

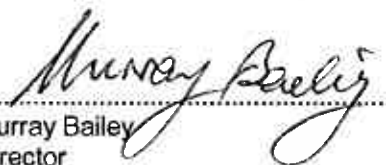
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# Yancoal Australia Ltd

ABN 82 111 859 119

## Special purpose financial report for the year ended 31 December 2011

This is annexure A consisting of 47 pages as referred to in form 388 "Copy of financial statements and reports".



Murray Bailey  
Director

Dated: 26 April 2012

# Yancoal Australia Ltd

ABN 82 111 859 119

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## Directors' report

Your Directors present their report on the consolidated entity ("the Group") consisting of Yancoal Australia Ltd ("the Company") and its controlled entities for the year ended 31 December 2011.

### Directors

The names of the Directors in office at any time during the year ended 31 December 2011 and up to the date of this report are:

#### Name

Mr Murray Lewis Bailey  
Mr Terence Kevin Crawford (Resigned 4 March 2012)  
Mr Cunliang Lai  
Mr Weimin Li  
Mr Vincent O'Rourke  
Mr Xin Wang  
Mr Yuxiang Wu

### Secretaries

The names of the Secretaries in office at any time during the year ended 31 December 2011 and up to the date of this report are:

#### Name

Mr Boyun Xu  
Ms Ling Zhang

### Principal activities

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

### Dividends

No dividends have been paid during the year.

### Review of operations and operating result

A review of the operations of the Group during the year ended 31 December 2011 and the results of those operations found increased coal sales and higher operating costs. In addition, a further 30% interest of Ashton Coal Joint Venture, 100% interest in Syntech Holdings Pty Ltd and Syntech Holdings II Pty Ltd ("Syntech"), and a 100% interest in Premier Coal Limited and Premier Char Coal Pty Ltd ("Premier") were acquired during the financial year.

The Group made an after tax profit of \$301,515,000 (2010: \$414,731,000).

### Significant changes in the state of affairs

No significant changes in the Group's state of affairs occurred during the year ended 31 December 2011, except for the following matters:

- (i) On 13 May 2011, the Group acquired an additional 30% interest in Ashton Coal Joint Venture for \$233,914,000 from IMC Resources Australia Pty Ltd, increasing the Group's total interest in Ashton Coal Joint Venture to 90%.
- (ii) On 1 August 2011, the Group acquired 100% interests in Syntech Holdings Pty Ltd and Syntech Holdings II Pty Ltd for \$208,486,000 from GS Power Holdings LLC. These groups' principal activities are identifying, developing and operating coal related resources in the Surat Basin, Queensland.
- (iii) On 30 December 2011, the Group acquired 100% interest in Premier Coal Limited and Premier Char Pty Ltd ("Premier") for \$313,533,000 from Wesfarmers Limited. Premier Coal Limited's principal activities are identifying, developing and operating coal related resources based in Collie, Western Australia. Premier Char Pty Ltd's principal activity is developing Char technology.

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

No matters or circumstances have arisen since the end of the financial year which 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 future financial years, except for the following matter:

- (i) Legislation governing the Mineral Resource Rent Tax ('MRRT') has been passed through both houses of the Australian Parliament and received royal assent on 29 March 2012. The MRRT is a tax on 30% of the 'super profits' from the mining of the iron ore and coal in Australia. Effective from 1 July 2012 the MRRT may increase the tax burden on these mines and hence the Group.

Deductible expenditure will include a starting base allowance to be based on the value of the mining assets as at 1 May 2010, depreciated over the life of the mines. Projects will also be eligible for the 25% extraction allowance which reduces the effective statutory tax rate to 22.5% of the 'super profits'.

State royalties will be creditable for MRRT purposes, and MRRT payments will be deductible from company income tax purposes. Whilst there is potential for the MRRT to have significant deferred tax implications, no deferred tax balances are expected to be recognised. Current analysis to date suggests that, at least in the short term, no material MRRT liability will be borne.

- (ii) On 23 December 2011 Gloucester Coal Ltd (Gloucester) announced it had entered into a Merger Proposal Deed (MPD) with Yancoal Australia Limited.

On 6 March 2012 Gloucester announced that the due diligence process had been completed as agreed under the MPD and the Board of Gloucester unanimously recommended that Gloucester shareholders vote in favour of the merger, in the absence of a superior proposal and subject to the Independent Expert concluding that the transaction is in the best interests of Gloucester shareholders.

The proposed transaction was adjusted from the MPD announced on 23 December 2011 with a revised merger ratio where Gloucester shareholders will own 22% of the Merged Company and Yanzhou Coal Mining Company Limited 78%.

The Explanatory Booklet is being prepared in ready for the first court hearing of the proposed scheme of arrangement is scheduled to occur on 27 April 2012.

- (iii) On 5 April 2012 the Land and Environment Court of New South Wales ('the Court') declared that the purported decision of the Minister by his delegate, the Planning Assessment Commission of New South Wales ('PAC'), on 19 December 2011 refused the carrying out of the South East Open Cut ('the Project') which was the subject of a major project application MP 08\_0182 lodged by Ashton Coal Operations Pty Limited ('Ashton') under Part 3A of the Environmental Planning and Assessment Act 1979 ('the Application') is void and of no effect.

The Application is remitted to the PAC for further determination in accordance with law and the respondent is to pay the costs of the application in the amount of \$5,000, court decision to be made on 13 July 2012.

### Likely developments and expected results of operations

Apart from the increased share of the Ashton Coal Joint Venture and the acquisition of the Syntech and the Premier businesses, the following items are the likely developments or changes in the operations of the Group which will or may affect the results of the Group in the next financial year:

Expansion plans for a number of the mines will be implemented to grow the business and to fill the available infrastructure capacity. There will be an ongoing focus on growing the resource base of the Company by exploration around each of the mining operations along with evaluation of merger and acquisition opportunities that may become available in Australia

The Company will continue to support its two technology projects: Longwall Top Coal Caving (LTCC) and Ultra Clean Coal (UCC), in an effort to commercialise both of the technologies within a reasonable period. In addition, the Company has engaged with its Chinese parent company, Yanzhou Coal Mining Company Limited, to identify coal-to-gas and coal-to-liquids technologies that would be applicable to Australian coal resources with the objective of introducing such technologies into Australia.

Further information on likely developments in the operations of the Group and the expected results of operations have not been included in this special purpose financial report because the Directors believe it would be likely to result in unreasonable prejudice to the Group.

### Environmental regulation

The Group's subsidiaries hold environmental permits that form part of mining tenements issued by the Queensland and New South Wales Departments of Primary Industries. All of the operations are subject to general obligations under the various Environmental Acts. As well, the company operations are subject to monitoring by the supervisory bodies including the Environmental Protection Authority and the Department of Environment and Climate Change.

The environmental permits set standards for processing water discharges, tailings, dam management and engineering requirements, rehabilitation obligations and environmental practice relating to the operations.

During the current financial year, there have been no known breaches of the environmental permits and obligations. In the financial year ended 31 December 2010 there was a non compliant clearing of vegetation to facilitate maintenance of a fence along the mining lease boundaries of the Moolarben mine, resulting in penalties being imposed amounting to \$56,000. In June 2009 inadequate erosion and sediment controls at the Moolarben mine led to sediment laden water being discharged into a local creek. The mine was subjected to a \$105,000 fine and incurred additional legal and investigation costs amounting to \$61,632. In December 2009 the removal of a blockage in a local creek to prevent infrastructure damage at Moolarben mine resulted in sediment laden water being discharged from the site. The mine was subjected to \$112,500 and additional legal and investigation costs amounting to \$63,314.

### Greenhouse Gas and Energy Data Reporting Requirements

The Group is subject to the reporting requirements of both the *Energy Efficiency Opportunities Act 2006* and the *National Greenhouse and Energy Reporting Act 2007*.

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 Act.

The *National Greenhouse and Energy Reporting Act 2007* 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 2010/11 report to the Greenhouse and Energy Data Officer on 7 December 2011.

### Corporate governance

The Company and the Board are committed to achieving and demonstrating the highest standards of corporate governance. The Board continues to review the framework and practices of the Company and its controlled entities to ensure they meet the interests of shareholders and other key stakeholders.

### Options

No options over issued shares or interests in the Company or controlled entities were granted during the year ended 31 December 2011 and up to the date of this report and there were no options outstanding at the date of this report.

### Indemnifying officers or Auditor

During the year, the Company paid a premium in respect of a contract insuring the Directors of the Company and all of the executive officers and employees of the Company and any related body corporate against a liability incurred as such a director, executive officer or employee to the extent permitted by the *Corporations Act 2001*. The Company has not otherwise, during the year ended 31 December 2011 and up to the date of this report, indemnified or agreed to indemnify an officer or auditor of the Company or any subsidiary company against a liability incurred as such an officer or auditor.

### Proceedings on behalf of the Company

No person has applied for leave of Court to bring proceedings on behalf of the Company or 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 any part of those proceedings. The Company was not a party to any such proceedings during the year.

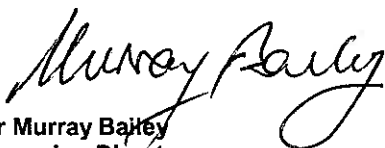
### Auditor's independence declaration

A copy of the Auditor's independence declaration as required under Section 307C of the *Corporations Act 2001* is attached.

**Rounding off of amounts**

The Company is an entity to which ASIC Class Order 98/100 applies and, accordingly, amounts in the financial statements and Directors' Report have been rounded to the nearest thousand dollars.

Signed in accordance with a resolution of the Board of Directors made pursuant to s.298(2) of the *Corporations Act 2001*.



Mr Murray Bajley  
Managing Director

Sydney, NSW  
26 April 2012

The Board of Directors  
Yancoal Australia Limited  
Suite 1105  
Level 11  
68 York Street  
SYDNEY NSW 2000

26 April 2012

Dear Board Members,

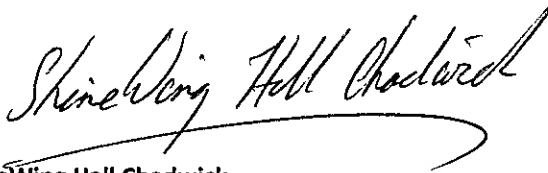
**YANCOAL AUSTRALIA LIMITED**

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 Limited.

As lead audit partner for the audit of the financial statements of Yancoal Australia Limited for the year ended 31 December 2011, 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



K Glynn  
Partner

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Yancoal Australia Ltd  
**Consolidated statement of comprehensive income**  
For the year ended 31 December 2011

	Notes	2011 \$'000	2010 \$'000
<b>Revenue</b>	2	<b>1,523,741</b>	1,037,772
Other income	3	21,100	419,240
Changes in inventories of finished goods and work in progress		(23,342)	63,989
Raw materials and consumables used		(162,499)	(202,345)
Employee benefits expense		(174,999)	(145,545)
Depreciation and amortisation expense	4	(131,217)	(138,837)
Transportation expense		(173,391)	(128,051)
Contractual services and plant hire expense		(250,897)	(159,373)
Government royalties expense		(106,232)	(69,808)
Changes in overburden in advance		11,585	(23,796)
All other operating expenses		(45,248)	(48,138)
Finance costs	4	(55,434)	(63,291)
Share of net loss of associates accounted for using the equity method		-	(72)
<b>Profit before income tax</b>		<b>433,167</b>	541,745
Income tax expense		(131,652)	(127,014)
<b>Profit for the year</b>		<b>301,515</b>	414,731
<b>Other comprehensive income</b>			
Cash flow hedges			
Fair value gains taken to equity	24	23,304	51,966
Fair value gains transferred to profit or loss	24	(47,048)	(20,800)
Deferred income tax expense	24	7,092	(9,351)
<b>Other comprehensive income for the year net of tax</b>		<b>(16,652)</b>	21,815
<b>Total comprehensive income for the year</b>		<b>284,863</b>	436,546
Profit is attributable to:			
Members of Yancoal Australia Ltd		301,515	414,758
Non-controlling interest		-	(27)
		<b>301,515</b>	414,731
Total comprehensive income is attributable to:			
Members of Yancoal Australia Ltd		284,863	436,573
Non-controlling interest		-	(27)
		<b>284,863</b>	436,546

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



Yancoal Australia Ltd  
Consolidated balance sheet  
As at 31 December 2011

	Notes	2011 \$'000	2010 \$'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	5	290,974	196,539
Trade and other receivables	6	314,955	314,261
Inventories	8	137,276	121,396
Derivative financial instruments	7	16,368	35,669
Current tax receivables		-	23,494
Other assets	9	64,967	25,787
<b>Total current assets</b>		<u>824,540</u>	<u>717,146</u>
<b>Non-current assets</b>			
Trade and other receivables	10	77,834	17,200
Investments accounted for using the equity method	11	3,035	112
Other financial assets	12	24,983	-
Property, plant and equipment	13	1,400,451	868,733
Mining tenements	14	2,325,050	2,163,852
Deferred tax assets		59,432	79,608
Intangible assets	16	132,454	126,186
Exploration and evaluation assets	15	661,730	579,030
<b>Total non-current assets</b>		<u>4,684,969</u>	<u>3,834,721</u>
<b>Total assets</b>		<u>5,509,509</u>	<u>4,551,867</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	17	206,485	110,595
Interest bearing liabilities	18	999,409	154,513
Derivative financial instruments	7	6,627	2,204
Current tax liabilities		9,283	-
Provisions	19	872	479
<b>Total current liabilities</b>		<u>1,222,676</u>	<u>267,791</u>
<b>Non-current liabilities</b>			
Trade and other payables	20	1,273	3,119
Interest bearing liabilities	21	1,993,895	3,309,363
Derivative financial instruments	7	-	109
Deferred tax liabilities		471,015	380,116
Provisions	22	58,146	22,728
<b>Total non-current liabilities</b>		<u>2,524,329</u>	<u>3,715,435</u>
<b>Total liabilities</b>		<u>3,747,005</u>	<u>3,983,226</u>
<b>Net assets</b>		<u>1,762,504</u>	<u>568,641</u>
<b>EQUITY</b>			
Contributed equity	23	973,000	64,000
Reserves	24(a)	6,286	22,938
Retained earnings	24(b)	783,218	481,703
Parent entity interest		1,762,504	568,641
<b>Total equity</b>		<u>1,762,504</u>	<u>568,641</u>

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 2011

	Attributable to owners of Yancoal Australia Ltd				Non-controlling interest \$'000	Total equity \$'000
	Contributed equity \$'000	Reserves \$'000	Retained earnings \$'000	Total \$'000		
Balance at 1 January 2010	64,000	1,123	66,945	132,068	3,841	135,909
Total comprehensive income for the year	-	21,815	414,758	436,573	(27)	436,546
	-	21,815	414,758	436,573	(27)	436,546
<b>Transactions with owners in their capacity as owners:</b>						
Decrease in non-controlling interest as a result of disposal of subsidiary	-	-	-	-	(3,814)	(3,814)
	-	-	-	-	(3,814)	(3,814)
<b>Balance at 31 December 2010</b>	<b>64,000</b>	<b>22,938</b>	<b>481,703</b>	<b>568,641</b>	<b>-</b>	<b>568,641</b>
Total comprehensive income for the year	-	(16,652)	301,515	284,863	-	284,863
	-	(16,652)	301,515	284,863	-	284,863
<b>Transactions with owners in their capacity as owners:</b>						
Contributions of equity, net of transaction costs and tax	909,000	-	-	909,000	-	909,000
	909,000	-	-	909,000	-	909,000
<b>Balance at 31 December 2011</b>	<b>973,000</b>	<b>6,286</b>	<b>783,218</b>	<b>1,762,504</b>	<b>-</b>	<b>1,762,504</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 2011

	Notes	2011 \$'000	2010 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers		1,380,923	969,500
Payments to suppliers and employees		(835,647)	(700,859)
Interest received		28,438	8,214
Interest paid		(54,254)	(42,094)
Income taxes (paid) / received		14,679	(14,336)
<b>Net cash inflow from operating activities</b>	28	<u>534,139</u>	<u>220,425</u>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(144,503)	(196,598)
Payments for intangible assets		(850)	(1,252)
Proceeds from sale of property, plant and equipment		533	4,163
Net proceeds from sale of subsidiaries and joint ventures	32	-	178,741
Acquisition of subsidiaries	30	(498,882)	-
Purchase of additional interest in joint venture	29	(221,225)	-
Payments for exploration and evaluation activities		(7,193)	(9,603)
Transaction costs paid to acquire subsidiaries		-	(19,689)
Purchase of increase in investment in associates		(2,923)	-
Purchase of available-for-sale financial assets		(24,432)	-
Advances to other entities		(77,167)	(56,930)
Repayment of advances to other entities		52,680	43,689
Advances to associated entities		(4,279)	(6,380)
Payment of deferred Minerva purchase consideration		(750)	(250)
Advances to related entities		(290,163)	-
Repayment of advances to related entities		183,688	-
Dividends received		-	21
Cash transferred (to) / from restricted accounts		148,323	(177,395)
<b>Net cash outflow from investing activities</b>		<u>(887,143)</u>	<u>(241,483)</u>
<b>Cash flows from financing activities</b>			
Proceeds from issue of ordinary shares		909,000	-
Proceeds of borrowings		6,000	173,000
Advances from other entities		-	5,965
Repayment of advances from former directors' related entities		-	(98,313)
Repayment of borrowings		(290,000)	(73,569)
Repayment of advances from related entities		(59,987)	-
Payment of finance lease liabilities		(122,938)	(19,622)
<b>Net cash inflow/(outflow) from financing activities</b>		<u>442,075</u>	<u>(12,539)</u>
<b>Net increase / (decrease) in cash and cash equivalents</b>		89,071	(33,597)
Cash and cash equivalents at the beginning of the financial year		196,539	226,450
Effects of exchange rate changes on cash and cash equivalents		5,364	3,686
<b>Cash and cash equivalents at end of year</b>	5	<u>290,974</u>	<u>196,539</u>

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

## 1 Summary of significant accounting policies

Yancoal Australia Ltd (the "Company") is an unlisted public company limited by shares, incorporated and domiciled in Australia. The consolidated financial statements of the Company for the year ended 31 December 2011 comprise the Company and its subsidiaries (together referred to as the "Group" or the "consolidated entity"). The address of the Company's registered office is Suite 1105, Level 11, 68 York Street, Sydney, NSW 2000. The principal activity of the Group is the development and operation of coal mines in Queensland, New South Wales and Western Australia.

### (a) Basis of preparation

The Directors have determined that the Company is not a reporting entity and accordingly these are special purpose financial report which have been prepared in order to satisfy the financial report preparation requirements of the *Corporations Act 2001*. The Directors have determined that the accounting policies adopted are appropriate to meet the needs of the members.

These financial report have been prepared in accordance with the recognition and measurement principles of Australian Accounting Standards AASB 101 *Presentation of Financial Statements*, AASB 107 *Statement of Cash Flows*, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, AASB 1031 *Materiality* and AASB 1048 *Interpretation of Standards* and other mandatory professional requirements in Australia. These financial statements have been prepared on an accrual basis and on the historical cost basis, except for derivative financial instruments and available for sale financial assets that have been measured at fair value. The accounting policies adopted are consistent with those of the previous year, unless otherwise stated.

This financial report was authorised for issue by the Board of Directors on 26 April 2012.

These consolidated financial statements are presented in Australian dollars, which is the Company's functional currency.

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, all financial information presented in Australian dollars has been rounded to the nearest thousand (\$000) unless otherwise stated.

No new Australian Accounting Standards that have been issued but are not yet effective have been applied in the preparation of these financial statements. Such standards are not expected to have a material impact on the consolidated entity's financial statements on initial application.

#### *Reclassification of Mining Tenements*

Certain comparative amounts have been reclassified to conform with the current year's presentation. The directors have determined that in order to provide more relevant and appropriate information it is appropriate to disclose mining tenements separately on the face of the balance sheet rather than as part of intangible assets. This reclassification has been applied to the prior period.

The following is a summary of the material accounting policies adopted by the consolidated entity in the preparation of these financial statements. The accounting policies have been consistently applied to all the years presented, unless otherwise stated.

### (b) Principles of consolidation

#### (i) *Subsidiaries*

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Yancoal Australia Ltd as at 31 December 2011 and the results of all subsidiaries for the year then ended. The Company and its subsidiaries together are referred to in these financial statements as the Group or the consolidated entity.

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another 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 (h)).

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.

## 1 Summary of significant accounting policies (continued)

### (b) Principles of consolidation (continued)

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, statement of changes in equity and 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.

#### (ii) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for in the Company's financial statements using the cost method and in the consolidated financial statements using the equity method of accounting, after initially being recognised at cost.

The Group's share of its associates' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition movements in reserves 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 in the Company's profit or loss, while in the consolidated financial statements they reduce the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Details of the Group's investments in associates are shown at note 11.

#### (iii) Joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake economic activities that is subject to joint control (i.e. when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control).

The proportionate interests in the assets, liabilities and expenses of a joint venture activity have been incorporated in the financial statements under the appropriate headings.

#### (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, 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. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate 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.

If the ownership interest in an associate is reduced but 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.

## 1 Summary of significant accounting policies (continued)

### (c) Foreign currency transactions and balances

#### (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 Company'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 and qualifying net investment 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.

#### (iii) Group companies

The results and financial position of foreign operations that have a functional currency different from the presentation currency are translated into the presentation currency. The assets and liabilities are translated at the closing rate at the date of the balance sheet. The income and expenses are translated at average exchange rates, unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the closing rate at the dates of the transactions, and all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange difference is reclassified to profit or loss, as part of the gain or loss on sale where applicable.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

### (d) 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

Royalties' 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.

## 1 Summary of significant accounting policies (continued)

### (d) Revenue (continued)

#### (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.

#### (vi) Services

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

### (e) Government grants

Grants from the Government are recognised at their 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.

### (f) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate enacted or substantially enacted at the end of the reporting period for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. The carrying value of the deferred tax asset is reviewed at each balance sheet date and reduced to the extent that 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.

#### (i) Investment allowances

Companies within the Group may be entitled to claim special tax deductions for investments in qualifying assets (investment allowances). The Group accounts for such allowances as tax credits, which means that the allowance reduces income tax payable and current tax expense.

## 1 Summary of significant accounting policies (continued)

### (f) Income tax (continued)

#### (ii) Tax consolidation legislation

Yancoal Australia Ltd ("Yancoal") and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the Tax Consolidation regime. Yancoal is responsible for recognising the current tax assets and liabilities for the tax consolidated group. Each entity in the tax consolidated group recognises its own deferred tax assets and liabilities, except where the deferred tax assets relate to unused tax losses and credits, in which case Yancoal recognises the assets. The tax consolidated group has entered into a tax sharing agreement whereby each company in the tax consolidated group contributes to the income tax payable in proportion to their contribution to the profit before tax of the tax consolidated group. The tax consolidated group has also entered into a tax funding agreement whereby each entity in the tax consolidated group can recognise their share of the balance of the current tax assets and liabilities through inter-entity accounts.

### (g) 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's inception 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 payables. 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.

### (h) 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. 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, 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 bargain purchase.

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)

### (h) Business combinations (continued)

#### *Change in accounting policy*

A revised AASB 3 *Business Combinations* became operative on 1 January 2010. While the revised standard continues to apply the acquisition method to business combinations, there have been some significant changes.

All purchase consideration is now recorded at fair value at the acquisition date. Contingent payments classified as debt are subsequently remeasured through profit or loss. Under the Group's previous policy, contingent payments were only recognised when the payments were probable and could be measured reliably and were accounted for as an adjustment to the cost of acquisition.

Acquisition-related costs are expensed as incurred. Previously, they were recognised as part of the cost of acquisition (unless the cost related to issuing debt or equity securities).

Impairment of investments in subsidiaries, joint ventures and associates shall be considered when a dividend is paid by the respective investee.

Where there is, in substance, no change to Group interests, parent entities inserted above existing groups shall measure the cost of their investments at the carrying amount of their share of the equity items shown in the balance sheet of the original parent at the date of reorganisation.

Non-controlling interests in an acquiree are now recognised either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. This decision is made on an acquisition-by-acquisition basis. Under the previous policy, the non-controlling interest was always recognised at its share of the acquiree's net identifiable assets.

If the Group recognises previously acquired deferred tax assets after the initial acquisition accounting is completed there will no longer be any adjustment to goodwill. As a consequence, the recognition of the deferred tax asset will increase the Group's net profit after tax.

Dividends declared out of pre-acquisition profits will no longer be deducted from the cost of an investment but will be recognised as dividend income.

### (i) 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 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.

### (j) Cash and cash equivalents

For the purpose of the 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 values.

## 1 Summary of significant accounting policies (continued)

### (k) 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.

### (l) Deferred Mining cost

#### *Open cut*

During the commercial production stage of open pit operations, overburden in advance comprises the accumulation of expenses incurred to enable access to the coal seams, and includes direct removal costs (inclusive of an allocation of overhead expenditure), machinery and plant running costs. The deferred costs are then charged to the statement of comprehensive income in subsequent periods on the basis of run of mine ("ROM") coal tonnes mined. This is calculated by multiplying the ROM coal tonnes mined during the period by the weighted average cost to remove a bank cubic metre ("BCM") of waste by the average stripping ratio (ratio of waste expected to be removed in BCMs to ROM coal tonnes expected to be mined according to the Plan of Operations). The average stripping ratio is based on the annual Plan of Operations prepared by management after considering the different components to be mined during the period covered in the Plan of Operations. Generally the Plan of Operations process is undertaken each year. Changes in the average stripping ratio are accounted for prospectively as a change in estimate.

#### *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 mining is a system in which the coal seam is extracted on a long face. A mine is broken up into a number of panels, which are large contiguous blocks of coal, typically 100 - 300 metres wide and 1 - 3.5 kilometres long. 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.

### (m) 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.

#### (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 trade and other receivables (note 6) and receivables (note 10) in the balance sheet.

## 1 Summary of significant accounting policies (continued)

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

#### (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 month 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 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 the investment matures or 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 measurement*

Regular 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.

##### *Subsequent measurement*

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

Available-for-sale financial assets and financial assets at fair value through profit or loss 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 right to receive payments is established.

Fair value for shares in listed companies is determined by reference to the Australian Securities Exchange quoted market bid prices at the close of business on the reporting date. Gains or losses on these available-for-sale investments are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the statement of comprehensive income.

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. 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 as a reclassification adjustment. 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.

## 1 Summary of significant accounting policies (continued)

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

Investments in controlled entities are carried in the Company's financial statements at the lower of cost and recoverable amount. Investments in associates are accounted for in the consolidated financial statements as set out in note 1(b).

### (n) Financial liabilities and equity

Non-derivative financial liabilities (including trade and other payable and interest bearing liabilities excluding financial guarantees) are initially recognised at fair value, net of transaction cost 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.

### (o) Derivatives and hedging activities

The Group uses derivative financial instruments such as forward foreign exchange contracts, foreign exchange rate option contracts, and interest-rate swap contracts to hedge its risks associated with foreign currency and interest rate 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, foreign exchange rate option contracts and interest-rate swap contracts entered into by the Group are designated and qualify as cash flow hedges.

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 Movements in the hedging reserve in shareholders' equity are shown in note 24. 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. Trading derivatives are classified as a current asset or liability.

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 statement of 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 statement of 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. 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.

## 1 Summary of significant accounting policies (continued)

### (p) Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) 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.

The open pit operation's capitalised mine development costs include 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 and 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. Longwall mining is a system in which the coal seam is extracted on a long face. A mine is broken up into a number of panels, which are large contiguous blocks of coal, typically 100 - 300 metres wide and 1 - 3.5 kilometres long. Mains development costs relate to the development of primary access / egress roads for the mine. 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.

Refer to the deferred mining cost accounting policy, note 1(l), for information regarding capitalisation and amortisation of longwall panel development.

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.

#### *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. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. 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.

For some assets, the useful life of the asset is linked to the level of production. In such cases, depreciation is charged on a unit of production basis based on the recoverable reserves, or based on the remaining useful hours. The straight line method is used for some assets where this provides a suitable alternative because production is not expected to fluctuate significantly from one year to another. Assets for which their useful life is linked to passage of time are depreciated on a straight line basis.

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.

## 1 Summary of significant accounting policies (continued)

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

The estimated useful lives are as follows:

Buildings	10 - 25 years
Mine development	10 - 25 years
Plant and equipment	2 - 25 years
Leased plant and equipment	2 - 18 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.

### (q) 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 statement of comprehensive income. Mining tenements are amortised over the life of the mine on a units of production 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.

### (r) 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 / 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. Instead, goodwill is tested for impairment annually 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 for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units 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 4 years.

## 1 Summary of significant accounting policies (continued)

### (r) Intangible assets (continued)

#### (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 for clean coal technology) 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 finite useful life and are carried at cost less, where applicable, any accumulated amortisation and accumulated impairment losses. A research and 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. Access rights or other licences 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.

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

#### (v) Patents

Patents represent the cost to acquire rights relating to new or improved products for clean coal technology. Patents are not amortised. Instead patents are tested for impairment annually or more frequently if events or changes in circumstances indicate that they might be impaired, and are carried at cost less accumulated impairment losses.

### (s) Exploration and evaluation expenditure

Exploration and evaluation expenditure incurred is accumulated in respect of each separately identifiable area of interest which is at 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 of each area of interest to determine the appropriateness of continuing to carry forward 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.

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 (within intangible assets) and / or property, plant and equipment.

### (t) 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.

## 1 Summary of significant accounting policies (continued)

### (u) 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 economic benefits will result and that outflow can be reliably measured.

#### *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 plant removal and land fill costs. An asset is created as part of the mine development assets, to the extent that the development relates to future production activities, which is offset by a current and non-current provision for rehabilitation.

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.

### (v) Employee benefits

#### (i) *Wages and salaries, annual leave and sick leave*

Liabilities for employee benefits for wages, salaries, annual leave and sick leave that are expected to be settled within 12 months of reporting date represent present obligations resulting from employees' services provided to reporting date and are calculated at undiscounted amounts based on remuneration 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.

#### (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 in the current and prior periods. 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 the appropriate discounting factor.

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 trade and other payables. 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.

### (w) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated 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.

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.



## 1 Summary of significant accounting policies (continued)

### (x) 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.

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 of Exploration Results, Mineral Resources and Ore Reserves of December 2004. 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.

#### (ii) 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 assumption 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 statement of comprehensive income in the period when the new information becomes available.

#### (iii) Impairment

The Group assesses impairment by evaluation of conditions and events specific to the Company that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations which incorporate various key assumptions.

#### (iv) Rehabilitation

The calculation of the provisions for rehabilitation and where applicable 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.

#### (v) 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 and rely as little as possible on Group specific estimates.

Specific valuation techniques used to value financial instruments include:

- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves;
- The fair value of forward foreign exchange contracts is determined using the contractual forward rates and observable forward exchange rates at the reporting date, with the resulting value discounted back to present value;

## 1 Summary of significant accounting policies (continued)

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

- The fair value of foreign exchange rate option contracts is the estimated value of the derivatives using observable market data at the reporting date;
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments e.g. if the counterparty for a derivative encountered significant financial difficulties and this resulted in a significant increase to the discount rate which is not based on observable inputs, as the discount reflects credit risk specific to the counter party.

#### (vi) *Income taxes*

The Group is subject to income taxes in Australia. Significant judgement is required in determining the provision for income taxes. There are many 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.

#### (vii) *Carbon price*

The Clean Energy Act will introduce a carbon pricing mechanism into the Australian economy from 1 July 2012. The introduction of the carbon pricing mechanism is expected to have an impact on the future cash flows generated from the continuing use of the consolidated entity's assets for the purpose of value in use calculations in asset impairment models. At this stage, the extent to which a carbon pricing mechanism and the other aspects of the Clean Energy Scheme, including a reduction in fuel tax credits, may impact Yancoal Australia Limited operations is yet to be determined.

### (y) **Going concern**

As at 31 December 2011, the consolidated balance sheet discloses a net current liability of \$398,136,000 (2010: net current assets of \$449,355,000). This is due to the maturing of one of its bank loans to the amount of \$999,409,000. The group reported an after tax profit of \$301,515,000 for the year.

Notwithstanding the above, 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) The Group is currently negotiating with its bankers to reschedule its repayments and is confident that it has their full support.
- (ii) The Group has been profitable and is budgeted to be profitable in the 2012 financial year.
- (iii) The Group has generated positive operating cashflows and has budgeted positive cash flows in 2012.
- (iv) These loans are guaranteed by its parent entity, Yanzhou Coal Mining Company Limited.

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.

## 2 Revenue

	2011 \$'000	2010 \$'000
<b>Sales revenue</b>		
Sale of coal	1,425,471	1,004,338
Gain on foreign exchange rate contracts	<u>61,347</u>	<u>20,800</u>
<b>Total sales revenue</b>	<u><b>1,486,818</b></u>	<u><b>1,025,138</b></u>
<b>Other revenue</b>		
Rendering of services:		
Management fees	4,045	4,156
Marketing fees	-	94
Interest received - other parties	32,664	8,111
Rents and sub-lease rentals	<u>214</u>	<u>273</u>
<b>Total other revenue</b>	<u><b>36,923</b></u>	<u><b>12,634</b></u>
<b>Total revenue</b>	<u><b>1,523,741</b></u>	<u><b>1,037,772</b></u>

## 3 Other income

	2011 \$'000	2010 \$'000
Foreign exchange gains (net)	15,525	397,813
Government grants	247	391
Deferred income	1,657	473
Disposal of interest in Minerva Joint Venture and other controlled entities (note 32)	-	18,364
Other income	<u>3,671</u>	<u>2,199</u>
<b>Total other income</b>	<u><b>21,100</b></u>	<u><b>419,240</b></u>

#### 4 Expenses

	2011 \$'000	2010 \$'000
<b>Profit before income tax includes the following specific expenses:</b>		
<i>Depreciation</i>		
Buildings	1,499	1,760
Plant and equipment	63,286	53,122
Mine development	9,314	9,452
Total depreciation	<u>74,099</u>	<u>64,334</u>
<i>Amortisation</i>		
Leased plant and equipment	4,470	22,032
Mining tenements	51,261	51,337
Rail access rights	49	781
Computer software	1,338	353
Total amortisation	<u>57,118</u>	<u>74,503</u>
Total depreciation and amortisation	<u>131,217</u>	<u>138,837</u>
<i>Finance costs</i>		
Finance lease charges	11,088	10,880
Fair value gains on interest swaps cash flow hedges - transfer from equity	126	-
Other interest charges	44,220	52,411
Finance costs expensed	<u>55,434</u>	<u>63,291</u>
Net loss on disposal of property, plant and equipment	476	2,528
Rental expense relating to operating leases minimum lease payments	4,989	4,250
Defined contribution superannuation expense	12,251	10,322
<b>5 Current assets - Cash and cash equivalents</b>		
	2011 \$'000	2010 \$'000
Cash at bank and on hand	133,573	45,457
Short-term deposits	157,401	151,082
	<u>290,974</u>	<u>196,539</u>

## 6 Current assets - Trade and other receivables

	2011 \$'000	2010 \$'000
Trade receivables	123,350	75,077
Loan to a related entity	98,464	21,391
Other receivables	32,750	6,077
Receivables from other entities	-	3,002
Cash - restricted	60,391	208,714
	<u>314,955</u>	<u>314,261</u>

Trade receivables includes receivables from associate company Ashton Coal Mines Limited, amounting to \$31,014,000 (2010: \$8,525,000).

Other receivables includes receivables from WICET of \$1,425,859 (2010: \$nil).

Loan to a related entity for the 2011 financial year represents an amount to Yanzhou Coal Mining Company Limited. The prior year balance of \$21,391,000 represents an advance to Newcastle Coal Infrastructure Group Pty Ltd ("NCIG"), with \$nil amount owing in the current period. The Group has a 15.4% shareholding in NCIG, the developer of a third coal export terminal for the port of Newcastle. During the year, NCIG reached financial close. The opening balance together with the current year contributions were refunded by way of issued notes - NCIG "A Class Hunter Infrastructure Term Redeemable Securities" ("HITRS Notes"). These bonds have been classified as available-for-sale in note 12.

Included in receivables from other entities is an advance to Wiggins Island Coal Export Terminal ("WICET") of \$nil (2010: \$2,871,000). During the year, WICET reached financial close. The opening balance together with the current year contributions were refunded by way of \$15,319,862 worth of "E Class Wiggins Island Preference Securities" ("WIPS"), and \$31,500,000 worth of Gladstone Long Term Securities ("GLTS"). These securities have been classified in note 10.

## 7 Derivative financial instruments

	2011 \$'000	2010 \$'000
<b>Current assets</b>		
Forward foreign exchange contracts - receivable	16,368	35,669
	<u>16,368</u>	<u>35,669</u>
<b>Current liabilities</b>		
Forward foreign exchange contracts - payable	6,627	1,827
Interest rate swap contracts - payable	-	377
	<u>6,627</u>	<u>2,204</u>
<b>Non-current liabilities</b>		
Interest rate swap contracts - payable	-	109
	<u>-</u>	<u>109</u>

## 8 Current assets - Inventories

	2011 \$'000	2010 \$'000
Coal - at cost	107,488	109,365
Fuel - at cost	793	338
Stock of spare parts - at cost	28,995	11,693
	<u>137,276</u>	<u>121,396</u>

## 9 Current assets - Other assets

	2011 \$'000	2010 \$'000
Prepayments	24,176	3,542
Deferred mining costs	<u>40,791</u>	<u>22,245</u>
	<u>64,967</u>	<u>25,787</u>

Prepayment balance includes a \$16,732,352 amount representing a prepayment to Goodyear Tyre and Rubber Company for the future supply of tyres (2010: \$nil).

## 10 Non-current assets - Trade and other receivables

	2011 \$'000	2010 \$'000
Advances to associate entities	31,014	17,200
Receivables from other entities	<u>46,820</u>	<u>-</u>
	<u>77,834</u>	<u>17,200</u>

Advances to associate entities were made to associate company Ashton Coal Mines Limited.

Receivables from other entities represents 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 \$15,319,862 and Gladstone Long Term Securities ('GILTS') of \$31,500,000.

## 11 Investments accounted for using the equity method

Name of company	Principal activity	Percentage owned		Carrying amount of investment	
		2011 %	2010 %	2011 \$'000	2010 \$'000
<i>Unlisted</i>					
Australian Coal Processing Holdings Pty Ltd	Holding company	90	60	-	-
Ashton Coal Mines Limited	Real estate holder & sales company	90	60	3,035	112
Australian Coal Processing Pty Ltd	Dormant	90	60	<u>-</u>	<u>-</u>
				<u>3,035</u>	<u>112</u>

Each of the above associates is incorporated in Australia. The Company does not hold any investments in associates.

On 13 May 2011, White Mining (NSW) Pty Ltd acquired an additional 30% interest in Ashton Coal Mines Pty Ltd for \$2,923,000, and Australian Coal Processing Holdings Pty Ltd for \$89. The investment in Australian Coal Processing Holdings Pty Ltd was subsequently written off to the income statement.

## 12 Non-current assets - Other financial assets

	2011 \$'000	2010 \$'000
Available-for-sale investments	<u>24,983</u>	<u>-</u>
	<u>24,983</u>	<u>-</u>

**13 Non-current assets - Property, plant and equipment**

	Assets under construction \$'000	Freehold land & buildings \$'000	Mine development \$'000	Plant & equipment \$'000	Leased plant & equipment \$'000	Total \$'000
<b>At 31 December 2010</b>						
Cost	90,015	71,387	151,008	571,913	132,696	1,017,019
Accumulated depreciation / amortisation	-	(2,286)	(26,223)	(114,708)	(5,069)	(148,286)
<b>Net book amount</b>	<u>90,015</u>	<u>69,101</u>	<u>124,785</u>	<u>457,205</u>	<u>127,627</u>	<u>868,733</u>
	Assets under construction \$'000	Freehold land & buildings \$'000	Mine development \$'000	Plant & equipment \$'000	Leased plant & equipment \$'000	Total \$'000
<b>At 31 December 2011</b>						
Cost	137,621	123,002	249,283	1,112,151	-	1,622,057
Accumulated depreciation / amortisation	-	(3,785)	(33,245)	(184,576)	-	(221,606)
<b>Net book amount</b>	<u>137,621</u>	<u>119,217</u>	<u>216,038</u>	<u>927,575</u>	<u>-</u>	<u>1,400,451</u>

**14 Non-current assets - Mining tenements**

	2011 \$'000	2010 \$'000
Cost	2,417,633	2,205,174
Accumulated amortisation	(92,583)	(41,322)
<b>Net book amount</b>	<u>2,325,050</u>	<u>2,163,852</u>

**15 Non-current assets - Exploration and evaluation assets**

	2011 \$'000	2010 \$'000
Total exploration and evaluation assets - at cost	<u>661,730</u>	<u>579,030</u>

**16 Non-current assets - Intangible assets**

	Goodwill \$'000	Patents \$'000	Computer software \$'000	Access rights & other licences \$'000	Total \$'000
<b>At 31 December 2010</b>					
Cost	98,014	25,000	1,820	1,731	126,565
Accumulated amortisation	-	-	(342)	(37)	(379)
Net book amount	<u>98,014</u>	<u>25,000</u>	<u>1,478</u>	<u>1,694</u>	<u>126,186</u>
	Goodwill \$'000	Patents \$'000	Computer software \$'000	Access rights & other licences \$'000	Total \$'000
<b>At 31 December 2011</b>					
Cost	105,108	25,000	2,382	1,731	134,221
Accumulated amortisation	-	-	(1,679)	(88)	(1,767)
Net book amount	<u>105,108</u>	<u>25,000</u>	<u>703</u>	<u>1,643</u>	<u>132,454</u>

**17 Current liabilities - Trade and other payables**

	2011 \$'000	2010 \$'000
<b>Unsecured</b>		
Trade payables	147,955	72,444
Other payables	19,776	19,429
Deferred Minerva payment	500	500
Employee benefits	38,254	17,749
Deferred income	-	473
	<u>206,485</u>	<u>110,595</u>

**18 Current liabilities - Interest-bearing liabilities**

	2011 \$'000	2010 \$'000
<b>Secured</b>		
Bank loans	999,409	76,000
Lease liabilities (note 27)	-	12,313
Loan from other entity	-	1,751
<b>Unsecured</b>		
Loan from parent entity	-	64,449
	<u>999,409</u>	<u>154,513</u>



**19 Current liabilities - Provisions**

	2011 \$'000	2010 \$'000
Rehabilitation	<u>872</u>	<u>479</u>
	<u>872</u>	<u>479</u>

**20 Non-current liabilities - Trade and other payables**

	2011 \$'000	2010 \$'000
<b>Unsecured</b>		
Deferred Minerva payment	1,273	1,935
Deferred income	-	1,184
	<u>1,273</u>	<u>3,119</u>

**21 Non-current liabilities - Interest bearing liabilities**

	2011 \$'000	2010 \$'000
<b>Secured</b>		
Bank loans	1,993,895	3,199,243
Lease liabilities (note 27)	-	110,120
Total secured non-current borrowings	<u>1,993,895</u>	<u>3,309,363</u>

**22 Non-current liabilities - Provisions**

	2011 \$'000	2010 \$'000
Employee benefits - long service leave	7,374	-
Rehabilitation	<u>50,772</u>	<u>22,728</u>
	<u>58,146</u>	<u>22,728</u>

**23 Contributed equity**

	2011 Shares	2010 Shares	2011 \$'000	2010 \$'000
<b>(a) Share capital</b>				
Ordinary shares				
Issued and fully paid up	<u>76,975,000</u>	<u>64,000,000</u>	<u>973,000</u>	<u>64,000</u>
	<u>76,975,000</u>	<u>64,000,000</u>	<u>973,000</u>	<u>64,000</u>

## 23 Contributed equity (continued)

### (b) Movements in ordinary share capital:

Date	Details	Number of shares	Issue price	\$'000
1 January 2010	Opening balance	64,000,000		64,000
31 December 2010	Balance	<u>64,000,000</u>		<u>64,000</u>
1 January 2011	Opening balance	64,000,000		64,000
8 August 2011	Share issue	<u>12,975,000</u>	\$70.06	<u>909,000</u>
31 December 2011	Balance	<u>76,975,000</u>		<u>973,000</u>

### (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.

## 24 Reserves and retained profits

	2011 \$'000	2010 \$'000
<b>(a) Reserves</b>		
Hedging reserve	<u>6,286</u>	<u>22,938</u>
	<u>6,286</u>	<u>22,938</u>

### Movements:

#### *Hedging reserve - cash flow hedges*

Opening balance	22,938	1,123
Gain recognised	23,304	51,966
Transferred to profit	(47,048)	(20,800)
Deferred tax	<u>7,092</u>	<u>(9,351)</u>
Closing balance	<u>6,286</u>	<u>22,938</u>

#### *Hedging reserves*

The hedging reserve is used to record gains or losses on a cash flow hedge that are recognised directly in equity, as describe in note 1. Amounts are recognised in the statement of comprehensive income or as part of property, plant and equipment when the associated hedge transaction occurs.

### (b) Retained earnings

	2011 \$'000	2010 \$'000
Opening balance	481,703	66,945
Profit for the year attributable to the members of Yancoal Australia Ltd	<u>301,515</u>	<u>414,758</u>
Closing balance	<u>783,218</u>	<u>481,703</u>

## 25 Non-controlling interest

	2011 \$'000	2010 \$'000
Interest in:		
Share capital	961	961
Accumulated losses	<u>(961)</u>	<u>(961)</u>
	<u>-</u>	<u>-</u>

## 26 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the Auditor of the Group, non-related audit firm and its related practices.

	2011 \$	2010 \$
<b>(a) ShineWing Hall Chadwick (i)</b>		
<i>Audit and other assurance services</i>		
Audit and review of financial statements	500,000	636,400
Other assurance services		
Audit of regulatory returns	46,800	10,800
Compliance audit	200,000	-
Due diligence services	<u>400,000</u>	<u>-</u>
Total remuneration for audit and other assurance services	<u>1,146,800</u>	<u>647,200</u>
Total remuneration of ShineWing Hall Chadwick	<u>1,146,800</u>	<u>647,200</u>
<b>(b) BDO Australia (i)</b>		
<i>Audit and other assurance services</i>		
Other assurance services		
Audit of regulatory returns	-	2,900
Due diligence services	-	121,820
Total remuneration for audit and other assurance services	<u>-</u>	<u>124,720</u>
<i>Taxation services</i>		
Tax compliance services	-	90,896
Total remuneration for taxation services	<u>-</u>	<u>90,896</u>
<i>Other services</i>		
Accounting consulting	-	220,067
Total remuneration of related practices of BDO Australia	<u>-</u>	<u>435,683</u>

## 26 Remuneration of auditors (continued)

<b>(c) Related practices of BDO Australia</b>	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Audit and other assurance services</i>		
Audit and review of financial statements	5,349	7,767
<i>Taxation services</i>		
Tax compliance services	<u>1,742</u>	<u>2,864</u>
Total remuneration of related practices of BDO Australia	<u>7,091</u>	<u>10,631</u>
<b>Total auditors' remuneration</b>	<u>1,153,891</u>	<u>1,093,514</u>

(i) On 23 December 2009, the Group acquired 100% of the share capital of Felix Resources Limited ('Felix'). Subsequently, ShingWing Hall Chadwick replaced BDO Australia as the Auditor of Felix on 30 April 2010.

(ii) On 1 August 2011, the Group acquired 100% of the share capital of Syntech Holdings Pty Ltd and Syntech Holdings II Pty Ltd ("Syntech"). Subsequently, ShineWing Hall Chadwick replaced KPMG as the Auditors of the Syntech entities.

## 27 Commitments

### (a) Capital expenditure commitments

Estimated capital expenditure contracted for at the reporting date but not provided for:

	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Property, plant and equipment</i>		
Not later than one year		
Share of joint ventures	27,954	30,848
Other	204,942	41,117
Later than one year but not later than five years		
Share of joint ventures	18,933	-
<i>Exploration expenditure</i>		
Not later than one year		
Other	201	-
<i>Intangibles</i>		
Not later than one year		
Share of joint ventures	25	-
Other	<u>304</u>	<u>-</u>
	<u>252,359</u>	<u>71,965</u>

### (i) Non-cancellable operating leases

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Not later than one year	5,356	936
Later than one year but not later than five years	<u>4,737</u>	<u>828</u>
	10,093	1,764
Commitments not recognised in the financial statements	<u>10,093</u>	<u>1,764</u>

## 27 Commitments (continued)

Operating leases have remaining lease terms ranging from 1 months to 3 years. Items that are subject to operating leases include mining equipment, office space and small items of office equipment. The consolidated entity does not have an option to purchase the leased assets at the expiry of the lease period.

### (ii) Finance leases

Commitments in relation to finance leases are payable as follows:

	2011 \$'000	2010 \$'000
Not later than one year	-	22,750
Later than one year and not later than five years	-	133,756
Later than five years	-	-
Minimum lease payments	<u>-</u>	<u>156,506</u>
Less future finance charges	-	(34,073)
Recognised as a liability	<u>-</u>	<u>122,433</u>
<b>Representing lease liabilities:</b>		
Current lease liability (note 18)	-	12,313
Non-current lease liability (note 21)	<u>-</u>	<u>110,120</u>
	<u>-</u>	<u>122,433</u>

All finance leases were paid during the financial year, and assets were purchased from finance companies.

**28 Reconciliation of profit after income tax to the net cash flows from operating activities**

	2011 \$'000	2010 \$'000
Profit for the year	301,515	414,731
Depreciation of non-current assets	74,099	64,334
Amortisation of leased assets	4,470	22,032
Amortisation of mining tenements	51,261	50,375
Amortisation of intangible assets	1,387	2,096
Interest on unwinding of discount	1,456	280
Non-cash gain on acquisition	(2,481)	-
Non-cash deferred income recognised in profit	(1,657)	(473)
Net loss on disposal of property, plant & equipment	476	2,528
Gains on changes in fair value	126	-
Non-cash cash flow hedge gains transferred to profit for the period	(130)	-
Share of net loss of associates accounted for using the equity method	-	72
Foreign currency losses / (gains)	(54)	(401,355)
Net profit on disposal of investments	-	(18,364)
Changes in assets and liabilities, net of effects from acquisition and disposal of joint ventures and subsidiaries (refer note 3)		
Increase in trade and other receivables	(46,989)	(20,687)
Decrease / (increase) in inventory	14,050	(69,627)
(Increase) / decrease in prepayments	(17,549)	1,754
Decrease in deferred tax assets	77,428	40,468
(Increase) / decrease in deferred mining costs	(12,009)	23,791
Increase in trade and other payables	27,684	38,803
Decrease in advances to other entities	(7,846)	-
Decrease in employee benefits	-	(2,544)
Increase / (decrease) in tax provision	32,777	(14,177)
Increase in deferred tax liabilities	<u>36,125</u>	<u>86,388</u>
Net cash inflow from operating activities	<u>534,139</u>	<u>220,425</u>

## 29 Asset acquisition

### (a) Summary of acquisition

On 13 May 2011, the Group acquired 30% interest of IMC Resources Australia Pty Ltd in the Ashton Coal Joint Venture ("Ashton"). This increased the Group's interest in the Ashton Coal Joint Venture to 90%.

	\$'000
Purchase consideration	
Cash Paid	233,914
Gain on acquisition	<u>2,015</u>
Total purchase consideration	<u>235,929</u>
Fair value of net identifiable assets acquired (refer to (b) below)	235,929

### (b) Assets and liabilities acquired

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

	Fair value \$'000
Cash	9,765
Trade and other receivables	10,204
Inventories	7,354
Other assets	130
Other financial assets	2,923
Property, plant and equipment	63,366
Exploration and evaluation assets	14,800
Deferred tax assets	10,402
Mining tenements	135,196
Trade and other payables	(7,098)
Provision for rehabilitation	(2,221)
Interest bearing liabilities	(505)
Deferred tax liability	<u>(8,387)</u>
Net identifiable assets acquired	<u>235,929</u>
Net assets acquired	<u>235,929</u>

#### (i) Revenue and profit contribution

The acquired business contributed revenues of \$38.5 million and net profit of \$0.8 million to the Group for the period from 13 May 2011 to 31 December 2011. If the acquisition had occurred on 1 January 2011, consolidated revenue and net profit for the year ended 31 December 2011 would have been \$82.6 million and \$11.7 million respectively. These amounts have been calculated using the Group's accounting policies.

### 30 Business combination

#### (a) Summary of acquisition

On 1 August 2011, the Group acquired 100% of the issued share capital of Syntech Holdings Pty Ltd and Syntech Holdings II Pty Ltd ("Syntech") from GS Power Holdings LLC. Syntech's principal activities are identifying, developing and operating coal related resources in the Surat Basin, Queensland.

	\$'000
Purchase consideration	
Cash paid	208,486
Gain on acquisition	<u>466</u>
Total purchase consideration	<u>208,952</u>
Fair value of net identifiable assets acquired (refer to (b) below)	<u>204,578</u>
Goodwill	<u>4,374</u>

#### (b) Assets and liabilities acquired

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

	Fair value \$'000
Cash	7,899
Trade and other receivables	16,922
Inventories	11,355
Prepayments	580
Deferred mining costs	6,536
Property, plant and equipment	129,787
Exploration and evaluation assets	35,707
Deferred tax asset	5,357
Mining tenements	34,787
Intangible assets	11
Trade and other payables	(32,925)
Provision for rehabilitation	(2,173)
Deferred tax liability	<u>(9,265)</u>
Net identifiable assets acquired	<u>204,578</u>
Add: goodwill	<u>4,374</u>
Net assets acquired	<u>208,952</u>

#### (i) Revenue and profit contribution

The acquired business contributed revenues of \$63 million and net profit of \$8 million to the Group for the period from 1 August 2011 to 31 December 2011. If the acquisition had occurred on 1 January 2011, consolidated revenue and net loss for the year ended 31 December 2011 would have been \$124 million and \$51 million respectively. These amounts have been calculated using the Group's accounting policies.



### 30 Business combination (continued)

#### (c) Summary of acquisition

On 30 December 2011, the Group acquired 100% interest in Premier Coal Limited and Premier Char Pty Ltd ("Premier"). Premier Coal Limited's principal activities are identifying, developing and operating coal related resources in the Collie, Western Australia. Premier Char Pty Ltd's principal activity is developing Char Technology.

	\$'000
Purchase consideration	
Cash paid	298,295
Direct costs relating to the acquisition	<u>15,238</u>
Total purchase consideration	313,533
Fair value of net identifiable assets acquired (refer to (d) below)	<u>310,813</u>
Goodwill	<u>2,720</u>

#### (d) Assets and liabilities acquired

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

	Fair value \$'000
Trade receivables	13,932
Inventories	11,220
Property, plant and equipment	277,199
Exploration and evaluation assets	25,000
Deferred tax asset	31,447
Mining tenements	42,199
Trade payables	(10,791)
Provision for rehabilitation	(45,226)
Deferred tax liability	<u>(34,167)</u>
Net identifiable assets acquired	<u>310,813</u>
Add: goodwill	<u>2,720</u>
Net assets acquired	<u>731,437</u>

#### (i) Revenue and profit contribution

The acquired business contributed no revenues nor net profit to the Group for the period from 30 December 2011 to 31 December 2011. If the acquisition had occurred on 1 January 2011, consolidated revenue and net profit for the year ended 31 December 2011 would have been \$144.5 million and \$12 million respectively. These amounts have been calculated using the Group's accounting policies.

### 31 Contingent liabilities

	2011 \$'000	2010 \$'000
<b>Guarantees</b>		
<b>(a) Parent entity and consolidated entity</b>		
Guarantees secured over deposits	1,629	6,549
Performance guarantees provided to external parties	169,958	37,052
Guarantees provided in respect of the cost of restoration of certain mining leases, given to government departments as required by statute	41,128	29,963
<b>(b) Joint ventures</b>		
Guarantees secured over deposits	114	75
Performance guarantees provided to external parties	-	69
Guarantees provided in respect of the cost of restoration of certain mining leases, given to government departments as required by statute	4,443	5,621
	<u>217,272</u>	<u>79,329</u>

### 32 Disposal of interests in joint ventures and subsidiaries

#### Disposal of interest in Minerva entities

Effective from 20 December 2010, the Group disposed of its subsidiaries Felix Coal Sale Pty Ltd, Minerva Mining Pty Ltd, Minerva Coal Pty Ltd and its interest in the Minerva Joint Venture. Gross cash sales proceeds amounting to \$191.855 million were received during the year ended 31 December 2010. The disposal details are set out below:

	2011 \$'000	2010 \$'000
Consideration:		
Cash received	-	191,855
Net assets of Minerva Joint Venture, Felix Coal Sales Pty Ltd, Minerva Mining Pty Ltd and Minerva Coal Pty Ltd disposed:		
Cash and cash equivalents	-	13,114
Trade and other receivables	-	15,989
Inventories	-	10,050
Property, plant and equipment	-	39,666
Intangible assets	-	126,672
Deferred tax assets	-	842
Other assets	-	11,176
Trade and other payables	-	(34,272)
Interest bearing liabilities	-	(4,508)
Deferred tax liability	-	(332)
Current tax liabilities	-	(21)
Provisions	-	(1,071)
Non-controlling interest	-	(3,814)
Carrying amount of net assets disposed	<u>-</u>	<u>173,491</u>
Gain on disposal of subsidiaries and joint venture before income tax	<u>-</u>	<u>18,364</u>

### 33 Parent entity financial information

#### (a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	2011 \$'000	2010 \$'000
<b>Balance sheet</b>		
Current assets	1,389,996	55,654
Non-current assets	<u>2,928,398</u>	<u>3,281,368</u>
Total assets	<u>4,318,394</u>	<u>3,337,022</u>
Current liabilities	1,165,403	97,304
Non-current liabilities	<u>2,027,476</u>	<u>3,170,594</u>
Total liabilities	<u>3,192,879</u>	<u>3,267,898</u>
Net Assets	<u>1,125,515</u>	<u>69,124</u>
<i>Equity</i>		
Contributed equity	973,000	64,000
Reserves	(106)	-
Retained earnings	<u>152,621</u>	<u>5,124</u>
	<u>1,125,515</u>	<u>69,124</u>
<b>Profit for the year</b>	<u>147,497</u>	<u>4,485</u>
<b>Other comprehensive income</b>		
Changes in the fair value of cash flow hedges	<u>(106)</u>	<u>-</u>
<b>Total comprehensive income</b>	<u>147,391</u>	<u>4,485</u>

#### (b) Contingent liabilities of the parent entity

As at 31 December 2011, the parent entity had contingent liabilities in the form of bank guarantees amounting to \$5,610,870 (2010: \$10,673,000) in support of the operations of the parent entity and subsidiary of Austar Coal Mine Pty Ltd.

### 34 Parent entity

The parent entity and ultimate parent entity is Yanzhou Coal Mining Company Limited which is incorporated in the People's Republic of China.

### 35 Events occurring after the reporting period

No matters or circumstances have arisen since the end of the financial year which 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 future financial years, except for the following matter:

- (i) Legislation governing the Mineral Resource Rent Tax ('MRRT') has been passed through both houses of the Australian Parliament and received royal assent on 29 March 2012. The MRRT is a tax on 30% of the 'super profits' from the mining of the iron ore and coal in Australia. Effective from 1 July 2012 the MRRT may increase the tax burden on these mines and hence the Group.

Deductible expenditure will include a starting base allowance to be based on the value of the mining assets as at 1 May 2010, depreciated over the life of the mines. Projects will also be eligible for the 25% extraction allowance which reduces the effective statutory tax rate to 22.5% of the 'super profits'.

State royalties will be creditable for MRRT purposes, and MRRT payments will be deductible from company income tax purposes. Whilst there is potential for the MRRT to have significant deferred tax implications, no deferred tax balances are expected to be recognised. Current analysis to date suggests that, at least in the short term, no material MRRT liability will be borne.

- (ii) On 23 December 2011 Gloucester Coal Ltd (Gloucester) announced it had entered into a Merger Proposal Deed (MPD) with Yancoal Australia Limited.

On 6 March 2012 Gloucester announced that the due diligence process had been completed as agreed under the MPD and the Board of Gloucester unanimously recommended that Gloucester shareholders vote in favour of the merger, in the absence of a superior proposal and subject to the Independent Expert concluding that the transaction is in the best interests of Gloucester shareholders.

The proposed transaction was adjusted from the MPD announced on 23 December 2011 with a revised merger ratio where Gloucester shareholders will own 22% of the Merged Company and Yanzhou Coal Mining Company Limited 78%.

The Explanatory Booklet in ready for the first court hearing of the proposed scheme of arrangement is scheduled to occur on 27 April 2012.

- (iii) On 5 April 2012 the Land and Environment Court of New South Wales ('the Court') declared that the purported decision of the Minister by his delegate, the Planning Assessment Commission of New South Wales ('PAC'), on 19 December 2011 refused the carrying out of the South East Open Cut ('the Project') which was the subject of a major project application MP 08\_0182 lodged by Ashton Coal Operations Pty Limited ('Ashton') under Part 3A of the Environmental Planning and Assessment Act 1979 ('the Application') is void and of no effect.

The Application is remitted to the PAC for further determination in accordance with law and the respondent is to pay the costs of the application in the amount of \$5,000, court decision to be made on 13 July 2012.

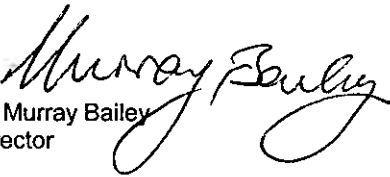
As stated in Note 1 to the financial statements, in the Directors' opinion, the consolidated entity is not a reporting entity because there are no users dependent on general purpose financial statements. This is a special purpose financial report prepared to meet *Corporations Act 2001* requirements.

The financial report has been prepared in accordance with Accounting Standards and other mandatory professional reporting requirements to the extent described in Note 1.

In the Directors' opinion:

- (a) the financial statements and notes, as set out on pages 6 to 42 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Accounting Standards, other mandatory professional reporting requirements as described above, and *Corporations Regulations 2001*; and
  - (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the financial 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 fall due and payable.

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



Mr Murray Bailey  
Director

Sydney  
26 April 2012

## Independent Auditor's Report to the members of Yancoal Australia Limited

We have audited the accompanying financial report, being a special purpose financial report of Yancoal Australia Limited, which comprises the consolidated balance sheet as at 31 December 2011, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the year.

### *Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation of the financial report and have determined that the basis of preparation described in Note 1 to the financial report is appropriate to meet the requirements of the Corporations Act 2001 and is appropriate to meet the needs of the members. The directors' responsibility also includes such internal control as the directors determine is necessary to enable the preparation of a financial report that is free from material misstatement, whether due to fraud or error

### *Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We have 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 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 control 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.

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## Opinion

In our opinion the financial report of Yancoal Australia Limited is in accordance with the Corporations Act 2001, including:

- (a) giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 2011 and of its performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards to the extent described in Note 1, and the Corporations Regulations 2001.

## Basis of Accounting

Without modifying our opinion, we draw attention to Note 1 to the financial report, which describes the basis of accounting. The financial report has been prepared for the purpose of fulfilling the directors' financial reporting responsibilities under the Corporations Act 2001. As a result, the financial report may not be suitable for another purpose.



ShineWing Hall Chadwick



K Glynn  
Partner

Melbourne:

26 April 2012

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