FINANCIAL SUMMARY

Total Revenue increased by 86% from \$2,601 million in 2017 to \$4,891 million in 2018. A 68% uplift in the sales volume and a 16% increase in the average sale price drove the strong revenue performance.

## INCOME STATEMENT ELEMENTS

### REVENUE AND COSTS

Total Revenue increased by 80% from \$2,716 million in 2017 to \$4,891 million in 2018. A 74% uplift in the sales volume and a 16% increase in the average sale price drove the strong revenue performance.

The Operating Cash Costs increased by less than 2% to \$63/t. Including royalties and the non-cash depreciation and amortisation charges, the Total Production Costs increased by less than 5% to \$89/t. These costs compare to an average sale price of \$132/t across all the coal sold.

### OPERATING EBITDA AND OPERATING EBITDA MARGIN

Operating EBITDA increased by 121% from \$988 million in 2017 to \$2,180 million in 2018. The EBITDA flows directly from the higher revenue with a modest offset from the cash costs (\$73/t including royalties). Consequently, Operating EBITDA margin as a percentage of Operating Revenue increased from 36% in 2017 to 45% in 2018.

### DEPRECIATION AND AMORTISATION

Depreciation and amortisation expenses increased by 104% from \$256 million in 2017 to \$523 million in 2018. The increase primarily stemmed from the increased asset base following the Coal & Allied acquisition. On a per tonne basis, the depreciation and amortisation costs increased from \$14/t to \$16/t in 2018.

### NET FINANCE COSTS

Net finance costs decreased by 4% from \$282 million in 2017 to \$270 million in 2018, primarily due to the ongoing voluntary loan repayments.

### INCOME TAX EXPENSE

It is important to note that the Company did not pay any cash tax in 2018; this is due to tax losses carried forward from prior years. There are further tax losses to be utilised in future years. For accounting purposes, the Income tax expense was \$320 million in 2018, and the effective tax rate was 27.3%.

### NET PROFIT AFTER TAX

These elements combined to deliver a profit after income tax that increased 272% from \$229 million in 2017 to \$852 million in 2018.



## CASH FLOW ELEMENTS

Net operating cash inflows increased 328% to \$1,747 million mainly reflecting the higher EBITDA.

Net investing cash outflows were \$55 million; asset disposals and loan repayments offset capital expenditure and JV stake acquisitions.

Net financing cash outflows were \$904 million; mostly due to the \$1,014 million of voluntary net debt repayments and the \$130 million interim dividend. The \$268 million raised in the Hong Kong IPO was a positive inflow.

The overall outcome was a \$824 million increase in the net cash position to \$1,031 million. This increase facilitated the final and special dividend payment decision.

## FINANCIAL RESOURCES

The Group defines its gearing ratio as net debt (being interest-bearing liabilities less cash and cash equivalents) divided by net debt + total equity. As a result of the net debt being cut by \$1.4 billion during 2018, the gearing ratio has improved significantly. It decreased from 47% at 31 December 2017 to 35% at 31 December 2018.

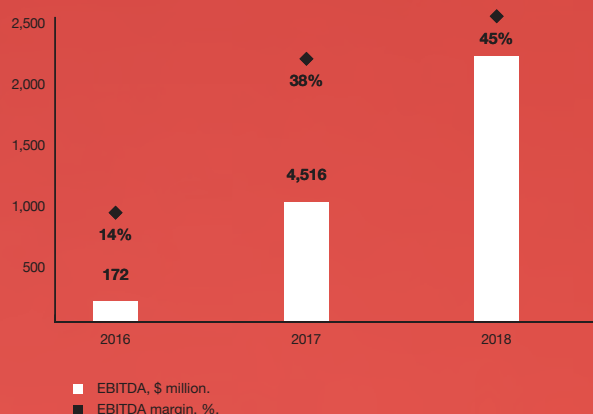
## DIVIDENDS AND DEBT REDUCTION

On 25 February 2019, Yancoal announced a final dividend of A\$377 million, with a record date of 11 March 2019. The final dividend and special dividend will be paid on 30 April 2019.

On 25 February 2019, Yancoal announced it would pre-pay a further US\$500 million in loans, reducing its total debt liabilities by US\$1.4 billion since September 2017.

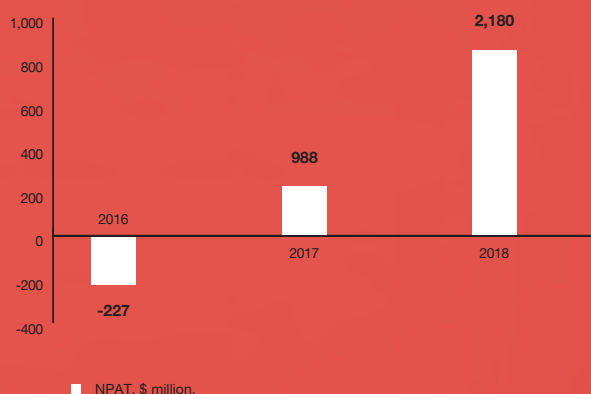
## EBITDA UP ON VOLUME, MARGIN UP ON PRICE

EBITDA margin year on year



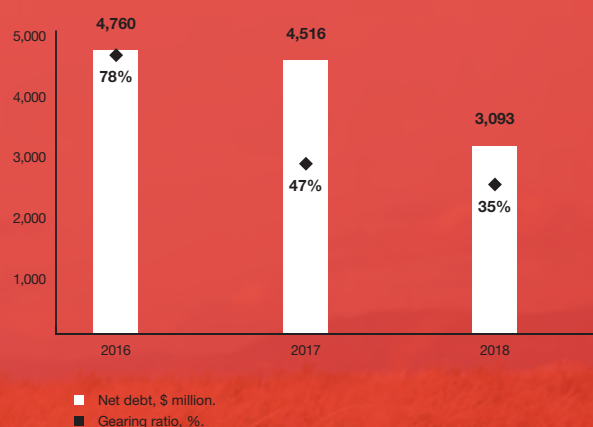
## NPAT REFLECTS THE NEW PLATFORM

Profit after Income Tax, \$ million



## NET DEBT AND GEARING BOTH BROUGHT DOWN

Net Debt, \$ million





# MARKET CONDITIONS

Yancoal remains focused on its sizable and diverse customer base. The Company emphasis is maximising the product mix to optimise revenues across various global markets. The high quality coal products are suited to the needs of end-users in the prime target markets of Japan, Korea and China.

## STRENGTH IN 2018

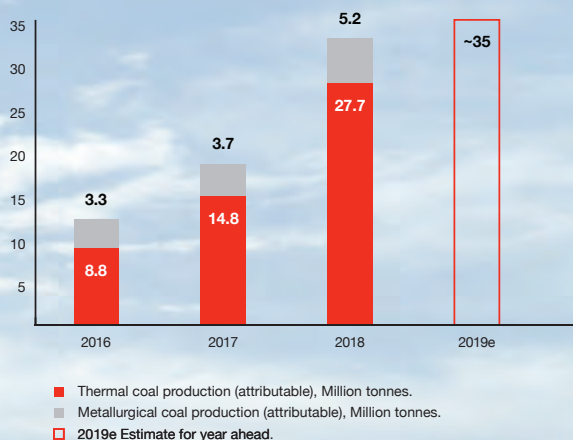
During 2018 the Average Selling Price Yancoal achieved for its thermal coal output was A\$123/tonne, this was a 21% increase from A\$102/tonne in 2017. Similarly, the Average Selling Price achieved for metallurgical coal output was A\$182/tonne, a 10% increase from A\$165/tonne in 2017.

An increasing premium for high-energy thermal coal aided the price achieved by Yancoal. Between the two index prices for exports from Newcastle, the price premium for the higher energy content coal (6,000 kCal vs 5,500 kCal) increased from an average of 25% in 2017 to 52% in 2018.

Thermal coal sales dominate Yancoal's product mix; in 2018 this was 85% of the ex-mine sales volume. The ratio increased from 80% in 2017 as a result of the new asset mix following the Coal & Allied transaction in late 2017. The combined outcome of the product mix and sales prices was a 16% increase in average prices across all attributable coal sales to A\$132/t in 2018.

## PRODUCER OF PREMIUM THERMAL COAL

Saleable Production (attributable), Million tonnes



## OUTLOOK

### MARKET DEMAND

Demand for high quality, low-ash and low-sulphur coals remains strong, as developed economies in Asia including Japan, Korea and Taiwan continue to implement environmental policies requiring coal users to consume cleaner, higher grades of product. As higher grades of coal quality remain in tight supply, the premiums captured by suppliers should remain supported during 2019.

Asia remains a dynamic market, with coal currently representing over 50% of the Asian energy requirement and it remains the cheapest energy source for developing nations. China continues to introduce an alternative energy policy, but it also needs the certainty of a baseload energy supply. The middle ground sees Chinese buyers seeking higher CV and low-sulphur coals, as focus shifts

towards a more significant proportion of import coals with an energy level higher than 5,000 kCal/kg NAR. This scenario is constructive for the price outlook on Yancoal thermal coal products.

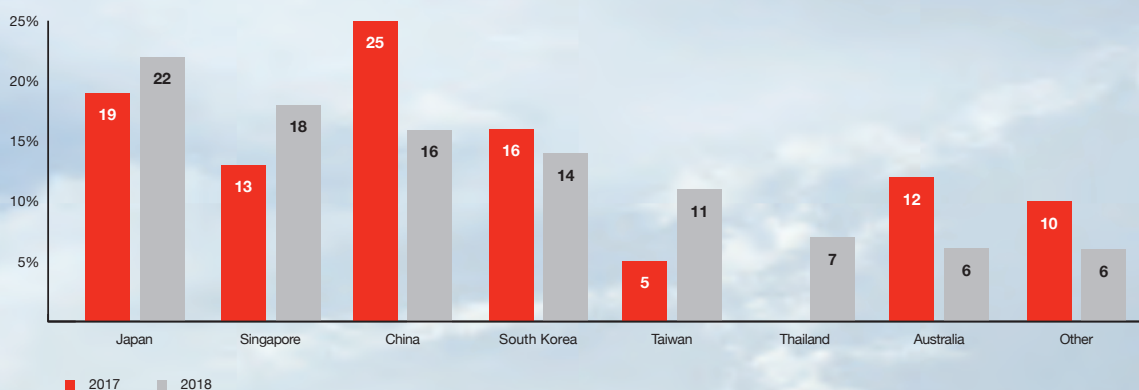
Statistics indicate Australia will continue to retain a market share of approximately 26% of the growing world seaborne thermal coal requirement<sup>1</sup>. As Australia's largest pure-play coal producer Yancoal is well positioned to participate in the seaborne market.

Yancoal has a diverse customer base by geography. In 2018 no one country contributed more than 22% of the revenue generated by the Company. This customer split provides insulation from regional demand disruption should it occur.

<sup>1</sup> Based on research and commentary from Wood Mackenzie.

### DIVERSE CUSTOMER BASE

Percentage of revenue by region 2017 to 2018



### PRICE-RELATED

Australia has a critical role supplying premium-grade thermal and metallurgical coals to the global market, and yet supply growth faces ongoing challenges associated with obtaining development approvals for new operations.

Seaborne supply from South Africa, Russia and Indonesia is also likely to be constrained to satisfy their domestic energy requirements; and is likely to positively impact international coal prices.

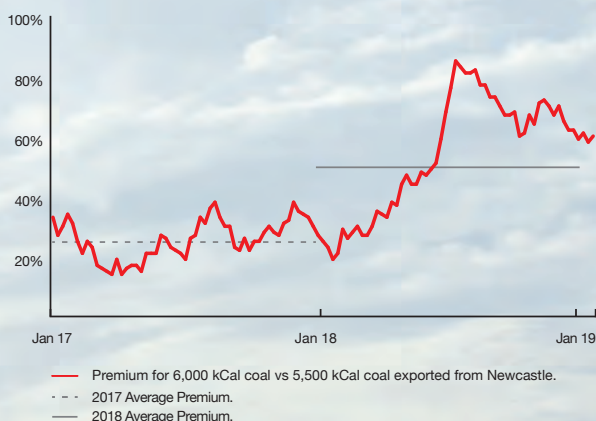
It is the locally-based operators with brownfield expansion opportunities, such as Yancoal, that are best placed to benefit from the combination of sustained global demand for high quality coal and a limited greenfield supply response.

Given the demand outlook, this has the potential to continue supporting premium coal prices.

Based on pure market supply and demand fundamentals, Yancoal starts the year anticipating coal price stability in 2019.

### RIISING PREMIUM FOR HIGHER ENERGY AUSTRALIAN COAL

Premium percentage of Newcastle coal exports



Source: S&P Global Platts, globalCOAL.





# HEALTH, SAFETY AND THE ENVIRONMENT

## SAFETY

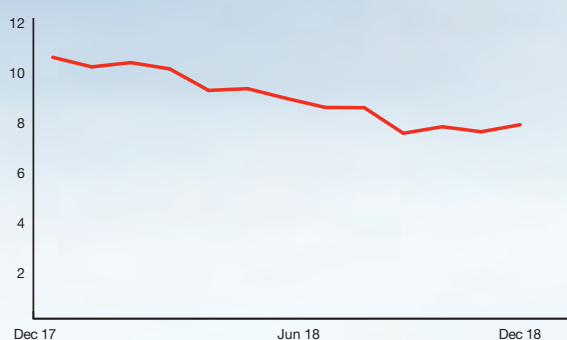
At Yancoal the safety of employees and the many contractors and service providers that support operations is considered in everything we do.

The TRIFR steadily improved throughout 2018. TRIFR was 10.43 at the end of 2017; by the end of 2018 it was 7.74. This improvement flowed from the integration and aligning of safety systems following the Coal & Allied acquisition. The trend reflects the Company's emphasis on safety. Implementation of the Core Hazard Critical Control program continued with the focus shifting towards verification of Critical Controls and their effectiveness across operational sites.

The Health, Safety and Environment Committee continues to lead the Group in its objective of "zero harm".

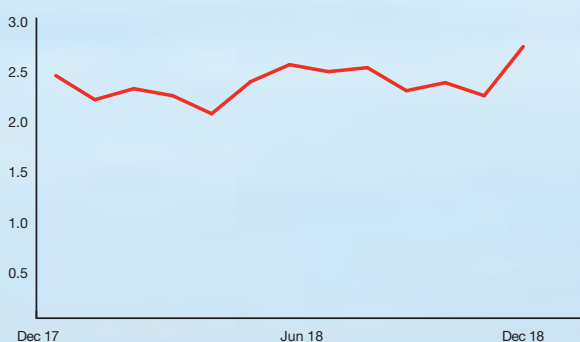
### 12-MONTH ROLLING TRIFR<sup>1</sup>

Total recordable injury frequency rate



### 12-MONTH ROLLING LTIFR<sup>1</sup>

Lost time injury frequency rate



<sup>1</sup> The Lost Time Injury Frequency Rate (LTIFR) excludes Hunter Valley Operations from May 2018; excludes Watagan and Middelmount.

## ENVIRONMENT

Operating to stringent environmental management conditions, including the on- and off-site management and monitoring of potential dust and noise impacts, Yancoal continues to work with State and Federal Government departments and the community to ensure full transparency in its environmental reporting.

Yancoal's Health, Safety and Environment Committee sets the direction for the Company's continued commitment to operating its mines to the highest environmental standards and following legislative requirements.

Each Yancoal operation implements proactive strategies to oversee its environmental management activities to meet its obligations. There are also rehabilitation and end-of-mine plans to return mined areas to pastoral and woodland areas suitable for future use.

Yancoal continues to apply robust water, dust and noise management practices across all operations. The methods used can respond quickly to changing operating and weather conditions.

Total seeding and planting across all operations in 2018 was 217 hectares. Total new disturbance across all operations in 2018 was 242 hectares. As of 31 December 2018, Yancoal has seeded and planted 53% of disturbed areas across all operations<sup>1</sup>.

## GREENHOUSE GAS AND ENERGY DATA REPORTING REQUIREMENTS

As Australia's largest pure-play thermal coal producer, Yancoal acknowledges it has a role to play in mitigating the emissions generated by its operations and supporting investment into low-emission technology to assist the reduction of downstream emissions from the consumption of coal products.

The Company also understands the growing interest by stakeholders regarding the potential risks and opportunities posed to our business and the broader sector as a result of an anticipated global shift towards a lower-carbon economy.

Recognising this, the Board continues to consider the adoption of the Taskforce on Climate-related Financial Disclosures ("TCFD") Recommendations, established by the G20 Financial Stability Board, as the framework to guide our climate-related disclosures.

The considerations include the desire for greater transparency in the way we identify and mitigate potential risks posed by changes to our external environment from policy, legal, market demand, reputational and technological perspectives.

## GOVERNANCE

The Board regularly considers how climate change may drive changes to physical, regulatory, commercial and operating environments to inform the development of medium- to long-term goals and strategies.

## REPORTING ON EMISSIONS

Yancoal reports its operational direct (Scope 1) and indirect (Scope 2) emissions on an annual basis in line with the National Greenhouse and Energy Reporting legislation. The Group has implemented systems and processes for the collection and calculation of the data required by the Federal Clean Energy Regulator.

Overall, on an operational control basis, our total Scope 1 and Scope 2 emissions for the period ended 30 June 2018 totalled 1.96 million tCO<sub>2</sub>-e, less than a 1% increase on the year prior. The majority of Scope 1 emissions relate to fugitive emissions associated with the underground and open cut mining operations, while Scope 2 emissions stem from the consumption of electricity purchased from the grid.

While we do not currently calculate Scope 3 emissions associated with the consumption of our coal products, we actively support the development of technologies aimed at reducing the emissions intensity of these downstream activities. This stance includes supporting the construction or installation of high-efficiency, low-emissions technologies in coal-fired power stations and investment in carbon capture and storage technology.


National Greenhouse Energy Reporting (NGER)\*

## SUMMARY GREENHOUSE EMISSIONS

EMISSIONS REPORTING PERIOD	SCOPE 1 EMISSIONS (MILLION tCO <sub>2</sub> -e)	SCOPE 2 EMISSIONS (MILLION tCO <sub>2</sub> -e)	SCOPE 1 AND SCOPE 2 EMISSIONS (tCO <sub>2</sub> -e)
2016 to 2017	1.60	0.34	1.94
2017 to 2018	1.63	0.33	1.96
% Variance	1.8%	-3.8%	0.9%

<sup>1</sup>Includes Warkworth and Mount Thorley Operations emissions under Rio Tinto Coal Australia (RTCA) ownership before 1 September 2017 (tCO<sub>2</sub>-e: tonnes of carbon dioxide equivalent).



A photograph of three men in white lab coats standing in a laboratory. The man on the left is looking towards the center. The man in the middle is looking towards the right. The man on the right is seen from the back, wearing glasses. The background is a blurred laboratory with blue and white equipment.

Yancoal is committed to supporting the communities in which it operates, financially investing into projects and initiatives with the potential to make a genuine positive difference.

# COMMUNITY

## YANCOAL COMMUNITY SUPPORT PROGRAM

As Australia's largest pure-play coal producer, Yancoal understands the value of making a financial contribution to support the future growth and sustainability of local and regional communities.

Going beyond its established role as a key employer, Yancoal's Community Support Program is specifically designed to invest in projects, programs and initiatives capable of making a difference to the lives of others, regardless of whether the recipients have a direct relationship to individual operations.

Each year Yancoal allocates funds at both a site and corporate level to financially support community groups and programs operating across the areas of:

- Health;
- Social and Community;
- Environment; and
- Education and Training.

In 2018, the Yancoal Community Support Program invested more than \$800,000 into local initiatives across Australia.

Community Support Program funding has enabled the development and implementation of educational and training projects; and supported critical research into the detection and prevention of cervical cancer; the rescue and rehabilitation of protected local wildlife; the sponsorship of key community events, groups and clubs; the refurbishment of community facilities; and helped support disadvantaged community support groups who may otherwise struggle to achieve their funding targets.

Yancoal is proud to be investing into local and regional Australia, helping build stronger communities across the country.

As the Company continues to grow, it also maintains its responsibility of working co-operatively with its community stakeholders, relying upon community consultative committees; local newsletters, local media, community days and site-specific websites to help ensure they are actively engaged and informed of matters related to nearby operations.



## RECENT EXAMPLES OF YANCOAL-SUPPORTED COMMUNITY INITIATIVES:

- Yancoal committed \$600,000 over three years to support the Queensland University of Technology's Cancer and Ageing Research Program (CARP). This funding enabled the employment of two full-time cancer researchers within the CARP team to advance their research and help facilitate cancer clinical trials, which will benefit all Australians.
- Yancoal's funding enabled over 1,000 "future scientists" to have the opportunity to experience SMART Science Shows at their schools and learn about exciting possible future career choices in Science, Technology, Engineering and Mathematics (STEM).
- Yancoal completed its second year of a three-year partnership with the Clontarf Foundation, providing \$100,000 per year to support Indigenous youth education services throughout regional New South Wales and Western Australia.
- The Mount Thorley Warkworth operation helped rescued wildlife in the Upper Hunter Valley by donating funds to Wildlife Aid for food and animal rehabilitation.
- The Ungooroo Aboriginal Corporation provides culturally appropriate and holistic GP, Medical, Allied Health and Mental Health Services as well as other community services directly to the Aboriginal community. Mount Thorley Warkworth (MTW) donated funding to help support Ungooroo's Mental Health and Psychology Services programme.
- Yancoal partnered with the Rockhampton Leagues Club CQ Capras to help support coaching and development opportunities for over 8,000 Central Queensland Rugby League players.



# REVIEW OF OPERATIONS

The New South Wales region includes the mines of Mount Thorley Warkworth, Moolarben, Hunter Valley Operations and Stratford Duralie. The Queensland region includes the mines of Yarrabee and Middlemount.

Yancoal manages the Watagan underground mines of Ashton and Austar in New South Wales on behalf of Watagan<sup>1</sup>.

All 2018 ROM and saleable figures reported on a 100% basis. Total recoverable coal reserves are inclusive of the coal resources and reported on a 100% basis for each deposit<sup>2</sup>.

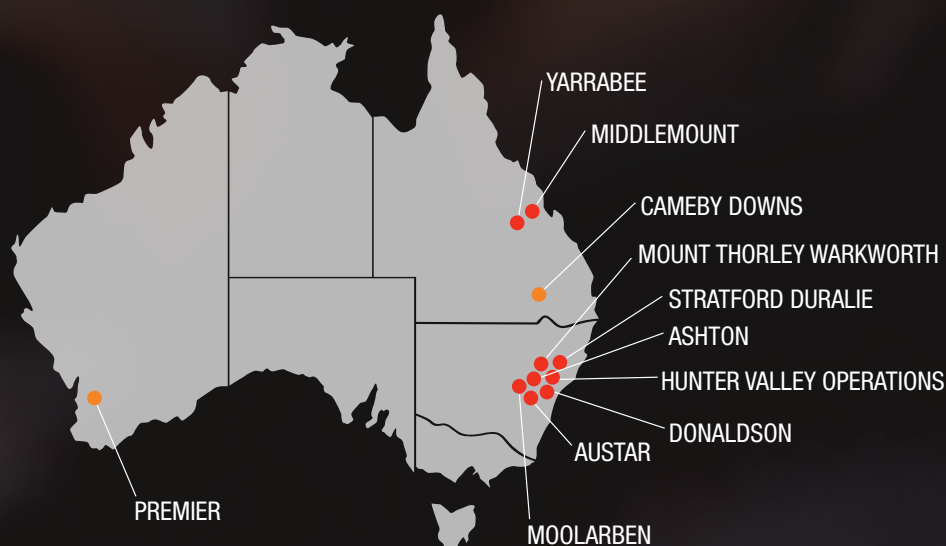
<sup>1</sup> On 17 February 2016, Yancoal Australia announced a new debt funding arrangement to secure up to US\$950 million via the issuing of nine-year secured debt bonds by a newly established Yancoal subsidiary, Watagan Mining Company Pty Ltd. On and from financial close, effective 31 March 2016, Yancoal ceased to control Watagan and its subsidiaries, including the underground assets of Ashton, Austar and Donaldson. Donaldson was placed on care-and-maintenance in June 2016.

<sup>2</sup> Coal Reserves are as at 31 December 2018.

<sup>3</sup> Joint venture with Glencore Coal.

<sup>4</sup> Joint venture with Peabody Coal.





## NEW SOUTH WALES

### MOUNT THORLEY WARKWORTH

Yancoal 82.9% ownership, consisting of Mount Thorley (Yancoal 80% ownership) and Warkworth (Yancoal 84.5% ownership)

Open Cut

Semi-soft coking coal and thermal coal

**17.6Mt**

ROM

**12.1Mt**

Saleable

**315Mt**

Total recoverable reserves December 2018

### HUNTER VALLEY OPERATIONS<sup>3</sup>

Yancoal 51% ownership

Open Cut

Semi-soft coal and thermal coal

**19.0Mt**

ROM

**13.3Mt**

Saleable

**796Mt**

Total recoverable reserves December 2018

### MOOLARBEN

Yancoal 85% ownership

Open Cut and Underground

Thermal coal

**18.6Mt**

ROM

**16.5Mt**

Saleable

**274Mt**

Total recoverable reserves December 2018

### STRATFORD DURALIE

Yancoal 100% ownership

Open Cut

Thermal coal

**0.7Mt**

ROM

**0.5Mt**

Saleable

**44Mt**

Total recoverable reserves December 2018

## QUEENSLAND

### MIDDLEMOUNT<sup>4</sup>

Yancoal 50% ownership

Open Cut

Semi-soft coking coal and low volatile PCI coal

**4.8Mt**

ROM

**3.8Mt**

Saleable

**85Mt**

Total recoverable reserves December 2018

### YARRABEE

Yancoal 100% ownership

Open Cut

Low volatile PCI coal

**3.4Mt**

ROM

**2.6Mt**

Saleable

**52Mt**

Total recoverable reserves December 2018

## WATAGAN

### ASHTON AND AUSTAR

Yancoal 100% ownership

Underground

Ashton – semi-soft coking coal

Austar – semi-hard coking coal and thermal coal

**2.4Mt**

ROM

**1.2Mt**

Saleable

**47Mt**

Ashton total recoverable reserves December 2018

**40Mt**

Austar total recoverable reserves December 2018



# MOOLARBEN

## NSW

YANCOAL 85%<sup>1</sup>

The Moolarben Coal Complex is an open cut and underground coal asset located approximately 40 kilometres north of Mudgee in the Western Coalfields of New South Wales.

Moolarben utilises conventional truck and excavator methods in its open cut mining areas, and longwall operations in its underground mining areas.

ROM coal from the open cut pits is processed through an on-site coal preparation plant, while ROM coal from the underground operation is bypassed, in each case producing thermal coals for sale into the export market.

Product coal is exported via the Newcastle Coal Infrastructure Group and Port Waratah Coal Services loading terminals at Newcastle.

Production of the two open cut mines and the underground mine achieved total ROM coal production of 18.6Mt and saleable coal production of 16.5Mt.

Moolarben Coal Operations Pty Ltd is the operator of the Moolarben Coal Complex on behalf of the Joint Venture (JV). The JV partners are Moolarben Coal Mines Pty Ltd (85%), a consortium of Korean companies represented by Kores Australia Moolarben Coal Pty Ltd (5%), and Sojitz Moolarben Resources Pty Ltd (10%).

Moolarben	Units	2014	2015	2016	2017	2018
Saleable coal production	Mt	6.4	6.9	9.3	12.4	16.5

Note: All data shown on a 100% basis.

<sup>1</sup> Moolarben (81% – up to and including 30 November 2018 and 85% thereafter – reflecting Yancoal's increased ownership in the Moolarben Joint Venture as announced on 30 November 2018).



# HUNTER VALLEY OPERATIONS

## NSW

YANCOAL 51%

Supplying international markets with high quality thermal and semi-soft coking coals, Hunter Valley Operations is located 24 kilometres north-west of Singleton in the Hunter Valley region of New South Wales (NSW).

Hunter Valley Operations is a multi-pit open cut mine, using a dragline truck and shovel method, operating 24 hours a day. ROM coal is processed through two on-site coal preparation plants to produce low, medium and high ash thermal coal and semi-soft coking coal for the export market.

Product coal is shipped via the Port Waratah Coal Terminal and Newcastle Coal Infrastructure Group in Newcastle.

Hunter Valley Operations is a 51:49 unincorporated joint venture with Glencore Coal Pty Ltd ("Glencore"), jointly controlled through a Joint Venture Management Committee ("JVMC").

Hunter Valley Operations achieved ROM coal production of 19.0Mt and saleable coal production of 13.3Mt for the attributable reporting period.

Hunter Valley Operations	Units	2014	2015	2016	2017	2018
Saleable coal production	Mt	–	–	–	4.8	13.3

Note: All data shown on a 100% basis. Production contribution only shown from 1 September 2017 following completion of the Coal & Allied transaction.



# MOUNT THORLEY WARKWORTH

## NSW

YANCOAL 82.9%

A tier-one resource producing semi-soft coking coal and thermal coal, Mount Thorley Warkworth is an integrated operation of two open cut mines located adjacent to each other, 15 kilometres south-west of Singleton in the Hunter Valley region of New South Wales.

Mount Thorley Warkworth uses a dragline and truck and shovel methods, processing its coal through two on-site coal preparation plants to produce low, medium and high ash thermal coal and semi-soft coking coal for the export market.

Yancoal manages Mount Thorley Warkworth on behalf of the joint venture partners:

- **Mount Thorley:** Yancoal Australia Ltd (80%) and POSCO Australia Pty Ltd (20%).
- **Warkworth:** CNA Warkworth Australasia Pty Limited (55.722%), CNA Resources Limited (28.75%), Nippon Steel Australia Pty Limited (9.53%) and Mitsubishi Materials (Australia) Pty Limited (6%).

Coal is loaded onto trains for transportation 90 kilometres to the Port Waratah Coal Terminal in Newcastle and shipped to international customers.

Mount Thorley Warkworth achieved ROM coal production of 17.6Mt and saleable coal production of 12.1Mt in 2018.

Mount Thorley Warkworth	Units	2014	2015	2016	2017	2018
Saleable coal production	Mt	–	–	–	3.9	12.1

Note: All data shown on a 100% basis. Production contribution only shown from 1 September 2017 following completion of the Coal & Allied transaction.



# YARRABEE

## QLD

YANCOAL 100%

Producing ultra-low volatile, semi-anthracite PCI coal, the Yarrabee open cut mine exports to steelmakers in the Asian region via the Port of Gladstone.

Yarrabee uses conventional truck and excavator methods, with ROM coal processed at the site's coal handling preparation plant or bypassed for crushing only. Approximately 40% of the ROM coal is bypassed due to its superior in-situ quality.

The Yarrabee open cut coal mine is located approximately 40 kilometres north-east of Blackwater in Central Queensland's Bowen Basin, with product coal exported via the RG Tanna and Wiggins Island Coal Terminals.

Yarrabee achieved total ROM coal production of 3.4Mt and total saleable coal production of 2.6Mt.

Yarrabee	Units	2014	2015	2016	2017	2018
Saleable coal production	Mt	3.2	2.8	3.1	2.8	2.6

Note: All data shown on a 100% basis.





# MIDDLEMOUNT

## QLD

YANCOAL ~50%

A joint venture between Peabody Energy and Yancoal, the Middlemount open cut mine produces low volatile pulverised coal injection (PCI) coal and hard coking coal for export via Dalrymple Bay Coal Terminal and Abbot Point Port.

Located 90 kilometres north-east of Emerald in Queensland's Bowen Basin, Middlemount uses conventional truck and excavator methods, with ROM coal washed at an on-site facility.

Middlemount achieved total annual ROM coal production of 4.8Mt and total saleable coal production of 3.8Mt.



# STRATFORD DURALIE

NSW

YANCOAL 100%

Located within the New South Wales Gloucester Basin, the Stratford Duralie operation consists of the Stratford and Duralie open cut mines, producing high fluidity semi-soft coking and thermal coals.

Stratford Duralie uses conventional truck and excavator methods, with ROM coal processed at the centralised Stratford Coal Handling and Preparation Plant, washed and blended to produce the required export coking and thermal product coal specifications.

# WATAGAN<sup>2</sup>

NSW

YANCOAL 100%

Located in the Upper Hunter Valley region of New South Wales, the Ashton underground mine produces semi-soft coking coal for export through the Port of Newcastle.

Austar is one of the oldest mines within New South Wales, having been in operation for 100 years.

Located south-west of Cessnock, Austar produces a premium semi-hard coking coal characterised as the highest fluidity and lowest ash coking coal in Australia, with low phosphorous and low alkalis.

Ashton and Austar achieved a combined total ROM coal production of 2.4Mt and saleable coal production of 1.2Mt for the year.





Middlemount	Units	2014	2015	2016	2017	2018
Saleable coal production	Mt	3.6	4.1	4.1	3.9	3.8

Note: All data shown on a 100% basis.

Product coal is transported to the Port of Newcastle for export.

Stratford Duralie achieved total ROM coal production of 0.7Mt and saleable coal production of 0.5Mt.

The Stratford extension project has the potential to extract up to 21.5Mt of ROM coal over 11 years at a rate of up to 2.6Mt per annum. Development of the project is subject to market conditions.

Stratford Duralie	Units	2014	2015	2016	2017	2018
Saleable coal production	Mt	2.0	1.4	0.9	0.7	0.5

Note: All data shown on a 100% basis.

Watagan	Units	2014	2015	2016	2017	2018
Saleable coal production	Mt	4.8	3.4	2.4	3.0	1.2

Note: All data shown on a 100% basis.

2 The Watagan-controlled Ashton, Austar and Donaldson operations remain 100% Yancoal owned subsidiaries. As announced 2 May 2016, the Donaldson coal operation was moved to "care and maintenance", with mining ceasing at the Abel underground mine in June 2016.





# INFRASTRUCTURE AND LOGISTICS

Yancoal sells 100% of product into international markets. Its rail and port capacity arrangements meet the planned production needs and potential expansion of existing operations.





## INFRASTRUCTURE

Yancoal exports 100% of its product through five eastern Australian ports into the Asian market, with current allocations sufficient to meet existing and potential brownfield expansion needs. The Group has ownership interests in three of these ports.

### PORT WARATAH COAL SERVICES (PWCS) 30.0%

Yancoal has take-or-pay contracts with PWCS for the export of coal through the terminals at Newcastle NSW, with a port allocation of approximately 35.1Mt (100% basis).

### NEWCASTLE COAL INFRASTRUCTURE GROUP (NCIG) 27%

Yancoal continues to be one of five company shareholders involved in the NCIG export coal terminal in Newcastle NSW. Yancoal has an allocation of approximately 19.6Mt per annum (100% basis).

### WIGGINS ISLAND COAL EXPORT TERMINAL (WICET) 9.4%

With a total capacity of 27.0Mt per annum, Yancoal is one of five owners of WICET, located at Golding Point in Queensland. Yancoal's contracted capacity is 1.5Mt per annum, allocated to the Yarrabee Mine.

## RAIL

Yancoal is supported by the following rail networks to transport product from mine to port:

- The NSW Hunter Valley Coal Chain: supporting the Moolarben, Mount Thorley Warkworth, Hunter Valley Operations, Austar, Ashton, Stratford Duralie, and Donaldson operations, with coal transported to the Port of Newcastle;
- The QLD Blackwater System: supporting the Yarrabee operation, transporting coal to the Port of Gladstone; and
- The QLD Goonyella System: supporting the Middlemount operation, with coal transported to the Port of Hay Point and Abbot Point Coal Terminal.

## 2018 TAKE-OR-PAY<sup>1</sup>

Yancoal's unutilised take-or-pay exposure increased from the year prior (2017: \$60.7 million; equity basis) to \$84.9 million in rail and port commitments in excess of shipped sales.

The increase of \$24.2 million was attributable to the take-or-pay exposure acquired from the former Coal & Allied assets (full year \$32.9 million) and under-utilisation of WICET port capacity (\$7.9 million). This was offset by a \$16.6 million reduction from increased utilisation by Moolarben and trading with third parties.

Yancoal continues to implement strategic measures to reduce take-or-pay exposure across the Group by trading between sites and with other users.

<sup>1</sup> All numbers are on an equity basis.



# COAL RESOURCES AND COAL RESERVES STATEMENT

for the year ended 31 December 2018

The Coal Resources and Coal Reserves statement presented in this report was produced in accordance with the Australasian Code for reporting of Mineral Resources and Ore Reserves 2012 Edition (the JORC Code). Commodity prices and exchange rates used to estimate the economic viability of Coal Reserves are based on the Yancoal long-term forecasts unless otherwise stated. The Coal Reserves tabulated are all held within existing, fully permitted mining leases, are within areas under applications to become mining leases or are within areas of exploration tenements detailed in the 2018 Life of Mine Plans to become mining leases in future applications.

Yancoal's leases are of sufficient duration (or convey a legal right to renew for sufficient duration) to enable all Coal Reserves on the leases to be mined in accordance with current production schedules.

The information in this report relating to Coal Resources and Coal Reserves is based on information compiled by Competent Persons (as defined by the JORC Code). All Competent Persons have sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity they are undertaking to qualify as a Competent Person as defined by the JORC Code. The Competent Persons listed in this report are independent consultants, apart from the Coal Resource and Coal Reserve reports for Yarrabee and the Coal Reserve reports for Mount Thorley Warkworth, Moolarben, Austar, Ashton and Donaldson, which have been compiled by full-time employees of Yancoal Australia Ltd.

These Coal Resources and Coal Reserves reports were peer reviewed at the time of their generation.

Each Competent Person consents to the inclusion of the matters based on their information in the form and context in which it appears in this report.

Yancoal Australia is not aware of any new information or data that materially affects the information included in this report and at the time of this report all material assumptions and technical parameters underpinning the estimates continue to apply and have not materially changed.

Coal Resources and Coal Reserves are reported in 100% terms (unless otherwise stated).

Coal Resources are reported inclusive of the Coal Resources that have been converted to Coal Reserves (i.e. Coal Resources are not additional to Coal Reserves).

The tabulated information is reported by Project; for details of the tenements and leases containing Coal Resources and Coal Reserves comprising each of these projects please refer to the Yancoal Australia Tenements table.

The following abbreviations are used throughout this report:

AusIMM:	Australasian Institute of Mining and Metallurgy
JORC:	Joint Ore Reserves Committee
Met:	Metallurgical Coal
PCI:	Pulverised Coal Injection
Mt:	Million tonnes
OC:	Open Cut
UG:	Underground

On an attributable basis Yancoal's Group total year end 31 December 2018 position is as follows:

**MEASURED, INDICATED  
AND INFERRED COAL  
RESOURCES ARE**

**6,442<sub>Mt</sub><sup>(2)</sup>**

**RECOVERABLE PROVED  
AND PROBABLE COAL  
RESERVES ARE**

**1,240<sub>Mt</sub><sup>(1)(2)</sup>**

**MARKETABLE PROVED  
AND PROBABLE COAL  
RESERVES ARE**

**891<sub>Mt</sub><sup>(1)(2)</sup>**

(1) Where required the component Coal Reserve numbers for each site making up this total have been depleted by production from the JORC report date to 31 December 2018.

(2) 2018 Coal Resources and Coal Reserves have been rounded (significant figure) by the Competent Persons in line with the JORC Code and the Yancoal Coal Resource and Reserve reporting standards to reflect the relative uncertainty of the estimates.

## COAL RESOURCES FOR YEAR ENDED 31 DECEMBER 2018

PROJECT	YANCOAL OWNERSHIP %	COAL TYPE	MOISTURE BASIS %	MEASURED COAL RESOURCES (Mt)		INDICATED COAL RESOURCES (Mt)		INFERRED COAL RESOURCES (Mt)		TOTAL COAL RESOURCES (Mt)	COMPETENT PERSON
				2018	2017	2018	2017	2018	2017	2018	
Moolarben (OC & UG)	85%	Thermal	6.0%	710	750	240	240	200	200	1,150	KP
Mt Thorley (OC & UG)	80%	Semi/ Thermal	6 to 8%	210	32	200	75	150	153	560	PH
Warkworth (OC & UG)	84.47%	Semi/ Thermal	6 to 8%	460	215	550	715	460	528	1,470	PH
<sup>(1)</sup> HVO (OC & UG)	51%	Semi/ Thermal	6 to 8%	704	730	1,430	1,432	1,654	1,654	3,788	PE
<sup>(4)</sup> Austar (UG)	100%	Met	5.0%	110	70	40	80	70	70	220	RD
<sup>(4)</sup> Ashton (OC & UG)	100%	Semi/ Thermal	6.5%	80	80	70	75	110	110	260	PH
Yarrabee (OC)	100%	PCI/ Thermal	5.5%	95	95	80	80	20	20	195	SW
<sup>(2)</sup> Gloucester (OC)	100%	Met/ Thermal	6.0%	8	11	195	195	110	110	313	JB
<sup>(3)</sup> Middlemount (OC)	50%	Met/ Thermal	5.0%	73	66	54	33	8	3	135	GJ
<sup>(4)</sup> Donaldson (OC & UG)	100%	Met/ Thermal	4.0%	190	190	400	400	100	100	690	RD
Monash (UG)	100%	Met/ Thermal	6.0%	0	0	17	17	80	80	97	RD
<b>Total Coal Resources (100% Basis)</b>				<b>2,640</b>	<b>2,239</b>	<b>3,276</b>	<b>3,342</b>	<b>2,962</b>	<b>3,028</b>	<b>8,878</b>	
<b>Yancoal attributable Share</b>										<b>6,442</b>	

Note: 2018 Coal Resources have been rounded in line with the JORC Code and the Yancoal reporting standards to reflect the relative uncertainty of the estimates.

Note: All Coal Resources are inclusive of Coal Reserves and are reported on a 100% basis with Yancoal's ownership percentage reported for each deposit. The attributable share total is the total Coal Resources when the Yancoal ownership percentage (as at 31 December 2018) is applied.

Note: No Resources are reported in regard to the Oaklands Project acquired as part of the Coal & Allied acquisition; this project is currently under assessment by Yancoal in regard to its potential.

Note: Coal Resources detailed in table are as at 31 December 2018, with the exception of HVO which is as at 30 June 2018 (no production depletions have been applied).

(1) (HVO) Hunter Valley Operations.

(2) Gloucester comprises the Stratford, Duralie and Grant & Chainey deposits.

(3) A new Middlemount JORC Coal Resource report was generated in April 2018 and forms the basis of these reported Coal Resources. The previous report was only in regard to ML703379 which has since been expanded by 472 hectares after a acquisitions with Anglo American Australia in 2017. The new report also includes additional Coal Resources within ML70417 and MDL282.

(4) On 17 February 2016, Yancoal announced a new financing arrangement to secure up to US\$950 million in debt funding via the issuing of nine-year secured debt bonds by a newly established Yancoal subsidiary, Watagan, to Industrial Bank Co. Ltd, BOCI Financial Products Limited and United NSW Energy Limited. Under the arrangement, Yancoal's interests in the assets of Ashton, Austar and Donaldson were transferred to and held by Watagan.



## COAL RESOURCES RECONCILIATION OF 2018 TO 2017 YEAR END REPORTING

Measured Resources (Mt) – Reconciliation period 1 January 2018 to 31 December 2018											
PROJECT	MOOLARBEN (OC & UG)	MT THORLEY (OC & UG)	WARKWORTH (OC & UG)	<sup>(3)</sup> HVO (OC & UG)	AUSTAR (UG)	ASHTON (OC & UG)	YARRABEE (OC)	GLOUCESTER (OC)	MIDDLEMOUNT (OC)	DONALDSON (OC & UG)	MONASH (UG)
<b>Production Changes</b>											
<sup>(2)</sup> Production (-) 1 January 2018 – 31 December 2018	-40.7	-1.65	-15.54	-26.0	-0.5	-2.54	-3.3	-0.04	0		N/A
<b>Non-Production Changes</b>											
Coal sterilised within the mine plan					-0.54	-0.56		-2.52	-0.83		
Reconciliation (Actual vs Model) adjustment											
Dilution/Loss change		-0.09	-0.37			0.75					
Seams/Plies failing eventual economic extraction test											
Resource reclassification	7.7	179.24	263.91		42.1	2.55			13.39		
Geology model change	-4.1								-5.32		
<sup>(1)</sup> Change due to significant figure rounding	-2.9	0.5	-3.0		-1.06	-0.2	3.3	-0.44	-0.24		
<b>Total</b>	<b>-40.0</b>	<b>178.0</b>	<b>245.0</b>	<b>-26.0</b>	<b>40.0</b>	<b>0.0</b>	<b>0.0</b>	<b>-3.0</b>	<b>7.0</b>	<b>0.0</b>	<b>0.0</b>

Indicated Resources (Mt) – Reconciliation period 1 January 2018 to 31 December 2018											
PROJECT	MOOLARBEN (OC & UG)	MT THORLEY (OC & UG)	WARKWORTH (OC & UG)	<sup>(3)</sup> HVO (OC & UG)	AUSTAR (UG)	ASHTON (OC & UG)	YARRABEE (OC)	GLOUCESTER (OC)	MIDDLEMOUNT (OC)	DONALDSON (UG)	MONASH (UG)
<b>Production Changes</b>											
<sup>(2)</sup> Production (-) 1 January 2018 – 31 December 2018			-0.3	-2.0				-0.66	0.03		N/A
<b>Non-Production Changes</b>											
Coal sterilised within the mine plan								-0.64	-1.4		
Seams/Plies failing eventual economic extraction test											
Resource reclassification	2.9	127.3	-162.8		-42.1	-2.55		1.61	16.1		
Geology model change	-0.2								6.1		
<sup>(1)</sup> Change due to significant figure rounding	-2.7	-2.3	-1.9		2.1	-2.45		-0.31	0.17		
<b>Total</b>	<b>0.0</b>	<b>125</b>	<b>-165.0</b>	<b>-2.0</b>	<b>-40.0</b>	<b>-5.0</b>	<b>0.0</b>	<b>0.0</b>	<b>21.0</b>	<b>0.0</b>	<b>0.0</b>

**Inferred Resources (Mt) – Reconciliation period 1 January 2018 to 31 December 2018**

PROJECT	MOOLARBEN (OC & UG)	MT THORLEY (OC & UG)	WARKWORTH (OC & UG)	<sup>(3)</sup> HVO (OC & UG)	AUSTAR (UG)	ASHTON (OC & UG)	YARRABEE (OC)	GLOUCESTER (OC)	MIDDLEMOUNT (OC)	DONALDSON (UG)	MONASH (UG)
<b>Non-Production Changes</b>											
Coal sterilised within the mine plan								-0.89			
Seams/Plies failing eventual economic extraction test											
Resource reclassification	-10.6	1.5	-71.3						7		
Geology model change	-6.4								-2		
<sup>(1)</sup> Change due to significant figure rounding	17	-4.5	3.3					0.89	0		
<b>Total</b>	<b>0.0</b>	<b>-3.0</b>	<b>-68.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.00</b>	<b>5.0</b>	<b>0.0</b>	<b>0.0</b>

**Total Resources (Mt) – Reconciliation period 1 January 2018 to 31 December 2018**

PROJECT	MOOLARBEN (OC & UG)	MT THORLEY (OC & UG)	WARKWORTH (OC & UG)	<sup>(3)</sup> HVO (OC & UG)	AUSTAR (UG)	ASHTON (OC & UG)	YARRABEE (OC)	GLOUCESTER (OC)	MIDDLEMOUNT (OC)	DONALDSON (UG)	MONASH (UG)
<b>Yancoal Ownership</b>											
%	85%	80%	84.47%	51%	100%	100%	100%	100%	50%	100%	100%
<b>Coal Type</b>											
	Thermal	Semi/Thermal	Semi/Thermal	Semi/Thermal	Met	Met/Thermal	PCI/Thermal	Met/Thermal	Met/Thermal	Met/Thermal	Met/Thermal
<b>Production Changes</b>											
Measured Resources (Mt)	-40.7	-1.65	-15.54	-26.0	-0.5	-2.5	-3.3	-0.04	0.0	0.0	N/A
Indicated Resources (Mt)	0.0		-0.3	-2.0	0.0	0.0	0.0	-0.66	0.03	0.0	N/A
<b>Non-Production Changes</b>											
Measured Resources (Mt)	0.7	179.65	260.54	0.0	40.5	2.54	3.3	-2.96	7	0.0	0.0
Indicated Resources (Mt)	0.0	125	-164.7	0.0	-40	-5	0.0	0.66	20.97	0.0	0.0
Inferred Resources (Mt)	0.0	-3.0	-68.0	0.0	0.0	0.0	0.0	0.0	5	0.0	0.0
<b>Totals</b>	<b>-40.0</b>	<b>300.0</b>	<b>12.0</b>	<b>-28.0</b>	<b>0.0</b>	<b>-5.0</b>	<b>0.0</b>	<b>-3.0</b>	<b>33.0</b>	<b>0.0</b>	<b>0.0</b>
Total Coal Resource Changes (100% Basis)										269.0	
Yancoal Attributable Share										210.4	

Note: +ve = increase in reported Coal Resources, -ve = decrease in reported Coal Resources.

- (1) The reported Coal Resources totals within the JORC Resource Reports utilised for public reporting are rounded (significant figure), whereas the Coal Resource reconciliations contained within them are based on the unrounded numbers; this adjustment is required to align the unrounded reconciliations with the significant figure rounded Coal Resource totals.
- (2) Middlemount production depletion (28.66Mt) for the period from 31 December 2012 to 31 December 2017 was applied in the 2017 Annual Report; 0.03Mt adjustment made to production depletions in 2018 Annual Reporting to align with new JORC reporting.
- (3) HVO reconciliation is in regard to "as at 31 December 2017 to as at 30 June 2018", with production depletions applied to 30 June 2018.



## COAL RESERVES FOR YEAR ENDING 31 DECEMBER 2018

PROJECT	YANCOAL OWNERSHIP %	COAL TYPE	RECOVERABLE COAL RESERVES				
			PROVED COAL RESERVES (Mt)		PROBABLE COAL RESERVES (Mt)		TOTAL COAL RESERVES (Mt)
			2018	2017	2018	2017	2018
Moolarben (OC)	85%	Thermal	199	183	10	13	209
Moolarben (UG)	85%	Thermal	52	58	13	13	65
Mount Thorley (OC)	80.0%	Semi/Thermal	0	6	0	8	0
Warkworth (OC)	84.47%	Semi/Thermal	180	143	135	191	315
(1)HVO (OC)	51%	Semi/Thermal	333	359	463	465	796
(4)(5)Austar (UG)	100%	Met	2	2	38	39	40
(4)Ashton (OC)	100%	Met/Thermal	0	0	15	15	15
(4)Ashton (UG)	100%	Met/Thermal	21	24	11	11	32
Yarrabee (OC)	100%	PCI/Thermal	33	37	19	19	52
(2)Gloucester (OC)	100%	Met/Thermal	0	0	44	44	44
(3)Middlemount (OC)	50%	Met/Thermal	48	50	37	18	85
(4)Donaldson (UG)	100%	Met/Thermal	0	0	110	110	110
<b>Total Coal Reserves (100% Basis) – Rounded</b>			<b>868</b>	<b>862</b>	<b>895</b>	<b>946</b>	<b>1,763</b>
<b>Yancoal Attributable Share</b>							<b>1,240</b>

Note: 2018 Coal Reserves have been rounded in line with the JORC Code and the Yancoal reporting standards to reflect the relative uncertainty of the estimates.

Note: All Coal Resources are inclusive of Coal Reserves; Coal Reserves are reported on a 100% basis with Yancoal's ownership percent reported for each deposit. The attributable share total is the total Coal Reserves when the Yancoal ownership percent (as at 31 December 2018) is applied.

Note: Coal Reserves detailed in table are as at 31 December 2018, with the exception of (1)HVO (OC) which is as at 30 June 2018.

(1) Hunter Valley Operations (HVO).

(2) Gloucester comprises the Stratford, Duralie and Grant & Chainey deposits.

(3) The project has two product types for Marketable Coal Reserves each with a different Moisture basis, Coking at 10.5%, PCI at 9% and Ash% of 10% for Coking and 11% for PCI. Middlemount, which is situated within ML703379, has been expanded by 472 hectares after a deal with Anglo American Australia in 2017.

## COAL RESERVES RECONCILIATION OF 2018 TO 2017 YEAR END REPORTING

	RECOVERABLE COAL RESERVES (Mt) – RECONCILIATION PERIOD 1 JANUARY 2018 TO 31 DECEMBER 2018												
PROJECT	MOOLARBEN (OC)	MOOLARBEN (UG)	MT THORLEY (OC)	WARKWORTH (OC)	(2)HVO (OC)	AUSTAR (UG)	ASHTON (OC)	ASHTON (UG)	YARRABEE (OC)	GLOUCESTER (OC)	MIDDLEMOUNT (OC)	DONALDSON (UG)	MONASH (UG)
Production Changes													
Production (since previous JORC report)	-13.0	-6.1	-14.0	-21.0	-28.0	-0.4		-2.4	-3.5	-0.7	-4.8		N/A
Product Yield adjustments													
Moisture basis modified													
Non-Production Changes													
Coal sterilised or increased recovery in the mine plan	10.7	0.4		-18.4		-0.5		-0.1					
Coal Resource reclassification				8.8							-3.9		
Coal Reserve reclassification													
Mine Plan changes from Pre-feasibility studies/ Tenement boundary	2.4										25.9		
Geology model changes	3.1										2.4		
Changes to the Mine plan/ Optimisation	9.6	0.3		17.1						0.8	-1.8		
Changed modifying factors		0.3		-4.2									
(6)Change due to significant figure rounding	0.2	-0.9	0	-1.3		-0.1	0	0.5	-0.5	-0.1	0.8	0	0
Total	13.0	-6.0	-14	-19.0	-28	-1.0	0	-2	-4.0	0	18.6	0.0	0

Note: +ve = increase in reported Coal Reserves, -ve = decrease in reported Coal Reserves.

(6) The reported Coal Reserves totals within the JORC Reserve Reports utilised for public reporting are rounded (significant figure), whereas the Coal Reserve reconciliations contained within them are based on the unrounded numbers; this adjustment is required to align the unrounded reconciliations with the significant figure rounded Coal Reserve totals.

## MARKETABLE COAL RESERVES

MOISTURE BASIS %	PROVED COAL RESERVES (Mt)		PROBABLE COAL RESERVES (Mt)		TOTAL COAL RESERVES (Mt)	ASH %	COMPETENT PERSON
2018	2018	2017	2018	2017	2018	2018	2018
10%	161	141	8	13	169	22%	NC
9%	53	58	13	13	66	16%	REH
9%	0	4	0	5	0	10–13%	MH
9%	129	100	97	134	226	10–13%	MH
10%	229	247	325	327	554	10–13%	DS
5%	2	2	30	30	31	5.5%	REH
8%	0	0	7.8	7.8	7.8	9.5%	REH
8.5%	12	13	5.7	5.7	18	9.5%	REH
5.5%	26	29	14	14	40	10%	AL
8%	0	0	26	26	26	14%	DL
10.5% Coking 9% PCI	38	38	27	13	65	10% Coking 11% PCI	MB
8%	0	0	62	62	62	17%	REH
	<b>650</b>	<b>632</b>	<b>615.5</b>	<b>651</b>	<b>1,265</b>		
					<b>891</b>		

- (4) On 17 February 2016, Yancoal announced a new financing arrangement to secure up to US\$950 million in debt funding via the issuing of nine-year secured debt bonds by a newly established Yancoal subsidiary, Watagan Mining Company Pty Ltd ("Watagan"), to Industrial Bank Co. Ltd, BOCI Financial Products Limited and United NSW Energy Limited. Under the arrangement, Yancoal's interests in the assets of Ashton, Austar and Donaldson were transferred to and held by Watagan.
- (5) Coal Reserves have been depleted from the previous reporting period due to ongoing studies and investigations in the Stage 3 area during 2018. Austar was subject to prohibition notices issued by the Resource Regulator that restricted current operations in Bellbird South and investigations by the Resource Regulator are continuing. Ongoing work is being undertaken by Watagan in respect of the very challenging geological and geotechnical conditions at the Austar mine, including both the Bellbird South and Stage 3 areas that may have a significant adverse impact on future commercial operations. The future prospects of the Austar mine are therefore uncertain, and will depend upon the work currently being conducted by Watagan and its internal and external advisers. If it is determined that the mine is unable to return to previously forecast levels of production, there may be a need to proceed to a permanent shutdown. For further details Refer to "Prospectus for Hong Kong IPO – Part 1 of 5" published on 26 October 2018 or "YAL Full Year Statutory Account and Appendix 4E" published on 25 February 2019.

## MARKETABLE COAL RESERVES (Mt) – RECONCILIATION PERIOD 1 JANUARY 2018 TO 31 DECEMBER 2018

PROJECT	MOOLARBEN (OC)	MOOLARBEN (UG)	MT THORLEY (OC)	WARKWORTH (OC)	<sup>(2)</sup> HVO (OC)	AUSTAR (UG)	ASHTON (OC)	ASHTON (UG)	YARRABEE (OC)	GLOUCESTER (OC)	MIDDLEMOUNT (OC)	DONALDSON (UG)	MONASH (UG)
<b>Production Changes</b>													
Production (since previous JORC report)	-11.0	-6.1	-9.0	-14.8	-20.0	-0.4		-1.0	-2.7	-0.5	-3.8	0.0	N/A
Product Yield adjustments	1.5			1.5									
Moisture basis modified				6.1									
<b>Non-Production Changes</b>													
Coal sterilised or increased recovery in the mine plan	7.4	0.4		-13.0		-0.4		0.1					
Coal Resource reclassification				6.2							-3.0		
Coal Reserve reclassification													
Mine Plan changes from Pre-feasibility studies/ Tenement boundary	2.0										18.7		
Geology model changes	2.6										2.0		
Changes to the Mine plan/ Optimisation	8.1	0.3		12.0						0.5	-1.4		
Changed modifying factors	5.2	0.3		-6.1							1.5		
<sup>(6)</sup> Change due to significant figure rounding	-0.8	0.1	0	1.1	0	-0.2	0	0.1	-0.3	0	0	0	0
<b>Total</b>	<b>15</b>	<b>-5.0</b>	<b>-9.0</b>	<b>-7.0</b>	<b>-20.0</b>	<b>-1.0</b>	<b>0</b>	<b>-0.8</b>	<b>-3.0</b>	<b>0.0</b>	<b>14.0</b>	<b>0.0</b>	<b>0</b>

Note: +ve = increase in reported Coal Reserves, -ve = decrease in reported Coal Reserves.

- (6) The reported Coal Reserves totals within the JORC Reserve Reports utilised for public reporting are rounded (significant figure), whereas the Coal Reserve reconciliations contained within them are based on the unrounded numbers; this adjustment is required to align the unrounded reconciliations with the significant figure rounded Coal Reserve totals.



Totals (Mt) – Reconciliation period 1 January 2018 to 31 December 2018													
PROJECT	MOOLARBEN (OC)	MOOLARBEN (UG)	MT THORLEY (OC)	WARKWORTH (OC)	<sup>(2)</sup> HVO (OC)	AUSTAR (UG)	ASHTON (OC)	ASHTON (UG)	YARRABEE (OC)	GLOUCESTER (OC)	MIDDLEMOUNT (OC)	DONALDSON (UG)	MONASH (UG)
<b>Yancoal Ownership %</b>	85%	85%	80%	84.47%	51%	100%	100%	100%	100%	100%	50%	100%	100%
<b>Coal Type</b>	Thermal	Thermal	Semi/Thermal	Semi/Thermal	Semi/Thermal	Met	Met/Thermal	Met/Thermal	PCI/Thermal	Met/Thermal	Met/Thermal	Met/Thermal	Met/Thermal
<b>Production Changes</b>													
Recoverable Coal Reserves (Mt)	-13.0	-6.1	-14.0	-21.0	-28.0	-0.4	0.0	-2.4	-3.5	-0.7	-4.8	0.0	
Marketable Coal Reserves (Mt)	-9.5	-6.1	-9.0	-7.2	-20.0	-0.4	0.0	-1.0	-2.7	-0.5	-3.8	0.0	
<b>Non-Production Changes</b>													
Recoverable Coal Reserves (Mt)	26	1.1	0.0	2.0	0.0	-0.6	0.0	0.4	-0.5	0.7	21.8	0.0	
Marketable Coal Reserves (Mt)	24.5	1.1	0.0	-0.2	0.0	-0.6	0.0	0.1	-0.3	0.5	17.8	0.0	
<b>Total Changes</b>													
Recoverable Coal Reserves (Mt)	13.0	-6.0	-14.0	-19.0	-28.0	-1.0	0.0	-2.0	-4.0	0.0	17.0	0.0	
Marketable Coal Reserves (Mt)	15.0	-5.0	-9.0	-7.0	-20.0	-1.0	0.0	-1.0	-3.0	0.0	14.0	0.0	0
<b>Total Recoverable Coal Reserve Changes (100% Basis)</b>													
				-44.0		<b>Total Marketable Coal Reserve Changes (100% Basis)</b>						-17.0	
<b>Yancoal Attributable Share</b>				-34.1		<b>Yancoal Attributable Share</b>						-12.8	

Note: +ve = increase in reported Coal Reserves, -ve = decrease in reported Coal Reserves.

- (1) The reported Coal Reserves totals within the JORC Reserve Reports utilised for public reporting are rounded (significant figure), whereas the Coal Reserve reconciliations contained within them are based on the unrounded numbers; this adjustment is required to align the unrounded reconciliations with the significant figure rounded Coal Reserve totals.
- (2) HVO reconciliation is in regard to “as at 31 December 2017 to as at 30 June 2018”, with production depletions applied to 30 June 2018.
- (3) Mount Thorley (OC) and Warkworth (OC) production depletion (14Mt and 21Mt) reflects production since 1 January 2017.

The following table provides details of the Competent Persons for each project.

INITIALS	COMPETENT PERSON (CP)	TITLE	COMPANY
NC	Nicholas Craig	Technical Services Manager – Moolarben OC	Yancoal Australia Ltd
JB	Janet Bartolo	Senior Geologist – Manager Geological Modelling	McElroy Bryan Geological Services Pty Ltd
PE	Peter Ellis	Executive Consultant	(previously of) RPMGlobal Asia Limited
DS	Doug Sillar	Executive Consultant	RPMGlobal Asia Limited
MB	Mark Bryant	Principal Mining Consultant	The Minserve Group Pty Ltd
RD	Rob Dyson	Senior Geologist – General Manager Operations	McElroy Bryan Geological Services Pty Ltd
PH	Paul Harrison	Senior Geologist	McElroy Bryan Geological Services Pty Ltd
REH	Raymond Howard	Principal Mining Engineer	Yancoal Australia Ltd
GJ	Greg Jones	Principal Consultant	JB Mining Services Pty Ltd
AL	Andrew Lau	Regional Technical Services Manager – Open Cut Operations Eastern Region	Yancoal Australia Ltd
KP	Karol Patino	Senior Geologist	McElroy Bryan Geological Services Pty Ltd
DL	David Lennard	Consultant Manager	Xenith Consulting Pty Ltd
SW	Stuart Whyte	Resource Knowledge Manager	Yancoal Australia Ltd
MH	Matthew Hillard	Principal Mining Engineer	Yancoal Australia Ltd

## YANCOAL 2018 EXPLORATION DRILLING

The total payments for capitalised exploration and evaluation activities in 2018 was \$4 million. There were no development activities related to mining structures or infrastructure undertaken in 2018.

	Moolarben		MTW		HVO		Austar		Ashton	
	No. of Holes	Total Drilled (m)	No. of Holes	Total Drilled (m)	No. of Holes	Total Drilled (m)	No. of Holes	Total Drilled (m)	No. of Holes	Total Drilled (m)
Non-Core Holes	197	8,686	6	1,174	18	3,696	0	0	0	0
Core Holes	40	2,794	14	5,438	7	1,475	7	4,060	0	0

	Yarrabee		Gloucester		Middlemount		Donaldson		Monash	
	No. of Holes	Total Drilled (m)	No. of Holes	Total Drilled (m)	No. of Holes	Total Drilled (m)	No. of Holes	Total Drilled (m)	No. of Holes	Total Drilled (m)
Non-Core Holes	19	1,942	0	0	123	12,449	0	0	0	0
Core Holes	107	19,551	0	0	8	1,623	0	0	0	0

\* Period – 1 January to 31 December 2018.

\* Pre-production Drilling is not included.

## YANCOAL AUSTRALIA LTD TENEMENTS

PROJECT	TITLE TENEMENT	TENEMENT TYPE	PROJECT	TITLE TENEMENT	TENEMENT TYPE
<b>HVO</b>	ML1324	Mining Lease	<b>Yarrabee</b>	MDL160	Mineral Development Licence
	ML1337	Mining Lease		ML1770	Mining Lease
	ML1359	Mining Lease		ML80049	Mining Lease
	ML1406	Mining Lease		ML80050	Mining Lease
	ML1428	Mining Lease		ML80096	Mining Lease
	ML1465	Mining Lease		ML80104	Mining Lease
	ML1474	Mining Lease		ML80172	Mining Lease
	ML1482	Mining Lease		ML80195	Mining Lease
	ML1500	Mining Lease		ML80196	Mining Lease
	ML1526	Mining Lease		ML80197	Mining Lease
	ML1560	Mining Lease		ML80198	Mining Lease
	ML1589	Mining Lease		EPC1429	Exploration Permit for Coal
	ML1622	Mining Lease		EPC1684	Exploration Permit for Coal
	ML1634	Mining Lease		EPC621	Exploration Permit for Coal
	ML1682	Mining Lease		EPC717	Exploration Permit for Coal
	ML1704	Mining Lease	<b>Gloucester Basin</b>	A311	Exploration Licence
	ML1705	Mining Lease		A315	Exploration Licence
	ML1706	Mining Lease		EL6904	Exploration Licence
	ML1707	Mining Lease		ML1360	Mining Lease
	ML1732	Mining Lease		ML1409	Mining Lease
	ML1734	Mining Lease		ML1427	Mining Lease
	ML1748	Mining Lease		ML1447	Mining Lease
	ML1753	Mining Lease		ML1521	Mining Lease
	EL5291	Exploration Licence		ML1528	Mining Lease
	EL5292	Exploration Licence		ML1538	Mining Lease
	EL5417	Exploration Licence		ML1577	Mining Lease
	EL5418	Exploration Licence		ML1646	Mining Lease
	EL5606	Exploration Licence		ML1733	Mining Lease
	EL8175	Exploration Licence		MLA552	Mining Lease Application
	CML4	Consolidated Mining Lease	<b>Ashton</b>	ML1529	Mining Lease
	CL327	Coal Lease		ML1623	Mining Lease
	CL359	Coal Lease		ML1533	Mining Lease
	CL360	Coal Lease		EL4918	Exploration Licence
	CL398	Coal Lease		EL5860	Exploration Licence
	CL584	Coal Lease	<b>Austar</b>	ML1696	Mining Lease
	CCL714	Consolidated Coal Lease		CCL728	Mining Lease
	CCL755	Consolidated Coal Lease		CCL752	Mining Lease
	AUTH72	Authority		CML2	Mining Lease
	ALA52	Assessment Lease Application		ML1388	Mining Lease
	ALA58	Assessment Lease Application		ML1550	Mining Lease
	ALA59	Assessment Lease Application		ML1661	Mining Lease
	MLA489	Mining Lease Application		ML1666	Mining Lease
	MLA495	Mining Lease Application		ML1677	Mining Lease
	MLA496	Mining Lease Application		EL6598	Exploration Licence
	MLA520	Mining Lease Application	<b>Moolarben</b>	ML1605	Mining Lease
	MLA534	Mining Lease Application		ML1606	Mining Lease
	MLA535	Mining Lease Application		ML1628	Mining Lease
	(1)CL378	Coal Lease		ML1691	Mining Lease
	(1)CCL708	Consolidated Coal Lease		ML1715	Mining Lease
	ML1412	Mining Lease		EL6288	Exploration Licence
	ML1590	Mining Lease		EL7073	Exploration Licence
	ML1751	Mining Lease		EL7074	Exploration Licence
	ML1752	Mining Lease		MPL0315	Mining Purpose Lease
<b>Mount Thorley and Warkworth (MTW)</b>	EL7712	Exploration Licence	<b>Donaldson</b>	ML1461	Mining Lease
	CL219	Coal Lease		ML1555	Mining Lease
	CCL753	Consolidated Coal Lease		ML1618	Mining Lease
	(1)ML1547	Mining Lease		ML1653	Mining Lease
	ML70379	Mining Lease		ML1703	Mining Lease
<b>Middlemount</b>	ML70417	Mining Lease		ML1756	Mining Lease
	MDL282	Mineral Development Licence		EL6964	Exploration Licence
	EPC1225	Exploration Permit for Coal		EL5337	Exploration Licence
	EL6123	Exploration Licence		EL5497	Exploration Licence
<b>Monash</b>	EL7579	Exploration Licence		EL5498	Exploration Licence

(1) Partially owned tenements.

Additional information about the Company can be found at [www.yancoal.com.au](http://www.yancoal.com.au).

INVESTOR RELATIONS CONTACT: Brendan Fitzpatrick.



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# FINANCIAL REPORT



# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS OVERVIEW

Yancoal operates a diversified portfolio of world class assets consisting of both large-scale open cut and underground mines comprising five coal mine complexes in 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.

The Group's financial results are largely dependent on the demand for thermal and metallurgical coal, which in turn depends on macroeconomic trends, including regional and global economic activity, and the price and availability of alternative forms of energy production.

Our customers are located throughout the Asia-Pacific region with Japan, Singapore, China, South Korea and Taiwan accounting for approximately 81% of our revenue from coal sales in the year ended 31 December 2018.

Thermal coal is primarily used in electricity generation and its end users are typically power and utilities companies. Metallurgical coal is primarily used to produce coke for blast furnace steel production and its end users are typically steel plants. We also sell coal to customers in the commodities trading business, who purchase the Group's coal for trading purposes or to on-sell to their end customers. Commodity traders are similarly exposed to regional and global demand trends in the coal market.

The Group's export thermal coal is generally priced on either an index price, an annual fixed price or on a spot price basis. Generally, lower ash products are priced relative to the GlobalCOAL Newcastle index and higher ash products are priced relative to the Argus/McCloskey API5 index. Annual fixed price contracts are mostly priced against the Japanese Power Utility (JPU) reference price, which is the contract price agreed between major Australian suppliers and Japanese power utilities. The balance of our sales are priced on a fixed spot price negotiated at the time of settlement that also reflects the terms of the arrangement.

The Group's export metallurgical coal is either priced on a benchmark or spot price basis. Most term contracts are priced against a benchmark pricing mechanism which is negotiated on a quarterly basis between major Australian suppliers and Japanese steel mills. Spot sales are priced relative to the market at the time and are mostly done on a fixed price basis. The large majority of the Group's semi-soft coking coal out of Newcastle and low volatile PCI out of Queensland is priced relative to the quarterly benchmark.

The Group's coal sales revenue is typically recognised on a Free on Board (FOB) basis when coal is loaded at the load port in Australia.

The Group's overall average selling price of coal increased by 16% from A\$114 per tonne in 2017 to A\$132 per tonne in 2018, mainly as a result of the increase in global coal market prices during this period, including low-ash thermal coal prices increasing by approximately US\$19 per tonne and semi-soft metallurgical coal prices increasing by approximately US\$15 per tonne. The Group's average selling price of thermal coal increased from A\$102 per tonne to A\$123 per tonne, while the average selling price of metallurgical coal increased from A\$165 per tonne to A\$182 per tonne.

The Group's overall average cash operating costs excluding government royalties increased from A\$62 per tonne in 2017 to A\$63 per tonne in 2018 primarily due to an increase in raw materials and consumables used due to an increase in diesel costs of 123%, primarily due to increased market prices for diesel fuel and larger truck fleets at the acquired Coal & Allied Industries Limited (C&A) mines. The Group's overall cash operating costs including government royalties increased from A\$71 per tonne in 2017 to A\$73 per tonne in 2018 with the increase in royalties driven by higher coal prices.

The table below sets out the Run of Mine (ROM) and saleable production for each Yancoal owned mine on a 100% basis during the Group's period of ownership.

	Ownership % <sup>(1)</sup>	Year ended 31 December		Change %
		2018 Mt	2017 Mt <sup>(2)</sup>	
<b>ROM production</b>				
Moolarben	85%	18.6	14.7	27%
MTW	82.9%	17.6	5.8	203%
HVO	51%	19.0	6.2	206%
Stratford Duralie	100%	0.7	0.9	(22%)
Yarrabee	100%	3.4	3.4	–
Middlemount	~50%	4.8	5.3	(9%)
Watagan	100%	2.4	4.8	(50%)
<b>Total – 100% basis</b>		<b>66.5</b>	<b>41.1</b>	<b>62%</b>
<b>Saleable production</b>				
Moolarben	85%	16.5	12.4	33%
MTW	82.9%	12.1	3.9	210%
HVO	51%	13.3	4.8	177%
Stratford Duralie	100%	0.5	0.7	(29%)
Yarrabee	100%	2.6	2.8	(7%)
Middlemount	~50%	3.8	3.9	(3%)
Watagan	100%	1.2	3.0	(60%)
<b>Total – 100% basis</b>		<b>50.0</b>	<b>31.5</b>	<b>59%</b>

(1) Ownership percentage stated as at 31 December 2018.

(2) 2017 only includes four months of production for the unincorporated MTW and HVO joint ventures from 1 September 2017.

ROM coal production was up 62% from 41.1Mt in 2017 to 66.5Mt in 2018. This included an increase in the three tier-one assets of Moolarben, Mount Thorley Warkworth (MTW) and Hunter Valley Operations (HVO) of 107% from 26.7Mt in 2017 to 55.2Mt in 2018.

Saleable coal production was up 59% from 31.5Mt in 2017 to 50.0Mt in 2018. This included an increase in the three tier-one assets of Moolarben, MTW and HVO of 99% from 21.1Mt in 2017 to 41.9Mt in 2018.

Moolarben's ROM production increased by 3.9Mt (27%) and its saleable production increased by 4.1Mt (33%) with all the increase in ROM attributable to a full year's production from the underground mine of 5.6Mt (2017: 1.7Mt). The further increase in saleable production was attributable to an improved yield due to the underground coal being 100% bypass.

The increases at MTW and HVO were primarily attributable to a full year of production in 2018 compared to only the last four months of 2017.

The table below sets out the Group's ongoing economic interest in the saleable production for each Yancoal owned mine that contributes to the financial results of the Group; i.e. excludes Watagan.

	Ownership % <sup>(1)</sup>	Year ended 31 December		Change %
		2018 Mt <sup>(3)</sup>	2017 Mt <sup>(2)(3)</sup>	
Saleable production				
Moolarben	85%	13.3	10.1	32%
MTW	82.9%	9.7	2.5	288%
HVO	51%	6.8	2.4	183%
Stratford Duralie	100%	0.5	0.7	(29%)
Yarrabee	100%	2.6	2.8	(7%)
		32.9	18.5	78%
Middlemount (equity-accounted)	~50%	1.9	1.9	–
Total – equity basis		34.8	20.4	71%
Thermal		27.3	14.7	86%
Metallurgical		7.5	5.7	32%
		34.8	20.4	71%

(1) Ownership percentage stated as at 31 December 2018.

(2) 2017 only includes four months of production for the unincorporated MTW and HVO joint ventures from 1 September 2017.

(3) Includes saleable production of (i) 81% of the Moolarben unincorporated joint venture up to and including 30 November 2018 and 85% thereafter; (ii) 51% of the unincorporated HVO joint venture representing the Group's ongoing economic interest; (iii) 64.1% of the unincorporated MTW joint venture up to and including 28 February 2018 and 82.5% thereafter; (iv) 100% of Yarrabee and Stratford Duralie; and (v) ~50% of Middlemount although equity-accounted.

The Group's saleable coal production, excluding Middlemount, was up 78% from 18.5Mt in 2017 to 32.9Mt in 2018 and including Middlemount was up 71% from 20.4Mt in 2017 to 34.8Mt in 2018. This included an increase in the three tier-one assets of Moolarben, MTW and HVO of 99% from 15.0Mt in 2017 to 29.8Mt in 2018.

The saleable production contribution of the Group's tier-one assets increased from 74% in 2017 to 86% in 2018.

Thermal coal saleable production increased by 86% from 14.7Mt in 2017 to 27.3Mt in 2018 and metallurgical coal saleable production increased by 32% from 5.7Mt in 2017 to 7.5Mt in 2018. Thermal coal represented 78% of total saleable coal production in 2018 – an increase from 72% in 2017.

The key risks affecting the Group's operations and the strategies and measures taken to manage these risks are detailed in the Corporate Governance Statement of this report.



## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### FINANCIAL RESULTS REVIEW

#### RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

For the management discussion and analysis, the Group's operating results for the year ended 31 December 2018 are compared with the operating results for the year ended 31 December 2017.

All financial numbers included below are presented in Australian dollars (A\$ or \$) unless otherwise stated.

	Year ended 31 December						
	2018			2017			
	IFRS Reported \$M	Non-operating \$M	Operating \$M	IFRS Reported \$M	Non-operating \$M	Operating \$M	Change %
Revenue	4,850	41	4,891	2,601	115	2,716	80%
Other income	150	(82)	68	294	(290)	4	1,600%
Changes in inventories of finished goods and work in progress	31	–	31	7	–	7	343%
Raw materials and consumables	(669)	–	(669)	(349)	–	(349)	92%
Employee benefits	(518)	–	(518)	(302)	–	(302)	72%
Transportation	(537)	–	(537)	(312)	–	(312)	72%
Contractual services and plant hire	(418)	29	(389)	(274)	33	(241)	61%
Government royalties	(347)	–	(347)	(173)	–	(173)	101%
Coal purchases	(332)	–	(332)	(340)	–	(340)	(2%)
Other operating expenses	(278)	204	(74)	(330)	276	(54)	37%
Share of profit of equity-accounted investees, net of tax	56	–	56	32	–	32	75%
EBITDA	1,988	192	2,180	854	134	988	121%
EBITDA Margin %	41	–	45	33	–	36	
Depreciation and amortisation	(523)	–	(523)	(256)	–	(256)	104%
EBIT	1,465	192	1,657	598	134	732	126%
EBIT Margin %	30	–	34	23	–	27	
Net finance costs	(293)	23 <sup>(1)</sup>	(270)	(287)	5 <sup>(1)</sup>	(282)	(4%)
Non-operating items	–	(215)	(215)	–	(139)	(139)	55%
Profit before income tax	1,172	–	1,172	311	–	311	277%
Profit before income tax %	24	–	24	12	–	11	
Income tax expense	(320)	–	(320)	(82)	–	(82)	290%
Profit after income tax	852	–	852	229	–	229	272%
Profit after income tax %	18		17	9		8	
Attributable to:							
– Owners of Yancoal	852	–	852	229	–	229	272%
– Non-controlling interests	–	–	–	–	–	–	–

(1) Includes the reclassification of interest income of \$119 million (2017: \$114 million) from Other income to Net finance costs and Bank fees and other charges of \$96 million (2017: \$109 million) from Other operating expenses to Net finance costs as these amounts are excluded from Operating EBITDA.

To supplement the Group's consolidated financial statements, which are presented in accordance with International Financial Reporting Standards (IFRSs), the Group also uses adjusted Operating EBITDA and Operating EBIT as additional financial measures, as set out in the table above, which are unaudited and not required by, or presented in accordance with, IFRSs. These financial measures are presented because they are used by management to evaluate the Group's financial performance. These non-IFRS measures provide additional information to investors and others in understanding and evaluating the consolidated results of operations in the same manner as they help management compare the financial results across accounting periods with those of Yancoal's peer companies, by removing one-off or non-operating items.

As presented by the management, Operating EBITDA represents profit before income tax for the year as adjusted for net finance costs, depreciation and amortisation and any significant non-operating items; while Operating EBIT represents profit before income tax as adjusted for net finance costs and any significant non-operating items.

## PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Profit after income tax increased by 272% from \$229 million in 2017 to \$852 million in 2018 and was fully attributable to the owners of Yancoal with no non-controlling interests.

Profit attributable to the owners of Yancoal of \$852 million was impacted by a number of non-operating items during 2018. These included a gain of \$78 million on the disposal of a 16.6% interest in the HVO joint venture, a \$160 million fair value loss recycled from the hedge reserve, a \$25 million stamp duty expense, \$29 million of transaction costs, a \$33 million contingent royalty revaluation, a \$29 million financial asset revaluation, a \$21 million financial asset impairment and a \$4 million royalty revaluation. These are discussed in more detail separately below and have been excluded from the operating commentary.

## OVERVIEW OF OPERATING RESULTS

The below year-on-year comparison of the financial results for the years ended 31 December 2018 and 31 December 2017 is materially impacted by changes in the Group's portfolio of assets, most significantly:

- the acquisition of C&A from 1 September 2017 (C&A Acquisition);
- the acquisition of a further 28.9% interest in the Warkworth joint venture effective from 1 March 2018; the disposal of a 16.6% interest in the HVO joint venture from 4 May 2018; and the acquisition of a further 4% interest in the Moolarben joint venture from 1 December 2018 (Other Acquisitions and Disposals); and
- the expansion of the Moolarben mine from 14.7Mt ROM in 2017 to 18.6Mt ROM in 2018 (on a 100% basis).

The analysis in this section includes ex-mine sales tonnes and ex-mine revenue comprising (i) 81% of the Moolarben unincorporated joint venture up to and including 30 November 2018 and 85% thereafter; (ii) 67.6% of the unincorporated HVO joint venture up to and including 3 May 2018 and 51% thereafter; (iii) 64.1% of the unincorporated MTW joint venture up to and including 28 February 2018 and 82.5% thereafter (iv); and 100% of Yarrabee and Stratford Duralie.

The result of HVO includes the 16.6% interest subsequently sold to Glencore Coal Pty Ltd (Glencore) on 4 May 2018 as during the first four months of 2018 the Group included the operating results of the 16.6% interest in its statement of profit and loss and balance sheet. The economic interest of the said 16.6% interest was effectively transferred to Glencore on 1 September 2017; however this was compensated through an agreed reduced settlement price mechanism.

The results of Middlemount and Watagan are excluded from the line by line commentary below because their results, as incorporated equity-accounted investments, are included in Share of profits of equity-accounted investees, net of tax in the Statement of profit and loss are discussed separately below.

## REVENUE

	Year ended 31 December		
	2018 \$M	2017 \$M	Change %
Ex-mine coal sales <sup>(1)</sup>	4,416	2,204	100%
Sale of purchased coal	287	356	(20%)
Other	37	64	(42%)
<b>Sale of coal</b>	<b>4,740</b>	<b>2,623</b>	<b>81%</b>
Mining service fees	46	52	(12%)
Sea freight	66	12	450%
Other	39	29	34%
<b>Revenue</b>	<b>4,891</b>	<b>2,716</b>	<b>80%</b>

(1) Ex-mine coal sales include only coal that has been produced at one of the Group's mines. They exclude the sale of coal that has been purchased from third parties.



## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### REVENUE (CONTINUED)

Total revenue increased by 80% from \$2,716 million in 2017 to \$4,891 million in 2018, primarily due to an 81% increase in coal sales revenue from \$2,623 million in 2017 to \$4,740 million in 2018. With respect to coal sales revenue, the key factors were:

	Year ended 31 December		
	2018	2017	Change %
<b>Thermal coal</b>			
Average selling price (A\$ per tonne)	123	102	21%
Sales volume (Mt)	28.4	15.5	83%
% of total ex-mine sales volume	85	80	6%
Total ex-mine thermal coal revenue (A\$ million)	3,484	1,585	120%
<b>Metallurgical coal</b>			
Average selling price (A\$ per tonne)	182	165	10%
Sales volume (Mt)	5.1	3.8	37%
% of total ex-mine sales volume	15	20	(25%)
Total ex-mine metallurgical coal revenue (A\$ million)	932	619	51%
<b>Total coal</b>			
Average selling price (A\$ per tonne)	132	114	16%
Total ex-mine sales volume (Mt)	33.5	19.3	74%
<b>Total ex-mine coal revenue (A\$ million)</b>	<b>4,416</b>	<b>2,204</b>	<b>100%</b>

There was an increase in the Group's overall average selling price of coal of 16% from A\$114 per tonne in 2017 to A\$132 per tonne in 2018, mainly as a result of the increase in global coal market prices during this period, including low-ash thermal coal prices increasing by approximately US\$19 per tonne and semi-soft metallurgical coal prices increasing by approximately US\$15 per tonne. The Group's average selling price of thermal coal increased from A\$102 per tonne to A\$123 per tonne, while its average selling price of metallurgical coal increased from A\$165 per tonne to A\$182 per tonne. Ex-mine thermal sales represented 85% of total ex-mine sales volume in 2018; an increase from 80% in 2017.

There was an increase in our ex-mine sales volume of coal of 74% from 19.3Mt in 2017 to 33.5Mt in 2018, mainly due to (a) the full year effect of the C&A Acquisition from 1 September 2017; (b) the Other acquisitions and disposals completed during 2018; and (c) the expansion of Moolarben from 10.2Mt in 2017 to 13.5Mt (equity) in 2018.

	Year ended 31 December			
	2018		2017	
	Amount \$'m	% of revenue %	Amount \$'m	% of revenue %
Japan	1,055	22%	489	19%
Singapore	861	18%	337	13%
China	739	16%	654	25%
South Korea	664	14%	415	16%
Taiwan	518	11%	131	5%
Thailand <sup>(1)</sup>	343	7%	85	3%
Australia <sup>(1)</sup>	295	6%	237	9%
Others <sup>(2)</sup>	265	6%	275	10%
<b>Total revenue from external customers</b>	<b>4,740</b>	<b>100%</b>	<b>2,623</b>	<b>100%</b>

(1) 2017 includes the reclassification of \$85 million of revenue on the BLCP contract from Australia to Thailand.

(2) Others includes Malaysia, Germany, Vietnam, India and Switzerland.

The Group achieved an increase in revenue from external customers across each of its key geographic markets. In particular, substantial increases in revenue from 2017 to 2018 from (i) \$489 million to \$1,055 million in Japan, (ii) \$337 million to \$861 million in Singapore, (iii) \$415 million to \$664 million in South Korea and (iv) \$131 million to \$518 million in Taiwan. The increases in Japan, South Korea and Taiwan were primarily attributable to the C&A Acquisition, with the quality of coal from the HVO and MTW mines being suitable for these typically higher priced markets.

The increase in the PRC was primarily due to efforts to increase sales of the Group's higher-ash products to end users in the PRC.

The increase in Thailand was attributable to the full year effect of a long-term supply contract acquired as part of the C&A Acquisition.

## Other income

	Year ended 31 December		Change %
	2018 \$M	2017 \$M	
Net gain on foreign exchange	61	—	—
Sundry income	7	4	75%
<b>Other income</b>	<b>68</b>	<b>4</b>	<b>1,600%</b>

Other income increased from \$4 million in 2017 to \$68 million in 2018, primarily due to a net gain on foreign exchange of \$61 million (2017: net loss of \$8 million included in Other operating expenses) primarily due to exchange gains recognised on holding US\$ cash balances as the Australian dollar weakened during the year.

## Changes in inventories of finished goods and work in progress

Changes in inventories of finished goods and work in progress decreased from \$31 million in 2017 to \$7 million in 2018.

## PRODUCTION COSTS

All-in total production costs, which include cash and non-cash operating costs, represent costs directly attributable to the production, transportation and selling of coal as well as indirect corporate costs (in particular, corporate employee costs), but excluding transaction costs. Cash operating costs comprise the cost of raw materials and consumables used, employee benefits, transportation contractual services and plant hire. Non-cash operating costs include depreciation and amortisation.

	Year ended 31 December	
	2018 \$/t	2017 \$/t
<b>Per ex-mine sales tonne<sup>(1)</sup></b>		
<b>Cash operating costs</b>		
Raw materials and consumables used	20	18
Employee benefits	16	16
Transportation	16	16
Contractual services and plant hire	11	12
<b>Cash operating costs (excluding royalties)</b>	<b>63</b>	<b>62</b>
Royalties	10	9
<b>Cash operating costs</b>	<b>73</b>	<b>71</b>
<b>Non-cash operating costs</b>		
Depreciation and amortisation	16	14
<b>Total production costs</b>	<b>89</b>	<b>85</b>
Total production costs (excluding royalties)	79	76

(1) Ex-mine sales tonnes includes (i) 81% of the Moolarben unincorporated joint venture up to and including 30 November 2018 and 85% thereafter; (ii) 67.6% of the unincorporated HVO joint venture up to and including 3 May 2018 and 51% thereafter; (iii) 64.1% of the unincorporated MTW joint venture up to and including 28 February 2018 and 82.5% thereafter; and (iv) 100% of Yarrabee and Stratford Duralie.

## Raw materials and consumables used

Raw materials and consumables used increased by 92% from \$349 million in 2017 to \$669 million in 2018, primarily due to the impact of the C&A Acquisition and the Moolarben expansion that contributed to a 78% increase in saleable production. In addition, diesel costs increased by 123%, primarily due to increased market prices for diesel fuel and larger truck fleets at the acquired C&A mines. This contributed to an increase in per ex-mine sales tonne raw materials and consumables used from \$18 to \$20 over the same period.

## Employee benefits

Employee benefits expenses increased by 72% from \$302 million in 2017 to \$518 million in 2018, primarily due to the increase in overall headcount as a result of the C&A Acquisition and the Moolarben expansion. Per ex-mine sales tonne employee benefits expenses remained flat at \$16 over the same period.

## Transportation

Transportation costs increased by 72% from \$312 million in 2017 to \$537 million in 2018, primarily due to increased sales volume of coal requiring additional payments for rail and freight services. Per ex-mine sales tonne transportation costs remained flat at \$16 over the same period.

## Contractual services and plant hire

Contractual services and plant hire expenses increased by 61% from \$241 million in 2017 to \$389 million in 2018, primarily due to the C&A Acquisition, although the level of contractors has been reduced during the year at these sites. This contributed to a decrease in per ex-mine sales tonne contractual services and plant hire from \$12 to \$11 over the same period.



## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### PRODUCTION COSTS (CONTINUED)

#### Government royalties

Government royalties expenses increased by 101% from \$173 million in 2017 to \$347 million in 2018, primarily due to increased royalties levied on our increased sales revenue, which were driven by both higher prices and sales volumes. Royalties are determined on an ad valorem basis by reference to the value of coal sold, the type of mine and the State the mine is located in and are payable to the appropriate State Government. This contributed to an increase in per ex-mine sales tonne government royalties from \$9 to \$10 over the same period.

#### Coal purchases

Coal purchases decreased by 2% from \$340 million in 2017 to \$332 million in 2018. Coal purchases as a percentage of operating revenue decreased from 13% to 7% over the same period, primarily due to a relatively lower amount of coal blending being undertaken on the C&A sales while we continue to evaluate and adjust to C&A's customer relationships and their coal quality needs.

#### Other operating expenses

Other operating expenses increased by 37% from \$54 million in 2017 to \$74 million in 2018, primarily as a result of the C&A Acquisition and Moolarben expansion.

#### Share of profit of equity-accounted investees, net of tax

Share of profit of equity-accounted investees, net of tax increased by 75% from \$32 million in 2017 to \$56 million in 2018 primarily due to the improved profit after tax performance of the incorporated Middlemount joint venture. The Group's equity-accounted investment in Watagan is held on the balance sheet at nil value such that the loss after tax of the Watagan Group of \$217 million for the year ended 31 December 2018 is not reflected in the Group's Statement of profit and loss for the same period.

#### Operating EBITDA and operating EBITDA margin

Operating EBITDA increased by 121% from \$988 million in 2017 to \$2,180 million in 2018 primarily due to an 80% increase in operating revenue partially offset by an increase in cash operating costs (including royalties) from \$71 to \$73 per tonne over the same period. Operating EBITDA margin as a percentage of operating revenue increased from 36% in 2017 to 45% in 2018.

#### Depreciation and amortisation

Depreciation and amortisation expenses increased by 104% from \$256 million in 2017 to \$523 million in 2018, primarily due to an increase in mining tenements and plant and equipment of \$2,456 million and \$1,326 million, respectively, from the C&A Acquisition, together with expansionary capital incurred at Moolarben. Per ex-mine sales tonne depreciation and amortisation costs increased from \$14 to \$16 over the same period.

#### Operating EBIT and operating EBIT margin

Operating EBIT increased by 126% from \$732 million in 2017 to \$1,657 million in 2018 primarily due to an 80% increase in operating revenue partially offset by an increase in cash operating costs (including royalties) from \$71 to \$73 per tonne and an increase in depreciation and amortisation from \$14 to \$16 per tonne over the same period. Operating EBIT margin as a percentage of operating revenue increased from 27% in 2017 to 34% in 2018.

#### Net finance costs

Net finance costs decreased by 4% from \$282 million in 2017 to \$270 million in 2018, primarily due to (i) an overall reduction in interest-bearing liabilities during 2018 compared to 2017 following several voluntary loan repayments and (ii) a reduction in the Yanzhou guarantee fee provided on the Group's syndicated facility being partially offset by (i) an increase in LIBOR during the year from an average of 1.17% in 2017 to an average of 2.43% in 2018 and (ii) a decrease in the A\$:US\$ exchange rate resulting in an increase in the Australian dollar finance charge. Net finance costs as a percentage of operating revenue decreased from 9% to 6% over the same period, primarily due to the C&A Acquisition being equity-funded, which reduced the Group's overall gearing levels.

#### Profit before income tax and profit before income tax margin

As a result of the aforementioned reasons, profit before income tax increased by 277% from \$311 million in 2017 to \$1,172 million in 2018. Profit before income tax margin as a percentage of operating revenue increased from 11% to 24% over the same period.

#### Income tax expense

Income tax expense increased by 290% from \$82 million in 2017 to \$320 million in 2018. The effective tax rate was 26.4% and 27.3% in the same years, respectively, which is lower than the Australian corporate income tax rate of 30%. In 2018 the lower effective tax rate primarily resulted from certain non-assessable income items including the Group's share of equity-accounted profits and part of the gain on the partial disposal of HVO and an over provision in the prior year. In 2017 the lower effective tax rate also primarily resulted from certain non-assessable income items including the Group's share of equity-accounted profits and the gain on the C&A Acquisition partially offset by non-deductible stamp duty incurred on the C&A Acquisition.

#### Profit after income tax and profit after income tax margin

As a result of the aforementioned reasons, profit after income tax increased by 272% from \$229 million in 2017 to \$852 million in 2018. Profit after income tax margin as a percentage of operating revenue increased from 8% to 17% over the same period.

## OVERVIEW OF NON-OPERATING ITEMS

Non-operating items in the year ended 31 December 2018 and 2017 included the following:

	Year ended 31 December	
	2018 \$M	2017 \$M
Gain on disposal of interest in joint venture	78	–
Fair value losses recycled from hedge reserve	(160)	(229)
Stamp duty expensed	(25)	(167)
Transaction costs	(29)	(33)
Re-measurement of contingent royalty	(33)	–
Re-measurement of financial assets	(29)	–
Impairment of financial assets	(21)	–
Re-measurement of royalty receivable	4	8
Gain on acquisition of subsidiaries	–	177
Impairment reversal on mining tenements	–	100
Receipts from joint venture participants	–	5
<b>Non-operating items</b>	<b>(215)</b>	<b>(139)</b>

Gain on disposal of interest in joint venture of \$78 million is a one-off gain recognised on the disposal of a 16.6% interest in the HVO joint venture to Glencore whereby it was determined that the fair value of the consideration received and receivable exceeded the book value of the assets and liabilities being de-recognised.

Fair value losses recycled from the hedge reserve of \$160 million (2017: \$229 million) represent retranslation losses on the Group's US dollar-denominated loans which are attributable to changes in US\$:A\$ foreign exchange rates. Under the Group's natural hedge policy, such losses are recycled to the Statement of profit and loss based on the scheduled loan maturity dates. The amount of any fair value loss or gain recycled from the hedge reserve in a period is a function of the amount of the hedged US dollar loan scheduled to mature in that period and the respective US\$:A\$ exchange rates at the time the hedge was put in place and at the time the loan matured.

Stamp duty of \$25 million was recognised on the acquisitions of the further 28.9% interest in the Warkworth joint venture, and the further 4% interest in the Moolarben joint venture together with the final-true up on the C&A Acquisition. In 2017 stamp duty of \$167 million was recognised on the C&A Acquisition.

Transaction costs of \$29 million were recognised on the Hong Kong Initial Public Offering (IPO) (excluding capitalised equity raise costs). In 2017 transaction costs of \$33 million were recognised on the C&A Acquisition and associated equity raise (excluding capitalised equity raise costs).

Re-measurement of contingent royalty of \$33 million (2017: nil) represents an increase in the provision recognised on the C&A Acquisition with respect to the contingent coal price-linked royalty potentially payable to Rio Tinto from 1 September 2020.

Re-measurement of financial assets of \$29 million (2017: nil) and impairment of financial assets of \$21 million (2017: nil) both related to the decrease in the carrying value of the Group's investments in the WICET issued E Class Wiggins Island Preference Securities and WICET issued Gladstone Long Term Securities from \$64 million to \$14 million recognised during the year as a result of the lead bank syndicate's loan restructure negatively impacting their assessed fair value/recoverable amount.

Re-measurement of the royalty receivable of \$4 million (2017: \$8 million) relates to the change in the estimated fair value of the Group's Middlemount royalty receivable recognised on its right to receive a royalty of 4% of Free on Board Trimmed Sales on 100% of the Middlemount mine coal sales.

In 2017 non-operating items also included a \$177 million gain on acquisition on the C&A Acquisition, a \$100 million impairment reversal on the mining tenements at Moolarben and a \$5 million one-off joint venture participant receipt.



## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### CASH FLOW ANALYSIS

	Year ended 31 December		Change \$M
	2018 \$M	2017 \$M	
Net operating cash flows	1,747	408	1,339
Net investing cash flows	(55)	(3,386)	3,331
Net financing cash flows	(904)	2,999	(3,903)
<b>Net increase in cash</b>	<b>788</b>	<b>21</b>	<b>767</b>

#### Net operating cash flows

Net operating cash inflows increased by \$1,339 million (328%) to \$1,747 million mainly reflecting the higher operating EBITDA, positively impacted by the increase in coal prices and the full year effect of the C&A Acquisition and the Moolarben expansion.

#### Net investing cash flows

Net investing cash outflows decreased by \$3,331 million (98%) to \$55 million mainly reflecting the acquisitions and disposals undertaken by the Group. In 2018 investing cash outflows included (i) \$353 million paid for a further 28.9% interest in the Warkworth joint venture and a further 4% in the Moolarben joint venture net of cash acquired; (ii) \$194 million of capital expenditure; and (iii) \$123 million provided to Watagan under the Watagan loan facility. These outflows were partially offset by inflows including (i) \$524 million received on the disposal of a 16.6% interest in the HVO joint venture net of cash disposed; and (ii) \$117 million received as a loan repayment from the Middlemount joint venture. In 2017 investing cash outflows included (i) \$3,247 million paid on the C&A Acquisition net of cash acquired; and (ii) \$299 million of capital expenditure.

#### Net financing cash flows

Net financing cash outflows increased by \$3,903 million (130%) to an outflow of \$904 million. In 2018 the net financing cash outflow included (i) \$1,014 million of voluntary net debt repayments; (ii) \$130 million interim dividend; and (iii) \$268 million of gross proceeds received from the Hong Kong IPO. In 2017 the net cash inflow included \$3,125 million received on the equity raise undertaken to support the C&A Acquisition.

### FINANCIAL RESOURCES AND LIQUIDITY

	Year ended 31 December		Change \$M
	2018 \$M	2017 \$M	
Current assets	1,922	1,689	233
Current liabilities	(913)	(1,013)	100
<b>Net current assets</b>	<b>1,009</b>	<b>676</b>	<b>333</b>
Total assets	12,408	12,313	95
Total liabilities	(6,570)	(7,287)	717
<b>Total equity</b>	<b>5,838</b>	<b>5,026</b>	<b>812</b>

Net current assets increased by \$333 million to \$1,009 million at 1 December 2018 reflecting the strong operating cash flows generated during the year.

Total equity increased by \$812 million to \$5,838 million at 31 December 2018 mainly reflecting the \$852 million profit after income tax for the year.

The Group's primary source of liquidity was operating cash flows that contributed \$1,747 million during the year ended 31 December 2018. This enabled the declaration of dividends for the year ended 31 December 2018 of \$507 million and the net repayments of interest-bearing liabilities of \$1,014 million.

For the year ended 31 December 2019 the primary source of liquidity is expected to continue to be operating cash flows. Historically, the Group's primary sources of liquidity have consisted of operating cash flows, interest-bearing liabilities, including shareholder loans, and new equity.

The Group's capital structure and gearing ratio are set out in the table below.

	Year ended 31 December		Change \$M
	2018 \$M	2017 \$M	
Interest-bearing liabilities	4,124	4,723	(599)
Less: cash and cash equivalents	(1,031)	(207)	(824)
<b>Net debt</b>	<b>3,093</b>	<b>4,516</b>	<b>(1,423)</b>
Total equity	5,838	5,026	812
<b>Net debt + total equity</b>	<b>8,931</b>	<b>9,542</b>	<b>(611)</b>
Gearing ratio <sup>(1)</sup>	0.35	0.47	

(1) The Group's gearing ratio is defined as net debt (being interest-bearing liabilities less cash and cash equivalents) divided by net debt + total equity.

The Group's objective when managing its capital structure is to provide sustainable dividends to equity holders, pay down interest-bearing liabilities to a supportable level whilst providing capital towards sustaining capital expenditure, and organic and inorganic expansion opportunities.

The gearing ratio has improved significantly during the year decreasing from 0.47 as at 31 December 2017 to 0.35 as at 31 December 2018.

The Group's interest-bearing liabilities include secured bank loans of A\$2,572 million (2017: A\$3,141 million) and unsecured loans from related parties of A\$1,510 million (2017: A\$1,527 million) both denominated in US dollars; and secured lease liabilities of A\$42 million (2017: A\$55 million) denominated in Australian dollars.

Secured bank loans carry a floating interest rate calculated with reference to the three-month LIBOR rate for which the average all-in rate for the year ended 31 December 2018 was 7.10% (2017: 7.93%). Unsecured loans from related parties carry a fixed interest rate for which the rate for the year ended 31 December 2018 was 7.00% (2017: 7.00%).

The Group's cash and cash equivalents include A\$282 million (2017: A\$68 million), US\$395 million (2017: US\$108 million) and HK\$1,046 million (2017: HK\$ nil).

While the Company operates entirely in Australia and its costs are primarily denominated in its functional currency, the A\$, foreign currency exposure arises particularly in relation to coal supply contracts, which generally are priced and payable in US\$, procurement of diesel and imported plant and equipment, which can be priced in US\$ or other foreign currencies, and debt denominated in US\$.

The impact of exchange rate movements will vary depending on factors such as the nature, magnitude and duration of the movements, the extent to which currency risk is hedged under forward exchange contracts or other hedging instruments and the terms of these contracts.

The hedging policy of the Company aims to protect against the volatility of cash expenditures or reduced collection in the above mentioned transactions as well as to reduce the volatility of profit or loss for retranslation of US dollar denominated loans at each period end.

Operating foreign exchange risk that arises from firm commitments or highly probable transactions is managed through the use of bank issued forward foreign currency contracts and collar option contracts. The Company hedges a portion of contracted US\$ sales and asset purchases settled in foreign currencies in each currency to mitigate the adverse impact on cash flow due to the future rise or fall in the A\$ against the relevant currencies.

More details on interest-bearing liabilities, cash and cash equivalents and equity including types of instrument used, security provided, maturity profile of interest-bearing liabilities, interest rates and hedging strategies are included in Notes D2, D4 and D9 to the financial statements in this report.

#### **Available debt facilities**

As at 31 December 2018 the Group has no available undrawn debt facilities.

As at 31 December 2018 the Group has \$196 million of undrawn bank guarantee facilities that are provided for operational purposes in favour of port, rail, government departments and other operational functions in the normal course of business.

## **CAPITAL EXPENDITURE AND COMMITMENTS**

During the year ended 31 December 2018 capital expenditure of the Group amounted to \$212 million comprising \$210 million of property, plant and equipment and \$2 million of exploration.

As at 31 December 2018 commitments of the Group comprised capital commitments of \$49 million, non-cancellable operating leases of \$88 million and finance leases of \$42 million.

More detail on commitments is included in Note F1 to the financial statements in this report.

## **SIGNIFICANT INVESTMENTS**

No significant inorganic investments are currently planned in the near future as the Group focuses on organic growth opportunities and business as usual expenditure.

The Group continues to pursue its long-term strategy for organic growth, with a commitment to progressing its brownfield expansion and extension projects.

In the year ahead, the Group will continue to focus on exploration and expansion works across the tier-one assets of MTW and Moolarben respectively funded from operating cash flows.

Key projects include the conceptual underground mine at MTW with an estimated 6 million ROM tonnes per annum, which completed exploration drilling for the prefeasibility on the target seams at the end of 2018.

The Group received approvals to commence mining activities associated with the Lot 1 and Lot 2 areas of MTW during the reporting period, enabling commencement of the extension of the existing West Pit on the Warkworth side in 2019.

Proposed modifications for the Moolarben open cut pits are awaiting approval, as the Group continues to maximise improved extraction rates in both the open cut and underground mines.

The above projects are expected to be funded from operating cash flows.

## **MATERIAL ACQUISITIONS AND DISPOSALS**

During the year, the Group made the following material acquisitions and disposals.

### **Warkworth Acquisition**

On 7 March 2018, the Group completed the acquisition of a further 28.9% interest in the Warkworth unincorporated joint venture (Warkworth) from Mitsubishi Development Pty Ltd (MDP) for a net cash consideration of \$334 million (Warkworth Acquisition). This increased the Group's ownership of Warkworth from 55.6% to 84.5%. The Warkworth Acquisition was executed pursuant to a call option that was held in connection with the C&A Acquisition. As MTW is an integrated operation consisting of the Mount Thorley mine (owned by the unincorporated Mount Thorley joint venture, of which the Group owns 80.0%) and the Warkworth mine (owned by the unincorporated Warkworth joint venture), following the Warkworth Acquisition, the Group's share of coal production from the MTW mining operations has increased from 64.1% to 82.9%. The Group will continue to account for the financial results of the MTW mine under the proportional consolidation method of accounting.



## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### MATERIAL ACQUISITIONS AND DISPOSALS (CONTINUED)

#### HVO Disposal

On 4 May 2018, the Group completed the disposal of a 16.6% interest in the unincorporated HVO joint venture to Glencore, reducing the Group's interest in HVO from 67.6% to 51% and resulting in a 51%:49% unincorporated joint venture between Yancoal and Glencore. Net cash consideration received during the year was \$524 million with future payments receivable regarding 28% of future non-contingent royalty payments and 49% of any contingent coal price-linked royalty payments associated with HVO, which are payable by the Group to Rio Tinto pursuant to the terms of the C&A Acquisition agreements.

The Group classified the 16.6% interest in HVO to be sold to Glencore as assets held for sale as at 31 December 2017, based on the determination that the disposal was likely to be completed. Following completion, the Group has continued to account for the financial results of the HVO mine under the proportional consolidation method of accounting.

#### Moolarben Acquisition

On 30 November 2018, the Group completed the acquisition of a further 4% interest in the Moolarben unincorporated joint venture from Kores Australia Moolarben Coal Pty Limited (Moolarben Acquisition). During the year net cash of \$19 million was paid with a further \$42 million payable in two installments in 2019. The Moolarben Acquisition increased the Group's interest in the unincorporated Moolarben joint venture to 85%. The Group will continue to account for the financial results of the Moolarben mine under the proportional consolidation method of accounting.

### INITIAL PUBLIC OFFERING

The shares of the Company (New Shares) became listed on the Main Board of The Stock Exchange of Hong Kong Ltd (HKEx) on 6 December 2018 representing a key milestone in the development of the Group. In connection with the Company's initial public offering (the Global Offering) 59,441,900 New Shares were issued. On 28 December 2018, a further 563,881 New Shares were issued under the Retail Tranche of the Australian Entitlement Offer and on 3 January 2019 a further 4,361,900 New Shares were issued under the partial exercise of the Overallotment Option, all in connection with the Global Offering for HK\$23.48 per New Share (approximately A\$4.09). The total amount raised was A\$268 million and A\$37 million of issue costs were incurred of which A\$8 million was capitalised.

### EMPLOYEES

As at 31 December 2018, the Group had 3,060 employees (including casual labour who are full-time equivalents), all located in Australia, in addition to other contractors and service providers who support the Group's operations. For the year ended 31 December 2018, the total employee costs (including the directors' emoluments) amounted to \$518 million (2017: \$302 million).

Remuneration packages and benefits are determined in accordance with market term, and industry practice as well as the nature of duties, performance, qualifications and experience of employees and are reviewed on an annual basis. Remuneration packages include base wages or salaries, short-term site production bonuses, short-term and long-term incentives, non-monetary benefits, superannuation and long service leave contributions and insurance.

The Group's remuneration policies ensure remuneration is equitable, aligns with the long-term interests of the Group and Shareholders, complies with the diversity policy, provides market competitive remuneration to attract and retain skilled and motivated employees and structures incentives to link rewards with performance.

Details of the Group's executive short- and long-term incentive plans are included in the Remuneration Report in this report.

The Company believes that capable and competent employees contribute to the success of the Group. The Group invests in competence development and assurance programs to ensure statutory compliance and zero harm to its employees. The Group also contributes to the ongoing professional development of its employees. This investment contributes to a pipeline of employees who are ready to transition into new roles as well as creating a value proposition for new employees looking to join the Group.

### EVENTS OCCURRING AFTER THE REPORTING DATE

On 4 January 2019 BOCI Financial Products Limited notified Watagan and Yankuang Group Co., Ltd (Yankuang) that it was exercising its put option over US\$200 million of bonds. As a consequence, Yankuang will become the bondholder of the put bonds following completion of the purchase of those bonds by Yankuang expected to occur on or around 1 April 2019. No security will be given by Watagan in favour of Yankuang. As the put bonds represent less than 50.1% of the face value of the bonds, and the put option was not exercised by the instructing bondholder, the put option is not deemed to have been exercised as to all the bonds nor has control of Watagan been regained by the Group such that Watagan continues to be deconsolidated.

On 25 February 2019, Yancoal announced a final dividend for the financial year ended 31 December 2018 of A\$377 million (A\$0.2855 per share to be comprised of an ordinary dividend of A\$0.1596 and a special dividend of \$0.1259), with a record date of 11 March 2019. The final dividend is expected to be distributed on 30 April 2019.

As announced on 25 February 2019, Yancoal will pre-pay a further US\$500 million in loans, reducing its total debt liabilities by US\$1.4 billion since September 2017. The pre-payment consists of US\$250 million in pre-paid loans from Bank of China and China Construction Bank, and US\$250 million in pre-paid Yanzhou-related loans.

For a full description of the matters and circumstances that have occurred subsequent to the end of the financial period please see page 58 in the Directors' Report.

### FINANCIAL AND OTHER RISK MANAGEMENT

The Group is exposed to financial risks arising from its operations and the use of financial instruments. The key financial risks include currency risk, price risk, interest rate risk, credit risk and liquidity risk. The Board reviews and agrees policies and procedures for management of these risks.

#### Currency Risk

The Group operates entirely in Australia and its costs are primarily denominated in its functional currency, the Australian dollar. Export coal sales are denominated in US dollars and a strengthening of the Australian dollar against the US dollar has an adverse impact on earnings and cash flow settlement. Liabilities for some plant and equipment purchases and loans are denominated in currencies other than the Australian dollar and a weakening of the Australian dollar against other currencies has an adverse impact on earnings and cash flow settlement.

See Note D9(a)(i) to the financial statements in this report for further details on foreign currency exposure and a sensitivity analysis of the impact of hypothetical increases and decreases in the Australian dollar against relevant foreign currencies.

### Price Risk

The price risk of the Group includes coal price risk.

The Group does not enter into commodity contracts other than to meet the Group's expected usage and sales requirements; and such contracts are not settled net. The royalty receivable from Middlemount is exposed to fluctuations in coal price. The Group currently does not have any derivative hedges in place against the movement in the spot coal price.

See Note D9(d)(iii) to the financial statements in this report for the royalty receivable coal price sensitivity analysis.

Coal sales are predominately provisionally priced initially. Provisionally priced sales are those for which price finalisation, referenced to the relevant index, is outstanding at the reporting date. Provisional pricing mechanisms embedded within these sales arrangements have the character of a commodity derivative and are carried at fair value through profit and loss as part of trade receivables. The final sales price is determined normally seven to 90 days after delivery to the customer. At 31 December 2018, there were \$234 million of provisionally priced sales. If prices were to increase by 10% provisionally priced sales would increase by \$23 million.

### Interest Rate Risk

The Group is subject to interest rate risk that arises from borrowings and cash and cash equivalents. Generally, no variable interest is receivable or payable on the Group's trade and other receivables or payables where applicable as they are fixed in nature and, therefore, they are not exposed to the interest rate risk.

The Group's cash flow interest rate risk for assets primarily arises from cash at bank and deposits subject to market bank rates. Floating rate borrowings bearing LIBOR rates are re-set on a quarterly basis.

See Note D9(a)(iii) to the financial statements in this report for a sensitivity analysis of the impact of hypothetical increases and decreases in interest rates.

### Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. As at 31 December 2018 the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantees provided by the Group arises from the carrying amount of the respective recognised financial assets as stated in the Consolidated balance sheet and the amount of contingent liabilities in relation to financial guarantees issued by the Group.

In order to minimise credit risk, management has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors consider that the Group's credit risk is significantly reduced. The Group maintains its cash and cash equivalents with reputable banks. Therefore, the Directors consider that the credit risk for such amounts is minimal.

See Note D9(b) to the financial statements in this report for further details on the Group's credit risk exposure.

### Liquidity Risk

Liquidity risk includes the risk that the Group will not be able to meet its financial obligations as they fall due. The Group will be impacted in the following ways:

- (i) will not have sufficient funds to settle transactions on the due date;
- (ii) will be forced to sell financial assets at a value which is less than what they are worth; or
- (iii) may be unable to settle or recover a financial asset at all.

Liquidity risk is managed by maintaining sufficient cash and liquid deposit balances and having readily accessible standby facilities in place in accordance with the Board's risk management policy.

See Note D9(c) to the financial statements in this report for further details on the remaining contractual maturity for the Group's financial liabilities.

### CONTINGENT LIABILITIES

The contingent liabilities of the Group as at 31 December 2018 comprise (i) \$875 million of bank guarantees comprising \$471 million of performance guarantees provided to third parties and \$404 million of guarantees provided in respect of the cost of restoration of certain mining leases given to government departments as required by statute with respect to the Group's owned and managed mines; (ii) a letter of support provided to the Middlemount Coal Pty Limited joint venture; and (iii) a number of claims that have been made against the Group, including in respect of personal injuries, and in relation to contracts which Group members are party to as part of the Group's day to day operations.

See Note D8 to the financial statements in this report for further details on the Group's contingent liabilities.

### CHARGES ON ASSETS

The Group has a Syndicated Bank Guarantee Facility provided by a syndicate of seven Australian and International banks totalling A\$1 billion. As at 31 December 2018 the facility was drawn to A\$808 million.

During 2018 five of the seven banks also provided a Syndicated Term Loan facility of US\$300 million which was fully drawn during the year.

The Syndicated Bank Guarantee and Term Loan facilities are both secured by the assets of the consolidated group of Yancoal Resources Ltd and Coal & Allied Industries Ltd (both wholly owned subsidiaries of Yancoal Australia Ltd) with a carrying value of \$9,486 million as at 31 December 2018.

### FUTURE PROSPECTS

Yancoal will maintain strong cost discipline, with 2019 cash costs (excluding government royalties) expected to remain flat at around A\$62.5/t (2018: A\$63/t).

For 2019 Yancoal is targeting a dividend payout of 50% of net profit after income tax (adjusted for the impact of foreign exchange hedge reserve movements and any other non-operating items).

2019 guidance for saleable coal production is approximately 35 million tonnes (attributable). Expected 2019 capital expenditure is around A\$285 million (attributable).



## APPENDIX 4E

### 1. RESULTS FOR ANNOUNCEMENT TO THE MARKET

	31 December 2018 \$M	31 December 2017 \$M	% Change
Revenue from ordinary activities	4,850	2,601	86%
Profit before income tax (before non-recurring items)	1,198	229	423%
Profit before income tax (after non-recurring items)	1,172	311	277%
Net profit after income tax attributable to members (before non-recurring items)	868	211	311%
Net profit after income tax attributable to members (after non-recurring items)	852	229	272%

### 2. EARNINGS PER SHARE<sup>1</sup>

	31 December 2018 cents	31 December 2017 cents	% Change
<i>Profit per share (before non-recurring items)</i>			
– Basic	68.9	47.9	44%
– Diluted	68.8	25.8	167%
<i>Profit per share (after non-recurring items)</i>			
– Basic	67.6	52.0	30%
– Diluted	67.6	28.0	141%

### 3. NET TANGIBLE ASSETS PER SECURITY<sup>1</sup>

	31 December 2018 \$	31 December 2017 \$	% Change
Net tangible assets per share	4.35	3.92	11%

### 4. DISTRIBUTIONS

#### Ordinary share distributions

On 21 September 2018 the Company paid an interim unfranked dividend of \$130 million (10.3 cents per share, adjusted for share consolidation on 28 September 2018) for the six months ended 30 June 2018 (2017: nil).

On 25 February 2019, the Directors recommended a final unfranked dividend totaling AU\$377 million (28.6 cents per share), with a record date of 11 March 2019 (2017: nil). The final dividend will be paid on 30 April 2019.

#### Subordinated Capital Note (“SCN”) distributions

	31 December 2018 US\$ per SCN	31 December 2017 US\$ per SCN
Final distribution paid on 31 January 2018 (31 December 2016 accrual paid on 31 January 2017)	3.50	3.50
Distribution paid on 31 July 2017	–	3.50
	3.50	7.00

On 31 January 2018 1,606 SCNs were converted into new ordinary shares and 3,294 SCNs were redeemed for cash. After 31 January 2018 there were no SCNs on issue.

<sup>1</sup> 2017 figures have been adjusted for the 35 to 1 ordinary share consolidation that occurred on 28 September 2018.

## 5. ENTITIES OVER WHICH CONTROL HAS BEEN GAINED OR LOST DURING THE PERIOD

### a. Acquisitions

No entities were incorporated or acquired during the year.

### b. Loss of control

During the period loss of control occurred with the following entities:

HV Operations Pty Ltd  
HVO Coal Sales Pty Ltd  
HVO Services Pty Ltd

### c. Disposals

No entities were disposed of or deregistered during the year.

## 6. DETAILS OF ASSOCIATES AND JOINT VENTURE ENTITIES

	31 December 2018		31 December 2017	
	Holdings %	Profit after income tax contribution \$M	Holdings %	Profit after income tax contribution \$M
<i>Joint venture entities</i>				
Moolarben Joint Venture (unincorporated)	85%	511	81%	290
Boonal Joint Venture (unincorporated)	50%	Immaterial	50%	Immaterial
Middlemount Joint Venture	49.9997%	46	49.9997%	32
Warkworth Joint Venture (unincorporated)	84.472%	369	55.574%	71
Mount Thorley Joint Venture (unincorporated)	80%	105	80%	47
Hunter Valley Operations Joint Venture (unincorporated)	51%	337	67.6%	116
HVO Entities <sup>(a)</sup>	51%	1	N/A	N/A
<i>Associate entities</i>				
Newcastle Coal Infrastructure Group Pty Ltd	27%	Nil	27%	Nil
Watagan Coal Mining Company Pty Ltd	100%	Nil	100%	Nil
Port Waratah Coal Services Pty Ltd	30%	9	36.53%	Immaterial

(a) HVO Entities consists of the following entities:

HV Operations Pty Ltd  
HVO Coal Sales Pty Ltd  
HVO Services Pty Ltd

All other information can be obtained from the attached financial statements, accompanying notes and Directors' report.



## DIRECTORS' REPORT

The Directors present their report on the consolidated entity ("Yancoal" or "the Group") consisting of Yancoal Australia Ltd ("the Company") and the entities it controlled at the end of, or during, the year ended 31 December 2018.

### DIRECTORS

The following persons were Directors of Yancoal Australia Ltd during the financial year and until the date of this report. Directors were in office for this entire period unless otherwise stated.

Cunliang Lai  
 Baocai Zhang  
 Fucun Wang (appointed 8 June 2018)  
 Fuqi Wang  
 Gregory James Fletcher  
 Geoffrey William Raby  
 Qingchun Zhao  
 Xiangqian Wu  
 Xing Feng  
 Xiyong Li (resigned 8 June 2018)  
 Vincent O'Rourke (resigned 30 January 2018)  
 Huaqiao Zhang (resigned 30 January 2018)  
 David James Moulton (appointed 30 January 2018)  
 Helen Jane Gillies (appointed 30 January 2018)

### COMPANY SECRETARY

The name of the Company Secretary in office during the whole of the financial year and up to the date of this report is as follows:

Laura Ling Zhang

### REVIEW OF OPERATIONS

#### Safety

Yancoal employs approximately 4,000 people in addition to the contractors and service providers who support the Group's operations.

Yancoal Total Recordable Injury Frequency Rate ("TRIFR") for the reporting period was 7.74, an improvement on 10.43 in the previous year.

No significant events were recorded at Yancoal's mine sites for the period, with sites continuing to operate to legislative and safety standards.

Under the direction of the Health, Safety and Environment Committee, Yancoal remains committed to operating safely and transparently to achieve its objective of zero harm.

Yancoal continues to implement its Critical Controls safety training initiative across all operations, identifying key hazards within the workplace and instituting effective management and response practices for all people on site to follow.

#### Financial performance

Yancoal achieved a total operating earnings before interest and tax ("EBIT") of \$1,657 million before tax, up \$925 million on the year prior.

Yancoal's profit after income tax was \$852 million (2017: \$229 million) from revenue of \$4,850 million (2017: \$2,601 million) for the full year ended 31 December 2018.

Yancoal's improved financial performance continued to be driven by sustained high production rates at its low-cost tier-one assets, maximising sales opportunities to meet increasing global demand as metallurgical coal and thermal coal prices continued to strengthen.

Yancoal operations continued to implement cost reduction and efficiency initiatives throughout 2018, maximising blended products across the New South Wales operations (both managed and operated) to meet increasing global market opportunities.

#### Cash flow

The full year's net operating cash inflow of AU\$1,747 million was up AU\$1,339 million on the year prior, the growth directly attributable to the addition of a full year's production at Mount Thorley Warkworth, Hunter Valley Operations and the Moolarben underground at a time of sustained high market prices for thermal and metallurgical coals.

Cash outflows from investing activities was AU\$55 million, with the receipt of AU\$524 million for the sell-down of 16.6% in the Hunter Valley Operations joint venture to Glencore Coal, largely offsetting Yancoal's AU\$353 million purchase of Mitsubishi Development Pty Ltd's ("MDP") 28.898% interest in the Warkworth joint venture and 2018 operating capital expenditure of AU\$194 million.

Cash outflows from financing activities included the net repayment of AU\$1,014 million in interest-bearing liabilities, up from AU\$196 million in 2017, using improved cash from operations plus some funds from the AU\$268 million raised as part of the Global Offering associated with its listing on the HKEx.

#### Corporate activities

As announced, on 29 November 2018 the Company launched a Global Offering in connection with its listing on the Main Board of The Stock Exchange of Hong Kong Limited ("HKEx").

On 6 December 2018 the Company issued 59,441,900 new shares under the Global offering and on 28 December 2018 563,881 new shares were issued under the Retail Entitlement offer and on 3 January 2019 4,361,900 new shares were issued under partial exercise of the Over Allotment Option, all in connection with the Global Offering for HK\$23.48 per New Share (approximately AU\$4.09). The total amount raised was AU\$268 million and AU\$37 million of issue costs were incurred of which AU\$8 million was capitalised.

Details of the Shares movements by Yancoal are set out in Note D4(b) and D7(c) of the financial statements. Other than as disclosed above, during the year ended 31 December 2018, neither Yancoal nor any of its subsidiaries purchased, sold or redeemed any of Yancoal's listed securities.

Settlement of the Global Offering, and the issue and commencement of trading of the shares on the HKEx, occurred 6 December 2018, establishing Yancoal as Australia's largest pure-play, dual-listed coal producer.

Yancoal continued to reduce its existing debt liabilities in 2018, with net payments made on interest bearing liabilities of US\$900 million since 1 September 2017. In 2018, Yancoal repaid US\$125 million of unsecured loans to Yanzhou Coal Mining Co Ltd and pre-paid loans to Bank of China and China Construction Bank under its Syndicated Facility Agreement. As at 31 December 2018, Yancoal had pre-paid a total US\$1,075 million in loans under its Syndicated Facility Agreement since completion of Yancoal's acquisition of Coal & Allied Industries Ltd ("Coal & Allied") from Rio Tinto on 1 September 2017. A Syndicated Term Loan<sup>1</sup> of US\$300 million was taken out and all proceeds used to repay the Syndicated Facility.

<sup>1</sup> Syndicate of five domestic and international banks.

Yancoal paid its inaugural unfranked interim dividend of AU\$130 million, with a record date of 7 September 2018 and payment date of 21 September 2018, representing a payout ratio of 36% of profit after tax for the half year, consistent with the 25-40% range detailed in the Company's Constitution.

As announced 30 November 2018, Yancoal acquired an additional 4% interest in the Moolarben unincorporated joint venture from KORES Australia Moolarben Coal Pty Ltd, a wholly owned subsidiary of Korea Resources Corporation ("KORES") for AU\$84 million, split into four installments and reduced by a AU\$21 million effective date adjustment. Following the acquisition, Yancoal (through its subsidiary Moolarben Coal Mines Pty Ltd) holds 85% of the Moolarben Joint Venture.

At an Extraordinary General Meeting in September 2018, Yancoal shareholders voted in favour of the consolidation of Yancoal shares on the basis that every 35 fully paid ordinary shares be consolidated into one share, to establish a more appropriate share capital structure for a company with Yancoal's market capitalisation.

Yancoal announced on 4 May 2018 that the Company had completed the establishment of its 51:49 unincorporated joint venture with Glencore Coal Pty Ltd ("Glencore") for the Hunter Valley Operations Joint Venture ("HVO JV"), following satisfaction of all remaining conditions precedent.

To establish the joint venture, Glencore acquired:

- a 16.6% interest in the HVO JV from Yancoal for approximately US\$429 million before adjustments; and
- a 32.4% interest in the HVO JV directly from Mitsubishi Development Pty Ltd.

As announced on 7 March 2018, Yancoal completed its purchase of Mitsubishi Development Pty Ltd's ("MDP") 28.898% interest in the Warkworth joint venture for US\$230 million plus a net debt and working capital adjustment.

As announced on 31 January 2018, at the request of certain eligible holders, 1,606 Subordinated Capital Notes ("SCNs") issued by Yancoal SCN Limited (ASX:YCN) ("Yancoal SCN") were converted,

effective 31 January 2018, into fully paid ordinary shares in Yancoal Australia Ltd, in accordance with the terms of issue of the SCNs.

Yancoal SCN also redeemed any outstanding SCNs and was subsequently removed from the official list of the Australian Securities Exchange on 1 February 2018, after the Face Value and Final Distribution were paid to holders.

Yancoal announced a series of changes to its Board in 2018:

- the appointment of Mr Baocai Zhang as Chairman, effective 8 June 2018, following the resignation of former Chairman Mr Xiyong Li;
- the appointment of Mr Fucun Wang as a Director and Vice Chair of Yancoal effective 8 June 2018. Mr Wang was also appointed as the new Chair of the Executive Committee ("CEC"), following Mr Baocai Zhang's resignation as CEC;
- the resignation of Mr Cunliang Lai who resigned as Vice Chair of Yancoal effective 8 June 2018. Mr Lai continued in his role as a Non-Executive Director;
- the appointment of Mr Gregory Fletcher as Co-Vice Chair of Yancoal, effective from 1 March 2018; and
- the appointment of Ms Helen Gillies and Mr David Moults as Independent Non-Executive Directors, following the resignation of Mr Vincent O'Rourke AM and Mr Huaqiao Zhang, effective 30 January 2018.

During the year, the Company did not redeem any of its listed securities nor did the Company or any of its subsidiaries sell any such securities. On 21 June 2018, CPU Share Plans Pty Ltd, a provider of services in transfer agency and share registration, employee equity plans, etc, acquired 42,574,974 fully paid ordinary shares in the Company at A\$0.12999999 per share (an aggregate of A\$5,534,746). The shares were acquired on the Company's behalf for the purposes of granting special incentives and transaction bonuses in relation to 2017 performance. On 3 September 2018 there were 41,482,103 shares granted to various Company employees. The share counts and prices referenced are from before the 35:1 share consolidation which occurred on 18 September 2018.

### Mining operations (all figures reported on a 100% basis)

ROM Coal Production Mt	Ownership %	December YTD		
		2018	2017	Change %
Moolarben	85%	18.6	14.7	27%
Mount Thorley Warkworth	82.9%	17.6	5.8	203%
Hunter Valley Operations	51%	19.0	6.2	206%
Stratford Duralie	100%	0.7	0.9	(22%)
Yarrabee	100%	3.4	3.4	–
Middlemount	49.9997%	4.8	5.3	(9%)
Watagan (Ashton, Austar and Donaldson)	100%	2.4	4.8	(50%)
<b>Total – 100% Basis</b>		<b>66.5</b>	<b>41.1</b>	<b>62%</b>
<b>Total – Attributable</b>		<b>42.9</b>	<b>24.2</b>	<b>77%</b>

Notes:

- a. 2017 attributable figures include only four months of attributable production for Hunter Valley Operations and Mount Thorley Warkworth from 1 September.
- b. 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, as announced 30 November 2018.
- c. 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).
- d. Attributable figures include Mount Thorley Warkworth 64.1% from 1 September 2017 up to and including 28 February 2018 and 82.9% thereafter.



## DIRECTORS' REPORT (CONTINUED)

Saleable Coal Production Mt	Ownership %	December YTD		
		2018	2017	Change %
Moolarben	85%	16.5	12.4	33%
Mount Thorley Warkworth	82.9%	12.1	3.9	210%
Hunter Valley Operations	51%	13.3	4.8	177%
Stratford Duralie	100%	0.5	0.7	(29%)
Yarrabee	100%	2.6	2.8	(7%)
Middlemount	49.9997%	3.8	3.9	(3%)
Watagan (Ashton, Austar and Donaldson)	100%	1.2	3.0	(60%)
<b>Total – 100% Basis</b>		<b>50.0</b>	<b>31.5</b>	<b>59%</b>
<b>Total – Attributable</b>		<b>32.9</b>	<b>18.5</b>	<b>78%</b>

### Notes:

- 2017 attributable figures include only four months of attributable production for Hunter Valley Operations and Mount Thorley Warkworth from 1 September.
- Attributable figures do not include production from Middlemount (incorporated joint venture and accounted for as an equity-accounted investment) or Watagan (equity-accounted investment and deconsolidated from Yancoal in March 2016).
- 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, as announced 30 November 2018.
- Attributable figures include Mount Thorley Warkworth 64.1% from 1 September 2017 up to and including 28 February 2018 and 82.9% thereafter.

Consistently strong production across Yancoal's tier-one operations (Moolarben, Mount Thorley Warkworth, Hunter Valley Operations), achieved a new annual total saleable coal production record of 50.0Mt (32.9Mt attributable<sup>2</sup>), up 59% from 31.5Mt (18.5Mt attributable) in 2017, and total Run of Mine ("ROM") coal production of 66.5Mt (42.9Mt attributable), up 62% from 41.1Mt (24.2Mt attributable) in 2017.

Yancoal achieved total coal sales of 37.1Mt (attributable) for the year (31 December 2017: 22.1Mt), with a sales split (attributable) for the period of 29.9Mt thermal coal (2017: 15.9Mt) and 7.2Mt metallurgical coal (2017: 6.2Mt).

Yancoal continued to manage the Cameby Downs and Premier Coal operations in Queensland and Western Australia respectively, on behalf of its majority shareholder Yanzhou Coal Mining Company Limited ("Yanzhou") throughout the reporting period. Yanzhou production is not captured in this report.

Yancoal continued to manage the Austar, Ashton and Donaldson operations on behalf of Watagan Mining Company Pty Ltd ("Watagan").

### New South Wales (all figures reported on a 100% basis)

In New South Wales ("NSW"), Yancoal operated the Moolarben, Mount Thorley Warkworth and Stratford Duralie mines and managed the Austar, Ashton and Donaldson mines on behalf of Watagan.

NSW operations achieved total ROM coal production of 58.3Mt (2017: 32.4Mt) (Yancoal-controlled 55.9Mt, Watagan-controlled 2.4Mt) and saleable coal production of 43.6Mt (2017: 24.8Mt) (Yancoal-controlled 42.4Mt, Watagan-controlled 1.2Mt) for the period.

Mount Thorley Warkworth, consisting of Mount Thorley (Yancoal 80% ownership) and Warkworth (Yancoal 84.5% ownership) achieved ROM production of 17.6Mt (2017: 5.8Mt) and saleable coal production of 12.1Mt (2017: 3.9Mt) for the reporting period.

Hunter Valley Operations (Yancoal 51% ownership) achieved ROM production of 19.0Mt (2017: 6.2Mt) and saleable coal production of 13.3Mt (2017: 4.8Mt) for the reporting period.

The Moolarben Complex (Yancoal 85% ownership) achieved total ROM production of 18.6Mt (2017: 14.7Mt) and saleable coal production of 16.5Mt (2017: 12.4Mt).

The Stratford Duralie (Yancoal 100% ownership) open cut mine achieved total ROM coal production of 0.7Mt (2017: 0.9Mt) and saleable coal production of 0.5Mt (2017: 0.7Mt) for the reporting period.

### Queensland (all figures reported on a 100% basis)

In Queensland ("QLD"), Yancoal operated the Yarrabee open cut operation and maintained its near 50% equity interest in Middlemount Coal Pty Ltd ("Middlemount") throughout the reporting period.

Yarrabee (Yancoal 100% ownership) open cut achieved total ROM coal production of 3.4Mt (2017: 3.4Mt) and total saleable coal production of 2.6Mt (2017: 2.8Mt).

The Middlemount joint venture (Yancoal ~50% ownership) achieved total ROM coal production of 4.8Mt (2017: 5.3Mt) and total saleable coal production of 3.8Mt (2017: 3.9Mt).

### Watagan Assets (100% ownership)

(all figures reported on a 100% basis)

Production at the Watagan-owned Ashton and Austar underground mines produced a combined total ROM coal production of 2.4Mt (2017: 4.8Mt) and saleable coal production of 1.2Mt (2017: 3.0Mt) for the year.

As previously announced, mining ceased at Donaldson's Abel underground mine in June 2016.

### Infrastructure

Yancoal exports 100% of its product through five eastern Australian ports into the Asian market, with current allocations sufficient to meet existing and potential brownfield expansion needs. The Group has ownership interests in three of these ports.

### Port Waratah Coal Services ("PWCS") 30.0%

Yancoal has take-or-pay contracts with PWCS for the export of coal through the terminals at Newcastle, with a port allocation of approximately 35.1Mt (100% basis).

### Newcastle Coal Infrastructure Group ("NCIG") 27%

Yancoal continues to be one of five company shareholders involved in the NCIG export coal terminal in Newcastle, New South Wales.

2 Attributable share is the attributable production as it relates to Yancoal's financial statements and does 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). Attributable share includes: Moolarben (85%); Mount Thorley Warkworth (82.9%); Hunter Valley Operations (51%); Stratford Duralie (100%); and Yarrabee (100%).

Yancoal has an allocation of approximately 19.6Mt per annum (100% basis).

#### Wiggins Island Coal Export Terminal ("WICET") 9.4%

Yancoal is one of five owners of WICET, which has a capacity of 27.0Mt per annum. Yancoal's contracted capacity is 1.5Mt per annum, allocated to the Yarrabee Mine.

#### Rail

Yancoal is supported by the following rail networks to transport product from mine to port:

- the NSW Hunter Valley Coal Chain supports the Moolarben, Mount Thorley Warkworth, Hunter Valley Operations, Austar, Ashton, Stratford Duralie, and Donaldson operations, with coal transported to the Port of Newcastle;
- the QLD Blackwater System supports the Yarrabee operation, transporting coal to the Port of Gladstone; and
- the QLD Goonyella System supports the Middlemount operation, with coal transported to the Port of Hay Point and Abbot Point Coal Terminal.

#### Take-or-Pay<sup>3</sup>

Yancoal's unutilised take-or-pay exposure increased from the year prior (2017: \$60.7 million; equity basis) to \$84.9 million in rail and port commitments in excess of shipped sales. The increase of \$24.2 million was attributable to the take-or-pay exposure acquired from the former Coal & Allied assets (full year \$32.9 million) and under-utilisation of WICET port capacity (\$7.9 million). This was offset by a \$16.6 million reduction from increased utilisation by Moolarben and trading with third parties.

Yancoal continues to implement strategic measures to reduce take-or-pay exposure across the Group by trading between sites and with other users.

A review of the business of the Group during the year and a discussion on the Group's future business development are provided in the Management Discussion and Analysis on pages 40 to 51 of this annual report.

Descriptions of possible risks and uncertainties that the Group may be facing can be found in the Corporate Governance Statement on pages 90 to 98 of this annual report. Also, the financial risk management objectives and policies of the Group can be found in Note D9 to the consolidated financial statements.

During the year, the Company was not aware of any non-compliance with any relevant laws and regulations that had a significant impact on it.

An analysis of the Group's performance during the year using financial key performance indicators is provided in the Management Discussion and Analysis on pages 40 to 44 of this annual report.

All references herein to other sections or reports in this annual report form part of this Report of the Directors.

#### Community and Environment

Yancoal's Health, Safety and Environment Committee sets the direction for the Company's continued commitment to operating its mines to the highest environmental standards and in accordance with legislative requirements.

Each mine implements proactive strategies to update and monitor its environmental management systems and practices to meet its mine plan approvals and individual licences to operate.

Operating to stringent environmental management conditions, including the on-site and off-site management and monitoring of potential dust and noise impacts, Yancoal continues to work with State and Federal Government departments to ensure full transparency in its environmental reporting.

In 2018, Yancoal contributed \$834,649 via its Community Support Program into local and regional health, environmental, education and community initiatives capable of making a positive difference in the regions in which it operates.

Yancoal continues to work co-operatively with its community stakeholders, relying upon community consultative committees, local newsletters, local media, community days and site-specific websites to help ensure they are engaged and informed of relevant matters related to nearby operations.

#### Greenhouse gas and energy data reporting requirements

As Australia's largest pure play thermal coal producer, we acknowledge we have a role to play in mitigating the emissions generated by our operations and supporting investment into low emission technology to assist the reduction of downstream emissions from the consumption of coal products.

We also understand the growing interest by stakeholders regarding the potential risks and opportunities posed to our business and the broader sector as a result of an anticipated global shift towards a lower-carbon economy.

Recognising this, we continue to consider the adoption of the Taskforce on Climate-related Financial Disclosures ("TCFD") Recommendations, established by the G20 Financial Stability Board, as the framework to guide our climate-related disclosures.

This includes the desire for greater transparency in the way we identify and mitigate potential risks posed by changes to our external environment from a policy, legal, market demand, reputational and technological perspective.

#### Governance

Governance of climate-related matters, including risks and opportunities, sits within Yancoal's governance framework.

The Board has ultimate responsibility for the oversight and approval of risk management and financial investment decisions, including those relating to climate change. The Audit and Risk Management Committee and Health, Safety and Environment Committee are specifically responsible for the consideration of climate-related risks and related risk management strategies.

The Board regularly considers how climate change may drive changes to physical, regulatory, commercial and operating environments to inform the development of medium- to long-term goals and strategies.

#### Reporting on our emissions

Yancoal reports its operational direct (Scope 1) and indirect (Scope 2) emissions on an annual basis in line with the National Greenhouse and Energy Reporting legislation.

The Group has implemented systems and processes for the collection and calculation of the data required and submitted its 2017/2018 S19 Energy and Emissions Report to the Federal Clean Energy Regulator on 31 October 2018.

Overall, on an operational control basis, our total Scope 1 and Scope 2 emissions for the period ended 30 June 2018 totalled 2,114,527tCO<sub>2</sub>-e, a 1% increase on the year prior. The majority of Scope 1 emissions relate to fugitive emissions associated with the underground and open cut mining operations, while Scope 2 emissions stem from the consumption of electricity purchased from the grid.

3 All numbers provided on an equity basis.

## DIRECTORS' REPORT (CONTINUED)

### Summary Greenhouse Emissions

Emissions Reporting Period	Scope 1 Emissions (tCO <sub>2</sub> -e)	Scope 2 Emissions (tCO <sub>2</sub> -e)	Scope 1 and Scope 2 Emissions (tCO <sub>2</sub> -e)
2016/2017*	1,725,276	374,635	2,099,911
2017/2018	1,754,907	359,620	2,114,527
% Variance	1.7%	-4.0%	0.7%

\*Includes Warkworth and Mount Thorley Operations emissions under RTCA ownership.

(tCO<sub>2</sub>-e: tonnes of carbon dioxide equivalent).

While we do not currently calculate our Scope 3 emissions associated with the consumption of our coal products, we actively support the development of technologies aimed at reducing the emissions intensity of these downstream activities. This includes supporting the development and installation of high efficiency, low emissions technologies in coal fired power stations and investment in carbon capture and storage technology.

### SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There have been no significant changes to the state of affairs during the financial year that significantly affected the operations of the Group, the results of those operations or the state of affairs of Yancoal or the Group.

### MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

On 4 January 2019 BOCI notified Watagan and Yankuang that it was exercising its put option over US\$200 million of bonds. As a consequence, Yankuang will become the bondholder of the put bonds following completion of the purchase of those bonds by Yankuang expected to occur on or around 1 April 2019. No security will be given by Watagan in favour of Yankuang. As the put bonds represent less than 50.1% of the face value of the bonds, and the put option was not exercised by the instructing bondholder, the put option is not deemed to have been exercised as to all the bonds nor has control of Watagan been regained by the Group such that Watagan continues to be deconsolidated.

On 25 February 2019, Yancoal announced a final dividend of A\$377 million (A\$0.2855 per share to be comprised of an ordinary dividend of A\$0.1596 and a special dividend of \$0.1259), with a record date of 11 March 2019. The final dividend and special dividend will be paid on 30 April 2019.

As announced 25 February 2019, Yancoal will pre-pay a further US\$500 million in loans, reducing its total debt liabilities by US\$1.4 billion since September 2017. The pre-payment consists of US\$250 million in pre-paid loans from Bank of China and China Construction Bank, and US\$250 million in pre-paid Yanzhou-related loans.

On 4 March 2019, Yancoal issued 1,744,704 performance share rights (STIP rights) and 1,483,811 performance share rights (LTIP rights) to the Executive Director, and certain senior Executives of the Company.

On 29 March 2019, the Company agreed to enter into four coal sales agreements with POSCO Australia Pty Ltd and/or its associates pursuant to which POSCO and/or its associates have agreed to purchase coal from the Group during the financial year ending 31 December 2019. As POSCO is interested in 20% of the Mount Thorley JV, a subsidiary of the Company under the Listing Rules, POSCO is a connected person of the Company by virtue of being a substantial shareholder of the Company's subsidiary. The maximum

annual transaction amount to be received by the Group from POSCO and/or its associates for the sale of coal pursuant to the 2019 POSCO Sales Agreements for the year ending 31 December 2019 will not exceed US\$780 million.

Other than as disclosed above, no matters or circumstances have occurred subsequent to the end of the financial period which have significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group in the subsequent financial period.

### LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

Yancoal continues to pursue its long-term strategy for organic growth via the progression of brownfield expansion and extension projects. Key projects include the conceptual underground mine at Mount Thorley Warkworth with an estimated 6Mtpa ROM, with exploration drilling for the prefeasibility on the target seams having been completed at the end of 2018.

Yancoal received approvals to commence mining activities associated with the Lot 1 and Lot 2 areas of Mount Thorley Warkworth during the reporting period, enabling commencement of the expansion of the existing West pit on the Warkworth side in 2019.

Proposed modifications for the Moolarben open cut pits are awaiting approval, as Yancoal continues to maximise improved extraction rates in both the open cut and underground mines.

Yancoal will maintain strong cost discipline, with 2019 cash costs (excluding government royalties) expected to remain flat at around A\$62.5/t (2018: A\$63/t). Guidance for saleable coal production in 2019 is approximately 35 million tonnes (attributable). Forecast for 2019 capital expenditure is around AU\$285 million (attributable).

### INFORMATION ON DIRECTORS

#### Baocai Zhang

Non-Executive Director (26 June 2012 – 19 January 2014, 8 June 2018 – current), Co-Vice Chairman (20 December 2013 – 8 June 2018), Executive Director (20 January 2014 – 8 June 2018), Chairman of the Board (8 June 2018 – current). EMBA.

#### Experience and expertise

Mr Zhang, aged 51, joined Yanzhou's predecessor in 1989 and was appointed as the Head of the Planning and Finance department of Yanzhou in 2002. He was appointed as a Director and Company Secretary of Yanzhou in 2006 and Deputy General Manager in 2011. Mr Zhang was appointed as Non-Executive Director of Yancoal on 26 June 2012, and subsequently appointed a Co-Vice Chairman of Yancoal on 20 December 2013. He became the Chair of the Executive Committee of Yancoal on 20 January 2014. In October 2015, he became a director and a standing member of the Party Committee of Yankuang Group Company Limited. Mr Zhang was appointed as the Chair of the Board of Yancoal on 8 June 2018. Mr Zhang planned and played a key role in the acquisition of Felix Resources Limited and the merger with Gloucester Coal Ltd in Australia. He also led Yanzhou's acquisition of potash exploration permits in Canada in 2011. He has considerable experience in capital management and business development in the coal industry, in particular in financial control, corporate governance and compliance for listed companies in Australia and overseas.

Mr Zhang graduated from Nankai University. He is a senior accountant with an EMBA degree.

#### Other current key directorships

Director of Yankuang Group Company Limited

Chairman and Director of Yankuang Group Finance Co., Ltd



**Former directorships in last three years**

Director of Yanzhou Coal Yulin Neng Hua Co., Ltd  
(ceased on 28 May 2018)

Director of Inner Mongolia Haosheng Coal Mining Limited  
(ceased on 28 May 2018)

\*Director of Yanzhou Coal Mining Company Limited (1171 HK)  
(10 November 2006 – 3 June 2016)

Director of Yancoal International (Holding) Co., Ltd  
(ceased on 28 May 2018)

**Special responsibilities**

Chairman of the Board (8 June 2018 – current)

Chairman of the Executive Committee (ceased on 8 June 2018)

Chairman of the Strategy and Development Committee

Member of the Nomination and Remuneration Committee  
(8 June 2018 – current)

**Interests in shares and options**

274,404 fully paid Yancoal ordinary shares.

\*Listed company

**Fucun Wang**

Non-Executive Director (8 June 2018 – 26 June 2018), Executive Director and Chair of the Executive Committee (26 June 2018 – current), Co-Vice Chairman (8 June 2018 – current). MBA.

**Experience and expertise**

Mr Fucun Wang, aged 55, started his career in July 1983. He holds a masters degree and an EMBA degree. Mr Wang is a senior statistician. He was formerly the Deputy Chief Economist of Yankuang Group and served concurrently as the Head of the Investment and Development Department and the Director of the Strategic Planning and Decision Centre of Yankuang Group. Mr Wang successively served as the Deputy Director of Planning Department, the Deputy Director and Director of the Department of Planning and Development of Yankuang Group previously.

Mr Wang holds a masters degree and completed a Master of Business Administration degree from Hebei Industrial University in China in June 2014.

**Other current key directorships**

Director of various subsidiaries of Yancoal Australia Ltd

**Special responsibilities**

Co-Vice Chairman of the Board (8 June 2018 – current)

Chairman of the Executive Committee (8 June 2018 – current)

Member of the Health, Safety and Environment Committee  
(8 June 2018 – current)

**Interests in shares and options**

None

**Cunliang Lai**

Executive Director (18 November 2004 – 19 January 2014), Co-Vice Chairman (26 June 2012 – 6 June 2018), Non-Executive Director (20 January 2014 – current). DE, EMBA.

**Experience and expertise**

Mr Lai, aged 58, joined Yanzhou's predecessor in 1980. He was appointed as the Head of Xinglongzhuang Coal Mine of Yanzhou in 2000. In 2005, he was appointed as the Deputy General Manager of Yanzhou. Before the merger with Gloucester Coal Ltd, Mr Lai was an Executive Director of Yancoal and was appointed the Co-Vice

Chairman and Chair of the Executive Committee in 2012. Mr Lai successfully completed the acquisition of the Austar Coal Mine and the establishment of an appropriate corporate governance structure for Yancoal. Mr Lai has also successfully applied the Longwall Top Coal Caving technology in Australia and has gained considerable experience in Australian coal business management.

Mr Lai graduated from Nankai University and the Coal Science Research Institute. He is a researcher in engineering technology application with a Doctorate degree in Engineering and an EMBA degree.

**Other current key directorships**

None

**Former directorships in last three years**

\*Director of Bauxite Resources Limited (ASX:BAU)  
(7 March 2014 – 21 January 2016)

**Special responsibilities**

Co-Vice Chairman of the Board (ceased on 8 June 2018)

Member of the Nomination and Remuneration Committee  
(ceased on 8 June 2018)

**Interests in shares and options**

None

\*Listed company

**Qingchun Zhao**

Non-Executive Director (28 April 2017 – current). EMBA.

**Experience and expertise**

Mr Zhao, aged 50, is a senior accountant with an EMBA degree, and is a Director and the Chief Financial Officer of Yanzhou.

Mr Zhao joined Yanzhou's predecessor in 1989 and was appointed as the Chief Accountant of the Finance Department in 2002 and Director of the Planning and Finance Department of Yanzhou in 2006. In March 2011, he was appointed as the Vice Chief Financial Officer and the Director of the Finance Department of Yanzhou.

In March 2014, Mr Zhao was appointed Assistant General Manager and the Director of the Finance Management Department of Yanzhou.

In January 2016, he was appointed as the Chief Financial Officer of Yanzhou. Mr Zhao graduated from Nankai University.

**Other current key directorships**

\*Director of Yanzhou Coal Mining Company Limited (1171 HK)  
(June 2016 – current)

Director of Zhongyin Financial Leasing Co., Ltd

Director of Shanghai CIFCO Co., Ltd

Director of Yancoal International (Holding) Co. Ltd

Director of Yancoal International Trading Co. Ltd

Director of Yancoal International Resources Co., Ltd

Director of Yancoal International Technology Development Co., Ltd

Chairman of Shanghai Jujiang Asset Management Co., Ltd

Director of Yanzhou Coal Yulin Neng Hua Co., Ltd

Director of Inner Mongolia Haosheng Coal Mining Limited

Director of Yankuang Group Finance Co., Ltd

Chairman of Xinyinlian Co., Ltd

Chairman of Shandong Taiheng Development Co., Ltd

**Former directorships in last three years**

Director of Duanxin Investment Holding (Shenzhen) Co., Ltd

Director of Qingdao Zhongyin International Trade Co., Ltd

## DIRECTORS' REPORT (CONTINUED)

### Special responsibilities

Member of the Strategy and Development Committee  
(8 June 2018 – current)

Member of the Audit and Risk Management Committee

### Interests in shares and options

None

\*Listed company

### Fuqi Wang

Non-Executive Director (23 April 2015 – current). ME, EMBA.

### Experience and expertise

Mr Fuqi Wang, aged 54, is a research fellow in applied engineering technology with an EMBA degree and Master of Engineering, and serves as the Chief Engineer of Yanzhou.

Mr Wang joined Yanzhou's predecessor in 1985. In 2000, he was appointed as the Chief Engineer of Production and Technology Division of Yankuang Group. In 2002, he served as the director of Production and Technique Department of Yanzhou. In 2003, he was appointed as the Deputy Chief Engineer and Director of Production and Technique Department of Yanzhou. In March 2014, he was appointed as the Chief Engineer of Yanzhou. Mr Wang graduated from Northeastern University and Nankai University.

### Other current key directorships

Director of Yanmei Heze Neng Hua Co., Ltd

Director of Shanxi Future Energy Chemical Co. Ltd.

### Former directorships in last three years

None

### Special responsibilities

Member of the Health, Safety and Environment Committee

Member of the Strategy and Development Committee

### Interests in shares and options

None

\*Listed company

### Xiangqian Wu

Non-Executive Director (28 April 2017 – current). DE.

### Experience and expertise

Mr Wu, aged 52, joined Yanzhou's predecessor in 1988. In 2003, he was appointed as the Deputy Head of Jining No.3 Coal Mine of Yanzhou.

In 2004, he was appointed as the Deputy Head and Chief Engineer of Jining No.3 Coal Mine of Yanzhou. In 2006, he was appointed as the Head of Jining No.3 Coal Mine of Yanzhou. From April 2014 to January 2016, he was the Chairman and General Manager of Yanzhou Coal Ordos Neng Hua Co., Ltd. and Chairman of Inner Mongolia Haosheng Coal Mining Co., Ltd.

In May 2014, he was appointed as a Director of the Yanzhou Coal Mining Company Limited. In January 2016, he was appointed as the General Manager of Yanzhou. Mr Wu graduated from Shandong University of Science and Technology and China University of Mining and Technology.

Mr Wu is a Research Fellow in Applied Engineering Technology and a Doctor of Engineering.

### Other current key directorships

\*Director of Yanzhou Coal Mining Company Limited (1171 HK)  
(14 May 2014 – current)

Director of Yancoal International (Holding) Co. Ltd

Director of Yancoal International Trading Co. Ltd

Director of Yancoal International Resources Co., Ltd

Director of Yancoal International Technology Development Co., Ltd

### Former directorships in last three years

Director of Yanzhou Coal Ordos Neng Hua Co., Ltd

Director of Inner Mongolia Haosheng Coal Mining Co., Ltd

Director of Duanxin Investment Holding (Shenzhen) Co., Ltd

### Special responsibilities

Member of the Nomination and Remuneration Committee

### Interests in shares and options

None

\*Listed company

### Xing Feng

Non-Executive Director (15 December 2017 – current). EMBA.

### Experience and expertise

Mr Feng, aged 45, started his career with China Cinda Asset Management Co., Limited (Cinda) in 1999, and has served in various capacities in the Department of General Management, Department of General Business and Department of Investment and Financing. He has abundant experience in corporate governance, investment and financing.

He was appointed Assistant General Manager of Cinda's Strategic Client Department in 2017, where he is responsible for implementing the Department's development strategy plan, involvement in business review and leading the implementation of the investment plan. He has successfully completed a number of overseas M&A investments and mixed-ownership reform of SOE projects.

Mr Feng holds a Bachelor of Engineering (Electrical Engineering and Automation) from Tsinghua University and an EMBA degree from Peking University.

### Other current key directorships

Director of China Broadcasting and Telecommunications Corporation

Director of China Cinda (Hong Kong) Holdings Company Limited

### Former directorships in last three years

None

### Special responsibilities

Member of the Strategy and Development Committee

### Interests in shares and options

None

### Gregory James Fletcher

Independent Non-Executive Director (26 June 2012 – current),  
Co-Vice Chairman (1 March 2018 – current), BCom, CA.

### Experience and expertise

Mr Fletcher, aged 62, was a Director of Gloucester Coal Ltd from June 2009. He was appointed a Director of Yancoal after the merger of Yancoal and Gloucester Coal Ltd in June 2012. Mr Fletcher was elected a Co-Vice Chairman of Yancoal in 2018.

Prior to 2009 Mr Fletcher was a senior partner of Deloitte for 16 years during which he held many senior roles as well as working with major

Australian listed companies with operations internationally including the Asia Pacific region. He also worked closely with organisations in China, Indonesia and Mongolia in enhancing governance practices.

Since 2009 Mr Fletcher has taken on Board and Audit Committee roles. He has been a member of the NSW Auditor General's Audit and Risk Committee, on the Board of RailCorp and WDS Limited and Chairman of the Roads and Maritime Audit and Risk Committee and City of Sydney Audit and Risk Committee.

Mr Fletcher holds a Bachelor of Commerce and he is a Chartered Accountant.

#### Other current key directorships

Chairman of SMEG Australia Pty Ltd

\*Director of Saunders International Limited, Chairman Audit and Risk Committee and Member of the Remuneration and Nomination Committee (ASX:SND) (1 July 2015 – current)

Director of TAFE NSW, Member of the Audit and Risk Committee and Member of the Minister's Priority Implementation Committee

Chairman of NSW Electoral Commission Audit and Risk Committee

Member of the Audit and Risk Committee, RailCorp

Member of the Audit, Risk and Committee, NSW Health Infrastructure

Member of the Audit and Risk Committee NSW State Transit Authority

#### Former directorships in last three years

Director of Yancoal SCN Limited (ASX:YCN)  
(21 November 2014 – 30 August 2018)

#### Special responsibilities

Co-Vice Chairman

Chairman of the Audit and Risk Management Committee

Chairman of the Independent Board Committee

Member of the Nomination and Remuneration Committee  
(8 June 2018 – current)

#### Interests in shares and options

2,100 fully paid Yancoal ordinary shares.

\*Listed company

#### Dr Geoffrey William Raby

Independent Non-Executive Director (26 June 2012 – current).  
BEC (Hons), MEc and PhD (Economics).

#### Experience and expertise

Dr Geoffrey William Raby, aged 65, was appointed a Director of Yancoal in 2012.

Dr Raby was formerly Australia's Ambassador to the People's Republic of China from 2007 to 2011. Prior to that, he was a Deputy Secretary in the Department of Foreign Affairs and Trade (DFAT). Dr Raby has extensive experience in international affairs and trade, having been Australia's Ambassador to the World Trade Organisation (1998 to 2001), Australia's APEC Ambassador (2003 to 2005), Head of DFAT's Office of Trade Negotiations and Head of the Trade Policy Issues Division at the OECD, Paris. Between 1986 and 1991 he was Head of the Economic Section at the Australian Embassy, Beijing. He has been the Chair of DFAT's Audit Committee and served as an ex-officio member of the Boards of Austrade and Export Finance and Insurance Corporation.

Dr Geoffrey Raby holds a Bachelor of Economics, a Masters of Economics and a Doctor of Philosophy in Economics.

#### Other current key directorships

\*Director of OceanaGold Corporation Limited (ASX:OGC)  
(5 August 2011 – current)

\*Chairman of Wiseway Group (ASX:WWG) (18 July 2018 – current)

#### Former directorships in last three years

\*Director of Fortescue Metals Group (ASX:FMG)  
(18 August 2011 – 5 December 2016)

\*Director of SmartTrans Holding Limited (now Orcoda Limited)  
(ASX:ODA) (6 August 2011 – 1 April 2016)

\*Director of YPB Group Ltd (ASX:YPB) (31 July 2014 – 5 March 2016)

\*Director of iSentia Group Ltd (ASX:ISD) (9 May 2014 – 20 July 2018)

#### Special responsibilities

Member of the Strategy and Development Committee  
(8 June 2018 – current)

Member of the Health, Safety and Environment Committee

#### Interests in shares and options

22,858 fully paid Yancoal ordinary shares.

\*Listed company

#### Helen Jane Gillies

Independent Non-Executive Director (30 January 2018 – current). MBA, MConstrLaw, LLB(Hons), BCom, AICD.

#### Experience and expertise

Helen Jane Gillies is an experienced Director and legal, risk and compliance professional.

Ms Gillies, aged 54, was appointed as a Non-Executive Director of Bankstown and Camden Airports in September 2017 and a Non-Executive Director of ASX-listed company Monadelphous Group Limited and Red Flag Group Limited in 2016. Previously, she served as a director of Sinclair Knight Merz Management Pty Limited from October 2002 to September 2008 and Sinclair Knight Merz Management Pty Limited from September 2010 to December 2013; she was the general manager (risk) and general counsel of Sinclair Knight Merz from 1995 to 2013, and a non-executive director of Civil Aviation Safety Authority from 2009 to 2014.

Ms Helen Gillies holds a Master of Business Administration and a Master of Construction Law, as well as undergraduate degrees in Commerce and Law. Ms Gillies is a Fellow of the Australian Institute of Company Directors.

#### Other current key directorships

Director of Red Flag Group (Holdings) Limited

\*Director of Monadelphous Group Limited (ASX:MND)  
(5 September 2016 – current)

Director of BAC Holdings Pty Ltd

#### Former directorships in last three years

None

#### Special responsibilities

Member of the Nomination and Remuneration Committee  
(6 February 2018 – 8 June 2018)

Chair of the Nomination and Remuneration Committee  
(8 June 2018 – current)

Member of the Audit and Risk Management Committee  
(8 June 2018 – current)

#### Interests in shares and options

None



## DIRECTORS' REPORT (CONTINUED)

### David James Moulton

Independent Non-Executive Director (30 January 2018 – current).  
C. Eng (Mining), MBA, FAusIMM, FIMMM, MAICD.

#### Experience and expertise

David James Moulton, aged 62, was appointed as a Director of Yancoal in January 2018. He has over 40 years' global coal mining experience. He was Managing Director and CEO of Centennial Coal Company Limited from 2011 to 2017, then a non-executive director of Centennial Coal from May 2017 until January 2018. He previously held the position of chief operating officer of Centennial Coal from 1998 to 2011. Mr Moulton has worked with Joy Mining Machinery in the USA and Australia, RJB Mining PLC and British Coal in the UK.

Mr Moulton is a former Chairman and Director of the Australian Coal Association Low Emissions Technology Ltd, former Director of the Minerals Council of Australia, former Chairman and Director of the New South Wales Minerals Council and former Director of the Newcastle Coal Infrastructure Group and Port Kembla Coal Terminal.

Mr Moulton is a Member of the University of NSW Education Trust Advisory Committee.

#### Other current key directorships

Director of Coal Services Pty Ltd

Director of Coal Mines Insurance Pty Ltd

Director of Mines Rescue Pty Ltd

#### Former directorships in last three years

Non-Executive Director Centennial Coal Company Limited

Managing Director and CEO of Centennial Coal Company Limited

Director of the Minerals Council of Australia

Chairman and Director of the Australian Coal Association Low Emissions Technology Ltd

Director of the New South Wales Minerals Council

#### Special responsibilities

Chairman of the Health, Safety and Environment Committee  
(6 February 2018 – current)

Member of the Nomination and Remuneration Committee  
(8 June 2018 – current)

Member of the Audit and Risk Management Committee  
(8 June 2018 – current)

#### Interests in shares and options

None

\*Listed company

### Vincent O'Rourke AM

Non-Executive Director (22 December 2009 – 30 January 2018).  
B. Econ.

#### Experience and expertise

Mr O'Rourke brings over 40 years of corporate and railway industry experience spanning operations, finance and business management to the Board of Yancoal. In 1990, Mr O'Rourke was appointed Queensland Commissioner for Railways and was the Chief Executive Officer of Queensland Rail (QR) from 1991 to 2000. As Chief Executive Officer of QR, Mr O'Rourke oversaw a 10-year program of reform and modernisation including corporatisation in 1995. He was awarded a Member of the Order of Australia in 2000 and a Centenary Medal in 2003 for services to the rail transport industry and QR.

Mr O'Rourke holds a Bachelor of Economics from the University of New England. He is an Honorary Doctor of the Queensland University of Technology and Griffith University.

#### Other current key directorships

Director of Mater Health Services Brisbane Limited

Chairman of Holy Cross Laundry Pty Ltd

\*Director of White Energy Company Limited (ASX:WEC)  
(29 September 2010 – current)

Director of Queensland Museum Foundation

#### Former directorships in last three years

Chairman of Rail Innovation Australia Pty Ltd

Chairman of the Queensland Workplace Health and Safety Board

Director of Premier Coal Limited

\*Director of Yancoal SCN Limited (ASX:YCN)  
(21 November 2014 – 30 January 2018)

#### Interests in shares and options (as at 30 January 2018)

1,119,565 fully paid Yancoal ordinary shares (equivalent to 31,988 fully paid Yancoal ordinary shares on a 35:1 post-consolidation basis).

\*Listed company

### Huaqiao Zhang

Non-Executive Director (15 April 2014 – 30 January 2018). MEC.

#### Experience and expertise

Mr Zhang is a Hong Kong based businessman and has over 23 years of experience in the banking and finance industry, with extensive experience in the capital markets of Hong Kong and China.

Mr Zhang commenced his career in 1986, working as an economist at the Planning Department, People's Bank of China until 1989. In the first half of 1991, he was a public servant (APS 4) at the Australian Commonwealth Government's Department of Employment, Education and Training. From 1991 to 1994, Mr Zhang was a Lecturer of Banking and Finance at the University of Canberra.

Previously, Mr Zhang worked at UBS for 11 years, with the majority of his time serving as Head of China Research and Deputy Head of China Investment Banking. In 2006 to 2008, he was an Executive Director and Chief Operating Officer of Shenzhen Investment Ltd (604 HK).

Mr Zhang obtained a Masters degree in economics from the Financial Research Institute of the People's Bank of China in 1986 and a Masters degree in economics of development from the Australian National University in 1991.

### Other current key directorships

- \*Chairman of China Smartpay Group Holdings Ltd (8325 HK) (7 September 2012 – current)
- \*Independent non-executive director of Fosun International Ltd (656 HK) (March 2012 – current)
- \*Independent non-executive director of Logan Property Holdings Co. Ltd (3380 HK) (18 November 2013 – current)
- \*Independent non-executive director of Luye Pharma Group Ltd (2186 HK) (June 2014 – current)
- \*Independent non-executive director of China Huirong Financial Holdings Ltd (1290 HK) (6 October 2013 – current)
- \*Independent non-executive director of Zhong An Real Estate Ltd (672 HK) (1 January 2013 – current)
- \*Independent non-executive director of Sinopec Oil Services Corp (1033 HK) (9 February 2015 – current)
- \*Non-executive director of Boer Power Holdings Ltd (1685 HK) (November 2011 – current)

### Former directorships in last three years

- \*Independent director of Ernest Borel Holdings Ltd (1856 HK) (24 June 2014 – 10 November 2014)
- \*Director of Nanjing Central Emporium (600280 CH) (February 2013 – May 2015)
- \*Independent non-executive director of Wanda Hotel Development Co. Ltd (0169 HK) (October 2014 – May 2018)

### Interests in shares and options

None

### Xiyong Li

Chairman and Non-Executive Director  
(12 September 2013 – 8 June 2018). EMBA.

### Experience and expertise

Mr Li has considerable experience in business management and operations in the coal industry. Mr Li commenced his career in 1981 and was appointed as the head of Huafeng Coal Mine of Xinwen Mining Group Co., Ltd. (Xinwen Group) in May 2001. In June 2006, he was appointed as the Deputy General Manager of Xinwen Group. In June 2010, he was appointed as the Chairman and Secretary of the Party Committee of Xinwen Group. In March 2011, he was appointed as the Vice Chairman of Shandong Energy Group Co., Ltd. and the Chairman and the Secretary of the Party Committee of Xinwen Group. In July 2013, Mr Li joined the Yankuang Group Company Limited (Yankuang Group) and was appointed the General Manager and deputy secretary of the Party Committee. In September 2013, he was appointed the Chairman of Yanzhou Coal Mining Company Limited (Yanzhou). He was also appointed the Chairman of Yancoal in September 2013. In February 2015, he was appointed as the Chairman and Secretary of the Party Committee of Yankuang Group.

Mr Li graduated from Shandong University of Science and Technology and Nankai University, and is a researcher in engineering technique application with an Executive Masters of Business Administration (EMBA) degree.

### Other current key directorships

- \*Chairman of Yanzhou Coal Mining Company Limited (1171 HK) (September 2013 – current)
- Chairman and the Secretary of the Party Committee of Yankuang Group

### Former directorships in last three years

- Chairman of Yancoal International (Holding) Co., Ltd
- Director of Yancoal International (Sydney) Pty Ltd (ceased on 8 June 2018)

### Special responsibilities

- Chairman of the Board (ceased on 8 June 2018)
- Chairman of the Nomination and Remuneration Committee (ceased on 8 June 2018)

### Interests in shares and options

None

\*Listed company

## COMPANY SECRETARY

### Laura Ling Zhang

(6 September 2005 – Current). BA, MA, AGIA, GAICD.

Laura Ling Zhang, aged 41, was appointed as the Company Secretary of the Company on 6 September 2005.

Ms Zhang is one of the founding executives of the Company and has been the Company Secretary and Executive General Manager, Legal and Compliance of the Company since September 2005 and July 2014 respectively. She oversees the Company's corporate governance, group legal issues, corporate compliance and shareholder communications.

Ms Zhang graduated with a Bachelor of Arts degree in English education from Qufu Normal University in China in July 1999 and a Master of Arts degree in language and literature and intercultural communication from China University of Mining and Technology in China in July 2004. Ms Zhang was until recently a Fellow of the Governance Institute of Australia (formerly known as Chartered Secretaries Australia) and since June 2018, is a fellow member of the Hong Kong Institute of Chartered Secretaries. Ms Zhang is a member of the Australian Institute of Company Directors and is currently studying the EMBA at The University of New South Wales.

## DIRECTORS' REPORT (CONTINUED)

### GENERAL MEETINGS/MEETINGS OF DIRECTORS

The numbers of the Company's general meetings, meetings of the Company's Board of Directors and of each Board Committee held during the year ended 31 December 2018, and the numbers of meetings attended by each Director were:

	GENERAL MEETINGS		MEETINGS OF THE BOARD OF DIRECTORS		MEETINGS OF COMMITTEES											
	Annual General Meeting		Extraordinary General Meeting		Full meetings of Directors		Audit and Risk Management		Health, Safety and Environment		Nomination and Remuneration		Strategy and Development		Independent Board Committee*	
	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B
Xiyong Li	1	1	0	0	6	6					2	2				
Baocai Zhang	1	1	0	1	10	10					1	1	3	3		
Fucun Wang	0	0	1	1	4	4			2	2						
Cunliang Lai	1	1	0	1	10	10					2	2				
Xiangqian Wu	1	1	0	1	10	10					3	3				
Fuqi Wang	1	1	0	1	10	10			4	4			3	3		
Qingchun Zhao	1	1	0	1	9	10	4	5					3	3		
Gregory James Fletcher	1	1	1	1	10	10	5	5			1	1			4	4
Geoffrey William Raby	1	1	0	1	9	10	3	3	4	4			1	1	4	4
Helen Jane Gillies	1	1	1	1	10	10	2	2			3	3			4	4
David James Moulton	1	1	1	1	10	10	2	2	4	4	1	1			4	4
Xing Feng	0	1	0	1	10	10							3	3		
Huaqiao Zhang	0	0	0	0	0	0							0	0		
Vincent O'Rourke	0	0	0	0	0	0			0	0						

A = Number of meetings attended.

B = Number of meetings held during the time the Director held office or was a member of the Committee during the year.

\*An Independent Board Committee is established as and when required to manage any related party transactions. A previously constituted Independent Board Committee met on various occasions during 2018 for the purposes of considering transactions between or involving the Company and its major shareholder, Yanzhou.

### REMUNERATION REPORT – AUDITED

Dear Shareholder,

I am pleased to introduce the Yancoal Australia Ltd (the "Company") and its controlled entities (the "Group" or "Yancoal") 2018 Remuneration Report.

The Company has continued its transition from a loss-making enterprise to profit-generating enterprise. Further, in 2018 Yancoal achieved a major milestone becoming dual listed on the main board of The Stock Exchange of Hong Kong.

Consequently, over 2018 the Nomination and Remuneration Committee continued to review the Company's remuneration framework to ensure remuneration arrangements were in line with sound corporate governance for an Australian and Hong Kong listed company and for a company of its size.

In 2018, the Committee engaged the consulting firm Aon Hewitt Limited ("Aon Hewitt") to provide independent market benchmarking with respect to the remuneration of Yancoal executives and non-executive directors. This included providing remuneration recommendations to better align management with shareholder interests.

Taking into account the Aon Hewitt recommendations and in order to maintain executive remuneration arrangements that are competitive, consistent with contemporary market practice and tailored to align with Yancoal's short-term and long-term strategic objectives, the Board has implemented a new Long Term Incentive Plan ("LTIP") during the year and amended the existing Short Term Incentive Plan ("STIP"). These changes have been outlined in Section 3 of this report. The key changes aimed to also strengthen shareholder alignment include:

**STIP:** 50% of the STIP award will now be deferred over a two-year period (25% deferred for one year, remaining 25% deferred for two years). These deferrals will be settled in either cash or equity.

**LTIP:** In addition to the service condition, LTIP grants for 2018 will also be subject to performance hurdles (measured over a three-year period) to assess vesting. Awards will be delivered in performance share rights instead of cash.

The new plans were developed to reward short-term and long-term performance and are delivered in cash and equity to further strengthen shareholder alignment.

This report sets out remuneration information for the Company's Key Management Personnel for the 12 months ended 31 December 2018.

Yours sincerely,



**Helen Jane Gillies**

Chair of the Nomination and Remuneration Committee



## 1. Key Management Personnel

The Board delegates responsibility for the day to day management of the Company's affairs and implementation of the strategy and policy initiatives set by the Board to the Chairman of the Executive Committee and the Chief Executive Officer. The Executive Committee is a management committee comprising the Chairman of the Executive Committee, the Chief Executive Officer, the Chief Operating Officer, the Chief Financial Officer and any other officers that the Board resolves will be members of the Executive Committee.

Consistent with the Constitution, the Company's majority shareholder, Yanzhou Coal Mining Company Ltd ("Yanzhou"), can nominate a director to the position of the Chairperson of the Executive Committee and the Chairperson of the Board can recommend a person to the position of Chief Financial Officer.

Several Board and Committee changes took place during 2018:

- Baocai Zhang was redesignated from an Executive Director to a Non-Executive Director effective 8 June 2018.
- Fucun Wang was appointed as a Non-Executive Director on 8 June 2018 and was subsequently redesignated to an Executive Director effective 26 June 2018.
- Xiyong Li resigned from the role of Chairman of the Board effective 8 June 2018 and Baocai Zhang was subsequently appointed to the role effective 8 June 2018.
- Gregory James Fletcher was appointed to the role of Co-Vice Chairman of the Board effective 1 March 2018.
- Cunliang Lai Li and Baocai Zhang both resigned from the role of Co-Vice Chairman of the Board effective 8 June 2018. Fucun Wang was subsequently appointed to this role effective 8 June 2018.
- Baocai Zhang resigned from the role of Chairperson of the Executive Committee effective 8 June 2018 and Fucun Wang was subsequently appointed to the role effective 8 June 2018.
- Vincent O'Rourke and Huaqiao Zhang both resigned from the role of Independent Non-Executive Director on 30 January 2018. Helen Jane Gillies and David James Moulton were subsequently appointed to these roles effective 30 January 2018.

It was also determined during the year that Paul Stringer, in the new role of Chief Operating Officer from 29 May 2018, should be considered a Key Management Person.

The Key Management Personnel ("KMP") comprise directors of the Company ("Directors") and nominated members of the Executive Committee ("Executive KMP"). Details of the KMP are set out in Table 1.

Together, the Executive Directors and Executive KMP are referred to as "Executives" in this report.

TABLE 1: Details of KMP

Name	Position	Time in Role
<b>Non-Executive Directors</b>		
Baocai Zhang	Chairman of the Strategy and Development Committee Director Chairman of the Board Member of the Nomination and Remuneration Committee	Full year From 8 June 2018
Xiyong Li	Director Chairman of the Board Chairman of the Nomination and Remuneration Committee	Until 8 June 2018
Cunliang Lai	Director Co-Vice Chairman Member of the Nomination and Remuneration Committee	Full year Until 8 June 2018
Fucun Wang	Director, Co-Vice Chairman Member of the Health, Safety and Environment Committee	From 8 June 2018 until 26 June 2018 (see below)
Fuqi Wang	Director Member of the Health, Safety and Environment Committee Member of the Strategy and Development Committee	Full year
Qingchun Zhao	Director Member of the Audit and Risk Management Committee Member of the Strategy and Development Committee	Full year
Xiang Qian Wu	Director Member of the Nomination and Remuneration Committee	Full year
Xing Feng	Director Member of the Strategy and Development Committee	Full year
Gregory James Fletcher	Independent Non-Executive Director Chairman of the Audit and Risk Management Committee Co-Vice Chairman Member of the Nomination and Remuneration Committee	Full year  From 1 March 2018 From 8 June 2018

## DIRECTORS' REPORT (CONTINUED)

Name	Position	Time in Role
<b>Non-Executive Directors (continued)</b>		
Geoffrey William Raby	Independent Non-Executive Director	Full year
	Member of the Health, Safety and Environment Committee	
	Member of the Audit and Risk Management Committee	Until 8 June 2018
	Member of the Strategy and Development Committee	From 8 June 2018
Helen Jane Gillies	Independent Non-Executive Director	From 30 January 2018
	Member of the Nomination and Remuneration Committee	Until 8 June 2018
	Chairman of the Nomination and Remuneration Committee	From 8 June 2018
	Member of the Audit and Risk Management Committee	
David James Moulton	Independent Non-Executive Director	From 30 January 2018
	Chairman of the Health, Safety and Environment Committee	From 6 February 2018
	Member of the Nomination and Remuneration Committee	From 8 June 2018
	Member of the Audit and Risk Management Committee	
Vincent O'Rourke	Independent Non-Executive Director	Until 30 January 2018
	Chairman of the Health, Safety and Environment Committee	
Huaqiao Zhang	Independent Non-Executive Director	Until 30 January 2018
	Member of the Strategy and Development Committee	
<b>Executive Directors</b>		
Baocai Zhang	Director, Co-Vice Chairman	Until 8 June 2018
	Chair of the Executive Committee ("CEC")	
Fucun Wang	Director, Co-Vice Chairman	From 26 June 2018
	Chair of the Executive Committee ("CEC")	
	Member of the Health, Safety and Environment Committee	
<b>Executive KMP</b>		
Reinhold Schmidt	Chief Executive Officer ("CEO")	Full year
Lei Zhang	Chief Financial Officer ("CFO")	Full year
Paul Stringer	Chief Operating Officer ("COO")	From 29 May 2018

### INFORMATION ON SENIOR MANAGEMENT

**Reinhold Schmidt. Chief Executive Officer (26 August 2013 – current).** ME (Mining Engineering), MSc (Mineral Economics), BE (Mining).

#### Experience and expertise

Mr Schmidt, aged 53, was appointed as the Chief Executive Officer of the Company on 26 August 2013.

Mr Schmidt has over 20 years' experience in the mining industry. Prior to joining the Group, he served as the executive general manager of Wandoan Project for Xstrata Coal Pty Ltd from February 2008 to February 2009 and was the chief operating officer there from March 2009 to June 2013. He was also formerly the president of the Colombian coal assets of Glencore International.

Mr Schmidt graduated with a Bachelor degree in Engineering (Mining) (cum laude) from the University of Pretoria in South Africa in March 1989, a Master of Engineering (Mining Engineering) degree and a Master of Science in Engineering (Mineral Economics) degree from the University of Witwatersrand, Johannesburg, South Africa in June 1991 and December 1991, respectively.

#### Current directorships and key positions within Group

- 1) Abakk Pty Ltd
- 2) Ashton Coal Mines Limited
- 3) Ashton Coal Operations Pty Limited
- 4) Athena Coal Operations Pty Ltd

- 5) Athena Coal Sales Pty Ltd
- 6) Austar Coal Mine Pty Limited
- 7) Australian Coal Resources Limited
- 8) Black Hill Land Pty Ltd
- 9) Catherine Hill Bay Land Pty Ltd
- 10) CNA Bengalla Investments Pty Limited
- 11) CNA Resources Limited
- 12) CNA Warkworth Australasia Pty Limited
- 13) CNA Warkworth Pty Ltd
- 14) Coal & Allied Industries Limited
- 15) Coal & Allied Mining Services Pty Limited
- 16) Coal & Allied (NSW) Pty Limited
- 17) Coal & Allied Operations Pty Ltd
- 18) CIM Duralie Pty Ltd
- 19) CIM Mining Pty Ltd
- 20) CIM Services Pty Ltd
- 21) CIM Stratford Pty Ltd
- 22) Donaldson Coal Finance Pty Limited
- 23) Donaldson Coal Holdings Limited
- 24) Donaldson Coal Pty Ltd
- 25) Duralie Coal Marketing Pty Ltd

- 26) Duralie Coal Pty Ltd
- 27) Eucla Mining N.L.
- 28) Felix NSW Pty Ltd
- 29) Gloucester (SPV) Pty Ltd
- 30) Gloucester (Sub Holdings 1) Pty Limited
- 31) Gloucester (Sub Holdings 2) Pty Limited
- 32) Gloucester Coal Ltd
- 33) Gwandalan Land Pty Ltd
- 34) Kalamah Pty Ltd
- 35) Lower Hunter Land Holdings Pty Ltd
- 36) Minmi Land Pty Ltd
- 37) Miller Pohang Coal Co Pty Ltd
- 38) Monash Coal Holdings Pty Limited
- 39) Monash Coal Pty Ltd
- 40) Moolarben Coal Mines Pty Limited
- 41) Moolarben Coal Operations Pty Ltd
- 42) Moolarben Coal Sales Pty Ltd
- 43) Mount Thorley Coal Loading Ltd
- 44) Mount Thorley Operations Pty Limited
- 45) Namoi Valley Coal Pty Limited
- 46) Newcastle Coal Company Pty Ltd
- 47) Nords Wharf Land Pty Ltd
- 48) Northern (Rhondda) Collieries Pty Ltd
- 49) Novacoal Australia Pty Limited
- 50) Oaklands Coal Pty Limited
- 51) Parallax Holdings Pty Limited
- 52) Primecoal International Pty Ltd
- 53) Proserpina Coal Pty Ltd
- 54) R.W. Miller (Holdings) Limited
- 55) SASE Pty Ltd
- 56) Stratford Coal Marketing Pty Ltd
- 57) Stratford Coal Pty. Ltd.
- 58) Warkworth Coal Sales Ltd
- 59) Warkworth Mining Limited
- 60) Warkworth Pastoral Co Pty Ltd
- 61) Warkworth Tailings Treatment Pty Ltd
- 62) Westralian Prospectors N.L.
- 63) White Mining (NSW) Pty Limited
- 64) White Mining Limited
- 65) White Mining Services Pty Limited
- 66) Yancoal Australia Sales Pty Ltd
- 67) Yancoal Resources Limited
- 68) Yarrabee Coal Company Pty. Ltd.
- 69) Watagan Mining Company Pty Ltd

#### *Interests in shares and options*

312,278 fully paid Yancoal ordinary shares

**Lei Zhang. Chief Financial Officer (31 March 2014 – current).**  
PhD, MBA.

#### *Experience and expertise*

Dr Lei Zhang (張磊), aged 46, was appointed as the Chief Financial Officer of the Company on 31 March 2014.

Prior to joining the Group, Dr Zhang served as the senior vice president and managing director of SK Great China private equity fund and principal investment from February 2013 to March 2014, general manager of mergers and acquisitions and commercial finance at Shell Far East from July 2012 to March 2013, executive director and chief financial officer of Chinalco Mining Corp. International from September 2010 to June 2012, vice president and chief financial officer of Chinalco Overseas Holdings from September 2010 to June 2012, and was with Siemens from April 1997 to September 2010 including serving as vice president of Siemens Ltd China and cluster chief financial officer of Siemens Real Estate North East Asia from September 2008 to September 2010.

Dr Zhang graduated with a Doctor of Economics from Graduate School of Chinese Academy of Social Sciences in Beijing, China in June 2010, and a Master of Business Administration degree from Peking University in China in June 2005, respectively. Dr Zhang is a qualified Public Accountant and China Inter-bank Market Dealer and also holds a China Bond Custody Qualifying Certificate.

#### *Current directorships and key positions within Group*

##### *– Current directorships within Group*

- 1) Athena Coal Operations Pty Ltd
- 2) Athena Coal Sales Pty Ltd
- 3) Australian Coal Resources Limited
- 4) Black Hill Land Pty Ltd
- 5) Catherine Hill Bay Land Pty Ltd
- 6) CNA Bengalla Investments Pty Limited
- 7) CNA Resources Limited
- 8) CNA Warkworth Australasia Pty Limited
- 9) CNA Warkworth Pty Ltd
- 10) Coal & Allied Industries Limited
- 11) Coal & Allied Mining Services Pty Limited
- 12) Coal & Allied (NSW) Pty Limited
- 13) Coal & Allied Operations Pty Ltd
- 14) CIM Duralie Pty Ltd
- 15) CIM Mining Pty Ltd
- 16) CIM Services Pty Ltd
- 17) CIM Stratford Pty Ltd
- 18) Duralie Coal Marketing Pty Ltd
- 19) Duralie Coal Pty Ltd
- 20) Eucla Mining N.L.
- 21) Felix NSW Pty Ltd
- 22) Gloucester (SPV) Pty Ltd
- 23) Gloucester (Sub Holdings 2) Pty Limited
- 24) Gloucester Coal Ltd
- 25) Gwandalan Land Pty Ltd
- 26) Kalamah Pty Ltd
- 27) Lower Hunter Land Holdings Pty Ltd
- 28) Minmi Land Pty Ltd



## DIRECTORS' REPORT (CONTINUED)

- 29) Miller Pohang Coal Co Pty Ltd
- 30) Monash Coal Holdings Pty Limited
- 31) Monash Coal Pty Ltd
- 32) Moolarben Coal Mines Pty Limited
- 33) Moolarben Coal Operations Pty Ltd
- 34) Moolarben Coal Sales Pty Ltd
- 35) Mount Thorley Coal Loading Ltd
- 36) Mount Thorley Operations Pty Limited
- 37) Namoi Valley Coal Pty Limited
- 38) Nords Wharf Land Pty Ltd
- 39) Northern (Rhondda) Collieries Pty Ltd
- 40) Novacoal Australia Pty Limited
- 41) Oaklands Coal Pty Limited
- 42) Parallax Holdings Pty Limited
- 43) Proserpina Coal Pty Ltd
- 44) R.W. Miller (Holdings) Limited
- 45) SASE Pty Ltd
- 46) Stratford Coal Marketing Pty Ltd
- 47) Stratford Coal Pty. Ltd.
- 48) Warkworth Coal Sales Ltd
- 49) Warkworth Mining Limited
- 50) Warkworth Pastoral Co Pty Ltd
- 51) Warkworth Tailings Treatment Pty Ltd
- 52) Westralian Prospectors N.L.
- 53) Yancoal Australia Sales Pty Ltd
- 54) Yancoal Resources Limited
- 55) Yarrabee Coal Company Pty. Ltd.

– *Current key positions (Company Secretary) within Group*

- 1) Abakk Pty Ltd
- 2) Ashton Coal Mines Limited
- 3) Ashton Coal Operations Pty Limited
- 4) Austar Coal Mine Pty Limited
- 5) Donaldson Coal Finance Pty Limited
- 6) Donaldson Coal Holdings Limited
- 7) Donaldson Coal Pty Ltd
- 8) Gloucester (Sub Holdings 1) Pty Limited
- 9) Newcastle Coal Company Pty Ltd
- 10) Primecoal International Pty Ltd
- 11) White Mining (NSW) Pty Limited
- 12) White Mining Limited
- 13) White Mining Services Pty Limited
- 14) Watagan Mining Company Pty Ltd

*Interests in shares and options*

68,894 fully paid Yancoal ordinary shares

**Paul Stringer. Chief Operating Officer (29 May 2018 – current).**

*Experience and expertise*

Mr Stringer, aged 64, was appointed as Chief Operating Officer (COO) on 29 May 2018.

Mr Stringer has over 45 years' experience in mining and mining related industries. Prior to being appointed as COO, he served as GM of Syntech Resources Cameby Downs Mine (since 2012), GM of Yancoal Yarrabee Mine (since 2013), GM of Yancoal's Queensland/Western Australia Mines (since 2014), and GM of Yancoal's East Coast Mines (since 2016).

*Current directorships and key positions within Group*

- 1) Warkworth Coal Sales Ltd
- 2) Warkworth Mining Limited
- 3) Warkworth Pastoral Co Pty Ltd
- 4) Warkworth Tailings Treatment Pty Ltd

*Interests in shares and options*

56,131 fully paid Yancoal ordinary shares

### 2. Remuneration principles and framework

The Company's governing principles for remuneration are:

- to ensure remuneration is equitable, aligned with the long-term interests of the Company and its shareholders and complies with relevant Company policies, including the Diversity Policy;
- to provide market competitive remuneration and conditions to attract and retain skilled and motivated employees;
- to structure incentives to link reward with the achievement of the Company's strategies and challenging business objectives and to the delivery of sustainable returns over the long term; and
- to reward based on performance, acknowledging the contribution of outstanding performers.

#### 2.1 Remuneration governance framework

Consistent with its Board Charter, the Board oversees the appointment, remuneration and performance of all KMP other than Directors and other members of the Executive Committee. On these issues, the Board receives recommendations from the Nomination and Remuneration Committee.

The Nomination and Remuneration Committee's objective is to assist the Board by making recommendations in relation to:

- Board composition and succession planning for the Board;
- remuneration levels and structure for KMP and other members of the Executive Committee as appointed from time to time;
- the public reporting of remuneration for KMP and other members of the Executive Committee;
- the performance assessment of the Executive Committee;
- designing Company remuneration policy and regulations with regard to corporate governance; and
- diversity.

## 2.2 Use of external remuneration advisors

From time to time, the Remuneration Committee seeks and considers advice from external advisors who are engaged by and report directly to the Remuneration Committee. Such advice will typically cover remuneration levels, independent benchmarking data and information regarding best practice, trends and regulatory developments.

In 2018, the Committee engaged the consulting firm Aon Hewitt Limited ("Aon Hewitt") to provide independent market benchmarking with respect to the remuneration of Yancoal executives and non-executive directors. This included providing recommendations, as defined under the Corporations Act 2001, on executive remuneration and executive incentive plan design for the financial year 2018 to the Committee.

The Chairman of the Remuneration Committee and Aon Hewitt are satisfied that the recommendations, relating to the executive remuneration structure and executive incentive plan design, have not been subject to any undue influence by the Executives to whom the recommendations apply.

TABLE 2: Remuneration Advisor Fees in 2018

	2018 \$
<b>Aon Hewitt</b>	
Remuneration recommendations	83,500
Other advice received	105,000
<b>Total services remuneration</b>	<b>188,500</b>

## 3. Executive remuneration

### 3.1 Objective

Remuneration frameworks for Executives are structured to be market competitive and to reflect the reward strategy of the Company. Through these frameworks the Company seeks to align remuneration for Executives with:

#### Shareholders' interests by:

- making economic performance a core component of the overall remuneration plan design;
- focusing on the key value drivers of the business including employee safety, operational performance and cost control; and
- attracting and retaining high calibre executives.

#### Executive's interests by:

- rewarding capability and experience;
- reflecting competitive reward for contribution to growth in Company performance;
- providing a clear structure for earning rewards; and
- providing recognition for contribution.

Details of remuneration for all Executives are set out in Table 10.

### 3.2 Structure

All remuneration frameworks for Executives are structured as a combination of fixed and variable remuneration, as follows:

TABLE 3: Executive remuneration structure

	Current
<b>Fixed remuneration</b>	<ul style="list-style-type: none"> <li>– Fixed Annual Remuneration ("FAR"), including cash salary, superannuation, and may include car allowance; and</li> <li>– Other benefits (see Section 3.4).</li> </ul>
<b>Variable remuneration</b> ("at risk")	<ul style="list-style-type: none"> <li>– Short-term Incentive ("STI") (see Section 3.5.1); and</li> <li>– Long-term Incentive ("LTI") (see Section 3.5.2).</li> </ul>

### 3.3 Remuneration mix at target remuneration

The chart below illustrates the relative proportion of remuneration entitlement for Executive KMP that is fixed and that which is linked to individual or Company performance or both (STIP and LTIP) to the extent target performance for at-risk components is met.

TABLE 4: Components of Target Remuneration for Executive KMP for 2018

CEO/CEC	33%	17%	17%	33%
Former CEC	33%	33%		33%
CFO/COO	43%	21%	21%	14%
	■ Fixed	■ At risk STI (cash)	■ At risk STI (deferred)	■ At risk LTI

Calculations for fixed remuneration entitlement include benefits but exclude the value of expatriate benefits; see Table 10. The short-term variable remuneration entitlement is determined pursuant to the STIP (outlined in Section 3.5.1). The LTIP is outlined in Section 3.5.2.

## DIRECTORS' REPORT (CONTINUED)

### 3.4 Fixed remuneration

Executives receive a Fixed Remuneration package, which incorporates cash salary, superannuation benefits and may include a provision for a car allowance, together with various other benefits. Executives have some scope to determine the combination of cash (including car allowance) and various non-monetary benefits by which their FAR is delivered.

Each Senior Executive's level of fixed remuneration is reviewed annually to provide a base level of remuneration which is appropriate to the position and competitive with companies of similar size in the mining/resources industry. No Executives are guaranteed an annual increase in FAR.

In 2018 the Remuneration Committee elected to increase remuneration for certain KMP to ensure remuneration remained competitive and consistent with contemporary market practice following the benchmarking exercise conducted by Aon Hewitt.

### 3.5 Variable remuneration

Variable remuneration is delivered through participation in the STIP (as outlined in Section 3.5.1) whilst certain Executives are also eligible to participate in a LTIP (as outlined in Section 3.5.2).

#### 3.5.1 Short Term Incentive Plan

A new STIP structure was introduced in 2018 that strengthens shareholder alignment and encapsulates performance measures across several different metrics. The Board has determined that Company performance goals best encapsulate KMP performance for the 2018 performance year. As such individual performance goals do not form part of the performance metrics for the STIP for 2018 for the executives. The Board maintains discretion to alter the scorecard outcomes outlined below if the scorecard results generate any unintended outcomes from a reward perspective considering the perspectives of various stakeholders including but not limited to shareholders, employees and communities.

##### Eligibility

The STIP applies to Executives as well as other management and employees of the Company.

##### Objective

The objective of the STIP is to reward Executives and employees for the achievements of the Company, Business Unit and individual goals that are aligned to the Company's financial, operational and strategic priorities.

##### Structure

For 2018 the STIP for KMPs comprised two key components:

- STIP Opportunity** – this is expressed as a percentage of the Executive's FAR. The STIP opportunity is reviewed annually. A benchmarking exercise is completed against comparable peers in listed companies, and no changes were proposed for 2018. The CEO, CEC, CFO and COO have a Target STIP opportunity of 100% of FAR, with a maximum opportunity of 200% of the Target STIP opportunity. The Board believes this level of STIP opportunity is reasonable and competitive for the current environment.
- STIP Scorecard** – this consists of several Key Performance Indicators ("KPIs").  
At the start of each year, KPIs are reviewed and selected by Board as being the most appropriate to the business. Assessment against these measures is determined following the end of each year.  
For the Executives named in this report, all KPIs are measured at the Company level. The STIP Scorecard measures the Company's performance in respect of the following categories:

KPI	Measure	Weighting
Profitability	Net Profit After Tax ("NPAT")	30%
	Free On Board ("FOB") Cash Costs (excluding royalties)	20%
	Run Of Mine tonnes ("ROM")	10%
Health and Safety	Total Recordable Injury Frequency Rate ("TRIFR")	10%
	Critical Controls Compliance	5%
Strategic Objectives	Strategic measures may include special projects, capital management, growth and culture development	15%
Environment	Environmental incidents and complaints	10%

STIP scorecard performance is assessed by the Chairman of the Executive Committee and the Chief Executive Officer, reviewed by the Nomination and Remuneration Committee, and approved by the Board.

Performance against the STIP Scorecard is converted to a payout multiplier (calculated referencing the relevant maximum level of opportunity). The payout multiplier is applied to the Target STIP opportunity to determine the actual STIP award. Accordingly, the Executive's STIP award is heavily influenced by the achievement of Company KPIs.

##### Timing

For any KMP STIP award:

- 50% of the award is delivered as a cash payment around April each year.
- 50% of the award will vest in equal parts over a two-year period (25% deferred for one year, remaining 25% deferred for two years) subject to continued employment at the respective deferral dates. The deferred STIP will be settled in cash or equity.



### 3.5.2 Long Term Incentive Plan

Following the recommendations provided by Aon Hewitt as part of the incentive design review, new LTIP grants for 2018 will also be subject to performance hurdles (measured over a three-year period) to assess vesting outcomes. Awards will be delivered in performance share rights and were granted on 30 May 2018.

The key characteristics of the LTIP are outlined below:

TABLE 5: LTIP 2018 Structure

Eligibility	Executives and certain senior management are eligible to participate in the LTIP.
Objective	The objective of the LTIP is to reward and retain participants who are in positions to influence the Company's long-term performance (the LTIP performance period is three years).
Frequency	Each year eligible Executives and certain senior management are considered for an annual LTIP grant.
LTIP opportunity	The Chair of the Executive Committee and the Chief Executive Officer have an annual LTIP opportunity between 100% and 200% of FAR. The Chief Financial Officer and Chief Operations Officer have an LTIP opportunity of between 33% and 50% of FAR.
LTIP instrument	The LTIP is issued via a grant of performance share rights for nil consideration. The Company may at its discretion settle an Executive's and certain senior management's LTIP in cash or shares.
LTIP performance conditions	The LTIP will vest subject to both service and performance measures over a three-year performance period: <ul style="list-style-type: none"> <li>– Earnings Per Share ("EPS") Vesting Condition ("EPS Awards"): 60% of the award will vest subject to an EPS growth performance hurdle ("EPS Hurdle"), which compares the EPS performance of the Company with the EPS performance of a comparator group of companies operating in the Australian resources sectors over the relevant performance period; and</li> <li>– Costs Target Vesting Condition ("Costs Awards"): 40% of the award will vest subject to the Company achieving a defined cost per tonne target ("Costs Target Hurdle") over the relevant performance period.</li> </ul>
LTIP performance conditions – why were they chosen?	The EPS Hurdle was chosen because: <ol style="list-style-type: none"> <li>a) It allows for an objective external assessment of the shareholder value created by the Company relative to a group of peers over a sustained period in view of the low liquidity and limited float of Yancoal shares; and</li> <li>b) It is a widely-adopted metric that is well understood by markets.</li> </ol> The Costs Target Hurdle was chosen and set at a level which provides a structural incentive to LTI participants to ensure that the Company remains positioned in the best cost quartile of Australian coal producers. Further, best quartile costs protect and preserve shareholder value in difficult times and support enhanced returns when commodity cycles recover.
How will the performance condition be calculated for the EPS Hurdle?	For the EPS Hurdle, the EPS growth of the Company (based on the Company's annual report, adjusted for any share consolidations or splits) is measured as a percentile ranking compared to the EPS growth for the same period of the comparator group of companies operating in the Australian resources sectors. The level of vesting will be determined based on the ranking in accordance with the following schedule: <ul style="list-style-type: none"> <li>– at the 75th percentile or above – 100% of the EPS Awards vest;</li> <li>– between the 50th and 75th percentiles – vesting will occur on a pro-rata straight-line basis;</li> <li>– at 50th percentile – 50% of the EPS Awards vest; and</li> <li>– below the 50th percentile – no EPS Awards vest.</li> </ul>
Performance Period	<ul style="list-style-type: none"> <li>– Each EPS Award is capable of vesting and becoming exercisable after a three-year performance period with the performance period commencing on 1 January 2018.</li> <li>– The Costs Target Awards is based on the FOB cost per saleable tonne achieved on a Company-wide basis for the year ending 30 December 2020 with Costs Target Awards being tested at, or shortly after, the time of publication of the independent expert's report.</li> <li>– All awards that do not vest following testing will lapse immediately. There is no re-testing. All vested awards are automatically exercised.</li> </ul>
Allocation Methodology	The number of performance rights granted is calculated by dividing the dollar value of the annual LTI opportunity by the volume weighted average price of the Company's ordinary shares traded on the ASX across a 20-day trading period spread evenly either side of 31 December 2017. <i>The number of performance share rights was adjusted due to the 35:1 share consolidation undertaken by the Company in September 2018.</i>

## DIRECTORS' REPORT (CONTINUED)

### 3.6 Linking Executive remuneration to Company performance

The Company's remuneration principles include rewarding based on performance and this is primarily achieved through the Company's STIP and LTIP. Cash and equity awards under these new plans continue to be significantly impacted by the overall performance of the Company in order to maintain a link between performance and shareholder value. See Section 3.5 for further detail. The Company's earnings and delivery of shareholder wealth for the past four years is outlined in the table below.

#### 3.6.1 Overview of Yancoal's performance

TABLE 6: Yancoal's performance

	31 December 2018	31 December 2017	31 December 2016	31 December 2015	31 December 2014
PBT (\$M)	1,172	311	(312)	(354)	(271)
Basic EPS (\$) <sup>A</sup>	0.68	0.52	(0.23)	(0.29)	(0.36)
Closing share price (\$) <sup>A</sup>	3.92	4.38	10.56	2.15	3.34
Ordinary dividend per share (\$) <sup>A</sup>	0.10	–	–	–	–

A Yancoal's share capital was consolidated on a 35-1 basis on 28 September 2018. Restated figures are shown for Closing share price and Ordinary dividend per share.

#### 3.6.2 KMP STIP outcomes in 2018

The table below summarises details in relation to each KPI and their performance levels achieved for 2018.

TABLE 7: Company Performance against KMP STIP Scorecard in 2018

KPI	Measure	Actual KPI Result	STI Outcome
Profitability	NPAT	\$879M	Stretch
	FOB Cash Costs (excluding royalties) (\$ per tonne)	\$58.9	Stretch
	ROM (Mt)	49.4	Stretch
Health and Safety	TRIFR	8.2	Between Threshold and Target
	Critical Controls Compliance	99%	Stretch
Strategic Objectives	Strategic measures may include special projects, capital management, growth and culture development	10	Target
Environment	Environmental incidents and complaints	35.7	Between Target and Stretch

The assessed outcomes and average achievement for Yancoal Australia Limited and Yancoal International Holding of 169% reflect the following achievements in 2018:

- the overall delivery of Net Profit After Tax of \$879M for the Group and the assets managed on behalf of Yancoal International Holdings of \$879M;
- record 2018 total of 49 million tonnes saleable coal production;
- the dual listing on The Stock Exchange of Hong Kong and associated Hong Kong Public Offering; and
- the average achievement of 131% for each Business Unit measure.

Details of amounts paid to Executives are outlined in Table 8 of this report.

TABLE 8: Executive KMP STIP Outcomes in 2018

Name	STIP Cash \$ <sup>A</sup>	STIP Deferred \$ <sup>B</sup>	STIP Total \$	% of STIP Opportunity Awarded	% of STIP Opportunity Not Awarded
Reinhold Schmidt	700,623	700,623	1,401,246	42%	58%
Lei Zhang	119,866	119,866	239,732	25%	75%
Baocai Zhang <sup>C</sup>	356,707	–	356,707	85%	15%
Fucun Wang	212,925	212,925	425,850	85%	15%
Paul Stringer	594,878	594,878	1,189,756	85%	15%
Total	1,984,999	1,628,292	3,613,291	53%	47%

A The 2018 STIP cash figures are to be paid around April 2019.

B The STIP deferred is the value of share rights granted. The number of share rights granted is calculated as 50% of the STIP award divided by the VWAP across a 90-day trading period spread 60 days prior to, and 30 days after, 31 December 2018.

C Baocai Zhang was an Executive director until 8 June 2018 and has received pro-rata STIP.

The portion of STIP that is deferred will vest in equal parts over a two-year period (25% of total STIP award deferred for one year, remaining 25% of total STIP award deferred for two years). These deferrals will be settled in either cash or equity.

Details of the remuneration of Executive KMP prepared in accordance with statutory obligations and accounting standards are contained in Table 10 of this Remuneration Report.

### 3.6.3 Executive KMP LTIP awards granted in 2018

A summary of the LTIP awards granted in 2018 is set out in the table below.

TABLE 9: Details of the LTIP applicable to Executive KMP

Name	Face value at date of grant \$ <sup>A</sup>	Number of Performance Rights granted
Reinhold Schmidt	3,159,574	668,693
Lei Zhang	225,227	47,667
Fucun Wang	929,573	196,735
Paul Stringer <sup>B</sup>	335,333	70,970
Total	4,649,707	984,065

A The performance share rights noted above have been allocated and will be issued on or after 26 February 2019. The number of performance rights granted is calculated as the maximum LTIP award opportunity divided by the VWAP across a 20-day trading period spread evenly either side of 31 December 2017. The number of performance share rights was adjusted due to the 35:1 share consolidation undertaken by the Company in September 2018.

B Paul Stringer is considered a KMP from 29 May 2018 to 31 December 2018.

Whilst appointed as CEC, Baocai Zhang was entitled to participate in the LTIP but elected not to.

### 3.7 Looking forward to 2019

Following the remuneration review and benchmarking undertaken in 2018, and subsequent changes to FAR and incentive frameworks for 2018, the structure and quantum of remuneration (including incentives) will remain unchanged in 2019 apart from increases to fixed remuneration in accordance with standard market practice.

## 4. Remuneration table

### 4.1 Executive KMP Remuneration

Table 10 sets out the details of remuneration earned by Executive KMP, calculated in accordance with applicable Accounting Standards.

TABLE 10: Statutory Remuneration of Executive KMP in 2017 and 2018

Name	Year	Short-term benefits				Post-employment benefits	Long-term benefits	Share-based payments		Total	% performance related
		Cash Salary	STI	Other Bonus <sup>A</sup>	Non-monetary benefits	Super-annuation benefits	Long Service Leave	STI Deferred	LTI		
Reinhold Schmidt	2018	1,602,234	700,623	–	109,585	22,766	140,696	700,623	631,915	3,908,443	52%
	2017	1,138,553	1,504,979	2,108,389	134,280	30,000	81,639	–	1,761,642	6,759,482	80%
Lei Zhang	2018	449,951	119,866	–	5,644	20,290	34,729	119,866	45,045	795,392	36%
	2017	394,371	224,842	679,980	7,373	19,832	14,728	–	60,840	1,401,965	69%
Baocai Zhang <sup>B</sup>	2018	150,573	356,707	–	2,613	10,024	–	–	–	519,917	69%
	2017	322,721	634,221	905,381	1,612	19,832	31,293	–	–	1,915,060	80%
Fucun Wang <sup>C</sup>	2018	162,720	212,925	–	–	10,266	137	212,925	185,915	784,887	78%
Paul Stringer <sup>D</sup>	2018	370,544	594,878	–	77,278	11,949	8,764	594,878	67,067	1,725,357	73%
Total	2018	2,736,022	1,984,999	–	195,120	75,295	184,326	1,628,292	929,941	7,733,995	59%
	2017	1,855,645	2,364,042	3,693,750	143,265	69,664	127,660	–	1,822,482	10,076,507	78%

A Comprise special transaction and break even incentives accrued in 2017 and paid in shares during 2018. The number of shares granted was calculated by dividing the award value by the VWAP across a 20-day trading period spread evenly either side of 31 December 2017.

B Baocai Zhang was an Executive Director until 8 June 2018.

C Fucun Wang was an Executive Director from 26 June 2018.

D Paul Stringer is considered a KMP from 29 May 2018 to 31 December 2018.

Particulars regarding the Directors', senior management's and Key Management Personnel's remuneration and the five highest paid employees as required to be disclosed pursuant to Appendix 16 of the HK Listing Rules are set out in Note B4 to the financial statements.



## DIRECTORS' REPORT (CONTINUED)

### 5. Service Agreements

For Non-Executive Directors, the terms and conditions of their appointment are outlined in a letter of appointment. For Executive KMP, the terms and conditions of their employment are outlined in their Executive Service Agreement ("ESA") with the Company.

Following developments in the Group organisation structure, the 2018 remuneration review and consideration of the remuneration recommendations received, new ESAs have been put in place effective 2018.

TABLE 11: Certain ESA terms for each of the Executive KMP

Executive KMP	Position	Term of ESA	Notice Period	Termination Benefit
Reinhold Schmidt	Chief Executive Officer	Unlimited	6 months <sup>A</sup> 12 months <sup>B</sup>	– Nil for cause or resignation. – If ceasing employment for any other reason i.e. as a "Good Leaver", a pro-rata payment in accordance with STIP or LTIP plan rules is at the Board's discretion.
Lei Zhang	Chief Financial Officer	Unlimited	3 months <sup>A</sup> 6 months <sup>B</sup>	– Nil for cause or resignation. – If ceasing employment for any other reason i.e. as a "Good Leaver", a pro-rata payment in accordance with STIP or LTIP plan rules is at the Board's discretion.
Baocai Zhang <sup>C</sup>	Executive Director, Co-Vice Chairman, Chair of the Executive Committee	Unlimited	3 months <sup>A</sup> 6 months <sup>B</sup>	– Nil for cause or resignation. – If ceasing employment for any other reason i.e. as a "Good Leaver", a pro-rata payment in accordance with STIP or LTIP plan rules is at the Board's discretion.
Fucun Wang	Executive Director, Co-Vice Chairman, Chair of the Executive Committee	Unlimited	6 months <sup>A</sup> 12 months <sup>B</sup>	– Nil for cause or resignation. – If ceasing employment for any other reason i.e. as a "Good Leaver", a pro-rata payment in accordance with STIP or LTIP plan rules is at the Board's discretion.
Paul Stringer	Chief Operating Officer	Unlimited	3 months <sup>A</sup> 6 months <sup>B</sup>	– Nil for cause or resignation. – If ceasing employment for any other reason i.e. as a "Good Leaver", a pro-rata payment in accordance with STIP or LTIP plan rules is at the Board's discretion.

A Notice period applicable if the Executive resigns.

B Notice period applicable if the Company terminates the Executive.

C Baocai Zhang was an Executive Director until 8 June 2018.

### 6. Non-Executive Director fees

#### Objective

The Board seeks to set remuneration for Non-Executive Directors at a level which:

- provides the Company with the ability to attract and retain Directors of the highest calibre;
- reflects the responsibilities and demands made on Non-Executive Directors; and
- is reasonable and acceptable to the Company's shareholders.

#### Structure

The remuneration structure for the Non-Executive Directors is distinct from the remuneration structure for Executives in line with sound corporate governance.

The Company set an aggregate remuneration cap of \$3,500,000 per annum for all Non-Executive Directors. Consistent with the Constitution, remuneration payable to each Non-Executive Director has been approved by the Company's majority shareholder, Yanzhou.

The total Board and Committee fees paid by the Company to Non-Executive Directors in 2018 was \$985,499.

During 2018, Non-Executive Directors were remunerated by way of fixed fees in the form of cash and superannuation (to the maximum superannuation guarantee cap). A change was made to the Board and Board Committee fees from 2017 to 2018 with the Independent Co-Vice Chairman's remuneration increasing to \$330,000. No equity

instruments were issued to Non-Executive Directors over 2018 as part of their remuneration package. No element of the Non-Executive Director fees is linked to performance.

Neither Board nor Board Committee fees were paid to:

- Executive Directors Baocai Zhang and Fucun Wang as the responsibilities of Board Committee membership are considered in determining the remuneration provided as part of their normal employment conditions.
- Nominee Directors of Yanzhou as the responsibilities of Board or Board Committee membership were considered part of their role and remuneration arrangements with their nominating company. The Directors of Yanzhou and China Cinda (HK) Holdings Company Limited Group ("Cinda") were as follows:
  - Xiyong Li
  - Cunliang Lai
  - Xiang Qian Wu
  - Fuqi Wang
  - Baocai Zhang
  - Fucun Wang
  - Qingchun Zhao
  - Xing Feng

TABLE 12: Board and Board Committee fees

	2018 \$
<b>Board Fees per annum (including any superannuation)</b>	
Chairman of the Board	Not applicable
Independent Co-Vice Chairman of the Board	330,000
Director	150,000 <sup>A</sup>
<b>Committee Fees per annum (including any superannuation)</b>	
Audit and Risk Management Committee – Chair	30,000
Audit and Risk Management Committee – Member	15,000
Health, Safety and Environment Committee – Chair	30,000
Health, Safety and Environment Committee – Member	15,000
Nomination and Remuneration Committee – Chair	30,000
Nomination and Remuneration Committee – Member	15,000
Strategy and Development Committee – Chair	Not applicable
Strategy and Development Committee – Member	15,000

A Other than as noted in Table 13: Details of Non-Executive Directors Remuneration.

Table 13 sets out the details of remuneration (in the form of Board and Committee fees and other benefits) earned by Non-Executive Directors, that were eligible for compensation, calculated in accordance with applicable Accounting Standards.

TABLE 13: Details of Non-Executive Directors' Remuneration, earned in 2017 and 2018

Name	Year	Short-Term Benefits		Post-Employment Benefits			Total
		Fees <sup>A</sup>	STI or Bonus	Non-Monetary Benefits	Superannuation	Long Service Leave	
Huaqiao Zhang	2018	7,296	–	–	725	–	8,021
	2017	102,492	–	–	9,737	–	112,229
Gregory James Fletcher	2018	398,074	–	–	19,200	–	417,274
	2017	569,089	–	–	38,585	–	607,674
Geoffrey William Raby	2018	176,500	–	–	15,913	–	192,413
	2017	267,138	–	–	15,688	–	282,826
David James Moulton	2018	191,972	–	–	18,237	–	210,209
	2017	–	–	–	–	–	–
Helen Jane Gillies	2018	198,494	–	–	18,857	–	217,350
	2017	–	–	–	–	–	–
Vincent O'Rourke	2018	13,163	–	–	1,307	–	14,470
	2017	270,138	–	–	15,688	–	285,826
<b>Total</b>	2018	985,499	–	–	74,239	–	1,059,738
	2017	1,208,856	–	–	79,698	–	1,288,554

A Includes the following transaction-specific remuneration paid:  
Huaqiao Zhang – 2017: \$10,959. Mr Zhang resigned on 30 January 2018.  
Gregory James Fletcher – 2018: \$112,500; 2017: \$403,951.  
Geoffrey William Raby – 2018: \$11,740; 2017: \$102,000.  
David James Moulton – 2018: \$24,658.  
Helen Jane Gillies – 2018: \$43,836.  
Vincent O'Rourke – 2017: \$105,000. Mr O'Rourke resigned on 30 January 2018.

The following Non-Executive Directors received nil fees in 2017 and 2018: Cunliang Lai, Fuqi Wang, Xiangqian Wu, Qingchun Zhao, and Xing Feng.

## DIRECTORS' REPORT (CONTINUED)

### 7. Share Trading Policy and Insider Trading Policy

The Company's Share Trading Policy prohibits dealing in Company securities or Yanzhou securities by KMP and other relevant employees, as well as their closely related persons, during specified blackout periods each year and when they are in possession of "inside information". Directors, KMP and their closely related persons are also prohibited from dealing in securities of a listed company where he or she is in possession of inside information in relation to those securities. Subject to compliance with the Company's Share Trading Policy and Insider Trading Policy, employees are permitted to deal in Company securities or Yanzhou securities outside these blackout periods where they are not in possession of inside information; however additional approval requirements apply to Directors.

The Share Trading Policy precludes relevant employees from entering into any hedge or derivative transactions relating to unvested options or share rights granted to them under incentive plans and securities that are subject to holding locks or restrictions from dealing under such plans. There are also restrictions regarding margin lending arrangements, hedging and short-term trading of the Company's securities. Each Director and KMP is required to provide a declaration at the end of each financial year certifying that they (and their closely related persons) have complied with the Share Trading Policy and the Insider Trading Policy for the duration of that financial year.

### 8. Equity instrument disclosures

The numbers of shares in the Company held during the financial year by each Director of the Company and other KMP of the Group, including their personally related parties, are set out below.

TABLE 14: Movement in Shares held by KMP in 2018

Name	Held at 1 January 2018 <sup>A</sup>	Granted as compensation	Converted	Held at 28 September 2018		Granted as compensation	Purchased <sup>B</sup>	Held at 31 December 2018
				Pre-share consolidation	Post-share consolidation			
Gregory James Fletcher	24,320	–	45,070 <sup>C</sup>	69,390	1,983	–	117	2,100
Reinhold Schmidt <sup>D</sup>	3,453,158	7,476,555	–	10,929,713	312,278	–	–	312,278
Baocai Zhang <sup>E</sup>	5,905,873	3,210,569	–	9,116,442	260,471	–	13,933	274,404
Vincent O'Rourke <sup>F</sup>	1,119,565	–	–	n/a	n/a	n/a	n/a	n/a
Gregory J O'Rourke <sup>G</sup>	39,525	–	–	n/a	n/a	n/a	n/a	n/a
Geoffrey William Raby	800,000	–	–	80,000	22,857	–	–	22,857
Lei Zhang	–	2,411,277	–	2,411,277	68,894	–	–	68,894
Ying Zhang <sup>H</sup>	988,142	–	–	988,142	28,233	–	–	28,233
Paul Stringer	–	1,964,564	–	1,964,564	56,131	–	–	56,131

A Or date considered KMP, if later.

B Shares relate to the accelerated pro-rata renounceable retail entitlement offer detailed in the Entitlement Offer Booklet dated 29 November 2018.

C On 31 January 2018, Mr Gregory Fletcher converted 24 Subordinated Capital Notes issued by Yancoal SCN, a wholly owned subsidiary of Yancoal, to 45,070 fully paid ordinary shares in Yancoal.

D During 2018 7,476,555 shares were granted to Reinhold Schmidt as compensation and are held by RSWC Pty Limited, a related party. This holding comprised 213,616 shares post share consolidation and as at 31 December 2018.

E Mr Baocai Zhang ceased as a KMP on 8 June 2018 but remains a Non-Executive Director.

F On 30 January 2018, Mr Vincent O'Rourke ceased to be a Director of Yancoal.

G Mr Gregory James O'Rourke is a related party of Mr Vincent O'Rourke.

H Mrs Ying Zhang is a related party of Mr Lei Zhang.

No other KMP held any shares in respect of Yancoal Australia Ltd or its related entities at or during the year ended 31 December 2018.



TABLE 15: Movement in Other Equity Instruments held by KMP in 2018

The number of performance rights held by KMP in 2018 is outlined in the table below.

Name	Instrument	Held at 1 January 2018	Granted as compensation	Vested during the year	Exercised during year	Lapsed during year	Held at 31 December 2018	Of which exercisable	Of which not vested and not exercisable
Reinhold Schmidt	LTIP <sup>A</sup>	–	668,693	–	–	–	<b>668,693</b>	–	668,693
	Special Incentives <sup>B</sup>	–	7,476,555	(7,476,555)	–	–	–	–	–
	STIP Deferral <sup>C</sup>	–	209,285	–	–	–	<b>209,285</b>	–	209,285
Lei Zhang	LTIP <sup>A</sup>	–	47,667	–	–	–	<b>47,667</b>	–	47,667
	Special Incentives <sup>B</sup>	–	2,411,277	(2,411,277)	–	–	–	–	–
	STIP Deferral <sup>C</sup>	–	35,805	–	–	–	<b>35,805</b>	–	35,805
Baocai Zhang <sup>D</sup>	Special Incentives <sup>B</sup>	–	3,210,569	(3,210,569)	–	–	–	–	–
Fucun Wang	LTIP <sup>A</sup>	–	196,735	–	–	–	<b>196,735</b>	–	196,735
	STIP Deferral <sup>C</sup>	–	63,603	–	–	–	<b>63,603</b>	–	63,603
Paul Stringer <sup>E</sup>	LTIP <sup>A</sup>	–	70,970	–	–	–	<b>70,970</b>	–	70,970
	Special Incentives <sup>B</sup>	–	1,964,564	(1,964,564)	–	–	–	–	–
	STIP Deferral <sup>C</sup>	–	177,698	–	–	–	<b>177,698</b>	–	177,698

A Relating to the 2018 LTIP award. The number of performance rights granted is calculated as the maximum LTIP award opportunity divided by the VWAP across a 20-day trading period spread evenly either side of 31 December 2017. The number of performance share rights was adjusted due to the 35:1 share consolidation undertaken by the Company in September 2018.

B Relating to the special incentives and transaction bonuses in relation to 2017 performance which were to be settled in cash, but were settled in equity. Performance rights were granted on 30 May 2018 and vested on 1 September 2018. The number of shares granted was calculated by dividing the award value by the VWAP across a 20-day trading period spread evenly either side of 31 December 2017.

C Relating to the portion of 2018 STIP that is deferred into equity.

D Baocai Zhang was an Executive Director until 8 June 2018.

E Paul Stringer is considered a KMP from 29 May 2018 to 31 December 2018.

## 9. Other transactions with and loans to Directors and Executives

A number of Directors and Executives hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

Some of these entities transacted with the Company or its subsidiaries in the reporting period. The terms and conditions of any transactions with management, Directors or parties related to KMP or Directors were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-management or Director related persons or entities on an arm's length basis (refer to Note E3). There were no loans provided to Directors and Executives during the year.

## DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No transactions, arrangements or contracts of significance in relation to the Group's business to which any of the Company's subsidiaries and fellow subsidiaries was a party, and in which a Director or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted at any time during the year or at the end of the year.

## INSURANCE OF OFFICERS OR AUDITORS

Rule 10.2 of Yancoal's Constitution requires Yancoal to indemnify, to the full extent permitted by law, each Officer of the Company against liability incurred by the Officer as a Director or an Officer of the Company. The Directors named in this report, along with the Company Secretary, Chief Executive Officer and Chief Financial Officer, have the benefit of this requirement, as do individuals who formerly held one of those positions.

During the financial year, the Company paid a premium for Directors' and Officers' Liability insurance as well as Defence Costs cover. The policies cover the Directors and other officers of the Group. The Directors have not included details of the nature of the liabilities covered and the amount of premium paid in respect of the Directors' and Officers' Liability insurance policy as such disclosure is prohibited under the terms of insurance contracts.

## Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the Corporations Act 2001.

## Non-audit services

The Company may decide to employ the auditor on assignments additional to its statutory audit duties where the auditor's expertise and experience with the Group are important.

Details of the amounts paid or payable to the auditor for non-audit services provided during the year are set out below.

During the year, the auditors provided the following non-audit services to the Company:

- preparation of the accountant's report in connection with Hong Kong listing;
- assistance review and preparation of materials used in connection with the Hong Kong listing; and
- agreed upon procedures review of changes between joint ventures.

## DIRECTORS' REPORT (CONTINUED)

The Board of Directors have considered the position and, in accordance with advice received from the Audit and Risk Management Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed by the Audit and Risk Management Committee to ensure they do not impact the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

During the year the following fees were paid or payable for services provided by the auditor of the Group, its related practices and non-related audit firms:

TABLE 16: Auditor's Fees in 2018

	2018 \$	2017 \$
<b>ShineWing Australia</b>		
Audit and review of financial statements	1,808,000	1,258,500
Non-audit services:		
Other assurance services	982,000	1,010,000
Taxation compliance	84,000	54,000
<b>Total services remuneration of ShineWing Australia</b>	<b>2,874,000</b>	<b>2,322,500</b>


### AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 79.

### ROUNDING OF AMOUNTS

The Group is of a kind referred to in Legislative Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the Directors' Report and financial statements. Amounts in the Directors' Report and financial statements have been rounded off to the nearest million dollars in accordance with that legislative instrument.

This report is made in accordance with a resolution of the Directors.



**Fucun Wang**  
Director  
Sydney  
5 April 2019

# AUDITOR'S INDEPENDENCE DECLARATION



Take the lead

## Auditor's Independence Declaration under Section 307C of the *Corporations Act 2001* to the Directors of Yancoal Australia Ltd

I declare that to the best of my knowledge and belief, during the year ended 31 December 2018 there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

**ShineWing Australia**  
Chartered Accountants

**R Blayne Morgan**  
Partner, Sydney

Monday, 25 February 2019

### Brisbane

Level 33  
Riparian Plaza  
71 Eagle Street  
Brisbane QLD 4000  
T + 61 7 3085 0888

### Melbourne

Level 10  
530 Collins Street  
Melbourne VIC 3000  
T + 61 3 8635 1800  
F + 61 3 8102 3400

### Sydney

Level 8  
167 Macquarie Street  
Sydney NSW 2000  
T + 61 2 8059 6800  
F + 61 2 8059 6899

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# CORPORATE GOVERNANCE STATEMENT

## Introduction

The Company adopts an approach to corporate governance based on international best practice as well as Australian and Hong Kong law requirements. The Board and management are committed to corporate governance.

## ASX Corporate Governance Statement

To the extent appropriate to the scale and nature of the Company's business, the Company has adopted the 3rd edition of the ASX Corporate Governance Council's Principles and Recommendations (**ASX Recommendations**). This statement sets out the Company's compliance with the ASX Recommendations and the main corporate governance policies and practices adopted by the Company.

## HK Listing and Compliance with the Hong Kong Corporate Governance Code

The Company has also adopted the provisions of the Corporate Governance Code in Appendix 14 (the **HK Code**) to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the **HK Listing Rules**) as part of its corporate governance policy effective upon its listing on the Main Board of The Stock Exchange of Hong Kong Ltd (HKEx) on 6 December 2018 (the **HK Listing**).

Since the date of the HK Listing, the Company has implemented and applied the principles contained within the HK Code in conducting the Company's business, including reflecting those principles in the Company's Board Charter and relevant policies. In the opinion of the Board, the Company has complied with the code provisions of the HK Code (in addition to the relevant principles of the ASX Recommendations) since the HK Listing up to and including 31 December 2018. The conduct of the Company's compliance with the principles is discussed further in this statement.

## Principle 1: Lay solid foundations for management and oversight

### Role of the Board

The Board is responsible for the overall corporate governance, leadership and control of the Company including directing the affairs of the Company, setting and monitoring the Company's risk management strategy and overseeing the appointment, remuneration and performance of senior executives. The Board is committed to maximising performance, generating appropriate levels of shareholder value and financial return, and sustaining the growth and success of the Company over the longer term. Directors are expected to exercise their decision making in the best interests of the Company.

The Board's role and responsibilities and its delegation of authority to standing committees and senior executives have been formalised in a Board Charter. The Board Charter can be found within the Corporate Governance section of the Company's website.

The Board Charter sets out the procedure by which the Board collectively, and each individual Director, can seek independent professional advice at the Company's expense.

## Delegation to management

The Board delegates responsibility for the day to day management of the Company's affairs and implementation of the strategy and policy initiatives set by the Board to the Chair of the Executive Committee (**CEC**), the Chief Executive Officer (**CEO**) and other senior Executives. The Executive Committee is a management committee comprising the CEC, CEO, the Chief Financial Officer (**CFO**) and any other senior Executives that the Board resolves from time to time will be members of the Executive Committee.

The Executive Committee Charter sets out the functions of the Executive Committee and the duties of the CEC, CEO and CFO and provides for a clear division of responsibility between management and the Board. The Executive Committee Charter also provides the financial decision authorities and appropriate approval thresholds at different levels which have been approved by the Board.

Given the delegation of the day to day management of the Company, it is the responsibility of management, with the assistance of the Company Secretary, to provide the Directors with timely, adequate and appropriate information to assist the Directors in making informed decisions and to be able to effectively perform their duties and responsibilities.

## Senior Executive contracts

The Company's senior Executives are employed under employment contracts that set out the terms of their employment. In 2018, the Nomination and Remuneration Committee engaged external remuneration consultants to provide independent market benchmarking with respect to the remuneration of Yancoal Executives and Non-Executive Directors. This included providing remuneration recommendations to better align management with shareholder interests. As a result of this process, all senior Executives signed new employment contracts during 2018.

## Company Secretary

The Company Secretary supports and is accountable to the Board, through the Chairman of the Board (Chairman), on all matters to do with the proper functioning of the Board. The Company Secretary facilitates the timely flow of information within the Board and between the Board and management. All Directors have direct access to the Company Secretary. The Board Charter sets out the other duties of the Company Secretary, which include being responsible for:

- ensuring compliance by the Company with the Company's Constitution, the provisions of the Corporations Act and other applicable laws as they relate to the Company;
- providing corporate governance advice to the Board and facilitating induction processes and the ongoing professional development of Directors;
- ensuring that the Board Charter and relevant policies and procedures are followed;
- ensuring that the Company's books and registers required by the Corporations Act are established and properly maintained;
- ensuring that all notices and responses are lodged with ASIC and ASX on time; and
- organising and attending shareholder meetings and Directors' meetings, including sending out notices, preparing agendas, marshalling proxies and compiling minutes.

The Company Secretary is Laura Ling Zhang. Ms Zhang is in the process of completing at least 15 hours of professional training to update her skills and knowledge by 30 June 2019, as required by the HKEx.

### Nomination and appointment of Directors

The Board considers that Board succession planning, and the progressive and orderly renewal of the Company's Board membership, are important parts of the governance process.

The Board's policy for the selection, appointment and re-appointment of Directors is to ensure that the Board possesses an appropriate range of skills, experience and expertise to enable the Board to carry out its responsibilities most effectively. As part of this appointment and re-appointment process, the Directors consider Board renewal and succession plans and whether the Board's size and composition is conducive to making appropriate decisions.

At the time of appointment of a new Non-Executive Director, the key terms and conditions relevant to that person's appointment, the Board's responsibilities and the Company's expectations of a Director are set out in a letter of appointment. The Company has implemented an induction program, facilitated by the Company Secretary, through which new Non-Executive Directors are introduced to the Company's operations and are familiarised with the Company's strategy, culture and core values.

The Board has established a Nomination and Remuneration Committee to make recommendations to the Board on matters such as succession plans for the Board, the size and composition of the Board, potential candidates for appointment to the Board, re-election of Directors, Board induction and Board evaluation procedures. The structure and membership of the Nomination and Remuneration Committee is described further under Principles 2 and 8.

The Board recognises that people are its most important asset and is committed to the maintenance and promotion of workplace diversity. Whilst traditionally experience as a senior Executive or Director of a large organisation with international operations is a prerequisite for candidature, in accordance with the Diversity Policy, the Board also seeks skills and experience in the following areas:

- marketing and sales;
- policy and regulatory development and reform;
- health, safety and environment and social responsibility; and
- human resources.

In identifying candidates, the Nomination and Remuneration Committee considers and selects nominees by reference to a number of selection criteria including the skills, expertise and background that add to and complement the range of skills, expertise and background of the existing Directors, the capability of the candidate to devote the necessary time and commitment to the role, potential conflicts of interest and independence, and the extent to which the candidate would fill a present need on the Board. Where appropriate, the appropriate checks are undertaken prior to a Director being appointed. The mix of skills currently held by the Board is set out under Principle 2.

The role, rights and responsibilities and membership requirements of the Nomination and Remuneration Committee, together with the selection criteria for candidates for the Board, are set out in the Nomination and Remuneration Committee Charter which can be found within the Corporate Governance section of the Company's website. In carrying out its duties, the Committee has regard to the ASX Principles and the principles in the HK Code, in particular, principles A.3 and A.4.

Shareholder approval is required for the appointment of Directors. However, Directors may appoint other Directors to fill a casual vacancy where the number of Directors falls below the constitutional minimum number of Directors and in order to comply with any applicable laws, regulations or the ASX Listing Rules. If a Director is appointed to fill a casual vacancy in these circumstances, the approval of members must be sought at the next general meeting.

No Director may hold office without re-election beyond the third annual general meeting (**AGM**) following the meeting at which the Director was last elected or re-elected. The Company provides all material information in its possession in relation to Directors standing for election or re-election in the Notice of Meeting provided to shareholders prior to the AGM.

Each Non-Executive Director has been appointed for an initial term of not more than three years (and will be subject to retirement by rotation at least once every three years under Rule 8.1 of the Company's Constitution, pending re-election by the shareholders at an annual general meeting). Each Independent Non-Executive Director has been appointed for an initial term of not more than three years and will be subject to retirement by rotation at least once every three years under Rule 8.1 of the Company's Constitution, pending re-election by the shareholders at an annual general meeting.

To the extent that the ASX Listing Rules require an election of Directors to be held and no Director would otherwise be required under the Company's Constitution to submit for election or re-election at an AGM, the Director who has been the longest in office since their last election or appointment must retire at the AGM. As between Directors who were last elected or appointed on the same day, where it is not agreed between the relevant Directors, the Director to retire must be decided by lot.

The process for appointment, retirement and re-election of Directors is set out in the Company's Constitution which can be found within the Corporate Governance section of the Company's website.

### Diversity

The Company recognises that people are its most important asset and is committed to the maintenance and promotion of workplace diversity. The Company has adopted a Diversity Policy, approved by the Board, to actively facilitate a more diverse and representative management and leadership structure. The Diversity Policy is available in the Corporate Governance section of the Company's website.

Annually, the Board establishes measurable objectives with the assistance of the Nomination and Remuneration Committee with a view to progressing towards a balanced representation of women at a Board and senior management level.

The measurable objectives and performance against them are reviewed annually by the Nomination and Remuneration Committee as part of its annual review of the effectiveness of the Diversity Policy.

The measurable objectives adopted for 2018 and the Company's performance against the measurable objectives are outlined in the table below:

## CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Objective	Performance
1. To increase employee awareness and understanding of the importance of diversity by implementing training on the Company's Diversity Policy and Workplace Behaviour and Anti-Discrimination Policy.	The Yancoal Code of Conduct was reviewed and a new version was approved in May 2018. Employees across the Company have access to the current version of the Yancoal Code of Conduct via the Company intranet and are reminded of this via inductions, crew talks and as relevant issues arise.
2. To target a diverse group of candidates with recruitment and selection procedures that are merit-based and non-discriminatory.	Across the Yancoal group, merit-based, non-discriminatory practices are adhered to.
3. Continue to ensure our managers are adept recruiters, retainers and motivators of our diverse workplace.	<p>A human resources representative endeavours to sit with managers during interviews to coach and mentor on targeted selection techniques and merit-based selection, as well as general diversity awareness with regards to candidates.</p> <p>The "Yancoal Way" continues to be rolled out across the Company. The message of continuous improvement is promoted during recruitment, induction and performance reviews to promote a culture that encourages engagement, diversity and continuous learning.</p> <p>The Company continues to build a culture of diversity and inclusion through targeted education of managers on the positive impact of a diverse workforce and the importance of adhering to the Company recruitment and diversity policies.</p> <p>The Company conducts the following formal training schemes:</p> <ul style="list-style-type: none"> <li>– Leadership Development Program for managers to develop managerial and leadership skills. Components of this training include "Conversations Our Way" and "Great Team Frameworks";</li> <li>– Technical Competency Training is a competency assurance program for certain operational roles at mine sites to ensure that personnel are properly trained in the competencies they require to safely and effectively carry out those roles;</li> <li>– Graduate training program which involves providing on-the-job training and cadetships for graduate and student mining engineering students; and</li> <li>– Front-line Leadership Program is intended to prepare employees with the skills required to advance into supervisory and managerial roles.</li> </ul>
4. Communicate the Company Recruitment Policy	A human resources representative communicates the Recruitment Policy to managers and candidates during interviews and the policy is also published on the Company's intranet.

The Board has set the following measurable objectives in relation to gender diversity for 2019:

1. Continue to increase employee awareness and understanding of the importance of diversity by implementing training on the Company's Diversity Policy and Workplace Behaviour and Anti-Discrimination Policy.
2. Continue to target a diverse group of candidates with recruitment and selection procedures that are merit based and non-discriminatory.
3. Continue to ensure our managers are adept recruiters, retainers and motivators of our diverse workplace.
4. Conduct a pay analysis to ensure all salaries both of males and females are progressing towards the market rate.
5. Review of the Workplace Behaviour and Anti-Discrimination Policy.
6. Implementation of the Company's new Parental Leave Policy.

### Proportion of Women in the Company

Gender has been identified as a key area of focus for the Company. On an annual basis, the Nomination and Remuneration Committee reviews the proportion of women employed by the Company and submits a report to the Board outlining its findings. Details regarding the proportion of men and women throughout the organisation are set out below.

As at 31 December 2018, the proportion of women who were directly employed by the Company as a whole was 10%: 299 Full-time, 15 Part-time and four Casual. There was no change between 2017 and 2018 in the percentage of females in comparison to the percentage of males. The proportion of women in senior management roles (being roles which directly report to the CEO or CEC) within the Company during 2018 was 9%: Women held one of 11 senior management roles within the Company.

On and from 30 January 2018, one female Non-Executive Director sits on the Board.

### Performance of the Board, its Committees and individual Directors

The Nomination and Remuneration Committee oversees an annual evaluation process for the Board, its Committees and each Director based on the Board Performance Evaluation Protocol (**Protocol**) adopted and approved by the Board in 2012.

### The Board

Periodically, a review of the structure and operation of the Board, the skills and characteristics required by the Board to maximise its effectiveness and whether the mix of skills, experience and expertise and the Board's practices and procedures are appropriate for the present and future needs of the Company is conducted. This evaluation of performance of the Board may be conducted with the assistance of an external facilitator. As set out in the Board Charter, the review of the Board involves Directors providing written feedback on the Board's performance to the Chairman or to an external facilitator, which in turn is discussed by the Board, with consideration of whether any steps for improvement are required.



It is expected that externally facilitated reviews will occur approximately every three years. The independent external facilitator will seek input from each of the Directors and certain members of senior management in relation to the performance of the Board against a set of agreed criteria.

Once an externally facilitated review occurs, the progress against any recommendations from the most recent externally facilitated review, together with any new issues, will be considered internally. Feedback from each Director against a set of agreed criteria will be collected by the Chairman or the external facilitator. The CEC and CEO will also provide feedback from senior Executives in connection with any issues that may be relevant in the context of the Board performance review. Feedback will be collected by the Chairman, or an external facilitator, and discussed by the Board, with consideration being given as to whether any steps should be taken to improve performance of the Board or its committees.

Since the adoption of the Protocol in 2012, the Company carried out four annual Board performance reviews internally, and has conducted one externally facilitated Board performance review. An externally facilitated review of the Board was carried out in 2016 (in respect of 2015) and a review of the Board was conducted internally in 2018 (in respect of 2017), in accordance with process disclosed above.

The Nomination and Remuneration Committee considers assessments by independent bodies regarding boards of Australian companies and their performance. The Chair of the Nomination and Remuneration Committee reports any material issues or findings from these evaluations to the Board.

#### **Board committees**

Each of the four standing committees of the Board conducts an annual committee performance self-assessment to review performance using guidelines approved by the Nomination and Remuneration Committee. The guidelines include reviewing the committee's performance having regard to its role and responsibilities as set out in its Charter; consideration as to whether the committee's Charter is fit for purpose; and identification of future topics for training/education of the committee or its individual members.

The outcomes of the performance self-assessments are reported to the Nomination and Remuneration Committee (or to the Board, if there are any material issues relating to the Nomination and Remuneration Committee) for discussion and noting.

Each committee provides feedback to the Board on its own performance, which is collected by the Chairman or an external facilitator, and the feedback is discussed by the Board, with consideration of whether any steps for improvement are required.

The most recent review of the Board's committees was conducted in 2018 (in respect of 2017) in accordance with the process disclosed above.

#### **Individual Directors**

Directors are evaluated on, amongst other things, their alignment with the values of the Company, their commitment to their duties and their level of financial, technical and specialist knowledge. Directors are also expected to be fully aware of their duties of care and skill, as well as fiduciary duties, as a Director.

An annual performance review of Non-Executive Directors is conducted by the Chairman for each Non-Executive Director, specifically addressing the performance criteria within the Protocol.

An annual review of the performance of the Chairman is facilitated by the Co-Vice Chairmen who seek input from each Director individually on the performance of the Chairman against the competencies for the Chairman's role approved by the Board. The Co-Vice Chairmen collate

the input in order to provide an overview report to the Nomination and Remuneration Committee and to the Board, as well as feedback to the Chairman.

An externally facilitated review of individual Directors was conducted in 2016 (in respect of 2015) and an internal review was conducted in 2018 (in respect of 2017) in accordance with the process disclosed above. The requirements of the principles set out in the HK Code in respect of performance of the Directors will be taken into account in undertaking future Director reviews.

#### **Performance of senior Executives**

The CEC and the CEO review the performance of senior Executives annually against appropriate measures as part of the Company's performance management system for all managers and staff.

On an annual basis, the Nomination and Remuneration Committee and subsequently the Board formally review the performance of the CEO and the CEC. The CEO's performance is assessed against qualitative and quantitative criteria, including profit performance, other financial measures, safety performance and strategic actions. The Nomination and Remuneration Committee also undertakes an annual formal review of the performance of other members of the Executive Committee, based on similar criteria. The Board reviews and approves the annual review of all the members of the Executive Committee undertaken by the Nomination and Remuneration Committee.

The performance evaluation for the CEC, CEO and senior Executives took place in 2019 (in respect of 2018) in accordance with the process disclosed above.

### **Principle 2: Structure the Board to add value**

#### **Structure of the Board**

Currently, the Board comprises:

- Executive Director: Fucun Wang (appointed as a Non-Executive Director on 8 June 2018 and was subsequently redesignated to an Executive Director effective 26 June 2018);
- Non-Executive Directors: Baocai Zhang (redesignated from an Executive Director to a Non-Executive Director on 8 June 2018), Cunliang Lai, Qingchun Zhao, Xiangqian Wu, Fuqi Wang and Xing Feng; and
- Independent Non-Executive Directors: Geoffrey William Raby, Gregory James Fletcher, David James Moulton (appointed 30 January 2018) and Helen Jane Gillies (appointed 30 January 2018).

Xiyong Li resigned from the role of Chairman of the Board and Non-Executive Director on 8 June 2018.

The following Independent Non-Executive Directors resigned from the Board: Vincent O'Rourke AM (resigned 30 January 2018) and Huaqiao Zhang (resigned 30 January 2018).

The skills, experience and expertise of each Director and the period that each Director has held office is disclosed in the Information on Directors in the Directors' Report, on page 58.

The Constitution provides that there will be a minimum of four and a maximum of 11 Directors of the Company, unless the Company resolves otherwise at a general meeting.

The number of meetings held by the Board during 2018 and each Director's attendance at these meetings is set out in the Directors' Report on page 64.

#### **Chairman of the Board**

The current Chairman, Baocai Zhang, was nominated by the Company's major shareholder, Yanzhou Coal Mining Co. Ltd ("Yanzhou"). The Chairman leads the Board and is responsible for the efficient organisation and conduct of the Board's functioning.

## CORPORATE GOVERNANCE STATEMENT (CONTINUED)

The Chairman ensures that Directors have the opportunity to contribute to Board deliberations. The Chairman regularly communicates with the CEC and CEO and to review key issues and performance trends. The Chairman, together with the Co-Vice Chairmen, Fucun Wang and Gregory Fletcher, also represent the Company in the wider community.

The Chief Executive Officer is Reinhold Schmidt. The CEO is responsible for conduct and supervision of the management function of the Company, including implementing strategic objectives, plans and budgets approved by the Board. The CEO has overall responsibility for the Company's operations (other than as delegated to the Chairman of the Executive Committee (CEC)) and undertaking such responsibilities as may be delegated to him by the Board from time to time. The CEO is accountable to the Board and reports to the Chairman of the Board and the CEC.

The roles of the Chairman and the CEO are separate and assumed by different individuals to ensure a balance of power and authority, so that power is not concentrated in any one individual of the Board. There is a clear division of responsibilities between the Chairman and the CEO.

### Board Committees

The Board may from time to time establish appropriate committees to assist in the discharge of its responsibilities.

The Board has established the following standing Board committees:

- Audit and Risk Management Committee;
- Health, Safety and Environment Committee;
- Nomination and Remuneration Committee; and
- Strategy and Development Committee.

These Board committees review matters on behalf of the Board and, as set out in the relevant Charter:

- refer matters to the Board for a decision, with a recommendation from the committee; or
- determine matters (where the committee acts with delegated authority), which the committee then reports to the Board.

The purpose of each of the Board committees is outlined below.

Committee	Purpose	Membership
Audit and Risk Management Committee	<p>The committee's objectives are to:</p> <ul style="list-style-type: none"> <li>– help the Board in relation to the reporting of financial information;</li> <li>– advise on the appropriate application and amendment of accounting policies;</li> <li>– make evaluations and recommendations to the shareholders of the Company regarding the external auditor;</li> <li>– recommend to the Board the remuneration of the external auditor for shareholder approval as required in accordance with the Constitution;</li> <li>– provide a link between the Board and the external auditor and management;</li> <li>– ensure that the Board, Directors and management are aware of material risks facing the business;</li> <li>– ensure the systems in place to identify, monitor and assess risk are appropriate and operating effectively; and</li> <li>– assess the independence of the external auditor.</li> </ul> <p>During the financial year ended 31 December 2018, work performed by the committee included:</p> <ul style="list-style-type: none"> <li>– review and endorsement of the Company's Annual Financial Results;</li> <li>– consideration of external audit reports and approval of external auditor's audit plan;</li> <li>– consideration of the Company's asset impairment assessments;</li> <li>– annual review of the Company's Charters and Policies;</li> <li>– evaluation of the Company's debt facilities and 2018 debt repayments along with consideration of the Company's dividend payments; and</li> <li>– oversight and endorsement of the Company's listing on the HKEx.</li> </ul>	<p><i>Independent Non-Executive Directors:</i></p> <p>Gregory Fletcher – Chair</p> <p>David Moulton (appointed 8 June 2018)</p> <p>Helen Gillies (appointed 8 June 2018)</p> <p>Geoffrey Raby (resigned on 8 June 2018)</p> <p><i>Non-Executive Directors:</i></p> <p>Qingchun Zhao</p> <p>(minimum of three Non-Executive Directors, a majority of whom are independent)</p>

Committee	Purpose	Membership
Health, Safety and Environment Committee	<p>The committee assists the Board to:</p> <ul style="list-style-type: none"> <li>– fulfil its responsibilities in relation to the health, safety, environment, social and governance (collectively HSE) matters arising out of the activities of the Company;</li> <li>– consider, assess and monitor whether or not the Company has in place the appropriate policies, standards, systems and resources required to meet the Company's HSE commitments; and</li> <li>– provide necessary focus and guidance on HSE matters across the Company.</li> </ul> <p>During the financial year ended 31 December 2018, work performed by the committee included:</p> <ul style="list-style-type: none"> <li>– monitoring the Company's ongoing health and safety and environmental performance, including significant incidents and regulatory investigations;</li> <li>– monitoring the ongoing integration of the Company's health and safety systems for the acquired Coal &amp; Allied mine sites;</li> <li>– overseeing major initiatives, including the Principal Hazard Management Project, Contractor Management Project, MTW Fatigue Management Project and the Yancoals Community Support Program;</li> <li>– considering independent environmental assurance audits for various Company mine sites, including Moolarben, MTW and Ashton; and</li> <li>– considering the Company's updated Enterprise Risk Management approach.</li> </ul>	<p><i>Independent Non-Executive Directors:</i></p> <p>David Moulton – Chair (appointed 6 February 2018)</p> <p>Geoffrey Raby</p> <p>Vincent O'Rourke AM (former Chair) (resigned 30 January 2018)</p> <p><i>Non-Executive Directors:</i></p> <p>Fuqi Wang</p> <p><i>Executive Directors:</i></p> <p>Fucun Wang (appointed 8 June 2018)</p> <p>(minimum of three Directors)</p>
Nomination and Remuneration Committee	<p>The committee assists the Board of the Company by making recommendations in relation to:</p> <ul style="list-style-type: none"> <li>– Board composition and succession planning for the Board;</li> <li>– Director remuneration (subject to any shareholder approval that is required in accordance with the Constitution and the ASX Listing Rules) and remuneration arrangements for the Executive Committee and any other person nominated as such by the committee from time to time;</li> <li>– the public reporting of remuneration for Directors and the Company's Executive Committee;</li> <li>– the performance assessment of the Executive Committee;</li> <li>– designing Company policy and regulations with regard to corporate governance; and</li> <li>– diversity.</li> </ul> <p>During the financial year ended 31 December 2018, work performed by the committee included:</p> <ul style="list-style-type: none"> <li>– consideration of re-election of Directors;</li> <li>– undertaking a review of the Company's organisational structure and composition of the Executive Committee;</li> <li>– review of the 2017 Corporate Governance Statement, including diversity and measurable objectives;</li> <li>– finalisation and endorsement of Company short-term and long-term incentive plans and Company salary indexation and performance assessment implementation; and</li> <li>– annual review of Company Charters and Corporate Governance policies.</li> </ul>	<p><i>Independent Non-Executive Directors:</i></p> <p>Helen Gillies – Chair (appointed 8 June 2018) and member from 6 February 2018</p> <p>Gregory Fletcher (appointed 8 June 2018)</p> <p>David Moulton (appointed 8 June 2018)</p> <p><i>Non-Executive Directors:</i></p> <p>Xiyong Li – former Chair (resigned on 8 June 2018)</p> <p>Xiangqian Wu</p> <p>Baocai Zhang (appointed 8 June 2018)</p> <p>Cunliang Lai (resigned 8 June 2018)</p> <p>(minimum of three Non-Executive Directors, a majority of whom are independent)</p>



## CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Committee	Purpose	Membership
Strategy and Development Committee	<p>The committee assists the Board in its oversight and review of the Company's strategic initiatives, including:</p> <ul style="list-style-type: none"> <li>– merger and acquisition proposals;</li> <li>– major capital markets transactions;</li> <li>– significant investment opportunities; and</li> <li>– proposals to dispose of significant Company assets.</li> </ul> <p>During the financial year ended 31 December 2018, work performed by the committee included:</p> <ul style="list-style-type: none"> <li>– consideration of capital management issues, including share consolidation, early debt repayment and dividend decisions;</li> <li>– evaluation of various acquisition opportunities (including acquisition of a further joint venture interest in Moolarben) and organic growth opportunities including possible MTW underground mine development;</li> <li>– consideration of proposed HK Listing; and</li> <li>– review of Stakeholder Engagement Strategy and investor relations issue.</li> </ul>	<p><i>Independent Non-Executive Directors:</i></p> <p>Geoffrey Raby (appointed 8 June 2018)</p> <p><i>Non-Executive Directors:</i></p> <p>Baocai Zhang – Chair</p> <p>Qingchun Zhao</p> <p>Fuqi Wang</p> <p>Xing Feng (appointed 6 February 2018)</p> <p>Huaqiao Zhang (resigned 30 January 2018)</p> <p>(minimum of three Directors)</p>
Independent Board Committees	<p>An Independent Board Committee is established by the Board as and when required to manage any related party transactions.</p> <p>A previously constituted Independent Board Committee met on various occasions during 2018 for the purposes of considering transactions between or involving the Company and its major shareholder, Yanzhou. In each case, the Independent Board Committee comprised at least three independent Directors.</p>	<p>An Independent Board Committee is composed of independent Non-Executive Directors who do not have a material interest in the relevant transactions.</p>

The primary role of the Strategy and Development Committee is to assist the Board in its oversight and review of the Company's strategic initiatives. The other standing Board committees referred to above are discussed further below under Principle 4 (Audit and Risk Management Committee), Principle 7 (Health, Safety and Environment Committee) and Principle 8 (Remuneration and Nomination Committee). The Charters of each of these standing Board committees (which were revised in October 2018 to provide for relevant provisions of the HK Listing Rules) are available within the Corporate Governance section of the Company's website.

The number of meetings held by each committee during 2018 and each member's attendance at these meetings are set out in the Directors' Report on page 64.

Other committees may be established by the Board as and when required.

Membership of the Board committees is based on the needs of the Company, relevant regulatory requirements, and the skills and experience of individual Directors.

### Director independence

In determining the composition of the Board, the Company has regard to the balance of Executive and Non-Executive Directors to ensure that there is a strong independent presence on the Board able to exercise independent judgement.

The Board comprises 11 Directors, of whom four hold their positions in an independent non-executive capacity (based on the independence standard disclosed below). The Company's current Independent Directors are Geoffrey Raby, Gregory Fletcher, David Moulit (appointed 30 January 2018) and Helen Gillies (appointed 30 January 2018). During their appointment, Vincent O'Rourke AM (resigned 30 January 2018) and Huaqiao Zhang (resigned 30 January 2018) were each deemed to be Independent Directors.

The Board has assessed the independence of each of the Non-Executive Directors (including the Chairman) in light of their interests and relationships. A majority of the Board are not considered Independent Directors having regard to their affiliation with the

Company's major shareholder, Yanzhou, and accordingly the Company does not comply with Recommendation 2.4 of the ASX Recommendation. However, the Board considers that its composition appropriately represents the interests of its shareholders including its major shareholder, Yanzhou, and that the Board has put in place appropriate policies and procedures to guide the Board and senior Executives in circumstances where conflicts of interest may arise and in its dealings with Yanzhou, including establishing the Independent Board Committee referred to above.

To help ensure that any conflicts of interest are identified, the Company has put in place a standing agenda item at all meetings of the Board and its committees to provide the Directors with the opportunity of declaring any conflicts of interest in the subject matter of the proposed resolutions made within the meeting.

To assist the Board in making independent judgements, the Board Charter sets out the procedure by which the Board collectively, and each individual Director, can seek independent professional advice, at the Company's expense.

Each Independent Director must regularly provide the Board with all information relevant to their continued compliance with the independence standard. The independence of Directors will be reviewed by the Board on a regular basis with assistance from the Nomination and Remuneration Committee. The Nomination and Remuneration Committee will also assist the Board with regular evaluation of the performance of the Board, Board committees and individual Directors.

The Independent Non-Executive Directors have confirmed their independence in accordance with Rule 3.13 of the HK Listing Rules, and the Company has received from each of the Independent Non-Executive Directors an annual confirmation of his/her independence as required under Rule 3.13 of the HK Listing Rules. Accordingly, the Company considers that the Independent Non-Executive Directors continue to be independent.

### Independence Standard

In assessing the independence of its Directors, the Board has regard to the factors relevant to assessing the independence of a Director that are set out in Box 2.3 of the ASX Recommendations (3rd edition) and Rule 3.13 of the HK Listing Rules. The criteria considered in assessing the independence of Non-Executive Directors are also set out in the Board Charter.

A Director is considered independent if the Director:

- is not, and has not within the last three years been, employed in an executive capacity by the Company or any of its child entities;
- is not, nor has within the last three years been, a partner, Director or senior employee of a provider of material professional services to the Company or any of its child entities;
- is not, nor has within the last three years been, in a material business relationship with the Company or any of its child entities, or an officer of, or otherwise associated with, someone with such a relationship;
- is not a substantial Shareholder of the Company or an officer of, or otherwise associated with, a substantial Shareholder of the Company;
- does not have a material contractual relationship with the Company or any of its child entities other than as a Director;
- does not have close family ties with any person who falls within any of the categories described above;
- has not been a Director of the Company for such a period that his or her independence may have been compromised; and
- is free from any other interest, position, association or relationship that might interfere, or might reasonably be seen to interfere, with the Director's capacity to bring an independent judgement to bear on issues before the Board and to act in the best interests of the Company and its shareholders generally.

The Company's Constitution provides that the Company's shareholders holding a majority of the issued shares of the Company (which confer the right to vote) may nominate a Director to the office of Chairman and may elect one or more Directors to the office of Vice Chair.

Although as a nominee of Yanzhou, Baocai Zhang, the Chairman, is not considered independent by the independence standard (as above), the Board considers that this is an appropriate reflection of Yanzhou's majority shareholding in the Company. While a majority of the Directors are associated with Yanzhou this is considered appropriate in light of Yanzhou's major shareholding in the Company.

### Board skills matrix

The Board represents a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business.

The table below sets out the skills and experience that are currently represented on the Board.

Skills and Experiences	Total
Mining/exploration and production	4
Engineering	4
Capital projects	10
Trading/marketing	4
Strategy	11
Leadership	11
Board/Committee experience	8
Corporate governance	7
Accounting/audit/risk management	7
Government/policy	9
Legal/regulatory	5
Health, safety and environment	6
Human resources	5
International business expertise	9

### Induction and professional development

Upon appointment, Directors are provided with an information pack containing a letter of appointment setting out the Company's expectations, Directors' duties and the terms and conditions of their appointment, and other materials containing information about the Company including the Company's Constitution, charters and policies to support the induction of Directors to the Board.

Directors also participate in continuing education or development programs arranged for them, including for example training on Directors' duties and developments in workplace health and safety law.

In preparation for the HK Listing, all Directors undertook training in respect of matters relating to the HK Listing (including in respect of the principles in the HK Code) and its interaction with the ASX Listing Rules on 12 June 2018 (English) and 14 June 2018 (Chinese). The training was conducted by the Company's Hong Kong and Australian based legal advisors.

The Company Secretary supports Directors by providing access to information in appropriate forms, where requested.

### Principle 3: Act ethically and responsibly

#### Conduct and ethics

The Board policy is that Directors, employees and contractors must observe both the letter and spirit of the law, and adhere to the highest standards of business conduct. The Company has adopted a formal Code of Conduct and other guidelines and policies which are approved by the Board that set out legal and ethical standards for the Company's Directors and employees, including a Conflicts of Interests and Related Party Transactions Policy.

The Code of Conduct and these other guidelines and policies guide the Directors, the CEO, senior Executives, and employees generally as to the practices necessary to maintain confidence in the Company's integrity and as to the responsibility and accountability of individuals for reporting, and investigating reports of, unethical practices. The Code of Conduct and these other guidelines and policies also guide compliance with legal and other obligations to stakeholders.

Specifically, the objective of the Code of Conduct is to:

- provide a benchmark for professional behaviour;
- support the Company's business reputation and corporate image within the community; and
- make Directors and employees aware of the consequences if they breach the policy.

## CORPORATE GOVERNANCE STATEMENT (CONTINUED)

The key values underpinning the Code of Conduct are:

- our actions must be governed by the highest standards of integrity and fairness;
- our decisions must be made in accordance with the letter and spirit of applicable law; and
- our business must be conducted honestly and ethically, with our best skills and judgement, and for the benefit of customers, employees, shareholder and the Company alike.

An updated Code of Conduct was approved by the Board in October 2018 and is being implemented within the business. The Code of Conduct is available in the Corporate Governance section of the Company's website.

### Reporting concerns and whistleblower protection

The Company's Speak-Up Yancoal Ethics policy encourages employees, Directors, contractors and consultants to raise serious concerns within the Company and report any issues if they genuinely believe a person has, or persons have, breached Yancoal's Code of Conduct, policies or the law. The policy also protects individuals who in good faith report misconduct which they reasonably believe to be corrupt, illegal or unethical on a confidential basis, without fear of reprisal, dismissal or discriminatory treatment; and assists in ensuring that matters of misconduct and/or unethical behaviour are identified and dealt with appropriately.

Individuals can report their concerns confidentially online, via confidential email to an external facilitator or by telephoning a confidential Speak Up Line.

All disclosures made under this policy will be treated seriously and be the subject of a thorough investigation with the objective of locating evidence that either substantiates or refutes the misconduct disclosed by an employee. Such investigations will be facilitated independently from the business unit concerned, the employee who made the disclosure or any person being the subject of the reportable conduct. The Company will determine, based on the seriousness of the disclosure, whether the investigation will be conducted internally by a senior member of management or the external facilitator.

### Principle 4: Safeguard integrity in corporate reporting

#### Audit and Risk Management Committee

The Board is responsible for preparing the financial statements and accounts of the Company. The Board has established an Audit and Risk Management Committee, which plays a key role in helping the Board to oversee financial reporting, internal control structure, risk management systems and internal and external audit functions. The committee also enables the Board to maintain a transparent relationship with the Company's internal and external auditors.

The committee has the necessary power and resources to meet its responsibilities under its charter, including rights of access to management and auditors (internal and external) and to seek explanations and additional information. The committee meets at least four times per year, or as frequently as required. The Charter of the Audit and Risk Management Committee (which was revised in October 2018 to capture the relevant provisions of the HK Listing Rules) provides clear terms of reference and can be found in the Corporate Governance section of the Company's website. The purpose of the Audit and Risk Management Committee is outlined under the Board committees section above.

In accordance with its Charter, the Audit and Risk Management Committee has at least three members. The current members of this committee are Gregory Fletcher (Chair of the committee), Qingchun Zhao, David Moulit (appointed 8 June 2018) and Helen Gillies

(appointed 8 June 2018). Former Committee member Geoffrey Raby resigned on 8 June 2018.

The committee consists only of Non-Executive Directors with a majority being independent. Consistent with the ASX Recommendations, the Chair of the committee is an independent Non-Executive Director and is not the Chairman of the Board. The qualifications, skills and experience of each member are disclosed in the Information on Directors in the Directors' Report, on page 58.

The Company has also employed a full-time GM of Risk and Assurance. His role is described further under Principle 7.

#### CEO and CFO certifications on financial reports

The CEO and CFO have declared in writing to the Board that in respect of the half year ended 30 June 2018 and the full year ended 31 December 2018, in their opinion, the financial records of the Company have been properly maintained and the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the Company, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

#### External Auditor

The Company's external auditor is ShineWing Australia. Consistent with the requirements of the *Corporations Act 2001* (Cth), ShineWing Australia has a policy of partner rotation every five years. The appointment, removal and remuneration (not including amounts paid for special or additional services provided by the auditor) of the auditor require shareholder approval.

The external auditor receives all papers and minutes of the Audit and Risk Management Committee. The external auditor also attends the Company's Annual General Meeting to answer questions from shareholders relevant to the Company's audit.

The statement of the external auditor, ShineWing Australia, about reporting responsibilities on the financial statements of the Group, is set out under the heading "Independent Auditor's Report to the Members of Yancoal Australia Ltd" in this annual report.

The Directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

An analysis of remuneration (including details of the amounts payable) to the auditor for audit and non-audit services provided during the financial year ended 31 December 2018 is set out in the Directors' Report on pages 64 to 77.

### Principle 5: Make timely and balanced disclosure

The Company recognises the importance of timely and adequate disclosure to the market, and is committed to making timely and balanced disclosure of all material matters and to effective communication with its shareholders and investors so as to give them ready access to balanced and understandable information. The Company also works together with its major shareholder, Yanzhou, to ensure that Yanzhou can comply with its disclosure obligations in relation to Company information, and vice versa, Yanzhou seeks to ensure that the Company can comply with its disclosure obligations in relation to Yanzhou's information.

The Board has put in place a Disclosure Policy to encapsulate the disclosure obligations under the Corporations Act 2001 and the ASX Listing Rules and to set out procedures for managing compliance with those obligations. This policy was revised in October 2018 to



capture the relevant disclosure obligations under the HK Listing Rules. These procedures provide a framework for managing the disclosure of material matters to the market to ensure accountability at Board and senior Executive level. As part of this framework, a standing agenda item at all the Company's Board and Executive Committee meetings requires the Directors and senior Executives to consider whether any matters at the meeting should be disclosed to the market. The Disclosure Policy can be found within the Corporate Governance section of the Company's website.

A Disclosure Committee has been established to assist the Company to meet its disclosure obligations. The Committee plays a key role in reviewing and determining whether information is likely to have a material effect on the price or value of the Company's securities such that it requires disclosure to the market. The Disclosure Committee members comprise the CEC, CEO, CFO, Company Secretary, Investor Relations General Manager and Group Counsel.

Any information disclosed to the market through an announcement to the ASX is also published on the Investor section of the Company's website.

## Principle 6: Respect the rights of shareholders

### Communications with shareholders

The Company has an investor relations program that is aimed at facilitating two-way communications with investors. The Company's policy is to promote effective communication with shareholders and other investors so that they understand how to assess relevant information about the Company and its corporate direction. The Company aims to keep shareholders, potential investors and other stakeholders informed of all major developments affecting the state of affairs of the Company. The Company communicates information regularly to shareholders, potential investors and other stakeholders by:

- posting announcements on the ASX and HKEx platforms in accordance with its continuous disclosure obligations and also making these announcements available on the Company's website;
- keeping its website up to date on important information about the Company, including its Constitution, Board and Board Committee Charters, core corporate governance policies and financial information about the Company; and
- publishing investor presentations made to analysts and making media briefings available within the Investor section of the Company's website.

The Board considers one of its key responsibilities to be communication with shareholders and, accordingly, the Company encourages shareholders to attend and participate in all general meetings including annual general meetings.

Shareholders are entitled to ask questions about the management of the Company and of the auditor as to its conduct of the audit and preparation of its reports. Any shareholders who cannot attend any general meetings can also participate via lodgement of their proxies. In addition, shareholders have the option of receiving communications from and sending communications to the Company and the Company's principle and branch share registries, Computershare Investor Services, electronically.

The Company's Shareholder Communication Policy, which was reviewed and approved by the Board in October 2018 to capture the relevant requirements of the HK Listing Rules, can be found within the Corporate Governance section of the Company's website.

Paragraph 44 of the HK Joint Policy Statement requires that members holding a minority stake in an overseas company must be allowed to convene an extraordinary general meeting and add resolutions to a

meeting agenda. The minimum level of members' support required to convene a meeting must be no higher than 10%.

Under section 249D of the Australian Corporations Act, Shareholders with at least 5% of the votes that may be cast at a general meeting may request the Directors to call a general meeting or may convene a general meeting themselves at their own expense under section 249F of the Australian Corporations Act. Any such request must be in writing, must state any resolution to be proposed at the meeting, must be signed by the shareholder making the request and must be given to the Company.

Under section 249N of the Australian Corporations Act, Shareholders representing at least 5% of the total votes that may be cast on the resolution or at least 100 Shareholders who are entitled to vote at a general meeting may give the Company notice requiring resolutions to be put before a general meeting. The notice must be in writing, must set out the wording of the proposed resolution and must be signed by the shareholders proposing to move the resolution.

Apart from the general meetings, the Company's website is an effective means of communication with Shareholders. Any Shareholders who have questions or comments on what the Company is doing are most welcome to contact the Company at any time through the website. Shareholders may raise enquiries to the Board by contacting the Group's Investor Relations team, including at [shareholder@yancoal.com.au](mailto:shareholder@yancoal.com.au). Upon receipt of the enquiries, the Investor Relations team will forward the Shareholders' enquiries and concerns to the Board, Board committees or the management as appropriate.

### Amendments to the Company's Constitution

At a general meeting of Shareholders held on 26 September 2018, Shareholder approval to amend the Constitution was sought and obtained. The Constitution was amended by:

- a) Amending the definition of "Exchange" by replacing the word "or" with the word "and" in the first line, so the definition reads:
 

"ASX Limited and such other body corporate that is declared by the Directors to be the Company's primary stock exchange for the purposes of this definition."
- b) Inserting a new rule 7.9(u) as follows:
 

"For the purposes of this rule 7.9, a recognised clearing house (within the meaning of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) or its nominee(s) may appoint or authorise any number of proxy(ies), attorney(s) or Representative(s) to cast votes attaching to voting shares that it holds in the Company, provided that if two or more proxies, attorneys or Representatives are appointed or authorised to vote at the same general meeting, the proxy form or authorisation must specify the number and class of voting shares in respect of which each proxy, attorney or Representative is appointed or authorised to vote. Each person so authorised under the provisions of this constitution shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same power on behalf of the recognised clearing house as that clearing house or its nominee(s) could exercise as if it were an individual shareholder of the Company."
- c) Inserting a new rule 11.2 as follows:
 

"Subject to applicable laws, regulations and the Listing Rules and notwithstanding any other rules in this Constitution, the Company or the Directors may fix any date as the record date for:

  - (a) determining the members entitled to receive any dividend, distribution, allotment or issue;

## CORPORATE GOVERNANCE STATEMENT (CONTINUED)

- (b) determining the members entitled to receive notice of, and to vote at, any general meeting of the Company; and
- (c) any other corporate action requiring a record date to be set."

### Principle 7: Recognise and manage risk

#### Risk identification and management

The Board, through the Audit and Risk Management Committee, is responsible for satisfying itself that a sound system of risk oversight and management exists and that internal controls are effective to enable it to assess the type and extent of relevant risks in its decision making.

In particular, the Board ensures that:

- the material strategic, operational, financial reporting and compliance risks are identified and evaluated; and
- risk management, control and reporting systems are in place to identify, assess, manage, monitor and report on these risks.

The role and membership of the Audit and Risk Management Committee are described under Principles 2 and 4.

The Company's Audit and Risk Management Committee Charter can be found within the Corporate Governance section of the Company's website.

The Board has requested the Company's senior Executives and management to report to the Audit and Risk Management Committee and, where appropriate the Board, regarding the effective management of its material business risks.

In 2018, the Audit and Risk Management Committee had in place a framework to identify, assess and manage risks that are material to the business. This framework includes:

- implementation of a corporate risk management standard approved by the Audit and Risk Management Committee and Board;
- identification of material business risks by reference to a corporate risk register, approved by the Audit and Risk Management Committee and Board;
- formal risk identification activities being undertaken at both a functional level and at each of the Company's mine sites;
- designated individuals across the business that have accountability for the implementation of risk management within their areas of responsibility;
- the GM of Risk and Assurance as a central resource available to assist with all risk management responsibilities, and to assist with any training/awareness or other related requirements; and
- adherence to internal procedures and plans for crisis management.

The Audit and Risk Management Committee receives periodic reports on the performance of the Company's risk management framework, as well as on the Company's key risk exposures to satisfy itself that it continues to be sound. A review of the risk management framework was conducted in 2018 that addressed areas for continuous improvement in line with the Australian/New Zealand standard for risk management. The framework was considered effective.

Formal risk identification activities are undertaken on a periodic basis; with Risk Identification and Analysis undertaken at a functional level, as well as at each of the Company's mine sites. In addition, where appropriate, project-specific risk assessments are conducted.

The GM of Risk and Assurance is responsible for establishing and managing the Company-wide risk management framework, risk management system and practices, reviewing the impact of the risk management framework on its control environment and insurance arrangements and reviewing the risk of major investment projects. Together with the CEC, the Board and the Audit and Risk Management Committee, the GM of Risk and Assurance is responsible for developing a risk matrix and framework and for implementing related risk-based assurance processes for the Company and its subsidiaries. The GM of Risk and Assurance annually confirms the continued effectiveness of the risk framework to the Audit and Risk Management Committee.

The responsibility for managing risks, risk controls or risk management action plans is embedded within the business and undertaken as part of everyday activities. The Board recognises and acknowledges that, while risk management controls and systems can be effective in managing risks, they cannot eliminate all risks relevant to the Company achieving its objectives and cannot provide absolute assurance against material misstatement or loss.

#### Risks associated with the Company

The future operating performance of the Group may be affected by risks relating to the Company's business. Some of these risks are specific to the Company while others relate to economic conditions and the general industry and markets in which the Company operates.

The Company's risk management policies and procedures have been designed and implemented to identify, assess and manage any material exposure to risks relating to the Company's business, including economic, environmental and social sustainability risks. The Company undertakes regular monitoring and assessment of these risks and implements risk treatment strategies to manage its exposure to such risks. However, there can be no assurance that such risk mitigation strategies will protect the Company from these risks. Other risks are beyond the Company's control and cannot be mitigated. The occurrence of any such risks could adversely affect the Company's financial condition and performance. The risks listed below are not purported to be exhaustive and there is no assurance that the importance of different risks will not change or other risks will not emerge.

The table below identifies risks which are considered to be economic, environmental and/or social sustainability risks.

	Economic sustainability risks	Environmental sustainability risks	Social sustainability risks
Operating risks	✓	✓	✓
Injury or accident risks	✓		✓
Funding risks	✓		
Adverse foreign exchange rate movements	✓		
Hedging through bank-issued instruments	✓		
Coal prices and coal demand risk	✓		
Coal production risks	✓		
Debt costs	✓		
Taxation risks	✓		
Australia Accounting Standards	✓		
Regulatory approvals risks	✓		✓
Estimates of Resources and Reserves and geology	✓		
Take or pay liabilities	✓		
Uncertainty in costs forecast	✓		
NCIG and WICET debt	✓		
Mine closure	✓	✓	✓
Coal supply agreement	✓		
Joint ventures and reliance on third parties	✓		
Competition	✓		
Title risks	✓		
Native Title	✓		✓
Overlapping tenement risks	✓		✓
Enforcement and counterparty insolvency risks	✓		
Coal royalties	✓		
Climate change/ carbon regulation risks	✓	✓	✓
Technological change	✓	✓	
Technology	✓		
Key personnel	✓		
Fraud or misconduct	✓		✓
Environmental activism	✓	✓	✓
Changes in government policy, regulation or legislation	✓		
Environment and planning	✓	✓	
Litigation	✓		✓
Insurance	✓		
Exploration and development risks	✓		
Transport and infrastructure	✓		
Environmental risks	✓	✓	✓
Health, safety and hazardous materials risks	✓	✓	✓
Impairment risks	✓		

### Operating risks

The Company's operations are subject to operating risks that could result in decreased coal production which could reduce their respective revenues. Operational difficulties may impact the amount of coal produced, delay coal deliveries or increase the cost of mining for a varying length of time. These operating risks include (but are not limited to) industrial action, mine collapses, cave-ins or other failures relating to mine infrastructure, including tailings dams, interruptions due to inclement or hazardous weather conditions, power interruption, critical equipment failure (in particular any protracted breakdown or issues with any of the Company's CHPPs or a major excavator), fires, and explosions from methane gas or coal dust, accidental mine water discharges, flooding and variations in or unusual or unexpected geological or geotechnical mining conditions (particularly in the Company's underground operations). Such risks could result in damage to applicable mines, personal injury, environmental damage, delays in coal production, decreased coal production, loss of revenue, monetary losses and possible legal liability. Although the Company's insurance policies provide coverage for some of these risks, the amount and scope of insurance cover is limited by market and economic factors and there can be no assurance that these risks would be fully covered by insurances maintained by the Company.

### Injury or accident risks

If any injuries or accidents occur in a mine, this could have adverse financial implications including legal claims for personal injury, wrongful death, amendments to approvals, potential production delays or stoppages, any of which may have a material adverse effect on the financial performance and/or financial position of the Company.

### Funding risks

The amount of future funding required by the Company will depend on a number of factors, including the performance of the Company's business at that time. The Company's business operations and cash flow are highly sensitive to any fluctuation in the US\$ coal price, coal production from its operations, demand for its coal product and US\$ movement in foreign exchange rates, particularly movements in the A\$:US\$ exchange rate.

In developing its business plan and operating budget, the Company has made certain assumptions regarding coal prices, the A\$:US\$ exchange rate, future production levels and other factors which determine the Company's financial performance.

If a funding shortfall materialises, the Company may need to raise substantial additional debt or equity. The Company's capacity to secure the requisite level of funding will depend on the amount of funding required, the performance and future prospects of its business and a number of other factors, including US\$ coal prices, interest rates, economic conditions, debt market conditions, equity market conditions and future levels of Yanzhou support.

To the extent that the Company is not able to secure additional financing (whether debt or equity) on acceptable terms from third parties, the Company will continue to rely on financial support from Yanzhou.

As at 31 December 2018, the Company had a loan receivable from Watagan of A\$813 million (re-drawable up to A\$1.36 billion) which is subject to impairment testing. There is a guarantee provided by Yankuang (being the ultimate parent entity of the Company) to indemnify the Company for any amounts due and payable under the loan which are not paid by Watagan.



## CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Yanzhou's and Yankuang's capacity to meet their respective funding commitments will depend on their financial position at the time and their capacity to raise the necessary funds to meet the commitments. Yancoal's capacity to source further funding from Yanzhou will depend on Yanzhou's willingness and financial capacity to provide that funding. There can be no assurance that Yanzhou will be in a position to provide financial support to Yancoal or that Yankuang will be in a position to meet its obligations under the guarantee in respect of the Watagan Agreements.

### *Adverse foreign exchange rate movements*

Foreign exchange risk is the risk of the Company sustaining loss through adverse movements in exchange rates. Such losses can impact the Company's financial position and performance and the level of additional funding required to support the Company's businesses.

The liabilities, earnings and cash flows of the Company are influenced by movements in exchange rates, especially movements in the A\$:US\$ exchange rate.

While the Company operates entirely in Australia and its costs are primarily denominated in its functional currency, the A\$, foreign currency exposure arises particularly in relation to coal supply contracts, which generally are priced and payable in US\$, procurement of imported plant and equipment, which can be priced in US\$ or other foreign currencies, and debt denominated in US\$.

The impact of exchange rate movements will vary depending on factors such as the nature, magnitude and duration of the movements, the extent to which currency risk is hedged under forward exchange contracts or other hedging instruments and the terms of these contracts.

The hedging policy of the Company aims to protect against the volatility of cash expenditures or reduced collection in the above mentioned transactions as well as to reduce the volatility of profit or loss for retranslation of US dollar denominated loans at each period end.

### *Hedging through bank-issued instruments*

Operating foreign exchange risk that arises from firm commitments or highly probable transactions is managed through the use of bank issued forward foreign currency contracts and collar option contracts. The Company hedges a portion of contracted US dollar sales and asset purchases settled in foreign currencies in each currency to mitigate the adverse impact on cash flow due to the future rise or fall in Australian dollars against the relevant currencies.

### *Coal prices and coal demand risk*

The Company generates revenue from the sale of coal. In developing its business plan and operating budget, the Company makes certain assumptions regarding coal prices and demand for coal. The prices which the Company will receive for its coal depend on numerous market factors beyond its control and, accordingly, some underlying coal price assumptions relied on by the Company may materially change and actual coal prices and demand may differ materially from those expected.

The prices for coal are determined predominantly by world markets, which are affected by numerous factors, including the outcome of future sale contract negotiations, general economic activity, industrial production levels, changes in foreign exchange rates, changes in energy demand and demand for steel, changes in the supply of seaborne coal, technological changes, changes in production levels and events interfering with supply, changes in international freight rates or other transportation infrastructure and costs, the costs of other commodities and substitutes for coal, market changes in coal quality requirements, government regulations which restrict use of coal, and tax impositions on the resources industry, all of which are outside the control of the Company and may have a material adverse impact on coal prices and demand.

In addition, the coal price is highly dependent on the outlook for coal consumption in large Asian economies, such as China, Japan and India, as well as any changes in government policy regarding coal or energy policy in those countries.

Absent offsetting factors, significant and sustained adverse movements in demand for coal and, consequently, coal prices (both generally and in relation to particular types and classes of coal) may have a material adverse impact on the ongoing financial performance and financial position of the Company or may result in the Company not proceeding with the development of new mines and projects due to such development not being economically viable.

Any weakening in coal prices or any deterioration prompted by further reduction in demand or addition of new tonnes to the seaborne market (for example from thermal coal exports from the US) would have a material adverse impact on the financial performance of the Company and its capacity to undertake development projects.

### *Coal production risks*

Improvement in the Company's financial performance is dependent on the Company being able to sustain or increase coal production and decrease operating costs on a per tonne basis. The Company's success or failure in improving productivity will become particularly important to the Company's financial performance if the coal price remains at current levels or falls further.

The Company's coal production can be impacted by a number of factors, including unforeseen geological or geotechnical issues (particularly in the Company's underground operations), changes or variations in coal quality or geological, hydrologic or other conditions, adverse weather including abnormal wet weather conditions (particularly in Queensland), unforeseen delays or complexities in installing and operating mining longwall systems, protracted breakdown of coal handling infrastructure and other mining equipment and rail and port breakdowns and outages. Regulatory factors and the occurrence of other operating risks can also limit production.

### *Debt costs*

The majority of the Company's loans are US\$ LIBOR based floating rate loans and currently there are no interest rate hedging arrangements in place. As a result, any increase in the US\$ LIBOR from current levels will expose the Company to higher debt costs.

### *Taxation risks*

In addition to the corporate income tax imposed on the Company, the Company is required to pay government royalties, direct and indirect taxes and other imposts in the jurisdictions in which the Company will operate. The Company may be affected by changes in government taxation and royalty policies or in the interpretation or application of such policies under Australian laws.

The potential of the Company to obtain the benefit of existing tax losses and claim other tax attributes will depend on future circumstances and may be affected by changes in ownership of both Yanzhou and Yancoal, business activities, thin capitalisation thresholds, tax bases and any other conditions relating to the use of tax losses or other attributes of the Group. The ability to use the Company's carried forward losses will depend on the Company's continued satisfaction of the loss recoupment tests under Australian tax laws and be subject to the availability of sufficient future taxable profits.

### *Australian Accounting Standards (AAS)*

AAS are issued by the AASB and are beyond the control of the Company and the Directors. Any changes to AAS or to the interpretation of those standards may have an adverse effect on the reported financial performance or financial position of the Company.

In particular, the accounting treatment for transactions such as the transfer of the NSW mining assets of Ashton, Austar and Donaldson to Watagan could be reviewed by standard setters and may be subject to change. In the event that the Company is required to reconsolidate Watagan's results and financial position into its consolidated financial statements ahead of the scheduled date in 2025, due to a change to AAS or their interpretation, the reconsolidation may have an adverse effect on the reported financial performance or financial position of the Company.

### *Regulatory approvals risks*

The ability of the Company to meet its long-term production target profile depends on (amongst other things) the Company being able to obtain on a timely basis, and maintain, all necessary regulatory approvals (including any approvals arising under applicable mining laws, environmental regulations and other laws) for its current operations and expansion and growth projects, including obtaining planning approvals, land access, land owner consents and addressing any native title issues, impacts on the environment and objections from local communities.

The requirement to obtain approvals and to address potential and actual issues for existing and future mining projects is common to all companies in the coal sector. However, there is no assurance or guarantee that the Company will be in a position to secure any or all of the required consents, approvals and rights necessary to maintain its current production profile from its existing operations or to develop its growth projects in a manner which will result in profitable mining operations and the achievement of its long-term production targets. If these approvals (or other approvals required for the planned production increases) are not obtained, or if conditional or limited approvals are obtained, the economic viability of the relevant projects may be adversely affected, which may in turn result in the value of the relevant assets being impaired.

The Company continues to engage openly and transparently with all State and Federal Government and approval bodies, while operating to the highest safety, environmental and legislative standards to work towards facilitating all approvals in a timely manner.

### *Estimates of Resources and Reserves and geology*

The volume and quality of the coal that the Company recovers may be less than the Resource and Reserve estimates reported to date. Resource and Reserve estimates are expressions of judgement based on knowledge, experience and industry practice. There are risks associated with such estimates, including that coal mined may be of a different quality or grade, tonnage or strip ratio from those in the estimates and the ability to economically extract and process the coal may not eventuate. Resource and Reserve estimates are necessarily imprecise and depend to some extent on interpretations and geological assumptions, coal prices, cost assumptions, and statistical inferences which may ultimately prove to have been unreliable.

Coal Resource and Coal Reserve estimates are regularly revised based on actual production experience or new information and could therefore be expected to change. Furthermore, should the Company encounter mineralisation or formations different from those predicted by past drilling, sampling and similar examinations, Coal Resource and Coal Reserve estimates may have to be adjusted and mining plans, coal processing and infrastructure may have to be altered in a way that might adversely affect their operations. If it is determined that mining of certain Coal Reserves is uneconomic, this may lead to a reduction in the Company's aggregate Coal Reserve estimates.

Material changes in Coal Reserve estimates, grades, strip ratios, washing yields or recovery rates may affect the economic viability of projects. Coal Reserve estimates should not be interpreted as assurances of mine life or of the profitability of current or future operations.

If the Company's actual Coal Resource and Coal Reserve estimates are less than current estimates, the Company's prospects, value, business, results of operations and financial condition may be materially adversely affected.

### *Take or pay liabilities*

Port and rail (above rail and below rail) capacity is generally contracted via long-term take-or-pay contracts. The Company will generally be required to pay for its contracted rail or port tonnage irrespective of whether it is utilised. Unused port or rail capacity can arise as a result of circumstances including insufficient production from a given mine, a mismatch between port and rail capacity for a mine, or an inability to transfer the used capacity due to contractual limitations such as required consent of the provider of the port or rail services, or because the coal must emanate from specified source mines or be loaded onto trains at specified load points.

### *Uncertainty in costs forecast*

The business operations and financial condition of the Company may vary with fluctuations in production and capital costs. Changes in the costs of mining and processing operations as well as capital costs could occur, including as a result of unforeseen events, such as international and local economic and political events (including movement in exchange rates) or unexpected geological or mining conditions, and could have material adverse financial consequences for the Company.

### *NICG and WICET debt*

As a shipper in NICG and WICET, the Company's source mines are required to maintain a minimum level of Marketable Coal Reserves (11 years' worth of contracted capacity). Non-compliance with this requirement would result in the termination of the individual contracts and require the Company to pay its share of any outstanding senior debt, amortised over the remaining 10 years of that particular contract. The Company's current share of the outstanding senior debt is approximately A\$1 billion and A\$0.3 billion, respectively.

## CORPORATE GOVERNANCE STATEMENT (CONTINUED)

### *Mine closure*

Closure of any of the mines or other operations of the Company before the end of their mine life (e.g. due to environmental, geological, geotechnical, commercial and/or health and safety issues), could trigger significant employee redundancy costs, closure and rehabilitation expense and other costs or loss of revenues. Many of these costs will also be incurred where mines are closed at the end of their planned mine life or placed on care and maintenance. A move to care and maintenance has the potential to trigger significant employee redundancy costs and a subsequent loss of revenues, as a minimal employee presence is required for ongoing management and rehabilitation of the mines.

If one or more of the relevant sites are closed earlier than anticipated, the Company will be required to fund the closure costs on an expedited basis and potentially lose revenues, which could have an adverse financial effect. In addition, there is a risk that claims may be made arising from environmental remediation upon closure of one or more of the sites.

### *Coal supply agreements*

The Company's coal supply agreements typically require the delivery of a fixed or minimum quantity of coal at a location, at a time and over a period stipulated in the agreement. To the extent that any contracted volumes cannot be delivered as agreed, the Company may be liable to pay substantial compensation for the resulting losses, costs and charges (including demurrage) incurred by the buyer.

As customer contracts expire, the Company will be likely to renew contracts with long-term customers, or seek to enter into new contracts with new buyers and markets, depending on the feasibility of this. Tonnes that are not contracted are sold into the spot market at either index-linked or fixed price levels. The Company's strategy for 2019 will be to increase its term contracted position as well as to target end-user customers as opposed to traders.

Most of the Company's coal supply agreements also require the delivery of coal meeting specified quality thresholds for characteristics such as moisture content, sulphur content and ash content. Depending on these quality thresholds, coal will be sold into markets that are the highest paying for coal with the relevant qualities.

The Company derives a significant portion of its revenue from a limited number of customers, and the loss of, or a reduction in, sales to any of these customers could materially and adversely affect its business, financial condition and results of operations.

### *Joint ventures and reliance on third parties*

The Company holds a number of joint venture interests, including interests in the Middlemount, Moolarben, HVO, Mount Thorley and Warkworth joint ventures, PWCS, NCIG and WICET, with other parties. Decision making, management, marketing and other key aspects of each joint venture are regulated by agreements between the relevant joint venture participants. Under these agreements, certain decisions require the endorsement of third party joint venture participants and the Company relies on the co-operation of these third parties for the success of its current operations and/or the development of its growth projects and the transportation of increased production.

The Company cannot control the actions of third party joint venture participants, and therefore cannot guarantee that joint ventures will be operated or managed in accordance with the preferred direction or strategy of the Company. There is a risk that the veto rights of, or consents required from, the joint venture partners will prevent the business and assets of a joint venture from being developed, operated and managed in accordance with that preferred direction or strategy.

The Company also uses contractors and other third parties for exploration, mining and other services generally, and is reliant on a number of third parties for the success of its current operations and for the development of its growth projects. While this is normal for the mining and exploration industry, problems caused by third parties may arise which may have an impact on the performance and operations of the Company. Any failure by counterparties to perform their obligations may have a material adverse effect on the Company and there can be no assurance that the Company will be successful in attempting to enforce its contractual rights through legal action.

### *Competition*

The Company faces competition in all aspects of its business, including sales and marketing, pricing of coal, production capacity, coal quality and specifications, transportation capacity, cost structure and brand recognition. The Company's coal business competes in the domestic and international markets with other large domestic and international coal producers. An increase in production or reduction in prices of competing coal from both Australia and overseas may adversely impact the Company's ability to sell its coal products and the price to be attained for sales. Increased competition in the future, including from new competitors, may emerge. This competition may relate not only to coal produced and sold, but also to competition for the acquisition of new projects, which may adversely affect the ability of the Company to acquire new interests on acceptable terms should it wish to make such acquisitions.

Further industry consolidation could result in competitors improving their scale or productivity or competitors may develop lower-cost geological coal resources or develop resources in lower cost base geographies, increasing pressure on the Company's ability to maintain its margins.

There is significant competition within the resources industry in Australia, the United States and Asia. Furthermore, new entrants to the industry may emerge in one or more of those markets, increasing the competitive pressure on the Company. This pressure could adversely affect the Company's market share and financial performance and position.

The Company supplies coal as fuel to, among others, the thermal power generation industry and, as a result, is affected by the demand and growth of the thermal power industry. Thermal coal as a fuel source competes, among others, with natural gas, and the price of natural gas can therefore affect coal sales. The natural gas market has been volatile historically and prices in this market are subject to wide fluctuations in response to relatively minor changes in supply and demand. The thermal power generation industry is also affected by the development of alternative energy sources, climate change and global environmental factors.



### *Title risks*

Exploring or mining for coal is generally illegal without a tenement granted by the State Governments. The grant and renewal of tenements is subject to a regulatory regime and each tenement is subject to certain conditions. There is no certainty that an application for grant or renewal of a tenement will be granted at all or on satisfactory terms or within expected timeframes. Further, the conditions attached to tenements may change. The permitting rules are complex and may change over time, making the title holder's responsibility to comply with the applicable requirements more onerous, more costly or even impossible, thereby precluding or impairing continuing or future mining operations. There is a risk that the Company may lose title to any of its granted titles if it is unable to comply with conditions or if the land subject to the title is required for public purposes. There is also a risk that a tenement may not be granted from any applications for renewals of tenements or for new tenements.

Obtaining mining tenements often involves first obtaining consents from landholders and other third parties, some of which may in certain circumstances have a right of veto, as well as approvals (such as environmental approvals). There is a risk that the requisite consents and approvals may not be able to be obtained on time or on acceptable commercial terms, or may not be able to be obtained at all, and consequently have an adverse financial effect on the Company.

### *Native Title*

It is possible that, in relation to tenements which we have an interest in or will in the future acquire, there may be areas over which legitimate native title rights of Aboriginal Australians may exist. Where the grant or renewal of a tenement is in respect of land in relation to which native title may exist, the Company will need to comply with the *Native Title Act 1993* (Cth) in order for the tenement to be validly granted.

Compliance with the NTA (and the relevant native title process to be followed for the grant of the tenement e.g. the right to negotiate process) may be prolonged or delayed, and substantial compensation may be payable as part of any agreement reached, including for the extinguishment or impairment of the relevant native title rights and interests.

The existence or determination of native title may, therefore, affect the existing or future activities of the Company and impact on its ability to develop projects which may in turn impact its operational and financial performance.

Under the *Aboriginal Land Rights Act 1983* (NSW), Aboriginal Land Councils can claim crown land if certain requirements are met. If a claim is successful, freehold title over the relevant land is transferred to the claimant council. Further, Aboriginal Land Councils are afforded certain statutory rights which can include a requirement to enter into a compensation agreement prior to the grant of a Mining Lease. This may delay the grant of future mining tenements over any area of such land. Some of our tenements are located in areas that are subject to outstanding Aboriginal land claims, and additional Aboriginal land claims may be made in the future over other areas in which our tenements are located. Any such claims may result in our ability to explore or mine for coal in these areas being subject to the decisions of the relevant Aboriginal Land Councils, which may adversely affect our ability to develop projects and, consequently, our operational and financial performance.

### *Overlapping tenement risks*

Some of the Company's mines and associated tenements adjoin or are overlapped by petroleum tenements and adjoin other exploration interests held by third parties. Overlapping tenements could potentially prevent, delay or increase the cost of the future development of the Company's projects because the Company and the relevant petroleum exploration licence or other exploration licence holders could potentially seek to undertake their respective activities on the overlapping area or the same resource seams and in some cases the overlapping petroleum tenure holder's consent may be required.

There is no guarantee that agreement will be reached with the overlapping petroleum tenement holder or that agreement will not be delayed or will be reached on terms satisfactory to the Company. There is also a risk that if agreement cannot be reached with overlapping tenement holders the matter may be referred to the relevant minister or a court who may make a decision which adversely impacts upon or prevents the project proposed by the Company.

### *Enforcement and counterparty insolvency risks*

The Company has entered into contracts which are important to the future of its businesses including (but not limited to) for the provision of coal handling services, long-term sales contracts, debt facilities, long-term leases, contract mining and the provision of certain guarantees, indemnities and sureties.

Any failure by counterparties to perform those contracts may have a material adverse effect on the Company and there can be no assurance that it would be successful in enforcing any of its contractual rights through legal action.

In addition, any insolvency of a counterparty to any of these contracts may have a material adverse effect on the Company and there can be no assurance that it would be successful in enforcing any of its contractual rights through legal action or recovering all monies owed by that counterparty (including under any claim for damages).

### *Coal royalties*

Royalties are payable to the NSW and QLD State Governments on coal produced in NSW and QLD. In both States, the royalties are payable on an ad valorem basis as they are calculated as a percentage of the value for which the coal is sold. The relevant State Governments may increase these royalties or their method of calculation. Any impost of new royalty related State tax or increase in royalty rates may have an adverse effect on the Company's financial position and/or financial performance.

### *Climate change/carbon regulation risks*

The regulatory response to the risk of climate change, including unilateral and collective action by Australia and other countries, may affect demand for coal, coal prices and the competitiveness of the Company's products in the world energy market.

In November 2014, an agreement was announced between the United States and China to cut greenhouse gas emissions by more than 25% below 2005 levels by 2025. This agreement was followed by the 2015 United Nations Climate Change Conference, and the signing of the Paris Agreement within the United Nations Framework Convention on Climate Change. The Paris Agreement was signed by representatives from 195 countries, and aims to hold back the increase in global temperatures, increase the ability of countries to adapt to the adverse impacts of climate change and provide channels to finance projects that lead to greenhouse gas reductions.

## CORPORATE GOVERNANCE STATEMENT (CONTINUED)

In recent years, China has also taken steps to address severe air pollution in many Chinese cities by adopting a range of policies to lower carbon emissions and reduce coal usage.

Extensive government regulations relating to climate change impose costs on the mining operations of the Company, and future regulations could increase those costs, limit the Company's ability to produce and sell coal, or reduce demand for the Company's coal products.

### *Technological change*

Thermal coal as a source of energy competes with other forms of electricity generation (such as hydro, solar and wind). In recent years, the global shift from conventional fuels to renewable sources of energy has created greater competition for thermal coal in the market.

As renewable technologies become more efficient and cost effective, they may gain an economic advantage over coal-fired and other fossil fuel based electricity generation. These economic factors, combined with increasing costs to comply with emission limits for other air pollutants, may result in the continued retirement of existing coal-powered generation capacity, and the cancellation of planned additional coal-fired power capacity, which may reduce demand for thermal coal in the market.

### *Technology*

The Company's business relies on the performance, reliability and availability of its information technology systems. Information and operating technology may be subject to international cyber security threats. Breaches could result in (but are not limited to) the loss of sensitive information, unplanned outage of business-critical systems, environmental damage and misappropriation of Company funds. The Company's information technology infrastructure in general may also be adversely affected by factors such as server damage, equipment faults, power failure, computer viruses, misuse by employees or contractors, telecommunications failures, external malicious intervention such as hacking, terrorism, fire, natural disasters, or weather interventions. Such events are largely beyond the Company's control, and may affect its ability to carry on its operations efficiently.

### *Key personnel*

A number of key personnel are important to attaining the business goals of the Company. One or more of these key employees could leave their employment or cease to actively participate in the management of the Company and this may adversely affect the ability of the Company to conduct its business and, accordingly, affect its financial performance and its share price. There may be a limited number of persons with the requisite experience and skills to serve in the Company's senior management positions if existing management leave the Company. If the Company cannot attract, train and retain qualified managers, and other personnel, the Company may be unable to successfully manage its growth or otherwise compete effectively in the Australian coal industry.

The Company is also dependent on attracting qualified technical employees to provide services in relation to certain of its coal and other mining operations. Coal mining is a labour-intensive industry. The Company's future success will depend greatly on its and its mining contractors' continued ability to attract and retain skilled and qualified personnel on economic terms.

### *Fraud or misconduct*

Any fraud, misrepresentation, money laundering or other misconduct by the Company's employees, customers, service providers, business partners or other third parties could result in violations of relevant laws and regulations by the Company and subject the Company to corresponding regulatory sanctions. These unlawful activities and other misconduct may have occurred in the past and may occur in the future, and may result in civil and criminal liability under increasingly

stringent laws or cause serious reputational or financial harm to the Company. While the Company has in place and is implementing measures aimed at detecting and preventing employees' and external parties' fraud, misrepresentation, money laundering, commercial bribery and other misconduct, the Company may not be able to timely detect or prevent such activities, which could subject the Company to regulatory investigations and criminal and civil liability, harm its reputation and have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

### *Environmental activism*

Environmental lobby groups in both QLD and NSW have recently made submissions opposing both operation and expansion of coal mines in an attempt to prevent new mine developments or expansion of existing mines on the basis of environmental concerns. Increased community concern and adverse actions taken by community and environmental groups may delay or prevent the Company from progressing new mine developments or development or expansion of existing mines, or may mean that those mines are subject to conditions that adversely affect their profitability and consequently the financial performance of the Company.

### *Changes in government policy, regulation or legislation*

The resources industry is subject to extensive legislation, regulations and supervision by a number of Federal and State regulatory organisations.

Any future legislation and regulatory change may affect the resources industry and may adversely affect the Company's financial performance and position, such as future laws that may limit the emission of greenhouse gases or the use of coal in power generation.

### *Environment and planning*

In recent years, State Government policies of NSW and QLD have been introduced in the interests of protecting agricultural and urban land from the effects of mining. These include the QLD Government's Central Queensland Plan and Regional Planning Interests Act and the NSW Government's Strategic Regional Land Use Policy, Aquifer Interference Policy, and 2013 amendments to the State Environmental Planning Policy (Mining, Petroleum Production and Extractive Industries) 2007. Each of these policies is relevant to the areas in which the Company has mining operations. Accordingly, there is no assurance that the future development and exploration activities of the Company will result in profitable or commercially viable mining operations in these areas.

In 2013, the NSW State Government introduced the fit and proper person consideration in making decisions about mining rights including the grant, transfer, renewal, cancellation and suspension of such rights. This allows the Government to consider a miner's conduct (in particular its compliance with environmental and mining legislation), as well as a miner's financial capabilities and technical expertise. In recent years, the NSW State Government has also significantly increased the maximum penalties for breaches of mining and environmental legislation, and the resources of regulators to investigate possible breaches and prosecute mining companies. These changes have resulted in the updating of compliance programs, and increased the risk of prosecution for breaches of relevant legislation.

In 2013, the QLD State Government reviewed the method of calculating the financial assurance required to be provided by mining companies in respect of their rehabilitation liability and this review lead to a significant increase in financial assurance amounts that are required to be covered by bank guarantees. The Audit Office of NSW has carried out a review of rehabilitation liabilities in respect of mines and the review has led to an increase in the amount of security required in respect of rehabilitation liabilities.

### *Litigation*

Like all companies in the resources sector, the Company is exposed to the risks of litigation (either as the complainant or as the defendant), which may have a material adverse effect on the financial position of the relevant entity. The Company could become exposed to claims or litigation by persons alleging they are owed fees or other contractual entitlements, employees, regulators, competitors or other third parties. Such claims or proceedings could divert our management's time and attention and consume financial resources in their defence or prosecution.

### *Insurance*

The Company has insurance coverage for certain operating risks. However, it may become subject to liability (including in relation to pollution, occupational illnesses or other hazards), or suffer loss resulting from business interruption, for which it is not insured (or has not sufficiently insured) or cannot insure, including liabilities in respect of past activities.

Should a major uninsured loss be suffered, future financial performance could be materially adversely affected. In addition, insurance may not continue to be available at economically acceptable premiums. As a result, the insurance coverage may not cover the full scope and extent of claims against the Company or losses it may incur, including, but not limited to, claims for environmental or industrial accidents, occupational illnesses, pollution and product liability, war, terrorism and business interruption.

To the extent a successful claim against the Company proceeds, it may have a material adverse effect on its financial position.

### *Exploration and development risks*

The Company's existing coal reserves will decline as mining continues. Therefore, the Company's growth and long-term success will depend on its ability to acquire additional coal resources within its exploration areas and to convert such coal resources into economically recoverable coal reserves.

There are several risks relating to coal mining exploration and development which are common to the industry and which, if realised, have the capacity to affect the operations, production, cash flow and financial performance of the Company.

Development and exploration activities may be affected by factors beyond the control of the Company, including geological conditions, seismic activity, mineralisation, consistency and predictability of coal grades, changes to law, changes to the regulatory framework applying to mining, overlapping resources tenure, and the rights of indigenous people on whose land exploration activities are undertaken.

Any discovery of a coal deposit does not guarantee that the mining of that deposit would be commercially viable, with the size of the deposit, development and operating costs, land ownership, coal prices and recovery rates all being key factors in determining commercial viability.

Issues that arise during development, construction and mine start-up may result in increased costs, delayed commencement of coal production, delayed receipt of coal revenue or coal production not commencing at all. These problems may include delays in obtaining approvals (including land use approvals) or in the construction of mine infrastructure. There are many milestones which need to be met in a timely fashion for production to commence on any projects currently in the pre-development or development stages.

The Company may also be exposed to risks including risks of default associated with managing contractual relationships with participants in any of the development or exploration joint ventures or other contractual relationships to which it is, or may become, a party.

### *Transport and infrastructure*

Coal produced from the Company's mining operations is transported to customers by a combination of road, rail and sea. Fluctuations in transportation costs and disruptions to our railway and port linkages could disrupt the Company's coal deliveries and adversely affect its business, financial condition and results of operations.

A number of factors could disrupt or restrict access to essential coal transportation and handling services, including (but not limited to):

- weather related problems;
- key equipment and infrastructure failures;
- rail or port capacity constraints;
- congestions and inter-system losses;
- industrial action;
- failure to obtain consents from third parties for access to rail or land;
- failure or delay in the construction of new rail or port capacity;
- failure to meet contractual requirements;
- access is removed or not granted by regulatory authority;
- terrorist attacks or other similar events;
- breach of regulatory framework;
- mismatch of below rail capacity, above rail capacity and port capacity; and
- possible sale of infrastructure,

all or any of which could impair the Company's ability to supply coal to customers and/or increase costs, and consequently may have a material adverse effect on the Company's financial position.

Significant increases in transport costs (such as emissions control requirements and fluctuations in the price of diesel fuel and demurrage) could make the Company's coal less competitive when compared to other fuels or coal produced from other regions.

### *Environmental risks*

Due to the nature of coal mining processes, and the associated by-products, residues and tailings generated from these processes, all operations of the Company are subject to stringent environmental laws and regulations.

There is a risk that past, present or future operations have not met or will not meet environmental or related regulatory requirements and/or that the approvals or modifications the Company is currently seeking, or may need to seek in the future, will not be granted. If the Company is unsuccessful in these efforts or otherwise breaches these environmental requirements, it may incur fines or penalties, be required to curtail or cease operations and/or be subject to increased compliance costs or costs for rehabilitation or rectification works, which have not been previously planned at one or more of its sites.

Extensive environmental regulations in Australia, and in other countries that could affect the Company's business, may impose costs on its mining operations, and future regulations could increase those costs, limit its ability to produce and sell coal, or reduce demand for the Company's coal products. In particular, the regulatory response to the risk of climate change, including unilateral and collective action by Australia and other countries, may affect demand for coal, coal prices and the competitiveness of the Company's products in the world energy market in the medium to long term.



## CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Changes in and future environmental regulations could increase the standards and costs of compliance, and adversely affect the Company's ability to generate the expected economic returns from its mining assets over their useful lives. The Company may not always be able to comply with future laws and regulations in relation to environmental protection economically or at all. There can be no assurance that the Company will be able to fully and economically utilise the entire coal resources of the mines it operates currently or in the future or that some of its mining assets will not become "stranded assets" that are not able to generate the expected economic returns over their useful lives.

Environmental legislation may change in a manner that may require compliance with additional standards, and a heightened degree of responsibility for companies and their directors and employees. There may also be unforeseen environmental liabilities resulting from coal related activities, which may be costly to remedy. In particular, the acceptable level of pollution and the potential abandonment costs and obligations for which the Company may become liable as a result of its activities may be impossible to assess under the current legal framework.

### *Health, safety and hazardous materials risks*

The Company's operations may substantially impact the environment or cause exposure to hazardous materials. It will use hazardous materials and will generate hazardous waste, and may be subject to common law claims, damages due to natural disasters, and other damages, as well as the investigation and clean-up of soil, surface water, groundwater, and other media. Such claims may arise, for example, out of current or former activities at sites that it owns or operates.

There is also a risk that actions could be brought against the Company, alleging adverse effects of such substances on personal health. If any injuries or accidents occur in a mine, this could have adverse financial implications including legal claims for personal injury, wrongful death, amendments to approvals, potential production delays or stoppages, any of which may have a material adverse effect on the financial performance and/or financial position of the Company.

There is a risk that past, present or future operations have not met, or will not meet, health and safety requirements and/or that the approvals or modifications the Company is currently seeking, or may need to seek in the future, will not be granted at all or on terms that are unduly onerous. If the Company is unsuccessful in these efforts or otherwise breaches these health and safety requirements, it may incur fines or penalties, be required to curtail or cease operations and/or be subject to increased compliance costs or costs for rehabilitation or rectification works, which have not been previously planned, at one or more of its sites.

### *Impairment risks*

The Company's balance sheet includes a number of assets that are subject to impairment risk, including mining tenements, exploration and evaluation assets, goodwill, the Middlemount loan and royalty receivable, the Watagan loan receivable and investments accounted for using the equity method.

The value of these assets is derived from the fundamental valuation of the underlying mining operations and as such is subject to many of the risks including, but not limited to, coal price and demand, foreign exchange, coal production, estimates of reserves and resources, uncertainty in costs forecasts, operating risks, injury and mine closure.

Adverse changes in these risk factors could lead to a reduction in the valuation of the Company's assets and result in an impairment charge being recognised.

### *Internal audit function*

The internal audit function is managed by the GM of Risk and Assurance. That person has direct access to the Chair of the Audit and Risk Management Committee, as well as to the CEC, to whom he directly reports. The CEC and the Audit and Risk Management Committee recommend to the Board the appointment of the GM of Risk and Assurance.

The GM of Risk and Assurance has unfettered access to the Audit and Risk Management Committee and its Chair to seek information and explanations. The Chair of the Audit and Risk Management Committee meets independently with the GM Risk and Assurance.

The role of the GM Risk and Assurance includes achievement of the internal audit objectives, risk management policies and insurance strategy.

An annual program for internal audit and risk assurance is provided to the Audit and Risk Management Committee for approval. The annual Internal Audit program is focused on key operating risks and processes, control design and operating effectiveness.

The program includes a review of compliance with the obligations imposed by the General Rules on Internal Control for Enterprises and the Supporting Guidelines of Internal Control for Enterprises, jointly issued by five Chinese ministries.

Periodical status reports on the execution of the plan, including current findings and actions, are provided to the Audit and Risk Management Committee. This includes key issues and subsequently corrective actions are monitored, reviewed and reported. Any material findings are reported to the Board.

### *Health, Safety and Environment Compliance*

The Company has adopted policies to comply with occupational health, safety, environment and other laws. The Board has a Health, Safety and Environment Policy in place since May 2016 which applies across the Company. In addition, each mine site has its own health, safety and environmental policies and procedures to deal with their particular health, safety and environmental issues. The Board has established a Health, Safety and Environment Committee to assist it in overseeing the Company's health, safety and environmental responsibilities. In accordance with its charter, which was reviewed and amended in October 2018 to provide for relevant provisions of the HK Listing Rules, this committee has a minimum of at least three members. The current members of this committee are David Moulton (appointed 6 February 2018) (Chair of the committee), Geoffrey Raby, Fuqi Wang and Fucun Wang (appointed 8 June 2018). Vincent O'Rourke resigned as Chair of the committee on 30 January 2018. It is intended the committee meets at least four times per year, or as frequently as required. The committee meetings are held at one of the Company's mine sites, whenever possible, to receive feedback from the health, safety and environment forum held at the mine site and to address any mine-specific health, safety and environment issues.

## Principle 8: Remunerate fairly and responsibly

### Nomination and Remuneration Committee

The Board has established a Nomination and Remuneration Committee. In accordance with its charter, which was reviewed and amended in October 2018 to provide for relevant provisions of the HK Listing Rules, this committee currently has five members, Helen Gillies (appointed 8 June 2018) (Chair of the committee, member since 6 February 2018), Xiangqian Wu and Gregory Fletcher (appointed 8 June 2018), Baocai Zhang (appointed 8 June 2018) and David Moulton (appointed 8 June 2018). Xiyong Li resigned as the Chair on 8 June 2018 and Cunliang Lai resigned as a member of the committee on 8 June 2018. Three of the members of the committee, including the Chair of the committee, are independent Directors of the Company, in line with the ASX Recommendations. The Nomination and Remuneration Committee Charter can be found within the Corporate Governance section of the Company's website.

The committee makes recommendations to the Board to achieve Company remuneration structures that are equitable and aligned with the long-term interests of the Company and its shareholders, to attract and retain skilled employees, to structure short- and long-term incentives that are challenging and linked to creation of sustainable returns and to ensure any termination benefits are justifiable and appropriate.

In 2018, the committee engaged consulting firm Aon Hewitt (**Aon**) to provide independent market benchmarking with respect to the remuneration of Yancoal Executives and Non-Executive Directors. Aon presented its recommendations to the committee in Q1 and Q2 2018, which were endorsed by the committee for Board approval. The Board adopted the recommendations in May 2018.

The committee has the necessary power and resources to meet its responsibilities under its charter, including rights of access to management, auditors and external advisors. It is intended that the committee will meet at least once per year, or as frequently as required.

### Remuneration of Non-Executive Directors

The Constitution provides that the Non-Executive Directors are entitled to such remuneration as approved by the Company's shareholders in accordance with the Constitution, which must not exceed the aggregate annual amount as determined by the Company in general meeting or by its major shareholder, Yanzhou.

Remuneration for Non-Executive Directors is capped at an aggregate amount for each financial year of \$3.5 million. Non-Executive Directors may also be paid such additional or special remuneration as the Directors decide is appropriate where a Non-Executive Director performs extra services or makes special exertions for the benefit of the Company. Such additional remuneration will not form part of the calculation of the aggregate cap on Non-Executive Directors' remuneration for a financial year and does not require shareholder approval. No Director is involved in determining his or her own remuneration.

Further details of the remuneration of the Non-Executive Directors, Executive Directors and senior Executives can be found in the Remuneration Report on pages 64 to 77.

### Dealings in Company securities

By law, and under the Company's Insider Trading Policy, dealing in Company securities is subject to the overriding prohibition on trading while in possession of inside information.

In addition, the Company's Share Trading Policy prohibits dealing in Company securities or Yanzhou securities by Directors, senior Executives and other relevant employees, as well as their closely related parties, during specified blackout periods each year. General employees are permitted to deal in Company securities outside these blackout periods; however additional approval requirements apply to Directors, the CEO and the CFO. The Share Trading Policy precludes relevant employees from entering into any hedge or derivative transactions relating to unvested options or share rights granted to them under incentive plans and securities that are subject to holding locks or restrictions on dealing under such plans. There are also restrictions that apply to relevant employees from entering into margin lending arrangements and short-term trading of the Company's securities. Breaches of the policy are treated seriously and may lead to disciplinary action, including dismissal.

The Board approved revisions to its share trading policy in October 2018 with the requirements set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the **Model Code**) as set out in Appendix 10 of the HK Listing Rules to regulate the Directors' securities transactions, which is also applicable to the Company's employees who are likely to be in possession of unpublished inside information.

Specific enquiry has been made of all the Directors and they have each confirmed that they have complied with the Company's Share Trading Policy and Insider Trading Policy (which is more stringent than the Model Code) since the HK Listing (on 6 December 2018) to 31 December 2018.

Copies of the Company's Share Trading Policy and Insider Trading Policy are available on the Corporate Governance section of the Company's website.

This Corporate Governance Statement has been approved by the Board and is current as at 25 February 2019.

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	31 December 2018 \$M	31 December 2017 \$M
<b>Revenue</b>	B2	<b>4,850</b>	2,601
Other income	B3	<b>150</b>	294
Changes in inventories of finished goods and work in progress		<b>31</b>	7
Raw materials and consumables used		<b>(669)</b>	(349)
Employee benefits	B4	<b>(518)</b>	(302)
Depreciation and amortisation		<b>(523)</b>	(256)
Transportation		<b>(537)</b>	(312)
Contractual services and plant hire		<b>(418)</b>	(274)
Government royalties		<b>(347)</b>	(173)
Coal purchases		<b>(332)</b>	(340)
Other operating expenses	B5	<b>(278)</b>	(330)
Finance costs	B5	<b>(293)</b>	(287)
Share of profit of equity-accounted investees, net of tax	E2	<b>56</b>	32
<b>Profit before income tax</b>		<b>1,172</b>	311
Income tax expense	B6	<b>(320)</b>	(82)
<b>Profit after income tax</b>		<b>852</b>	229
Profit is attributable to:			
Owners of Yancoal Australia Ltd		<b>852</b>	229
Non-controlling interests		<b>–</b>	–
		<b>852</b>	229
<b>Other comprehensive income</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Cash flow hedges:			
Fair value (losses)/gains	D7	<b>(443)</b>	348
Fair value losses transferred to profit and loss	D7	<b>160</b>	229
Deferred income tax benefit/(expense)	D7	<b>85</b>	(173)
<b>Other comprehensive income, net of tax</b>		<b>(198)</b>	404
<b>Total comprehensive income</b>		<b>654</b>	633
Total comprehensive income for the year is attributable to:			
Owners of Yancoal Australia Ltd		<b>654</b>	633
Non-controlling interests		<b>–</b>	–
		<b>654</b>	633
Total comprehensive income for the year attributable to owners of Yancoal Australia Ltd arises from:			
Continuing operations		<b>654</b>	633
			<b>Restated</b>
<b>Profit per share attributable to the ordinary equity holders of the Company:</b>			
Basic profit per share (cents per share)	B7	<b>67.6</b>	52.0
Diluted profit per share (cents per share)	B7	<b>67.6</b>	28.0

These financial statements should be read in conjunction with the accompanying notes.



# CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2018

	Notes	31 December 2018 \$M	31 December 2017 \$M
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	C6	1,031	207
Trade and other receivables	C7	552	658
Inventories	C8	226	150
Royalty receivable	C9	28	24
Non-contingent royalty receivable	D3	7	–
Assets classified as held for sale	C12	57	613
Other current assets		21	37
<b>Total current assets</b>		<b>1,922</b>	<b>1,689</b>
<b>Non-current assets</b>			
Trade and other receivables	C7	292	473
Property, plant and equipment	C1	2,939	2,832
Mining tenements	C2	4,218	4,296
Exploration and evaluation assets	C4	563	565
Intangible assets	C5	97	99
Deferred tax assets	B6	1,062	1,219
Interest-bearing loan to associate	D1	835	712
Royalty receivable	C9	165	175
Non-contingent royalty receivable	D3	8	–
Investments accounted for using the equity method	E2	307	251
Other non-current assets		–	2
<b>Total non-current assets</b>		<b>10,486</b>	<b>10,624</b>
<b>Total assets</b>		<b>12,408</b>	<b>12,313</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	C10	840	758
Interest-bearing liabilities	D2	13	17
Current tax liabilities		1	–
Provisions	C11	34	59
Non-contingent royalty payable	D3	25	112
Liabilities directly associated with assets classified as held for sale	C12	–	67
<b>Total current liabilities</b>		<b>913</b>	<b>1,013</b>
<b>Non-current liabilities</b>			
Interest-bearing liabilities	D2	4,111	4,706
Deferred tax liabilities	B6	1,029	1,030
Provisions	C11	488	488
Non-contingent royalty payable	D3	27	48
Deferred income		2	2
<b>Total non-current liabilities</b>		<b>5,657</b>	<b>6,274</b>
<b>Total liabilities</b>		<b>6,570</b>	<b>7,287</b>
<b>Net assets</b>		<b>5,838</b>	<b>5,026</b>
<b>EQUITY</b>			
Contributed equity	D4	6,482	6,217
Reserves	D7	(604)	(413)
Accumulated losses		(42)	(781)
Capital and reserves attributable to owners of Yancoal Australia Ltd		5,836	5,023
Non-controlling interests		2	3
<b>Total equity</b>		<b>5,838</b>	<b>5,026</b>

These financial statements should be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	Attributable to owners of Yancoal Australia Ltd			Non-controlling interests \$M	Total equity \$M
		Contributed equity \$M	Reserves \$M	Accumulated losses \$M		
<b>Balance at 1 January 2017</b>		3,104	(817)	(935)	–	1,352
Profit after income tax		–	–	229	–	229
Other comprehensive income		–	404	–	–	404
<b>Total comprehensive income</b>		<b>–</b>	<b>404</b>	<b>229</b>	<b>–</b>	<b>633</b>
<b>Transactions with owners in their capacity as owners:</b>						
Issuance of new ordinary shares	D4	5,296	–	–	–	5,296
Distribution to subordinated capital note holders		–	–	(75)	–	(75)
Subordinated capital notes redeemed on conversion	D4	(2,183)	–	–	–	(2,183)
Non-controlling interest on acquisition of subsidiaries		–	–	–	3	3
		3,113	–	(75)	3	3,041
<b>Balance at 31 December 2017</b>		<b>6,217</b>	<b>(413)</b>	<b>(781)</b>	<b>3</b>	<b>5,026</b>
<b>Balance at 1 January 2018</b>		6,217	(413)	(781)	3	5,026
Opening balance adjustment on adoption of AASB 9	D7	–	–	17	–	17
<b>Restated total equity at 1 January 2018</b>		<b>6,217</b>	<b>(413)</b>	<b>(764)</b>	<b>3</b>	<b>5,043</b>
Profit after income tax		–	–	852	–	852
Other comprehensive income		–	(198)	–	–	(198)
<b>Total comprehensive income</b>		<b>–</b>	<b>(198)</b>	<b>852</b>	<b>–</b>	<b>654</b>
<b>Transactions with owners in their capacity as owners:</b>						
Issuance of new ordinary shares	D4	266	–	–	–	266
Dividends provided for or paid	D6	–	–	(130)	–	(130)
Subordinated capital notes redeemed on conversion		(1)	–	–	–	(1)
Movements in other reserves		–	7	–	–	7
Acquisition of minority interest		–	–	–	(1)	(1)
		265	7	(130)	(1)	141
<b>Balance at 31 December 2018</b>		<b>6,482</b>	<b>(604)</b>	<b>(42)</b>	<b>2</b>	<b>5,838</b>

These financial statements should be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	31 December 2018 \$M	31 December 2017 \$M
<b>Cash flows from operating activities</b>			
Receipts from customers		4,847	2,580
Payments to suppliers and employees		(2,896)	(1,897)
Interest paid		(236)	(169)
Interest received		96	59
Transaction costs paid		(34)	(17)
Stamp duty paid		(30)	(148)
<b>Net cash inflow from operating activities</b>	F3	<b>1,747</b>	<b>408</b>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(194)	(299)
Payments for capitalised exploration and evaluation activities		(4)	(3)
Proceeds from sale of property, plant and equipment		5	1
Receipts from joint operation participants		–	40
Receipts of non-contingent royalties		75	–
Payment of non-contingent royalties		(119)	–
Payments for acquisition of interest in joint ventures and subsidiaries (net of cash acquired)	E1	(353)	(3,247)
Payment for joint operation call option fee		–	(13)
Proceeds from disposal of interest in joint venture and subsidiaries (net of cash disposed)		524	–
Repayment of loan from joint venture		117	–
Repayment of borrowings from associates		254	214
Advance of borrowings to associates		(377)	(151)
Advances from related entities		–	35
Dividends received		17	6
Cash transferred from restricted accounts		–	31
<b>Net cash outflow from investing activities</b>		<b>(55)</b>	<b>(3,386)</b>
<b>Cash flows from financing activities</b>			
Repayment of interest-bearing liabilities – related entities		(175)	–
Proceeds from interest-bearing liabilities – related entities		–	188
Payment for treasury shares		(6)	–
Repayment of interest-bearing liabilities		(1,250)	(196)
Proceeds from interest-bearing liabilities		411	–
Dividend paid		(130)	–
Payment of subordinated capital notes distribution		–	(24)
Payment of finance lease liabilities		(20)	(26)
Transaction costs paid		(2)	(68)
Proceeds from issues of shares and other equity securities	D4	268	3,125
<b>Net cash (outflow)/inflow from financing activities</b>		<b>(904)</b>	<b>2,999</b>
<b>Net increase in cash and cash equivalents</b>		<b>788</b>	<b>21</b>
Cash and cash equivalents at the beginning of the financial year		207	190
Effects of exchange rate changes on cash and cash equivalents		36	(4)
<b>Cash and cash equivalents at the end of the year</b>	C6	<b>1,031</b>	<b>207</b>

These financial statements should be read in conjunction with the accompanying notes.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## A – BASIS OF PREPARATION

These consolidated financial statements and notes are for the consolidated entity consisting of Yancoal Australia Ltd (“Company” or “parent entity”) and its subsidiaries (“the Group”).

These general purpose financial statements have been prepared in accordance with the Australian Accounting Standards and interpretations issued by the Australian Accounting Standards Board and the Corporations Act 2001. Yancoal Australia Ltd is a for-profit entity for the purpose of preparing the financial statements.

The financial statements were authorised for issue in accordance with a resolution of the Directors on 25 February 2019.

### (i) Compliance with IFRS

The consolidated financial statements of the Group also comply with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

### (ii) Subsidiaries

The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group. Intercompany transactions, balances and unrealised gains on transactions between the Group companies are eliminated.

Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries are aligned to ensure consistency with the policies adopted by the Group.

### (iii) Significant accounting policies

Significant accounting policies have been included in the relevant notes to which the policies relate, and other significant accounting policies are discussed in Note F6. These policies have been consistently applied to all the years presented, unless otherwise stated.

### (iv) Historical cost convention

These financial statements have been prepared on an accrual basis and under the historical cost convention, as modified by the revaluation of available for sale financial assets and financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

### (v) Auditor sign-off – unqualified and unmodified

The independent auditor’s report of these consolidated financial statements is unqualified and unmodified. Refer to page 172 for further details.

### (vi) Rounding of amounts

The Company is of a kind referred to in ASIC Legislative Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the “rounding off” of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that legislative instrument to the nearest million dollars, or in certain cases, the nearest dollar.

### (vii) New and amended standards adopted by the Group

Effective from 1 January 2018 the Group adopted new standards including AASB 9 *Financial Instruments* and AASB 15 *Revenue from Contracts with Customers*. Refer to Note F7 for details.

### (viii) Impact of standards issued but not yet applied by the Group

Australian Accounting Standards and Interpretations issued but not yet applicable for the year ended 31 December 2018 that have not been applied by the Group are disclosed in Note F8.

### (ix) Early adoption of standards

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 reporting periods and have not been early adopted by the Group. The Group’s assessment of the impact of these new standards and interpretations is set out in Note F8.

### (x) Critical accounting estimates and judgements

The preparation of financial statements requires the use of certain critical accounting estimates and judgements that involve a higher degree of judgement or complexity. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies.

The Directors evaluate estimates and judgements incorporated into these financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Company. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Details of critical accounting estimates and judgements can be found in the notes to which they relate and include:

Taxation	Note B6
Mining tenements	Note C2
Impairment of assets	Note C3
Exploration and evaluation assets	Note C4
Royalty receivable	Note C9
Provisions	Note C11
Business combinations and disposals	Note E1
Control of Watagan	Note E2

## B – PERFORMANCE

This section of the financial statements focuses on disclosure that enhances a user's understanding of profit after tax. Segment reporting provides a breakdown of profit, revenue and assets by geographic segment. The key line items of the Statement of Profit or Loss and Other Comprehensive Income along with their components provide details behind the reported balances.

### B1 SEGMENT INFORMATION

#### Accounting Policy

Management has determined the operating segments based on the strategic direction and organisational structure of the Group together with reports reviewed by the Chief Operating Decision Makers ("CODM"), defined as the Executive Committee, that are used to make strategic decisions including resource allocation and assessment of segment performance.

The reportable segments are considered at a regional level being New South Wales ("NSW") and Queensland ("QLD").

Non-operating items of the Group are presented under the segment "Corporate" which includes administrative expenses, foreign exchange gains and losses recycled from hedge reserve, and the elimination of intersegment transactions and other consolidation adjustments.

#### (a) Segment information

The segment information for the reportable segments for the year ended 31 December 2018 is as follows:

	Coal Mining		Corporate \$M	Total \$M
	NSW \$M	QLD \$M		
<b>31 December 2018</b>				
Total segment revenue*	4,294	446	(160)	4,580
Add: Fair value losses recycled from hedge reserve	–	–	160	160
<b>Revenue from external customers</b>	<b>4,294</b>	<b>446</b>	<b>–</b>	<b>4,740</b>
Operating EBIT	1,698	95	(136)	1,657
Operating EBITDA	2,183	127	(130)	2,180
<b>Material income or expense items</b>				
<b>Non-cash items</b>				
Remeasurement of royalty receivable	–	–	4	4
Depreciation and amortisation expense	(483)	(33)	(7)	(523)
Gain on disposal of joint operation and subsidiaries	–	–	78	78
Transaction costs	–	–	(11)	(11)
Stamp duty accrued	–	–	4	4
Impairment of financial assets	–	–	(21)	(21)
Remeasurement of financial assets	–	–	(29)	(29)
	<b>483</b>	<b>33</b>	<b>(18)</b>	<b>498</b>
<b>Cash items</b>				
Transaction costs	–	–	(18)	(18)
Stamp duty paid	–	–	(30)	(30)
	<b>–</b>	<b>–</b>	<b>48</b>	<b>48</b>
<b>Total capital expenditure</b>	<b>200</b>	<b>10</b>	<b>–</b>	<b>210</b>
Segment assets	9,793	794	452	11,039
Deferred tax assets	113	18	931	1,062
Investment in associate and joint venture	191	–	116	307
<b>Total assets</b>	<b>10,097</b>	<b>812</b>	<b>1,499</b>	<b>12,408</b>

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

## B – PERFORMANCE

### B1 SEGMENT INFORMATION (CONTINUED)

#### (a) Segment information (continued)

The segment information for the reportable segments for the year ended 31 December 2017 is as follows:

	Coal Mining		Corporate \$M	Total \$M
	NSW \$M	QLD \$M		
<b>31 December 2017</b>				
Total segment revenue*	2,163	460	(229)	2,394
Add: Fair value losses recycled from hedge reserve	–	–	229	229
<b>Revenue from external customers</b>	<b>2,163</b>	<b>460</b>	<b>–</b>	<b>2,623</b>
Operating EBIT	682	92	(42)	732
Operating EBITDA	898	126	(36)	988
<b>Material income or expense items</b>				
<b>Non-cash items</b>				
Remeasurement of royalty receivable	–	–	8	8
Depreciation and amortisation expense	(215)	(35)	(6)	(256)
Gain on acquisition of subsidiaries	–	–	177	177
Transaction costs	–	–	(16)	(16)
Stamp duty accrued	–	–	(19)	(19)
Impairment reversal of mining tenements	100	–	–	100
	<b>115</b>	<b>35</b>	<b>(144)</b>	<b>6</b>
<b>Cash items</b>				
Transaction costs	–	–	(17)	(17)
Stamp duty paid	–	–	(148)	(148)
	<b>–</b>	<b>–</b>	<b>(165)</b>	<b>(165)</b>
<b>Total capital expenditure</b>	<b>335</b>	<b>4</b>	<b>1</b>	<b>340</b>
Segment assets	8,793	714	1,336	10,843
Deferred tax assets	182	24	1,013	1,219
Investment in associate and joint venture	191	–	60	251
<b>Total assets</b>	<b>9,166</b>	<b>738</b>	<b>2,409</b>	<b>12,313</b>

\* Total segment revenue consists of revenue from the sale of coal whereas revenue disclosed in the Consolidated Statement of Profit or Loss and Other Comprehensive Income also includes other revenue such as management fees, sea freight, rents and sub-lease rentals, interest income, dividend income and royalty income. Refer to Note B1(b) below.

There was no impairment charge or other significant non-cash items recognised during the years ended 31 December 2018 and 31 December 2017 other than those disclosed above.

#### (b) Other segment information

##### (i) Segment revenue

Sales between segments are carried out at arm's length and are eliminated on consolidation. The revenues from external parties for the reportable segments are measured in a manner consistent with that in the Consolidated Statement of Profit and Loss or Other Comprehensive Income.

Revenues from external customers are derived from the sale of coal from operating mines and coal purchases. Segment revenues are allocated based on the country in which the customer is located. Refer to Note B2 for revenue from external customers split by geographical region.

Revenues from the top five external customers were \$1,644 million (2017: \$813 million) which in aggregate represent approximately 35% (2017: 31%) of the Group's revenues from the sale of coal. These revenues were attributable to the NSW and QLD coal mining segments.

Segment revenue reconciles to total revenue as follows:

	31 December 2018 \$M	31 December 2017 \$M
<b>Total segment revenue</b>	<b>4,580</b>	2,394
Interest income	<b>119</b>	114
Mining services fees	<b>46</b>	52
Sea freight	<b>66</b>	12
Other revenue	<b>39</b>	29
<b>Total revenue (refer to Note B2)</b>	<b>4,850</b>	2,601



**(ii) Operating EBITDA**

The Executive Committee assesses the performance of the operating segments based on a measure of Operating EBITDA. This measure excludes the effects of non-recurring expenditure from the operating segments such as restructuring costs, business combination related expenses and significant impairments of cash-generating units. Furthermore, the measure excludes the effects of fair value re-measurements and foreign exchange gains/(losses) on interest-bearing liabilities. Interest income and expense are not allocated to the NSW and QLD segments, as this type of activity is driven by the corporate function, which manages the cash position of the Group.

A reconciliation of Operating EBITDA to profit before income tax from continuing operations is provided as follows:

	31 December 2018 \$M	31 December 2017 \$M
<b>Operating EBITDA</b>	<b>2,180</b>	988
Depreciation and amortisation	<b>(523)</b>	(256)
<b>Operating EBIT</b>	<b>1,657</b>	732
Interest income	<b>119</b>	114
Finance costs	<b>(293)</b>	(287)
Bank fees and other charges	<b>(96)</b>	(109)
Gain on disposal of interest in joint operation and subsidiaries	<b>78</b>	–
Gain on acquisition of subsidiaries	<b>–</b>	177
Impairment reversal of mining tenements (refer to Note C3(b))	<b>–</b>	100
Stamp duty	<b>(25)</b>	(167)
Fair value losses recycled from hedge reserve – USD loans	<b>(160)</b>	(229)
Transaction costs	<b>(29)</b>	(33)
Remeasurement of financial assets	<b>(29)</b>	–
Remeasurement of contingent royalty	<b>(33)</b>	–
Impairment of financial assets	<b>(21)</b>	–
Remeasurement of royalty receivable	<b>4</b>	8
Receipts from joint venture participant	<b>–</b>	5
<b>Profit before income tax from continuing operations</b>	<b>1,172</b>	311

**(iii) Segment capitalised expenditure**

Amounts with respect to capital expenditure are measured in a manner consistent with that of the financial statements. Reportable segments' capital expenditure is set out in Note B1(a).

All segment assets are located in Australia.

**(iv) Segment liabilities**

A measure of total liabilities for reportable segments is not provided to the Executive Committee. The Executive Committee reviews the liabilities of the Group at a consolidated level.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

## B – PERFORMANCE

### B2 REVENUE

#### Accounting Policies

Revenue is recognised when the control of the products or services has transferred to the customer. Revenue is measured at the amount of consideration to which the Group expects to be entitled in exchange for transferring control of products or services to the customer. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

Descriptions of the Group's performance obligations in contracts with customers and significant judgements applied in revenue recognition are as follows:

#### (a) Sales revenue

##### (i) Sale of coal

The Group produces and sells a range of thermal and metallurgical coal products. Revenue from the sale of coal is recognised when control of the product has transferred to the customer. Control of the product is considered transferred to the customer at the time of delivery, usually on a Free On Board ("FOB") basis or a Cost and Freight ("CFR") basis. For CFR contracts the performance obligation relating to freight services is accounted for as a separate performance obligation. On occasion revenue from the sale of coal is recognised as the ship pulls into harbour on a Free Alongside Ship ("FAS") basis or from the stockpile on an ex-works basis.

A receivable is recognised when control of the products is delivered as this is the point in time that the consideration is unconditional and only the passage of time is required before the payment is due. Payment of the transaction price is usually due within 21 days of the date when control of the product is transferred to the customer. From time to time, the Group receives prepayments before control of the product has transferred to the customer. Such prepayments are recognised as contract liabilities.

Some of the Group's coal sales contracts are long-term supply agreements which stipulate the nominal annual quantity and price negotiation mechanism. For those contracts, the actual quantity and transaction price applicable for future shipments are only negotiated or determined prior to the beginning of, or a date which is after, each contract year or delivery period. The transaction price for a future shipment is based on, or derived from, a market price prevailing at the time of the future shipment. As the future market price for coal is highly susceptible to factors outside the Group's influence, the transaction price for a shipment is not readily determinable until or nearing the time of the shipment. As a result, the Group has concluded that a contract with the customer does not exist for those shipments for which the actual delivery quantity and transaction price have not yet been negotiated or determined.

The transaction price for a shipment is often linked to a market index for the respective delivery period. For example, the transaction price may be determined by reference to the average GlobalCOAL Newcastle Index for the delivery period. At the end of each reporting period, the final average index price may not be available for certain shipments. In those situations, the Group uses "the expected value" method to estimate the amount of variable consideration based on the most recent average index price available for the relevant delivery period as of the end of the reporting periods and for those shipments, the Group has determined that a significant reversal in the amount of revenue recognised will not occur.

#### (b) Other revenue

##### (i) Interest

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. Interest income from a finance lease is recognised over the term of the lease based on a pattern reflecting a constant periodic rate of return on the net investment in the lease.

##### (ii) Mining services fees

The Group provides corporate support services, IT services and mining services which relate to the management of mines. The management and mining service agreements stipulate a fixed monthly service fee and payment of the service fees is usually due within 21 days after the end of each calendar month in which the service is rendered. Revenue from providing management and mining services is recognised in each month in which the services are rendered.

##### (iii) Sea freight services

When contracts for sale of coal include freight on a CFR basis the performance obligation associated with providing the shipping is separately measured and recognised as the service is provided.

##### (iv) Other

Other primarily consists of dividends, rents, sub-lease rental and management fees. Dividends are recognised as revenue when the right to receive payment is established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably. Rental income arising on land surrounding a mine site is accounted for on a straight-line basis over the lease term. Contingent rental income is recognised as income in the periods in which it is earned.

	31 December 2018 \$M	Restated 31 December 2017 \$M
<b>From continuing operations</b>		
<i>Sales revenue</i>		
Sale of coal	4,740	2,623
Fair value losses recycled from hedge reserve	(160)	(229)
	<b>4,580</b>	<b>2,394</b>
<i>Other revenue</i>		
Interest income	119	114
Mining services fees	46	52
Sea freight	66	12
Other	39	29
	<b>270</b>	<b>207</b>
	<b>4,850</b>	<b>2,601</b>

#### Disaggregation of revenue

In the following table, revenue is disaggregated by primary geographical market and major products/service lines. The table also includes a reconciliation of the disaggregated revenue with the Group's three reportable segments (see Note B1):

31 December 2018	NSW \$M	QLD \$M	Corporate \$M	Total \$M
<b>Primary geographical markets</b>				
Japan	946	109	—	1,055
Singapore	760	101	—	861
China	671	68	—	739
South Korea	546	118	—	664
Taiwan	501	17	—	518
Thailand	343	—	—	343
Australia (Yancoal's country of domicile)	283	12	—	295
All other foreign countries	244	21	—	265
<b>Total</b>	<b>4,294</b>	<b>446</b>	<b>—</b>	<b>4,740</b>
<b>Major product/service lines</b>				
Thermal coal	3,467	7	—	3,474
Metallurgical coal	827	439	—	1,266
<b>Total</b>	<b>4,294</b>	<b>446</b>	<b>—</b>	<b>4,740</b>
<b>31 December 2017</b>	<b>NSW \$M</b>	<b>QLD \$M</b>	<b>Corporate \$M</b>	<b>Total \$M</b>
<b>Primary geographical markets</b>				
China	593	61	—	654
Japan	380	109	—	489
South Korea	299	116	—	415
Singapore	193	144	—	337
Australia (Yancoal's country of domicile)	307	15	—	322
Taiwan	118	13	—	131
All other foreign countries	273	2	—	275
<b>Total</b>	<b>2,163</b>	<b>460</b>	<b>—</b>	<b>2,623</b>
<b>Major product/service lines</b>				
Thermal coal	1,442	17	—	1,459
Metallurgical coal	721	443	—	1,164
<b>Total</b>	<b>2,163</b>	<b>460</b>	<b>—</b>	<b>2,623</b>

In 2018 9.7% of coal sales were attributable to the largest customer and 34.7% to the top five customers (2017: 8.3% and 32.3% respectively).



# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

## B – PERFORMANCE

### B2 REVENUE (CONTINUED)

#### Contract balances

The Group has recognised the following revenue-related receivables, contract assets and liabilities:

	31 December 2018 \$M	31 December 2017 \$M
Receivables from contracts with customers	442	404

There are no contract assets, liabilities or costs as at 31 December 2018 or 31 December 2017.

#### Transaction price allocated to the remaining performance obligation

As discussed in Note B2, for long-term contracts the Group has concluded that contracts with customers do not exist for those shipments for which the actual delivery quantity and transaction price have not yet been negotiated or determined. For the remaining shipments where the delivery quantity and transaction price have been negotiated or determined but are subject to market price movements, the contract durations are within one year or less. As a result, the Group elects to apply the practical expedient in paragraph 121(a) of AASB 15 and does not disclose information about the remaining performance obligations in relation to the coal sales contracts. The Group also elects to apply the practical expedient in paragraph 121(b) of AASB 15 and does not disclose information about the remaining performance obligations in relation to the management and mining service contracts.

### B3 OTHER INCOME

#### Accounting Policy

Gain on acquisition is recognised in line with the accounting for business combinations (refer to Note E1).

	31 December 2018 \$M	31 December 2017 \$M
Gain on disposal of joint operation and subsidiaries (Note E1)	78	–
Gain on acquisition of subsidiaries	–	177
Gain on remeasurement of royalty receivable	4	8
Net gain on foreign exchange*	61	–
Receipts from joint operation participant	–	5
Impairment reversal of mining tenements	–	100
Sundry income	7	4
	150	294

\* There is no impact on the conversion of US dollar denominated interest-bearing liabilities (2017: nil).

## B4 EMPLOYEE BENEFITS

### Accounting Policies

#### (i) Employee benefits expenses

Employee benefits are expensed as the related service by the employee is provided and include both equity and cash-based payment transactions. Employee benefits recognised in the profit or loss are net of recoveries.

#### (ii) Superannuation

Contributions made by the Group under Australian legislation to contribute 9.5% of employees' salaries and wages to the employees' defined contribution superannuation funds are recognised as an expense in the period in which they are incurred.

#### (iii) Wages and salaries, annual leave and sick leave

Liabilities for employee benefits for wages, salaries, annual leave and accumulating sick leave that are expected to be wholly settled within 12 months of the reporting date represent present obligations resulting from employees' services provided to the reporting date and are calculated at undiscounted amounts based on wage and salary rates that the Group expects to pay as at the reporting date including related on-costs, such as superannuation, workers' compensation, insurance and payroll tax and are included in trade and other payables. Non-accumulating, non-monetary benefits such as housing and cars are expensed by the Group as the benefits are used by the employee. Employee benefits payable later than 12 months have been measured at the present value of the estimated future cash outflows to be made for those benefits. In determining the liability, consideration is given to employee salary and wage increases and the probability that the employee may satisfy any vesting requirements. Those cash flows are discounted using corporate bonds with terms to maturity that match the expected timing of cash flows attributable to employee benefits.

Additional Long Service Leave payments are made monthly to the Coal Mining Industry (Long Service Leave Funding) Corporation based on the eligible monthly payroll of employees involved in the mining of black coal. Reimbursement is sought from the fund when long service leave is paid to employees involved in the mining of black coal. An asset for the amount recoverable from the Coal Mining Industry (Long Service Leave Funding) Corporation is recognised in trade and other receivables.

These employee benefits are presented as current provisions as the Group has no unconditional right to deferred settlement for at least 12 months after the end of the reporting period.

#### (iv) Equity-settled share-based payments

The grant date fair value of equity-settled share-based payment awards granted to employees is recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with market performance conditions, the grant date fair value of the share-based payment is measured using a Black-Scholes option pricing model to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

### (a) Employee benefits

	31 December 2018 \$M	31 December 2017 \$M
Employee benefits	464	281
Share-based payments	16	–
Superannuation contributions	38	21
Total employee benefits	518	302

During 2018 \$1 million of employee benefits were capitalised (2017: \$17 million).

### (b) Key Management Personnel compensation

Refer to the Remuneration Report contained in the Directors' Report for details of the remuneration paid or payable to each member of the Group's Key Management Personnel ("KMP") for the year ended 31 December 2018.

The total of remuneration paid to KMP of the Company and the Group during the year was as follows:

	31 December 2018	31 December 2017
Short-term employee benefits	5,901,640	9,265,818
Post-employment benefits	149,534	149,362
Other long-term benefits	2,742,559	1,950,142
	8,793,733	11,365,322

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

## B – PERFORMANCE

### B4 EMPLOYEE BENEFITS (CONTINUED)

#### (c) Top five employees

The five highest paid individuals in the Group include one Director (2017 only), and the Chief Executive for each of the years, and details of whose remuneration are set out in the Remuneration Report. Details of emoluments of the remaining four (2017: three) highest paid individuals who are neither a Director nor Chief Executive of the Company are as follows:

	31 December 2018 \$M	31 December 2017 \$M
Salaries, allowances and other benefits in kind	2	1
Retirement benefit scheme contributions	–	–
Discretionary bonuses	5	3
	7	4

Their emoluments were within the following bands:

	31 December 2018 \$	31 December 2017 \$
HK\$7,000,000 to HK\$7,500,000 (A\$1,171,548 to A\$1,255,230)	–	2
HK\$8,000,000 to HK\$8,500,000 (A\$1,338,912 to A\$1,422,594)	–	1
HK\$8,500,000 to HK\$9,000,000 (A\$1,450,165 to A\$1,535,469)	1	–
HK\$10,000,000 to HK\$10,500,000 (A\$1,706,077 to A\$1,791,381)	1	–
HK\$11,000,000 to HK\$11,500,000 (A\$1,876,685 to A\$1,961,989)	2	–

### B5 EXPENSES

#### (a) Finance costs

	31 December 2018 \$M	31 December 2017 \$M
Finance lease charges	3	4
Unwinding of discount on provisions and deferred payables	17	63
Other interest expenses	273	229
Interest expenses capitalised	–	(9)
Total finance costs	293	287

#### (b) Other operating expenses

Bank fees and other charges	96	109
Stamp duty	25	167
Remeasurement of contingent royalty	33	–
Remeasurement of financial assets	29	–
Impairment of financial assets	21	–
Information and technology expenses	14	9
Insurance	13	6
Duties and other levies	18	12
Travel and accommodation	9	8
Net loss on disposal of property, plant and equipment	9	4
Rental expense	4	3
Net loss on foreign exchange	–	8
Other operating expenses	7	4
Total other operating expenses	278	330

#### (c) Largest suppliers

In 2018 7.6% of total operating expenses related to one supplier and 23.5% to the top five suppliers (2017 5.6% and 21.5% respectively).



## B6 TAXATION

### Accounting Policy

The income tax expense or benefit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate enacted or substantively enacted at the end of the reporting period for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. The carrying value of the deferred tax asset is reviewed at each reporting period and reduced to the extent that it is no longer probable that future taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are recognised for taxable temporary differences between the carrying amount and tax bases of investments in controlled entities, except where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the Group has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in the profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

### Tax consolidation legislation

Yancoal Australia Ltd and its wholly owned Australian controlled entities have implemented the tax consolidation legislation for income tax purposes. The accounting policy in relation to this legislation is set out in Note E4.

### Critical accounting estimates and judgements

The Group is subject to income taxes in Australia. Significant judgement is required in determining the provision for income taxes. Deferred tax assets, including those arising from unutilised tax losses, require the Group to assess the likelihood that the Group will generate sufficient taxable earnings in future periods, in order to utilise recognised deferred tax assets. Judgement is also required in respect of the application of existing tax laws especially in relation to position adopted that may have an uncertain outcome. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These estimates of future taxable income are based on forecast cash flows from operations (which are impacted by production and sales volumes, coal prices, reserves, operating costs, closure and rehabilitation costs, capital expenditure, and other capital management transactions). To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group to realise the net deferred tax assets recorded at the reporting date could be impacted. In addition, future changes in tax laws could limit the ability of the Group to obtain tax deductions in future periods.

### (a) Income tax expense

#### (i) Net tax expenses

	31 December 2018 \$M	31 December 2017 \$M
Income tax expense	(340)	(84)
Income tax over provision in respect of prior years	20	2
	(320)	(82)
Net tax expense is attributable to:		
Continuing operations	(320)	(82)

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

## B – PERFORMANCE

### B6 TAXATION (CONTINUED)

#### (a) Income tax expense (continued)

##### (ii) Income tax expense

	31 December 2018 \$M	31 December 2017 \$M
Deferred tax expense	(320)	(82)
Deferred tax expense included in income tax benefit comprises:		
Net over provision in respect of prior years	20	2
Decrease in deferred tax assets (refer to Note B6(b)(ii))	(301)	(34)
Increase in deferred tax liabilities (refer to Note B6(c)(iii))	(39)	(50)
	(320)	(82)

##### (iii) Reconciliation of income tax expense to prima facie tax payable

	31 December 2018 \$M	31 December 2017 \$M
Profit from continuing operations before tax	1,172	311
Tax at the Australian tax rate of 30% (2017 – 30%)	(352)	(95)
Tax effect of amounts which are not deductible/taxable in calculating taxable income:		
Over provision in prior years	20	2
Movements in financial assets	(15)	(1)
Stamp duty expensed	(7)	(50)
Share of profit of equity-accounted investees not deductible	16	10
Gain on acquisition of subsidiaries	–	53
Gain on disposal of interest in joint operation	14	–
Denial of debt deductions	–	(1)
Other	4	–
Income tax expense	(320)	(82)

##### (iv) Amounts recognised directly in equity

Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss or other comprehensive income but directly debited or credited to equity:

Cash flow hedges	(85)	173
Adjustment on adoption of AASB 9	7	–
Transaction costs associated with share issuances	–	(20)
	(78)	153

#### (b) Deferred tax assets

##### (i) Deferred tax assets

	31 December 2018 \$M	31 December 2017 \$M
Deferred tax assets from income tax	1,062	1,219

## (ii) Income tax

Movements	Tax losses and offsets \$M	Provisions \$M	Trade and other payables \$M	Finance lease liabilities \$M	Cash flow hedges \$M	Other \$M	Total \$M
<b>At 1 January 2017</b>	973	38	15	20	288	5	1,339
Under/over provision in prior year (Charged)/credited	(44)	1	–	–	–	–	(43)
– to profit or loss	(73)	49	(1)	(4)	–	(1)	(30)
– directly to equity	(20)	–	–	–	(153)	20	(153)
– tax loss recorded on behalf of Watagan Group	1	–	–	–	–	–	1
Acquisition of subsidiaries	2	89	14	–	–	–	105
<b>At 31 December 2017</b>	839	177	28	16	135	24	1,219
<b>At 1 January 2018</b>	839	177	28	16	135	24	1,219
Under/over provision in prior year (Charged)/credited	41	(25)	–	–	11	(30)	(3)
– to profit or loss	(321)	(23)	6	(3)	–	40	(301)
– directly to equity	–	(7)	–	–	85	–	78
– tax loss recorded on behalf of Watagan Group	66	–	–	–	–	–	66
Acquisition of subsidiaries	–	7	–	–	–	(4)	3
<b>At 31 December 2018</b>	625	129	34	13	231	30	1,062

The Group's tax consolidated group includes Watagan Mining Company Pty Ltd and its controlled subsidiaries, refer to E2b(i) for further details. Deferred tax assets are recognised for the carry forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profits will be available against which the unused tax losses/credits can be utilised. The Group has unrecognised capital tax losses (tax effected) of \$9 million (2017: capital tax losses \$2 million). There is no expiry date on these tax losses.

## (c) Deferred tax liabilities

## (i) Deferred tax liabilities

	31 December 2018 \$M	31 December 2017 \$M
Deferred tax liabilities from income tax	1,029	1,030

## (ii) Income tax

Movements	Property, plant and equipment \$M	Intangible assets \$M	Inventories \$M	Mining tenements and exploration and evaluation assets \$M	Unrealised foreign exchange gains \$M	Other \$M	Total \$M
<b>At 1 January 2017</b>	80	2	8	551	97	24	762
Under/over provision in prior year (Charged)/credited	(6)	–	–	(4)	(31)	–	(41)
– to profit or loss	78	1	7	3	(71)	32	50
– other	–	–	–	–	–	(11)	(11)
Acquisition of subsidiaries	(9)	–	(2)	300	2	(21)	270
<b>At 31 December 2017</b>	143	3	13	850	(3)	24	1,030
<b>At 1 January 2018</b>	143	3	13	850	(3)	24	1,030
Under/over provision in prior year (Charged)/credited	–	–	–	(23)	–	–	(23)
– to profit or loss	57	6	14	(71)	3	30	39
– to other	–	–	–	–	–	(4)	(4)
Acquisition of subsidiaries	(15)	1	–	1	–	–	(13)
<b>At 31 December 2018</b>	185	10	27	757	–	50	1,029



# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

## B – PERFORMANCE

### B7 EARNINGS PER SHARE

#### Accounting Policies

##### (a) Basic earnings per share

Calculated as net earnings attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference shares dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

##### (b) Diluted earnings per share

Calculated as net earnings attributable to members of the parent, adjusted for costs of servicing equity (other than dividends); the after-tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares, divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

##### (a) Basic and diluted earnings per share

	31 December 2018	Restated 31 December 2017
From continuing operations		
Total basic earnings per share (cents per share)	67.6	52.0
Total diluted earnings per share (cents per share)	67.6	28.0

##### (b) Reconciliation of earnings used in calculating profit per share

	31 December 2018 \$M	31 December 2017 \$M
<i>Basic and diluted earnings per share</i>		
Earnings used in calculating the basic and diluted earnings per share:		
From continuing operations	852	229
	852	229

##### (c) Weighted average number of shares used in calculating profit per share

	31 December 2018 Number	Restated 31 December 2017 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share (refer to Note D4)	1,259,815,749	438,720,937
<b>Adjustments to calculation of basic earnings per share</b>		
Bonus factor restatement associated with rights issue dated 31 August 2017	–	10%
Number of shares associated with bonus factor	–	1,923,674
Weighted average number of shares used as the denominator in calculating the basic earnings per share	1,259,815,749	440,644,611
Number of diluted shares associated with bonus factor	–	36,758,879
Other adjustments to denominator used in calculating the diluted earnings per share	1,365,383	342,530,314
Weighted average number of shares used as the denominator in calculating the diluted earnings per share	1,261,181,131	818,010,129

As required by AASB 133 when there is a rights issue, shares on issue prior to the rights issue need to be increased by a bonus factor equal to the fair value per share immediately before the exercise of rights and the rights issue price. In the calculation above this factor accounts to 10%.

A share consolidation of 35 ordinary shares into one ordinary share of the Company has been completed on 28 September 2018. The weighted average number of ordinary shares for the purpose of basic and diluted earnings per share has been adjusted for the share consolidation on 28 September 2018. The 2017 share numbers have been restated for the share consolidation of 35 ordinary shares to one ordinary share.

As disclosed in Note D4 18,000,181,437 shares were issued during 2017 for the conversion of SCNs and are included in the basic and diluted weighted average calculation for 2017. At 31 December 2017 there were 4,900 SCNs on issue that were redeemed on 31 January 2018.

## C – OPERATING ASSETS AND LIABILITIES

Investment in assets drives the current and future performance of the Group. This section includes disclosures for property, plant and equipment, mining tenements, exploration and evaluation assets, intangible assets, royalty receivable, cash and cash equivalents, trade and other receivables, trade and other payables, inventories and provisions contained within the Balance Sheet.

### C1 PROPERTY, PLANT AND EQUIPMENT

#### Accounting Policies

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost includes expenditure directly attributable to the acquisition of the items and the estimated restoration costs associated with the asset.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Mine development assets include all mining related development expenditure that is not included under land, buildings and plant and equipment.

The open pit operations capitalise mine development costs including both direct and indirect costs incurred to remove overburden and other waste materials to enable access to the coal seams during the development of a mine before commercial production commences, and during future development of new open pit mining areas. Amortisation of those capitalised costs over the life of the operation commences at the time that commercial production begins for the mine for the new open pit mining area.

Underground mine development costs include both direct and indirect mining costs relating to underground longwall panel development and mains development (primary access/egress roads for the mine).

Mains development costs are capitalised net of the coal sales revenue earned from coal extracted as part of the mains development process. These capitalised costs are amortised over the life of the mine if the roads service the entire mine or over the life of the panels accessible from those mains if shorter than the mine life.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward mine development costs in relation to that area of interest. Accumulated costs in relation to an abandoned area are written off in full in the period in which the decision to abandon the area is made.

#### Open cut

During the commercial production stage of open pit operations, production stripping costs comprise the accumulation of expenses incurred to enable access to the coal seam, and include direct removal costs (inclusive of an allocation of overhead expenditure) and machinery and plant running costs.

Production stripping costs are capitalised as part of an asset, if it can be demonstrated that it is probable that future economic benefits will be realised, the costs can be reliably measured and the entity can identify the component of the ore body for which access has been improved. The asset is called a "stripping activity asset" included in mine development.

The stripping activity asset is amortised on a systematic basis, over the expected useful life of the identified component of the ore body that becomes more accessible as a result of the stripping activity. The units of production method shall be applied.

Production stripping costs that do not satisfy the asset recognition criteria are expensed.

#### Depreciation and amortisation

The depreciable amount of all fixed assets, excluding freehold land, is depreciated on a straight-line or units of production basis over the asset's useful life to the Group based on life of mine plans and Joint Ore Reserves Committee ("JORC") estimated reserves, commencing from the time the asset is held ready for use. Leased assets are depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight-line method.

For some assets, the useful life of the asset is linked to the level of production. In such cases, depreciation is charged on a units of production basis based on the recoverable reserves or the remaining useful hours. Alternatively, the straight-line method may be used where this provides a suitable alternative because production is not expected to fluctuate significantly from one year to another.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period and any change in estimate is taken into account in the determination of remaining depreciation charges.

The estimated useful lives are as follows:

- Buildings 10 – 25 years
- Mine development 10 – 40 years
- Plant and equipment 2.5 – 40 years
- Leased plant and equipment 2 – 20 years

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Any gain or loss arising on the disposal of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

See Note C3 for further details on impairment of assets.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

## C – OPERATING ASSETS AND LIABILITIES

### C1 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Assets under construction \$M	Freehold land and buildings \$M	Mine development \$M	Plant and equipment \$M	Leased plant and equipment \$M	Total \$M
<b>Year ended 31 December 2017</b>						
Opening net book amount	324	170	381	569	82	1,526
Transfer to assets under construction	(576)	27	308	240	–	(1)
Additions	303	–	21	12	9	345
Acquisition through business combination	33	96	353	844	–	1,326
Other disposals	–	–	–	(17)	(7)	(24)
Depreciation	–	(4)	(45)	(98)	(8)	(155)
Transfer to assets classified as held for sale	(3)	(15)	(51)	(116)	–	(185)
Closing net book amount	81	274	967	1,434	76	2,832
<b>At 31 December 2017</b>						
Cost or fair value	81	330	1,310	2,910	105	4,736
Accumulated depreciation	–	(56)	(343)	(1,476)	(29)	(1,904)
Net book amount	81	274	967	1,434	76	2,832
<b>Year ended 31 December 2018</b>						
Opening net book amount	81	274	967	1,434	76	2,832
Transfer to assets under construction	(177)	21	222	(66)	–	–
Other additions	190	1	10	4	5	210
Transfer from exploration and evaluation	–	–	10	–	–	10
Acquisition through business combinations	8	22	61	136	–	227
Other disposals	–	–	–	(9)	–	(9)
Depreciation	–	(8)	(85)	(229)	(9)	(331)
Closing net book amount	102	310	1,185	1,270	72	2,939
<b>At 31 December 2018</b>						
Cost	102	376	1,613	2,975	110	5,176
Accumulated depreciation	–	(66)	(428)	(1,705)	(38)	(2,237)
Net book amount	102	310	1,185	1,270	72	2,939

During the year ended 31 December 2018 \$1 million of depreciation and amortisation was capitalised (2017: \$8 million) and no interest was capitalised (2017: \$9 million).

#### (a) Non-current assets pledged as security

Refer to Note D2(b) for information on non-current assets pledged as security by the Group.

## C2 MINING TENEMENTS

### Accounting Policy

Mining tenements have a finite useful life and are carried at cost less any accumulated amortisation and impairment losses. Mining tenements are amortised from the date when commercial production commences, or the date of acquisition. Amortisation is calculated over the life of the mine on a "units of production" method based on the Joint Ore Reserves Committee ("JORC") estimated reserves.

Changes in the annual amortisation rate resulting from changes in the remaining estimated reserves are applied on a prospective basis from the commencement of the next financial year. Every year the mining tenement's carrying amount is compared to its recoverable amount and assessed for impairment, or for possible reversals of prior year impairment.

See Note C3 for further details on the impairment of assets.

	31 December 2018 \$M	31 December 2017 \$M
Opening net book amount	4,296	2,128
Acquisition through business combination	128	2,456
Transfers from exploration and evaluation	6	26
Impairment reversal	–	100
Amortisation	(188)	(103)
Transfer to assets classified as held for sale	(24)	(311)
Closing net book amount	4,218	4,296

### Critical accounting estimates and judgements

#### Coal reserves and resources

The Group estimates its coal resources and reserves based on information compiled by Competent Persons as defined by the Australasian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves (December 2012), which is prepared by the Joint Ore Reserves Committee ("JORC") of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia, known as the JORC 2012 Code, and Australian Securities Exchange ("ASX") Listing Rules 2012.

Mineral Resources and Ore Reserves are based on geological information and technical data relating to the size, depth, quality of coal, suitable production techniques and recovery rates. Such an analysis requires complex geological judgements to interpret the data. The estimation of Recoverable Reserves is based on factors such as estimates of foreign exchange rates, coal price, future capital requirements, rehabilitation obligations and production costs, along with geological assumptions and judgements made in estimating the size and quality of the reserves. Management forms a view of forecast sales prices based on long-term forecast coal price data from multiple external sources.

The external sources have determined their benchmark coal price forecasts having regard to the latest International Energy Agency (IEA) base scenario and the Nationally Determined Contributions agreed under the Paris Agreement in 2015. This contemplates the global seaborne demand for thermal coal will remain relatively consistent until 2040 whilst the global seaborne demand for metallurgical coal will increase up to 2040.

A more rigorous international response to climate change under the Paris Agreement could negatively impact the Recoverable Reserves by lowering the forecast sales prices.

Additionally as the economic assumptions used may change and as additional geological information is produced during the operations of a mine, estimates of reserves may change. The amount of reserves that may actually be mined in the future and the Group's current reserve estimate may vary. Such changes may impact the Group's reported financial position and results including:

- the carrying value of the exploration and evaluation assets, mine properties, property, plant and equipment and goodwill may be affected due to changes in estimated future cash flows;
- depreciation and amortisation charges in the statement of profit and loss and other comprehensive income may change where such charges are determined using the units of production method, or where the useful life of the related assets change; and
- the carrying value of deferred income tax assets may change due to changes in the judgements regarding the existence of such assets and in estimates of the likely recovery of such assets.



# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

## C – OPERATING ASSETS AND LIABILITIES

### C3 IMPAIRMENT OF ASSETS

#### Accounting policies

##### (i) Long-term assets

Mining tenements and goodwill are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired.

An impairment loss is recognised immediately in profit or loss for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. Mining tenements and other non-financial assets (excluding goodwill) that have previously suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

For the purposes of assessing impairment, assets are grouped into Cash-Generating Units ("CGUs"), being the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets. For the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to CGUs that are expected to benefit from the synergies of the combination.

The Group assesses impairment by evaluation of conditions and events specific to the Company that may be indicative of impairment triggers.

##### (ii) Other financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

If there is evidence of impairment for any of the Group's financial assets carried at amortised cost, the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, excluding future credit losses that have not been incurred. The cash flows are discounted at the financial asset's original effective interest rate. The loss is recognised in profit or loss.

#### Critical accounting estimates and judgements

The determination of fair value and value in use requires management to make estimates and assumptions about expected production and sales volumes, coal prices (considering current and historical prices, price trends and related factors), foreign exchange rates, coal resources and reserves (refer to Note C2), operating costs, closure and rehabilitation costs and future capital expenditure. These estimates and assumptions are subject to risk and uncertainty; hence there is a possibility that changes in circumstances will alter these projections, which may impact the recoverable amount of the assets. In such circumstances, some or all of the carrying amount of the assets may be further impaired or the impairment charge reduced with the impact recorded in the statement of profit or loss.

#### (a) CGU assessment

The Group operates on a regional basis within NSW and as such the NSW mines are considered to be one CGU. From 2017, Hunter Valley Operations and Mount Thorley Warkworth have been included in the NSW regional CGU alongside Moolarben and Stratford/Duralie. Yarrabee and Middlemount are considered separate CGUs due to location and ownership structure.

#### (b) Assessment of fair value

Each CGU's fair value less costs of disposal has been determined using a discounted cash flow model over the expected life of mine (18 – 42 years). The fair value model adopted has been categorised as Level 3 in the fair value hierarchy.

The key assumptions in the model include:

Key assumptions	Description
Coal prices	<p>The Group's cash flow forecasts are based on estimates of future coal prices, which assume benchmark prices will revert to the Group's assessment of the long-term real coal prices of US\$67 – US\$104 per tonne (2017: US\$65 – US\$101 per tonne) for thermal and US\$112 – US\$217 per tonne (2017: US\$110 – US\$190 per tonne) for metallurgical coal.</p> <p>The Group receives long-term forecast coal price data from multiple external sources when determining its benchmark coal price forecasts and then makes adjustments for specific coal qualities.</p> <p>The external sources have determined their benchmark coal price forecasts having regard to the latest International Energy Agency (IEA) New Policy Scenario, the Nationally Determined Contributions submitted in the lead-up to the Paris Agreement in 2015 and National Energy Policies. This contemplates the global seaborne demand for thermal coal will remain relatively consistent until 2040 whilst the global seaborne demand for metallurgical coal will increase up to 2040. Key risks to the outlooks are increasing decarbonisation trends, trade disputes, protectionism, import control policies in China and investor behaviour to coal project financing.</p> <p>The Group has considered the impacts of a more rigorous international response to climate change under the Paris Agreement and notes that the average mine life required for the recoverable amount to continue to exceed the book value, holding all inputs constant, including coal prices, is seven, seven and three years for the NSW, Yarrabee and Middlesbrough CGUs, respectively. The NSW CGU has an 80% exposure to thermal coal and 20% exposure to metallurgical coal whilst Yarrabee and Middlesbrough are both metallurgical coal mines.</p> <p>The Group concludes that whilst a more rigorous international response to climate change could reduce the future demand for coal the likely impacts of any such actions are not expected to materially impact during the time periods noted above and hence would not result in the recoverable amount falling below book value.</p> <p>For both thermal and metallurgical coal the Group's forecast coal price is within the range of external price forecasts.</p>
Foreign exchange rates	<p>The long-term AUD/USD forecast exchange rate of \$0.75 (2017: \$0.75) is based on external sources. The year end AUD/USD exchange rate was \$0.71 per the Reserve Bank of Australia.</p>
Production and capital costs	<p>Production and capital costs are based on the Group's estimate of forecast geological conditions, stage of existing plant and equipment and future production levels.</p> <p>This information is obtained from internally maintained budgets, the five-year business plan, life of mine models, life of mine plans, JORC reports, and project evaluations performed by the Group in its ordinary course of business.</p>
Coal reserves and resources	See discussion at Note C2 Mining tenements for how the coal reserves and resources are determined.
Discount rate	<p>The Group has applied a post-tax discount rate of 10.5% (2017: 10.5%) to discount the forecast future attributable post-tax cash flows.</p> <p>The post-tax discount rate applied to the future cash flow forecasts represents an estimate of the rate the market would apply having regard to the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted.</p> <p>This rate is also consistent with the Group's five-year business plan, life of mine models and project evaluations performed in the ordinary course of business.</p>

Based on the above assumptions at 31 December 2018 the recoverable amount is determined to be above book value for all CGUs resulting in no further impairment.

At 31 December 2017, the remaining impairment provision at Moolarben of \$100 million was reversed. Management assessed the following as being reasons for the reversal:

- both the NSW CGU and Moolarben standalone recoverable amounts are above book value;
- completion of open cut expansions and commencement of underground mining operations during 2017 have derisked future cash flows and increased production from 8Mt in 2014 to approximately 17Mt of ROM coal; and
- current and life of mine operating costs and capital expenditure have decreased.

The impairment reversal was recognised through the profit and loss.

Impairment provisions recorded as at 31 December 2018 is \$72 million for Stratford and Duralie. Stratford and Duralie is included in the NSW region CGU. Management may consider reversals of the impairment provision previously recognised if there is either an increase in the average long-term real revenue over the life of the mine due to either an increase in USD coal prices, or a weakening of the AUD/USD foreign exchange rate or a combination of both, or reductions in the current and life of mine operating costs, capital expenditure requirements, or an increase in the reserves.

In determining the value assigned to each key assumption, management has used external sources of information; the expertise of external consultants; as well as the experience of experts within the Group to validate entity-specific assumptions such as coal reserves and resources. Additionally various sensitivities have been determined and considered with respect to each of the key assumptions, further supporting the above fair value conclusions.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

## C – OPERATING ASSETS AND LIABILITIES

### C3 IMPAIRMENT OF ASSETS (CONTINUED)

#### Key sensitivity

The most sensitive input in the fair value model is forecast revenue, which is primarily dependent on estimated future coal prices and the AUD/USD forecast exchange rate.

2018	NSW \$M	Yarrabee \$M	Middlemount \$M
Book Value	5,590	396	324
Recoverable Amount	12,668	605	629
Head Room	7,078	209	305
US\$ Coal Price <sup>(i)</sup>			
+10%	2,361	289	146
–10%	(2,347)	(299)	(163)
Exchange Rate <sup>(ii)</sup>			
+5 cents	(1,526)	(176)	(96)
–5 cents	1,879	215	110
Discount Rate <sup>(iii)</sup>			
+50 bps	(512)	(20)	(11)
–50 bps	568	17	9

(i) This represents the change in recoverable amount due to a +/- 10% change to our coal price assumption.

(ii) This represents the change in recoverable amount due to a +/- 5 cents change to the long-term US\$:A\$ foreign exchange rate adopted.

(iii) This represents the change in recoverable amount due to a +/- 50bps change in discount rate adopted.

If coal prices were –10% LOM the recoverable amount would exceed book value for all CGUs with the exception of Yarrabee which exceeded the recoverable amount by \$90 million. If the AUD/USD long-term forecast exchange rate was \$0.80 the recoverable amount would exceed book value for all CGUs with the exception of Yarrabee which exceeded the recoverable amount by \$6 million.

#### Goodwill

The Yarrabee goodwill was not subject to an impairment charge as the recoverable amount is greater than the carrying value for this CGU.

### C4 EXPLORATION AND EVALUATION ASSETS

#### Accounting Policy

Exploration and evaluation expenditure incurred is accumulated in respect of each separately identifiable area of interest which is at the individual exploration permit or licence level. These costs are only carried forward where the right of tenure for the area of interest is current and to the extent that they are expected to be recouped through successful development and commercial exploitation, or alternatively, sale of the area, or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets acquired in a business combination are recognised at their fair value at the acquisition date. The carrying amount of exploration and evaluation assets is assessed for impairment when facts or circumstances suggest the carrying amount of the assets may exceed their recoverable amount. A regular review is undertaken for each area of interest to determine the appropriateness of continuing to carry forward costs in relation to each area of interest. Accumulated costs in relation to an abandoned area are written off in full in the period in which the decision to abandon the area is made.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, the exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mining tenements.

### Critical accounting estimates and judgements

The application of the Group's accounting policy for exploration and evaluation expenditure requires judgement in determining whether it is likely that future economic benefits are likely, which may be based on assumptions about future events or circumstances. Estimates and assumptions may change if new information becomes available. If after expenditure is capitalised information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalised is written off in the Consolidated Statement of Profit or Loss and Other Comprehensive Income in the period when the new information becomes available.

	31 December 2018 \$M	31 December 2017 \$M
Opening net book amount	565	498
Acquisition through business combination	12	108
Other additions	2	3
Transfers to mining tenements	(6)	(26)
Transfers to mine development	(10)	–
Transfer to assets classified as held for sale	–	(18)
Closing net book amount	563	565

## C5 INTANGIBLES

### Accounting Policies

#### (i) Goodwill

Goodwill acquired in a business combination is recognised at cost and subsequently measured at cost less any impairment losses. The cost represents the excess of the cost of a business combination over the fair value of the identifiable assets, liabilities and contingent liabilities acquired.

Goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired.

See Note C3 for further details on impairment of assets.

#### (ii) Computer software

Computer software is carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is calculated on a straight-line basis over the period of expected benefit, which ranges from 2.5 to 10 years.

#### (iii) Water rights

Water rights have been recognised at cost and are assessed annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. The water rights have been determined to have an indefinite useful life as there is no expiry date on the licences.

#### (iv) Other

Other intangibles include access rights, other mining licences and management rights associated with the Group's right to manage Port Waratah Coal Services. These intangibles have a finite useful life and are carried at cost less any accumulated amortisation and impairment losses. Amortisation of these other intangibles is calculated as the shorter of the life of the mine or agreement and using a units of production basis in tonnes, or on a straight-line basis. The estimated useful lives vary from 10 to 25 years.



# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

## C – OPERATING ASSETS AND LIABILITIES

### C5 INTANGIBLES (CONTINUED)

	Goodwill \$M	Computer software \$M	Water rights \$M	Other \$M	Total \$M
<b>At 1 January 2017</b>					
Cost	60	25	–	–	85
Accumulated amortisation	–	(15)	–	–	(15)
Net book amount	60	10	–	–	70
<b>Year ended 31 December 2017</b>					
Opening net book amount	60	10	–	–	70
Acquisition through business combination	–	–	22	13	35
Transfers – assets under construction	–	–	–	1	1
Amortisation charge	–	(2)	–	(1)	(3)
Transfer to assets classified as held for sale	–	–	(4)	–	(4)
Closing net book amount	60	8	18	13	99
<b>At 31 December 2017</b>					
Cost	60	25	18	14	117
Accumulated amortisation	–	(17)	–	(1)	(18)
Net book amount	60	8	18	13	99
<b>Year ended 31 December 2018</b>					
Opening net book amount	60	8	18	13	99
Acquisition through business combination	–	2	–	1	3
Other disposals	–	–	(1)	–	(1)
Amortisation charge	–	(3)	–	(1)	(4)
Closing net book amount	60	7	17	13	97
<b>At 31 December 2018</b>					
Cost	60	27	17	14	118
Accumulated amortisation	–	(20)	–	(1)	(21)
Net book amount	60	7	17	13	97

The goodwill at 31 December 2018 relates to the acquisition of Yancoal Resources Limited (formally known as Felix Resources Limited) from an independent third party in an arm's length transaction and was allocated to the Yarrabee mine. Refer to Note C3 for the details regarding the fair value less cost to sell calculation performed at 31 December 2018. The CGU for which goodwill was allocated was not subject to an impairment charge as the recoverable amount is greater than the carrying value for this CGU.

### C6 CASH AND CASH EQUIVALENTS

#### Accounting Policy

For the purpose of the Consolidated Statement of Cash Flows, cash and cash equivalents includes:

- (i) cash on hand and at call deposits with banks or financial institutions, net of bank overdrafts; and
- (ii) other short-term, highly liquid investments, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

	31 December 2018 \$M	31 December 2017 \$M
Cash at bank and on hand	690	207
Deposits at call	341	–
Cash and cash equivalents	1,031	207

As disclosed in Note D2(a)(i) the minimum average balance of AU\$25 million per day and at month end AU\$50 million is required to be held in the Lender Accounts of the Syndicated Facility which is not available for use on those days.

#### (a) Risk exposure

The Group's exposure to interest rate risk and credit risk is discussed in Note D9. The maximum exposure to credit risk on the cash and cash equivalents balance at the end of the reporting period is the carrying amount of each class of cash and cash equivalents mentioned above.

## C7 TRADE AND OTHER RECEIVABLES

### Accounting Policy

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting period which are classified as non-current assets. After initial recognition, trade and other receivables are carried at amortised cost using the effective interest method apart from Wiggins Island Preference Shares ("WIPS") which are classified as fair value through profit and loss. Refer to Note F5(b) for detailed policies in relation to recognition, measurement, impairment and derecognition of trade and other receivables.

	31 December 2018 \$M	31 December 2017 \$M
<b>Current</b>		
Trade receivables from contracts with customers	442	404
Other trade receivables	70	217
Cash – restricted (refer to Note D2(b))	–	1
Promissory note receivable (i)	40	36
	<b>552</b>	<b>658</b>
<b>Non-current</b>		
Receivables from joint venture (refer to Note E2(b)) (ii)	218	332
Receivables from other entities (iii)	15	61
Long service leave receivables	59	80
	<b>292</b>	<b>473</b>

- (i) As part of the equity raising completed in 1 September 2017 US\$28 million was deposited in Yankuang Ozstar (Ningbo) Trading Co Limited, a related party, and a promissory note was issued to the Company. Management believes that this will be settled within the next 12 months.
- (ii) Receivables from joint venture includes a loan provided to Middlemount Coal Pty Ltd ("Middlemount") with a face value of \$233 million. From 1 January 2019 the shareholders of Middlemount agreed to make the loan interest free for 24 months. At 31 December 2018 this loan has been revalued using the effective interest rate method to \$218 million with the difference being recognised as a contribution to the joint venture.
- (iii) Receivables from other entities includes the Group's investment in securities issued by Wiggins Island Coal Export Terminal Pty Ltd ("WICET"). These include E Class WIPS of nil (2017: \$29 million) and Gladstone Island Long Term Securities ("GiLTS") of \$14 million (2017: \$32 million). At 31 December 2018 the WIPS were revalued to nil, the GiLTS were impaired by \$17 million to a carrying value of \$14 million, and a trade and other receivable unpaid deferred distribution from WICET of \$4 million was fully impaired.

The Group does not have a standardised and universal credit period granted to its customers, and the credit period of individual customers is considered on a case-by-case basis, as appropriate. The following is an aged analysis of trade receivables based on the invoice dates at the reporting dates:

	31 December 2018 \$M	31 December 2017 \$M
0-90 days	439	395
91-180 days	–	4
181-365 days	2	1
Over 1 year	1	4
Total	<b>442</b>	<b>404</b>

### (a) Past due but not impaired

The ageing analysis of the Group's and the Company's trade receivables, that were past due but not yet impaired as at 31 December 2018 and 2017, is as follows:

	31 December 2018 \$M	31 December 2017 \$M
0-90 days	3	23
91-180 days	–	4
181-365 days	2	1
Over 1 year	1	4
Total	<b>6</b>	<b>32</b>

The Group does not hold any collateral over these balances. Management closely monitors the credit quality of trade receivables and considers the balances that are neither past due or impaired to be of good quality.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

## C – OPERATING ASSETS AND LIABILITIES

### C7 TRADE AND OTHER RECEIVABLES (CONTINUED)

#### (b) Foreign exchange and interest rate risk

Information about the Group's exposure to foreign currency risk and interest rate risk in relation to trade and other receivables is provided in Note D9.

#### (c) Fair value and credit risk

Due to the nature of these receivables, their carrying amount is assumed to approximate their fair value.

The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of receivables mentioned above. Refer to Note D9 for more information on the risk management policy of the Group and the credit quality of the Group's trade receivables.

### C8 INVENTORIES

#### Accounting Policy

Coal stocks are stated at the lower of cost and net realisable value. Costs are assigned on a weighted average basis and include direct materials, direct labour and an appropriate proportion of variable and fixed overheads on the basis of normal mining capacity. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Inventories of auxiliary materials, spare parts, small tools, and fuel expected to be used in production, are stated at weighted average cost after deducting rebates and discounts less allowance, if necessary, for obsolescence.

	31 December 2018 \$M	31 December 2017 \$M
Coal – at lower of cost or net realisable value	136	87
Tyres and spares – at cost	86	59
Fuel – at cost	4	4
	226	150

#### (a) Inventory expense

Write downs of inventories to net realisable value recognised as a provision at 31 December 2018 amounted to \$1 million (2017: \$1 million). The movement in the provision has been included in "Changes in inventories of finished goods and work in progress" in the consolidated statement of profit or loss and other comprehensive income.

### C9 ROYALTY RECEIVABLE

#### Accounting Policy

The royalty receivable is revalued at each reporting period based on expected future cash flows that are dependent on sales volumes, price changes and fluctuations in foreign exchange rates. Gains or losses arising from changes in the fair value of the royalty receivable are recognised in profit or loss. The cash receipts will be recorded against the royalty receivable which will be decreased over time. Since the contract is long-term, unwinding of the discount (to reflect the time value of money) for the asset will be recognised under interest income.

The royalty receivable is measured based on management's expectations of the future cash flows with the remeasurement recorded in the Consolidated Statement of Profit or Loss and Other Comprehensive Income at each reporting date.

The amount expected to be received during the next 12 months is disclosed as a current receivable and the discounted expected future cash flow beyond 12 months is disclosed as a non-current receivable.

**Critical accounting estimates and judgements**

The fair value of the royalty receivable is estimated based on expected future cash flows that are dependent on sales volumes, price changes and fluctuations in foreign exchange rates.

	31 December 2018 \$M	31 December 2017 \$M
Opening balance	199	199
Cash received/receivable	(31)	(29)
Unwinding of the discount	21	21
Re-measurement of royalty receivable	4	8
	193	199
<b>Split between:</b>		
Current	28	24
Non-current	165	175
	193	199

A right to receive a royalty of 4% of Free on Board Trimmed sales from the Middlemount mine was acquired as part of the merger with Gloucester Coal Ltd. This financial asset has been determined to have a finite life being the life of the Middlemount mine and is measured on a fair value basis.

**(a) Risk exposure and fair value measurements**

Information about the Group's exposure to price risk, foreign exchange risk and methods and assumptions used in determining fair value of the royalty receivable is provided in Note D9.

**C10 TRADE AND OTHER PAYABLES****Accounting Policy**

Refer to Note F6(b) for detailed policies in relation to recognition, classification, measurement and derecognition of trade and other payables.

	31 December 2018 \$M	31 December 2017 \$M
Trade payables	423	487
Payroll costs payable	100	107
Other payables	209	120
Tax sharing and funding payables to Watagan	108	44
	840	758

The following is an aged analysis of trade payable based on the invoice dates at the reporting date:

	31 December 2018 \$M	31 December 2017 \$M
0-90 days	421	486
91-180 days	1	1
181-365 days	1	–
Over 1 year	–	–
Total	423	487

The average credit period for trade payables is 90 days. The Group has financial risk management policies in place to ensure that all payables are within the credit timeframe.



# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

## C – OPERATING ASSETS AND LIABILITIES

### C11 PROVISIONS

#### Accounting Policies

Provisions are:

- recognised when the Group has a legal or constructive obligation as a result of a past event; it is probable that cash will be required to settle the obligation; and the amount has been reliably estimated; and
- measured at the present value of management's best estimate at reporting date of the cash outflow required to settle the obligation.

Provisions are determined by discounting the expected future cash flows at a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability where the time value is material. Any increase in the provision due to the passage of the time is recognised as an interest expense.

	Employee benefits \$M	Sales contract provision \$M	Rehabilitation \$M	Take or pay \$M	Other provisions \$M	Total \$M
<b>2018</b>						
Opening net book amount	100	121	218	62	46	547
Charged/(credited) to profit or loss						
– unwinding of discount	–	2	8	3	–	13
– release of the provision	(2)	(37)	–	(21)	(1)	(61)
Acquired through business combination	–	3	18	–	5	26
Re-measurement of provisions	–	–	10	–	33	43
Disposal of interest in joint operation	(24)	(18)	–	1	(5)	(46)
Closing net book amount	74	71	254	45	78	522
<b>Split between:</b>						
<b>Current</b>	<b>6</b>	<b>15</b>	<b>–</b>	<b>12</b>	<b>1</b>	<b>34</b>
<b>Non-current</b>	<b>68</b>	<b>56</b>	<b>254</b>	<b>33</b>	<b>77</b>	<b>488</b>
<b>Total</b>	<b>74</b>	<b>71</b>	<b>254</b>	<b>45</b>	<b>78</b>	<b>522</b>

Provision	Description
Employee benefits	The provision for employee benefits represents long service leave and annual leave entitlements and other incentives accrued by employees.
Rehabilitation costs	<p>Mining lease agreements and exploration permits impose obligations on the Group to rehabilitate areas where mining activity has taken place. Rehabilitation of these areas is ongoing and in some cases will continue until 2060. The provision for rehabilitation costs has been calculated based on the present value of the future costs expected to be incurred in restoring affected mining areas, assuming current technologies.</p> <p><b>Key estimate and judgement:</b></p> <p>The rehabilitation provision has been created based on management's internal estimates and assumptions relating to the current economic environment, which management believes is a reasonable basis upon which to estimate the future liability.</p> <p>These estimates are reviewed regularly to take into account any material changes to the assumptions; however actual rehabilitation costs will ultimately depend upon the future market prices for the necessary decommissioning works and the timing of when the rehabilitation costs are incurred. Timing is dependent upon when the mines cease to produce at economically viable rates, which in turn will depend upon future coal prices, which are inherently uncertain.</p>
Take or pay	<p>In acquiring part of a business or operation, an assessment is made on the fair value of the assets and liabilities under AASB 3 <i>Business Combinations</i>. Take or pay is the assessment of forecast excess capacity for port and rail contracts. A provision was recognised for the discounted estimated excess capacity. The provision has a finite life and will be released to profit or loss over the period in which excess capacity is realised.</p> <p><b>Key estimate and judgement:</b></p> <p>The provision is recognised and estimated based on management's assessment of contracted port capacity versus forecast usage. This involves making assumptions about the probability, amount and timing of an outflow of resources embodying economic benefits.</p>

Provision	Description
Sales contract	<p>In acquiring part of a business or operation, an assessment is made of the fair value of the assets and liabilities under AASB 3 <i>Business Combinations</i>. The sales contract provision is the assessment of a coal supply and transportation agreement to supply coal to BLOP Power Limited in Thailand at below market prices. A provision was recognised for the discounted estimated variance between contract and market prices. The provision has a finite life and will be released to profit or loss over the contract term.</p> <p><b>Key estimate and judgement:</b> The provision is recognised and estimated based on management's assessment of future market prices.</p>
Other provisions	<p>The provision includes marketing services fee payable to Noble Group Limited deemed above market norms, contingent royalties payable to Rio Tinto Plc assessed as part of the Coal &amp; Allied Industries Ltd ("Coal &amp; Allied") acquisition in 2017 which will be amortised over the contract term, and make good provisions to cover the cost to "make good" any hired equipment, in case any major overhaul costs are incurred at the end of the lease period.</p> <p><b>Key estimate and judgement:</b> The provision is recognised and estimated based on management's assessment of future market prices of coal.</p>

## C12 ASSETS CLASSIFIED AS HELD FOR SALE

### Accounting Policies

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale or loss of control transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale or disposal in its present condition subject only to terms that are usual and customary for sales or disposals of such assets (or disposal groups) and the transaction is highly probable. Management must be committed to the transaction, which should be expected to qualify for recognition as a completed transaction within one year from the date of classification.

When the Group is committed to a sale plan or other transaction involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

	31 December 2018 \$M	31 December 2017 \$M
<b>Current assets</b>		
Investment in associate (i)	–	25
Interest in joint ventures (ii)	–	531
Land held for sale (iii)	57	57
<b>Total current assets</b>	<b>57</b>	<b>613</b>
<b>Current liabilities</b>		
Interest in joint ventures (ii)	–	67
<b>Total current liabilities</b>	<b>–</b>	<b>67</b>

### (i) Investment in associate

The investment in associate was included in the asset sale agreement with Glencore as disclosed further in Note E1. An indirect interest in Port Waratah Coal Services Pty Ltd of 6.5%, held via shares in Newcastle Coal Shippers Pty Ltd, was sold for US\$20 million and completed in 2018.

### (ii) Interest in joint ventures

On 27 July 2017 the Company announced that it had entered into a binding agreement to establish a 51:49 unincorporated joint venture with Glencore in relation to HVO, following completion of the Group's acquisition of Coal & Allied from Rio Tinto. Glencore paid cash consideration of US\$429 million to the Group for a 16.6% interest in HVO, and this amount was reduced by the net cash flows generated by the 16.6% HVO interest from 1 September 2017 to the date of completion. The consideration also include a 27.9% share of US\$240 million of non-contingent royalties and 49% of HVO contingent royalties payable by the Group and a net debt and working capital adjustment in respect of the Coal & Allied acquisition. The US\$429 million includes US\$20 million associated with the sale of shares in Newcastle Coal Shippers Pty Ltd held by Coal & Allied to Glencore noted above. The sale was completed on 4 May 2018.

### (iii) Land held for sale

The land held for sale refers to parcels of non-mining land located in the Lower Hunter Valley that are held for future sale. These were acquired as part of the acquisition of Coal & Allied at fair value.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

## D – CAPITAL STRUCTURE AND FINANCING

The ability of the Group to fund the investment in its ongoing activities, invest in new opportunities and meet current commitments is dependent on available cash and access to third party capital. This section contains disclosure on interest-bearing liabilities, contingencies, financial risk management, reserves and contributed equity that are required to finance the Group's activities.

### D1 INTEREST-BEARING LOAN TO ASSOCIATE

#### Accounting Policy

Financial assets classified as loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting period which are classified as non-current assets. Refer to Note F6(b) for detailed policies in relation to recognition, measurement, impairment and derecognition of interest-bearing loan to associate.

	31 December 2018 \$M	31 December 2017 \$M
Opening balance	712	775
Repayments	(254)	(214)
Drawdowns	377	151
Closing balance	835	712

On 31 March 2016 the Group transferred its interest in three of its 100% owned NSW coal mining operations, being the Austar, Ashton and Donaldson coal mines, to Watagan Mining Company Pty Limited ("Watagan") for a purchase price of \$1,363 million. The purchase price was funded by way of a \$1,363 million loan from Yancoal Australia Ltd to Watagan bearing interest of BBSY plus 7.06% with a maturity date of 1 April 2025. The outstanding interest and principal of this loan is guaranteed by Yankuang Group Co. Ltd, the Group's ultimate parent entity. Watagan can make prepayments of the outstanding loan balance with any such prepayment capable of redraw in the future.

### D2 INTEREST-BEARING LIABILITIES

#### Accounting Policies

##### (i) Interest-bearing liabilities

Interest-bearing liabilities (excluding financial guarantees) are initially recognised at fair value, net of transaction costs. They are subsequently measured at amortised cost using the effective interest rate method. US dollar interest-bearing loans are designated as a hedge instrument in a cash flow hedge (refer to note D7). Refer to Note F6(b) for detailed policies in relation to recognition, classification, measurement and derecognition of interest-bearing liabilities.

##### (ii) Leases

Property, plant and equipment held by the Group under leases that transfer to the Group substantially all of the risks and rewards of ownership are classified as finance leases.

The leased property, plant and equipment are initially measured at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequently they are accounted for in accordance with the property, plant and equipment accounting policy.

The corresponding minimum lease payments are included in lease liabilities within interest-bearing liabilities. Each lease payment is allocated between finance cost and a reduction in the outstanding lease liability. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The net gains arising on the sale of an asset and the leasing back of the same asset using a finance lease are included as deferred income in the balance sheet and are released to the profit or loss on a straight-line basis over the term of the lease.

##### (iii) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of assets, that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

	31 December 2018 \$M	31 December 2017 \$M
<b>Current</b>		
Secured lease liabilities (refer to Note F1(b))	13	17
	<b>13</b>	<b>17</b>
<b>Non-current</b>		
Secured bank loans	2,572	3,141
Secured lease liabilities (refer to Note F1(b))	29	38
Unsecured loans from related parties	1,510	1,527
	<b>4,111</b>	<b>4,706</b>
<b>Total interest-bearing liabilities</b>	<b>4,124</b>	<b>4,723</b>

AU \$M Facilities	Balance 31 Dec 2017	Debt drawdown	Debt repayment	Lease repayment	New Leases	Non-Substantial Modification	Foreign exchange movements	Balance 31 Dec 2018
Secured bank loan	3,141	411	(1,250)	–	–	(13)	283	2,572
Loans from related parties	1,527	–	(175)	–	–	–	158	1,510
Finance leases	55	–	–	(20)	7	–	–	42
Total interest-bearing liabilities	<b>4,723</b>	<b>411</b>	<b>(1,425)</b>	<b>(20)</b>	<b>7</b>	<b>(13)</b>	<b>441</b>	<b>4,124</b>

Interest costs incurred on finance leases amounted to \$3 million to 31 December 2018 (31 December 2017: \$3 million).

On the adoption of AASB 9 *Financial Instruments* the secured bank loans were adjusted as a result of a refinancing during 2017. Refer to Note F7 for details on the adjustment. The initial recognition of AU\$31 million less AU\$7 million amortised in 2017 was taken to retained earnings. During 2018 AU\$10 million was amortised to amortisation of non-substantial loan refinance in finance costs. This amount will continue to amortise up to the date of maturity/repayment, at which time the full face value of the secured bank loans will be recognised.

#### (a) Secured bank loans

The secured bank loans are made up of the following facilities:

		31 December 2018		31 December 2017	
	Facility US \$M	Facility \$M	Utilised \$M	Facility \$M	Utilised \$M
<b>Secured bank loans</b>					
Syndicated Facility (i)*	1,525	2,161	2,161	3,141	3,141
Syndicate Term Loan (ii)	300	425	425	–	–
	<b>1,825</b>	<b>2,586</b>	<b>2,586</b>	<b>3,141</b>	<b>3,141</b>

\* Facility balance excludes the remaining fair value adjustment balance of AU\$13 million recorded at 31 December 2018.

#### (i) Syndicated Facility

In 2009 a Syndicated loan facility of US\$2,600 million was taken out and fully drawn down to fund the acquisition of the Felix Resources Group. During 2014, the Syndicated Facility was extended with repayments due in 2020, 2021 and 2022. During 2018 US\$925 million (31 December 2017: US\$150 million) was repaid reducing the facility to US\$1,525 million (31 December 2017: US\$2,450 million).

Security is held over these loans in the form of a corporate guarantee issued by the Company's majority shareholder, Yanzhou Coal Mining Company Limited ("Yanzhou"), for the full amount of the facility.

As part of the acquisition of Coal & Allied Industries Ltd on 1 September 2017 the financial covenants were adjusted from that date. The Syndicated Facility includes the following financial covenants to be tested half-yearly:

- (a) The interest cover ratio is greater than 1.40;
- (b) The gearing ratio of the Group will not exceed 0.75; and
- (c) The consolidated net worth of the Group is greater than AU\$3,000 million.

The calculation of the above covenants includes certain exclusions with regard to unrealised gains and losses including foreign exchange gains and losses.



# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

## D – CAPITAL STRUCTURE AND FINANCING

### D2 INTEREST-BEARING LIABILITIES (CONTINUED)

#### (a) Secured bank loans (continued)

##### (i) Syndicated Facility (continued)

The Syndicated Facility includes the following minimum balance requirements to be satisfied daily and at each end of month:

- (a) The Company is to maintain in the Lender Accounts an aggregate daily average balance of not less than AU\$25 million, this is tested at the end of each month; and
- (b) The Company is to maintain in the Lender Accounts an aggregate end of month balance of not less than AU\$50 million.

There was no breach of covenants at 31 December 2018.

##### (ii) Syndicated Term Loan

In 2018 a Syndicated Term Loan of US\$300 million was taken out and all proceeds were used to partially repay the Syndicated Facility.

The Syndicated Term Loan is secured by the assets of the consolidated group of Yancoal Resources Ltd and Coal & Allied Industries Ltd with carrying value of \$9,486 million.

The Syndicated Term Loan includes the following financial covenants based on consolidated results of Yancoal Resources Ltd Group and Coal & Allied Group to be tested half-yearly:

- (a) The interest cover ratio is greater than 5.0 times;
- (b) The finance debt to EBITDA ratio is less than 3.0 times; and
- (c) The net tangible assets is greater AU\$1,500 million.

There was no breach of covenants at 31 December 2018.

#### (b) Bank guarantee facilities

Yancoal is party to the following bank guarantee facilities which have been issued for operational purposes in favour of port, rail, government departments and other operational functions:

Provider	US \$M	AU \$M	Utilised AU \$M	Security
Syndicate of seven Australian and international banks*	–	1,000	808	Secured by the assets of the consolidated groups of Yancoal Resources Ltd and Coal & Allied Industries Ltd with carrying value of \$9,486 million. Facility expires on 23 August 2021.
Bank of China*	50	71	67	Parent corporate guarantees from Yanzhou to Bank of China for the full amount of the facility. Facility expires on 16 December 2019.
<b>Total</b>	<b>50</b>	<b>1,071</b>	<b>875</b>	

\* This facility can be drawn in both A\$ and US\$.

The Syndicated Bank Guarantee Facility includes the following financial covenants based on the combined consolidated results of Yancoal Resources Ltd and Coal & Allied to be tested half-yearly. As part of the acquisition of Coal & Allied the Syndicated Bank Guarantee Facility was increased to AU\$1 billion and the financial covenants were adjusted from 1 September 2017:

- (a) The interest cover ratio is greater than 5.0 times;
- (b) The finance debt to EBITDA ratio is less than 3.0 times; and
- (c) The net tangible assets are greater than AU\$1,500 million.

There was no breach of covenants at 31 December 2018.

The Bank of China bank guarantee facility includes the following financial covenants to be tested half-yearly:

- (a) The interest cover ratio will not be less than 1.40;
- (b) The gearing ratio of the Group will not exceed 0.75; and
- (c) The consolidated net worth of the Group is not less than AU\$3,000 million.

The calculation of the above covenants includes certain exclusions with regard to unrealised gains and losses including foreign exchange gains and losses.

The Bank of China bank guarantee facility includes the following minimum balance requirements to be satisfied daily and at each end of month:

- (a) The Company is to maintain in the Lender Accounts an aggregate daily average balance of not less than AU\$25 million, this is tested at the end of each month, and;
- (b) The Company is to maintain in the Lender Accounts an aggregate end of month balance of not less than AU\$50 million.

There was no breach of covenants at 31 December 2018.

**(c) Unsecured loans from related parties**

In December 2014, the Company successfully arranged two long-term loan facilities from its majority shareholder, Yanzhou repayable on 31 December 2024.

- Facility 1: AU\$1,400 million – the purpose of the facility is to fund working capital and capital expenditure. The facility can be drawn in both AUD and USD. During the period no additional amounts have been drawn down and US\$9 million was repaid (31 December 2017: nil). In total US\$823 million (AU\$1,166 million) was drawn down as at 31 December 2018 (31 December 2017: US\$832 million (AU\$1,066 million)).
- Facility 2: US\$807 million – the purpose of the facility was to fund the coupon payable on subordinated capital notes. During the period no additional amounts have been drawn down. After the redemption of outstanding SCNs on 31 January 2018 no further redraws are available on this facility. In total US\$243 million (AU\$344 million) was drawn down as at 31 December 2018 (31 December 2017: US\$243 million (AU\$312 million)).

Both the facilities have a term of 10 years (with the principal repayable at maturity) and are provided on an unsecured and subordinated basis with no covenants.

In August 2012, the Company successfully arranged a long-term loan facility from Yancoal International Resources Development Co., Ltd, a wholly owned subsidiary of Yanzhou. The facility was for US\$550 million and was provided on an unsecured basis with no covenants. The purpose of the facility was to fund the acquisition of Gloucester Coal Limited. In December 2014 US\$434 million was repaid, and during 2018 the remaining balance of the loan of US\$116 million was repaid leaving the loan facility fully repaid as at 31 December 2018.

**D3 NON-CONTINGENT ROYALTY****Accounting Policies**

In acquiring part of a business or operation, an assessment is made on the fair value of the assets and liabilities under AASB 3 *Business Combinations*. The non-contingent royalty was fair valued on initial recognition and payable in US dollars so subject to foreign exchange movements. The amount has a finite life with any discounting and foreign exchange released to profit or loss over the contract term. Refer to Note F6(b) for detailed policies in relation to recognition, classification, measurement and derecognition of non-contingent royalties.

	Asset		Liability	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Opening balance	–	–	160	–
Initial recognition	87	–	–	283
Receipts/payments	(75)	–	(119)	(142)
Unwind of discount	1	–	5	13
Foreign exchange	2	–	6	6
Closing balance	15	–	52	160
Current	7	–	25	112
Non-current	8	–	27	48
<b>Total</b>	<b>15</b>	<b>–</b>	<b>52</b>	<b>160</b>

As part of the acquisition of Coal & Allied on 1 September 2017, US\$240 million of the purchase price is to be paid over five years from completion. During 2018 US\$90 million (2017: US\$110 million) of the non-contingent royalties were paid.

As part of the Glencore acquisition of the 16.6% interest in HVO, Glencore will pay to Yancoal 27.9% of the paid and future payable non-contingent royalty payments.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

## D – CAPITAL STRUCTURE AND FINANCING

### D4 CONTRIBUTED EQUITY

#### Accounting Policy

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Costs directly attributable to the issue of new shares, options or other equity instrument are shown as a deduction from the equity proceeds, net of any income tax benefit. Costs directly attributable to the issue of new shares or options associated with the acquisition of a business are included as part of the purchase consideration. Refer to Note F6(b) for detailed policies in relation to recognition, classification and measurement of contributed equity.

#### (a) Contributed equity

	31 December 2018 Number	31 December 2017 Number	31 December 2018 \$M	31 December 2017 \$M
(i) Share capital				
Ordinary shares (note D4(b))	1,320,434,437	43,959,446,612	6,219	5,953
(ii) Other equity securities				
Subordinated Capital Notes (note D4(c))	–	4,900	–	1
Contingent Value Right shares			263	263
			263	264
<b>Total contributed equity</b>			<b>6,482</b>	<b>6,217</b>

#### (iii) Movements in contributed equity

	31 December 2018 \$M Ordinary shares	31 December 2018 \$M Other share capital
Opening balance	5,953	1
Subordinated Capital Notes converted to ordinary shares	–	–
Subordinated Capital Notes redeemed for cash	–	(1)
Ordinary shares issued under Global Offering	268	–
Transaction costs, net of tax	(2)	–
<b>Closing balance</b>	<b>6,219</b>	<b>–</b>

	31 December 2017 \$M Ordinary shares	31 December 2017 \$M Other share capital
Opening balance	657	2,184
Subordinated Capital Notes converted to ordinary shares	2,183	(2,183)
Ordinary shares issued under Entitlement Offer	2,971	–
Ordinary shares issued under Institutional Placement	190	–
Transaction costs, net of tax	(48)	–
<b>Closing balance</b>	<b>5,953</b>	<b>1</b>

#### (iv) Movements of Ordinary Share Capital

	31 December 2018 Number	31 December 2017 Number
Opening balance	43,959,446,612	994,276,659
Ordinary shares issued under Institutional Offer	59,441,900	1,500,000,000
Ordinary shares issued under Retail Entitlement Offer	563,881	–
Ordinary shares to be issued under Over Allotment Option	4,361,900	–
Ordinary shares issued under Entitlement Offer	–	23,464,929,520
Subordinated Capital Notes converted to ordinary shares	3,015,976	18,000,240,433
Share consolidation	(42,706,390,832)	–
<b>Ending balance*</b>	<b>1,320,439,437</b>	<b>43,959,446,612</b>

\* There is a difference between the ending balance and the monthly return lodged with the securities exchanges due to the exercise of the Over Allotment Option on 28 December 2018 which resulted in 4,361,900 shares which were issued on 3 January 2019.

**(b) Ordinary shares**

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands, every holder of ordinary shares present at a meeting, in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Ordinary shares have no par value and the Company does not have a limited amount of authorised capital. During 2017 58,490 ordinary shares were issued on conversion of the SCNs in addition to below.

On 31 August 2017 the Company issued new shares under the pro-rata renounceable entitlement offer and institutional placement as announced to ASX on 1 August 2017. 23,464,929,520 new shares were issued under the pro-rata renounceable entitlement offer and 1,500,000,000 new shares under the institutional placement. In addition, the Company issued 18,000,031,000 new shares to Yanzhou Coal Mining Co., Ltd on conversion of all of its subordinated capital notes and 150,943 new shares on conversion of 80 other subordinated capital notes by other holders. In total 42,965,111,463 new shares were issued. The total amount raised was US\$2,496 million (AU\$3,161 million) and issue costs of \$68 million have been capitalised. As noted in C7(i) US\$28 million (AU\$36 million) was deposited with a related party and a promissory note was issued to the Company.

A share consolidation of 35 ordinary shares to 1 ordinary share of the Company was completed on 28 September 2018.

As announced on 29 November 2018 the Company launched a Global Offering in connection with its dual listing on the Hong Kong Stock Exchange which commenced on 6 December 2018. On 6 December 2018 the Company issued 59,441,900 new shares under the Global Offering and on 28 December 2018 563,881 new shares were issued under the Retail Entitlement Offer and on 3 January 2019 4,361,900 new shares were issued under partial exercise of the Over Allotment Option, all in connection with the dual listing for HK\$23.48 per New Share. The total amount raised was AU\$268 million and AU\$37 million of issue costs were incurred of which AU\$8 million was capitalised. The proceeds are going to be used to retire debt, finance the 4% acquisition of the Moolarben Joint Venture and other potential acquisitions, and fund working capital.

**(c) Subordinated capital notes**

On 31 December 2014, Yancoal SCN Limited, a wholly owned subsidiary of Yancoal Australia Ltd, issued 18,005,102 Subordinated Capital Notes (SCNs) at US\$100 each. Each SCN is convertible into 1,000 Yancoal Australia Limited ordinary shares. During 2016 60 SCNs and in 2017 31 SCNs were converted into 58,490 ordinary shares of the Company in accordance with the terms of the SCNs, and as described above in Note D4(b) 18,000,181,437 new shares were issued on conversion of 18,000,111 SCNs. At 31 December 2017 there were 4,900 SCNs on issue.

The Subordinated Capital Notes are perpetual, subordinated, convertible, unsecured capital notes of face value US\$100 per note.

The Subordinated Capital Notes entitle holders to receive fixed rate distribution payments, payable semi-annually in arrears unless deferred.

The distribution rate is set at 7% per annum, the rate is resettable to the five-year US\$ mid-swap plus the initial margin per annum every five years. The SCNs are convertible at the option of the holders to Yancoal Australia Ltd ordinary shares within 30 years. On 31 January 2018 1,606 SCNs were converted into new shares and 3,294 SCNs were redeemed for cash. At 31 December 2018 there were no SCNs on issue.

**(d) Contingent value right shares**

The contingent value right ("CVR") shares were repurchased on 4 March 2014 for cash of \$262.9 million representing the market value of \$3.00 cash per CVR share.

**(e) Capital risk management**

Total capital comprises total equity as shown on the balance sheet plus total interest-bearing liabilities less cash and cash equivalents.

The Group's primary objectives when managing capital are to ensure the continued ability to provide a consistent return for equity stakeholders through a combination of capital growth and distributions and to maintain an optimal capital structure to reduce the cost of capital. In order to achieve these objectives, the Group seeks to maintain a debt to debt plus equity ratio (gearing ratio) that balances risks and returns at an acceptable level and also to maintain a sufficient funding base to enable the Group to meet its working capital and strategic investment needs. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or other equity instruments, repay debt or draw down additional debt.

The gearing ratios at 31 December 2018 and 31 December 2017 were as follows:

	Notes	31 December 2018 \$M	31 December 2017 \$M
Total interest-bearing liabilities	D2	4,124	4,723
Less: cash and cash equivalents	C6	(1,031)	(207)
Net debt		3,093	4,516
Total equity		5,838	5,026
Total capital		8,931	9,542
<b>Gearing ratio</b>		<b>34.6%</b>	47.3%

Refer to Note D2 for the Group's compliance with the financial covenants of its borrowing facilities.



# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

## D – CAPITAL STRUCTURE AND FINANCING

### D5 SHARE-BASED PAYMENTS

#### Accounting Policy

Refer to Note B4(iv) for the accounting policy on share-based payments.

During 2018 share-based payments were made to KMP and other Executives. As at 31 December 2018, there were 3,093,010 performance rights to acquire shares (31 December 2017: nil). These performance rights are exercisable as follows:

Details	Date of measurement/grant	Number of Rights*	Date of Expiry	Conversion Price (\$)
Management performance rights				
2018 Short Term Incentive Plan ("2018 STIP")	31 December 2018	804,599	1 January 2020	Nil
2018 STIP	31 December 2018	804,599	1 January 2021	Nil
2018 Long Term Incentive Plan ("2018 LTIP")	30 May 2018	1,483,812	1 January 2021	Nil
Special Incentive Scheme ("SIS"), Breakeven Bonus and Transaction Bonus	30 May 2018	1,216,428	3 September 2018	Nil
		4,309,438		Nil

\* The number of rights issued has been adjusted by the 35:1 share consolidation which was completed on 28 September 2018.

	2018 No. of Rights	2017 No. of Rights
Balance at beginning of the year	–	–
Granted/expected to be granted for services performed (i)	4,309,438	–
Exercised during the year	(1,185,203)	–
Expired during the year	–	–
Forfeited during the year	(31,225)	–
<b>Balance at the end of the year</b>	<b>3,093,010</b>	–

(i) These rights relate to the SIS bonus, exercised on 1 September 2018. The weighted average closing price on the date immediately preceding exercise, 31 August 2018, adjusted for the share consolidation, was \$4.375.

#### Fair value of performance rights granted/expected to be granted in the year

##### 2018 STIP and 2018 LTIP

During the year ended 31 December 2018, 3,093,010 performance rights were granted or expected to be granted to Key Management Personnel and Executives as part of incentive plans for services performed during the year. Of the 3,093,010 performance rights, 1,609,198 relate to the 2018 STIP where 25% of the total 2018 STIP payable is deferred until two years after the start of the service period, 31 December 2019, and 25% is deferred until three years after the start of the service period, 31 December 2020. They will expire on 1 January 2020 and 1 January 2021 respectively if these deferral conditions are not met.

During the year ended 31 December 2018, 1,483,812 performance rights were granted for the 2018 LTIP and will vest on 31 December 2020 on satisfaction of certain vesting conditions. The 2018 LTIP performance rights will expire on 1 January 2021 if these vesting conditions are not met.

The purpose of the 2018 STIP and 2018 LTIP has been detailed in the Remuneration Report, contained within the Directors' Report and these have been granted or are expected to be granted to all Key Management Personnel and Executives. Under the 2018 STIP and 2018 LTIP, there are a maximum of 3,093,010 shares available for issue, which, if issued as new shares, would represent 0.2% of share capital in issue at 31 December 2018.

The fair value of the 2018 STIP and 2018 LTIP performance rights has been determined using the following assumptions:

	STIP	LTIP
Number of performance rights	1,609,198	1,483,812
Measurement/grant date	31 December 2018	30 May 2018
Post-consolidation share price at measurement/grant date (\$)	3.66	4.94
Expected dividend yield	8%	0%
Vesting conditions	(a)	(b)
Value per performance right (\$)	3.36	4.94

The STIP has been valued using the volume weighted average price of Yancoal's ordinary shares across a 10-day trading period before measurement date, 31 December 2018.

The LTIP has been valued using the volume weighted average price of Yancoal's ordinary shares across a 10 day trading period before grant date, 30 May 2018.

- (a) The 2018 STIP performance rights will vest on satisfaction of service conditions. Executives must remain in employment at the relevant dates in order for the rights to vest.
- (b) The 2018 LTIP performance rights will vest dependent upon the outcome of a cost and Earnings Per Share target. The rights are split 40% and 60% respectively to these conditions. The targets have been defined in more detail in the Remuneration Report, contained within the Directors' Report.

#### Special Incentive Scheme Breakeven Bonus and Transaction Bonus

On 30 May 2018, the Yancoal Board agreed to pay the Special Incentive Scheme Breakeven Bonus and Transaction Bonus in performance rights instead of a cash payment. The Special Incentive Scheme Breakeven Bonus and Transaction Bonus performance rights vested on 1 September 2018, and would have expired 3 September 2018. The purpose of this scheme has been detailed in the 31 December 2017 Annual Report and it was granted to the Key Management Personnel and Executives. Under the Special Incentive Scheme Breakeven Bonus and Transaction Bonus, there were a maximum of 1,216,428 shares available for issue, which, if they were issued as new shares, represents 0.01% of share capital on issue at 31 December 2018. The performance rights were settled through issuance of treasury shares purchased off market during 2018 by the Employee Share Plan Trust; refer to Note D6(b) for further details.

The fair value of these performance rights has been determined using the following assumptions:

Number of performance rights	1,216,428
Grant date	30 May 2018
Post-consolidation share price at grant date (\$)	4.94
Expected dividend yield	0%
Value per performance right (\$)	4.94

The performance rights have been valued using the volume weighted average price of Yancoal's ordinary shares across a 10-day trading period before grant date, 30 May 2018.

## D6 DISTRIBUTIONS

### (a) Ordinary share dividends

On 21 September 2018 the Company paid an interim unfranked dividend of \$130 million which represents 36% of profit after tax for the six months ended 30 June 2018.

### (b) SCN distributions

	2018			2017		
	% per SCN	Total US \$M	Total AU \$M	% per SCN	Total US \$M	Total AU \$M
Interim distribution on 31 July 2017	7%	–	–	7%	63	82
Final distribution paid on 31 January 2017	7%	–	–	7%	–	–
	–	–	–	–	63	82

No accrual was made as at 31 December 2017 for the distribution on 31 January 2018 as the Yancoal SCN Ltd Board had not approved the distribution as at 31 December 2017. Due to foreign exchange the 31 January 2017 payment decreased by AU\$4 million from the 31 December 2016 accrual.

### (c) Franking credits

	31 December 2018 \$M	31 December 2017 \$M
Franking credits available for subsequent reporting periods based on an income tax rate of 30% (2017 – 30%)	8	3

The above amounts represent the balance of the franking account as at the end of the reporting period, adjusted for:

- (a) franking credits that will arise from the payment of the amount of the provision for income tax and franking debits that will arise as a result of refunds of tax that are reflected in the current tax receivable balance at the reporting date;
- (b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date; and
- (c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

## D – CAPITAL STRUCTURE AND FINANCING

### D7 RESERVES

#### Accounting Policies

When a financial instrument is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the hedging instrument is recognised in other comprehensive income and accumulated in the hedging reserve until the anticipated underlying transaction occurs. Any ineffective portion of changes in the fair value of the hedging instrument is recognised immediately in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, or is sold, terminated or expires, any accumulated gain or loss remains in equity until the forecast transaction is ultimately recognised in profit or loss. If the forecast transaction is no longer expected to occur, then the amount accumulated in equity is immediately recognised in profit or loss.

Shares held by the Group sponsored Employee Share Plan Trust are recognised as treasury shares and deducted from equity.

The fair value of equity plans granted is recognised in the employee compensation reserve over the vesting period. This reserve will be reversed against treasury shares when the underlying shares vest and transfer to the employee at the fair value. The difference between the fair value at grant date and the amount received against treasury shares is recognised in retained earnings (net of tax).

#### (a) Reserve balances

	31 December 2018 \$M	31 December 2017 \$M
Hedging reserve	(611)	(413)
Treasury shares reserve	–	–
Employee compensation reserve	7	–
	(604)	(413)

The hedging reserve is used to record gains or losses on cash flow hedges that are recognised directly in equity through the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

The closing balance relates to the effective portion of the cumulative net change in the fair value of the natural cash flow hedge using the US dollar denominated interest-bearing liabilities to hedge against future coal sales.

During the year ended 31 December 2018, losses of \$160 million were transferred from other comprehensive income to profit or loss in respect of the hedging reserve (31 December 2017 a loss of \$229 million).

#### (b) Hedging reserve

##### Movements:

##### Hedging reserve – cash flow hedges

Opening balance	(413)	(817)
(Loss)/profit recognised on USD interest-bearing liabilities	(443)	348
Recycled to profit or loss	160	229
Deferred income tax (expense)/benefit	85	(173)
Closing balance	(611)	(413)

If interest-bearing liabilities that are a natural hedge to future coal sales are repaid prior to the original designated date the hedge gain/loss incurred prior to repayment will be released to the profit or loss in line with the original sales to which they were designated. This has resulted in the following pre-tax release profile as at 31 December 2018:

	2019 \$M	2020 \$M	2021 \$M	2022 \$M	2023 \$M	2024 \$M	Total \$M
Hedge loss to be recycled in future periods	190	172	159	240	–	113	874
Of which:							
Hedges related to loans repaid prior to designated repayment date	190	–	–	223	–	–	413
Hedges related to loans yet to be repaid	–	172	159	17	–	113	461
							874
Deferred income tax expense							(263)
Closing balance							611

**(c) Treasury share reserve**

On 28 February 2018, the establishment of an employee incentive share scheme was approved by the Company's Board of Directors. Pursuant to the scheme, the Group has set up a trust for the purpose of administering the incentive share scheme and holding the shares before they vest. The Company shall pay the trustee monies and give directions to the trustee to apply such monies and/or such other net amount of cash derived from shares held as part of the fund of the trusts to acquire shares from the market, and/or to allot and issue shares to the trustee, to satisfy any award made to selected participants. The Company shall select eligible persons from time to time and determine the number of shares to be awarded to such eligible persons.

During the year 42,574,974 shares were purchased off market by the trust for \$6 million and as noted below in Note D6(c) 41,482,103 shares were provided to certain employees on 1 September 2018 for \$6 million, leaving 1,092,871 shares in the trust after the award. On 28 September 2018 the share consolidation of 35 ordinary shares for one ordinary share left the balance remaining in the trust as at 31 December 2018 of 31,225 ordinary shares.

**(d) Employee compensation reserve**

The fair value of equity plans granted is recognised in the employee compensation reserve over the vesting period. This reserve will be reversed against treasury shares when the underlying shares vest and transfer to the employee at the fair value. The difference between the fair value at grant date and the amount received against treasury shares is recognised in retained earnings (net of tax).

During the year ended 31 December 2018, a total of 41,482,104 shares of the Company based on A\$0.141 (pre share consolidation) per share or \$6 million, have been awarded to certain employees of the Group respectively at no consideration, which vested on 1 September 2018. With respect to this award of shares to eligible employees, there are no service or performance vesting conditions.

In addition \$7 million (net of tax) has been recognised in relation to the current year LTIP and deferred STIP as discussed in the remuneration report.

**D8 CONTINGENCIES****Contingent liabilities**

The Group had contingent liabilities at 31 December 2018 in respect of:

**(i) Bank guarantees**

	31 December 2018 \$M	31 December 2017 \$M
<b>Parent entity and consolidated entity</b>		
Performance guarantees provided to external parties	208	352
Guarantees provided in respect of the cost of restoration of certain mining leases given to government departments as required by statute	113	80
	<b>321</b>	432
<b>Joint ventures (equity share)</b>		
Performance guarantees provided to external parties	144	195
Guarantees provided in respect of the cost of restoration of certain mining leases	236	248
	<b>380</b>	443
<b>Guarantees held on behalf of related parties (refer to Note E3(e) for details of beneficiaries)</b>		
Performance guarantees provided to external parties	119	109
Guarantees provided in respect of the cost of restoration of certain mining leases given to government departments as required by statute	55	57
	<b>174</b>	166
	<b>875</b>	1,041

**(ii) Letter of Support provided to Middlemount Coal Pty Ltd**

The Company has issued a letter of support dated 4 March 2015 to Middlemount Coal Pty Ltd ("Middlemount"), a joint venture of the Group confirming:

- it will not demand the repayment of any loan due from Middlemount, except to the extent that Middlemount agrees otherwise or as otherwise provided in the loan agreement; and
- it will provide financial support to Middlemount to enable it to meet its debts as and when they become due and payable, by way of new shareholder loans in proportion to its share of the net assets of Middlemount.

This letter of support will remain in force whilst the Group is a shareholder of Middlemount or until notice of not less than 12 months is provided or such shorter period as agreed by Middlemount.

**(iii) Other contingencies**

A number of claims have been made against the Group, including in respect of personal injuries, and in relation to contracts which Group members are party to as part of the Group's day to day operations. The personal injury claims which have been made against the Group have largely been assumed by the insurers of the Group under the Group's insurance policies. The Directors do not believe that the outcome of these claims will have a material impact on the Group's financial position.



# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

## D – CAPITAL STRUCTURE AND FINANCING

### D9 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as foreign exchange contracts to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes and not as speculative instruments. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of foreign exchange, interest rate risk and other price risks, and ageing analysis for credit risk.

The Group holds the following financial instruments:

- (i) Cash and cash equivalents;
- (ii) Trade and other receivables (including WIPS);
- (iii) Trade and other payables;
- (iv) Interest-bearing liabilities, including bank loans and finance leases;
- (v) Available for sale investments;
- (vi) Royalty receivable;
- (vii) Non-contingent royalty receivable;
- (viii) Non-contingent royalty payable;
- (ix) Derivative financial instruments; and
- (x) Interest-bearing loan from associate.

	31 December 2018 \$M	31 December 2017 \$M
<b>Financial assets</b>		
Cash and cash equivalents	1,031	207
<i>Loans and receivables – amortised cost</i>		
Trade and other receivables	844	1,131
Non-contingent royalty receivable	15	–
Interest-bearing loan to associates	835	712
<i>Assets at fair value through profit and loss</i>		
Royalty receivable	193	199
WIPS	–	29
	<b>2,918</b>	<b>2,278</b>
<b>Financial liabilities</b>		
<i>Amortised cost</i>		
Trade and other payables	840	758
Interest-bearing liabilities	4,124	4,723
Non-contingent royalty payable	52	160
	<b>5,016</b>	<b>5,641</b>

The Board of Directors has overall responsibility for determining risk management objectives and policies and risk management is carried out by the Group Audit and Risk Management department along with the Group Treasury department. The Board provides written principles for overall risk management, as well as policies covering specific areas such as the use of derivative financial instruments to mitigate foreign exchange risk. These derivative instruments create an obligation or right that effectively transfers one or more of the risks associated with an underlying financial instrument, asset or obligation.

The overall objective of the Board is to set policies that seek to reduce risk and volatility in financial performance without unduly affecting competitiveness and flexibility. Further details regarding these policies are set out below.

#### (a) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, securities prices, and coal prices, will affect the Group's income or the value of its holdings of financial instruments.

##### (i) Foreign exchange risk

The Group operates entirely in Australia and its costs are primarily denominated in its functional currency, the Australian dollar. Export coal sales are denominated in US dollars and a strengthening of the Australian dollar against the US dollar has an adverse impact on earnings and cash flow settlement. Liabilities for some plant and equipment purchases and loans are denominated in currencies other than the Australian dollar and a weakening of the Australian dollar against other currencies has an adverse impact on earnings and cash flow settlement.

The hedging policy of the Group aims to protect against the volatility of cash expenditures or reduced collection in the abovementioned transactions as well as to reduce the volatility of profit or loss for retranslation of US dollar denominated loans at each period end.

### *Hedging through bank issued instruments*

Operating foreign exchange risk that arises from firm commitments or highly probable transactions is managed through the use of bank issued forward foreign currency contracts. The Group hedges a portion of contracted US dollar sales receivables and asset purchases settled in foreign currencies in each currency to mitigate the adverse impact on cash flow due to the future rise or fall in Australian dollars against the relevant currencies.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in Other Comprehensive Income in the hedging reserve until the anticipated underlying transaction occurs. Once the anticipated underlying transaction occurs, amounts accumulated in equity are recycled through the profit or loss or recognised as part of the cost of the asset to which it relates. The ineffective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised immediately in the profit or loss. In the current period, the loss relating to the ineffective portion was \$nil (2017: \$nil).

### *Natural cash flow hedge*

The Group currently does not use bank issued instruments to hedge foreign exchange risks in respect of US dollar denominated loans; however, the scheduled repayment of the principal on US dollar loans is designated to hedge the cash flow risks on the portion of forecast US dollar sales that are not hedged through bank issued instruments ("natural cash flow hedge"). US dollar loan repayments up to a six-month period are designated to hedge the forecast US dollar sales during the same period after the designation of the hedge relationship based on a dollar for dollar basis until the hedge ratio reaches one.

Hedging effectiveness is determined by comparing the changes in the hedging instruments and hedged sales. Hedge ineffectiveness will occur when cash flows generated by sales transactions are lower than the forecast sales transaction. In cases of hedge ineffectiveness, gains or losses in relation to the excess portion in the foreign exchange movement of the designated US dollar loan repayment will be recycled to profit or loss. The effective portion of changes in the hedging instruments will be recognised in the cash flow hedge reserve in Other Comprehensive Income. When the sales transactions occur, amounts accumulated in equity are recycled through the profit or loss as an increase or decrease to sales revenue.

### *Royalty receivable*

The royalty receivable from the Middlemount Joint Venture is estimated based on expected future cash flows that are dependent on sales volumes, US dollar denominated coal prices and the US dollar foreign exchange rate (refer to Note C9).

### *Other assets*

Other assets include the US\$10 million associated with the Warkworth Call Option which was completed in March 2018, and the promissory note receivable as discussed in Note C7(i). These balances are predominantly held in US dollars and expected to settle within 12 months.

### *Non-contingent royalty payable and receivable*

As part of the acquisition of Coal & Allied in 2017 the Company has agreed to make deferred non-contingent royalty payments to Rio Tinto Plc ("Rio Tinto") in US dollars. As described in Note E1 27.9% of non-contingent royalty payable is received from Glencore.

The Group's exposure to foreign currency risk at the end of the reporting period, expressed in Australian dollars, was as follows:

	31 December 2018		31 December 2017	
	USD \$M	HKD \$M	USD \$M	HKD \$M
Cash and cash equivalents	560	189	139	–
Trade and other receivables	375	–	432	–
Other assets	48	–	49	–
Non-contingent royalty receivable	193	–	199	–
Trade and other payables	(295)	–	(249)	–
Interest bearing liabilities	(4,096)	–	(4,668)	–
Non-contingent royalty payable	(52)	–	(167)	–
Net exposure	(3,267)	189	(4,265)	–

### *Sensitivity*

The following table summarises the sensitivity of the Group's financial assets and liabilities to a reasonable possible change in the US dollar exchange rate. The Group's exposure to other foreign exchange movements is not material. The Group has used the observed range of actual historical rates for the preceding five-year period, with a heavier weighting placed on recently observed market data, in determining reasonably possible exchange movements to be used for the current year's sensitivity analysis. Past movements are not necessarily indicative of future movements. A 10% depreciation/appreciation of the Australian dollar against the US dollar would have (decreased)/increased equity and profit or loss after tax by the amounts shown below. This analysis assumes that all other variables remain constant.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

## D – CAPITAL STRUCTURE AND FINANCING

### D9 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (a) Market risk (continued)

##### (i) Foreign exchange risk (continued)

	10% depreciation of AUD/USD		10% appreciation of AUD/USD	
	Profit before income tax \$M	Equity \$M	Profit before income tax \$M	Equity \$M
<b>2018</b>				
Cash and cash equivalents	58	–	(48)	–
Trade and other receivables	29	–	(24)	–
Non-contingent royalty receivable	19	–	(16)	–
Other assets	4	–	(3)	–
Total increase/(decrease) in financial assets	110	–	(91)	–
Trade and other payables	(23)	–	19	–
Interest-bearing liabilities	–	(319)	–	261
Non-contingent royalty payable	(4)	–	4	–
Total (increase)/decrease in financial liabilities	(27)	(319)	23	261
Total increase/(decrease) in profit before tax and equity	83	(319)	(68)	261
<b>2017</b>				
Cash and cash equivalents	11	–	(9)	–
Trade and other receivables	34	–	(28)	–
Non-contingent royalty receivable	17	–	(19)	–
Other assets	4	–	(38)	–
Total increase/(decrease) in financial assets	66	–	(94)	–
Trade and other payables	(19)	–	26	–
Interest-bearing liabilities	–	(363)	–	297
Non-contingent royalty payable	(13)	–	11	–
Total (increase)/decrease in financial liabilities	(32)	(363)	37	297
Total increase/(decrease) in profit before tax and equity	34	(363)	(57)	297

Equity movements above reflect movements in the hedge reserve due to foreign exchange movements on USD interest-bearing loans.

##### (ii) Price risk

The price risk of the Group includes coal price risk.

The Group does not enter into commodity contracts other than to meet the Group's expected usage and sales requirements; such contracts are not settled net. The royalty receivables from Middlemount are exposed to fluctuations in coal price. The Group currently does not have any derivative hedges in place against the movement in the spot coal price. Refer to Note D9(d)(iii) for the royalty receivable coal price sensitivity analysis.

Coal sales are predominately provisionally priced initially. Provisionally priced sales are those for which price finalisation, referenced to the relevant index, is outstanding at the reporting date. Provisional pricing mechanisms embedded within these sales arrangements have the character of a commodity derivative and are carried at fair value through profit and loss as part of trade receivables. The final sales price is determined normally seven to 90 days after delivery to the customer. At 31 December 2018 there were \$234 million of provisionally priced sales. If prices were to increase by 10% provisionally priced sales would increase by \$23 million.

##### (iii) Interest rate risk

The Group is subject to interest rate risk that arises from borrowings, cash and cash equivalents and restricted cash. Generally, no variable interest is receivable or payable on the Group's trade and other receivables or payables where applicable as they are fixed in nature and therefore they are not exposed to the interest rate risk.

The Group's cash flow interest rate risk for assets primarily arises from cash at bank and deposits subject to market bank rates. Floating rate borrowings bearing LIBOR rates are re-set on a quarterly basis.

The Group's exposure to interest rate risk and the weighted average interest rate is set out as below:

	31 December 2018		31 December 2017	
	Weighted average interest rate %	Balance \$M	Weighted average interest rate %	Balance \$M
Cash and cash equivalents	1.4%	1,030	1.3%	207
Restricted cash	–	–	3.0%	1
Bank loans and other borrowings	5.9%	2,572	5.0%	3,141
Interest-bearing loan to associate	9.1%	835	8.9%	712

### Sensitivity

The following table summarises the sensitivity of the Group's significant financial assets and liabilities to changes in variable interest rates. This sensitivity is based on reasonably possible changes, determined using observed historical interest rate movements for the preceding five-year period, with a heavier weighting given to more recent market data. Past movements are not necessarily indicative of future movements. For financial assets, a 25 basis point (decrease)/increase in interest rates would have (decreased)/increased equity and profit or loss after tax by the amounts shown below. For financial liabilities, a 25 basis point (decrease)/increase in interest rates would have increased/(decreased) equity and profit or loss after tax by the amounts shown below. This analysis assumes that all other variables remain constant.

	-25 bps		+25 bps	
	Profit after income tax \$M	Equity \$M	Profit after income tax \$M	Equity \$M
<b>2018</b>				
Cash and cash equivalents	(1)	–	1	–
Interest-bearing loan to associate	(1)	–	1	–
Interest-bearing liabilities	5	–	(5)	–
	3	–	(3)	–
<b>2017</b>				
Interest-bearing loan to associate	(1)	–	1	–
Interest-bearing liabilities	6	–	(6)	–
	5	–	(5)	–

### (b) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. As at 31 December 2018 the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantees provided by the Group is arising from the carrying amount of the respective recognised financial assets as stated in the Consolidated Balance Sheet and the amount of contingent liabilities in relation to financial guarantees issued by the Group as disclosed in Note D8.

In order to minimise credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors consider that the Group's credit risk is significantly reduced. The Group maintains its cash and cash equivalents with reputable banks. Therefore, the Directors consider that the credit risk for such amounts is minimal.

In assessing the Expected Credit Losses ("ECL") of trade receivables management assesses historical write-offs of trade receivables, ageing of debtors and whether sufficient credit enhancement is provided by customers (letters of credit and bank guarantees). If the ageing of trade receivables significantly increased then the recognition of ECL would need to be reassessed.

Receivables will only be written off if there is demonstrable evidence that there is no reasonable expectation of recovery.

There was no provision for lifetime or 12-month ECL recognised for trade receivables as at 31 December 2018 as there are minimal aged debts.

The credit risk on cash and cash equivalents is limited as the counterparties are banks with credit ratings assigned by international credit-rating agencies that are at least investment grade.

Credit risk in trade receivables is managed in the following ways:

- (i) payment terms and credit limits are set for individual customers;
- (ii) a risk assessment process is used for all customers; and
- (iii) letters of credit are required for those customers assessed as posing a higher risk.

As disclosed in Note D2(a)(i) the minimum average balance of AU\$25 million per day and at month end AU\$50 million is required to be held in the Lender Accounts of the Syndicated Facility which is not available for use on those days.

The maximum exposure to credit risk on financial assets which have been recognised in the balance sheet is their carrying amount less impairment provision, if any, as set out below.

	31 December 2018 \$M	31 December 2017 \$M
Cash and cash equivalents	1,031	207
Trade and other receivables	844	1,131
	1,875	1,338

Included in trade and other receivables are significant customers located in Singapore, Australia, Japan and Taiwan that account for 18%, 17%, 16% and 14% of trade receivables respectively (2017: Singapore 30%, Japan 23%, Australia 14% and Hong Kong 8%).

The top five customers included in trade receivables with the largest gross receivable balance as at 31 December 2018 account for 33% of trade receivables (2017: 27%).



# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

## D – CAPITAL STRUCTURE AND FINANCING

### D9 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (c) Liquidity risk

Liquidity risk includes the risk that the Group will not be able to meet its financial obligations as they fall due. The Group will be impacted in the following ways:

- (i) will not have sufficient funds to settle transactions on the due date;
- (ii) will be forced to sell financial assets at a value which is less than what they are worth; or
- (iii) may be unable to settle or recover a financial asset at all.

Liquidity risk is managed by maintaining sufficient cash and liquid deposit balances and having readily accessible standby facilities in place in accordance with the Board's risk management policy. Details regarding finance facilities are set out in Note D2.

#### Maturities of financial liabilities

The tables below analyse the Group's financial liabilities into relevant maturity groupings based on their contractual maturities and interest payments for all liabilities.

The amounts disclosed in the table are the contractual undiscounted cash flows including interest payments. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

#### Contractual maturities of financial liabilities

	Less than 1 year \$M	Between 1 and 2 years \$M	Between 2 and 5 years \$M	Greater than 5 years \$M	Total contractual cash flow \$M	Carrying amount \$M
<b>At 31 December 2018</b>						
<b>Financial liabilities</b>						
Trade and other payables	840	–	–	–	840	840
Non-contingent royalty	26	13	13	–	52	52
Interest-bearing liabilities	319	1,533	1,799	1,660	5,311	4,124
Total non-derivatives	1,185	1,546	1,812	1,660	6,203	5,016

	Less than 1 year \$M	Between 1 and 2 years \$M	Between 2 and 5 years \$M	Greater than 5 years \$M	Total contractual cash flow \$M	Carrying amount \$M
<b>At 31 December 2017</b>						
<b>Non-derivatives</b>						
Trade and other payables	758	–	–	–	758	758
Non-contingent royalty	115	26	26	–	167	167
Interest-bearing liabilities	369	384	4,116	1,612	6,481	4,723
Total non-derivatives	1,242	410	4,142	1,612	7,406	5,648

#### (d) Fair value measurements

##### (i) Fair value hierarchy

The Group uses various methods in estimating the fair value of financial instruments. AASB 13 *Fair Value Measurement* requires disclosure of fair value measurements by level in accordance with the following fair value measurement hierarchy:

- (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- (b) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and
- (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The following table presents the Group's financial assets and financial liabilities measured and recognised at fair value at 31 December 2018 and 31 December 2017:

	Level 1 \$M	Level 2 \$M	Level 3 \$M	Total \$M
<b>31 December 2018</b>				
<b>Assets</b>				
Royalty receivable	–	–	193	193
WIPS	–	–	–	–
<b>Total assets</b>	–	–	193	193
<b>Liabilities</b>				
Other derivatives	–	–	–	–
<b>Total liabilities</b>	–	–	–	–

	Level 1 \$M	Level 2 \$M	Level 3 \$M	Total \$M
<b>31 December 2017</b>				
<b>Assets</b>				
Royalty receivable	–	–	199	199
WIPS	–	–	29	29
<b>Total assets</b>	–	–	228	228
<b>Liabilities</b>				
Other derivatives	–	–	–	–
<b>Total liabilities</b>	–	–	–	–

**(ii) Valuation techniques**

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3. This is the case for the royalty receivable and WIPS.

**(iii) Fair value measurements using significant unobservable inputs (Level 3)**

The following table presents the changes in Level 3 instruments for the year ended 31 December 2018:

	31 December 2018 Royalty Receivable \$M	31 December 2017 Royalty Receivable \$M
Opening balance	199	199
Cash received/receivable	(31)	(29)
Unwinding of the discount	21	21
Remeasurement of the royalty receivable recognised in profit and loss	4	8
Closing balance	193	199

**Royalty receivable**

The fair value of the royalty receivable is the fair value of the right to receive a royalty of 4% of Free on Board Trimmed Sales from the Middlemount mine. The financial asset has a finite life being the life of the Middlemount mine and will be measured on a fair value basis.

The fair value is determined using the discounted future cash flows that are dependent on the following unobservable inputs: forecast sales volumes, coal prices and fluctuations in foreign exchange rates. The forecast sales volumes are based on the internally maintained budgets, five-year business plan and life of mine models. The forecast coal prices and long-term exchange rates are based on external data consistent with the data used for impairment assessments (refer to Note C3). The risk-adjusted post-tax discount rate used to determine the future cash flows is 10.0%.

The estimated fair value could increase significantly if the following unobservable inputs of sales volumes and coal prices were higher and if the Australian dollar weakens against the US dollar. The estimated fair value would also increase if the risk-adjusted discount rate was lower.

**Sensitivity**

The following tables summarise the sensitivity analysis of royalty receivable. This analysis assumes that all other variables remain constant.

	31 December 2018 Fair value increase/ (decrease) \$M	31 December 2017 Fair value increase/ (decrease) \$M
<b>Coal price</b>		
+10%	15	18
–10%	(15)	(18)
<b>Exchange rates</b>		
+10%	(16)	(17)
–10%	19	19
<b>Discount rates</b>		
+10%	(4)	(5)
–10%	4	5

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

## E – GROUP STRUCTURE

### D9 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (d) Fair value measurements (continued)

##### (iv) Fair values of other financial instruments

The carrying amount is approximate to the fair value for the following:

- (i) Trade and other receivables
- (ii) Other financial assets
- (iii) Trade and other payables
- (iv) Interest-bearing liabilities

## E GROUP STRUCTURE

This section explains significant aspects of the Group's structure including interests in other entities, related party transactions, parent entity information, controlled entities and the deed of cross guarantee.

### E1 BUSINESS COMBINATIONS AND DISPOSALS

#### Accounting Policies

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred including stamp duty. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

The excess of the consideration transferred and the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a gain on acquisition of subsidiaries.

#### Critical accounting estimates and judgements

##### Acquisition accounting

Accounting for acquisition of businesses requires judgement and estimates in determining the fair value of acquired assets and liabilities. Techniques used to determine the fair value of acquired assets and liabilities include an income and cost approach for mining tenements and depreciated replacement cost for the valuation of property, plant and equipment.

The relevant accounting standard allows the fair value of assets acquired to be refined for a window of one year after the acquisition date, and judgement is required to ensure the adjustments made reflect new information obtained about facts and circumstances that existed as of the acquisition date. The adjustments made on fair value of assets are retrospective in nature and have an impact on goodwill or gain recognised on acquisition.

#### (a) Acquisition of 4% of Moolarben

##### (i) Summary of acquisition

On 30 November 2018, Moolarben Coal Mine Pty Ltd, a 100% owned subsidiary of Yancoal Australia Ltd, acquired a 4% interest in Moolarben Coal Joint Venture ("Moolarben JV") from Kores Australia Moolarben Coal Pty Ltd ("Kores"). The Moolarben JV is accounted for as a joint operation. With the 4% acquisition the Group now holds an 85% interest in the Moolarben JV. The cash consideration paid and payable was \$84 million, split over four instalments of \$21 million each, and reduced by a \$21 million effective date adjustment whereby the cash consideration was reduced by 4% of the Moolarben JV's net cash inflow from the date of the sales agreement (15 April 2018) to completion.

##### (ii) Assets and liabilities acquired

Details of the purchase consideration and the net assets and liabilities acquired of the additional interest in the Moolarben JV are as follows:

	<b>\$M</b>
Purchase consideration:	
Purchase price	<b>84</b>
Effective date adjustment	<b>(21)</b>
Total consideration	<b>63</b>
Gain on acquisition of interest in joint operation	–
Fair value of net identifiable assets acquired	<b>63</b>

The assets and liabilities recognised as a result of the acquisition are as follows:

	Fair value \$M
Cash	2
Trade and other receivables	2
Inventories	3
Other current assets	1
Property, plant and equipment	52
Mining tenements	1
Trade and other payables	(5)
Provisions	(2)
Deferred tax assets	9
Fair value of net identifiable assets acquired	63
Net assets acquired	63

The accounting for the acquisition has been determined on a provisional basis at 31 December 2018. Any adjustments to the provisional values as a result of completion work on the fair values of assets and liabilities acquired will be recognised within 12 months of the acquisition date and will be recognised as if they had occurred as at the date of acquisition.

**(iii) Revenue and profit contribution**

The acquired interest contributed revenue of \$6 million and net profit of \$1 million to the Group for the period from 1 December 2018 to 31 December 2018. If the acquisition had occurred on 1 January 2018, consolidated revenue and net profit before tax for the period ended 31 December 2018 would have been \$78 million and \$40 million respectively. These amounts have been calculated using the Group's accounting policies.

**(b) Disposal of 16.6% interest in Hunter Valley Operation to Glencore**

**(i) Summary of disposal**

On 4 May 2018, the Company announced that it had completed the establishment of a 51%:49% unincorporated joint venture with Glencore Coal Pty Ltd ("Glencore") in relation to Hunter Valley Operations ("HVO JV") as was previously announced on 27 July 2017 and held a 51%:49% shareholding in HVO Services Pty Ltd, HV Operations Pty Ltd and HVO Coal Sales Pty Ltd (together the "HVO entities").

Glencore paid cash consideration of US\$1,139 million for 49% of HVO JV and the HVO entities, of which US\$710 million was paid to Mitsubishi Development Pty Ltd ("MDP") for its 32.4% interest and US\$429 million was paid to a wholly owned subsidiary of Yancoal, Coal & Allied Operations Pty Ltd, for its 16.6% interest, adjusted for a net debt and working capital adjustment and an adjustment for the net cash inflows of HVO since 1 September 2017.

Yancoal will also receive from Glencore a 27.9% share of the US\$240 million non-contingent royalties payable by Yancoal to Rio Tinto Plc ("Rio Tinto") resulting from the acquisition of Coal & Allied Industries Ltd, which occurred on 1 September 2017. The US\$429 million includes US\$20 million associated with the transfer of shares in Newcastle Coal Shippers held by Coal & Allied Industries Limited and Warkworth Coal Sales Limited to a Glencore subsidiary.

Glencore acquired MDP's 32.4% HVO interest directly from MDP in place of Yancoal's tag-along offer. From 4 May 2018 Yancoal continued to proportionately consolidate its 51% interest in the HVO JV, deconsolidated the HVO entities and continued to account for these entities as joint ventures. Details of the sale proceeds, the net identifiable assets disposed of and the gain on disposal of the interest in joint venture and subsidiaries are as follows:

	\$M
Disposal consideration:	
Disposal price	569
Non-contingent royalties	87
Working capital and share of net cash outflows adjustment	(36)
Total consideration	620
Gain on disposal of interest in joint operation and subsidiaries (Note B3)	(78)
Fair value of net identifiable assets and liabilities disposed of (refer to b(ii) below)	542



# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

## E – GROUP STRUCTURE

### E1 BUSINESS COMBINATIONS AND DISPOSALS (CONTINUED)

#### (b) Disposal of 16.6% interest in Hunter Valley Operation to Glencore (continued)

##### (ii) Assets and liabilities disposed

The assets and liabilities recognised as a result of the disposal are as follows:

	Fair value \$M
Cash	13
Trade and other receivables	175
Inventories	12
Assets classified as held for sale	26
Other assets	1
Property, plant and equipment	186
Mining tenements	335
Exploration and evaluation assets	18
Intangible assets	4
Trade and other payables	(172)
Provisions	(56)
Fair value of net identifiable assets acquired	542

#### (c) Acquisition of 28.898% interest in Warkworth Joint Venture

##### (i) Summary of acquisition

As announced on 7 March 2018 and effective from 1 March 2018 CNA Warkworth Australasia Pty Ltd, a subsidiary of the Company, acquired a 28.898% interest in the Warkworth Joint Venture from Mitsubishi Development Pty Ltd (“MDP”) for US\$230 million, plus a net debt and working capital adjustment. The acquisition also included MDP’s shareholding in the following companies: Warkworth Coal Sales Pty Ltd, Warkworth Mining Ltd, Warkworth Pastoral Co Pty Ltd and Warkworth Tailings Treatment Pty Ltd.

	\$M
Purchase consideration:	
Acquisition price	295
Net debt and working capital adjustment	58
Total consideration	353
Gain on acquisition of interest in joint operation and subsidiaries	–
Fair value of net identifiable assets acquired (refer to c(ii) below)	353

##### (ii) Assets and liabilities acquired

The assets and liabilities recognised as a result of the acquisition are as follows:

	Fair value \$M
Cash	6
Trade and other receivables	72
Inventories	13
Other assets	1
Property, plant and equipment	178
Mining tenements	127
Exploration and evaluation assets	12
Intangible assets	2
Trade and other payables	(44)
Provisions	(16)
Deferred tax assets	1
Non-controlling interest	1
Fair value of net identifiable assets acquired	353

The accounting for the acquisition has been determined on a provisional basis at 31 December 2018. Any adjustments to the provisional values as a result of completing work on the fair values of assets and liabilities acquired will be recognised within 12 months of the acquisition date and will be recognised as if they had occurred as at the date of acquisition.

### (iii) Revenue and profit contribution

The acquired interest contributed revenue of \$285 million and net profit of \$137 million to the Group for the period from 1 March 2018 to 31 December 2018. If the acquisition had occurred on 1 January 2018, consolidated revenue and net profit before tax for the period ended 31 December 2018 would have been \$333 million and \$160 million respectively. These amounts have been calculated using the Group's accounting policies.

### (d) Update on acquisition of Coal & Allied Industries Ltd

On 1 September 2017, the Group acquired the shares in Coal & Allied from wholly owned subsidiaries of Rio Tinto. The total consideration payable was \$3,547 million. The accounting for the Coal & Allied acquisition was determined on a provisional basis at 31 December 2017.

During the current year, adjustments have been made to the provisional acquisition accounting of Coal & Allied. This resulted in an increase in provisions of \$8 million offset by increases in mining tenements of \$1 million and intangible assets of \$1 million together with the resulting deferred tax impacts. Deferred tax assets increased by \$2 million and deferred tax liabilities decreased by \$4 million. The changes have resulted from further analysis of agreements and the nature and status of assets that existed as at the acquisition date that, if known, would have affected the measurement of the amounts recognised as at the date of acquisition.

The accounting for the acquisition is now final as at 31 December 2018.

## E2 INTERESTS IN OTHER ENTITIES

### Accounting Policies

#### (i) Associates

Associates are all entities over which the Group has significant influence but not control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting, after initially being recognised at cost. The Group's investments in associates include goodwill identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised as a reduction in the carrying amount of the investment.

#### (ii) Joint arrangements

A joint arrangement is a contractual arrangement whereby two or more parties undertake economic activities under joint control. Joint control exists only when the strategic, financial and operational policy decisions relating to the activities of the joint arrangement require the unanimous consent of the parties sharing control.

A joint arrangement is either a joint operation or a joint venture. The structure of each joint arrangement is analysed to determine whether the joint arrangement is a joint operation or a joint venture. The classification of a joint arrangement is dependent on the rights and obligations of the parties to the arrangement.

#### Joint operations

The Group recognises its proportional right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. These have been incorporated in the financial statements under the appropriate headings.

#### Joint ventures

A joint venture is structured through a separate vehicle and the parties have rights to the net assets of the arrangement. Joint ventures are accounted for using the equity method where the assets and liabilities will be aggregated into one line item on the face of the consolidated balance sheet, after adjusting for the share of profit or loss after tax, which is shown as a separate line item on the face of the Consolidated Statement of Profit or Loss and Other Comprehensive Income, after adjusting for amounts recognised directly in equity.

#### Investments in associates and joint ventures

When the Group's share of losses in a joint venture or associate equals or exceeds its interest in the joint venture or associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture or associate.

Unrealised gains on transactions between the Group and its joint ventures or associates are eliminated to the extent of the Group's interest in the joint ventures or associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures or associates have been changed where necessary, to ensure consistency with the policies adopted by the Group.

### Critical accounting judgements

There is significant judgement in assessing whether the Group controls Watagan; even though it holds 100% of the nominal share capital. An assessment has been made that in accordance with the accounting standards the Group does not control Watagan as it is not able to direct the relevant activities of Watagan and accounts for its interest in Watagan as an associate.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

## E – GROUP STRUCTURE

### E2 INTERESTS IN OTHER ENTITIES (CONTINUED)

#### (a) Joint operations

A controlled entity, Moolarben Coal Mines Pty Limited, has an 85% (2017: 81%) interest in the Moolarben Joint Venture whose principal activity is the development and operation of open-cut and underground coal mines.

A controlled entity, Coal & Allied Operations Pty Ltd, has a 51% (2017: 67.6%) interest in the Hunter Valley Operations Joint Venture whose principal activity is the development and operation of open cut coal mines.

A controlled entity, Mount Thorley Operations Pty Ltd, has an 80% (2017: 80%) interest in the Mount Thorley Joint Venture whose principal activity is the development and operation of open cut coal mines.

Controlled entities, CNA Warkworth Associates Pty Ltd and CNA Resources Ltd, have a combined 84.5% (2017: 55.6%) interest in the Warkworth Joint Venture whose principal activity is the development and operation of open cut coal mines.

A controlled entity, Yarrabee Coal Company Pty Ltd, has a 50% (2017: 50%) interest in the Boonal Joint Venture, whose principal activity is the provision of a coal haul road and train load-out facility.

The principal place of business for the above joint operations is in Australia.

#### (b) Interests in associates and joint ventures

Set out below are the associates and joint ventures of the Group as at 31 December 2018. The entities listed below have share capital consisting solely of ordinary shares, which are held directly by the Group. The country of incorporation or registration is also their principal place of business.

Name of entity	Place of business/ country of incorporation	% of ownership interest		Nature of relationship	Measurement method	Carrying amount of investment	
		2018 %	2017 %			2018 \$M	2017 \$M
Watagan Mining Company Ltd	Australia	100%	100%	Associate	Equity method	–	–
Port Waratah Coal Services Ltd	Australia	30%	30%	Associate	Equity method	190	191
Newcastle Coal Infrastructure Group Pty Ltd	Australia	27%	27%	Associate	Equity method	–	–
Middlemount Coal Pty Ltd	Australia	49.9997%	49.9997%	Joint Venture	Equity method	116	60
HVO Coal Sales Pty Ltd	Australia	51%	N/A	Joint Venture	Equity method	1	N/A
HVO Operations Pty Ltd	Australia	51%	N/A	Joint Venture	Equity method	–	N/A
HVO Services Pty Ltd	Australia	51%	N/A	Joint Venture	Equity method	–	N/A
Total						307	251

#### (i) Investment in associates

##### Watagan Mining Company Pty Ltd

During 2015 the Group established a 100% owned subsidiary, Watagan Mining Company Pty Ltd (“Watagan”). On 18 February 2016, the Group executed a Bond Subscription Agreement, together with other agreements (the “Watagan Agreements”) that, on completion, transferred the Group’s interest in three of its 100% owned NSW coal mining operations, being the Austar, Ashton and Donaldson coal mines (the “three mines”), to Watagan for a purchase price of \$1,363.4 million (an amount equal to the book value of the three mines at completion). The purchase price was funded by way of a \$1,363.4 million loan from Yancoal Australia Ltd to Watagan bearing interest at BBSY plus 7.06% with a maturity date of 1 April 2025. The outstanding interest and principal of this loan is guaranteed by Yankuang Group Co., Ltd (“Yankuang”), the Group’s ultimate parent entity. The completion date of the transaction was 31 March 2016.

On completion Watagan issued US\$775 million of secured debt bonds with a term of approximately nine years to three external financiers (“Bondholders”). The Bondholders receive interest on the face value outstanding on the bonds comprising a fixed interest component, as well as a variable interest component that is tied to the EBITDA performance of Watagan. As a result of the terms of the Watagan Agreements, it was determined that the Bondholders obtained accounting control of Watagan; accordingly, the Group de-consolidated Watagan.

This change in accounting control was determined to occur on the issuance date of the bonds on the basis that the Bondholders obtained power over the key operating and strategic decisions of Watagan and no longer resided with the Group. Specifically, those powers were transferred to the Bondholders under the terms of the Watagan Agreements as the Bondholders were given control of Watagan’s Board of Directors via appointment of the majority of Directors. This change in accounting control resulted in the Group de-consolidating the results of Watagan from the transaction completion date and the Group began to equity account for its 100% equity interest in Watagan as an associate, given the Group retains significant influence in Watagan.

On 4 January 2019 BOCI (one of the Bondholders) notified Watagan and Yankuang that it was exercising its put option over US\$200 million of bonds. As a consequence, Yankuang will become the bondholder of the put bonds following completion of the purchase of those bonds by Yankuang expected to occur on or around 1 April 2019. No security will be given by Watagan in favour of Yankuang. As the put bonds represent less than 50.1% of the face value of the bonds, and the put option was not exercised by the instructing bondholder, the put option is not deemed to have been exercised as to all the bonds, nor has the Group regained accounting control of Watagan. Accordingly, the Group continues to equity account its interest in Watagan.

Whilst Watagan is equity accounted rather than consolidated for accounting purposes, as a result of the Group’s ongoing 100% equity ownership it remains within the Group’s tax consolidated group.

The book value of Watagan's net assets has declined since inception and at 31 December 2018 the book value of liabilities exceeded the book value of assets by \$438 million. These losses have not been recognised as the accumulated losses exceed the value of the investment by the Group.

The book value of Watagan's non-current assets of \$1,654 million includes \$743 million, \$390 million and \$388 million for the Ashton, Austar and Donaldson mines, respectively.

As noted in the Directors' Report Austar was subject to prohibition notices issued by the Resource Regulator that restricted current operations in Bellbird South, however as announced on 7 August 2018 these notices have now been lifted. Ongoing work is being undertaken by Watagan in respect of the very challenging geological and geotechnical conditions at the Austar mine, including both the Bellbird South and Stage 3 areas that may have a significant adverse impact on future commercial operations. The future prospects of the Austar mine are therefore uncertain, and its future carrying value will depend upon the work currently being conducted by Watagan and its internal and external advisors (**Austar Review**). If it is determined that the mine is unable to return to previously forecast levels of production, there is a need to proceed to a permanent shutdown, or there are materially negative changes to other operating assumptions, including coal prices, exchange rates, operating costs or capital expenditure, it is likely that the fair value of that mine, and therefore of Watagan, would be reduced materially. In that event, a material impairment charge may be recognised. Donaldson remains on care and maintenance and work remains ongoing to explore potential future mining operations.

The value of the non-current assets in the Watagan balance sheet has thus been assessed on an aggregated basis, including that:

- Austar returns to normal development and production in the Stage 3 area on completion of mining in Bellbird South, this position will have to be reassessed on completion of the Austar Review; and
- Donaldson will recommence operations at some time in the future which is management's current intention.

The key assumptions in the fair value model of Watagan are consistent with those disclosed in Note C3 noting that: (i) the Group's assessment of the long-term coal prices of USD67 – USD125 per tonne for thermal coal and USD112 – USD150 per tonne from metallurgical coal for Watagan mines is at the top of the range of external forecasts; and (ii) to reflect the increased operational risks when determining the recoverable amount of the Watagan mines a 3.5% risk premium has been applied to the discount rate, increasing to 14%.

If it is determined that either or both Austar or Donaldson are unable to restart operations or return to previously forecast levels of production or there are materially negative changes to other operating assumptions, impacting all three mines, including coal prices, exchange rates, operating costs, capital expenditure, geological conditions, approvals or changes to existing lease conditions or regulatory outcomes, it is likely that the fair value of these mines would be reduced materially. Any impairment of these assets of Watagan would increase Watagan's net asset deficit.

In that event, an impairment may be recognised by the Group on its loan receivable from Watagan; refer to Note D1 for details on the loan, or on the future reconsolidation of Watagan.

### Sensitivities

Apart from the geological and geotechnical issues noted at Austar and the ongoing work on recommencing mining at Donaldson that directly impact the physical and cost inputs, the most sensitive input to the fair value model of Watagan is forecast revenue, which is primarily dependent on estimated future coal prices and the AUD:USD forecast exchange rate, and the discount rate.

	2018 Watagan \$M
Book Value	1,046
Recoverable Amount	1,073
Head Room	27
US\$ Coal Price (i)	
+10%	371
–10%	(373)
Exchange Rate (ii)	
+5 cents	(228)
–5 cents	269
Discount Rate (iii)	
+50 bps	(52)
–50 bps	55

- (i) This represents change in recoverable amount due to +/- 10% change to our coal price assumption.
- (ii) This represents the change in recoverable amount due to a +/- 5 cents change to the long-term US\$:A\$ foreign exchange rate adopted.
- (iii) This represents the change in recoverable amount due to a +/- 50bps change in discount rate adopted.

### Port Waratah Coal Services Ltd

The Group holds a direct shareholding in Port Waratah Coal Services Ltd ("PWCS") of 30% (2017: 30%). Under the shareholder agreement between the Group and other shareholders, the Group has 30% of the voting power of PWCS. The Group has the right to appoint a Director and is currently represented on the Board to partake in policy-making processes. The principal activities of PWCS were the provision of coal receivable, blending, stockpiling and ship loading services in the Port of Newcastle.

### Newcastle Coal Infrastructure Group Pty Ltd

The Group holds 27% (2017: 27%) of the ordinary shares of Newcastle Coal Infrastructure Group Pty Ltd ("NCIG"). Under the shareholder agreement between the Group and other shareholders, the Group has 27% of the voting power of NCIG. The Group has the right to appoint a Director and is currently represented on the Board to partake in policy-making processes.

### Summarised financial information of associates

The information below reflects the Group's share of the results of its principal associates and the aggregated assets and liabilities. They have been amended to reflect adjustments made by the Group when using the equity method, including fair value adjustments and modifications for differences in accounting policy.



# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

## E – GROUP STRUCTURE

### E2 INTERESTS IN OTHER ENTITIES (CONTINUED)

#### (b) Interests in associates and joint ventures (continued)

##### (i) Investment in associates (continued)

##### Summarised financial information of associates (continued)

	Watagan		PWCS		NCIG	
	31 December 2018 \$M	31 December 2017 \$M	31 December 2018 \$M	31 December 2017 \$M	31 December 2018 \$M	31 December 2017 \$M
Cash and cash equivalents	109	103	51	47	51	73
Other current assets	55	184	56	32	41	42
<b>Current assets</b>	<b>164</b>	<b>287</b>	<b>107</b>	<b>79</b>	<b>92</b>	<b>115</b>
Property, plant and equipment	865	843	1,462	1,553	2,158	2,258
Mining tenements	319	330	–	–	–	–
Exploration and evaluation assets	298	298	–	–	–	–
Other non-current assets	172	59	25	23	500	399
<b>Non-current assets</b>	<b>1,654</b>	<b>1,530</b>	<b>1,487</b>	<b>1,576</b>	<b>2,658</b>	<b>2,657</b>
<b>Total assets</b>	<b>1,818</b>	<b>1,817</b>	<b>1,594</b>	<b>1,655</b>	<b>2,750</b>	<b>2,772</b>
<b>Current liabilities</b>	<b>54</b>	<b>99</b>	<b>235</b>	<b>351</b>	<b>53</b>	<b>49</b>
Deferred tax liability	349	183	78	64	99	101
Other non-current liabilities	1,853	1,756	649	603	3,850	3,643
<b>Non-current liabilities</b>	<b>2,202</b>	<b>1,939</b>	<b>727</b>	<b>667</b>	<b>3,949</b>	<b>3,744</b>
<b>Total liabilities</b>	<b>2,256</b>	<b>2,038</b>	<b>962</b>	<b>1,018</b>	<b>4,002</b>	<b>3,793</b>
<b>Net Assets</b>	<b>(438)</b>	<b>(221)</b>	<b>632</b>	<b>637</b>	<b>(1,252)</b>	<b>(1,021)</b>
<b>Group's ownership interest in the Net Assets</b>	<b>(438)</b>	<b>(221)</b>	<b>190</b>	<b>191</b>	<b>(338)</b>	<b>(276)</b>
<b>Revenue</b>	<b>311</b>	<b>625</b>	<b>362</b>	<b>132</b>	<b>388</b>	<b>399</b>
Management fees (Yancoal Australia Ltd)	(51)	(56)	–	–	–	–
Interest paid/payable (Bondholders)	(74)	(102)	–	–	–	–
Interest paid/payable (Yancoal Australia Ltd)	(67)	(67)	–	–	–	–
Other interest expenses	(5)	(5)	(33)	(14)	(228)	(205)
Depreciation and amortisation expenses	(69)	(136)	(112)	(47)	(106)	(115)
(Loss)/gain on foreign exchange	(89)	55	–	–	(329)	274
Other expenses	(263)	(382)	(174)	(101)	(83)	(110)
Income tax benefit/(expense)	90	10	(14)	28	111	(108)
<b>(Loss)/profit from continuing operations after tax</b>	<b>(217)</b>	<b>(58)</b>	<b>29</b>	<b>(2)</b>	<b>(247)</b>	<b>135</b>
Other comprehensive income/(expense)	–	–	–	–	–	–
<b>Total comprehensive (expense)/income</b>	<b>(217)</b>	<b>(58)</b>	<b>29</b>	<b>(2)</b>	<b>(247)</b>	<b>135</b>
<b>Group's ownership interest in (loss)/profit after tax</b>	<b>(217)</b>	<b>(58)</b>	<b>9</b>	<b>(1)</b>	<b>(67)</b>	<b>36</b>

#### Movements in carrying amounts

The Group's share of Watagan and NCIG's profit/(loss) after tax has not been recognised for the years ended 31 December 2018 and 31 December 2017 since the Group's share of Watagan and NCIG's accumulated losses exceeds its interest in Watagan and NCIG at 31 December 2018 and at 31 December 2017.

As the Group does not have contractual agreements or a contractual obligation to contribute to these associates no additional liabilities have been recognised.

	31 December 2018 \$M	31 December 2017 \$M
<b>Movements in PWCS carrying amounts</b>		
Opening balance	191	–
Acquisition of interest in associate	–	197
Share of profit/(loss) of equity-accounted investees, net of tax	9	(1)
Dividends received	(10)	(5)
Closing net book amount	190	191

## (ii) Interest in joint venture

*Middlemount Coal Pty Ltd*

A controlled entity, Gloucester (SPV) Pty Ltd, has a 49.9997% interest in the net assets of Middlemount Coal Pty Ltd ("Middlemount"), an incorporated joint venture, whose principal activity is the development and operation of open-cut coal mines in the Bowen Basin.

*HVO entities*

On completion of the establishment of the 51%:49% unincorporated joint venture with Glencore on 4 May 2018, the Group holds 51% of the shares in HVO Coal Sales Pty Ltd, HVO Operations Pty Ltd and HVO Services Pty Ltd ("HVO Entities"). From this date the Group has determined that it no longer controls these companies. From 4 May 2018 the Group equity accounts the financial results of these companies.

*Summarised financial information of joint venture*

The following table provides summarised financial information for the HVO Entities and Middlemount. They have been amended to reflect adjustments made by the Group when using the equity method, including fair value adjustments and modifications for differences in accounting policy.

	HVO Entities		Middlemount	
	31 December 2018 \$M	31 December 2017 \$M	31 December 2018 \$M	31 December 2017 \$M
Cash and cash equivalents	6	–	14	3
Other current assets	113	–	81	156
Total current assets	119	–	95	159
Total non-current assets	36	–	868	977
Other current liabilities	115	–	97	125
Total current liabilities	115	–	97	125
Non-current financial liabilities			162	680
Other non-current liabilities	38	–	472	211
Total non-current liabilities	38	–	634	891
<b>Net assets</b>	<b>2</b>	<b>–</b>	<b>232</b>	<b>120</b>
<b>Group's ownership interest in net assets</b>	<b>1</b>	<b>–</b>	<b>116</b>	<b>60</b>

	HVO Entities		Middlemount	
	31 December 2018 \$M	31 December 2017 \$M	31 December 2018 \$M	31 December 2017 \$M
Revenue	–	–	755	663
Depreciation and amortisation	–	–	(38)	(61)
Other expenses	–	–	(541)	(460)
Interest expenses	–	–	(37)	(41)
Income tax benefit/(expense)	2	–	(48)	(37)
<b>Profit from continuing operations after tax</b>	<b>2</b>	<b>–</b>	<b>91</b>	<b>64</b>
Movements in reserves, net of tax	–	–	21	46
<b>Total changes in equity</b>	<b>2</b>	<b>–</b>	<b>112</b>	<b>110</b>
<b>Group's ownership interest in profit after tax</b>	<b>1</b>	<b>–</b>	<b>46</b>	<b>32</b>
<b>Group's ownership interest in reserve movements</b>	<b>–</b>	<b>–</b>	<b>10</b>	<b>23</b>

The liabilities of Middlemount include an interest-bearing liability of \$218 million (face value of \$233 million) due to the Group at 31 December 2018 (31 December 2017: \$331 million). The repayment of the loan due to the Group can only be made by Middlemount after the full settlement of all external borrowings (bank loans) and the Priority Loans owed to the other shareholder of Middlemount which were fully repaid during 2018 (31 December 2017: \$16 million). The liabilities of Middlemount also include a royalty payable of \$9 million due to the Group at 31 December 2018 (31 December 2017: \$11 million).

*Movements in carrying amounts*

	Middlemount	
	31 December 2018 \$M	31 December 2017 \$M
Opening net book amount	60	5
Share of profit of equity-accounted investees, net of tax	46	32
Movements in reserves, net of tax	10	23
Closing net book amount	116	60

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

## E – GROUP STRUCTURE

### E2 INTERESTS IN OTHER ENTITIES (CONTINUED)

#### (b) Interests in associates and joint ventures (continued)

##### (iii) Commitments and contingent liabilities in respect of associates and joint ventures

There were no commitments and no contingent liabilities in respect of the Group's associates and HVO Entities as at 31 December 2018.

There were no commitments in respect of the Group's interest in Middlemount at 31 December 2018.

Middlemount is subject to a taxation audit which may result in derecognition of deferred tax assets. Other contingent liabilities in respect of the Group's interest in Middlemount are set out in Note D8(ii).

### E3 RELATED PARTY TRANSACTIONS

#### (a) Parent entities

The parent entity within the Group is Yancoal Australia Ltd. The Group's majority shareholder is Yanzhou Coal Mining Company Limited ("Yanzhou") (incorporated in the People's Republic of China). The ultimate parent entity and ultimate controlling party is Yankuang Group Corporation Limited (incorporated in the People's Republic of China).

#### (b) Yancoal International Holding Co. Ltd

Yancoal International Holding Co. Ltd is a wholly owned subsidiary of Yanzhou and has the following subsidiaries: Yancoal Technology Development Holdings Pty Ltd, Athena Holdings Pty Ltd, Tonford Holdings Pty Ltd, Wilpeena Holdings Pty Ltd, Premier Coal Holdings Pty Ltd, Premier Coal Ltd, Yancoal Energy Pty Ltd and Syntech Resources Pty Ltd ("Yancoal International Group"). The Company manages these entities on behalf of Yanzhou.

#### (c) Transactions with other related parties

The following transactions occurred with related parties:

	31 December 2018 \$	31 December 2017 \$
<b>Sales of goods and services</b>		
Sales of coal to Noble Group Limited (i)	–	195,466,360
Sales of coal to Watagan Mining Company Pty Ltd	36,853,608	76,188,812
Sales of coal to Yancoal International (Holding) Co., Ltd (ii)	225,951,918	6,409,512
Provision of marketing and administrative services to Watagan Group	5,704,524	5,653,000
Provision of marketing and administrative services to Yancoal International Group (iii)	7,899,544	8,081,338
	<b>276,409,594</b>	<b>291,799,022</b>
<b>Purchases of goods and services</b>		
Purchase of coal from Watagan Group	(47,301,570)	(161,481,064)
Purchases of coal from Syntech Resources Pty Ltd (ii)	(27,158,727)	(38,731,161)
	<b>(74,460,297)</b>	<b>(200,212,225)</b>
<b>Advances/loans to and repayment of advances</b>		
Advances of loans to Watagan Mining Company Pty Ltd	(377,091,053)	(150,977,470)
Repayments of loans from Watagan Mining Company Pty Ltd (iii)	254,356,412	213,816,105
Repayments of loans from Middlemount Coal Pty Ltd	117,070,781	–
Interest income capitalised into loan receivable from Middlemount Coal Pty Ltd	(14,951,931)	(33,087,208)
Repayments of loans from Premier Coal Holdings Pty Ltd	–	35,000,000
	<b>20,615,791</b>	<b>(64,751,427)</b>
<b>Equity subscription, debt repayment and debt provision</b>		
Loans from Yanzhou Coal Mining Company Ltd (iii)	–	329,615,625
Repayments of loans from Yanzhou Coal Mining Company Ltd (iii)	(174,786,617)	–
	<b>(174,786,617)</b>	<b>329,615,625</b>
<b>Finance costs</b>		
Interest expenses on loans from Yancoal International Resources Development Co., Ltd (iii)	(20,305,020)	(8,737,410)
Interest expenses on loans from Yanzhou Coal Mining Company Ltd (iii)	(65,352,062)	(56,804,616)
Interest expenses on loans from Yancoal International (Holding) Co., Ltd	(9,282,305)	(8,508,055)
Interest expenses on loans from Yancoal International Trading Co., Ltd (iii)	(20,354,308)	(16,553,447)
	<b>(115,293,695)</b>	<b>(90,603,528)</b>

	31 December 2018 \$	31 December 2017 \$
<b>Other costs</b>		
Corporate guarantee fee to Yanzhou Coal Mining Company Ltd (iii)	(65,089,839)	(93,928,450)
Port charges to NCIG Holdings Pty Limited	(137,628,096)	(116,178,885)
Port charges to PWCS	(38,449,188)	(15,537,116)
Arrangement fee on loans from Yancoal International Resources Development Co., Ltd (iii)	(1,503,042)	(1,936,564)
	<b>(242,670,165)</b>	<b>(227,581,015)</b>
<b>Finance income</b>		
Interest income from Premier Coal Holdings Pty Ltd	263,820	1,658,494
Interest income from loan to Watagan Mining Company Pty Ltd	67,178,577	66,809,559
Interest income released from loan receivable with Middlemount Coal Pty Ltd	18,186,750	17,927,465
	<b>85,629,147</b>	<b>86,395,518</b>
<b>Other income</b>		
Mining services fees charged to Watagan Group	46,002,805	51,853,076
Royalty income charged to Middlemount Coal Pty Ltd	31,398,128	27,572,213
Bank guarantee fee charged to Yancoal International Group (iii)	2,859,808	1,299,740
Bank guarantee fee charged to Watagan Group	1,573,791	1,236,782
Longwall hire fee charged to Austar Coal Mine Pty Ltd	3,000,000	3,000,000
Dividend income received from PWCS	13,126,075	6,409,247
	<b>97,960,607</b>	<b>91,371,058</b>

**(d) Outstanding balances arising from transactions with related parties**

Balances outstanding at the reporting date to/from related parties are unsecured, non-interest bearing (except for loans receivable and loans payable) and are repayable on demand.

The following balances are outstanding at the end of the reporting period in relation to transactions with related parties:

	31 December 2018 \$	31 December 2017 \$
<b>Current assets</b>		
<b>Trade and other receivables</b>		
Receivable from Yancoal International Group in relation to cost reimbursement	3,790,545	10,966,329
Receivable from Watagan Group entities in relation to cost reimbursement	9,417,029	–
Trade receivable from Noble Group Limited in relation to sales of coal <sup>(i)</sup>	–	42,267,396
Royalty receivable from Middlemount Coal Pty Ltd	9,403,196	11,171,154
Other receivable from Yankuang Entities	35,000	24,188
Promissory Notes receivable from Oz Star Ningbo Trading Co Ltd	39,671,295	35,897,436
Interest income receivable from Watagan Mining Company Pty Ltd	–	16,292,548
	<b>62,317,065</b>	<b>116,619,051</b>
<b>Non-current assets</b>		
<b>Advances to joint venture and associate</b>		
Receivable from Middlemount Coal Pty Ltd being an unsecured, non-interest bearing advance	217,850,129	331,686,091
Receivable from Watagan Mining Company Pty Ltd being an unsecured, interest-bearing loan	834,896,006	712,161,365
	<b>1,052,746,135</b>	<b>1,043,847,456</b>



# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

## E – GROUP STRUCTURE

### E3 RELATED PARTY TRANSACTIONS (CONTINUED)

#### (d) Outstanding balances arising from transactions with related parties (continued)

	31 December 2018 \$	31 December 2017 \$
<b>Current liabilities</b>		
<i>Other payables</i>		
Payables to Yanzhou Coal Mining Company Limited	159,153,851	81,065,644
Payables to Yancoal International Resources Development Co., Ltd	5,612,401	1,368,984
Payables to Yancoal International (Holding) Co., Ltd	3,973,859	3,761,855
Payables to Yancoal International Trading Co., Ltd	8,938,269	7,523,709
Tax sharing and funding arrangement with Watagan Group	107,618,406	44,487,215
Payables to Watagan Group	–	31,775,584
	<b>285,296,786</b>	<b>169,982,991</b>
<b>Non-current liabilities</b>		
<i>Other payables</i>		
Payable to Yancoal International Resources Development Co., Ltd being an unsecured, interest-bearing loan (iii)	191,272,315	321,790,897
Payable to Yancoal International (Holding) Co., Ltd being an unsecured, interest-bearing loan (iii)	128,927,317	128,205,128
Payable to Yancoal International Trading Co., Ltd being an unsecured, interest-bearing loan (iii)	304,618,872	275,641,026
Payable to Yanzhou Coal Mining Company Limited being an unsecured, interest-bearing loan (iii)	885,064,505	800,869,906
	<b>1,509,883,009</b>	<b>1,526,506,957</b>

(i) From 9 November 2017, on the resignation of William Randle as a Director of the Group, Noble Group Limited is no longer deemed a related party.

(ii) Continuing connected transition under Chapter 14A of the HK Listing Rules.

(iii) Fully exempt continuing connected transaction under chapter 14A of the HK Listing Rules.

#### (e) Guarantees

The bankers of the Group have issued undertakings and guarantees to government departments, and various external parties on behalf of the following related entities:

	31 December 2018 \$	31 December 2017 \$
Syntech Resources Pty Ltd	84,693,965	84,693,965
AMH (Chinchilla Coal) Pty Ltd	49,000	49,000
Premier Coal Ltd	29,000,000	29,000,000
Tonford Holdings Pty Ltd	10,000	10,000
Athena Joint Venture	2,500	2,500
Ashton Coal Mines Ltd	15,466,654	15,466,954
Austar Coal Mine Pty Ltd	36,640,142	29,325,000
Donaldson Coal Pty Ltd	7,952,712	7,372,000
Yankuang Resources Pty Ltd	45,324	45,324
	<b>173,860,297</b>	<b>165,964,743</b>

Refer to Note D8(i) for details of the nature of the guarantees provided.

#### (f) Terms and conditions

Transactions between related parties are usually on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

The US\$116.0 million loan obtained in 2013 from Yancoal International Resources Development Co., Ltd was charged at a fixed interest rate of 7.00% p.a. (inclusive of arrangement fees). During 2018 this loan was fully repaid.

On 31 December 2014 an AU\$1,400 million facility was provided by Yanzhou at a fixed interest rate of 7% on any amounts drawn. During 2018 US\$9 million was repaid (2017: US\$150 million was drawn) (Note D2(c)). As at 31 December 2018 a total of US\$823 million has been drawn.

On 31 December 2014 an AU\$807 million facility was provided by Yanzhou at a fixed interest rate of 7% on any amounts drawn. During 2018 no amounts were drawn (2017: US\$83 million was drawn) (Note D2(c)). As at 31 December 2018 a total of US\$243 million has been drawn.

Yanzhou has provided corporate guarantees as security for the following facilities:

- Syndicated facility and bi-lateral facility (converted to a bank guarantee facility in 2016) – a fixed rate of 1.5% from 1 April 2018 (2.5% before 1 April 2018) is charged on the outstanding loan principal and outstanding bank guarantee facility limit.
- ICBC bank guarantee facility – a fixed rate of 2.0% is charged on the facility limit of AU\$100 million. This corporate guarantee was cancelled on 30 September 2017.

The Directors of Yanzhou have provided a letter of support whereby unless revoked by giving not less than 24 months' notice, for so long as Yanzhou owns at least 51% of the shares of Yancoal, Yanzhou will ensure that Yancoal continues to operate so that it remains solvent.

#### E4 PARENT ENTITY FINANCIAL INFORMATION

##### Accounting Policy

###### (a) Investments in subsidiaries, associates and joint arrangements

Investments in subsidiaries, associates and joint arrangements are accounted for at cost less any impairment in the financial statements of Yancoal Australia Ltd. Dividends received from associates are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.

###### (b) Tax consolidation legislation

Yancoal Australia Ltd and its wholly owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, Yancoal Australia Ltd, and the entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand-alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Yancoal Australia Ltd also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

The entities have also entered into a tax funding agreement under which the wholly owned entities fully compensate Yancoal Australia Ltd for any current tax payable assumed and are compensated by Yancoal Australia Ltd for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Yancoal Australia Ltd under the tax consolidation legislation as loans between entities. The funding amounts are determined by reference to the amounts recognised in the wholly owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as current amounts receivable from or payable to other entities in the Group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly owned tax consolidated entities.

##### (a) Summary financial information

The individual financial statements for the parent entity, Yancoal Australia Ltd, show the following aggregate amounts:

	31 December 2018 \$M	31 December 2017 \$M
Current assets	1,120	361
Non-current assets	9,947	9,850
Total assets	11,067	10,211
Current liabilities	1,198	1,134
Non-current liabilities	4,066	4,651
Total liabilities	6,064	5,785
<b>Net assets</b>	<b>5,003</b>	<b>4,426</b>
<i>Shareholders' equity</i>		
Contributed equity		
Reserves	6,482	6,217
Cash flow hedges	(604)	(413)
Distributable profits	486	–
Accumulated losses	(1,361)	(1,378)
<b>Capital and reserves attributable to the owners of Yancoal Australia Ltd</b>	<b>5,003</b>	<b>4,426</b>
Profit for the year	616	(550)
Other comprehensive income	(198)	376
<b>Total comprehensive income</b>	<b>418</b>	<b>(174)</b>

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

## E – GROUP STRUCTURE

### (b) Guarantees entered into by the parent entity

As at 31 December 2018, the parent entity had contingent liabilities in the form of a bank guarantee amounting to \$875 million (2017: \$1,041 million) in support of the operation of the entity, its subsidiaries and related parties (refer to Note E3).

### (c) Contingent liabilities of the parent entity

There are cross guarantees given by Yancoal Australia Ltd and certain subsidiaries as described in Note E5.

The parent entity did not have any contingent liabilities as at 31 December 2018, except for those described in Note D8.

## E5 CONTROLLING INTERESTS

### (a) Significant investments in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following principal subsidiaries:

Name of entity <sup>1</sup>	Principal activities	Issued and fully paid share capital	Equity holding	
			2018 %	2017 %
<b>The Company</b>				
Yancoal Australia Ltd (i)			100%	100%
<b>Controlled entities</b>				
Yancoal SCN Ltd	Holding company of subordinate capital notes	1	100%	100%
Yancoal Australia Sales Pty Ltd (i) (iii)	Coal sales	100	100%	100%
Yancoal Resources Limited (iii)	Coal investment holding company	446,409,065	100%	100%
Yancoal Mining Services Pty Ltd (i)	Provide management services to underground mines	100	100%	100%
Moolarben Coal Mines Pty Ltd (iii)	Coal business development	1	100%	100%
Moolarben Coal Operations Pty Ltd (i)	Management of coal operations	2	100%	100%
Moolarben Coal Sales Pty Ltd	Coal sales	2	100%	100%
Felix NSW Pty Ltd	Investment holding	2	100%	100%
SASE Pty Ltd	Dormant	9,650,564	90%	90%
Yarrabee Coal Company Pty. Ltd. (iii)	Coal mining and sales	92,080	100%	100%
Proserpina Coal Pty Ltd	Holding company	1	100%	100%
Athena Coal Operations Pty Ltd	Dormant	1	100%	100%
Athena Coal Sales Pty Ltd	Dormant	1	100%	100%
Gloucester Coal Ltd (i) (iii)	Coal resource exploration development	719,720,808	100%	100%
Westralian Prospectors NL (i)	Holding company	93,001	100%	100%
Eucla Mining NL (i)	Coal mining	2	100%	100%
CIM Duralie Pty Ltd (ii)	Holding company	665	100%	100%
Duralie Coal Marketing Pty Ltd (ii)	Holding company	2	100%	100%
Duralie Coal Pty Ltd (i) (iii)	Coal mining	2	100%	100%
Gloucester (SPV) Pty Ltd (iii)	Holding company	2	100%	100%
Gloucester (Sub Holdings 2) Pty Ltd (ii)	Holding company	2	100%	100%
CIM Mining Pty Ltd (i)	Holding company	30,180,720	100%	100%
Monash Coal Holdings Pty Ltd (ii)	Holding company	100	100%	100%
CIM Stratford Pty Ltd (i)	Holding company	21,558,606	100%	100%
CIM Services Pty Ltd (ii)	Holding company	8,400,000	100%	100%
Monash Coal Pty Ltd (ii) (iii)	Coal exploration	100	100%	100%
Stratford Coal Pty Ltd (ii) (iii)	Coal mining	10	100%	100%
Stratford Coal Marketing Pty Ltd (ii)	Coal sales	10	100%	100%
Paway Ltd <sup>2</sup>	Dormant	1	100%	100%
Coal & Allied Industries Ltd (iii)	Coal investment holding company	86,584,735	100%	100%
Kalamah Pty Ltd	Holding company	1	100%	100%
Coal & Allied (NSW) Pty Ltd	Employment company for Mount Thorley mine and Warkworth mine	10,000	100%	100%
Australian Coal Resources Ltd	Coal investment holding company	5	100%	100%
Coal & Allied Operations Pty Ltd (iii)	Coal mining and related coal preparation and marketing	17,147,500	100%	100%
Lower Hunter Land Holdings Pty Ltd	Management company of lower Hunter land entities	1	100%	100%
Oaklands Coal Pty Ltd	Coal exploration	5,005	100%	100%
Novacoal Australia Pty Ltd	Holding company	530,000	100%	100%

Name of entity <sup>1</sup>	Principal activities	Issued and fully paid share capital	Equity holding	
			2018 %	2017 %
CNA Resources Ltd (iii)	Holding company	14,258,694	100%	100%
CNA Warkworth Pty Ltd	Coal mining	1	100%	100%
Coal & Allied Mining Services Pty Ltd	Employment company for Mount Thorley Co Venture	10,000	100%	100%
RW Miller (Holdings) Ltd	Holding company	42,907,017	100%	100%
Mount Thorley Coal Loading Ltd	Operation of Mount Thorley coal loading facility	3,990,000	66%	66%
Gwandalan Land Pty Ltd	Holding company	1	100%	100%
Nords Wharf Land Pty Ltd	Hold land for development	1	100%	100%
Catherine Hill Bay Land Pty Ltd	Hold land for future development	1	100%	100%
Black Hill Land Pty Ltd	Hold land for future development	1	100%	100%
Minmi Land Pty Ltd	Hold land for future development	1	100%	100%
Namoi Valley Coal Pty Ltd	Holding company	8,400,000	100%	100%
CNA Warkworth Australasia Pty Ltd (iii)	Coal mining	2	100%	100%
CNA Bengalla Investments Pty Ltd	Holding company	12	100%	100%
Mount Thorley Operations Pty Ltd (iii)	Coal mining	24,214	100%	100%
Northern (Rhondda) Collieries Pty Ltd	Holding company	62,082	100%	100%
Miller Pohang Coal Company Pty Ltd	Coal sales	80	80%	80%
Warkworth Mining Ltd	Mine management	100	85%	56%
Warkworth Pastoral Company Pty Ltd	Pastoral company for the Warkworth JV	100	85%	56%
Warkworth Tailings Treatment Pty Ltd	Tailings company for the Warkworth JV	100	85%	56%
Warkworth Coal Sales Ltd	Sales company for the Warkworth JV	100	85%	56%
Parallax Holdings Pty Ltd	Holding company	100	100%	100%
<b>Non-controlled entities (iv)</b>				
Watagan Mining Company Pty Ltd	Holding company	100	100%	100%
Austar Coal Mine Pty Limited	Coal mining and sales	64,000,000	100%	100%
White Mining Limited	Holding company and mine management	3,300,200	100%	100%
White Mining Services Pty Limited	Holding company	2	100%	100%
White Mining (NSW) Pty Limited	Coal mining and sales	10	100%	100%
Ashton Coal Operations Pty Limited	Mine management	5	100%	100%
Ashton Coal Mines Ltd	Coal sales	5	100%	100%
Gloucester (Sub Holdings 1) Pty Ltd	Holding company	2	100%	100%
Donaldson Coal Holdings Ltd	Holding company	204,945,942	100%	100%
Donaldson Coal Pty Ltd	Coal mining and sales	6,688,782	100%	100%
Donaldson Coal Finance Pty Ltd	Finance company	10	100%	100%
Abakk Pty Ltd	Holding company	6	100%	100%
Newcastle Coal Company Pty Ltd	Coal mining	2,300,999	100%	100%
Primecoal International Pty Ltd	Holding company	1	100%	100%
HV Operations Pty Ltd	Managing entity of Hunter Valley Operations	1	51%	100%
HVO Coal Sales Pty Ltd	Coal sales company for Hunter Valley Operations	1,000	51%	68%
HVO Services Pty Ltd	Holding company	100	51%	100%

1 Unless otherwise stated, all subsidiaries principally operate and are incorporated in Australia.

2. Incorporated in the British Virgin Islands.

- (i) These subsidiaries have been granted relief from the requirement to prepare financial reports in accordance with ASIC Legislative Instrument 2016/785. These subsidiaries represent the closed group for the purposes of the class order. For further information refer to Note E6.
- (ii) These subsidiaries are members of the extended closed group for the purposes of ASIC Legislative Instrument 2016/785. For further information refer to Note E6.
- (iii) These entities are considered to be the material controlled entities of the Group. Their principal activities are the exploration, development, production and marketing of metallurgical and thermal coal.
- (iv) On 31 March 2016 the Group lost control of Watagan Mining Company Pty Ltd and its subsidiaries. On 4 May 2018 the Group lost control of the HVO Entities. For further information refer to Note E2.
- (v) All subsidiaries included in the table above are incorporated and operate in Australia, except for Paway Ltd which is incorporated in the British Virgin Islands.



# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

## E – GROUP STRUCTURE

The subsidiaries as listed have share capital consisting solely of ordinary shares and subordinated capital notes, which are held directly by the Group, and the proportion of ownership interests held equals to the voting rights held by the Group apart from Watagan which is 33% being the current proportion of Board members. The country of incorporation or registration is also their principal place of business.

### E6 DEED OF CROSS GUARANTEE

Yancoal Australia Ltd and certain subsidiaries (refer to Note E5), are parties to a deed of cross guarantee under which each company guarantees the debts of the others. By entering into the deed, the wholly owned entities have been relieved from the requirement to prepare a financial report and Directors' Report under Legislative Instrument 2016/785 issued by the Australian Securities and Investments Commission.

#### (a) Consolidated statement of profit or loss and other comprehensive income

Set out below is a Consolidated Statement of Profit or Loss and Other Comprehensive Income and a summary of movements in consolidated accumulated losses for the year ended 31 December 2018 of the entities included in the deed of cross guarantee consisting of Yancoal Australia Ltd and certain subsidiaries. For details regarding the closed group and the extended closed group refer to Note E5.

	31 December 2018 \$M	31 December 2017 \$M
<b>Revenue</b>	<b>1,465</b>	354
Other income	100	26
Changes in inventories of finished goods and work in progress	(5)	(5)
Raw materials and consumables used	(14)	(13)
Employee benefits expense	(122)	(118)
Depreciation and amortisation expense	(29)	(25)
Coal purchase	(408)	(312)
Transportation expenses	(126)	(55)
Contractual services and plant hire expenses	(76)	(76)
Government royalties expense	(4)	(6)
Other operating expenses	(350)	(227)
Finance costs	(272)	(244)
<b>Profit/(loss) before income tax</b>	<b>159</b>	(701)
Income tax benefit	312	156
<b>Profit/(loss) for the year</b>	<b>471</b>	(545)
	31 December 2018 \$M	31 December 2017 \$M
<b>Other comprehensive income</b>		
<i>Items that may be reclassified subsequently to profit or loss</i>		
Cash flow hedges:		
Fair value (losses)/gains taken to equity	(443)	348
Fair value losses transferred to profit or loss	160	229
Deferred income tax benefit/(expense)	85	(173)
<b>Other comprehensive (expense)/income for the period, net of tax</b>	<b>(198)</b>	404
<b>Total comprehensive income/(expense) for the year</b>	<b>273</b>	(141)
<i>Summary of movements in consolidated accumulated losses</i>		
Accumulated losses at the beginning of the financial year	(1,318)	(698)
Dividends provided for or paid	(130)	–
Opening retained earnings attributable to new members	13	–
Profit/(loss) after income tax	471	(545)
Distributions to SCN holders	–	(75)
Opening balance adjustment on adoption of AASB 9	17	–
<b>Accumulated losses at the end of the financial year</b>	<b>(947)</b>	(1,318)

**(b) Consolidated balance sheet**

Set out below is a consolidated balance sheet as at 31 December 2018 of the entities included in the deed of cross guarantee consisting of Yancoal Australia Ltd and certain subsidiaries. For details regarding the closed group and the extended closed group refer to Note E5.

	31 December 2018 \$M	31 December 2017 \$M
<b>Current assets</b>		
Cash and cash equivalents	881	164
Trade and other receivables	302	492
Inventories	11	11
Other current assets	9	10
Non-contingent royalty receivable	7	–
Total current assets	1,210	677
<b>Non-current assets</b>		
Trade and other receivables	21	37
Other financial assets	6,791	6,791
Property, plant and equipment	330	372
Mining tenements	271	270
Interest-bearing loan to associates	835	712
Deferred tax assets	961	1,024
Intangible assets	–	1
Exploration and evaluation assets	254	273
Other non-current assets	23	11
Non-contingent royalty receivable	8	–
Total non-current assets	9,494	9,491
<b>Total assets</b>	<b>10,704</b>	<b>10,168</b>
<b>Current liabilities</b>		
Trade and other payables	1,805	596
Interest-bearing liabilities	12	8
Provisions	10	7
Non-contingent royalty payable	25	119
Total current liabilities	1,852	730
<b>Non-current liabilities</b>		
Interest-bearing liabilities	3,687	4,705
Deferred tax liabilities	140	145
Provisions	67	61
Non-contingent royalty payable	27	41
Total non-current liabilities	3,921	4,952
<b>Total liabilities</b>	<b>5,773</b>	<b>5,682</b>
<b>Net assets</b>	<b>4,931</b>	<b>4,486</b>
<b>Equity</b>		
Contributed equity	6,219	5,954
Reserves	(341)	(150)
Accumulated losses	(947)	(1,318)
<b>Total equity</b>	<b>4,931</b>	<b>4,486</b>

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

## F – OTHER INFORMATION

This section provides details on other required disclosures relating to the Group to comply with the accounting standards and other pronouncements. Information is provided on remuneration of auditors, commitments, events occurring after balance date, reconciliation of profit after income tax to net cash inflow, other accounting policies and new and amended accounting policies.

### F1 COMMITMENTS

#### (a) Capital commitments

Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:

	31 December 2018 \$M	31 December 2017 \$M
<i>Property, plant and equipment</i>		
Not later than one year		
Share of joint operations	49	33
	49	33

#### (b) Lease expenditure commitments

##### (i) Non-cancellable operating leases

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

	31 December 2018 \$M	31 December 2017 \$M
Not later than one year	29	38
Later than one year but not later than five years	41	149
Later than five years	18	–
	88	187

The Group leases mining equipment, office space and small items of office equipment under operating leases. The leases typically run for one month to five years with an option to renew at the expiry of the lease period. None of the leases include contingent rentals.

##### (ii) Finance leases

Commitments in relation to finance leases are payable as follows:

	31 December 2018 \$M	31 December 2017 \$M
Not later than one year	15	19
Later than one year but not later than five years	31	42
Minimum lease payments	46	61
Less: future finance charges	(4)	(6)
Total lease liabilities	42	55
Finance leases are included in the financial statements as:	13	17
Current lease liability (refer to Note D2)	29	38
Non-current lease liability (refer to Note D2)	42	55

### F2 REMUNERATION OF AUDITORS

#### (a) ShineWing Australia

	31 December 2018 \$'000	31 December 2017 \$'000
Audit and review of financial statements	1,808	1,259
Other assurance services	982	1,010
Tax compliance services	84	54
Total remuneration of ShineWing Australia	2,874	2,323

#### (b) ShineWing (HK) CPA Ltd

Other assurance services	820	–
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**(c) Other audit providers**

During the year ended 31 December 2018 the Company paid Ernst & Young fees for services provided relating to the audit and review of Middlemount's financial statements of \$35,000 (2017: \$36,000). The Company will also pay Deloitte \$49,000 for the 31 December 2018 services relating to the audit and review of HVO JV financial information.

**F3 RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES**

	31 December 2018 \$M	31 December 2017 \$M
Profit after income tax	852	229
Non-cash flows in profit or loss:		
Depreciation and amortisation of non-current assets	523	256
Release of provisions	(59)	(86)
Capitalised interest income from joint venture	(18)	(18)
Unwinding of discount on royalty receivable	(21)	(21)
Unwinding of discount on provisions	13	50
Remeasurement of financial assets	29	–
Net loss on disposal of property, plant and equipment	9	4
Impairment of financial assets	21	–
Stamp duty accrual	–	9
Impairment reversal of mining tenements	–	(100)
Fair value losses recycled from hedge reserve	160	229
Foreign exchange (gains)/losses	(9)	20
Unwind of non-substantial loan refinance	10	–
Gain on disposal of joint operation and subsidiaries	(78)	–
Finance lease interest expenses	3	4
Remeasurement of contingent royalty	33	–
Gain on acquisition of subsidiaries	–	(177)
Gain on remeasurement of royalty receivables	(4)	(8)
Unwind of discount on non-contingent royalty	4	13
Share of profit of equity-accounted investees, net of tax	(56)	(32)
Changes in assets and liabilities:		
Decrease in deferred tax assets	315	445
Increase in inventories	(61)	(11)
Decrease/(increase) in operating receivables	85	(148)
Increase in operating payables	44	124
Decrease/(increase) in prepayments	5	(10)
Decrease in deferred tax liabilities	(53)	(364)
Net cash inflow from operating activities	1,747	408

**F4 HISTORICAL INFORMATION**

The published results assets and liabilities for the last five years at 31 December are:

	2018 \$M	2017 \$M	2016 \$M	2015 \$M	2014 \$M
<b>RESULTS</b>					
Revenue	4,850	2,601	1,238	1,319	1,432
Profit/(loss) before income tax	1,172	311	(312)	(354)	(271)
Income tax (expense)/benefit	(320)	(82)	85	63	(83)
Profit/(loss) after tax	852	229	(227)	(291)	(354)
Profit/(loss) is attributable to:					
Owners of Yancoal Australia Ltd	852	229	(227)	(291)	(354)
Non-controlling interests	–	–	–	–	–
<b>Assets and liabilities</b>					
Current assets	1,922	1,689	738	2,125	669
Non-current assets	10,486	10,624	6,922	5,745	6,811
<b>Total assets</b>	12,408	12,313	7,660	7,870	7,480
Current liabilities	913	1,013	499	638	346
Non-current liabilities	5,657	6,274	5,809	5,543	4,646
<b>Total liabilities</b>	6,570	7,287	6,308	6,181	4,992
<b>Net assets</b>	5,838	5,026	1,352	1,689	2,488



# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

## F – OTHER INFORMATION

### F5 EVENTS OCCURRING AFTER THE REPORTING PERIOD

No matters or circumstances have occurred subsequent to the end of the financial year which have significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial periods except for the following matters:

- Exercise of the Watagan bond put option by BOCI to Yankung as described in Note E2(b).
- On 25 February 2019, Yancoal announced a final dividend totalling AU\$377 million (28.6 cents per share), with a record date of 11 March 2019. The final dividend will be paid on 30 April 2019.
- As announced 25 February 2019, Yancoal pre-paid a further US\$500 million in loans, reducing its total debt liabilities by US\$1.4 billion since September 2017. The pre-payment consists of US\$250 million in pre-paid loans from Bank of China and China Construction Bank, and US\$250 million in pre-paid Yanzhou-related loans.

### F6 OTHER SIGNIFICANT ACCOUNTING POLICIES

#### (a) Foreign currency transactions

##### (i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Australian dollars, which is the Group's functional and presentation currency, except for Yancoal SCN Limited which has US dollars as its functional currency.

For the purpose of presenting these consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into Australian dollars using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity.

##### (ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when they are deferred in equity as qualifying cash flow hedges.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

#### (b) Financial instruments

Financial assets and financial liabilities are recognised when a Group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

##### (i) Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

#### Classification of financial assets

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

#### Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial instruments the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding ECL, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. On the other hand, the gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost. For financial instruments interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

Interest income is recognised in profit or loss and is included in the "other revenue" line item.

#### Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or fair value through other comprehensive income ("FVTOCI") are measured at FVTPL. Specifically:

- Investments in equity instruments are classified as at FVTPL, unless the Group designates an equity investment that is neither held for trading nor contingent consideration arising from a business combination as at FVTOCI on initial recognition.

- Debt instruments that do not meet the amortised cost criteria or the FVTOCI criteria are classified as at FVTPL. In addition, debt instruments that meet either the amortised cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. The Group has not designated any debt instruments as at FVTPL.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets and is included in the “Other income” line item.

### Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor; and
- an actual or expected significant adverse change in the regulatory, economic or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if i) the financial instrument has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a financial asset to have low credit risk when it has an internal or external credit rating of “investment grade” as per globally understood definition.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

### Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the counterparty; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

### Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or
- it is becoming probable that the borrower will enter into bankruptcy or other financial reorganisation.

### Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

## F – OTHER INFORMATION

### F6 OTHER SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (b) Financial instruments (continued)

##### (i) Financial assets (continued)

##### *Measurement and recognition of ECL (continued)*

Where lifetime ECL is measured on a collective basis to cater for cases where evidence of significant increases in credit risk at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- nature of financial instruments;
- past-due status;
- nature, size and industry of debtors; and
- external credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

#### **Impairment of trade receivables**

The Group has applied the simplified approach to measuring expected credit losses to trade and other receivables using a lifetime expected loss allowance. The Group has also used the practical expedient of a provisions matrix using fixed rates to approximate the expected credit losses. These provisions are considered representative across all business and geographic segments of the Group based on historical credit loss experience and considered future information.

##### (ii) Financial liabilities and equity instruments

Debt and equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

#### **Financial liabilities**

The Group's financial liabilities include trade and other payables, non-contingent royalty payable, and interest-bearing liabilities which are initially recognised at fair value and subsequently measured at amortised cost, using the effective interest method.

##### *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid or points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Interest expense is recognised on an effective interest basis.

##### *Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

SCNs issued by the Group, which include no contractual obligation for the Group to deliver cash or another financial asset to the holders or to exchange financial assets or financial liabilities with the holders under conditions that are potentially unfavourable to the Group, are classified as equity instruments and are initially recorded at the proceeds received.

#### **Accounting for derivative financial instruments and hedging activities**

Derivatives are initially recognised at fair value at the date when a derivative contract is entered into and are subsequently remeasured at their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group designates certain derivatives as either: (i) hedges of the fair value of recognised assets or liabilities (fair value hedges); or (ii) hedges of highly probable forecast transactions (cash flow hedges).

The fair values of various derivative instruments used for hedging purposes are disclosed in Note D9. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

At the inception of the hedging relationship the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

##### *(i) Cash flow hedge*

The effective portions of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and accumulated in cash flow hedge reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts previously recognised in other comprehensive income and accumulated in cash flow hedge reserve in equity are reclassified to profit or loss in the periods when the hedged items are recognised in profit or loss.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

##### *(ii) Derivatives that do not qualify for hedge accounting and those not designated as hedging instruments*

Changes in the fair value of any derivative instruments that do not qualify for hedge accounting and those not designated as hedges are recognised immediately in profit or loss.

### Derecognition

A financial asset is derecognised only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in investment revaluation reserve is recognised in profit or loss.

A financial liability is derecognised when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

## F7 NEW AND AMENDED STANDARDS ADOPTED BY THE GROUP

### (i) New and amended standards adopted by the Group

Effective from 1 January 2018 the Group adopted the new standards including AASB 9 *Financial Instruments* and AASB 15 *Revenue from Contracts with Customers*. The impact of adopting these standards is as follows:

#### AASB 9 *Financial Instruments*

The adoption of AASB 9 *Financial Instruments* resulted in the following changes:

#### Financial Assets

All financial assets that were classified as loans and receivables were classified as assets held at amortised cost except for the Wiggins Island Preferences Shares ("WIPS") which have been revalued to nil at 31 December 2018 (31 December 2017: \$29 million). These have been reclassified as assets held at fair value through profit or loss ("FVTPL"). The valuation at 31 December 2017 did not need adjusting as the fair value approximated the carrying amount. The WIPS are still classified as trade and other receivables.

### Financial Liabilities

Classification of financial liabilities remains the same as under the old accounting standards. The measurement of financial liabilities has required an adjustment to non-current interest-bearing liabilities as there was a non-substantial modification to the Bank of China facilities completed in August 2017. This involved modifying the terms of this loan to change the interest structure from US Libor +2.8% increasing to US Libor +5% over time, adjusted to US Libor +3.1% applicable from June 2017 and adjustments to agency fees over the remaining loan life.

Under AASB 9, a key determinant of whether a modification is considered substantial or non-substantial is a quantitative assessment of whether the discounted cash flows under the new terms, using the original effective interest rate, is at least 10% different from the discounted remaining cash flows of the original financial liability.

Qualitatively the modification is non-substantial because there has been no change in the counterparty to the loan and a quantitative assessment has been performed. The modification in 2017 is non-substantial, or less than 10% of the net present value of the original loan balance, with the net present value of the changes being a \$31 million reduction in cash flows or 0.9% over the life of the loan. This adjustment is recognised as a gain in other income and will be unwound as an interest expense on an effective interest rate basis with immediate unwinds occurring on loan repayments. The unwind for the year ending 31 December 2017 would have been \$7 million which included an immediate unwind associated with the repayment of US\$150 million of the facilities in December 2017.

As the Group is applying AASB 9 retrospectively with the cumulative effect of initially applying the standard as an adjustment to the opening balance of retained earnings, accordingly comparative financial information is not being restated. The adjustment to the balance sheet and profit or loss for the year ended 31 December 2017 is outlined below:

	As reported 31 December 2017 \$M	Non-substantial loan modification \$M	Opening balance 1 January 2018 \$M
<b>Balance Sheet</b>			
Non-current interest bearing liabilities	4,706	(24)	4,682
Deferred tax liability	1,030	7	1,037
Total liabilities impact	7,287	(17)	7,270
Net asset impact	5,026	17	5,043
Accumulated losses	(413)	17	(396)
Total equity	5,026	17	5,043
<b>Profit or loss</b>			
Other income	294	31	325
Finance costs	(287)	(7)	(294)
Income tax expense	(82)	(7)	(89)
Profit after income tax	229	17	246
Total comprehensive income	633	17	650
Basic earnings per share (cents per share)	52.0		55.8
Diluted earnings per share (cents per share)	28.0		30.1



# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

## F – OTHER INFORMATION

### F7 NEW AND AMENDED STANDARDS ADOPTED BY THE GROUP (CONTINUED)

#### (i) New and amended standards adopted by the Group (continued)

##### AASB 15 Revenue from Contracts with Customers

The updated accounting policies for the new accounting standard AASB 15 *Revenue from Contracts with Customers* have been disclosed in Note B2(a) and the presentation has been updated to reflect the disclosure requirements of the new standard.

There is one additional category of revenue being recognised for freight services; this will change the revenue reported from coal sales in the 31 December 2017 period from \$2,635 million to \$2,623 million with the corresponding difference of \$12 million being recognised as freight services in other revenue. There is no adjustment required to opening retained earnings as the timing or value of revenue recognised on contracts with customers has not changed.

#### Other amending accounting standards and interpretations

Other relevant accounting standards and amendments and interpretations effective for the current reporting period include:

- AASB 2016-5 *Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions*; and
- AASB Interpretation 22 *Foreign Currency Transactions and Advance Consideration*.

These standards have introduced new disclosures for the Annual Financial Report but did not affect the Group's accounting policies or any of the amounts recognised in the financial statements.

### F8 NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

Reference and Title	Details of New Standard/Amendment/Interpretation	Application date for the Group
AASB 16	<p><b>Leases</b></p> <p>The Group is required to adopt AASB 16 <i>Leases</i> from 1 January 2019. The Group has assessed the estimated impact that initial application of AASB 16 will have on its consolidated financial statements, as described below. The actual impacts of adopting the standard on 1 January 2019 may change because:</p> <ol style="list-style-type: none"> <li>the Group has not finalised the testing and assessment of controls over its new IT systems; and</li> <li>the new accounting policies are subject to change until the Group presents its first financial statements that include the date of initial application.</li> </ol> <p>AASB 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.</p> <p>AASB 16 replaces existing leases guidance, including AASB 117 <i>Leases</i>, IFRIC 4 <i>Determining whether an Arrangement contains a Lease</i>, SIC-15 <i>Operating Leases – Incentives</i> and SIC-27 <i>Evaluating the Substance of Transactions Involving the Legal Form of a Lease</i>.</p> <p>The Group plans to apply AASB 16 initially on 1 January 2019, using the modified retrospective approach. The Group plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply AASB 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with AASB 117 and IFRIC 4.</p> <p>Impact:</p> <p><i>Leases in which the Group is a lessee</i></p> <p>The Group will recognise new assets and liabilities for its operating leases. The nature of expenses related to those leases will now change because the Group will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities.</p> <p>Previously, the Group recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.</p> <p>No significant impact is expected for the Group's finance leases.</p> <p>Based on the information currently available, the Group estimates that it will recognise additional lease liabilities of \$111 million and right-of-use assets of \$92 million as at 1 January 2019. The Group does not expect the adoption of AASB 16 to impact its ability to comply with the revised maximum leverage threshold loan covenants described in Note D2.</p> <p>Although the Directors anticipate that the adoption of AASB 16 will impact the Group's financial statements, it is impracticable at this stage to provide a reasonable estimate of such impact.</p> <p><i>Leases in which the Group is lessor</i></p> <p>The Group will reassess the classification of sub-leases in which the Group is a lessor. Based on the information currently available, the Group expects that it will reclassify sub-leases as finance leases, resulting in recognition of a finance lease receivable of \$19 million as at 1 January 2019.</p>	1 January 2019

Reference and Title	Details of New Standard/Amendment/Interpretation	Application date for the Group
AASB 2017-6	<p><i>Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation</i></p> <p>This Standard amends AASB 9 <i>Financial Instruments</i> to permit entities to measure at amortised cost or fair value through other comprehensive income particular financial assets that would otherwise have contractual cash flows that are solely payments of principal and interest but do not meet that condition only as a result of a prepayment feature. This is subject to meeting other conditions, such as the nature of the business model relevant to the financial asset. Otherwise, the financial assets would be measured at fair value through profit or loss. The Standard also clarifies in the Basis for Conclusion that, under AASB 9, gains and losses arising on modifications of financial liabilities that do not result in derecognition should be recognised in profit or loss.</p> <p>Impact:</p> <p>The Directors anticipate that the adoption of AASB 2017-6 will have no impact on the recognition of amounts in the Group's financial statements, but there will be additional disclosures required.</p>	1 January 2019
AASB 2017-7	<p><i>Amendments to Australian Accounting Standards – Long-term Interests in Associates and Joint Ventures</i></p> <p>This Standard amends AASB 128 <i>Investments in Associates and Joint Ventures</i> to clarify that an entity is required to account for long-term interests in an associate or joint venture, which in substance form part of the net investment in the associate or joint venture but to which the equity method is not applied, using AASB 9 <i>Financial Instruments</i> before applying the loss allocation and impairment requirements in AASB 128.</p> <p>Impact:</p> <p>The Directors anticipate that the adoption of AASB 2017-7 will have no impact on the recognition of amounts in the Group's financial statements, but there will be additional disclosures required.</p>	1 January 2019
AASB 2018-1	<p><i>Annual Improvements to IFRS Standards 2015- 2017 Cycle</i></p> <p>The amendments clarify certain requirements in:</p> <ul style="list-style-type: none"> <li>a) IFRS 3 <i>Business Combinations</i> and IFRS 11 <i>Joint Arrangements</i> – previously held interest in a joint operation;</li> <li>b) IAS 12 <i>Income Taxes</i> – income tax consequences of payments on financial instruments classified as equity; and</li> <li>c) IAS 23 <i>Borrowing Costs</i> – borrowing costs eligible for capitalisation.</li> </ul> <p>Impact:</p> <p>The Directors anticipate that the adoption of AASB 2018-1 will have no impact on the recognition of amounts in the Group's financial statements, but there will be additional disclosures required.</p>	1 January 2019
AASB Interpretation 23, and relevant amending standards	<p><i>Uncertainty over Income Tax Treatments</i></p> <p>The Interpretation clarifies the application of the recognition and measurement criteria in AASB 112 <i>Income Taxes</i> when there is uncertainty over income tax treatments. The Interpretation specifically addresses the following:</p> <ul style="list-style-type: none"> <li>a) whether an entity considers uncertain tax treatments separately;</li> <li>b) the assumptions an entity makes about the examination of tax treatments by taxation authorities;</li> <li>c) how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and</li> <li>d) how an entity considers changes in facts and circumstances.</li> </ul> <p>The Group is currently adhering to this standard and there is no material impact expected on the Group's financial report.</p>	1 January 2019
Not yet issued by the AASB	<p><i>Conceptual Framework for Financial Reporting, and relevant amending standards</i></p> <p>The revised Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. It is arranged in eight chapters, as follows:</p> <ul style="list-style-type: none"> <li>– Chapter 1 – The objective of financial reporting</li> <li>– Chapter 2 – Qualitative characteristics of useful financial information</li> <li>– Chapter 3 – Financial statements and the reporting entity</li> <li>– Chapter 4 – The elements of financial statements</li> <li>– Chapter 5 – Recognition and derecognition</li> <li>– Chapter 6 – Measurement</li> <li>– Chapter 7 – Presentation and disclosure</li> <li>– Chapter 8 – Concepts of capital and capital maintenance</li> </ul>	1 January 2020

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

## F – OTHER INFORMATION

### F8 NEW ACCOUNTING STANDARDS AND INTERPRETATIONS (CONTINUED)

Reference and Title	Details of New Standard/Amendment/Interpretation	Application date for the Group
Not yet issued by the AASB (continued)	<p><i>Amendments to References to the Conceptual Framework in IFRS Standards</i> has also been issued, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. The changes to the Conceptual Framework may affect the application of IFRS in situations where no standard applies to a particular transaction or event. In addition, relief has been provided in applying IFRS 3 and developing accounting policies for regulatory account balances using IAS 8, such that entities must continue to apply the definitions of an asset and a liability (and supporting concepts) in the 2010 Conceptual Framework, and not the definitions in the revised Conceptual Framework.</p> <p>Impact:</p> <p>The Directors anticipate that the adoption of these updates will have no impact on the recognition of amounts in the Group's financial statements, but there will be additional disclosures required.</p>	
AASB 2014-10	<p><i>Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i></p> <p>The amendments clarify that a full gain or loss is recognised when a transfer to an associate or joint venture involves a business as defined in AASB 3 <i>Business Combinations</i>. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. AASB 2015-10 deferred the mandatory effective date (application date) of AASB 2014-10 so that the amendments were required to be applied for annual reporting periods beginning on or after 1 January 2018 instead of 1 January 2016. AASB 2017-5 further defers the effective date of the amendments made in AASB 2014-10 to periods beginning on or after 1 January 2022.</p> <p>Impact:</p> <p>The Directors anticipate that the adoption of this amendment will have no impact on the recognition of amounts in the Group's financial statements, but there will be additional disclosures required.</p>	1 January 2022

## DIRECTORS' DECLARATION

31 DECEMBER 2018

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 100 to 170 are in accordance with the Corporations Act 2001, including:
  - (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the Group's financial position as at 31 December 2018 and of its performance for the year ended on that date; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- (c) at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed group identified in Note E6 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in Note E6.

Note (a)(i) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the Corporations Act 2001.

This declaration is made in accordance with a resolution of Directors.



**Fucun Wang**

**Director**

5 April 2019



# INDEPENDENT AUDITOR'S REPORT



Take the lead

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF YANCOAL AUSTRALIA LTD

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Yancoal Australia Ltd (the Company) and its controlled entities (the Group), which comprises the consolidated balance sheet as at 31 December 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

In our opinion:

1. the accompanying financial statements of the Group are in accordance with the *Corporations Act 2001*, including:
  - 1.1 giving a true and fair view of the Group's financial position as at 31 December 2018 and of its performance for the year then ended; and
  - 1.2 complying with Australian Accounting Standards and the *Corporations Regulations 2001*.
2. the financial statements also comply with International Financial Reporting Standards (IFRS) as disclosed in Note A(i).

#### Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Our responsibilities under those standards are further described in the Auditor's responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the financial statements in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended 31 December 2018. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

#### Brisbane

Level 33  
Riparian Plaza  
71 Eagle Street  
Brisbane QLD 4000  
T + 61 7 3085 0888

#### Melbourne

Level 10  
530 Collins Street  
Melbourne VIC 3000  
T + 61 3 8635 1800  
F + 61 3 8102 3400

#### Sydney

Level 8  
167 Macquarie Street  
Sydney NSW 2000  
T + 61 2 8059 6800  
F + 61 2 8059 6899

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Key Audit Matter	How the matter was addressed during the audit
<p><b>Watagan Mining Company Pty Ltd (Watagan) Control assessment</b></p> <p>(Note E2(b)(i))</p> <p>Even though the Group holds 100% of the nominal share capital of Watagan the Directors have assessed that the Group does not control Watagan as it is not able to direct the relevant activities of Watagan.</p> <p>The assessment under the accounting standards is continuous and it requires a high degree of judgement. If Watagan is controlled by the Group there would need to be a significant change to the financial statements to reflect the consolidation of the assets and liabilities of Watagan.</p>	<p>Our audit procedures included, among others:</p> <p>Considering the requirements of the accounting standard AASB 10 <i>Consolidated Financial Statements</i> to assess whether Yancoal controlled Watagan during the year ended 31 December 2018. In performing these procedures we have reviewed and challenged management's control assessment which includes but is not limited to an analysis of the relationship between the Group, Watagan and its bondholders; as well as Watagan's board composition and dynamics.</p>
<p><b>Impairment of interest-bearing loan to Watagan</b></p> <p>(Note D1)</p> <p>As at 31 December 2018 Yancoal was owed \$835 million by Watagan. This loan receivable must be assessed for impairment as required by the accounting standard AASB 9 <i>Financial Instruments</i>. As the underlying cash flows of Watagan do not support the recovery of this receivable in full, the Group has assessed whether sufficient credit enhancement is in place to ensure the receivable is recoverable.</p> <p>The loan receivable hasn't been impaired as Yankuang Group Co., Ltd (Yankuang), the ultimate parent of the Company, has guaranteed the loan receivable.</p> <p>Due to the size of the loan receivable outstanding and the nature of the guarantee provided the loan receivable is considered to be a key audit matter.</p>	<p>Our audit procedures included, among others:</p> <ul style="list-style-type: none"> <li>• Considering the underlying loan asset impairment test against the criteria of AASB 9 <i>Financial Instruments</i></li> <li>• Assessing the validity of the guarantee that has been provided by Yankuang</li> <li>• Assessing the ability of Yankuang to satisfy the guarantee in the future.</li> </ul>

# INDEPENDENT AUDITOR'S REPORT (CONTINUED)



Key Audit Matter	How the matter was addressed during the audit
<b>Impairment of non-current assets of Watagan</b>	
<p>(Note E2(b)(i))</p> <p>As the Group does not control Watagan but has significant influence, Watagan is accounted for as an associate. The ongoing losses of Watagan are not recognised by the Group as it does not have contractual agreements or a constructive obligation to contribute to Watagan. A disclosure of the summarised financial position and results of Watagan are included in the financial statements in note E2(b)(i).</p> <p>As at 31 December 2018 Watagan had total property, plant and equipment, and mining tenements of \$1.184 billion. Disclosed in note E2(b)(i) there is significant operational uncertainty due to Donaldson being on care and maintenance and Austar having ongoing operational issues.</p> <p>The Group as the operator of Watagan has performed an impairment assessment as to the recoverability of these assets and has concluded that these assets are not impaired as at 31 December 2018. In preparing the impairment assessment, management has used a set of key assumptions which differ from the assumptions used by the Group in performing impairment assessments for its other assets subject to impairment testing. The impairment assessment is complex and involves significant judgment.</p> <p>Watagan's financial position and performance are not consolidated by the Group, however, disclosure is required to reflect the underlying financial position and financial performance of Watagan in the notes to the financial statements. As Watagan may be reconsolidated by the Group in the future, a material impairment may be required at such time. As a result, it is considered to be a key audit matter.</p>	<p>Our audit procedures included, among others:</p> <ul style="list-style-type: none"> <li>• Reviewing and challenging the position papers prepared by management for the assessment of the carrying value of the underlying Watagan assets</li> <li>• Evaluating managements' key valuation assumptions and estimates used in the impairment testing. This includes, documenting the skills and experience of the experts preparing the valuation workings to consider whether we can rely on the work they performed</li> <li>• Performing sensitivity analysis on key inputs</li> <li>• Reviewing the Group's disclosures included in the financial statements for Watagan's impairment testing</li> <li>• Engaging our corporate finance specialists to review the impairment model and various inputs.</li> </ul>
<b>Acquisition of additional 28.9% of Warkworth Associates and disposal of 16.6% of HVO Joint Venture</b>	
<p>(Note E1)</p> <p>In September 2017 the Group acquired Coal &amp; Allied Industries Limited (Coal &amp; Allied). The acquisition accounting was finalised during 2018.</p> <p>In completing the acquisition of Coal &amp; Allied, the Group entered into agreements to acquire a further 28.9% interest in the Warkworth Associates Joint Venture (Warkworth), and divesting a 16.6% interest in HVO Joint Venture. These transactions were completed in 2018. The Warkworth acquisition consideration of US\$230 million has been allocated to the identifiable assets and liabilities of Warkworth. The divestment of HVO has recorded a gain on disposal of A\$78 million.</p> <p>There is a high level of judgement and estimation involved in calculating the fair values of assets and liabilities acquired by the Group. The disposal accounting has involved estimates and judgement to allocate the identifiable assets and liabilities of Coal &amp; Allied to its business units. Given the extent of judgement required and significant estimates involved, we consider this a key audit matter.</p>	<p>Our audit procedures included, among others:</p> <ul style="list-style-type: none"> <li>• Assessing the source and appropriateness of key assumptions made in the purchase price allocation</li> <li>• In assessing key assumptions we utilised our valuation experts who assisted with assessing the valuation methodology against accepted industry practice, discount rates, cross checks of the valuation, coal prices and forecast foreign exchange rates</li> <li>• Comparing the accounting valuation with the taxation valuation to check the deferred taxation calculations to consider whether deferred taxation balances were recognised appropriately</li> <li>• Agreeing the consideration paid to supporting documentation</li> <li>• Assessing the Group's acquisition accounting disclosures.</li> </ul>



Key Audit Matter	How the matter was addressed during the audit
<p><b>Impairment of non-current assets</b></p> <p>(Note C3)</p> <p>A substantial portion of the value of the Group's non-current assets are tangible and intangible assets which are subject to an impairment assessment and revaluations in accordance with AASB 136 <i>Impairment of Assets</i> or AASB 9 <i>Financial Instruments</i>.</p> <p>These assets include property plant and equipment (note C1), mining tenements (note C2), intangible assets (note C5), royalty receivable (note C9) and long-term receivables from joint ventures (note C7).</p> <p>Asset valuation was a key audit matter due to the size of the balances, being 72% of the Group's non-current assets, and the level of judgement required to be applied to prepare the impairment assessment.</p>	<p>Our audit procedures included, among others:</p> <ul style="list-style-type: none"> <li>Assessing the determination of the Group's Cash-Generating Units</li> <li>Considering the assessment of impairment indicators which require an impairment test</li> <li>Evaluating the forecast commodity prices including comparison to available market information</li> <li>Comparing estimated operating costs and capital expenditure used in the impairment assessment with the latest approved mine plans and budgets</li> <li>Comparing the life of mine plan used in impairment with reserves and resources reported by internal geological experts. Evaluating the competency and objectivity of the experts by considering their professional qualifications and experience</li> <li>Working with our valuation specialists to compare key assumptions such as discount rates and foreign exchange rates to market information</li> <li>Performing sensitivity analysis on the key assumptions</li> <li>Assessing the Group's impairment disclosures.</li> </ul>
<p><b>Taxation</b></p> <p>(Note B6)</p> <p>The Group is subject to income taxes in Australia. Significant judgement is required in determining the provision for income taxes and associated deferred taxation balances. The Group estimates its tax liabilities based on the Group's interpretation of taxation laws and regulations. Where the final outcome of these matters is different from the amounts that were initially recorded such differences will impact the current and deferred tax assets and liabilities in the period in which such a determination is made.</p> <p>The Company must comply with the provisions of the Continuity of Ownership Test (COT) to continue to carry forward deferred tax assets of A\$624 million that are associated with prior period losses. With the acquisitions completed by the Group there is a high degree of complexity associated with the Allocable Cost Amount (ACA) calculations associated with these acquisitions.</p> <p>Furthermore, the Group is involved in a significant value and quantity of related party transactions which must be in compliance with the transfer pricing provisions of international taxation laws and regulations.</p> <p>Significant judgement is required to calculate taxation balances, including assessing the recognition and measurement of taxation balances where there is a range of possible outcomes due to different interpretations of taxation law and regulations. Due to the size of the deferred tax balances on a gross basis we consider this to be a key audit matter.</p>	<p>Our audit procedures included, among others:</p> <ul style="list-style-type: none"> <li>Engaging the use of our taxation experts to assist with: <ul style="list-style-type: none"> <li>The ACA calculation</li> <li>The tax calculation</li> <li>Considering any uncertain taxation positions</li> <li>Assessing transfer pricing arrangements</li> <li>Evaluating the COT assessment</li> </ul> </li> <li>Assessing the Group's taxation disclosures.</li> </ul>



## INDEPENDENT AUDITOR'S REPORT (CONTINUED)



### Information other than the Financial Statements and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information in the Group's financial report for the year ended 31 December 2018, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of the Directors for the Financial Statements

The directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors are responsible for overseeing the Group's financial reporting process. In Note A(i), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with IFRS.

### Auditor's responsibilities for the Audit of the Financial Statements

Our responsibility is to express an opinion on the financial statements based on our audit. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. However, we will communicate to you in writing concerning any significant deficiencies in internal control relevant to the audit of the financial statements that we have identified during the audit.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The auditing standards require that we comply with relevant ethical requirements relating to audit engagements.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Report on the Remuneration Report

### Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 64 to 77 of the directors' report for the year ended 31 December 2018. In our opinion, the Remuneration Report of Yancoal Australia Ltd, for the year ended 31 December 2018, complies with section 300A of the *Corporations Act 2001*.

### Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

**ShineWing Australia**  
Chartered Accountants

**R Blayney Morgan**  
Partner, Sydney

Monday, 25 February 2019

## ADDITIONAL HKEx COMPLIANCE REQUIREMENTS

### CONTINUING CONNECTED TRANSACTIONS

The Group has entered into certain transactions with connected persons of the Company which constitute continuing connected transactions of the Company under the HK Listing Rules. These non-exempt continuing connected transactions, in respect of which the Company has complied with the relevant requirements under Chapter 14A of the HK Listing Rules, are set out below.

#### 1. Sale of Coal by the Group

From time to time, Yanzhou (the controlling shareholder of the Company who is interested in approximately 62.26% of the shares in the Company) and/or its subsidiaries (excluding the Group) may purchase coal from the Group primarily for their own trading purposes. The Company entered into a framework coal sales agreement with Yanzhou (the **"Yanzhou Framework Coal Sales Agreement"**) on 8 October 2018 to govern all existing and future sales of coal by the Group to Yanzhou and/or its subsidiaries (excluding the Group). The Yanzhou Framework Coal Sales Agreement provides that all transactions in relation to the sale of coal by the Group to Yanzhou and/or its subsidiaries (excluding the Group) must be (i) in the ordinary and usual course of business of the Group, (ii) on an arm's length basis, (iii) on normal commercial terms with the sale price being determined with reference to market indices, adjusted for coal characteristics and an optional analysis to ensure the price is negotiated on an arm's length basis and (iv) in compliance with, amongst other things, the HK Listing Rules and applicable laws.

The Yanzhou Framework Coal Sales Agreement expires on 31 December 2020 and is automatically renewable for successive periods of three years thereafter, subject to compliance with the then applicable provisions of the HK Listing Rules, unless terminated earlier by not less than three months' prior notice or otherwise in accordance with the terms of the Yanzhou Framework Coal Sales Agreement.

The maximum annual transaction amount to be received by the Group from Yanzhou and/or its subsidiaries (excluding the Group) for the three years ending 31 December 2018, 2019 and 2020 will not exceed US\$250.0 million, US\$250.0 million and US\$250.0 million, respectively. During the year ended 31 December 2018, the transaction amount received by the Group was approximately US\$171.6 million, which was below the annual cap.

#### 2. Purchase of Coal by the Group

The Group has purchased and may, from time to time, purchase coal from Yanzhou and/or its subsidiaries, in particular Australian-based subsidiaries of Yanzhou holding mines which are managed by the Group, for back-to-back on sale to end customers in order to fulfil customer requirements and maintain customer relationships.

The Company entered into a framework coal purchase agreement with Yanzhou (the **"Framework Coal Purchase Agreement"**) on 8 October 2018 to govern all existing and future purchases of coal by the Group from Yanzhou and/or its subsidiaries (excluding the Group). The Framework Coal Purchase Agreement provides that all transactions in relation to the purchase of coal by the Group from Yanzhou and/or its subsidiaries (excluding the Group) must be (i) in the ordinary and usual course of business of the Group, (ii) on an arm's length basis, (iii) on normal commercial terms with the sale price being determined with reference to industry index prices and coal quality characteristics under the respective contracts and (iv) in compliance with, amongst other things, the HK Listing Rules and applicable laws.

The Framework Coal Purchase Agreement expires on 31 December 2020 and is automatically renewable for successive periods of three years thereafter, subject to compliance with the then applicable

provisions of the HK Listing Rules, unless terminated earlier by not less than three months' prior notice or otherwise in accordance with the terms of the Framework Coal Purchase Agreement.

The maximum annual transaction amount to be paid by the Group to Yanzhou and/or its subsidiaries (excluding the Group) for the three years ending 31 December 2018, 2019 and 2020 will not exceed US\$65.0 million, US\$65.0 million and US\$65.0 million, respectively. During the year ended 31 December 2018, the transaction amount paid by the Group was approximately US\$20.8 million, which was below the annual cap.

#### 3. Provision of Management Services by the Company

As one of the conditions imposed by the Foreign Investment Review Board of the Australian Government in relation to the merger of the Company with Gloucester in 2012, a management and transitional services agreement (the **"Management and Transitional Services Agreement"**) was entered into between the Company and the following entities (the **"Existing Recipients"**), comprising (i) Yanzhou, (ii) Yancoal Technology Development Holdings Pty Ltd, (iii) Premier Coal Holdings Pty Ltd, (iv) Athena Holdings Pty Ltd, (v) Tonford Holdings Pty Ltd, (vi) Wilpeena Holdings Pty Ltd and (vii) Yancoal Energy Pty Limited, in 2012, pursuant to which the Company has agreed to provide to the Existing Recipients each of the Services (as described below) in respect of certain assets owned by the Existing Recipients. Each of the Existing Recipients is a wholly owned subsidiary of Yanzhou (other than Yanzhou itself). Yanzhou is a Controlling Shareholder of the Company and is interested in approximately 62.26% of the Shares in the Company.

On 7 December 2016, a deed of variation, accession and termination agreement of the Management and Transitional Services Agreement was entered into among the Existing Recipients, Yankuang Resources Pty Ltd (**"Yankuang Resources"**), Yankuang (Australia) Metal Mining Pty Ltd. (**"Yankuang (Australia) Metal Mining"**), together with Yankuang Resources and the Existing Recipients, the **"Recipients"** and the Company, pursuant to which Yankuang Resources and Yankuang (Australia) Metal Mining became parties to the Management and Transitional Services Agreement and are entitled to all rights and benefits of an Existing Recipient under the Management and Transitional Services Agreement. Yankuang Resources and Yankuang (Australia) Metal Mining are both wholly owned subsidiaries of Yankuang. Yankuang is, directly and indirectly, interested in approximately 52.86% of the shares in Yanzhou and is a controlling shareholder of the Company.

Details of the terms of the Management and Transitional Services Agreement are set out below.

##### (i) Services

The Services provided to each Recipient and each of their respective subsidiaries (excluding the Group and Yanzhou) include:

- (i) General Corporate Services, which comprise HR services, treasury services, financial accounting/reporting services, compliance services, marketing and logistic services, corporate communications services, government and industry relations services, business development services and other general corporate services;
- (ii) Operations Services, which comprise carrying out exploration programs, preparing business plans, monitoring and reporting on environmental issues, using all reasonable endeavours to meet business KPIs, preparing plans of operations as may be required by laws and other operational services; and
- (iii) IT Services, which comprise the granting of the permission to use the Company's hardware or software and the provision of IT support services.

During the term, each party may request that the Company provide an additional service or the Company may change or modify the

provision of an existing service by notifying the parties in writing. Following receipt of the notice, representatives of each party must promptly meet to discuss in good faith the proposed new services or modified services.

#### (II) Services Fees

The services fees for provision of the Services are charged on the basis of cost plus a 5% margin, except for any third party charges attributable to the provision of the relevant services which are charged at cost. The cost base upon which 5% margin is applied is determined on the basis of management's reasonable estimate of such costs at the commencement of each calendar year having regard to certain principles, including (i) in respect of coal mining operations, the total budgeted corporate administration costs of the Company and the budgeted proportion of overall product tonnes of the relevant mining operation, (ii) in respect of non-coal mining businesses, the estimated management hours and the hourly rate for such work and (iii) in respect of disbursement, full recovery of any hard disbursements incurred by the Company.

At the end of each financial year (or such other times as the parties may agree), the parties will undertake a reconciliation of the fees charged during that financial year against the actual cost and services provided. The Company will refund the excess charges or the Recipients will pay the shortfall charges to the Company, in each case, within 14 days of determination of the fee adjustment required.

#### (III) Payment of the Services Fees

The Company will invoice the Recipients quarterly in arrears for services provided and the Recipients must pay the amount due to the Company within 30 days after the receipt of the invoice.

Notwithstanding that the term of the Management and Transitional Services Agreement may exceed three years, the Company has set the annual caps for the transactions under the Management and Transitional Services Agreement for a term of three years and will comply with the applicable requirements of the HK Listing Rules after the expiry of the initial three years. The maximum annual transaction amount to be charged by the Group from the Recipients for the three years ending 31 December 2018, 2019 and 2020 will not exceed A\$15 million, A\$15 million and A\$15 million, respectively. During the year ended 31 December 2018, the transaction amount charged by the Group was approximately A\$7.9 million, which was below the annual cap.

### 4. Loan Facility Provided by the Company

Premier Coal Holdings Pty Ltd, an indirect wholly owned subsidiary of Yanzhou (**"Premier Coal"**) (as the borrower), entered into a loan agreement with the Company (as lender) on 15 June 2016 in relation to an A\$50 million uncommitted revolving loan with a fixed interest rate of 7% per annum (the **"Premier Coal Loan Agreement"**).

Pursuant to the Premier Coal Loan Agreement, the Company may terminate or cancel the facility at any time and draws already advanced to Premier Coal prior to the termination or cancellation are required to be repaid immediately. The termination date will be the date 12 months after the date of the Premier Coal Loan Agreement, subject to automatic extension on a rolling 12-months basis, or any earlier date on which the facility is terminated or cancelled in full or on which all the money owing becomes due and payable.

The maximum daily drawn-down principal of the loan under the Premier Coal Loan Agreement (including the interest accrued thereon) for the three years ending 31 December 2018, 2019 and 2020 will not exceed A\$53.5 million, A\$53.5 million and A\$53.5 million, respectively. The annual caps represent the facility limit under the Premier Coal Loan Agreement and the maximum interest to be received. As at 31 December 2018, no amount remained drawn down under the Premier Coal Loan Agreement.

### 5. Bank Guarantees Provided in favour of Yanzhou's Subsidiaries

Yancoal Resources Limited (**"Yancoal Resources"**), a wholly owned subsidiary of the Company, entered into a syndicated facility agreement (as most recently amended on 31 August 2017) (the **"Local Banks Secured Syndicated Facility Agreement"**) with financiers who are independent third party commercial banks, on 11 October 2005, pursuant to which the financiers have agreed to grant to the borrowers, being Yancoal Resources and any new borrowers as agreed by the financiers, a dollar contingent liability facility (which may also be drawn in US\$), under which the financiers will issue credit support documents, including bank guarantee and letter of credit, in the name of the borrowers. Subject to amendment and restatement from time to time, the Local Banks Secured Syndicated Facility Agreement is for a term of three years.

The Company manages certain mines on behalf of Yanzhou. In the ordinary and usual course of business, the subsidiaries of Yanzhou holding the managed mines may require credit support documents issued by commercial banks for their respective business operations. Given the relevant commercial banks can issue credit support documents pursuant to existing facility agreements generally within five business days after receiving a request, which is a much shorter period of time and simpler process as compared to those required by other commercial banks to issue credit support documents without an existing facility agreement, and the relationship between the Company and the managed mines, as an integral part of the management services rendered by the Company in support of the operation of the managed mines, the subsidiaries of Yanzhou holding the managed mines will use the overall bank guarantee facilities, including the Syndicated Facility and the facility under the Local Banks Secured Syndicated Facility Agreement, and pay the Company bank guarantee fees, which are equal to the fees to be paid by the Company to the commercial banks.

The aggregate maximum daily outstanding principal and the bank guarantee fees to be received under the credit support documents issued by commercial banks in favour of the subsidiaries of Yanzhou (excluding the Group) for the three years ending 31 December 2018, 2019 and 2020 will not exceed A\$123.4 million, A\$128.6 million and A\$133.7 million, respectively. During the year ended 31 December 2018, the aggregate maximum daily outstanding principal and the bank guarantee fees was approximately A\$71.7 million, which was below the annual cap.

### 6. Purchase of Coal by Glencore

From time to time, Glencore Coal Pty Ltd (**"Glencore"**) and/or its associates may purchase coal from the Group for on-sale to end customers, in order to maintain customer relationships or to meet specific customer requirements. The Company entered into a framework coal sales agreement with Glencore (the **"Glencore Framework Coal Sales Agreement"**) on 29 June 2018 to govern all existing and future sales of coal by the Group to Glencore and/or its subsidiaries and/or related entities. The Glencore Framework Coal Sales Agreement provides that all transactions in relation to the sale of coal by the Group to Glencore and/or its subsidiaries and/or related entities must be (i) in the ordinary and usual course of business of the Group, (ii) on an arm's length basis, (iii) on normal commercial terms with the sale price being determined with reference to the prevailing market price for the relevant type of coal and (iv) in compliance with, amongst other things, the HK Listing Rules and applicable laws. The Company will take into account relevant industry benchmarks and indices when determining the market price. Glencore wholly owns Anotero Pty Ltd (**Anotero**). Anotero is a substantial shareholder of subsidiaries of the Company under the HK Listing Rules. Glencore is a connected person of the Company by virtue of being a substantial shareholder of the Company's subsidiary (through Anotero).



## ADDITIONAL HKEx COMPLIANCE REQUIREMENTS (CONTINUED)

The Glencore Framework Coal Sales Agreement expires on 31 December 2020 and is automatically renewable for successive periods of three years thereafter, subject to compliance with the then applicable provisions of the HK Listing Rules, unless terminated earlier by not less than three months' prior notice or otherwise in accordance with the terms of the Glencore Framework Coal Sales Agreement. Glencore is a connected person of the Company by virtue of being a substantial shareholder of the Company's subsidiary (through Anotero).

The maximum annual transaction amount to be received by the Group from Glencore and/or its subsidiaries and/or its related entities for the three years ending 31 December 2018, 2019 and 2020 will not exceed US\$350 million, US\$350 million and US\$350 million, respectively. During the year ended 31 December 2018, the transaction amount received by the Group was approximately A\$297.4 million, which was below the annual cap.

### 7. Purchase of Coal by Sojitz

From time to time, Sojitz Moolarben Resources Pty Ltd ("**Sojitz**") and/or its subsidiaries may purchase coal from the Group primarily for their own trading purposes and for sale to end customers, typically into Japan. Specifically, Moolarben Coal Sales Pty Ltd has entered into a coal supply contract for a term of three years with Sojitz Corporation in March 2016 for onward supply of coal to a major industrial user in Japan. This contract is likely to be renewed and it is expected that this business will be ongoing. Sojitz is a substantial shareholder of the Moolarben joint venture, a subsidiary of the Company under the HK Listing Rules. Sojitz is a connected person of the Company by virtue of being a substantial shareholder of the Company's subsidiary.

The coal sales agreement between the Company and Sojitz (the "**Sojitz Coal Sales Agreement**") dated 6 August 2018 governs all existing and future sales of coal by the Group to Sojitz and/or its subsidiaries. The Sojitz Coal Sales Agreement provides that all transactions in relation to the sale of coal by the Group to Sojitz and/or its subsidiaries must be (i) in the ordinary and usual course of business of the Group, (ii) on an arm's length basis, (iii) on normal commercial terms with the sale price being determined with reference to market indices, coal quality and an optional analysis to ensure the price is negotiated on an arm's length basis and (iv) in compliance with, amongst other things, the HK Listing Rules and applicable laws.

The Sojitz Coal Sales Agreement expires on 31 December 2020 and is automatically renewable for successive periods of one year thereafter, subject to compliance with the then applicable provisions of the HK Listing Rules, unless terminated earlier by not less than three months' prior notice or otherwise in accordance with the terms of the Sojitz Coal Sales Agreement.

The maximum annual transaction amount to be received by the Group from Sojitz and/or its subsidiaries for the three years ending 31 December 2018, 2019 and 2020 will not exceed US\$100 million and US\$100 million, respectively. During the year ended 31 December 2018, the transaction amount received by the Group was approximately US\$54.6 million, which was below the annual cap.

### 8. Sales of Coal by the Group to POSCO and/or its Associates

From time to time, POSCO Australia Pty Ltd (previously known as Pohang Steel Australia Pty Ltd) ("**POSCO**") and/or its associates may purchase coal from the Group for their own utilisation in the manufacturing of steel or generation of electricity. POSCO is a substantial shareholder of the subsidiaries of the Company under the HK Listing Rules.

The Group entered into five coal sales agreements with POSCO Group companies that govern the sale of coal by the Group to POSCO and/or its associates on 21 December 2017

(the "**POSCO Coal Sales Agreements**"). As POSCO is interested in 20% of the Mount Thorley JV, a subsidiary of the Company under the Listing Rules, POSCO is a connected person of the Company by virtue of being a substantial shareholder of the Company's subsidiary.

The POSCO Coal Sales Agreements provide that all transactions in relation to the sale of coal by the Group to POSCO and/or its associates must be (i) in the ordinary and usual course of business of the Group, (ii) on an arm's length basis, (iii) on normal commercial terms with the sale price being negotiated between the parties on an arm's length market-related basis relative to market benchmarks and reflecting coal quality, and (iv) in compliance with, amongst other things, the HK Listing Rules and applicable laws. The Group has been supplying POSCO and/or its associates for several years under annual contracts which are renewed annually, but where volume and price are renegotiated annually.

The maximum annual cap in respect of the POSCO Coal Sales Agreements for the year ended 31 December 2018 was US\$780 million. During the year ended 31 December 2018, the transaction amount received by the Group was approximately US\$428.1 million, which was below the annual cap.

As the POSCO Coal Sales Agreements are renewed annually, the Company will set an annual cap for the transactions under the POSCO Coal Sales Agreements for a further term of one year and will re-comply with the applicable requirements of the HK Listing Rules when the relevant agreements are renewed. As disclosed in the announcement of the Company dated 29 March 2019, the parties formally agreed to enter into four coal sales agreements with POSCO and/or its associates (the "**2019 POSCO Coal Agreements**") on 29 March 2019. The maximum annual cap for the year ending 31 December 2019 is US\$780 million.

### 9. Purchase of Coal from Glencore

From time to time, the Group may purchase coal from Glencore and/or its associates for on sale to end customers, in order to maintain customer relationships or to meet specific customer requirements. The Company entered into a framework coal purchase agreement with Glencore (the "**Glencore Framework Coal Purchase Agreement**") on 6 August 2018 to govern all existing and future purchases of coal by the Group from Glencore and/or its subsidiaries. The Glencore Framework Coal Purchase Agreement provides that all transactions in relation to the purchase of coal by the Group from Glencore and/or its associates must be (i) in the ordinary and usual course of business of the Group, (ii) on an arm's length basis, (iii) on normal commercial terms with the sale price being determined with reference to the prevailing market price for the relevant type of coal and (iv) in compliance with, amongst other things, the HK Listing Rules and applicable laws. The Company will take into account relevant industry benchmarks and indices when determining the market price. Glencore wholly owns Anotero which is a substantial shareholder of subsidiaries of the Company under the HK Listing Rules. Glencore is a connected person of the Company by virtue of being a substantial shareholder of the Company's subsidiary.

The Glencore Framework Coal Purchase Agreement expires on 31 December 2020 and is automatically renewable for successive periods of three years thereafter, subject to compliance with the then applicable provisions of the HK Listing Rules, unless terminated earlier by not less than three months' prior notice or otherwise in accordance with the terms of the Glencore Framework Coal Purchase Agreement.

The maximum annual transaction amount to be paid by the Group to Glencore and/or its subsidiaries for the three years ending 31 December 2018, 2019 and 2020 will not exceed US\$350 million, US\$350 million and US\$350 million, respectively. During the year ended 31 December 2018, the transaction amount paid by the

Group was approximately US\$105.2 million, which was below the annual cap.

#### 10. Purchase of Coal from Anotero

As part of the Glencore Transaction, CNAO, a wholly owned subsidiary of the Company, HVO Coal Sales Pty Ltd (the SalesCo) and Anotero entered into a sales contract – Hunter Valley Operations Joint Venture on 4 May 2018 (the “**HVO Sales Agreement**”). The relevant mining and exploration licences of HVO are held directly by CNAO and Anotero as tenants in common in proportion to their respective participating interests in the HVO JV. Pursuant to the HVO Sales Agreement, (i) each of CNAO and Anotero agrees to sell all of its entitled portion of finished coal product in saleable form that is produced by the tenements held by the HVO JV to the SalesCo only and the SalesCo agrees to purchase each of CNAO's and Anotero's entitled portion of coal product, (ii) the amount payable to each of CNAO and Anotero by the SalesCo shall be the total amount received by the SalesCo for that portion of product under each sales contract entered into between the SalesCo and its customers and (iii) payment by the SalesCo to CNAO and Anotero shall be no later than three business days after receipt by the SalesCo of payment from its customers. Anotero is a substantial shareholder of subsidiaries of the Company under the HK Listing Rules. Anotero is a connected person of the Company by virtue of being a substantial shareholder of the Company's subsidiary.

The HVO Sales Agreement shall commence on the date of the HVO Sales Agreement and terminate upon the termination of the joint venture agreement in relation to the HVO JV in accordance with its terms.

Notwithstanding that the term of the HVO Sales Agreement may exceed three years, the Company has set the estimated maximum annual transaction amounts for the transactions under the HVO Sales Agreement for a term of three years and will re-comply with the applicable requirements of the HK Listing Rules after the expiry of the initial three years. The maximum annual transaction amounts to be distributed by the SalesCo to Anotero for the three years ending 31 December 2018, 2019 and 2020 will not exceed US\$750 million, US\$750 million and US\$750 million, respectively. During the year ended 31 December 2018, the transaction distributed by the SalesCo to Anotero was approximately US\$551 million, which was below the annual cap.

#### 11. Purchase of Coal from POSCO

The participants of the unincorporated joint venture in relation to Mount Thorley (the “**MT JV**”) namely POSCO and Mount Thorley Operations Pty Ltd (previously known as R. W. Miller & Co. Pty Limited) (“**MT Operations**”), a wholly owned subsidiary of the Company holding the relevant mining and exploration licences of Mount Thorley on behalf of the MT JV, entered into a sales contract with Miller Pohang Coal Co. Pty Limited (the “**MT SalesCo**”) on 10 November 1981 (the “**MT Sales Agreement**”), respectively. MT SalesCo is a company jointly controlled by MT Operations and POSCO with MT Operations and POSCO holding 80% and 20% of its interest, respectively. Both the MT SalesCo and the MT JV are subsidiaries of the Company under the HK Listing Rules. As POSCO holds more than 10% of the interest in the MT SalesCo and has more than 10% participating interest in the MT JV, POSCO is a connected person of the Company by being a substantial shareholder of the subsidiaries of the Company. Accordingly, the transaction between the MT SalesCo and POSCO constitutes a continuing connected transaction of the Company under the HK Listing Rules.

Pursuant to the MT Sales Agreement: (i) each of POSCO and MT Operations agrees to sell all of its entitled portion of finished coal product in saleable form that is produced by the tenements

held by the MT JV to the MT SalesCo only and the MT SalesCo agrees to purchase each of POSCO's and MT Operations' entitled portion of coal product, (ii) the amount payable to each of POSCO and MT Operations shall be the total amount received by the MT SalesCo for that portion of product under each sales contract entered into between the MT SalesCo and its customers and (iii) payment by the MT SalesCo to POSCO and MT Operations shall be no later than seven days after receipt by the MT SalesCo of payment from its customers.

The MT Sales Agreement was entered into on 10 November 1981 and will last during the economic life of the Mount Thorley coal mine.

Notwithstanding that the term of the MT Sales Agreement may exceed three years, the Company has set the estimated maximum annual transaction amounts for the transactions under the MT Sales Agreement for a term of three years and will re-comply with the applicable requirements of the HK Listing Rules after the expiry of the initial three years. The maximum annual transaction amount to be distributed by the MT SalesCo to POSCO for the three years ending 31 December 2018, 2019 and 2020 will not exceed US\$90 million, US\$90 million and US\$90 million, respectively. During the year ended 31 December 2018, the transaction amount distributed by the MT SalesCo to POSCO was approximately US\$89.5 million, which was below the annual cap.

#### Review on continuing connected transactions

Pursuant to Rule 14A.55 of the HK Listing Rules, the Directors (including Independent Non-Executive Directors) have reviewed the above continuing connected transactions in the year ended 31 December 2018. The Independent Non-Executive Directors hereby confirm that the above continuing transactions have been entered into:

1. in the ordinary and usual course of business of the Group;
2. on normal commercial terms or better; and
3. in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of Shareholders as a whole.

In accordance with the requirement of Rule 14A.56 and 14A.71(6)(b) of the HK Listing Rules, the Company has engaged the independent auditor of the Company to report on the continuing connected transactions of the Group.

Based on the results of procedures performed and in accordance with the aforesaid HK Listing Rules, the independent auditor has provided a letter to the Board confirming that nothing has come to its attention that caused it to believe that the continuing connected transactions:

- (i) have not been approved by the Board;
- (ii) were not, in all material respects, in accordance with the pricing policies of the Group;
- (iii) were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and
- (iv) have exceeded their respective annual caps for the financial year ended 31 December 2018 set out in the prospectus of the Company.

In accordance with paragraph 14A.57 of the Listing Rules, a copy of the independent auditor's letter has been provided by the Company to the HK Stock Exchange.

The Company confirms that it has complied with the requirements of Chapter 14A of the HK Listing Rules in relation to all connected transactions and continuing connected transactions to which any Group member was a party during the year ended 31 December

## ADDITIONAL HKEx COMPLIANCE REQUIREMENTS (CONTINUED)

2018. Please refer to Note E3 to the Financial Statements for a summary of the related party transactions entered into by the members of the Group for the year ended 31 December 2018. Other than those transactions disclosed in the section headed "Continuing Connected Transactions" above, none of these transactions constitutes a disclosable connected transaction as defined under the HK Listing Rules.

### DIRECTORS' CONFIRMATIONS

#### Directors' Interests in Competing Business

Except for (i) Baocai Zhang, who is a Non-Executive Director and also a Director of Yankuang Group Company Limited (**Yankuang**) and (ii) Xiangqian Wu and Qingchun Zhao, who are Non-Executive Directors and also the Directors of Yanzhou, none of the Directors is interested in any business apart from the Group's business which competes with or is likely to compete, either directly or indirectly, with the Group's business during the year ended 31 December 2018.

#### Letters of appointment and service contracts

Each Director has entered into a letter of appointment in relation to his/her role as a Director of the Company, which is subject to termination by the Director or the Company in accordance with the terms of the letter of appointment, the requirements of the Listing Rules and the provisions relating to the retirement and rotation of the Directors under the Constitution.

Pursuant to the terms of the letter of appointment entered into between each Director (on the one part) and the Company (on the other part), (a) the Executive Director and the Non-Executive Directors are not entitled to receive any Directors' fees; (b) the annual Directors' fees payable by the Company to each Independent Non-Executive Director are A\$150,000 (save for Greg Fletcher who receives fees as set out in (e) below); (c) an Independent Non-Executive Director (save for Greg Fletcher) will receive from the Company an additional fee of A\$30,000 for being the Chairman of the Audit and Risk Management Committee, the Nomination and Remuneration Committee or the Health, Safety and Environment Committee, (d) an Independent Non-Executive Director (save for Greg Fletcher) will receive from the Company an additional fee of A\$15,000 for being a member of the Audit and Risk Management Committee, the Health, Safety and Environment Committee, the Nomination and Remuneration Committee or the Strategy and Development Committee, and certain additional fees on a per day basis as approved by the Board for the role on an Independent Board Committee for any major related party transactions, and (e) Greg Fletcher will receive A\$330,000 including superannuation in aggregate for his role as a Co-Vice Chair of the Board, Chairman of the Audit and Risk Management Committee, member of the Nomination and Remuneration Committee and Chair of the Independent Board Committee.

Each Director is entitled to be indemnified by the Company (to the extent permitted under the Constitution and applicable laws) and

to be reimbursed by the Company for all necessary and reasonable out-of-pocket expenses properly incurred in connection with the performance and discharge of his/her duties under his/her letter of appointment.

Save as disclosed above, none of the Directors has entered into any service contracts as a Director with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

### INTERESTS AND POSITIONS IN SHARES

#### 1. Interests of the Directors and Chief Executive of the Company

The interests and/or short positions (as applicable) of the Directors and the Chief Executive of the Company in the Shares and debentures of the Company and any interests and/or short positions (as applicable) in shares or debentures of any of the Company's associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (**SFO**)) which (i) have to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions (as applicable) which they are taken or deemed to have under such provisions of the SFO), (ii) are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or (iii) are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the HK Listing Rules, to be notified to the Company and the Hong Kong Stock Exchange, are as follows:

Name of Director or Chief Executive	Number of Shares	Nature of Interest	Approximate Percentage
Baocai Zhang	274,404	Beneficial owner	0.02078%
Gregory James Fletcher	2,100	Beneficial owner	0.00016%
Geoffrey William Raby	22,858	Beneficial owner	0.00174%
Reinhold Schmidt	312,278	Beneficial owner	0.02374%

Save as disclosed above, none of the Directors or the Chief Executive of the Company have an interest and/or short position (as applicable) in the Shares or debentures of the Company or any interests and/or short positions (as applicable) in the shares or debentures of the Company's associated corporations (within the meaning of Part XV of the SFO) which (i) have to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), (ii) are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or (iii) are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the HK Listing Rules, to be notified to the Company and the Hong Kong Stock Exchange.

## 2. Interests of persons other than Directors and Chief Executive of the Company

The following persons (other than a Director or Chief Executive of the Company) will have an interest and/or short position (as applicable) in the Shares or underlying Shares which were recorded in the register required to be kept under section 336 of the SFO:

Name of Shareholder	Capacity	Number of Shares Held or Interested	Approximate Percentage (%)
Yanzhou	Beneficial interest	822,157,715	62.26%
Yankuang <sup>1</sup>	Interest in controlled entity	822,157,715	62.26%
Cinda International HGB Investment (UK) Limited	Beneficial interest	209,800,010	15.89%
China Agriculture Investment Limited	Interest in controlled entity	209,800,010	15.89%
International High Grade Fund B, L.P.	Interest in controlled entity	209,800,010	15.89%
Cinda International GP Management Limited	Interest in controlled entity	209,800,010	15.89%
China Cinda (HK) Asset Management Co., Ltd	Interest in controlled entity	209,800,010	15.89%
Cinda Strategic (BVI) Limited	Interest in controlled entity	209,800,010	15.89%
Cinda International Holdings Limited	Interest in controlled entity	209,800,010	15.89%
China Cinda (HK) Holdings Company Limited	Interest in controlled entity	209,800,010	15.89%
China Cinda Asset Management Co., Ltd <sup>2</sup>	Interest in controlled entity	209,800,010	15.89%
Glencore Coal Pty Ltd	Beneficial interest	84,497,858	6.40%
Glencore Holdings Pty Limited	Interest in controlled entity	84,497,858	6.40%
Glencore plc <sup>3</sup>	Interest in controlled entity	84,497,858	6.40%
CSIL <sup>4</sup>	Beneficial interest	71,428,572	5.41%
Shandong Lucion Investment Holdings Group Co., Ltd	Interest in controlled entity	71,428,572	5.41%

- Yankuang is deemed to be interested in the 822,157,715 Shares which Yanzhou is interested in as beneficial owner as it is entitled to exercise or control the exercise of more than one-third of the voting power at general meetings of Yanzhou.
- Cinda International HGB Investment (UK) limited, an indirect wholly owned subsidiary of China Cinda Asset Management Co., Ltd, is interested in 209,800,010 Shares which are held by J P Morgan Nominees Australia Limited as nominee. China Cinda Asset Management Co., Ltd., China Cinda (HK) Holdings Company Limited, Cinda International Holdings Limited, Cinda Strategic (BVI) Limited, China Cinda (HK) Asset Management Co., Ltd, Cinda International GP Management Limited, International High Grade Fund B, L.P. and China Agriculture Investment Limited are each deemed to be interested in the 209,800,010 Shares which Cinda International HGB Investment (UK) Limited is interested in as beneficial owner.
- Glencore plc and Glencore Holdings Pty Limited are deemed to be interested in the 84,497,858 Shares which Glencore Coal Pty Ltd is interested in as beneficial owner. Glencore plc wholly owns Glencore Holdings Pty Ltd which in turn wholly owns Glencore Coal Pty Ltd.
- CSIL, a wholly owned subsidiary of Shandong Lucion Investment Holdings Group Co., Ltd, is interested in 71,428,572 Shares which are held by HSBC Custody Nominees (Australia) Limited – A/C 2 as nominee.

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

As at the date of this Report:

- Yankuang is, directly and indirectly, interested in approximately 52.86% of the shares in Yanzhou and Yanzhou is interested in approximately 62.26% of the Shares in the Company;
- the Company is a non-wholly owned subsidiary of Yankuang and Yanzhou; and
- Yankuang and Yanzhou are controlling shareholders of the Company (**Controlling Shareholders**).

### Operational Independence

The Yankuang Group does not have any interests in mines in Australia other than through its interests in the Yanzhou Group and the Group. The mining assets of Yanzhou located in Australia, other than through its interest in the Group, are managed and operated by the Company. These mining assets of Yanzhou comprise (i) the Cameby Downs mine located in Queensland, Australia, (ii) the Premier mine located in Western Australia (the “Managed Mines”), and (iii) exploration projects not currently in production. Pursuant to a long-term management services agreement, the Company is responsible for, among others, HR, treasury and the operations, exploration and development of the Managed Mines.

The Directors are of the view that the connected transaction entered into with the Yanzhou Group as described above will

not have any material impact on the Group's ability to operate independently and the Group's operations are independent from the Controlling Shareholders.

### Financial Independence

As at 31 December 2018, except for the guarantee provided by Yankuang in respect of the obligations of Watagan (a wholly owned subsidiary of the Company) under a loan facility agreement between the Company and Watagan, of which A\$835 million remained drawn down, there are no loans or guarantees which are provided by the Yankuang Group to or for the benefit of the Group.

Since 31 December 2018, the Company has not drawn down or utilised any of the loan facilities or guarantees mentioned above and has no intention to further draw down on such loan facilities or guarantees before the Listing.

The Group has obtained financing from third party sources on a stand-alone basis without any credit support from the Yanzhou Group or the Yankuang Group or any of their respective associates. The Directors are therefore of the view that the Group is able to operate financially independently from the Controlling Shareholders.

## COMMUNICATION WITH SHAREHOLDERS

The Company believes in high standards of transparent corporate disclosure and is committed to disclose, to its shareholders,



## ADDITIONAL HKEx COMPLIANCE REQUIREMENTS (CONTINUED)

information in a timely and fair manner via ASX and HKExnews. Where there is inadvertent disclosure made to a selected group, the Company will make the same disclosure publicly to all others as soon as practicable. Communication is mainly made through:

- annual reports that are prepared and sent to all shareholders. The Board ensures that the Annual Report includes all relevant material information about the Company and the Group, including future developments and other disclosures required by the *Corporations Act 2001* (Cth), the ASX listing rules, the Companies Ordinance of the Laws of Hong Kong and the Hong Kong Listing Rules;
- interim reports containing a summary of the financial information and affairs of the Group for that period;
- quarterly production reports containing a summary of the Group's production output and coal sales for the reporting period; and
- notices of explanatory memoranda for AGMs and extraordinary general meetings (if any) that are prepared and sent to all shareholders.

The Company does not practice selective disclosure. Price sensitive information is first publicly released through ASX and HKExnews. All shareholders of the Company will receive the Annual Report and the notice of AGM by post.

Shareholders can access all of the Company's announcements published on the ASX and HKExnews on the Company's website at [www.yancoal.com.au](http://www.yancoal.com.au).

### DIVIDENDS AND DIVIDEND POLICY

Subject in each case to applicable laws, the ongoing cash needs of the business, the statutory and common law duties of the Directors and shareholders' approval, the Directors may pay interim and/or final dividends, and in accordance with the Company's Constitution must:

- subject to (ii) below, pay as interim and/or final dividends not less than 40% of net profit after tax (pre-abnormal items) in each financial year; and
- if the Directors determine that it is necessary in order to prudently manage the Company's financial position, pay as interim and/or final dividends not less than 25% of net profit after tax (pre-abnormal items) in any given financial year.

Yancoal paid its maiden interim dividend totalling A\$130 million on 21 September 2018. On 25 February 2019, the Company announced a final dividend of A\$377 million and special dividend of A\$166 million, which will be paid on 30 April 2019.

For 2019, the Company is targeting a dividend payout of 50% of net profit after tax (adjusted for the impact of foreign exchange hedge reserve movements and any other non-operating items as determined by the Directors).

### FINANCIAL CALENDAR

2018 Final Results Announcement	25 February 2019
Record Date	7.30pm (Sydney time)/ 4.30pm (Hong Kong time) on 11 March 2019
Payment Date for 2018 Final Dividend	30 April 2019
Annual General Meeting	On or before 31 May 2019

### PRE-EMPTIVE RIGHTS ON NEW ISSUES OF SHARES

Under the *Corporations Act 2001* (Cth), shareholders do not have the right to be offered any Shares which are newly issued for cash before those Shares can be offered to non-shareholders.

### PUBLIC FLOAT

Rule 8.08(1)(a) of the Hong Kong Listing Rules requires that at least 25% of an issuer's total issued share capital must at all times be held by the public. The Company obtained a waiver under Rule 8.08(1)(d) of the Hong Kong Listing Rules to accept a lower public float percentage and the Company's minimum public float is approximately 15.37%. Due to an inadvertent oversight, the minimum public float percentage was incorrectly stated as approximately 15.39% (instead of 15.37%) in the Company's announcement of the partial exercise of the over-allotment option dated 31 December 2018.

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has maintained the minimum public float of approximately 15.37% under the HK Listing Rules.

### FULFILMENT OF CONDITIONS AND UNDERTAKINGS

The Company confirms that it has complied with the conditions and undertakings imposed by The Stock Exchange of Hong Kong Limited during the period from 6 December 2018 (the date on which dealings in the Shares were permitted to take place on the Main Board of the HKEx in Hong Kong) to 31 December 2018.

### USE OF IPO PROCEEDS

In connection with the global offering in Hong Kong, which was completed on 3 January 2019 (the "**Global Offering**"), the Company allotted and issued 59,441,900 new shares on 6 December 2018, 563,881 new shares on 28 December 2018 and 4,361,900 new shares on 3 January 2019 at a price of HK\$23.48 per share and raised HK\$1,511 million (A\$268 million) in total gross proceeds. The net proceeds from the Global Offering amounted to approximately HK\$1,305 million after deduction of related expenses of approximately HK\$206 million (the "**Net Proceeds**").

The following table sets out the breakdown of the use of proceeds from the HK Listing as at the date of this Annual Report:

S/N	Purpose of Net Proceeds	Amount Allocated HK\$'000	Amount Utilised HK\$'000	Balance HK\$'000
1	Debt Repayment (48%)	626,507	626,507	–
2	Future M&A (30%)	391,567	–	391,567
3	Moolarben JV Acquisition (12%)	156,627	156,627	–
4	General Working Capital (10%)	130,522	130,522	–
<b>Total (Net Proceeds)</b>		<b>1,305,223</b>	<b>913,656</b>	<b>391,567</b>

The above utilisations are in accordance with the intended use of the net proceeds and percentage allocated, as stated in the Company's prospectus for the Global Offering dated 26 November 2018. The Company expects to utilise the balance Net Proceeds of approximately HK\$392 million in the next 24 months.

The Board will continue to update in periodic announcements on the utilisation of the balance of the proceeds from the HK Listing as and when the proceeds are materially disbursed and provide a status report on such use in its annual report and its quarterly and full year results announcements.

### MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2018.

# SHAREHOLDING STATISTICS

## YANCOAL AUSTRALIA LTD

**ORDINARY FULLY PAID as at 21 March 2019 for ASX and 11 March 2019 for HKEx**  
**COMBINED ASX AND HKEx TOP 20 SHAREHOLDERS**

Rank	Name	Units*	% of Units
1.	YANZHOU COAL MINING COMPANY LIMITED	813,241,515	61.59%
2.	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	209,911,982	15.90%
3.	GLENCORE COAL PTY LTD	84,497,858	6.40%
4.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED – A/C 2	75,964,735	5.75%
5.	HKSCC NOMINEES LIMITED	73,945,739	5.60%
6.	CITICORP NOMINEES PTY LIMITED	23,364,067	1.77%
7.	EVERCHARM INTERNATIONAL INVESTMENT LIMITED	14,285,715	1.08%
8.	SINGAPORE TAIZHONG ENERGY PTE LTD	10,449,631	0.79%
9.	CORANAR OVERSEAS LTD	4,285,715	0.32%
10.	NATIONAL NOMINEES LIMITED <DB A/C>	3,453,914	0.26%
11.	BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	351,154	0.03%
12.	MS JIUMEI HE	292,968	0.02%
13.	HSBC CUSTODY NOMINEES <AUSTRALIA>	221,313	0.02%
14.	RSWC PTY LIMITED	213,616	0.02%
15.	MR BAOCAI ZHANG	177,766	0.01%
16.	MR PEI GUO	120,562	0.01%
17.	CORCOAL TRADING PTY LIMITED	119,968	0.01%
18.	COAL SALES PTY LTD	117,000	0.01%
19.	MR YUNING LONG	108,442	0.01%
20.	MR JAMES BEVAN POWELL + MRS GILLIAN MARY POWELL <J B POWELL SUPER FUND A/C>	105,079	0.01%
<b>Totals: Top 20 holders of ORDINARY FULLY PAID</b>		<b>1,315,228,739</b>	<b>99.61%</b>
<b>Total Remaining Holders Balance</b>		<b>5,210,698</b>	<b>0.39%</b>
<b>Total Shares on Issue</b>		<b>1,320,439,437</b>	

\*Units displayed are those disclosed in the public register; units held in nominee accounts are not defined beyond the nominee level.

## Transfer of shares between the Australian and Hong Kong share registers

Shares in Yancoal can be moved between its Australian and Hong Kong share registers. Any shareholder interested in moving their shares between the two registers is encouraged to contact Computershare, using the contact details set out in the Corporate Directory.

The process and fees for moving shares will differ depending on how a shareholder, or their broker/participant, holds their shares. Typically, the transfer of shares between the Australian and Hong Kong registers takes between three to six business days. Shareholders should not trade their shares until a transfer of shares is completed.

## Major Customers and Suppliers

The information in respect of the Group's sales to the major customers, and purchases from the major suppliers, during 2018, is as follows:

A\$ basis	Percentage of the Group's total sales
The largest customer	10.31%
Five largest customers in aggregate	34.71%

To the knowledge of the Directors, none of the Directors, or their associates, had any beneficial interest in the five largest customers. To the knowledge of the Directors two substantial shareholders, Yanzhou Coal Mining Company and Glencore Coal (each owning more than 5% of the Company's issued capital) have a beneficial interest in two of the five largest customers. The details of the customer/sales agreements are provided in the "Continuing Connected Transactions" section of the Annual Report.

## SHAREHOLDING STATISTICS (CONTINUED)

### YANCOAL AUSTRALIA LTD

#### Range of Units Record

ORDINARY SHARES (TOTAL) as at 28 February 2019

Range	Total holders	Units	% of Issued Capital
1 – 1,000	2,061	362,469	0.03%
1,001 – 5,000	408	915,336	0.07%
5,001 – 10,000	93	682,207	0.05%
10,001 – 100,000	110	2,961,172	0.22%
+ 100,001	19	1,315,518,253	99.63%
<b>Rounding</b>			<b>0.00%</b>
<b>Total</b>	<b>2,691</b>	<b>1,320,439,437</b>	<b>100.00%</b>

Unmarketable Parcels	Minimum parcel size	Holders	Units
Minimum A\$500.00 parcel at A\$4.18 per unit	120	1,267	35,684



#### **DIRECTORS**

Baocai Zhang  
Fucun Wang  
Cunliang Lai  
Qingchun Zhao  
Fuqi Wang  
Xiangqian Wu  
Xing Feng  
Gregory Fletcher  
Dr Geoffrey Raby  
Helen Gillies  
David Moul

#### **COMPANY SECRETARY**

Laura Ling Zhang

#### **AUDITOR**

ShineWing Australia  
Level 8, 167 Macquarie Street  
Sydney, NSW 2000  
Australia

#### **REGISTERED AND PRINCIPAL PLACE OF BUSINESS**

Level 18  
Darling Park 2  
201 Sussex Street  
Sydney, NSW 2000  
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 (HKEx)**

HKEx Stock Code: 3668

#### **SHARE REGISTRY**

Computershare Investor Services Pty Limited  
Level 4, 60 Carrington Street  
Sydney, NSW 2000, Australia  
T: +61 2 8234 5000  
F: +61 2 8235 8150

Computershare Hong Kong Investor Services Limited  
17M Floor, Hopewell Centre  
183 Queens Road East  
Wan Chai, Hong Kong  
T: +852 2862 8555  
F: +852 2865 0990

#### **COUNTRY OF INCORPORATION**

Australia

#### **WEB ADDRESS**

[www.yancoal.com.au](http://www.yancoal.com.au)

#### **SHAREHOLDER ENQUIRIES**

Email:  
[shareholder@yancoal.com.au](mailto:shareholder@yancoal.com.au)

# CORPORATE DIRECTORY



