CHANGING THE GAME

YANCOAL AUSTRALIA LTD
ANNUAL REPORT 2017

YANCOAL
兖煤澳大利亚有限公司

Changing the mining game and leading the way as Australia's largest pure-play coal producer.

Listed on the Australian Securities Exchange, Yancoal Australia Ltd ("Yancoal") is the country's largest pure-play coal producer and a major contributor to the continued economic growth of regional New South Wales and Queensland.

In 2017 Yancoal produced 23.4 million tonnes of saleable (equity share) thermal and metallurgical coal for export into international markets.

Operating five sites and managing four others across New South Wales, Queensland and Western Australia, Yancoal employs approximately 5,000 people plus contractors and service providers, sourcing the majority of its people from the local communities in which it operates.

Yancoal also maintains financial interests in three of the country's largest ports.

Yancoal's New South Wales region includes the mines of Hunter Valley Operations, Mount Thorley Warkworth, Moolarben and Stratford Duralie, with the Queensland region comprising of Yarrabee and the Middlemount joint venture.

Yancoal also manages the Cameby Downs and Premier coal mines in Queensland and Western Australia respectively on behalf of its majority shareholder Yanzhou Coal Mining Company Limited ("Yanzhou")[1] and the Ashton and Austar mines in New South Wales on behalf of Watagan Mining Company Pty Ltd ("Watagan")[2].

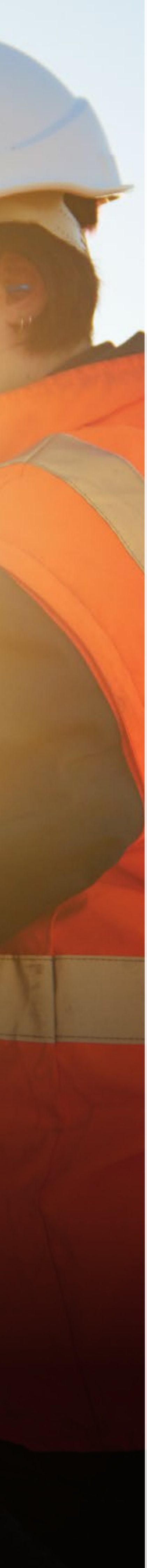
Listed on the Australian Securities Exchange, Yancoal had 43,959,446,612 shares on issue, as at 31 December 2017. The two largest shareholders were Yanzhou with 65.5% holding and Cinda International HGB Investment (UK) Limited with 16.7%.

1 Yanzhou is a China-based, integrated mining company with interests in coal, coal chemicals, power generation and mechanical and electrical equipment manufacturing. Its shares are listed on the Hong Kong and Shanghai stock exchanges. The State-owned Yankuang Group Company Limited has a 51.59% direct shareholding in Yanzhou.

2 Watagan Mining Company Pty Ltd is a wholly-owned subsidiary of Yancoal Australia Ltd, controlled by a consortium of financiers consisting of Industrial Bank Co. Ltd, BOCI Financial Products Limited and United NSW Energy Limited. Effective 31 March 2016, Yancoal ceased to control Watagan and remains the exclusive provider of mine management, marketing, infrastructure and other corporate support services for the Ashton, Austar and Donaldson assets.

In 2017 Yancoal exceeded market expectations, strategically acquiring 100% of Coal & Allied to successfully transform into Australia's largest pure-play coal producer and a major competitor throughout international coal markets.

OUR HIGHLIGHTS



US$2.45B

ACQUISITION
OF COAL & ALLIED

Yancoal became Australia's largest pure-play coal producer, effectively doubling its production output and increasing its coal product offerings via completion of the strategic acquisition of 100% of Coal & Allied Industries Limited ("Coal & Allied") from Rio Tinto for US$2.69 billion in value, comprising of US$2.45 billion cash payable on completion, US$240 million in future non-contingent royalty payments over five years following completion, and a coal price linked contingent royalty.

23.44Mt

SALEABLE COAL[2]
(EQUITY SHARE TONNES)

Total 2017 production (equity share) was up 47 per cent on the year prior; including 4.92 million tonnes from the post-acquisition production from the Hunter Valley Operations and Mount Thorley Warkworth assets.

28.54Mt[1]

SALES VOLUME
(EQUITY SHARE TONNES)

Total coal sales (equity share) of 28.5Mt for the year, with a sales split (equity share) for the period of 19.55Mt thermal coal and 8.99Mt metallurgical coal.

30.55Mt

RUN OF MINE COAL[2]
(EQUITY SHARE TONNES)

Consistently strong production from the Moolarben complex, supported by fleet efficiencies across open cut mines and the addition of coal from the acquired Coal & Allied assets drove a total 30.55 million tonnes Run of Mine (ROM) coal (equity share).

$229M

PROFIT AFTER TAX

Yancoal reported a Full Year 2017 profit after tax of $229 million, led by increased production output at a time of industry-high benchmark prices for semi-soft coking coal and thermal coal sales.

$732M

OPERATING EBIT TOTAL VALUE

Yancoal achieved a total Operating EBIT of $732 million before tax, up $693 million on the year prior.

$2.6B

TOTAL REVENUE

Yancoal generated $2.6 billion of revenue.

1 Includes external coal purchases, Middlemount and Watagan. Includes only 51% interest in Hunter Valley Operations ("HVO") on the basis that Glencore will be entitled to a 49% interest in HVO with economic effect from 1 September 2017 on implementation of the Yancoal-Glencore HVO joint venture.

2 Includes Watagan, Middlemount and only 51% interest in Hunter Valley Operations ("HVO") on the basis that Glencore will be entitled to a 49% interest in HVO with economic effect from 1 September 2017 on implementation of the Yancoal-Glencore HVO joint venture.

With a long-term vision for continued investment into Australian mining, Yancoal is a leader in the local resources sector committed to building new opportunities for its employees and generating value for its shareholders.

OPERATING PERFORMANCE

The addition of attributable production from the newly acquired Mount Thorley Warkworth and Hunter Valley Operations mines generated an immediate and significant increase in production, achieving total saleable coal production of 31.5Mt (23.4Mt equity share) for the year (31 December 2016: 16.0Mt equity share) and total Run of Mine ("ROM") coal production of 41.1Mt (30.6Mt equity share) for the year (31 December 2016: 21.2Mt equity share).

Yancoal achieved total coal sales (equity share) of 28.5Mt[1] for the year (31 December 2016: 19.3Mt), with a sales split (equity share) for the period of 19.6Mt (2016 11.6Mt) thermal coal and 8.99Mt (2016 7.7Mt) metallurgical coal.

FINANCIAL PERFORMANCE

Yancoal achieved a total operating EBIT of $732 million before tax, up $693 million on the year prior.

Yancoal's financial improvement was mostly attributable to the strategic acquisition of 100% of Coal & Allied Industries Limited from Rio Tinto for US$2.69 billion in value, as at 1 September 2017, resulting in a significant increase in production.

Increased production output at a time of industry-high benchmark prices for semi-soft coking and thermal coals led Yancoal's recovery to announce a profit after tax of $229 million from revenue of $2.6 billion for the year ended 31 December 2017.

1 Includes external coal purchases, Middlemount and Watagan. Includes only 51% interest in Hunter Valley Operations ("HVO") on the basis that Glencore will be entitled to a 49% interest in HVO with economic effect from 1 September 2017 on implementation of the Yancoal-Glencore HVO joint venture.

OPERATING PERFORMANCE

Equity Production and Sales			2016	2017	YoY Change
Run of Mine (ROM) Coal Production	Equity	Mt	21	31	44%
Saleable Coal Production	Equity	Mt	16	23	47%
Coal Sales (1)	Equity	Mt	19	29	48%
Costs FOB (2)		A$/t	75	71	-5%
Price Achievement (2)		A$/t	82	116	41%
Product Mix (Met % / Thermal %)			40/60	32/68	
Capital Expenditure (2)		A$m	260	211	-19%

(1) Includes external coal purchases, Middlemount and Watagan. Includes only 51% interest in Hunter Valley Operations ("HVO") on the basis that Glencore will be entitled to a 49% interest in HVO with economic effect from 1 September 2017 on implementation of the Yancoal-Glencore HVO joint venture.

(2) Equity is pro-rata equity share based calculation and excludes Middlemount.

FINANCIAL PERFORMANCE

Profit Results for 2017 and 2016 with accounting reconciliations	Year ended December 2017			Year ended December 2016		
	Before Tax $'m	Tax $'m	After Tax $'m	Before Tax $'m	Tax $'m	After Tax $'m
Revenue from continuing operations	2,601			1,238		
Operating EBITDA	988			172		
Operating EBIT	732			39		
Profit before non-operating items	**445**	**(126)**	**319**	**(170)**	**81**	**(90)**
Bank fees and other charges	(109)	33	(76)	(113)	–	(113)
Interest income	114	(34)	80	125	(38)	87
Gain on acquisition of subsidiaries	177	–	177	–	–	–
Impairment reversal of mining tenements	100	(30)	70	–	–	–
Fair value losses recycled from hedge reserve	(229)	69	(160)	(133)	40	(93)
Remeasurement of royalty receivable	8	(2)	6	(6)	2	(4)
Transaction costs	(33)	10	(23)	(3)	1	(2)
Stamp duty expensed	(167)	–	(167)	(12)	–	(12)
Other	5	(2)	3	–	–	–
Profit / (loss)	**311**	**(82)**	**229**	**(312)**	**85**	**(227)**

OUR OUTLOOK

Yancoal will continue to achieve an increased production output of high quality thermal and semi-soft coals via its tier-one open cut mines, while continuing to consider new opportunities for organic and strategic acquisitive growth.

The successful completion of the Coal & Allied transaction and integration of the Mount Thorley Warkworth and Hunter Valley Operations mines into the Yancoal Group has effectively doubled the production capacity of the Company, with guidance for saleable production in 2018 set at 35 – 37 million tonnes (equity share). The forecast for 2018 capital expenditure is approximately $247 million (equity share).

Now established as Australia's largest pure-play coal producer, Yancoal remains well-positioned to meet increasing demand for high quality thermal coal, sourcing product from its three high-grade, low cost tier-one coal assets: the Moolarben complex; Mt Thorley Warkworth; and the proposed Hunter Valley Operations joint venture.

At the time of publication, Yancoal expects to complete the Hunter Valley Operations joint venture arrangement with a subsidiary of Glencore Coal Pty Ltd ("Glencore") during the first half of 2018, subject to approvals.

Yancoal continues to consider exploration and development opportunities within existing approvals for the Mount Thorley Warkworth operation, Moolarben complex and Stratford open cut.

In 2018, Yancoal will continue to maximise blending across the New South Wales operations, improve fleet efficiencies at its open cut operations, and remains focused on reducing its operating costs and existing levels of debt.

CHAIRMAN'S LETTER

2017 has been a year of transformation for Yancoal Australia. Our strategic acquisition of Coal & Allied redefined our business as Australia's largest pure-play coal producer and a major contributor to global coal markets.

XIYONG LI
CHAIRMAN OF THE BOARD

TURNAROUND

The substantial cash flows generated from the acquired Coal & Allied assets, combined with the associated operational synergies and benefits of our equity raising, have immediately and materially strengthened Yancoal's balance sheet.

It is with great pleasure we have announced Yancoal's recovery to profit, achieving a total operating EBIT of $732 million before tax, up $693 million on the year prior, and a profit after tax of $229 million from revenue of $2.6 billion.

This significant turnaround is mostly attributable to the successful completion of the Coal & Allied transaction at a time of increasing pricing strength and sustainability across the metallurgical and thermal coal markets.

PRODUCTION INCREASE

The addition of attributable production from the newly acquired Mount Thorley Warkworth and Hunter Valley Operations mines generated an immediate and significant increase in production, allowing Yancoal to maximise sales and blending at a time of benchmark-high pricing for semi-soft and thermal coals with key buyers.

Yancoal achieved total saleable coal production of 31.5Mt (23.4Mt equity share) for the year (31 December 2016: 16.0Mt equity share) and total Run of Mine ("ROM") coal production of 41.1Mt (30.6Mt equity share) for the year (31 December 2016: 21.2Mt equity share).

Such a strong production result includes only four months of attributable activity from the newly acquired tier-one assets and clearly demonstrates Yancoal is very well positioned to realise significant value for our shareholders in the years ahead.

Combining the world-class assets of Coal & Allied's Mount Thorley Warkworth and Hunter Valley Operations with the Company's existing portfolio, the acquisition enables the maximising of synergies between Yancoal assets and supports the Company's vision for continued market growth.

THE ACQUISITION

Critically, we approached our competitive bid for Coal & Allied with a commitment to pricing-discipline, ensuring we negotiated a commercially robust offer in the best interests of all parties of US$2.45 billion cash payable on completion, plus US$240 million in future non-contingent royalty payments over five years following completion, and a coal price linked contingent royalty.

To support the funding of the acquisition, Yancoal also conducted a pro-rata renounceable entitlement offer of 23,464,929,520 fully paid ordinary shares to raise US$2.35 billion, and an associated placement of 1,500,000,000 fully paid ordinary shares to raise a further US$150 million.

The pro-rata entitlement offer attracted new investors, provided greater depth to our shareholder base, and efficiently generated the necessary funding to support the next stage of our business' evolution.

At the same time, Yancoal also entered into a binding agreement to establish a 51:49 unincorporated joint venture with Glencore in relation to the Hunter Valley Operations asset, following completion of the acquisition.

The joint venture arrangement provides significant combined synergies and commercial opportunities for both Yancoal and Glencore, with shareholders set to benefit from the co-operative management experience and operational skills of two of Australia's leading coal producers. The joint venture remains subject to Glencore achieving all required approvals.

SHAREHOLDER SUPPORT

Throughout the transaction Yancoal operated swiftly and with certainty, supported by our majority shareholder, Yanzhou Coal Mining Company Ltd, and Yanzhou's 56 percent shareholder, Yankuang Group Company Ltd.

Yanzhou shares Yancoal's commitment to continuous improvement and a belief in operating to the highest standards of safety, integrity, excellence and with respect for our people and the countries in which we operate.

With their continued investment and that of our new second-largest shareholder Cinda International HGB Investment (UK) Limited, we have demonstrated Yancoal's long term commitment to the local resources sector as a significant employer and exporter for Australia.

Investing within Australia requires flexibility, bravery, certainty and an ability to trust the management team working within the country. The strategic acquisition of Coal & Allied is a credit to the management teams of Yancoal and our majority shareholders.

OPERATIONAL STRENGTH

Following the completion of the transaction on 1 September 2017, we have successfully and efficiently integrated the people, processes and systems of the newly acquired assets into the Yancoal Group. Sharing our values and core operating principles across operations to ensure we are culturally aligned and focused on achieving our production goals for the year ahead.

With this transaction Yancoal's Board and executive have increased the capability and capacity required to generate new organic growth.

We have also maintained our strength in project management, completing the Stage Two Moolarben underground mine ahead of schedule and below budget, commencing longwall mining in October.

Our strategic decision to commit to the development of the Moolarben Stage Two Project in 2014 during the global coal market downturn, has appropriately prepared our business to respond swiftly and with surety to the recent price recovery.

We are now reaping the benefits of our early project investment and belief in the long-term return of the global market, understanding the risks and opportunities of the mining cycle.

MOVING FORWARD

While there is much work ahead for all of our teams, we retain a positive outlook towards the continued improvement within established and untapped developing global coal markets.

We also continue to focus on achieving our goal of operating without injury and achieving cost-efficiencies across the Group.

On behalf of the Board I would like to thank our people for their drive and dedication to safe production and instituting the highest operating standards.

Together, our people have fortified Yancoal against recent years of turbulent market forces and challenging operating conditions to overcome and establish our business as a true global market leader.

With the support of our majority shareholders and our joint venture and marketing partners, Yancoal Australia has the leadership, asset portfolio, experience, and long term strategy required to build a brighter future for all.

As we enter 2018, Yancoal is ready for the next exciting step in our continuing journey.

$732M

UP $693M

TOTAL OPERATING EBIT FOR 2017

With a commitment to continued strategic growth and maximising new opportunities, Yancoal remains focused on returning shareholder value and building its business as a leading competitor in global markets.

OUR STRATEGY

Supported by the core values of the Yancoal Way, the Board and management team remain focused on investing into the Australian resources sector, implementing operational efficiencies, reducing costs, sharing services, and providing all customers with the certainty of product quality and delivery.

Yancoal's long-term business priorities are:

OPTIMISATION OF RESOURCES AND VALUE CREATION MECHANISMS

1. MARKETS

Strengthening the Company's relationships with customers throughout the key thermal and coking coal markets of Korea, Japan, China, India and Taiwan, with the wholly-owned subsidiary Yancoal Australia Sales Pty Ltd, facilitating the sale of Yancoal, Watagan Mining and Yanzhou coal blends to all external parties.

2. PRODUCTS

Maximising blending opportunities across Yancoal-controlled and managed operations, remaining focused on producing high quality thermal, semi-soft and semi-hard coking coals to meet increasing demand in established and new global markets.

3. PROJECTS

Continued delivery of brownfield exploration and expansion projects on time and on budget, via efficient and robust project management, enabling continued strategic organic growth to meet global market demand.

4. TALENTED PERSONNEL

Attracting and developing the right people with the right skills, working together to build a robust culture of respect, transparency, diversity and efficiency.

5. COST REDUCTION

Implementing operational efficiencies across all mines, maintaining a commitment to reduce costs and support future growth opportunities and capital improvement.

BUSINESS TRANSPARENCY, COMPLIANCE AND EFFICIENCY

Operating Yancoal's site and corporate functions to the highest standards of corporate governance, reporting via transparent, compliant and efficient processes to meet the needs of all key stakeholders.

CEO'S STATEMENT

In 2017, Yancoal surpassed industry expectations to successfully acquire Coal & Allied from Rio Tinto in a competitive acquisition, effectively doubling the scale of our operations and employee numbers.

REINHOLD SCHMIDT
CEO YANCOAL AUSTRALIA

The expansion of our open cut portfolio at a time of sustained market price improvements has enabled Yancoal to achieve significant production gains well beyond our pre-acquisition performance.

WORKING TOGETHER

Only three years ago Yancoal was operating in a deflated and disappointing resources market, restructuring our operations and managing costs to ensure we were ready for an eventual upturn.

As prices improved throughout the past year, we have held true to our promises to continue to invest into the Australian resources sector, employ from the areas in which we operate, and remain absolutely committed to operating safely and transparently.

Our transformative acquisition has required a whole-of-business commitment and its successful completion is of credit to our people and their ability to anticipate, respond and recalibrate to market forces and operational demands.

Together, we have secured Yancoal's future as Australia's largest pure-play coal producer, with majority interests in two of the country's leading tier-one large-scale, long-life and low-cost open cut coal mines, adding to the strength of our established tier-one Moolarben complex.

SAFETY

As we have increased in scale, we have remained focused on ensuring the safety of our people. Remaining ever vigilant in ensuring we are providing a safe workplace for the more than 5,000 people directly responsible for helping Yancoal achieve its ongoing market success.

To support this commitment, we continue to implement safety training and incident response practices across each of our operations, including the 2017 introduction of a Critical Controls initiative to identify and mitigate against significant on-site risks.

Only through continued training, education and awareness can we help to ensure each of our people returns home safely. There are no shortcuts to safety and it is the responsibility of every person within our business to be watching out for themselves and those working alongside them.

We must never compromise on safety.

TRANSFORMATION

With our management and operational teams successfully integrating the Mount Thorley Warkworth and Hunter Valley Operations assets into our business from day one, we have immediately benefitted from operational synergies and the creation of new marketing opportunities.

The Company's balance sheet strengthened via increased cashflows from a full fourth quarter's contribution of attributable new coal product sales.

Sales volumes for the fourth quarter reporting period were up 83 percent on the year prior; including 3.45 million tonnes, a 56 percent contribution to the year-on-year increase, from Hunter Valley Operations and Mount Thorley Warkworth.

OPERATIONS

During the year, we achieved a series of key milestones essential to the next stage of Yancoal's continued growth, both organic and via strategic acquisition.

Of specific note, we completed the commissioning of the Moolarben Stage Two underground mine ahead of time and below budget, commencing longwall production in October.

The completion of the Stage Two expansion, consisting of two open cut pits and the new underground, has now established the Moolarben complex as a leading operation in New South Wales, benefitting from fleet efficiencies introduced in the year prior and achieving superior extraction rates both above and below ground.

Simultaneously, we have also maintained the necessary operational flexibility and discipline required to adapt the mine plans of our Stratford Duralie and Yarrabee open cuts throughout the year to successfully improve extraction rates, reduce costs and more efficiently meet changing global market demands.

COMMUNITY

Employing the majority of our people from the areas in which we operate, and relying on local contractors and service providers to support our operations, we remain ever mindful of our responsibilities across regional Australia.

It is up to each of our operations to keep our local communities engaged and informed. Operating to the highest environmental and safety standards, while communicating openly and transparently. We cannot continue to grow unless our local stakeholders are considered in our decision-making.

We must also continue to play an important role in financially contributing to local and regional employment, training, health and education initiatives we believe capable of making a positive difference.

Within the past year we have contributed more than $1.3m to community-focused initiatives via our Community Support Program and I look forward to our new operations playing a major role in supporting and establishing viable and sustainable regional programs.

THE YEAR AHEAD

Renewed global demand for high quality coal, buoyed by improved coal prices will continue to strengthen Yancoal's performance as we progress the development of our open cut operations and continue to pursue new marketing and blending opportunities.

Moving forward, we are well advanced in our preparations for the eventual implementation of our joint venture with Glencore at Hunter Valley Operations, subject to final approvals.

The joint venture will ultimately provide Hunter Valley Operations with the opportunity to benefit from substantial synergies from Glencore's adjoining operations and both parties look forward to working together to drive new market growth.

Via the transaction we have also attained a 36.5% share of ownership of Port Waratah Coal Services Limited.

AUSTRALIA'S LARGEST PURE-PLAY COAL PRODUCER

We are now an established leader within the Australian resources sector and have clearly demonstrated we have the capabilities, experience and initiative to exceed expectations within the global marketplace.

This is a new day, a new opportunity and I would like to thank the Yancoal team and our shareholders for their continuing contribution to our growth and success.

Looking ahead, there is still much to achieve.

31.5Mt

UP FROM 19.8Mt

SALEABLE COAL PRODUCTION FOR 2017 (100% BASIS)

MARKET CONTEXT

2017 experienced sustained global coal market price improvements, with industry-high benchmark prices for semi-soft coking and thermal coals achieved during the reporting period.

Throughout 2017, Yancoal continued to implement cost reduction strategies across all operations, addressed existing take-or-pay arrangements, and blended products across the New South Wales operations (both managed and operated) to meet new market opportunities.

Yancoal's product sales split (equity share) for 2017 was 19.6Mt (2016 11.6Mt) thermal and 8.99Mt (2016 7.7Mt) metallurgical coal.

Yancoal Australia Sales Pty Ltd (YAS) continued to facilitate the sale of coal blends, contracting with and paying the supplying coal mines, whether operated wholly or in joint venture by a Yancoal subsidiary, an asset managed by Yancoal Australia Ltd on behalf of Yancoal International (Holding) Co. Ltd, or a third-party mine.

OUTLOOK

Recent increases in metallurgical coal prices are expected to hold, allowing for ongoing price strength, as high demand for hard coking coal across China, India, Europe and South America remains. The global market is benefiting from high steel prices in 2017 and sustained construction rates in China, despite the introduction of environmental restrictions in the winter months.

In contrast, thermal coal markets face potential price volatility in the year ahead, as increased market competition from South African and Colombian coals into the Asian seaborne market, aiming to benefit from recent higher thermal prices, will place further pressure on Australian coal sale opportunities.

China's import of low grade thermal coal is expected to remain relatively strong and consistent with 2017 levels, while solid market growth opportunities exist within South East Asia and the Subcontinent.

Yancoal remains focused on end-users in the prime target markets of China, Korea and Japan, while maximising new sales opportunities generated via the acquisition of the Mount Thorley Warkworth and Hunter Valley Operations mines, including the marketing of semi-soft coal products into India and Europe and premium thermal coals across Asian markets.

GUIDANCE

2018 guidance for saleable production is 35 – 37 million tonnes (equity share[1]).

1 Includes Watagan (100%), Middlemount (49.9997%), Yarrabee (100%), Stratford Duralie (100%), Moolarben (81%), Mount Thorley Warkworth (82.9% from 1 March 2018), and Hunter Valley Operations (51% on the basis that Glencore will be entitled to a 49% interest in Hunter Valley Operations with economic effect from 1 September 2017 on implementation of the Hunter Valley Operations Joint Venture). The Hunter Valley Operations Joint Venture remains subject to Glencore achieving all required approvals.

HEALTH, SAFETY AND THE ENVIRONMENT

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

Working with Yancoal's executive and senior management teams, Yancoal's Health, Safety and Environment Committee is chaired and led by members of the Yancoal Board, providing external oversight of the Company's operating and reporting standards.

Together, management and the Committee continue to set the direction for a culture of continued improvement, with the leadership, capabilities, systems and reporting procedures needed to be a leader in safety and environmental management.

HEALTH AND SAFETY

Each mine implements proactive strategies to update and monitor its safety standards, behaviours and reporting to ensure operations are aligned and focused on achieving Yancoal's goal of zero harm.

Taking responsibility for the safety of all employees and visitors seriously, Yancoal continues to implement robust safety and risk awareness and management practices across all areas of its operations.

Recent site initiatives include the successful introduction and application of the Critical Controls initiative throughout the Yancoal Group, requiring every employee to understand and be aware of the critical risks in their workplace.

With all sites undergoing regular training sessions focused on specific Critical Controls unique to their underground or open cut environments, the initiative calls for personal accountability in every action.

Under the initiative, sites continue to share their reporting and training practices, enabling Yancoal to act on its commitment to constant improvement and never compromise on safety.

While the business has improved its Total Recordable Injury Frequency Rates (TRIFR) and Lost Time Injury Frequency Rates (LTIFR) across its operations over the past six years, a slight increase has occurred in the rolling 12-month TRIFR and LTIFR rates for 2017, mostly attributable to the injury outcomes associated with the underground operations (including the managed Watagan assets and recent addition of the new Moolarben underground mine).

No significant events were recorded at Yancoal's operations for 2017.

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 to ensure full transparency in its environmental reporting.

Each Yancoal operation also implements robust rehabilitation plans, working to minimise potential impacts on the local environment and ultimately return completed mining areas to quality pastoral and woodland for future use.

Leading edge sustainability practices ensure Yancoal is instituting and updating its water management, land use and monitoring plans throughout every stage of the mining process, from prior-to-commencement, until well after eventual close.

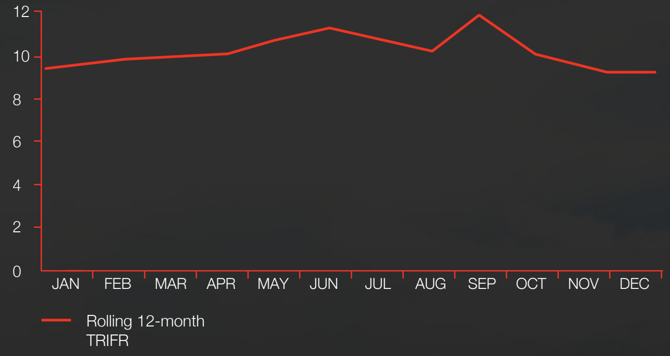
Total seeding and planting across all operations in 2017 is 285 hectares. Total new disturbance across all operations in 2017 is 442 hectares.

As of 31 December 2017, Yancoal has seeded and planted 50% of disturbed areas across all operations.

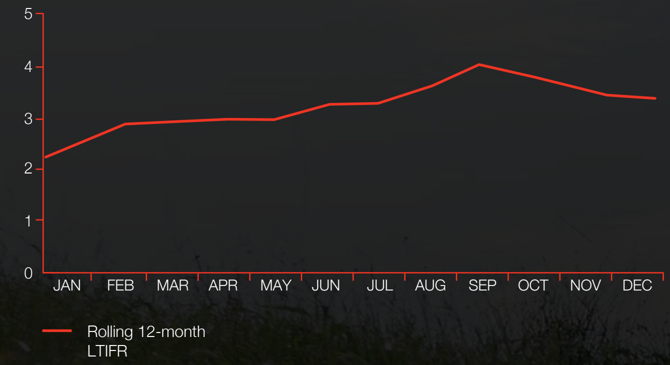
YANCOAL SAFETY[1]

Rolling average trend data

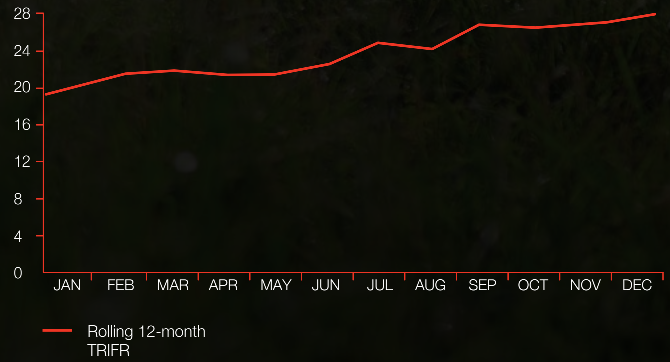
ROLLING 12-MONTH TOTAL RECORDABLE INJURY FREQUENCY RATE – OPEN CUT MINES



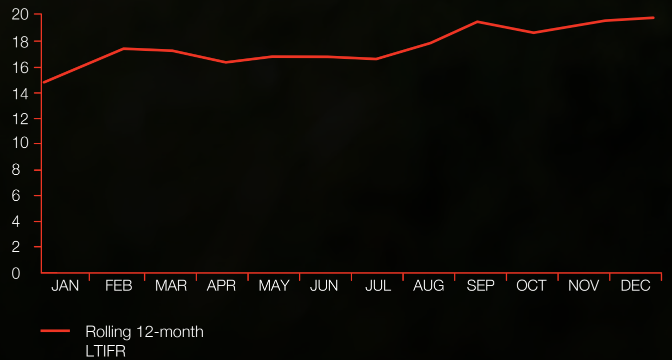
ROLLING 12-MONTH LOST TIME INJURY FREQUENCY RATE – OPEN CUT MINES



ROLLING 12-MONTH TOTAL RECORDABLE INJURY FREQUENCY RATE – UNDERGROUND MINES



ROLLING 12-MONTH LOST TIME INJURY FREQUENCY RATE – UNDERGROUND MINES



1 Includes Mount Thorley Warkworth and Hunter Valley Operations from 1 September 2017.

Yancoal is committed to playing an active role in the communities in which it operates, financially investing into projects and local initiatives with the potential to make a positive difference.

COMMUNITY

Each year Yancoal allocates funds at both a site and corporate level to financially support community groups and programs across the areas of health, environment, sport, education, community and training.

The Yancoal Community Support Program aims to make a genuine, positive difference to the lives of those working and living within the areas Yancoal operates, ensuring the Company is contributing beyond employment and the use of local services and contractors.

Currently each Yancoal operation is directly and independently responsible for the management of its Community Support Program activities, including the selection/review process and allocation of funding amounts.

Each site advertises for applications from the community in local media and online at allocated times during the year, with the review and allocation of funding managed by the site Community and Environment teams, with oversight and approval from the Operations Manager.

In 2017, Yancoal invested more than $1.3 million into local initiatives[1], with funding allocated to develop and implement environmental projects; educate, train and assist local residents gain employment; sponsor key community events; purchase new technology and equipment used by hospitals and regional rescue services; and help support disadvantaged groups within the community via social and education initiatives.

Yancoal's ongoing investment has the potential to directly support local and regional community growth with many organisations increasingly reliant upon external investment to maintain their quality of services.

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.

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

EXAMPLES OF RECENT ACTIVITY

In the past year, the Moolarben complex achieved an important milestone, granting $1 million in community donations to help support local groups across Mudgee and the wider region since 2010.

The Mount Thorley Warkworth operation dug deep and went pink for breast cancer awareness, painting a dragline bucket bright pink and donating $20,000 to the McGrath Foundation, helping place McGrath Breast Care Nurses in communities across Australia and increase cancer awareness across the Hunter Valley.

Yarrabee partnered with the RACQ Capricorn Helicopter Rescue Service, with a donation of $25,000 helping ensure the Capricorn region of Central Queensland retained the life-saving emergency services of the RACQ's airborne intensive care unit.

Yancoal Corporate established a rolling three-year partnership of $100,000 per year with the Clontarf Foundation to support indigenous youth education services throughout regional New South Wales and West Australia, targeting the areas in which Yancoal manages and operates its mines.

1 includes the addition of the recently acquired Coal & Allied assets and associated pre-acquisition community support initiatives Yancoal will continue to support.

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

Yancoal manages the Ashton, Austar and Donaldson[1] operations on behalf of Watagan Mining Company Pty Ltd ("Watagan")[2] and the Cameby Downs and Premier coal mines on behalf of majority shareholder Yanzhou[3].

All Run of Mine ("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.[4]

REVIEW OF OPERATIONS

NEW SOUTH WALES

MOUNT THORLEY WARKWORTH[5]

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

5.8Mt
ROM

3.9Mt
Saleable

348Mt
Total recoverable reserves
2016

HUNTER VALLEY OPERATIONS[6]

51% Yancoal ownership[7]

Open cut

Semi-soft coal and thermal coal

6.2Mt
ROM

4.8Mt
Saleable

824Mt
Total recoverable reserves
2016

MOOLARBEN

81% Yancoal ownership

Open cut and Underground

Thermal coal

14.7Mt
ROM

12.4Mt
Saleable

267Mt
Total recoverable reserves
Dec 2017

STRATFORD DURALIE

100% Yancoal ownership

Open cut

Thermal coal

0.9Mt
ROM

0.7Mt
Saleable

44Mt
Total recoverable reserves
Dec 2017

QUEENSLAND

MIDDLEMOUNT

~50% Yancoal ownership

Open cut

Hard coking coal and low volatile PCI coal

5.3Mt
ROM

3.9Mt
Saleable

68Mt
Total recoverable reserves
Dec 2017

YARRABEE

100% Yancoal ownership

Open cut

Low volatile PCI coal

3.4Mt
ROM

2.9Mt
Saleable

56Mt
Total recoverable reserves
Dec 2017

WATAGAN

ASHTON

100% Yancoal ownership

Underground

Semi-soft coking coal

2.8Mt
ROM

1.2Mt
Saleable

15Mt
Total recoverable reserves
Dec 2017

AUSTAR

100% Yancoal ownership

Underground

Semi-hard coking coal and thermal coal

2.0Mt
ROM

1.9Mt
Saleable

41Mt
Total recoverable reserves
Dec 2017

DONALDSON

100% Yancoal ownership

Underground

Coking coal and thermal coal

On Care and Maintenance

110Mt
Total recoverable reserves
Dec 2017

1 Effective from 2 May 2016, the Donaldson operation moved to "care and maintenance".

2 Watagan Mining Company Pty Ltd is a wholly-owned subsidiary of Yancoal Australia Ltd, controlled by a consortium of financiers consisting of Industrial Bank Co. Ltd, BOCI Financial Products Limited and United NSW Energy Limited. Effective 31 March 2016, Yancoal ceased to control Watagan and remains the exclusive provider of mine management, marketing, infrastructure and other corporate support services for the Ashton, Austar and Donaldson assets. Mining ceased at Donaldson's Abel underground mine in June 2016.

3 Coal sales, production and total recoverable reserves for Premier and Cameby Downs are not reported by Yancoal.

4 Coal Reserves are as at 31 December 2017, with the exception of Mount Thorley Warkworth and Hunter Valley Operations which are as at 31 December 2016.

5 Mount Thorley Warkworth – four months of attributable production under Yancoal management from 1 September 2017, following completion of the Coal & Allied transaction. On 7 March 2018, Yancoal Australia announced the completion of its purchase of Mitsubishi Development Pty Ltd's 28.898% interest in the Warkworth joint venture for US$230 million, in accordance with its exercising of the call option, as announced 26 September 2017. At completion, the Yancoal Group now owns approximately 84.472% of the Warkworth joint venture, increasing the Yancoal Group's share of coal production from the integrated Mount Thorley Warkworth operations from 64.1% to 82.9%.

6 Hunter Valley Operations – four months of attributable production under Yancoal management from 1 September 2017, following completion of the Coal & Allied transaction.

7 Includes only 51% interest in Hunter Valley Operations ("HVO") on the basis Glencore will be entitled to a 49% interest in HVO with economic effect from 1 September 2017 on implementation of the proposed Yancoal-Glencore HVO joint venture.

NEW SOUTH WALES

MOUNT THORLEY WARKWORTH

YANCOAL 82.9%[1]

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.

A tier-one resource producing semi-soft coking coal and thermal coal, both Mount Thorley and Warkworth began operation in 1981.

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:** Yancoal Australia Ltd (84.47%), Nippon Steel and Sumitomo Metal 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 5.8Mt and saleable coal production of 3.9Mt for the attributable reporting period.[2]

1 On 7 March 2018, Yancoal announced the completion of its purchase of Mitsubishi Development Pty Ltd's 28.898% interest in the Warkworth joint venture for US$230 million, in accordance with its exercising of the call option, as announced 26 September 2017. At completion, the Yancoal Group now owns approximately 84.472% of the Warkworth joint venture, increasing the Yancoal Group's share of coal production from the integrated Mount Thorley Warkworth operations from 64.1% to 82.9%.

2 Four months of attributable production under Yancoal management from 1 September 2017, following completion of the Coal & Allied transaction.

HUNTER VALLEY OPERATIONS

YANCOAL 51%

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

Hunter Valley Operations (HVO) is a multi-pit open cut mine, using a dragline truck and shovel method, operating 24 hours a day, and shipping via the Port Waratah Coal Terminal in Newcastle.

As announced 27 July 2017, Yancoal has entered into a binding agreement to establish a 51:49 unincorporated joint venture with Glencore Coal Pty Ltd ("Glencore") in relation to Hunter Valley Operations ("HVO JV").

The HVO JV will be jointly controlled through a Joint Venture Management Committee ("JVMC"). Yancoal will continue to operate HVO directly until such time as Glencore receives all regulatory approvals and the JVMC is appointed.

Hunter Valley Operations achieved ROM coal production of 6.2Mt and saleable coal production of 4.8Mt for the attributable reporting period.[1]

1 Four months of attributable production under Yancoal management from 1 September 2017, following completion of the Coal & Allied transaction. Includes only 51% interest in Hunter Valley Operations ("HVO") on the basis Glencore Coal Pty Ltd will be entitled to a 49% interest in HVO with economic effect from 1 September 2017 on implementation of the proposed Yancoal-Glencore HVO joint venture.

MOOLARBEN

YANCOAL 81%

Located within the western coalfields of New South Wales, Moolarben is a world-class open cut and underground complex producing export quality thermal coal.

Expansion of the Moolarben complex continued in 2017 with the successful commissioning of the new underground mine and commencement of longwall production in October on schedule and on budget.

Production at the open cut and underground mines achieved total ROM production of 14.7Mt (2016 12.2Mt) and saleable coal production of 12.4Mt (2016 9.3Mt).

Now fully developed, the integrated Moolarben Coal Complex (Stage One and Stage Two) has approval to produce up to 21Mt of ROM coal per annum for a period of 24 years.

Moolarben Coal Operations Pty Ltd[1] is the operator of the Moolarben Coal Complex on behalf of the Joint Venture (JV). The JV partners are Moolarben Coal Mines Pty Ltd[1] (81%), a consortium of Korean companies represented by Kores Australia Moolarben Coal Pty Ltd (9%), and Sojitz Moolarben Resources Pty Ltd (10%).

1 Wholly-owned subsidiary of Yancoal Australia Ltd.

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

Note: All data shown on a 100% basis.

STRATFORD DURALIE

YANCOAL 100%

Located within the New South Wales Gloucester Basin, the Stratford Duralie operation produces high fluidity semi-soft coking and thermal coals.

Stratford Duralie capitalised on improved mining conditions established in the first half of the year following a redesign of the mine in late 2016, enabling sustained high extraction rates.

Mining of the economically recoverable resources of the Clarevale pit were completed during the third quarter reporting period.

Stratford Duralie achieved total ROM coal production of 0.9Mt (2016 1.2Mt) and saleable coal production of 0.7Mt (2016 0.9Mt) for the reporting period.

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

Note: All data shown on a 100% basis.

QUEENSLAND

YARRABEE

YANCOAL 100%

Yarrabee produces ultra-low volatile, semi-anthracite pulverised coal injection (PCI) coal, exporting to steelmakers in the Asian region via the Port of Gladstone.

Yarrabee production was in accordance with forecasts, the operation adjusting product type in the second half of the year to capitalise on increasing price opportunities and market demand for PCI coal.

Yarrabee achieved total ROM coal production of 3.4Mt (2016 3.6Mt) and total saleable coal production of 2.9Mt (2016 3.1Mt).

Acquired as part of Felix Resources Pty Ltd in December 2009, the Yarrabee open cut coal mine is located approximately 40 kilometres north-east of Blackwater in Central Queensland's Bowen Basin.

Yarrabee	Units	2014	2015	2016	2017
Saleable coal production	Mt	3.2	2.8	3.1	2.9

Note: All data shown on a 100% basis.

MIDDLEMOUNT

YANCOAL ~50%

A joint venture between Peabody Energy and Yancoal, the Middlemount mine produces low volatile PCI coal and hard coking coal.

Middlemount has contracted rail and port capacity through Dalrymple Bay Coal Terminal and Abbot Point Port.

The Middlemount joint venture overcame the impacts of poor weather conditions and subsequent interruptions to rail and shipping to re-establish consistent extraction and throughput rates in the second half of the year.

Middlemount achieved total annual ROM coal production of 5.3Mt (2016 5.3Mt) and total saleable coal production of 3.9Mt (2016 4.1Mt).

Middlemount is an open cut mine located 90 kilometres north-east of Emerald in Queensland's Bowen Basin. Full scale operations at the open cut mine commenced in November 2011, with mining activities using conventional truck and shovel techniques.

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

Note: All data shown on a 100% basis.

WATAGAN-CONTROLLED[1]

ASHTON

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.

Ashton achieved total ROM coal production of 2.8Mt (2016 2.4Mt) and saleable coal production of 1.2Mt (2016 1.1Mt) for the year.

AUSTAR

YANCOAL 100%

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. The coal is shipped through the Port of Newcastle.

Austar achieved total ROM coal production of 2.0Mt (2016 1.2Mt) and saleable coal production of 1.9Mt (2016 1.1Mt).

DONALDSON

YANCOAL 100%

Donaldson Coal includes the Abel underground mine and former Tasman underground mine, located near the Port of Newcastle.

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.

Ashton	Units	2014	2015	2016	2017
Saleable coal production	Mt	1.3	1.4	1.1	1.2

Note: All data shown on a 100% basis.

Austar	Units	2014	2015	2016	2017
Saleable coal production	Mt	1.5	0.7	1.1	1.9

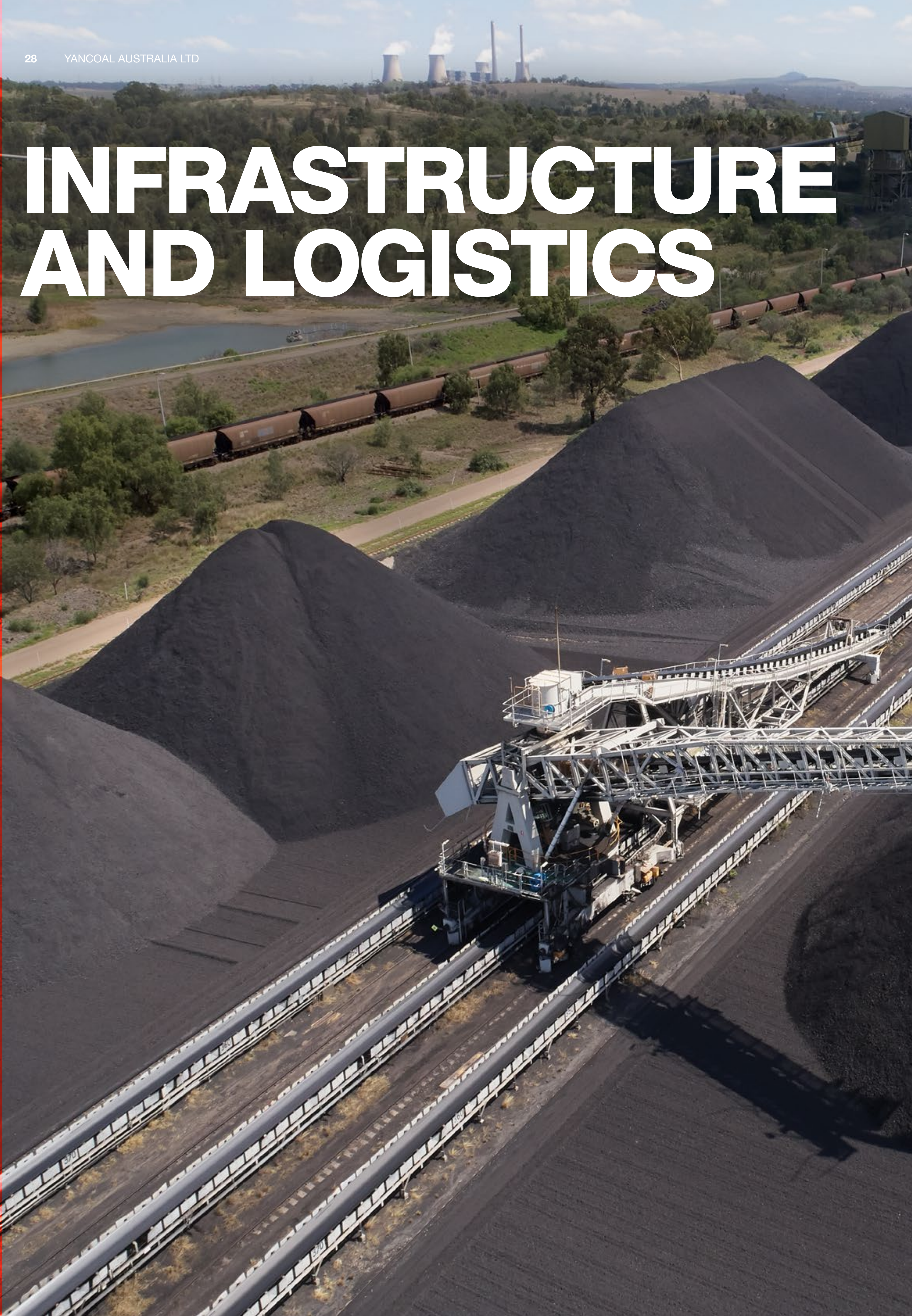
Note: All data shown on a 100% basis.

Donaldson	Units	2014	2015	2016	2017
Saleable coal production	Mt	2.0	1.3	0.2	0

Note: All data shown on a 100% basis.

1 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



With sufficient allocation to meet existing and potential brownfield needs, Yancoal exports 100% of its product through five eastern Australian ports.

INFRASTRUCTURE

Following the acquisition of Coal & Allied, Yancoal increased its share of ownership of Port Waratah Coal Services, supporting the immediate increase in production output from the Mount Thorley Warkworth and Hunter Valley Operations assets.

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. Yancoal has a 27 percent ownership with an allocation of approximately 19.6Mt per annum (100% basis).

PORT WARATAH COAL SERVICES ("PWCS") 36.5%

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).

Yancoal acquired a 36.5 percent ownership of PWCS as part of the Coal & Allied acquisition.

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 Hunter Valley Operations, Mount Thorley Warkworth, Moolarben, 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

Yancoal significantly reduced its take-or-pay exposure from the year prior (2016: $76 million) to $65 million in rail and port commitments in excess of planned sales, $4.7 million of which is attributable to the acquired Coal & Allied assets from 1 September 2017.

LOGISTICS

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

COAL RESOURCES AND COAL RESERVES STATEMENT

For year ending 31 December 2017

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 Australia Ltd ("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 2017 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 are 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 majority of the Competent Persons listed in this report are independent consultants. The Competent Persons who prepared the Coal Resource and Coal Reserve reports for Yarrabee and the Coal Reserve reports for Austar, Ashton and Donaldson are 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 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 per cent 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

Semi: Semi-soft coking 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 2017 position is as follows:

MEASURED, INDICATED AND INFERRED COAL RESOURCES ARE
6,396Mt(2)

RECOVERABLE PROVED AND PROBABLE COAL RESERVES ARE
1,304Mt(1)(2)

MARKETABLE PROVED AND PROBABLE COAL RESERVES ARE
923Mt(1)(2)

(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 2017.

(2) 2017 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 ENDING 31 DECEMBER 2017

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 #
			2017	2017	2016	2017	2016	2017	2016	2017	2017
Moolarben (OC & UG)	81%	Thermal	6.0%	750	820	240	240	200	200	1190	KP
Mt Thorley (OC & UG)	80.0%	Semi/ Thermal	6 to 8%	32	(4)	75	(4)	153	(4)	260	PE
Warkworth (OC & UG)	55.574%	Semi/ Thermal	6 to 8%	215	(4)	715	(4)	528	(4)	1458	PE
HVO(1) (OC & UG)	67.6%	Semi/ Thermal	6 to 8%	730	(4)	1432	(4)	1654	(4)	3816	PE
Austar(5) (UG)	100%	Met	5.0%	70	75	80	80	70	70	220	RD
Ashton(5) (OC & UG)	100%	Semi/ Thermal	6.5%	80	80	75	75	110	110	265	PH
Yarrabee (OC)	100%	PCI/ Thermal	5.5%	95	100	80	80	20	20	195	SW
Gloucester(2) (OC)	100%	Met/ Thermal	6.0%	11	11	195	195	110	110	316	JMB
Middlemount(3) (OC)	50%	Met/ Thermal	5.0%	66	93	33	34	3	3	102	GJ
Donaldson(5) (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
Total Coal Resources (100% Basis)				2239	1369	3342	1121	3028	693	8609	
Yancoal Attributable Share										6396	

Note: 2017 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 percent reported for each deposit. The attributable share total is the total Coal Resources when the Yancoal ownership percent is applied.

Note: No Resources are reported in regards to the Oakland's Project acquired as part of the Coal & Allied acquisition, this project is currently under assessment by Yancoal in regards to its potential.

Note: Coal Resources detailed in table are as at 31 December 2017, with the exception of (1)MTW & (1)HVO which are as at 31 December 2016 (No production depletions have been applied).

(1) (MTW) Mt Thorley Warkworth, (HVO) Hunter Valley Operations.

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

(3) The Middlemount JORC Coal Resource report was generated in March 2013 and excluded coal mined to 31 December 2012 (2.8Mt). A production depletion has been applied to the reported Coal Resources by the Competent Person using the mined-out polygons as at the end of December 2017, the reported Coal Resources are therefore as at end December 2017 based on this depletion.

(4) New acquisition, not previously reported by Yancoal (Reconciliations are not possible).

(5) 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.

COAL RESOURCES RECONCILIATION OF 2017 TO 2016 YEAR END REPORTING

Measured Resources (Mt) – Reconciliation period 1 January 2017 to 31 December 2017

PROJECT	MOOLARBEN (OC & UG)	AUSTAR (UG)	ASHTON (OC & UG)	YARRABEE (OC)	GLOUCESTER (OC)	MIDDLEMOUNT (OC)	DONALDSON (OC & UG)	MONASH (UG)
Production Changes								
Production (-) 1 January 2017 – 31 December 2017	-14.4	-2.02	-2.42	-3.4	-0.82	-27.39		N/A
Non-Production Changes								
Coal sterilised within the mine plan	-9.2	-2.62	-0.5					
Reconciliation (Actual Vs Model) adjustment	-1.5							
Dilution/Loss change			0.61		0.12			
Seams/Plies failing eventual economic extraction test	-44.1							
Resource reclassification	-0.1		2.21					
Geology model change	-4.4				0.12			
(1)Change due to significant figure rounding (2016 Estimate)	2.2	0.14	1.2		0.18	0.39		
(1)Change due to significant figure rounding (2017 Estimate)	1.5	-0.5	-1.1	-1.6	0.40			
Total	**-70.0**	**-5.0**	**0.0**	**-5.0**	**0.0**	**-27**	**0.0**	**0.0**

Indicated Resources (Mt) – Reconciliation period 1 January 2017 to 31 December 2017

PROJECT	MOOLARBEN (OC & UG)	AUSTAR (UG)	ASHTON (OC & UG)	YARRABEE (OC)	GLOUCESTER (OC)	MIDDLEMOUNT (OC)	DONALDSON (UG)	MONASH (UG)
Production Changes								
Production (-) 1 January 2017 – 31 December 2017	0	0	0	0	-0.08	-1.27	0	N/A
Non-Production Changes								
Coal sterilised within the mine plan								
Seams/Plies failing eventual economic extraction test	-0.8							
Resource reclassification	2.6							
Geology model change	-0.5							
(1)Change due to significant figure rounding (2016 Estimate)	-4.2				0.95	0.27		
(1)Change due to significant figure rounding (2017 Estimate)	2.9				-0.86			
Total	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**-1.0**	**0.0**	**0.0**

Inferred Resources (Mt) – Reconciliation period 1 January 2017 to 31 December 2017								
PROJECT	MOOLARBEN (OC & UG)	AUSTAR (UG)	ASHTON (OC & UG)	YARRABEE (OC)	GLOUCESTER (OC)	MIDDLEMOUNT (OC)	DONALDSON (UG)	MONASH (UG)
Non-Production Changes								
Coal sterilised within the mine plan								
Seams/Plies failing eventual economic extraction test								
Resource reclassification	9							
Geology model change	8							
(1)Change due to significant figure rounding (2016 Estimate)	-19							
(1)Change due to significant figure rounding (2017 Estimate)	2							
Total	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

Total Resources (Mt) – Reconciliation period 1 January 2017 to 31 December 2017								
PROJECT	MOOLARBEN (OC & UG)	AUSTAR (UG)	ASHTON (OC & UG)	YARRABEE (OC)	GLOUCESTER (OC)	MIDDLEMOUNT (OC)	DONALDSON (UG)	MONASH (UG)
Yancoal Ownership %	81%	100%	100%	100%	100%	50%	100%	100%
Coal Type	Thermal	Met	Met/ Thermal	PCI/ Thermal	Met/ Thermal	Met/ Thermal	Met/ Thermal	Met/ Thermal
Production Changes								
Measured Resources (Mt)	-14.4	-2.0	-2.4	-3.4	-0.8	-27.39	0.0	N/A
Indicated Resources (Mt)	0	0	0	0	-0.1	-1.27	0	N/A
Non-Production Changes								
Measured Resources (Mt)	-55.6	-3.0	2.42	-1.6	0.82	0.39	0.0	0
Indicated Resources (Mt)	0.0	0	0	0	0.1	0.27	0	0
Inferred Resources (Mt)	0	0	0	0	0	0	0.0	0
Totals	**-70.0**	**-5.0**	**0.0**	**-5.0**	**0.0**	**-28.0**	**0.0**	**0.0**
			Total Coal Resource Changes (100% Basis)				-108.0	
			Yancoal Attributable Share				-80.7	

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

Note: Mt Thorley, Warkworth and HVO (Hunter Valley Operations) are new acquisitions, not previously reported by Yancoal (Reconciliations are not possible).

(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.

COAL RESERVES FOR YEAR ENDING 31 DECEMBER 2017

			RECOVERABLE COAL RESERVE				
			PROVED COAL RESERVES (MT)		PROBABLE COAL RESERVES (MT)		TOTAL COAL RESERVES (MT)
PROJECT	YANCOAL OWNERSHIP %	COAL TYPE	2017	2016	2017	2016	2017
Moolarben (OC)	81%	Thermal	183	190	13	15	196
Moolarben (UG)	81%	Thermal	58	60	13	13	71
Mount Thorley (OC)	80.0%	Semi/Thermal	6	[4]	8	[4]	14
Warkworth (OC)	55.574%	Semi/Thermal	143	[4]	191	[4]	334
[1]HVO (OC)	67.6%	Semi/Thermal	359	[4]	465	[4]	824
[5]Austar (UG)	100%	Met	2	4	39	42	41
[5]Ashton (OC)	100%	Met/Thermal	0	0	15	15	15
[5]Ashton (UG)	100%	Met/Thermal	24	25	11	11	34
Yarrabee (OC)	100%	PCI/Thermal	37	32	19	9	56
[2]Gloucester (OC)	100%	Met/Thermal	0	0.5	44	45	44
[3]Middlemount (OC)	50%	Met/Thermal	50	55	18	18	68
[5]Donaldson (UG)	100%	Met/Thermal	0	0	110	110	110
Total Coal Reserves (100% Basis) – Rounded			**862**	**367**	**946**	**278**	**1807**
Yancoal Attributable Share							**1304**

Note: 2017 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 is applied.

Note: Coal Reserves detailed in table are as at 31 December 2017, with the exception of [1]MTW & [1]HVO which are as at 31 December 2016.

Note: [1]MTW produced 17.5Mt of ROM (Recoverable) and 11.8Mt of Product coal tonnes. [1]HVO produced 19.2Mt of ROM and 14.8Mt Product coal tonnes (for the period 1 January to 31 December 2017).

COAL RESERVES RECONCILIATION OF 2017 TO 2016 YEAR END REPORTING

	RECOVERABLE COAL RESERVES (MT) – RECONCILIATION PERIOD 1 JANUARY 2017 TO 31 DECEMBER 2017									
PROJECT	MOOLARBEN (OC)	MOOLARBEN (UG)	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	-1.7	-2.0	0.0	-2.5	-3.3	-0.9	-5.3	0.0	N/A
Product Yield adjustments										
Moisture basis modified										
Non-Production Changes										
Coal sterilised or increased recovery in the mine plan		-0.2			-0.2					
Coal Resource reclassification	2.4									
Coal Reserve reclassification										
Mine Plan changes from Pre-feasibility studies										
Geology model changes		0.2				5.4				
Changes to the Mine plan / Optimisation	3.0		-2.6			13	-0.3			
Changed modifying factors	-2.6				1.2					
[1]Change due to significant figure rounding (2016/17)	-0.8	-0.3	-0.4	0.0	-0.5	0.0	-0.3	0.0	0.0	0.0
Total	-11.0	-2.0	-5.0	0	-2.0	15.0	-1.5	-5.3	0.0	0

MARKETABLE COAL RESERVE							
MOISTURE BASIS %	PROVED COAL RESERVES (MT)		PROBABLE COAL RESERVES (MT)		TOTAL COAL RESERVES (MT)	ASH %	**COMPETENT PERSON #**
2017	2017	2016	2017	2016	2017	2017	2017
10%	141	148	13	11	154	22%	JB
9%	58	60	13	13	71	16%	JB
10%	4	[4]	5	[4]	9	10-13%	DS
10%	100	[4]	134	[4]	234	10-13%	DS
10%	247	[4]	327	[4]	574	10-13%	DS
5%	2	4	30	34	32	5.5%	REH
8%	0	0	7.8	7.8	7.8	9.5%	REH
8.5%	13	14	5.7	5.7	19	9.5%	REH
5.5%	29	26	14	7	43	10%	AL
8%	0	0.4	26	26	26	14%	BS
Coking 10.5% PCI 9%	38	42	13	13	51	Coking 9.8% PCI 10.8%	MB
8%	0	0	62	62	62	17%	REH
	632	**294**	**651**	**180**	**1283**		
					923		

(1) Mount Thorley Warkworth (MTW) and Hunter Valley Operations (HVO).

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

(3) Middlemount JORC report was generated 1st January 2015, depletions have been applied to the reported Coal Reserves. 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 9.8% for Coking and 10.8% for PCI.

(4) New acquisition, not previously reported by Yancoal (Reconciliations are not possible).

(5) 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.

MARKETABLE COAL RESERVES (MT) – RECONCILIATION PERIOD 1 JANUARY 2017 TO 31 DECEMBER 2017

PROJECT	MOOLARBEN (OC)	MOOLARBEN (UG)	AUSTAR (UG)	ASHTON (OC)	ASHTON (UG)	YARRABEE (OC)	GLOUCESTER (OC)	MIDDLEMOUNT (OC)	DONALDSON (UG)	MONASH (UG)
Production Changes										
Production (Since previous JORC report)	-10.8	-1.7	-1.8	0.0	-1.1	-2.6	-0.6	-3.9	0.0	N/A
Product Yield adjustments						5.9				
Moisture basis modified										
Non-Production Changes										
Coal sterilised or increased recovery in the mine plan		-0.2			0.1					
Coal Resource reclassification	1.7									
Coal Reserve reclassification										
Tenement boundary (new, etc.)										
Geology model changes		0.2	-0.9		-0.4	3.8				
Changes to the Mine plan / Optimisation	6.6		-2.5	0.0		3.0	0.9			
Changed modifying factors	-2.5				0.7					
[1]Change due to significant figure rounding (2016/17)	0.0	-0.3	0.2	0.0	0.0	-0.1	-0.7	0.0	0.0	0.0
Total	-5.0	-2.0	-5.0	0	-0.7	10.0	-0.4	-3.9	0.0	0

TOTALS (MT) – RECONCILIATION PERIOD 1 JANUARY 2017 TO 31 DECEMBER 2017

PROJECT	MOOLARBEN (OC)	MOOLARBEN (UG)	AUSTAR (UG)	ASHTON (OC)	ASHTON (UG)	YARRABEE (OC)	GLOUCESTER (OC)	MIDDLEMOUNT (OC)	DONALDSON (UG)	MONASH (UG)
Yancoal Ownership %	81%	81%	100%	100%	100%	100%	100%	50%	100%	100%
Coal Type	Thermal	Thermal	Met	Met/ Thermal	Met/ Thermal	PCI/ Thermal	Met/ Thermal	Met/ Thermal	Met/ Thermal	Met/ Thermal
Production Changes										
Recoverable Coal Reserves (Mt)	-13.0	-1.7	-2.0	0.0	-2.5	-3.3	-0.9	-5.3	0.0	
Marketable Coal Reserves (Mt)	-10.8	-1.7	-1.8	0.0	-1.1	3.3	-0.6	-3.9	0.0	
Non-Production Changes										
Recoverable Coal Reserves (Mt)	2.0	-0.3	-3.0	0.0	0.5	18.3	-0.6	0.0	0.0	
Marketable Coal Reserves (Mt)	5.8	-0.3	-3.2	0.0	0.4	6.7	0.2	0.0	0.0	
Total Changes										
Recoverable Coal Reserves (Mt)	-11.0	-2.0	-5.0	0.0	-2.0	15.0	-1.5	-5.3	0.0	
Marketable Coal Reserves (Mt)	-5.0	-2.0	-5.0	0.0	-0.7	10.0	-0.4	-3.9	0.0	
Total Recoverable Coal Reserve Changes (100% Basis)			**-11.8**	**Total Marketable Coal Reserve Changes (100% Basis)**					**-7.0**	
Yancoal Attributable Share			**-6.6**	**Yancoal Attributable Share**					**-3.7**	

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

Note: Mt Thorley, Warkworth and HVO (Hunter Valley Operations) are new acquisitions, not previously reported by Yancoal (Reconciliations are not possible).

(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.

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

INITIALS	COMPETENT PERSON (CP)	TITLE	COMPANY
JB	Jon Barber	Principle Consultant	Jon Barber Mining Consultants
JMB	Janet Bartolo	Senior Geologist – Manager Geological Modelling	McElroy Bryan Geological Services Pty
PE	Peter Ellis	Executive Consultant	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
PH	Paul Harrison	Senior Geologist	McElroy Bryan Geological Services Pty
REH	Raymond Howard	Principle 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
BS	Ben Smedley	Principle Mining Consultant	XENITH
SW	Stuart Whyte	Resource Knowledge Manager	Yancoal Australia Ltd

YANCOAL AUSTRALIA TENEMENTS

PROJECT	TITLE TENEMENT	TENEMENT TYPE
HVO	ML1324	Mining Lease
	ML1337	Mining Lease
	ML1359	Mining Lease
	ML1406	Mining Lease
	ML1428	Mining Lease
	ML1465	Mining Lease
	ML1474	Mining Lease
	ML1482	Mining Lease
	ML1500	Mining Lease
	ML1526	Mining Lease
	ML1560	Mining Lease
	ML1589	Mining Lease
	ML1622	Mining Lease
	ML1634	Mining Lease
	ML1682	Mining Lease
	ML1704	Mining Lease
	ML1705	Mining Lease
	ML1706	Mining Lease
	ML1707	Mining Lease
	ML1732	Mining Lease
	ML1734	Mining Lease
	ML1748	Mining Lease
	ML1753	Mining Lease
	EL5291	Exploration License
	EL5292	Exploration License
	EL5417	Exploration License
	EL5418	Exploration License
	EL5606	Exploration License
	EL8175	Exploration License
	CML4	Consolidated Mining Lease
	CL327	Coal Lease
	CL359	Coal Lease
	CL360	Coal Lease
	CL398	Coal Lease
	CL584	Coal Lease
	CCL714	Consolidated Coal Lease
	CCL755	Consolidated Coal Lease
	AUTH72	Authority
	ALA52	Assessment Lease Application
	ALA58	Assessment Lease Application
	ALA59	Assessment Lease Application
	MLA489	Mining Lease Application
	MLA495	Mining Lease Application
	MLA496	Mining Lease Application
	MLA520	Mining Lease Application
	MLA534	Mining Lease Application
	MLA535	Mining Lease Application
	(1)CL378	Coal Lease
	(1)CCL708	Consolidated Coal Lease
Mt Thorley & Warkworth (MTW)	ML1412	Mining Lease
	ML1590	Mining Lease
	ML1751	Mining Lease
	ML1752	Mining Lease
	EL7712	Exploration License
	CL219	Coal Lease
	CCL753	Consolidated Coal Lease
	(1)ML1547	Mining Lease
Middlemount	ML70379	Mining Lease
	ML70417	Mining Lease
	MDL282	Mineral Development License
	EPC1225	Exploration Permit for Coal
Monash	EL6123	Exploration License
	EL7579	Exploration License

PROJECT	TITLE TENEMENT	TENEMENT TYPE
Yarrabee	MDL160	Mineral Development License
	ML1770	Mining Lease
	ML80049	Mining Lease
	ML80050	Mining Lease
	ML80096	Mining Lease
	ML80104	Mining Lease
	ML80172	Mining Lease
	ML80195	Mining Lease
	ML80196	Mining Lease
	ML80197	Mining Lease
	ML80198	Mining Lease
	EPC1429	Exploration Permit for Coal
	EPC1684	Exploration Permit for Coal
	EPC621	Exploration Permit for Coal
	EPC717	Exploration Permit for Coal
Gloucester Basin	A311	Exploration License
	A315	Exploration License
	EL6904	Exploration License
	ML1360	Mining Lease
	ML1409	Mining Lease
	ML1427	Mining Lease
	ML1447	Mining Lease
	ML1521	Mining Lease
	ML1528	Mining Lease
	ML1538	Mining Lease
	ML1577	Mining Lease
	ML1646	Mining Lease
	ML1733	Mining Lease
Ashton	ML1529	Mining Lease
	ML1623	Mining Lease
	ML1533	Mining Lease
	EL4918	Exploration License
	EL5860	Exploration License
	ML1696	Mining Lease
Austar	CCL728	Mining Lease
	CCL752	Mining Lease
	CML2	Mining Lease
	ML1388	Mining Lease
	ML1550	Mining Lease
	ML1661	Mining Lease
	ML1666	Mining Lease
	ML1677	Mining Lease
	EL6598	Exploration License
Moolarben	ML1605	Mining Lease
	ML1606	Mining Lease
	ML1628	Mining Lease
	ML1691	Mining Lease
	ML1715	Mining Lease
	EL6288	Exploration License
	EL7073	Exploration License
	EL7074	Exploration License
	MPL0315	Mining Purpose Lease
Donaldson	ML1461	Mining Lease
	ML1555	Mining Lease
	ML1618	Mining Lease
	ML1653	Mining Lease
	ML1703	Mining Lease
	ML1756	Mining Lease
	EL6964	Exploration License
	EL5337	Exploration License
	EL5497	Exploration License
	EL5498	Exploration License

(1) Partially owned tenements.

FINANCIAL STATEMENTS


YANCOAL

APPENDIX 4E

1. RESULTS FOR ANNOUNCEMENT TO THE MARKET

	31 December 2017 $M	31 December 2016 $M	% Change
Revenue from ordinary activities	**2,601**	1,238	110
Profit/(loss) before income tax (before non-recurring items)	**229**	(297)	180
Profit/(loss) before income tax (after non-recurring items)	**311**	(312)	200
Net profit/(loss) from ordinary activities after income tax attributable to members (before non-recurring items)	**211**	(226)	193
Net profit/(loss) for the year attributable to members (after non-recurring items)	**229**	(227)	201

2. EARNINGS PER SHARE

	31 December 2017 $	31 December 2016 $	% Change
Profit/(loss) per share (before non-recurring items)	**0.01**	(0.21)	106
Profit/(loss) per share (after non-recurring items)	**0.01**	(0.21)	106

3. NET TANGIBLE ASSETS PER SECURITY

	31 December 2017 $	31 December 2016 $	% Change
Net tangible assets per share	**0.11**	(0.91)	112

4. DISTRIBUTIONS

No dividends have been paid during the financial year. The Directors do not recommend that a dividend be paid in respect of the financial year (2016: nil).

Subordinated Capital Notes distributions

	31 December 2017 US$ per SCN	31 December 2016 US$ per SCN
Interim distribution paid on 31 July 2017 (2016 paid 29 July 2016)	**3.50**	3.51
No final distribution to be accrued as at 31 December 2017 (31 December 2016 accrual, paid on 31 January 2017)	**–**	3.50
	3.50	7.01

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

a. Acquisitions

The following entities were acquired during the year as part of Coal & Allied Industries Ltd acquisition on 1 September 2017:

Coal & Allied Industries Ltd
Australian Coal Resources Ltd
Black Hill Land Pty Ltd
Catherine Hills Bay Land Pty Ltd
CNA Resources Ltd
CNA Warkworth Australasia Pty Ltd
Mount Thorley Operations Pty Ltd
Kalamah Pty Ltd
Miller Pohang Coal Co Pty Ltd
Gwandalan Land Pty Ltd
Namoi Valley Coal Pty Ltd
Nords Wharf Land Pty Ltd
Northern (Rhondda) Collieries Pty Ltd
Novacoal Australia Pty Ltd
Lower Hunter Land Holdings Pty Ltd
Coal & Allied Mining Services Pty Ltd
Coal & Allied Operations Pty Ltd
HVO Coal Sales Pty Ltd
HV Operations Pty Ltd
Coal & Allied (NSW) Pty Ltd
CNA Warkworth Pty Ltd
CNA Bengalla Investments Pty Ltd
Warkworth Pastoral Co Pty Ltd
Warkworth Coal Sales Ltd
Warkworth Mining Ltd
Warkworth Tailings Treatment Pty Ltd
Oaklands Coal Pty Ltd
R.W. Miller (Holdings) Ltd
Minmi Land Pty Ltd
Mount Thorley Coal Loading Ltd

The following entities were incorporated during the year:

Parallax Holdings Pty Ltd
HVO Services Pty Ltd

b. Disposals

No entities were disposed of or deregistered during the year.

6. DETAILS OF ASSOCIATES AND JOINT VENTURE ENTITIES

	31 December 2017		31 December 2016	
	Holdings %	Profit/(loss) after income tax contribution $M	Holdings %	Profit/(loss) after income tax contribution $M
Joint venture entities				
Moolarben Joint Venture (unincorporated)	**81**	**290**	81	125
Boonal Joint Venture (unincorporated)	**50**	**Immaterial**	50	Immaterial
Middlemount Coal Pty Ltd	**49.9997**	**32**	49.9997	(5)
Warkworth Joint Venture (unincorporated)	**55.574**	**71**	N/A	N/A
Mount Thorley Joint Venture (unincorporated)	**80**	**47**	N/A	N/A
Hunter Valley Operations Joint Venture (unincorporated)	**67.6**	**116**	N/A	N/A
Associate entities				
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	**36.53**	**Immaterial**	N/A	N/A

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 2017.

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.

Xiyong Li

Cunliang Lai

Baocai Zhang

Fuqi Wang

Gregory Fletcher

Geoffrey Raby

Boyun Xu (resigned 28 April 2017)

Yuxiang Wu (resigned 28 April 2017)

Qingchun Zhao (appointed 28 April 2017)

Xiangqian Wu (appointed 28 April 2017)

William Randall (resigned 9 November 2017)

Xing Feng (appointed 15 December 2017)

Vincent O'Rourke (resigned 30 January 2018)

Huaqiao Zhang (resigned 30 January 2018)

David Moult (appointed 30 January 2018)

Helen Gillies (appointed 30 January 2018)

SECRETARY

The name of the 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

No significant events were recorded at Yancoal's mine sites for the period, with sites continuing to operate to legislative and safety standards. Yancoal remains committed to proactively improving the systems and processes employed across sites to educate, communicate and record employee safety initiatives.

Under the direction of the Health, Safety and Environment Committee, Yancoal continues to build the leadership, capabilities, systems and reporting procedures required to deliver on its objectives of achieving zero harm at its operations.

Financial performance

Yancoal achieved a total operating EBIT of $732 million before tax, up $693 million on the year prior.

Yancoal's financial improvement is directly attributable to the strategic acquisition of 100% of Coal & Allied Industries Limited ("Coal & Allied") from Rio Tinto for US$2.69 billion in value, as at 1 September 2017, resulting in a significant increase in production output at a time of global coal market price improvements.

Increased production output at a time of industry-high benchmark prices for semi-soft coking and thermal coals led Yancoal's recovery to announce a profit after tax of $229 million from revenue of $2.6 billion (before tax) for the full year ended 31 December 2017.

Yancoal conducted a pro-rata renounceable entitlement offer ("Entitlement Offer") of 23,464,929,520 fully paid ordinary shares to raise US$2.35 billion, and an associated placement of 1,500,000,000 fully paid ordinary shares ("the Placement") to raise a further US$150 million, to support the funding of the Coal & Allied acquisition.

Yancoal maximised sales volumes and new blending opportunities across assets, benefitting from a full quarter's attributable production from the acquired Coal & Allied assets, post-completion in September 2017.

Post-acquisition earnings enabled the Company to recover both stamp duty and transaction costs, with Yancoal subsequently paying down US$150 million in loans to Bank of China.

Throughout 2017, Yancoal continued to implement cost reduction strategies across all operations, addressed existing take-or-pay arrangements, and blended products across the New South Wales operations (both managed and operated) to meet new market opportunities.

Corporate activities

On 1 September 2017, Yancoal became Australia's largest pure-play coal producer, effectively doubling its production output and increasing its coal product offerings via the completion of the strategic acquisition of 100% of Coal & Allied Industries Limited ("Coal & Allied") from Rio Tinto for US$2.69 billion in value.

Combining the world-class assets of Coal & Allied's Mount Thorley Warkworth and Hunter Valley Operations with the Company's existing portfolio, the acquisition enables the maximising of synergies between Yancoal assets and supports the Company's vision for continued market growth.

Yancoal's binding agreement for US$2.69 billion in value comprised US$2.45 billion cash payable on completion, US$240 million in future non-contingent royalty payments over five years following completion, and a coal price linked contingent royalty.

On completion, the Company acquired the following interests in two of the country's leading tier-one large-scale, long-life and low-cost coal mines located in the Hunter Valley region of New South Wales, as well as required export infrastructure:

- a 67.6% interest in the Hunter Valley Operations mining complex ("HVO")[1];
- an 80.0% interest in the Mt Thorley mine and a 55.6% interest in the Warkworth mine (together, "MTW"); and
- a 36.5% interest in Port Waratah Coal Services ("PWCS"), a coal export terminal located at the Port of Newcastle.

On 27 July 2017, Yancoal entered into a binding agreement to establish a 51:49 unincorporated joint venture with Glencore Coal Pty Ltd ("Glencore") in relation to Hunter Valley Operations ("HVO JV"), following completion of Yancoal's acquisition of Coal & Allied.

1 Yancoal's interest in HVO will reduce to 51% on completion of the Glencore Transaction. Completion of the Glencore Transaction is subject to a number of conditions precedent that have not been satisfied as at the date of this announcement.

The joint venture arrangement provides significant combined synergies and commercial opportunities for both Yancoal and Glencore, with shareholders set to benefit from the co-operative management experience and operational skills of two of Australia's leading coal producers. The HVO JV remains subject to Glencore achieving all required approvals.

Under the terms of the Joint Venture Agreement, Glencore will pay cash consideration of US$1,139 million for 49% of HVO, of which US$710 million will be paid to Mitsubishi Development Pty Ltd ("MDP") and US$429 million paid to Yancoal, plus a 27.9% share of US$240 million of non-contingent royalties and 49% of HVO contingent royalties payable by Yancoal in respect of the Coal & Allied acquisition.

The HVO JV will be jointly controlled by Yancoal and Glencore through a Joint Venture Management Committee ("JVMC"), and managed by an independent management team to be appointed by the JVMC.

Yancoal will be appointed as the exclusive marketing representative for sales of HVO JV coal products in China, Taiwan (other than for certain specified customers), Thailand and Malaysia.

As published on the Australian Securities Exchange ("ASX") 2 August 2017, Yancoal conducted a pro-rata renounceable Entitlement Offer of 23,464,929,520 fully paid ordinary shares to raise US$2.35 billion, and an associated placement of 1,500,000,000 fully paid ordinary shares to raise a further US$150 million, to support the funding of the Coal & Allied acquisition.

Yancoal completed the issue of new fully paid ordinary shares ("New Shares") via the Entitlement Offer and the Placement on 31 August 2017.

In addition, Yancoal issued 18,000,031,000 New Shares to Yanzhou on conversion of all of its Subordinated Capital Notes ("SCN") and also issued a further 150,943 New Shares on conversion of 80 other SCNs for which a conversion notice was received, in accordance with the SCN terms of issue.

The Company also secured commitments from Taizhong and General Nice to subscribe for US$100 million and US$50 million respectively and US$150 million in aggregate of new shares under the Placement.

The number of Yancoal shares on issue following the issue of the New Shares under the Entitlement Offer, Placement and SCN conversion is 43,959,388,122, as at 31 December 2017.

New Shares issued under the Entitlement Offer, Placement and SCN conversion commenced trading on the ASX on a normal settlement basis on Friday, 1 September 2017.

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

The addition of attributable production from the newly acquired Mount Thorley Warkworth and Hunter Valley Operations mines generated an immediate and significant increase in production, achieving total saleable coal production of 31.5Mt (23.4Mt equity basis) for the year (31 December 2016: 16.0Mt equity share) and total Run of Mine ("ROM") coal production of 41.1Mt (30.6Mt equity share) for the year (31 December 2016: 21.2Mt equity share).

Yancoal achieved total coal sales (equity share) of 28.5Mt for the year (31 December 2016: 19.3Mt), with a sales split (equity share) for the period of 19.6Mt (2016 11.6Mt) thermal and 8.99Mt (2016 7.7Mt) metallurgical coal.

Yancoal continued to manage the Cameby Downs and Premier coal mining 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 the Yancoal report.

New South Wales

In New South Wales, Yancoal operated the Moolarben, Hunter Valley Operations, Mount Thorley Warkworth and Stratford Duralie mines and managed the Austar, Ashton and Donaldson mines on behalf of Watagan Mining Company Pty Ltd ("Watagan").

Yancoal operated the Mount Thorley Warkworth and Hunter Valley Operations assets from 1 September 2017, following completion of the Coal & Allied transaction. Attributable production includes only 51% interest in the Hunter Valley Operations on the basis that Glencore will be entitled to a 49% interest with economic effect from 1 September 2017 on implementation of the HVO JV[2].

NSW operations achieved total ROM coal production of 32.4Mt (2016 17.3Mt) (Yancoal-controlled 27.6Mt, Watagan-controlled 4.8Mt) and saleable coal production of 24.7Mt (2016 12.6Mt) (Yancoal-controlled 21.7Mt, Watagan-controlled 3.0Mt) for the period.

The newly acquired open cut mines of Hunter Valley Operations and Mount Thorley Warkworth provided four months of attributable production under Yancoal management, with consistent extraction rates maintained throughout the handover and integration period post-acquisition 1 September 2017.

Mount Thorley Warkworth, consisting of Mount Thorley (Yancoal 80% ownership) and Warkworth (Yancoal 55.6% ownership[3]), achieved ROM production of 5.8Mt and saleable coal production of 3.9Mt for the attributable reporting period.

Hunter Valley Operations (Yancoal 51% ownership[4]) achieved ROM production of 6.2Mt and saleable coal production of 4.8Mt for the attributable reporting period.

The Moolarben Complex (Yancoal 81% ownership) achieved total ROM production of 14.7Mt (2016 12.2Mt) and saleable coal production of 12.4Mt (2016 9.3Mt).

The Stratford Duralie (Yancoal 100% ownership) open cut mine achieved total ROM coal production of 0.9Mt (2016 1.2Mt) and saleable coal production of 0.7Mt (2016 0.9Mt) for the reporting period.

Queensland

In Queensland, 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 production was in accordance with forecasts, achieving total ROM coal production of 3.4Mt (2016 3.6Mt) and total saleable coal production of 2.9Mt (2016 3.1Mt).

The Middlemount joint venture (Yancoal ~50% ownership) maintained consistent extraction rates throughout the reporting period to achieve total ROM coal production of 5.3Mt (2016 5.3Mt) and total saleable coal production of 3.9Mt (2016 4.1Mt).

2 HVO JV remains subject to Glencore achieving all required approvals.

3 Yancoal retains an option to acquire a further 29% interest in Warkworth from MDP, anticipated to be completed on 1 March 2018.

4 Attributable production includes only 51% interest in the Hunter Valley Operations on the basis that Glencore will be entitled to a 49% interest with economic effect from 1 September 2017 on implementation of the HVO JV. The HVO JV remains subject to Glencore achieving all required approvals.

DIRECTORS' REPORT (CONTINUED)

Watagan-controlled[5]

Ashton (Yancoal 100% ownership) achieved total ROM coal production of 2.8Mt (2016 2.4Mt) and saleable coal production of 1.2Mt (2016 1.1Mt) for the year.

Austar (Yancoal 100% ownership) achieved total ROM coal production of 2.0Mt (2016 1.2Mt) and saleable coal production of 1.9Mt (2016 1.1Mt).

On 25 August, Austar received approval for its Modification to the Bellbird South Consent, allowing for potential access to an additional 3.7Mt of ROM coal.

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

Infrastructure

Following the acquisition of Coal & Allied, Yancoal increased its share of ownership of Port Waratah Coal Services, supporting the immediate increase in production output from the Mount Thorley Warkworth and Hunter Valley Operations assets.

With sufficient allocation to meet existing and potential brownfield needs, Yancoal exports 100% of its product through five eastern Australian ports into the Asian market.

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. Yancoal has a 27% ownership with an allocation of approximately 19.6Mt per annum (100% basis).

The Moolarben Coal mine is the largest of Yancoal's Hunter based mines to use the terminal.

Port Waratah Coal Services ("PWCS") 36.5%

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).

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, 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;
- 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

Yancoal significantly reduced its take-or-pay exposure from the year prior (2016: $76 million) to $65 million in rail and port commitments in excess of planned sales, $4.7 million of which is attributable to the acquired Coal & Allied assets from 1 September 2017.

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

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 licenses to operate.

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 to ensure full transparency in its environmental reporting.

In 2017, Yancoal invested more than $544,216.00 via its community support program into local and regional health, environmental, education and sporting 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.

ENVIRONMENTAL REGULATION

Yancoal is subject to significant environmental regulation. Its energy regulation activities are set out below.

Greenhouse gas and energy data reporting requirements

The *National Greenhouse and Energy Reporting Act 2007 Cth* ("NGER") requires Yancoal to report its annual greenhouse gas emissions and energy use. The Group has implemented systems and processes for the collection and calculation of the data required and submitted its 2016/2017 s19 Energy & Emissions Report to the Federal Clean Energy Regulator on 31 October 2017.

The Group continues to investigate and implement energy efficiency opportunities and share initiatives between sites.

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 economic entity.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

As announced 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 was paid to holders.

5 The Watagan-controlled Ashton, Austar and Donaldson operations remain 100% Yancoal owned subsidiaries.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

Guidance for saleable production in 2018 is 35Mt – 37Mt (equity share). Forecast for 2018 capital expenditure is approximately $247 million (equity share).

INFORMATION ON DIRECTORS

Xiyong Li

Chairman and Non-Executive Director (12 September 2013 – Current). 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

Chairman and the Secretary of the Party Committee of Yankuang Group

Director of Yancoal International (Sydney) Pty Ltd

Former directorships in last three years

Chairman of Yancoal International (Holding) Co., Ltd

Special responsibilities

Chairman of the Board

Chairman of the Nomination and Remuneration Committee

Interests in shares and options

None

Cunliang Lai

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

Experience and expertise

Mr Lai 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 in Engineering and an EMBA degree.

Other current key directorships

None

Former directorships in last three years

Director of Bauxite Resources Limited

Special responsibilities

Co-Vice Chairman of the Board

Member of Nomination and Remuneration Committee

Interests in shares and options

None

Baocai Zhang

Non-Executive Director (26 June 2012 – 19 January 2014), Co-Vice Chairman (20 December 2013 – Current), Executive Director (20 January 2014 – Current). EMBA.

Experience and expertise

Mr Zhang 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 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.

DIRECTORS' REPORT (CONTINUED)

Baocai Zhang (continued)

Other current key directorships

Director of Yankuang Group Company Limited

Director of Yanzhou Coal Yulin Neng Hua Co., Ltd

Director of Inner Mongolia Haosheng Coal Mining Limited

Director of Yankuang Group Finance Co., Ltd[6]

Director of Yancoal SCN Limited

Former directorships in last three years

Director of Yanzhou Coal Mining Company Limited

Director of Yancoal International (Holding) Co., Ltd

Special responsibilities

Co-Vice Chairman of the Board

Chairman of the Executive Committee

Chairman of the Strategy and Development Committee

Interests in shares and options

5,905,873 fully paid Yancoal ordinary shares

Qingchun Zhao

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

Experience and expertise

Mr Zhao 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

Chairman of Zhongyin Financial Leasing Co., Ltd

Director of Qilu Bank Co., Ltd.

Director of Shanghai CIFCO Co., Ltd

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

Director of Qingdao Zhongyin International Trade Co., Ltd

Director of Yancoal International (holding) Co.Ltd Yancoal SCN Limited

Director of Yankuang Group Finance Co., Ltd[7]

Former directorships in last three years

None

Special responsibilities

Member of Strategy and Development Committee

Member of Audit and Risk Management Committee

Interests in shares and options

None

Fuqi Wang

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

Experience and expertise

Mr Fuqi Wang 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 Health, Safety and Environment Committee

Member of Strategy and Development Committee

Interests in shares and options

None

Xiangqian Wu

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

Experience and expertise

Mr Wu 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. In March 2014, he was promoted as 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

Chairman of Yanzhou Coal Ordos Neng Hua Co.,Ltd

Chairman of Inner Mongolia Haosheng Coal Mining Co., Ltd

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

Yancoal International (Holding) Co. Ltd

6 Appointed on 25 December 2017 but effective date subject to relevant Regulator's approval.
7 Appointed on 25 December 2017 but effective date subject to relevant Regulator's approval.

Former directorships in last three years
None

Special responsibilities
Member of Nomination and Remuneration Committee

Interests in shares and options
None

Xing Feng

Non-Executive Director (15 December 2017). BEng

Experience and expertise
Mr Feng started his career with China Cinda Asset Management (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 is currently studying an EMBA at Peking University.

Other current key directorships
Director of China Broadcasting and Telecommunications Corporation

Former directorships in last three years

Special responsibilities
Member of Strategy and Development Committee.

Interests in shares and options
None

Gregory Fletcher

Non-Executive Director (26 June 2012 – Current). BCom, CA.

Experience and expertise
Mr Fletcher 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. Previously, Mr Fletcher was a senior partner with a Big 4 Accounting Firm where he specialised in external and internal audits and risk management. He provided professional services to some of Australia's largest listed corporations. Since 2009 Mr Fletcher has taken on Board and Audit Committee roles.

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 Yancoal SCN Limited
Director of Saunders International Limited
Director of TAFE NSW and Member of the Audit and Risk Committee
Member of Audit and Risk Committee, Railcorp
Member of NSW Electoral Commission Audit and Risk Committee
Member of Audit, Risk and Compliance Committee, Sydney Olympic Park Authority
Member of Audit and Risk Committee NSW State Transit Authority

Former directorships in last three years
Director of WDS Limited

Special responsibilities
Chairman of Audit and Risk Management Committee
Chairman of the Independent Board Committee

Interests in shares and options
69,390 fully paid Yancoal ordinary shares.

Dr Geoffrey Raby

Non-Executive Director (26 June 2012 – Current). BEc (Hons), MEc and PhD (Economics).

Experience and expertise
Dr Geoffrey Raby was appointed a Director of Yancoal in 2012. He was 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 (1998–2001), Australia's APEC Ambassador (2003–2005), 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 (EFIC).

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 Oceana Gold Corporation Limited
Director of iSentia Group Ltd

Former directorships in last three years
Director of Fortescue Metals Group
Chairman of SmartTrans Holding Limited
Director of YPB Group Ltd

Special responsibilities
Member of Audit and Risk Management Committee
Member of Health, Safety and Environment Committee

Interests in shares and options
800,000 fully paid Yancoal ordinary shares.

DIRECTORS' REPORT (CONTINUED)

Helen Gillies

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

Experience and expertise

Helen Gillies is an experienced legal, risk and compliance professional, with expertise in the engineering, construction, maintenance, aviation and services sectors.

Ms Gillies 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. Ms. Gillies was a Director of Sinclair Knight Merz Management Pty Ltd and General Manager (Risk) and General Counsel of Sinclair Knight Merz since 1995.

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 or Monadelphous Group Limited

Director of BAC Holdings Pty Ltd

Former directorships in last three years

None

Special responsibilities

Member of Nomination and Remuneration Committee

Interests in shares and options

None

David Moult

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

Experience and expertise

David Moult was appointed as a Director of Yancoal in January 2018. He has over 40 years' global coal mining experience. He was Managing Director & CEO of Centennial Coal Company Limited from 2011 to 2017 and prior to that the Chief Operating Officer from 1998. Mr Moult has worked with Joy Mining Machinery in the USA and Australia, RJB Mining PLC and British Coal in the UK.

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

Mr Moult is a Chartered Mining Engineer and holds a Master of Business Administration.

Other current key directorships

Chairman and Director of Coal Services Pty Ltd

Former directorships in last three years

Non-Executive Director Centennial Coal Company Limited

Managing Director & 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 Health, Safety and Environment Committee

Interests in shares and options

None

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

Chairman of Rail Innovation Australia Pty Ltd

Deputy Chairman of Mater Health Services Brisbane Limited

Chairman of Holy Cross Laundry Pty Ltd

Director of White Energy Company Limited

Director of Queensland Museum Foundation

Director of Yancoal SCN Limited

Former directorships in last three years

Chairman of the Queensland Workplace Health and Safety Board
Director of Premier Coal Limited (resigned on 27 May 2016)

Interests in shares and options

1,119,565 fully paid Yancoal ordinary shares

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 (DEET). 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 2006-2008, 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 of economics of development from the Australian National University in 1991.

Other current key directorships

Chairman of China Smartpay Group Holdings Ltd (8325 HK)

Independent non-executive director of Fosun International Ltd (656 HK)

Independent non-executive director of Logan Property Holdings Co. Ltd (3380 HK)

Independent non-executive director of Luye Pharma Group Ltd (2186 HK)

Independent non-executive director of Wanda Hotel Development Co. Ltd (0169 HK)

Independent non-executive director of China Huirong Financial Holdings Ltd (1290 HK)

Independent non-executive director of Zhong An Real Estate Ltd (672 HK)

Independent non-executive director of Sinopec Oil Services Corp (1033 HK)

Non-executive director of Boer Power Holdings Ltd (1685 HK)

Former directorships in last three years

Independent director of Ernest Borel Holdings Ltd (1856 HK)

Director of Nanjing Central Emporium (600280 CH)

Interests in shares and options

None

Yuxiang Wu

Non-Executive Director (18 November 2004 – 28 April 2017). MACC

Experience and expertise

Mr Wu joined Yanzhou's predecessor in 1981. Mr Wu was appointed as the Head of the Planning and Finance department of Yanzhou in 1997, and was appointed as the Chief Financial Officer and a Director of Yanzhou in 2002. In 2004, Mr Wu was appointed a Director of Yancoal. Mr Wu was appointed as the Deputy Chief Accountant and the Head of Department of Investment and Development of Yankuang Group in January 2016. He has considerable experience in financial management and business development in the coal industry. He also has extensive experience in organisational accounting, financial control, capital management, risk management and corporate compliance for Yanzhou and Yancoal.

Mr Wu is a senior accountant with a Masters degree in accounting. Mr Wu graduated from the Party School of Shandong Provincial Communist Committee.

Other current key directorships

Director of Yanzhou Coal Mining Company Limited

Director of Yanmei Heze Neng Hua Co., Ltd

Director of Yanzhou Coal Shanxi Neng Hua Company Limited

Chairman of the Supervisory Committee of Huadian Zouxian Power Generation Company Limited

Director of Yancoal International (Sydney) Pty Ltd

Former directorships in last three years

None

Interests in shares and options

None

DIRECTORS' REPORT (CONTINUED)

Boyun Xu

Executive Director (26 June 2012 – 28 April 2017). ME, EMBA.

Experience and expertise

Mr Xu joined Yancoal in 2005 and held the position of Deputy Managing Director of Yancoal until acquisition of Felix Resources. Before the merger with Gloucester Coal Ltd, he held the position of General Manager of Business Development of Yancoal. In 2012, Mr Xu was appointed a Director of Yancoal and Executive General Manager of the Australian subsidiaries of Yancoal International (Holding) Co. Ltd. Mr Xu has over 30 years of international management and engineering experience in the coal mining industry. Prior to joining Yancoal he served as Deputy Chief Engineer in Yankuang Group Company Limited in China and China Business Manager in Minarco Asia Pacific Pty Ltd in Australia.

Mr Xu holds an EMBA degree from University of Technology, Sydney, a Masters degree in Mining Engineering from University of New South Wales and a Bachelor of Mining Engineering from Shandong University of Science and Technology in China.

Other current key directorships

Director of Premier Coal Limited

Director of Yancoal International (Sydney) Pty Ltd

Director of Yancoal SCN Limited

Director of Yankuang Bauxite Resources Pty Ltd

Former directorships in last three years

None

Special responsibilities

Member of the Executive Committee

Interests in shares and options

None

William Randall

Non-Executive Director (26 June 2012 – 9 November 2017). BBus

Experience and expertise

Mr Randall started his career with Noble Group in Australia in 1997, transferring to Asia in 1999 where he established Noble Group Limited's coal operations, mining and supply chain management businesses. He served as a Director of Noble Energy Inc in 2001, before being appointed Global Head of Coal and Coke in 2006 and became a member of the Noble Group internal management board in 2008. Mr Randall subsequently assumed the title of Head of Hard Commodities in 2012. He became an Executive Director of Noble Group Limited in February 2012 prior to which he was Head of Energy Coal Carbon Complex. Mr Randall was appointed a Director of Yancoal after the merger of Yancoal and Gloucester Coal Ltd in June 2012.

Mr Randall holds a Bachelor degree in Business from the Australian Catholic University, majoring in international marketing and finance.

Other current key directorships

Director of Noble Group Limited

Director of various subsidiaries of Noble Group Limited Subsidiaries

Former directorships in last three years

Director of Blackwood Corporation Limited

Alternate Director of East Energy Resources Limited

Alternate Director of Cockatoo Coal Limited

Special responsibilities

Member of Nomination and Remuneration Committee

Interests in shares and options

None

Reinhold Schmidt

Alternate Director for Boyun Xu (on 13 January 2017). MEng (Mineral Economics)

Experience and expertise

Reinhold Schmidt has over 20 years' experience in the mining industry. Prior to joining the Company, Mr Schmidt was the Chief Operating Officer of Xstrata Coal Queensland and previously the Executive General Manager for Xstrata Coal's Wandoan Project. He was also formerly the President of the Colombian coal assets of Glencore.

Other current key directorships

Director of various subsidiaries of Yancoal Australia Ltd

Former directorships in last three years

Director of Yancoal SCN Limited

Alternate director of Bauxite Resources Limited (resigned on 21 January 2016)

Special responsibilities

Chief Executive Officer of Yancoal Australia Ltd

Member of the Executive Committee

Interests in shares and options

3,453,158 fully paid Yancoal ordinary shares in Yancoal Australia Ltd

COMPANY SECRETARY

Laura Ling Zhang

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

Laura Ling Zhang was appointed on 6 September 2005 as Company Secretary and subsequently as Executive General Manager – Corporate Services for the Company in June 2012. She oversees the Company's corporate governance, legal issues, corporate compliance, investor relations activities and shareholder communications. Ms Zhang arrived in Australia in 2004 as one of the founding executives for the Company and has played a key role in each of the Company's acquisitions. She brings valuable experiences and contribution to the Company through her understanding and experiences of both Australian and Chinese corporate governance principles and business practices, engagement with the Board and senior management team, as well as cross-cultural communication and international enterprise management. She is studying the EMBA at Australia Graduate School of Management (AGSM).

MEETINGS OF DIRECTORS

The numbers of meetings of the Company's Board of Directors and of each Board Committee held during the year ended 31 December 2017[1], and the numbers of meetings attended by each Director were:

	Full meetings of Directors		MEETINGS OF COMMITTEES									
			Audit and Risk Management		Health, Safety and Environment		Nomination and Remuneration		Strategy and Development		Independent Board Committee[2]	
	A	B	A	B	A	B	A	B	A	B	A	B
Xiyong Li	13	13					1	1				
Cunliang Lai	13	13					1	1				
Baocai Zhang	13	13							1	1		
Yuxiang Wu	3	3	1	2								
Fuqi Wang	13	13			3	4			1	1		
Boyun Xu[3]	3 (alt)	3										
William Randall	9	12					1	1				
Gregory Fletcher	13	13	5	5							44	44
Geoffrey Raby[4]	13 (alt)	13	5	5	4	4					41	44
Vincent O'Rourke	13	13			4	4					41	44
Huaqiao Zhang	11	13							1	1	1	32
Qingchun Zhao	10	10	1	3					1	1		
Xiangqian Wu	9	10					0	0				
Xing Feng	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

1 Helen Gillies and David Moult were appointed as directors of the Company on 30 January 2018, therefore did not attend meetings of the Company's Board of Directors or relevant Board Committees during the year ended 31 December 2017.

2 The Independent Board Committee ("IBC") was constituted two times under different protocols for the purpose of considering related party transactions with the Company's major shareholder, Yanzhou. Twelve out of 44 IBC meetings were IBC Steering Committee meetings, of which Huaqiao Zhang is not a member.

3 Boyun Xu appointed Reinhold Schmidt as an alternate director to act on his behalf, solely for the board meeting of the Company on 13 January 2017.

4 Geoff Raby appointed Gregory Fletcher as an alternate director to act on his behalf, solely for the board meeting of the Company on 1 August 2017.

DIRECTORS' REPORT (CONTINUED)

REMUNERATION REPORT – AUDITED

Dear Shareholder,

I am pleased to introduce the Yancoal Australia Ltd (the "Company") and its controlled entities (the "Group") 2017 Remuneration Report.

Over 2017, 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 listed company and for a Company of its size.

The Company has significantly transitioned from a loss making enterprise to one that is now generating profit. The company has also successfully completed the Coal & Allied transaction which was a transformative project. Consequently, our remuneration structure reflects a business in transition.

Programs were developed to reward specific major milestones and projects as they were accomplished.

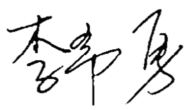
- A break-even bonus to focus the executives' attention on driving towards profitability;
- Transaction bonus – a special incentive to reward those actively involved in the acquisition of the Coal & Allied business over the last two and half years.

The Board considers the success of each these was fundamental to growing shareholder value. The benefits from these special incentives have been recognized in FY 2017 accounts and will be paid to the participants during 2018.

Having laid the foundations for our business going forward we are in the process of reviewing the strategy and structure of remuneration. We expect the outcome of this review during 2018 will be executive remuneration arrangements that are competitive, consistent with contemporary market practice and tailored to align with Yancoal's short and long term strategic objectives. The right balance of well-constructed performance based on short and long term incentives delivered in cash and equity is expected to eliminate the need for special project incentives beyond 2018.

This report sets out remuneration information for the Company's Key Management Personnel for the 12 months ended 31 December 2017.

Yours sincerely,



Xiyong Li
Chairman of the Board,
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 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.

The Key Management Personnel comprises directors of the Company ("Directors") and senior members of the Executive Committee. Details of the Key Management Personnel are set out in Table 1 below:

TABLE 1: Details of Key Management Personnel

Name	Position	Time in Role
Non-Executive Directors		
Xiyong Li	Director Chairman of the Board Chairman of the Nomination and Remuneration Committee	Full year
Cunliang Lai	Director, Co-Vice Chairman Chairman of Strategy and Development Committee Member of the Nomination and Remuneration Committee	Full year
Yuxiang Wu	Director Member of the Audit and Risk Management Committee Member of the Strategy and Development Committee	Until 28 April 2017
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	From 28 April 2017
Xiangqian Wu	Director Member of the Nomination and Remuneration Committee	From 28 April 2017
Gregory Fletcher	Independent Director Chairman of the Audit and Risk Management Committee	Full year
Geoffrey Raby	Independent Director Member of the Audit and Risk Management Committee Member of the Health, Safety and Environment Committee	Full year
Helen Gillies	Independent Non-Executive Director Member of the Nomination and Remuneration Committee	From 30 January 2018
David Moult	Independent Non-Executive Director Chairman of the Health, Safety and Environment Committee	From 30 January 2018
Xing Feng	Independent Director Member of the Strategy and Development Committee	From 15 December 2017
Vincent O'Rourke	Independent Director Chairman of the Health, Safety and Environment Committee	Full year – Until 30 January 2018
Huaqiao Zhang	Independent Director Member of the Strategy and Development Committee	Full year – Until 30 January 2018
William Randall	Independent Director Member of the Nomination and Remuneration Committee	Until 9 November 2017
Executive Directors		
Baocai Zhang	Director, Co-Vice Chairman of the Board Chair of the Strategy and Development Committee Chair of the Executive Committee ("CEC")	Full year
Boyun Xu	Executive Director Executive General Manager – Australian subsidiaries of Yancoal International (Holding) Co. Ltd Member of the Executive Committee	Full year (except Executive Director until 28 April 2017)
Senior Executives		
Reinhold Schmidt	Chief Executive Officer ("CEO")	Full year
Lei Zhang	Chief Financial Officer ("CFO")	Full year

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

DIRECTORS' REPORT (CONTINUED)

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, in particular 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 Key Management Personnel ("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.

3. Executive remuneration

The Executive remuneration structure below is an appropriate reflection of Yanzhou's majority shareholding in the Company.

3.1 Objective

Remuneration frameworks for Executives are structured to be market competitive and to reflect the reward strategy of the organisation. 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 (See Section 4: Remuneration tables).

3.2 Structure

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

TABLE 2: Executive remuneration structure

Current	
Fixed remuneration	– Fixed Annual Remuneration ("FAR"), including cash salary, superannuation, and may include car allowance; and – Other benefits (see Section 3.4).
Variable remuneration ('at risk')	– Short-term Incentive (see Section 3.5.1), – One-off Special Incentive Schemes to reward specific major strategic accomplishments (see Section 3.5.2 to 3.5.4), and – Long-term Incentive (see Section 3.5.5).

It had been intended to review the Long Term Incentive Plan ("LTI Plan") during 2017, however due to more pressing priorities the review has now been scheduled Q2 2018 as outlined at the beginning of this report.

3.3 Remuneration mix

The relative proportion of remuneration entitlement for Executives that is fixed (excluding benefits) and that which is linked to individual or Company performance or both (referred to as 'at risk') is as follows:

TABLE 3: Proportion of Executives' remuneration for 2017

	Fixed Remuneration[A]			At risk – Short Term[B]			At risk – Long term Incentive Plan[C]			At risk – Special Incentive Scheme[D]			Transaction Bonus[E]	SIS Breakeven Bonus[F]
Name	2017	2016	2015	2017	2016	2015	2017	2016	2015	2017	2016	2015	2017	2017
Reinhold Schmidt	17%	24%	28%	21%	29%	30%	25%	37%	31%	6%	10%	11%	22%	9%
Lei Zhang	29%	52%	53%	13%	27%	22%	4%	5%	5%	8%	16%	20%	36%	10%
Baocai Zhang	22%	50%	47%	28%	37%	35%	0%	NA	NA	8%	13%	18%	28%	14%

Boyun Xu was an Executive Director of Yancoal up until 28 April 2017, however his executive role related to Yancoal International (Holding) Co. Ltd ("YIH"). Mr Xu's remuneration is paid for by YIH and as such he is not considered a senior executive of Yancoal.

A Calculations for fixed remuneration entitlement include benefits but excluding the value of expatriate benefits, see table 3 and table 10.
B The short term variable remuneration entitlement is determined pursuant to the Short Term Incentive Plan (outlined in section 3.5.1).
C The Long Term Incentive Plan is outlined in section 3.5.5
D The Special Incentive Scheme is outlined in section 3.5.2
E Transaction Bonus is outlined in section 3.5.4
F SIS Breakeven Bonus is outlined in section 3.5.3

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 certain other benefits. Executives have some scope to determine the combination of cash (including car allowance) and certain non-monetary benefits by which their FAR is delivered, provided that it does not create undue cost for the Company.

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 in a similar industry referencing remuneration data from McDonald and Company (Australasia) Pty Ltd ("McDonald Report"). No Executives are guaranteed an annual increase in FAR.

Executives have some scope to determine the combination of cash (including car allowance) and certain non-monetary benefits by which their FAR is delivered, provided that it does not create undue cost for the Company.

3.5 Variable remuneration

Variable remuneration is delivered through participation in the STI Plan (as outlined in section 3.5.1) and a Special Incentive Scheme (as outlined in section 3.5.2). Certain Executives are also eligible to participate in a LTI Plan (as outlined in section 3.5.5).

3.5.1 Short Term Incentive Plan

Eligibility

The STI Plan applies to Executives as well as to the broader management and employees of the Company.

Objective

The objective of the STI Plan 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 2017 the STI Plan comprised three key components:

1. **STI opportunity** – this is expressed as a percentage of the Executive's FAR. The STI opportunity is reviewed annually. A benchmarking exercise is completed against comparable peers in listed companies, and no changes were proposed for 2017. The CEO and CEC have an agreed STI opportunity of between a minimum of 0% and a maximum of 126% of FAR for 2017. The Board believes this level of STI opportunity is reasonable and competitive for the current environment.
2. **STI Scorecard** – this consists of a number of Key Performance Indicators ("KPIs"). For the Executives named in this report, all KPIs are measured at the Company level. The KPIs fall into the following categories TRIFR (Total Recordable Injury Frequency Rate) (25% weighting), Environment (10% weighting), FOR (Free On Rail) Cash Costs (35% weighting), Profitability (20% weighting) and Specific Business Unit Measures (10%). Details of how the STI Scorecard is evaluated are set out below. STI 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.
3. **Individual Performance** – this is measured by Key Result Areas ("KRA"). These KRAs are aligned to the Executive's role and include areas such as special projects, achievement of operating and capital expenditure budgets, and achievement of growth/continuous improvement initiatives. Based on performance against the KRAs, the Executive receives a performance rating at the end of the year on a scale from Exceptional to Below Standard. In the case of the Chief Executive Officer, individual performance is assessed by the Nomination and Remuneration Committee, to be endorsed by the Board. For all other Executives, performance is assessed by the Chief Executive Officer and the Chair of the Executive Committee.

DIRECTORS' REPORT (CONTINUED)

At the start of each year, KPIs and KRAs 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.

Performance against the STI Scorecard and the Individual KRAs are converted to two payout multipliers, and applied to the Target STI opportunity to determine the actual STI award. Accordingly, the Executive's STI award is heavily influenced by the achievement of Company KPIs.

Further detail on the STI Scorecard – 2017

The STI Scorecard measures the Company's performance in respect of Profitability, Health, Safety and Environment and Specific Business Unit measures.

2017 STI outcome

STI outcomes are calculated by multiplying the target STI opportunity by the STI Scorecard payout multiplier and the individual performance payout multiplier.

Any STI award is delivered as a cash payment around April each year.

TABLE 4: Company Performance against STI Scorecard in 2017

STI scorecard category	STI Scorecard	STI Weighting	Actual performance against KPI
Profitability	Profit Before Tax ("PBT")	20%	118%
	FOR Cash Costs	35%	108%
HSE	TRIFR (Total recordable injury frequency rate)	25%	75%
	Environment	10%	174%
Business Unit measures	Two business unit measures customised to each Executive's role	10%	188%

The assessed outcomes and average achievement for the company of 132% reflects the following achievements in 2017:

(a) the overall delivery of Profit Before Tax for the Group (excluding Coal & Allied) and the assets managed on behalf of Yancoal International Holdings ("YIH") of $246.6M ahead of budget; and

(b) reductions in the key measure of FOR Cash Cost per ton across three out of six mine sites; and

(c) the average achievement of 125% for each Business Unit measure; and

(d) Environment measures include environmental complaints and incidents.

3.5.2 Special Incentive Scheme

As reported in the 2015 Annual report this is a one off scheme for 2015 and is distributed to employees via three tranches; one third in Year 1, one third in Year 2 and one third in Year 3. As per Table 5 below.

Eligibility

The Special Incentive Scheme applies to Executives as well as to the broader senior management of the Group ("Eligible Employees").

TABLE 5: Details of the Special Incentive Scheme 2015 applicable to Key Management Personnel

	CEO Special Incentive Scheme	CFO Special Incentive Scheme	CEC Special Incentive Scheme
Amount Awarded[A]	**$452,890**	**$120,000**	**$176,000**
Tranche Year 2015	$150,963	$40,000	$58,666
Tranche Year 2016	$150,963	$40,000	$58,666
Tranche Year 2017	$150,964	$40,000	$0[A]

A No SIS was paid for Mr Baocai Zhang in 2017.

3.5.3 SIS Breakeven Bonus 2017

On 28 February 2017 the Board discussed a breakeven bonus as a special once off incentive plan to incentivise Senior Employees within the business to continue to drive productivity and efficiency gains in an endeavour for a 2017 business turnaround which would position the Company for future success. The final turnaround number excluded the Coal & Allied transaction and the identified total amount to be awarded will be 2.5% of the total loss reduced. It was delegated to two Independent Directors, Helen Gillies and Greg Fletcher, with the CEC and CEO to determine an eligible employee, where that employee is in a position to influence the outcome and direction of a function or operation.

It was delegated to Helen Gillies and Greg Fletcher to determine the amount to be awarded to the KMPs.

The Board considers the success of this was fundamental to growing shareholder value. The benefits from this special incentive has been recognised in FY2017 accounts and will be paid to the participants in during 2018.

To provide alignment with shareholders both the SIS Breakeven Bonus 2017 and the Transaction Bonus 2017 referred to in 3.5.4 will be awarded in Deferred Share Rights, unless the amount awarded to the employee is less than $100,000, when it can be awarded in cash. Deferred Share Rights are rights to receive ordinary shares in Yancoal. These rights will be awarded in 2018 at no cost to the participant.

Amount Awarded	CEO Special Incentive Scheme Breakeven	CFO Special Incentive Scheme Breakeven	CEC Special Incentive Scheme Breakeven
Year 2017	$600,000	$150,000	$300,000

3.5.4 Transaction Bonus 2017

To reward the exceptional performance over more than two years required to deliver the Coal & Allied transaction, as well as to incentivise staff to maximise post acquisition performance and synergy delivery a bonus has been approved by the Board.

The Board considers the success of this key transformational project was fundamental to growing shareholder value. The benefits from this special incentive has been recognised in FY2017 accounts and will be paid to the participants during 2018.

It was delegated to Helen Gillies and Greg Fletcher to determine the amount to be awarded to the KMPs.

Amount Awarded	CEO Transaction Bonus	CFO Transaction Bonus	CEC Transaction Bonus
Year 2017	$1,508,389	$529,980	$605,381

3.5.5 Long Term Incentive Plan

The key characteristics of the LTI plan are outlined below.

TABLE 6: LTI operation

Eligibility	Reinhold Schmidt, Lei Zhang, Baocai Zhang and other Senior Management are eligible to participate in the LTI Plan.
Objective	The objective of the LTI Plan is to reward and retain certain Senior Management who are in positions to influence the Company's long-term performance.
Allocation frequency	Each year, eligible Executives are considered for an annual LTI grant. The LTI is subject to the satisfactory performance of the Company and service-based vesting conditions.
LTI opportunity	The Chair of the Executive Committee and the Chief Executive Officer have an annual LTI opportunity between 100% and 150% of FAR. The Chief Financial Officer ("CFO") has an LTI opportunity of 15% of base remuneration.
LTI instrument	The Company may at its discretion settle an Executive's LTI opportunity in the form of options, performance rights, shares, cash or any other instrument.
LTI vesting schedule	Each annual LTI award vests on completion of three continuous years of service and thereafter vests each year. For the CEO and CFO their first LTI Award vests on 1 January 2017 and thereafter at the completion of three continuous years of service. Each award is paid in 3 tranches. For the CEC his first LTI Award vests on 1 January 2018 and thereafter at the completion of three continuous years of service. Each award is paid in 3 tranches.
Termination arrangements	If an eligible Executive ceases employment with the Company before the relevant vesting date, the Executive forfeits 100% of their LTI opportunity. For the CEO if the Company terminates the employment, other than for cause, any unvested LTI will continue to vest in accordance with the original vesting arrangements.

DIRECTORS' REPORT (CONTINUED)

TABLE 7: Details of the LTI Plan applicable to certain Executives

Reinhold Schmidt (CEO) LTIP	2013	2014	2015	2016	2017
Amount Awarded	**$119,322**	**$1,271,266**	**$1,266,158**	**$1,726,578**	**$1,761,642**
% of maximum Achieved	**100%**	**73%**	**73%**	**100%**	**100%**
Tranche Year					
2017	$39,774	$423,755	Not applicable	Not applicable	Not applicable
2018	$39,774	$423,755	$422,052	Not applicable	Not applicable
2019	$39,774	$423,756	$422,053	$575,526	Not applicable
2020	Not applicable	Not applicable	$422,053	$575,526	$587,214
2021	Not applicable	Not applicable	Not applicable	$575,526	$587,214
2022	Not applicable	Not applicable	Not applicable	Not applicable	$587,214

Lei Zhang (CFO) LTIP	2014	2015	2016	2017
Amount Awarded	**$31,780**	**$45,000**	**$54,103**	**$60,840**
% of maximum Achieved	**100%**	**100%**	**100%**	**100%**
Tranche Year				
2017	$10,593	Not applicable	Not applicable	Not applicable
2018	$10,593	$15,000	Not applicable	Not applicable
2019	$10,594	$15,000	$18,034	Not applicable
2020	Not applicable	$15,000	$18,034	$20,280
2021	Not applicable	Not applicable	$18,035	$20,280
2022	Not applicable	Not applicable	Not applicable	$20,280

Since his appointment as CEC, Baocai Zhang was entitled to participate in the LTIP scheme, but has elected not to.

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 STI and LTI plans. Cash awards under these plans are significantly impacted by the overall performance of the Company. 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.

TABLE 8: Yancoal's performance ($)

	31 December 2017	31 December 2016	31 December 2015	31 December 2014	31 December 2013
PBT ($'M)	311	(312)	(354)	(271)	(1,115)
Basic EPS	0.01	(0.23)	(0.29)	(0.36)	(0.84)
Closing share price	0.13	0.49	0.10	0.16	0.76
Ordinary dividend per share	–	–	–	–	–

TABLE 9: Details of STI opportunities and Short Term Bonus granted to Executives in 2016 and 2017

Name	Year	STI $[A]	Other Short Term Bonus $[B]	Total STI and Short Term Bonus $	STI % of maximum entitlement granted	STI % of maximum entitlement forfeited	Transaction Bonus $	SIS Breakeven Bonus 2017 $
Reinhold Schmidt	2017	1,479,779	25,200	1,504,979	100%	0%	1,508,389	600,000
	2016	1,381,262	60,000	1,441,262	95%	5%	Nil	Nil
Lei Zhang	2017	199,642	25,200	224,842	117%	0%	529,980	150,000
	2016	196,250	60,000	256,250	129%	0%	Nil	Nil
Baocai Zhang	2017	609,021	25,200	634,221	100%	0%	605,381	300,000
	2016	344,712	60,000	404,712	60%	40%	Nil	Nil

A 2017 STI figure for Reinhold Schmidt, Baocai Zhang and Lei Zhang are to be paid around April 2018.

B Bonus paid on completion of the sale of three underground mines to Watagan Mining Company Pty Ltd and the issuance of US$775 million unsecured debt bonds.

4. Remuneration table

Table 10 sets out the details of remuneration earned by Executives, calculated in accordance with applicable Accounting Standards.

TABLE 10: Details of Executives' Remuneration earned in 2017

		Short Term Benefits						Long Term Benefits				
Name	Year	Cash Salary $	STI and bonus $	Transaction Bonus $	SIS Breakeven Bonus 2017 $	Non-monetary benefits[i] $	Other short term employee benefits $	Super-annuation benefits $	Long Service Leave $	LTI opportunity $	Special Incentive Scheme $	Total (including other fees) $
Reinhold Schmidt	2017	1,138,553	1,504,979	1,508,389	600,000	134,280	Nil	30,000	81,639	1,761,642	Nil	6,759,482
	2016	1,129,056	1,441,262	Nil	Nil	127,145	Nil	42,846	36,412	1,726,578	Nil	4,503,299
Lei Zhang	2017	394,370	224,842	529,980	150,000	7,373	Nil	19,832	14,728	60,840	Nil	1,401,965
	2016	345,519	256,250	Nil	Nil	7,616	Nil	19,462	3,954	54,103	Nil	686,904
Baocai Zhang	2017	322,721	634,221	605,381	300,000	1,612	Nil	19,832	31,293	Nil	Nil	1,915,060
	2016	317,952	404,712	Nil	Nil	2,805	Nil	19,462	8,769	Nil	Nil	753,700
Total	2017	1,855,644	2,364,042	2,643,750	1,050,000	143,265	Nil	69,664	127,660	1,822,482	Nil	10,076,507
	2016	1,792,527	2,102,224	Nil	Nil	137,566	Nil	81,770	49,135	1,780,681	Nil	5,943,903

The amount included above has been updated from those presented in the 2015 remuneration report where amounts reported differed to actual amounts paid during 2017.

i Non-monetary benefits include the following benefits plus an estimated Fringe Benefits Tax amount:

- Reinhold Schmidt – car parking, accommodation
- Lei Zhang – car parking, Qantas Club Membership, medical insurance
- Baocai Zhang – medical insurance
- Special Incentive Scheme figures were a one off arrangement and was awarded in 2015 with payments made in 2015, 2016 and 2017. Full amount awarded was reported in 2015

5. Service Agreements

For Non-Executive Directors, the terms and conditions of their appointment are outlined in a letter of appointment. For Executives, the terms and conditions of their employment are outlined in their Executive Service Agreement ("ESA") with the Company.

TABLE 11: Certain ESA terms for each of the Executives

Senior Executives	Position	Term of ESA	Notice Period	Termination Benefit
Reinhold Schmidt	Chief Executive Officer	Unlimited	3 months[B] 6 months[C]	Nil for cause or resignation. If Company terminates LTI vests as per Plan rules.
Lei Zhang	Chief Financial Officer	Unlimited	3 months[A]	Nil for cause or resignation. If Company terminates LTI vests as per Plan rules.
Baocai Zhang	Executive Director, Co-Vice Chairman, Chair of the Executive Committee	Unlimited	3 months[B] 6 months[C]	Nil for cause or resignation. If Company terminates LTI vests as per Plan rules.

A Notice period applicable if the Company terminates the Executive or if the Executive resigns.

B Notice period applicable if the Executive resigns.

C Notice period applicable if the Company terminates the Executive.

DIRECTORS' REPORT (CONTINUED)

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 2017, excluding payments for extra services outlined below, was $666,645 which is $2,833,355 below the current aggregate cap of $3,500,000 per annum.

During 2017, Non-Executive Directors were remunerated by way of fixed fees in the form of cash and superannuation (to the maximum superannuation guarantee cap). There has been no change to the Board and Committee fees from 2016 to 2017. No equity instruments were issued to Non-Executive Directors over 2017 as part of their remuneration package. No element of the Non-Executive Director fees are linked to performance.

Neither Board nor Committee fees were paid to nominee Directors of Yanzhou (Xiyong Li, Cunliang Lai, Yuxiang Wu, Fuqi Wang, Baocai Zhang, Qingchun Zhao and Xiangqian Wu) as the responsibilities of Board or Committee membership were considered part of their role and remuneration arrangements with their nominating company. William Randall and Xing Feng were not paid any Board or Committee fees.

Neither Board nor Committee fees were paid to Executive Directors (Baocai Zhang or Boyun Xu) as the responsibilities of Committee membership are considered in determining the remuneration provided as part of their normal employment conditions.

TABLE 12: Board and Committee fees

	2017 $
Board Fees per annum (including any superannuation)	
Chairman of the Board	Not applicable
Co-Vice Chairman of the Board	115,000[A]
Director	150,000[B]
Committee Fees per annum (including any superannuation)	
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	Not applicable
Nomination and Remuneration Committee – member	Not applicable
Strategy and Development Committee – Chair	Not applicable
Strategy and Development Committee – member	15,000

A Not paid to Yanzhou appointed Co-Vice Chairman

B Other than as noted in Table 13

Transaction specific remuneration

In 2017 the Company made total payments of $622,170 ($70,055 in 2016) for the extra services provided by the Non-Executive Directors Gregory Fletcher, Geoffrey Raby, Huaqiao Zhang and Vincent O'Rourke for their contribution to undertake investigations and discussions on behalf of the Company to consider the acquisition from Rio Tinto of the remaining Coal & Allied coal assets held by Rio Tinto being, principally, Rio Tinto's interest in the Hunter Valley Operations mine and the Mount Thorley Warkworth mines.

Details of remuneration for all Non-Executive Directors are set out in Table 13 (see Section 6: Remuneration tables).

Table 13 sets out the details of remuneration (in the form of Board and Committee fees and other benefits) earned by Non-Executive Directors, calculated in accordance with applicable Accounting Standards.

TABLE 13: Details of Non-Executive Directors' Remuneration, earned in 2016 and 2017

		Short Term Benefits			Post-Employment Benefits		
Name	Year	Fees	STI or Bonus	Non-Monetary Benefits	Superannuation	Long Service Leave	Total
Xiyong Li	**2017**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**
	2016	Nil	Nil	Nil	Nil	Nil	Nil
Huaqiao Zhang	**2017**	**102,492**[B]	**Nil**	**Nil**	**9,737**	**Nil**	**112,229**
	2016	94,273[C]	Nil	Nil	8,956	Nil	103,229
Cunliang Lai	**2017**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**
	2016	Nil	Nil	Nil	Nil	Nil	Nil
Yuxiang Wu	**2017**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**
	2016	Nil	Nil	Nil	Nil	Nil	Nil
William Randall	**2017**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**
	2016	Nil	Nil	Nil	Nil	Nil	Nil
Xinghua Ni	**2017**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**
	2016	Nil	Nil	Nil	Nil	Nil	Nil
Fuqi Wang	**2017**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**
	2016	Nil	Nil	Nil	Nil	Nil	Nil
Gregory Fletcher	**2017**	**569,089**[D]	**Nil**	**Nil**	**38,585**	**Nil**	**607,674**
	2016	214,453[E]	Nil	Nil	20,373	Nil	234,826
Geoffrey Raby	**2017**	**267,138**[F]	**Nil**	**Nil**	**15,688**	**Nil**	**282,826**
	2016	174,138[G]	Nil	Nil	15,688	Nil	189,826
Vincent O'Rourke	**2017**	**270,138**[H]	**Nil**	**Nil**	**15,688**	**Nil**	**285,826**
	2016	174,138[I]	Nil	Nil	15,688	Nil	189,826
Total	**2017**	**1,208,857**	**Nil**	**Nil**	**79,698**	**Nil**	**1,288,555**
	2016	657,002	Nil	Nil	60,705	Nil	717,707

Includes following transaction specific remuneration paid:

B, C Huaqiao Zhang – 2017: $10,959, 2016: $2,740

D, E Gregory Fletcher – 2017: $403,951, 2016: $49,315

F, G Geoffrey Raby – 2017: $102,000, 2016: $9,000

H, I Vincent O'Rourke – 2017: $105,000, 2016: $9,000

7. Share Trading Policy and Insider Trading Policy

The Company's Share Trading Policy prohibits dealing in Company securities or Yanzhou securities by Key Management Personnel and other relevant employees, as well as their closely related parties, during specified blackout periods each year. Subject to compliance with the Company's Insider Trading Policy, employees are permitted to deal in Company securities or Yanzhou securities outside these blackout periods, 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. Copies of the Share Trading Policy and the Insider Trading Policy are available in the Corporate Governance section of the Company's website.

DIRECTORS' REPORT (CONTINUED)

8. Equity instrument disclosures

The numbers of shares in the Company held during the financial year by each director of the Company and other key management personnel of the Group, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

(i) Mr Gregory Fletcher
- At 1 January 2017, Mr Fletcher held 1,000 fully paid ordinary shares in Yancoal Australia Ltd and 24 Subordinated Capital Notes issued by Yancoal SCN Limited ("Yancoal SCN"), a wholly owned subsidiary of Yancoal Australia Limited, at their issue price of US$100 each.
- On 31 August 2017, Mr Fletcher acquired 23,320 fully paid ordinary shares in Yancoal Australia Ltd.
- On 31 January 2018, Mr Fletcher converted 24 Subordinated Capital Notes issued by Yancoal SCN Limited ("Yancoal SCN"), a wholly owned subsidiary of Yancoal Australia Limited, to 45,070 fully paid ordinary shares in Yancoal Australia Ltd.
- As at 31 December 2017, Mr Fletcher holds 69,390 fully paid ordinary shares in Yancoal Australia Ltd.

(ii) Mr Reinhold Schmidt
- At 1 January 2017, Mr Schmidt held 135,781 fully paid ordinary shares in Yancoal Australia Ltd and 80 Subordinated Capital Notes issued by Yancoal SCN, at their issue price of US$100 each.
- On 31 August 2017, Mr Schmidt acquired 3,166,434 fully paid ordinary shares in Yancoal Australia Ltd; and converted 80 Subordinated Capital Notes issued by Yancoal SCN to 150,943 fully paid ordinary shares in Yancoal Australia Ltd.
- As at 31 December 2017, holds 3,453,158 fully paid ordinary shares in Yancoal Australia Ltd.

(iii) Mr Baocai Zhang
- At 1 January 2017, Mr Zhang held 1,162,790 fully paid ordinary shares in Yancoal Australia Ltd.
- On 31 August 2017, Mr Zhang acquired 4,743,083 fully paid ordinary shares in Yancoal Australia Ltd.
- As at 31 December 2017, Mr Zhang holds 5,905,873 fully paid ordinary shares in Yancoal Australia Ltd.

(iv) Mr Vincent O'Rourke (ceased as a director on 30 January 2018):
- At 1 January 2017, Mr O'Rourke held 250,000 fully paid ordinary shares in Yancoal Australia Ltd.
- On 31 August 2017, Mr O'Rourke acquired 869,565 fully paid ordinary shares in Yancoal Australia Ltd; and
- As at 31 December 2017, Mr O'Rourke holds 1,119,565 fully paid ordinary shares in Yancoal Australia Ltd.
- On 31 August 2017, Mr Gregory James O'Rourke acquired 39,525 fully paid ordinary shares in Yancoal Australia Ltd.
- Mr Gregory James O'Rourke (being a related party of Mr Vincent O'Rourke) holds 79,525 fully paid ordinary shares in Yancoal Australia Ltd.

(v) Dr Geoffrey Raby
- At 1 January 2017, Dr Raby held no shares.
- On 6 September 2017, Dr Geoffrey Raby acquired 800,000 fully paid ordinary shares in Yancoal Australia Ltd.
- As at 31 December 2017, Dr Raby holds 800,000 fully paid ordinary shares in Yancoal Australia Ltd.

(vi) Ms Shuhua Sun (being a related party of Mr Boyun Xu)
- At 1 January 2017, Ms Sun held no shares.
- On 31 August 2017, Ms Sun acquired 118,577 fully paid ordinary shares in Yancoal Australia Ltd.
- As at 31 December 2017, Ms Sun holds 118,577 fully paid ordinary shares in Yancoal Australia Ltd.

(vii) Mrs Ying Zhang (being a related party of Mr Lei Zhang)
- At 1 January 2017, Mrs Zhang held no shares.
- On 31 August 2017 acquired 988,142 fully paid ordinary shares in Yancoal Australia Ltd.
- As at 31 December 2017, Mrs Zhang holds 988,142 fully paid ordinary shares in Yancoal Australia Ltd.

(viii) No other key management personnel held any shares in respect of Yancoal Australia Ltd or its related entities at, or during the year ended 31 December 2017.

9. Other transactions with and loans to Key Management Personnel

A number of Key Management Personnel and Directors 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 management personnel 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 E2). There were no loans provided to KMPs during the year.

INSURANCE OF OFFICERS OR AUDITORS

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 their 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.

The Board of Directors has 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:

	2017 $	2016 $
ShineWing Australia		
Audit and other assurance services	**1,236,000**	786,000
Audit of regulatory returns	**22,500**	26,000
Other assurance services	**1,010,000**	425,000
Taxation compliance	**54,000**	8,500
Total services remuneration of ShineWing Australia	**2,322,500**	1,245,500

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 64.

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.

Mr Baocai Zhang
Director
Sydney
28 February 2018

AUDITOR'S INDEPENDENCE DECLARATION

ShineWing Australia
Accountants and Advisors
Level 8, 167 Macquarie Street
Sydney NSW 2000
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F +61 2 8059 6899
shinewing.com.au

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 2017 there have been:

(i) No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(ii) No contraventions of any applicable code of professional conduct in relation to the audit.

ShineWing Australia

ShineWing Australia
Chartered Accountants

R Blayney Morgan

R Blayney Morgan
Partner

Sydney, 28 February 2018

CORPORATE GOVERNANCE STATEMENT

Introduction

The Company adopts an approach to corporate governance based on international best practice and Australian law requirements. The Board and management are committed to corporate governance. 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 3rd edition of the ASX Recommendations, and the main corporate governance policies and practices adopted by the Company.

Principle 1: Lay solid foundations for management and oversight

Role of the Board

The Board is responsible for the overall corporate governance 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. 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. The Executive Committee Charter also provides the financial decision authorities and appropriate approval thresholds at different levels which have been approved by the Board.

Senior executive contracts

The Company's senior executives are employed under employment contracts that set out the terms of their employment.

Company Secretary

The Company Secretary is accountable directly to the Board, through the Chairman of the Board (Chairman), on all matters to do with the proper functioning of the Board. 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;
- 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.

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 an important part 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 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.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

In identifying candidates, the Nomination and Remuneration Committee will consider and select 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, 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.

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.

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 2017 and the Company's performance against the measurable objectives are outlined in the table below:

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 & Anti-Discrimination Policy.	The Yancoal Code of Conduct is currently under review and a new version is expected to be approved in 2018. Once finalised, the policy will be rolled out across the Company. Employees across the Employees across the Company have access to the current version of 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.	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. The "Yancoal Way", continues to roll out across the Company. The message of continuous improvement and 'blue bus' thinking is promoted during recruitment, induction and performance reviews to promote a culture that encourages engagement, diversity and continuous learning. Continued 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.
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 2018:

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 & 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 male 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.

During 2017, the proportion of women who were directly employed by the Company as a whole was 10%: 363 Full-time, 21 Part-time and 7 Casual. There was no change between 2016 and 2017 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 2017 was 8%: Women held 1 of 12 senior management roles within the Company.

There were no women on the Company's Board during 2017, however, on 30 January 2018, one female non-executive director was appointed to 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.

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 seeks 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.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

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.

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 reviews 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 2018 (in respect of 2017) in accordance with the process disclosed above.

Principle 2: Structure the board to add value

Structure of the Board

Currently, the Board comprises Xiyong Li, Cunliang Lai, Baocai Zhang, Qingchun Zhao (appointed 28 April 2017), Xiangqian Wu (appointed 28 April 2017), Fuqi Wang, Geoffrey Raby, Gregory Fletcher, David Moult (appointed 30 January 2018), Helen Gillies (appointed 30 January 2018) and Xing Feng (appointed 15 December 2017). The following directors resigned from the Board, Yuxiang Wu (resigned on 28 April 2017), Boyun Xu (resigned 28 April 2017), William Randall (resigned 9 November 2017), 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 45.

The Constitution provides that there will be a minimum of 4 and a maximum of 11 directors of the Company, unless the Company resolves otherwise at a general meeting.

Chairman of the Board

The current Chairman, Xiyong Li, 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. 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, Cunliang Lai and Baocai Zhang, also represent the Company in the wider community.

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	The committee's objectives are to: – help the Board in relation to the reporting of financial information; – advise on the appropriate application and amendment of accounting policies; – make evaluations and recommendations to the shareholders of the Company regarding the external auditor; – recommend to the Board the remuneration of the external auditor for shareholder approval as required in accordance with the Constitution; – provide a link between the Board and the external auditor and management; – ensure that the Board, Directors and management are aware of material risks facing the business; and – ensure the systems in place to identify, monitor and assess risk are appropriate and operating effectively.	Gregory Fletcher – Chair Geoffrey Raby Qingchun Zhao (appointed 17 May 2017) Yuxiang Wu (resigned on 28 April 2017) (minimum of three Non-Executive Directors, a majority of whom are independent)
Health, Safety and Environment Committee	The committee assists the Board to: – fulfil its responsibilities in relation to the health, safety and environment (collectively HSE) matters arising out of the activities of the Company; – 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 – provide necessary focus and guidance on HSE matters across the Company.	David Moult – Chair (appointed 6 February 2018) Geoffrey Raby Fuqi Wang Vincent O'Rourke AM (former Chair) (resigned 30 January 2018) (minimum of three Directors)
Nomination and Remuneration Committee	The committee assists the Board of the Company by making recommendations in relation to: – Board composition and succession planning for the Board; – 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; – the public reporting of remuneration for Directors and the Company's Executive Committee; – the performance assessment of the Executive Committee; – designing company policy and regulations with regard to corporate governance; and – diversity.	Xiyong Li – Chair Cunliang Lai Xiangqian Wu (appointed 17 May 2017) Helen Gillies (appointed 6 February 2018) William Randall (resigned 9 November 2017) (minimum of three Non-Executive Directors)
Strategy and Development Committee	The committee assists the Board in its oversight and review of the Company's strategic initiatives, including: – merger and acquisition proposals; – major capital markets transactions; – significant investment opportunities; and – proposals to dispose of significant Company assets.	Baocai Zhang – Chair Qingchun Zhao (appointed 17 May 2017) Fuqi Wang Xing Feng (appointed 6 February 2018) Yuxiang Wu (resigned 28 April 2017) Huaqiao Zhang (resigned 30 January 2018) (minimum of three Directors)

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 are available within the Corporate Governance section of the Company's website.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

The number of meetings held by each committee during 2017 and each member's attendance at these meetings is set out in the Directors' Report on page 51.

An Independent Board Committee is established as and when required to manage any related party transactions. The Independent Board Committee was constituted two times in 2017 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.

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

The Board comprises 11 directors, of whom 5 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 Moult (appointed 30 January 2018), Helen Gillies (appointed 30 January 2018) and Xing Feng (appointed 15 December 2017). During their appointment, Messrs William Randall (resigned 9 November 2017) and 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 interests 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 interests 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.

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). 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, Xiyong Li, 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.

Xing Feng is employed by China Cinda Asset Management, an associate of Cinda International HGB Investment (UK) Limited (a substantial shareholder of the Company). The Board considers that this relationship does not materially interfere with, nor is perceived to interfere with, the independent exercise of Mr Feng's judgement and that he is able to fulfil the role of independent director for the purpose of the ASX Recommendations. Accordingly, the Board considers Mr Feng to be an independent Non-Executive Director. Where appropriate, Mr Feng will stand aside from decision making where conflicts of interest may arise, and does not participate in Independent Board Committees.

Board skills matrix

The table below sets out the skills and experience that are currently represented on the Board.

Skills and Experiences	Total
Mining/exploration and production	5
Engineering	5
Capital projects	9
Trading/marketing	4
Strategy	11
Leadership	11
Board/Committee experience	9
Corporate governance	8
Accounting/audit/risk management	7
Government/policy	9
Legal/regulatory	5
Health, safety and environment	7
Human resources	6
International business expertise	10

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 director's duties and developments in workplace health and safety law.

The Company Secretary supports directors by providing access to information in appropriate form 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.

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, shareholders and the Company alike.

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 has established an Audit and Risk Management Committee. The committee 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 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 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 (appointed 17 May 2017) and Geoffrey Raby. Former Committee member Yuxiang Wu resigned on 28 April 2017 meaning that for a brief period, until Qingchun Zhao was appointed to the Committee by way of a circular resolution of the Board, the Committee had only two members. The Committee did not meet during this time and Qingchun Zhao was appointed at the first available opportunity.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

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 is disclosed in the Information on directors in the Directors' Report, on page 45.

The Company has also employed a full time EGM of Risk Management and Auditing. 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 2017 and the full year ended 31 December 2017, 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.

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. 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 executive 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 platform 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 media briefings available within the Investor section of the Company's website.

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 share registry, Computershare Investor Services, electronically.

The Company's Shareholder Communication Policy which was approved by the Board, can be found within the Corporate Governance section of the Company's website.

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. In particular, the Board ensures that:

- the principal strategic, operational, financial reporting and compliance risks are identified; and
- systems are in place to 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 2017, the Audit and Risk Management Committee had in place a framework to identify and manage material business risks. This framework includes:

– identification of material business risk by the Executive Committee by reference to a single risk register, approved by the Audit and Risk Management Committee and Board;
– implementation of a risk management framework (that includes a risk management policy, governance structure, procedures), 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 EGM of Risk Management and Auditing 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 2017.

Formal risk identification activities are undertaken on an annual basis as part of the 5-year Strategic Planning Process undertaken each year; with Risk Identification and Analysis undertaken at a functional level, as well as at each of the organisation's mine sites. In addition, where appropriate, project specific risk assessments are conducted.

The EGM of Risk Management and Auditing is responsible for establishing and managing the company wide risk management system, risk management framework 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 EGM of Risk Management and Auditing is responsible for developing a risk matrix and framework and for implementing related risk assurance processes and audits of compliance for the Company and its subsidiaries.

The responsibility for managing risks, risk controls or risk management action plans is embedded within the business and undertaken as part of everyday activities.

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, manage and mitigate any 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 mitigation strategies to minimise 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	✓		
Uncertainty in costs forecast	✓		
Take or pay liabilities	✓		
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	✓	✓	
Key Personnel	✓		
Environmental activism	✓	✓	✓
Environment and planning	✓	✓	
Changes in government policy, regulation or legislation	✓		
Litigation	✓		✓
Insurance	✓		
Exploration and development risks	✓		
Transport and infrastructure	✓		
Environmental risks	✓	✓	✓
Health, safety and hazardous materials risks	✓	✓	✓
Impairment risks	✓		

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

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, 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 CHPP 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 cashflow 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 2017, the Company had a loan receivable from Watagan of A$712 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.

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 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 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), 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 judgment 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.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

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 are 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.

The Company currently has excess port and rail capacity commitments across its NSW operations, which represents a significant cost to its NSW operations. Delays in the Company's NSW growth projects may exacerbate the Company's current excess position.

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 NCIG 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 ultimately result in the termination of the individual contracts and require the Company to pay its share of any outstanding senior debt, currently approximately, A$1 billion and A$0.3 billion, respectively.

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 mine.

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 their 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 onto the spot market at either index-linked or fixed price levels. The Company's strategy for 2018 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.

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 use 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 coal industry is highly competitive, and 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.

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

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 NTA 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.

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 owned 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.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

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 Nationals 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.

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.

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.

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 led 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.

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

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 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.

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;
- 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.

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.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

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 Executive General Manager (**EGM**) of Risk Management and Auditing. 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 Audit and Risk Management Committee recommends to the Board the appointment of the EGM Risk Management and Auditing.

Where appropriate the internal audit function is supported primarily by external consultants.

The EGM of Risk Management and Auditing 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 EGM Risk Management and Auditing.

The role of the EGM Risk Management and Auditing 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 design and effectiveness.

The program includes a review of compliance with the obligations imposed by the US Sarbanes Oxley Act (**SOX**), including evaluating and documenting internal controls as required by section 404 of SOX.

A status report on the execution of the plan, including current findings and actions is provided to the Audit and Risk Management Committee at each quarterly meeting. Any material findings are reported to the Board.

The Audit and Risk Management Committee receives a report on key issues and subsequently corrective actions are monitored, reviewed and reported.

Health, Safety and Environment Compliance

The Company has adopted policies to comply with occupational health, safety, environment and other laws. The Board has approved a Health, Safety and Environment Policy 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, this committee has at least three members. The current members of this committee are David Moult (appointed 6 February 2018) (Chair of the committee), Geoffrey Raby and Fuqi Wang. 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, this committee currently has 4 members, Xiyong Li (Chair of the committee), Cunliang Lai, Xiangqian Wu (appointed 15 May 2017) and Helen Gillies (appointed 6 February 2018). William Randall resigned as a member of the Committee on 9 November 2017. Three of the members of the committee, including the chair of the committee are not independent directors of the Company. However, the Board considers them appropriate members, and in the case of Xiyong Li, an appropriate chair of this committee, due to their skill set, experience and seniority, and that the overall composition of the Nomination and Remuneration Committee is appropriate.

Three of the committee members are non-independent Non-Executive Directors who are not remunerated by the Company for their roles as directors or committee members. The purpose of the committee is outlined in the Board Committees section above.

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. The committee has recently engaged an external advisor to assist with the evaluation of remuneration structures for Non-Executive Directors, Executive Directors and senior management.

The committee has the necessary power and resources to meet its responsibilities under its charter, including rights of access to management, auditors and external advisers. 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 do not require shareholder approval.

Further details of the remuneration of the Non-Executive Directors, executive directors and senior executives can be found in the Remuneration Report on pages 52 to 63.

The Nomination and Remuneration Committee Charter can be found within the Corporate Governance section of the Company's website.

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 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.

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 Director independence

This has been approved by the Board and is current as at 28 February 2018.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	31 December 2017 $M	31 December 2016 $M
Revenue	B2	**2,601**	1,238
Other income	B3	**294**	15
Changes in inventories of finished goods and work in progress		**7**	(7)
Raw materials and consumables used		**(349)**	(187)
Employee benefits	B4	**(302)**	(188)
Depreciation and amortisation		**(256)**	(133)
Transportation		**(312)**	(267)
Contractual services and plant hire		**(274)**	(124)
Government royalties		**(173)**	(71)
Coal purchases		**(340)**	(211)
Other operating expenses	B5	**(330)**	(163)
Finance costs	B5	**(287)**	(209)
Share of profit/(loss) of equity-accounted investees, net of tax	E2	**32**	(5)
Profit/(loss) before income tax		**311**	(312)
Income tax (expense)/benefit	B6	**(82)**	85
Profit/(loss) after income tax		**229**	(227)
Profit is attributable to:			
Owners of Yancoal Australia Ltd		**229**	(227)
Non-controlling interests		**–**	–
		229	(227)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Cash flow hedges:			
Fair value gains/(losses)	D6	**348**	(43)
Fair value losses transferred to profit and loss	D6	**229**	133
Deferred income tax expense	D6	**(173)**	(27)
Other comprehensive income, net of tax		**404**	63
Total comprehensive income/(expense)		**633**	(164)
Total comprehensive income/(expense) for the year is attributable to:			
Owners of Yancoal Australia Ltd		**633**	(164)
Non-controlling interests		**–**	–
		633	(164)
Total comprehensive expense for the year attributable to owners of Yancoal Australia Ltd arises from:			
Continuing operations		**633**	(164)

		$	$
Profit/(loss) per share attributable to the ordinary equity holders of the Company:			
Basic and diluted profit/(loss) per share		**0.01**	(0.21)

These financial statements should be read in conjunction with the accompanying notes.

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2017

	Notes	31 December 2017 $M	31 December 2016 $M
ASSETS			
Current assets			
Cash and cash equivalents	C6	**207**	190
Trade and other receivables	C7	**658**	435
Inventories	C8	**150**	75
Royalty receivable	C9	**24**	31
Asset classified as held for sale	C11	**613**	–
Other current assets		**37**	7
Total current assets		**1,689**	738
Non-current assets			
Trade and other receivables	C7	**473**	407
Royalty receivable	C9	**175**	168
Property, plant and equipment	C1	**2,832**	1,526
Mining tenements	C2	**4,296**	2,128
Exploration and evaluation assets	C4	**565**	498
Intangible assets	C5	**99**	70
Deferred tax assets	B6	**1,219**	1,339
Interest bearing loan to associate	D1	**712**	775
Investments accounted for using the equity method	E2	**251**	5
Other non-current assets		**2**	6
Total non-current assets		**10,624**	6,922
Total assets		**12,313**	7,660
LIABILITIES			
Current liabilities			
Trade and other payables		**758**	469
Interest-bearing liabilities	D2	**17**	20
Provisions	C10	**59**	10
Non-contingent royalty payable	D3	**112**	–
Liabilities directly associated with assets classified as held for sale	C11	**67**	–
Total current liabilities		**1,013**	499
Non-current liabilities			
Interest-bearing liabilities	D2	**4,706**	4,930
Deferred tax liabilities	B6	**1,030**	762
Provisions	C10	**488**	117
Non-contingent royalty payable	D3	**48**	–
Deferred income		**2**	–
Total non-current liabilities		**6,274**	5,809
Total liabilities		**7,287**	6,308
Net assets		**5,026**	1,352
EQUITY			
Contributed equity	D4	**6,217**	3,104
Reserves	D6	**(413)**	(817)
Accumulated losses		**(781)**	(935)
Capital and reserves attributable to owners of Yancoal Australia Ltd		**5,023**	1,352
Non-controlling interests		**3**	–
Total equity		**5,026**	1,352

These financial statements should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

		Attributable to owners of Yancoal Australia Ltd					
	Notes	Contributed equity $M	Hedge reserves $M	Accumulated losses $M	Total $M	Non-controlling interests $M	Total equity $M
Balance at 1 January 2016		3,103	(880)	(535)	1,688	–	1,688
Loss after income tax		–	–	(227)	(227)	–	(227)
Other comprehensive income		–	63	–	63	–	63
Total comprehensive income/(expense)		**–**	**63**	**(227)**	**(164)**	**–**	**(164)**
Transactions with owners in their capacity as owners:							
Transaction cost of subordinated capital notes		1	–	–	1	–	1
Distributions to subordinated capital notes' holders		–	–	(173)	(173)	–	(173)
		1	–	(173)	(172)	–	(172)
Balance at 31 December 2016		**3,104**	**(817)**	**(935)**	**1,352**	**–**	**1,352**
Balance at 1 January 2017		3,104	(817)	(935)	1,352	–	1,352
Profit after income tax		–	–	229	229	–	229
Other comprehensive income		–	404	–	404	–	404
Total comprehensive income		**–**	**404**	**229**	**633**	**–**	**633**
Transactions with owners in their capacity as owners:							
Issurance of new ordinary shares	D4	5,296	–	–	5,296	–	5,296
Distribution to subordinate capital note's holders	D4	–	–	(75)	(75)	–	(75)
Non-controlling interests on acquisition of subsidiaries	E1	–	–	–	–	3	3
Subordinate capital notes converted to ordinary shares		(2,183)	–	–	(2,183)	–	(2,183)
		3,113	–	(75)	3,038	3	3,041
Balance at 31 December 2017		**6,217**	**(413)**	**(781)**	**5,023**	**3**	**5,026**

These financial statements should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	31 December 2017 $M	31 December 2016 $M
Cash flows from operating activities			
Receipts from customers		**2,580**	1,141
Payments to suppliers and employees		**(1,897)**	(1,063)
Interest paid		**(169)**	(181)
Interest received		**59**	86
Transaction costs paid		**(17)**	–
Stamp duty payment		**(148)**	(7)
Net cash inflow/(outflow) from operating activities	F3	**408**	(24)
Cash flows from investing activities			
Payments for property, plant and equipment		**(299)**	(353)
Payments for capitalised exploration and evaluation activities		**(3)**	–
Proceeds from sale of property, plant and equipment		**1**	1
Reduction in cash balance from loss of control of subsidiaries		–	(11)
Payments for acquisition of interest in subsidiary (net of cash acquired)	E1	**(3,247)**	–
Payment for joint operation call option fee		**(13)**	–
Advances from/(to) joint operation		**40**	(40)
Advances from/(to) related entities		**35**	(35)
Dividends received		**6**	–
Cash transferred from/(to) from restricted accounts		**31**	(28)
Net cash outflow from investing activities		**(3,449)**	(466)
Cash flows from financing activities			
Repayment of borrowings from associate		**214**	623
Advance of borrowings to associate		**(151)**	(35)
Proceeds from interest-bearing liabilities – related entities		**188**	251
Repayment of interest bearing liabilities		**(196)**	(198)
Payment of subordinated capital notes distribution		**(24)**	(100)
Payment of finance lease liabilities		**(26)**	(16)
Proceeds from issues of shares and other equity securities	D4	**3,125**	–
Transactions costs paid		**(68)**	–
Net cash inflow from financing activities		**3,062**	525
Net increase in cash and cash equivalents		**21**	35
Cash and cash equivalents at the beginning of the financial year		**190**	159
Effects of exchange rate changes on cash and cash equivalents		**(4)**	(4)
Cash and cash equivalents at the end of the year	C6	**207**	190

These financial statements should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

A – BASIS OF PREPARATION

The 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 28 February 2018.

(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 F5. 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) 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.

(vi) New and amended standards adopted by the Group
The Group has not elected to apply any other pronouncements before their operative date in the annual reporting period beginning 1 January 2017.

The new standards that are applicable to for the first time for the year ended 31 December 2017 are:

– AASB 2016-1 Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses
– AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107

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.

(vii) 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 2017 that not been applied by the Group are disclosed in Note F7.

(viii) Early adoption of standards
Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2017 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.

(ix) Critical accounting estimates
The preparation of financial statements requires the use of certain critical accounting estimates 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 income taxes B6, mining tenements C2, impairment of assets C3, exploration and evaluation assets C4, trade and other receivables C7, royalty receivable C9, provisions C10, acquisition of Coal & Allied E1, and control of Watagan E2.

(x) Going concern

For the year ended 31 December 2017, the Group had a profit after income tax of $229 million (31 December 2016: loss after income tax of $227 million) from continuing operations and a net cash flow from operating activities of $408 million (31 December 16: cash outflow of $24 million). In addition refer to Note F1(c) regarding the commitment to purchase 28.898% of Warkworth Joint Venture from Mitsubish Development Pty Ltd ("MDP") and Note D7(iv) regarding the potential requirement to purchase 32.4% of HVO from MDP.

The financial statements have been prepared on a going concern basis, which contemplates the continuation of normal business operations and the realisation of assets and settlement of liabilities in the normal course of business. On the basis of these factors, the Directors believe that the going concern basis of preparation is appropriate and the Group will be able to repay its debts as and when they fall due. In the event that the Group cannot continue as a going concern, it may not realise its assets and settle its liabilities in the normal course of operations and at the amounts stated in the financial statements.

The Directors also note the following with regards to the ability of the Group to continue as a going concern:

(i) At 31 December 2017, the Group has a cash balance of $207 million.

(ii) At 31 December 2017, the Group has surplus net current assets of $676 million.

(iii) The Directors of Yanzhou Coal Mining Company Limited ("Yanzhou") have provided financial support in the form of a A$1.4 billion facility (US$832 million drawn) to support the on-going operations and the expansion of the Group to enable it to pay its debts as and when they fall due.

(iv) 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

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 on interest-bearing liabilities, and the elimination of intersegment transactions and other consolidation adjustments.

On 31 March 2016 Yancoal Australia Ltd transferred control of Watagan Mining Company Pty Ltd ("Watagan") (refer to Note E2 for further details). Watagan holds the ownership interests in the Austar, Ashton and Donaldson mines located in NSW. The amount disclosed for revenue in 2016 below includes the operational results of the three mines for the period 1 January 2016 to 31 March 2016, the period prior to deconsolidation.

(a) Segment information

The segment information for the reportable segments for the year ended 31 December 2017 is as follows:

	Coal Mining			
31 December 2017	NSW $M	QLD $M	Corporate $M	Total $M
Total segment revenue*	2,175	460	(229)	2,406
Add: fair value losses recycled from hedge reserve	–	–	229	229
Revenue from external customers	**2,175**	**460**	**–**	**2,635**
Operating EBIT	**682**	**92**	**(42)**	**732**
Material income or expense items				
Non-cash items				
Remeasurement of royalty receivable	–	–	8	8
Depreciation and amortisation expense	(215)	(35)	(6)	(256)
Gain on acquisition of subsidiaries	–	–	177	177
Transactions costs	–	–	(16)	(16)
Stamp duty accrued	–	–	(9)	(9)
Impairment reversal of mining tenements	100	–	–	100
	(115)	**(35)**	**154**	**4**

	Coal Mining			
31 December 2017	NSW $M	QLD $M	Corporate $M	Total $M
Cash items				
Transaction costs	–	–	(17)	(17)
Stamp duty paid	–	–	(148)	(148)
	–	**–**	**(165)**	**(165)**
Total capital expenditure	**335**	**4**	**1**	**340**
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
Total assets	**9,166**	**738**	**2,409**	**12,313**

The segment information for the reportable segments for the year ended 31 December 2016 is as follows:

31 December 2016	Coal Mining NSW $M	Coal Mining QLD $M	Corporate $M	Total $M
Total segment revenue*	873	326	(133)	1,066
Add: fair value losses recycled from hedge reserve	–	–	133	133
Revenue from external customers	**873**	**326**	**–**	**1,199**
Operating EBIT	**71**	**9**	**(41)**	**39**
Material income or expense items				
Non-cash items				
Remeasurement of royalty receivable	–	–	(6)	(6)
Depreciation and amortisation expense	(94)	(31)	(8)	(133)
Stamp duty paid	–	–	(12)	(12)
	(94)	**(31)**	**(26)**	**(151)**
Cash items	**–**	**–**	**–**	**–**
Total capital expenditure	**370**	**3**	**10**	**383**
Segment assets	3,954	644	1,718	6,316
Deferred tax assets	45	25	1,269	1,339
Investment in associate and joint venture	–	–	5	5
Total assets	**3,999**	**669**	**2,992**	**7,660**

* 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, 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 year ended 31 December 2017 and 31 December 2016 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 revenue 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.

Revenue 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.

Revenue from external customers can be attributed to the following geographical regions:

	31 December 2017 $M	31 December 2016 $M
Australia (Yancoal's country of domicile)	**322**	69
Singapore	**337**	261
South Korea	**415**	296
China	**654**	179
Japan	**489**	143
Taiwan	**131**	93
All other foreign countries	**287**	158
Total revenue from external customers	**2,635**	1,199

Revenues from the top five external customers were $813 million (2016: $480 million) which in aggregate represent approximately 31% (2016: 40%) of the Group's revenues from the sale of coal. These revenues were attributable to the NSW and Queensland coal mining segments.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

B – PERFORMANCE

B1 SEGMENT INFORMATION (CONTINUED)

(b) Other segment information (continued)

Segment revenue reconciles to total revenue from continuing operations as follows:

	31 December 2017 $M	31 December 2016 $M
Total segment revenue	**2,406**	1,066
Interest income	**114**	125
Mining services fees	**52**	38
Other revenue	**29**	9
Total revenue from continuing operations (refer to Note B2)	**2,601**	1,238

(ii) Operating EBIT

The Executive Committee assesses the performance of the operating segments based on a measure of Operating EBIT. 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 EBIT to profit/(loss) before income tax from continuing operations is provided as follows:

	31 December 2017 $M	31 December 2016 $M
Operating EBIT	**732**	39
Interest income	**114**	125
Gain on disposal of interest in joint operation and subsidiaries	**177**	–
Remeasurement of royalty receivable	**8**	(6)
Receipts from joint venture participant	**5**	–
Impairment reversal of mining tenements (refer Note 3(b))	**100**	–
Finance costs	**(287)**	(209)
Bank fees and other charges	**(109)**	(113)
Stamp duty expensed	**(167)**	(12)
Fair value losses recycled from hedge reserve – USD loans	**(229)**	(133)
Transaction costs	**(33)**	(3)
Profit/(loss) before income tax from continuing operations	**311**	(312)

(iii) Segment capitalised expenditure

Amounts with respect to capital expenditure are measured in a manner consistent with that of the financial statements. Reportable segment's 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 are not provided to the Executive Committee. The Executive Committee reviews the liabilities of the Group at a consolidated level.

B2 REVENUE

Accounting Policies

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

The Group recognises revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the entity. Revenue is recognised in the profit or loss as follows:

(i) Sale of coal

Revenue from the sale of coal is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be measured reliably. Risks and rewards are considered passed to the buyer at the time of delivery, usually on a Free On Board ("FOB") basis. On occasion 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.

(ii) 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.

(iii) Services

Revenue from the rendering of a service is recognised upon the delivery of the service to the customer.

(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. 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 2017 $M	31 December 2016 $M
From continuing operations		
Sales revenue		
Sale of coal	**2,635**	1,203
Fair value losses recycled from hedge reserve	**(229)**	(133)
	2,406	1,070
Other revenue		
Interest income	**114**	125
Mining services fees	**52**	38
Other	**29**	5
	195	168
	2,601	1,238

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

B – PERFORMANCE

B3 OTHER INCOME

Accounting Policy

Gain on acquisition is recognised in line with the accounting for business combinations (refer Note E1).

	31 December 2017 $M	31 December 2016 $M
Gain on remeasurement of royalty receivable	**8**	–
Net gain on foreign exchange*	**–**	12
Receipts from joint venture participant	**5**	–
Impairment reversal of mining tenements	**100**	–
Gain on acquisition of subsidiaries	**177**	–
Sundry income	**4**	3
	294	15

* There is no impact on the conversion of US dollar denominated interest-bearing liabilities (2016: nil).

B4 EMPLOYEE BENEFITS

Accounting Policies

(i) Employee benefits expenses

Employee benefits are expensed as the related service by the employee is provided and includes 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 to 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.

(a) Employee benefits expense

	31 December 2017 $M	31 December 2016 $M
Other employee benefits expenses	**281**	174
Defined contribution superannuation expense	**21**	14
Total employee benefits expenses from continuing operations	**302**	188

During 2017 $17 million of employee benefits were capitalised (2016: $26 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 2017.

The totals of remuneration paid to KMP of the Company and the Group during the year are as follows:

	31 December 2017 $	31 December 2016 $
Short-term employee benefits	**9,265,818**	4,805,919
Post-employment benefits	**149,362**	142,474
Other long-term benefits	**1,950,142**	1,865,017
	11,365,322	6,813,410

B5 EXPENSES

	31 December 2017 $M	31 December 2016 $M
(a) Finance costs		
Finance lease charges	**4**	4
Unwinding of discount on provisions and deferred payables	**63**	5
Other interest expenses	**229**	215
Interest expenses capitalised	**(9)**	(15)
Total finance costs from continuing operations	**287**	209
(b) Other operating expenses		
Net loss on disposal of property, plant and equipment	**4**	7
Rental expense relating to operating leases	**3**	2
Re-measurement of royalty receivable	**–**	6
Insurance	**6**	3
Bank fees and other charges	**109**	114
Stamp duty	**167**	12
Duties and other levies	**12**	6
Travel and accommodation	**8**	8
Net loss on foreign exchange	**8**	–
Information & technology expenses	**9**	2
Other operating expenses	**4**	3
Total other operating expenses from continuing operations	**330**	163

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

B – PERFORMANCE

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 substantially 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 substantially 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. 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)/benefit

(i) Net tax (expense)/benefit

	31 December 2017 $M	31 December 2016 $M
Income tax (expense)/benefit	**(84)**	73
Income tax over provision in respect of prior years	**2**	12
	(82)	85
Net tax (expense)/benefit is attributable to:		
Continuing operations	**(82)**	85
(ii) Income tax benefit		
Deferred tax (expense)/benefit	**(87)**	85
Deferred tax (expense)/benefit included in income tax benefit comprises:		
(Decrease)/increase in deferred tax assets (refer to Note B6(b)(i))	**(73)**	157
Increase/(decrease) in deferred tax liabilities (refer to Note B6(c)(i))	**(9)**	(70)
Movements in other including assets classified as held for sale	**–**	(2)
	(82)	85

(iii) Reconciliation of income tax (expense)/benefit to prima facie tax payable

	31 December 2017 $M	31 December 2016 $M
Profit/(loss) from continuing operations before tax	**311**	(312)
Tax at the Australian tax rate of 30% (2016 – 30%)	**(95)**	94
Tax effect of amounts which are not deductible/taxable in calculating taxable income:		
Stamp duty provision expensed	**(1)**	(4)
Share of profit/(loss) of equity-accounted investees not deductible	**10**	(2)
Gain on acquisition of subsidiaries	**2**	–
Plant and equipment	**–**	8
Under/over provision in prior years	**1**	12
Denial of debt deductions	**(1)**	(19)
Other	**2**	(4)
Income tax (expense)/benefit	**(82)**	85

(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	**173**	27
Subordinated Capital Note transaction costs	**–**	(1)
Entitlement offer issue costs	**(20)**	–
	153	26

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

B – PERFORMANCE

B6 TAXATION (CONTINUED)

(b) Deferred tax assets

(i) Deferred tax assets

	31 December 2017 $M	31 December 2016 $M
Deferred tax assets from income tax	**1,219**	1,339

(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
At 1 January 2016	834	43	10	9	251	18	1,165
Under/over provision in prior year							
– to profit or loss	(14)	–	–	–	24	–	10
(Charged)/credited							
– to Watagan Group	(12)	–	–	–	–	–	(12)
– to profit or loss	150	(5)	5	11	–	(14)	147
– directly to equity	(40)	–	–	–	13	–	(27)
– tax loss recorded on behalf of Watagan Group	55	–	–	–	–	–	55
– directly to other	–	–	–	–	–	1	1
At 31 December 2016	973	38	15	20	288	5	1,339
At beginning of year	973	38	15	20	288	5	1,339
Under/over provision in prior year	(44)	1	–	–	–	–	(43)
(Charged)/credited							
– 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
At 31 December 2017	839	177	28	16	135	24	1,219

The Group's tax consolidated group includes Watagan Mining Company Pty Ltd and its controlled subsidiaries, refer to E1b(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 $1.7 million (2016: capital tax losses $1.7 million). There is no expiry date on these tax losses.

(c) Deferred tax liabilities

(i) Deferred tax liabilities

	31 December 2017 $M	31 December 2016 $M
Deferred tax liabilities from income tax	**1,030**	762

(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
At 1 January 2016	62	2	8	547	56	17	692
Under/over provision in prior year	(2)	–	–	–	–	–	(2)
Charged/(credited)							
– to profit or loss	20	–	–	4	41	7	72
At 31 December 2016	80	2	8	551	97	24	762
At 1 January 2017	80	2	8	551	97	24	762
Under/over provision in prior year	(6)	–	–	(4)	(31)	–	(41)
Charged/(credited)							
– to profit or loss	78	1	7	3	(71)	32	50
– other	–	–	–	–	–	(11)	(11)
Acquisition of subsidiaries	(9)	–	(2)	300	2	(21)	270
At 31 December 2017	143	3	13	850	(3)	24	1,030

B7 PROFIT AND LOSS PER SHARE

Accounting Policies

(a) Basic profit/(loss) per share

Calculated as net profit/(loss) 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 profit/(loss) per share

Calculated as net profit/(loss) 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

B – PERFORMANCE

B7 PROFIT AND LOSS PER SHARE (CONTINUED)

(a) Basic and diluted profit or loss per share

	31 December 2017 $	31 December 2016 $
From continuing operations		
Total basic profit/(loss) per share	**0.01**	(0.21)
Total diluted profit/(loss) per share	**0.01**	(0.21)

(b) Reconciliation of profit/(loss) used in calculating profit/(loss) per share

	31 December 2017 $M	31 December 2016 $M
Basic and diluted profit/(loss) per share		
Profit/(loss) used in calculating the basic and diluted profit/(loss) per share:		
From continuing operations	**229**	(227)
	229	(227)

(c) Weighted average number of shares used in calculating profit or loss per share

	31 December 2017 Number	31 December 2016 Number
Weighted average number of ordinary shares used as the denominator in calculating basic profit/(loss) per share (refer to Note D4)	**15,967,192,331**	994,216,823
Adjustments to calculation of basic earnings per share		
Bonus factor restatement associated with rights issue dated 31 August 2017	**10%**	10%
Number of shares associated with bonus factor	**101,065,499**	101,125,335
Weighted average number of shares used as the denominator in calculating the basic profit/(loss) per share	**16,068,257,830**	1,095,342,158
Adjustments to denominator used in calculating the diluted profit/(loss) per share	**11,376,599,165**	–
Weighted average number of shares used as the denominator in calculating the diluted profit/(loss) per share	**27,444,859,665**	1,095,342,158

In 2016, the potential conversion of subordinated capital notes into ordinary shares has an anti-dilutive impact as the Group was loss making and was therefore excluded from the weighted average number of ordinary shares for the purpose of diluted loss per 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 are 4,900 SCNs on issue. As the SCNs were redeemed on 31 January 2018 they have been excluded from the above calculation.

Additionally as required by AASB133 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%.

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, trading assets, 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 comprises the accumulation of expenses incurred to enable access to the coal seam, and includes 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 "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 2017

C – OPERATING ASSETS AND LIABILITIES

C1 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Assets under construction $M	Freehold land & buildings $M	Mine development $M	Plant and equipment $M	Leased plant and equipment $M	Total
Year ended 31 December 2016						
Opening net book amount	235	172	303	502	38	1,250
Transfers – asset under construction	(227)	1	92	126	–	(8)
Additions	316	–	14	3	50	383
Other disposals	–	–	–	(15)	–	(15)
Depreciation	–	(3)	(28)	(47)	(6)	(84)
Closing net book amount	324	170	381	569	82	1,526
At 31 December 2016						
Cost or fair value	324	182	480	869	103	1,958
Accumulated depreciation	–	(12)	(99)	(300)	(21)	(432)
Net book amount	324	170	381	569	82	1,526
Year ended 31 December 2017						
Opening net book amount	324	170	381	569	82	1,526
Transfers – asset 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
At 31 December 2017						
Cost	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

During the year ended 31 December 2017 $8 million of depreciation and amortisation was capitalised (2016 $11 million) and $9 million of interest was capitalised (2016 $15 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 2017 $M	31 December 2016 $M
Opening net book amount	**2,128**	2,085
Acquisition through business combination	**2,456**	–
Transfers from exploration and evaluation assets	**26**	101
Impairment reversal (refer Note C3(b))	**100**	–
Amortisation	**(103)**	(58)
Transfer to assets classified as held for sale	**(311)**	–
Closing net book amount	**4,296**	2,128

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 Security 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 current and long-term historical average price trend.

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. Additionally 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 2017

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 ("CGU"), 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 a 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 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. In 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 on mine (10 – 43 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	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 USD 65 – USD 101 per tonne (2016: USD 66 – USD 100 per tonne) for thermal and USD 110 – USD 190 per tonne (2016: USD 104 – USD 165 per tonne) for metallurgical coal. 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. For both thermal and metallurgical coal the Group's forecast coal price is within the range of external price forecasts.
Foreign exchange rates	The long term AUD/USD forecast exchange rate of \$0.75 (2016: \$0.73) is based on external sources. The year-end AUD/USD exchange rate was \$0.78 per the Reserve Bank of Australia.
Production and capital costs	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. 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.
Coal reserves and resources	See discussion at Note C2 Mining tenements for how the coal reserves and resources are determined.
Discount rate	The Group has applied a post-tax discount rate of 10.5% (2016: 10.5%) to discount the forecast future attributable post-tax cash flows. 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. This rate is also consistent with the Group's five year business plan, life of mine models and project evaluations performed in ordinary course of business.

Based on the above assumptions at 31 December 2017 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 has been reversed. Management have 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 has been recognised through the profit and loss.

Impairment provision recorded as at 31 December 2017 is $73 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 further weakening of the AUD/USD foreign exchange rate or a combination of both, or further 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.

(c) 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.

If coal prices were -10% LOM the recoverable amount would exceed book value for all CGUs with the exception of Yarrabee who exceeded the recoverable amount by $15 million. If the AUD/USD long term forecast exchange rate was $0.80 the recoverable amount would exceed book value for all CGUs.

Goodwill

The Yarrabee goodwill was not subject to an impairment charge as the recoverable amount is greater than the carrying value for this CGU.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

C – OPERATING ASSETS AND LIABILITIES

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 are 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 2017 $M	31 December 2016 $M
Opening net book amount	**498**	591
Acquisition through business combination	**108**	–
Other additions	**3**	–
Transfers to mining tenements	**(26)**	(101)
Transfers – assets under construction	**–**	8
Transfer to assets classified as held for sale	**(18)**	–
Closing net book amount	**565**	498

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) Access, water rights and other mining licences

Access rights and other mining licences have a finite useful life and are carried at cost less any accumulated amortisation and accumulated impairment losses. Water rights have been recognised at cost and are assessed annually for impairment. The water rights have been determined to have an indefinite useful life. Amortisation of access rights and other mining licences is calculated as the shorter of the life of the mine or agreement using a units of production basis in tonnes, or on a straight-line basis. The estimated useful lives vary from 10 to 25 years.

(iv) Other

In acquiring Coal & Allied in 2017 under AASB3 Business Combinations an asset was recognised for management fees charged to Port Waratah Coal Services Pty Ltd. The intangible asset will be released to the profit and loss on a straight line basis.

	Goodwill $M	Computer software $M	Access, water rights & other licenses $M	Other $M	Total $M
At 1 January 2016					
Cost	60	24	–	–	84
Accumulated amortisation	–	(12)	–	–	(12)
Net book amount	60	12	–	–	72
Year ended 31 December 2016					
Opening net book amount	60	12	–	–	72
Transfers – assets under construction	–	1	–	–	1
Amortisation charge	–	(3)	–	–	(3)
Closing net book amount	60	10	–	–	70
At 31 December 2016					
Cost	60	25	–	–	85
Accumulated amortisation	–	(15)	–	–	(15)
Net book amount	60	10	–	–	70
Year ended 31 December 2017					
Opening net book amount	60	10	–	–	70
Acquisition through business combination	–	–	22	13	35
Transfers – assets under construction	–	–	1	–	1
Transfer to asset classfied as held for sale	–	–	(4)	–	(4)
Amortisation charge	–	(2)	(1)	–	(3)
Closing net book amount	60	8	18	13	99
At 31 December 2017					
Cost	60	25	19	13	117
Accumulated amortisation	–	(17)	(1)	–	(18)
Net book amount	60	8	18	13	99

The goodwill at 31 December 2017 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 2017. 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

C – OPERATING ASSETS AND LIABILITIES

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 2017 $M	31 December 2016 $M
Cash at bank and in hand	**207**	190

Refer to Note D2(a) for details on the syndicated facility, minimum cash balances to be held in cash at bank.

(a) Risk exposure

The Group's exposure to interest rate risk and credit risk is discussed in Note D8. 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.

Critical accounting estimate and judgements

The recoverable amount of Wiggins Island Preference Securities and Gladstone Long Term Securities, is estimated based on expected future cashflows. WICET is currently re-negotiating its senior debt facility that could result in a change to those expected future cashflows.

	31 December 2017 $M	31 December 2016 $M
Current		
Trade receivables	**540**	278
Advances to controlled entities	**–**	3
Other receivables	**81**	101
Cash – restricted (refer to Note D2(b))	**1**	32
Promissory note receivable (i)	**36**	21
	658	435
Non-current		
Receivables from joint venture (refer to Note E2(b)(ii))	**332**	347
Receivables from other entities (iii)	**61**	60
Long service leave receivables	**80**	–
	473	407

(i) Promissory notes to the value of $674 million were issued to the Group by Yanzhou Coal Mining Company Limited on 22 June 2012 on the disposal of certain mining assets, including promissory notes of $21 million with regard to the expected tax on the disposal. During 2017 the promissory note with Yanzhou Coal Mining Company Limited was settled against related party loan interest payable by the Company. In addition as part of the equity raising completed in 1 September 2017 in Note E1 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 believe 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 $350 million. From 1 July 2017 the shareholders of Middlemount agreed to make the loan interest free for 18 months. At 31 December 2017 this loan has been revalued using the effective interest rate method to $332 million with the difference being recognised as a contribution to the joint venture.

(iii) Receivables from other entities represent the Group's investment in securities issued by Wiggins Island Coal Export Terminal Pty Ltd ('WICET'). These include E Class Wiggins Island Preference Securities ('WIPS') of $29 million (2016: $29 million) and Gladstone Long Term Securities ('GiLTS') of $32 million (2016: $32 million).

(a) Past due but not impaired

As at 31 December 2017, there were no trade receivables that were past due (2016: nil).

The other classes within trade and other receivables (other than the Middlemount receivable as detailed in (ii) above and $4.1 million of deferred distributions from WICET) do not contain impaired assets and are not past due. It is expected that these amounts will be received when due.

(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 D8.

(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 D8 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 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 rebated and discounts less allowance, if necessary, for obsolescence.

	31 December 2017 $M	31 December 2016 $M
Coal – at lower of cost or net realisable value	**87**	47
Tyres and spares – at cost	**59**	27
Fuel – at cost	**4**	1
	150	75

(a) Inventory expense

Write downs of inventories to net realisable value recognised as a provision at 31 December 2017 amounted to $1 million (2016: $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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

C – OPERATING ASSETS AND LIABILITIES

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 is 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 re-measurement 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 2017 $M	31 December 2016 $M
Opening balance	**199**	205
Cash received/receivable	**(29)**	(21)
Unwinding of the discount	**21**	21
Re-measurement of royalty receivable	**8**	(6)
	199	199
Split between:		
Current	**24**	31
Non-current	**175**	168
	199	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 D8.

C10 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.
- measured at the present value of the 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.

2017	Employee benefits $M	Sales contract provision $M	Rehabilitation $M	Take or pay $M	Other provisions $M	Total $M
Opening net book amount	1	–	83	38	5	127
Charged/(credited) to profit or loss						
– unwinding of discount	–	41	3	6	–	50
– release of the provision	–	(62)	–	(24)	(1)	(87)
Acquired through business combination	64	149	129	50	44	436
Re-measurement of provisions	35	–	20	–	–	55
Transfer to asset classified as held for sale	–	(7)	(17)	(8)	(2)	(34)
Closing net book amount	100	121	218	62	46	547
Split between:						
Current	**8**	**34**	**–**	**16**	**1**	**59**
Non-current	**92**	**87**	**218**	**46**	**45**	**488**
Total	**100**	**121**	**218**	**62**	**46**	**547**

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	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 calculation based on the present value of the future costs expected to be incurred in restoring affected mining areas, assuming current technologies. **Key estimate and judgement:** 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. 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 ceases to produce at economically viable rates, which in turn, will depend upon future coal prices, which are inherently uncertain.
Take or pay	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. 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. **Key estimate and judgement:** 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.
Sales contract	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 sales contract provision is the assessment of a coal supply and transportation agreement to supply coal to BLCP 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. **Key estimate and judgement:** The provision is recognised and estimated based on management's assessment of future market prices.
Other provisions	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 & 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

C – OPERATING ASSETS AND LIABILITIES

C11 ASSET 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 group) 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 2017 $M	31 December 2016 $M
Current assets		
Investment in associate (i)	**25**	–
Interest in joint ventures (ii)	**531**	–
Land held for sale (iii)	**57**	
Total current assets	**613**	–
Current liabilities		
Interest in joint ventures (ii)	**67**	–
Total current liabilities	**67**	–

(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, will be sold for US$20m and is expected to complete in 2018.

(ii) Interest in joint ventures

On 27 July 2017 the Company announced that it has 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 will pay cash consideration of US$429 million to the Group for a 16.6% interest in HVO, and this amount is reduced by the net cash flows generated by the 16.6% HVO interest from 1 September 2017 to the date of completion. The consideration will 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.

(iii) Land held for sale

The land held for sale refers to parcels of non-mining land located in the Lower Hunter Valley that is held for development or future sale. As disclosed in Note E1 these were acquired as part of the acquisition of Coal & Allied at fair value.

Summarised financial information

The following table provides summarised financial information for the interest in HVO that are held for sale as at 31 December 2017. The information disclosed reflects the interest in HVO share of the Group's aggregated assets and liabilities.

	31 December 2017 $M
Current assets	**13**
Property, plant and equipment	185
Mining tenements	311
Other non-current assets	22
Non-current assets	**518**
Total assets classified as held for sale	**531**
Current liabilities	**38**
Non-current liabilities	**29**
Total liabilities associated with assets classified as held for sale	**67**
Net assets classified as held for sale	**464**

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, derivative financial instruments, 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.

	31 December 2017 $M	31 December 2016 $M
Opening balance	**775**	–
Loan recognised on deconsolidation	**–**	1,363
Repayments	**(214)**	(623)
Drawdowns	**151**	35
Closing balance	**712**	775

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 D6).

(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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

D – CAPITAL STRUCTURE AND FINANCING

D2 INTEREST-BEARING LIABILITIES (CONTINUED)

	31 December 2017 $M	31 December 2016 $M
Current		
Secured lease liabilities (refer to Note F1(b))	**17**	20
	17	20
Non-current		
Secured bank loans	**3,141**	3,593
Secured lease liabilities (refer to Note F1(b))	**38**	47
Unsecured loans from related parties	**1,527**	1,290
	4,706	4,930
Total interest-bearing liabilities	**4,723**	4,950

AUD'M Facilities	Balance 31 Dec 2016	Debt drawdown	Debt repayment	Lease repayment	New Leases	Foreign exchange movements	Balance 31 Dec 2017
Secured bank loan	3,593	–	(196)	–	–	(256)	3,141
Loans from related parties (i)	1,290	326	–	–	–	(89)	1,527
Finance leases	67	–	–	(23)	9	–	55
Total interest-bearing liabilities	**4,950**	**326**	**(196)**	**(23)**	**9**	**(345)**	**4,723**

(i) Interests costs incurred on finance leases amounted to $3 million as at 31 December 2017. During 2017 debt drawdowns from related parties includes $137 million of non-cash drawdowns related to SCN distributions capitalised.

(a) Secured bank loans

The secured bank loans are made up of the following facilities:

		31 December 2017		31 December 2016	
	Facility $M	Facility AUD $M	Utilised AUD $M	Facility AUD $M	Utilised AUD $M
Secured bank loans					
Syndicated facility (i)	US 2,450	**3,141**	**3,141**	3,593	3,593

(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 2017 US$150 million was repaid reducing the facility to 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 (refer to Note E1) the financial covenants were adjusted from 1 September 2017. The Syndicated Facility includes the following financial covenants to be tested half-yearly:

(a) The interest cover ratio will not be less than 1.40 for period from 1 September 2017 to 31 December 2017, and thereafter (2016 1.15);

(b) The gearing ratio of the Group will not exceed 0.75 (2016 0.80); and

(c) The consolidated net worth of the Group is not less than AU$3,000 million (2016 $1,600 million).

The calculation of the above covenants include certain exclusions with regard to unrealised gains and losses including foreign exchange gains and losses.

The Syndicated Facility include 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 AUD25 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 AUD50 million.

There was no breach of covenants at 31 December 2017.

(b) Bank guarantee facilities

Yancoal are 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 domestic and international banks	–	1,000	935	Secured by Yarrabee and Moolarben mine assets with carrying value of $3,159 million, and Coal & Allied Group assets with carrying value of $4,323 million. Facility expires on 31 August 2020.
Bank of China*	95	122	106	Parent corporate guarantees from Yanzhou to Bank of China for the full amount of the facility. Expiry dates are as follow: – US$45.0 million expires on 16 December 2017 – US$45.0 million expires on 16 December 2018 – US$50.0 million expires on 16 December 2019
Total	**95**	**1,122**	**1,041**	

* This facility can be drawn in both A$ and US$. As at 31 December 2017, all bank guarantees outstanding under this facility are denominated in A$.

The Guarantee Facility includes the following financial covenants based on consolidated results of Yancoal Resources Ltd Group and Coal & Allied Group to be tested half-yearly. As part of the acquisition of Coal & Allied (refer to Note E1) the Guarantee Facility was increased to $1 billion and the financial covenants were adjusted from 1 September 2017:

(a) The interest cover ratio is greater than 5.0 times (2016 5.0 times);

(b) The finance debt to EBITDA ratio is less than 3.0 times (2016 3.0 times); and

(c) The net tangible assets are greater than AU$1,500 million (2016 AU$600 million).

There was no breach of covenants at 31 December 2017.

(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 US$150.0 million had been drawn down. In total US$832 million (AU$1,066 million) was drawn down as at 31 December 2017 (31 December 2016: US$682 million (AU$942 million)).
- Facility 2: US$807 million – the purpose of the facility is to fund the coupon payable on subordinated capital notes. During the period US$107 million was drawn down. In total US$243 million (AU$312 million) was drawn down as at 31 December 2017 (31 December 2016: US$136 million (AU$188 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, leaving an outstanding balance of US$116 million which remains outstanding as at 31 December 2017 and is repayable on 12 May 2022.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

D – CAPITAL STRUCTURE AND FINANCING

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.

	31 December 2017 $M
Opening balance	–
Initial recognition	283
Payments	(142)
Unwind of discount	13
Foreign exchange	6
Closing balance	160
Current	112
Non-current	48
Total	160

As part of the acquisition of Coal & Allied on 1 September 2017 (refer to Note E1) US$240 million of the purchase price is to be paid over five years from completion. During 2017 US$110 million of the non-contingent royalties were paid.

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.

(a) Contributed equity

	31 December 2017 Number	31 December 2016 Number	31 December 2017 $M	31 December 2016 $M
(i) Share capital				
Ordinary shares (note D4(b)) Issued and fully paid up	**43,959,446,612**	994,276,659	**5,953**	657
(ii) Other equity securities				
Subordinated capital notes (note D4(c))	**4,900**	18,005,042	**1**	2,184
Contingent value right shares			**263**	263
			264	2,447
Total contributed equity			**6,217**	3,104

(iii) Movements in contributed equity

	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)	–
Closing balance	**5,953**	**1**

During 2016 there were no movements in contributed equity.

(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 the year 58,490 ordinary shares were issued on conversion of the SCNs noted 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 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.

(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 (SCN Notes) at USD100 each. Each SCN Note is convertible into 1,000 Yancoal Australia Limited ordinary shares. During 2016 60 SCN Notes and in 2017 31 SCN Notes were converted into 58,490 ordinary shares of the Company in accordance with the terms of the SCN Notes, 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 SCN Notes on issue.

The subordinated capital notes are perpetual, subordinated, convertible, unsecured capital notes of face value USD100 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 5 year USD mid-swap plus the initial margin per annum every 5 years. The SCN Notes are convertible at the option of the holders to Yancoal Australia Ltd ordinary shares within 30 years. As announced by the Company on 7 December 2017 the remaining SCNs will be redeemed on 31 January 2018.

(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. 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 2017 and 31 December 2016 were as follows:

	Notes	31 December 2017 $M	31 December 2016 $M
Total interest-bearing liabilities	D2	**4,723**	4,951
Less: cash and cash equivalents	C6	**(207)**	(190)
Net debt		**4,516**	4,761
Total equity		**5,026**	1,351
Total capital		**9,542**	6,112
Gearing ratio		**47.3%**	77.9%

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 2017

D – CAPITAL STRUCTURE AND FINANCING

D5 DISTRIBUTIONS

(a) SCN distributions

	2017			2016		
	% per SCN	Total US$'M	Total AU$'M	% per SCN	Total US$'M	Total AU$'M
Interim distribution paid on 31 July 2017 (2016 paid 29 July 2016)	**7%**	**63**	**79**	7%	63	84
Final distribution to be accrued as at 31 December 2017 (31 December 2016 accrual, paid on 31 January 2017)	**7%**	**–**	**–**	7%	63	87
		63	**79**		126	171

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 decrease by AU$4 million from the 31 December 2016 accrual (29 January 2016 payment increased by AU$2 million from the 31 December 2015 accrual).

(b) Franked dividends

	31 December 2017 $M	31 December 2016 $M
Franking credits available for subsequent reporting periods based on an income tax rate of 30% (2016 – 30%)	**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.

D6 HEDGE RESERVE

Accounting Policy

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.

The collar option contracts entered into by the Group are designated and qualify as cash flow hedges.

(a) Reserves

	31 December 2017 $M	31 December 2016 $M
Hedging reserve	**(413)**	(817)
	(413)	(817)
Movements:		
Hedging reserve – cash flow hedges		
Opening balance	**(817)**	(880)
Profit/(loss) recognised on USD interest bearing liabilities	**348**	(43)
Transferred to profit or loss	**229**	133
Deferred income tax benefit	**(173)**	(27)
Closing balance	**(413)**	(817)

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 2017, losses of $229 million were transferred from other comprehensive income to profit or loss in respect of the hedging reserve (31 December 2016 a loss of $133.3 million).

D7 CONTINGENCIES

Contingent liabilities

The Group had contingent liabilities at 31 December 2017 in respect of:

(i) Bank guarantees

	31 December 2017 $M	31 December 2016 $M
Parent entity and consolidated entity		
Performance guarantees provided to external parties	**352**	88
Guarantees provided in respect of the cost of restoration of certain mining leases given to government departments as required by statute	**80**	77
	432	165
Joint ventures (equity share)		
Guarantees provided in respect of land acquisition	**–**	20
Performance guarantees provided to external parties	**195**	65
Guarantees provided in respect of the cost of restoration of certain mining leases	**248**	27
	443	112
Guarantees held on behalf of related parties (refer to Note E3(d) for details of beneficiaries)		
Performance guarantees provided to external parties	**109**	112
Guarantees provided in respect of the cost of restoration of certain mining leases given to government departments as required by statute	**57**	52
	166	164
	1,041	441

(ii) Tax audit

The Australian Taxation Office ("ATO") has completed the audit of certain matters in the Company's tax filing for the year ended 31 December 2012. The outcome of the audit resulted in no material adjustments and required no cash payments.

(iii) 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

D – CAPITAL STRUCTURE AND FINANCING

D7 CONTINGENCIES (CONTINUED)

Contingent liabilities (continued)

(iv) Mitsubishi Development Pty tag along right

As announced 28 July 2017, Yancoal has separately entered into a conditional binding implementation agreement with Glencore Coal Pty Ltd ("Glencore"), a wholly owned subsidiary of Glencore plc, under which Yancoal and Glencore will establish a 51% (Yancoal) and 49% (Glencore) unincorporated joint venture in relation to HVO (the "Glencore Transaction").

Glencore has agreed to pay US$1,139 million for its 49% interest, of which: US$710 million will be paid to HVO Resources Pty Ltd ("HVOR"), a wholly owned subsidiary of Mitsubishi Development Pty ("MDP"), for the acquisition of HVOR's 32.4% interest in the Hunter Valley Operations mining complex ("HVO"), and US$429 million will be paid to Yancoal for the acquisition of a 16.6% interest in HVO from Yancoal. Glencore will also pay to Yancoal 27.9% of the US$240 million in future non-contingent royalty payments and 49% of the coal price linked contingent royalty payments associated with HVO that are payable by Yancoal to Rio Tinto Limited for the Acquisition.

The Transaction is subject to a number of conditions precedent, including Glencore obtaining all necessary regulatory approvals, including final competition clearance from Japan. Should the conditions precedent not be satisfied then Yancoal would need to pay HVOR US$710 million to acquire its 32.4% interest in HVO.

(v) 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.

D8 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 aging analysis for credit risk.

The Group holds the following financial instruments:

(i) Cash and cash equivalents;

(ii) Trade and other receivables;

(iii) Trade and other payables;

(iv) Interest-bearing liabilities, including bank loans and finance leases;

(v) Available-for-sale investments;

(vi) Royalty receivable;

(vii) Derivative financial instruments; and

(viii) Interest-bearing loan from associate.

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 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 are managed through the use of bank issued forward foreign currency contracts and collar option contracts. The Group 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.

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 (2016: $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 expected to complete 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

As discussed in Note E1 the Company has agreed to make deferred non-contingent royalty payments to Rio Tinto Plc ("Rio Tinto") in US dollars.

The Group's exposure to foreign currency risk at the end of the reporting period, expressed in Australian dollars, was as follows:

	31 December 2017		31 December 2016	
	USD $M	RMB* $M	USD $M	RMB* $M
Cash and cash equivalents	**139**	**–**	124	1
Trade receivables	**432**	**–**	165	–
Other assets	**49**	**–**	–	–
Royalty receivable	**199**	**–**	199	–
Trade and other payables	**(249)**	**–**	(157)	–
Interest bearing liabilities	**(4,668)**	**–**	(4,883)	–
Non-contingent royalty payable	**(167)**	**–**	(1)	–
Net Exposure	**(4,265)**	**–**	(4,553)	1

* The cash and cash equivalents balance in RMB was $1.6 million on 18 January 2018. No foreign exchange risk for sensitivity analysis has been performed in 2017 due to the immaterial position subsequent to year end.

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 2017

D – CAPITAL STRUCTURE AND FINANCING

D8 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

	10% depreciation of AUD/USD		10% appreciation of AUD/USD	
	Profit after income tax $M	Equity $M	Profit after income tax $M	Equity $M
2017				
Cash and cash equivalents	**11**	**–**	**(9)**	**–**
Trade and other receivables	**34**	**–**	**(28)**	**–**
Royalty receivable	**15**	**–**	**(18)**	**–**
Other assets	**4**	**–**	**(38)**	**–**
Total increase/(decrease) in financial assets	**64**	**–**	**(93)**	**–**
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 after tax and equity	**32**	**(363)**	**(56)**	**297**
2016				
Cash and cash equivalents	10	–	(8)	–
Trade and other receivables	13	–	(11)	–
Royalty receivable	16	–	(12)	–
Total increase/(decrease) in financial assets	39	–	(31)	–
Trade and other payables	(12)	–	10	–
Interest-bearing liabilities	–	(380)	–	311
Derivative financial instrument	(7)	–	6	–
Total (increase)/decrease in financial liabilities	(19)	(380)	16	311
Total increase/(decrease) in profit after tax and equity	20	(380)	(15)	311

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 include 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 JV 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.

Sensitivity

The following table summarises the sensitivity of the Group's financial assets and liabilities to a possible change in the forecasted coal sales price used to determine the fair value of the royalty receivable from the Middlemount Joint Venture. A 10% (decrease)/increase in the market price 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.

	+10%		-10%	
	Profit after income tax $M	Equity $M	Profit after income tax $M	Equity $M
2017				
Royalty receivable	**(14)**	**–**	**14**	**–**
Total (decrease)/increase in profit after tax and equity	**(14)**	**–**	**14**	**–**
2016				
Royalty receivable	(14)	–	14	–
Total (decrease)/increase in profit after tax and equity	(14)	–	14	–

(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 2017		31 December 2016	
	Weighted average interest rate %	Balance $M	Weighted average interest rate %	Balance $M
Cash and cash equivalents	**1.3**	**207**	0.5	190
Restricted cash	**3.0**	**1**	2.1	29
Bank loans and other borrowings	**5.0**	**3,141**	4.4	3,593
Net exposure to cash flow interest rate risk		**3,349**		3,812

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
2017				
Interest bearing loan to associate	**(1)**	**–**	**1**	**–**
Interest bearing liabilities	**6**	**–**	**(6)**	**–**
	5	**–**	**(5)**	**–**
2016				
Interest bearing loan to associate	(2)	–	2	–
Interest bearing liabilities	6	–	(6)	–
	4	–	(4)	–

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

D – CAPITAL STRUCTURE AND FINANCING

D8 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents, favourable derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted. If wholesale customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, the marketing department assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

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.

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 2017 $M	31 December 2016 $M
Cash and cash equivalents	**207**	222
Trade and other receivables	**1,131**	842
	1,338	1,064

Included in trade and other receivables are significant customers located in Singapore, Japan, Australia, and Hong Kong that account for 30%, 23%, 14% and 8% of trade receivables respectively (2016: Australia 46%, Singapore 22%, South Korea 7% and China 4%).

At 31 December 2017, no derivative financial instruments were outstanding (2016: net liability position). As a result no credit risk has been disclosed above.

(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 for:

(a) all non-derivative financial liabilities, and

(b) net and gross settled derivative financial instruments for which the contractual maturities are essential for an understanding of the timing of the cash flows.

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 flows $M	Carrying amount $M
At 31 December 2017						
Trade payables	**775**	**–**	**–**	**–**	**775**	**775**
Non-contingent royalty	**115**	**26**	**26**	**–**	**167**	**167**
Interest-bearing liabilities	**369**	**384**	**4,116**	**1,612**	**6,481**	**4,723**
Total non-derivatives	**1,259**	**410**	**4,142**	**1,612**	**7,423**	**5,665**
Derivatives						
Gross settled (Derivative financial instruments)						
– (inflow)	**–**	**–**	**–**	**–**	**–**	**–**
– outflow	**–**	**–**	**–**	**–**	**–**	**–**
Total derivatives	**–**	**–**	**–**	**–**	**–**	**–**
At 31 December 2016						
Non-derivatives						
Trade payables	467	–	–	–	467	467
Interest-bearing liabilities	341	332	3,301	2,786	6,760	4,951
Total non-derivatives	808	332	3,301	2,786	7,227	5,418
Derivatives						
Gross settled (Derivative financial instruments)						
– (inflow)	(93)	–	–	–	(93)	–
– outflow	93	–	–	–	93	1
Total derivatives	–	–	–	–	–	1

(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 2017 and 31 December 2016:

	Level 1 $M	Level 2 $M	Level 3 $M	Total $M
31 December 2017				
Assets				
Royalty receivable	**–**	**–**	**199**	**199**
Total assets	**–**	**–**	**199**	**199**
Liabilities				
Total liabilities	**–**	**–**	**–**	**–**
31 December 2016				
Assets				
Royalty receivable	–	–	199	199
Total assets	–	–	199	199
Liabilities				
Derivatives used for hedging				
Forward foreign exchange contracts	–	1	–	1
Other derivatives	–	–	–	–
Total liabilities	–	1	–	1

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

D – CAPITAL STRUCTURE AND FINANCING

D8 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Fair value measurements (continued)

(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.

The valuation techniques used for level 2 financial instruments are:

Description	Valuation Technique(s)	Inputs used
Forward Foreign Exchange Contracts	Income approach using discount cash flow methodology	Current forward exchange rates applicable to remaining life of contract

(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 2017:

	31 December 2017 Royalty Receivable $M	31 December 2016 Royalty Receivable $M
Opening balance	**199**	205
Cash received/receivable	**(29)**	(21)
Unwinding of the discount	**21**	21
Remeasurement of the royalty receivable recognised in profit and loss	**8**	(6)
Closing balance	**199**	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%.

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.

(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 ACQUISITION OF COAL & ALLIED

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 with the exception of 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 & 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.

Acquisition of Coal & Allied

(a) Summary of acquisition

As announced on 24 January 2017 and as subsequently amended on 26 June 2017, the Company entered into a binding agreement to acquire 100% of the shares in Coal & Allied from wholly owned subsidiaries of Rio Tinto for US$2.69 billion plus an adjustment for net debt and working capital. US$2.45 billion was paid on completion, plus US$240 million in non-contingent royalty payments over five years from completion. The Acquisition completed on 1 September 2017 resulting in the Company acquiring (through its ownership of the shares in Coal & Allied) Rio Tinto's interest in the Hunter Valley Operations (HVO) and Mount Thorley Warkworth (MTW) mines (an integrated operation of two open-cut mines located adjacent to each other in the Hunter Valley, NSW), a 36.5% interest in PWCS (the owner of a coal export terminal located at the Port of Newcastle), as well as other coal exploration projects and landholdings.

(b) Transaction funding and capital structure simplification

On 31 August funding for the acquisition of Coal & Allied was achieved by the Company successfully completing the issue of new fully paid ordinary shares ("New Shares") under the pro-rata renounceable entitlement offer ("Entitlement Offer") and institutional placement ("Placement") announced to ASX on 1 August 2017. New Shares under the Entitlement Offer and Placement were issued at the offer price of US$0.10 ("Offer Price").

Yancoal issued:

- 23,464,929,520 New Shares under the Entitlement Offer, raising gross proceeds of US$2,346,492,952; and
- 1,500,000,000 New Shares under the Placement, raising gross proceeds of US$150,000,000.

In addition, the Company issued 18,000,031,000 New Shares to Yanzhou Coal Mining Co., Ltd ("Yanzhou") on conversion of all of its subordinated capital notes ("SCN") at a conversion price of US$0.10 per New Share, in accordance with the SCN terms of issue. Yancoal has also issued a further 150,943 New Shares on conversion of 80 other SCNs for which a conversion notice was received, at a conversion price of US$0.053 per New Share, in accordance with the SCN terms of issue.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

E – GROUP STRUCTURE

E1 ACQUISITION OF COAL & ALLIED (CONTINUED)

(c) Assets and liabilities acquired

Details of the purchase consideration, the net assets and liabilities acquired and gain on acquisition of subsidiaries are as follows:

	$M
Purchase consideration (refer to (c) below):	
Acquisition price	**3,102**
Non-contingent royalty	**283**
Net debt and working capital adjustment	**162**
Total consideration	**3,547**
Gain on acquisition of subsidiaries	**177**
Fair value of net identifiable assets acquired (refer to (i) below)	**3,724**

(i) Assets and liabilities acquired

The assets and liabilities recognised as a result of the acquisition are as follows:

	Fair value $M
Cash	**152**
Trade receivables	**135**
Inventories	**79**
Assets classified as held for sale	**82**
Other assets	**60**
Investments in associates	**197**
Plant and equipment	**1,326**
Mining tenements	**2,456**
Exploration and evaluation assets	**108**
Intangible assets	**35**
Deferred tax asset	**105**
Trade and other payables	**(303)**
Other liabilities	**(2)**
Provisions	**(436)**
Deferred tax liabilities	**(270)**
Fair value of net identifiable assets acquired	**3,724**

The accounting for the acquisition has been determined on a provisional basis at 31 December 2017. 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.

The preliminary assessment of the contingent royalty included in the entitlement offer booklet was that it formed part of the purchase consideration. Having performed a more detailed assessment it has been determined the contingent royalty obligation represents a liability of the acquired group as it is payable by subsidiaries of Coal & Allied and is included in provisions above.

(ii) Gain on acquisition of subsidiaries

The Company recognised a gain on acquisition of $177 million in other income in the profit and loss for the year ended 31 December 2017.

The acquisition resulted in a gain due to the fair value of the mine assets acquired benefiting from improved valuation assumptions on completion date compared to the date the acquisition price was struck.

(iii) Revenue and profit contribution

The acquired interest contributed revenue of $749 million and net profit of $215 million to the Group for the period from 1 September 2017 to 31 December 2017. If the acquisition had occurred on 1 January 2017, consolidated revenue and net profit for the period ended 31 December 2017 would have been $2,173 million and $818 million respectively. These amounts have been calculated using the Group's accounting policies.

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 includes 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.

When the Group's share of losses in a joint venture equals or exceeds its interest in the joint venture (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.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary, to ensure consistency with the policies adopted by the Group.

Critical accounting estimates and 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 2017

E – GROUP STRUCTURE

E2 INTERESTS IN OTHER ENTITIES (CONTINUED)

(a) Joint operations

A controlled entity, Moolarben Coal Mines Pty Limited, has an 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 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 Pty Ltd has an 80% interest in the Mount Thorley Joint Venture whose principal activity is the development and operation of open-cut coal mines.

Controlled entities, CNA Workworth Associates Pty Ltd and CNA Resources Ltd, have a combined 55.6% interest in the Workworth Joint Venture whose principal activity is the development and operation of open-cut mines.

A controlled entity, Yarrabee Coal Company Pty. Ltd., has a 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 2017. 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 2017 %	% of ownership interest 2016 %	Nature of relationship	Measurement method	Carrying amount of investment 2017 $M	Carrying amount of investment 2016 $M
Newcastle Coal Infrastructure Group Pty Ltd	Australia	27	27	Associate	Equity method	–	–
Watagan Mining Company Pty Ltd	Australia	100	100	Associate	Equity method	–	–
Port Waratah Coal Services Ltd	Australia	36.53	–	Associate	Equity method	191	–
Middlemount Coal Pty Ltd	Australia	49.9997	49.9997	Joint Venture	Equity method	60	5

(i) Investment in associates

Newcastle Coal Infrastructure Group Pty Ltd

The Group holds 27% (2016: 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.

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 will 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. Under the terms of the Watagan Agreements, it was determined that upon issuance of the bonds the Group lost control of Watagan.

This loss of control was determined to occur on the issuance date of the bonds on the basis that the power over the key operating and strategic decisions of Watagan no longer reside 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 loss of control resulted in the Group de-consolidating the consolidated 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.

While Watagan is deconsolidated for accounting purposes, as a result of the Group's ongoing 100% equity ownership it remains within the Group's tax consolidated group.

Port Waratah Coal Services Ltd

The Group holds a direct shareholding in Port Waratah Coal Services Ltd ("PWCS") and also an indirect shareholding through Newcastle Coal Shippers Pty Ltd totaling 36.5% (2016: nil) of the ordinary shares of PWCS. Under the shareholder agreement between the Group and other shareholders, the Group has 36.5% 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.

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.

	NCIG		Watagan		PWCS	
	31 December 2017 $M	31 December 2016 $M	31 December 2017 $M	31 December 2016 $M	31 December 2017 $M	31 December 2016 $M
Cash and cash equivalent	**20**	14	**103**	100	**17**	–
Other current assets	**11**	9	**184**	311	**12**	–
Current assets	**31**	23	**287**	411	**29**	–
Property, plant and equipment	**610**	636	**844**	884	**526**	–
Mining tenements	**–**	–	**330**	332	**–**	–
Exploration and evaluation assets	**–**	–	**298**	311	**–**	–
Goodwill	**–**	–	**–**	–	**1**	–
Other non-current assets	**108**	138	**80**	40	**8**	–
Non-current assets	**717**	774	**1,551**	1,567	**534**	–
Total assets	**748**	797	**1,838**	1,978	**563**	–
Current liabilities	**13**	12	**99**	43	**128**	–
Deferred tax liability	**27**	29	**183**	214	**24**	–
Other non-current liabilities	**983**	1,068	**1,756**	1,883	**220**	–
Non-current liabilities	**1,011**	1,097	**1,939**	2,097	**244**	–
Total liabilities	**1,024**	1,109	**2,038**	2,140	**372**	–
Net Assets	**(276)**	(312)	**(200)**	(162)	**191**	–
Revenue	**108**	101	**625**	283	**48**	–
Management fees (Yancoal Australia Ltd)	**–**	–	**(56)**	(38)	**–**	–
Interest paid/payable (Bondholders)	**–**	–	**(102)**	(54)	**–**	–
Interest paid/payable (Yancoal Australia Ltd)	**–**	–	**(67)**	(75)	**–**	–
Other interest expenses	**(55)**	(56)	**(5)**	(5)	**–**	–
Depreciation & amortisation expenses	**(31)**	(29)	**(136)**	(90)	**(17)**	–
Gain/(loss) on foreign exchange	**74**	(5)	**55**	(36)	**–**	–
Other expenses	**(29)**	(21)	**(382)**	(98)	**(31)**	–
Income tax (expense)/benefit	**(29)**	–	**10**	(48)	**–**	–
Profit/(loss) from continuing operations after tax	**36**	(11)	**(58)**	(162)	**–**	–
Other comprehensive income/(expense)	**–**	–	**–**	–	**–**	–
Total comprehensive income/(expense)	**36**	(11)	**(58)**	(162)	**–**	–

Movements in carrying amounts

The Group's share of NCIG's profit/(loss) after tax has not been recognised for the years ended 31 December 2017 and 31 December 2016 since the Group's share of NCIG's accumulated losses exceeds its interest in NCIG at 31 December 2017 and at 31 December 2016.

Apart from the initial $100 invested, the Group's share of Watagan's loss after tax has not been recognised for the year ended 31 December 2016 as the Group's share of Watagan's accumulated losses exceeds its interest in Watagan at 31 December 2016.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

E – GROUP STRUCTURE

E2 INTERESTS IN OTHER ENTITIES (CONTINUED)

(b) Interests in associates and joint ventures (continued)

(i) Investment in associates (continued)

Movements in carrying amounts (continued)

	31 December 2017 $M	31 December 2016 $M
Movements in PWCS carrying amounts		
Acquisition of interest in associate	**197**	–
Dividends received	**(6)**	–
Closing net book amount	**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.

Summarised financial information of joint venture

The following table provides summarised financial information for Middlemount. The information disclosed reflects the Group's share of the results of Middlemount and its 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.

	31 December 2017 $M	31 December 2016 $M
Cash and cash equivalents	**2**	6
Other current assets	**78**	59
Total current assets	**80**	65
Total non-current assets	**488**	546
Other current liabilities	**63**	113
Total current liabilities	**63**	113
Non-current financial liabilities	**340**	390
Other non-current liabilities	**105**	103
Total non-current liabilities	**445**	493
Net assets	**60**	5
Revenue	**332**	249
Depreciation and amortisation	**(31)**	(21)
Other expenses	**(229)**	(205)
Interest expense	**(21)**	(24)
Income tax (expense)/benefit	**(19)**	(4)
Profit/(loss) from continuing operations after tax	**32**	(5)
Movements in reserves, net of tax	**23**	2
Total comprehensive income/(expense)	**55**	(3)

The liabilities of Middlemount include an interest bearing liability of $331 million (face value of $350 million) due to the Group at 31 December 2017 (31 December 2016: $347 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 amounting to $16 million (31 December 2016: $130 million). The liabilities of Middlemount also includes a royalty payable of $11 million due to the Group at 31 December 2017 (31 December 2016: $74 million).

Movements in carrying amounts

	31 December 2017 $M	31 December 2016 $M
Opening net book amount	**5**	8
Share of profit/(loss) of equity-accounted investees, net of tax	**32**	(5)
Movements in reserves, net of tax	**23**	2
Closing net book amount	**60**	5

(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 as at 31 December 2017.

There were no commitments in respect of the Group's interest in Middlemount at 31 December 2017.

Contingent liabilities in respect of the Group's interest in Middlemount are set out in Note D7(iii).

E3 RELATED PARTY TRANSACTIONS

(a) Parent entities

The parent entity within the Group is Yancoal Australia Ltd. The Group's parent entity 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) Transactions with other related parties

The following transactions occurred with related parties:

	31 December 2017 $	31 December 2016 $
Sales of goods and services		
Sales of coal to Noble Group Limited	**195,466,360**	162,253,762
Sales of coal to Watagan Mining Company Pty Ltd	**76,188,812**	60,583,319
Sales of coal to Yancoal International (Holding) Co., Ltd	**–**	40,700,933
Provision of marketing and administrative services to other related parties – Watagan Group	**5,653,000**	6,517,672
Provision of marketing and administrative services to other related parties – Yancoal International Group	**8,081,338**	9,598,367
	285,389,510	279,654,053
Purchases of goods and services		
Purchase of coal from Watagan Group	**(161,481,064)**	(48,347,776)
Purchases of coal from Syntech Resources Pty Ltd	**(38,731,161)**	(30,386,783)
	(200,212,225)	(78,734,559)
Advances/loans to and repayment of advances		
Loan to Watagan Mining Company Pty Ltd	**–**	(1,363,372,059)
Net repayment of loan to Watagan Mining Company Pty Ltd	**62,838,635**	588,372,059
Repayment/(advances) to a related party – Premier Coal Holdings Pty Ltd	**35,000,000**	(35,000,000)
	(97,838,635)	810,000,000
Equity subscription, debt repayment and debt provision		
Loans from Yanzhou Coal Mining Company Limited	**329,615,625**	351,947,846
	329,615,625	351,947,846
Finance costs		
Interest paid on loans from Yancoal International Resources Development Co., Ltd	**(7,616,799)**	(7,651,933)
Interest accrued on loans from Yancoal International Resources Development Co., Ltd	**(1,120,611)**	(1,207,955)
Interest paid on loans from Yanzhou Coal Mining Company Ltd	**(22,382,991)**	(17,520,090)
Interest accrued on loans from Yanzhou Coal Mining Company Ltd	**(34,421,625)**	(25,204,592)
Interest paid on loans from Yancoal International (Holding) Co., Ltd	**(4,746,200)**	(4,698,513)
Interest accrued on loans from Yancoal International (Holding) Co., Ltd	**(3,761,855)**	(4,055,067)
Interest paid on loans from Yancoal International Trading Co., Ltd HK	**(9,029,738)**	(7,471,634)
Interest paid on loans from Yancoal International Trading Co., Ltd HK	**(7,523,709)**	(8,110,134)
	(90,603,528)	(75,919,918)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

E – GROUP STRUCTURE

E3 RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Transactions with other related parties (continued)

	31 December 2017 $	31 December 2016 $
Other costs		
Corporate guarantee fee paid to Yanzhou Coal Mining Company Limited (extended portion)	**(117,670,635)**	(49,050,753)
Corporate guarantee fee accrued to Yanzhou Coal Mining Company Limited (extended portion)	**23,742,185**	(51,814,273)
Port charges paid to NCIG Holdings Pty Limited	**(102,076,022)**	(68,496,548)
Port charges accrued to NCIG Holdings Pty Limited	**(14,102,862)**	(2,069,401)
Bank guarantee fee charged to Yancoal International (Holding) Co; Ltd	**–**	(13,442)
Arrangement fee paid on loans from Yancoal International Resources Development Co., Ltd	**(1,955,923)**	(1,718,186)
Arrangement fee accrued on loans from Yancoal International Resources Development Co., Ltd	**19,359**	(267,732)
	(212,043,898)	(173,430,335)
Finance income		
Interest income received from Premier Coal Holdings Pty Ltd	**1,658,494**	1,150,969
Interest income capitalised into loan receivable from Middlemount Coal Pty Ltd	**26,922,477**	18,797,033
Interest income received on loan to Watagan Mining Company Pty Ltd	**50,517,011**	74,531,961
Interest income receivable from Watagan Mining Company Pty Ltd	**16,292,548**	–
	95,390,530	94,479,963
Other income		
Mining services fees charged to Watagan Mining Company Pty Ltd	**51,853,076**	38,413,132
Royalty income from Middlemount Coal Pty Ltd	**27,572,213**	20,492,118
Bank guarantee fee charged to Premier Coal Holdings Pty Ltd	**26,329**	310,849
Bank guarantee fee charged to Syntech Resources Pty Ltd	**112,419**	1,355,706
Longwall hire fee charged to Austar Coal Mine Pty Ltd	**3,000,000**	2,567,334
	82,564,037	63,139,139

(c) 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 2017 $	31 December 2016 $
Current assets		
Trade and other receivables		
Receivable from Yancoal International Group in relation to cost reimbursement	**10,966,329**	5,245,415
Receivable from Watagan Group entities in relation to cost reimbursement	**–**	823,277
Trade receivable from Noble Group Limited in relation to sales of coal	**42,267,396**	40,602,900
Promissory Notes receivable from Yancoal International (Holding) Co., Ltd	**–**	21,174,124
Royalty receivable from Middlemount Coal Pty Ltd	**11,171,154**	73,690,232
Loan receivable from Premier Coal Holdings Pty Ltd	**197,951**	35,000,000
Promissory Notes receivable from Oz Star Ningbo Trading Co Ltd	**35,897,436**	–
Interest income receivable from Watagan Mining Company Pty Ltd	**16,292,548**	–
Other receivable from Yankuang Entities	**24,188**	–
	116,817,002	176,535,948
Non-current assets		
Advances to joint venture		
Receivable from Middlemount Coal Pty Ltd being an unsecured, non-interest bearing advance	**331,686,091**	346,845,834
Receivable from Watagan Mining Company Pty Ltd being an unsecured, interest-bearing loan	**712,161,365**	775,000,000
	1,043,847,456	1,121,845,834
Current liabilities		
Other payables		
Payables to Yanzhou Coal Mining Company Limited	**81,065,644**	77,018,865
Payables to Yancoal International Resources Development Co., Ltd	**1,368,984**	1,475,687
Payables to Yancoal International (Holding) Co., Ltd	**3,761,855**	4,055,067
Payables to Noble Group Limited	**–**	234,317
Payables to Yancoal International Trading Co., Ltd HK	**7,523,709**	8,110,134
Other payable to Watagan Group Entities	**31,775,584**	–
	125,495,776	90,894,070
Non-current liabilities		
Other payables		
Payable to Yancoal International Resources Development Co., Ltd being an unsecured, interest-bearing loan	**148,713,974**	160,305,279
Payable to Yancoal International (Holding) Co., Ltd being an unsecured, interest-bearing loan	**128,205,128**	138,197,899
Payable to Yancoal International Trading Co., Ltd HK being an unsecured, interest-bearing loan	**256,410,256**	276,395,799
Payable to Yanzhou Coal Mining Company Limited being an unsecured, interest-bearing loan	**993,177,599**	715,282,394
	1,526,506,957	1,290,181,371

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

E – GROUP STRUCTURE

E3 RELATED PARTY TRANSACTIONS (CONTINUED)

(d) 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 2017 $	31 December 2016 $
Syntech Resources Pty Ltd	**84,693,965**	88,213,921
AMH (Chinchilla Coal) Pty Ltd	**49,000**	29,000
Premier Coal Limited	**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	**15,466,954**	12,287,795
Austar Coal Mine Pty Ltd	**29,325,000**	27,035,000
Donaldson Coal Pty Ltd	**7,372,000**	7,322,000
Yankuang Resources Pty Ltd	**45,324**	107,805
	165,964,743	164,008,021

Refer to Note D7(i) for details of the natures of the guarantees provided.

(e) 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).

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 2017 an additional US$150 million was drawn (D2(c)). As at 31 December 2017 a total of US$832 million has been drawn.

On 31 December 2014 a US$807 million facility was provided by Yanzhou at a fixed interest rate of 7% on any amounts drawn. During 2017 an additional US$83 million was drawn (D2(c)). As at 31 December 2017 a total of US$243 million has been drawn.

Yanzhou 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 2.5% 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 AUD 100 million. This corporate guarantee was cancelled on 30 September 2017.

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 2017 $M	31 December 2016 $M
Current assets	**361**	232
Non-current assets	**9,850**	6,780
Total assets	**10,211**	7,012
Current liabilities	**1,134**	163
Non-current liabilities	**4,651**	5,303
Total liabilities	**5,785**	5,466
Net assets	**4,426**	1,546
Shareholders' equity		
Contributed equity	**6,217**	3,115
Reserves		
Cash flow hedges	**(413)**	(817)
Retained earnings	**(1,378)**	(752)
Capital and reserves attributable to the owners of Yancoal Australia Ltd	**4,426**	1,546
Loss for the year	**(550)**	(1,066)
Other comprehensive income	**376**	90
Total comprehensive expense	**(174)**	(976)

(b) Guarantees entered into by the parent entity

As at 31 December 2017, the parent entity had contingent liabilities in the form of a bank guarantee amounting to $1,041 million (2016: $441 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 2017, except for those described in Note D7.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

E – GROUP STRUCTURE

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	Country of incorporation	Equity holding 2017 %	Equity holding 2016 %
The Company			
Yancoal Australia Ltd (i)	Australia	100	100
Controlled entities			
Yancoal SCN Ltd (iv)	Australia	100	100
Yancoal Australia Sales Pty Ltd (i) (iii)	Australia	100	100
Yancoal Resources Limited (iii)	Australia	100	100
Yancoal Mining Services Pty Ltd	Australia	100	100
Moolarben Coal Mines Pty Ltd (iii)	Australia	100	100
Moolarben Coal Operations Pty Ltd	Australia	100	100
Moolarben Coal Sales Pty Ltd	Australia	100	100
Felix NSW Pty Ltd	Australia	100	100
SASE Pty Ltd	Australia	90	90
Yarrabee Coal Company Pty. Ltd. (iii)	Australia	100	100
Proserpina Coal Pty Ltd	Australia	100	100
Athena Coal Operations Pty Ltd	Australia	100	100
Athena Coal Sales Pty Ltd	Australia	100	100
Gloucester Coal Ltd (i) (iii)	Australia	100	100
Westralian Prospectors NL (i)	Australia	100	100
Eucla Mining NL (i)	Australia	100	100
CIM Duralie Pty Ltd (ii)	Australia	100	100
Duralie Coal Marketing Pty Ltd (ii)	Australia	100	100
Duralie Coal Pty Ltd (i) (iii)	Australia	100	100
Gloucester (SPV) Pty Ltd (iii)	Australia	100	100
Gloucester (Sub Holdings 2) Pty Ltd (ii)	Australia	100	100
CIM Mining Pty Ltd (i)	Australia	100	100
Monash Coal Holdings Pty Ltd (ii)	Australia	100	100
CIM Stratford Pty Ltd (i)	Australia	100	100
CIM Services Pty Ltd (ii)	Australia	100	100
Monash Coal Pty Ltd (ii) (iii)	Australia	100	100
Stratford Coal Pty Ltd (ii) (iii)	Australia	100	100
Stratford Coal Marketing Pty Ltd (ii)	Australia	100	100
Paway Ltd	British Virgin Islands	100	100
Coal & Allied Industries Ltd	Australia	100	–
Kalamah Pty Ltd	Australia	100	–
Coal & Allied (NSW) Pty Ltd	Australia	100	–
Australian Coal Resources Ltd	Australia	100	–
Coal & Allied Operations Pty Ltd	Australia	100	–
HV Operations Pty Ltd	Australia	100	–
Lower Hunter Land Holdings Pty Ltd	Australia	100	–
Oaklands Coal Pty Ltd	Australia	100	–
Novacoal Australia Pty Ltd	Australia	100	–
Port Waratah Coal Services Ltd	Australia	37	–
CNA Resources Ltd	Australia	100	–
CNA Warkworth Pty Ltd	Australia	100	–
Coal & Allied Mining Services Pty Ltd	Australia	100	–
RW Miller (Holdings) Ltd	Australia	100	–
Mount Thorley Coal Loading Ltd	Australia	66	–

Name of entity	Country of incorporation	Equity holding 2017 %	Equity holding 2016 %
Gwandalan Land Pty Ltd	Australia	100	–
Nords Wharf Land Pty Ltd	Australia	100	–
Catherine Hill Bay Land Pty Ltd	Australia	100	–
Black Hill Land Pty Ltd	Australia	100	–
Minmi Land Pty Ltd	Australia	100	–
Namoi Valley Coal Pty Ltd	Australia	100	–
HVO Coal Sales Pty Ltd	Australia	68	–
CNA Warkworth Australasia Pty Ltd	Australia	100	–
CNA Bengalla Investments Pty Ltd	Australia	100	–
Mount Thorley Operations Pty Ltd	Australia	100	–
Northern (Rhondda) Collieries Pty Ltd	Australia	100	–
Miller Pohang Coal Company Pty Ltd	Australia	80	–
Warkworth Mining Ltd	Australia	56	–
Warkworth Pastoral Company Pty Ltd	Australia	56	–
Warkworth Tailings Treatment Pty Ltd	Australia	56	–
Warkworth Coal Sales Ltd	Australia	56	–
Parallax Holdings Pty Ltd	Australia	100	–
HVO Services Pty Ltd	Australia	100	–
Non controlled entities (v)			
Watagan Mining Company Pty Ltd	Australia	100	100
Austar Coal Mine Pty Limited (i) (iii)	Australia	100	100
White Mining Limited	Australia	100	100
White Mining Services Pty Limited	Australia	100	100
White Mining (NSW) Pty Limited (iii)	Australia	100	100
Ashton Coal Operations Pty Limited	Australia	100	100
Ashton Coal Mines Ltd (iii)	Australia	100	100
Gloucester (Sub Holdings 1) Pty Ltd (i)	Australia	100	100
Donaldson Coal Holdings Ltd (i)	Australia	100	100
Donaldson Coal Pty Ltd (i) (iii)	Australia	100	100
Donaldson Coal Finance Pty Ltd (ii)	Australia	100	100
Abakk Pty Ltd (ii)	Australia	100	100
Newcastle Coal Company Pty Ltd (i) (iii)	Australia	100	100
Primecoal International Pty Ltd (ii)	Australia	100	100

(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) This entity is considered to be a material controlled entity of the Group. The principal activities are financing and the issue of Subordinated Capital Notes.

(v) On 31 March 2016 the Group lost control of Watagan Mining Company Pty Ltd and its subsidiaries. For furthur information refer to Note E2.

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 the non-controlled entities that are 33% being the current proportion of board members. The country of incorporation or registration is also their principal place of business.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

E – GROUP STRUCTURE

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 Consolidate Statement of Profit or Loss and Other Comprehensive Income and a summary of movements in consolidated retained earnings for the year ended 31 December 2017 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 2017 $M	31 December 2016 $M
Revenue	**354**	305
Other income	**26**	18
Changes in inventories of finished goods and work in progress	**(5)**	(4)
Raw materials and consumables used	**(13)**	(28)
Employee benefits expense	**(118)**	(105)
Depreciation and amortisation expense	**(25)**	(32)
Coal purchases	**(312)**	(210)
Transportation expenses	**(55)**	(67)
Contractual services and plant hire expenses	**(76)**	(34)
Government royalties expense	**(6)**	(6)
Other operating expenses	**(227)**	(90)
Finance costs	**(244)**	(213)
Loss before income tax	**(701)**	(466)
Income tax benefit	**156**	196
Loss for the year	**(545)**	(270)
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Cash flow hedges:		
Fair value losses taken to equity	**(348)**	43
Fair value losses transferred to profit or loss	**(229)**	(133)
Deferred income tax benefit	**173**	27
Other comprehensive expense for the period, net of tax	**(404)**	(63)
Total comprehensive expense for the year	**(949)**	(333)
Summary of movements in consolidated retained earnings		
Retained earnings at the beginning of the financial year	**(698)**	(254)
Loss after income tax	**(545)**	(270)
Distributions to SCN holders	**(75)**	(174)
Retained earnings at the end of the financial year	**(1,318)**	(698)

(b) Consolidated balance sheet

Set out below is a consolidated balance sheet as at 31 December 2017 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 2017 $M	31 December 2016 $M
Current assets		
Cash and cash equivalents	**164**	119
Trade and other receivables	**451**	1,287
Inventories	**11**	16
Other current assets	**10**	1
Receivable from disposal of joint venture interest	**13**	–
Royalty receivable	**28**	–
Total current assets	**677**	1,423
Non-current assets		
Trade and other receivables	**37**	49
Other financial assets	**6,791**	3,243
Property, plant and equipment	**372**	360
Mining tenements	**270**	270
Interest-bearing loan to associates	**712**	775
Deferred tax assets	**1,024**	1,303
Intangible assets	**1**	2
Exploration and evaluation assets	**273**	272
Other non-current assets	**11**	–
Total non-current assets	**9,491**	6,274
Total assets	**10,168**	7,697
Current liabilities		
Trade and other payables	**596**	860
Interest-bearing liabilities	**8**	7
Derivative financial instruments	**–**	1
Provisions	**7**	6
Non-contingent royalty payable	**119**	–
Total current liabilities	**730**	874
Non-current liabilities		
Interest-bearing liabilities	**4,705**	4,926
Deferred tax liabilities	**145**	250
Provisions	**61**	47
Non-contingent royalty payable	**41**	–
Total non-current liabilities	**4,952**	5,223
Total liabilities	**5,682**	6,097
Net assets	**4,486**	1,600
Equity		
Contributed equity	**5,954**	3,115
Reserves	**(150)**	(817)
Accumulated losses	**(1,318)**	(698)
Total equity	**4,486**	1,600

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

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 2017 $M	31 December 2016 $M
Property, plant and equipment		
Not later than one year		
Share of joint operations	**33**	138
Other	**–**	1
Exploration and evaluation	**33**	139

(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 2017 $M	31 December 2016 $M
Not later than one year	**38**	25
Later than one year but not later than five years	**149**	67
	187	92

The Group leases mining equipment, office space and small items of office equipment under operating leases. The leases typically run for 1 month to 5 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 2017 $M	31 December 2016 $M
Not later than one year	**19**	24
Later than one year but not later than five years	**42**	53
Minimum lease payments	**61**	77
Less: future finance charges	**(6)**	(9)
Total lease liabilities	**55**	68
Finance leases are included in the financial statements as:		
Current lease liability (refer to Note D2)	**17**	20
Non-current lease liability (refer to Note D2)	**38**	47
	55	67

(c) Acquisition from Mitsubishi Developments Pty Ltd

As announced on 27 July 2017 the Company has exercised its call option to Mitsubishi Developments Pty Ltd (MDP) to purchase MDP's 28.9% interest in the Warkworth Joint Venture for $US230 million less the US$10 million call option fee already paid. The acquisition is expected to complete on 1 March 2018.

F2 REMUNERATION OF AUDITORS

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:

(a) ShineWing Australia

	31 December 2017 $000	31 December 2016 $000
Audit and other assurance services	**1,259**	812
Other assurance services	**1,010**	434
Taxation compliance services	**54**	–
Total remuneration of ShineWing Australia	**2,323**	1,246

During the year ended 31 December 2017 Ernst & Young provided services relating to the audit and review of Middlemount's financial statements of $36,000 (Yancoal 49.9997% share, 2016: $32,500).

F3 RECONCILIATION OF GAIN/(LOSS) AFTER INCOME TAX TO NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES

	31 December 2017 $M	31 December 2016 $M
Profit/(loss) after income tax	**229**	(227)
Non-cash flows in profit or loss:		
Depreciation and amortisation of non-current assets	**256**	133
Release of provisions	**(86)**	(13)
Capitalised interest income from joint venture	**(18)**	(19)
Unwinding of discount on royalty receivable	**(21)**	(21)
Unwinding of discount on provisions	**50**	5
Fair value loss/(gain) on financial assets/liabilities	**–**	6
Net loss on disposal of property, plant and equipment	**4**	7
Stamp duty accrual	**9**	(5)
Impairment reversal of mining tenements	**(100)**	–
Fair value losses recycled from hedge reserve	**229**	133
Foreign exchange (gains)/losses	**20**	1
Finance lease interest expenses	**4**	4
Gain on acquisition	**(177)**	–
Gain on remeasurement of royalty receivables	**(8)**	–
Unwind of discount on non-contingent royalty	**13**	–
Share of (profit)/loss of equity-accounted investees, net of tax	**(32)**	5
Changes in assets and liabilities:		
Decrease/(increase) in deferred tax assets	**445**	(199)
(Decrease)/increase in inventories	**(11)**	10
Increase in operating receivables	**(148)**	(50)
Increase in operating payables	**124**	131
(Increase)/decrease in prepayments	**(10)**	9
(Decrease)/increase in deferred tax liabilities	**(364)**	70
Decrease in provisions	**–**	(4)
Net cash inflow/(outflow) from operating activities	**408**	(24)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

F – OTHER INFORMATION

F4 EVENTS OCCURRING AFTER THE REPORTING PERIOD

No matter or circumstances have occurred subsequent to the end of the financial year which has significantly affected, or may significantly affect, the operations of the Group, the result of those operations or the state of affairs of the Group in subsequent financial periods except for the following matters:

In accordance with the Terms of Issue of the Subordinated Capital Notes issued by Yancoal SCN Limited in December 2014, the next distribution payment date for the SCNs occurred on 31 January 2018. The distribution was paid at a rate of 7% per annum or US$3.50 per SCN. The total amount distributed was US$17,150.

F5 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 the 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.

F6 NEW AND AMENDED STANDARDS ADOPTED BY THE GROUP

The Group was not required to change any of its accounting policies as the result of new or revised accounting standards which became effective for the annual reporting period commencing on 1 January 2017.

The new standards that are applicable to for the first time for the year ended 31 December 2017 are:

AASB 1057 – Application of Australian Accounting Standards

AASB 2014 – 4 – Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation

AASB 2014 – 9 – Equity Accounting in Separate Financial Statements

AASB 2014 –10 – Sale or Contribution of Assets between An Investor and its Associate or Joint Venture

AASB 2015 – 1 – Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle

AASB 2015 – 3 – Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality

AASB 2015 – 4 – Amendments to Australian Accounting Standards – Financial Reporting Requirements for Australian Groups with a Foreign Parent

AASB 2015 – 5 – Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception

AASB 2015 – 9 – Amendments to Australian Accounting Standards – Scope and Application Paragraphs

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.

F7 NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2017 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 9	*Financial Instruments* Amends the requirements for classification and measurement of financial assets. The available-for-sale and held-to-maturity categories of financial assets in AASB 139 have been eliminated. Under AASB 9, there are three categories of financial assets: a) Amortised cost b) Fair value through profit or loss c) Fair value through other comprehensive income The standard introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised. The following requirements have generally been carried forward unchanged from AASB 139 Financial Instruments: Recognition and Measurement into AASB 9: a) Classification and measurement of financial liabilities; and b) Derecognition requirements for financial assets and liabilities However, AASB 9 requires that gains or losses on financial liabilities measured at fair value are recognised in profit or loss, except that the effects of changes in the liability's credit risk are recognised in other comprehensive income. *Impact:* The Directors anticipate that the adoption of AASB 9 will have no impact on the recognition of amounts in the Group's financial statements, including hedging activity, it is impracticable at this stage to provide a reasonable estimate of such impact, but there will be additional disclosures required.	1 January 2018
AASB 16	*Leases* This standard introduces a single lessee accounting model that eliminates the requirement for leases to be classified as operating or finance leases. The main changes introduced by the new standard include: a) Recognition of a right-to-use asset and liability for all leases (excluding short term leases with less than 12 months of tenure an leases relating to low value assets); b) Deprecation of right-to-use assets in-line with AASB 116 Property, plant and equipment in profit or loss and unwinding of the liability in principal and interest components; c) Variable lease payments that depend on an index or a rate are included in the initial measurement of the lease liability using the index or rate at the commencement date; d) By applying a practical expedient, a lessee is permitted to elect not to separate non-lease components and instead account all components as a lease; and e) Additional disclosure requirements. *Impact:* 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.	1 January 2019
AASB 15	*Revenue from Contracts with Customers* An entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This means that revenue will be recognised when control of goods or services is transferred, rather than on transfer of risks and rewards as is currently the case under AASB 118 Revenue. *Impact:* The Directors anticipate that the adoption of AASB 15 will have no impact on the recognition of amounts in the Group's financial statements, but there will be additional disclosures required.	1 January 2018

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

F – OTHER INFORMATION

Reference and Title	Details of New Standard/Amendment/Interpretation	Application date for the Group
AASB 2014-1	*Amendments to Australian Accounting Standards (Part E)* Part E of this Standard defers the application date of AASB 9: Financial Instruments (December 2010) to annual reporting periods beginning on or after 1 January 2018. This part also makes consequential amendments to hedge accounting disclosures set out in AASB 7: Financial Instruments: Disclosures, and to AASB 132: Financial Instruments: Presentation to permit irrevocable designation of "own use contracts" as measured at fair value through profit or loss if the designation eliminates or significantly reduces an accounting mismatch. *Impact:* The Group is currently adhering to this standard and there is no material impact expected on the Group's financial report.	1 January 2018
AASB 2014-10	*Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* This Standard amends AASB 10: Consolidated Financial Statements with regards to a parent losing control over a subsidiary that is not a "business" as defined in AASB 3 to an associate or joint venture, and requires that: a) a gain or loss (including any amounts in other comprehensive income (OCI)) be recognised only to the extent of the unrelated investor's interest in that associate or joint venture; b) the remaining gain or loss be eliminated against the carrying amount of the investment in that associate or joint venture; and c) any gain or loss from remeasuring the remaining investment in the former subsidiary at fair value also be recognised only to the extent of the unrelated investor's interest in the associate or joint venture. The remaining gain or loss should be eliminated against the carrying amount of the remaining investment. The application of AASB 2014-10 will result in a change in accounting policies for transactions of loss of control over subsidiaries (involving an associate or joint venture) that are businesses per AASB 3 for which gains or losses were previously recognised only to the extent of the unrelated investor's interest. *Impact:* The Group is currently adhering to this standard and there is no material impact expected on the Group's financial report.	1 January 2018
AASB 2016-5	*Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions* This standard provides guidance on treatment of vesting conditions in a cash-settled share based payment arrangement that are similar to what has been prescribed for equity settled share based payment arrangements. It also clarifies that, subject to certain exceptions, share based payment transactions with net-settlement feature on account of withholding tax obligations should be classified in entirety as equity settled share based payment. *Impact:* Since the Group does not have a policy of cash-settled share based awards or net-settlement features in equity settled plans, this standard is not expected to impact the Group's financial statements.	1 January 2018
AASB Interpretation 22	*Foreign Currency Transactions and Advance Consideration* The amendment to AASB 107 introduces additional disclosures that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment requires disclosure of changes arising from: – cash flows, such as drawdowns and repayments of borrowings, and – non-cash changes, such as acquisitions, disposals and unrealised exchange differences. *Impact:* The Group is currently adhering to this standard and there is no material impact expected on the Group's financial report.	1 January 2018

Reference and Title	Details of New Standard/Amendment/Interpretation	Application date for the Group
AASB 2017-6	*Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation* This Standard amends AASB 9 Financial Instruments 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. *Impact:* 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.	1 January 2019
AASB 2017-7	*Amendments to Australian Accounting Standards – Long-term Interests in Associates and Joint Ventures* This Standard amends AASB 128 Investments in Associates and Joint Ventures 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 Financial Instruments before applying the loss allocation and impairment requirements in AASB 128. *Impact:* 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.	1 January 2019
Not yet issued by the AASB	*Annual Improvements to IFRS Standards 2015-2017 Cycle* The amendments clarify certain requirements in: a) IFRS 3 Business Combinations and IFRS 11 Joint Arrangements – previously held interest in a joint operation b) IAS 12 Income Taxes – income tax consequences of payments on financial instruments classified as equity c) IAS 23 Borrowing Costs – borrowing costs eligible for capitalisation.	1 January 2019
AASB Interpretation 23, and relevant amending standards	*Uncertainty over Income Tax Treatments* The Interpretation clarifies the application of the recognition and measurement criteria in AASB 112 Income Taxes when there is uncertainty over income tax treatments. The Interpretation specifically addresses the following: a) Whether an entity considers uncertain tax treatments separately b) The assumptions an entity makes about the examination of tax treatments by taxation authorities c) How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates d) How an entity considers changes in facts and circumstances. The Group is currently adhering to this standard and there is no material impact expected on the Group's financial report.	1 January 2019

DIRECTORS' DECLARATION

31 DECEMBER 2017

In the Directors' opinion:

a) the financial statements and notes set out on pages 82 to 145 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 2017 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 (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.

Baocai Zhang
Director

INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF YANCOAL AUSTRALIA LTD AND CONTROLLED ENTITIES

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying financial report of Yancoal Australia Ltd (the "Company"), which comprises the consolidated balance sheet as at 31 December 2017, 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 of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year (the "Group").
In our opinion:

a) the financial report of Yancoal Australia Ltd and controlled entities is in accordance with the *Corporations Act 2001*, including:

   i. giving a true and fair view of the Group's financial position as at 31 December 2017 and of its performance for the year ended on that date; and

   ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

b) the financial report also complies with International Financial Reporting Standards 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 report is free from material misstatement. Our responsibilities under those standards are further described in the *Auditor's Responsibility* 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 report 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 ("KAMs")

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial report for the year ended 31 December 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Key Audit Matter	How the matter was addressed during the audit
Acquisition of Coal & Allied Industries Limited ("Coal & Allied") (Note E1) The Group acquired 100% of the issued capital of Coal & Allied on 1 September 2017 for total consideration of $3.55 billion. The net assets acquired were valued at $3.72 billion, leading to a gain on acquisition of $176 million being recognised. The Group is required to recognise Coal & Allied's assets acquired and liabilities assumed at the acquisition-date fair values; and the excess or deficit of consideration less those fair values as goodwill or gain on acquisition. Yancoal management engaged third-party experts to provide valuation, tax and business modelling support to determine the fair values of Coal & Allied's assets and liabilities under AASB 3 *Business Combinations*. There is a high level of judgement involved in calculating the fair value of assets and liabilities acquired; particularly the valuation of mining tenements and associated tax balances. Given the extent of judgement required we consider this a significant risk of material misstatement.	Our audit procedures included, among others: • Assessing the source and appropriateness of key assumptions made in the purchase price allocation, including coal prices, life of mine plans, operating/capital costs, discount rates, inflation rates and foreign exchange rates. We compared these assumptions with external benchmarks and reports prepared by appropriate experts; • 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; • Comparing the accounting valuation and taxation valuation to check the deferred taxation calculations to consider whether deferred taxation balances were recognised appropriately; • Agreeing the consideration paid to supporting documentation, agreeing the accounting entries and recalculating the gain on acquisition; and • Assessing the Group's acquisition accounting disclosures.
Impairment of non-current assets and associated Moolarben impairment reversal (Note C3) A substantial amount of the Group's non-current assets (over 80%) relate to tangible and intangible assets which are subject to an impairment assessment in accordance with AASB 136 *Impairment of Assets* or AASB 139 *Financial Instruments: Recognition and Measurement*. These assets include property plant and equipment (note C1), mining tenements (note C2), intangible assets (note C5), interest bearing loan to associate (note D1) and royalty receivable (note C9), receivables from joint venture and other receivables from WICET (note C7). In performing the impairment assessment, the impairment provision associated with Moolarben was reversed as the mine's financial metrics and operations have improved significantly and the net realisable value of the Moolarben asset is above the book value of the mine with substantial headroom an impairment reversal of $100 million before income tax was recognised. Management's impairment assessment of these non-current assets are considered a key audit matter as they are often highly judgmental and based on many assumptions, specifically coal prices, operating/capital costs, discount rates, inflation rates and foreign exchange rates, which are affected by expected future	Our audit procedures included, among others: • Assessing management's determination of the Group's Cash-Generating Units; • Engaging our valuation team who assisted with the review of the asset valuation model; • Agreeing the assumptions used in the asset valuation model such as discount rate, resource prices, exchange rates, production and sales volumes, coal resources and reserves, operating and other costs; and agreeing the appropriateness of the valuation methodology used; • Testing the mathematical accuracy of discounted cash flow models and agreeing relevant data to supporting information; • Performing sensitivity analyses on key inputs; and • Assessing the Group's impairment of assets disclosures.

Key Audit Matter	How the matter was addressed during the audit
market or economic conditions, particularly those in China and Asia.	
Taxation (Note B6) The Group is subject to income taxes in Australia. Significant judgement is required in determining the provision for income taxes. The Group estimates its tax liabilities based on the Group's understanding of the tax law. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made. During the year the Group completed a significant capital raising to acquire Coal& Allied. In conjunction with the capital raising for the Coal & Allied acquisition, Yanzhou Coal Mining Company Limited ("Yanzhou") converted its holdings of Subordinated Capital Notes ("SCNs") into ordinary shares of Yancoal. Due to these transactions the applicability of prior period losses needed to be assessed against the Continuity of Ownership Test ("COT"). Significant judgement is required in calculating taxation balances and the recoverability of the net deferred tax assets (notes B6(b) and B6(c)). To assess the recoverability of these assets cash flow forecasts are used to ascertain whether the recoverability of these assets is probable.	Our audit procedures included, among others: • Assessing the tax calculations prepared by the Group; • Evaluating the key assumptions used to determine the tax provision and deferred taxation assets and liabilities. This included utilising our taxation specialists where necessary; • Evaluating the recoverability of deferred taxation assets including considering the COT; and • We assessed the Group's taxation disclosures.
Parent company support (Note A(x)) The Group has the support of its parent Yanzhou Coal Mining Company Ltd ("Yanzhou") through a letter of support and guarantees over external borrowings. The Group is in the process of completing the acquisition of 28.9% of Warkworth from Mitsubishi Development Pty Ltd ("MDP") for US$230 million on 1 March 2017 and the expected sale of 16.6% of the Hunter Valley Operations Joint Venture ("HVO") to a subsidiary of Glencore Coal Pty Ltd ("Glencore"). If the sale of the 16.6% of HVO is not completed then the Group will be required to complete the tag-along purchase of 32.4% of HVO from MDP for US$710 million. This will require additional funding from capital markets, the financiers or Yanzhou.	Our audit procedures included, among others: • Assessing the cash flow forecasts prepared by management for the 12 months from the date of signing the financial statements; • Assessing the credit facilities available to Yancoal to assess their adequacy compared to the cash flow forecasts; • Assessing the validity of the Letter of Support provided by Yanzhou to supporting information including Yanzhou financial statements; • Reviewing the minutes and correspondence of the Company for any revocation of the Letter of Support provided by Yanzhou; and • Assessing the Group's disclosures in relation to this matter.
Watagan Mining Company Pty Ltd ("Watagan") (Note E2(b)(i)) 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.	Our audit procedures included, among others: • Assessing the current governance arrangements of Watagan against AASB 10 *Consolidated Financial Statements* to assess whether the financiers have control of the operations.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

ShineWing AUSTRALIA

Key Audit Matter	How the matter was addressed during the audit
The control assessment under the accounting standards 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 the mines owned by Watagan.	• Reviewing the disclosures associated with Watagan in the financial statements.

Other information

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 31 December 2017, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report 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 report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report 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 Report

The directors of the Company are responsible for the preparation of the financial report that gives 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 the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, 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 International Financial Reporting Standards.

Auditor's responsibilities for the Audit of the Financial Report

Our responsibility is to express an opinion on the financial report based on our audit. Our objectives are to obtain reasonable assurance about whether the financial report as a whole is 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 this financial report.

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 report, 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 entity'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 report 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 report 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 report, including the disclosures, and whether the financial report represents 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 report. 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 report 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

We have audited the Remuneration Report included in pages 52 to 63 of the directors' report for the year ended 31 December 2017. 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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Opinion on the Remuneration Report

In our opinion, the Remuneration Report of Yancoal Australia Ltd, for the year ended 31 December 2017, 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

ShineWing Australia
Chartered Accountants

R Blayney Morgan

R Blayney Morgan
Partner

Sydney, 28 February 2018

CORPORATE DIRECTORY

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Baocai Zhang
Gregory Fletcher
Dr Geoffrey Raby
Cunliang Lai
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