

**Yancoal Australia Ltd**

ABN 82 111 859 119

**Annual Financial Report  
for the year ended 31 December 2013**

# Yancoal Australia Ltd

## Annual Financial Report

### For the year ended 31 December 2013

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**1. Results for Announcement to the Market**

	<b>31 December 2013 \$'000</b>	31 December 2012 \$'000*	% Change
Revenue from ordinary activities	<b>1,529,814</b>	1,366,433	12
Loss before income tax (before non-recurring items)	<b>(767,890)</b>	(44,949)	1,608
(Loss) / profit before income tax (after non-recurring items)	<b>(1,114,472)</b>	125,538	(988)
(Loss) / profit from ordinary activities after income tax attributable to members (before non-recurring items)	<b>(602,850)</b>	40,676	(1,582)
Net (loss) / profit for the period attributable to members (after non-recurring items)	<b>(832,070)</b>	375,407	(322)

\* Restated to reflect the change in accounting policies due to the implementation of AASB Interpretation 20 *Stripping Costs in the Production Phase of a Surface Mine* and AASB11 *Joint Arrangements*. Refer to Note 1(a)(ii) in the attached financial statements.

**2. Earnings per share**

	<b>31 December 2013 \$</b>	31 December 2012 \$*	% Change
(Loss) / earnings per share (before non-recurring items)**	<b>(0.61)</b>	0.05	(1,320)
(Loss) / earnings per share (after non-recurring items)**	<b>(0.84)</b>	0.42	(300)

\*\* (Loss) / earnings per share is based on the (loss) / profit after income tax from continuing operations.

**3. Net tangible assets per security**

	<b>31 December 2013 \$</b>	31 December 2012 \$*	% Change
Net tangible assets per share	<b>0.87</b>	1.68	(48)

**4. Dividends**

No dividends have been paid during the financial year. The Directors do not recommend that a dividend be paid in respect of the financial year (2012: nil).

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

**a. Acquisitions**

No entities were acquired during the financial year.

**b. Disposals**

No entities were disposed of during the financial year.

6. Details of associates and joint venture entities

	31 December 2013		31 December 2012	
	Holdings %	Profit / (loss) after income tax contribution \$'000	Holdings %	Profit / (loss) after income tax contribution \$'000
<i>Joint venture entities</i>				
Ashton Joint Venture (unincorporated)	90	(23,036)	90	(11,858)
Moolarben Joint Venture (unincorporated)	80	52,278	80	86,973***
Boonal Joint Venture (unincorporated)	50	Not material	50	Not material
Middlemount Coal Pty Ltd	49.9997	(62,848)	49.9997	(29,464)
<i>Associate entities</i>				
Ashton Coal Mines Limited	90	Nil	90	Nil
Newcastle Coal Infrastructure Group Pty Ltd	27	Nil	27	Nil

\*\*\* Restated to reflect the change in accounting policies due to the implementation of AASB Interpretation 20 *Stripping Costs in the Production Phase of a Surface Mine*. Refer to Note 1(a)(ii) Accounting for deferred mining costs – stripping costs in the attached financial statements.

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 ("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 2013.

## Directors

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

Xiyong Li (appointed 12 September 2013)  
Cunliang Lai  
Baocai Zhang  
James MacKenzie  
Yuxiang Wu  
Xinghua Ni  
Gregory Fletcher  
Boyun Xu  
William Randall  
Geoffrey Raby  
Vincent O'Rourke  
Weimin Li (resigned 22 July 2013)

## Secretary

The names 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

## Principal activities

The Group's principal activities during the financial year were, identifying, developing and operating coal related projects.

## Dividends - Yancoal Australia Ltd

No dividends have been paid during the financial year. The Directors do not recommend that a dividend be paid in respect of the financial year (2012: nil).

## Review of operations

The loss after income tax for the year ended 31 December 2013 amounted to \$832,070,000 (2012: net profit from continuing operations \$374,943,000) after adding an income tax benefit of \$282,402,000 (2012: \$249,405,000).

The loss for 2013 reflects depressed coal prices in the period but also included:

- a net foreign exchange loss amounting to \$369,539,000 on the conversion of US dollar denominated interest-bearing liabilities resulting from a weakening of the Australian dollar against the US dollar in the period; and
- a first half impairment of mining tenements amounting to \$343,000,000 (2012: \$nil) attributable to the Moolarben (\$258,000,000) and Stratford & Duralie (\$85,000,000) operations predominantly due to a decline in forecast coal sale prices.

The profit in 2012 included:

- a net foreign exchange gain amounting to \$67,163,000 on the conversion of US dollar denominated interest-bearing liabilities resulting from a strengthening of the Australian dollar against the US dollar in the period;
- a \$199,967,000 gain on the acquisition of subsidiaries in the period; and
- a one off tax benefit of \$154,936,000 arising from the introduction of the MRRT tax legislation.

The effective date of the merger with Gloucester Coal Ltd ("Gloucester") was 27 June 2012. As such the Gloucester results were included in the Group's results from that date.

Additionally, on 22 June 2012 the Group disposed of its interest in the Cameby Downs and Premier Coal operating open cut mines, the Athena, Harrybrandt and Wilpeena exploration tenements together with several coal technology companies to fellow Yanzhou Coal Mining Company Limited subsidiaries. These results are included in "Profit / (loss) after income tax from

discontinued operations" in the Group's 2012 Consolidated Statement of Profit or Loss and Other Comprehensive Income up to the date of disposal.

### **Corporate activities**

During the year ended 31 December 2013, the Group has successfully arranged three long term debt facilities as follows:

- From the Company's majority shareholder, Yanzhou Coal Mining Company Limited ("Yanzhou"), amounting to US\$596,000,000 with a term of 5 years (the principal repayable in regular instalments from June 2015) and provided on an unsecured basis with no covenants. The facility was used to fund the payment of the promissory notes in connection with the capital return to previous Gloucester Coal Ltd shareholders. The promissory note was settled in full in January 2013. In August 2013, US\$300,000,000 was repaid to Yanzhou.
- From Yancoal International (Holding) Co., Limited, a wholly owned subsidiary of the Company's majority shareholder, Yanzhou, amounting to US\$250,000,000 with a term of 3 years (the principal to be repaid in full at maturity) and provided on an unsecured basis with no covenants. The purpose of the facility is to fund working capital and capital expenditure.
- From Yancoal International (Holding) Co., Limited, a wholly owned subsidiary of the Company's majority shareholder, Yanzhou, amounting to US\$300,000,000 with a term of 3 years (the principal to be repaid in full at maturity) and provided on an unsecured basis with no covenants. The facility funded the \$300,000,000 partial repayment of the US\$596 million loan from Yanzhou.
- From the Company's majority shareholder, Yanzhou Coal Mining Company Limited, amounting to US\$250,000,000 with a term of 5 and a half years (the principal to be repaid in full at maturity) and provided on an unsecured basis with no covenants. The facility was used to fund the repayment of US\$100,000,000 of existing debt in accordance with its terms as well as fund working capital and capital expenditure.

As announced to the market on 9 July 2013, the Company has received a non-binding proposal from its parent entity, Yanzhou regarding a possible privatisation of the Company. Under this proposal, Yanzhou would acquire via a scheme of arrangement all of the shares in the Company that it does not currently own via a share exchange.

As announced to the market on 11 December 2013, The Treasurer of the Commonwealth of Australia announced the removal of the Foreign Investment Review Board sell down conditions imposed on Yanzhou in connection with the merger of the Company with Gloucester Coal Ltd.

During 2013, Yanzhou agreed that it will re-purchase or cause its nominee to re-purchase the CVR shares for the Re-purchase Price. The Re-purchase Price of the CVR shares will be calculated in accordance with the CVR share Terms of Issue. The Re-purchase Price will be A\$3.00 per CVR share and the Re-purchase Date is 4 March 2014. The Re-purchase Price of the re-purchased CVR shares is expected to be paid on 11 March 2014 or as soon as reasonably practical after that date.

In June 2013, the Company relocated its registered and corporate head office from Level 11, 68 York Street, Sydney NSW 2000 to Level 26, 363 George Street, Sydney NSW 2000.

### **Safety**

The Health, Safety, Environment & Community (HSEC) discipline is under the direction of the Chief Operating Officer and the Yancoal HSEC Committee, who have oversight of the senior health, safety, environment and community professionals. Yancoal is continuing to build leadership, capability, and systems to deliver on its objectives. In 2013 Yancoal continued the work of integrating health, safety, environment and community frameworks and procedures under a corporate umbrella.

For 2013, the majority of the Yancoal mine sites achieved better Safety performances than the industry benchmarks. The group overall safety performance improved in 2013 although there is still work to be done to achieve the goal of zero harm.

### **Mine Production**

ROM coal production was 27.04Mt (23.11Mt equity basis) for the year. Saleable coal production was 19.70Mt (16.87Mt equity basis) for the year and coal sales were 17.0Mt (14.9Mt equity basis) for the year.

Cost control and productivity improvement were areas of key focus for all mines in 2013, including the progressive roll-out of the Group-wide LEAN transformation process. The "LEAN" process is a continuous improvement methodology (adapted from Toyota) involving significant operator engagement and "organisational cultural change". As a consequence waste is reduced

as much as possible throughout all aspects of the mining process; pit-to port. The LEAN project, which is at various stages of roll-out across the portfolio, is being used as a catalyst for organisational change, focussed on delivering continuous operational improvement.

*Ashton mine (Yancoal 90%)*

Mine production in 2013 was below expectation due to challenging underground mining conditions and two longwall moves. Underground ROM coal production was 2.75Mt (2.48Mt equity basis) and saleable coal production was 1.29Mt (1.16Mt equity basis).

Initial mining of the ULD seam resulted in slower than expected mining rates and lower than expected yields due to hard stone roof and floor and a thinning seam. An extensive exploration program is ongoing to identify and mitigate geological and geotechnical constraints such as thin-seam, multi-seam, and dykes.

The South East Open Cut (SEOC) project is a proposed new Open Cut pit at Ashton with a proposed extraction rate of up to 3.6Mtpa ROM. The project was approved by the Planning & Assessment Commission (PAC) in October 2012 but has been subject to a Merits Appeal in the Land & Environment Court which was heard in September 2013. The judgment is anticipated in early 2014. Yancoal will consider the appropriate time and market conditions to commit to development.

*Austar mine (Yancoal 100%)*

In 2013 the Austar Mine transitioned to the new Stage 3 area, the culmination of four years work which underpins the future of the operation. Production was below target due to challenges encountered in ramping up production from the new Stage 3 area. ROM coal production was 1.57Mt and saleable coal production was 1.29Mt. Although conditions for both longwall mining and development remain challenging in the Stage 3 area, it is anticipated that when the entire associated infrastructure is completed in 2014, mining conditions will improve significantly and production rates should increase.

*Moolarben mine (Yancoal 80%)*

Open cut ROM coal production was 8.39Mt (6.71Mt equity basis) and Saleable coal production was 6.29Mt (5.03Mt equity basis).

Yancoal is seeking a modification to the Stage 1 development consent whereby there is an opportunity to access additional reserves by extending the footprint of the Open Cuts 1 and 2, and continuing to mine at the existing production rates. It is possible that the PAC will determine this application in early 2014.

Yancoal are also waiting on planning consent for the Stage 2 Expansion project (comprising Open Cut 4, Underground 1 and Underground 2 mines). As part of the approval process, Stage 2 has been referred by the NSW Department of Planning and Infrastructure to the PAC for review.

Moolarben Stage 2 is the most material project pending for Yancoal. Stage 2 has the potential to double Moolarben production and lift Yancoal's equity share group production by more than 25% over a five year horizon.

*Yarrabee mine (Yancoal 100%)*

Higher productivity and business initiatives delivered a significantly improved operating performance in 2013. Yarrabee overcame a tough first half with four weeks production lost to wet weather and flooding. The mine delivered record annual production and significant year on year cost savings. ROM coal production was 3.70Mt and saleable coal production was 3.16Mt. The start of the new Yarrabee East North (YEN) pit in 2013 has helped step change the operation by delivering a large volume pit that has underwritten a change in equipment utilisation and productivity. The YEN pit will be a major product source over its projected life of more than 10 years.

*Stratford & Duralie mines (Yancoal 100%)*

The Gloucester Operations downsized to a lower volume production in 2013 with ROM coal production of 3.48Mt and saleable coal production of 2.26Mt. Adaptation to weaker market conditions included lower mining rates, a revised mining contract and reduced rosters. The benefits of restructuring are expected to be more apparent in 2014.

The Stratford Extension Project (SEP) was referred in December 2013 by the NSW Planning Minister to the PAC for review, with a hearing taking place in February 2014. The SEP has the potential to extend the mine life at Stratford by 11 years and increase production of ROM coal through the development of two new open cuts and the extension of an existing open cut. Yancoal will consider the appropriate time and market conditions to commit to development.

*Donaldson mine (Yancoal 100%)*

The Donaldson group of mines transitioned to a lower volume production unit in 2013. The Donaldson open-cut ceased in April following exhaustion of reserves and the Tasman underground mine finished in July leaving the Abel underground mine (bord-

and-pillar method) as the sole source of production. Donaldson group ROM coal production was 3.19Mt and saleable coal production 2.54Mt.

The "LEAN" program was rolled out across the Abel mine in 2012 and has seen significant improvements in productivity, most notably in extraction.

Development approvals were received in 2013 for the Tasman Extended project and the Abel Modification. The Tasman Extended project proposes mining as a Bord & Pillar operation. The Abel Modification project is based on greater efficiency of extraction within the existing approved mine footprint due to the proposed introduction of conventional longwall and shortwall mining methods. Yancoal will consider the appropriate time and market conditions to commit to development.

#### *Middlemount Mine (Yancoal 49.9997%)*

The Middlemount Mine is structured as an incorporated joint venture between Peabody Energy and Yancoal. In its second full year of operation, Middlemount delivered record annual production and year on year reduced cost per tonne. ROM coal production was 3.96Mt (1.98Mt equity basis) and saleable coal production 2.87Mt (1.43Mt equity basis).

Over the course of 2013, production and key performance metrics from Middlemount continued to improve as the operation fully recovered from a flooding and rain affected first half. Additionally, the move to owner operator completed in June has delivered significant benefits.

### **Infrastructure**

#### *Newcastle Infrastructure Group (NCIG) Coal Terminal (Yancoal 27.0%)*

Yancoal is one of five company shareholders involved in the \$2.3b NCIG export coal terminal in Newcastle, NSW. Yancoal has a 27% ownership with an allocation of approximately 14.6mtpa (100% basis) now the facility has achieved its rated capacity of 66mtpa. A number of Yancoal's mines currently use the facility to load coal however, the Moolarben Mine is Yancoal's largest user of the terminal.

NCIG is 100% debt financed with the financing underwritten by long term Take-or-Pay contracts with the shareholders. The facility effectively runs as a cost centre only and does not make a profit as the users pay a fee to load ships and pay financing costs on a cost recovery basis.

#### *Port Waratah Coal Services (PWCS)*

Yancoal currently has Take-or-Pay Contracts with PWCS for the export of coal through the terminals at Newcastle, NSW. The contracts are allocated back to each of the mines (Ashton, Austar, Stratford & Duralie and Moolarben). Yancoal's port allocation at PWCS is currently approximately 11.5mt (100% basis).

#### *Wiggins Island Coal Export Terminal (WICET) (Yancoal 5.6%)*

Yancoal is one of eight owners of Stage One of the project which will have a capacity of 27Mtpa and is due to be completed in early. Yancoal's share of Stage One will be 1.5Mtpa, which has been allocated to the Yarrabee Mine. Longer term, WICET is expected to have an ultimate export capacity of over 80Mtpa.

WICET is 100% debt financed with the financing underwritten by long term Take-or-Pay contracts with the shareholders. The facility will run as a cost centre only and will not make a profit as the users pay a fee to load ships and pay financing costs on a cost recovery basis.

### **Community and Environment**

Yancoal actively seeks to comply with all of the environmental conditions applied to its mining activities at each of its mining operations. By satisfying these conditions the Company is able to maintain its "licence to operate" in the community and across various jurisdictions throughout Australia.

The Company is obliged to report any environmental incidents or issues to the respective authorities in each state. There were no significant incidents to report in 2013.

Yancoal has a strong commitment to providing support to the communities in which each of its mines operates. The Company devolves responsibility of providing assistance to the community to each of the mines. In this way the funding can be directly targeted towards the immediate local community. Funds are provided to those groups who apply and qualify for assistance and are distributed as donations or sponsorships. In addition some of the mines in the portfolio are required to provide funds directly to the local government authorities for use in community activities and for the provision of facilities.

### **Carbon Pricing**

The Australian Government introduced a carbon pricing mechanism from 1 July 2012. Yancoal has estimated the impact on a mine by mine basis using a price of \$23 per tonne of carbon dioxide equivalent emissions. The result shows the



variation between each mine is quite significant. Ashton is deemed to be a gassy mine and qualifies for assistance from the jobs package that was associated with the introduction of the pricing mechanism. Following drilling programmes at both Moolarben and Stratford & Duralie which were designed to measure the amount of gas in the coal seams, the impact of the pricing mechanism has been reduced significantly.

#### **Significant changes in the state of affairs**

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

#### **Matters subsequent to the end of the financial year**

No matters 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 results of those operations or the state of affairs of the Group in subsequent financial periods except for on 11 February 2014, the draw-down of US\$100 million from the US\$250 million long term loan facility provided by Yanzhou Coal Mining Company Limited during December 2013 (refer to Note 23).

#### **Likely developments and expected results of operations**

It is management's intention to implement expansion plans for a number of mines to grow the business and to utilise the available infrastructure capacity. The Moolarben Stage 2 expansion is the most material project pending for Yancoal.

Guidance for saleable production in 2014 is a range of 16.5Mt – 17.0Mt (Equity share). Forecast 2014 capital expenditure is \$360 million (Equity Share) with over half of the expenditure allocated to growth projects that are subject to regulatory approvals.

In light of coal market conditions, capital constraints and permitting uncertainties, Yancoal has not included in this report further information about likely developments in the operations of the Group beyond a 2014 timeframe because disclosure of this information would be likely to result in unreasonable prejudice to the Group.

#### **Environmental regulation**

The Group is subject to significant energy regulation in respect of its activities as set out below.

##### **Greenhouse gas and energy data reporting requirements**

The *National Greenhouse and Energy Reporting Act 2007 (NGER)* requires the Group to report its annual greenhouse gas emissions and energy use. The Group has implemented systems and processes for the collection and calculation of the data required and submitted its 2012/2013 report to the Greenhouse and Energy Data Officer on 30 October 2013.

##### **Energy Efficiency reporting requirements**

The *Energy Efficiency Opportunities Act 2006* requires the Group to assess its energy usage, including the identification, investigation and evaluation of energy saving opportunities, and to report publicly on the assessments undertaken, including what action the Group intends to take as a result. The Group continues to meet its obligations under this legislation, and has progressively implemented several energy efficiency opportunities.

##### **Clean Energy Legislation**

The Government's Clean Energy Bills received Royal Assent on 9 December 2011. The bills contain a mechanism for pricing carbon emissions from 1 July 2012.

During the statutory period 1 July 2012 – 30 June 2013, the Group complied with all of its obligations under the Clean Energy Act, including registration, reporting and payment of its carbon tax liability.

## Information on Directors

**Xiyong Li. Chairman and Non-Executive Director.** EMBA. (Appointed on 12 September 2013)

### **Experience and expertise**

Xiyong Li is a researcher in engineering technique application with an EMBA degree. He is the Chairman of the Company as well as Chairman of the Nomination and Remuneration Committee. 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 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. He was also appointed the Chairman of the Company in September 2013. Mr Li has considerable experience in business management and operations in the coal industry. Mr Li graduated from Shandong University of Science and Technology and Nankai University.

### **Other current directorships**

Chairman of Yanzhou Coal Mining Company Limited  
Director, General Manager, and the Deputy Secretary of the Party Committee of Yankuang Group  
Chairman of Yancoal International (Holding) Co., Ltd

### **Former directorships in last 3 years**

None

### **Special responsibilities**

Chairman of the Board  
Chair of the Nomination and Remuneration Committee

### **Interests in shares and options**

None

**Cunliang Lai. Co-Vice Chairman (26 June 2012 – Current), Executive Director (until 20 January 2014), Non-Executive Director (20 January 2014 – Current)** DE, EMBA.

### **Experience and expertise**

Cunliang Lai is a researcher in engineering technology application with a Doctorate in Engineering and an Executive Masters in Business Administration. He is a Co-Vice Chairman of the Company. Mr Lai joined Yanzhou Coal Mining Company Limited's predecessor in 1980. He was appointed as the head of Xinglongzhuang Coal Mine of Yanzhou Coal Mining Company Limited in 2000. In 2005, he was appointed as the Deputy General Manager of Yanzhou Coal Mining Company Limited. Before the merger with Gloucester Coal Ltd, Mr Lai was an Executive Director of the Company 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 the Company. 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 Coal Science Research Institute.

### **Other current directorships**

Director of Yancoal International (Holding) Co., Ltd.

### **Former directorships in last 3 years**

None

### **Special responsibilities**

Co-Vice Chairman of the Board  
Chair of the Executive Committee (Resigned 20 January 2014)  
Chair of Strategy and Development Committee

### **Interests in shares and options**

None

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

### **Experience and expertise**

Baocai Zhang is a senior accountant with an Executive Masters of Business Administration degree. He is a Co-Vice Chairman and Chair of the Executive Committee of the Company. Mr Zhang joined Yanzhou Coal Mining Company Limited's predecessor in 1989 and was appointed as the Head of the Planning and Finance department of Yanzhou Coal Mining Company Limited in 2002. He was appointed as a Director and Company Secretary of Yanzhou Coal Mining Company Limited in 2006 and Deputy General Manager in 2011. Mr Zhang was appointed a Non-Executive Director of the

Company on 26 June 2012, and subsequently appointed a Co-Vice Chairman of the Company on 20 December 2013. He became the Chair of the Executive Committee of the Company on 20 January 2014. 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 Coal Mining Company Limited'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.

**Other current directorships**

Director of Yanzhou Coal Mining Company Limited  
Director of Yanzhou Coal Yulin Neng Hua Co., Ltd  
Director of Inner Mongolia Haosheng Coal Mining Limited  
Director of Yancoal International (Holding) Co., Ltd  
Chairman of the Supervisory Committee of Shanxi Energy Chemical Corp. Ltd

**Former directorships in last 3 years**

None

**Special responsibilities**

Member of the Nomination and Remuneration Committee  
Chair of the Executive Committee (appointed 20 January 2014)

**Interests in shares and options**

None

**James MacKenzie. Co-Vice Chairman and Non-Executive Director. BBus, FCA, FAICD.**

**Experience and expertise**

James MacKenzie has extensive experience as a company director having held a number of directorships over the past 10 years. In 2012, Mr MacKenzie was appointed a Director and Co-Vice Chairman of the Company after the merger of the Company and Gloucester Coal Ltd. From 2000 to 2007, he led the transformation of the Victorian Government's Personal Injury Schemes as Chairman of the Transport Accident Commission and Victorian WorkCover Authority. Previously, he held senior executive positions with ANZ Banking Group, Norwich Union and Standard Chartered Bank.

Mr MacKenzie is a Chartered Accountant and was formerly a Partner in both the Melbourne and Hong Kong offices of an international accounting firm, now part of Deloitte. In 2003, he was awarded the Australian Centenary Medal for services to public administration.

**Other current directorships**

Director of Melco Crown Entertainment Limited  
Director of Melco Crown (Philippines) Resorts Corporation

**Former directorships in last 3 years**

Chairman of Gloucester Coal Ltd  
Chairman of the Mirvac Group Board (Resigned January 2014)

**Special responsibilities**

Co-vice Chairman of the Board  
Member of Strategy and Development Committee

**Interests in shares and options**

5,600 fully paid ordinary shares and 5,600 fully paid Contingent Value Right shares in the Company.

**Yuxiang Wu. Non-Executive Director. MACC**

**Experience and expertise**

Yuxiang Wu is a senior accountant with a Masters degree in accounting. He is a Director of the Company. Mr Wu joined Yanzhou Coal Mining Company Limited's predecessor in 1981. Mr Wu was appointed as the Head of the Planning and Finance department of Yanzhou Coal Mining Company Limited in 1997, and was appointed as the Chief Financial Officer and a Director of Yanzhou Coal Mining Company Limited in 2002. In 2012, Mr Wu was appointed a Director of the Company. He has considerable experience in the financial management and business development in the coal industry. He also has extensive experience in organisational accounting, financial control, capital management, risk management and corporate compliance for Yanzhou Coal Mining Company Limited and the Company. Mr Wu graduated from the Party School of Shandong Provincial Communist Committee.

**Other current directorships**

Director of Yanzhou Coal Mining Company Limited  
Director of Yanmei Heze Neng Hua Co., Ltd

Director of Yanzhou Coal Shanxi Neng Hua Company Limited  
Director of Yancoal International (Holding) Co., Ltd  
Chairman of the Supervisory Committee of Huadian Zouxian Power Generation Company Limited

**Former directorships in last 3 years**

None

**Special responsibilities**

Member of Strategy and Development Committee  
Member of Audit and Risk Management Committee

**Interests in shares and options**

None

**Xinghua Ni. Non-Executive Director. M.Eng.**

**Experience and expertise**

Xinghua Ni is a researcher in engineering technology application with a Masters degree. He is a Director of the Company. He joined Yanzhou Coal Mining Company Limited's predecessor in 1975 and became the Deputy Chief Engineer of Yankuang Group in 2000. He was appointed as Chief Engineer of Yanzhou Coal Mining Company Limited in 2002. In 2012, Mr Ni was appointed a Director of the Company. He has considerable experience in coal mining technology. Mr Ni graduated from Tianjin University.

**Other current directorships**

Director of Shanxi Future Energy Chemical Corp. Ltd

**Former directorships in last 3 years**

None

**Special responsibilities**

Member of Strategy and Development Committee  
Member of Health, Safety and Environment Committee

**Interests in shares and options**

None

**Boyun Xu. Executive Director. ME, EMBA.**

**Experience and expertise**

Boyun Xu joined the Company in 2005. Before the merger with Gloucester Coal Ltd, he held the position of General Manager of Business Development of the Company. In 2012, Mr Xu was appointed a Director of the Company and Executive General Manager of the Australian subsidiaries of Yancoal International (Holding) Co. Ltd.

Mr Xu has 28 years of international management and engineering experience in the coal mining industry. Prior to joining the Company he served as Deputy Chief Engineer in Yankuang Group in China and China Business Manager in Minarco Asia Pacific Pty Ltd in Australia.

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

**Other current directorships**

Director of Premier Coal Limited

**Former directorships in last 3 years**

None

**Special responsibilities**

Member of the Executive Committee

**Interests in shares and options**

None

**William Randall. Non-Executive Director. BBus.**

**Experience and expertise**

William Randall is head of Noble's Energy Coal & Carbon Complex division. He started his career at Noble Group Limited in Australia, transferring to Asia in 1999 where he established Noble Group Limited's coal operations, mining and supply chain management businesses. Following his appointment as Director of Noble Energy Inc in 2001, Mr Randall continued to build the global coal and coke marketing network and asset pipeline. He was appointed global head of Coal & Coke in 2006 and became a member of the Noble Group Executive Board in 2008 and subsequently assumed the title of Head of

Hard Commodities in 2012. He became an Executive Director of Noble Group Limited in February 2012. Mr Randall was appointed a Director of the Company after the merger of the Company and Gloucester Coal Ltd in June 2012.

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

**Other current directorships**

Director of Noble Group Limited  
Alternate Director of Cockatoo Coal Limited

**Former directorships in last 3 years**

Director of Gloucester Coal Ltd  
Director of Blackwood Corporation Limited  
Director of East Energy Resources Limited  
Director of Territory Resources Limited

**Special responsibilities**

Member of Nomination and Remuneration Committee.

**Interests in shares and options**

None

**Gregory Fletcher. Non-Executive Director. BCom, CA.**

**Experience and expertise**

Gregory Fletcher was a director of Gloucester Coal Ltd from 30 June 2009. He was appointed a Director of the Company after the merger of the Company and Gloucester Coal Ltd in June 2012. Previously, Mr Fletcher was a senior partner of Deloitte for 16 years, specialising in external and internal audits and risk management. He provided professional services to some of Australia's largest listed corporations. Additionally, he served as a Director of Railcorp up until the Railcorp Board was wound up on 30 June 2010 in line with the NSW Transport Administration Act.

**Other current directorships**

Chairman of SMEG Australia Pty Ltd  
Independent Non-Executive Director of WDS Limited  
Chair, Audit and Risk Committee, Railcorp  
Chair, Audit and Risk Committee, Roads & Maritime Services  
Chair, Audit and Risk Committee, City of Sydney Council  
Member of NSW Auditor General's Audit and Risk Committee and Member  
Member of Audit, Risk and Compliance Committee, Sydney Olympic Park Authority

**Former directorships in last 3 years**

Director of Railcorp  
Director of Gloucester Coal Ltd

**Special responsibilities**

Chair of Audit and Risk Management Committee

**Interests in shares and options**

1,000 fully paid ordinary shares and 1,000 fully paid Contingent Value Right shares in the Company.

**Dr Geoffrey Raby. Non-Executive Director. BEc (Hons), MEc and PhD (economics).**

**Experience and expertise**

Dr Geoffrey Raby was appointed a Director of the Company in 2012. He was Australia's Ambassador to the People's Republic of China from 2007 to 2011. Prior to that, he was a Deputy Secretary in the Department of Foreign Affairs and Trade (DFAT).

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

**Other current directorships**

Director of Fortescue Metals Group Limited  
Director of Oceana Gold Corporation Limited  
Chairman of SmartTrans Holding Limited

**Former directorships in last 3 years**

None

**Special responsibilities**

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

**Interests in shares and options**

None

**Vincent O'Rourke AM. Non-Executive Director. B. Econ.**

**Experience and expertise**

Vincent O'Rourke was appointed a Director of the Company on 6 January 2010. Mr O'Rourke brings over 40 years of corporate and railway industry experience spanning operations, finance and business management to the Board of the Company. 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 Queensland Rail.

He 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 directorships**

Chairman of the Queensland Workplace Health and Safety Board  
Chairman of Rail Innovation Australia Pty Ltd  
Director of White Energy Company Limited  
Director of Mater Health Services Brisbane Limited  
Director of Premier Coal Limited

**Former directorships in last 3 years**

Director of Bradken Limited

**Special responsibilities**

Chair of Health, Safety and Environment Committee

**Interests in shares and options**

None

**Weimin Li. Chairman and Non-Executive Director. DE, EMBA. (Resigned on 22 July 2013)**

**Experience and expertise**

Weimin Li is a researcher in engineering technique application. Mr Li resigned as a Director and Chairman of the Company on 22 July 2013. Mr Li joined Yanzhou Coal Mining Company Limited's predecessor in 1982. He was appointed as the General Manager of Yanzhou Coal Mining Company Limited in July 2009, and was subsequently appointed a director, the General Manager and the Deputy Secretary of the Party Committee of Yankuang Group in 2010. He was also appointed as the Chairman of Yanzhou Coal Mining Company Limited in 2010. He was subsequently appointed a Director and Chairman of the Company in 2012. He is a graduate of China University of Mining and Technology and Nankai University.

**Other current directorships**

**Former directorships in last 3 years**

Chairman of the Board of Directors of Yanzhou Coal Mining Company Limited  
Chairman of the Board of Directors of the Yancoal Australia Ltd  
Vice Chairman of the Board of Yanmei Heze Neng Hua Co., Ltd  
Chairman of the Board of Yanzhou Coal Ordos Neng Hua Co., Ltd  
Chairman of the Board of Yankuang Xinjiang Neng Hua Co., Ltd  
Chairman of the Board of Yanzhou Coal Yulin Nenghua Co., Ltd  
Chairman of the Board of Shaanxi Future Energy Chemical Corp. Ltd  
Chairman of the Board of Yancoal International (Holding) Co., Ltd

**Special responsibilities**

Chairman of the Board (Resigned on 22 July 2013)  
Chair of the Nomination and Remuneration Committee (Resigned on 22 July 2013)

**Interests in shares and options**

None

**Murray Bailey. Chief Executive Officer. (Ceased as CEO on 12 March 2013 and ceased employment on 6 July 2013).**

BE.

***Experience and expertise***

Murray Bailey was appointed to the Board on 5 October 2010. He was appointed Managing Director of Yancoal Australia Ltd in September 2010 and resigned on 28 June 2012. He was subsequently appointed Chief Executive Officer by the Company on 25 July 2012. Previously he was Chief Operating Officer of New Hope Corporation. He has more than 30 years experience in the coal mining industry and has been responsible for the management of large scale mining projects including Wesfarmers Curragh mine in Queensland.

***Other current directorships***

PepinNini Minerals Limited

***Former directorships in last 3 years***

Managing Director of Yancoal Australia Ltd

Director of Premier Coal Limited

Director of Newcastle Coal Infrastructure Group (NCIG)

Director of Wiggins Island Coal Export Terminal (WICET Holdings), Chairman of the Project Management sub-committee of WICET

Director of HVCCC

***Special responsibilities***

None

***Interests in shares and options***

None

**Company secretary**

**Laura Ling Zhang. BA, MA, AGIA, GAICD**

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

## Meetings of Directors

The numbers of meetings of the Company's Board of Directors and of each Board Committee held during the year ended 31 December 2013, 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	1	1					1	1				
Cunliang Lai	6	6							1	1		
Baocai Zhang	5	6					2	2				
James MacKenzie	6	6							1	1	4	4
Yuxiang Wu	6	6	4	6					0	1		
Xinghua Ni	6	6			2	3			1	1		
Boyun Xu	6	6										
William Randall	4	6					2	2				
Gregory Fletcher	6	6	6	6							4	4
Geoffrey Raby	6	6	6	6	3	3					3	4
Vincent O'Rourke	6	6			3	3					4	4
Weimin Li	3	3					1	1				

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

\* The Independent Board Committee was constituted four times under different protocols for the purpose of considering related party transactions with the Company's major shareholder, Yanzhou. The independent directors, Vincent O'Rourke, Geoffrey Raby and Gregory Fletcher met 32 times in regards to the proposed privatisation of the Company.



## Remuneration Report – Audited

Dear Shareholder,

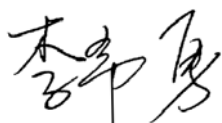
I am pleased to be able to present to you the Company's 2013 Remuneration Report.

2013 was the Company's first full year as a listed company. Over this year, the Nomination and Remuneration Committee continued to enhance the remuneration framework to ensure remuneration arrangements were in line with sound corporate governance for an Australian listed company and for a Company of its size.

The key areas of the Committee's focus over 2013 were in relation to the appointment and remuneration arrangements of the new Chief Executive Officer and the redesign of the Short-Term Incentive Plan to make it more aligned to the strategic goals of the Company. The Company also reviewed executive pay levels and market positioning over the year, however in light of the Company's financial performance, no fixed pay increases were awarded in 2013. Similarly, short-term incentive payments were well below target.

This report sets out remuneration information for the Company's Key Management Personnel for the 12 months ended 31 December 2013.

Yours sincerely,



Xiyong Li  
Chairman of the Board,  
Chair of the Nomination and Remuneration Committee

### Contents

1. Key Management Personnel
2. Remuneration principles and framework
3. Executive remuneration
4. Service Agreements
5. Non-Executive Director Fees
6. Remuneration tables

#### 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, the Chief Executive Officer and a number of senior executives. The Executive Committee is a management committee comprising the Chairman of the Executive Committee, the Chief Executive Officer, another director appointed by the majority shareholder, Yanzhou Coal Mining Company Ltd (**Yanzhou**), the Chief Financial Officer, the Chief Operating Officer, the Chief Marketing Officer and any other officers that the Board resolves will be members of the Committee.

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

The Key Management Personnel comprises Directors and the members of the Executive Committee. Details of the Key Management Personnel are set out in Table 1 below:

TABLE 1: Details of Key Management Personnel

Name	Position	Period of time in role
<b>Non-Executive Directors</b>		
Xiyong Li	Director, Chairman of the Board Chairman of the Nomination and Remuneration Committee	Chairman of the Board – <i>appointed 12 September 2013</i>  Chairman of the Nomination and Remuneration Committee – <i>appointed 6 November 2013</i>
Baocai Zhang	Director and Member of the Nomination and Remuneration Committee Co-Vice Chairman	Full year  Co-Vice Chairman – <i>appointed 20 December 2013</i>
James MacKenzie	Independent Director, Co-Vice Chairman Member of the Strategy and Development Committee	Full year
Yuxiang Wu	Director Member of the Audit and Risk Committee Member of the Strategy and Development Committee	Full year
Xinghua Ni	Director Member of the Health, Safety and Environment Committee Member of the Strategy and Development Committee	Full year
William Randall	Independent Director and Member of the Nomination and Remuneration Committee	Full year
Gregory Fletcher	Independent Director Chairman of the Audit and Risk Committee	Full year
Geoffrey Raby	Independent Director Member of the Audit and Risk Committee Member of the Health, Safety and Environment Committee	Full year
Vincent O'Rourke	Independent Director Chairman of the Health, Safety and Environment Committee	Full year
<b>Executive Directors</b>		
Cunliang Lai	Director Co-Vice Chairman, Chair of the Strategy and Development Committee Chair of the Executive Committee	Director, Co-Vice Chairman and Chair of the Strategy and Development Committee - <i>Full year</i> Chair of the Executive Committee – <i>until 20 January 2014</i>
Boyun Xu	Executive Director, Executive General Manager - Australian Subsidiaries of Yancoal International (Holding) Co. Ltd	Full year
<b>Senior Executives</b>		
Reinhold Schmidt	Chief Executive Officer and former Acting Chief Executive Officer	Chief Executive Officer – <i>appointed 26 August 2013</i>
Peter Barton	Chief Operating Officer and Acting Chief	Chief Operating Officer – <i>Full year</i>

	Executive Officer	Acting Chief Executive Officer - <i>for the period 12 March 2013 to 26 August 2013</i>
Michael Wells	Acting Chief Financial Officer	Acting Chief Financial Officer - <i>since 31 May 2013</i>
Michael Dingwall	Chief Marketing Officer	Full year – <i>Ceased employment 31 Jan 2014</i>
<b>Former Non-Executive Directors</b>		
Weimin Li	Former Director, Chairman of the Board and former Chairman of the Nomination and Remuneration Committee	<i>Until 22 July 2013</i>
<b>Former Senior Executives</b>		
Murray Bailey	Former Chief Executive Officer	Chief Executive Officer - <i>until 12 March 2013 and ceased employment on 6 July 2013</i>
Peng Shen	Former Chief Financial Officer	<i>Until 31 May 2013</i>

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

## 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 short and long term incentives that are challenging to create sustainable returns and to support the achievement of the Company’s strategies and objectives; and
- to reward based on performance, in particular acknowledging the contribution of outstanding performers.

### 2.1 Remuneration governance framework

Consistent with its Board Charter, the Board oversees the appointment, remuneration and performance of all Key Management Personnel (“KMP”) other than Directors. 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;
- remuneration levels and structure for KMP;
- the public reporting of remuneration for KMP;
- the performance assessment of the Executive Committee;
- designing Company policy and regulations with regard to corporate governance; and
- diversity.

The Board has appointed PricewaterhouseCoopers (PwC) as its Remuneration Consultant. During 2013, PwC provided a remuneration recommendation in relation to a new long-term incentive plan. The fee for this remuneration recommendation was \$55,000 (2012: \$60,500). PwC provided their remuneration recommendation directly to the Nomination and Remuneration Committee and they have confirmed that their recommendation was made free from undue influence of any of the Key Management Personnel. Based on this declaration, and the protocols that PwC followed, the Board is satisfied that the recommendations made by PwC were free from undue influence by the Key Management Personnel.

PwC provided other services to the Company during 2013 including advice on the short-term incentive plan and accounting and

tax compliance advice. Total fees for all services were \$6,092,335 (2012: \$13,181,675).

### 3. Executive remuneration

The Executives are split into two groups for remuneration purposes, being:

- **Group A Executives:** Executives other than Group B Executives; and
- **Group B Executives:** The Co-Vice Chairman and Chairman of the Executive Committee (Mr Lai) and the former Chief Financial Officer (Peng Shen).

The Board considers these two remuneration structures an appropriate reflection of Yanzhou's majority shareholding in the Company.

#### 3.1 Objective

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

- Shareholders' interests by:
  - making economic performance a core component of the overall remuneration plan design;
  - focussing 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 12 (See Section 6: Remuneration tables).

#### 3.2 Structure

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

**TABLE 2: Executive remuneration structure**

	Group A Executives	Group B Executives
<b>Fixed remuneration</b>	<ul style="list-style-type: none"> <li>• Fixed Annual Remuneration (FAR), including cash salary, superannuation, and may include car allowance; and</li> <li>• Other benefits (see Section 3.4).</li> </ul>	<ul style="list-style-type: none"> <li>• Cash salary</li> <li>• Superannuation benefit, and</li> <li>• Other benefits (see Section 3.4).</li> </ul>
<b>Variable remuneration</b> (‘at risk’)	<ul style="list-style-type: none"> <li>• Short-term Incentive (see Section 3.5.1), and</li> <li>• Long-term Incentive (for certain Group A Executives only, see Section 3.5.3).</li> </ul>	<ul style="list-style-type: none"> <li>• Short-term flexible bonus scheme (see Section 3.5.2)</li> </ul>

### 3.3 Remuneration mix

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

TABLE 3: Proportion of Senior Executives' remuneration entitlement at risk

NAME	Fixed Remuneration (excl. benefits) <sup>A</sup>		At risk – Short Term <sup>B</sup>		At risk – Long term Incentive Plan <sup>C</sup>	
	2013	2012	2013	2012	2013	2012
Cunliang Lai	80%	80%	20%	20%	Not applicable	Not applicable
Boyun Xu	71%	81%	29%	19%	Not applicable	Not applicable
Reinhold Schmidt	36.5%	Not applicable	27%	Not applicable	36.5%	Not applicable
Peter Barton	64%	72%	26%	17%	10%	11%
Michael Wells	69%	Not applicable	21%	Not applicable	10%	Not applicable
Michael Dingwall	64%	72%	26%	17%	10%	11%
Peng Shen	80%	80%	20%	20%	Not applicable	Not applicable
Murray Bailey	48%	48%	26%	26%	26%	26%

<sup>A</sup> Calculations for fixed remuneration entitlement exclude the value of benefits.

<sup>B</sup> For Group A Executives, the short term variable remuneration entitlement is determined pursuant to the Short Term Incentive Plan (outlined in section 3.5.1). For Group B Executives, their short term variable remuneration entitlement is determined pursuant to a short term flexible bonus scheme, outlined in section 3.5.2).

<sup>C</sup> The Long Term Incentive Plan is outlined in section 3.5.3.

### 3.4 Fixed Remuneration

Fixed remuneration comprises cash salary, superannuation and other benefits. Fixed remuneration differs for Group A and Group B Executives as described below. In recognition of the Company's financial performance, no fixed remuneration increases were awarded in 2013.

#### Group A Executives

Each Group A Executive receives a salary package, in the form of a Fixed Annual Remuneration (FAR) package, which incorporates cash salary and superannuation benefit and may include a provision for a car allowance, together with certain other benefits.

Each Group A Executive's level of fixed remuneration is set to provide a base level of remuneration which is appropriate to the position and competitive with companies in a similar industry. Each year a Group A Executive's FAR is reviewed by reference to the Coal Mining Industry Remuneration Report produced by McDonald & Company (Australasia) Pty Ltd (**McDonald Report**). Using the McDonald Report, the Company's Remuneration Policy targets FAR at the 75th percentile of the relevant industry benchmark which reflects market practice in the coal industry in Australia. Having regard to the specific characteristics of the role, each employment position is then assigned a Job Salary Rate (**JSR**), and Group A Executives are paid at between 80% and 120% of the JSR.

Group A Executives' superannuation benefits are paid to their nominated superannuation fund in accordance with relevant state and industry legislation. No Group A Executive is entitled to a guaranteed increase in FAR.

Each Group A Executive may receive certain benefits as part of their fixed remuneration including car parking, airport lounge membership, travel allowances, relocation allowances, accommodation and meal entitlements. Group A Executives have some scope to determine the combination of cash (including car allowance) and certain non-monetary benefits by which their FAR is delivered, provided that it does not create undue cost for the Company.

### Group B Executives

Each Group B Executive receives fixed remuneration comprising cash salary, superannuation benefit and other benefits.

The level of fixed remuneration is determined relative to executive remuneration for China-based employees at the Company's majority shareholder, Yanzhou. Yanzhou is a Chinese coal enterprise listed on the Hong Kong Stock Exchange, New York Stock Exchange and Shanghai Stock Exchange. Yanzhou was chosen as an international comparator recognising Yanzhou's majority shareholding in the Company, whilst maintaining the Company's commitment to best practice remuneration principles in Australia and internationally.

Group B Executives' superannuation benefits are paid to their nominated superannuation fund in accordance with relevant state and industry legislation.

Other benefits for Group B Executives are accommodation, medical insurance, fully serviced motor vehicle, car parking, an entitlement to two return flights to their city of origin in China, airport lounge membership, certain living expenses and payment of fringe benefit tax.

Details of fixed remuneration (including the value of benefits) for all Executives are set out in Table 12.

### 3.5 Variable remuneration

Variable remuneration differs for Group A and Group B Executives. It is delivered through participation in the Short Term Incentive (STI) Plan for Group A Executives (as outlined in section 3.5.1) and the short term flexible bonus (Short Term Bonus) for Group B Executives (as outlined in section 3.5.2). Certain Group A Executives are also eligible to participate in a Long Term Incentive (LTI) Plan (as outlined in section 3.5.3).

#### 3.5.1 Short Term Incentive (STI) Plan

##### Eligibility

The STI Plan applies to Group A Executives as well as to the broader management and employees of the Company (other than Group B Executives).

##### Objective

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

##### Structure

For 2013 the STI Plan comprised four key components:

- 1. STI opportunity** – this is expressed as a percentage of the Executive's FAR. The STI opportunity is reviewed annually and following a benchmarking exercise against comparable peers in listed companies, the target STI opportunity increased during 2013 to 40% of FAR (62% of FAR at maximum) for the Group A Executives (excluding the CEO). The CEO has an agreed STI opportunity of up to \$300,000 for 2013. The Board believes this level of STI opportunity is reasonable and competitive for the current environment.
- 2. STI Scorecard** – this consists of a number of Key Performance Indicators (KPIs). For the Executives named in this report, all KPIs are measured at the Company level. The KPIs fall into three categories being Profitability (60% weighting), Sustainability (10% weighting) and Growth Projects (30% weighting). Details of how the STI Scorecard is evaluated are set out below. STI scorecard performance is assessed by the Chairman of the Executive Committee and the Chief Executive Officer, reviewed by the Nomination and Remuneration Committee, and approved by the Board.
- 3. Health, safety and environment (HSE) modifier** - the STI Plan is also subject to a HSE modifier. This modifier provides the Board with discretion to scale down the STI award (to nil) if a material HSE incident occurred or if there is a material HSE misstatement.
- 4. Individual Performance** – this is measured by Key Result Areas (KRA). These KRAs are aligned to the Executive's role and include areas such as special projects, achievement of OPEX and CAPEX budgets, and achievement of growth initiatives / continuous improvement initiatives. The Executive's general conduct and behaviours is also considered. Based on performance against the KRAs, the Executive receives a performance rating at the end of the year on a scale from Exceptional to Below Standard. In the case of the Chief Executive Officer, individual performance is assessed by the Nomination and Remuneration Committee, to be endorsed by the Board. For all other Group A Executive's, performance is assessed by the Chief Executive Officer and the Chair of the Executive Committee.

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

**Further detail on the STI Scorecard – 2013**

The STI Scorecard measures the Company's performance in respect of Profitability, Sustainability and Growth Projects. Each of the STI Scorecard categories, how they are measured and the reason they were chosen are set out below.

**TABLE 4: STI Scorecard**

<b>STI scorecard category</b>	<b>KPIs</b>	<b>Weighting</b>	<b>Rationale</b>
Profitability	Profit Before Tax (PBT)	40%	Key financial metric for the Company
	Coal sales revenue	20% (5% each)	Key profitability drivers and other key profitability measures
	Total cost per tonne sold		
	Product coal tonnes		
	Development / overburden removal		
Sustainability	Total recordable injury frequency rate (TRIFR). The target is set in the context of the state TRIFR average.	5%	Key safety measure in the mining industry. Reflects the Company's commitment to care for, and protect, its people and to provide an incident free and healthy work environment
	Environmental stewardship – based on operations compliance, loss of containment, and environmental awareness training sessions.	5%	Reflects the Company's commitment to operating sustainability and managing its environmental obligations
Growth projects	Each Executive is assessed against three growth projects that are aligned to the Company's strategic priorities but are within their sphere of influence. Due to commercial sensitivity, these are not disclosed.	30% (10% each)	Drives focus on the execution of the Company's key strategic priorities

**2013 STI outcome**

Assuming there is no material HSE event or HSE misstatement, Group A Executive STI outcomes are calculated by multiplying the target STI opportunity by the STI Scorecard payout multiplier and the Individual Performance payout multiplier.

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

**TABLE 5: Company Performance against STI Scorecard in 2013**

<b>STI scorecard category</b>	<b>STI Scorecard</b>	<b>Actual performance against KPI</b>
Profitability	Profit Before Tax (PBT)	Below Threshold
	Coal sales revenue	Threshold achieved (83% of Target)
	Total Cost per tonne sold	Target achieved (92.4% of Target)
	Product coal tonnes	Target achieved (103.5% of Target)
	Development/ Overburden removal	Below Threshold
Sustainability	TRIFR	Target achieved
	Environmental Stewardship: Operations Integrity	Threshold achieved (83% achievement)
	Environmental Stewardship: Loss of Containment	Threshold achieved (90% achievement)
	Environmental Stewardship: Training sessions	Stretch achieved (108% achievement)
Growth projects	Three growth projects customised to each Executive's role	Performance varied across the Executive team with between 0 and 2 of the growth projects being achieved

The overall payout figure for the Company was at 37% reflecting the low profit achievement and varied achievement of the other targets. This figure was lower for the Group A Executives (range from 15% to 32%, with the CEO receiving 100% of the pro-rated amount) again reflecting lower than budgeted profit figures and difficulties achieving the growth measures.

### 3.5.2 Short term flexible bonus (Short Term Bonus)

#### **Eligibility**

The Short Term Bonus applies to the Group B Executives and certain other senior management.

#### **Objective**

The objective of the Short Term Bonus is to reward the Group B Executives for the achievement of Company goals.

#### **Structure**

Group B Executives have a minimum bonus opportunity under the Short Term Bonus of 20% of the cash salary and superannuation benefit component of their fixed remuneration. The Board may award Group B Executives an additional cash bonus if their performance is beyond expectations and delivers outstanding results.

For 2013, the Short Term Bonus was measured by reference to the below KPIs. The KPIs are not separately weighted as the award of the Short Term Bonus is at the discretion of the Board.



**TABLE 6: Short Term Bonus KPIs and rationale**

<b>KPIs</b>	<b>Rationale</b>
Net Operating Profit	Key financial measures / value drivers for the Company.
Net Operating Cash Flow	
Coal Sales Revenue	
Coal Production	
Total cost per tonne sold	
Accounts Receivable	
Controllable Expenses	
TRIFR	
Energy Conservation	Key indicator of the Company's commitment to safeguarding the environment through its mining operations
Internal Compliance	Measures the effectiveness of the Company's compliance function including audit and risk management.

**2013 Short Term Bonus outcome**

Review of a grant of a Short Term Bonus for the Group B Executives for 2013 is currently underway. The outcomes of the 2012 Short Term Bonus are not confirmed and no payments have been made. If granted any Short Term Bonus will be granted as a cash payment and will vest immediately.

**3.5.3 Long Term Incentive (LTI) Plan**

During 2013, no equity based LTI awards were granted, and no cash amounts were paid to Executives under the LTI plan. Any award is at the discretion of the Board. The key characteristics of the LTI plan are outlined below.

**TABLE 7: LTI operation**

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

**TABLE 8: Details of the LTI Plan applicable to certain Group A Executives**

Name	Year of grant	Value of LTI accrued at 31/12/13	Vesting Date
Reinhold Schmidt	2013	\$ 119,322 <sup>A</sup>	1-Jan-17
Peter Barton	2010	\$ 86,625	1-Aug-13
	2011	\$ 82,500	1-Aug-14
	2012	\$ 34,582	1-Aug-15
	2013	\$ 12,964 <sup>B</sup>	1-Aug-16
Michael Wells	2012	\$ 21,872	1-Oct-15
	2013	\$ 4,365 <sup>C</sup>	1-Oct-16

<sup>A</sup> The Chief Executive Officer is eligible for a LTI award between 100% and 150% of FAR. The amount above is at 100%. The value at 150% is \$178,982.84.

<sup>B</sup> For the period 1 August 2013 to 31 December 2013.

<sup>C</sup> For the period 1 October 2013 to 31 December 2013.

If an eligible Group A Executive ceases employment with the Company before the relevant vesting date, the Group A Executive forfeits 100% of their LTI opportunity. In 2013 Murray Bailey forfeited his LTI opportunity. Michael Dingwall has forfeited his LTI given he ceased employment with the Company in January 2014.

### 3.5.4 Completion bonus

Murray Bailey was eligible for a completion bonus equating to 12 months FAR on the terms of his Employment Services Agreement (**ESA**). Entitlement to the completion bonus was conditional on him continuing to be employed by the Company until 6 July 2013. As Mr Bailey did remain employed until this date, the Board exercised its discretion and awarded Mr Bailey with his completion bonus.

### 3.6 Share Trading Policy

The Company's Share Trading Policy prohibits dealing in Company securities or Yanzhou securities by Key Management Personnel and other employees, as well as their closely related parties, during specified blackout periods each year. Employees are permitted to deal in Company securities or Yanzhou securities outside these blackout periods, however additional approval requirements apply to Directors.

The 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. A copy of the Share Trading Policy is available in the Corporate Governance section of the Company's website.

### 3.7 Linking Executive remuneration to Company performance

The Company's remuneration principles include rewarding based on performance and this is primarily achieved through the Company's STI plan (for Group A Executives) and the Short Term Bonus (for Group B Executives). Cash awards under these plans are significantly impacted by the overall performance of the Company. See Sections 3.5.1 and 3.5.2 for further detail.

In 2013 the STI Plan pay out average for the all participants was 38% reflecting the low profit achievement and varied achievement of the other targets. This figure was lower for the Group A Executives (ranging from 15% to 32%, with the CEO achieving 100% of his pro-rated value) again reflecting lower than budgeted profit figures and difficulties achieving the growth measures. The Short Term Bonus for Group B Executives is still under consideration.

In light of the Company's financial performance, no FAR increases were awarded to any of the Executives in 2013.

The Company's earnings and delivery of shareholder wealth since the Company listed on the Australian Securities Exchange on 28 June 2012 is outlined in the table below.

TABLE 9: Yancoal's performance since listing (\$)

	31 December 2013	31 December 2012	30 June 2012
PBT	(1,114,472,000)	125,538,000	215,790 <sup>1</sup>
Basic EPS	(0.84)	0.42	0.53 <sup>1</sup>
Closing share price	0.76	1.00	1.25
Ordinary dividend per share	-	-	-

<sup>1</sup> Represents six months ended 30 June 2012

#### 4. Service Agreements

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

TABLE 10: Certain ESA terms for each of the Senior Executives

Senior Executives	Position	Term of ESA	Notice Period	Termination Benefit
<b>Cunliang Lai</b>	Executive Director, Co-Vice Chairman, Chair of the Executive Committee	Unlimited	1 month <sup>A</sup>	Nil
<b>Boyun Xu</b>	Executive Director, Executive General Manager – Australian Subsidiaries of Yancoal International (Holding) Co. Ltd	Unlimited	3 months <sup>A</sup>	Nil
<b>Reinhold Schmidt</b>	Chief Executive Officer	Unlimited	3 months <sup>B</sup> 6 months <sup>C</sup>	Nil for cause or resignation. If Company terminates LTI vests as per Plan rules.
<b>Peter Barton</b>	Chief Operating Officer (and formerly acting Chief Executive Officer)	Unlimited	6 months <sup>A</sup>	Pro-rata STI
<b>Michael Wells</b>	Acting Chief Financial Officer	Unlimited	3 month <sup>A</sup>	Pro rata STI
<b>Michael Dingwall</b>	Chief Marketing Officer	Unlimited	6 months <sup>A</sup>	Pro rata STI <sup>D</sup>
Former Senior Executives	Position	Term of ESA	Notice Period	Termination Benefit
<b>Murray Bailey</b>	Chief Executive Officer	6 July 2013	6 months <sup>A</sup>	Pro-rata STI
<b>Peng Sheng</b>	Chief Financial Officer	Unlimited	1 month <sup>A</sup>	Nil

<sup>A</sup> Notice period applicable if the Company terminates the Senior Executive or if the Senior Executive resigns.

<sup>B</sup> Notice period applicable if the Senior Executive resigns.

<sup>C</sup> Notice period applicable if the Company terminates the Senior Executive.

<sup>D</sup> Payable upon Michael Dingwall's termination on 31 January 2014.

## 5. 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 2013, excluding payments for extra services outlined below, was \$820,772 (excluding any additional payments) which is \$2,679,228 below the current aggregate cap of \$3,500,000 per annum.

During 2013, Non-Executive Directors were remunerated by way of fixed fees in the form of cash and superannuation (to the Maximum Superannuation Guarantee cap). There has been no change to the Board and Committee fees from 2012 to 2013. No equity instruments were issued to Non-Executive Directors over 2013 and no element of the Non-Executive Director fees are linked to performance.

Neither Board nor Committee fees were paid to nominee Directors of Yanzhou (Xiyong Li, Weimin Li, Yuxiang Wu, Xinghua Ni and Baocai Zhang) as the responsibilities of Board or Committee membership were considered part of their role and remuneration arrangements with their nominating company. William Randall is not paid any Board or Committee fees.

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

**TABLE 11: Board and Committee fees**

	<b>2013 \$</b>
<b>Board Fees per annum (including any superannuation)</b>	
Chairman of the Board	Not applicable
Co-Vice Chairman of the Board	115,000
Director	150,000
<b>Committee Fees per annum (including any superannuation)</b>	
Audit and Risk Management Committee – Chair	30,000
Audit and Risk Management Committee – member	15,000
Health, Safety and Environment Committee – Chair	30,000
Health, Safety and Environment Committee – member	15,000
Nomination and Remuneration Committee – Chair	Not applicable
Nomination and Remuneration Committee – member	Not applicable
Strategy and Development Committee – Chair	Not applicable
Strategy and Development Committee – member	15,000

### **Transaction specific remuneration**

The Constitution also provides that if a director performs extra services or makes any special exertions for the benefit of the Company, the director may be paid additional remuneration, decided by the directors as appropriate to reflect the value to the Company of those extra services or special exertions. This additional remuneration does not form part of the aggregate cap on Non-Executive Directors' remuneration. The Company has made total payments of \$306,000 (2012:nil) for the extra services provided by the Non-Executive Directors Gregory Fletcher, Geoffrey Raby and Vincent O'Rourke for their contribution to undertake investigations and discussion on behalf of the Company with a view to make a recommendation to the Company's minority shareholders in respect of the indicative non-binding proposal received from Yanzhou Coal Mining Company Limited ("Yanzhou"), the controlling shareholder of the Company regarding the possible privatisation of the Company.

Details of remuneration for all Non-Executive Directors are set out in Table 14 (see Section 6: Remuneration tables).

### **6. Remuneration tables**

Table 12 sets out the details of remuneration earned by Executives, calculated in accordance with applicable Accounting Standards.

Table 13 sets out details of STI awards and cash bonuses granted to Executives in 2013 and 2012.

Table 14 sets out the details of remuneration (in the form of Board and Committee fees and other benefits) earned by Non-Executive Directors, calculated in accordance with applicable Accounting Standards.

TABLE 12: Details of Senior Executives' Remuneration earned in 2013

Name		Short Term Benefits				Long Term Benefits			Total (including other fees)
		Cash Salary	STI or bonus	Non-monetary benefits <sup>A</sup>	Other short term employee benefits	Superannuation benefits	Long Service Leave	LTI opportunity	
Cunliang Lai	2013	128,000	Under review <sup>B</sup>	187,956	Nil	11,840	25,546	Not applicable	353,342
	2012	128,000	Under review <sup>B</sup>	287,574 <sup>C</sup>	Nil	11,520	22,306	Not applicable	449,400
Boyun Xu	2013	303,450	42,013	13,617	Nil	32,162	44,417	Not applicable	435,659
	2012	303,450	54,162	12,890 <sup>C</sup>	Nil	27,310	39,749	Not applicable	437,561
Reinhold Schmidt <sup>D</sup>	2013	396,226	300,000	51,095	Nil	8,887	284	119,322	875,814
	2012	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
Peter Barton <sup>E</sup>	2013	804,299 <sup>F</sup>	78,972	13,617	Nil	17,122	18,947	93,474	1,026,431
	2012	561,030	94,466	12,470 <sup>C</sup>	45,200 <sup>G</sup>	16,470	5,710	86,625	821,971
Michael Wells <sup>H</sup>	2013	253,733 <sup>I</sup>	30,281	11,783	Nil	8,887	2,616	26,236	333,536
	2012	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
Michael Dingwall	2013	520,526	31,625	14,457	Nil	17,122	5,037	Nil	588,767
	2012	513,780	86,829	12,890 <sup>C</sup>	Nil	16,470	1,904	79,538	711,411
Former Senior Executives		Short Term Benefits				Long Term Benefits			Total (including other fees)
		Cash Salary	STI or bonus	Non-monetary benefits <sup>A</sup>	Other short term employee benefits	Superannuation benefits	Long Service Leave	LTI opportunity	
Murray Bailey <sup>J</sup>	2013	1,571,568 <sup>K</sup>	67,584 <sup>L</sup>	4,212	Nil	8,235	Nil	Nil	1,651,599
	2012	1,009,530	550,000	30,595 <sup>C</sup>	Nil	16,470	8,938	564,300	2,179,833
Peng Shen <sup>M</sup>	2013	64,720	Nil	60,149	Nil	5,987	Nil	Not applicable	130,856
	2012	102,400	Nil	123,113 <sup>C</sup>	Nil	9,216	765	Not applicable	235,494
<b>Total</b>	2013	<b>4,042,522</b>	<b>550,475</b>	<b>356,886</b>	<b>Nil</b>	<b>110,242</b>	<b>96,847</b>	<b>239,032</b>	<b>5,396,004</b>
	2012	2,618,190	785,457	479,532	45,200	97,456	79,372	730,463	4,835,670

<sup>A</sup>Non-monetary benefits include the following benefits plus an estimated Fringe Benefits Tax amount:

- Cunliang Lai – accommodation, medical insurance, fully serviced motor vehicle, car parking, two return flights to city of origin in China, airport lounge membership, certain living expenses and payment of Fringe Benefits Tax,
- Boyun Xu – car parking,
- Reinhold Schmidt – Relocation expenses, car parking & personal travel from his home in Brisbane to his office in Sydney,
- Peter Barton – car parking,
- Michael Wells – car parking and airport lounge membership,
- Michael Dingwall – car parking,
- Murray Bailey – car parking and personal travel from his home in Brisbane to his office in Sydney,
- Peng Shen – accommodation, medical insurance, fully serviced motor vehicle, car parking, two return flights to city of origin in China, airport lounge membership, certain living expenses and payment of Fringe Benefits Tax.

<sup>B</sup>Cunliang Lai's short term bonus award for 2012 and 2013 is under review and has not been determined.

<sup>C</sup>Non-monetary benefits for 2012 have been updated post the lodgement of the 2012/13 Fringe Benefits Tax return.

<sup>D</sup>Commenced as the Chief Executive Officer on 26 August 2013.

<sup>E</sup>Appointed as the Acting Chief Executive Officer 12 March 2013 and ceased to be in that capacity upon Appointment of Reinhold Schmidt as the Chief Executive Officer on 26 August 2013.

<sup>F</sup>Peter Barton's cash salary includes an additional amount of \$174,580.82 paid as Acting Allowance for his period of service as the Acting Chief Executive Officer.

<sup>G</sup>Peter Barton's short term employee benefit in 2012 comprises a motor vehicle allowance (outlined in Section 3.3.1).

<sup>H</sup>Appointed as the Acting Chief Financial Officer 31 May 2013.

<sup>I</sup>Michael Wells' cash salary includes an additional amount of \$35,000 paid as Acting Allowance for his period of service as the Acting Chief Financial Officer.

<sup>J</sup>Murray Bailey's 2013 remuneration covers the period from 1 January 2013 to 6 July 2013. He ceased being the Chief Executive Officer on 12 March 2013 and ceased employment with the Company on 6 July 2013. Murray Bailey's 2012 remuneration is for the period 25 July 2012 to 31 December 2012. He was appointed Chief Executive Officer on 25 July 2012 and ceased to be Managing Director on 28 June 2012.

<sup>K</sup>Murray Bailey's cash salary includes amount of \$321,806.55 paid to him as his salary from the date he ceased to be the Chief Executive Officer on 12 March 2013 to the date of expiry of his employment contract with the Company on 6 July 2013 and termination payments of \$1,049,781.98.

<sup>L</sup>Murray Bailey's STI payment is a pro rata amount paid to him at the expiry of his employment contract on 6 July 2013 based on his Employment Services Agreement.

<sup>M</sup>Resigned as Chief Financial Officer on 31 May 2013.

TABLE 13: Details of STI opportunities and Short Term Bonus granted to Senior Executives in 2013 and 2012

Name		STI or Short Term Bonus \$	% of maximum entitlement granted	% of maximum entitlement forfeited
Cunliang Lai <sup>A</sup>	2013	Under review	Not applicable	Not applicable
	2012	Under review	Not applicable	Not applicable
Boyun Xu <sup>B</sup>	2013	42,013	20%	80%
	2012	54,162	68%	32%
Reinhold Schmidt <sup>B</sup>	2013	300,000	100%	0%
	2012	Not applicable	Not applicable	Not applicable
Peter Barton <sup>B</sup>	2013	78,972	20%	80%
	2012	94,466	68%	32%
Michael Wells <sup>B</sup>	2013	30,281	18%	82%
	2012	Not applicable	Not applicable	Not applicable
Michael Dingwall <sup>B</sup>	2013	31,625	10%	90%
	2012	86,829	68%	32%
<b>Former Senior Executives</b>				
Murray Bailey <sup>B</sup>	2013	67,584	12%	88%
	2012	550,000	100%	Nil
Peng Shen <sup>A</sup>	2013	Nil	Not applicable	Not applicable
	2012	Nil	Not applicable	Not applicable

<sup>A</sup> Cunliang Lai and Peng Shen participated in the Short Term Bonus where there is no target or maximum STI opportunity. This is because any cash amounts paid are at the discretion of the Board.

<sup>B</sup> Boyun Xu, Murray Bailey, Peter Barton and Michael Dingwall participated in STI Plan.



TABLE 14: Details of Non-Executive Directors' Remuneration, earned in 2013 and 2012

Name		Short Term Benefits		Post-Employment Benefits	Total
		Fees <sup>E</sup>	Non-Monetary Benefits	Superannuation	
<b>Non-Executive Directors</b>					
Xiyong Li <sup>A</sup>	2013	Nil	Nil	Nil	Nil
	2012	Nil	Nil	Nil	Nil
Baocai Zhang	2013	Nil	Nil	Nil	Nil
	2012	Nil	Nil	Nil	Nil
James MacKenzie	2013	263,106	Nil	17,122	280,228
	2012	137,316	Nil	7,118	144,434
Yuxiang Wu	2013	Nil	Nil	Nil	Nil
	2012	Nil	Nil	Nil	Nil
William Randall	2013	Nil	Nil	Nil	Nil
	2012	Nil	Nil	Nil	Nil
Xinghua Ni	2013	Nil	Nil	Nil	Nil
	2012	Nil	Nil	Nil	Nil
Gregory Fletcher	2013	372,138	Nil	15,069	387,207
	2012	87,700	Nil	5,150	92,850
Geoffrey Raby	2013	200,436	Nil	15,694	216,130
	2012	88,732	Nil	4,118	92,850
Vincent O'Rourke	2013	235,569	Nil	7,638	243,207
	2012	91,611	Nil	Nil	91,611
<b>Former Non-Executive Directors</b>					
Weimin Li <sup>B</sup>	2013	Nil	Nil	Nil	Nil
	2012	Nil	Nil	Nil	Nil
Terence Crawford <sup>C</sup>	2013	Not applicable	Not applicable	Not applicable	Not applicable
	2012	13,761	Nil	1,239	15,000
Xin Wang <sup>D</sup>	2013	Not applicable	Not applicable	Not applicable	Not applicable
	2012	Nil	Nil	Nil	Nil
<b>Total</b>	2013	<b>1,071,249</b>	<b>Nil</b>	<b>55,523</b>	<b>1,126,772</b>
	2012	419,120	Nil	17,625	436,745

<sup>A</sup> Appointed 12 September 2013.

<sup>B</sup> Resigned 22 July 2013.

<sup>C</sup> Resigned 4 March 2012.

<sup>D</sup> Resigned 26 June 2012.

<sup>E</sup> Includes following Transaction specific remuneration paid during the year ended 31 December 2013:

Vincent O'Rourke - \$63,000

Geoffrey Raby - \$36,000

Gregory Fletcher - \$207,000

### Insurance of officers

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 Company and its controlled entities. 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 the 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 (ShineWing Hall Chadwick for the consolidated entity and BDO Australia for two subsidiaries) 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 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 committee to ensure they do not impact the impartiality and objectivity of the auditor
- 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 non-audit services provided by the auditor of the Group, its related practices and non-related audit firms:

	2013 \$	2012 \$
<b>Non-audit services</b>		
<b>ShineWing Hall Chadwick</b>		
<i>Other assurance services</i>		
Audit of regulatory returns	43,000	22,400
Due diligence services	-	650,000
<b>Total non-audit services remuneration of ShineWing Hall Chadwick</b>	<b>43,000</b>	<b>672,400</b>
<b>BDO Australia</b>		
<i>Other assurance services</i>		
Liquidation of subsidiaries	-	18,500
<b>Total non-audit services remuneration of BDO Australia</b>	<b>-</b>	<b>18,500</b>
<b>Total remuneration for non-audit services</b>	<b>43,000</b>	<b>690,900</b>

### Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 36.

### Rounding of amounts

The Group is of a kind referred to in Class Order 98/100, 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 thousand dollars in accordance with that Class Order.

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



Mr Baocai Zhang  
Director

27 February 2014



**ShineWing  
Hall Chadwick**  
Corporate Advisors &  
Certified Practising Accountants  
ABN 70 579 787 151

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The Board of Directors  
Yancoal Australia Ltd  
Level 26  
363 George Street  
SYDNEY NSW 2000

27 February 2014

Dear Board Members,

**YANCOAL AUSTRALIA LTD**

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Yancoal Australia Ltd.

As lead audit partner for the audit of the financial statements of Yancoal Australia Ltd for the year ended 31 December 2013, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely,

*ShineWing Hall Chadwick*

**ShineWing Hall Chadwick**

*M. J. Schofield*

**M J Schofield**  
Partner

## 1. Corporate Governance Statement

### 1.1 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 ASX Corporate Governance Council's Principles and Recommendations.

This statement sets out the Company's compliance with the ASX Corporate Governance Council's Principles and Recommendations, and the main corporate governance policies and practices adopted by the Company.

### 1.2 Principle 1: Lay solid foundations for management and oversight

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'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, the Chief Executive Officer and other senior executives. The Executive Committee is a management committee comprising the Chair of the Executive Committee, the Chief Executive Officer and other senior executives.

The Executive Committee Charter sets out its functions, duties of the Chair of the Executive Committee, Chief Executive Officer and Chief Financial Officer. The Charter also provides the financial decision authorities and appropriate approval thresholds at different levels which have been approved by the Board.

The Chair of the Executive Committee and Chief Executive Officer reviews 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 Chief Executive Officer and the Chair of the Executive Committee. The Chief Executive Officer'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 Chief Executive Officer and senior executives has taken place in 2013 in accordance with the process disclosed above and in the Remuneration Report on page 20. The results of the performance review is disclosed in the Remuneration Report.

### 1.3 Principle 2: Structure the board to add value

#### *Structure of the Board*

Currently, the Board comprises Xiyong Li, Cunliang Lai, Baocai Zhang, James MacKenzie, Yuxiang Wu, Xinghua Ni, Boyun Xu, William Randall, Geoffrey Raby, Gregory Fletcher and Vincent O'Rourke AM. The skills, experience and expertise of each director and the period that each director has held office is disclosed in the Information on Directors on page 10.

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 of the Board, Xiyong Li and his predecessor Weimin Li were nominated by the Company's major shareholder, 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 Chair of the Executive Committee and the Chief Executive Officer and to review key issues and performance trends. The Chairman, together with the Co- Vice Chairmen, Cunliang Lai, Baocai Zhang and James MacKenzie 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 determined by 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.

Committee	Purpose	Membership
Audit and Risk Management Committee	<p>The Committee's objectives are to:</p> <ul style="list-style-type: none"> <li>• help the Board in relation to the reporting of financial information.</li> <li>• advise on the appropriate application and amendment of accounting policies;</li> <li>• make evaluations and recommendations to the Members of the Company regarding the external auditor;</li> <li>• recommend to the Board the remuneration of the external auditor for shareholder approval as required in accordance with the Constitution;</li> <li>• provide a link between the Board and the external auditor and management;</li> <li>• ensure that the Board, directors and the management are aware of material risks facing the business; and</li> <li>• ensure the systems in place to identify, monitor and assess risk are appropriate and operating effectively.</li> </ul>	<p>Gregory Fletcher – Chair</p> <p>Yuxiang Wu</p> <p>Geoffrey Raby</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"> <li>• fulfil its responsibilities in relation to the health, safety and environment (collectively <b>HSE</b>) matters arising out of the activities of the Company;</li> <li>• consider, assess and monitor whether or not the Company has in place the appropriate policies, standards, systems and resources required to meet the Company's HSE commitments; and</li> <li>• provide necessary focus and guidance on HSE matters across the Company.</li> </ul>	<p>Vincent O'Rourke (Chair)</p> <p>Geoffrey Raby</p> <p>Xinghua Ni</p> <p>(minimum of three directors)</p>
Nomination and Remuneration Committee	<p>The Committee assists the Board of the Company by making recommendations in relation to:</p> <ul style="list-style-type: none"> <li>• Board composition and succession planning for the Board;</li> <li>• Director remuneration (subject to any shareholder approval that is required in accordance with the Constitution) and remuneration arrangements for the Executive Committee and any other person nominated as such by the Committee from time</li> </ul>	<p>Xiyong Li (Chair) (previously Weimin Li)</p> <p>Baocai Zhang</p> <p>William Randall</p> <p>(minimum of three non-executive directors)</p>

	<p>to time;</p> <ul style="list-style-type: none"> <li>• the public reporting of remuneration for Directors and Yancoal's Executive Committee;</li> <li>• the performance assessment of the Executive Committee;</li> <li>• designing company policy and regulations with regard to corporate governance; and</li> <li>• diversity.</li> </ul>	
Strategy and Development Committee	<p>The Committee assists the Board in its oversight and review of the Company's strategic initiatives, including:</p> <ul style="list-style-type: none"> <li>• merger and acquisition proposals;</li> <li>• major capital markets transactions;</li> <li>• significant investment opportunities; and</li> <li>• proposals to dispose of significant Company assets.</li> </ul>	<p>Cunliang Lai (Chair) Yuxiang Wu James MacKenzie Xinghua Ni (minimum of three directors)</p>

An Independent Board Committee is established as and when required to manage any related party transactions. The Independent Board Committee was constituted 4 times in 2013 for the purposes of considering transactions between the Company and its major shareholder, Yanzhou<sup>1</sup>. In each case, the Committee comprised of four independent directors.

Other committees may be established by the Board as and when required.

Membership of the Board Committees is based on the needs of the Company, relevant regulatory requirements, and the skills and experience of individual directors.

#### *Strategy and Development Committee*

In accordance with its Charter, this Committee has at least 3 members. The members of this Committee are Cunliang Lai (Chair of the Committee), Yuxiang Wu, Xinghua Ni and James MacKenzie.

The primary role of this Committee is to assist the Board in its oversight and review of the Company's strategic initiatives.

#### *Other Standing Committees*

The other standing Board Committees referred to above are discussed further below under Principle 4 (Audit and Risk Management Committee), Principle 7 (Health, Safety and Environment Committee) and Principle 8 (Remuneration and Nomination Committee). [The Charters](#) of each of these standing Board Committees are available within the Corporate Governance section of the Company's website. The purpose of each of these committees is outlined above.

#### **Director independence**

The Board comprises 11 directors, of whom 5 hold their positions in an independent non-executive capacity (based on the *independence standard* disclosed below). The Company's independent directors are James MacKenzie, Vincent O'Rourke AM, Geoffrey Raby, Gregory Fletcher and William Randall.

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. Accordingly, the majority of the Board does not comprise independent directors and the Company does not comply with the ASX Corporate Governance Council's Principles and Recommendation 2.1. However, the Board considers that the composition of the Board 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.

<sup>1</sup> The Independent Board Committee considered finance transactions between the Company and its majority shareholder, Yanzhou.

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.

#### *Independence Standard*

The criteria considered in assessing the independence of non-executive directors are set out in the Board Charter. A non-executive director is considered independent if:

- at the time of appointment, the director has not, within the last three years, been employed in an executive capacity by the Company or another group member, or been a director after ceasing to hold any such employment; and
- the director is free from any interest and any business or other relationship that could materially interfere with, or could reasonably be perceived to interfere with, the exercise of their unfettered and independent judgement and their ability to act in the best interests of the Company.

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 Chairman.

Although as a nominee of Yanzhou, Xiyong Li, the Chairman of the Board 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 and is consistent with market practice. The Company has appointed three Co-Vice Chairmen to the Board, Cunliang Lai, Baocai Zhang and James MacKenzie. Mr MacKenzie is an independent non-executive director. While a majority of the directors are associated with Yanzhou this is considered appropriate in light of Yanzhou's major shareholding in the Company.

William Randall is an executive director of Noble Group Limited (a substantial shareholder and material customer of the Company). The Board considers that this relationship does not materially interfere with, nor is perceived to interfere with, the independent exercise of Mr Randall's judgement and that he is able to fulfil the role of independent director for the purpose of the ASX Corporate Governance Council's Principles and Recommendations. Whilst Mr Randall has a relationship with the Company which falls within the items listed in box 2.1 of the ASX Corporate Governance Council's Principles and Recommendations, the Board has adopted different criteria in determining whether directors are independent, and on that basis, considers William Randall to be an independent non-executive director.

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.

#### ***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 independent 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 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 Principle 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.

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 elected or re-elected.

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.

#### ***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 adopted and approved by the Board.

##### *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 blending of skills, experience and expertise and the Board's practices and procedures are appropriate for the present and future needs of the Company will be 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 Chairperson of the Board 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 (in a form approved by the Nomination and Remuneration Committee) against a set of agreed criteria, will be collected by the Chairman of the Board or the external facilitator. The Chair of the Executive Committee and Chief Executive Officer 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 of the Board, 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.

It is expected that an externally facilitated review of the Board's performance will occur in 2015.

During 2013, the Nomination and Remuneration Committee considered assessments by a number of independent bodies regarding Boards of Australian companies and their performance. The Chairman of the Nomination and Remuneration Committee reported 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 Chairperson of the Board or an external facilitator, and the feedback is discussed by the Board, with consideration of whether any steps for improvement are required.

#### *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 during one-on-one meeting with each non-executive director specifically addressing the performance criteria within the Board Performance Evaluation Protocol.

An annual review of the performance of the Chairman of the Board was facilitated by the Co-Vice Chairmen who sought input from each Director individually on the performance of the Chairman of the Board against the competencies for the Chairperson's role approved by the Board. The Co-Vice Chairmen collated 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 of the Board.

A review of the Board's Committees and individual directors for 2013 has been conducted in accordance with the process disclosed above.

### **1.4 Principle 3: Promote ethical and responsible decision making**

#### ***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 Chief Executive Officer, 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 spirit and letter 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.

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 SpeakUp 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.

### **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 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, hedging, and short-term trading of the Company's securities. Breaches of the policy are treated seriously and may lead to disciplinary action, including dismissal.

Copies of the Company's [Share Trading Policy](#) and [Insider Trading Policy](#) are available on the Corporate Governance section of the Company's website.

### **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.

Performance against these measurable objectives are reviewed annually by the Nomination and Remuneration Committee as part of its annual review of the effectiveness of the Diversity Policy.

On an annual basis, the Nomination and Remuneration Committee reviews the proportion of women who are employed by the Company as a whole, in senior management positions and who are on the Board. The Nomination and Remuneration Committee submits a report to the Board outlining its findings.

In 2012, the Board set a number of measurable objectives for 2013. The same measurable objectives have been set for 2014.

These measurable objectives 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.	<p>Employees across the organisation have access to the Code of Conduct via the Company's intranet site and website. New employees are provided the Code of Conduct during their induction process. Existing employees are reminded of the Code of Conduct at the mine sites during team meetings and when relevant issues arise.</p> <p>In light of the changes made to the legislation dealing with bullying and harassment, the Company has implemented training and awareness sessions focusing on anti-discrimination, racial and sexual harassment, founded on the Diversity Policy and Workplace Behaviour &amp; Anti-Discrimination Policy. This training was provided as part of the induction process of new employees and training and information sessions were provided for existing employees.</p>
2. To increase employee awareness of the Company's Working Flexibly Policy.	<p>Various initiatives and programmes have been undertaken across the Company, including:</p> <ul style="list-style-type: none"> <li>• at the Corporate Head Office – providing employees with family commitments flexible working hours, including allowing employees to work from home;</li> <li>• at Premier Coal's mine site (an entity managed by the Company) – recruitment for part time work is targeted at parents with child care responsibilities;</li> <li>• at Donaldson Coal's mine site – part time opportunities and flexible working hours are available for any parents with child care responsibilities; and</li> <li>• at the Moolarben Coal mine site – flexible breaks and a private area for new mothers has been provided.</li> </ul>
3. To target a diverse group of candidates	Across the Company's group, the Human Resources team works in conjunction

<p>with recruitment and selection procedures that are merit-based and non-discriminatory.</p>	<p>with management to ensure that merit-based, non-discriminatory practices are adhered to. Specific initiatives include:</p> <ul style="list-style-type: none"> <li>• at Premier Coal's mine site (an entity managed by the Company) – there are supportive hiring practices for women and Indigenous Australians;</li> <li>• at Cameby Downs' mine site (an entity managed by the Company) – there are recruitment workshops held for the management team emphasising merit-based recruitment and non-discriminatory practices;</li> <li>• at Donaldson Coal's mine site – the implementation of merit-based selection and also a working relationship was established with the local Indigenous Australians to provide employment opportunities; and</li> <li>• at Moolarben Coal's mine site – supportive hiring practices for Indigenous Australians were implemented.</li> </ul>
<p>4. To ensure our managers are adept recruiters, retainers and motivators of our diverse workplace.</p>	<p>Recruitment training is undertaken across the Company and entities managed by the Company for managers involved in recruitment of employees. Specific programs are conducted at mine sites and at the Corporate Head Office including training in targeted selection techniques and merit-based selection, as well as Indigenous cultural awareness sessions.</p>

#### *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.

In 2013, the proportion of women who are directly employed by the Company as a whole is 7%: 91 Full-time and 4 Part-time (as at 30 November 2013).

The proportion of women in senior management roles (being roles which directly report to the Chief Executive Officer or Chair of the Executive Committee) within the Company is 13%: Women hold 1 of 8 senior management roles within the Company (as at 30 November 2013).

There are no women on the Company's Board.

### **1.5 Principle 4: Safeguard integrity and financial reporting**

#### ***Audit and Risk Management Committee***

The Board has established an Audit and Risk Management Committee. The Committee plays a key role in helping the Board to oversee financial reporting, internal control structure, risk management systems and internal and external audit functions. The Committee has the necessary power and resources to meet its responsibilities under its charter, including rights of access to management and auditors (internal and external) and to seek explanations and additional information. The Committee meets at least four times per year, or as frequently as required. The Charter of the Audit and Risk Management Committee can be found in the Corporate Governance section of the Company's website. The purpose of the Audit and Risk Management Committee is outlined under the Board Committees section above.

In accordance with its charter, the Audit and Risk Management Committee has at least three members. The members of this Committee are Gregory Fletcher (Chairman of the Committee), Yuxiang Wu, and Geoffrey Raby. The Committee consists only of non-executive directors with a majority being independent. Consistent with the ASX Corporate Governance Council's Principles and Recommendations, the Chairman of the Committee, is an independent non-executive director and is not the Chairman of the Board. The skills, experience and expertise of each member is disclosed in the Information on Directors on page 10. Six meetings of the Audit and Risk Management Committee were held in 2013 with a record of each member's attendance at meetings of the Committee disclosed in the Information on Directors on page 16.

The Company has also employed a full time Executive General Manager of Risk Management and Auditing. His role is described further under Principle 7.

#### ***External Auditor***

The Company's external auditor is ShineWing Hall Chadwick. Consistent with the requirements of the *Corporations Act 2001* (Cth), ShineWing Hall Chadwick 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 are subject to 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 question from shareholders.

## 1.6 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.

Consistent with their charters, the Audit and Risk Management Committee, Nomination and Remuneration Committee and Executive Committee review, to the extent reasonably practicable, all public disclosures and statements concerning matters relevant to their duties and responsibilities including disclosures in the Company's annual report and certain ASX disclosures.

The Board has put in place a Disclosure Policy to encapsulate the disclosure obligations under the *Corporations Act 2001* and the ASX Listing Rules and to set out procedures for managing compliance with those obligations. These procedures provide a framework for managing the disclosure of material matters to the market to ensure accountability at Board and senior executive level. As part of this framework, a standing agenda item at all the Company's Board and senior executive 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.

The Disclosure Policy provides for the establishment of a Disclosure Committee to assist it to meet the Company's disclosure obligations (as required). The Committee plays a key role in reviewing and determining whether information is likely to have 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 Chairperson of the Executive Committee, Chief Executive Officer, Chief Financial Officer, Company Secretary, Investor Relations Manager and General 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.

## 1.7 Principle 6: Respect the rights of shareholders

### ***Communications with shareholders***

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.

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

## 1.8 Principle 7: Recognise and manage risk

### ***Risk identification and management***

The Board, through the Audit and Risk Management Committee, is responsible for satisfying itself that a sound system of risk oversight and management exists and that internal controls are effective. In particular, the Board ensures that:

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

The 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 2013, senior management reported to the Audit and Risk Management Committee and the Board on the effectiveness of the Company's management of its material business risks.

In 2013, the Audit and Risk Management Committee put in place a framework to identify and manage material business risks. This framework includes:

- identification of material business risk by the Executive Committee by reference to a single risk register, approved by the Audit and Risk Management Committee and Board;
- implementation of a risk management framework (that includes a risk management policy, governance structure, procedures), approved by the Audit and Risk Management Committee and Board;
- formal risk identification activities being undertaken on an annual basis 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 Executive General Manager of Risk Management and Auditing as a central resource available to assist with all risk management responsibilities, and to assist with any training/awareness or other related requirements; and
- adherence to internal procedures and plans for crisis management.

The Audit and Risk Management Committee receives periodic reports on the success of the Company's risk management framework, as well as on the Company's key risk exposures.

The Executive General Manager of Risk Management and Auditing is responsible for establishing and managing the company wide Risk Management System, risk management framework and practices, reviewing the impact of the risk management framework on its control environment and insurance arrangements, and reviewing the risk of major investment projects. Together with the Chair of the Executive Committee, the Board and the Audit and Risk Management Committee, the Executive General Manager of Risk Management and Auditing is responsible for developing a risk matrix and framework and for implementing related risk assurance processes and audits of compliance for the Company and its subsidiaries.

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

The Chief Executive Officer and Chief Financial Officer have declared in writing to the Board that their declaration in accordance with section 295A of the *Corporations Act 2001* is founded on a sound system of risk management and internal control, and that the system is operating effectively in all material respects in relation to financial reporting risk.

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

### **Health, Safety and Environment Compliance**

The Company has adopted policies to comply with occupational health, safety, environment and other laws. The Board has approved a Health, Safety and Environment Policy which applies across the Company. In addition, each mine site has its own health, safety and environmental policies and procedures to deal with their particular health, safety and environmental issues. The Board has established a Health, Safety and Environment Committee to assist it in overseeing the Company's health, safety and environmental responsibilities. In accordance with its charter, this Committee has at least three members. The members of this Committee are Vincent O'Rourke (Chair of the Committee), Geoffrey Raby and Xinghua Ni. 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. A record of each member's attendance at meetings of the Committee is disclosed in the Information on Directors on page 16.

### **1.9 Principle 8: Remunerate fairly and responsibly**

#### ***Nomination and Remuneration Committee***

The Board has established a Nomination and Remuneration Committee. In accordance with its charter, this Committee currently has 3 members, Xiyong Li (Chair of the Committee) [previously Weimin Li (Chair of the Committee)], Baocai Zhang and William Randall. Xiyong Li (and previously Weimin Li) and Baocai Zhang are not independent Directors of the Company, however the Board considers them appropriate members, and in the case of Xiyong Li, Chair, of this Committee due to their skill set, experience and seniority, and that the overall composition of the Nomination and Remuneration Committee is appropriate.

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

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

The Committee has 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. The Committee met twice in 2013, with a record of each member's attendance at the meeting of the Committee disclosed in the Information on Directors on page 16.

*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 page 17.

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

Principle		Compliance	Reference
<b>1.</b>	<b>Lay solid foundations for management and oversight</b>		
1.1	Formalise and disclose the functions reserved to the Board and those delegated to management.	YES	Website
1.2	Disclose the process for evaluating the performance of senior executives.	YES	37 (Delegation to management)
<b>2</b>	<b>Structure the Board to add value</b>		
2.1	A majority of the Board should be Independent Directors	NO	[39] (Director independence)
2.2	The Chairperson should be an Independent Director.	NO	39 (Director independence)
2.3	The roles of Chairperson and Chief Executive Officer should not be exercised by the same individual.	YES	37 (Structure of the Board)
2.4	The Board should establish a Nominations committee.	YES	38 (Board Committees)
2.5	Disclose the process for evaluating the performance of its Board, its committees and individual directors.	YES	41 (Performance of the Board, its committees and individual directors)
<b>3.</b>	<b>Promote ethical and responsible decision making</b>		
3.1	Establish a Code of Conduct to guide directors, the Chief Executive Officer (or equivalent) the Chief Financial Officer (or equivalent) and any other key executives as to: <ul style="list-style-type: none"> <li>- the practices necessary to maintain confidence in the Company's integrity;</li> <li>- the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and</li> <li>- the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.</li> </ul>	YES	Website 42 (Conduct and ethics)
3.2	Disclose the policy concerning trading in Company securities by directors, officers and employees.	YES	Website
3.3	Disclose the measurable objectives in the annual report for achieving gender diversity set by the board and progress to achieving these objectives.	YES	43 (Diversity)
3.4	Disclose the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.	YES	44 (Proportion of Women in the Company)
<b>4.</b>	<b>Safeguard Integrity in financial reporting</b>		
4.1	The Board should establish an Audit Committee.	YES	38 (Board Committees)
4.2	Structure the Audit Committee so that it consists of: <ul style="list-style-type: none"> <li>- only Non-Executive Directors;</li> <li>- a majority of Independent Directors;</li> <li>- an independent Chairperson, who is not Chairperson of the</li> </ul>	YES	38, 44 (Board Committees) and (Audit and Risk Management Committee)



	Board; and - at least three members.		
4.3	The Audit Committee should have a formal charter.	YES	Website
<b>5.</b>	<b>Make timely and balanced disclosure</b>		
5.1	Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirement and to ensure accountability at a senior management level for that compliance.	YES	Website
<b>6.</b>	<b>Respect the rights of shareholders</b>		
6.1	Design and disclose a communication strategy to promote effective communication with shareholders and encourage effective participation at general meetings.	YES	Website
<b>7.</b>	<b>Recognise and manage risk</b>		
7.1	The Board or appropriate committee should establish policies on risk oversight and management of material business risks.	YES	45 (Risk identification and management)
7.2	The Board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management of its material business risks.	YES	45 (Risk identification and management)
7.3	The Board should disclose whether it has received assurance from the Chief Executive Officer and the Chief Financial Officer that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	YES	46 (Risk identification and management)
<b>8.</b>	<b>Remunerate fairly and responsibly</b>		
8.1	The Board should establish a Remuneration Committee.	YES	38, 46 (Board Committees) and (Nomination and Remuneration Committee)
8.2	The Remuneration Committee should be structured so that it consists of mainly independent directors, is chaired by an independent chair and has at least three members.	NO	38, 46 (Board Committees) and (Nomination and Remuneration Committee)
8.3	Clearly distinguish the structure of Non-executive Director's remuneration from that of executives.	YES	46 (Nomination and Remuneration Committee) and Remuneration report 20-33

# Yancoal Australia Ltd

## Annual Financial Report

### For the year ended 31 December 2013

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**Yancoal Australia Ltd**  
**Consolidated Statement of Profit or Loss and Other Comprehensive Income**  
**For the year ended 31 December 2013**

	Notes	31 December 2013 \$'000	31 December 2012 \$'000 (Restated)
<b>Revenue</b>	4	<b>1,529,814</b>	1,366,433
Other income	5	1,220	277,248
Changes in inventories of finished goods and work in progress		(13,517)	(37,179)
Raw materials and consumables used		(246,923)	(207,078)
Employee benefits expense	6(a)	(261,379)	(233,199)
Depreciation and amortisation expense	6(b)	(270,820)	(191,822)
Impairment of mining tenements	17	(343,000)	-
Transportation expense		(251,274)	(187,824)
Contractual services and plant hire expense		(386,330)	(357,510)
Government royalties expense		(109,949)	(94,386)
Changes in deferred mining costs	13	(22,408)	-
Transaction costs		(3,582)	(29,480)
Other operating expenses	6(d)	(548,575)	(91,729)
Finance costs	6(c)	(124,902)	(58,472)
Share of loss of equity-accounted investees, net of tax	40(b)	(62,847)	(29,464)
<b>Profit / (loss) before income tax</b>		<b>(1,114,472)</b>	125,538
Income tax benefit	7(a)	282,402	249,405
<b>Profit / (loss) after income tax from continuing operations</b>		<b>(832,070)</b>	374,943
Profit after income tax from discontinued operations	45(b)	-	464
<b>Profit / (loss) after income tax</b>		<b>(832,070)</b>	375,407
<b>Other comprehensive income</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Cash flow hedges:			
Fair value gains / (losses) taken to equity		(379,711)	28,311
Fair value (gains) / losses transferred to profit and loss		34,362	(28,251)
Deferred income tax benefit		103,683	14
<b>Other comprehensive income / (expense), net of tax</b>		<b>(241,666)</b>	74
<b>Total comprehensive income / (expense)</b>		<b>(1,073,736)</b>	375,481
Total comprehensive income / (expense) for the year attributable to owners of Yancoal Australia Ltd arises from:			
Continuing operations		(1,073,736)	375,017
Discontinued operations		-	464
		<b>(1,073,736)</b>	375,481
		\$	\$
<b>Earnings / (loss) per share for profit / (loss) from continuing operations attributable to the ordinary equity holders of the Company:</b>			
Basic earnings / (loss) per share	43	(0.84)	0.42
Diluted earnings / (loss) per share	43	(0.84)	0.42
<b>Earnings / (loss) per share for profit / (loss) attributable to the ordinary equity holders of the Company:</b>			
Basic earnings / (loss) per share	43	(0.84)	0.42
Diluted earnings / (loss) per share	43	(0.84)	0.42

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

**Yancoal Australia Ltd**  
**Consolidated Balance Sheet**  
**As at 31 December 2013**

	Notes	31 December 2013 \$'000	31 December 2012 \$'000 (Restated)	1 January 2012 \$'000 (Restated)
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	8	318,001	349,293	290,974
Trade and other receivables	9	495,971	213,573	312,103
Royalty receivable	10	19,444	17,563	-
Inventories	11	136,601	146,456	137,276
Derivative financial instruments	12	2,956	13,482	16,368
Current tax receivables		-	2,360	-
Other current assets	13	28,985	11,519	24,178
<b>Total current assets</b>		<b>1,001,958</b>	<b>754,246</b>	<b>780,899</b>
<b>Non-current assets</b>				
Trade and other receivables	9	368,799	333,084	77,834
Royalty receivable	10	189,461	188,891	-
Investments accounted for using the equity method	14	89,934	152,781	3,035
Other financial assets	15	37	37	24,983
Property, plant and equipment	16	1,836,581	1,759,689	1,400,451
Mining tenements	17	2,251,841	2,646,868	2,325,050
Deferred tax assets	18	863,254	666,790	59,432
Intangible assets	19	113,569	116,697	132,454
Exploration and evaluation assets	20	909,160	945,270	661,730
Other non-current assets	21	29,750	20,210	-
<b>Total non-current assets</b>		<b>6,652,386</b>	<b>6,830,317</b>	<b>4,684,969</b>
<b>Total assets</b>		<b>7,654,344</b>	<b>7,584,563</b>	<b>5,465,868</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Trade and other payables	22	259,656	254,434	203,633
Interest-bearing liabilities	23	123,862	105,276	999,409
Contingent value right shares	27	259,430	-	-
Derivative financial instruments	12	49,615	2,089	6,627
Current tax liabilities		-	-	9,283
Provisions	24	20,079	34,833	8,246
Promissory note payable	25	-	586,970	-
Other current liabilities	26	4,034	16,433	-
<b>Total current liabilities</b>		<b>716,676</b>	<b>1,000,035</b>	<b>1,227,198</b>
<b>Non-current liabilities</b>				
Trade and other payables	22	849	1,237	1,273
Interest-bearing liabilities	23	5,033,008	3,473,278	1,993,895
Contingent value right shares	27	-	219,113	-
Deferred tax liabilities	28	799,846	989,462	458,778
Provisions	24	120,350	109,978	50,772
Other non-current liabilities	29	6,461	-	-
<b>Total non-current liabilities</b>		<b>5,960,514</b>	<b>4,793,068</b>	<b>2,504,718</b>
<b>Total liabilities</b>		<b>6,677,190</b>	<b>5,793,103</b>	<b>3,731,916</b>
<b>Net assets</b>		<b>977,154</b>	<b>1,791,460</b>	<b>1,733,952</b>
<b>EQUITY</b>				
Contributed equity	30	656,701	656,701	973,000
Reserves	31(a)	24,124	6,360	6,286
Retained earnings	31(b)	296,329	1,128,399	754,666
Capital and reserves attributable to owners of Yancoal Australia Ltd		<b>977,154</b>	<b>1,791,460</b>	<b>1,733,952</b>
<b>Total equity</b>		<b>977,154</b>	<b>1,791,460</b>	<b>1,733,952</b>

*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 2013

		Attributable to owners of Yancoal Australia Ltd			
Notes	Contributed equity \$'000	Reserves \$'000	Retained earnings (Restated) \$'000	Total equity (Restated) \$'000	
	973,000	6,286	783,218	1,762,504	
	<b>Balance at 1 January 2012 as previously reported</b>				
	-	-	(28,552)	(28,552)	
	Impact of changes in accounting policy, net of tax				
	<b>973,000</b>	<b>6,286</b>	<b>754,666</b>	<b>1,733,952</b>	
	<b>Balance at 1 January 2012 (Restated)</b>				
	-	-	375,407	375,407	
	Profit / (loss) after income tax				
	-	74	-	74	
	Other comprehensive income / (expense)				
	-	<b>74</b>	<b>375,407</b>	<b>375,481</b>	
	<b>Total comprehensive income / (expense)</b>				
<b>Transactions with owners in their capacity as owners:</b>					
	Contributions of equity, net of transaction costs and tax				
30	336,841	-	-	336,841	
	Capital reduction				
30	(653,140)	-	-	(653,140)	
	Deemed distribution to owners - loss on sale of Excluded Assets				
45(b)	-	-	(1,674)	(1,674)	
	(316,299)	-	(1,674)	(317,973)	
	<b>Balance at 31 December 2012 (Restated)</b>				
1(a)(ii)	<b>656,701</b>	<b>6,360</b>	<b>1,128,399</b>	<b>1,791,460</b>	
	<b>Balance at 1 January 2013 (Restated)</b>				
	656,701	6,360	1,128,399	1,791,460	
	Profit / (loss) after income tax				
	-	-	(832,070)	(832,070)	
	Other comprehensive income / (expense)				
	-	(241,666)	-	(241,666)	
	-	<b>(241,666)</b>	<b>(832,070)</b>	<b>(1,073,736)</b>	
	<b>Total comprehensive income / (expense)</b>				
<b>Transactions with owners in their capacity as owners:</b>					
	Recognition of cash receivable for settlement of CVR shares				
31(a)	-	259,430	-	259,430	
	-	259,430	-	259,430	
	<b>Balance at 31 December 2013</b>				
	<b>656,701</b>	<b>24,124</b>	<b>296,329</b>	<b>977,154</b>	

*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 2013**

	31 December 2013 \$'000	31 December 2012 \$'000 (Restated)
<b>Cash flows from operating activities</b>		
Receipts from customers	1,439,790	1,511,724
Payments to suppliers and employees	(1,484,014)	(1,315,480)
Interest paid	(117,036)	(56,337)
Interest received	9,706	21,921
Income tax refund received	2,360	11,998
Transaction costs paid	(12,249)	(20,258)
<b>Net cash (outflow) / inflow from operating activities</b>	<b>41 (161,443)</b>	<b>153,568</b>
<b>Cash flows from investing activities</b>		
Payments for property, plant and equipment	(219,914)	(298,020)
Payments for intangible assets	(112)	(143)
Payments for mining tenements	-	(62)
Payments for capitalised exploration and evaluation activities	(4,457)	(21,574)
Proceeds from sale of property, plant and equipment	89	3,042
Net cash received from acquisition of subsidiaries	-	31,619
Net cash received from acquisition - purchase price adjustment	-	1,502
Net cash transferred with disposal of subsidiaries	-	(96,840)
Advances to other entities	-	(663)
Receipt from repayment of advances to associates	-	2,355
Advances to associate	(938)	-
Advances to joint venture	(16,999)	(39,998)
Loans to controlled entities prior to acquisition	-	(113,000)
Receipt from repayment of loans to related entities	50,000	98,464
Payment of deferred purchase consideration	(500)	(250)
Proceeds from sale of available-for-sale financial assets	-	32,311
Dividends received	4	2
Cash transferred (to) / from restricted accounts	(9,163)	50,773
<b>Net cash outflow from investing activities</b>	<b>(201,990)</b>	<b>(350,482)</b>
<b>Cash flows from financing activities</b>		
Payment of finance lease liabilities	(10,050)	(1,739)
Proceeds from interest-bearing liabilities - external	80,000	113,544
Repayment of interest-bearing liabilities - external	(196,687)	(208,739)
Proceeds from interest-bearing liabilities - related entities	1,344,023	693,374
Repayment of interest-bearing liabilities - related entities	(335,270)	(343,859)
Repayment of promissory note	(586,970)	-
<b>Net cash inflow from financing activities</b>	<b>295,046</b>	<b>252,581</b>
<b>Net (decrease) / increase in cash and cash equivalents</b>	<b>(68,387)</b>	<b>55,667</b>
Cash and cash equivalents at the beginning of the financial period	349,293	290,974
Effects of exchange rate changes on cash and cash equivalents	37,095	2,652
<b>Cash and cash equivalents at the end of the year</b>	<b>8 318,001</b>	<b>349,293</b>

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

## 1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The consolidated financial statements and notes are for the consolidated entity consisting of Yancoal Australia Ltd and its subsidiaries.

The separate financial statements of parent entity, Yancoal Australia Ltd, have not been presented within this financial report as permitted by the Corporations Act 2001.

### (a) Basis of preparation

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 27 February 2014.

#### (i) Compliance with IFRS

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

#### (ii) New and amended standards adopted by the Group

Yancoal Australia Ltd was required to change some of its accounting policies as the result of new or revised accounting standards which became effective for the annual reporting period commencing on 1 January 2013.

The affected policies and standards are:

- Principles of consolidation - new standards AASB 10 *Consolidated Financial Statements* and AASB 11 *Joint Arrangements*, and
- Accounting for deferred mining costs - new AASB Interpretation 20 *Stripping Costs in the Production Phase of a Surface Mine*.

Other new standards that are applicable for the first time for the year ended 31 December 2013 are:

- AASB 12 *Disclosure of Interest in Other Entities*,
- AASB 13 *Fair Value Measurement*,
- AASB 119 *Employee Benefits*,
- AASB 2012-2 *Amendments to Australian Accounting Standards - Disclosures - Offsetting Financial Assets and Financial Liabilities*, and
- AASB 2012-5 *Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle*.

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, except for the following:

#### *Principles of consolidation - subsidiaries and joint arrangements*

AASB 10 was issued in August 2011 and replaces the guidance on control and consolidation in AASB 127 *Consolidated and Separate Financial Statements* and in Interpretation 112 *Consolidation - Special Purpose Entities*. Under the new principles, 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.

The Group has reviewed its investments in other entities to assess whether the consolidation conclusion in relation to these entities is different under AASB 10 than under AASB 127. No differences were found and therefore no adjustments to any of the carrying amounts in the Annual Financial Report are required as a result of the adoption of AASB 10.

## 1 Summary of significant accounting policies (continued)

### (a) Basis of preparation (continued)

#### (ii) *New and amended standards adopted by the Group (continued)*

Under AASB 11, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor has, rather than the legal structure of the joint arrangement. Yancoal Australia Ltd has assessed the nature of its joint arrangements and it was determined that it had both joint operations and joint ventures.

The accounting for the Group's joint operations has not changed as a result of the adoption of AASB 11. The Group continues to recognise its direct right, and its share of jointly held assets, liabilities, revenues and expenses of joint operations. These have been incorporated in the financial statements under the appropriate headings.

However, under the Group's previous accounting policy, interests in joint ventures were accounted for using the proportionate consolidation method, whereby the Group combined its share of the jointly controlled entities' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements. This method is no longer permitted under AASB 11. Instead, interests in joint ventures must now be accounted for using the equity method. Under this method, the interests in joint ventures are initially recognised in the Consolidated Balance Sheet at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income in profit or loss and other comprehensive income respectively.

When the Group's share of losses in a joint venture equals or exceeds its interest in the joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

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

Yancoal Australia Ltd acquired a 49.9997% interest in the output of Middlemount Coal Pty Ltd, an incorporated joint venture through the merger with Gloucester Coal Ltd which became effective on 27 June 2012, with the merger implementation date being 6 July 2012. As required under AASB 11, when changing from proportionate consolidation to the equity method, the Group recognised its investment in the joint venture as at the acquisition date as the total of the carrying amounts of the assets and liabilities previously proportionately consolidated. This is the deemed cost of the Group's investment in the joint venture for applying equity accounting. As a consequence, the change in policy did not have any impact on the Group's net assets, items of equity, profit / (loss) after tax and earnings per share for the years ended 31 December 2013 and 31 December 2012.

The impact of this change in the Group's accounting policy on individual line items in the Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated Balance Sheet and Consolidated Statement of Cash Flows has been summarised below.

#### *Accounting for deferred mining costs - stripping costs*

Under the Group's previous accounting policy, overburden in advance was capitalised and later charged to the Consolidated Statement of Profit or Loss and Other Comprehensive Income on the basis of run of mine ("ROM") coal tonnes mined. This methodology has been amended under AASB Interpretation ("IFRIC") 20. Production stripping costs are now 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".

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.

As required under IFRIC 20, the change in policy has been applied to production stripping costs incurred on or after the beginning of the earliest period presented, being 1 January 2012.



## 1 Summary of significant accounting policies (continued)

### (a) Basis of preparation (continued)

#### (ii) *New and amended standards adopted by the Group (continued)*

This new interpretation requires a more rigorous asset recognition criteria on a strip-by-strip basis as discussed above. The entire amount of deferred mining costs that relates to surface mining, being \$40,791,000 (\$28,554,000 net of tax), did not satisfy the asset recognition criteria based on the nature of the mining operations and mine planning. Therefore, it has been transferred to opening retained earnings at the beginning of the earliest period presented, being 1 January 2012 for the Group.

The Group has assessed the deferred mining cost that relates to the surface mining incurred since the date of transition, being 1 January 2012, and was unable to recognise any subsequent cost as an asset due to the recognition criteria under IFRIC 20 not being met.

The impact of this change in the Group's accounting policy on individual line items in the Consolidated Statement of Profit or Loss and Other Comprehensive Income, the Consolidated Balance Sheet and the Consolidated Statement of Cash Flows has been summarised below.

#### *Impact on financial statements*

Where the Group has retrospectively applied an accounting policy, made a retrospective restatement or reclassified items in its financial statements, an additional Consolidated Balance Sheet as at the beginning of the earliest comparative period will be disclosed.

As a result of the changes in the entity's accounting policies, prior year financial statements had to be restated. The following tables show the adjustments recognised for each individual line item.

The amounts disclosed for the 2012 reporting period and in the balance sheets as at 1 January 2012 and 31 December 2012 are after the abovementioned changes in accounting policies.

## 1 Summary of significant accounting policies (continued)

### (a) Basis of preparation (continued)

(ii) *New and amended standards adopted by the Group (continued)*

#### Consolidated Statement of Profit or Loss and Other Comprehensive Income

	31 December 2012 (Previously stated) \$'000	Prior year restatements		31 December 2012 (Re- stated) \$'000
		Increase / (decrease) Adoption of AASB 11 \$'000	Adoption of IFRIC 20 \$'000	
<b>Revenue</b>	1,412,329	(45,896)	-	<b>1,366,433</b>
Other income	277,248	-	-	<b>277,248</b>
Changes in inventories of finished goods and work in progress	(22,908)	2,434	(16,705)	<b>(37,179)</b>
Raw materials and consumables used	(207,196)	118	-	<b>(207,078)</b>
Employee benefits expense	(234,120)	921	-	<b>(233,199)</b>
Depreciation and amortisation expense	(203,103)	11,281	-	<b>(191,822)</b>
Transportation expense	(203,986)	16,162	-	<b>(187,824)</b>
Contractual services and plant hire expense	(416,281)	58,771	-	<b>(357,510)</b>
Government royalties expense	(98,643)	4,257	-	<b>(94,386)</b>
Changes in deferred mining costs	42,699	(19,996)	(22,703)	-
Transaction costs	(29,480)	-	-	<b>(29,480)</b>
Other operating expenses	(96,397)	4,668	-	<b>(91,729)</b>
Finance costs	(59,358)	886	-	<b>(58,472)</b>
Share of loss of equity-accounted investees, net of tax	-	(15,946)	(13,518)	<b>(29,464)</b>
<b>Profit before income tax</b>	<b>160,804</b>	<b>17,660</b>	<b>(52,926)</b>	<b>125,538</b>
Income tax benefit	242,442	(17,660)	24,623	<b>249,405</b>
<b>Profit after income tax from continuing operations</b>	<b>403,246</b>	-	<b>(28,303)</b>	<b>374,943</b>
Profit after income tax from discontinued operations	1,351	-	(887)	<b>464</b>
<b>Profit after income tax</b>	<b>404,597</b>	-	<b>(29,190)</b>	<b>375,407</b>
<b>Other comprehensive income, net of tax</b>	<b>74</b>	-	-	<b>74</b>
<b>Total comprehensive income</b>	<b>404,671</b>	-	<b>(29,190)</b>	<b>375,481</b>
	\$	\$	\$	\$
<b>Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the Company:</b>				
Basic earnings per share	0.45	-	(0.03)	<b>0.42</b>
Diluted earnings per share	0.45	-	(0.03)	<b>0.42</b>
<b>Earnings per share for profit attributable to the ordinary equity holders of the Company:</b>				
Basic earnings per share	0.46	-	(0.04)	<b>0.42</b>
Diluted earnings per share	0.46	-	(0.04)	<b>0.42</b>

## 1 Summary of significant accounting policies (continued)

### (a) Basis of preparation (continued)

(ii) *New and amended standards adopted by the Group (continued)*

#### Consolidated Balance Sheet

	31		Prior year restatements		31		Increase / (decrease) Adop. IFRIC 20 \$'000	1 January 2012 (Re-stated) \$'000
	December 2012 (Prev. stated) \$'000	Increase / (decrease) Adop. AASB 11 \$'000	December 2012 (Re-stated) \$'000	1 January 2012 (Prev. stated) \$'000	December 2012 (Re-stated) \$'000	1 January 2012 (Re-stated) \$'000		
<b>ASSETS</b>								
<b>Current assets</b>								
Cash and cash equivalents	350,653	(1,360)	-	349,293	290,974	-	290,974	
Trade and other receivables	231,927	(18,354)	-	213,573	312,103	-	312,103	
Royalty receivable	17,563	-	-	17,563	-	-	-	
Inventories	152,317	(5,861)	-	146,456	137,276	-	137,276	
Derivative financial instruments	13,482	-	-	13,482	16,368	-	16,368	
Current tax receivables	2,360	-	-	2,360	-	-	-	
Other current assets	104,480	(31,128)	(61,833)	11,519	64,967	(40,789)	24,178	
<b>Total current assets</b>	<b>872,782</b>	<b>(56,703)</b>	<b>(61,833)</b>	<b>754,246</b>	<b>821,688</b>	<b>(40,789)</b>	<b>780,899</b>	
<b>Non-current assets</b>								
Trade and other receivables	76,143	256,941	-	333,084	77,834	-	77,834	
Royalty receivable	188,891	-	-	188,891	-	-	-	
Investments accounted for using the equity method	3,035	163,264	(13,518)	152,781	3,035	-	3,035	
Other financial assets	37	-	-	37	24,983	-	24,983	
Property, plant and equipment	1,987,907	(228,218)	-	1,759,689	1,400,451	-	1,400,451	
Mining tenements	2,977,133	(330,265)	-	2,646,868	2,325,050	-	2,325,050	
Deferred tax assets	738,486	(69,630)	(2,066)	666,790	59,432	-	59,432	
Intangible assets	118,895	(2,198)	-	116,697	132,454	-	132,454	
Exploration and evaluation assets	945,270	-	-	945,270	661,730	-	661,730	
Other non-current assets	20,210	-	-	20,210	-	-	-	
<b>Total non-current assets</b>	<b>7,056,007</b>	<b>(210,106)</b>	<b>(15,584)</b>	<b>6,830,317</b>	<b>4,684,969</b>	<b>-</b>	<b>4,684,969</b>	
<b>Total assets</b>	<b>7,928,789</b>	<b>(266,809)</b>	<b>(77,417)</b>	<b>7,584,563</b>	<b>5,506,657</b>	<b>(40,789)</b>	<b>5,465,868</b>	
<b>LIABILITIES</b>								
<b>Current liabilities</b>								
Trade and other payables	299,506	(45,072)	-	254,434	203,633	-	203,633	
Interest-bearing liabilities	105,276	-	-	105,276	999,409	-	999,409	
Derivative financial instruments	2,089	-	-	2,089	6,627	-	6,627	
Current tax liabilities	-	-	-	-	9,283	-	9,283	
Provisions	34,843	(10)	-	34,833	8,246	-	8,246	
Promissory note payable	586,970	-	-	586,970	-	-	-	
Other current liabilities	16,433	-	-	16,433	-	-	-	
<b>Total current liabilities</b>	<b>1,045,117</b>	<b>(45,082)</b>	<b>-</b>	<b>1,000,035</b>	<b>1,227,198</b>	<b>-</b>	<b>1,227,198</b>	
<b>Non-current liabilities</b>								
Trade and other payables	1,237	-	-	1,237	1,273	-	1,273	
Interest-bearing liabilities	3,516,949	(43,671)	-	3,473,278	1,993,895	-	1,993,895	
Contingent value right shares	219,113	-	-	219,113	-	-	-	
Deferred tax liabilities	1,186,845	(171,946)	(25,437)	989,462	471,015	(12,237)	458,778	
Provisions	116,088	(6,110)	-	109,978	50,772	-	50,772	
<b>Total non-current liabilities</b>	<b>5,040,232</b>	<b>(221,727)</b>	<b>(25,437)</b>	<b>4,793,068</b>	<b>2,516,955</b>	<b>(12,237)</b>	<b>2,504,718</b>	
<b>Total liabilities</b>	<b>6,085,349</b>	<b>(266,809)</b>	<b>(25,437)</b>	<b>5,793,103</b>	<b>3,744,153</b>	<b>(12,237)</b>	<b>3,731,916</b>	
<b>Net assets</b>	<b>1,843,440</b>	<b>-</b>	<b>(51,980)</b>	<b>1,791,460</b>	<b>1,762,504</b>	<b>(28,552)</b>	<b>1,733,952</b>	

## 1 Summary of significant accounting policies (continued)

### (a) Basis of preparation (continued)

(ii) *New and amended standards adopted by the Group (continued)*

	Prior year restatements							
	31 December 2012 (Prev. stated) \$'000	Increase / (decrease) Adop. AASB 11 IFRIC 20 \$'000		31 December 2012 (Re- stated) \$'000	1 January 2012 (Prev. stated) \$'000	Increase / (decrease) Adop. IFRIC 20 \$'000		1 January 2012 (Re- stated) \$'000
<b>EQUITY</b>								
Contributed equity	656,701	-	-	656,701	973,000	-	-	973,000
Reserves	6,360	-	-	6,360	6,286	-	-	6,286
Retained earnings	1,180,379	-	(51,980)	1,128,399	783,218	(28,552)	-	754,666
Capital and reserves attributable to owners of Yancoal Australia Ltd	1,843,440	-	(51,980)	1,791,460	1,762,504	(28,552)	-	1,733,952
<b>Total equity</b>	<b>1,843,440</b>	<b>-</b>	<b>(51,980)</b>	<b>1,791,460</b>	<b>1,762,504</b>	<b>(28,552)</b>	<b>-</b>	<b>1,733,952</b>

The adoption of AASB Interpretation 20 had the following impact on retained earnings:

	Previously reported \$'000	Transitional adjustments \$'000*	Adj. due to adoption of IFRIC 20 \$'000**	Adjusted balance \$'000
Opening balance at 1 January 2012	783,218	-	-	783,218
Derecognition of opening deferred mining costs	-	(40,789)	-	(40,789)
Tax effect	-	12,237	-	12,237
Adjusted retained earnings at 1 January 2012	783,218	(28,552)	-	754,666
Deemed distribution to owners - loss on sale of Excluded Assets for the year ended 31 December 2012	(7,436)	-	5,762	(1,674)
Profit after income tax for the year ended 31 December 2012	404,597	-	(29,190)	375,407
Adjusted retained earnings at 31 December 2012	1,180,379	(28,552)	(23,428)	1,128,399

\* Relates to the adjustments required in the opening retained earnings at the beginning of the earliest period presented, that is, 1 January 2012.

\*\* Relates to the adjustments required in the movement of retained earnings since the transitional date, being 1 January 2012 to 31 December 2012.

## 1 Summary of significant accounting policies (continued)

### (a) Basis of preparation (continued)

(ii) *New and amended standards adopted by the Group (continued)*

#### Consolidated Statement of Cash Flows

	31 December 2012 (Previously stated) \$'000	Prior year restatements		31 December 2012 (Re- stated) \$'000
		Increase / (decrease) Adoption of AASB 11 \$'000	Adoption of IFRIC 20 \$'000	
<b>Cash flows from operating activities</b>				
Receipts from customers	1,561,031	(49,307)	-	1,511,724
Payments to suppliers and employees	(1,403,376)	87,896	-	(1,315,480)
Interest paid	(57,100)	763	-	(56,337)
Interest received	22,034	(113)	-	21,921
Income tax refund received	11,998	-	-	11,998
Transaction costs relating to acquisition of subsidiaries	(20,258)	-	-	(20,258)
<b>Net cash inflow from operating activities</b>	<b>114,329</b>	<b>39,239</b>	-	<b>153,568</b>
<b>Cash flows from investing activities</b>				
Payments for property, plant and equipment	(304,896)	6,876	-	(298,020)
Payments for intangible assets	(143)	-	-	(143)
Payments for mining tenements	(62)	-	-	(62)
Payments for capitalised exploration and evaluation activities	(21,574)	-	-	(21,574)
Proceeds from sale of property, plant and equipment	3,275	(233)	-	3,042
Net cash received from acquisition of subsidiaries	38,781	(7,162)	-	31,619
Net cash received from acquisition - purchase price adjustment	1,502	-	-	1,502
Net cash transferred with disposal of subsidiaries	(96,840)	-	-	(96,840)
Advances to other entities	(663)	-	-	(663)
Receipt from repayment of advances to associate	2,355	-	-	2,355
Advances to joint venture	-	(39,998)	-	(39,998)
Loans to controlled entities prior to acquisition	(113,000)	-	-	(113,000)
Receipt from repayment of loans to related entities	98,464	-	-	98,464
Payment of deferred purchase consideration	(250)	-	-	(250)
Proceeds from sale of available-for-sale financial assets	32,311	-	-	32,311
Dividends received	2	-	-	2
Cash transferred from restricted accounts	51,944	(1,171)	-	50,773
<b>Net cash outflow from investing activities</b>	<b>(308,794)</b>	<b>(41,688)</b>	-	<b>(350,482)</b>
<b>Cash flows from financing activities</b>				
Payment of finance lease liabilities	(1,739)	-	-	(1,739)
Proceeds from interest-bearing liabilities - external	113,544	-	-	113,544
Repayment of interest-bearing liabilities - external	(208,739)	-	-	(208,739)
Proceeds from interest-bearing liabilities - related entities	693,374	-	-	693,374
Repayment of interest-bearing liabilities - related entities	(344,948)	1,089	-	(343,859)
<b>Net cash inflow from financing activities</b>	<b>251,492</b>	<b>1,089</b>	-	<b>252,581</b>
<b>Net increase in cash and cash equivalents</b>	<b>57,027</b>	<b>(1,360)</b>	-	<b>55,667</b>
Cash and cash equivalents at the beginning of the financial period	290,974	-	-	290,974
Effects of exchange rate changes on cash and cash equivalents	2,652	-	-	2,652
<b>Cash and cash equivalents at the end of the year</b>	<b>350,653</b>	<b>(1,360)</b>	-	<b>349,293</b>

## 1 Summary of significant accounting policies (continued)

### (a) Basis of preparation (continued)

#### *(iii) 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 2013 have not been applied by the Group. The Group has not yet determined the potential impacts of the amendments on the Group's financial statements.

#### *(iv) Early adoption of standards*

The Group has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 January 2013.

#### *(v) 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.

#### *(vi) Critical accounting estimates*

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 1(ac).

### (b) Rounding of amounts

The Company is of a kind referred to in Class Order 98/100, 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 Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

### (c) Principles of consolidation

#### *(i) Subsidiaries*

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Yancoal Australia Ltd ('Company' or 'parent entity') as at 31 December 2013 and the results of all subsidiaries for the year then ended. Yancoal Australia Ltd and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

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 (refer to Note 1(j)).

Intercompany transactions, balances and unrealised gains on transactions between 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 have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Balance Sheet respectively. Losses applicable to the non-controlling interest in a consolidated subsidiary are allocated against the controlling interest except to the extent that the non-controlling interest has a binding obligation and is able to make an additional investment to cover the losses. If in future years the subsidiary reports profits, such profits are allocated to the controlling interest until the non-controlling interest's share of losses previously absorbed by the controlling interest have been recovered.

## 1 Summary of significant accounting policies (continued)

### (c) Principles of consolidation (continued)

#### *(ii) 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.

#### *(iii) 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 operation*

The Group recognises its direct 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. Details of the joint operation are set out in Note 40(a).

#### *Joint venture*

A joint venture is structured through a separate vehicle and the parties have rights to the net assets of the arrangement. Joint ventures are accounted for using the equity method where the assets and liabilities will be aggregated into one line item on the face of the Consolidated Balance Sheet, after adjusting for the share of profit or loss after tax, which is shown as a separate line item on the face of the Consolidated Statement of Profit or Loss and Other Comprehensive Income, after adjusting for amounts recognised directly in equity.

When the Group's share of losses in a joint venture equals or exceeds its interest in the joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

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

#### *(iv) Changes in ownership interests*

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to the owners of Yancoal Australia Ltd.

When the Group ceases to have control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, jointly controlled entity or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

## 1 Summary of significant accounting policies (continued)

### (c) Principles of consolidation (continued)

#### (iv) Changes in ownership interests (continued)

If the ownership interest in a jointly-controlled entity or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

### (d) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments has been identified as the Executive Committee.

### (e) Foreign currency translation

#### (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.

#### (ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when they are deferred in equity as qualifying cash flow hedges.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

### (f) Revenue

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

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

#### (i) Sale of goods

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

#### (ii) Royalties

Royalty revenue is recognised on an accrual basis in accordance with the substance of the relevant agreement.

#### (iii) Dividends

Dividends are recognised as revenue when the right to receive payment is established.

#### (iv) 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.

#### (v) Finance leases

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.



## 1 Summary of significant accounting policies (continued)

### (f) Revenue (continued)

#### (vi) Rental income

Rental income arising on land surrounding the 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.

#### (vii) Services

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

### (g) Government grants

Grants from the Government are recognised at fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants are recognised as income over the periods necessary to match them with the related costs. If the grants do not relate to any specific expenditure incurred by the Group, they are reported separately as other income. If the grants subsidise an expense incurred by the Group, they are deducted in reporting the related expense. Grants relating to depreciable assets are presented as a deduction from the cost of the relevant asset.

### (h) Income tax

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.

Minerals Resource Rent Tax ("MRRT") is considered, for accounting purposes, to be a tax based on income. Accordingly, the current and deferred MRRT expense is measured and disclosed on the same basis as income tax expense.

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 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 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*

Refer to Note 1(af) for details regarding the Group's application of the tax consolidation legislation.

## 1 Summary of significant accounting policies (continued)

### (i) Leases

Leases of property, plant and equipment where substantially all the risks and benefits incidental to ownership of the assets, but not the legal ownership, are transferred to the entities in the Group, are classified as finance leases. Finance leases are capitalised at the lease inception date at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short term and long term interest-bearing liabilities. Each lease payment is allocated between the liability and finance cost. 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 property, plant and equipment acquired under finance leases is 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.

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.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term. The respective leased assets are included in the balance sheet based on their nature.

### (j) Business combinations

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition related costs are expensed as incurred with the exception of stamp duty. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition by acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

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 (refer to Note 5).

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

## 1 Summary of significant accounting policies (continued)

### (k) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. 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 to sell and value in use.

For the purposes of assessing impairment, assets are grouped at 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 (cash generating units, "CGUs"). 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.

Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

### (l) Cash and cash equivalents

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.

### (m) Inventories

Coal stocks are stated at the lower of cost and net realisable value. Costs are assigned on a weighted average basis and include direct materials, direct labour and an appropriate proportion of variable and fixed overheads on the basis of normal mining capacity. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Inventories of auxiliary materials, spare parts and small tools expected to be used in production are stated at weighted average cost after deducting rebates and discounts less allowance, if necessary, for obsolescence.

### (n) Discontinued operations

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

### (o) Deferred mining cost

#### (i) *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".

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.

## 1 Summary of significant accounting policies (continued)

### (o) Deferred mining cost (continued)

#### *(ii) Underground*

During the commercial production stage of an underground mine development, costs include both direct and indirect mining costs relating to underground longwall panel development. Longwall panel development costs relate to the development of gate roads that are access road ways connecting a longwall panel working face with the mains (primary access/egress roads for the mine). These costs are capitalised net of the coal sales revenue earned from the development coal and amortised over the life of the longwall panel that they relate to based on the metres retreated during the period divided by the total panel length in metres.

### (p) Investments and other financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held to maturity investment and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and in the case of assets classified as held to maturity, re-evaluates this designation at the end of each reporting period.

#### *(i) Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are expected to be settled within 12 months, otherwise they are classified as non-current.

#### *(ii) Loans and receivables*

Loans and 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. Loans and receivables are included in current trade and other receivables and non-current trade and other receivables (refer to Note 9).

#### *(iii) Held-to-maturity investments*

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held to maturity financial assets, the whole category would be tainted and reclassified as available for sale. Held to maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the end of the reporting period, which are classified as current assets.

#### *(iv) Available-for-sale financial assets*

Available-for-sale financial assets, comprising principally unlisted marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the end of the reporting period. Investments are designated as available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term.

#### **Recognition and derecognition**

Purchases and sales of financial assets are recognised on trade date, the date on which the Group commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus transaction costs except where the financial asset is classified as fair value through profit or loss in which case transaction costs are expensed in profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

## 1 Summary of significant accounting policies (continued)

### (p) Investments and other financial assets (continued)

#### **Subsequent measurement**

Loans and receivables are carried at amortised cost using the effective interest method.

Available-for-sale financial assets, financial assets at fair value through profit or loss and held to maturity investments are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in profit or loss within other income or other expenses in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in profit or loss as part of revenue from continuing operations when the Group's right to receive payments is established.

Investment in shares in unlisted companies, which do not have a quoted market price and whose fair value cannot be reliably measured, are classified as available-for-sale and are measured at cost. Gains or losses are recognised in profit or loss when the investments are derecognised or impaired.

#### **Impairment**

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. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, is reclassified from equity and recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments classified as available-for-sale are not reversed through profit or loss.

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.

### (q) Royalty receivable

The royalty receivable will be re-valued 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 (refer to Note 10).

### (r) Financial liabilities and equity

Non-derivative financial liabilities (including trade and other payables and interest-bearing liabilities excluding financial guarantees) are initially recognised at fair value, net of transaction costs incurred and subsequently measured at amortised cost using the effective interest rate method. Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

All non-derivative financial liabilities are classified as current liabilities unless there is an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

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 or options 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.

## 1 Summary of significant accounting policies (continued)

### (s) Derivatives and hedging activities

The Group uses derivative financial instruments such as forward foreign exchange contracts and foreign exchange rate option contracts to hedge its risks associated with foreign currency fluctuations. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The forward foreign exchange contracts and foreign exchange rate option contracts entered into by the Group are designated and qualify as cash flow hedges.

Interest-bearing liabilities denominated in United States dollars are reviewed to determine if they qualify as a natural cash flow hedge against sales. A substantial portion of interest-bearing liabilities of the Group has been determined to be a natural cash flow hedge.

The Group documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of derivative financial instruments used for hedging purposes are disclosed in Note 12. Movements in the hedging reserve in shareholders' equity are shown in Note 31. 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, it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

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 Consolidated Statement of Profit or Loss and Other Comprehensive Income or recognised as part of the cost of the asset to which it relates. The gain or loss relating to the ineffective portion is recognised immediately in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing 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 cumulative gain or loss that was reported in equity is immediately recognised in profit or loss.

Certain derivative instruments do not qualify for hedge accounting, such as the contingent value right shares (refer to Note 27). Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss and are included in other income or other expenses.

### (t) Property, plant and equipment

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, and may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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.

## 1 Summary of significant accounting policies (continued)

### (t) Property, plant and equipment (continued)

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.

The 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.

Refer to Note 1(o) for information regarding the capitalisation and amortisation of longwall panel development.

#### *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 as indicated below, 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 - 25 years
- Plant and equipment	2.5 - 25 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.

### (u) Mining tenements

Mining tenements have a finite useful life and are carried at cost less, where applicable, any accumulated amortisation and accumulated impairment losses. A mining tenement's carrying amount is written down immediately to its recoverable amount if the mining tenement's carrying amount is greater than its estimated recoverable amount.

Amortisation of mining tenements commences from the date when commercial production commences, or from the date of acquisition, and is charged to the Consolidated Statement of Profit or Loss and Other Comprehensive Income. Mining tenements are amortised over the life of the mine on a units of production method based on JORC reserves.

Changes in the annual amortisation rate resulting from changes in the remaining JORC reserves are applied on a prospective basis from the commencement of the next financial year.

## 1 Summary of significant accounting policies (continued)

### (v) Intangible assets

#### (i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary or associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is not amortised, it is tested for impairment at each reporting date or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash generating units ("CGUs") for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose.

#### (ii) Computer software

Costs incurred in developing products or systems and costs incurred in acquiring software and licenses that will contribute to future period's financial benefits through revenue generation and / or cost reduction are capitalised to computer software. Costs capitalised include external direct costs of materials and services and direct payroll and payroll related costs of employees' time spent on the project. Computer software has a finite useful life and is carried at cost less, where applicable, any accumulated amortisation and accumulated impairment losses. A computer software 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.

Amortisation of computer software is calculated using a straight-line basis to allocate the cost over the period of the expected benefit, which varies from 2.5 to 10 years.

#### (iii) Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will, after considering its commercial and technical feasibility, be completed and generate future economic benefits and its costs can be measured reliably. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Capitalised development costs have a finite useful life and are carried at cost less, where applicable, any accumulated amortisation and accumulated impairment losses. Capitalised development costs are amortised from the point at which the asset is ready for use on a straight-line basis over its useful life. A development 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.

#### (iv) Access rights and other licences

Access rights and other licences have a finite useful life and are carried at cost less, where applicable, any accumulated amortisation and accumulated impairment losses. If the carrying amount of access rights or other licences is greater than its estimated recoverable amount, then the asset's carrying amount is written down immediately to its recoverable amount.

Access rights and other licences are amortised over the shorter of the life of the mines or agreement using a units of production basis in tonnes or a straight-line method. Estimated useful lives vary from 10 to 25 years.

#### (v) Patents

Patents represent the cost to acquire rights relating to new or improved products. Amortisation is calculated using the straight-line method to allocate the cost of the patents over their estimated useful lives and is calculated from the day the asset is available for use. Patents are tested for impairment at each reporting date or more frequently if events or changes in circumstances indicate that they might be impaired, and are carried at cost less accumulated impairment losses. Patents that are not yet ready for use are not amortised but tested for impairment at each reporting period.



## 1 Summary of significant accounting policies (continued)

### (w) Exploration and evaluation expenditure

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 expenditure 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.

### (x) 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.

### (y) Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

#### (i) Marketing services fee

Marketing services fee provisions are recognised at the time the Group determines that the portion of the fee is deemed to be above market norms. The provision is based on the present obligation of the Noble Marketing Services Agreement which expires on 31 December 2040.

Provisions are determined by discounting the expected future cash flows at a pre tax rate that reflects current market assessments of the time value of money and, where applicable, the risks specific to the liability.

The provision is released to profit or loss on a straight-line basis.

#### (ii) Rehabilitation costs

Provision is made for the Group's estimated liability arising under specific legislative requirements and the conditions of its exploration permits and mining leases for future costs expected to be incurred in restoring mining areas of interest. The estimated liability is based on the restoration work required using existing technology as a result of activities to date. The liability includes the cost of reclamation of the site, including infrastructure removal and land fill costs. An asset is created as part of the mine development asset, to the extent that the development relates to future production activities, which is offset by a current and non-current provision for rehabilitation (refer to Note 1(t)).

#### (iii) Take or pay

Where the Group has acquired a subsidiary, take or pay provisions are recognised at the time the Group determines that the minimum contracted tonnage exceeds forecast usage. The provision is based on the present obligation of the contract.

## 1 Summary of significant accounting policies (continued)

### (y) Provisions (continued)

#### (iii) Take or pay (continued)

Provisions are determined by discounting the expected future cash flows at a pre tax rate that reflects current market assessments of the time value of money and, where applicable, the risks specific to the liability.

The provision is released to profit or loss on a straight-line basis.

#### (iv) Customer contracts

Customer contract provisions are recognised at the time the Group determines that the contract will be loss making. The provision is based on the present obligation of the contracts.

Provisions are determined by discounting the expected future cash flows at a pre tax rate that reflects current market assessments of the time value of money and, where applicable, the risks specific to the liability.

The provision is released to profit or loss on a straight-line basis.

### (z) Employee benefits

#### (i) 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 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 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 market yields with terms to maturity that match the expected timing of cash flows attributable to employee benefits.

#### (ii) Long service leave

The Group's net obligation in respect of long term service benefits is the amount of future benefit that employees have earned in return for their service to the reporting date. The obligation is calculated using expected future increases in wages and salary rates including related on costs and expected settlement dates, and is discounted using an appropriate discount rate.

The current liability for long service leave represents all unconditional obligations where employees have fulfilled the required criteria and also those where employees are entitled to a pro rata payment in certain circumstances and is included in the current provisions. The non-current provision for long service leave includes the remaining long service leave obligations.

Additional long service leave payments are made monthly to a coal mining industry long service leave fund based on the eligible monthly payroll of employees. An asset for the amount recoverable from the fund is recognised in trade and other receivables when long service leave is paid to employees.

#### (iii) Superannuation

Contributions made by the Group to defined contribution superannuation funds are recognised as an expense in the period in which they are incurred.

### (aa) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of associated goods and services tax ("GST"), unless the GST incurred is not recoverable from the Australian Taxation Office ("ATO"). In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the ATO is included with other receivables or payables in the balance sheet.

## 1 Summary of significant accounting policies (continued)

### (aa) Goods and Services Tax (continued)

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

### (ab) Earnings per share

#### (i) Basic earnings per share

Calculated as net profit 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.

#### (ii) Diluted earnings per share

Calculated as net profit 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.

### (ac) Critical accounting estimates and judgements

The Directors evaluate estimates and judgments 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.

Following is a summary of the key assumptions concerning the future, and other key sources of estimation and accounting judgements at reporting date that have not been disclosed elsewhere in these financial statements.

#### (i) Determination of coal resources and reserves

The Company estimates its coal resources and reserves based on information compiled by Competent Persons defined in the Australasian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves (December 2004), 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 Code. Reserves determined in this way are used in the calculation of depreciation, amortisation and impairment charges, the assessment of mine lives and for forecasting the timing of the payment of rehabilitation costs.

The amount of reserves that may actually be mined in the future and the Company's estimate of reserves from time to time in the future may vary from current reserve estimates.

During 2012, the revised edition of the JORC Code was issued and is effective for JORC reports issued after 1 December 2013. The Group is in the process of determining the potential impact of the new code to the Group's financial report.

#### (ii) Deferred mining

##### *Open cut*

To determine whether production stripping costs can be capitalised as part of an asset, the Group is required to use judgement to identify the component of the ore body for which access has been improved. The Group is also required to estimate the useful life of the identified component of the ore body that becomes accessible as a result of the stripping activity (refer to Note 1(o)).

## 1 Summary of significant accounting policies (continued)

### (ac) Critical accounting estimates and judgements (continued)

#### (ii) *Deferred mining (continued)*

##### *Underground*

The Group defers mining costs incurred during the production phase of its operations. This calculation requires the use of judgements and estimates relating to the expected number of metres to be retreated over the life of the panel. This information is used to calculate the amortisation of underground longwall panel development costs. Changes in the number of metres to be retreated will usually result in changes to the amortisation of underground longwall panel development costs. These changes are accounted for prospectively (refer to Note 1(o)).

#### (iii) *Exploration and evaluation expenditure*

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.

#### (iv) *Impairment*

The Group assesses impairment by evaluation of conditions and events specific to the Company that may be indicative of impairment triggers. Goodwill is assessed for impairment at each reporting period. Recoverable amounts of relevant assets are reassessed using the higher of fair value less costs to sell and value in use calculations which incorporate various key assumptions (refer to Note 17).

#### (v) *Rehabilitation*

The calculation of the provisions for rehabilitation and the related mine development assets rely on estimates of the cost to rehabilitate an area which is currently disturbed based on legislative requirements and future costs. The costs are estimated on the basis of a mine closure plan. Cost estimates take into account expectations about future events including the mine lives, the timing of rehabilitation expenditure, regulations, inflation and discount rates. When these expectations change in the future, the provision and where applicable, the mine development assets are recalculated in the period in which they change.

#### (vi) *Royalty receivable*

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.

#### (vii) *Marketing services fee*

The estimation of the portion of the marketing services fee that is deemed to be above the market norms is based on management's assessment of applicable forecast export sales tonnes, sales prices and fluctuations in foreign exchange rates.

#### (viii) *Take or pay contracts*

The recognition of a provision for take or pay is based on management's assessment of contracted port capacity versus forecast usage. Management's judgement relating to the current and future market conditions including the current market for resale of excess contracted capacity have resulted in the recognition of a take or pay liability. The estimate of the provision for take or pay involves assumptions about the probability, amount and timing of an outflow of resources embodying economic benefits.

#### (ix) *Customer contracts*

The estimation of the unfavourable customer contract liability is based on management's assessment of forecast coal prices versus contracted sales prices at the contracted volumes under the sales contracts. Management's estimates of forecast coal prices have resulted in the recognition of a customer contract liability.

## 1 Summary of significant accounting policies (continued)

### (ac) Critical accounting estimates and judgements (continued)

#### (x) Derivatives

The fair value of financial instruments must be estimated for recognition and measurement purposes.

The fair value of financial instruments traded in active markets such as publicly traded derivatives and available-for-sale securities is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market such as over the counter derivatives are determined using valuation techniques that use observable market data at the reporting date where it is available.

#### (xi) Income taxes

The Group is subject to income taxes in Australia. Significant judgement is required in determining the provision for income taxes. There are transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group estimates its tax liabilities based on the Group's understanding of the tax law. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

#### (xii) Carbon price

The Government introduced a carbon tax on 1 July 2012 with a price fixed at \$23 per tonne of equivalent emissions. The Company's estimate of the impact of the tax is approximately \$0.82 per tonne of saleable coal from the underground and open cut mines.

The Government released exposure drafts of legislation to repeal the carbon tax on 15 October 2013. At 31 December 2013, the Government had not passed the repeal and therefore management have determined that the repeal of the legislation was not yet substantively enacted.

#### (xiii) Minerals resource rent tax

Judgement is required in assessing whether deferred tax assets and deferred tax liabilities arising from Minerals Resource Rent Tax ("MRRT") are recognised on the Consolidated Balance Sheet.

Deferred tax assets are recognised only when it is considered probable that they will be recovered. Recoverability is dependent on the generation of sufficient future taxable profits. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These in turn depend on estimates of future sales volumes, operating costs, capital expenditure and government royalties payable.

Judgements are also required for the application of the MRRT legislation, for example, in relation to the hypothetical valuation point.

During 2013, the Government released an exposure draft legislation which proposed to repeal the MRRT legislation. At 31 December 2013, the Government had not passed the repeal and therefore management have determined that the abolishment of the legislation was not yet substantively enacted.

The judgements and assumptions made by management are subject to risk and uncertainty, hence, there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the balance sheet. In such circumstances, some or all of the carrying amounts of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to profit or loss.

## **1 Summary of significant accounting policies (continued)**

### **(ad) Going concern**

For the year ended 31 December 2013, the Group had a loss before income tax of \$1,114,472,000 (31 December 2012: profit before tax of \$125,538,000) from continuing operations. The loss was impacted by the net foreign exchange loss on US dollar denominated interest-bearing liabilities amounting to \$369,539,000, an impairment of mining tenements at Moolarben and Stratford & Duralie amounting to \$258,000,000 and \$85,000,000 respectively, finance costs of \$124,902,000 and related bank fees and other charges of \$80,578,000.

The financial statements have been prepared on a going concern basis, which contemplates the continuation of normal business operations and the realisation of assets and settlement of liabilities in the normal course of business. The Directors have considered and noted the following with regards to the ability of the Group to continue as a going concern:

- (i) At 31 December 2013, the Group has a cash balance of \$318,001,000.
- (ii) At 31 December 2013, the Group has surplus net current assets of \$285,282,000.
- (iii) The Directors of Yanzhou Coal Mining Company Limited ("Yanzhou") have provided a Letter of Financial Support to the Company effective from 31 December 2013 undertaking to the Company that it will provide \$300,000,000 of financial support in 2014 and in addition, unless revoked by giving not less than 12 months' notice, it will provide, ongoing financial support to the Company to enable it to pay its debts as and when they fall due.
- (iv) The Group has budgeted and forecasted positive operating cash flows before finance costs for the next 12 months.

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

## 1 Summary of significant accounting policies (continued)

### (ae) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2013 reporting periods and have not yet been applied in the financial statements. 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	Impact on Group	Application date for the Group
AASB 2011-4	<p><i>Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements</i></p> <p>Removes the individual key management personnel disclosure requirements from AASB 124 <i>Related Party Disclosures</i>, to achieve consistency with the international equivalent standard and remove a duplication of the requirements with the Corporations Act 2001.</p> <p>Following the release of the revised Corporations Regulations, all of the detailed disclosures will have to be included in the remuneration report for financial years commencing on or after 1 July 2013. Aggregate disclosures will still be required for the notes to the financial statements.</p> <p>These amendments cannot be adopted early.</p>	The adoption of this amendment will not have any impact on the financial position or the performance of the Group.	1 January 2014
AASB 9	<p><i>Financial Instruments</i></p> <p>AASB 9 replaces the multiple classification and measurement models in AASB 139 <i>Financial Instruments: Recognition and Measurement</i> with a single model that has only two classification categories: amortised cost and fair value.</p> <p>Classification of debt assets will be driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. A 'simple' debt instrument is measured at amortised cost if:</p> <ol style="list-style-type: none"> <li>a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and</li> <li>b) the contractual cash flows under the instrument solely represent payments of principal and interest.</li> </ol>	The Group has not yet determined the potential impact of the amendments on the Group's financial report.	1 January 2015

## 1 Summary of significant accounting policies (continued)

### (ae) New accounting standards and interpretations (continued)

Reference and Title	Details of New Standard/Amendment/Interpretation	Impact on Group	Application date for the Group
	<p>All other financial assets, including investments in complex debt instruments and equity investments, must be recognised at fair value.</p> <p>All fair value movements on financial assets are taken through the income statement, except for equity investments that are not traded, which may be recorded in the income statement or in reserves.</p> <p>For financial liabilities that are measured under the fair value option, entities will need to recognise the part of the fair value change that is due to changes in their own credit risk in other comprehensive income rather than profit or loss.</p>		
AASB 2013-3	<p><i>Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets</i></p> <p>The AASB has made amendments to the disclosures required by AASB 136 <i>Impairment of Assets</i> which:</p> <ul style="list-style-type: none"> <li>• remove the requirement to disclose the recoverable amount of all cash generating units (“CGU”) that contain goodwill or identifiable assets with indefinite lives if there has been no impairment; this disclosure was introduced with AASB 13 <i>Fair Value Measurement</i>.</li> <li>• require disclosure of the recoverable amount of an asset or CGU when an impairment loss has been recognised or reversed</li> <li>• require detailed disclosure of how the fair value less costs of disposal has been measured when an impairment loss has been recognised or reversed.</li> </ul>	The Group has not yet determined the potential impact of the amendments on the Group's financial report.	1 January 2014
AASB 2013-4	<p><i>Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting</i></p> <p>The AASB has made a limited scope amendment to AASB 139 <i>Financial Instruments: Recognition and Measurement</i>.</p>	The Group has not yet determined the potential impact of the amendments on the Group's financial report.	1 January 2014



## 1 Summary of significant accounting policies (continued)

### (ae) New accounting standards and interpretations (continued)

Reference and Title	Details of New Standard/Amendment/Interpretation	Impact on Group	Application date for the Group
	<p>AASB 139 requires an entity to stop hedge accounting when a novation (replacement of one party of the derivative contract with a new party) occurs, because the original hedging instrument envisaged in the hedge documentation has changed.</p> <p>The amendment allows the continuation of hedge accounting provided specific conditions are met.</p>		
Interpretation 21	<p><i>Accounting for Levies</i></p> <p>The interpretation confirms that:</p> <ul style="list-style-type: none"> <li>• the obligating event is the event that triggers the obligation to pay the levy under the legislation (e.g. the entity is operating in a specified market on a specified day, or the entity generates revenue in excess of a threshold), and</li> <li>• a liability is recognised when the obligating event occurs (e.g. the specified day, or when the entity reaches the threshold revenue amount).</li> </ul> <p>The same recognition principles apply to interim and annual financial statements. The obligation should not be anticipated or deferred in the interim financial report if it would not be anticipated or deferred in annual financial statements.</p> <p>The interpretation applies to all levies imposed by governments in accordance with legislation, but excludes income taxes from its scope. The application to liabilities arising from emissions trading schemes is optional.</p>	The Group has not yet determined the potential impact of the amendments on the Group's financial report.	1 January 2014

## 1 Summary of significant accounting policies (continued)

### (af) Parent entity financial information

#### (i) 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.

#### (ii) 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 controlled 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. 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.

#### (iii) Financial guarantees

Where the parent entity has provided financial guarantees in relation to loans and payables of subsidiaries for no compensation, the fair values of these guarantees are accounted for as contributions and recognised as part of the cost of the investment.

## 2 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk and cash flow and fair value 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, that is, not as trading or other 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, cash flow and fair value interest rate risk and other price risks, and aging analysis for credit risk.

The Group holds the following financial instruments:

- (i) Cash and cash equivalents;
- (ii) Trade and other receivables;
- (iii) Trade and other payables;
- (iv) Interest-bearing liabilities, including bank loans and finance leases;
- (v) Available-for-sale investments;
- (vi) Royalty receivable; and
- (vii) Derivative financial instruments (including Contingent value right shares).

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 and interest rate risk. These derivative instruments create an obligation or right that effectively transfers one or more of the risks associated with an underlying financial instrument, asset or obligation.

The overall objective of the Board is to set policies that seek to reduce risk and volatility in financial performance without unduly affecting competitiveness and flexibility. Further details regarding these policies are set out below.

### (a) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, securities prices, and coal prices, will affect the Group's income or the value of its holdings of financial instruments.

#### (i) Foreign exchange risk

The Group operates entirely in Australia and its costs are primarily denominated in its functional currency, the Australian dollar. Export coal sales are denominated in US dollars and a strengthening of the Australian dollar against the US dollar has an adverse impact on earnings and cash flow settlement. Liabilities for some plant and equipment purchases and loans are denominated in currencies other than the Australian dollar and a weakening of the Australian dollar against other currencies has an adverse impact on earnings and cash flow settlement. Foreign exchange risk also arises from US dollar denominated loans whereby volatility of the Australian dollar against US dollar leads to volatility of profit or loss due to unrealised foreign exchange gain or loss associated with the US dollar denominated loans.

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

#### *Hedging through bank issued instruments*

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

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income in the hedging reserve until the anticipated underlying transaction occurs. Once the anticipated underlying transaction occurs, amounts accumulated in equity are recycled through the profit or loss or recognised as part of the cost of the asset to which it relates. The ineffective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised immediately in the profit or loss. In the current period, the loss relating to the ineffective portion was \$3,193,000 (2012: gain of \$1,809,000).

## 2 Financial risk management (continued)

### (a) Market risk (continued)

#### (i) Foreign exchange risk (continued)

##### *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 in 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 1.

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 sales transactions occur, amounts accumulated in equity are recycled through the profit or loss as part of the 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 10).

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

	31 December 2013				31 December 2012		
	USD \$'000	GBP \$'000	EUR \$'000	RMB \$'000	USD \$'000	GBP \$'000	RMB \$'000
Cash and cash equivalents	137,966	2	-	1,555	48,604	1	49
Trade receivables	119,570	-	-	-	81,720	-	-
Royalty receivable	208,905	-	-	-	206,454	-	-
Trade and other payables	(32,296)	-	-	-	(29,320)	-	-
Interest bearing liabilities	(5,107,611)	-	-	-	(3,543,179)	-	-
Derivative financial instruments	(49,615)	-	2,956	-	935,915	-	-
Net exposure	<b>(4,723,081)</b>	<b>2</b>	<b>2,956</b>	<b>1,555</b>	<b>(2,299,806)</b>	<b>1</b>	<b>49</b>

## 2 Financial risk management (continued)

### (a) Market risk (continued)

#### (i) Foreign exchange risk (continued)

##### 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.

	10% depreciation of AUD/USD		10% appreciation of AUD/USD	
	Profit after income tax \$'000	Equity \$'000	Profit after income tax \$'000	Equity \$'000
<b>2013</b>				
Cash and cash equivalents	10,731	-	(8,780)	-
Trade and other receivables	9,300	-	(7,609)	-
Royalty receivable	14,129	-	(11,560)	-
Total increase / (decrease) in financial assets	<u>34,160</u>	-	<u>(27,949)</u>	-
Trade and other payables	(2,544)	-	2,081	-
Interest-bearing liabilities	(57,801)	(339,475)	47,292	277,752
Derivative financial instruments	(820)	(61,955)	1,875	28,227
Total (increase) / decrease in financial liabilities	<u>(61,165)</u>	<u>(401,430)</u>	<u>51,248</u>	<u>305,979</u>
Total increase / (decrease) in profit after tax and equity	<u>(27,005)</u>	<u>(401,430)</u>	<u>23,299</u>	<u>305,979</u>
<b>2012</b>				
Cash and cash equivalents	3,780	-	(3,093)	-
Trade and other receivables	6,356	-	(5,200)	-
Royalty receivable	14,329	-	(11,724)	-
Derivative financial instruments	8,874	(53,962)	(4,689)	56,137
Total increase / decrease in financial assets	<u>33,339</u>	<u>(53,962)</u>	<u>(24,706)</u>	<u>56,137</u>
Trade and other payables	(2,283)	-	1,864	-
Interest-bearing liabilities	(274,114)	(1,467)	224,275	1,200
Derivative financial instruments	-	(20,437)	-	14,057
Total (increase) / decrease in financial liabilities	<u>(276,397)</u>	<u>(21,904)</u>	<u>226,139</u>	<u>15,257</u>
Total increase / (decrease) in profit after tax and equity	<u>(243,058)</u>	<u>(75,866)</u>	<u>201,433</u>	<u>71,394</u>

## 2 Financial risk management (continued)

### (a) Market risk (continued)

#### (ii) Price risk

The price risk of the Group includes both coal price risk and equity securities price risk.

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

Equity securities price risk arises from the contingent value right shares ("CVR") liability held by the Group and classified in the Consolidated Balance Sheet at fair value through profit or loss (refer to Note 27). Yancoal are economically exposed to price risk on the contingent value right shares liability but not cash flow risk as the parent company, Yanzhou Coal Mining Company Limited ("Yanzhou"), will provide cash or a transfer of Yancoal ordinary shares held by Yanzhou to settle the liability.

#### Sensitivity

The following table summarises the sensitivity of the Group's financial assets and liabilities to a possible change in the forecasted coal sales price used to determine the fair value of the royalty receivable. A 10% (decrease) / increase in the market price would have (decreased) / increased equity and profit or loss after tax by the amounts shown below. This analysis assumes that all other variables remain constant.

	-10%		+10%	
	Profit after income tax \$'000	Equity \$'000	Profit after income tax \$'000	Equity \$'000
<b>2013</b>				
Royalty receivable	(12,716)	-	12,716	-
Total increase / (decrease) in profit after tax and equity	(12,716)	-	12,716	-
<b>2012</b>				
Royalty receivable	(12,896)	-	12,896	-
Total increase / (decrease) in profit after tax and equity	(12,896)	-	12,896	-

## 2 Financial risk management (continued)

### (a) Market risk (continued)

#### (ii) Price risk (continued)

At 31 December 2013, the payable and receivable arising from the CVR shares are capped at \$3 per share and expected to be paid on 11 March 2014 or as soon as reasonably practicable after that date. The closing market price at 31 December 2013 was \$2.96 per share and therefore it is expected that the maximum movement in price will be an increase of 4 cents per share.

	-0 cents		+4 cents	
	Profit after income tax \$'000	Equity \$'000	Profit after income tax \$'000	Equity \$'000
<b>2013</b>				
Contingent value right shares - receivable	-	-	-	2,454
Contingent value right shares - payable	-	-	(2,454)	-
Total increase / (decrease) in profit after tax and equity	-	-	(2,454)	2,454
	-10%		+10%	
	Profit after income tax \$'000	Equity \$'000	Profit after income tax \$'000	Equity \$'000
<b>2012</b>				
Contingent value right shares - payable	15,338	-	(15,338)	-
Total increase / (decrease) in profit after tax and equity	15,338	-	(15,338)	-

#### (iii) Cash flow and fair value interest rate risk

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

The Group's floating rate borrowings, cash and cash equivalents and restricted cash are carried at amortised cost therefore there is no exposure to fair value 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 have price re-set on a quarterly basis.

The Group's exposure to interest rate risk and the effective weighted average interest rate is set out as below:

	31 December 2013		31 December 2012	
	Weighted average interest rate %	Balance \$'000	Weighted average interest rate %	Balance \$'000
Cash and cash equivalents	1.3%	318,001	2.5%	309,293
Restricted cash	1.6%	95	2.5%	109
Bank loans and other borrowings	2.2%	4,286,221	1.3%	2,830,947
Net exposure to cash flow interest rate risk		<u>4,604,317</u>		<u>3,140,349</u>

## 2 Financial risk management (continued)

### (a) Market risk (continued)

#### (iii) Cash flow and fair value interest rate risk (continued)

##### Sensitivity

The following table summarises the sensitivity of the Group's significant financial assets and liabilities to a possible change in variable interest rates. This sensitivity is based on reasonably possible changes, determined using observed historical interest rate movements for the preceding five year period, with a heavier weighting given to more recent market data. Past movements are not necessarily indicative of future movements. For financial assets, a 25 basis point (decrease) / increase in interest rates would have (decreased) / increased equity and profit or loss after tax by the amounts shown below. For financial liabilities, a 25 basis point (decrease) / increase in interest rates would have increased / (decreased) equity and profit or loss after tax by the amounts shown below. This analysis assumes that all other variables remain constant.

	-25 bps		+25 bps	
	Profit after income tax \$'000	Equity \$'000	Profit after income tax \$'000	Equity \$'000
<b>2013</b>				
Cash and cash equivalents	(320)	-	320	-
Trade and other receivables	(55)	-	55	-
Interest bearing liabilities	7,501	-	(7,501)	-
	<u>7,126</u>	<u>-</u>	<u>(7,126)</u>	<u>-</u>
<b>2012</b>				
Cash and cash equivalents	(493)	-	493	-
Trade and other receivables	(55)	-	55	-
Interest bearing liabilities	4,954	-	(4,954)	-
	<u>4,406</u>	<u>-</u>	<u>(4,406)</u>	<u>-</u>

### (b) Credit risk

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

Credit risk in trade receivables is managed in the following ways:

- (i) payment terms and credit limits are set for individual customers;
- (ii) a risk assessment process is used for all customers; and
- (iii) letters of credit are required for those customers assessed as posing a higher risk.

The maximum exposure to credit risk on financial assets which have been recognised in the balance sheet is their carrying amount less impairment provision, if any as set out below.

	31 December 2013 \$'000	31 December 2012 \$'000
Cash and cash equivalents	318,001	349,293
Trade and other receivables	864,770	546,657
Other financial assets	37	37
Derivative financial instruments (net)	-	11,393
	<u>1,182,808</u>	<u>907,380</u>



## 2 Financial risk management (continued)

### (b) Credit risk (continued)

Included in trade and other receivables are significant customers located in Australia, Singapore, South Korea and China that account for 36%, 28%, 16% and 9% of trade receivables respectively (2012: 18%, 26%, 20% and 4%).

At 31 December 2013, derivative financial instruments were in a net liability position (2012: net asset position). As a result no credit risk has been disclosed above.

### (c) Liquidity risk

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

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

Liquidity risk is managed by maintaining sufficient cash and liquid deposit balances and having readily accessible standby facilities in place in accordance with the Board's risk management policy. Details regarding finance facilities are set out in Note 23.

#### *Maturities of financial liabilities*

The tables below analyse the Group's financial liabilities into relevant maturity groupings based on their contractual maturities for:

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

The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

Contractual maturities of financial liabilities	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Greater than 5 years	Total contractual cash flows	Carrying amount
At 31 December 2013	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Non-derivatives</b>						
Trade payables	259,655	500	500	-	260,655	260,505
Interest-bearing liabilities	393,735	326,746	5,224,311	761,550	6,706,342	5,156,870
<b>Total non-derivatives</b>	<b>653,390</b>	<b>327,246</b>	<b>5,224,811</b>	<b>761,550</b>	<b>6,966,997</b>	<b>5,417,375</b>
<b>Derivatives</b>						
<b>Gross settled (Derivative financial instruments)</b>						
- (inflow)	(728,903)	-	-	-	(728,903)	(2,956)
- outflow	781,519	-	-	-	781,519	49,615
<b>Gross settled (contingent value right shares)*</b>						
- (inflow)	(262,936)	-	-	-	(262,936)	(259,430)
- outflow	262,936	-	-	-	262,936	259,430
<b>Total derivatives</b>	<b>52,616</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>52,616</b>	<b>46,659</b>

## 2 Financial risk management (continued)

### (c) Liquidity risk (continued)

At 31 December 2012	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Greater than 5 years	Total contrac- tual cash flows	Carrying amount
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Non-derivatives</b>						
Trade payables	254,430	500	1,000	-	255,930	255,671
Interest-bearing liabilities	198,557	213,182	1,434,016	2,504,696	4,350,451	3,578,554
Total non-derivatives	452,987	213,682	1,435,016	2,504,696	4,606,381	3,834,225
<b>Derivatives</b>						
<b>Gross settled (Derivative financial instruments)</b>						
- (inflow)	(241,833)	-	-	-	(241,833)	(13,482)
- outflow	243,926	-	-	-	243,926	2,089
<b>Gross settled (contingent value right shares)</b>						
- (inflow)	-	-	-	-	-	-
- outflow	-	219,113	-	-	219,113	219,113
Total derivatives	2,093	219,113	-	-	221,206	207,720

\* The contingent value right shares receivable will be collected before the contingent value right shares payable is settled (refer to Note 27).

### (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).

## 2 Financial risk management (continued)

### (d) Fair value measurements (continued)

#### (i) Fair value hierarchy (continued)

The following table presents the Group's financial assets and financial liabilities measured and recognised at fair value at 31 December 2013 and 31 December 2012:

31 December 2013	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Assets</b>				
Derivatives used for hedging				
Forward foreign exchange contracts	-	2,295	-	2,295
Foreign exchange option contracts	-	661	-	661
Other derivatives				
Contingent value right shares - receivable	259,430	-	-	259,430
Royalty receivable	-	-	208,905	208,905
<b>Total assets</b>	<b>259,430</b>	<b>2,956</b>	<b>208,905</b>	<b>471,291</b>
<b>Liabilities</b>				
Derivatives used for hedging				
Forward foreign exchange contracts	-	33,000	-	33,000
Foreign exchange option contracts	-	16,615	-	16,615
Other derivatives				
Contingent value right shares - payable	259,430	-	-	259,430
<b>Total liabilities</b>	<b>259,430</b>	<b>49,615</b>	<b>-</b>	<b>309,045</b>
31 December 2012	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Assets</b>				
Derivatives used for hedging				
Forward foreign exchange contracts	-	11,326	-	11,326
Foreign exchange option contracts	-	2,156	-	2,156
Royalty receivable	-	-	206,454	206,454
<b>Total assets</b>	<b>-</b>	<b>13,482</b>	<b>206,454</b>	<b>219,936</b>
<b>Liabilities</b>				
Derivatives used for hedging				
Forward foreign exchange contracts	-	2,089	-	2,089
Other derivatives				
Contingent value right shares - payable	219,113	-	-	219,113
<b>Total liabilities</b>	<b>219,113</b>	<b>2,089</b>	<b>-</b>	<b>221,202</b>

#### (ii) Valuation techniques

The fair value of financial instruments traded in active markets (such as contingent value right shares) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets and liabilities held by the Group is the closing price. These instruments are included in level 1.

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 the available-for-sale investment.

## 2 Financial risk management (continued)

### (d) Fair value measurements (continued)

#### (ii) Valuation techniques (continued)

Specific valuation techniques used to value financial instruments include:

- The use of quoted market prices or dealer quotes for similar instruments;
- Other techniques, such as discounted cash flow analysis, are used to determine the fair value for the remaining financial instruments.

#### (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 2013:

	Royalty receivable \$'000
Acquired through business combination	203,235
Cash received / receivable	(4,314)
Unwinding of the discount	11,178
Re-measurement of the royalty receivable	(3,645)
<b>Closing balance 31 December 2012</b>	<b>206,454</b>
Cash received / receivable	(13,810)
Unwinding of the discount	22,248
Re-measurement of the royalty receivable	(5,987)
<b>Closing balance 31 December 2013</b>	<b>208,905</b>

#### 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 17). The risk-adjusted post-tax discount rate used to determine the future cash flows is 11%.

The estimated fair value would increase if the sales volumes and coal prices were higher and if the Australian dollar weakens against the US dollar. The estimated fair value would also increase if the risk-adjusted discount rate was lower.

#### (iv) Fair values of other financial instruments

The carrying amount is assumed to approximate the fair value for the following:

- (i) Trade and other receivables
- (ii) Other financial assets
- (iii) Trade and other payables
- (iv) Interest-bearing liabilities

### 3 Segment information

#### (a) Description of segments

Management has determined the operating segments based on 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 Executive Committee considers the operating items of the Group on a mine by mine basis and has identified one reportable segment. The reportable segment represents the aggregation of the operating segments (mine sites) into one "Coal Mining" segment. The mine sites have been aggregated into one reportable segment as the nature of the businesses in each segment and the environment in which they operate are similar. The primary product from which the Coal Mining segment derives its revenues is coal (thermal and metallurgical).

Non-operating items of the Group are presented under the segment "Corporate" which includes administrative expenses, foreign exchange gains and losses on interest-bearing liabilities, and the elimination of intersegment transactions and other consolidation adjustments.

Unless stated otherwise, all amounts reported to the Executive Committee, being the CODM with respect to operating segments, are determined in accordance with accounting policies that are consistent with those adopted in the annual financial statements of the Group.

#### (b) Segment information provided to the Executive Committee

The segment information provided to the Executive Committee for the reportable segments for the year ended 31 December 2013 is as follows:

<b>31 December 2013</b>	<b>Coal mining \$'000</b>	<b>Corporate \$'000</b>	<b>Total \$'000</b>
Total segment revenue*	1,475,688	-	1,475,688
Add: Loss on foreign exchange rate contracts	34,362	-	34,362
<b>Revenue from external customers</b>	<b>1,510,050</b>	<b>-</b>	<b>1,510,050</b>
<b>Operating EBIT</b>	<b>(129,939)</b>	<b>(97,206)</b>	<b>(227,145)</b>
<b>Material income or expense items</b>			
<b>Non-cash items</b>			
Re-measurement of royalty receivable	(5,987)	-	(5,987)
Re-measurement of contingent value right shares	-	(40,317)	(40,317)
Depreciation and amortisation expense	(266,935)	(3,885)	(270,820)
Foreign exchange loss on interest-bearing liabilities	-	(369,539)	(369,539)
Impairment of mining tenements	(343,000)	-	(343,000)
	<b>(615,922)</b>	<b>(413,741)</b>	<b>(1,029,663)</b>
<b>Cash items</b>			
Transaction costs	-	(3,582)	(3,582)
	<b>-</b>	<b>(3,582)</b>	<b>(3,582)</b>
<b>Total capital expenditure</b>	<b>270,625</b>	<b>1,209</b>	<b>271,834</b>

### 3 Segment information (continued)

#### (b) Segment information provided to the Executive Committee (continued)

The segment information provided to the Executive Committee for the reportable segments for the year ended 31 December 2012 is as follows:

31 December 2012	Coal mining \$'000	Corporate \$'000	Total \$'000
Total segment revenue*	1,321,224	-	1,321,224
Less: Gain on foreign exchange rate contracts	(28,251)	-	(28,251)
<b>Revenue from external customers</b>	<b>1,292,973</b>	<b>-</b>	<b>1,292,973</b>
<b>Operating EBIT</b>	<b>(23,621)</b>	<b>(14,104)</b>	<b>(37,725)</b>
<b>Material income or expense items</b>			
<b>Non-cash items</b>			
Re-measurement of royalty receivable	(3,645)	-	(3,645)
Re-measurement of contingent value right shares	-	(12,270)	(12,270)
Depreciation and amortisation expense	(187,967)	(3,855)	(191,822)
Foreign exchange gain on interest-bearing liabilities	-	67,163	67,163
Gain on acquisition of subsidiaries	-	199,967	199,967
	<b>(191,612)</b>	<b>251,005</b>	<b>59,393</b>
<b>Cash items</b>			
Transaction costs	-	(29,480)	(29,480)
	<b>-</b>	<b>(29,480)</b>	<b>(29,480)</b>
<b>Total capital expenditure</b>	<b>357,759</b>	<b>6,421</b>	<b>364,180</b>

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

There was no impairment charge or other significant non-cash items recognised during the year ended 31 December 2013 and 31 December 2012 other than those disclosed above.

#### (c) 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 reported to the Executive Committee is measured in a manner consistent with that in the consolidated statement of comprehensive income.

Revenue from external customers are derived from the sale of coal from operating mines.

Segment revenues are allocated based on the country in which the customer is located.

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

	31 December 2013 \$'000	31 December 2012 \$'000
Australia (Yancoal's country of domicile)	182,622	282,036
Singapore	464,974	244,727
South Korea	361,753	367,805
China	231,116	103,571
Japan	163,429	232,607
Taiwan	50,142	42,883
All other foreign countries	56,014	19,344
<b>Total revenue from external customers</b>	<b>1,510,050</b>	<b>1,292,973</b>

### 3 Segment information (continued)

#### (c) Other segment information (continued)

##### (i) Segment revenue (continued)

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

	31 December 2013 \$'000	31 December 2012 \$'000
<b>Total segment revenue</b>	<b>1,475,688</b>	1,321,224
Management and marketing fees	2,699	2,785
Rents and sub-lease rentals	571	154
Interest income	50,709	41,990
Dividend income	4	2
Royalty income	143	278
<b>Total revenue from continuing operations (refer to Note 4)</b>	<b>1,529,814</b>	1,366,433

Revenues from the top five external customers were \$695,149,000 (2012: \$707,202,000) which in aggregate represent approximately 46% (2012: 55%) of the Group's revenues from the sale of coal. These revenues are attributable to the coal producing segment.

##### (ii) Operating EBIT

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

A reconciliation of Operating EBIT to (loss) / profit before income tax from continuing operations is provided as follows:

	31 December 2013 \$'000	31 December 2012 \$'000
<b>Operating EBIT</b>	<b>(227,145)</b>	(37,725)
Finance costs	(124,902)	(58,472)
Re-measurement of royalty receivable	(5,987)	(3,645)
Re-measurement of contingent value right shares	(40,317)	(12,270)
Foreign exchange (loss) / gain on interest-bearing liabilities	(369,539)	67,163
Transaction costs	(3,582)	(29,480)
Gain on acquisition of subsidiaries	-	199,967
Impairment of mining tenements	(343,000)	-
<b>(Loss) / profit before income tax from continuing operations</b>	<b>(1,114,472)</b>	125,538

##### (iii) Segment capitalised expenditure

Amounts provided to the Executive Committee with respect to capital expenditure are measured in a manner consistent with that of the financial statements.

Reportable segments' capital expenditure is set out in Note 16 Property, plant and equipment, Note 19 Intangible assets and Note 20 Exploration and evaluation assets.

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.

#### 4 Revenue

	31 December 2013 \$'000	31 December 2012 \$'000
<b>From continuing operations</b>		
<i>Sales revenue</i>		
Sale of coal	1,510,050	1,292,973
Gain / (loss) on foreign exchange rate contracts	(34,362)	28,251
	1,475,688	1,321,224
 <i>Other revenue</i>		
Management fees	2,699	2,785
Rents and sub-lease rentals	571	154
Interest income	50,709	41,990
Dividends	4	2
Royalty income	143	278
	54,126	45,209
	1,529,814	1,366,433
 <b>From discontinued operations</b>		
<i>Sales revenue</i>		
Sale of coal	-	151,067
	-	151,067
 <i>Other revenue</i>		
Interest income	-	381
	-	381
	-	151,448

#### 5 Other income

	31 December 2013 \$'000	31 December 2012 \$'000
Net gain on foreign exchange*	-	74,507
Sundry income	1,220	2,774
Gain on acquisition of subsidiaries (refer to Note 45(a))	-	199,967
	1,220	277,248

\* This includes a net foreign exchange gain amounting to \$67,163,000 on the conversion of US dollar denominated interest-bearing liabilities for 2012. During 2013, there was a net foreign exchange loss amounting to \$369,539,000 on the conversion of US dollar denominated interest-bearing liabilities (refer to Note 6(d)).

#### 6 Expenses

	31 December 2013 \$'000	31 December 2012 \$'000
<b>Profit / (loss) before income tax includes the following specific expenses:</b>		
<b>(a) Employee benefits expense</b>		
Defined contribution superannuation expense	19,970	12,835
Other employee benefits expenses	241,409	220,364
Total employee benefits expenses from continuing operations	261,379	233,199



## 6 Expenses (continued)

### (b) Depreciation and amortisation

	31 December 2013 \$'000	31 December 2012 \$'000
<i>Depreciation</i>		
Buildings	3,091	4,190
Plant and equipment	130,697	102,617
Mine development	47,156	23,240
Leasehold plant & equipment	6,172	1,493
Leasehold land	2	-
Total depreciation	<u>187,118</u>	<u>131,540</u>
<i>Amortisation</i>		
Mining tenements	93,065	79,744
Other access rights	52	51
Computer software	3,011	2,315
Total amortisation	<u>96,128</u>	<u>82,110</u>
Total depreciation and amortisation	<u>283,246</u>	<u>213,650</u>
<i>Other depreciation and amortisation</i>		
Depreciation and amortisation from discontinued operations	-	(19,984)
Depreciation and amortisation capitalised	(12,426)	(1,844)
Total other depreciation and amortisation	<u>(12,426)</u>	<u>(21,828)</u>
Total depreciation and amortisation from continuing operations	<u>270,820</u>	<u>191,822</u>
<b>(c) Finance costs</b>		
Finance lease charges	2,990	589
Unwinding of discount on provisions and deferred payables	1,651	1,244
Other interest expenses	120,261	56,639
Total finance costs from continuing operations	<u>124,902</u>	<u>58,472</u>
<b>(d) Other operating expenses</b>		
Net loss on disposal of property, plant and equipment	2,671	207
Net loss on foreign exchange*	370,824	-
Rental expense relating to operating leases	4,446	4,860
Re-measurement of royalty receivable (refer to Note 10)	5,987	3,645
Re-measurement of contingent value right shares (refer to Note 27)	40,317	12,270
Insurance	7,312	8,001
Bank fees and other charges	80,578	25,703
Duties and other levies	16,577	12,573
Travel and accomodation	9,656	9,021
Other operating expenses	10,207	15,449
Total other operating expenses from continuing operations	<u>548,575</u>	<u>91,729</u>

\* This includes a net foreign exchange loss amounting to \$369,539,000 on the conversion of US dollar denominated interest-bearing liabilities. During 2012, there was a net foreign exchange gain amounting to \$67,163,000 on the conversion of US dollar denominated interest-bearing liabilities (refer to Note 5).

## 7 Income tax benefit

### (a) Net tax benefit

	31 December 2013 \$'000	31 December 2012 \$'000
Income tax benefit	299,935	71,696
Minerals Resource Rent Tax ("MRRT") (expense) / benefit	(25,047)	244,404
Income tax benefit / (expense) attributable to MRRT	<u>7,514</u>	<u>(73,321)</u>
	<u>282,402</u>	<u>242,779</u>
Net tax benefit is attributable to:		
Continuing operations	282,402	249,405
Discontinued operations	-	(6,626)
Net tax benefit	<u>282,402</u>	<u>242,779</u>

### (b) Income tax benefit

Current tax benefit	172,471	137,916
Deferred tax benefit / (expense)	<u>127,464</u>	<u>(66,220)</u>
	<u>299,935</u>	<u>71,696</u>
Deferred tax benefit / (expense) included in income tax benefit comprises:		
Increase / (decrease) in deferred tax assets (refer to Note 18)	(9,924)	14,456
Decrease / (increase) in deferred tax liabilities (refer to Note 28)	<u>137,388</u>	<u>(80,676)</u>
	<u>127,464</u>	<u>(66,220)</u>

### (c) Minerals Resource Rent Tax

Deferred tax (expense) / benefit	(25,047)	23,067
Tax benefit arising on introduction of the legislation	-	221,337
	<u>(25,047)</u>	<u>244,404</u>
Income tax benefit / (expense) attributable to MRRT	7,514	(73,321)
Deferred tax (expense) / benefit included in MRRT (expense) / benefit comprises:		
Increase / (decrease) in deferred tax assets (refer to Note 18)	(57,181)	78,937
Decrease / (increase) in deferred tax liabilities (refer to Note 28)	<u>32,134</u>	<u>(55,870)</u>
	<u>(25,047)</u>	<u>23,067</u>

## 7 Income tax benefit (continued)

### (d) Reconciliation of income tax benefit to prima facie tax payable

	31 December 2013 \$'000	31 December 2012 \$'000
Profit / (loss) from continuing operations before tax	(1,114,472)	125,538
Profit from discontinued operations before tax	-	7,091
	<u>(1,114,472)</u>	<u>132,629</u>
Tax at the Australian tax rate of 30% (2012 - 30%)	334,341	(39,789)
Tax effect of amounts which are not deductible / taxable in calculating taxable income:		
Gain on acquisition of subsidiaries	-	59,990
Acquisition costs	-	(8,009)
R&D tax benefits	-	3,650
Reversal of temporary differences - transaction related	-	35,561
Re-measurement of CVR shares (equity interest)	(12,095)	-
Share of loss of equity-accounted investees not deductible	(18,854)	(2,664)
Other	(464)	1,177
	<u>302,928</u>	<u>49,916</u>
Adjustments for current tax of prior periods	(2,993)	21,780
Income tax benefit	<u>299,935</u>	<u>71,696</u>

### (e) Reconciliation of MRRT (expense) / benefit

Profit / (loss) from continuing operations before tax	(1,114,472)	125,538
Profit from discontinued operations before tax	-	7,091
	<u>(1,114,472)</u>	<u>132,629</u>
Tax at the MRRT rate of 22.5% (2012 - 22.5%)	250,756	(29,842)
Tax effect of amounts which are not deductible / taxable in calculating taxable income:		
Gain on acquisition of subsidiaries	-	44,993
Other income / (expense) not subject to MRRT	(214,859)	19,368
Tax benefit of royalty allowances	102,923	40,575
De-recognition of tax benefit on allowances	(120,671)	(52,027)
De-recognition of tax benefit on losses	(43,196)	-
MRRT benefit arising on introduction of the legislation	-	221,337
MRRT (expense) / benefit	<u>(25,047)</u>	<u>244,404</u>

### (f) 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:

Current tax - debited directly to equity	-	(6,000)
	<u>-</u>	<u>(6,000)</u>

### (g) Tax benefit relating to items of other comprehensive income

Cash flow hedges	103,683	14
	<u>103,683</u>	<u>14</u>

## 7 Income tax benefit (continued)

### (h) Tax consolidation legislation

Yancoal Australia Ltd and its wholly owned Australian controlled entities have implemented the tax consolidation legislation for both income tax and MRRT purposes. The accounting policy in relation to this legislation is set out in Note 1(af).

On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement which, in the opinion of the Directors, limits the joint and several liability of the wholly owned entities in the case of a default by the head entity, Yancoal Australia Ltd.

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. 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. The funding amounts are recognised as current intercompany receivables or payables.

## 8 Cash and cash equivalents

	<b>31 December 2013 \$'000</b>	31 December 2012 \$'000
Cash at bank and in hand	<b>318,001</b>	309,293
Deposits at call	-	40,000
	<b>318,001</b>	<b>349,293</b>

### (a) Risk exposure

The Group's exposure to interest rate risk is discussed in Note 2. 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.

## 9 Trade and other receivables

	<b>31 December 2013 \$'000</b>	31 December 2012 \$'000
<b>Current</b>		
Trade receivables	<b>157,184</b>	99,447
Loan to related parties (refer to Note 36(f))	-	50,000
Other receivables (i)	<b>38,978</b>	32,911
Cash - restricted (refer to Note 23(e)(ii))	<b>19,205</b>	10,041
Promissory note receivable (refer to Note 45(b))	<b>21,174</b>	21,174
Receivable from parent entity on settlement of CVR shares (refer to Note 27)	<b>259,430</b>	-
	<b>495,971</b>	<b>213,573</b>

- (i) Other receivables includes a stamp duty refund receivable of \$14,201,000 (2012: \$14,201,000). The stamp duty refund receivable is subject to an ongoing discussion with the New South Wales Office of State Revenue and management expect that this amount will be refunded within the next 12 months.

## 9 Trade and other receivables (continued)

	31 December 2013 \$'000	31 December 2012 \$'000
<b>Non-current</b>		
Advances to associate (refer to Note 36(f))	29,597	28,660
Receivables from joint venture (refer to Note 36(f))	292,260	257,482
Receivables from other entities (ii)	46,820	46,820
Cash - restricted	122	122
	<b>368,799</b>	<b>333,084</b>

- (ii) Receivables from other entities represent the Group's investment in securities issued by Wiggins Island Coal Export Terminal Pty Ltd ('WICET'). These include E Class Wiggins Island Preference Securities ('WIPS') of \$15,320,000 (2012: \$15,320,000) and Gladstone Long Term Securities ('GiLTS') of \$31,500,000 (2012: \$31,500,000).

### (a) Past due but not impaired

As at 31 December 2013 (2012: nil), there were no trade receivables that were past due.

The stamp duty refund receivable (refer to Note 9(i)) and the promissory note receivable (refer to Note 45(b)) are subject to ongoing discussions with the parties involved and management believe that these discussions will be concluded and the full amount received within next the 12 months and therefore not impaired. The Group does not hold any collateral in relation to these receivables. The other classes within trade and other receivables do not contain impaired assets and are not past due. It is expected that these amounts will be received when due.

### (b) Foreign exchange and interest rate risk

Information about the Group's exposure to foreign currency risk and interest rate risk in relation to trade and other receivables is provided in Note 2.

### (c) Fair value and credit risk

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

### Risk exposure

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 2 for more information on the risk management policy of the Group and the credit quality of the Group's trade receivables.

## 10 Royalty receivable

	31 December 2013 \$'000	31 December 2012 \$'000
Opening balance	206,454	-
Acquisition through business combination	-	203,235
Cash received / receivable	(13,810)	(4,314)
Unwinding of the discount	22,248	11,178
Re-measurement of royalty receivable (refer to Note 6(d))	(5,987)	(3,645)
	<b>208,905</b>	<b>206,454</b>
<b>Split between:</b>		
Current	19,444	17,563
Non-current	189,461	188,891
	<b>208,905</b>	<b>206,454</b>

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 will be measured on a fair value basis.

## 10 Royalty receivable (continued)

The royalty receivable is measured based on management's expectations of the future cash flows with the re-measurement recorded in the statement of comprehensive income at each reporting date.

The amount expected to be received during the next 12 months will be disclosed as a current receivable and the discounted expected future cash flow beyond 12 months will be disclosed as a non current receivable.

Unwinding of the discount is included in interest income (refer to Note 4).

### (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 is provided in Note 2.

## 11 Inventories

	31 December 2013 \$'000	31 December 2012 \$'000
Coal - at lower of cost or net realisable value	102,163	116,221
Tyres and spares - at cost	33,151	29,169
Fuel - at cost	1,287	1,066
	<b>136,601</b>	<b>146,456</b>

### (a) Inventory expense

Write downs of inventories to net realisable value recognised as a provision at 31 December 2013 amounted to \$7,164,000 (2012: \$32,838,000). 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.

## 12 Derivative financial instruments

	31 December 2013 \$'000	31 December 2012 \$'000
<b>Current assets</b>		
Forward foreign exchange contracts receivable ((a)(i))	2,295	11,326
Collar option contracts ((a)(ii))	661	2,156
Total current derivative financial instrument assets	<b>2,956</b>	<b>13,482</b>
<b>Current liabilities</b>		
Forward foreign exchange contracts payable ((a)(i))	<b>(33,000)</b>	(2,089)
Collar option contracts ((a)(ii))	<b>(16,615)</b>	-
Total current derivative financial instrument liabilities	<b>(49,615)</b>	<b>(2,089)</b>
<b>Net current derivative financial instruments</b>	<b>(46,659)</b>	<b>11,393</b>

### (a) Instruments used by the Group

The Group is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in foreign exchange rates in accordance with the Group's financial risk management policies (refer to Note 2).

#### (i) Forward foreign exchange contracts - cash flow hedges

The Group enters into forward foreign exchange contracts to sell or purchase specified amounts of foreign currencies in the future at stipulated exchange rates. The objective of entering into the forward foreign exchange contracts is to reduce the foreign exchange rate related volatility of the Group's revenue stream and capital expenditure and thereby assist in risk management for the Group. Foreign currency speculation is specifically excluded. Forward foreign exchange contracts are entered for contracted future sales undertaken in foreign currencies and contracted future capital expenditure undertaken in foreign currencies.

## 12 Derivative financial instruments (continued)

### (a) Instruments used by the Group (continued)

#### (i) Forward foreign exchange contracts - cash flow hedges (continued)

As at 31 December 2013, the outstanding sell USD contracts are hedging highly probable forecasted sales of coal, whereas the outstanding buy USD, GBP, and Euro contracts relate to the purchase of mining equipment. The contracts are timed to mature when funds for coal sales are forecast to be received and when payments for mining equipment are scheduled to be made.

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in Other Comprehensive Income. When the cash flows occur, the Group adjusts the initial measurement of the component recognised in the Consolidated Balance Sheet by removing the related amount from Other Comprehensive Income.

#### (ii) Collar options - cash flow hedges

The Group enters into collar option contracts to sell specified amounts of foreign currencies in the future at stipulated range of exchange rates. The objective of entering into the collar option contracts is to reduce the foreign exchange rate related volatility of the Group's revenue stream. Foreign currency speculation is specifically excluded. Collar option contracts are entered for contracted future sales undertaken in foreign currencies.

The outstanding sell USD contracts are hedging highly probable forecasted sales of coal. The contracts are timed to mature when funds for coal sales are forecast to be received.

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in Other Comprehensive Income. When the cash flows occur, the Group adjusts the initial measurement of the component recognised in the Consolidated Balance Sheet by removing the related amount from Other Comprehensive Income.

During the year ended 31 December 2013, a total loss of \$ 26,583,000 (2012: gain of \$28,251,000) was recycled from other comprehensive income to profit or loss in respect of the forward foreign exchange contracts and collar options.

### (b) Risk exposures and fair value measurements

Credit risk arises from the potential failure of counterparties to meet their obligations under the respective contracts at maturity. This arises on derivative financial instruments with unrealised gains.

Information about the Group's exposure to credit risk, foreign exchange and interest rate risk and about the methods and assumptions used in determining fair values is provided in Note 2.

## 13 Other current assets

	<b>31 December 2013 \$'000</b>	31 December 2012 \$'000
Prepayments	11,827	5,278
Deferred mining costs (i)	17,158	5,687
Marketing services fee	-	554
	<b>28,985</b>	11,519

- (i) During the year ended 31 December 2013, the Group's underground operations deferred \$37,938,000 (2012: \$6,589,000) in respect of longwall panel development and released \$22,408,000 (2012: nil) to the Consolidated Statement of Profit or Loss and Other Comprehensive Income. This is based on the production metres retreated from the underground longwall operations during the year. Refer to Note 21 for the non-current deferred mining costs.

## 14 Investments accounted for using the equity method

	31 December 2013 \$'000	31 December 2012 \$'000
Investment in associates (refer to Note 40)	3,035	3,035
Interest in joint venture (refer to Note 40)	86,899	149,746
	89,934	152,781

## 15 Other financial assets

	31 December 2013 \$'000	31 December 2012 \$'000
Opening net book amount	37	24,983
Acquired through business combination	-	7,397
Disposals	-	(31,703)
Foreign exchange loss on revaluation	-	(640)
	37	37
<b>Split between</b>		
Current	-	-
Non-current	37	37
	37	37

The balance at 31 December 2013 relates to the investment in Port Waratah Coal Services Limited ("PWCS").

### (a) Impairment and risk exposure

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

None of the financial assets are either past due or impaired.



## 16 Property, plant and equipment

	Assets under construction \$'000	Freehold land & buildings \$'000	Mine development \$'000	Plant and equipment \$'000	Leased plant and equipment \$'000	Leasehold land \$'000	Total \$'000
<b>At 1 January 2012</b>							
Cost	137,621	123,002	249,283	1,112,151	-	-	1,622,057
Accumulated depreciation	-	(3,785)	(33,245)	(184,576)	-	-	(221,606)
Net book amount	137,621	119,217	216,038	927,575	-	-	1,400,451
<b>Year ended 31 December 2012</b>							
Opening net book amount	137,621	119,217	216,038	927,575	-	-	1,400,451
Acquisition through business combination	55,318	109,175	173,344	243,844	5,093	-	586,774
Transfers - assets under construction	(75,174)	15,527	15,531	28,931	-	-	(15,185)
Transfers - reclassification	-	(13,076)	13,099	2	-	-	25
Other additions	215,208	8,493	39,094	47,292	30,957	-	341,044
Disposal of entities	(38,063)	(42,696)	(70,862)	(267,011)	-	-	(418,632)
Other disposals	(216)	(3)	(2,719)	(310)	-	-	(3,248)
Depreciation charge	-	(4,190)	(23,240)	(102,617)	(1,493)	-	(131,540)
Closing net book amount	294,694	192,447	360,285	877,706	34,557	-	1,759,689
<b>At 31 December 2012</b>							
Cost	294,694	194,748	417,836	1,145,610	35,808	-	2,088,696
Accumulated depreciation	-	(2,301)	(57,551)	(267,904)	(1,251)	-	(329,007)
Net book amount	294,694	192,447	360,285	877,706	34,557	-	1,759,689
<b>Year ended 31 December 2013</b>							
Opening net book amount	294,694	192,447	360,285	877,706	34,557	-	1,759,689
Transfers - assets under construction	(244,954)	31,580	98,436	114,312	-	70	(556)
Transfers - reclassification	-	(48)	-	48	-	-	-
Other additions	224,188	1,028	13,753	7,104	20,722	-	266,795
Other disposals	-	(83)	-	(2,146)	-	-	(2,229)
Depreciation charge	-	(3,091)	(47,156)	(130,697)	(6,172)	(2)	(187,118)
Closing net book amount	273,928	221,833	425,318	866,327	49,107	68	1,836,581
<b>At 31 December 2013</b>							
Cost	273,928	230,325	524,321	1,255,398	56,530	70	2,340,572
Accumulated depreciation	-	(8,492)	(99,003)	(389,071)	(7,423)	(2)	(503,991)
Net book amount	273,928	221,833	425,318	866,327	49,107	68	1,836,581

### (a) Non-current assets pledged as security

Refer to note for information on non-current assets pledged as security by the Group.

## 17 Mining tenements

	<b>31 December 2013 \$'000</b>	31 December 2012 \$'000
Opening net book amount	<b>2,646,868</b>	2,325,050
Acquisition through business combination	-	477,198
Other additions	-	62
Transfers - exploration	<b>41,038</b>	-
Disposal of entities	-	(74,196)
Working capital adjustment - other disposals	-	(1,502)
Provision for impairment	<b>(343,000)</b>	-
Amortisation for the period	<b>(93,065)</b>	(79,744)
Closing net book amount	<b>2,251,841</b>	2,646,868

### (a) Impairment assessment

The recoverable amount of the Cash Generating Units ("CGU") is assessed by management at the operating segment level. Business performance is reviewed by management on a mine by mine basis and each mine is considered to be a separate CGU.

The recoverable amount of each CGU at 31 December 2013 was determined using the value in use method.

Value in use has been determined using a discounted cash flow model. The key assumptions to which the model is most sensitive include:

- Coal prices
- Foreign exchange rates
- Production and capital costs
- Discount rate
- Coal reserves and resources

In determining the value assigned to each key assumption, management has used external sources of information and utilised the expertise of external consultants and experts within the Group to validate entity specific assumptions such as coal reserves and resources.

Furthermore, the Group's cash flow forecasts are based on estimates of future coal prices, which assume market prices will revert to the Group's assessment of the average long term real coal prices of US\$79 - US\$158 per tonne. The Group receives long term forecast coal price data from multiple externally verifiable sources when determining its coal price forecasts, making adjustments for specific coal quality factors. For thermal coal, the long term price adopted by the Group is near the top end of the range of external forecasts. For thermal coal the price forecast that results in the recoverable amount exceeding the book value is near the top of the range of external price forecasts and for metallurgical coal it is within the range or below it.

The long term AUD/USD forecast exchange rate of \$0.80 is based on externally verifiable sources, and commences from 2019. The forecast exchange rate range declines from the year-end spot rate of \$0.8948 per Reserve Bank of Australia to \$0.80 over the next five years.

Production and capital costs are based on the Group's estimate of forecasted 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 and project evaluations performed by the Group in its ordinary course of business.

The Group has applied post-tax discount rates to discount the forecast future attributable post-tax cash flows. The equivalent pre-tax nominal discount rate is 15.7%. The post-tax discount rate applied to the future cash flow forecasts represent 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 its ordinary course of business. Externally verifiable data received by the Group validates this assumption.

The recoverable amount is also dependent on the life of mines (12 to 35 years). This is calculated based on the Group's annual coal production forecast for each mine and coal reserves and resources.

## **17 Mining tenements (continued)**

### **(a) Impairment assessment (continued)**

Based on the impairment review at 30 June 2013, the recoverable amount for Moolarben and Stratford & Duralie was determined to be less than the book value resulting in an impairment provision of \$258,000,000 for Moolarben and \$85,000,000 for Stratford & Duralie. Based on the above assumptions at 31 December 2013, the recoverable amount is determined to be above book value for all CGUs resulting in no further impairment. Due to uncertain market conditions, management believe that it is not appropriate to reverse the impairment provision recognised at 30 June 2013.

A goodwill balance of \$97,250,000 is recognised as at 31 December 2013 in relation to the acquisition of Yancoal Resources Limited (formerly known as Felix Resources Limited) on the Ashton and Yarrabee mines amounting to \$36,981,000 and \$60,269,000 respectively (refer to Note 19). These mines were not subject to an impairment charge as the recoverable amount is greater than the carrying amount.

Moolarben and Stratford & Duralie do not have goodwill attributed to them and therefore the impairment at 30 June 2013 has been allocated to mining tenements. The impairment was predominantly due to forecast global economic conditions and forecast coal sale prices.

In addition, various sensitivities have been considered for each of the key assumptions which further support the above conclusion.

After considering the inputs of the valuation model, the most sensitive input is determined to be revenue which is primarily dependent on estimated future coal prices and the AUD/USD forecast exchange rate. The models are also sensitive to current coal reserves and the cost of mining those reserves together with expected future expansion projects and any related capital expenditure.

For Moolarben, management may consider reversing the impairment provision recognised at 30 June 2013 if there was an increase in the average long term real revenue of approximately 8% over the life of the mine due to either an increase in coal prices or the further weakening of the AUD/USD forecast exchange rate, or a combination of both. Moolarben is projected to have significant expansion in the medium term and variations in the forecast capital expenditure will also impact the value in use of the CGU.

For Stratford & Duralie, management may consider reversing the impairment provision recognised at 30 June 2013 if there was an increased certainty in mineable reserves. Stratford & Duralie has development opportunities with the potential to increase mineable reserves and further exploration activities will be undertaken in due course that may vary the value in use of the CGU.

## 18 Deferred tax assets

### (a) Deferred tax assets

	31 December 2013 \$'000	31 December 2012 \$'000
Deferred tax assets from income tax	529,293	266,008
Deferred tax assets from MRRT	281,266	338,447
Income tax deferred tax asset attributable to the MRRT deferred tax liabilities (refer to Note 28)	52,695	62,335
	<u>863,254</u>	<u>666,790</u>

### (b) Income tax

**The balance comprises temporary differences attributable to:**

Tax losses and offsets	339,524	167,058
Intangible assets	4,916	6,763
Provisions	42,129	43,419
Trade and other payables	18,558	23,083
Finance lease liabilities	14,768	10,680
Cash flow hedges	100,743	-
Other	8,655	15,005
Total deferred tax assets	<u>529,293</u>	<u>266,008</u>
Deferred tax assets expected to be recovered within 12 months	21,843	23,083
Deferred tax assets expected to be recovered after more than 12 months	507,450	242,925
	<u>529,293</u>	<u>266,008</u>

## 18 Deferred tax assets (continued)

### (b) Income tax (continued)

Movements	Tax losses and offsets \$'000	Intangible assets \$'000	Provisions \$'000	Trade and other payables \$'000	Finance lease liabilities \$'000	Cash flow hedges \$'000	Other \$'000	Total \$'000
<b>At 1 January 2012</b>	-	14,908	17,705	14,775	-	-	12,044	59,432
(Charged)/credited								
- to profit or loss	131,690	493	(2,958)	6,524	8,942	-	1,455	146,146
- directly to equity	(6,000)	-	-	-	-	-	-	(6,000)
Reclassification to DTL (refer to Note 28)	-	-	-	-	-	-	(6,270)	(6,270)
Disposal of subsidiaries	-	(8,638)	(12,795)	(3,610)	-	-	7,621	(17,422)
Acquisition of subsidiaries	41,368	-	41,467	5,394	1,738	-	155	90,122
<b>At 31 December 2012</b>	<b>167,058</b>	<b>6,763</b>	<b>43,419</b>	<b>23,083</b>	<b>10,680</b>	<b>-</b>	<b>15,005</b>	<b>266,008</b>
<b>At 1 January 2013</b>	<b>167,058</b>	<b>6,763</b>	<b>43,419</b>	<b>23,083</b>	<b>10,680</b>	<b>-</b>	<b>15,005</b>	<b>266,008</b>
(Charged)/credited								
- to profit or loss	172,466	(1,847)	(1,290)	(4,525)	4,088	-	(6,350)	162,542
Reclassification from DTL (refer to Note 28)	-	-	-	-	-	100,743	-	100,743
<b>At 31 December 2013</b>	<b>339,524</b>	<b>4,916</b>	<b>42,129</b>	<b>18,558</b>	<b>14,768</b>	<b>100,743</b>	<b>8,655</b>	<b>529,293</b>

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 \$2,400,000 (2012: capital tax losses \$17,709,000).

## 18 Deferred tax assets (continued)

### (c) MRRT

	31 December 2013 \$'000	31 December 2012 \$'000
<b>The balance comprises temporary differences attributable to:</b>		
Starting base assets	118,972	222,570
Royalty allowance	98,515	50,919
Tax losses	41,448	42,717
Other	22,331	22,241
Total deferred tax assets	281,266	338,447
Income tax deferred tax liability attributable to MRRT deferred tax assets	(84,380)	(101,534)
Deferred tax assets expected to be recovered after more than 12 months	281,266	338,447
	281,266	338,447

Movements	Starting base assets \$'000	Royalty allowance \$'000	Tax losses \$'000	Other \$'000	Total \$'000
<b>At 1 January 2012</b>	-	-	-	-	-
Introduction of the legislation (Charged) / credited	231,919	-	-	4,881	236,800
- to profit or loss	(24,892)	50,919	42,717	10,193	78,937
Reclassification from DTL (refer to Note 28)	3,126	-	-	-	3,126
Acquisition of subsidiaries	12,417	-	-	7,167	19,584
<b>At 31 December 2012</b>	222,570	50,919	42,717	22,241	338,447
<b>At 1 January 2013</b>	222,570	50,919	42,717	22,241	338,447
(Charged) / credited	(103,598)	47,596	(1,269)	90	(57,181)
- to profit or loss	(103,598)	47,596	(1,269)	90	(57,181)
<b>At 31 December 2013</b>	118,972	98,515	41,448	22,331	281,266

The amount of unrecognised MRRT deferred tax assets at 31 December 2013 was \$253,065,000 (2012: \$144,614,000) and the attributable income tax deferred tax liability was \$75,920,000 (2012: 43,384,000).

## 19 Intangible assets

	Goodwill \$'000	Patents \$'000	Computer software \$'000	Access rights & other licenses \$'000	Total \$'000
<b>At 1 January 2012</b>					
Cost	105,108	25,000	2,382	1,731	134,221
Accumulated amortisation	-	-	(1,679)	(88)	(1,767)
Net book amount	105,108	25,000	703	1,643	132,454
<b>Year ended 31 December 2012</b>					
Opening net book amount	105,108	25,000	703	1,643	132,454
Acquisition through business combination	-	-	2,751	-	2,751
Other additions	-	-	143	-	143
Transfers - assets under construction	-	-	16,610	-	16,610
Transfers - reclassification	-	-	(25)	-	(25)
Disposal of entities	(7,858)	(25,000)	(12)	-	(32,870)
Amortisation charge	-	-	(2,315)	(51)	(2,366)
Closing net book amount	97,250	-	17,855	1,592	116,697
<b>At 31 December 2012</b>					
Cost	97,250	-	21,706	1,731	120,687
Accumulated amortisation	-	-	(3,851)	(139)	(3,990)
Net book amount	97,250	-	17,855	1,592	116,697
<b>Year ended 31 December 2013</b>					
Opening net book amount	97,250	-	17,855	1,592	116,697
Other additions	-	-	111	-	111
Transfers - assets under construction	-	-	556	-	556
Other disposals	-	-	(732)	-	(732)
Amortisation charge	-	-	(3,011)	(52)	(3,063)
Closing net book amount	97,250	-	14,779	1,540	113,569
<b>At 31 December 2013</b>					
Cost	97,250	-	19,356	1,731	118,337
Accumulated amortisation	-	-	(4,577)	(191)	(4,768)
Net book amount	97,250	-	14,779	1,540	113,569

### (a) Impairment tests for goodwill

Brought forward goodwill relates to the acquisition of Yancoal Resources Limited (formally known as Felix Resources Limited) from an independent third party shareholder in an arms length transaction. The recoverable amount of goodwill is determined using the value in use method. Refer to Note 17 for the details regarding the value in use calculation performed at 31 December 2013.

All the Cash Generating Units ("CGUs") for which goodwill was allocated were not subject to an impairment charge as the recoverable amount is greater than the carrying value for these CGUs.

## 20 Exploration and evaluation assets

	31 December 2013 \$'000	31 December 2012 \$'000
Opening net book amount	945,270	661,730
Acquisition through business combination	-	405,344
Other additions	4,928	21,570
Transfers - mining tenements	(41,038)	(1,425)
Disposal of entities	-	(141,949)
Closing net book amount	<u>909,160</u>	<u>945,270</u>

## 21 Other non-current assets

	31 December 2013 \$'000	31 December 2012 \$'000
Prepayments	18,752	16,745
Deferred mining costs (refer to Note 13)	4,961	902
Customer contracts	6,037	2,563
	<u>29,750</u>	<u>20,210</u>

## 22 Trade and other payables

	31 December 2013 \$'000	31 December 2012 \$'000
<b>Current</b>		
Trade payables	173,518	187,024
Other payables	33,257	21,830
Deferred payables	500	500
Payroll costs payable	52,381	45,080
	<u>259,656</u>	<u>254,434</u>
<b>Non-current</b>		
Deferred payables	849	1,237
	<u>849</u>	<u>1,237</u>

### (a) Risk exposure

Information about the Group's exposure to foreign exchange risk is provided in Note 2.

### (b) Fair value

The book value of trade and other payables is assumed to approximate their fair value. The carrying value of the deferred payables is based on cash flows discounted using a rate of 7.5%.

Refer to Note 2 for the Group's liquidity risk management policy.



## 23 Interest-bearing liabilities

	<b>31 December 2013 \$'000</b>	31 December 2012 \$'000
<b>Current</b>		
<b>Secured</b>		
Bank loans	115,971	100,650
Lease liabilities (refer to Note 35(b)(ii))	7,891	4,626
Total secured current interest-bearing liabilities	123,862	105,276
Total current interest-bearing liabilities	123,862	105,276
<b>Non-current</b>		
<b>Secured</b>		
Bank loans	3,073,892	2,748,931
Lease liabilities (refer to Note 35(b)(ii))	41,369	30,973
Total secured non-current interest-bearing liabilities	3,115,261	2,779,904
<b>Unsecured</b>		
Loans from related parties	1,917,747	693,374
Total unsecured non-current interest-bearing liabilities	1,917,747	693,374
Total non-current interest-bearing liabilities	5,033,008	3,473,278
Total interest-bearing liabilities	5,156,870	3,578,554

In January 2013, the Company successfully arranged a long term loan facility from its majority shareholder, Yanzhou Coal Mining Company Limited. The facility was for US\$596 million and had a term of five years (with the principal repayable in regular instalments from June 2015) on an unsecured basis with no covenants. The facility funded the payment of the Promissory Notes in connection with the capital return for previous Gloucester Coal Ltd shareholders (refer to Note 25). In August 2013, US\$300m was repaid to Yanzhou Coal Mining Company Limited (see below).

In June 2013, the Company successfully arranged a long term loan facility from Yancoal International (Holding) Co., Ltd, a wholly owned subsidiary of the Company's majority shareholder, Yanzhou Coal Mining Company Limited. The facility is for US\$250 million and has a term of three years (with the principal to be repaid in full at maturity) and is provided on an unsecured basis with no covenants. The purpose of the facility is to fund working capital and capital expenditure.

In August 2013, the Company successfully arranged a long term loan facility from Yancoal International (Holding) Co., Ltd. The facility is for US\$300 million and has a term of three years (with the principal repayable at maturity) and is provided on an unsecured basis with no covenants. The facility funded the partial repayment of the US\$596 million loan from Yanzhou Coal Mining Company Limited.

In December 2013, the Company successfully arranged a long term loan facility from its majority shareholder, Yanzhou Coal Mining Company Limited. The facility is for US\$250 million (of which US\$150 million has been drawn down as at 31 December 2013) and has a term of five and a half years (with the principal to be repaid in full at maturity). The facility was provided on an unsecured basis with no covenants. The purpose of the facility is to fund the repayment of US\$100 million of existing debt in accordance with its terms as well as fund working capital and capital expenditure.

## 23 Interest-bearing liabilities (continued)

### (a) Financing arrangements

	31 December 2013 \$'000	31 December 2012 \$'000
<b>Financing facilities</b>		
Secured bank loans	3,189,863	3,007,581
Bank guarantees	381,318	381,543
Unsecured loans from related parties	2,029,504	693,374
	<u>5,600,685</u>	<u>4,082,498</u>
<b>Facilities utilised at reporting date</b>		
Secured bank loans	3,189,863	2,849,581
Bank guarantees	298,767	311,961
Unsecured loans from related parties	1,917,747	693,374
	<u>5,406,377</u>	<u>3,854,916</u>
<b>Facilities not utilised at reporting date</b>		
Secured bank loans	-	158,000
Bank guarantees	82,551	69,582
Unsecured loans from related parties	111,757	-
	<u>194,308</u>	<u>227,582</u>

### (b) Risk exposures

Details of the Group's exposure to risks arising from current and non-current interest-bearing liabilities are set out in Note 2.

### (c) Fair value disclosures

Interest-bearing liabilities are initially recognised at fair value, net of transaction costs incurred and subsequently measured at amortised cost using the effective interest rate method.

### (d) Debt covenants

#### (i) Syndicated Facility and Bi-lateral Facility

The Group has a US\$2,900,000,000 Syndicated Facility and a US\$140,000,000 Bi-lateral Facility which was used to fund the acquisition of the Felix Resources Group in 2009. The balance of these secured loans at 31 December 2013 was US\$2,839,310,000.

These facilities were extended during 2012 as part of the Merger Proposal Deed with Gloucester Coal Ltd and included certain financial covenants to be tested half-yearly.

During the year ended 31 December 2013, the Company was granted a deferral of the initial test date of the financial covenants to 30 June 2014 and for the consolidated net worth covenant, 31 December 2014.

The financial covenants are detailed below:

- (a) The gearing ratio of the Group will not exceed 0.90 on 30 June 2014 and 0.80 thereafter;
- (b) The interest cover ratio will not be less than 1.5 for the twelve month period ending on 30 June 2014 and 2.0 for the twelve month periods ending thereafter; and
- (c) The consolidated net worth of the Group is not less than A\$1,600,000,000 on each test date on and after 31 December 2014.

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

The Agent of the facilities confirmed that the deferral at the initial test date of the financial covenants requested by the Company was granted before 31 December 2013.

## 23 Interest-bearing liabilities (continued)

### (d) Debt covenants (continued)

#### (ii) Chattel Mortgage Facility

As a result of the Gloucester Coal Ltd acquisition during 2012, the Group inherited a chattel mortgage facility of US\$21,700,000. The balance of the facility at 31 December 2013 was US\$15,180,000.

During the period, the Group requested that the lender waive their breach of the following financial undertakings contained in the facility agreement as at 30 June 2013:

- (a) The requirement to ensure that the debt to EBITDA ratio not exceed 3:1 (in respect of the twelve month period ending 30 June 2013); and
- (b) The requirement to ensure that the interest cover ratio be not less than 3:1 (in respect of the twelve month period ending 30 June 2013).

The lender confirmed that the waiver requested by the Company was granted before 30 June 2013.

At 31 December 2013, the Company did not obtain an additional waiver. The Company agreed with the lender to secure the outstanding balance of the loan with a term deposit with the lender which covered the full balance of the loan. On this basis no debt covenant test was required at 31 December 2013.

### (e) Security

Information about the security relating to each of the secured liabilities and further information on the bank overdrafts and bank loans are set out below:

#### (i) Syndicated facility agreements

##### *Bank guarantee facility*

A bank guarantee facility of A\$250,000,000 has been issued for operational purposes in favour of ports, rail, government departments and other operational functions. At 31 December 2013, the aggregated amount of guarantees issued is A\$185,842,000. Securities are held over the Yarrabee, Ashton, and Moolarben mine assets with a carrying value of A\$2,837,916,000.

##### *Term debt facility*

A loan facility was taken out to fund the acquisition of the Felix Resources Group in 2009. The facility is for up to US\$2,900,000,000 and had been fully drawn down in 2009. During 2013, the Group has repaid US\$100,345,000 in relation to the facility (2012: US\$100,345,000). Security is held in the form of a standby line of credit for the full amount of the facility.

#### (ii) Bi lateral facility agreements

##### *Bank guarantee facility*

- (a) A bank guarantee facility of A\$47,000,000 has been issued for operational purposes in favour of ports, rail, government departments and other operational functions. At 31 December 2013, the aggregated amount of guarantees issued is A\$28,607,000. Security over this facility is held in the form of letter of comfort from Yanzhou Coal Mining Company Limited for the full amount of the facility.
- (b) A bank guarantee facility of A\$84,318,000 has been issued for operational purposes in favour of ports, rail, government departments and other operational functions. At 31 December 2013, the aggregated amount of guarantees issued is A\$84,318,000. Security held over this facility is a cash deposit of \$19,032,000, included in restricted cash (refer to Note 9).

##### *Term debt facility*

- (a) A loan facility was taken out to fund the acquisition of the Felix Resources Group in 2009. The facility is for up to US\$140,000,000. At 31 December 2013, the entire facility had been drawn down. Security is held in the form of a standby line of credit for the full amount of the facility.

## 23 Interest-bearing liabilities (continued)

### (e) Security (continued)

#### (iii) Chattel Mortgage

As a result of the Gloucester Coal Ltd acquisition during 2012, the Group inherited a chattel mortgage facility of US\$21,700,000. At 31 December 2013, the balance of the facility was US\$15,180,000. The outstanding balance of the loan is secured with a term deposit with the lender which covers the full balance of the loan. Security is also held in the form of eleven trucks with a carrying value of A\$14,770,000.

## 24 Provisions

	31 December 2013 \$'000	31 December 2012 \$'000
<b>Current</b>		
Employee benefits - long service leave	452	355
Customer contracts	3,472	12,212
Rehabilitation	4,356	5,252
Take or pay provision	11,799	17,014
	<b>20,079</b>	<b>34,833</b>
<b>Non-current</b>		
Employee benefits - long service leave	80	76
Make good provision	114	-
Marketing services fee	6,115	6,115
Rehabilitation	64,287	42,234
Take or pay provision	49,754	61,553
	<b>120,350</b>	<b>109,978</b>

### (a) Movements in provisions

Movements in each class of provision during the financial year are set out below:

2013	Employee benefits \$'000	Marketing services fee \$'000	Customer contracts \$'000	Rehab- ilitation \$'000	Take or pay provision \$'000	Make good provision \$'000	Total \$'000
Opening net book amount	431	6,115	12,212	47,486	78,567	-	144,811
Charged / (credited) to profit or loss							
- unwinding of discount	13	-	-	1,540	-	-	1,553
- rehabilitation expenditure incurred	-	-	-	(4,512)	-	-	(4,512)
- release of the provision	-	-	(12,212)	-	(17,014)	-	(29,226)
Re-measurement of provisions	88	-	-	24,129	-	114	24,331
Transfers - reclassification from trade and other receivables - non current	-	-	3,472	-	-	-	3,472
Closing net book amount	532	6,115	3,472	68,643	61,553	114	140,429
<b>Split between:</b>							
Current	452	-	3,472	4,356	11,799	-	20,079
Non-Current	80	6,115	-	64,287	49,754	114	120,350
	532	6,115	3,472	68,643	61,553	114	140,429

## 24 Provisions (continued)

### (a) Movements in provisions (continued)

2012	Employee benefits \$'000	Marketing services fee \$'000	Customer contracts \$'000	Rehab- ilitation \$'000	Take or pay provision \$'000	Make good provision \$'000	Total \$'000
Opening net book amount	7,374	-	-	51,644	-	-	59,018
Charged / (credited) to profit or loss							
- unwinding of discount	263	-	-	766	-	-	1,029
- release of the provision	-	-	(9,148)	-	(10,310)	-	(19,458)
Re-measurement of provisions	663	-	-	13,800	-	-	14,463
Transfers - reclassification from trade and other receivables - non current	-	-	2,563	-	-	-	2,563
Transfers - reclassification to other assets - current	-	(188)	-	-	-	-	(188)
Amounts paid on termination of employment	(1,423)	-	-	-	-	-	(1,423)
Additional provision recognised on business combination	1,275	6,303	18,797	16,208	88,877	-	131,460
Amounts derecognised on disposal of entities	(7,721)	-	-	(34,932)	-	-	(42,653)
Closing net book amount	431	6,115	12,212	47,486	78,567	-	144,811
<b>Split between:</b>							
Current	355	-	12,212	5,252	17,014	-	34,833
Non-Current	76	6,115	-	42,234	61,553	-	109,978
	431	6,115	12,212	47,486	78,567	-	144,811

#### *Marketing services fee provision*

At the time of acquisition of Gloucester, a liability was recognised for the portion of Marketing services fee payable to Noble Group Limited ("Noble") by Donaldson Coal Pty Ltd (a wholly owned subsidiary of Gloucester) which is deemed to be above market norms. The agreement was entered into with Noble, for Noble Marketing to provide international marketing services, advice and information in relation to the sale and marketing of export coal. The agreement expires on 31 December 2040 and the fee is calculated as 2 per cent times the actual export sales in excess of 3.5 mtpa (but not exceeding 11.75 mtpa) times the volume weighted average gross sales price per tonne of Free on Board Trimmed Sales ("FOBT").

#### *Customer contract provision*

At the time of acquisition of Gloucester, a liability was recognised for the out of the money sales contracts held by Donaldson Coal Pty Ltd (a wholly owned subsidiary of Gloucester). The value of the liability is representative of the discounted value of the out of the money portion of the contracts. The liability will be released over the life of the contracts as the sales commitments are satisfied.

#### *Rehabilitation provision*

The Group makes full provision for the future cost of rehabilitating mine sites and related production facilities on a discounted basis at the time of developing the mines and installing and using those facilities. The rehabilitation provision represents the present value of rehabilitation costs relating to mine sites, which are expected to be incurred up to 2032. These provisions have been created based on managements' internal estimates. Assumptions based on the current economic environment have been made, which management believes are a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual rehabilitation costs will ultimately depend upon future market prices for the necessary decommissioning works required which will reflect market conditions at the relevant time. Furthermore, the timing of rehabilitation is likely to depend on when the mines cease to produce at economically viable rates. This, in turn, will depend upon future coal prices, which are inherently uncertain (Note 1(ac)).

## 24 Provisions (continued)

### (a) Movements in provisions (continued)

#### *Take or pay provision*

At the time of acquisition of Gloucester, the Gloucester Group held forecast excess capacity for port and rail contracts. A liability was recognised for the discounted estimated excess capacity contracted for at the time of the acquisition. The provision has a finite life and will be released over the period in which excess capacity is realised.

#### *Make good provision*

The provision was made for hired equipment in case of major overhaul at the end of the lease period. Should the equipment be acquired by the Group at the end of the lease period, the balance of the provision will be set against acquisition costs.

## 25 Promissory note payable

	31 December 2013 \$'000	31 December 2012 \$'000
Opening net book amount	586,970	-
Incurred through business combination	-	586,970
Repayment of promissory note	(586,970)	-
Closing net book amount	<u>-</u>	<u>586,970</u>

The promissory note payable is in respect of the Gloucester Coal Ltd capital return approved by former Gloucester shareholders at the general meeting on 4 June 2012. The capital return of \$2.68 per Gloucester share amounted to \$586,970,000. The capital return was paid in January 2013 and as such, the promissory note was fully settled.

## 26 Other current liabilities

	31 December 2013 \$'000	31 December 2012 \$'000
Deferred income	4,034	16,433
	<u>4,034</u>	<u>16,433</u>

## 27 Contingent value right shares

	31 December 2013 \$'000	31 December 2012 \$'000
Opening net book amount	219,113	-
Issued during the period (refer to Note 45(a))	-	206,843
Re-measurement during the period	40,317	12,270
	<u>259,430</u>	<u>219,113</u>
<b>Split between:</b>		
Current	259,430	-
Non-current	-	219,113
	<u>259,430</u>	<u>219,113</u>

The contingent value right ("CVR") shares provide a level of downside price protection for certain former Gloucester shareholders.

## 27 Contingent value right shares (continued)

Yancoal and its parent entity Yanzhou Coal Mining Company Limited ("Yanzhou") entered into an agreement whereby Yanzhou is obligated to repurchase (or procure the repurchase of) the CVR shares. Yanzhou has directed Yancoal that the method of satisfaction of the Repurchase Price of the CVRs is to be satisfied in cash. Pursuant to an ASX announcement of 5 February 2014 by Yancoal, the 'Repurchase date' will be 4 March 2014 and Yanzhou has directed Yancoal to specify that the Repurchase Price of the CVR shares will be A\$3.00 cash per CVR share. The Repurchase Price of the CVR Shares is expected to be paid on 11 March 2014 or as soon as reasonably practicable after that date. A receivable from Yanzhou for the settlement of the CVR shares has been recognised as a current receivable (refer to Note 9) and the corresponding Capital Reserve was created (refer to Note 31(a)).

The CVR shares are re-measured at fair value based on the share price of the CVR, with gains and losses recorded in the Consolidated Statement of Profit or Loss and Other Comprehensive Income at each reporting date. This re-measurement has no cash impact for the Group. The CVR receivable is re-measured at fair value based on the share price of the CVR, with gains and losses recorded in the capital reserve in the Consolidated Statement of Changes in Equity (refer to Note 31(a)).

### Risk exposure

Details of the Group's exposure to price risk arising from contingent value right shares are set out in Note 2.

## 28 Deferred tax liabilities

### (a) Deferred tax liabilities

	<b>31 December 2013 \$'000</b>	31 December 2012 \$'000
Deferred tax liabilities from income tax	<b>539,815</b>	680,143
Deferred tax liabilities from MRRT	<b>175,651</b>	207,785
Income tax deferred tax liability attributable to the MRRT deferred tax assets (refer to Note 18)	<b>84,380</b>	101,534
	<b>799,846</b>	989,462

### (b) Income tax

#### The balance comprises temporary differences attributable to:

Property, plant and equipment	<b>31,557</b>	34,445
Mining tenements and exploration and evaluation assets	<b>431,812</b>	481,847
Deferred mining costs	<b>6,636</b>	530
Cash flow hedges	-	3,324
Inventories	<b>10,332</b>	5,252
Unrealised foreign exchange gains	<b>45,892</b>	148,803
Other	<b>13,586</b>	5,942
Total deferred tax liabilities	<b>539,815</b>	680,143
Deferred tax liabilities expected to be settled within 12 months	<b>30,041</b>	5,952
Deferred tax liabilities expected to be settled after more than 12 months	<b>509,774</b>	674,191
	<b>539,815</b>	680,143

## 28 Deferred tax liabilities (continued)

### (b) Income tax (continued)

Movements	Property, plant and equipment \$'000	Inventories \$'000	Mining tenements and exploration and evaluation assets \$'000	Deferred mining costs \$'000	Cash flow hedges \$'000	Unrealised foreign exchange gains \$'000	Other \$'000	Total \$'000
<b>At 1 January 2012</b>	18,491	4,842	321,724	-	2,206	109,854	1,661	458,778
Charged/(credited)								
- to profit or loss	26,553	6,067	11,226	530	1,132	37,777	(2,609)	80,676
- directly to equity	-	-	-	-	(14)	-	-	(14)
Reclassification from DTA (refer to Note 18)	(6,270)	-	-	-	-	-	-	(6,270)
Disposal of subsidiaries	(3,160)	(2,893)	(12,633)	-	-	221	-	(18,465)
Acquisition of subsidiaries	(1,169)	(2,764)	161,530	-	-	951	6,890	165,438
<b>At 31 December 2012</b>	<b>34,445</b>	<b>5,252</b>	<b>481,847</b>	<b>530</b>	<b>3,324</b>	<b>148,803</b>	<b>5,942</b>	<b>680,143</b>
<b>At 1 January 2013</b>	<b>34,445</b>	<b>5,252</b>	<b>481,847</b>	<b>530</b>	<b>3,324</b>	<b>148,803</b>	<b>5,942</b>	<b>680,143</b>
Charged/(credited)								
- to profit or loss	(2,888)	5,080	(50,035)	6,106	(384)	(102,911)	7,644	(137,388)
- directly to equity	-	-	-	-	(103,683)	-	-	(103,683)
Reclassification to DTA (refer to Note 18)	-	-	-	-	100,743	-	-	100,743
<b>At 31 December 2013</b>	<b>31,557</b>	<b>10,332</b>	<b>431,812</b>	<b>6,636</b>	<b>-</b>	<b>45,892</b>	<b>13,586</b>	<b>539,815</b>

### (c) MRRT



## 28 Deferred tax liabilities (continued)

### (c) MRRT (continued)

	31 December 2013 \$'000	31 December 2012 \$'000
<b>The balance comprises temporary differences attributable to:</b>		
Inventories	21,421	28,177
Deferred mining costs	3,494	-
Property, plant and equipment	58,848	47,962
Exploration and evaluation assets	5,651	4,542
Starting base assets	76,179	117,045
Other	10,058	10,059
Total deferred tax liabilities	175,651	207,785
Income tax deferred tax asset attributable to MRRT deferred tax liabilities	(52,695)	(62,335)
Deferred tax liabilities expected to be settled within 12 months	25,361	32,116
Deferred tax liabilities expected to be settled after more than 12 months	150,290	175,669
	175,651	207,785

Movements	Inventories \$'000	Deferred mining costs \$'000	Property, plant and equipment \$'000	Exploration and evaluation assets \$'000	Starting base assets \$'000	Other \$'000	Total \$'000
<b>At 1 January 2012</b>	-	-	-	-	-	-	-
Introduction of the legislation Charged/(credited)	11,363	-	-	1,893	-	2,207	15,463
- to profit or loss	9,153	-	47,962	2,649	(10,751)	6,857	55,870
Reclassification to DTA (refer to Note 18)	-	-	-	-	3,126	-	3,126
Acquisition of subsidiaries	7,661	-	-	-	124,670	995	133,326
<b>At 31 December 2012</b>	28,177	-	47,962	4,542	117,045	10,059	207,785
<b>At 1 January 2013</b>	28,177	-	47,962	4,542	117,045	10,059	207,785
Charged/(credited)	(6,756)	3,494	10,886	1,109	(40,866)	(1)	(32,134)
- to profit or loss	(6,756)	3,494	10,886	1,109	(40,866)	(1)	(32,134)
<b>At 31 December 2013</b>	21,421	3,494	58,848	5,651	76,179	10,058	175,651

## 29 Other non-current liabilities

	31 December 2013 \$'000	31 December 2012 \$'000
Deferred income	6,461	-
	6,461	-

## 30 Contributed equity

### (a) Share capital

	31 December 2013 Shares	31 December 2012 Shares	31 December 2013 \$'000	31 December 2012 \$'000
Ordinary shares				
Issued and fully paid up	994,216,659	994,216,659	656,701	656,701

### 30 Contributed equity (continued)

#### (b) Movements in ordinary share capital

Date	Details	Number of shares	Issue price	\$'000
1 January 2012	Opening balance	76,975,000	-	973,000
10 June 2012	Additional shares from share split (i)	698,513,994	-	-
22 June 2012	Capital reduction (refer to Note 45(b))	-	-	(653,140)
27 June 2012	Share issue on acquisition of Gloucester (refer to Note 45(a))	218,727,665	\$1.54	336,841
31 December 2012	Closing balance	994,216,659		656,701
1 January 2013	Opening balance	994,216,659	-	656,701
31 December 2013	Closing balance	994,216,659		656,701

- (i) On 10 June 2012, under the Separation Agreement and the Merger Proposal Deed the Company was required to reconstruct its share capital resulting in an additional 698,513,994 ordinary shares being held by Yanzhou Coal Mining Company Limited.

#### (c) 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.

#### (d) Capital risk management

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

The gearing ratios at 31 December 2013 and 31 December 2012 were as follows:

	Notes	31 December 2013 \$'000	31 December 2012 \$'000
Total interest-bearing liabilities	23	5,156,870	3,578,554
Less: cash and cash equivalents	8	(318,001)	(349,293)
Net debt		4,838,869	3,229,261
Total equity		977,154	1,791,460
Total capital		5,816,023	5,020,721
<b>Gearing ratio</b>		<b>83.2%</b>	64.3%

Refer to Note 23(d) for the Group's compliance with the financial covenants of its borrowing facilities.

## 31 Reserves and retained earnings

### (a) Reserves

	31 December 2013 \$'000	31 December 2012 \$'000
Hedging reserve	(235,306)	6,360
Capital reserve	259,430	-
	<u>24,124</u>	<u>6,360</u>

31 December 2013 \$'000	31 December 2012 \$'000
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#### Movements:

##### *Hedging reserve - cash flow hedges*

Opening balance	6,360	6,286
(Loss) / gain recognised	(379,711)	28,311
Transferred to profit or loss	34,362	(28,251)
Deferred income tax expense	103,683	14
Closing balance	<u>(235,306)</u>	<u>6,360</u>

##### *Capital reserve*

Opening balance	-	-
Recognition of cash receivable (refer to Note 27)	259,430	-
Closing balance	<u>259,430</u>	<u>-</u>

##### *Hedging reserve*

The hedging reserve is used to record gains or losses on cash flow hedges that are recognised directly in equity, as described in Note 1. Amounts are recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income or as part of property, plant and equipment when the associated hedge transaction occurs.

The closing balance (net of tax) of \$204,808,000 (2012: nil) relates to the effective portion of the cumulative net change in the fair value of the natural cash flow hedge using the United States dollar denominated interest-bearing liabilities against future coal sales.

During the year ended 31 December 2013, a total loss of \$7,779,000 (2012: nil) was transferred from other comprehensive income to profit or loss in respect of the natural cash flow hedge.

##### *Capital reserve*

The capital reserve represents the market value of the CVR shares at 31 December 2013. The reserve was recognised as part of Yanzhou Coal Mining Company Limited's agreement to settle the CVR shares in cash (refer to Note 27).

At the settlement date the reserve will be transferred in full to contributed equity.

### (b) Retained earnings

	31 December 2013 \$'000	31 December 2012 \$'000
Opening balance	1,128,399	754,666
Profit / (loss) for the period attributable to the members of Yancoal Australia Ltd	(832,070)	375,407
Loss on sale of subsidiaries, net of tax	-	(1,674)
Closing balance	<u>296,329</u>	<u>1,128,399</u>

## 32 Dividends

### (a) Franked dividends

The franked portion of any dividends recommended after 31 December 2013 will be franked out of existing franking credits.

	<b>31 December 2013 \$'000</b>	31 December 2012 \$'000
Franking credits available for subsequent reporting periods based on an income tax rate of 30% (2012 - 30%)	<b>5,440</b>	5,438

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.

## 33 Key management personnel disclosures

### (a) Directors

The following persons were directors of Yancoal Australia Ltd during the financial year:

*(i) Chairman - non-executive*

Mr Xiyong Li (appointed 12 September 2013)  
 Mr Weimin Li (resigned 22 July 2013)

*(ii) Executive directors*

Mr Cunliang Lai  
 Mr Boyun Xu

*(iii) Non-executive directors*

Mr Baocai Zhang  
 Mr James MacKenzie  
 Mr Yuxiang Wu  
 Mr Xinghua Ni  
 Mr William Randall  
 Mr Gregory Fletcher  
 Dr Geoffrey Raby  
 Mr Vincent O'Rourke

### 33 Key management personnel disclosures (continued)

#### (b) Other key management personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year:

<i>Name</i>	<i>Position</i>
Mr Reinhold Schmidt (i)	Chief Executive Officer
Mr Murray Bailey (ii)	Former Chief Executive Officer
Mr Peter Barton (iii)	Chief Operating Officer and Acting Chief Executive Officer
Mr Peng Shen (resigned 31 May 2013)	Former Chief Financial Officer
Mr Michael Wells (appointed 31 May 2013)	Acting Chief Financial Officer
Mr Michael Dingwall (iv)	Chief Marketing Officer

- (i) Appointed Acting Chief Executive Officer on 26 August 2013 and appointed Chief Executive Officer on 29 August 2013.
- (ii) Chief Executive Officer until 12 March 2013 and ceased employment on 6 July 2013.
- (iii) Chief Operating Officer for the full year and Acting Chief Executive Officer for the period 12 March 2013 to 26 August 2013.
- (iv) Ceased employment on 31 January 2014.

#### (c) Key management personnel compensation

	<b>31 December 2013</b>	31 December 2012
	\$	\$
Short-term employee benefits (i)	<b>6,021,432</b>	4,347,499
Post-employment benefits	<b>165,765</b>	115,081
Other long-term benefits	<b>335,579</b>	809,835
	<b><u>6,522,776</u></b>	<u>5,272,415</u>

- (i) The short-term employee benefits for 2012 have been updated during 2013 to be in line with the changes to the Remuneration report (refer to "section 6" of the Remuneration report included in the Directors' report).

Information regarding individual Director's and executive's compensation and equity instrument disclosures as permitted by the Corporations Regulations are provided in the Remuneration Report included in the Director's report.

Apart from the details disclosed in this note, no Director has entered into a material contract with the consolidated entity since the end of the previous financial year and there were no material contracts involving Director's interests existing at the reporting date.

#### (d) Equity instrument disclosures relating to key management personnel

##### (i) Share holdings

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

- (i) A related entity of Mr James MacKenzie holds 5,600 fully paid ordinary shares and 5,600 fully paid CVR shares in Yancoal Australia Ltd. There have been no movements during 2012 and 2013 in respect of these shares.
- (ii) Mr Gregory Fletcher holds 1,000 fully paid ordinary shares and 1,000 fully paid CVR shares in Yancoal Australia Ltd. There have been no movements during 2012 and 2013 in respect of these shares.
- (iii) No other Directors or key management personnel held any shares in respect of Yancoal Australia Ltd or its related entities at, or during the year ended 31 December 2013 (2012: nil).

### 33 Key management personnel disclosures (continued)

#### (e) Other transactions with and loans to key management personnel

A number of related parties and key management personnel hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

These entities transacted with the Company or its subsidiaries in the reporting period. The terms and conditions of the transactions with management personnel and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non director related entities on an arm's length basis (refer to Note 36).

### 34 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the Group, its related practices and non-related audit firms:

	31 December 2013 \$'000	31 December 2012 \$'000
<b>(b) ShineWing Hall Chadwick</b>		
<i>Audit and other assurance services</i>		
Audit and review of financial statements	594	619
<i>Other assurance services</i>		
Audit of regulatory returns	43	22
Due diligence services	-	650
Total remuneration of ShineWing Hall Chadwick	637	1,291
<b>(c) Ernst &amp; Young Australia</b>		
<i>Audit and other assurance services</i>		
Audit and review of financial statements	23	32
Total remuneration of Ernst & Young Australia	23	32
<b>(d) BDO Australia</b>		
<i>Other services</i>		
Liquidation of subsidiaries	-	19
Total remuneration of BDO Australia	-	19
<b>(e) Related practices of BDO Australia</b>		
<i>Audit and other assurance services</i>		
Audit and review of financial statements	4	4
Total remuneration related practices of BDO Australia	4	4
<b>Total auditors' remuneration</b>	664	1,346

### 35 Commitments

#### (a) Capital commitments

Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:

	<b>31 December 2013 \$'000</b>	31 December 2012 \$'000
<i>Property, plant and equipment</i>		
Not later than one year		
Share of joint operations	5,019	37,564
Other	9,752	35,798
Later than one year but not later than five years		
Share of joint operations	-	10,003
<i>Exploration and evaluation</i>		
Not later than one year		
Share of joint operations	1,837	-
Other	201	-
<i>Intangible assets</i>		
Not later than one year		
Share of joint operations	93	5
	<b>16,902</b>	<b>83,370</b>

#### (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:

	<b>31 December 2013 \$'000</b>	31 December 2012 \$'000
Not later than one year	2,123	4,205
Later than one year but not later than five years	7,561	11,110
Later than five years	-	935
	<b>9,684</b>	<b>16,250</b>

The Group leases mining equipment, office space and small items of office equipment under operating leases. The leases typically run for 1 month to 5 years with an option to renew at the expiry of the lease period. None of the leases include contingent rentals.

### 35 Commitments (continued)

#### (b) Lease expenditure commitments (continued)

##### (ii) Finance leases

Commitments in relation to finance leases are payable as follows:

	31 December 2013 \$'000	31 December 2012 \$'000
Not later than one year	10,714	6,859
Later than one year but not later than five years	43,588	32,433
Later than five years	4,188	5,172
Minimum lease payments	<u>58,490</u>	<u>44,464</u>
Less: future finance charges	<u>(9,230)</u>	<u>(8,865)</u>
Total lease liabilities	<u>49,260</u>	<u>35,599</u>
Finance leases are included in the financial statements as:		
Current lease liability (refer to Note 23)	7,891	4,626
Non-current lease liability (refer to Note 23)	<u>41,369</u>	<u>30,973</u>
	<u>49,260</u>	<u>35,599</u>

### 36 Related party transactions

#### (a) Parent entities

The parent entity within the Group is Yancoal Australia Ltd. The Group's parent entity is Yanzhou Coal Mining Company Limited ("Yanzhou") (incorporated in the People's Republic of China). The ultimate parent entity and ultimate controlling party is Yankuang Group Corporation Limited (incorporated in the People's Republic of China).

#### (b) Subsidiaries

Interests in subsidiaries are set out in Note 38.

#### (c) Key management personnel

Disclosures relating to key management personnel are set out in Note 33.

#### (d) Associates and joint ventures

Associates and joint ventures in which the Group is a venturer are set out in Note 40.

Transactions with associates and joint venture during the year ended 31 December 2013 and 2012 are included as part of "Transactions with other related parties" and "Outstanding balances arising from transactions with related parties".

#### (e) Transactions with other related parties

The following transactions occurred with related parties:

	31 December 2013 \$	31 December 2012 \$
<i>Sales of goods and services</i>		
Sales of coal to associated entities - Ashton Coal Mines Limited	133,074,603	159,177,367
Sales of coal to Noble Group Limited	390,709,125	236,954,827
Provision of marketing and administrative services to associated entities - Ashton Coal Mines Limited	255,704	70,279
Provision of marketing and administrative services to other related parties - Yancoal International Group	<u>6,675,115</u>	<u>3,813,718</u>
	<u>530,714,547</u>	<u>400,016,191</u>



### 36 Related party transactions (continued)

#### (e) Transactions with other related parties (continued)

	31 December 2013 \$	31 December 2012 \$
<i>Advances / loans to and repayment of advances</i>		
Receipt from repayment of advances to associate - Ashton Coal Mines Limited	-	2,355,167
Advances to associate - Ashton Coal Mines Limited	<b>(938,278)</b>	-
Advances to Joint Venture - Middlemount Coal Pty Ltd	<b>(16,998,980)</b>	(39,997,600)
Receipt from repayment of advances to Yancoal International (Holding) Co., Ltd	-	98,463,965
Receipt from repayment of loans to Yancoal Technology Development Pty Ltd	<b>50,000,000</b>	-
Loans to Yancoal Technology Development Pty Ltd	-	(50,000,000)
Loans to Gloucester Coal Ltd (prior to merger)	-	(113,000,000)
<i>Debt repayment and debt provision</i>		
Repayment of loans from Noble Group Limited	-	(343,859,007)
Loans from Yanzhou Coal Mining Company Limited	<b>737,034,664</b>	-
Repayment of loan from Yanzhou Coal Mining Company Limited	<b>(286,478,228)</b>	-
Loan from Yancoal International Resources Development Co., Ltd	-	693,374,422
Loan from Yancoal International (Holding) Co., Limited	<b>606,987,994</b>	-
<i>Finance costs</i>		
Interest paid on loans from Noble Group Limited	-	(9,028,215)
Interest paid on loans from Yancoal International Resources Development Co., Ltd	<b>(40,362,019)</b>	(9,204,714)
Interest accrued on loans from Yancoal International Resources Development Co., Ltd	<b>(5,865,966)</b>	(5,219,817)
Interest paid on loans from Yanzhou Coal Mining Company Limited	<b>(13,708,072)</b>	-
Interest accrued on loans from Yanzhou Coal Mining Company Limited	<b>(873,257)</b>	-
Interest paid on loans from Yancoal International (Holding) Co., Ltd	<b>(6,641,734)</b>	-
Interest accrued on loans from Yancoal International (Holding) Co., Ltd	<b>(468,588)</b>	-
<i>Other costs</i>		
Bank guarantee fee paid to Yanzhou Coal Mining Company Limited	<b>(11,746,848)</b>	(15,011,932)
Bank guarantee fee accrued to Yanzhou Coal Mining Company Limited	-	(6,883,363)
Corporate guarantee fee paid to Yanzhou Coal Mining Company Limited (extended portion)	<b>(24,849,174)</b>	-
Corporate guarantee fee accrued to Yanzhou Coal Mining Company Limited (extended portion)	<b>(1,703,649)</b>	-
Arrangement fee paid to Yancoal International Technology Development Co., Ltd	<b>(8,794,762)</b>	(2,005,679)
Arrangement fee accrued to Yancoal International Technology Development Co., Ltd	<b>(1,278,176)</b>	(1,137,382)
Arrangement fee paid on loan from Yanzhou Coal Mining Company Limited	<b>(13,617,466)</b>	-
Arrangement fee accrued on loans from Yanzhou Coal Mining Company Limited	<b>(488,411)</b>	-
Arrangement fee paid on loans from Yancoal International (Holding) Co., Ltd	<b>(4,743,275)</b>	-
Arrangement fee accrued on loans from Yancoal International (Holding) Co., Ltd	<b>(567,166)</b>	-
Marketing commission paid to Noble Group Limited	<b>(2,802,542)</b>	(1,814,103)
Marketing commission accrued to Noble Group Limited	<b>(1,841,280)</b>	(334,051)
Port charges paid to NCIG Holdings Pty Limited	<b>(60,721,413)</b>	(23,538,121)
Port charges accrued to NCIG Holdings Pty Limited	<b>(4,945,501)</b>	(2,255,764)
Demurrage paid to Noble Group Limited	<b>(1,313,468)</b>	(879,964)
Demurrage accrued to Noble Group Limited	<b>(240,704)</b>	(3,342)
Consulting fee paid by Moolarben Joint Venture to Yancoal Technology Development Pty Ltd	<b>(21,560)</b>	-

### 36 Related party transactions (continued)

#### (e) Transactions with other related parties (continued)

	31 December 2013 \$	31 December 2012 \$
<i>Finance income</i>		
Interest income received on advances to Yancoal International (Holding) Co., Ltd	771,993	1,823,345
Interest income receivable on advances to Yancoal International (Holding) Co., Ltd	-	743,147
Interest income received on loan to Yancoal Technology Development Pty Ltd	2,380,690	1,247,890
Interest income capitalised into loan receivable from Middlemount Coal Pty Ltd	17,778,571	8,139,019
<i>Other income</i>		
Royalty income received from Middlemount Coal Pty Ltd	2,641,709	1,407,939
Royalty income receivable from Middlemount Coal Pty Ltd	13,810,266	2,905,939
Despatch received from Noble Group Limited	39,212	76,734
Despatch receivable from Noble Group Limited	95,964	134,274
Rental income received from Yancoal Technology Development Pty Ltd	26,140	-
<i>Disposal of entities to related parties</i>		
Loss on transfer of entities to related parties	-	(1,436,357)

#### (f) 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 2013 \$	31 December 2012 \$
<i>Current assets</i>		
<i>Trade and other receivables</i>		
Interest receivable from Yancoal International (Holding) Co., Ltd	-	743,147
Interest receivable from Yancoal Technology Development Pty Limited	-	1,247,890
Receivable from Yancoal International Group entities in relation to cost reimbursement	16,860,544	1,799,599
Trade receivable from Ashton Coal Mines Limited in relation to sales of coal	5,314,656	14,849,887
Trade receivable from Noble Group Limited in relation to sales of coal	14,331,844	22,520,432
Receivable from Yanzhou Coal Mining Company Limited for settlement of the Contingent Value Right Shares	259,429,745	-
Promissory Notes receivable from Yancoal International (Holding) Co., Ltd	21,174,124	21,174,124
Despatch receivable from Noble Group Limited	95,964	134,274
<i>Loans receivable</i>		
Receivable from Yancoal Technology Development Pty Ltd being an unsecured, interest-bearing loan	-	50,000,000
<i>Other assets</i>		
Prepayments to Yanzhou Coal Mining Company Limited	703,928	1,188,367
	<b>317,910,805</b>	<b>113,657,720</b>
<i>Non-current assets</i>		
<i>Advances to associate</i>		
Receivable from Ashton Coal Mines Limited being an unsecured, non-interest-bearing advance	29,597,347	28,659,069
<i>Advances to joint venture</i>		
Receivable from Middlemount Coal Pty Ltd being an unsecured, interest-bearing advance	292,260,058	257,482,507
	<b>321,857,405</b>	<b>286,141,576</b>

### 36 Related party transactions (continued)

#### (f) Outstanding balances arising from transactions with related parties (continued)

	31 December 2013 \$	31 December 2012 \$
<i>Current liabilities</i>		
<i>Other payables</i>		
Payables to Yanzhou Coal Mining Company Limited	(3,065,317)	(6,883,363)
Payables to Yancoal International Resources Development Co., Ltd	(5,865,966)	(5,219,817)
Payables to Yancoal International Technology Development Co., Ltd	(1,278,176)	(1,137,382)
Payables to Yancoal International (Holding) Co., Ltd	(1,035,754)	-
Payables to Yancoal International Group entities	(14,824)	-
Payables to Noble Group Limited	(2,081,984)	(337,393)
Payable to NCIG Holdings Pty Limited	(4,945,501)	(2,255,764)
	(18,287,522)	(15,833,719)
<i>Non-current liabilities</i>		
<i>Other payables</i>		
Payable to Yancoal International Resources Development Co., Ltd being an unsecured, interest-bearing loan	(804,649,084)	(693,374,422)
Payable to Yancoal International (Holding) Co., Ltd being an unsecured, interest-bearing loan	(614,662,494)	-
Payable to Yanzhou Coal Mining Company Limited being an unsecured, interest-bearing loan	(498,435,405)	-
	(1,917,746,983)	(693,374,422)

#### (g) 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 2013 \$	31 December 2012 \$
Syntech Resources Pty Ltd	67,734,981	73,180,898
Syntech Holdings Pty Ltd	14,000,000	18,000,000
AMH (Chinchilla Coal) Pty Ltd	29,000	29,000
Premier Coal Limited	4,000,000	4,650,000
Tonford Holdings Pty Ltd	12,500	10,000
Athena Joint Venture	2,500	2,500
Wilpeena Holdings Pty Ltd	7,500	-
	85,786,481	95,872,398

#### (h) Terms and conditions

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

The US\$596,000,000 loan obtained during the year (now US\$296,000,000 loan) from Yanzhou Coal Mining Company Limited was charged at a weighted average interest rate of 5.24% p.a (inclusive of arrangement fees).

The US\$250,000,000 loan obtained during the year from Yancoal International (Holding) Co., Ltd was charged at a weighted average interest rate of 4.41% p.a (inclusive of arrangement fees).

The US\$300,000,000 loan obtained during the year from Yancoal International (Holding) Co., Ltd was charged at a weighted average interest rate of 5.40% p.a (inclusive of arrangement fees).

The US\$150,000,000 loan obtained during the year from Yanzhou Coal Mining Company Limited was charged at a weighted average interest rate of 6.68% p.a (inclusive of arrangement fees).

## 36 Related party transactions (continued)

### (h) Terms and conditions (continued)

The US\$550,000,000 (2012: US\$550,000,000) and US\$170,000,000 (2012: US\$170,000,000) loans from Yancoal International Resources Development Co., Ltd were charged at a fixed interest rate of 7.00% and 5.36% p.a (inclusive of arrangement fees) respectively.

## 37 Contingencies

### Contingent liabilities

The Group had contingent liabilities at 31 December 2013 in respect of:

#### (i) Bank guarantees

	31 December 2013 \$'000	31 December 2012 \$'000
<b>Parent entity and consolidated entity</b>		
Guarantees secured over deposits	15,040	5,665
Performance guarantees provided to external parties	169,661	171,281
Guarantees provided in respect of the cost of restoration of certain mining leases given to government departments as required by statute	27,039	31,484
	<u>211,740</u>	<u>208,430</u>
<b>Joint ventures (equity share)</b>		
Guarantees secured over deposits	185	170
Performance guarantees provided to external parties	-	6,433
Guarantees provided in respect of the cost of restoration of certain mining leases given to government departments as required by statute	1,056	1,056
	<u>1,241</u>	<u>7,659</u>
<b>Guarantees held on behalf of related parties</b>		
Guarantees secured over deposits	-	854
Performance guarantees provided to external parties	76,859	86,062
Guarantees provided in respect of the cost of restoration of certain mining leases given to government departments as required by statute	8,927	8,956
	<u>85,786</u>	<u>95,872</u>
	<u>298,767</u>	<u>311,961</u>

#### (ii) Tax audit

During the prior financial year, the Australian Taxation Office ("ATO") commenced a Risk Review of the Company's historical tax filings as part of its ordinary processes in reviewing large business taxpayers, taking into account their size and complexity. At the completion of the Risk Review, the ATO advised it would proceed to audit on a number of matters.

The Company received formal notification of commencement of the audit in mid October 2013, therefore it is too early to make an assessment about the outcome of this audit.

#### (iii) Letter of Support provided to Middlemount Coal Pty Ltd

The Company has issued a letter of support to Middlemount Coal Pty Ltd ("Middlemount"), a joint venture of the Group, during the year ended 31 December 2013 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.

## 37 Contingencies (continued)

### Contingent liabilities (continued)

#### (iv) R&D claim

During 2012, the Company was notified of an unfavourable determination by Innovation Australia in relation to certain R&D activities registered by the Group in relation to the June 2005 to December 2009 income tax years. The value of the tax benefits in relation to the relevant R&D project over the period is approximately \$19,000,000. Innovation Australia has made a referral to the ATO to undertake a review of the expenditure claims. There have been no amended assessments issued by the Commissioner of Taxation as at 31 December 2013 or to the date of the signing of the financial statements, therefore it is too early to make an assessment about the outcome of this claim, as such, no provision has been recognised for the year ended 31 December 2013.

#### (v) Other contingencies

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

## 38 Controlling interests

### (a) Significant investments in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following principal subsidiaries in accordance with the accounting policy described in Note 1(c):

Name of entity	Country of incorporation	Class of shares	Equity holding	
			2013 %	2012 %
<b>The Company</b>				
Yancoal Australia Ltd (a)	Australia	Ordinary	-	-
<b>Controlled entities - at cost</b>				
Austar Coal Mine Pty Limited (a)(c)	Australia	Ordinary	100	100
Yancoal Resources Limited (c)	Australia	Ordinary	100	100
Moolarben Coal Mines Pty Ltd (c)	Australia	Ordinary	100	100
Moolarben Coal Operations Pty Ltd	Australia	Ordinary	100	100
Moolarben Coal Sales Pty Ltd	Australia	Ordinary	100	100
Felix NSW Pty Ltd	Australia	Ordinary	100	100
SASE Pty Ltd	Australia	Ordinary	90	90
Yarrabee Coal Company Pty. Ltd. (c)	Australia	Ordinary	100	100
Proserpina Coal Pty Ltd	Australia	Ordinary	100	100
Athena Coal Operations Pty Ltd	Australia	Ordinary	100	100
Athena Coal Sales Pty Ltd	Australia	Ordinary	100	100
White Mining Limited	Australia	Ordinary	100	100
White Mining Services Pty Limited	Australia	Ordinary	100	100
White Mining (NSW) Pty Limited (c)	Australia	Ordinary	100	100
Ashton Coal Operations Pty Limited	Australia	Ordinary	100	100
Gloucester Coal Ltd (a)(c)	Australia	Ordinary	100	100
Westralian Prospectors NL (a)	Australia	Ordinary	100	100
Eucla Mining NL (a)	Australia	Ordinary	100	100
CIM Duralie Pty Ltd (b)	Australia	Ordinary	100	100
Duralie Coal Marketing Pty Ltd (b)	Australia	Ordinary	100	100
Duralie Coal Pty Ltd (a)(c)	Australia	Ordinary	100	100
Gloucester (SPV) Pty Ltd (c)	Australia	Ordinary	100	100
Gloucester (Sub Holdings 1) Pty Limited (a)	Australia	Ordinary	100	100
Gloucester (Sub Holdings 2) Pty Limited (b)	Australia	Ordinary	100	100
CIM Mining Pty Ltd (a)	Australia	Ordinary	100	100

### 38 Controlling interests (continued)

#### (a) Significant investments in subsidiaries (continued)

Name of entity	Country of incorporation	Class of shares	Equity holding	
			2013 %	2012 %
Donaldson Coal Holdings Limited (a)	Australia	Ordinary	100	100
Monash Coal Holdings Pty Limited (b)	Australia	Ordinary	100	100
CIM Stratford Pty Ltd (a)	Australia	Ordinary	100	100
CIM Services Pty Ltd (b)	Australia	Ordinary	100	100
Donaldson Coal Pty Ltd (a)(c)	Australia	Ordinary	100	100
Donaldson Coal Finance Pty Ltd (b)	Australia	Ordinary	100	100
Monash Coal Pty Ltd (b)(c)	Australia	Ordinary	100	100
Stratford Coal Pty Ltd (b)(c)	Australia	Ordinary	100	100
Stratford Coal Marketing Pty Ltd (b)	Australia	Ordinary	100	100
Abakk Pty Ltd (b)	Australia	Ordinary	100	100
Newcastle Coal Company Pty Ltd (a)(c)	Australia	Ordinary	100	100
Primecoal International Pty Ltd (b)	Australia	Ordinary	100	100
Paway Limited	British Virgin Islands	Ordinary	100	100
Ballymoney Power Limited	Ireland	Ordinary	100	100
Auriada Limited	Ireland	Ordinary	100	100

- (a) These subsidiaries have been granted relief from the requirement to prepare financial reports in accordance with Class Order 98/1418 issued by the Australian Securities and Investments Commission. These subsidiaries represent the closed group for the purposes of the class order. For further information refer to Note 39.
- (b) These subsidiaries are members of the extended closed group for the purposes of Class Order 98/1418. For further information refer to Note 39.
- (c) 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.

Unless otherwise stated, the subsidiaries as listed have share capital consisting solely of ordinary shares, which are held directly by the Group, and the proportion of ownership interests held equals to the voting rights held by the Group. The country of incorporation or registration is also their principal place of business.

### 39 Deed of cross guarantee

Yancoal Australia Ltd and certain subsidiaries (refer to Note 38), 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 Class Order 98/1418 (as amended) 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 retained earnings for the year ended 31 December 2013 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 38.

	31 December 2013 \$'000	31 December 2012 \$'000
<b>Revenue</b>	<b>600,373</b>	713,536
Other income	685	487,281
Changes in inventories of finished goods and work in progress	(10,957)	(10,825)
Raw materials and consumables used	(123,078)	(95,705)
Employee benefits expense	(163,603)	(107,522)
Depreciation and amortisation expense	(141,055)	(76,499)
Impairment of mining tenements	(85,000)	-
Transportation expenses	(90,811)	(57,211)
Contractual services and plant hire expenses	(263,693)	(187,806)
Government royalties expense	(41,120)	(29,570)
Changes in deferred mining costs	(19,684)	-
Transaction costs	(3,582)	(29,480)
Other operating expenses	(419,161)	(117,511)
Finance costs	(121,726)	(58,083)
<b>Profit / (loss) before income tax</b>	<b>(882,412)</b>	430,605
Income tax benefit	234,902	205,805
<b>Profit / (loss) for the year</b>	<b>(647,510)</b>	636,410
<b>Other comprehensive income</b>		
<i>Items that may be reclassified subsequently to profit or loss</i>		
Cash flow hedges:		
Fair value gains / (losses) taken to equity	(304,552)	2,835
Fair value (gains) / losses transferred to profit or loss	11,446	(7,071)
Deferred income tax benefit	89,001	1,391
<b>Other comprehensive expense for the period, net of tax</b>	<b>(204,105)</b>	(2,845)
<b>Total comprehensive income / (expense) for the year</b>	<b>(851,615)</b>	633,565
<b>Summary of movements in consolidated retained earnings</b>		
Retained earnings at the beginning of the financial year	1,277,907	641,497
Profit / (loss) after income tax	(647,510)	636,410
<b>Retained earnings at the end of the financial year</b>	<b>630,397</b>	1,277,907

### 39 Deed of cross guarantee (continued)

#### (b) Consolidated Balance Sheet

Set out below is a Consolidated Balance Sheet as at 31 December 2013 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 38.

	31 December 2013 \$'000	31 December 2012 \$'000
<b>Current assets</b>		
Cash and cash equivalents	137,009	218,392
Trade and other receivables	1,402,241	1,039,982
Inventories	49,008	58,528
Derivatives financial instruments	-	2,481
Current tax receivables	-	2,360
Other assets	22,078	8,955
Total current assets	<u>1,610,336</u>	<u>1,330,698</u>
<b>Non-current assets</b>		
Trade and other receivables	31,622	31,622
Other financial assets	3,354,219	3,354,231
Property, plant and equipment	881,533	868,640
Mining tenements	345,002	461,851
Deferred tax assets	820,109	671,564
Intangible assets	2,238	3,851
Exploration and evaluation assets	415,660	413,274
Other non current assets	4,961	3,465
Total non-current assets	<u>5,855,344</u>	<u>5,808,498</u>
<b>Total assets</b>	<u>7,465,680</u>	<u>7,139,196</u>
<b>Current liabilities</b>		
Trade and other payables	127,269	151,599
Interest-bearing liabilities	121,968	101,201
Contingent value rights	259,430	-
Derivative financial instruments	1,989	2,089
Provisions	20,219	34,539
Promissory note payable	-	586,970
Total current liabilities	<u>530,875</u>	<u>876,398</u>
<b>Non-current liabilities</b>		
Interest-bearing liabilities	4,994,206	3,449,951
Contingent value rights	-	219,113
Deferred tax liabilities	516,758	570,645
Provisions	82,444	89,507
Total non-current liabilities	<u>5,593,408</u>	<u>4,329,216</u>
<b>Total liabilities</b>	<u>6,124,283</u>	<u>5,205,614</u>
<b>Net assets</b>	<u>1,341,397</u>	<u>1,933,582</u>
<b>Equity</b>		
Contributed equity	656,701	656,701
Reserves	54,299	(1,026)
Retained earnings	630,397	1,277,907
<b>Total equity</b>	<u>1,341,397</u>	<u>1,933,582</u>



## 40 Interests in other entities

### (a) Joint operations

A controlled entity, Yarrabee Coal Company Pty. Ltd., has a 50% interest in the output of Boonal Joint Venture, whose principal activity is the provision of a coal haul road and train load out facility.

A controlled entity, White Mining (NSW) Pty Limited, has a 90% interest in the output of Ashton Coal Joint Venture whose principal activity is the development and operation of open-cut and underground coal mines.

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

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 2013 which, in the opinion of the Directors, are material to the Group. 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	
		2013 %	2012 %			2013 \$'000	2012 \$'000
Ashton Coal Mines Limited	Australia	90	90	Associate	Equity method	3,035	3,035
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	86,899	149,746

#### (i) Investment in associates

##### *Ashton Coal Mines Limited*

The Group holds 90% (2012: 90%) of the ordinary shares of Ashton Coal Mines Limited. Under the shareholders agreement between the Group and the other shareholder, ICRA Ashton Pty Ltd, all major financial and operating policy decisions must be passed unanimously and therefore the Group's voting power is equivalent to 50% (2012: 50%).

##### *Newcastle Coal Infrastructure Group Pty Ltd*

The Group holds 27% (2012: 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 following table provides summarised financial information for those associates that are material to the Group. The information disclosed reflects the Group's share of the results of its principal associates and its aggregated assets and liabilities. They have been amended to reflect adjustments made by the Group when using the equity method, including fair value adjustments and modifications for differences in accounting policy.

## 40 Interests in other entities (continued)

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

#### (i) Investment in associates (continued)

Summarised financial information of associates (continued)

	Ashton Coal Mines Limited		Newcastle Coal Infrastructure Group Pty Ltd ("NCIG")*	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Current assets	8,448	19,964	216,709	134,532
Non-current assets	24,693	23,797	741,327	650,117
Total assets	33,141	43,761	958,036	784,649
Current liabilities	(32,970)	(43,591)	(26,283)	(26,280)
Non-current liabilities	(30)	(28)	(1,076,822)	(806,260)
Total liabilities	(33,000)	(43,619)	(1,103,105)	(832,540)
Revenue	135,744	161,948	83,901	35,497
Profit / (loss) from continuing operations after tax	-	-	(86,010)	628
Total comprehensive income / (expense)	-	-	(86,010)	628

Movements in carrying amounts

	Ashton Coal Mines Limited		Newcastle Coal Infrastructure Group Pty Ltd ("NCIG")*	
	2013	2012	2013	2012
Opening net book value	3,035	3,035	-	-
Share of loss of equity-accounted investees, net of tax	-	-	-	-
Closing net book value	3,035	3,035	-	-

\* The Group's share of NCIG's profit / (loss) after tax has not been recognised for the years ended 31 December 2013 and 31 December 2012 since the Group's share of NCIG's accumulated losses exceeds its interest in NCIG at 31 December 2013 and at 31 December 2012.

#### (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.

The interest in Middlemount is accounted for in the financial statements in accordance with the new accounting standard AASB 11 *Joint Arrangements*, effective from financial years beginning on or after 1 January 2013. Refer to Note 1(a).

Furthermore, Middlemount was also impacted by AASB Interpretation 20 *Stripping Costs in the Production Phase of a Surface Mine*. Therefore, the amount of deferred mining costs that related to surface mining which did not satisfy the asset recognition criteria of AASB Interpretation 20 during 2012 was transferred to retained earnings in the prior period. Accordingly, the prior period presented has been restated (refer to Note 1(a)(ii)).

## 40 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

The following table provides summarised financial information for Middlemount. The information disclosed reflects the Group's share of the results of Middlemount and its aggregated assets and liabilities. They have been amended to reflect adjustments made by the Group when using the equity method, including fair value adjustments and modifications for differences in accounting policy.

	<b>31 December 2013 \$'000</b>	31 December 2012 \$'000
Cash and cash equivalents	937	1,360
Other current assets	33,588	31,878
Total current assets	<u>34,525</u>	<u>33,238</u>
Total non-current assets	<u>619,367</u>	636,413
Current financial liabilities (excluding trade and other payables and provisions)	-	-
Other current liabilities	(73,556)	(46,534)
Total current liabilities	<u>(73,556)</u>	<u>(46,534)</u>
Non-current financial liabilities (excluding trade and other payables and provisions)	(333,612)	(301,154)
Other non-current liabilities	(159,825)	(172,217)
Total non-current liabilities	<u>(493,437)</u>	<u>(473,371)</u>
Net assets	<u>86,899</u>	149,746
Revenue	172,627	54,036
Interest income	69	113
Depreciation and amortisation	(25,401)	(11,281)
Interest expense	(21,051)	(9,026)
Income tax benefit	18,095	17,660
Loss from continuing operations after tax	(62,847)	(29,464)
Total comprehensive expense	<u>(62,847)</u>	<u>(29,464)</u>

The liabilities of Middlemount include an amount of \$292,260,000 due to the Group at 31 December 2013 (31 December 2012: \$257,482,000). The repayment of the loan due to the Group can only be made by Middlemount after the full settlement of all external borrowings (bank loans) and the Priority Loans owed to the other shareholder of Middlemount amounting to \$106,623,000 (31 December 2012: \$87,347,000).

The Group acquired Middlemount as part of the merger with Gloucester Coal Ltd on 27 June 2012. Therefore, the profit or loss items noted above for the prior period from the date of acquisition to 31 December 2012 (refer to Note 45(a)).

##### Movements in carrying amounts

	<b>31 December 2013 \$'000</b>	31 December 2012 \$'000
Opening net book amount	149,746	-
Acquisition through business combination	-	179,210
Share of loss of equity-accounted investees, net of tax	(62,847)	(29,464)
Closing net book amount	<u>86,899</u>	<u>149,746</u>

## 40 Interests in other entities (continued)

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

(iii) Commitments and contingent liabilities in respect of associates and joint ventures

There were no commitments and no contingent liabilities in respect of the Group's associates as at 31 December 2013.

There were no commitments in respect of the Group's interest in Middlemount at 31 December 2013.

Contingent liabilities in respect of the Group's interest in Middlemount are set out in Note 37(iii).

## 41 Reconciliation of (loss) / profit after income tax to net cash (outflow) / inflow from operating activities

	31 December 2013 \$'000	31 December 2012 \$'000
(Loss) / profit after income tax	(832,070)	375,407
Depreciation and amortisation of non-current assets	270,820	213,653
Impairment of mining tenements	343,000	-
Release of the provision for customer contracts	(12,212)	(9,148)
Release of the provision for take or pay contracts	(17,014)	(10,310)
Capitalised interest income from joint venture	(17,779)	(8,139)
Unwinding of discount on royalty receivable	(22,248)	(11,178)
Unwinding of discount on provisions and deferred payables	1,651	2,713
Dividend income	(4)	(2)
Non-cash gain on acquisition of subsidiaries	-	(199,967)
Non-cash deferred income included in sales revenue	-	(8,074)
Finance lease interest expenses	2,990	589
Fair value loss on financial assets / liabilities	46,304	15,915
Net loss on disposal of property, plant and equipment and available-for-sale financial assets	2,671	250
Share of loss of equity-accounted investees, net of tax	62,848	29,464
Non-cash cash flow hedge loss / (gain) transferred to profit or loss	3,193	(1,809)
Foreign exchange (gains) / losses	382,265	(69,335)
(Increase) in deferred tax assets	(194,399)	(511,184)
Decrease in inventories	9,855	8,020
(Increase) / decrease in operating receivables	(61,871)	34,477
(Decrease) / increase in operating payables	(30,953)	11,521
(Increase) / decrease in prepayments	(8,556)	5,570
Increase in deferred mining costs	(15,530)	(6,589)
Decrease in current tax receivables	2,360	-
Decrease in current tax liabilities	-	(9,283)
(Decrease) / increase in deferred tax liabilities	(76,764)	301,007
Net cash (outflow) / inflow from operating activities	<u>(161,443)</u>	<u>153,568</u>

## 42 Non-cash investing and financing activities

	31 December 2013 \$'000	31 December 2012 \$'000
Acquisition of plant and equipment by means of finance leases	20,722	30,957
<b>Non-cash consideration paid to former Gloucester shareholders</b>		
Fair value of ordinary shares issued	-	336,841
Contingent consideration - contingent value right shares	-	206,843
	<u>20,722</u>	<u>574,641</u>

### 43 Earnings / (loss) per share

#### (a) Basic earnings / (loss) per share

	31 December 2013 \$	31 December 2012 \$
From continuing operations attributable to the ordinary equity holders of the Company	(0.84)	0.42
From discontinued operations	-	-
Total basic earnings / (loss) per share attributable to the ordinary equity holders of the Company	<u>(0.84)</u>	<u>0.42</u>

#### (b) Diluted earnings / (loss) per share

	31 December 2013 \$	31 December 2012 \$
From continuing operations attributable to the ordinary equity holders of the Company	(0.84)	0.42
From discontinued operations	-	-
Total diluted earnings / (loss) per share attributable to the ordinary equity holders of the Company	<u>(0.84)</u>	<u>0.42</u>

#### (c) Reconciliation of earnings / (loss) used in calculating earnings / (loss) per share

	31 December 2013 \$'000	31 December 2012 \$'000
<i>Basic earnings / (loss) per share</i>		
Profit / (loss) attributable to the ordinary equity holders of the Company used in calculating basic earnings / (loss) per share:		
From continuing operations	(832,070)	374,943
From discontinued operations	-	464
	<u>(832,070)</u>	<u>375,407</u>
<i>Diluted earnings / (loss) per share</i>		
Profit / (loss) attributable to the ordinary equity holders of the Company used in calculating diluted earnings / (loss) per share:		
From continuing operations	(832,070)	374,943
From discontinued operations	-	464
	<u>(832,070)</u>	<u>375,407</u>

#### (d) Weighted average number of shares used in calculating earnings / (loss) per share

	31 December 2013 Number	31 December 2012 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings / (loss) per share (refer to Note 30(b))	994,216,659	887,243,293
Adjustments for calculation of basic earnings / (loss) per share:	-	-
Weighted average number of ordinary and potential ordinary shares used as the denominator in calculating diluted earnings / (loss) per share	<u>994,216,659</u>	<u>887,243,293</u>

## 44 Parent entity financial information

### (a) Summary financial information

The individual financial statements for the parent entity, Yancoal Australia Ltd show the following aggregate amounts:

	31 December 2013 \$'000	31 December 2012 \$'000
Current assets	1,966,010	1,065,490
Non-current assets	4,637,360	3,884,816
<b>Total assets</b>	<b>6,603,370</b>	4,950,306
Current liabilities	409,210	139,970
Non-current liabilities	5,038,472	3,660,354
<b>Total liabilities</b>	<b>5,447,682</b>	3,800,324
<b>Net assets</b>	<b>1,155,688</b>	1,149,982
<i>Shareholders' equity</i>		
Contributed equity	656,701	656,701
Reserves		
Cash flow hedges	53,230	(1,432)
Retained earnings	445,757	494,713
<b>Capital and reserves attributable to the owners of Yancoal Australia Ltd</b>	<b>1,155,688</b>	1,149,982
Profit or loss for the year	(48,956)	349,907
Other comprehensive income	(204,768)	(1,432)
<b>Total comprehensive income</b>	<b>(253,724)</b>	348,475

### (b) Guarantees entered into by the parent entity

As at 31 December 2013, the parent entity had contingent liabilities in the form of a bank guarantee amounting to \$112,866,000 (2012: \$115,875,000) in support of the operation of the entity, its subsidiaries and related parties (refer to Note 36).

### (c) Contingent liabilities of the parent entity

There are cross guarantees given by Yancoal Australia Ltd and certain subsidiaries as described in Note 39. No deficiencies of assets exist in any of these companies.

The parent entity did not have any contingent liabilities as at 31 December 2013, except for those described in Note 37. For information regarding bank guarantees given by the parent entity, please see above.

## 45 Prior year corporate transactions

### (a) Business combination

On 27 June 2012, the Group was deemed for accounting purposes to have acquired a 100% interest in Gloucester Coal Ltd ("Gloucester"). Gloucester's principal activities consist of the production and marketing of metallurgical and thermal coal from the Gloucester Basin comprising the Stratford & Duralie open cut mines, the Donaldson mines comprising the Abel and Tasman underground mines and the Donaldson open cut mine, and the Middlemount Joint Venture mine.

	<b>\$'000</b>
Purchase consideration (i)	
Fair value of ordinary shares issued (refer to Note 30(b))	336,841
Contingent consideration - contingent value rights (refer to Note 27)	206,843
Direct costs relating to the acquisition - stamp duty	5,346
Total purchase consideration	549,030
Gain on acquisition of subsidiaries (refer to Note 5)	199,967
Fair value of net identifiable assets acquired (ii)	748,997
Net cash received from acquisition of subsidiaries	31,619
(i) Consideration for the acquisition of Gloucester shares was provided in the form of ordinary shares and CVR shares. As such, no cash outflow occurred as a result of the transaction, other than the directly attributable stamp duty costs.	
(ii) Details of assets and liabilities acquired were disclosed in Note 37 of the Group's Annual Financial Report for the year ended 31 December 2012.	

#### *Acquisition - related costs*

Acquisition related costs of \$29,480,000 are included in transaction costs in the prior year Statement of Profit or Loss and Other Comprehensive Income and acquisition-related costs paid amounting to \$20,258,000 included in operating cash flows in the prior year Consolidated Statement of Cash Flows.

### (b) Disposal of subsidiaries

On 22 June 2012, the Group disposed of its interest in certain subsidiaries and assets (collectively referred to as the "Excluded Assets") to fellow Yanzhou Coal Mining Company Limited subsidiaries (related parties). The Excluded Assets are reported in these financial statements as discontinued operations. The restated profit after tax from discontinued operations for the year ended 31 December 2012 was \$464,000 (refer to Note 1(a)(ii)).

Promissory notes to the value of \$674,314,000 were issued to the Group by Yanzhou Coal Mining Company Limited on this date, including promissory notes of \$21,174,000 (refer to Note 9) with regard to the expected tax on the disposal. Management believe that this will be settled within the next 12 months.

The remaining promissory notes of \$653,140,000 were endorsed to Yanzhou Coal Mining Company Limited by means of a capital reduction which occurred during 2012 (refer to Note 30(b)).

As the disposal transaction was concluded with the related entities at historical book values rather than market related terms, the Group has accounted for the difference between the value of the consideration received and the book values of the assets and liabilities disposed of (as stated in the Group's consolidated financial statements accounts) directly in equity. The loss on disposal has been reflected as a distribution to the parent company, Yanzhou Coal Mining Company Limited, resulting in a decrease to retained earnings of \$1,674,000 during 2012.

#### **46 Events occurring after the reporting period**

No matters 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 results of those operations or the state of affairs of the Group in subsequent financial periods except for on 11 February 2014, the draw-down of US\$100 million from the US\$250 million long term loan facility provided by Yanzhou Coal Mining Company Limited during December 2013 (refer to Note 23).



In the Directors' opinion:

- (a) the financial statements and notes set out on pages 51 to 144 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 2013 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 39 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 39.

Note 1(a)(i) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of Directors.



Baocai Zhang  
Director

27 February 2014



**ShineWing  
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## Independent Auditor's Report to the members of Yancoal Australia Ltd

### Report on the Financial Report

We have audited the accompanying financial report of Yancoal Australia Ltd, which comprises the Consolidated Balance Sheet as at 31 December 2013, the Consolidated Statement of Profit or Loss and Other Comprehensive Income, the Consolidated Statement of Changes in Equity and the Consolidated Statement of Cash Flows for the year then ended, notes comprising a Summary of Significant Accounting Policies and other explanatory information, and the directors' declaration of the company and the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the year as set out on pages 51 to 145.

#### *Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In Note 1, the directors also state, in accordance with Accounting Standard *AASB 101 Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

*Opinion*

In our opinion:

- (a) the financial report of Yancoal Australia Ltd is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the consolidated financial statements and notes also comply with *International Financial Reporting Standards* as disclosed in Note 1.

**Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 17 to 33 of the directors' report for the year ended 31 December 2013. 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.

*Opinion*

In our opinion the Remuneration Report of Yancoal Australia Ltd for the year ended 31 December 2013, complies with section 300A of the *Corporations Act 2001*.

*ShineWing Hall Chadwick*

**ShineWing Hall Chadwick**

*M. J. Schofield*

**M J Schofield**  
Partner  
Chartered Accountant  
Sydney, 27 February 2014