

Yancoal Australia Ltd

ABN 82 111 859 119

Annual Financial Report for the year ended 31 December 2018

Yancoal Australia Ltd

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For the year ended 31 December 2018

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Appendix 4E

1. Results for Announcement to the Market

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

2. Earnings per share ⁽¹⁾

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

3. Net tangible assets per security ⁽¹⁾

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

4. Distributions

Ordinary share distributions

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

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

Subordinated Capital Note ("SCN") distributions

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

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

⁽¹⁾ 2017 figures have been adjusted for the 35 to 1 ordinary share consolidation that occurred on 28 September 2018.

5. Entities over which control has been gained or lost during the period

a. Acquisitions

No entities were incorporated or acquired during the year.

b. Loss of control

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

HV Operations Pty Ltd

HVO Coal Sales Pty Ltd

HVO Services Pty Ltd

c. Disposals

No entities were disposed of or deregistered during the year.

6. Details of associates and joint venture entities

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

^(a) HVO Entities consists of the following entities:

HV Operations Pty Ltd

HVO Coal Sales Pty Ltd

HVO Services Pty Ltd

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

Directors' report

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

Directors

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

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

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

Yancoal Total Recordable Injury Frequency Rate ("TRIFR") for the reporting period was 8.16, an improvement on 11.97 in the previous year.

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

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

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

Financial performance

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

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

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

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

Cash flow

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

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

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

Corporate activities

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

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

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

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

Yancoal continued to reduce its existing debt liabilities in 2018, with Net payments made on interest bearing liabilities of US\$900 million since 1 September 2017. In 2018, Yancoal repaid US\$125 million of unsecured loans to Yanzhou Coal Mining Co Ltd and pre-paid loans to Bank of China and China Construction Bank under its Syndicated Facility Agreement. As at 31 December 2018, Yancoal had pre-paid a total US\$1,075 million in loans under its Syndicated Facility Agreement since completion of Yancoal's acquisition of Coal & Allied Industries Ltd ("Coal & Allied") from Rio Tinto on 1 September 2017. A Syndicated Term Loan¹ of US\$300 million was taken out and all proceeds used to repay the Syndicated Facility.

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

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

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

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

To establish the joint venture, Glencore acquired:

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

¹ Syndicate of five domestic and international banks.

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

As announced on 31 January 2018, at the request of certain eligible holders, 1,606 Subordinated Capital Notes ("SCNs") issued by Yancoal SCN Limited (ASX: YCN) ("Yancoal SCN") were converted, effective 31 January 2018, into fully paid ordinary shares in Yancoal Australia Ltd, in accordance with the terms of issue of the SCNs.

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

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

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

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

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

Notes:

a. 2017 attributable figures include only four months of attributable production for Hunter Valley Operations and Mount Thorley Warkworth from 1 September.

b. 2018 attributable figures include 81% attributable production for Moolarben up to and including 30 November 2018, and 85% thereafter. This reflects Yancoal's increased ownership in the Moolarben Joint Venture, as announced 30 November 2018.

c. Attributable figures do not include production from Middlemount (incorporated joint venture and accounted for as an equity-accounted investment) and Watagan (equity-accounted investment and deconsolidated from Yancoal in March 2016).

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

Notes:

a. 2017 attributable figures include only four months of attributable production for Hunter Valley Operations and Mount Thorley Warkworth from 1 September.

b. Attributable figures do not include production from Middlemount (incorporated joint venture and accounted for as an equity-accounted investment) or Watagan (equity-accounted investment and deconsolidated from Yancoal in March 2016).

c. 2018 attributable figures include 81% attributable production for Moolarben up to and including 30 November 2018, and 85% thereafter. This reflects Yancoal's increased ownership in the Moolarben Joint Venture, as announced 30 November 2018.

Consistently strong production across Yancoal's tier-one operations (Moolarben, Mount Thorley Warkworth, Hunter Valley Operations), achieved a new annual total saleable coal production record of 50.0Mt (32.9Mt attributable²), up 59% from 31.5Mt (18.5 Mt attributable) in 2017, and total Run of Mine ("ROM") coal production of 66.5Mt (42.9Mt attributable), up 62% from 41.1Mt (24.2Mt attributable) in 2017.

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

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

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

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

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

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

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

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

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

The Stratford Duralie (Yancoal 100% ownership) open cut mine achieved total ROM coal production of 0.7Mt (2017 0.9Mt) and

² Attributable share is the attributable production as it relates to Yancoal's financial statements and does not include production from Middlemount (incorporated joint venture and accounted for as an equity-accounted investment) and Watagan (equity-accounted investment and deconsolidated from Yancoal in March 2016). Attributable share includes: Moolarben (85%); Mt Thorley Warkworth (82.9%); Hunter Valley Operations (51%); Stratford Duralie (100%); and Yarrabee (100%).

saleable coal production of 0.5Mt (2017 0.7Mt) for the reporting period.

Queensland (all figures reported on a 100% basis)

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

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

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

Watagan Assets (100% ownership) (all figures reported on a 100% basis)

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

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

Infrastructure

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

Port Waratah Coal Services ("PWCS") 30.0%

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

Newcastle Coal Infrastructure Group ("NCIG") 27%

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

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

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

Rail

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

The NSW Hunter Valley Coal Chain supports the Moolarben, Mount Thorley Warkworth, Hunter Valley Operations, Austar, Ashton, Stratford Duralie, and Donaldson operations, with coal transported to the Port of Newcastle;

The QLD Blackwater System supports the Yarrabee operation, transporting coal to the Port of Gladstone;

The QLD Goonyella System supports the Middlemount operation, with coal transported to the Port of Hay Point and Abbot Point Coal Terminal.

Take-or-Pay³

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

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

³ All numbers provided on an equity basis.

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

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

Greenhouse gas and energy data reporting requirements

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

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

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

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

Governance

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

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

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

Reporting on our emissions

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

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

Overall, on an operational control basis, our total Scope 1 and Scope 2 emissions for the period ended 30 June 2018 totalled 2,114,527tCo₂^e, a 1% increase on the year prior. The majority of Scope 1 emissions relate to fugitive emissions associated with the underground and open cut mining operations, while Scope 2 emissions stem from the consumption of electricity purchased from the grid.

Summary Greenhouse Emissions

Emissions Reporting Period	Scope 1 Emissions (tCo2 ^e)	Scope 2 Emissions (tCo2 ^e)	Scope 1 and Scope 2 Emissions (tCo2 ^e)
2016/2017*	1,725,276	374,635	2,099,911
2017/2018	1,754,907	359,620	2,114,527
% Variance	2%	-4%	1%

*Includes Warkworth and Mount Thorley Operations emissions under RTCA ownership (tCo2^e : tonnes of carbon dioxide equivalent)

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

Significant changes in the state of affairs

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

Matters subsequent to the end of the financial year

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

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

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

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

Likely developments and expected results of operations

Yancoal continues to pursue its long-term strategy for organic growth via the progression of brownfield expansion and extension projects.

Key projects include the conceptual underground mine at Mount Thorley Warkworth with an estimated 6Mtpa ROM, with exploration drilling for the prefeasibility on the target seams having been completed at the end of 2018.

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

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

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

Guidance for saleable coal production in 2019 is approximately 35 million tonnes (attributable). Forecast for 2018 capital expenditure is around AU\$285 million (attributable).

Information on Directors

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

Experience and expertise

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

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

Other current key directorships

Director of Yankuang Group Company Limited
Chairman and Director of Yankuang Group Finance Co., Ltd

Former directorships in last three years

Director of Yanzhou Coal Yulin Neng Hua Co., Ltd (ceased on 28 May 2018)
Director of Inner Mongolia Haosheng Coal Mining Limited (ceased on 28 May 2018)
*Director of Yanzhou Coal Mining Company Limited (1171 HK) (10 November 2006 – 3 June 2016)
Director of Yancoal International (Holding) Co., Ltd (ceased on 28 May 2018)

Special responsibilities

Chairman of the Board (8 June 2018 – current)
Chairman of the Executive Committee (ceased on 8 June 2018)
Chairman of the Strategy and Development Committee
Member of the Nomination and Remuneration Committee (8 June 2018 – current)

Interests in shares and options

274,404 fully paid Yancoal ordinary shares

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

Experience and expertise

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

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

Other current key directorships

Director of various subsidiaries of Yancoal Australia Ltd

Special responsibilities

Co-Vice Chairman of the Board (8 June 2018 – current)
Chairman of the Executive Committee (8 June 2018 – current)
Member of Health, Safety and Environment Committee (8 June 2018 – current)

* Listed company

Interests in shares and options

None

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

Experience and expertise

Mr Lai, aged 58, joined Yanzhou's predecessor in 1980. He was appointed as the Head of Xinglongzhuang Coal Mine of Yanzhou in 2000. In 2005, he was appointed as the Deputy General Manager of Yanzhou. Before the merger with Gloucester Coal Ltd, Mr Lai was an Executive Director of Yancoal and was appointed the Co-Vice Chairman and Chair of the Executive Committee in 2012. Mr Lai successfully completed the acquisition of the Astar Coal Mine and the establishment of an appropriate corporate governance structure for Yancoal. Mr Lai has also successfully applied the Longwall Top Coal Caving technology in Australia and has gained considerable experience in Australian coal business management.

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

Other current key directorships

None

Former directorships in last three years

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

Special responsibilities

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

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

Interests in shares and options

None

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

Experience and expertise

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

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

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

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

Other current key directorships

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

Director of Zhongyin Financial Leasing Co., Ltd Director of Qilu Bank Co., Ltd.

Director of Shanghai CIFCO Co., Ltd

Director of Yancoal International (Holding) Co.Ltd

Director of Yancoal International Trading Co. Ltd

Director of Yancoal International Resources Co., Ltd

Director of Yancoal International Technology Development Co., Ltd

Chairman of Shanghai Jujiang Asset Management Co., Ltd

Director of Yanzhou Coal Yulin Neng Hua Co., Ltd

Director of Inner Mongolia Haosheng Coal Mining Limited

Director of Yankuang Group Finance Co., Ltd

Chairman of Xinyinlian Co., Ltd

* Listed company

Chairman of Shandong Taiheng Development Co.,Ltd

Former directorships in last three years

Director of Duanxin Investment Holding (Shenzhen) Co., Ltd
Director of Qingdao Zhongyin International Trade Co., Ltd

Special responsibilities

Member of Strategy and Development Committee (8 June 2018 – current)
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, aged 54, is a research fellow in applied engineering technology with an EMBA degree and Master of Engineering, and serves as the Chief Engineer of Yanzhou.

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

Other current key directorships

Director of Yanmei Heze Neng Hua Co., Ltd
Director of Shanxi Future Energy Chemical Co. Ltd.

Former directorships in last three years

None

Special responsibilities

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

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

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

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

Other current key directorships

*Director of Yanzhou Coal Mining Company Limited (1171 HK) (14 May 2014 – current)
Director of Yancoal International (Holding) Co. Ltd
Director of Yancoal International Trading Co. Ltd

* Listed company

Director of Yancoal International Resources Co., Ltd
Director of Yancoal International Technology Development Co., Ltd

Former directorships in last three years

Director of Yanzhou Coal Ordos Neng Hua Co., Ltd
Director of Inner Mongolia Haosheng Coal Mining Co., Ltd
Director of Duanxin Investment Holding (Shenzhen) Co., Ltd

Special responsibilities

Member of Nomination and Remuneration Committee

Interests in shares and options

None

Xing Feng. Non-Executive Director (15 December 2017 - Current). EMBA

Experience and expertise

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

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

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

Other current key directorships

Director of China Broadcasting and Telecommunications Corporation
Director of China Cinda (Hong Kong) Holdings Company Limited

Former directorships in last three years

None

Special responsibilities

Member of Strategy and Development Committee.

Interests in shares and options

None

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

Experience and expertise

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

Prior to 2009 Mr Fletcher was a senior partner of Deloitte for 16 years during which he held many senior roles as well as working with major Australian listed companies with operations internationally including the Asia Pacific region. He also worked closely with organisations in China, Indonesia and Mongolia in enhancing governance practices.

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

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

Other current key directorships

Chairman of SMEG Australia Pty Ltd

*Director of Saunders International Limited, Chairman Audit and Risk Committee and Member of the Remuneration and Nomination Committee (ASX:SND) (1 July 2015 – current)
Director of TAFE NSW, Member of the Audit and Risk Committee and Member of the Minister's Priority Implementation Committee
Chairman of NSW Electoral Commission Audit and Risk Committee
Member of Audit and Risk Committee, Railcorp
Member of Audit, Risk and Committee, NSW Health Infrastructure
Member of Audit and Risk Committee NSW State Transit Authority

Former directorships in last three years

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

Special responsibilities

Co-Vice Chairman
Chairman of Audit and Risk Management Committee
Chairman of the Independent Board Committee
Member of the Nomination and Remuneration Committee (8 June 2018 – current)

Interests in shares and options

2,100 fully paid Yancoal ordinary shares.

Dr Geoffrey William Raby. Independent Non-Executive Director (26 June 2012 - Current). BEc (Hons), MEc and PhD (Economics).

Experience and expertise

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

Dr Raby was formerly Australia's Ambassador to the People's Republic of China from 2007 to 2011. Prior to that, he was a Deputy Secretary in the Department of Foreign Affairs and Trade (DFAT). Dr Raby has extensive experience in international affairs and trade, having been Australia's Ambassador to the World Trade Organisation (1998–2001), 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.

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

Other current key directorships

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

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

Former directorships in last three years

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

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

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

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

Special responsibilities

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

Interests in shares and options

22,858 fully paid Yancoal ordinary shares.

Helen Jane Gillies. Independent Non-Executive Director (30 January 2018 - Current). MBA, MConstrLaw, LLB(Hons), BCom, AICD

Experience and expertise

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

* Listed company

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

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

Other current key directorships

Director of Red Flag Group (Holdings) Limited

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

Director of BAC Holdings Pty Ltd

Former directorships in last three years

None

Special responsibilities

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

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

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

Interests in shares and options

None

David James Moulton. Independent Non-Executive Director (30 January 2018 - Current). C. Eng (Mining), MBA, FAusIMM, FIMMM, MAICD

Experience and expertise

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

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

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

Other current key directorships

Director of Coal Services Pty Ltd

Director of Coal Mines Insurance Pty Ltd

Director of Mines Rescue Pty Ltd

Former directorships in last three years

Non-Executive Director Centennial Coal Company Limited

Managing Director & 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 (6 February 2018 - current)

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

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

Interests in shares and options

None

* Listed company

Vincent O'Rourke AM. Non-Executive Director (22 December 2009 – 30 January 2018). B. Econ.

Experience and expertise

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

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

Other current key directorships

Director of Mater Health Services Brisbane Limited

Chairman of Holy Cross Laundry Pty Ltd

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

Director of Queensland Museum Foundation

Former directorships in last three years

Chairman of Rail Innovation Australia Pty Ltd

Chairman of the Queensland Workplace Health and Safety Board

Director of Premier Coal Limited

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

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

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

Huaqiao Zhang. Non-Executive Director (15 April 2014 – 30 January 2018). MEd

Experience and expertise

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

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

Previously, Mr Zhang worked at UBS for 11 years, with the majority of his time serving as Head of China Research and Deputy Head of China Investment Banking. In 2006-2008, 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) (7 September 2012 – current)

*Independent non-executive director of Fosun International Ltd (656 HK) (March 2012 – current)

*Independent non-executive director of Logan Property Holdings Co. Ltd (3380 HK) (18 November 2013 – current)

*Independent non-executive director of Luye Pharma Group Ltd (2186 HK) (June 2014 – current)

*Independent non-executive director of China Huirong Financial Holdings Ltd (1290 HK) (6 October 2013 – current)

*Independent non-executive director of Zhong An Real Estate Ltd (672 HK) (1 January 2013 – current)

*Independent non-executive director of Sinopec Oil Services Corp (1033 HK) (9 February 2015 – current)

*Non-executive director of Boer Power Holdings Ltd (1685 HK) (November 2011 – current)

* Listed company

Former directorships in last three years

*Independent director of Ernest Borel Holdings Ltd (1856 HK) (24 June 2014 – 10 November 2014)

*Director of Nanjing Central Emporium (600280 CH) (February 2013 – May 2015)

*Independent non-executive director of Wanda Hotel Development Co. Ltd (0169 HK) (October 2014 – May 2018)

Interests in shares and options

None

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

Experience and expertise

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

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

Other current key directorships

*Chairman of Yanzhou Coal Mining Company Limited (1171 HK) (September 2013 – current)

Chairman and the Secretary of the Party Committee of Yankuang Group

Former directorships in last three years

Chairman of Yancoal International (Holding) Co., Ltd

Director of Yancoal International (Sydney) Pty Ltd (ceased on 8 June 2018)

Special responsibilities

Chairman of the Board (ceased on 8 June 2018)

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

Interests in shares and options

None

Company secretary

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

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

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

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

* Listed company

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 2018, and the numbers of meetings attended by each Director were:

	Meetings of Committees											
	Full meetings of Directors		Audit and Risk Management		Health, Safety and Environment		Nomination and Remuneration		Strategy and Development		Independent Board Committee*	
	A	B	A	B	A	B	A	B	A	B	A	B
Xiyong Li	6	6					2	2				
Baocai Zhang	10	10					1	1	3	3		
Fucun Wang	4	4			2	2						
Cunliang Lai	10	10					2	2				
Xiangqian Wu	10	10					3	3				
Fuqi Wang	10	10			4	4			3	3		
Qingchun Zhao	9	10	4	5					3	3		
Gregory Fletcher	10	10	5	5			1	1			4	4
Geoffrey Raby	9	10	3	3	4	4			1	1	4	4
Helen Gillies	10	10	2	2			3	3			4	4
David Moulton	10	10	2	2	4	4	1	1			4	4
Xing Feng	10	10							3	3		
Huaqiao Zhang	0	0							0	0		
Vincent O'Rourke	0	0			0	0						

A = Number of meetings attended

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

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

Remuneration Report – Audited

Dear Shareholder,

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

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

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

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

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

STIP: 50% of the STIP award will now be deferred over a 2-year period (25% deferred for one year, remaining 25% deferred for two years). These deferrals will be settled in either cash or equity.

LTIP: In addition to the service condition, LTIP grants for 2018 will also be subject to performance hurdles (measured over a 3-year period) to assess vesting. Awards will be delivered in performance share rights instead of cash.

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

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

Yours sincerely,



Helen Gillies,
Chair of the Nomination and Remuneration Committee

1. Key Management Personnel

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

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

Several Board and Committee changes took place during 2018:

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

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

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

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

TABLE 1: Details of KMP

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

Geoffrey Raby	Independent Director Member of the Health, Safety and Environment Committee	Full year
	Member of the Audit and Risk Management Committee	Until 8 June 2018
	Member of the Strategy and Development Committee	From 8 June 2018
Helen Gillies	Independent Director	From 30 January 2018
	Member of the Nomination and Remuneration Committee	Until 8 June 2018
	Chairman of the Nomination and Remuneration Committee	From 8 June 2018
	Member of the Audit and Risk Management Committee	
David Moult	Independent Director Chairman of the Health, Safety and Environment Committee	From 30 January 2018
	Member of the Nomination and Remuneration Committee	From 8 June 2018
	Member of the Audit and Risk Management Committee	
Vincent O'Rourke	Independent Director Chairman of the Health, Safety and Environment Committee	Until 30 January 2018
Huaqiao Zhang	Independent Director Member of the Strategy and Development Committee	Until 30 January 2018
Executive Directors		
Baocai Zhang	Director, Co-Vice Chairman Chair of the Executive Committee ("CEC")	Until 8 June 2018
Fucun Wang	Director, Co-Vice Chairman Chair of the Executive Committee ("CEC") Member of the Health, Safety and Environment Committee	From 26 June 2018
Executive KMP		
Reinhold Schmidt	Chief Executive Officer ("CEO")	Full year
Lei Zhang	Chief Financial Officer ("CFO")	Full year
Paul Stringer	Chief Operating Officer ("COO")	From 29 May 2018

2. Remuneration principles and framework

The Company's governing principles for remuneration are:

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

2.1 Remuneration governance framework

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

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

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

2.2 Use of external remuneration advisors

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

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

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

TABLE 2: Remuneration Advisor Fees in 2018

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

3. Executive remuneration

3.1 Objective

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

- Shareholders' interests by:
 - making economic performance a core component of the overall remuneration plan design;
 - focusing on the key value drivers of the business including employee safety, operational performance and cost control; and
 - attracting and retaining high calibre executives.
- Executive's interests by:
 - rewarding capability and experience;
 - reflecting competitive reward for contribution to growth in company performance;
 - providing a clear structure for earning rewards; and
 - providing recognition for contribution.

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

3.2 Structure

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

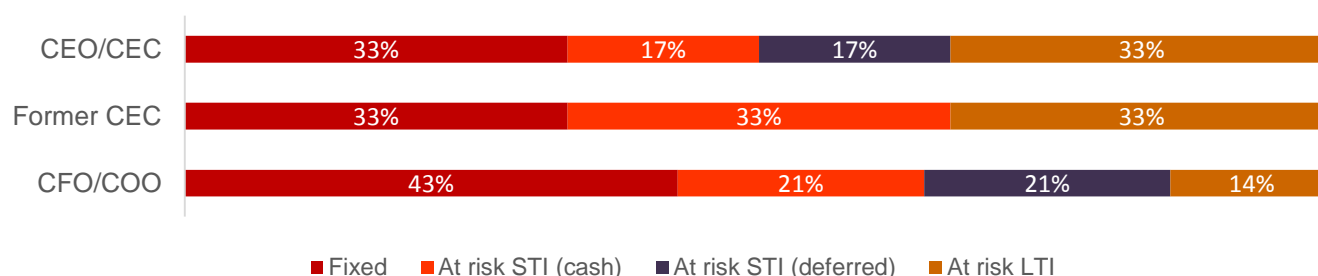
TABLE 2: Executive remuneration structure

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

3.3 Remuneration mix at target remuneration

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

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



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

3.4 Fixed Remuneration

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

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

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

3.5 Variable remuneration

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

3.5.1 Short Term Incentive Plan

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

Eligibility

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

Objective

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

Structure

For 2018 the STIP for KMP's comprised two key components:

1. **STIP Opportunity** – this is expressed as a percentage of the Executive's FAR. The STIP opportunity is reviewed annually. A benchmarking exercise is completed against comparable peers in listed companies, and no changes were proposed for 2018. The CEO, CEC, CFO and COO have a Target STIP opportunity of 100% of FAR, with a maximum opportunity of 200% of the Target STIP opportunity. The Board believes this level of STIP opportunity is reasonable and competitive for the current environment.
2. **STIP Scorecard** – this consists of several Key Performance Indicators ("KPIs").

At the start of each year, KPI's are reviewed and selected by Board as being the most appropriate to the business. Assessment against these measures is determined following the end of each year.

For the Executives named in this report, all KPIs are measured at the Company level. The STIP Scorecard measures the Company's performance in respect of the following categories:

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

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

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

Timing

For any KMP STIP award:

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

3.5.2 Long Term Incentive Plan

Following the recommendations provided by Aon Hewitt as part of the incentive design review, new LTIP grants for 2018 will also be subject to performance hurdles (measured over a 3-year period) to assess vesting outcomes. Awards will be delivered in performance share rights and were granted on 30 May 2018.

The key characteristics of the LTIP are outlined below:

TABLE 5: LTIP 2018 Structure

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

3.6 Linking Executive remuneration to Company performance

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

3.6.1 Overview of Yancoal's performance

TABLE 6: Yancoal's performance

	31 December 2018	31 December 2017	31 December 2016	31 December 2015	31 December 2014
PBT (\$'M)	1,172	311	(312)	(354)	(271)
Basic EPS (\$) ^A	0.95	0.52	(0.23)	(0.29)	(0.36)
Closing share price (\$) ^A	3.92	4.38	10.56	2.15	3.34
Ordinary dividend per share (\$) ^A	0.10	-	-	-	-

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

3.6.2 KMP STIP outcomes in 2018

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

TABLE 7: Company Performance against KMP STIP Scorecard in 2018

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

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

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

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

TABLE 8: Executive KMP STIP Outcomes in 2018

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

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

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

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

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

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

3.6.3 Executive KMP LTIP awards granted in 2018

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

TABLE 9: Details of the LTIP applicable to Executive KMP

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

^A The performance share rights noted above have been allocated and will be issued on or after 26 February 2019. The number of performance rights granted is calculated as the maximum LTIP award opportunity divided by the VWAP across a 20-day trading period spread evenly either side of 31 December 2017. The number of performance share rights was adjusted due to the 35:1 share consolidation undertaken by the Company in September 2018.

^B Paul Stringer is considered a KMP from 29 May 2018 to 31 December 2018.

Whilst appointed as CEC, Baocai Zhang was entitled to participate in the LTIP but elected not to.

3.7 Looking forward to 2019

Following the remuneration review and benchmarking undertaken in 2018, and subsequent changes to FAR and incentive frameworks for 2018, the structure and quantum of remuneration (including incentives) will remain unchanged in 2019 apart from increases to fixed remuneration in accordance with standard market practice.

4. Remuneration table

4.1 Executive KMP Remuneration

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

TABLE 10: Statutory Remuneration of Executive KMP in 2017 and 2018

Name	Year	Short-term benefits				Post-employment benefits	Long-term benefits	Share-based payments		Total	% performance related
		Cash Salary	STI	Other Bonus ^A	Non-monetary benefits	Superannuation benefits	Long Service Leave	STI Deferred	LTI		
Reinhold Schmidt	2018	1,602,234	700,623	-	109,585	22,766	140,696	700,623	631,915	3,908,443	52%
	2017	1,138,553	1,504,979	2,108,389	134,280	30,000	81,639	-	1,761,642	6,759,482	80%
Lei Zhang	2018	449,951	119,866	-	5,644	20,290	34,729	119,866	45,045	795,392	36%
	2017	394,371	224,842	679,980	7,373	19,832	14,728	-	60,840	1,401,965	69%
Baocai Zhang ^B	2018	150,573	356,707	-	2,613	10,024	-	-	-	519,917	69%
	2017	322,721	634,221	905,381	1,612	19,832	31,293	-	-	1,915,060	80%
Fucun Wang ^C	2018	162,720	212,925	-	-	10,266	137	212,925	185,915	784,887	78%
Paul Stringer ^D	2018	370,544	594,878	-	77,278	11,949	8,764	594,878	67,067	1,725,357	73%
Total	2018	2,736,022	1,984,999	-	195,120	75,295	184,326	1,628,292	929,941	7,733,995	59%
	2017	1,855,645	2,364,042	3,693,750	143,265	69,664	127,660	-	1,822,482	10,076,507	78%

^A Comprise special transaction and break even incentives accrued in 2017 and paid in shares during 2018. The number of shares granted was calculated by dividing the award value by the VWAP across a 20-day trading period spread evenly either side of 31 December 2017.

^B Baocai Zhang was an Executive director until 8 June 2018.

^C Fucun Wang was an Executive director from 26 June 2018.

^D Paul Stringer is considered a KMP from 29 May 2018 to 31 December 2018.

5. Service Agreements

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

Following developments in the Group organisation structure, the 2018 remuneration review and consideration of the remuneration recommendations received, new ESAs have been put in place effective 2018.

TABLE 11: Certain ESA terms for each of the Executive KMP

Executive KMP	Position	Term of ESA	Notice Period	Termination Benefit
Reinhold Schmidt	Chief Executive Officer	Unlimited	6 months ^A 12 months ^B	<ul style="list-style-type: none"> • Nil for cause or resignation. • If ceasing employment for any other reason i.e. as a ‘Good Leaver’, a pro-rata payment in accordance with STIP or LTIP plan rules is at the Board
Lei Zhang	Chief Financial Officer	Unlimited	3 months ^A 6 months ^B	<ul style="list-style-type: none"> • Nil for cause or resignation. • If ceasing employment for any other reason i.e. as a ‘Good Leaver’, a pro-rata payment in accordance with STIP or LTIP plan rules is at the Board discretion.
Baocai Zhang^C	Executive Director, Co-Vice Chairman, Chair of the Executive Committee	Unlimited	3 months ^A 6 months ^B	<ul style="list-style-type: none"> • Nil for cause or resignation. • If ceasing employment for any other reason i.e. as a ‘Good Leaver’, a pro-rata payment in accordance with STIP or LTIP plan rules is at the Board discretion.
Fucun Wang	Executive Director, Co-Vice Chairman, Chair of the Executive Committee	Unlimited	6 months ^A 12 months ^B	<ul style="list-style-type: none"> • Nil for cause or resignation. • If ceasing employment for any other reason i.e. as a ‘Good Leaver’, a pro-rata payment in accordance with STIP or LTIP plan rules is at the Board discretion.
Paul Stringer	Chief Operating Officer	Unlimited	3 months ^A 6 months ^B	<ul style="list-style-type: none"> • Nil for cause or resignation. • If ceasing employment for any other reason i.e. as a ‘Good Leaver’, a pro-rata payment in accordance with STIP or LTIP plan rules is at the Board discretion.

^A Notice period applicable if the Executive resigns.

^B Notice period applicable if the Company terminates the Executive.

^C Baocai Zhang was an Executive director until 8 June 2018.

6. Non-Executive Director fees

Objective

The Board seeks to set remuneration for Non-Executive Directors at a level which:

- provides the Company with the ability to attract and retain directors of the highest calibre;
- reflects the responsibilities and demands made on Non-Executive Directors; and
- is reasonable and acceptable to the Company’s shareholders.

Structure

The remuneration structure for the Non-Executive Directors is distinct from the remuneration structure for Executives in line with sound corporate governance.

The Company set an aggregate remuneration cap of \$3,500,000 per annum for all Non-Executive Directors. Consistent with the Constitution, remuneration payable to each Non-Executive Director has been approved by the Company's majority shareholder, Yanzhou.

The total Board and Committee fees paid by the Company to Non-Executive Directors in 2018 was \$985,499.

During 2018, Non-Executive Directors were remunerated by way of fixed fees in the form of cash and superannuation (to the maximum superannuation guarantee cap). A change was made to the Board and Board Committee fees from 2017 to 2018 with the Independent Co-Vice Chairman's remuneration increasing to \$330,000. No equity instruments were issued to Non-Executive Directors over 2018 as part of their remuneration package. No element of the Non-Executive Director fees is linked to performance.

Neither Board nor Board Committee fees were paid to:

- Executive Directors Baocai Zhang and Fucun Wang as the responsibilities of Board Committee membership are considered in determining the remuneration provided as part of their normal employment conditions.
- Nominee Directors of Yanzhou as the responsibilities of Board or Board Committee membership were considered part of their role and remuneration arrangements with their nominating company. The Directors of Yanzhou and China Cinda (HK) Holdings Company Limited Group ("Cinda") were as follows:
 - Xiyong Li
 - Cunliang Lai
 - Xiang Qian Wu
 - Fuqi Wang
 - Baocai Zhang
 - Fucun Wang
 - Qingchun Zhao
 - Xing Feng

TABLE 12: Board and Board Committee fees

	2018 \$
Board Fees per annum (including any superannuation)	
Chairman of the Board	Not applicable
Independent Co-Vice Chairman of the Board	330,000
Director	150,000 ^A
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	30,000
Nomination and Remuneration Committee – Member	15,000
Strategy and Development Committee – Chair	Not applicable
Strategy and Development Committee – Member	15,000

^A Other than as noted in Table 13: Details of Non-Executive Directors Remuneration

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

TABLE 13: Details of Non-Executive Directors' Remuneration, earned in 2017 and 2018

Name	Year	Short Term Benefits			Post-Employment Benefits		Total
		Fees ^A	STI or Bonus	Non-Monetary Benefits	Superannuation	Long Service Leave	
Huaqiao Zhang	2018	7,296	-	-	725	-	8,021
	2017	102,492	-	-	9,737	-	112,229
Gregory Fletcher	2018	398,074	-	-	19,200	-	417,274
	2017	569,089	-	-	38,585	-	607,674
Geoffrey Raby	2018	176,500	-	-	15,913	-	192,413
	2017	267,138	-	-	15,688	-	282,826
David Moulton	2018	191,972	-	-	18,237	-	210,209
	2017	-	-	-	-	-	-
Helen Gillies	2018	198,494	-	-	18,857	-	217,350
	2017	-	-	-	-	-	-
Vincent O'Rourke	2018	13,163	-	-	1,307	-	14,470
	2017	270,138	-	-	15,688	-	285,826
Total	2018	985,499	-	-	74,239	-	1,059,738
	2017	1,208,856	-	-	79,698	-	1,288,554

^A Includes following transaction specific remuneration paid:

- Huaqiao Zhang – 2017: \$10,959. Mr Zhang resigned on 30 January 2018.
- Gregory Fletcher – 2018: \$112,500; 2017: \$403,951.
- Geoffrey Raby – 2018: \$11,740; 2017: \$102,000.
- David Moulton – 2018: \$24,658.
- Helen Gillies – 2018: \$43,836.
- Vincent O'Rourke – 2017: \$105,000. Mr O'Rourke resigned on 30 January 2018.

7. Share Trading Policy and Insider Trading Policy

The Company's Share Trading Policy prohibits dealing in Company securities or Yanzhou securities by KMP and other relevant employees, as well as their closely related persons, during specified blackout periods each year and when they are in possession of 'inside information'. Directors, KMP and their closely related persons are also prohibited from dealing in securities of a listed company where he or she is in possession of inside information in relation to those securities. Subject to compliance with the Company's Share Trading Policy and Insider Trading Policy, employees are permitted to deal in Company securities or Yanzhou securities outside these blackout periods where they are not in possession of inside information, however additional approval requirements apply to Directors.

The Share Trading Policy precludes relevant employees from entering into any hedge or derivative transactions relating to unvested options or share rights granted to them under incentive plans and securities that are subject to holding locks or restrictions from dealing under such plans. There are also restrictions regarding margin lending arrangements, hedging and short-term trading of the Company's securities. Each Director and KMP is required to provide a declaration at the end of each financial year certifying that they (and their closely related persons) have complied with the Share Trading Policy and the Insider Trading Policy for the duration of that financial year.

8. Equity instrument disclosures

The numbers of shares in the Company held during the financial year by each director of the Company and other KMP of the Group, including their personally related parties, are set out below.

TABLE 14: Movement in Shares held by KMP in 2018

Name	Held at 1 January 2018 ^A	Granted as compensation	Converted	Held at 28 September 2018		Granted as compensation	Purchased ^B	Held at 31 December 2018
				Pre-share consolidation	Post-share consolidation			
Gregory Fletcher	24,320	-	45,070 ^C	69,390	1,983	-	117	2,100
Reinhold Schmidt ^D	3,453,158	7,476,555	-	10,929,713	312,278	-	-	312,278
Baocai Zhang ^E	5,905,873	3,210,569	-	9,116,442	260,471	-	13,933	274,404
Vincent O'Rourke ^F	1,119,565	-	-	n/a	n/a	n/a	n/a	n/a
Gregory J O'Rourke ^G	39,525	-	-	n/a	n/a	n/a	n/a	n/a
Geoffrey Raby	800,000	-	-	80,000	22,857	-	-	22,857
Lei Zhang	-	2,411,277	-	2,411,277	68,894	-	-	68,894
Ying Zhang ^H	988,142	-	-	988,142	28,233	-	-	28,233
Paul Stringer	-	1,964,564	-	1,964,564	56,131	-	-	56,131

^A Or date considered KMP, if later.

^B Shares relate to the accelerated pro-rata renounceable retail entitlement offer detailed in the Entitlement Offer Booklet dated 29 November 2018.

^C On 31 January 2018, Mr Gregory Fletcher converted 24 Subordinated Capital Notes issued by Yancoal SCN, a wholly owned subsidiary of Yancoal, to 45,070 fully paid ordinary shares in Yancoal.

^D During 2018 7,476,555 shares were granted to Reinhold Schmidt as compensation and are held by RSWC Pty Limited, a related party. This holding comprised 213,616 shares post-share consolidation and as at 31 December 2018.

^E Mr Baocai Zhang ceased as a KMP on 8 June 2018 but remains a non-executive director.

^F On 30 January 2018, Mr Vincent O'Rourke ceased to be a director of Yancoal.

^G Mr Gregory James O'Rourke is a related party of Mr Vincent O'Rourke.

^H Mrs Ying Zhang is a related party of Mr Lei Zhang.

No other KMP held any shares in respect of Yancoal Australia Ltd or its related entities at or during the year ended 31 December 2018.

TABLE 15: Movement in Other Equity Instruments held by KMP in 2018

The number of performance rights held by KMP in 2018 is outlined in the table below

Name	Instrument	Held at 1 January 2018	Granted as compensation	Vested during the year	Exercised during year	Lapsed during year	Held at 31 December 2018	Of which exercisable	Of which not vested & not exercisable
Reinhold Schmidt	LTIP ^A	-	668,693	-	-	-	668,693	-	668,693
	Special Incentives ^B	-	7,476,555	(7,476,555)	-	-	-	-	-
	STIP Deferral ^C	-	209,285	-	-	-	209,285	-	209,285
Lei Zhang	LTIP ^A	-	47,667	-	-	-	47,667	-	47,667
	Special Incentives ^B	-	2,411,277	(2,411,277)	-	-	-	-	-
	STIP Deferral ^C	-	35,805	-	-	-	35,805	-	35,805
Baocai Zhang ^D	Special Incentives ^B	-	3,210,569	(3,210,569)	-	-	-	-	-
Fucun Wang	LTIP ^A	-	196,735	-	-	-	196,735	-	196,735
	STIP Deferral ^C	-	63,603	-	-	-	63,603	-	63,603
Paul Stringer ^E	LTIP ^A	-	70,970	-	-	-	70,970	-	70,970
	Special Incentives ^B	-	1,964,564	(1,964,564)	-	-	-	-	-
	STIP Deferral ^C	-	177,698	-	-	-	177,698	-	177,698

^A Relating to the 2018 LTIP award. The number of performance rights granted is calculated as the maximum LTIP award opportunity divided by the VWAP across a 20-day trading period spread evenly either side of 31 December 2017. The number of performance share rights was adjusted due to the 35:1 share consolidation undertaken by the Company in September 2018.

^B Relating to the special incentives and transaction bonuses in relation to 2017 performance which were to be settled in cash, but were settled in equity. Performance rights were granted on 30 May 2018 and vested on 1 September 2018. The number of shares granted was calculated by dividing the award value by the VWAP across a 20-day trading period spread evenly either side of 31 December 2017.

^C Relating to the portion of 2018 STIP that is deferred into equity.

^D Baocai Zhang was an Executive director until 8 June 2018.

^E Paul Stringer is considered a KMP from 29 May 2018 to 31 December 2018.

9. Other transactions with and loans to Directors and Executives

A number of Directors and Executives hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

Some of these entities transacted with the Company or its subsidiaries in the reporting period. The terms and conditions of any transactions with management, Directors or parties related to KMP or Directors were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-management or Director related persons or entities on an arm's length basis (refer to Note E3). There were no loans provided to Directors and Executives during the year.

Insurance of officers or auditors

Rule 10.2 of Yancoal's constitution requires Yancoal to indemnify, to the full extent permitted by law, each Officer of the company against liability incurred by the Officer as a director or an officer of the company. The Directors named in this report, along with the Company Secretary, Chief Executive Officer and Chief Financial Officer, have the benefit of this requirement, as do individuals who formerly held one of those positions.

During the financial year, the Company paid a premium for Directors' and Officers' Liability insurance as well as Defence Costs cover. The policies cover the Directors and other officers of the Group. The Directors have not included details of the nature of the liabilities covered and the amount of premium paid in respect of the Directors' and Officers' Liability insurance policy as such disclosure is prohibited under the terms of insurance contracts.

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001*.

Non-audit services

The Company may decide to employ the auditor on assignments additional to 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:

TABLE 16: Auditor's Fees in 2018

ShineWing Australia	2018	2017
	\$	\$
Audit and review of financial statements	1,808,000	1,258,500
Other assurance services	982,000	1,010,000
Taxation compliance	84,000	54,000
Total services remuneration of ShineWing Australia	2,874,000	2,322,500

Auditor's independence declaration

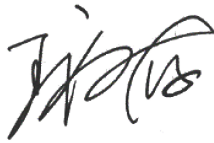
A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 38.

Rounding of amounts

The Group is of a kind referred to in Legislative Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the Directors' Report and financial statements. Amounts in the Directors' Report and financial statements have been rounded off to the nearest million dollars in accordance with that legislative instrument.

This report is made in accordance with a resolution of the Directors.

Fucun Wang
Director
Sydney



25 February 2019

Auditor's Independence Declaration under Section 307C of the *Corporations Act 2001* to the directors of Yancoal Australia Ltd

I declare that to the best of my knowledge and belief, during the year ended 31 December 2018 there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.



ShineWing Australia
Chartered Accountants



R Blayney Morgan
Partner, Sydney

Monday, 25 February 2019

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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**).

HK Listing and Compliance with the Hong Kong Corporate Governance Code

The Company has also adopted the provisions of the Corporate Governance Code in Appendix 14 (the **HK Code**) to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the **HK Listing Rules**) as part of its corporate governance policy effective upon its listing on The Stock Exchange of Hong Kong Limited on 6 December 2018 (the **HK Listing**).

In the opinion of the Board, the Company has complied with the code provisions of the HK Code (in addition to the relevant principles of the ASX Recommendations) since the HK Listing up to and including 31 December 2018 (**Reporting Period**).

ASX Corporate Governance Statement

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. In 2018, the Nomination and Remuneration Committee engaged external remuneration consultants to provide independent market benchmarking with respect to the remuneration of Yancoal executives and non-executive directors. This included providing remuneration recommendations to better align management with shareholder interests. As a result of this process, all senior executives signed new employment contracts during 2018.

Company Secretary

The Company Secretary 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.

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, the appropriate checks are undertaken prior to a director being appointed. The mix of skills currently held by the Board is set out under Principle 2.

The role, rights and responsibilities and membership requirements of the Nomination and Remuneration Committee, together with the selection criteria for candidates for the Board are set out in the Nomination and Remuneration Committee Charter which can be found within the Corporate Governance section of the Company's website.

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 2018 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 was reviewed and a new version was approved in May 2018. Employees across the Company have access to the current version of the Yancoal Code of Conduct via the Company intranet and are reminded of this via inductions, crew talks and as relevant issues arise.
2. To target a diverse group of candidates with recruitment and selection procedures that are merit-based and non-discriminatory.	Across the Yancoal group, merit-based, non-discriminatory practices are adhered to.
3. Continue to ensure our managers are adept recruiters, retainers and motivators of our diverse workplace.	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 be rolled out across the Company. The message of continuous improvement is promoted during recruitment, induction and performance reviews to promote a culture that encourages engagement, diversity and continuous learning. The Company continues to build a culture of diversity and inclusion through targeted education of managers on the positive impact of a diverse workforce and the importance of adhering to the Company recruitment and diversity policies.
4. Communicate the Company Recruitment Policy	A human resources representative communicates the Recruitment Policy to managers and candidates during interviews and the policy is also published on the Company's intranet.

The Board has set the following measurable objectives in relation to gender diversity for 2019:

1. Continue to increase employee awareness and understanding of the importance of diversity by implementing training on the Company's Diversity Policy and Workplace Behaviour & 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.

As at 31 December 2018, the proportion of women who were directly employed by the Company as a whole was 10%: 299 Full-time, 15 Part-time and 4 Casual. There was no change between 2017 and 2018 in the percentage of females in comparison to the percentage of males. The proportion of women in senior management roles (being roles which directly report to the CEO or CEC) within the Company during 2018 was 9%. Women held 1 of 11 senior management roles within the Company.

On and from 30 January 2018, one female non-executive director sits on the Board.

Performance of the Board, its Committees and individual Directors

The Nomination and Remuneration Committee oversees an annual evaluation process for the Board, its committees and each director based on the Board Performance Evaluation Protocol (**Protocol**) adopted and approved by the Board in 2012.

The Board

Periodically, a review of the structure and operation of the Board, the skills and characteristics required by the Board to maximise its effectiveness and whether the mix of skills, experience and expertise and the Board's practices and procedures are appropriate for the present and future needs of the Company is conducted. This evaluation of performance of the Board may be conducted with the assistance of an external facilitator. As set out in the Board Charter, the review of the Board involves directors providing written feedback on the Board's performance to the Chairman or to an external facilitator, which in turn is discussed by the Board, with consideration of whether any steps for improvement are required.

It is expected that externally facilitated reviews will occur approximately every three years. The independent external facilitator will seek input from each of the Directors and certain members of senior management in relation to the performance of the Board against a set of agreed criteria.

Once an externally facilitated review occurs, the progress against any recommendations from the most recent externally facilitated review, together with any new issues, will be considered internally. Feedback from each director against a set of agreed criteria will be collected by the Chairman or the external facilitator. The CEC and CEO will also provide feedback from senior executives in connection with any issues that may be relevant in the context of the Board performance review. Feedback will be collected by the Chairman, or an external facilitator, and discussed by the Board, with consideration being given as to whether any steps should be taken to improve performance of the Board or its committees.

Since the adoption of the Protocol in 2012, the Company carried out four annual board performance reviews internally, and has conducted one externally facilitated board performance review. An externally facilitated review of the Board was carried out in 2016 (in respect of 2015) and a review of the Board was conducted internally in 2018 (in respect of 2017), in accordance with process disclosed above.

The Nomination and Remuneration Committee considers assessments by independent bodies regarding Boards of Australian companies and their performance. The chair of the Nomination and Remuneration Committee reports any material issues or findings from these evaluations to the Board.

Board committees

Each of the four standing committees of the Board conducts an annual committee performance self-assessment to review performance using guidelines approved by the Nomination and Remuneration Committee. The guidelines include reviewing the committee's performance having regard to its role and responsibilities as set out in its Charter; consideration as to whether the committee's Charter is fit for purpose; and identification of future topics for training/education of the committee or its individual members.

The outcomes of the performance self-assessments are reported to the Nomination and Remuneration Committee (or to the Board, if there are any material issues relating to the Nomination and Remuneration Committee) for discussion and noting.

Each committee provides feedback to the Board on its own performance, which is collected by the Chairman or an external facilitator, and the feedback is discussed by the Board, with consideration of whether any steps for improvement are required.

The most recent review of the Board's committees was conducted in 2018 (in respect of 2017) in accordance with the process disclosed above.

Individual Directors

Directors are evaluated on, amongst other things, their alignment with the values of the Company, their commitment to their duties and their level of financial, technical and specialist knowledge.

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.

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 2019 (in respect of 2018) in accordance with the process disclosed above.

Principle 2: Structure the board to add value

Structure of the Board

Currently, the Board comprises Baocai Zhang, Fucun Wang (appointed 8 June 2018), Cunliang Lai, Qingchun Zhao, Xiangqian Wu, Fuqi Wang, Geoffrey Raby, Gregory Fletcher, David Moulton (appointed 30 January 2018), Helen Gillies (appointed 30 January 2018) and Xing Feng. 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 12.

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, Baocai Zhang, was nominated by the Company's major shareholder, Yanzhou Coal Mining Co. Ltd ("**Yanzhou**"). The Chairman leads the Board and is responsible for the efficient organisation and conduct of the Board's functioning. The Chairman ensures that directors have the opportunity to contribute to Board deliberations. The Chairman regularly communicates with the CEC and CEO and to review key issues and performance trends. The Chairman, together with the Co-Vice Chairmen, Fucun Wang and Gregory Fletcher, also represent the Company in the wider community.

Board Committees

The Board may from time to time establish appropriate committees to assist in the discharge of its responsibilities. The Board has established the following standing Board committees:

- Audit and Risk Management Committee;
- Health, Safety and Environment Committee;
- Nomination and Remuneration Committee; and
- Strategy and Development Committee.

These Board committees review matters on behalf of the Board and, as set out in the relevant Charter:

- refer matters to the Board for a decision, with a recommendation from the committee; or
- determine matters (where the committee acts with delegated authority), which the committee then reports to the Board.

The purpose of each of the Board committees is outlined below.

Committee	Purpose	Membership
Audit and Risk Management Committee	<p>The committee's objectives are to:</p> <ul style="list-style-type: none"> • 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; • ensure the systems in place to identify, monitor and assess risk are appropriate and operating effectively; and • assess the independence of the external auditor. 	<p>Gregory Fletcher – Chair</p> <p>Qingchun Zhao</p> <p>David Moulton (appointed 8 June 2018)</p> <p>Helen Gillies (appointed 8 June 2018)</p> <p>Geoffrey Raby (resigned on 8 June 2018)</p> <p>(minimum of three Non-Executive Directors, a majority of whom are independent)</p>
Health, Safety and Environment Committee	<p>The committee assists the Board to:</p> <ul style="list-style-type: none"> • fulfil its responsibilities in relation to the health, safety, environment, social and governance (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. 	<p>David Moulton – Chair (appointed 6 February 2018)</p> <p>Geoffrey Raby</p> <p>Fuqi Wang</p> <p>Fucun Wang (appointed 8 June 2018)</p> <p>Vincent O'Rourke AM (former Chair)(resigned 30 January 2018)</p> <p>(minimum of three directors)</p>
Nomination and Remuneration Committee	<p>The committee assists the Board of the Company by making recommendations in relation to:</p>	<p>Helen Gillies – Chair (appointed 8 June 2018) and</p>

	<ul style="list-style-type: none"> • 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. 	<p>member from 6 February 2018</p> <p>Xiyong Li – former chair (resigned on 8 June 2018)</p> <p>Xiangqian Wu</p> <p>Gregory Fletcher (appointed 8 June 2018)</p> <p>Baocai Zhang (appointed 8 June 2018)</p> <p>David Moulton (appointed 8 June 2018)</p> <p>Cunliang Lai (resigned 8 June 2018)</p> <p>(minimum of three Non-Executive Directors, a majority of whom are independent)</p>
<p>Strategy and Development Committee</p>	<p>The committee assists the Board in its oversight and review of the Company's strategic initiatives, including:</p> <ul style="list-style-type: none"> • merger and acquisition proposals; • major capital markets transactions; • significant investment opportunities; and • proposals to dispose of significant Company assets. 	<p>Baocai Zhang – Chair</p> <p>Qingchun Zhao</p> <p>Fuqi Wang</p> <p>Xing Feng (appointed 6 February 2018)</p> <p>Geoffrey Raby (appointed 8 June 2018)</p> <p>Huaqiao Zhang (resigned 30 January 2018)</p> <p>(minimum of three directors)</p>
<p>Independent Board Committees</p>	<p>An Independent Board Committee is established by the Board as and when required to manage any related party transactions.</p> <p>A previously constituted Independent Board Committee met on various occasions during 2018 for the purposes of considering transactions between or involving the Company and its major shareholder, Yanzhou. In each case, the Independent Board Committee comprised at least three independent directors.</p>	<p>An Independent Board Committee is composed of independent non-executive directors who do not have a material interest in the relevant transactions.</p>

The primary role of the Strategy and Development Committee is to assist the Board in its oversight and review of the Company's strategic initiatives. The other standing Board committees referred to above are discussed further below under Principle 4 (Audit and Risk Management Committee), Principle 7 (Health, Safety and Environment Committee) and Principle 8 (Remuneration and Nomination Committee). The Charters of each of these standing Board committees (which were revised in October 2018 to provide for relevant provisions of the HK Listing Rules) are available within the Corporate Governance section of the Company's website.

The number of meetings held by each committee during 2018 and each member's attendance at these meetings is set out in the Directors' Report on page 20.

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 4 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 Moulton (appointed 30 January 2018) and Helen Gillies (appointed 30 January 2018). During their appointment, Vincent O'Rourke AM (resigned 30 January 2018) and Huaqiao Zhang (resigned 30 January 2018) were each deemed to be independent directors.

The Board has assessed the independence of each of the Non-Executive Directors (including the Chairman) in light of their interests and relationships. A majority of the Board are not considered independent directors having regard to their affiliation with the Company's major shareholder, Yanzhou, and accordingly the Company does not comply with Recommendation 2.4 of the ASX Recommendation. However, the Board considers that its composition appropriately represents the interests of its shareholders including its major shareholder, Yanzhou, and that the Board has put in place appropriate policies and procedures to guide the Board and senior executives in circumstances where conflicts of interest may arise and in its dealings with Yanzhou, including establishing the Independent Board Committee referred to above.

To help ensure that any conflicts of 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, Baocai Zhang, the Chairman is not considered independent by the independence standard (as above), the Board considers that this is an appropriate reflection of Yanzhou's majority shareholding in the Company. While a majority of the directors are associated with Yanzhou this is considered appropriate in light of Yanzhou's major shareholding in the Company.

Board skills matrix

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

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

Induction and professional development

Upon appointment, directors are provided with an information pack containing a letter of appointment setting out the Company's expectations, directors' duties and the terms and conditions of their appointment, and other materials containing information about the Company including the Company's Constitution, charters and policies to support the induction of directors to the Board.

Directors also participate in continuing education or development programs arranged for them, including for example training on 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, shareholder and the Company alike.

An updated Code of Conduct was approved by the Board in October 2018 and is being implemented within the business. The Code of Conduct is available in the Corporate Governance section of the Company's website.

Reporting concerns and whistleblower protection

The Company's Speak-Up Yancoal Ethics policy encourages employees, directors, contractors and consultants to raise serious concerns within the Company and report any issues if they genuinely believe a person has, or persons have, breached Yancoal's Code of Conduct, policies or the law. The policy also protects individuals who in good faith report misconduct which they reasonably believe to be corrupt, illegal or unethical on a confidential basis, without fear of reprisal, dismissal or discriminatory treatment; and assists in ensuring that matters of misconduct and/or unethical behaviour are identified and dealt with appropriately.

Individuals can report their concerns confidentially online, via confidential email to an external facilitator or by telephoning a confidential Speak Up Line.

All disclosures made under this policy will be treated seriously and be the subject of a thorough investigation with the objective of locating evidence that either substantiates or refutes the misconduct disclosed by an employee. Such investigations will be facilitated independently from the business unit concerned, the employee who made the disclosure or any person being the subject of the reportable conduct. The Company will determine, based on the seriousness of the disclosure, whether the investigation will be conducted internally by a senior member of management or the external facilitator.

Principle 4: Safeguard integrity in corporate reporting

Audit and Risk Management Committee

The Board 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 (which was revised in October 2018 to capture the relevant provisions of the HK Listing Rules) can be found in the Corporate Governance section of the Company's website. The purpose of the Audit and Risk Management Committee is outlined under the Board committees section above.

In accordance with its Charter, the Audit and Risk Management Committee has at least three members. The current members of this committee are Gregory Fletcher (chair of the committee), Qingchun Zhao, David Mault (appointed 8 June 2018) and Helen Gillies (appointed 8 June 2018). Former Committee member Geoffrey Raby resigned on 8 June 2018.

The committee consists only of Non-Executive Directors with a majority being independent. Consistent with the ASX Recommendations, the chair of the committee is an independent Non-Executive Director and is not the Chairman of the Board. The qualifications, skills and experience of each member is disclosed in the Information on directors in the Directors' Report, on page 12.

The Company has also employed a full time GM of Risk and Assurance. His role is described further under Principle 7.

CEO and CFO certifications on financial reports

The CEO and CFO have declared in writing to the Board that in respect of the half year ended 30 June 2018 and the full year ended 31 December 2018, in their opinion, the financial records of the Company have been properly maintained and the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the Company, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

External Auditor

The Company's external auditor is ShineWing Australia. Consistent with the requirements of the *Corporations Act 2001* (Cth), ShineWing Australia has a policy of partner rotation every five years. The appointment, removal and remuneration (not including amounts paid for special or additional services provided by the auditor) of the auditor require shareholder approval.

The external auditor receives all papers and minutes of the Audit and Risk Management Committee. The external auditor also attends the Company's Annual General Meeting to answer questions from shareholders relevant to the Company's audit.

Principle 5: Make timely and balanced disclosure

The Company recognises the importance of timely and adequate disclosure to the market, and is committed to making timely and balanced disclosure of all material matters and to effective communication with its shareholders and investors so as to give them ready access to balanced and understandable information. The Company also works together with its major shareholder, Yanzhou, to ensure that Yanzhou can comply with its disclosure obligations in relation to Company information, and vice versa, Yanzhou seeks to ensure that the Company can comply with its disclosure obligations in relation to Yanzhou's information.

The Board has put in place a Disclosure Policy to encapsulate the disclosure obligations under the *Corporations Act 2001* and the ASX Listing Rules and to set out procedures for managing compliance with those obligations. This policy was revised in October 2018 to capture the relevant disclosure obligations under the HK Listing Rules. These procedures provide a framework for managing the disclosure of material matters to the market to ensure accountability at Board and senior executive level. As part of this framework, a standing agenda item at all the Company's Board and Executive Committee meetings requires the directors and senior 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 reviewed and approved by the Board in October 2018 to capture the relevant requirements of the HK Listing Rules, can be found within the Corporate Governance section of the Company's website.

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 material strategic, operational, financial reporting and compliance risks are identified; and
- systems are in place to identify, assess, manage, monitor and report on these risks.

The role and membership of the Audit and Risk Management Committee are described under Principles 2 and 4.

The Company's Audit and Risk Management Committee Charter can be found within the Corporate Governance section of the Company's website.

The Board has requested the Company's senior executives and management to report to the Audit and Risk Management Committee and, where appropriate the Board, regarding the effective management of its material business risks.

In 2018, the Audit and Risk Management Committee had in place a framework to identify, assess, manage risks that are material to the business. This framework includes:

- implementation of a corporate risk management standard approved by the Audit and Risk Management Committee and Board;
- identification of material business risk by reference to a corporate risk register, approved by the Audit and Risk Management Committee and Board;
- formal risk identification activities being undertaken at both a functional level and at each of the Company's mine sites;
- designated individuals across the business that have accountability for the implementation of risk management within their areas of responsibility;
- the GM of Risk and Assurance as a central resource available to assist with all risk management responsibilities, and to assist with any training/awareness or other related requirements; and
- adherence to internal procedures and plans for crisis management.

The Audit and Risk Management Committee receives periodic reports on the performance of the Company's risk management framework, as well as on the Company's key risk exposures to satisfy itself that it continues to be sound. A review of the risk management framework was conducted in 2018.

Formal risk identification activities are undertaken on a periodic basis; with Risk Identification and Analysis undertaken at a functional level, as well as at each of the Company's mine sites. In addition, where appropriate, project specific risk assessments are conducted.

The GM of Risk and Assurance is responsible for establishing and managing the company wide risk management framework, risk management system and practices, reviewing the impact of the risk management framework on its control environment and insurance arrangements and reviewing the risk of major investment projects. Together with the CEC, the Board and the Audit and Risk Management Committee, the GM of Risk and Assurance is responsible for developing a risk matrix and framework and for implementing related risk based assurance processes for the Company and its subsidiaries.

The 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, assess and manage any material exposure to risks relating to the Company's business, including economic, environmental and social sustainability risks. The Company undertakes regular monitoring and assessment of these risks and implements risk treatment strategies to manage its exposure to such risks. However, there can be no assurance that such risk mitigation strategies will protect the Company from these risks. Other risks are beyond the Company's control and cannot be mitigated. The occurrence of any such risks could adversely affect the Company's financial condition and performance. The risks listed below are not purported to be exhaustive and there is no assurance that the importance of different risks will not change or other risks will not emerge.

The table below identifies risks which are considered to be economic, environmental and/or social sustainability risks.

	Economic sustainability risks	Environmental sustainability risks	Social sustainability risks
Operating risks	√	√	√
Injury or accident risks	√		√
Funding risks	√		
Adverse foreign exchange rate movements	√		
Hedging through bank issued instruments	√		
Coal prices and coal demand risk	√		
Coal production risks	√		
Debt costs	√		
Taxation risks	√		
Australia Accounting Standards	√		
Regulatory approvals risks	√		√
Estimates of Resources and Reserves and geology	√		
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	√		

	Economic sustainability risks	Environmental sustainability risks	Social sustainability risks
Native Title	√		√
Overlapping tenement risks	√		√
Enforcement and counterparty insolvency risks	√		
Coal royalties	√		
Climate change/carbon regulation risks	√	√	√
Technological change	√	√	
Technology	√		
Key Personnel	√		
Fraud or misconduct	√		√
Environmental activism	√	√	√
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	√		

Operating risks

The Company's operations are subject to operating risks that could result in decreased coal production which could reduce their respective revenues. Operational difficulties may impact the amount of coal produced, delay coal deliveries or increase the cost of mining for a varying length of time. These operating risks include (but are not limited to) industrial action, mine collapses, cave-ins or other failures relating to mine infrastructure, including tailings dams, interruptions due to inclement or hazardous weather conditions, power interruption, critical equipment failure (in particular any protracted breakdown or issues with any of the Company's CHPPs or a major excavator), fires, and explosions from methane gas or coal dust, accidental mine water discharges, flooding and variations in or unusual or unexpected geological or geotechnical mining conditions (particularly in the Company's underground operations). Such risks could result in damage to applicable mines, personal injury, environmental damage, delays in coal production, decreased coal production, loss of revenue, monetary losses and possible legal liability. Although the Company's insurance policies provide coverage for some of these risks, the amount and scope of insurance cover is limited by market and economic factors and there can be no assurance that these risks would be fully covered by insurances maintained by the Company.

Injury or accident risks

If any injuries or accidents occur in a mine, this could have adverse financial implications including legal claims for

personal injury, wrongful death, amendments to approvals, potential production delays or stoppages, any of which may have a material adverse effect on the financial performance and/or financial position of the Company.

Funding risks

The amount of future funding required by the Company will depend on a number of factors, including the performance of the Company's business at that time. The Company's business operations and 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 AU\$:US\$ exchange rate.

In developing its business plan and operating budget, the Company has made certain assumptions regarding coal prices, the AU\$:US\$ exchange rate, future production levels and other factors which determine the Company's financial performance.

If a funding shortfall materialises, the Company may need to raise substantial additional debt or equity. The Company's capacity to secure the requisite level of funding will depend on the amount of funding required, the performance and future prospects of its business and a number of other factors, including US\$ coal prices, interest rates, economic conditions, debt market conditions, equity market conditions and future levels of Yanzhou support.

To the extent that the Company is not able to secure additional financing (whether debt or equity) on acceptable terms from third parties, the Company will continue to rely on financial support from Yanzhou.

As at 31 December 2018, the Company had a loan receivable from Watagan of AU\$813 million (re-drawable up to AU\$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 AU\$:US\$ exchange rate.

While the Company operates entirely in Australia and its costs are primarily denominated in its functional currency, the AU\$, 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), changes or variations in coal quality or geological, hydrologic or other conditions, adverse weather including abnormal wet weather conditions (particularly in Queensland), unforeseen delays or complexities in installing and operating mining longwall systems, protracted breakdown of coal handling infrastructure and other mining equipment and rail and port breakdowns and outages. Regulatory factors and the occurrence of other operating risks can also limit production.

Debt Costs

The majority of the Company's loan 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.

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.

Uncertainty in costs forecast

The business operations and financial condition of the Company may vary with fluctuations in production and capital costs. Changes in the costs of mining and processing operations as well as capital costs could occur, including as a result of unforeseen events, such as international and local economic and political events (including movement in exchange rates) or unexpected geological or mining conditions, and could have material adverse financial consequences for the Company.

NICG and WICET debt

As a shipper in NICG and WICET, the Company's source mines are required to maintain a minimum level of Marketable Coal Reserves (11 years' worth of contracted capacity). Non-compliance with this requirement would result in the termination of the individual contracts and require the Company to pay its share of any outstanding senior debt, amortised over the remaining 10 years of that particular contract. The Company's current share of the outstanding senior debt is approximately AU\$1 billion and AU\$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 into the spot market at either index-linked or fixed price levels. The Company's strategy for 2019 will be to increase its term contracted position as well as to target end-user customers as opposed to traders.

Most of the Company's coal supply agreements also require the delivery of coal meeting specified quality thresholds for characteristics such as moisture content, sulphur content and ash content. Depending on these quality thresholds, coal will be sold into markets that are the highest paying for coal with the relevant qualities.

The Company derives a significant portion of its revenue from a limited number of customers, and the loss of, or a reduction in, sales to any of these customers could materially and adversely affect our business, financial condition and results of operations.

Joint ventures and reliance on third parties

The Company holds a number of joint venture interests, including interests in the Middlemount, Moolarben, HVO, Mount Thorley and Warkworth joint ventures, PWCS, NCIG and WICET, with other parties. Decision making, management, marketing and other key aspects of each joint venture are regulated by agreements between the relevant joint venture participants. Under these agreements, certain decisions require the endorsement of third party joint venture participants and the Company relies on the co-operation of these third parties for the success of its current operations and/or the development of its growth projects and the transportation of increased production.

The Company cannot control the actions of third party joint venture participants, and therefore cannot guarantee that joint ventures will be operated or managed in accordance with the preferred direction or strategy of the Company. There is a risk that the veto rights of, or consents required from, the joint venture partners will prevent the business and assets of a joint venture from being developed, operated and managed in accordance with that preferred direction or strategy.

The Company also 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 Company faces competition in all aspects of its business, including sales and marketing, pricing of coal, production capacity, coal quality and specifications, transportation capacity, cost structure and brand recognition. The Company's coal business competes in the domestic and international markets with other large domestic and international coal producers. An increase in production or reduction in prices of competing coal from both Australia and overseas may adversely impact the Company's ability to sell its coal products and the price to be attained for sales. Increased competition in the future, including from new competitors, may emerge. This competition may relate not only to coal produced and sold, but also to competition for the acquisition of new projects, which may adversely affect the ability of the Company to acquire new interests on acceptable terms should it wish to make such acquisitions.

Further industry consolidation could result in competitors improving their scale or productivity or competitors may develop lower-cost geological coal resources or develop resources in lower cost base geographies, increasing pressure on the Company's ability to maintain its margins.

There is significant competition within the resources industry in Australia, the United States and Asia. Furthermore, new entrants to the industry may emerge in one or more of those markets, increasing the competitive pressure on the Company. This pressure could adversely affect the Company's market share and financial performance and position.

The Company supplies coal as fuel to, among others, the thermal power generation industry and, as a result, is affected by the demand and growth of the thermal power industry. Thermal coal as a fuel source competes, among others, with natural gas, and the price of natural gas can therefore affect coal sales. The natural gas market has been volatile historically and prices in this market are subject to wide fluctuations in response to relatively minor changes in supply and demand. The thermal power generation industry is also affected by the development of alternative energy sources, climate change and global environmental factors.

Title risks

Exploring or mining for coal is generally illegal without a tenement granted by the State Governments. The grant and renewal of tenements is subject to a regulatory regime and each tenement is subject to certain conditions. There is no certainty that an application for grant or renewal of a tenement will be granted at all or on satisfactory terms or within expected timeframes. Further, the conditions attached to tenements may change. The permitting rules are complex and may change over time, making the title holder's responsibility to comply with the applicable requirements more onerous, more costly or even impossible, thereby precluding or impairing continuing or future mining operations. There is a risk that the Company may lose title to any of its granted titles if it is unable to comply with conditions or if the land subject to the title is required for public purposes. There is also a risk that a tenement may not be granted from any applications for renewals of tenements or for new tenements.

Obtaining mining tenements often involves first obtaining consents from landholders and other third parties, some of which may in certain circumstances have a right of veto, as well as approvals (such as environmental approvals). There is a risk that the requisite consents and approvals may not be able to be obtained on time or on acceptable commercial terms, or may not be able to be obtained at all, and consequently have an adverse financial effect on the Company.

Native Title

It is possible that, in relation to tenements which we have an interest in or will in the future acquire, there may be areas over which legitimate native title rights of Aboriginal Australians may exist. Where the grant or renewal of a tenement is in respect of land in relation to which native title may exist, the Company will need to comply with the Native Title Act 1993 (Cth) in order for the tenement to be validly granted.

Compliance with the NTA (and the relevant native title process to be followed for the grant of the tenement e.g. the right to negotiate process) may be prolonged or delayed, and substantial compensation may be payable as part of any agreement reached, including for the extinguishment or impairment of the relevant native title rights and interests.

The existence or determination of native title may, therefore, affect the existing or future activities of the Company and impact on its ability to develop projects which may in turn impact its operational and financial performance.

Under the Aboriginal Land Rights Act 1983 (NSW), Aboriginal Land Councils can claim crown land if certain requirements are met. If a claim is successful, freehold title over the relevant land is transferred to the claimant council. Further, Aboriginal Land Councils are afforded certain statutory rights which can include a requirement to enter into a compensation agreement prior to the grant of a Mining Lease. This may delay the grant of future mining tenements over any area of such land. Some of our tenements are located in areas that are subject to outstanding Aboriginal land claims, and additional Aboriginal land claims may be made in the future over other areas in which our tenements are located. Any such claims may result in our ability to explore or mine for coal in these areas being subject to the decisions of the relevant Aboriginal Land Councils, which may adversely affect our ability to develop projects and, consequently, our operational and financial performance.

Overlapping tenement risks

Some of the Company's mines and associated tenements adjoin or are overlapped by petroleum tenements and adjoin other exploration interests held by third parties. Overlapping tenements could potentially prevent, delay or increase the cost of the future development of the Company's projects because the Company and the relevant petroleum exploration licence or other exploration licence holders could potentially seek to undertake their respective activities on the overlapping area or the same resource seams and in some cases the overlapping petroleum tenure holder's consent may be required.

There is no guarantee that agreement will be reached with the overlapping petroleum tenement holder or that agreement will not be delayed or will be reached on terms satisfactory to the Company. There is also a risk that if agreement cannot be reached with overlapping tenement holders the matter may be referred to the relevant minister or a court who may make a decision which adversely impacts upon or prevents the project proposed by the Company.

Enforcement and counterparty insolvency risks

The Company has entered into contracts which are important to the future of its businesses including (but not limited to)

for the provision of coal handling services, long term sales contracts, debt facilities, long term leases, contract mining and the provision of certain guarantees, indemnities and sureties.

Any failure by counterparties to perform those contracts may have a material adverse effect on the Company and there can be no assurance that it would be successful in enforcing any of its contractual rights through legal action.

In addition, any insolvency of a counterparty to any of these contracts may have a material adverse effect on the Company and there can be no assurance that it would be successful in enforcing any of its contractual rights through legal action or recovering all monies 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.

Climate change/carbon regulation risks

The regulatory response to the risk of climate change, including unilateral and collective action by Australia and other countries, may affect demand for coal, coal prices and the competitiveness of the Company's products in the world energy market.

In November 2014, an agreement was announced between the United States and China to cut greenhouse gas emissions by more than 25% below 2005 levels by 2025. This agreement was followed by the 2015 United Nations Climate Change Conference, and the signing of the Paris Agreement within the United Nations Framework Convention on Climate Change. The Paris Agreement was signed by representatives from 195 countries, and aims to hold back the increase in global temperatures, increase the ability of countries to adapt to the adverse impacts of climate change and provide channels to finance projects that lead to greenhouse gas reductions.

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 fossilfuel based electricity generation. These economic factors, combined with increasing costs to comply with emission limits for other air pollutants, may result in the continued retirement of existing coal-powered generation capacity, and the cancellation of planned additional coal-fired power capacity, which may reduce demand for thermal coal in the market.

Technology

The Company's business relies on the performance, reliability and availability of its information technology systems. Information and operating technology may be subject to international cyber security threats. Breaches could result in (but are not limited to) the loss of sensitive information, unplanned outage of business-critical system, environmental damage and misappropriation of company funds. The Company's information technology infrastructure in general may also be adversely affected by factors such as server damage, equipment faults, power failure, computer viruses, misuse by employees or contractors, telecommunications failures, external malicious intervention such as hacking, terrorism, fire, natural disasters, or weather interventions. Such events are largely beyond the Company's control, and may affect its ability to carry on our operations efficiently.

Key personnel

A number of key personnel are important to attaining the business goals of the Company. One or more of these key employees could leave their employment or cease to actively participate in the management of the Company and this may adversely affect the ability of the Company to conduct its business and, accordingly, affect its financial performance and its share price. There may be a limited number of persons with the requisite experience and skills to serve in the Company's senior management positions if existing management leave the Company. If the Company cannot attract, train and retain qualified managers, and other personnel, the Company may be unable to successfully manage its growth

or otherwise compete effectively in the Australian coal industry.

The Company is also dependent on attracting qualified technical employees to provide services in relation to certain of its coal and other mining operations. Coal mining is a labour-intensive industry. The Company's future success will depend greatly on its and its mining contractors' continued ability to attract and retain skilled and qualified personnel on economic terms.

Fraud and misconduct

Any fraud, misrepresentation, money laundering or other misconduct by the Company's employees, customers, service providers, business partners or other third parties could result in violations of relevant laws and regulations by the Company and subject the Company to corresponding regulatory sanctions. These unlawful activities and other misconduct may have occurred in the past and may occur in the future, and may result in civil and criminal liability under increasingly stringent laws or cause serious reputational or financial harm to the Company. While the Company has in place and is implementing measures aimed at detecting and preventing employees' and external parties' fraud, misrepresentation, money laundering, commercial bribery and other misconduct, the Company may not be able to timely detect or prevent such activities, which could subject the Company to regulatory investigations and criminal and civil liability, harm our reputation and have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Environmental activism

Environmental lobby groups in both QLD and NSW have recently made submissions opposing both operation and expansion of coal mines in an attempt to prevent new mine developments or expansion of existing mines on the basis of environmental concerns. Increased community concern and adverse actions taken by community and environmental groups may delay or prevent the Company from progressing new mine developments or development or expansion of existing mines, or may mean that those mines are subject to conditions that adversely affect their profitability and consequently the financial performance of the Company.

Changes in government policy, regulation or legislation

The resources industry is subject to extensive legislation, regulations and supervision by a number of federal and state regulatory organisations.

Any future legislation and regulatory change may affect the resources industry and may adversely affect the Company's financial performance and position, such as future laws that may limit the emission of greenhouse gases or the use of coal in power generation.

Environment and planning

In recent years, state government policies of NSW and QLD have been introduced in the interests of protecting agricultural and urban land from the effects of mining. These include the QLD Government's Central Queensland Plan and Regional Planning Interests Act and the NSW Government's Strategic Regional Land Use Policy, Aquifer Interference Policy, and 2013 amendments to the State Environmental Planning Policy (Mining, Petroleum Production and Extractive Industries) 2007. Each of these policies is relevant to the areas in which the Company has mining operations. Accordingly, there is no assurance that the future development and exploration activities of the Company will result in profitable or commercially viable mining operations in these areas.

In 2013, the NSW State Government introduced the fit and proper person consideration in making decisions about mining rights including the grant, transfer, renewal, cancellation and suspension of such rights. This allows the Government to consider a miner's conduct (in particular its compliance with environmental and mining legislation), as well as a miner's financial capabilities and technical expertise. In recent years, the NSW State Government has also significantly increased the maximum penalties for breaches of mining and environmental legislation, and the resources of regulators to investigate possible breaches and prosecute mining companies. These changes have resulted in the updating of compliance programs, and increased the risk of prosecution for breaches of relevant legislation.

In 2013, the QLD State Government reviewed the method of calculating the financial assurance required to be provided by mining companies in respect of their rehabilitation liability and this review 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. Such claims or proceedings could divert our management's time and attention and consume financial resources in their defence or prosecution.

Insurance

The Company has insurance coverage for certain operating risks. However, it may become subject to liability (including in relation to pollution, occupational illnesses or other hazards), or suffer loss resulting from business interruption, for which it is not insured (or has not sufficiently insured) or cannot insure, including liabilities in respect of past activities.

Should a major uninsured loss be suffered, future financial performance could be materially adversely affected. In addition, insurance may not continue to be available at economically acceptable premiums. As a result, the insurance coverage may not cover the full scope and extent of claims against the Company or losses it may incur, including, but not limited to, claims for environmental or industrial accidents, occupational illnesses, pollution and product liability, war, terrorism and business interruption.

To the extent a successful claim against the Company proceeds, it may have a material adverse effect on its financial position.

Exploration and development risks

The Company's existing coal reserves will decline as mining continues. Therefore, the Company's growth and long-term success will depend on its ability to acquire additional coal resources within its exploration areas and to convert such coal resources into economically recoverable coal reserves.

There are several risks relating to coal mining exploration and development which are common to the industry and which, if realised, have the capacity to affect operations, production, cash flow and financial performance of the Company.

Development and exploration activities may be affected by factors beyond the control of the Company, including geological conditions, seismic activity, mineralisation, consistency and predictability of coal grades, changes to law, changes to the regulatory framework applying to mining, overlapping resources tenure, and the rights of indigenous people on whose land exploration activities are undertaken.

Any discovery of a coal deposit does not guarantee that the mining of that deposit would be commercially viable, with the size of the deposit, development and operating costs, land ownership, coal prices and recovery rates all being key factors in determining commercial viability.

Issues that arise during development, construction and mine start-up may result in increased costs, delayed commencement of coal production, delayed receipt of coal revenue or coal production not commencing at all. These problems may include delays in obtaining approvals (including land use approvals) or in the construction of mine infrastructure. There are many milestones which need to be met in a timely fashion for production to commence on any projects currently in the pre-development or development stages.

The Company may also be exposed to risks including risks of default associated with managing contractual relationships with participants in any of the development or exploration joint ventures or other contractual relationships to which it is, or may become, a party.

Transport and infrastructure

Coal produced from the Company's mining operations is transported to customers by a combination of road, rail and sea. Fluctuations in transportation costs and disruptions to our railway and port linkages could disrupt the Company's coal deliveries and adversely affect its business, financial condition and results of operations.

A number of factors could disrupt or restrict access to essential coal transportation and handling services, including (but not limited to):

- weather related problems;
- key equipment and infrastructure failures;
- rail or port capacity constraints;
- congestions and inter-system losses;
- industrial action;
- failure to obtain consents from third parties for access to rail or land;
- failure or delay in the construction of new rail or port capacity;
- failure to meet contractual requirements;

- access is removed or not granted by regulatory authority;
- terrorist attacks or other similar events;
- breach of regulatory framework;
- mismatch of below rail capacity, above rail capacity and port capacity; and
- possible sale of infrastructure,

all or any of which could impair the Company's ability to supply coal to customers and/or increase costs, and consequently may have a material adverse effect on the Company's financial position.

Significant increases in transport costs (such as emissions control requirements and fluctuations in the price of diesel fuel and demurrage) could make the Company's coal less competitive when compared to other fuels or coal produced from other regions.

Environmental risks

Due to the nature of coal mining processes, and the associated by-products, residues and tailings generated from these processes, all operations of the Company are subject to stringent environmental laws and regulations.

There is a risk that past, present or future operations have not met or will not meet environmental or related regulatory requirements and/or that the approvals or modifications the Company is currently seeking, or may need to seek in the future, will not be granted. If the Company is unsuccessful in these efforts or otherwise breaches these environmental requirements, it may incur fines or penalties, be required to curtail or cease operations and/or be subject to increased compliance costs or costs for rehabilitation or rectification works, which have not been previously planned at one or more of its sites.

Extensive environmental regulations in Australia, and in other countries that could affect the Company's business, may impose costs on its mining operations, and future regulations could increase those costs, limit its ability to produce and sell coal, or reduce demand for the Company's our coal products. In particular, the regulatory response to the risk of climate change, including unilateral and collective action by Australia and other countries, may affect demand for coal, coal prices and the competitiveness of the Company's products in the world energy market in the medium to long term.

Changes in and future environmental regulations could increase the standards and costs of compliance, and adversely affect the Company's ability to generate the expected economic returns from its mining assets over their useful lives. The Company may not always be able to comply with future laws and regulations in relation to environmental protection economically or at all. There can be no assurance that the Company will be able to fully and economically utilise the entire coal resources of the mines it operates currently or in the future or that some of its mining assets will not become "stranded assets" that are not able to generate the expected economic returns over their useful lives.

Environmental legislation may change in a manner that may require compliance with additional standards, and a heightened degree of responsibility for companies and their directors and employees. There may also be unforeseen environmental liabilities resulting from coal related activities, which may be costly to remedy. In particular, the acceptable level of pollution and the potential abandonment costs and obligations for which the Company may become liable as a result of its activities may be impossible to assess under the current legal framework.

Health, safety and hazardous materials risks

The Company's operations may substantially impact the environment or cause exposure to hazardous materials. It will use hazardous materials and will generate hazardous waste, and may be subject to common law claims, damages due to natural disasters, and other damages, as well as the investigation and clean-up of soil, surface water, groundwater, and other media. Such claims may arise, for example, out of current or former activities at sites that it owns or operates.

There is also a risk that actions could be brought against the Company, alleging adverse effects of such substances on personal health. If any injuries or accidents occur in a mine, this could have adverse financial implications including legal claims for personal injury, wrongful death, amendments to approvals, potential production delays or stoppages, any of which may have a material adverse effect on the financial performance and/or financial position of the Company.

There is a risk that past, present or future operations have not met, or will not meet, health and safety requirements and/or that the approvals or modifications the Company is currently seeking, or may need to seek in the future, will not be granted at all or on terms that are unduly onerous. If the Company is unsuccessful in these efforts or otherwise breaches these health and safety requirements, it may incur fines or penalties, be required to curtail or cease operations and/or be subject to increased compliance costs or costs for rehabilitation or rectification works, which have not been previously planned at one or more of its sites.

Impairment risks

The Company's balance sheet includes a number of assets that are subject to impairment risk, including mining tenements, exploration and evaluation assets, goodwill, the Middlemount loan and royalty receivable, the Watagan loan receivable and investments accounted for using the equity method.

The value of these assets is derived from the fundamental valuation of the underlying mining operations and as such is subject to many of the risks including, but not limited to, coal price and demand, foreign exchange, coal production, estimates of reserves and resources, uncertainty in costs forecasts, operating risks, injury and mine closure.

Adverse changes in these risk factors could lead to a reduction in the valuation of the Company's assets and result in an impairment charge being recognised.

Internal audit function

The internal audit function is managed by the GM of Risk and Assurance. That person has direct access to the chair of the Audit and Risk Management Committee, as well as to the CEC, to whom he directly reports. The CEC and the Audit and Risk Management Committee recommends to the Board the appointment of the GM of Risk and Assurance.

The GM of Risk and Assurance has unfettered access to the Audit and Risk Management Committee and its chair to seek information and explanations. The chair of the Audit and Risk Management Committee meets independently with the GM Risk and Assurance.

The role of the GM Risk and Assurance includes achievement of the internal audit objectives, risk management policies and insurance strategy.

An annual program for internal audit and risk assurance is provided to the Audit and Risk Management Committee for approval. The annual Internal Audit program is focused on key operating risks and processes control design and operating effectiveness.

The program includes a review of compliance with the obligations imposed by the General Rules on Internal Control for Enterprises and the Supporting Guidelines of Internal Control for Enterprises, jointly issued by five Chinese ministries.

Periodical status reports on the execution of the plan, including current findings and actions are provided to the Audit and Risk Management Committee. This includes key issues and subsequently corrective actions are monitored, reviewed and reported. Any material findings are reported to the Board.

Health, Safety and Environment Compliance

The Company has adopted policies to comply with occupational health, safety, environment and other laws. The Board has a Health, Safety and Environment Policy in place since May 2016 which applies across the Company. In addition, each mine site has its own health, safety and environmental policies and procedures to deal with their particular health, safety and environmental issues. The Board has established a Health, Safety and Environment Committee to assist it in overseeing the Company's health, safety and environmental responsibilities. In accordance with its charter, which was reviewed and amended in October 2018 to provide for relevant provisions of the HK Listing Rules, this committee has a minimum of at least three members. The current members of this committee are David Moulton (appointed 6 February 2018) (Chair of the committee), Geoffrey Raby, Fuqi Wang and Fucun Wang (appointed 8 June 2018). Vincent O'Rourke resigned as chair of the Committee on 30 January 2018. It is intended the committee meets at least four times per year, or as frequently as required. The committee meetings are held at one of the Company's mine sites, whenever possible, to receive feedback from the health, safety and environment forum held at the mine site and to address any mine specific health, safety and environment issues.

Principle 8: Remunerate fairly and responsibly

Nomination and Remuneration Committee

The Board has established a Nomination and Remuneration Committee. In accordance with its charter, which was reviewed and amended in October 2018 to provide for relevant provisions of the HK Listing Rules, this committee currently has 5 members, Helen Gillies (appointed 8 June 2018) (Chair of the committee, member since 6 February 2018), Xiangqian Wu and Gregory Fletcher (appointed 8 June 2018), Baocai Zhang (appointed 8 June 2018 and David Moulton (appointed 8 June 2018). Xiyong Li resigned as the Chair on 8 June 2018 and Cunliang Lai resigned as a member of the Committee on 8 June 2018. Three of the members of the committee, including the Chair of the committee, are independent directors of the Company, in line with the ASX Recommendations.

The committee makes recommendations to the Board to achieve Company remuneration structures that are equitable and aligned with the long-term interests of the Company and its shareholders, to attract and retain skilled employees, to structure short and long term incentives that are challenging and linked to creation of sustainable returns and to ensure

any termination benefits are justifiable and appropriate. In 2018, the committee engaged consulting firm Aon Hewitt (**Aon**) to provide independent market benchmarking with respect to the remuneration of Yancoal executives and non-executive directors. Aon presented its recommendations to the committee in Q1 and Q2 2018, which was endorsed by the committee for Board approval. The Board adopted the recommendations in May 2018.

The committee has the necessary power and resources to meet its responsibilities under its charter, including rights of access to management, auditors and external 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 21 to 35.

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 the CFO. The Share Trading Policy precludes relevant employees from entering into any hedge or derivative transactions relating to unvested options or share rights granted to them under incentive plans and securities that are subject to holding locks or restrictions on dealing under such plans. There are also restrictions that apply to relevant employees from entering into margin lending arrangements and short-term trading of the Company's securities. Breaches of the policy are treated seriously and may lead to disciplinary action, including dismissal.

The Board approved revisions to its share trading policy in October 2018 with the requirements set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the **Model Code**) as set out in Appendix 10 of the HK Listing Rules to regulate the Directors' securities transactions, which is also applicable to its employees who are likely to be in possession of unpublished inside information.

Specific enquiry has been made of all the Directors and they have each confirmed that they have complied with the Company's share trading policy and insider trading policy (which is more stringent than the Model Code) throughout the Reporting Period.

Copies of the Company's Share Trading Policy and Insider Trading Policy are available on the Corporate Governance section of the Company's website.

This Corporate Governance Statement has been approved by the Board and is current as at 25 February 2019.

Yancoal Australia Ltd
Consolidated statement of profit or loss and other comprehensive income
For the year ended 31 December 2018

	Notes	31 December 2018 \$M	31 December 2017 \$M
Revenue	B2	4,850	2,601
Other income	B3	150	294
Changes in inventories of finished goods and work in progress		31	7
Raw materials and consumables used		(669)	(349)
Employee benefits	B4	(518)	(302)
Depreciation and amortisation		(523)	(256)
Transportation		(537)	(312)
Contractual services and plant hire		(418)	(274)
Government royalties		(347)	(173)
Coal purchases		(332)	(340)
Other operating expenses	B5	(278)	(330)
Finance costs	B5	(293)	(287)
Share of profit of equity-accounted investees, net of tax	E2	56	32
Profit before income tax		1,172	311
Income tax expense	B6	(320)	(82)
Profit after income tax		852	229
Profit is attributable to:			
Owners of Yancoal Australia Ltd		852	229
Non- controlling interests		-	-
		852	229
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Cash flow hedges:			
Fair value (losses) / gains	D7	(443)	348
Fair value losses transferred to profit and loss	D7	160	229
Deferred income tax benefit / (expense)	D7	85	(173)
Other comprehensive income, net of tax		(198)	404
Total comprehensive income		654	633
Total comprehensive income for the year is attributable to:			
Owners of Yancoal Australia Ltd		654	633
Non-controlling interests		-	-
		654	633
Total comprehensive income for the year attributable to owners of Yancoal Australia Ltd arises from:			
Continuing operations		654	633
			Restated
Profit per share attributable to the ordinary equity holders of the Company:			
Basic profit per share (cents per share)	B7	67.6	52.0
Diluted profit per share (cents per share)	B7	67.6	28.0

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

Yancoal Australia Ltd
Consolidated balance sheet
As at 31 December 2018

	Notes	31 December 2018 \$M	31 December 2017 \$M
ASSETS			
Current assets			
Cash and cash equivalents	C6	1,031	207
Trade and other receivables	C7	552	658
Inventories	C8	226	150
Royalty receivable	C9	28	24
Non-contingent royalty receivable	D3	7	-
Asset classified as held for sale	C12	57	613
Other current assets		21	37
Total current assets		1,922	1,689
Non-current assets			
Trade and other receivables	C7	292	473
Property, plant and equipment	C1	2,939	2,832
Mining tenements	C2	4,218	4,296
Exploration and evaluation assets	C4	563	565
Intangible assets	C5	97	99
Deferred tax assets	B6	1,062	1,219
Interest-bearing loan to associate	D1	835	712
Royalty receivable	C9	165	175
Non-contingent royalty receivable	D3	8	-
Investments accounted for using the equity method	E2	307	251
Other non-current assets		-	2
Total non-current assets		10,486	10,624
Total assets		12,408	12,313
LIABILITIES			
Current liabilities			
Trade and other payables	C10	840	758
Interest-bearing liabilities	D2	13	17
Current tax liabilities		1	-
Provisions	C11	34	59
Non-contingent royalty payable	D3	25	112
Liabilities directly associated with assets classified as held for sale	C12	-	67
Total current liabilities		913	1,013
Non-current liabilities			
Interest-bearing liabilities	D2	4,111	4,706
Deferred tax liabilities	B6	1,029	1,030
Provisions	C11	488	488
Non-contingent royalty payable	D3	27	48
Deferred income		2	2
Total non-current liabilities		5,657	6,274
Total liabilities		6,570	7,287
Net assets		5,838	5,026
EQUITY			
Contributed equity	D4	6,482	6,217
Reserves	D7	(604)	(413)
Accumulated losses		(42)	(781)
Capital and reserves attributable to owners of Yancoal Australia Ltd		5,836	5,023
Non-controlling interests		2	3
Total equity		5,838	5,026

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

Yancoal Australia Ltd
Consolidated statement of changes in equity
For the year ended 31 December 2018

Attributable to owners of Yancoal Australia Ltd						
Notes	Contributed equity \$M	Reserves \$M	Accumulated losses \$M	Total \$M	Non-con- trolling interests \$M	Total equity \$M
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:						
Issuance of new ordinary shares	D4 5,296	-	-	5,296	-	5,296
Distribution to subordinated capital note holders	-	-	(75)	(75)	-	(75)
Subordinated capital notes redeemed on conversion	D4 (2,183)	-	-	(2,183)	-	(2,183)
Non-controlling interest on acquisition of subsidiaries	-	-	-	-	3	3
	3,113	-	(75)	3,038	3	3,041
Balance at 31 December 2017	6,217	(413)	(781)	5,023	3	5,026
Balance at 1 January 2018	6,217	(413)	(781)	5,023	3	5,026
Opening balance adjustment on adoption of AASB 9	D7 -	-	17	17	-	17
Restated total equity at 1 January 2018	6,217	(413)	(764)	5,040	3	5,043
Profit after income tax	-	-	852	852	-	852
Other comprehensive income	-	(198)	-	(198)	-	(198)
Total comprehensive income	-	(198)	852	654	-	654
Transactions with owners in their capacity as owners:						
Issuance of new ordinary shares	D4 266	-	-	266	-	266
Dividends provided for or paid	D6 -	-	(130)	(130)	-	(130)
Subordinated capital notes redeemed on conversion	(1)	-	-	(1)	-	(1)
Movements in other reserves	-	7	-	7	-	7
Acquisition of minority interest	-	-	-	-	(1)	(1)
	265	7	(130)	142	(1)	141
Balance at 31 December 2018	6,482	(604)	(42)	5,836	2	5,838

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

Yancoal Australia Ltd
Consolidated statement of cash flows
For the year ended 31 December 2018

	Notes	31 December 2018 \$M	31 December 2017 \$M
Cash flows from operating activities			
Receipts from customers		4,847	2,580
Payments to suppliers and employees		(2,896)	(1,897)
Interest paid		(236)	(169)
Interest received		96	59
Transaction costs paid		(34)	(17)
Stamp duty paid		(30)	(148)
Net cash inflow from operating activities	F3	1,747	408
Cash flows from investing activities			
Payments for property, plant and equipment		(194)	(299)
Payments for capitalised exploration and evaluation activities		(4)	(3)
Proceeds from sale of property, plant and equipment		5	1
Receipts from joint operation participants		-	40
Receipts of non-contingent royalties		75	-
Payment of non-contingent royalties		(119)	-
Payments for acquisition of interest in joint ventures and subsidiaries (net of cash acquired)	E1	(353)	(3,247)
Payment for joint operation call option fee		-	(13)
Proceeds from disposal of interest in joint venture and subsidiaries (net of cash disposed)		524	-
Repayment of loan from joint venture		117	-
Repayment of borrowings from associates		254	214
Advance of borrowings to associates		(377)	(151)
Advances from related entities		-	35
Dividends received		17	6
Cash transferred from restricted accounts		-	31
Net cash outflow from investing activities		(55)	(3,386)
Cash flows from financing activities			
Repayment of interest-bearing liabilities - related entities		(175)	-
Proceeds from interest-bearing liabilities - related entities		-	188
Payment for treasury shares		(6)	-
Repayment of interest bearing-liabilities		(1,250)	(196)
Proceeds from interest-bearing liabilities		411	-
Dividend paid		(130)	-
Payment of subordinated capital notes distribution		-	(24)
Payment of finance lease liabilities		(20)	(26)
Transactions costs paid		(2)	(68)
Proceeds from issues of shares and other equity securities	D4	268	3,125
Net cash (outflow) / inflow from financing activities		(904)	2,999
Net increase in cash and cash equivalents		788	21
Cash and cash equivalents at the beginning of the financial year		207	190
Effects of exchange rate changes on cash and cash equivalents		36	(4)
Cash and cash equivalents at the end of the year	C6	1,031	207

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

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A Basis of Preparation

These consolidated financial statements and notes are for the consolidated entity consisting of Yancoal Australia Ltd ("Company" or "parent entity") and its subsidiaries ("the Group").

These general purpose financial statements have been prepared in accordance with the Australian Accounting Standards and interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. Yancoal Australia Ltd is a for-profit entity for the purpose of preparing the financial statements.

The financial statements were authorised for issue in accordance with a resolution of the Directors on 25 February 2019.

(i) Compliance with IFRS

The consolidated financial statements of the Group also comply with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

(ii) Subsidiaries

The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group. Intercompany transactions, balances and unrealised gains on transactions between the Group companies are eliminated.

Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries are aligned to ensure consistency with the policies adopted by the Group.

(iii) Significant accounting policies

Significant accounting policies have been included in the relevant notes to which the policies relate, and other significant accounting policies are discussed in Note F6. These policies have been consistently applied to all the years presented, unless otherwise stated.

(iv) Historical cost convention

These financial statements have been prepared on an accrual basis and under the historical cost convention, as modified by the revaluation of available for sale financial assets and financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

(v) Auditor sign-off - unqualified and unmodified

The independent auditor's report of these consolidated financial statements is unqualified and unmodified. Refer to page 179 for further details.

(vi) Rounding of amounts

The Company is of a kind referred to in ASIC Legislative Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that legislative instrument to the nearest million dollars, or in certain cases, the nearest dollar.

(vii) New and amended standards adopted by the Group

Effective from 1 January 2018 the Group adopted new standards including AASB 9 *Financial Instruments* and AASB 15 *Revenue from Contracts with Customers*. Refer to Note F7 for details.

A Basis of Preparation (continued)

(viii) Impact of standards issued but not yet applied by the Group

Australian Accounting Standards and Interpretations issued but not yet applicable for the year ended 31 December 2018 that have not been applied by the Group are disclosed in Note F8.

(ix) Early adoption of standards

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out in Note F8.

(x) Critical accounting estimates and judgements

The preparation of financial statements requires the use of certain critical accounting estimates and judgements that involve a higher degree of judgement or complexity. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

The Directors evaluate estimates and judgements incorporated into these financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Company. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Details of critical accounting estimates and judgements can be found in the notes to which they relate and include:

Taxation	Note B6
Mining tenements	Note C2
Impairment of assets	Note C3
Exploration and evaluation assets	Note C4
Royalty receivable	Note C9
Provisions	Note C11
Business combinations and disposals	Note E1
Control of Watagan	Note E2

B Performance

This section of the financial statements focuses on disclosure that enhances a user's understanding of profit after tax. Segment reporting provides a breakdown of profit, revenue and assets by geographic segment. The key line items of the Statement of Profit or Loss and Other Comprehensive Income along with their components provide details behind the reported balances.

B1 Segment information

Accounting Policy

Management has determined the operating segments based on the strategic direction and organisational structure of the Group together with reports reviewed by the Chief Operating Decision Makers ("CODM"), defined as the Executive Committee, that are used to make strategic decisions including resource allocation and assessment of segment performance.

The reportable segments are considered at a regional level being New South Wales ("NSW") and Queensland ("QLD").

Non-operating items of the Group are presented under the segment "Corporate" which includes administrative expenses, foreign exchange gains and losses recycled from hedge reserve, and the elimination of intersegment transactions and other consolidation adjustments.

(a) Segment information

The segment information for the reportable segments for the year ended 31 December 2018 is as follows:

31 December 2018	Coal Mining			Total \$M
	NSW \$M	QLD \$M	Corporate \$M	
Total segment revenue*	4,294	446	(160)	4,580
Add: Fair value losses recycled from hedge reserve	-	-	160	160
Revenue from external customers	4,294	446	-	4,740
Operating EBIT	1,698	95	(136)	1,657
Operating EBITDA	2,183	127	(130)	2,180
Material income or expense items				
Non-cash items				
Remeasurement of royalty receivable	-	-	4	4
Depreciation and amortisation expense	(483)	(33)	(7)	(523)
Gain on disposal of joint operation and subsidiaries	-	-	78	78
Transactions costs	-	-	(11)	(11)
Stamp duty accrued	-	-	4	4
Impairment of financial assets	-	-	(21)	(21)
Remeasurement of financial assets	-	-	(29)	(29)
	483	33	(18)	498
Cash items				
Transaction costs	-	-	(18)	(18)
Stamp duty paid	-	-	(30)	(30)
			48	48
Total capital expenditure	200	10	-	210

B Performance (continued)

B1 Segment information (continued)

(a) Segment information (continued)

Segment assets	9,793	794	452	11,039
Deferred tax assets	113	18	931	1,062
Investment in associate and joint venture	191	-	116	307
Total assets	10,097	812	1,499	12,408

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

31 December 2017	Coal Mining			Total \$M
	NSW \$M	QLD \$M	Corporate \$M	
Total segment revenue*	2,163	460	(229)	2,394
Add: Fair value losses recycled from hedge reserve	-	-	229	229
Revenue from external customers	2,163	460	-	2,623
Operating EBIT	682	92	(42)	732
Operating EBITDA	898	126	(36)	988
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	-	-	(19)	(19)
Impairment reversal of mining tenements	100	-	-	100
	115	35	(144)	6
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

* Total segment revenue consists of revenue from the sale of coal whereas revenue disclosed in the Consolidated Statement of Profit or Loss and Other Comprehensive Income also includes other revenue such as management fees, sea freight, rents and sub-lease rentals, interest income, dividend income and royalty income. Refer to Note B1(b) below.

There was no impairment charge or other significant non-cash items recognised during the year ended 31 December 2018 and 31 December 2017 other than those disclosed above.

B Performance (continued)

B1 Segment information (continued)

(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. Refer to Note B2 for revenue from external customers split by geographical region.

Revenues from the top five external customers were \$1,644 million (2017: \$813 million) which in aggregate represent approximately 35% (2017: 31%) of the Group's revenues from the sale of coal. These revenues were attributable to the NSW and Queensland coal mining segments.

Segment revenue reconciles to total revenue as follows:

	31 December 2018 \$M	31 December 2017 \$M
Total segment revenue	4,580	2,394
Interest income	119	114
Mining services fees	46	52
Sea freight	66	12
Other revenue	39	29
Total revenue (refer to Note B2)	4,850	2,601

B Performance (continued)

B1 Segment information (continued)

(b) Other segment information (continued)

(ii) Operating EBITDA

The Executive Committee assesses the performance of the operating segments based on a measure of Operating EBITDA. This measure excludes the effects of non-recurring expenditure from the operating segments such as restructuring costs, business combination related expenses and significant impairments of cash-generating units. Furthermore, the measure excludes the effects of fair value re-measurements and foreign exchange gains / (losses) on interest-bearing liabilities. Interest income and expense are not allocated to the NSW and QLD segments, as this type of activity is driven by the corporate function, which manages the cash position of the Group.

A reconciliation of Operating EBITDA to profit before income tax from continuing operations is provided as follows:

	31 December 2018 \$M	31 December 2017 \$M
Operating EBITDA	2,180	988
Depreciation and amortisation	(523)	(256)
Operating EBIT	1,657	732
Interest income	119	114
Finance costs	(293)	(287)
Bank fees and other charges	(96)	(109)
Gain on disposal of interest in joint operation and subsidiaries	78	-
Gain on acquisition of subsidiaries	-	177
Impairment reversal of mining tenements (refer Note C3(b))	-	100
Stamp duty	(25)	(167)
Fair value losses recycled from hedge reserve - USD loans	(160)	(229)
Transaction costs	(29)	(33)
Remeasurement of financial assets	(29)	-
Remeasurement of contingent royalty	(33)	-
Impairment of financial assets	(21)	-
Remeasurement of royalty receivable	4	8
Receipts from joint venture participant	-	5
Profit before income tax from continuing operations	1,172	311

(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.

B Performance (continued)

B2 Revenue

Accounting Policies

Revenue is recognised when the control of the products or services has transferred to the customer. Revenue is measured at the amount of consideration to which the Group expects to be entitled in exchange for transferring control of products or services to the customer. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

Descriptions of the Group's performance obligations in contracts with customers and significant judgments applied in revenue recognition are as follows:

(a) Sales revenue

(i) Sale of coal

The Group produces and sells a range of thermal and metallurgical coal products. Revenue from the sale of coal is recognised when control of the product has transferred to the customer. Control of the product is considered transferred to the customer at the time of delivery, usually on a Free On Board ("FOB") basis or a Cost and Freight ("CFR") basis. For CFR contracts the performance obligation relating to freight services is accounted for as a separate performance obligation. On occasion revenue from the sale of coal is recognised as the ship pulls into harbour on a Free Alongside Ship ("FAS") basis or from the stockpile on an ex-works basis.

A receivable is recognised when control of the products is delivered as this is the point in time that the consideration is unconditional and only the passage of time is required before the payment is due. Payment of the transaction price is usually due within 21 days of the date when control of the product is transferred to the customer. From time to time, the Group receives prepayments before control of the product has transferred to the customer. Such prepayments are recognised as contract liabilities.

Some of the Group's coal sales contracts are long-term supply agreements which stipulate the nominal annual quantity and price negotiation mechanism. For those contracts, the actual quantity and transaction price applicable for future shipments are only negotiated or determined prior to the beginning of, or a date which is after, each contract year or delivery period. The transaction price for a future shipment is based on, or derived from, a market price prevailing at the time of the future shipment. As the future market price for coal is highly susceptible to factors outside the Group's influence, the transaction price for a shipment is not readily determinable until or nearing the time of the shipment. As a result, the Group has concluded that a contract with the customer does not exist for those shipments for which the actual delivery quantity and transaction price have not yet been negotiated or determined.

The transaction price for a shipment is often linked to a market index for the respective delivery period. For example, the transaction price may be determined by reference to the average GlobalCOAL Newcastle Index for the delivery period. At the end of each reporting period, the final average index price may not be available for certain shipments. In those situations, the Group uses "the expected value" method to estimate the amount of variable consideration based on the most recent average index price available for the relevant delivery period as of the end of the reporting periods and for those shipments, the Group has determined that a significant reversal in the amount of revenue recognised will not occur.

B Performance (continued)

B2 Revenue (continued)

(b) Other revenue

(i) Interest

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. Interest income from a finance lease is recognised over the term of the lease based on a pattern reflecting a constant periodic rate of return on the net investment in the lease.

(ii) Mining services fees

The Group provides corporate support services, IT services and mining services which relates to the management of mines. The management and mining service agreements stipulate a fixed monthly service fee and payment of the service fees is usually due within 21 days after the end of each calendar month in which the service is rendered. Revenue from providing management and mining services is recognised in each month in which the services are rendered.

(iii) Sea freight services

When contracts for sale of coal include freight on a CFR basis the performance obligation associated with providing the shipping is separately measured and recognised as the service is provided.

(iv) Other

Other primarily consists of dividends, rents, sub-lease rental and management fees. Dividends are recognised as revenue when the right to receive payment is established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably. Rental income arising on land surrounding a mine site is accounted for on a straight-line basis over the lease term. Contingent rental income is recognised as income in the periods in which it is earned.

	31 December 2018 \$M	Restated 31 December 2017 \$M
From continuing operations		
<i>Sales revenue</i>		
Sale of coal	4,740	2,623
Fair value losses recycled from hedge reserve	(160)	(229)
	4,580	2,394
<i>Other revenue</i>		
Interest income	119	114
Mining services fees	46	52
Sea freight	66	12
Other	39	29
	270	207
	4,850	2,601

B Performance (continued)

B2 Revenue (continued)

Disaggregation of revenue

In the following table, revenue is disaggregated by primary geographical market and major products/service lines. The table also includes a reconciliation of the disaggregated revenue with the Group's three reportable segments (see Note B1):

31 December 2018	NSW \$M	QLD \$M	Corporate \$M	Total \$M
Primary geographical markets				
Japan	946	109	-	1,055
Singapore	760	101	-	861
China	671	68	-	739
South Korea	546	118	-	664
Taiwan	501	17	-	518
Thailand	343	-	-	343
Australia (Yancoal's country of domicile)	283	12	-	295
All other foreign countries	244	21	-	265
Total	4,294	446	-	4,740
Major product/service lines				
Thermal coal	3,467	7	-	3,474
Metallurgical coal	827	439	-	1,266
Total	4,294	446	-	4,740
31 December 2017	NSW \$M	QLD \$M	Corporate \$M	Total \$M
Primary geographical markets				
China	593	61	-	654
Japan	380	109	-	489
South Korea	299	116	-	415
Singapore	193	144	-	337
Australia (Yancoal's country of domicile)	307	15	-	322
Taiwan	118	13	-	131
All other foreign countries	273	2	-	275
Total	2,163	460	-	2,623
Major product/service lines				
Thermal coal	1,442	17	-	1,459
Metallurgical coal	721	443	-	1,164
Total	2,163	460	-	2,623

In 2018 9.7% of coal sales were attributable to the largest customer and 34.7% to the top five customers (2017: 8.3% and 32.3% respectively).

B Performance (continued)

B2 Revenue (continued)

Contract balances

The group has recognised the following revenue-related receivables, contract assets and liabilities:

	31 December 2018 \$M	31 December 2017 \$M
Receivables from contracts with customers	442	404

There are no contract assets, liabilities or costs as at 31 December 2018 or 31 December 2017.

Transaction price allocated to the remaining performance obligation

As discussed in Note B2, for long term contracts the Group has concluded that contracts with customers do not exist for those shipments for which the actual delivery quantity and transaction price have not yet been negotiated or determined. For the remaining shipments where the delivery quantity and transaction price have been negotiated or determined but are subject to market price movements, the contract durations are within one year or less. As a result, the Group elects to apply the practical expedient in paragraph 121(a) of AASB 15 and does not disclose information about the remaining performance obligations in relation to the coal sales contracts. The Group also elects to apply the practical expedient in paragraph 121(b) of AASB 15 and does not disclose information about the remaining performance obligations in relation to the management and mining service contracts.

B3 Other income

Accounting Policy

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

	31 December 2018 \$M	31 December 2017 \$M
Gain on disposal of joint operation and subsidiaries (Note E1)	78	-
Gain on acquisition of subsidiaries	-	177
Gain on remeasurement of royalty receivable	4	8
Net gain on foreign exchange*	61	-
Receipts from joint operation participant	-	5
Impairment reversal of mining tenements	-	100
Sundry income	7	4
	150	294

* There is no impact on the conversion of US dollar denominated interest-bearing liabilities (2017: nil).

B Performance (continued)

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 under Australian legislation to contribute 9.5% of employees salaries and wages to the employee's defined contribution superannuation funds are recognised as an expense in the period in which they are incurred.

(iii) Wages and salaries, annual leave and sick leave

Liabilities for employee benefits for wages, salaries, annual leave and accumulating sick leave that are expected to be wholly settled within 12 months of the reporting date represent present obligations resulting from employees' services provided to the reporting date and are calculated at undiscounted amounts based on wage and salary rates that the Group expects to pay as at the reporting date including related on costs, such as superannuation, workers compensation, insurance and payroll tax and are included in trade and other payables. Non-accumulating, non-monetary benefits such as housing and cars are expensed by the Group as the benefits are used by the employee.

Employee benefits payable later than 12 months have been measured at the present value of the estimated future cash outflows to be made for those benefits. In determining the liability, consideration is given to employee salary and wage increases and the probability that the employee may satisfy any vesting requirements. Those cash flows are discounted using corporate bonds with terms to maturity that match the expected timing of cash flows attributable to employee benefits.

Additional Long Service Leave payments are made monthly to the Coal Mining Industry (Long Service Leave Funding) Corporation based on the eligible monthly payroll of employees involved in the mining of black coal. Reimbursement is sought from the fund when long service leave is paid to employees involved in the mining of black coal. An asset for the amount recoverable from the Coal Mining Industry (Long Service Leave Funding) Corporation is recognised in trade and other receivables.

These employee benefits are presented as current provisions as the Group has no unconditional right to deferred settlement for at least 12 months after the end of the reporting period.

(iv) Equity-settled share-based payments

The grant date fair value of equity-settled share-based payment awards granted to employees is recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with market performance conditions, the grant date fair value of the share-based payment is measured using Black - Scholes option pricing model to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

B Performance (continued)

B4 Employee benefits (continued)

(a) Employee benefits

	31 December 2018	31 December 2017
	\$M	\$M
Employee benefits	464	281
Share-based payments	16	-
Superannuation contributions	38	21
Total employee benefits	<u>518</u>	<u>302</u>

During 2018 \$1 million of employee benefits were capitalised (2017: \$17 million)

(b) Key management personnel compensation

Refer to the remuneration report contained in the directors' report for details of the remuneration paid or payable to each member of the Group's key management personnel ("KMP") for the year ended 31 December 2018.

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

	31 December 2018	31 December 2017
Short-term employee benefits	5,901,640	9,265,818
Post-employment benefits	149,534	149,362
Other long-term benefits	2,742,559	1,950,142
	<u>8,793,733</u>	<u>11,365,322</u>

(c) Top five employees

The five highest paid individuals in the Group include one director (2017 only), and the Chief Executive for each of the years, and details of whose remuneration are set out in the remuneration report. Details of emoluments of the remaining four (2017: three) highest paid individuals who are neither a director nor chief executive of the Company are as follows:

	31 December 2018	31 December 2017
	\$M	\$M
Salaries, allowance and other benefits in kind	2	1
Retirement benefit scheme contributions	-	-
Discretionary bonuses	5	3
	<u>7</u>	<u>4</u>

Their emoluments were within the following bands:

	31 December 2018	31 December 2017
	\$	\$
HK\$7,000,000 to HK\$7,500,000	-	2
HK\$8,000,000 to HK\$8,500,000	-	1
HK\$8,500,000 to HK\$9,000,000	1	-
HK\$10,000,000 to HK\$10,500,000	1	-
HK\$11,000,000 to HK\$11,500,000	2	-

B Performance (continued)

B5 Expenses

	31 December 2018 \$M	31 December 2017 \$M
(a) Finance costs		
Finance lease charges	3	4
Unwinding of discount on provisions and deferred payables	17	63
Other interest expenses	273	229
Interest expenses capitalised	-	(9)
Total finance costs	293	287
(b) Other operating expenses		
Bank fees and other charges	96	109
Stamp duty	25	167
Remeasurement of contingent royalty	33	-
Remeasurement of financial assets	29	-
Impairment of financial assets	21	-
Information and technology expenses	14	9
Insurance	13	6
Duties and other levies	18	12
Travel and accommodation	9	8
Net loss on disposal of property, plant and equipment	9	4
Rental expense	4	3
Net loss on foreign exchange	-	8
Other operating expenses	7	4
Total other operating expenses	278	330
(c) Largest suppliers		

In 2018 7.6% of total operating expenses related to one supplier and 23.5% to the top five suppliers (2017 5.6% and 21.5% respectively).

B Performance (continued)

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.

B Performance (continued)

B6 Taxation (continued)

Critical accounting estimates and judgements

The Group is subject to income taxes in Australia. Significant judgement is required in determining the provision for income taxes. Deferred tax assets, including those arising from unutilised tax losses, require the Group to assess the likelihood that the Group will generate sufficient taxable earnings in future periods, in order to utilise recognised deferred tax assets. Judgement is also required in respect of the application of existing tax laws especially in relation to position adopted that may have an uncertain outcome. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These estimates of future taxable income are based on forecast cash flows from operations (which are impacted by production and sales volumes, coal prices, reserves, operating costs, closure and rehabilitation costs, capital expenditure, and other capital management transactions). To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group to realise the net deferred tax assets recorded at the reporting date could be impacted. In addition, future changes in tax laws could limit the ability of the Group to obtain tax deductions in future periods.

(a) Income tax expense

(i) Net tax expenses

	31 December 2018 \$M	31 December 2017 \$M
Income tax expense	(340)	(84)
Income tax over provision in respect of prior years	20	2
	(320)	(82)
Net tax expense is attributable to:		
Continuing operations	(320)	(82)
 (ii) Income tax expense		
Deferred tax expense	(320)	(82)
Deferred tax expense included in income tax benefit comprises:		
Net over provision in respect of prior years	20	2
Decrease in deferred tax assets (refer to Note B6(b)(ii))	(301)	(34)
Increase in deferred tax liabilities (refer to Note B6(c)(ii))	(39)	(50)
	(320)	(82)

B Performance (continued)

B6 Taxation (continued)

(a) Income tax expense (continued)

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

	31 December 2018 \$M	31 December 2017 \$M
Profit from continuing operations before tax	1,172	311
Tax at the Australian tax rate of 30% (2017 - 30%)	(352)	(95)
Tax effect of amounts which are not deductible / taxable in calculating taxable income:		
Over provision in prior years	20	2
Movements in financial assets	(15)	(50)
Stamp duty expensed	(7)	(1)
Share of profit of equity-accounted investees not deductible	16	10
Gain on acquisition of subsidiaries	-	53
Gain on disposal of interest in joint operation	14	-
Denial of debt deductions	-	(1)
Other	4	-
Income tax expense	(320)	(82)

(iv) Amounts recognised directly in equity

Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss or other comprehensive income but directly debited or credited to equity:

Cash flow hedges	(85)	173
Adjustment on adoption of AASB 9	7	-
Transaction costs associated with share issuances	-	(20)
	(78)	153

B Performance (continued)

B6 Taxation (continued)

(b) Deferred tax assets

(i) Deferred tax assets

	31 December 2018 \$M	31 December 2017 \$M
Deferred tax assets from income tax	1,062	1,219

(ii) Income tax

Movements	Tax losses and offsets \$M	Provisions \$M	Trade and other payables \$M	Finance lease liabilities \$M	Cash flow hedges \$M	Other \$M	Total \$M
At 1 January 2017	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
At 1 January 2018	839	177	28	16	135	24	1,219
Under/over provision in prior year	41	(25)	-	-	11	(30)	(3)
(Charged)/credited							
- to profit or loss	(321)	(23)	6	(3)	-	40	(301)
- directly to equity	-	(7)	-	-	85	-	78
- tax loss recorded on behalf of Watagan Group	66	-	-	-	-	-	66
Acquisition of subsidiaries	-	7	-	-	-	(4)	3
At 31 December 2018	625	129	34	13	231	30	1,062

The Group's tax consolidated group includes Watagan Mining Company Pty Ltd and its controlled subsidiaries, refer to E2b(i) for further details. Deferred tax assets are recognised for the carry forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profits will be available against which the unused tax losses / credits can be utilised. The Group has unrecognised capital tax losses (tax effected) of \$9 million (2017: capital tax losses \$2 million). There is no expiry date on these tax losses.

B Performance (continued)

B6 Taxation (continued)

(c) Deferred tax liabilities

(i) Deferred tax liabilities

	31 December 2018 \$M	31 December 2017 \$M
Deferred tax liabilities from income tax	1,029	1,030

(ii) Income tax

	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
Movements							
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
At 1 January 2018	143	3	13	850	(3)	24	1,030
Under / over provision in prior year	-	-	-	(23)	-	-	(23)
Charged/(credited)							
- to profit or loss	57	6	14	(71)	3	30	39
- to other	-	-	-	-	-	(4)	(4)
Acquisition of subsidiaries	(15)	1	-	1	-	-	(13)
At 31 December 2018	185	10	27	757	-	50	1,029

B Performance (continued)

B7 Earnings per share

Accounting Policies

(a) Basic earnings per share

Calculated as net earnings attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference shares dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

(b) Diluted earnings per share

Calculated as net earnings attributable to members of the parent, adjusted for costs of servicing equity (other than dividends); the after-tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares, divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(a) Basic and diluted earnings per share

	31 December 2018	Restated 31 December 2017
From continuing operations		
Total basic earnings per share (cents per share)	67.6	52.0
Total diluted earnings per share (cents per share)	67.6	28.0

(b) Reconciliation of earnings used in calculating profit per share

	31 December 2018 \$M	31 December 2017 \$M
<i>Basic and diluted earnings per share</i>		
Earnings used in calculating the basic and diluted earnings per share:		
From continuing operations	852	229
	<u>852</u>	<u>229</u>

B Performance (continued)

B7 Earnings per share (continued)

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

	31 December 2018 Number	Restated 31 December 2017 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share (refer to Note D4)	1,259,815,749	438,720,937
Adjustments to calculation of basic earnings per share		
Bonus factor restatement associated with rights issue dated 31 August 2017	-	10%
Number of shares associated with bonus factor	-	1,923,674
Weighted average number of shares used as the denominator in calculating the basic earnings per share	1,259,815,749	440,644,611
Number of diluted shares associated with bonus factor	-	36,758,879
Other adjustments to denominator used in calculating the diluted earnings per share	1,365,383	342,530,314
Weighted average number of shares used as the denominator in calculating the diluted earnings per share	<u>1,261,181,131</u>	<u>818,010,129</u>

As required by AASB 133 when there is a rights issue, shares on issue prior to the rights issue need to be increased by a bonus factor equal to the fair value per share immediately before the exercise of rights and the rights issue price. In the calculation above this factor accounts to 10%.

A share consolidation of 35 ordinary shares into 1 ordinary share of the Company has been completed on 28 September 2018. The weighted average number of ordinary shares for the purpose of basic and diluted earnings per share has been adjusted for the share consolidation on 28 September 2018. The 2017 share numbers have been restated for the share consolidation of 35 ordinary shares to 1 ordinary share.

As disclosed in Note D4 18,000,181,437 shares were issued during 2017 for the conversion of SCN's and are included in the basic and diluted weighted average calculation for 2017. At 31 December 2017 there were 4,900 SCNs on issue that were redeemed on 31 January 2018.

C Operating Assets and Liabilities

Investment in assets drives the current and future performance of the Group. This section includes disclosures for property plant and equipment, mining tenements, exploration and evaluation assets, intangible assets, royalty receivable, cash and cash equivalents, trade and other receivables, trade and other payables, inventories and provisions contained within the Balance Sheet.

C1 Property, plant and equipment

Accounting Policies

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost includes expenditure directly attributable to the acquisition of the items and the estimated restoration costs associated with the asset.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Mine development assets include all mining related development expenditure that is not included under land, buildings and plant and equipment.

The open pit operations capitalise mine development costs including both direct and indirect costs incurred to remove overburden and other waste materials to enable access to the coal seams during the development of a mine before commercial production commences, and during future development of new open pit mining areas. Amortisation of those capitalised costs over the life of the operation commences at the time that commercial production begins for the mine for the new open pit mining area.

Underground mine development costs include both direct and indirect mining costs relating to underground longwall panel development and mains development (primary access / egress roads for the mine).

Mains development costs are capitalised net of the coal sales revenue earned from coal extracted as part of the mains development process. These capitalised costs are amortised over the life of the mine if the roads service the entire mine or over the life of the panels accessible from those mains if shorter than the mine life.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward mine development costs in relation to that area of interest. Accumulated costs in relation to an abandoned area are written off in full in the period in which the decision to abandon the area is made.

C Operating Assets and Liabilities (continued)

C1 Property, plant and equipment (continued)

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.

C Operating Assets and Liabilities (continued)

C1 Property, plant and equipment (continued)

	Assets under construction \$M	Freehold land & buildings \$M	Mine developmente \$M	Plant and equipment \$M	Leased plant and equipment \$M	Total \$M
Year ended 31 December 2017						
Opening net book amount	324	170	381	569	82	1,526
Transfer assets under construction	(576)	27	308	240	-	(1)
Additions	303	-	21	12	9	345
Acquisition through business combination	33	96	353	844	-	1,326
Other disposals	-	-	-	(17)	(7)	(24)
Depreciation	-	(4)	(45)	(98)	(8)	(155)
Transfer to assets classified as held for sale	(3)	(15)	(51)	(116)	-	(185)
Closing net book amount	81	274	967	1,434	76	2,832
At 31 December 2017						
Cost or fair value	81	330	1,310	2,910	105	4,736
Accumulated depreciation	-	(56)	(343)	(1,476)	(29)	(1,904)
Net book amount	81	274	967	1,434	76	2,832
Year ended 31 December 2018						
Opening net book amount	81	274	967	1,434	76	2,832
Transfer assets under construction	(177)	21	222	(66)	-	-
Other additions	190	1	10	4	5	210
Transfer from exploration and evaluation	-	-	10	-	-	10
Acquisition through business combinations	8	22	61	136	-	227
Other disposals	-	-	-	(9)	-	(9)
Depreciation	-	(8)	(85)	(229)	(9)	(331)
Closing net book amount	102	310	1,185	1,270	72	2,939
At 31 December 2018						
Cost	102	376	1,613	2,975	110	5,176
Accumulated depreciation	-	(66)	(428)	(1,705)	(38)	(2,237)
Net book amount	102	310	1,185	1,270	72	2,939

During the year ended 31 December 2018 \$1 million of depreciation and amortisation was capitalised (2017: \$8 million) and no interest was capitalised (2017: \$9 million).

(a) Non-current assets pledged as security

Refer to Note D2(b) for information on non-current assets pledged as security by the Group.

C Operating Assets and Liabilities (continued)

C2 Mining tenements

Accounting Policy

Mining tenements have a finite useful life and are carried at cost less any accumulated amortisation and impairment losses. Mining tenements are amortised from the date when commercial production commences, or the date of acquisition. Amortisation is calculated over the life of the mine on a 'units of production' method based on the Joint Ore Reserves Committee ("JORC") estimated reserves.

Changes in the annual amortisation rate resulting from changes in the remaining estimated reserves, are applied on a prospective basis from the commencement of the next financial year. Every year the mining tenement's carrying amount is compared to its recoverable amount and assessed for impairment, or for possible reversals of prior year impairment.

See Note C3 for further details on the impairment of assets.

	31 December 2018 \$M	31 December 2017 \$M
Opening net book amount	4,296	2,128
Acquisition through business combination	128	2,456
Transfers from exploration and evaluation	6	26
Impairment reversal	-	100
Amortisation	(188)	(103)
Transfer to assets classified as held for sale	(24)	(311)
Closing net book amount	4,218	4,296

Critical accounting estimates and judgements

Coal reserves and resources

The Group estimates its coal resources and reserves based on information compiled by Competent Persons as defined by the Australasian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves (December 2012), which is prepared by the Joint Ore Reserves Committee ("JORC") of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia, known as the JORC 2012 Code, and Australian Securities Exchange ("ASX") Listing Rules 2012.

Mineral Resources and Ore Reserves are based on geological information and technical data relating to the size, depth, quality of coal, suitable production techniques and recovery rates. Such an analysis requires complex geological judgements to interpret the data. The estimation of Recoverable Reserves is based on factors such as estimates of foreign exchange rates, coal price, future capital requirements, rehabilitation obligations and production costs, along with geological assumptions and judgements made in estimating the size and quality of the reserves. Management forms a view of forecast sales prices based on long term forecast coal price data from multiple external sources.

C Operating Assets and Liabilities (continued)

C2 Mining tenements (continued)

The external sources have determined their benchmark coal price forecasts having regard to the latest International Energy Agency (IEA) base scenario and the Nationally Determined Contributions agreed under the Paris Agreement in 2015. This contemplates the global seaborne demand for thermal coal will remain relatively consistent until 2040 whilst the global seaborne demand for metallurgical coal will increase up to 2040.

A more rigorous international response to climate change under the Paris Agreement could negatively impact the Recoverable Reserves by lowering the forecast sales prices.

Additionally as the economic assumptions used may change and as additional geological information is produced during the operations of a mine, estimates of reserves may change. The amount of reserves that may actually be mined in the future and the Group's current reserve estimate may vary. Such changes may impact the Group's reported financial position and results including:

- the carrying value of the exploration and evaluation assets, mine properties, property, plant and equipment and goodwill may be affected due to changes in estimated future cash flows;
- depreciation and amortisation charges in the statement of profit and loss and other comprehensive income may change where such charges are determined using the units of production method, or where the useful life of the related assets change; and
- the carrying value of deferred income tax assets may change due to changes in the judgements regarding the existence of such assets and in estimates of the likely recovery of such assets.

C Operating Assets and Liabilities (continued)

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.

C Operating Assets and Liabilities (continued)

C3 Impairment of assets (continued)

(a) CGU assessment

The Group operates on a regional basis within NSW and as such the NSW mines are considered to be one CGU. From 2017, Hunter Valley Operations and Mount Thorley Warkworth have been included in the NSW regional CGU alongside Moolarben and Stratford/Duralie. Yarrabee and Middlemount are considered separate CGU's due to location and ownership structure.

(b) Assessment of fair value

Each CGU's fair value less costs of disposal has been determined using a discounted cash flow model over the expected life of mine (18 - 42 years). The fair value model adopted has been categorised as level 3 in the fair value hierarchy.

The key assumptions in the model include:

Key assumptions	Description
Coal prices	<p>The Group's cash flow forecasts are based on estimates of future coal prices, which assume benchmark prices will revert to the group's assessment of the long term real coal prices of US\$67 – US\$104 per tonne (2017: US\$65 – US\$101 per tonne) for thermal and US\$112 – US\$217 per tonne (2017: US\$110 – US\$190 per tonne) for metallurgical coal.</p> <p>The Group receives long term forecast coal price data from multiple external sources when determining its benchmark coal price forecasts and then makes adjustments for specific coal qualities.</p> <p>The external sources have determined their benchmark coal price forecasts having regard to the latest International Energy Agency (IEA) New Policy Scenario, the Nationally Determined Contributions submitted in the lead-up to the Paris Agreement in 2015 and National Energy Policies. This contemplates the global seaborne demand for thermal coal will remain relatively consistent until 2040 whilst the global seaborne demand for metallurgical coal will increase up to 2040. Key risks to the outlooks are increasing decarbonisation trends, trade disputes, protectionism, import control policies in China and investor behaviour to coal project financing.</p> <p>The Group has considered the impacts of a more rigorous international response to climate change under the Paris Agreement and notes that the average mine life required for the recoverable amount to continue to exceed the book value, holding all inputs constant, including coal prices, is 7, 7 and 3 years for the NSW, Yarrabee and Middlemount CGUs, respectively. The NSW CGU has a 80% exposure to thermal coal and 20% exposure to metallurgical coal whilst Yarrabee and Middlemount are both metallurgical coal mines.</p> <p>The Group concludes that whilst a more rigorous international response to climate change could reduce the future demand for coal the likely impact of any such actions are not expected to materially impact during the time periods noted above and hence would not result in the recoverable amount falling below book value.</p> <p>For both thermal and metallurgical coal the Group's forecast coal price is within the range of external price forecasts.</p>

C Operating Assets and Liabilities (continued)

C3 Impairment of assets (continued)

(b) Assessment of fair value (continued)

Foreign exchange rates	The long term AUD/USD forecast exchange rate of \$0.75 (2017: \$0.75) is based on external sources. The year-end AUD/USD exchange rate was \$0.71 per the Reserve Bank of Australia.
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% (2017: 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 2018 the recoverable amount is determined to be above book value for all CGU's resulting in no further impairment.

At 31 December 2017, the remaining impairment provision at Moolarben of \$100 million was reversed. Management assessed the following as being reasons for the reversal:

- both the NSW CGU and Moolarben standalone recoverable amounts are above book value;
- completion of open-cut expansions and commencement of underground mining operations during 2017 have derisked future cash flows and increased production from 8Mt in 2014 to approximately 17Mt of ROM coal; and
- current and life of mine operating costs and capital expenditure have decreased.

The impairment reversal was recognised through the profit and loss.

Impairment provisions recorded as at 31 December 2018 is \$72 million for Stratford and Duralie. Stratford and Duralie is included in the NSW region CGU. Management may consider reversals of the impairment provision previously recognised if there is either an increase in the average long term real revenue over the life of the mine due to either an increase in USD coal prices, or a weakening of the AUD/USD foreign exchange rate or a combination of both, or reductions in the current and life of mine operating costs, capital expenditure requirements, or an increase in the reserves.

In determining the value assigned to each key assumption, management has used: external sources of information; the expertise of external consultants; as well as the experience of experts within the Group to validate entity specific assumptions such as coal reserves and resources. Additionally various sensitivities have been determined and considered with respect to each of the key assumptions, further supporting the above fair value conclusions.

C Operating Assets and Liabilities (continued)

C3 Impairment of assets (continued)

Key sensitivity

The most sensitive input in the fair value model is forecast revenue, which is primarily dependent on estimated future coal prices and the AUD/USD forecast exchange rate.

	2018		
	NSW \$M	Yarrabee \$M	Middlemount \$M
Book Value	5,590	396	324
Recoverable Amount	12,668	605	629
Head Room	7,078	209	305
US\$ Coal Price (i)			
+10%	2,361	289	146
-10%	(2,347)	(299)	(163)
Exchange Rate (ii)			
+5 cents	(1,526)	(176)	(96)
-5 cents	1,879	215	110
Discount Rate (iii)			
+50 bps	(512)	(20)	(11)
-50 bps	568	17	9

(i) This represents the change in recoverable amount due to a +/- 10% change to our coal price assumption.

(ii) This represents the change in recoverable amount due to a +/- 5 cents change to the long-term US\$:A\$ foreign exchange rate adopted.

(iii) This represents the change in recoverable amount due to a +/- 50bps change in discount rate adopted.

If coal prices were -10% LOM the recoverable amount would exceed book value for all CGUs with the exception of Yarrabee who exceeded the recoverable amount by \$90 million. If the AUD/USD long term forecast exchange rate was \$0.80 the recoverable amount would exceed book value for all CGUs with the exception of Yarrabee who exceed the recoverable amount by \$6 million.

C Operating Assets and Liabilities (continued)

C3 Impairment of assets (continued)

Key sensitivity (continued)

Goodwill

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

C4 Exploration and evaluation assets

Accounting Policy

Exploration and evaluation expenditure incurred is accumulated in respect of each separately identifiable area of interest which is at the individual exploration permit or licence level. These costs are only carried forward where the right of tenure for the area of interest is current and to the extent that they are expected to be recouped through successful development and commercial exploitation, or alternatively, sale of the area, or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets acquired in a business combination are recognised at their fair value at the acquisition date. The carrying amount of exploration and evaluation assets 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 2018 \$M	31 December 2017 \$M
Opening net book amount	565	498
Acquisition through business combination	12	108
Other additions	2	3
Transfers to mining tenements	(6)	(26)
Transfers to mine development	(10)	-
Transfer to assets classified as held for sale	-	(18)
Closing net book amount	563	565

C Operating Assets and Liabilities (continued)

C5 Intangibles

Accounting Policies

(i) Goodwill

Goodwill acquired in a business combination is recognised at cost and subsequently measured at cost less any impairment losses. The cost represents the excess of the cost of a business combination over the fair value of the identifiable assets, liabilities and contingent liabilities acquired.

Goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired.

See Note C3 for further details on impairment of assets.

(ii) Computer software

Computer software is carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is calculated on a straight-line basis over the period of expected benefit, which ranges from 2.5 to 10 years.

(iii) Water rights

Water rights have been recognised at cost and are assessed annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired. The water rights have been determined to have an indefinite useful life as there is no expiry date on the licences.

(iv) Other

Other intangibles include access rights, other mining licenses and management rights associated with the Group's right to manage Port Waratah Coal Services. These intangibles have a finite useful life and are carried at cost less any accumulated amortisation and impairment losses. Amortisation of these other intangibles is calculated as the shorter of the life of the mine or agreement and using a units of production basis in tonnes, or on a straight-line basis. The estimated useful lives vary from 10 to 25 years.

	Goodwill \$M	Computer software \$M	Water rights \$M	Other \$M	Total \$M
At 1 January 2017					
Cost	60	25	-	-	85
Accumulated amortisation	-	(15)	-	-	(15)
Net book amount	60	10	-	-	70

C Operating Assets and Liabilities (continued)

C5 Intangibles (continued)

	Goodwill \$M	Computer software \$M	Water rights \$M	Other \$M	Total \$M
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
Amortisation charge	-	(2)	-	(1)	(3)
Transfer to assets classified as held for sale	-	-	(4)	-	(4)
Closing net book amount	60	8	18	13	99
At 31 December 2017					
Cost	60	25	18	14	117
Accumulated amortisation	-	(17)	-	(1)	(18)
Net book amount	60	8	18	13	99
Year ended 31 December 2018					
Opening net book amount	60	8	18	13	99
Acquisition through business combination	-	2	-	1	3
Other disposals	-	-	(1)	-	(1)
Amortisation charge	-	(3)	-	(1)	(4)
Closing net book amount	60	7	17	13	97
At 31 December 2018					
Cost	60	27	17	14	118
Accumulated amortisation	-	(20)	-	(1)	(21)
Net book amount	60	7	17	13	97

The goodwill at 31 December 2018 relates to the acquisition of Yancoal Resources Limited (formally known as Felix Resources Limited) from an independent third party in an arms length transaction and was allocated to the Yarrabee mine. Refer to Note C3 for the details regarding the fair value less cost to sell calculation performed at 31 December 2018. The CGU for which goodwill was allocated was not subject to an impairment charge as the recoverable amount is greater than the carrying value for this CGU.

C6 Cash and cash equivalents

Accounting Policy

For the purpose of the Consolidated Statement of Cash Flows, cash and cash equivalents includes:

- (i) cash on hand and at call deposits with banks or financial institutions, net of bank overdrafts; and
- (ii) other short term, highly liquid investments, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

C Operating Assets and Liabilities (continued)

C6 Cash and cash equivalents (continued)

	31 December 2018 \$M	31 December 2017 \$M
Cash at bank and in hand	690	207
Deposits at call	341	-
Cash and cash equivalents	<u>1,031</u>	<u>207</u>

As disclosed in Note D2(a)(i) the minimum average balance of AU\$25 million per day and at month end AU\$50 million is required to be held in the Lender Accounts of the Syndicated Facility which is not available for use on those days.

(a) Risk exposure

The Group's exposure to interest rate risk and credit risk is discussed in Note D9. The maximum exposure to credit risk on the cash and cash equivalents balance at the end of the reporting period is the carrying amount of each class of cash and cash equivalents mentioned above.

C7 Trade and other receivables

Accounting Policy

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting period which are classified as non-current assets. After initial recognition, trade and other receivables are carried at amortised cost using the effective interest method apart from Wiggins Island Preference Shares ("WIPS") which are classified as fair value through profit and loss. Refer to Note F5(b) for detailed policies in relation to recognition, measurement, impairment and derecognition of trade and other receivables.

	31 December 2018 \$M	31 December 2017 \$M
Current		
Trade receivables from contracts with customers	442	404
Other trade receivables	70	217
Cash - restricted (refer to Note D2(b))	-	1
Promissory note receivable (i)	40	36
	<u>552</u>	<u>658</u>
Non-current		
Receivables from joint venture (refer to Note E2(b))(ii)	218	332
Receivables from other entities (iii)	15	61
Long service leave receivables	59	80
	<u>292</u>	<u>473</u>

- (i) As part of the equity raising completed in 1 September 2017 US\$28 million was deposited in Yankuang Ozstar (Ningbo) Trading Co Limited, a related party, and a promissory note was issued to the Company. Management believe that this will be settled within the next 12 months.

C Operating Assets and Liabilities (continued)

C7 Trade and other receivables (continued)

- (ii) Receivables from joint venture includes a loan provided to Middlemount Coal Pty Ltd ("Middlemount") with a face value of \$233 million. From 1 January 2019 the shareholders of Middlemount agreed to make the loan interest free for 24 months. At 31 December 2018 this loan has been revalued using the effective interest rate method to \$218 million with the difference being recognised as a contribution to the joint venture.
- (iii) Receivables from other entities includes the Group's investment in securities issued by Wiggins Island Coal Export Terminal Pty Ltd ("WICET"). These include E Class WIPS of nil (2017: \$29 million) and Gladstone Island Long Term Securities ("GiLTS") of \$14 million (2017: \$32 million). At 31 December 2018 the WIPS were revalued to nil, the GiLTS were impaired by \$17 million to a carrying value of \$14 million, and a trade and other receivable unpaid deferred distribution from WICET of \$4 million was fully impaired.

The Group does not have a standardised and universal credit period granted to its customers, and the credit period of individual customer is considered on a case-by-case basis, as appropriate. The following is an aged analysis of trade receivables based on the invoice dates at the reporting dates:

	31 December 2018 \$M	31 December 2017 \$M
0-90 days	439	395
91-180 days	-	4
181-365 days	2	1
Over 1 year	1	4
Total	442	404

(a) Past due but not impaired

The ageing analysis of the Group's and the Company's trade receivables, that were past due but not yet impaired as at 31 December 2018 and 2017, is as follows:

	31 December 2018 \$M	31 December 2017 \$M
0-90 days	3	23
91-180 days	-	4
181-365 days	2	1
Over 1 year	1	4
Total	6	32

The Group does not hold any collateral over these balances. Management closely monitors the credit quality of trade receivables and considers the balance that are neither past due or impaired to be of good quality.

(b) Foreign exchange and interest rate risk

Information about the Group's exposure to foreign currency risk and interest rate risk in relation to trade and other receivables is provided in Note D9.

(c) Fair value and credit risk

Due to the nature of these receivables, their carrying amount is assumed to approximate their fair value.

The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of receivables mentioned above. Refer to Note D9 for more information on the risk management policy of the Group and the credit quality of the Group's trade receivables.

C Operating Assets and Liabilities (continued)

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 2018 \$M	31 December 2017 \$M
Coal - at lower of cost or net realisable value	136	87
Tyres and spares - at cost	86	59
Fuel - at cost	4	4
	226	150

(a) Inventory expense

Write downs of inventories to net realisable value recognised as a provision at 31 December 2018 amounted to \$1 million (2017: \$1 million). The movement in the provision has been included in "Changes in inventories of finished goods and work in progress" in the consolidated statement of profit or loss and other comprehensive income.

C9 Royalty receivable

Accounting Policy

The royalty receivable is revalued at each reporting period based on expected future cash flows that are dependent on sales volumes, price changes and fluctuations in foreign exchange rates. Gains or losses arising from changes in the fair value of the royalty receivable 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.

C Operating Assets and Liabilities (continued)

C9 Royalty receivable (continued)

	31 December 2018 \$M	31 December 2017 \$M
Opening balance	199	199
Cash received / receivable	(31)	(29)
Unwinding of the discount	21	21
Re-measurement of royalty receivable	4	8
	193	199
Split between:		
Current	28	24
Non-current	165	175
	193	199

A right to receive a royalty of 4% of Free on Board Trimmed sales from the Middlemount mine was acquired as part of the merger with Gloucester Coal Ltd. This financial asset has been determined to have a finite life being the life of the Middlemount Mine and is measured on a fair value basis.

(a) Risk exposure and fair value measurements

Information about the Group's exposure to price risk, foreign exchange risk and methods and assumptions used in determining fair value of the royalty receivable is provided in Note D9.

C10 Trade and other payables

Accounting Policy

Refer to Note F6(b) for detailed policies in relation to recognition, classification, measurement and derecognition of trade and other payables.

	31 December 2018 \$M	31 December 2017 \$M
Trade payables	423	487
Payroll costs payable	100	107
Other payables	209	120
Tax sharing and funding payables to Watagan	108	44
	840	758

The following is an aged analysis of trade payable based on the invoice dates at the reporting date:

The average credit period for trade payable is 90 days. The Group has financial risk management policies in place to ensure that all payables are within the credit timeframe.

C Operating Assets and Liabilities (continued)

C11 Provisions

Accounting Policies

Provisions are:

- recognised when the Group has a legal or constructive obligation as a result of a past event; it is probable that cash will be required to settle the obligation, and the amount has been reliably estimated.
- 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.

2018	Employee benefits \$M	Sales contract provision \$M	Rehab- ilitation \$M	Take or pay \$M	Other provisions \$M	Total \$M
Opening net book amount	100	121	218	62	46	547
Charged / (credited) to profit or loss						
- unwinding of discount	-	2	8	3	-	13
- release of the provision	(2)	(37)	-	(21)	(1)	(61)
Acquired through business combination	-	3	18	-	5	26
Re-measurement of provisions	-	-	10	-	33	43
Disposal of interest in joint operation	(24)	(18)	-	1	(5)	(46)
Closing net book amount	74	71	254	45	78	522
Split between:						
Current	6	15	-	12	1	34
Non-current	68	56	254	33	77	488
Total	74	71	254	45	78	522

Provision	Description
Employee benefits	The provision for employee benefits represents long service leave and annual leave entitlements and other incentives accrued by employees.

C Operating Assets and Liabilities (continued)

C11 Provisions (continued)

Rehabilitation costs	<p>Mining lease agreements and exploration permits impose obligations on the Group to rehabilitate areas where mining activity has taken place. Rehabilitation of these areas is ongoing and in some cases will continue until 2060. The provision for rehabilitation costs has been calculation based on the present value of the future costs expected to be incurred in restoring affected mining areas, assuming current technologies.</p> <p>Key estimate and judgement:</p> <p>The rehabilitation provision has been created based on managements' internal estimates and assumptions relating to the current economic environment, which management believes is a reasonable basis upon which to estimate the future liability.</p> <p>These estimates are reviewed regularly to take into account any material changes to the assumptions, however actual rehabilitation costs will ultimately depend upon the future market prices for the necessary decommissioning works and the timing of when the rehabilitation costs are incurred. Timing is dependent upon when the mines ceases to produce at economically viable rates, which in turn, will depend upon future coal prices, which are inherently uncertain.</p>
Take or pay	<p>In acquiring part of a business or operation, an assessment is made on the fair value of the assets and liabilities under AASB 3 <i>Business Combinations</i>. Take or pay is the assessment of forecast excess capacity for port and rail contracts. A provision was recognised for the discounted estimated excess capacity. The provision has a finite life and will be released to profit or loss over the period in which excess capacity is realised.</p> <p>Key estimate and judgement:</p> <p>The provision is recognised and estimated based on management's assessment of contracted port capacity versus forecast usage. This involves making assumptions about the probability, amount and timing of an outflow of resources embodying economic benefits.</p>
Sales contract	<p>In acquiring part of a business or operation, an assessment is made on the fair value of the assets and liabilities under AASB 3 <i>Business Combinations</i>. 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.</p> <p>Key estimate and judgement:</p> <p>The provision is recognised and estimated based on management's assessment of future market prices.</p>
Other provisions	<p>The provision includes marketing services fee payable to Noble Group Limited deemed above market norms, contingent royalties payable to Rio Tinto Plc assessed as part of the Coal & Allied Industries Ltd ("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.</p> <p>Key estimate and judgement:</p> <p>The provision is recognised and estimated based on management's assessment of future market prices of coal.</p>

C Operating Assets and Liabilities (continued)

C12 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 2018 \$M	31 December 2017 \$M
Current assets		
Investment in associate (i)	-	25
Interest in joint ventures (ii)	-	531
Land held for sale (iii)	57	57
Total current assets	57	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, was sold for US\$20 million and completed in 2018.

(ii) Interest in joint ventures

On 27 July 2017 the Company announced that it had entered into a binding agreement to establish a 51:49 unincorporated joint venture with Glencore in relation to HVO, following completion of the Group's acquisition of Coal & Allied from Rio Tinto. Glencore paid cash consideration of US\$429 million to the Group for a 16.6% interest in HVO, and this amount was reduced by the net cash flows generated by the 16.6% HVO interest from 1 September 2017 to the date of completion. The consideration also include a 27.9% share of US\$240 million of non-contingent royalties and 49% of HVO contingent royalties payable by the Group and a net debt and working capital adjustment in respect of the Coal & Allied acquisition. The US\$429 million includes US\$20 million associated with the sale of shares in Newcastle Coal Shippers Pty Ltd held by Coal & Allied to Glencore noted above. In 2018 the sale was completed on 4 May 2018.

C Operating Assets and Liabilities (continued)

C12 Asset classified as held for sale (continued)

(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 future sale. These were acquired as part of the acquisition of Coal & Allied at fair value.

D Capital Structure and Financing

The ability of the Group to fund the investment in its ongoing activities, invest in new opportunities and meet current commitments is dependent on available cash and access to third party capital. This section contains disclosure on interest-bearing liabilities, contingencies, financial risk management, reserves and contributed equity that are required to finance the Group's activities.

D1 Interest-bearing loan to associate

Accounting Policy

Financial assets classified as loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting period which are classified as non-current assets. Refer to Note F6(b) for detailed policies in relation to recognition, measurement, impairment and derecognition of interest-bearing loan to associate.

	31 December 2018 \$M	31 December 2017 \$M
Opening balance	712	775
Repayments	(254)	(214)
Drawdowns	377	151
Closing balance	<u>835</u>	<u>712</u>

On 31 March 2016 the Group transferred its interest in three of its 100% owned NSW coal mining operations, being the Astar, 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.

D Capital Structure and Financing (continued)

D2 Interest-bearing liabilities

Accounting Policies

(i) Interest-bearing liabilities

Interest-bearing liabilities (excluding financial guarantees) are initially recognised at fair value, net of transaction costs. They are subsequently measured at amortised cost using the effective interest rate method. US dollar interest-bearing loans are designated as a hedge instrument in a cash flow hedge (refer to note D7). Refer to Note F6(b) for detailed policies in relation to recognition, classification, measurement and derecognition of interest-bearing liabilities.

(ii) Leases

Property, plant and equipment held by the Group under leases that transfer to the Group substantially all of the risks and rewards of ownership are classified as finance leases.

The leased property, plant and equipment are initially measured at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequently they are accounted for in accordance with the property, plant and equipment accounting policy.

The corresponding minimum lease payments are included in lease liabilities within interest-bearing liabilities. Each lease payment is allocated between finance cost and a reduction in the outstanding lease liability. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The net gains arising on the sale of an asset and the leasing back of the same asset using a finance lease are included as deferred income in the balance sheet and are released to the profit or loss on a straight-line basis over the term of the lease.

(iii) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

	31 December 2018 \$M	31 December 2017 \$M
Current		
Secured lease liabilities (refer to Note F1(b))	<u>13</u>	<u>17</u>
	13	17
Non-current		
Secured bank loans	2,572	3,141
Secured lease liabilities (refer to Note F1(b))	29	38
Unsecured loans from related parties	<u>1,510</u>	<u>1,527</u>
	4,111	4,706
Total interest-bearing liabilities	<u>4,124</u>	<u>4,723</u>

D Capital Structure and Financing (continued)

D2 Interest-bearing liabilities (continued)

AU\$ 'M Facilities	Balance 31 Dec 2017	Debt drawdown	Debt repayment	Lease repayment	New Leases	Non- Substantial Modification	Foreign exchange movements	Balance 31 Dec 2018
Secured bank loan	3,141	411	(1,250)	-	-	(13)	283	2,572
Loans from related parties	1,527	-	(175)	-	-	-	158	1,510
Finance leases	55	-	-	(20)	7	-	-	42
Total interest-bearing liabilities	4,723	411	(1,425)	(20)	7	(13)	441	4,124

Interest costs incurred on finance leases, amounted to \$3 million to 31 December 2018 (31 December 2017: \$3 million).

On the adoption of AASB 9 *Financial Instruments* the secured bank loans were adjusted as a result of a refinancing during 2017. Refer to Note F7 for details on the adjustment. The initial recognition of AU\$31 million less AU\$7 million amortised in 2017 was taken to retained earnings. During 2018 AU\$10 million was amortised to amortisation of non-substantial loan refinance in finance costs. This amount will continue to amortise up to the date of maturity/repayment, at which time the full face value of the secured bank loans will be recognised.

(a) Secured bank loans

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

	Facility US \$M	31 December 2018		31 December 2017	
		Facility \$M	Utilised \$M	Facility \$M	Utilised \$M
Secured bank loans					
Syndicated Facility (i)*	1,525	2,161	2,161	3,141	3,141
Syndicate Term Loan (ii)	300	425	425	-	-
	1,825	2,586	2,586	3,141	3,141

* Facility balance excludes the remaining fair value adjustment balance of AU\$13m recorded at 31 December 2018.

(i) Syndicated Facility

In 2009 a Syndicated loan facility of US\$2,600 million was taken out and fully drawn down to fund the acquisition of the Felix Resources Group. During 2014, the Syndicated Facility was extended with repayments due in 2020, 2021 and 2022. During 2018 US\$925 million (31 December 2017: US\$150 million) was repaid reducing the facility to US\$1,525 million (31 December 2017: US\$2,450 million).

Security is held over these loans in the form of a corporate guarantee issued by the Company's majority shareholder, Yanzhou Coal Mining Company Limited ("Yanzhou"), for the full amount of the facility.

As part of the acquisition of Coal & Allied Industries Ltd on 1 September 2017 the financial covenants were adjusted from that date. The Syndicated Facility includes the following financial covenants to be tested half-yearly:

- (a) The interest cover ratio is greater than 1.40 ;
- (b) The gearing ratio of the Group will not exceed 0.75; and
- (c) The consolidated net worth of the Group are greater than AU\$3,000 million.

D Capital Structure and Financing (continued)

D2 Interest-bearing liabilities (continued)

(a) Secured bank loans (continued)

(i) Syndicated Facility (continued)

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 AU\$25 million, this is tested at the end of each month, and;
- (b) The Company is to maintain in the Lender Accounts an aggregate end of month balance of not less than AU\$50 million.

There was no breach of covenants at 31 December 2018.

(ii) Syndicated Term Loan

In 2018 a Syndicated Term Loan of US\$300 million was taken out and all proceeds were used to partially repay the Syndicated Facility.

The Syndicated Term Loan is secured by the assets of the consolidated group of Yancoal Resources Ltd and Coal & Allied Industries Ltd with carrying value of \$9,486 million.

The Syndicated Term Loan includes the following financial covenants based on consolidated results of Yancoal Resources Ltd Group and Coal & Allied Group to be tested half-yearly:

- (a) The interest cover ratio is greater than 5.0 times;
- (b) The finance debt to EBITDA ratio is less than 3.0 times; and
- (c) The net tangible assets is greater AU\$1,500 million.

There was no breach of covenants at 31 December 2018.

(b) Bank guarantee facilities

Yancoal 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 Australian and international banks*	-	1,000	808	Secured by the assets of the consolidated groups of Yancoal Resources Ltd and Coal & Allied Industries Ltd with carrying value of \$9,486 million. Facility expires on 23 August 2021.
Bank of China*	50	71	67	Parent corporate guarantees from Yanzhou to Bank of China for the full amount of the facility. Facility expires on 16 December 2019.
Total	50	1,071	875	

D Capital Structure and Financing (continued)

D2 Interest-bearing liabilities (continued)

(b) Bank guarantee facilities (continued)

* This facility can be drawn in both A\$ and US\$.

The Syndicated Bank Guarantee Facility includes the following financial covenants based on the combined consolidated results of Yancoal Resources Ltd and Coal & Allied to be tested half-yearly. As part of the acquisition of Coal & Allied the Syndicated Bank Guarantee Facility was increased to AU\$1 billion and the financial covenants were adjusted from 1 September 2017:

- (a) The interest cover ratio is greater than 5.0 times;
- (b) The finance debt to EBITDA ratio is less than 3.0 times; and
- (c) The net tangible assets are greater than AU\$1,500 million.

There was no breach of covenants at 31 December 2018.

The Bank of China bank guarantee facility includes the following financial covenants to be tested half-yearly:

- (a) The interest cover ratio will not be less than 1.40;
- (b) The gearing ratio of the Group will not exceed 0.75; and
- (c) The consolidated net worth of the Group is not less than AU\$3,000 million.

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

The Bank of China bank guarantee 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 AU\$25 million, this is tested at the end of each month, and;
- (b) The Company is to maintain in the Lender Accounts an aggregate end of month balance of not less than AU\$50 million.

There was no breach of covenants at 31 December 2018.

(c) Unsecured loans from related parties

In December 2014, the Company successfully arranged two long term loan facilities from its majority shareholder, Yanzhou repayable on 31 December 2024.

- Facility 1: AU\$1,400 million - the purpose of the facility is to fund working capital and capital expenditure. The facility can be drawn in both AUD and USD. During the period no additional amounts have been drawn down and US\$9 million was repaid (31 December 2017: nil). In total US\$823 million (AU\$1,166 million) was drawn down as at 31 December 2018 (31 December 2017: US\$832 million (AU\$1,066 million)).
- Facility 2: US\$807 million - the purpose of the facility was to fund the coupon payable on subordinated capital notes. During the period no additional amounts have been drawn down. After the redemption of outstanding SCN's on 31 January 2018 no further redraws are available on this facility. In total US\$243 million (AU\$344 million) was drawn down as at 31 December 2018 (31 December 2017: US\$243 million (AU\$312 million)).

Both the facilities have a term of ten years (with the principal repayable at maturity) and are provided on an unsecured and subordinated basis with no covenants.

D Capital Structure and Financing (continued)

D2 Interest-bearing liabilities (continued)

(c) Unsecured loans from related parties (continued)

In August 2012, the Company successfully arranged a long term loan facility from Yancoal International Resources Development Co., Ltd, a wholly owned subsidiary of Yanzhou. The facility was for US\$550 million and was provided on an unsecured basis with no covenants. The purpose of the facility was to fund the acquisition of Gloucester Coal Limited. In December 2014 US\$434 million was repaid, and during 2018 the remaining balance of the loan of US\$116 million was repaid leaving the loan facility fully repaid as at 31 December 2018.

D3 Non-contingent royalty

Accounting Policies

In acquiring part of a business or operation, an assessment is made on the fair value of the assets and liabilities under AASB 3 *Business Combinations*. The non contingent royalty was fair valued on initial recognition and payable in US dollars so subject to foreign exchange movements. The amount has a finite life with any discounting and foreign exchange released to profit or loss over the contract term. Refer to Note F6(b) for detailed policies in relation to recognition, classification, measurement and derecognition of non-contingent royalty.

	Asset		Liability	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Opening balance	-	-	160	-
Initial recognition	87	-	-	283
Receipts/payments	(75)	-	(119)	(142)
Unwind of discount	1	-	5	13
Foreign exchange	2	-	6	6
Closing balance	15	-	52	160
Current	7	-	25	112
Non-current	8	-	27	48
Total	15	-	52	160

As part of the acquisition of Coal & Allied on 1 September 2017 US\$240 million of the purchase price is to be paid over five years from completion. During 2018 US\$90 million (2017: US\$110 million) of the non-contingent royalties were paid.

As part of the Glencore acquisition of the 16.6% interest in HVO, Glencore will pay to Yancoal 27.9% of the paid and future payable non-contingent royalty payments.

D Capital Structure and Financing (continued)

D4 Contributed equity

Accounting Policy

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Costs directly attributable to the issue of new shares, options or other equity instrument are shown as a deduction from the equity proceeds, net of any income tax benefit. Costs directly attributable to the issue of new shares or options associated with the acquisition of a business are included as part of the purchase consideration. Refer to Note F6(b) for detailed policies in relation to recognition, classification and measurement of contributed equity.

(a) Contributed equity

	31 December 2018 Number	31 December 2017 Number	31 December 2018 \$M	31 December 2017 \$M
<i>(i) Share capital</i>				
Ordinary shares (note D4(b))	1,320,434,437	43,959,446,612	6,219	5,953
<i>(ii) Other equity securities</i>				
Subordinated capital notes (note D4(c))	-	4,900	-	1
Contingent value right shares			263	263
			<u>263</u>	<u>264</u>
Total contributed equity			<u>6,482</u>	<u>6,217</u>

(iii) Movements in contributed equity

	31 December 2018 \$M Ordinary shares	31 December 2018 \$M Other share capital
Opening balance	5,953	1
Subordinated capital notes converted to ordinary shares	-	-
Subordinated capital notes redeemed for cash	-	(1)
Ordinary shares issued under global offering	268	-
Transaction costs, net of tax	(2)	-
Closing balance	<u>6,219</u>	<u>-</u>
	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	<u>5,953</u>	<u>1</u>

D Capital Structure and Financing (continued)

D4 Contributed equity (continued)

(a) Contributed equity (continued)

(iv) Movements of Ordinary Share Capital

	31 December 2018 Number	31 December 2017 Number
Opening balance	43,959,446,612	994,276,659
Ordinary shares issued under institutional offer	59,441,900	1,500,000,000
Ordinary shares issued under retail entitlement offer	563,881	-
Ordinary shares to be issued under over allotment option	4,361,900	-
Ordinary shares issued under entitlement offer	-	23,464,929,520
Subordinated capital notes converted to ordinary shares	3,015,976	18,000,240,433
Share consolidation	(42,706,390,832)	-
Ending balance *	1,320,439,437	43,959,446,612

* There is a difference between the ending balance and the monthly return lodged with the securities exchanges due to the exercise of the Over Allotment Option on 28 December 2018 which resulted in 4,361,900 which were issued on 3 January 2019.

(b) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands, every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Ordinary shares have no par value and the Company does not have a limited amount of authorised capital. During 2017 58,490 ordinary shares were issued on conversion of the SCNs in addition to below.

On 31 August 2017 the Company issued new shares under the pro-rata renounceable entitlement offer and institutional placement as announced to ASX on 1 August 2017. 23,464,929,520 new shares were issued under pro-rata renounceable entitlement offer and 1,500,000,000 new shares under the institutional placement. In addition, the Company issued 18,000,031,000 new shares to Yanzhou Coal Mining Co., Ltd on conversion of all of its subordinated capital notes and 150,943 new shares on conversion of 80 other subordinated capital notes by other holders. In total 42,965,111,463 new shares were issued. The total amount raised was US\$2,496 million (AU\$3,161 million) and issue costs of \$68 million have been capitalised. As noted in C7(i) US\$28 million (AU\$36 million) was deposited with a related party and a promissory note was issued to the Company.

A share consolidation of 35 ordinary shares to 1 ordinary share of the Company was completed on 28 September 2018.

As announced on 29 November 2018 the Company launched a Global Offering in connection with its dual listing on the Hong Kong Stock Exchange which commenced on 6 December 2018. On 6 December 2018 the Company issued 59,441,900 new shares under the Global offering and on 28 December 2018 563,881 new shares were issued under the Retail Entitlement offer and on 3 January 2019 4,361,900 new shares under partial exercise of the Over Allotment Option, all in connection with the dual listing for HK\$23.48 per New Share. The total amount raised was AU\$268 million and AU\$37 million of issue costs were incurred of which AU\$8 million was capitalised. The proceeds are going to be used to retire debt, finance the 4% acquisition of Moolarben Joint Venture and other potential acquisitions, and fund working capital.

D Capital Structure and Financing (continued)

D4 Contributed equity (continued)

(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 US\$100 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 SCN's. 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 US\$100 per note. The subordinated capital notes entitle holders to receive fixed rate distribution payments, payable semi-annually in arrears unless deferred. The distribution rate is set at 7% per annum, the rate is resettable to the 5 year US\$ 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. On 31 January 2018 1,606 SCN's were converted into new shares and 3,294 SCN's were redeemed for cash. At 31 December 2018 there were no SCN's on issue.

(d) Contingent value right shares

The contingent value right ("CVR") shares were repurchased on 4 March 2014 for cash of \$262.9 million representing the market value of \$3.00 cash per CVR share.

(e) Capital risk management

Total capital comprises total equity as shown on the balance sheet plus total interest bearing liabilities less cash and cash equivalents. The Group's primary objectives when managing capital are to ensure the continued ability to provide a consistent return for equity stakeholders through a combination of capital growth and distributions and to maintain an optimal capital structure to reduce the cost of capital. In order to achieve these objectives, the Group seeks to maintain a debt to debt plus equity ratio (gearing ratio) that balances risks and returns at an acceptable level and also to maintain a sufficient funding base to enable the Group to meet its working capital and strategic investment needs. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or other equity instruments, repay debt or draw down additional debt.

The gearing ratios at 31 December 2018 and 31 December 2017 were as follows:

		31 December 2018	31 December 2017
	Notes	\$M	\$M
Total interest-bearing liabilities	D2	4,124	4,723
Less: cash and cash equivalents	C6	(1,031)	(207)
Net debt		<u>3,093</u>	<u>4,516</u>
Total equity		<u>5,838</u>	5,026
Total capital		<u>8,931</u>	<u>9,542</u>
Gearing ratio		34.6%	47.3%

Refer to Note D2 for the Group's compliance with the financial covenants of its borrowing facilities.

D Capital Structure and Financing (continued)

D5 Share-based payments

Accounting Policy

Refer to Note B4(iv) for the accounting policy on share-based payments.

During 2018 share-based payments were made to KMP and other executives. As at 31 December 2018, there were 3,093,010 performance rights to acquire shares (31 December 2017: nil). These performance rights are exercisable as follows:

Details	Date of measurement / grant	Number of Rights*	Date of Expiry	Conversion Price (\$)
Management performance rights				
2018 Short Term Incentive Plan ("2018 STIP")	31 December 2018	804,599	1 January 2020	Nil
2018 STIP	31 December 2018	804,599	1 January 2021	Nil
2018 Long Term Incentive Plan ("2018 LTIP")	30 May 2018	1,483,812	1 January 2021	Nil
Special Incentive Scheme ("SIS"), Breakeven Bonus and Transaction Bonus	30 May 2018	1,216,428	3 September 2018	Nil
		<u>4,309,438</u>		<u>Nil</u>

* The number of rights issued has been adjusted by the 35:1 share consolidation which was completed on 28 September 2018.

	2018 No. of Rights	2017 No. of Rights
Balance at beginning of the year	-	-
Granted / Expected grant for services performed (i)	4,309,438	-
Exercised during the year	(1,185,203)	-
Expired during the year	-	-
Forfeited during the year	(31,225)	-
Balance at the end of year	<u>3,093,010</u>	-

(i) These rights relate to the SIS bonus, exercised on 1 September 2018. The weighted average closing price on the date immediately preceding exercise, 31 August 2018, adjusted for the share consolidation, was \$4.375.

D Capital Structure and Financing (continued)

D5 Share-based payments (continued)

Fair value of performance rights granted / expected grant in the year

2018 STIP and 2018 LTIP

During the year ended 31 December 2018, 3,093,010 performance rights were granted or expected to be granted to Key Management Personnel and executives as part of incentive plans for services performed during the year. Of the 3,093,010 performance rights, 1,609,198 relate to the 2018 STIP where 25% of the total 2018 STIP payable is deferred until two years after the start of the service period, 31 December 2019, and 25% is deferred until three years after the start of the service period, 31 December 2020. They will expire on 1 January 2020 and 1 January 2021 respectively if these deferral conditions are not met.

During the year ended 31 December 2018, 1,483,812 performance rights were granted for the 2018 LTIP and will vest on 31 December 2020 on satisfaction of certain vesting conditions. The 2018 LTIP performance rights will expire on 1 January 2021 if these vesting conditions are not met.

The purpose of the 2018 STIP and 2018 LTIP has been detailed in the Remuneration Report, contained within the Directors' Report and have been granted or are expected to be granted to all Key Management Personnel and executives. Under the 2018 STIP and 2018 LTIP, there are a maximum of 3,093,010 shares available for issue, which, if issued as new shares, would represent 0.2% of share capital in issue at 31 December 2018.

The fair value of the 2018 STIP and 2018 LTIP performance rights has been determined using the following assumptions:

	STIP	LTIP
Number of performance rights	1,609,198	1,483,812
Measurement / grant date	31 December 2018	30 May 2018
Post-consolidation share price at measurement / grant date (\$)	3.66	4.94
Expected dividend yield	8%	0%
Vesting conditions	(a)	(b)
Value per performance right (\$)	3.36	4.94

The STIP has been valued using the volume weighted average price of Yancoal's ordinary shares across a 10 day trading period before measurement date, 31 December 2018.

The LTIP has been valued using the volume weighted average price of Yancoal's ordinary shares across a 10 day trading period before grant date, 30 May 2018.

(a) The 2018 STIP performance rights will vest on satisfaction of service conditions. Executives must remain in employment at the relevant dates in order for the rights to vest.

(b) The 2018 LTIP performance rights will vest dependent upon the outcome of a cost and Earnings Per Share target. The rights are split 40% and 60% respectively to these conditions. The targets have been defined in more detail in the Remuneration Report, contained within the Directors' Report.

D Capital Structure and Financing (continued)

D5 Share-based payments (continued)

Special Incentive Scheme Breakeven Bonus and Transaction Bonus

On 30 May 2018, the Yancoal Board agreed to pay the Special Incentive Scheme Breakeven Bonus and Transaction Bonus in performance rights instead of a cash payment. The Special Incentive Scheme Breakeven Bonus and Transaction Bonus performance rights vested on 1 September 2018, and would have expired 3 September 2018. The purpose of this scheme has been detailed in the 31 December 2017 Annual Report and were granted to the Key Management Personnel and executives. Under the Special Incentive Scheme Breakeven Bonus and Transaction Bonus, there was a maximum of 1,216,428 shares available for issue, which, if they were issued as new shares, represents 0.01% of share capital on issue at 31 December 2018. The performance rights were settled through issuance of treasury shares purchased off-market during 2018 by the Employee Share Plan Trust, refer to Note D6(b) for further details.

The fair value of these performance rights has been determined using the following assumptions:

Number of performance rights	1,216,428
Grant date	30 May 2018
Post-consolidation share price at grant date (\$)	4.94
Expected dividend yield	0%
Value per performance right (\$)	4.94

The performance rights have been valued using the volume weighted average price of Yancoal's ordinary shares across a 10 day trading period before grant date, 30 May 2018.

D6 Distributions

(a) Ordinary share dividends

On 21 September 2018 the Company paid an interim unfranked dividend of \$130 million which represents 36% of profit after tax for the six months ended 30 June 2018.

(b) SCN distributions

	2018		2017	
	% per SCN	Total US\$'M	% per SCN	Total AU\$'M
Interim distribution on 31 July 2017	7%	-	7%	63
Final distribution paid on 31 January 2017	7%	-	7%	-
		-		63
		-		82

No accrual was made as at 31 December 2017 for the distribution on 31 January 2018 as the Yancoal SCN Ltd Board had not approved the distribution as at 31 December 2017. Due to foreign exchange the 31 January 2017 payment decreased by AU\$4 million from the 31 December 2016 accrual.

(c) Franking credits

	31 December 2018 \$M	31 December 2017 \$M
Franking credits available for subsequent reporting periods based on an income tax rate of 30% (2017 - 30%)	8	3

D Capital Structure and Financing (continued)

D6 Distributions (continued)

(c) Franking credits (continued)

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.

D7 Reserves

Accounting Policies

When a financial instrument is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the hedging instrument is recognised in other comprehensive income and accumulated in the hedging reserve until the anticipated underlying transaction occurs. Any ineffective portion of changes in the fair value of the hedging instrument is recognised immediately in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, or is sold, terminated or expires, any accumulated gain or loss remains in equity until the forecast transaction is ultimately recognised in profit or loss. If the forecast transaction is no longer expected to occur, then the amount accumulated in equity is immediately recognised in profit or loss.

Shares held by the Group sponsored Employee Share Plan Trust are recognised as treasury shares and deducted from equity.

The fair value of equity plans granted is recognised in the employee compensation reserve over the vesting period. This reserve will be reversed against treasury shares when the underlying shares vest and transfer to the employee at the fair value. The difference between the fair value at grant date and the amount received against treasury shares is recognised in retained earnings (net of tax).

(a) Reserve balances

	31 December 2018	31 December 2017
	\$M	\$M
Hedging reserve	(611)	(413)
Treasury shares reserve	-	-
Employee compensation reserve	7	-
	<u>(604)</u>	<u>(413)</u>

The hedging reserve is used to record gains or losses on cash flow hedges that are recognised directly in equity through the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

The closing balance relates to the effective portion of the cumulative net change in the fair value of the natural cash flow hedge using the US dollar denominated interest-bearing liabilities to hedge against future coal sales.

During the year ended 31 December 2018, losses of \$160 million were transferred from other comprehensive income to profit or loss in respect of the hedging reserve (31 December 2017 a loss of \$229 million).

D Capital Structure and Financing (continued)

D7 Reserves (continued)

(b) Hedging reserve

Movements:

Hedging reserve - cash flow hedges

Opening balance	(413)	(817)
(Loss)/profit recognised on USD interest bearing liabilities	(443)	348
Recycled to profit or loss	160	229
Deferred income tax (expense) / benefit	85	(173)
Closing balance	<u>(611)</u>	<u>(413)</u>

If interest-bearing liabilities that are a natural hedge to future coal sales are repaid prior to the original designated date the hedge gain/loss incurred prior to repayment will be released to the profit or loss in line with the original sales to which they were designated. This has resulted in the following pre-tax release profile as at 31 December 2018:

	2019 \$M	2020 \$M	2021 \$M	2022 \$M	2023 \$M	2024 \$M	Total \$M
Hedge loss to be recycled in future periods	190	172	159	240	-	113	874
Of which:							
Hedges related to loans repaid prior to designated repayment date	190	-	-	223	-	-	413
Hedges related to loans yet to be repaid	-	172	159	17	-	113	<u>461</u>
							874
Deferred income tax expense							<u>(263)</u>
Closing balance							<u>611</u>

(c) Treasury share reserve

On 28 February 2018, the establishment of an employee incentive share scheme was approved by the Company's Board of Directors. Pursuant to the scheme, the Group has set up a trust for the purpose of administering the incentive share scheme and holding the shares before they vest. The Company shall pay the trustee monies and give directions to the trustee to apply such monies and/or such other net amount of cash derived from shares held as part of the fund of the trusts to acquire shares from the market, and/or to allot and issue shares to the trustee, to satisfy any award made to selected participants. The Company shall select eligible persons from time to time and determine the number of shares to be awarded to such eligible persons.

During the year 42,574,974 shares were purchased off market by the trust for \$6 million and as noted below in Note D6(c) 41,482,103 shares were provided to certain employees on 1 September 2018 for \$6 million, leaving 1,092,871 shares in the trust after the award. On 28 September 2018 the share consolidation of 35 ordinary shares for 1 ordinary share left the balance remaining in the trust as at 31 December 2018 of 31,225 ordinary shares.

D Capital Structure and Financing (continued)

D7 Reserves (continued)

(d) Employee compensation reserve

The fair value of equity plans granted is recognised in the employee compensation reserve over the vesting period. This reserve will be reversed against treasury shares when the underlying shares vest and transfer to the employee at the fair value. The difference between the fair value at grant date and the amount received against treasury shares is recognised in retained earnings (net of tax).

During the year ended 31 December 2018, a total of 41,482,104 shares of the Company based on A\$0.141 (pre share consolidation) per share or \$6 million, have been awarded to certain employees of the Group respectively at no consideration which vested on 1 September 2018. With respect to this award of shares to eligible employees, there are no service or performance vesting conditions.

In addition \$7 million (net of tax) has been recognised in relation to the current year LTIP and deferred STIP as discussed in the remuneration report.

D Capital Structure and Financing (continued)

D8 Contingencies

Contingent liabilities

The Group had contingent liabilities at 31 December 2018 in respect of:

(i) *Bank guarantees*

	31 December 2018 \$M	31 December 2017 \$M
Parent entity and consolidated entity		
Performance guarantees provided to external parties	208	352
Guarantees provided in respect of the cost of restoration of certain mining leases given to government departments as required by statute	113	80
	321	432
Joint ventures (equity share)		
Performance guarantees provided to external parties	144	195
Guarantees provided in respect of the cost of restoration of certain mining leases	236	248
	380	443
Guarantees held on behalf of related parties (refer to Note E3(d) for details of beneficiaries)		
Performance guarantees provided to external parties	119	109
Guarantees provided in respect of the cost of restoration of certain mining leases given to government departments as required by statute	55	57
	174	166
	875	1,041

(ii) *Letter of Support provided to Middlemount Coal Pty Ltd*

The Company has issued a letter of support dated 4 March 2015 to Middlemount Coal Pty Ltd ("Middlemount"), a joint venture of the Group confirming:

- it will not demand the repayment of any loan due from Middlemount, except to the extent that Middlemount agrees otherwise or as otherwise provided in the loan agreement; and
- it will provide financial support to Middlemount to enable it to meet its debts as and when they become due and payable, by way of new shareholder loans in proportion to its share of the net assets of Middlemount.

This letter of support will remain in force whilst the Group is a shareholder of Middlemount or until notice of not less than 12 months is provided or such shorter period as agreed by Middlemount.

(iii) *Other contingencies*

A number of claims have been made against the Group, including in respect of personal injuries, and in relation to contracts which Group members are party to as part of the Group's day to day operations. The personal injury claims which have been made against the Group have largely been assumed by the insurers of the Group under the Group's insurance policies. The Directors do not believe that the outcome of these claims will have a material impact on the Group's financial position.

D Capital Structure and Financing (continued)

D9 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as foreign exchange contracts to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes and not as speculative instruments. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of foreign exchange, interest rate risk and other price risks, and aging analysis for credit risk.

The Group holds the following financial instruments:

- (i) Cash and cash equivalents;
- (ii) Trade and other receivables (including WIPS);
- (iii) Trade and other payables;
- (iv) Interest-bearing liabilities, including bank loans and finance leases;
- (v) Available-for-sale investments;
- (vi) Royalty receivable;
- (vii) Non-contingent royalty receivable;
- (viii) Non-contingent royalty payable;
- (ix) Derivative financial instruments; and
- (x) Interest-bearing loan from associate.

	31 December 2018 \$M	31 December 2017 \$M
Financial assets		
Cash and cash equivalent	1,031	207
<i>Loans and receivables - amortised cost</i>		
Trade and other receivables	844	1,131
Non-contingent royalty receivable	15	-
Interest bearing loan to associates	835	712
<i>Assets at fair value through profit and loss</i>		
Royalty receivable	193	199
WIPS	-	29
	2,918	2,278
Financial liabilities		
<i>Amortised cost</i>		
Trade and other payables	840	758
Interest-bearing liabilities	4,124	4,723
Non-contingent royalty payable	52	160
	5,016	5,641

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.

D Capital Structure and Financing (continued)

D9 Financial risk management (continued)

(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. The Group hedges a portion of contracted US dollar sales receivables and asset purchases settled in foreign currencies in each currency to mitigate the adverse impact on cash flow due to the future rise or fall in Australian dollars against the relevant currencies.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in Other Comprehensive Income in the hedging reserve until the anticipated underlying transaction occurs. Once the anticipated underlying transaction occurs, amounts accumulated in equity are recycled through the profit or loss or recognised as part of the cost of the asset to which it relates. The ineffective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised immediately in the profit or loss. In the current period, the loss relating to the ineffective portion was \$nil (2017: \$nil).

Natural cash flow hedge

The Group currently does not use bank issued instruments to hedge foreign exchange risks in respect of US dollar denominated loans, however, the scheduled repayment of the principal on US dollar loans is designated to hedge the cash flow risks on the portion of forecast US dollar sales that are not hedged through bank issued instruments ("natural cash flow hedge"). US dollar loan repayments up to a six-month period are designated to hedge the forecast US dollar sales during the same period after the designation of the hedge relationship based on a dollar for dollar basis until the hedge ratio reaches one.

Hedging effectiveness is determined by comparing the changes in the hedging instruments and hedged sales. Hedge ineffectiveness will occur when cash flows generated by sales transactions are lower than the forecast sales transaction. In cases of hedge ineffectiveness, gains or losses in relation to the excess portion in the foreign exchange movement of the designated US dollar loan repayment will be recycled to profit or loss. The effective portion of changes in the hedging instruments will be recognised in the cash flow hedge reserve in Other Comprehensive Income. When the sales transactions occur, amounts accumulated in equity are recycled through the profit or loss as an increase or decrease to sales revenue.

Royalty receivable

The royalty receivable from the Middlemount Joint Venture is estimated based on expected future cash flows that are dependent on sales volumes, US dollar denominated coal prices and the US dollar foreign exchange rate (refer to Note C9).

D Capital Structure and Financing (continued)

D9 Financial risk management (continued)

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

Other assets

Other assets include the US\$10 million associated with the Warkworth Call Option which was completed in March 2018, and the promissory note receivable as discussed in Note C7(i). These balances are predominantly held in US dollars and expected to settle within 12 months.

Non contingent royalty payable and receivable

As part of the acquisition of Coal & Allied in 2017 the Company has agreed to make deferred non-contingent royalty payments to Rio Tinto Plc ("Rio Tinto") in US dollars. As described in Note E1 27.9% of non-contingent royalty payable is received from Glencore.

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

	31 December 2018		31 December 2017	
	USD \$M	HKD \$M	USD \$M	HKD \$M
Cash and cash equivalents	560	189	139	-
Trade and other receivables	375	-	432	-
Other assets	48	-	49	-
Non-contingent royalty receivable	193	-	199	-
Trade and other payables	(295)	-	(249)	-
Interest bearing liabilities	(4,096)	-	(4,668)	-
Non-contingent royalty payable	(52)	-	(167)	-
Net Exposure	<u>(3,267)</u>	<u>189</u>	<u>(4,265)</u>	<u>-</u>

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.

D Capital Structure and Financing (continued)

D9 Financial risk management (continued)

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

	10% depreciation of AUD/USD		10% appreciation of AUD/USD	
	Profit before income tax \$M	Equity \$M	Profit before income tax \$M	Equity \$M
2018				
Cash and cash equivalents	58	-	(48)	-
Trade and other receivables	29	-	(24)	-
Non-contingent royalty receivable	19	-	(16)	-
Other assets	4	-	(3)	-
Total increase / (decrease) in financial assets	<u>110</u>	-	<u>(91)</u>	-
Trade and other payables	(23)	-	19	-
Interest-bearing liabilities	-	(319)	-	261
Non- contingent royalty payable	(4)	-	4	-
Total (increase) / decrease in financial liabilities	<u>(27)</u>	<u>(319)</u>	<u>23</u>	<u>261</u>
Total increase / (decrease) in profit before tax and equity	<u>83</u>	<u>(319)</u>	<u>(68)</u>	<u>261</u>
2017				
Cash and cash equivalents	11	-	(9)	-
Trade and other receivables	34	-	(28)	-
Non-contingent royalty receivable	17	-	(19)	-
Other assets	4	-	(38)	-
Total increase / (decrease) in financial assets	<u>66</u>	-	<u>(94)</u>	-
Trade and other payables	(19)	-	26	-
Interest-bearing liabilities	-	(363)	-	297
Non- contingent royalty payable	(13)	-	11	-
Total (increase) / decrease in financial liabilities	<u>(32)</u>	<u>(363)</u>	<u>37</u>	<u>297</u>
Total increase / (decrease) in profit before tax and equity	<u>34</u>	<u>(363)</u>	<u>(57)</u>	<u>297</u>

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 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. Refer to Note D9(d)(iii) for the royalty receivable coal price sensitivity analysis.

D Capital Structure and Financing (continued)

D9 Financial risk management (continued)

(a) Market risk (continued)

(ii) Price risk (continued)

Coal sales are predominately provisionally priced initially. Provisionally priced sales are those for which price finalisation, referenced to the relevant index, is outstanding at the reporting date. Provisional pricing mechanisms embedded within these sales arrangements have the character of a commodity derivative and are carried at fair value through profit and loss as part of trade receivables. The final sales price is determined normally 7 to 90 days after delivery to the customer. At 31 December 2018 there are \$234 million of provisionally priced sales. If prices were to increase by 10% provisionally priced sales would increase by \$23 million.

(iii) Interest rate risk

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

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

The Group's exposure to interest rate risk and the weighted average interest rate is set out as below:

	31 December 2018		31 December 2017	
	Weighted average interest rate %	Balance \$M	Weighted average interest rate %	Balance \$M
Cash and cash equivalents	1.4	1,030	1.3	207
Restricted cash	-	-	3.0	1
Bank loans and other borrowings	5.9	2,572	5.0	3,141
Interest-bearing loan to associate	9.1	835	8.9	712

Sensitivity

The following table summarises the sensitivity of the Group's significant financial assets and liabilities to changes in variable interest rates. This sensitivity is based on reasonably possible changes, determined using observed historical interest rate movements for the preceding five year period, with a heavier weighting given to more recent market data. Past movements are not necessarily indicative of future movements. For financial assets, a 25 basis point (decrease) / increase in interest rates would have (decreased) / increased equity and profit or loss after tax by the amounts shown below. For financial liabilities, a 25 basis point (decrease) / increase in interest rates would have increased / (decreased) equity and profit or loss after tax by the amounts shown below. This analysis assumes that all other variables remain constant.

D Capital Structure and Financing (continued)

D9 Financial risk management (continued)

(a) Market risk (continued)

(iii) Interest rate risk (continued)

	-25 bps		+25 bps	
	Profit after income tax \$M	Equity \$M	Profit after income tax \$M	Equity \$M
2018				
Cash and cash equivalents	(1)	-	1	-
Interest-bearing loan to associate	(1)	-	1	-
Interest-bearing liabilities	5	-	(5)	-
	<u>3</u>	<u>-</u>	<u>(3)</u>	<u>-</u>
2017				
Interest-bearing loan to associate	(1)	-	1	-
Interest-bearing liabilities	6	-	(6)	-
	<u>5</u>	<u>-</u>	<u>(5)</u>	<u>-</u>

(b) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. As at 31 December 2018 the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantees provided by the Group is arising from the carrying amount of the respective recognised financial assets as stated in the Consolidated Balance Sheet and the amount of contingent liabilities in relation to financial guarantees issued by the Group as disclosed in Note D8.

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

In assessing the Expected Credit Losses ("ECL") of trade receivables management assesses historical write offs of trade receivables, aging of debtors and whether sufficient credit enhancement is provided by customers (letters of credit and bank guarantees). If the aging of trade receivables significantly increased then the recognition of ECL would need to be reassessed.

Receivables will only be written off if there is demonstrable evidence that there is no reasonable expectation of recovery.

There was no provision for lifetime or 12 month ECL recognised for trade receivables as at 31 December 2018 as there are minimal aged debts.

The credit risk on cash and cash equivalents is limited as the counterparties are banks with credit-ratings assigned by international credit-rating agencies that are at least investment grade.

Credit risk in trade receivables is managed in the following ways:

- (i) payment terms and credit limits are set for individual customers;
- (ii) a risk assessment process is used for all customers; and
- (iii) letters of credit are required for those customers assessed as posing a higher risk.

D Capital Structure and Financing (continued)

D9 Financial risk management (continued)

(b) Credit risk (continued)

As disclosed in Note D2(a)(i) the minimum average balance of AU\$25 million per day and at month end AU\$50 million is required to be held in the Lender Accounts of the Syndicated Facility which is not available for use on those days.

The maximum exposure to credit risk on financial assets which have been recognised in the balance sheet is their carrying amount less impairment provision, if any as set out below.

	31 December 2018	31 December 2017
	\$M	\$M
Cash and cash equivalents	1,031	207
Trade and other receivables	844	1,131
	1,875	1,338

Included in trade and other receivables are significant customers located in Singapore, Australia, Japan and Taiwan that account for 18%, 17%, 16% and 14% of trade receivables respectively (2017: Singapore 30%, Japan 23%, Australia 14% and Hong Kong 8%).

The top five customers included in trade receivables with the largest gross receivable balance as at 31 December 2018 account for 33% of trade receivables (2017: 27%).

(c) Liquidity risk

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

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

Liquidity risk is managed by maintaining sufficient cash and liquid deposit balances and having readily accessible standby facilities in place in accordance with the Board's risk management policy. Details regarding finance facilities are set out in Note D2.

Maturities of financial liabilities

The tables below analyse the Group's financial liabilities into relevant maturity groupings based on their contractual maturities and interest payments for all liabilities.

The amounts disclosed in the table are the contractual undiscounted cash flows including interest payments. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

D Capital Structure and Financing (continued)

D9 Financial risk management (continued)

(c) Liquidity risk (continued)

Contractual maturities of financial liabilities	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Greater than 5 years	Total contractual cash flows	Carrying amount
At 31 December 2018	\$M	\$M	\$M	\$M	\$M	\$M
Non-derivatives						
Trade and other payables	840	-	-	-	840	840
Non-contingent royalty	26	13	13	-	52	52
Interest-bearing liabilities	319	1,533	1,799	1,660	5,311	4,124
Total non-derivatives	1,185	1,546	1,812	1,660	6,203	5,016
					Total contractual cash flows	Carrying amount
At 31 December 2017	\$M	\$M	\$M	\$M	\$M	\$M
Non-derivatives						
Trade and other payables	758	-	-	-	758	758
Non-contingent royalty	115	26	26	-	167	167
Interest-bearing liabilities	369	384	4,116	1,612	6,481	4,723
Total non-derivatives	1,242	410	4,142	1,612	7,406	5,648

(d) Fair value measurements

(i) Fair value hierarchy

The Group uses various methods in estimating the fair value of financial instruments. AASB 13 *Fair Value Measurement* requires disclosure of fair value measurements by level in accordance with the following fair value measurement hierarchy:

- (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- (b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2); and
- (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following table presents the Group's financial assets and financial liabilities measured and recognised at fair value at 31 December 2018 and 31 December 2017:

D Capital Structure and Financing (continued)

D9 Financial risk management (continued)

(d) Fair value measurements (continued)

(i) Fair value hierarchy (continued)

31 December 2018	Level 1 \$M	Level 2 \$M	Level 3 \$M	Total \$M
Assets				
Royalty receivable	-	-	193	193
WIPS	-	-	-	-
Total assets	-	-	193	193
Liabilities				
Other derivatives	-	-	-	-
Total liabilities	-	-	-	-
31 December 2017	Level 1 \$M	Level 2 \$M	Level 3 \$M	Total \$M
Assets				
Royalty receivable	-	-	199	199
WIPS	-	-	29	29
Total assets	-	-	228	228
Liabilities				
Other derivatives	-	-	-	-
Total liabilities	-	-	-	-

(ii) Valuation techniques

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for the royalty receivable and WIPS.

D Capital Structure and Financing (continued)

D9 Financial risk management (continued)

(d) Fair value measurements (continued)

(ii) Valuation techniques (continued)

(iii) Fair value measurements using significant unobservable inputs (level 3)

The following table presents the changes in level 3 instruments for the year ended 31 December 2018:

	31 December 2018	31 December 2017
	Royalty Receivable \$M	Royalty Receivable \$M
Opening balance	199	199
Cash received / receivable	(31)	(29)
Unwinding of the discount	21	21
Remeasurement of the royalty receivable recognised in profit and loss	4	8
Closing balance	<u>193</u>	<u>199</u>

Royalty receivable

The fair value of the royalty receivable is the fair value of the right to receive a royalty of 4% of Free on Board Trimmed Sales from the Middlemount Mine. The financial asset has a finite life being the life of the Middlemount Mine and will be measured on a fair value basis.

The fair value is determined using the discounted future cash flows that are dependent on the following unobservable inputs: forecast sales volumes, coal prices and fluctuations in foreign exchange rates. The forecast sales volumes are based on the internally maintained budgets, five year business plan and life of mine models. The forecast coal prices and long term exchange rates are based on external data consistent with the data used for impairment assessments (refer to Note C3). The risk-adjusted post-tax discount rate used to determine the future cash flows is 10.0%.

The estimated fair value could increase significantly if the following unobservable inputs of sales volumes and coal prices were higher and if the Australian dollar weakens against the US dollar. The estimated fair value would also increase if the risk-adjusted discount rate was lower.

Sensitivity

The following tables summarise the sensitivity analysis of royalty receivable. This analysis assumes that all other variables remain constant.

	31 December 2018	31 December 2017
	Fair value increase/ (decrease) \$M	Fair value increase/ (decrease) \$M
Coal price		
+10%	15	18
-10%	(15)	(18)
Exchange rates		
+10%	(16)	(17)
-10%	19	19
Discount rates		
+10%	(4)	(5)
-10%	4	5

D Capital Structure and Financing (continued)

D9 Financial risk management (continued)

(d) Fair value measurements (continued)

Sensitivity (continued)

(iv) Fair values of other financial instruments

The carrying amount is approximate to the fair value for the following:

- (i) Trade and other receivables
- (ii) Other financial assets
- (iii) Trade and other payables
- (iv) Interest-bearing liabilities

E Group Structure

This section explains significant aspects of the Groups structure including interests in other entities, related party transactions, parent entity information, controlled entities and the deed of cross guarantee.

E1 Business combinations and disposals

Accounting Policies

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition related costs are expensed as incurred including stamp duty. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

The excess of the consideration transferred and the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a gain on acquisition of subsidiaries.

Critical accounting estimates and judgements

Acquisition accounting

Accounting for acquisition of businesses requires judgment 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.

(a) Acquisition of 4% of Moolarben

(i) Summary of acquisition

On 30 November 2018, Moolarben Coal Mine Pty Ltd a 100% owned subsidiary of Yancoal Australia Ltd acquired a 4% interest in Moolarben Coal Joint Venture ("Moolarben JV") from Kores Australia Moolarben Coal Pty Ltd ("Kores"). The Moolarben JV is accounted for as a joint operation. With the 4% acquisition the Group now holds an 85% interest in the Moolarben JV. The cash consideration paid and payable was \$84 million, split over four instalments of \$21 million each, and reduced by a \$21 million effective date adjustment whereby the cash consideration was reduced by 4% of the Moolarben JV's net cash inflow from the date of the sales agreement (15 April 2018) to completion.

E Group Structure (continued)

E1 Business combinations and disposals (continued)

(a) Acquisition of 4% of Moolarben (continued)

(ii) Assets and liabilities acquired

Details of the purchase consideration and the net assets and liabilities acquired of the additional interest in the Moolarben JV are as follows:

	\$M
Purchase consideration:	
Purchase price	84
Effective date adjustment	(21)
Total consideration	63
Gain on acquisition of interest in joint operation	-
Fair value of net identifiable assets acquired	63

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

	Fair value \$M
Cash	2
Trade and other receivables	2
Inventories	3
Other current assets	1
Property, plant and equipment	52
Mining tenements	1
Trade and other payables	(5)
Provisions	(2)
Deferred tax assets	9
Fair value of net identifiable assets acquired	63
Net assets acquired	63

The accounting for the acquisition has been determined on a provisional basis at 31 December 2018. Any adjustments to the provisional values as a result of completion work on the fair values of assets and liabilities acquired will be recognised within 12 months of the acquisition date and will be recognised as if they had occurred as at the date of acquisition.

(iii) Revenue and profit contribution

The acquired interest contributed revenue of \$6 million and net profit of \$1 million to the Group for the period from 1 December 2018 to 31 December 2018. If the acquisition had occurred on 1 January 2018, consolidated revenue and net profit before tax for the period ended 31 December 2018 would have been \$78 million and \$40 million respectively. These amounts have been calculated using the Group's accounting policies.

E Group Structure (continued)

E1 Business combinations and disposals (continued)

(b) Disposal of 16.6% interest in Hunter Valley Operation to Glencore

(i) Summary of disposal

On 4 May 2018, the Company announced that it had completed the establishment of a 51%:49% unincorporated joint venture with Glencore Coal Pty Ltd ("Glencore") in relation to Hunter Valley Operations ("HVO JV") as was previously announced on 27 July 2017 and held a 51%:49% shareholding in HVO Services Pty Ltd, HV Operations Pty Ltd and HVO Coal Sales Pty Ltd (together the "HVO entities").

Glencore paid cash consideration of US\$1,139 million for 49% of HVO JV and the HVO entities, of which US\$710 million was paid to Mitsubishi Development Pty Ltd ("MDP") for its 32.4% interest and US\$429 million was paid to a wholly owned subsidiary of Yancoal, Coal & Allied Operations Pty Ltd, for its 16.6% interest, adjusted for a net debt and working capital adjustment and an adjustment for the net cash inflows of HVO since 1 September 2017.

Yancoal will also receive from Glencore a 27.9% share of the US\$240 million non-contingent royalties payable by Yancoal to Rio Tinto Plc ("Rio Tinto") resulting from the acquisition of Coal & Allied Industries Ltd, which occurred on 1 September 2017. The US\$429 million includes US\$20 million associated with the transfer of shares in Newcastle Coal Shippers held by Coal & Allied Industries Limited and Warkworth Coal Sales Limited to a Glencore subsidiary.

Glencore acquired MDP's 32.4% HVO interest directly from MDP in place of Yancoal's tag-along offer. From 4 May 2018 Yancoal continues to proportionately consolidate its 51% interest in the HVO JV, deconsolidated the HVO entities and continued to account for these entities as joint ventures. Details of the sale proceeds, the net identifiable assets disposed of and the gain on disposal of the interest in joint venture and subsidiaries are as follows:

	\$M
Disposal consideration:	
Disposal price	569
Non-contingent royalties	87
Working capital and share of net cash outflows adjustment	(36)
Total consideration	620
Gain on disposal of interest in joint operation and subsidiaries (Note B3)	(78)
Fair value of net identifiable assets and liabilities disposed of (refer to b(ii) below)	542

E Group Structure (continued)

E1 Business combinations and disposals (continued)

(b) Disposal of 16.6% interest in Hunter Valley Operation to Glencore (continued)

(ii) Assets and liabilities disposed

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

	Fair value \$M
Cash	13
Trade and other receivables	175
Inventories	12
Assets classified as held for sale	26
Other assets	1
Property, plant and equipment	186
Mining tenements	335
Exploration and evaluation assets	18
Intangible assets	4
Trade and other payables	(172)
Provisions	(56)
Fair value of net identifiable assets acquired	542

(c) Acquisition of 28.898% interest in Warkworth Joint Venture

(i) Summary of acquisition

As announced on 7 March 2018 and effective from 1 March 2018 CNA Warkworth Australasia Pty Ltd, a subsidiary of the Company, acquired a 28.898% interest in the Warkworth Joint Venture from Mitsubishi Development Pty Ltd ("MDP") for US\$230 million, plus a net debt and working capital adjustment. The acquisition also included MDP's shareholding in the following companies, Warkworth Coal Sales Pty Ltd, Warkworth Mining Ltd, Warkworth Pastoral Co Pty Ltd and Warkworth Tailings Treatment Pty Ltd.

	\$M
Purchase consideration:	
Acquisition price	295
Net debt and working capital adjustment	58
Total consideration	353
Gain on acquisition of interest in joint operation and subsidiaries	-
Fair value of net identifiable assets acquired (refer to c(ii) below)	353

E Group Structure (continued)

E1 Business combinations and disposals (continued)

(c) Acquisition of 28.898% interest in Warkworth Joint Venture (continued)

(ii) Assets and liabilities acquired

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

	Fair value \$M
Cash	6
Trade and other receivables	72
Inventories	13
Other assets	1
Property, Plant and equipment	178
Mining tenements	127
Exploration and evaluation assets	12
Intangible assets	2
Trade and other payables	(44)
Provisions	(16)
Deferred tax assets	1
Non-controlling interest	1
Fair value of net identifiable assets acquired	353

The accounting for the acquisition has been determined on a provisional basis at 31 December 2018. Any adjustments to the provisional values as a result of completing work on the fair values of assets and liabilities acquired will be recognised within 12 months of the acquisition date and will be recognised as if they had occurred as at the date of acquisition.

(iii) Revenue and profit contribution

The acquired interest contributed revenue of \$285 million and net profit of \$137 million to the Group for the period from 1 March 2018 to 31 December 2018. If the acquisition had occurred on 1 January 2018, consolidated revenue and net profit before tax for the period ended 31 December 2018 would have been \$333 million and \$160 million respectively. These amounts have been calculated using the Group's accounting policies.

(d) Update on acquisition of Coal and Allied Industries Ltd

On 1 September 2017, the Group acquired the shares in Coal & Allied from wholly owned subsidiaries of Rio Tinto. The total consideration payable was \$3,547 million. The accounting for the Coal & Allied acquisition was determined on a provisional basis at 31 December 2017.

During the current year, adjustments have been made to the provisional acquisition accounting of Coal & Allied. This resulted in an increase in provisions of \$8 million offset by increases in mining tenements of \$1 million and intangible assets of \$1 million together with the resulting deferred tax impacts. Deferred tax assets increased by \$2 million and deferred tax liabilities decreased by \$4 million. The changes have resulted from further analysis of agreements and the nature and status of assets that existed as at the acquisition date that, if known, would have affected the measurement of the amounts recognised as at the date of acquisition.

The accounting for the acquisition is now final as at 31 December 2018.

E Group Structure (continued)

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.

Investments in associates and joint ventures

When the Group's share of losses in a joint venture or associate equals or exceeds its interest in the joint venture or associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture or associate.

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

E Group Structure (continued)

E2 Interests in other entities (continued)

Critical accounting judgements

There is significant judgement in assessing whether the Group controls Watagan. Even though it holds 100% of the nominal share capital. An assessment has been made that in accordance with the accounting standards the Group does not control Watagan as it is not able to direct the relevant activities of Watagan and accounts for its interest in Watagan as an associate.

(a) Joint operations

A controlled entity, Moolarben Coal Mines Pty Limited, has an 85% (2017: 81%) interest in the Moolarben Joint Venture whose principal activity is the development and operation of open-cut and underground coal mines.

A controlled entity, Coal & Allied Operations Pty Ltd has a 51% (2017: 67.6%) interest in the Hunter Valley Operations Joint Venture whose principal activity is the development and operation of open-cut coal mines.

A controlled entity, Mount Thorley Operations Pty Ltd has a 80% (2017: 80%) interest in the Mount Thorley Joint Venture whose principal activity is the development and operation of open-cut coal mines.

Controlled entities, CNA Warkworth Associates Pty Ltd and CNA Resources Ltd, have a combined 84.5% (2017: 55.6%) interest in the Warkworth Joint Venture whose principal activity is the development and operation of open-cut mines.

A controlled entity, Yarrabee Coal Company Pty Ltd, has a 50% (2017: 50%) interest in the Boonal Joint Venture, whose principal activity is the provision of a coal haul road and train load out facility.

The principal place of business for the above joint operations is in Australia.

(b) Interests in associates and joint ventures

Set out below are the associates and joint ventures of the Group as at 31 December 2018. The entities listed below have share capital consisting solely of ordinary shares, which are held directly by the Group. The country of incorporation or registration is also their principal place of business.

Name of entity	Place of business / country of incorporation	% of ownership interest		Nature of relationship	Measurement method	Carrying amount of investment	
		2018 %	2017 %			2018 \$M	2017 \$M
Watagan Mining Company Ltd	Australia	100	100	Associate	Equity method	-	-
Port Waratah Coal Services Ltd	Australia	30	30	Associate	Equity method	190	191
Newcastle Coal Infrastructure Group Pty Ltd	Australia	27	27	Associate	Equity method	-	-
Middlemount Coal Pty Ltd	Australia	49.9997	49.9997	Joint Venture	Equity method	116	60
HVO Coal Sales Pty Ltd	Australia	51	N/A	Joint Venture	Equity method	1	N/A

E Group Structure (continued)

E2 Interests in other entities (continued)

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

HVO Operations Pty Ltd	Australia	51	N/A	Joint Venture	Equity method	-	N/A
HVO Services Pty Ltd	Australia	51	N/A	Joint Venture	Equity method	-	N/A
Total						307	251

(i) Investment in associates

Watagan Mining Company Pty Ltd

During 2015 the Group established a 100% owned subsidiary, Watagan Mining Company Pty Ltd ("Watagan"). On 18 February 2016, the Group executed a Bond Subscription Agreement, together with other agreements (the "Watagan Agreements") that, on completion, transferred the Group's interest in three of its 100% owned NSW coal mining operations, being the Astar, Ashton and Donaldson coal mines (the "three mines"), to Watagan for a purchase price of \$1,363.4 million (an amount equal to the book value of the three mines at completion). The purchase price was funded by way of a \$1,363.4 million loan from Yancoal Australia Ltd to Watagan bearing interest at BBSY plus 7.06% with a maturity date of 1 April 2025. The outstanding interest and principal of this loan is guaranteed by Yankuang Group Co., Ltd ("Yankuang"), the Group's ultimate parent entity. The completion date of the transaction was 31 March 2016.

On completion Watagan issued US\$775 million of secured debt bonds with a term of approximately nine years to three external financiers ("Bondholders"). The Bondholders receive interest on the face value outstanding on the bonds comprising a fixed interest component, as well as a variable interest component that is tied to the EBITDA performance of Watagan. As a result of the terms of the Watagan Agreements, it was determined that the Bondholders obtained accounting control of Watagan; accordingly, the Group de-consolidated Watagan.

This change in accounting control was determined to occur on the issuance date of the bonds on the basis that the Bondholders obtained power over the key operating and strategic decisions of Watagan and no longer resided with the Group. Specifically, those powers were transferred to the Bondholders under the terms of the Watagan Agreements as the Bondholders were given control of Watagan's board of directors via appointment of the majority of directors. This change in accounting control resulted in the Group de-consolidating the results of Watagan from the transaction completion date and the Group began to equity account for its 100% equity interest in Watagan as an associate, given the Group retains significant influence in Watagan.

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

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

The book value of Watagan's net assets has declined since inception and at 31 December 2018 the book value of liabilities exceeded the book value of assets by \$438 million. These losses have not been recognised as the accumulated losses exceeds the value of the investment by the Group.

E Group Structure (continued)

E2 Interests in other entities (continued)

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

(i) Investment in associates (continued)

Watagan Mining Company Pty Ltd (continued)

The book value of Watagan's non-current assets of \$1,654 million includes, \$743 million, \$390 million and \$388 million for the Ashton, Austar and Donaldson mines, respectively.

As noted in the directors' report Auster was subject to prohibition notices issued by the Resource Regulator that restricted current operations in Bellbird South, however as announced on 7 August 2018 these notices have now been lifted. Ongoing work is being undertaken by Watagan in respect of the very challenging geological and geotechnical conditions at the Auster mine, including both the Bellbird South and Stage 3 areas that may have a significant adverse impact on future commercial operations. The future prospects of the Auster mine are therefore uncertain, and its future carrying value will depend upon the work currently being conducted by Watagan and its internal and external advisers (Auster Review). If it is determined that the mine is unable to return to previously forecast levels of production, there is a need to proceed to a permanent shutdown, or there are materially negative changes to other operating assumptions, including coal prices, exchange rates, operating costs or capital expenditure, it is likely that the fair value of that mine, and therefore of Watagan, would be reduced materially. In that event, a material impairment charge may be recognized. Donaldson remains on care and maintenance and work remains ongoing to explore potential future mining operations.

The value of the non-current assets in the Watagan balance sheet have thus been assessed on an aggregated basis, including that:

- Auster returns to normal development and production in the Stage 3 area on completion of mining in Bellbird South, this position will have to be reassessed on completion of the Auster Review; and
- Donaldson will recommence operations at some time in the future which is management's current intention.

The key assumptions in the fair value model of Watagan are consistent with those disclosed in Note C3 noting that; (i) the Group's assessment of the long term coal prices of USD67 - USD125 per tonne for thermal coal and USD112 - USD150 per tonne from metallurgical coal for Watagan mines is at the top of the range of external forecasts, and (ii) to reflect the increased operational risks when determining the recoverable amount of the Watagan mines a 3.5% risk premium has been applied to the discount rate, increasing to 14%.

If it is determined that either or both, Auster or Donaldson, are unable to restart operations or return to previously forecast levels of production or there are materially negative changes to other operating assumptions, impacting all three mines, including coal prices, exchange rates, operating costs, capital expenditure, geological conditions, approvals or changes to existing lease conditions or regulatory outcomes it is likely that the fair value of these mines would be reduced materially. Any impairment of these assets of Watagan would increase Watagan's net asset deficit.

In that event, an impairment may be recognised by the Group on its loan receivable from Watagan, refer to Note D1 for details on the loan, or on the future reconsolidation of Watagan.

Sensitivities

Apart from the geological and geotechnical issues noted at Auster and the ongoing work on recommencing mining at Donaldson that directly impact the physical and cost inputs, the most sensitive inputs to the fair value model of Watagan is forecast revenue, which is primarily dependent on estimated future coal prices and the AUD:USD forecast exchange rate, and the discount rate

E Group Structure (continued)

E2 Interests in other entities (continued)

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

(i) Investment in associates (continued)

Watagan Mining Company Pty Ltd (continued)

	2018 Watagan \$M
Book Value	1,046
Recoverable Amount	1,073
Head Room	27
US\$ Coal Price (i)	
+10%	371
-10%	(373)
Exchange Rate (ii)	
+5 cents	(228)
-5 cents	269
Discount Rate (iii)	
+50 bps	(52)
-50 bps	55

(i) This represents change in recoverable amount due to +/- 10% change to our coal price assumption.

(ii) This represents the change in recoverable amount due to a +/- 5 cents change to the long-term US\$:A\$ foreign exchange rate adopted.

(iii) This represents the change in recoverable amount due to a +/- 50bps change in discount rate adopted.

Port Waratah Coal Services Ltd

The Group holds a direct shareholding in Port Waratah Coal Services Ltd ("PWCS") of 30% (2017: 30%). Under the shareholder agreement between the Group and other shareholders, the Group has 30% of the voting power of PWCS. The Group has the right to appoint a director and is currently represented on the Board to partake in policy-making processes. The principal activities of PWCS were the provision of coal receivable, blending, stockpiling and ship loading services in the Port of Newcastle.

Newcastle Coal Infrastructure Group Pty Ltd

The Group holds 27% (2017: 27%) of the ordinary shares of Newcastle Coal Infrastructure Group Pty Ltd ("NCIG"). Under the shareholder agreement between the Group and other shareholders, the Group has 27% of the voting power of NCIG. The Group has the right to appoint a director and is currently represented on the Board to partake in policy-making processes.

Summarised financial information of associates

The information below reflects the Group's share of the results of its principal associates and the aggregated assets and liabilities. They have been amended to reflect adjustments made by the Group when using the equity method, including fair value adjustments and modifications for differences in accounting policy.

E Group Structure (continued)

E2 Interests in other entities (continued)

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

(i) Investment in associates (continued)

Summarised financial information of associates (continued)

	Watagan		PWCS		NCIG	
	31 December 2018 \$M	31 December 2017 \$M	31 December 2018 \$M	31 December 2017 \$M	31 December 2018 \$M	31 December 2017 \$M
Cash and cash equivalent	109	103	51	47	51	73
Other current assets	55	184	56	32	41	42
Current assets	164	287	107	79	92	115
Property, plant and equipment	865	843	1,462	1,553	2,158	2,258
Mining tenements	319	330	-	-	-	-
Exploration and evaluation assets	298	298	-	-	-	-
Other non current assets	172	59	25	23	500	399
Non-current assets	1,654	1,530	1,487	1,576	2,658	2,657
Total assets	1,818	1,817	1,594	1,655	2,750	2,772
Current liabilities	54	99	235	351	53	49
Deferred tax liability	349	183	78	64	99	101
Other non-current liabilities	1,853	1,756	649	603	3,850	3,643
Non-current liabilities	2,202	1,939	727	667	3,949	3,744
Total liabilities	2,256	2,038	962	1,018	4,002	3,793
Net Assets	(438)	(221)	632	637	(1,252)	(1,021)
Group's ownership interest in the Net Assets	(438)	(221)	190	191	(338)	(276)
Revenue	311	625	362	132	388	399
Management fees (Yancoal Australia Ltd)	(51)	(56)	-	-	-	-
Interest paid / payable (Bondholders)	(74)	(102)	-	-	-	-
Interest paid / payable (Yancoal Australia Ltd)	(67)	(67)	-	-	-	-
Other interest expenses	(5)	(5)	(33)	(14)	(228)	(205)
Depreciation & amortisation expenses	(69)	(136)	(112)	(47)	(106)	(115)
(Loss) / gain on foreign exchange	(89)	55	-	-	(329)	274
Other expenses	(263)	(382)	(174)	(101)	(83)	(110)
Income tax benefit / (expense)	90	10	(14)	28	111	(108)
(Loss) / profit from continuing operations after tax	(217)	(58)	29	(2)	(247)	135
Other comprehensive income / (expense)	-	-	-	-	-	-
Total comprehensive (expense) / income	(217)	(58)	29	(2)	(247)	135
Group's ownership interest in (loss) / profit after tax	(217)	(58)	9	(1)	(67)	36

E Group Structure (continued)

E2 Interests in other entities (continued)

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

(i) Investment in associates (continued)

Movements in carrying amounts

The Group's share of Watagan and NCIG's profit / (loss) after tax has not been recognised for the years ended 31 December 2018 and 31 December 2017 since the Group's share of Watagan and NCIG's accumulated losses exceeds its interest in Watagan and NCIG at 31 December 2018 and at 31 December 2017.

As the Group does not have contractual agreements or a contractual obligation to contribute to these associates no additional liabilities have been recognised.

Movements in PWCS carrying amounts	31 December 2018 \$M	31 December 2017 \$M
Opening balance	191	-
Acquisition of interest in associate	-	197
Share of profit / (loss) of equity-accounted investees, net of tax	9	(1)
Dividends received	(10)	(5)
Closing net book amount	<u>190</u>	<u>191</u>

(ii) Interest in joint venture

Middlemount Coal Pty Ltd

A controlled entity, Gloucester (SPV) Pty Ltd, has a 49.9997% interest in the net assets of Middlemount Coal Pty Ltd ("Middlemount"), an incorporated joint venture, whose principal activity is the development and operation of open-cut coal mines in the Bowen Basin.

HVO entities

On completion of the establishment of the 51%:49% unincorporated joint venture with Glencore on 4 May 2018, the Group holds 51% of the shares in HVO Coal Sales Pty Ltd, HVO Operations Pty Ltd and HVO Services Pty Ltd ("HVO Entities"). From this date the Group has determined that it no longer controls these companies. From 4 May 2018 the Group equity accounts the financial results of these companies.

Summarised financial information of joint venture

The following table provides summarised financial information for the HVO Entities and Middlemount. They have been amended to reflect adjustments made by the Group when using the equity method, including fair value adjustments and modifications for differences in accounting policy.

E Group Structure (continued)

E2 Interests in other entities (continued)

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

(ii) Interest in joint venture (continued)

Summarised financial information of joint venture (continued)

	HVO Entities		Middlemount	
	31 December 2018 \$M	31 December 2017 \$M	31 December 2018 \$M	31 December 2017 \$M
Cash and cash equivalents	6	-	14	3
Other current assets	113	-	81	156
Total current assets	119	-	95	159
Total non-current assets	36	-	868	977
Other current liabilities	115	-	97	125
Total current liabilities	115	-	97	125
Non-current financial liabilities			162	680
Other non-current liabilities	38	-	472	211
Total non-current liabilities	38	-	634	891
Net assets	2	-	232	120
Group's ownership interest in net assets	1	-	116	60

	HVO Entities		Middlemount	
	31 December 2018 \$M	31 December 2017 \$M	31 December 2018 \$M	31 December 2017 \$M
Revenue	-	-	755	663
Depreciation and amortisation	-	-	(38)	(61)
Other expenses	-	-	(541)	(460)
Interest expenses	-	-	(37)	(41)
Income tax benefit /(expense)	2	-	(48)	(37)
Profit from continuing operations after tax	2	-	91	64
Movements in reserves, net of tax	-	-	21	46
Total changes in equity	2	-	112	110
Group's ownership interest in profit after tax	1	-	46	32
Group's ownership interest in reserve movements	-	-	10	23

The liabilities of Middlemount include an interest-bearing liability of \$218 million (face value of \$233 million) due to the Group at 31 December 2018 (31 December 2017: \$331 million). The repayment of the loan due to the Group can only be made by Middlemount after the full settlement of all external borrowings (bank loans) and the Priority Loans owed to the other shareholder of Middlemount which was fully repaid during 2018 (31 December 2017: \$16 million). The liabilities of Middlemount also includes a royalty payable of \$9 million due to the Group at 31 December 2018 (31 December 2017: \$11 million).

E Group Structure (continued)

E2 Interests in other entities (continued)

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

(ii) Interest in joint venture (continued)

Movements in carrying amounts

	Middlemount	
	31 December	31 December
	2018	2017
	\$M	\$M
Opening net book amount	60	5
Share of profit of equity-accounted investees, net of tax	46	32
Movements in reserves, net of tax	10	23
Closing net book amount	116	60

(iii) Commitments and contingent liabilities in respect of associates and joint ventures

There were no commitments and no contingent liabilities in respect of the Group's associates and HVO Entities as at 31 December 2018.

There were no commitments in respect of the Group's interest in Middlemount at 31 December 2018.

Middlemount is subject to a taxation audit which may result in derecognition of deferred tax assets. Other contingent liabilities in respect of the Group's interest in Middlemount are set out in Note D8(ii).

E3 Related party transactions

(a) Parent entities

The parent entity within the Group is Yancoal Australia Ltd. The Group's majority shareholder is Yanzhou Coal Mining Company Limited ("Yanzhou") (incorporated in the People's Republic of China). The ultimate parent entity and ultimate controlling party is Yankuang Group Corporation Limited (incorporated in the People's Republic of China).

(b) Yancoal International Holding Co. Ltd

Yancoal International Holding Co. Ltd is a wholly owned subsidiary of Yanzhou and has the following subsidiaries: Yancoal Technology Development Holdings Pty Ltd, Athena Holdings Pty Ltd, Tonford Holdings Pty Ltd, Wilpeena Holdings Pty Ltd, Premier Coal Holdings Pty Ltd, Premier Coal Ltd, Yancoal Energy Pty Ltd and Syntech Resources Pty Ltd ("Yancoal International Group"). The Company manages these entities on behalf of Yanzhou.

E Group Structure (continued)

E3 Related party transactions (continued)

(c) Transactions with other related parties

The following transactions occurred with related parties:

	31 December 2018 \$	31 December 2017 \$
<i>Sales of goods and services</i>		
Sales of coal to Noble Group Limited (i)	-	195,466,360
Sales of coal to Watagan Mining Company Pty Ltd	36,853,608	76,188,812
Sales of coal to Yancoal International (Holding) Co., Ltd	225,951,918	6,409,512
Provision of marketing and administrative services to Watagan Group	5,704,524	5,653,000
Provision of marketing and administrative services to Yancoal International Group	7,899,544	8,081,338
	<u>276,409,594</u>	<u>291,799,022</u>
<i>Purchases of goods and services</i>		
Purchase of coal from Watagan Group	(47,301,570)	(161,481,064)
Purchases of coal from Syntech Resources Pty Ltd	(27,158,727)	(38,731,161)
	<u>(74,460,297)</u>	<u>(200,212,225)</u>
<i>Advances / loans to and repayment of advances</i>		
Advances of loan to Watagan Mining Company Pty Ltd	(377,091,053)	(150,977,470)
Repayments of loan from Watagan Mining Company Pty Ltd	254,356,412	213,816,105
Repayments of loans from Middlemount Coal Pty Ltd	117,070,781	-
Interest income capitalised into loan receivable from Middlemount Coal Pty Ltd	(14,951,931)	(33,087,208)
Repayments of loan from Premier Coal Holdings Pty Ltd	-	35,000,000
	<u>20,615,791</u>	<u>(64,751,427)</u>
<i>Equity subscription, debt repayment and debt provision</i>		
Loans from Yanzhou Coal Mining Company Ltd	-	329,615,625
Repayments of loan from Yanzhou Coal Mining Company Ltd	(174,786,617)	-
	<u>(174,786,617)</u>	<u>329,615,625</u>
<i>Finance costs</i>		
Interest expenses on loans from Yancoal International Resources Development Co., Ltd	(20,305,020)	(8,737,410)
Interest expenses on loans from Yanzhou Coal Mining Company Ltd	(65,352,062)	(56,804,616)
Interest expenses on loans from Yancoal International (Holding) Co., Ltd	(9,282,305)	(8,508,055)
Interest expenses on loans from Yancoal International Trading Co., Ltd	(20,354,308)	(16,553,447)
	<u>(115,293,695)</u>	<u>(90,603,528)</u>
<i>Other costs</i>		
Corporate guarantee fee to Yanzhou Coal Mining Company Ltd	(65,089,839)	(93,928,450)
Port charges to NCIG Holdings Pty Limited	(137,628,096)	(116,178,885)
Port charges to PWCS	(38,449,188)	(15,537,116)
Arrangement fee on loans from Yancoal International Resources Development Co., Ltd	(1,503,042)	(1,936,564)
	<u>(242,670,165)</u>	<u>(227,581,015)</u>

E Group Structure (continued)

E3 Related party transactions (continued)

(c) Transactions with other related parties (continued)

	31 December 2018 \$	31 December 2017 \$
<i>Finance income</i>		
Interest income from Premier Coal Holdings Pty Ltd	263,820	1,658,494
Interest income from loan to Watagan Mining Company Pty Ltd	67,178,577	66,809,559
Interest income released from loan receivable with Middlemount Coal Pty Ltd	18,186,750	17,927,465
	85,629,147	86,395,518
<i>Other income</i>		
Mining services fees charged to Watagan Group	46,002,805	51,853,076
Royalty income charged to Middlemount Coal Pty Ltd	31,398,128	27,572,213
Bank guarantee fee charged to Yancoal International Group	2,859,808	1,299,740
Bank guarantee fee charged to Watagan Group	1,573,791	1,236,782
Longwall hire fee charged to Austar Coal Mine Pty Ltd	3,000,000	3,000,000
Dividend income received from PWCS	13,126,075	6,409,247
	97,960,607	91,371,058

(d) Outstanding balances arising from transactions with related parties

Balances outstanding at the reporting date to / from related parties are unsecured, non-interest bearing (except for loans receivable and loans payable) and are repayable on demand.

The following balances are outstanding at the end of the reporting period in relation to transactions with related parties:

	31 December 2018 \$	31 December 2017 \$
<i>Current assets</i>		
<i>Trade and other receivables</i>		
Receivable from Yancoal International Group in relation to cost reimbursement	3,790,545	10,966,329
Receivable from Watagan Group entities in relation to cost reimbursement	9,417,029	-
Trade receivable from Noble Group Limited in relation to sales of coal (i)	-	42,267,396
Royalty receivable from Middlemount Coal Pty Ltd	9,403,196	11,171,154
Other receivable from Yankuang Entities	35,000	24,188
Promissory Notes receivable from Oz Star Ningbo Trading Co Ltd	39,671,295	35,897,436
Interest income receivable from Watagan Mining Company Pty Ltd	-	16,292,548
	62,317,065	116,619,051
<i>Non-current assets</i>		
<i>Advances to joint venture and associate</i>		
Receivable from Middlemount Coal Pty Ltd being an unsecured, non-interest bearing advance	217,850,129	331,686,091
Receivable from Watagan Mining Company Pty Ltd being an unsecured, interest-bearing loan	834,896,006	712,161,365
	1,052,746,135	1,043,847,456

E Group Structure (continued)

E3 Related party transactions (continued)

(d) Outstanding balances arising from transactions with related parties (continued)

	31 December 2018 \$	31 December 2017 \$
<i>Current liabilities</i>		
<i>Other payables</i>		
Payables to Yanzhou Coal Mining Company Limited	159,153,851	81,065,644
Payables to Yancoal International Resources Development Co., Ltd	5,612,401	1,368,984
Payables to Yancoal International (Holding) Co., Ltd	3,973,859	3,761,855
Payables to Yancoal International Trading Co., Ltd	8,938,269	7,523,709
Tax sharing and funding arrangement with Watagan Group	107,618,406	44,487,215
Payables to Watagan Group	-	31,775,584
	285,296,786	169,982,991
 <i>Non-current liabilities</i>		
<i>Other payables</i>		
Payable to Yancoal International Resources Development Co., Ltd being an unsecured, interest-bearing loan	191,272,315	321,790,897
Payable to Yancoal International (Holding) Co., Ltd being an unsecured, interest-bearing loan	128,927,317	128,205,128
Payable to Yancoal International Trading Co., Ltd being an unsecured, interest-bearing loan	304,618,872	275,641,026
Payable to Yanzhou Coal Mining Company Limited being an unsecured, interest-bearing loan	885,064,505	800,869,906
	1,509,883,009	1,526,506,957

(i) From 9 November 2017, on the resignation of William Randle as a Director of the Group, Noble Group Ltd is no longer deemed a related party.

E Group Structure (continued)

E3 Related party transactions (continued)

(e) Guarantees

The bankers of the Group have issued undertakings and guarantees to government departments, and various external parties on behalf of the following related entities:

	31 December 2018 \$	31 December 2017 \$
Syntech Resources Pty Ltd	84,693,965	84,693,965
AMH (Chinchilla Coal) Pty Ltd	49,000	49,000
Premier Coal Ltd	29,000,000	29,000,000
Tonford Holdings Pty Ltd	10,000	10,000
Athena Joint Venture	2,500	2,500
Ashton Coal Mines Ltd	15,466,654	15,466,954
Austar Coal Mine Pty Ltd	36,640,142	29,325,000
Donaldson Coal Pty Ltd	7,952,712	7,372,000
Yankuang Resources Pty Ltd	45,324	45,324
	173,860,297	165,964,743

Refer to Note D8(i) for details of the natures of the guarantees provided.

(f) Terms and conditions

Transactions between related parties are usually on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

The US\$116.0 million loan obtained in 2013 from Yancoal International Resources Development Co., Ltd was charged at a fixed interest rate of 7.00% p.a (inclusive of arrangement fees). During 2018 this loan was fully repaid.

On 31 December 2014 an AU\$1,400 million facility was provided by Yanzhou at a fixed interest rate of 7% on any amounts drawn. During 2018 US\$9 million was repaid (2017: US\$150 million was drawn) (Note D2(c)). As at 31 December 2018 a total of US\$823 million has been drawn.

On 31 December 2014 an AU\$807 million facility was provided by Yanzhou at a fixed interest rate of 7% on any amounts drawn. During 2018 no amounts were drawn (2017: US\$83 million was drawn) (Note D2(c)). As at 31 December 2018 a total of US\$243 million has been drawn.

Yanzhou has provided corporate guarantees as security for the following facilities:

- Syndicated facility and bi-lateral facility (converted to a bank guarantee facility in 2016) - a fixed rate of 1.5% from 1 April 2018 (2.5% before 1 April 2018) is charged on the outstanding loan principal and outstanding bank guarantee facility limit.
- ICBC bank guarantee facility - a fixed rate of 2.0% is charged on the facility limit of AU\$100 million. This corporate guarantee was cancelled on 30 September 2017.

E Group Structure (continued)

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.

E Group Structure (continued)

E4 Parent entity financial information (continued)

(a) Summary financial information

The individual financial statements for the parent entity, Yancoal Australia Ltd show the following aggregate amounts:

	31 December 2018 \$M	31 December 2017 \$M
Current assets	1,120	361
Non-current assets	9,947	9,850
Total assets	11,067	10,211
Current liabilities	1,198	1,134
Non-current liabilities	4,066	4,651
Total liabilities	6,064	5,785
Net assets	5,003	4,426
<i>Shareholders' equity</i>		
Contributed equity	6,482	6,217
Reserves		
Cash flow hedges	(604)	(413)
Distributable profits	486	-
Accumulated losses	(1,361)	(1,378)
Capital and reserves attributable to the owners of Yancoal Australia Ltd	5,003	4,426
Profit for the year	616	(550)
Other comprehensive income	(198)	376
Total comprehensive income	418	(174)

(b) Guarantees entered into by the parent entity

As at 31 December 2018, the parent entity had contingent liabilities in the form of a bank guarantee amounting to \$875 million (2017: \$1,041 million) in support of the operation of the entity, its subsidiaries and related parties (refer to Note E3).

(c) Contingent liabilities of the parent entity

There are cross guarantees given by Yancoal Australia Ltd and certain subsidiaries as described in Note E5.

The parent entity did not have any contingent liabilities as at 31 December 2018, except for those described in Note D8.

E Group Structure (continued)

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	Principal activities	Issued and fully paid share capital	Equity holding	
			2018 %	2017 %
The Company				
Yancoal Australia Ltd (i)			100	100
Controlled entities				
Yancoal SCN Ltd	Holding company of subordinate capital notes	1	100	100
Yancoal Australia Sales Pty Ltd (i) (iii)	Coal sales	100	100	100
Yancoal Resources Limited (iii)	Coal investment holding company	446,409,065	100	100
Yancoal Mining Services Pty Ltd (i)	Provide management services to underground mines	100	100	100
Moolarben Coal Mines Pty Ltd (iii)	Coal business development	1	100	100
Moolarben Coal Operations Pty Ltd (i)	Management of coal operations	2	100	100
Moolarben Coal Sales Pty Ltd	Coal sales	2	100	100
Felix NSW Pty Ltd	Investment holding	2	100	100
SASE Pty Ltd	Dormant	9,650,564	90	90
Yarrabee Coal Company Pty. Ltd. (iii)	Coal mining and sales	92,080	100	100
Proserpina Coal Pty Ltd	Holding company	1	100	100
Athena Coal Operations Pty Ltd	Dormant	1	100	100
Athena Coal Sales Pty Ltd	Dormant	1	100	100
Gloucester Coal Ltd (i) (iii)	Coal resource exploration development	719,720,808	100	100
Westralian Prospectors NL (i)	Holding company	93,001	100	100
Eucla Mining NL (i)	Coal mining	2	100	100
CIM Duralie Pty Ltd (ii)	Holding company	665	100	100
Duralie Coal Marketing Pty Ltd (ii)	Holding company	2	100	100
Duralie Coal Pty Ltd (i) (iii)	Coal mining	2	100	100
Gloucester (SPV) Pty Ltd (iii)	Holding company	2	100	100
Gloucester (Sub Holdings 2) Pty Ltd (ii)	Holding company	2	100	100
CIM Mining Pty Ltd (i)	Holding company	30,180,720	100	100
Monash Coal Holdings Pty Ltd (ii)	Holding company	100	100	100
CIM Stratford Pty Ltd (i)	Holding company	21,558,606	100	100
CIM Services Pty Ltd (ii)	Holding company	8,400,000	100	100
Monash Coal Pty Ltd (ii) (iii)	Coal exploration	100	100	100
Stratford Coal Pty Ltd (ii) (iii)	Coal mining	10	100	100
Stratford Coal Marketing Pty Ltd (ii)	Coal sales	10	100	100

E Group Structure (continued)

E5 Controlling interests (continued)

(a) Significant investments in subsidiaries (continued)

Name of entity	Principal activities	Issued and fully paid share capital	Equity holding	
			2018 %	2017 %
Paway Ltd	Dormant	1	100	100
Coal & Allied Industries Ltd (iii)	Coal investment holding company	86,584,735	100	100
Kalamah Pty Ltd	Holding company	1	100	100
Coal & Allied (NSW) Pty Ltd	Employment company for Mt Thorley mine and Warkworth mine	10,000	100	100
Australian Coal Resources Ltd	Coal investment holding company	5	100	100
Coal & Allied Operations Pty Ltd (iii)	Coal mining and related coal preparation and marketing	17,147,500	100	100
Lower Hunter Land Holdings Pty Ltd	Management company of lower Hunter land entities	1	100	100
Oaklands Coal Pty Ltd	Coal exploration	5,005	100	100
Novacoal Australia Pty Ltd	Holding company	530,000	100	100
CNA Resources Ltd (iii)	Holding company	14,258,694	100	100
CNA Warkworth Pty Ltd	Coal mining	1	100	100
Coal & Allied Mining Services Pty Ltd	Employment company for Mt Thorley Co Venture	10,000	100	100
RW Miller (Holdings) Ltd	Holding company	42,907,017	100	100
Mount Thorley Coal Loading Ltd	Operation of Mount Thorley coal loading facility	3,990,000	66	66
Gwandalan Land Pty Ltd	Holding company	1	100	100
Nords Wharf Land Pty Ltd	Hold land for development	1	100	100
Catherine Hill Bay Land Pty Ltd	Hold land for future development	1	100	100
Black Hill Land Pty Ltd	Hold land for future development	1	100	100
Minmi Land Pty Ltd	Hold land for future development	1	100	100
Namoi Valley Coal Pty Ltd	Holding company	8,400,000	100	100
CNA Warkworth Australasia Pty Ltd (iii)	Coal mining	2	100	100
CNA Bengalla Investments Pty Ltd	Holding company	12	100	100
Mount Thorley Operations Pty Ltd (iii)	Coal mining	24,214	100	100
Northern (Rhondda) Collieries Pty Ltd	Holding company	62,082	100	100
Miller Pohang Coal Company Pty Ltd	Coal sales	80	80	80
Warkworth Mining Ltd	Mine management	100	85	56
Warkworth Pastoral Company Pty Ltd	Pastoral company for Warkworth JV	100	85	56

E Group Structure (continued)

E5 Controlling interests (continued)

(a) Significant investments in subsidiaries (continued)

Name of entity	Principal activities	Issued and fully paid share capital	Equity holding	
			2018 %	2017 %
Warkworth Tailings Treatment Pty Ltd	Tailings company for the Warkworth JV	100	85	56
Warkworth Coal Sales Ltd	Sales company for Warkworth JV	100	85	56
Parallax Holdings Pty Ltd	Holding company	100	100	100
Non controlled entities (iv)				
Watagan Mining Company Pty Ltd	Holding company	100	100	100
Austar Coal Mine Pty Limited	Coal mining and sales	64,000,000	100	100
White Mining Limited	Holding company and mine management	3,300,200	100	100
White Mining Services Pty Limited	Holding company	2	100	100
White Mining (NSW) Pty Limited	Coal mining and sales	10	100	100
Ashton Coal Operations Pty Limited	Mine management	5	100	100
Ashton Coal Mines Ltd	Coal sales	5	100	100
Gloucester (Sub Holdings 1) Pty Ltd	Holding company	2	100	100
Donaldson Coal Holdings Ltd	Holding company	204,945,942	100	100
Donaldson Coal Pty Ltd	Coal mining and sales	6,688,782	100	100
Donaldson Coal Finance Pty Ltd	Finance company	10	100	100
Abakk Pty Ltd	Holding company	6	100	100
Newcastle Coal Company Pty Ltd	Coal mining	2,300,999	100	100
Primecoal International Pty Ltd	Holding company	1	100	100
HV Operations Pty Ltd	Managing entity of Hunter Valley Operations	1	51	100
HVO Coal Sales Pty Ltd	Coal sales company for Hunter Valley	1,000	51	68
HVO Services Pty Ltd	Holding company	100	51	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) On 31 March 2016 the Group lost control of Watagan Mining Company Pty Ltd and its subsidiaries. On 4 May 2018 the Group lost control of the HVO Entities. For further information refer to Note E2.
- (v) All subsidiaries included in the table above are incorporated and operate in Australia, except for Paway Ltd which is incorporated in the British Virgin Islands.

E Group Structure (continued)

E5 Controlling interests (continued)

(a) Significant investments in subsidiaries (continued)

The subsidiaries as listed have share capital consisting solely of ordinary shares and subordinated capital notes, which are held directly by the Group, and the proportion of ownership interests held equals to the voting rights held by the Group apart from Watagan which is 33% being the current proportion of board members. The country of incorporation or registration is also their principal place of business.

E6 Deed of cross guarantee

Yancoal Australia Ltd and certain subsidiaries (refer to Note E5), are parties to a deed of cross guarantee under which each company guarantees the debts of the others. By entering into the deed, the wholly owned entities have been relieved from the requirement to prepare a financial report and Directors' Report under Legislative Instrument 2016/785 issued by the Australian Securities and Investments Commission.

(a) Consolidated statement of profit or loss and other comprehensive income

Set out below is a Consolidated Statement of Profit or Loss and Other Comprehensive Income and a summary of movements in consolidated accumulated losses for the year ended 31 December 2018 of the entities included in the deed of cross guarantee consisting of Yancoal Australia Ltd and certain subsidiaries. For details regarding the closed group and the extended closed group refer to Note E5.

	31 December 2018 \$M	31 December 2017 \$M
Revenue	1,465	354
Other income	100	26
Changes in inventories of finished goods and work in progress	(5)	(5)
Raw materials and consumables used	(14)	(13)
Employee benefits expense	(122)	(118)
Depreciation and amortisation expense	(29)	(25)
Coal purchase	(408)	(312)
Transportation expenses	(126)	(55)
Contractual services and plant hire expenses	(76)	(76)
Government royalties expense	(4)	(6)
Other operating expenses	(350)	(227)
Finance costs	(272)	(244)
Profit / (loss) before income tax	159	(701)
Income tax benefit	312	156
Profit / (loss) for the year	471	(545)
	31 December 2018 \$M	31 December 2017 \$M
Other comprehensive income		
<i>Items that may be reclassified subsequently to profit or loss</i>		
Cash flow hedges:		
Fair value (losses) / gains taken to equity	(443)	348
Fair value losses transferred to profit or loss	160	229
Deferred income tax benefit / (expense)	85	(173)
Other comprehensive (expense) / income for the period, net of tax	(198)	404
Total comprehensive income / (expense) for the year	273	(141)

E Group Structure (continued)

E6 Deed of cross guarantee (continued)

(a) Consolidated statement of profit or loss and other comprehensive income (continued)

Summary of movements in consolidated accumulated losses

Accumulated losses at the beginning of the financial year	(1,318)	(698)
Dividends provided for or paid	(130)	-
Opening retained earnings attributable to new members	13	-
Profit / (loss) after income tax	471	(545)
Distributions to SCN holders	-	(75)
Opening balance adjustment on adoption of AASB 9	17	-
Accumulated losses at the end of the financial year	(947)	(1,318)

(b) Consolidated balance sheet

Set out below is a consolidated balance sheet as at 31 December 2018 of the entities included in the deed of cross guarantee consisting of Yancoal Australia Ltd and certain subsidiaries. For details regarding the closed group and the extended closed group refer to Note E5.

	31 December 2018 \$M	31 December 2017 \$M
Current assets		
Cash and cash equivalents	881	164
Trade and other receivables	302	492
Inventories	11	11
Other current assets	9	10
Non contingent royalty receivable	7	-
Total current assets	<u>1,210</u>	<u>677</u>
Non-current assets		
Trade and other receivables	21	37
Other financial assets	6,791	6,791
Property, plant and equipment	330	372
Mining tenements	271	270
Interest-bearing loan to associates	835	712
Deferred tax assets	961	1,024
Intangible assets	-	1
Exploration and evaluation assets	254	273
Other non-current assets	23	11
Non contingent royalty receivable	8	-
Total non-current assets	<u>9,494</u>	<u>9,491</u>
Total assets	<u>10,704</u>	<u>10,168</u>
Current liabilities		
Trade and other payables	1,805	596
Interest-bearing liabilities	12	8
Provisions	10	7
Non-contingent royalty payable	25	119
Total current liabilities	<u>1,852</u>	<u>730</u>

E Group Structure (continued)

E6 Deed of cross guarantee (continued)

(b) Consolidated balance sheet (continued)

	31 December 2018 \$M	31 December 2017 \$M
Non-current liabilities		
Interest-bearing liabilities	3,687	4,705
Deferred tax liabilities	140	145
Provisions	67	61
Non-contingent royalty payable	27	41
Total non-current liabilities	3,921	4,952
Total liabilities	5,773	5,682
Net assets	4,931	4,486
Equity		
Contributed equity	6,219	5,954
Reserves	(341)	(150)
Accumulated losses	(947)	(1,318)
Total equity	4,931	4,486

F Other Information

This section provides details on other required disclosures relating to the Group to comply with the accounting standards and other pronouncements. Information is provided on remuneration of auditors, commitments, events occurring after balance date, reconciliation of profit after income tax to net cash inflow, other accounting policies and new and amended accounting policies.

F1 Commitments

(a) Capital commitments

Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:

	31 December 2018 \$M	31 December 2017 \$M
<i>Property, plant and equipment</i>		
Not later than one year		
Share of joint operations	49	33
	49	33

(b) Lease expenditure commitments

(i) Non-cancellable operating leases

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

	31 December 2018 \$M	31 December 2017 \$M
Not later than one year	29	38
Later than one year but not later than five years	41	149
Later than five years	18	-
	88	187

The Group leases mining equipment, office space and small items of office equipment under operating leases. The leases typically run for one month to five years with an option to renew at the expiry of the lease period. None of the leases include contingent rentals.

F Other Information (continued)

F1 Commitments (continued)

(b) Lease expenditure commitments (continued)

(ii) Finance leases

Commitments in relation to finance leases are payable as follows:

	31 December 2018 \$M	31 December 2017 \$M
Not later than one year	15	19
Later than one year but not later than five years	31	42
Minimum lease payments	46	61
Less: future finance charges	(4)	(6)
Total lease liabilities	42	55
Finance leases are included in the financial statements as:		
Current lease liability (refer to Note D2)	13	17
Non-current lease liability (refer to Note D2)	29	38
	42	55

F2 Remuneration of auditors

(a) ShineWing Australia

	31 December 2018 \$000	31 December 2017 \$000
Audit and review of financial statements	1,808	1,259
Other assurance services	982	1,010
Tax compliance services	84	54
Total remuneration of ShineWing Australia	2,874	2,323

(b) ShineWing (HK) CPA Ltd

Other assurance services	820	-
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(c) Other audit providers

During the year ended 31 December 2018 the Company paid Ernst & Young provided services relating to the audit and review of Middlemount's financial statements of \$35,000 (2017: \$36,000). The Company will also pay Deloitte \$49,000 for the 31 December 2018 services relating to the audit and review of HVO JV financial information

F Other Information (continued)

F3 Reconciliation of profit after income tax to net cash inflow from operating activities

	31 December 2018 \$M	31 December 2017 \$M
Profit after income tax	<u>852</u>	<u>229</u>
Non-cash flows in profit or loss:		
Depreciation and amortisation of non-current assets	523	256
Release of provisions	(59)	(86)
Capitalised interest income from joint venture	(18)	(18)
Unwinding of discount on royalty receivable	(21)	(21)
Unwinding of discount on provisions	13	50
Remeasurement of financial assets	29	-
Net loss on disposal of property, plant and equipment	9	4
Impairment of financial assets	21	-
Stamp duty accrual	-	9
Impairment reversal of mining tenements	-	(100)
Fair value losses recycled from hedge reserve	160	229
Foreign exchange (gains) / losses	(9)	20
Unwind of non-substantial loan refinance	10	-
Gain on disposal of joint operation and subsidiaries	(78)	-
Finance lease interest expenses	3	4
Remeasurement of contingent royalty	33	-
Gain on acquisition of subsidiaries	-	(177)
Gain on remeasurement of royalty receivables	(4)	(8)
Unwind of discount on non-contingent royalty	4	13
Share of profit of equity-accounted investees, net of tax	(56)	(32)
Changes in assets and liabilities:		
Decrease in deferred tax assets	315	445
Increase in inventories	(61)	(11)
Decrease / (increase) in operating receivables	85	(148)
Increase in operating payables	44	124
Decrease / (increase) in prepayments	5	(10)
Decrease in deferred tax liabilities	(53)	(364)
Net cash inflow from operating activities	<u>1,747</u>	<u>408</u>

F Other Information (continued)

F4 Historical information

The assets and liabilities for the last five years at 31 December are:

	2018 \$M	2017 \$M	2016 \$M	2015 \$M	2014 \$M
Current assets	1,922	1,689	738	2,125	669
Non-current assets	10,486	10,624	6,922	5,745	6,811
Total assets	12,408	12,313	7,660	7,870	7,480
Current liabilities	913	1,013	499	638	346
Non-current liabilities	5,657	6,274	5,809	5,543	4,646
Total liabilities	6,570	7,287	6,308	6,181	4,992
Net assets	5,838	5,026	1,352	1,689	2,488

F5 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:

- Exercise of the Watagan bond put option by BOCI to Yankung as described in Note E2(b)
- On 25 February 2019, Yancoal announced a final dividend totalling AU\$377 million (28.6 cents per share), with a record date of 11 March 2019. The final dividend will be paid on 30 April 2019.
- As announced 25 February 2019, Yancoal pre-paid a further US\$500 million in loans, reducing its total debt liabilities by US\$1.4 billion since September 2017. The pre-payment consists of US\$250 million in pre-paid loans from Bank of China and China Construction Bank, and US\$250 million in pre-paid Yanzhou-related loans.

F6 Other significant accounting policies

(a) Foreign currency transactions

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is the Group's functional and presentation currency, except for Yancoal SCN Limited which has 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.

F Other Information (continued)

F6 Other significant accounting policies (continued)

(a) Foreign currency transactions (continued)

(ii) Transactions and balances (continued)

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(b) Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

(i) Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Classification of financial assets

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial instruments the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding ECL, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. On the other hand, the gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance

F Other Information (continued)

F6 Other significant accounting policies (continued)

(b) Financial instruments (continued)

(i) Financial assets (continued)

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost. For financial instruments interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

Interest income is recognised in profit or loss and is included in the "other revenue" line item.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or fair value through other comprehensive income ("FVTOCI") are measured at FVTPL. Specifically:

- Investments in equity instruments are classified as at FVTPL, unless the Group designates an equity investment that is neither held for trading nor contingent consideration arising from a business combination as at FVTOCI on initial recognition.
- Debt instruments that do not meet the amortised cost criteria or the FVTOCI criteria are classified as at FVTPL. In addition, debt instruments that meet either the amortised cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases. The Group has not designated any debt instruments as at FVTPL.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets and is included in the 'other income' line item.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

F Other Information (continued)

F6 Other significant accounting policies (continued)

(b) Financial instruments (continued)

(i) Financial assets (continued)

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor; and
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if i) the financial instrument has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations. The Group considers a financial asset to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definition.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable.

- when there is a breach of financial covenants by the counterparty; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

F Other Information (continued)

F6 Other significant accounting policies (continued)

(b) Financial instruments (continued)

(i) Financial assets (continued)

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- a) significant financial difficulty of the issuer or the borrower;
- b) a breach of contract, such as a default or past due event;
- c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or
- d) it is becoming probable that the borrower will enter into bankruptcy or other financial reorganisation.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

Where lifetime ECL is measured on a collective basis to cater for cases where evidence of significant increases in credit risk at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments;
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12 month ECL at the current reporting date.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

F Other Information (continued)

F6 Other significant accounting policies (continued)

(b) Financial instruments (continued)

(i) Financial assets (continued)

Impairment of trade receivables

The Group has applied the simplified approach to measuring expected credit losses to trade and other receivables using a life-time expected loss allowance. The Group has also used the practical expedient of a provisions matrix using fixed rates to approximate the expected credit losses. These provisions are considered representative across all business and geographic segments of the Group based on historical credit loss experience and considered future information.

(ii) Financial liabilities and equity instruments

Debt and equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Financial liabilities

The Group's financial liabilities including trade and other payables, non-contingent royalty payable, interest-bearing liabilities which are initially recognised at fair value and subsequently measured at amortised cost, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid or points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Interest expense is recognised on an effective interest basis.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

SCN issued by the Group, which includes no contractual obligation for the Group to deliver cash or another financial asset to the holders or to exchange financial assets or financial liabilities with the holders under conditions that are potentially unfavourable to the Group, are classified as equity instruments and are initially recorded at the proceeds received.

F Other Information (continued)

F6 Other significant accounting policies (continued)

(b) Financial instruments (continued)

(ii) *Financial liabilities and equity instruments (continued)*

Accounting for derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value at the date when a derivative contract is entered into and are subsequently remeasured at their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group designates certain derivatives as either: (i) hedges of the fair value of recognised assets or liabilities (fair value hedge); and (ii) hedges of highly probable forecast transactions (cash flow hedge).

The fair values of various derivative instruments used for hedging purposes are disclosed in Note D9. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

At the inception of the hedging relationship the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

(i) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and accumulated in cash flow hedge reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts previously recognised in other comprehensive income and accumulated in cash flow hedge reserve in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

(ii) Derivatives that do not qualify for hedge accounting and those not designated as hedging instruments

Changes in the fair value of any derivative instruments that do not qualify for hedge accounting and those not designated as hedges are recognised immediately in the profit or loss.

F Other Information (continued)

F6 Other significant accounting policies (continued)

(b) Financial instruments (continued)

(ii) *Financial liabilities and equity instruments (continued)*

Derecognition

A financial asset is derecognised only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in investment revaluation reserve is recognised in profit or loss.

A financial liability is derecognised when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

F7 New and amended standards adopted by the Group

(i) *New and amended standards adopted by the Group*

Effective from 1 January 2018 the Group adopted the new standards including AASB 9 *Financial Instruments* and AASB 15 *Revenue from Contracts with Customers*. The impact of adopting these standards is as follows:

AASB 9 *Financial Instruments*:

The adoption of AASB 9 *Financial Instruments* resulted in the following changes:

Financial Assets

All financial assets that were classified as loans and receivables were classified as assets held at amortised cost except for the Wiggins Island Preferences Shares ("WIPS") which have been revalued to nil at 31 December 2018 (31 December 2017: \$29 million). These have been reclassified as assets held at fair value through profit or loss ("FVTPL"). The valuation at 31 December 2017 did not need adjusting as the fair value approximated the carrying amount. The WIPS are still classified as trade and other receivables.

Financial Liabilities

Classification of financial liabilities remains the same as under the old accounting standards. The measurement of financial liabilities has required an adjustment to non-current interest-bearing liabilities as there was a non-substantial modification to the Bank of China facilities completed in August 2017. This involved modifying the terms of this loan to change the interest structure from US Libor +2.8% increasing to US Libor +5% over time, adjusted to US Libor +3.1% applicable from June 2017 and adjustments to agency fees over the remaining loan life.

F Other Information (continued)

F7 New and amended standards adopted by the Group (continued)

(i) *New and amended standards adopted by the Group (continued)*

Under AASB 9, a key determinant of whether a modification is considered substantial or non-substantial is a quantitative assessment of whether the discounted cash flows under the new terms using the original effective interest rate, is at least 10% different from the discounted remaining cash flows of the original financial liability.

Qualitatively the modification is non-substantial because there has been no change in the counterparty to the loan and a quantitative assessment has been performed. The modification in 2017 is non-substantial, or less than 10% of the net present value of the original loan balance, with the net present value of the changes being a \$31 million reduction in cash flows or 0.9% over the life of the loan. This adjustment is recognised as a gain in other income and will be unwound as an interest expense on an effective interest rate basis with immediate unwinds occurring on loan repayments. The unwind for the year ending 31 December 2017 would have been \$7 million which included an immediate unwind associated with the repayment of US\$150 million of the facilities in December 2017.

As the Group is applying AASB 9 retrospectively with the cumulative effect of initially applying the standard as an adjustment to the opening balance of retained earnings, accordingly comparative financial information is not being restated. The adjustment to the balance sheet and profit or loss for the year ending 31 December 2017 is outlined below:

	As reported 31 December 2017 \$M	Non-substantial loan modification \$M	Opening balance 1 January 2018 \$M
Balance Sheet			
Non-current interest bearing liabilities	4,706	(24)	4,682
Deferred tax liability	1,030	7	1,037
Total liabilities impact	7,287	(17)	7,270
Net asset impact	5,026	17	5,043
Accumulated losses	(413)	17	(396)
Total equity	5,026	17	5,043
Profit or loss			
Other income	294	31	325
Finance costs	(287)	(7)	(294)
Income tax expense	(82)	(7)	(89)
Profit after income tax	229	17	246
Total comprehensive income	633	17	650
Basic earnings per share (cents per share)	52.0		55.8
Diluted earnings per share (cents per share)	28.0		30.1

AASB 15 Revenue from Contracts with Customers

The updated accounting policies for the new accounting standard AASB 15 *Revenue from Contracts with Customers* have been disclosed in Note B2(a) and the presentation has been updated to reflect the disclosure requirements of the new standard.

There is one additional category of revenue being recognised for freight services, this will change the revenue reported from coal sales in the 31 December 2017 period from \$2,635 million to \$2,623 million with the corresponding difference of \$12 million being recognised as freight services in other revenue. There is no adjustment required to opening retained earnings as the timing or value of revenue recognised on contracts with customers has not changed.

F Other Information (continued)

F7 New and amended standards adopted by the Group (continued)

(i) *New and amended standards adopted by the Group (continued)*

Other amending accounting standards and interpretations

Other relevant accounting standards and amendments and interpretations effective for the current reporting period include:

- AASB 2016-5 *Amendments to Australian Accounting Standards - Classification and Measurement of Share-based Payment Transactions*;
- AASB Interpretation 22 *Foreign Currency Transactions and Advance Consideration*

These standards have introduced new disclosures for the Annual Financial Report but did not affect the Group's accounting policies or any of the amounts recognised in the financial statements.

F8 New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

Reference and Title	Details of New Standard/Amendment/Interpretation	Application date for the Group
AASB 16	<p><i>Leases</i></p> <p>The Group is required to adopt AASB 16 Leases from 1 January 2019. The Group has assessed the estimated impact that initial application of AASB 16 will have on its consolidated financial statements, as described below. The actual impacts of adopting the standard on 1 January 2019 may change because:</p> <p>a the Group has not finalised the testing and assessment of controls over its new IT systems; and</p> <p>b the new accounting policies are subject to change until the Group presents its first financial statements that include the date of initial application.</p> <p>AASB 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.</p> <p>AASB 16 replaces existing leases guidance, including AASB 117 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.</p> <p>The Group plans to apply AASB 16 initially on 1 January 2019, using the modified retrospective approach. The Group plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply AASB 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with AASB 117 and IFRIC 4.</p>	1 January 2019

F Other Information (continued)

F8 New accounting standards and interpretations (continued)

Reference and Title	Details of New Standard/Amendment/Interpretation	Application date for the Group
	<p>Impact:</p> <p style="padding-left: 40px;">Leases in which the Group is a lessee</p> <p>The Group will recognise new assets and liabilities for its operating leases. The nature of expenses related to those leases will now change because the Group will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities.</p> <p>Previously, the Group recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.</p> <p>No significant impact is expected for the Group's finance leases.</p> <p>Based on the information currently available, the Group estimates that it will recognise additional lease liabilities of \$111 million and right of use assets of \$92 million as at 1 January 2019. The Group does not expect the adoption of AASB 16 to impact its ability to comply with the revised maximum leverage threshold loan covenants described in Note D2.</p> <p>Although the Directors anticipate that the adoption of AASB 16 will impact the Group's financial statements, it is impracticable at this stage to provide a reasonable estimate of such impact.</p> <p style="padding-left: 40px;">Leases in which the Group is lessor</p> <p>The Group will reassess the classification of sub-leases in which the Group is a lessor. Based on the information currently available, the Group expects that it will reclassify sub-leases as finance leases, resulting in recognition of a finance lease receivable of \$19 million as at 1 January 2019.</p>	
AASB 2017-6	<p><i>Amendments to Australian Accounting Standards –Prepayment Features with Negative Compensation</i></p> <p>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.</p> <p>Impact:</p>	1 January 2019

F Other Information (continued)

F8 New accounting standards and interpretations (continued)

Reference and Title	Details of New Standard/Amendment/Interpretation	Application date for the Group
	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.	
AASB 2017-7	<p><i>Amendments to Australian Accounting Standards – Long-term Interests in Associates and Joint Ventures</i></p> <p>This Standard amends AASB 128 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 <i>Financial Instruments</i> before applying the loss allocation and impairment requirements in AASB 128.</p> <p>Impact:</p> <p>The Directors anticipate that the adoption of AASB 2017-7 will have no impact on the recognition of amounts in the Group's financial statements, but there will be additional disclosures required.</p>	1 January 2019
AASB 2018-1	<p><i>Annual Improvements to IFRS Standards 2015- 2017 Cycle</i></p> <p>The amendments clarify certain requirements in:</p> <ul style="list-style-type: none"> 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. <p>Impact:</p> <p>The Directors anticipate that the adoption of AASB 2018-1 will have no impact on the recognition of amounts in the Group's financial statements, but there will be additional disclosures required</p>	1 January 2019
AASB Interpretation 23, and relevant amending standards	<p><i>Uncertainty over Income Tax Treatments</i></p> <p>The Interpretation clarifies the application of the recognition and measurement criteria in AASB 112 Income Taxes when there is uncertainty over income tax treatments. The Interpretation specifically addresses the following:</p> <ul style="list-style-type: none"> 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. 	1 January 2019

F Other Information (continued)

F8 New accounting standards and interpretations (continued)

Reference and Title	Details of New Standard/Amendment/Interpretation	Application date for the Group
	The Group is currently adhering to this standard and there is no material impact expected on the Group's financial report.	
Not yet issued by the AASB	<p><i>Conceptual Framework for Financial Reporting, and relevant amending standards</i></p> <p>The revised Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. It is arranged in eight chapters, as follows:</p> <ul style="list-style-type: none"> ▶ Chapter 1 –The objective of financial reporting ▶ Chapter 2 –Qualitative characteristics of useful financial information ▶ Chapter 3 – Financial statements and the reporting entity ▶ Chapter 4 –The elements of financial statements ▶ Chapter 5 –Recognition and derecognition ▶ Chapter 6 –Measurement ▶ Chapter 7 –Presentation and disclosure ▶ Chapter 8 –Concepts of capital and capital maintenance <p>Amendments to References to the Conceptual Framework in IFRS Standards has also been issued, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. The changes to the Conceptual Framework may affect the application of IFRS in situations where no standard applies to a particular transaction or event. In addition, relief has been provided in applying IFRS 3 and developing accounting policies for regulatory account balances using IAS 8, such that entities must continue to apply the definitions of an asset and a liability (and supporting concepts) in the 2010 Conceptual Framework, and not the definitions in the revised Conceptual Framework.</p> <p>Impact:</p> <p>The Directors anticipate that the adoption of these updates will have no impact on the recognition of amounts in the Group's financial statements, but there will be additional disclosures required.</p>	1 January 2020
AASB 2014-10	<i>Amendments to Australian Accounting Standards –Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	1 January 2022

F Other Information (continued)

F8 New accounting standards and interpretations (continued)

Reference and Title	Details of New Standard/Amendment/Interpretation	Application date for the Group
	<p>The amendments clarify that a full gain or loss is recognised when a transfer to an associate or joint venture involves a business as defined in AASB 3 Business Combinations. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. AASB 2015-10 deferred the mandatory effective date (application date) of AASB 2014-10 so that the amendments were required to be applied for annual reporting periods beginning on or after 1 January 2018 instead of 1 January 2016. AASB 2017-5 further defers the effective date of the amendments made in AAS SB 2014-10 to periods beginning on or after 1 January 2022</p> <p>Impact:</p> <p>The Directors anticipate that the adoption of this amendment will have no impact on the recognition of amounts in the Group's financial statements, but there will be additional disclosures required.</p>	

In the Directors' opinion:

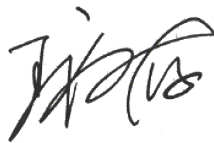
- (a) the financial statements and notes set out on pages 64 to 177 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
 - (ii) giving a true and fair view of the Group's financial position as at 31 December 2018 and of its performance for the year ended on that date, and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable, and
- (c) at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed group identified in Note E6 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in Note E6.

Note (i) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of Directors.

Fucun Wang
Director
25 February 2019



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF YANCOAL AUSTRALIA LTD

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Yancoal Australia Ltd (the Company) and its controlled entities (the Group), which comprises the consolidated balance sheet as at 31 December 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

In our opinion:

1. the accompanying financial statements of the Group are in accordance with the *Corporations Act 2001*, including:
 - 1.1 giving a true and fair view of the Group's financial position as at 31 December 2018 and of its performance for the year then ended; and
 - 1.2 complying with Australian Accounting Standards and the *Corporations Regulations 2001*.
2. the financial statements also comply with International Financial Reporting Standards (IFRS) as disclosed in Note A(i).

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Our responsibilities under those standards are further described in the Auditor's responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the financial statements in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended 31 December 2018. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Key Audit Matter	How the matter was addressed during the audit
<p>Watagan Mining Company Pty Ltd (Watagan) Control assessment</p> <p>(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.</p> <p>The assessment under the accounting standards is continuous and it requires a high degree of judgement. If Watagan is controlled by the Group there would need to be a significant change to the financial statements to reflect the consolidation of the assets and liabilities of Watagan.</p>	<p>Our audit procedures included, among others:</p> <p>Considering the requirements of the accounting standard AASB 10 <i>Consolidated Financial Statements</i> to assess whether Yancoal controlled Watagan during the year ended 31 December 2018. In performing these procedures we have reviewed and challenged management’s control assessment which includes but is not limited to an analysis of the relationship between the Group, Watagan and its bondholders; as well as Watagan’s board composition and dynamics.</p>
<p>Impairment of interest-bearing loan to Watagan</p> <p>(Note D1) As at 31 December 2018 Yancoal was owed \$835 million by Watagan. This loan receivable must be assessed for impairment as required by the accounting standard AASB 9 <i>Financial Instruments</i>. As the underlying cash flows of Watagan do not support the recovery of this receivable in full, the Group has assessed whether sufficient credit enhancement is in place to ensure the receivable is recoverable.</p> <p>The loan receivable hasn’t been impaired as Yankuang Group Co., Ltd (Yankuang), the ultimate parent of the Company, has guaranteed the loan receivable.</p> <p>Due to the size of the loan receivable outstanding and the nature of the guarantee provided the loan receivable is considered to be a key audit matter.</p>	<p>Our audit procedures included, among others:</p> <ul style="list-style-type: none"> • Considering the underlying loan asset impairment test against the criteria of AASB 9 <i>Financial Instruments</i> • Assessing the validity of the guarantee that has been provided by Yankuang • Assessing the ability of Yankuang to satisfy the guarantee in the future.

Key Audit Matter

How the matter was addressed during the audit

Impairment of non-current assets of Watagan

(Note E2(b)(i))

As the Group does not control Watagan but has significant influence, Watagan is accounted for as an associate. The ongoing losses of Watagan are not recognised by the Group as it does not have contractual agreements or a constructive obligation to contribute to Watagan. A disclosure of the summarised financial position and results of Watagan are included in the financial statements in note E2(b)(i).

As at 31 December 2018 Watagan had total property, plant and equipment, and mining tenements of \$1.184 billion. Disclosed in note E2(b)(i) there is significant operational uncertainty due to Donaldson being on care and maintenance and Austar having ongoing operational issues.

The Group as the operator of Watagan has performed an impairment assessment as to the recoverability of these assets and has concluded that these assets are not impaired as at 31 December 2018. In preparing the impairment assessment, management has used a set of key assumptions which differ from the assumptions used by the Group in performing impairment assessments for its other assets subject to impairment testing. The impairment assessment is complex and involves significant judgment.

Watagan's financial position and performance are not consolidated by the Group, however, disclosure is required to reflect the underlying financial position and financial performance of Watagan in the notes to the financial statements. As Watagan may be reconsolidated by the Group in the future, a material impairment may be required at such time. As a result, it is considered to be a key audit matter.

Our audit procedures included, among others:

- Reviewing and challenging the position papers prepared by management for the assessment of the carrying value of the underlying Watagan assets
- Evaluating managements' key valuation assumptions and estimates used in the impairment testing. This includes, documenting the skills and experience of the experts preparing the valuation workings to consider whether we can rely on the work they performed
- Performing sensitivity analysis on key inputs
- Reviewing the Group's disclosures included in the financial statements for Watagan's impairment testing
- Engaging our corporate finance specialists to review the impairment model and various inputs.

Acquisition of additional 28.9% of Warkworth Associates and disposal of 16.6% of HVO Joint Venture

(Note E1)

In September 2017 the Group acquired Coal & Allied Industries Limited (Coal & Allied). The acquisition accounting was finalised during 2018.

In completing the acquisition of Coal & Allied, the Group entered into agreements to acquire a further 28.9% interest in the Warkworth Associates Joint Venture (Warkworth), and divesting a 16.6% interest in HVO Joint Venture. These transactions were completed in 2018. The Warkworth acquisition consideration of US\$230 million has been allocated to the identifiable assets and liabilities of Warkworth. The divestment of HVO has recorded a gain on disposal of A\$78 million.

There is a high level of judgement and estimation involved in calculating the fair values of assets and liabilities acquired by the Group. The disposal accounting has involved estimates and judgement to allocate the identifiable assets and liabilities of Coal & Allied to its business units. Given the extent of judgement required and significant estimates involved, we consider this a key audit matter.

Our audit procedures included, among others:

- Assessing the source and appropriateness of key assumptions made in the purchase price allocation
- 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 with the taxation valuation to check the deferred taxation calculations to consider whether deferred taxation balances were recognised appropriately
- Agreeing the consideration paid to supporting documentation
- Assessing the Group's acquisition accounting disclosures.

Key Audit Matter

How the matter was addressed during the audit

Impairment of non-current assets

(Note C3)

A substantial portion of the value of the Group's non-current assets are tangible and intangible assets which are subject to an impairment assessment and revaluations in accordance with AASB 136 *Impairment of Assets* or AASB 9 *Financial Instruments*.

These assets include property plant and equipment (note C1), mining tenements (note C2), intangible assets (note C5), royalty receivable (note C9) and long-term receivables from joint ventures (note C7).

Asset valuation was a key audit matter due to the size of the balances, being 72% of the Group's non-current assets, and the level of judgement required to be applied to prepare the impairment assessment.

Our audit procedures included, among others:

- Assessing the determination of the Group's Cash-Generating Units
- Considering the assessment of impairment indicators which require an impairment test
- Evaluating the forecast commodity prices including comparison to available market information
- Comparing estimated operating costs and capital expenditure used in the impairment assessment with the latest approved mine plans and budgets
- Comparing the life of mine plan used in impairment with reserves and resources reported by internal geological experts. Evaluating the competency and objectivity of the experts by considering their professional qualifications and experience
- Working with our valuation specialists to compare key assumptions such as discount rates and foreign exchange rates to market information
- Performing sensitivity analysis on the key assumptions
- Assessing the Group's impairment disclosures.

Taxation

(Note B6)

The Group is subject to income taxes in Australia. Significant judgement is required in determining the provision for income taxes and associated deferred taxation balances. The Group estimates its tax liabilities based on the Group's interpretation of taxation laws and regulations. Where the final outcome of these matters is different from the amounts that were initially recorded such differences will impact the current and deferred tax assets and liabilities in the period in which such a determination is made.

The Company must comply with the provisions of the Continuity of Ownership Test (COT) to continue to carry forward deferred tax assets of A\$624 million that are associated with prior period losses. With the acquisitions completed by the Group there is a high degree of complexity associated with the Allocable Cost Amount (ACA) calculations associated with these acquisitions.

Furthermore, the Group is involved in a significant value and quantity of related party transactions which must be in compliance with the transfer pricing provisions of international taxation laws and regulations.

Significant judgement is required to calculate taxation balances, including assessing the recognition and measurement of taxation balances where there is a range of possible outcomes due to different interpretations of taxation law and regulations. Due to the size of the deferred tax balances on a gross basis we consider this to be a key audit matter.

Our audit procedures included, among others:

- Engaging the use of our taxation experts to assist with:
 - » The ACA calculation
 - » The tax calculation
 - » Considering any uncertain taxation positions
 - » Assessing transfer pricing arrangements
 - » Evaluating the COT assessment
- Assessing the Group's taxation disclosures.

Information other than the Financial Statements and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information in the Group's financial report for the year ended 31 December 2018, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

The directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors are responsible for overseeing the Group's financial reporting process. In Note A(i), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with IFRS.

Auditor's responsibilities for the Audit of the Financial Statements

Our responsibility is to express an opinion on the financial statements based on our audit. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. However, we will communicate to you in writing concerning any significant deficiencies in internal control relevant to the audit of the financial statements that we have identified during the audit.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The auditing standards require that we comply with relevant ethical requirements relating to audit engagements.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 21 to 37 of the directors' report for the year ended 31 December 2018. In our opinion, the Remuneration Report of Yancoal Australia Ltd, for the year ended 31 December 2018, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.



ShineWing Australia
Chartered Accountants



R Blayney Morgan
Partner, Sydney

Monday, 25 February 2019